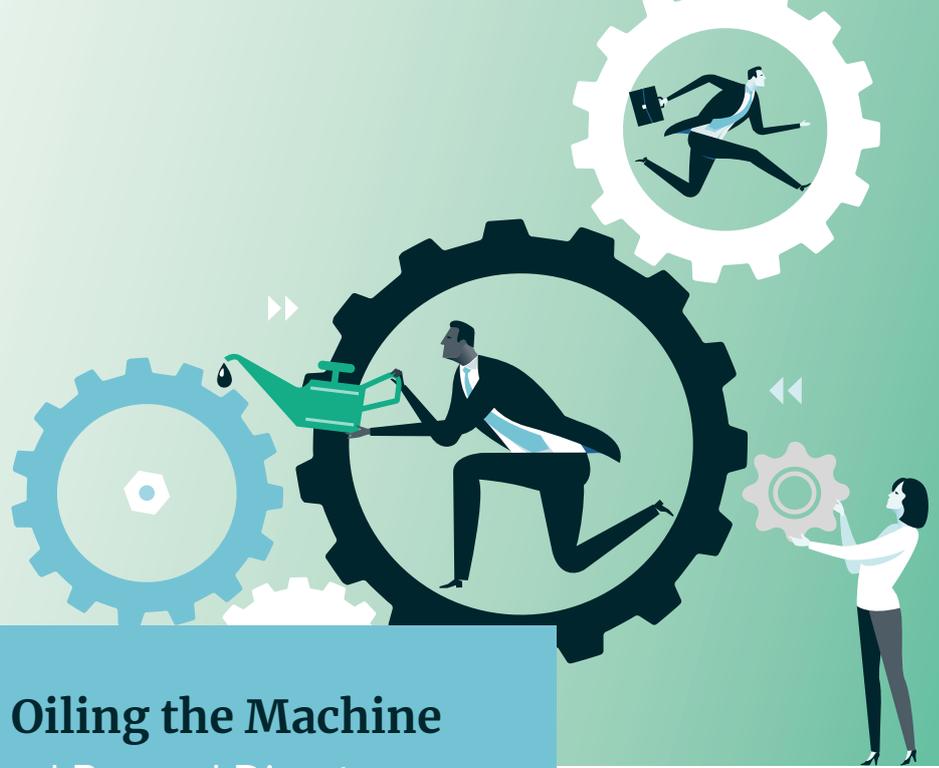




HMThinking



Board Agility – Oiling the Machine

The HR Director and Reward Director

Since 2008, the charged executive remuneration debate has been a constant. It is not going to get any easier and may be about to get even tougher, with the AGM season this year promising to be the most difficult so far.

Against this backdrop, we focus here on the attributes that best-in-class HR Directors and Heads of Reward display in shaping the remuneration agenda with the Chair of the Remuneration Committee ('RemCo Chair').

Purpose and pay

Companies are now expected by stakeholders, and society at large, to demonstrate their values and purpose and fairness in pay is often the forerunner for judging whether they live those values. Meanwhile, as the UK faces a challenging economic environment and grapples with the impact of high inflation, politicians and investors are urging companies to show pay restraint.

The global battle for talent

Yet UK businesses face fierce global competition for talent, particularly in a post-Brexit environment. Businesses in every industry must transform to be relevant in a digital world, whilst also demonstrating ESG credentials. The pressure towards pay restraint in the UK, along with the current exchange rate, put UK PLCs at a severe disadvantage – particularly, for instance, when seeking to hire talent from the US. Add relatively new challenges into this complex mix – such as how to tie compensation to the attainment of ESG targets and improvements in corporate culture, rather than linking pay solely to financial metrics – and the RemCo Chair has an extremely demanding, if not near impossible, task.

It is therefore more important than ever that HR Directors and their Heads of Reward step up to help confront these new challenges. We have observed that the best individuals display **four qualities** that set them apart in their work, as they deliver tangible value to the Remuneration Committee. Their value to their organisations will only increase over the next few years.



“...the best individuals display four qualities that set them apart...”

1 Strong independence

The HR Director/Reward Director needs to be trusted by the CEO, RemCo Chair, and other key executives, but it is crucial they are not seen to be in anyone's pocket.

One criticism commonly made of HR Directors is of being too close to the CEO. The independent HR Director, coupled with first class judgement, is key. The HR Director, in conjunction with the Reward Director, must be a person who has an exceptional understanding of the internal and external landscape. They must be able to perceive, for example, when a proposal for CEO pay is likely to go down poorly; and brave enough to speak up. In other words, they need to be the conscience of the company when it comes to reward: able to advise not just on what's possible, but also 'fairness' between an Executive Directors' compensation and the wider workforce.

2 Best-in-class insights: bringing the outside in

The RemCo Chair is now expected to opine on a broader range of topics: not just on what the CEO and senior executives should be paid, but on how compensation drives a sustainable culture and outcomes.

More than just the figures

HR Directors/Heads of Reward must be able to contribute more than just numbers and metrics about the financial factors that have traditionally determined compensation. They should be able to articulate a philosophy of pay, and the practical application of it, which accounts for priorities that include ESG, diversity, and employee well-being in remote-enabled environments. These are not straightforward to devise and measure, in comparison with more traditional financial metrics, but are increasingly expected by both internal and external stakeholders. Picking the right performance measures, and target setting for these measures that determine incentive payouts for the CEOs single figure, is critical.

Connection across the market

The best HR Directors/Heads of Reward are exceptional at leveraging their networks, and are differentiated by the quality of their market insights. In an increasingly global talent pool – and with challenging markets such as the US and Asia continuing to dominate – the quality of perspectives and data they bring to the table have a direct impact on their influence with the RemCo Chair.

3 Building a trusted partnership with the RemCo Chair

A subservient relationship is too often the default, but is really in nobody's interest.

The Board want their annual report on remuneration to receive 80% of votes in favour; anything less invites a negative headline and a return to shareholders. HR Directors, and their Reward Director, have a pivotal role in helping the RemCo Chair understand the dynamics and politics in play internally and externally around performance and pay and the resulting quantum.

Besides the annual remuneration report, there is the matter of the three-yearly remuneration policy. Policies will need to reflect a strong alignment of pay with the strategy of the business while also being motivational for the participants. Getting the balance right requires strong strategic and commercial awareness coupled with a trusting relationship with the CEO. Best-in-class HR Directors work with their Reward Directors and build a relationship with the RemCo Chair which, in this reputationally sensitive area, is based on high trust and a recognition of mutual dependency.

4 Astutely navigating the chain of influence

In many organisations there is an intricate chain of influence that needs to be navigated, running from the Reward Director to the HR Director to the RemCo Chair to investors, proxy agencies and, of course, including the CEO.

The best-in-class Reward Director understands the importance of careful planning to navigate this chain. They act as a bridge between the CEO, the HR Director, and the RemCo Chair. By operating skillfully and well ahead of time, they partner with the RemCo Chair for multiple discussions with investors, anticipating expectations. However, they also recognise that RemCo Chairs may only have one chance to sell the proposal to investors; and they need time to craft a compelling argument to maximise success in conversations.

Board Agility – Oiling the Machine

The HR Director and Reward Director



Market analysis

We have analysed the market for Group HR Director and Group Head of Reward talent below, with the following key findings:

A highly active HR Director market

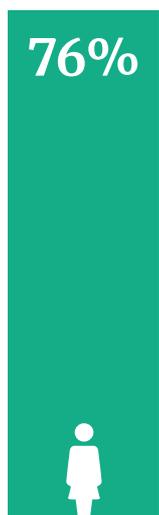
Since the start of this decade, we have seen a year-on-year increase in HR Director turnover at FTSE 100 organisations. In 2022, there were 19 HR Director changes (with a further two confirmed to be starting at the beginning of 2023), up from 17 and 16 in the previous two years. Nearly half of the appointments made in 2022 were internal, substantially higher than in previous years.

Year on year breakdown in the FTSE 100 HR Director market:

| 2022 | 2021 | 2020 |
|--|---|---|
| 19 changes | 17 changes | 16 changes |
| 11 external (with a further two starting in 2023), 8 internal. | 14 external 3 internal | 12 external 4 internal |

In total, 53 organisations in the FTSE 100 have seen a change in HR Directors since 2020.

Diversity of FTSE 100 HR Directors



This trend has been especially pronounced in the past few years; of the **53** new HR Directors appointed since 2020, **41** were women and **three** were from other under-represented groups, together comprising **90%** of appointments.

Reward - a buoyant market and expanding remit

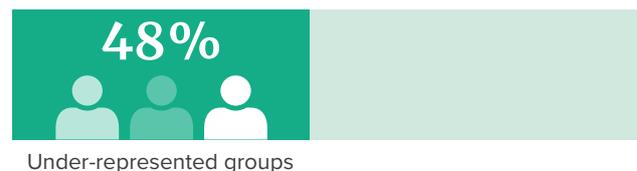
The Reward market has also been dynamic, with 12 moves in 2022. A growing number of FTSE 100 Heads of Reward now have a formal remit that expands significantly beyond compensation, bringing in areas such as wellbeing, employee relations and inclusion and diversity.

Year on year breakdown in the FTSE 100 Reward market:

| 2022 | 2021 | 2020 |
|---|---|--|
| 9 changes | 17 changes | 8 changes |
| 6 external 3 internal. (with a further 3 external appointments starting in 2023) 8 internal | 10 external 7 internal | 4 external 4 internal |

71 FTSE 100 companies currently have a clearly defined Reward Director role.

Diversity of FTSE 100 Heads of Reward



48% of Heads of Reward in the FTSE 100 are from under-represented groups

While it has traditionally been the least diverse area of HR, the Reward function has undergone a notable transformation in recent years. Historically thought of as a male discipline, around half of FTSE 100 Heads of Reward are now diverse by some measure (**34** of the **71**) – with seven of the last **12** appointments being women. Companies have had success growing internal successors into the number one role, but are also thinking more broadly about where candidates could come from – with diverse appointments being made from other functions internally, or from less obvious businesses externally.

After significant changes in financial services roles in 2021, the recent moves have been more focused on non-FS companies. There are three FTSE 100 Heads of Reward taking on new roles in 2023 and six searches live in the market – meaning 2023 will potentially be even busier for moves.



This is the second piece in our series looking at the role the Company Secretary, Head of Internal Audit and HR Director/Head of Reward play in facilitating smooth decision making at Board level. Read about the Company Secretary [here](#).



Karen leads the HR & Reward practice at Hedley May and is widely recognised for her in-depth knowledge of the HR talent landscape.

She is valued by clients for her extraordinary commitment to making 'best-in class' appointments. Karen's early career was in HR and she holds an MA in Psychology.

She has a deep interest in both behavioural and humanistic psychology and applies these perspectives when assessing candidates and compiling shortlists.



Eleanor has a specialist and market leading expertise in the appointment of Heads of Reward.

A passionate advocate for Diversity and Inclusion, Eleanor has established a broad network of best-in-class talent and in her speaking engagements focuses on helping up-and-coming professionals prepare for more influential leadership roles.

Eleanor started her career in retail with Marks & Spencer, holding store management roles after graduating from Newnham College, University of Cambridge with an MA in History.

Leadership Inspired

We seek out world-class executives who create lasting change and leaders who will make a world of difference. Deep market knowledge, bespoke processes and innovative thinking enable us to find extraordinary leaders across the globe.

Over 59% of all of Hedley May placements in the last four years have been diverse. We recognise the importance of diversity and its impact upon the long-term and sustainable success to organisations.