On the 2024 remuneration committee agenda

KPMG Board Leadership Centre

The business and risk environment has changed dramatically over the past year, with greater geopolitical instability, surging inflation, high interest rates, and unprecedented levels of disruption and uncertainty. Against this backdrop, remuneration committees will need to focus on ensuring that performance and reward frameworks continue to attract, retain, and motivate while maintaining alignment with shareholder expectations as they make pay decisions and plan for 2024 and beyond. Workforce planning and reduction will be on the agenda for many companies given the current economic environment, so remuneration committees will need to take this and the cost of living challenge facing the workforce into account when determining the level of variable pay awards for executives.

Based on recent investor guidelines and our engagement with board members and members of remuneration committees across different industries, we have highlighted eight areas to keep in mind as remuneration committees consider and carry out their 2024 agendas.

Cost of living crisis

"At a time when many employees face a cost of living crisis, many employers also face a 'cost of doing business' crisis, limiting the aid they can offer," said Charles Cotton, senior reward adviser for the Chartered Institute of Personnel and Development. Based on recent conversations, the 2024 annual salary budget for many companies will be in the region of 3% to 5%.Companies will therefore need to optimise their pay spend through a targeted strategy and ensure their pay decisions are neutral from a Diversity and Inclusion lens. They should also continue to assess their wider Employee Value Proposition including their benefits and wellness offering particularly given the ongoing focus on emotional, physical and financial employee wellbeing.

Continued focus on the ESG agenda

The focus on ESG and the implementation of ESG measures into performance and pay frameworks will continue to be high on the agenda for remuneration committees. Most companies have embedded ESG metrics into their short-term and/or long-term incentives, recognising the need to ensure that the metrics are aligned to business strategy and that targets are appropriate, robust, and measurable. The focus is evolving to ensure that ESG metrics are viewed through the commercial impact lens and that there is an appropriate balance between financial and non-financial goals, as well as alignment with a firm's overall culture and values.

The ever-increasing focus on ESG continues to be driven by both internal and external stakeholders. Proxy voting advisory firms are pressing for greater transparency in disclosures and more robust oversight of ESG matters at the Board and committee levels. The UK FCA has referenced sustainability as a key ESG focus area for the next two years, and while their focus is the financial services sector, this serves as a reflection of the wider sentiment emerging from external stakeholders across all industry sectors. The FRC have clarified that where companies have committed to sustainability-related objectives, most notably net zero commitments, they expect these to link this to the strategy, governance arrangements and remuneration structures.

Diversity and Inclusion

2024 is anticipated to be a significant year for the focus on Diversity and Inclusion ("D&I") in the workplace. Recognising the immense value and the role D&I plays in fostering innovation and growth, many firms are prioritising the development of inclusive and diverse strategies and frameworks. The UK financial services regulators have recently published their much-anticipated consultation papers on D&I. Whilst the focus of this is the financial services sector, it is informative for other sectors as it provides interesting insights into the wider direction of travel in this space. The proposals seek to promote D&I through specific target and disclosure measures and embed express accountability for D&I within the regulatory and individual accountability framework.

The proposals address many policy areas including non-financial misconduct, D&I strategies, data reporting, D&I disclosure obligations, and D&I targets.

Remuneration committees should consider how culture, performance and reward align.

Pay transparency

Remuneration committees are increasingly focusing on the wider employee population in addition to executive pay matters. Pay transparency regulations will be high on remuneration committee agendas, especially those with oversight over European operations given the EU Pay Transparency Directive. Employees will have further rights to access information about their pay to determine whether they are being treated fairly. According to our 2023 Reward Trends Survey, over 53% of UK and European companies are only just starting to consider and plan for their pay transparency needs. It is expected that remuneration committees will be interested in understanding how the company is taking steps to ensure it is ready for increased pay scrutiny.

Investor guidelines

Glass Lewis recently published its 2024 Benchmark Policy Guidelines which set out its updated framework for evaluating the governance policies and practices of UK listed firms and its approach in respect of proxy voting recommendations. They will assess a company's remuneration policy, structure and the levels of granted and realised pay. They will take into consideration the firm's own benchmarking peer set, if disclosed, in addition to local and regional industry peers, based on relevant stock market indices, market cap, industry and liquidity. They therefore encourage firms to be transparent in their disclosure and justification of individual peers selected by the remuneration committee when setting pay levels, plus the criteria used.

Customer focus

The UK FCA recently wrote to remuneration committee chairs in the financial services sector suggesting issues for consideration over the coming two years. An area which may be of interest to other industries is the FCA's view that remuneration committees should ensure that remuneration policies and practices continue to incentivise a consumer centric approach that ensures good outcomes for consumers across all products and services. This includes consideration of how companies can use relevant related risk metrics and performance criteria to help inform both individual and company-wide remuneration decisions.

Bonus cap

A specific area of focus in the financial services sector in 2024 will be the ratio of fixed to variable pay given the removal of the 'bonus cap'. The FCA view this change as making "the remuneration regime more effective by increasing the proportion of compensation at risk and subject to the incentive-setting tools in the remuneration framework". This should also give firms greater flexibility to adjust variable remuneration to absorb losses in a downturn, or to respond to any material poor performance or misconduct that subsequently comes to light.

Non-Executive Director fees

In recent years, fee increases have not kept pace with UK inflation, resulting in a decline in the real value of NED compensation. At the same time, it is widely recognised that the complexity and time requirements of the role have increased. This is likely to exert upward pressure on fees and a renewed interest in the level of NED fees in 2024.

The KPMG Board Leadership Centre

The KPMG Board Leadership Centre offers support and guidance to non-executive directors, whether managing a portfolio non-executive career or embarking on a first appointment. Membership offers you a place within a community of board-level peers with access to topical and relevant seminars, invaluable resources and thought leadership, as well as lively and engaging networking opportunities. We equip you with the tools you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business.

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