Age of

The new generation of finance leaders are beating a rapid path to the top, finds Richard Crump

The old adage that with age comes wisdom rings as true as ever. According to research by the University of California in San Diego, what is lost in reaction times is made up for in better decision making and greater insight. For finance leaders, particularly those heading the finance function at FTSE-100 companies, there is no substitute for experience.

According to data compiled as part of *Financial Director*'s 2010 salary survey, some of the most successful and well-remunerated FDs have a wealth of experience behind them.

Well-known finance leaders such as Tim Tookey at Lloyds Banking Group and Malcolm Wyman at SABMiller, aged 68 and 64 respectively, are among some of the best-paid FDs featured in the survey.

Yet a young, hungry and dynamic breed of FD is coming to the fore. Although unlikely to be found at the local skate park, there are FDs of FTSE-100 companies proving that you can reach the top at an ever younger age.

Andrew Griffith, the 39-year-old finance director of BSkyB, Andrew Jenner of services company Serco and Graham Shuttleworth of Randgold Resources – both 41 – have proved age is no barrier to success. With a salary of just over £1m last year, BSkyB's Griffith does not fall far short of peers almost 30 years his senior. And he is not alone. According to the survey, Paul Bowtell, the 42-year-old FD

audacity

of Tui Travel, pulled in a wage of £1.05m.

Mark Freebairn, partner in the CFO practice at headhunter Odgers Berndtson, says age is “completely irrelevant, and has been for quite a while”. In terms of the base salary and short-term benefits, “I don’t care whether you are 39 or 59,” he says. “What you earn will depend on the size and scale of the business.”

Young, gifted and in the black

It is not just the up-and-coming FDs of FTSE-100 companies that can boast such success stories. Finance directors at FTSE-250 companies are also proving they can exceed the remuneration of their elder peers.

Data based on age versus average pay shows that FTSE-250 finance directors aged between 40 and 44 earn an average of £559,470, higher than the average pay of their peers until they reach the age of 60.

According to the survey, FTSE-250 FDs between 45 and 49 earn an average of £549,380; those between 50 and 54 get an average of £506,128; while FDs between 55 and 59 earn an average of £533,716.

It is harder to draw comparisons with the figures for FTSE-100 FDs as BSkyB’s Griffith is the only FTSE-100 FD in his thirties. However, based on his earnings alone, Griffith earns more than the average of FDs until they reach their sixties, excluding those between 45 and 49 years of age.

Neil McConachie, finance director at insurance group Lancashire Holdings and at 37 the third-youngest FD in the survey, agrees that age has become irrelevant.

“It is not that old age is against you but there are certain benefits to being young that may help with the skills a FD needs,” McConachie says.

The remit of finance professionals, both internally for the organisation and as external advisers, has broadened dramatically. The finance function in today’s business environment is no longer comparable with the role only a decade ago.

In a world that is becoming more competitive, complex and regulated, organisations need two types of finance professionals: those who bring deep and specialised finance knowledge to the sector and those who bring a broader commercial experience.

“What makes a CFO successful has changed and it is constantly changing. The skills of an FD 30 years ago are no longer the most important skills. Maybe the older generation of FDs have lost the ambition to learn new skills,” says McConachie.

“The traditional role of adding up numbers, reporting them and doing analysis is much more strategic now. What FDs do now is to be →

consulted for advice on strategy," McConachie says.

This means that FDs are coming from a very different background than they have in the past.

"The older generation typically came from a heavy financial background. Now FDs come from a much broader background," says Tom Gunson, partner in the consulting practice at Pricewaterhouse-Coopers (PwC). "Many have now gone to business school and there is an expectation that the pace of change and career progression is more rapid."

Generation Y

Developments around the background of candidates entering the finance profession are consistent with what the new generation of finance professionals expect from their careers.

According to a joint research paper undertaken between March and June 2010 by Mercer and the Association of Chartered Certified Accountants, *Generation Y: Realising the Potential*, based on research on finance professionals born between 1980 and 1993, dynamic career progression is at the heart of their expectations in the finance profession.

Sue Filmer, principal consultant in Mercer's human capital business and an author of the report, says the youngest generation in finance wants a career path that is fluid and quickly evolving.

The generation is divided between those seeking to follow traditional finance career routes and those wishing to embark on much broader career paths outside mainstream finance roles.

"Generation Y have a much more dynamic view to career progression; they are looking for quick velocity," Filmer tells *Financial Director*. "In the past the view of career progression has been slow and methodical: Generation Y wants to move on. There is a bottom-up drive for the early recruitment of bright and talented people that have an expectation of getting somewhere quickly."

According to Mercer's survey, 40 percent of finance professionals born between 1980 and 1993 wish to pursue a classic finance career, with progression and success indicated by increasing depth of knowledge and expertise. While they remain in finance they may specialise in areas such as tax or audit and define success as ascending the career ladder of the organisation to roles such as FD or audit partner.

However, more than half of those surveyed wish to pursue new pathways, and gain a breadth of experience by following a career path outside traditional finance roles.

"The two things that have been thrown into the mix are the move to business partnering and what that means in terms of the skillset, and the transformation of the finance function as an overall model and what that means in terms of career progression," says PwC's Gunson.

Demand for talent

The demand for ambitious and talented individuals with more than the traditional skillset is also being witnessed in the recruitment process.

Caroline Raggett, partner at financial headhunter Russell Reynolds, says: "When we are asked to recruit finance professionals we try to find someone who could be promoted to a different function. It is about adding diverse capabilities."

The desire of the next generation of finance leaders to have a steeper, faster career trajectory is helped by FTSE-100 and 250 businesses having a more sophisticated approach to developing career progression within their organisations.

"There is a much more sophisticated approach to talent. Most organisations have a review process," says Mercer's Filmer. "With their talent generation teams, FTSE-100 companies spot individuals and move them on quickly."

According to the figures from the Mercer survey, career development and learning opportunities are the primary factors in deciding to join a particular organisation. Almost three-quarters of respondents to the survey said these are very important.

The perception that career development is the key to attracting the next generation of finance professionals is universally shared with the employers, Filmer says, adding that candidates ask for information on career development during the interview stage, seeking employer support to achieve professional qualifications.

Fundamental implications

The implication for organisations wishing to attract the next generation of FDs is that the career proposition is fundamental.

Joe Lister, the 39-year-old FD at student housing provider Unite Group, says career development has been a real focus at his organisation.

"I joined Unite as a corporate finance manager eight years ago," he says. "Because it was a growing company it gave me the opportunity to move across the business.

"The skills I learned at Unite complemented the skills I acquired when I was at PwC. There is real focus at Unite to give people the opportunity to move around the business. I wouldn't describe myself as a technical accountant."

However, it is not just about career progression, says Gunson. General career progression frameworks have been in place at big corporations for a while. He says it is much more about developing talent.

"What has become the focus is talent management. It is about spotting the superstars, how to keep them, and keep them stimulated," he says.

Remuneration is a critical element of attracting and retaining the next generation of finance leaders, so it is no surprise how well remunerated many of the younger FDs are in this year's salary survey. According to Mercer, base salary is identified as the second-most important attraction factor, after career development.

Getting to the top and being well remunerated is self-fulfilling, says Lister.

"If you are an FD of a FTSE-250 company at 35, you will ask 'what should I be doing at 45?'," he says. "Having got to my position at a relatively young age, it has set my expectation that bit higher."

Hardly brassic

Our latest salary survey shows the age of austerity is largely passing FDs by

It will surprise no one to learn that finance director remuneration across all sectors has taken a battering in the last couple of years. But our latest salary survey finds that the pay packets of FTSE-100 FDs moved from an all-time low in 2007-8 to an all-time high in 2008-9. Those FDs enjoyed an average annual pay increase 11.7 percent in the last year – a striking change from the previous year when overall pay was down by 0.7 percent.

Pay among the top 100 FDs is now more than twice what their FTSE-250 counterparts rake in, signaling a return to the bumper pay packets of pre-recession days.

FTSE-250 FD incomes presented a different picture, declining by 0.7 percent. And most of them earned no bonuses in the last year either.

Major differences between the two indexes can be seen primarily in the age category. The most highly-paid age group in the FTSE-250 are the 40-44 year olds. In the FTSE-100 the same demographic formed the lowest paid age group, being the only FTSE-100 age group receiving less than £1m total pay on average.

Top FTSE-100 earners

Company	FD	Salary	Other	Bonus total	Total pay
Xstrata	Trevor Reid	£639,191	£1,476,411	£1,622,775	£3,738,378
HSBC Holdings	Douglas Flint	£700,000	£17,000	£2,100,000	£2,817,000
Investec	Glynn Burger	£314,192	£7,272	£1,939,386	£2,260,850
Barclays	Christopher Lucas	£650,000	£19,000	£1,500,000	£2,169,000
BP	Byron Grote	£853,442	£4,947	£1,280,164	£2,138,554
Standard Chartered	Richard Meddings	£651,832	£42,672	£1,360,561	£2,055,065
Tesco	Laurie Mcllwee	£588,000	£50,000	£1,151,000	£1,789,000
Kingfisher	Kevin O'Byrne	£575,000	£28,100	£1,157,793	£1,760,893
Lloyds Banking Group	Tim Tookey	£600,000	£26,000	£1,110,000	£1,736,000
Reckitt Benckiser	Colin Day	£432,000	£21,000	£1,156,000	£1,609,000
Average		**£600,366**	**£169,240**	**£611,998**	**£1,104,508**
Δ%		17.7%	25.0%	27.3%	11.7%

Top FTSE-250 earners

Company	FD	Salary	Other	Bonus total	Total pay
Daily Mail & General Trust	John Williams	£640,000	£248,000	£804,000	£1,692,000
Intermediate Capital	Philip Keller	£315,000	£4,000	£1,112,000	£1,431,000
Heritage Oil	Paul Atherton	£500,000	£152,700	£750,000	£1,402,700
Close Brothers Group	Jonathan Howell	£360,000	£20,000	£900,000	£1,280,000
Tullett Prebon	Paul Mainwaring	£275,000	£733	£1,000,000	£1,275,733
Hays	Paul Venables	£454,000	£28,000	£692,000	£1,174,000
Hiscox	Stuart Bridges	£326,000	£2,000	£800,000	£1,128,000
ITV	Ian Griffiths	£425,000	£64,000	£599,250	£1,088,250
BlueBay Asset Management	Nick Williams	£100,000	£0	£933,000	£1,033,000
Yell Group	John Davis	£525,000	£52,000	£351,000	£928,000
Average		**£275,900**	**£28,231**	**£240,965**	**£517,832**
Δ%		-7.8%	9.4%	23.2%	-0.7%

No bonus

Company	Index	FD	Previous bonus
InterContinental Hotels	100	Richard Solomons	£802,000
Admiral Group	100	Kevin Chidwick	£0
3i Group	100	Julia Wilson	£0
Barratt Developments	250	Mark Pain	£0
Helical Bar	250	Nigel McNair Scott	£0
Mitchells & Butlers	250	Jeremy Townsend	£10,000
Regus	250	Stephen Gleadle	£288,000
Redrow	250	David Arnold	£66,000
Qinetiq	250	David Mellors	£20,000
Eaga	250	Ian McLeod	£47,000
Spectris	250	Clive Watson	£208,000
Bovis Homes	250	Neil Cooper	£0
Renishaw	250	Allen Roberts	£150,000
Victrex	250	Michael Peacock	£112,270
Fenner	250	Richard Perry	£600,000

High flyers

Company	Index	FD	Age	Total Pay	Pay per year of age
Xstrata	100	Trevor Reid	48	£3,738,378	£77,883
HSBC Holdings	100	Douglas Flint	55	£2,817,000	£51,218
Barclays	100	Christopher Lucas	49	£2,169,000	£44,265
Investec	100	Glynn Burger	54	£2,260,850	£41,868
Standard Chartered	100	Richard Meddings	52	£2,055,066	£39,520
Kingfisher	100	Kevin O'Byrne	46	£1,760,893	£38,280
Tesco	100	Laurie Mcllwee	47	£1,789,000	£38,064
BP	100	Byron Grote	62	£2,138,555	£34,493
J Sainsbury	100	Darren Shapland	43	£1,402,000	£32,605
Intermediate Capital Group	250	Philip Keller	44	£1,431,000	£32,523
Heritage Oil	250	Paul Atherton	44	£1,402,700	£31,880
Centrica	100	Nicholas Luff	43	£1,321,857	£30,741
Vodafone Group	100	Andrew Halford	51	£1,567,567	£30,737
Marks & Spencer	100	Ian Dyson	47	£1,425,600	£30,332
Average: FTSE-100				£1,104,509	£22,071
Average: FTSE-250				£517,832	£10,939

Female FDs

Company	Index	FD	Age	Total Pay
3i Group	100	Julia Wilson	43	£293,000
Burberry Group	100	Stacey Cartwright	47	£1,341,580
Cairn Energy	100	Janice Brown	55	£614,004
Eurasian Natural Resources	100	Zaure Zaurbekova	48	£461,000
Hargreaves Lansdown	250	Tracey Taylor	38	£274,907
Henderson Group	250	Shirley Garrood	52	£207,000
Kier Group	250	Deena Mattar	45	£430,000
Melrose Resources	250	Diane Fraser	47	£291,000
MITIE Group	250	Suzanne Baxter	42	£698,000
Talvivaara Mining Company	250	Saila Miettinen-Lähde	48	£185,436
Average: women				£479,593
Average: men				£717,769

Long service

Company	Index	FD	Age	Appointed
Renishaw	250	Allen Roberts	61	1980
Forth Ports	250	William Murray	59	1986
Shaftesbury	250	Brian Bickell	56	1987
Helical Bar	250	Nigel McNair Scott	65	1987
Derwent London	250	Christopher Odom	60	1988
Aberdeen Asset Management	250	William Rattray	52	1991
ARRIVA	250	Stephen Lonsdale	52	1991
Next	100	David W Keens	56	1991
Daily Mail & General Trust	250	John Williams	57	1991
Enterprise Inns	250	David George	59	1991
Average tenure: FTSE-100				5.6 years
Average tenure: FTSE-250				5.8 years

FTSE-100 winners and losers

	Company	FD	Total pay	% change
▲	Xstrata	Trevor Reid	£3,738,378	76%
	HSBC Holdings	Douglas Flint	£2,817,000	56%
	Lloyds Banking Group	Tim Tookey	£1,736,000	44%
	Barclays	Christopher Lucas	£2,169,000	40%
	Old Mutual	Philip Broadley	£1,403,000	34%
	Kingfisher	Kevin O'Byrne	£1,760,893	29%
	BT Group	Tony Chanmugam	£1,312,000	26%
	Tesco	Laurie Mcllwee	£1,789,000	24%
	Tullow Oil	Ian Springett	£918,928	17%
	Home Retail Group	Richard Ashton	£1,064,000	17%
	Average		**£1,104,509**	**11.7%**
▼	Wolseley	Stephen Webster	£591,861	-3%
	ICAP	Matthew Lester	£1,254,241	-4%
	Petrofac Ltd	Keith Roberts	£548,553	-4%
	Reed Elsevier	Mark Armour	£1,055,501	-4%
	BG Group	Ashley Almanza	£1,349,815	-5%
	WPP	Paul Richardson	£1,410,000	-6%
	Anglo American	Rene Médori	£1,191,000	-9%
	Diageo	Nicholas Rose	£993,000	-10%
	InterContinental Hotels	Richard Solomons	£531,000	-23%
	Man Group	Kevin Hayes	£1,137,958	-37%

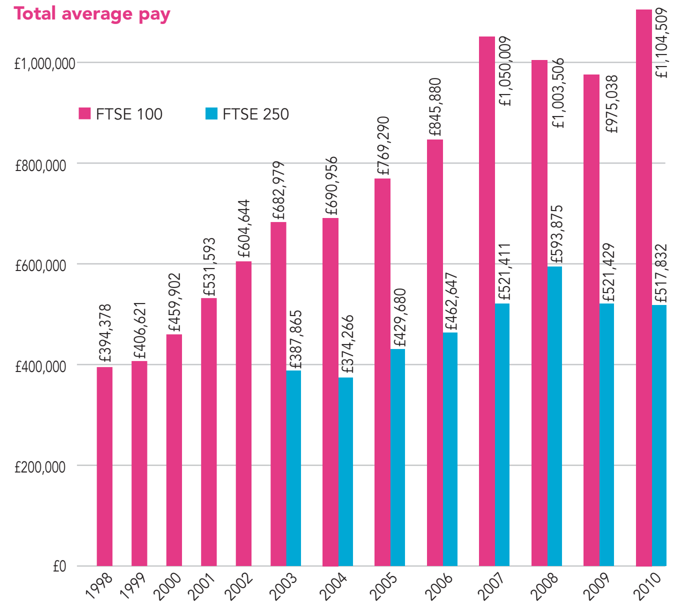
FTSE-250 winners and losers

	Company	FD	Total pay	% change
▲	Eaga	Philip Keller	£1,431,000	78%
	JD Sports Fashion	Ian Griffiths	£1,088,250	68%
	SThree	Andrew King	£820,678	48%
	Spectris	John Williams	£1,692,000	45%
	Tomkins	Stuart Bridges	£1,128,000	44%
	Genus	Steve Dryden	£605,500	38%
	Euromoney Institutional Investor	Jonathan Howell	£1,280,000	38%
	RPS Group	Paul Atherton	£1,402,700	37%
	Debenhams	Jeremy Maiden	£525,000	31%
	Average		**£517,832**	**-0.7%**
▼	Synergy Health	Robert Careless	£327,000	-10%
	Premier Oil	David Landless	£308,000	-11%
	Informa	Alan Semple	£594,936	-12%
	Shanks Group	Jeff Carr	£252,000	-13%
	Big Yellow Group	Steve Clutton	£325,000	-19%
	Jardine Lloyd Thompson	Simon Herrick	£485,065	-20%
	FirstGroup	Seamus Keating	£770,000	-22%
	SDL	Stephen Puckett	£620,000	-28%
	Yell Group	Stephen King	£140,000	-30%
	Marston's	Brian Wallace	£524,400	-52%

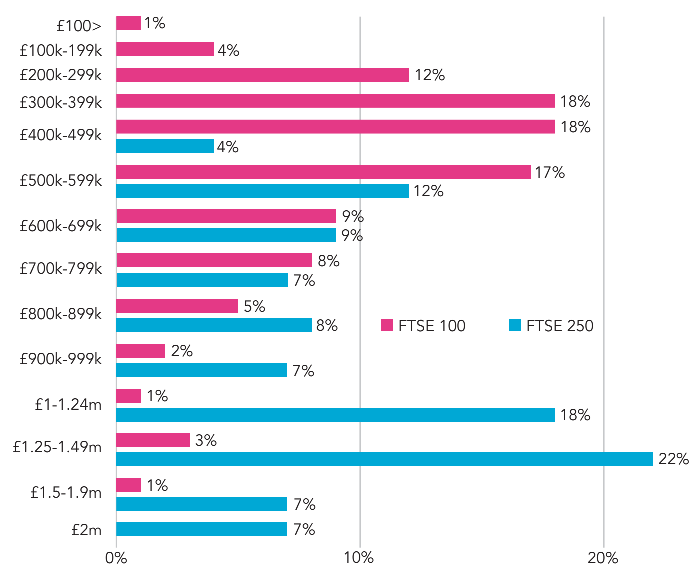
Young and old

Company	Index	FD	Age	Total Pay
Big Yellow Group	250	John Trotman	32	£142,086
Dignity	250	Steven Whittern	35	£294,000
Neil McConachie	250	Lancashire Holdings	37	£809,660
Stobart Group	250	Benjamin Whawell	37	£178,500
Dunelm Group	250	David Stead	38	£330,000
Hargreaves Lansdown	250	Tracey Taylor	38	£274,907
British Sky Broadcasting	100	Andrew Griffith	39	£1,048,129
PZ Cussons	250	Brandon Leigh	39	£540,279
Hochschild Mining	250	Ignacio Rosado	39	£398,273
UNITE Group	250	Joe Lister	39	£214,714
Berkeley Group Holdings	250	Nick Simpkin	40	£329,294
Marston's	250	Andrew Andrea	40	£107,534
Babcock International	250	William Tame	60	£806,000
Derwent London	250	Christopher Odom	60	£579,000
Fenner	250	Richard Perry	60	£240,724
Sports Direct International	250	Robert Mellors	60	£150,000
G4S	100	Trevor Dighton	61	£949,574
Renishaw	250	Allen Roberts	61	£273,000
BP	100	Byron Grote	62	£2,138,555
Soco International	250	Roger Cagle	63	£595,555
SABMiller	100	Malcolm Wyman	64	£1,444,948
Catlin Group	250	Benjamin Meuli	64	£609,489
Helical Bar	250	Nigel McNair Scott	65	£360,000
Lloyds Banking Group	100	Tim Tookey	68	£1,736,000

Total average pay



Total pay package



Financial Director Intelligence

Thanks to Manifest for providing the data. Data analysis by Financial Director Intelligence. Bonuses include cash and share-based bonuses, as well as deferred bonuses. As a result, comparisons with surveys published before will be slightly distorted. Data is taken from the latest annual reports available as of mid-August 2010. Except as noted, data may exclude that of FDs who have not served a full year. FTSE-250 data excludes companies that had no finance director at year-end.

Individual FDs listed may have left their company or been promoted since each company's balance sheet date.

The full survey is on our website at **www.financialdirector.co.uk/special**

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Not charity work

Female FDs' salaries fell during the recession, with suggestions that restructuring their approach to working hours is the cause. Now they must lead the way to payback, says **Neil Hodge**

Over the past two years, as *Financial Director*'s latest salary survey finds, the pay gap between male and female finance directors has widened. Women are now earning 68 percent of the average remuneration package of their male counterparts – that is two percent less than the last time we checked in 2008.

Employment lawyers suggest that the root cause could be the result of women being more likely to take reduced working hours, a sabbatical or even a pay cut in order to contribute to the cost-reduction strategies of their employer.

It is difficult to make an exact comparison on pay data because there are simply too few women FDs – just four percent of those in the FTSE-100 and FTSE-250, a more or less constant figure in the last few years – to compare remuneration in a like-for-like way. For this reason our comparison is more of a guide. But the lessons from it stand. The average remuneration for a male FD over the last 12 months is £717,769, while for a woman the figure drops significantly to £479,593.

The UK's Equality and Human Rights Commission reported in October that in 2009, only 12.2 percent of FTSE-100 directors and 7.3 percent of FTSE-250 directors were women. There were 11 female FDs in the *Financial Director* 2006 salary survey, with 10 in 2008 and 2010. Of these, the number of women FDs working for FTSE-100 companies has not changed much: three in 2006, two in 2008 and currently four.

The Equality Act, which came into force in October, ends pay secrecy clauses so female colleagues can compare their salaries with their male counterparts. The Act contains rules – presently delayed for further consideration – that purport to give employers greater scope to select from equally qualified job candidates on the basis of their sex. But lawyers and human resources experts do not expect its reach to extend to board appointments.

In August, Lord Davies announced that he is spearheading a new inquiry into why there are so few women in top positions in business. His findings are due in December. Ministers say that, by 2015, half of all appointments to the boards of public bodies should be women.

Fixed quota on cards

The question over whether positive discrimination is the right way to foster equality has not been adequately explored. Audrey Williams, head of discrimination law at Eversheds, believes there are limits to what can be legally done to increase the proportion of women on UK boards. Unlike the position in some other European countries, such as Spain and Germany, fixed quotas are not presently permitted by UK equality laws.

In September, the European Commission warned that if companies did not improve the gender balance on their boards, European Union-wide legislation may be introduced to force the pace of change, possibly including compulsory fixed quotas. "The threat to force legislation through should be taken seriously," says Williams.

If fixed quotas are introduced, demand for top-level female talent will naturally increase. "Businesses and public bodies need to take a close look at their talent development programmes now to ensure they are doing enough to nurture the careers of those women who could be the directors of the future," she adds.

But it will also be down to the upcoming generation of women FDs to forge and get board-level buy-in for jobs that work with the realities of both family life and emerging lifestyle choices. Career sabbaticals, gap years, longer holidays, project work, secondments, breaks for charity work, for younger and established professionals – these increasingly common additions to working life will draw more women at more senior levels.

Rethinking not just the working week, but the requisite remuneration if women FDs are to become greater in numbers against this backdrop, is overdue.

Skin in the game

FDs want the same share awards as CEOs. The rest of the board think they only need half, finds **Tim Smedley**

As the lines between the chief executive and the finance director get all the more blurred, so their pay packages have started resembling one another more closely. This is good news for FDs whose contribution to value creation and contact with the risk-reward metric is ever more keenly illustrated in their remuneration packages. But there is an emerging debate about the contribution that share awards make to the FD's personal commitment to that goal.

A surprising piece of research earlier this year by Directorbank, which polled 342 directors across all sectors of UK business (25 of them FDs and some former FDs), found that while FDs generally agree that they should hold the same equity stake in their business as the CEO, other directors believe FDs need only hold between 50 and 60 percent of the equity their CEO does. Forty-one percent of the other directors surveyed, which included chairmen, chief executives and non-executive directors, thought FDs should receive less than half the share awards of their CEOs.

"Would I invest in a business in which the FD had no equity interest?" asks Simon Ball, deputy chairman of Cable & Wireless and a former FD at private equity group 3i. "Probably not."

Equitable equity

Finance directors simply do not see why they should not be awarded the same equity stake as their CEOs.

"FDs were saying: 'look, my role is every bit as important as the CEO's. Why shouldn't I have the same incentive?'," John Pearce, executive director of Directorbank says of the research. And he believes there are two reasons for this.

First, the FD is often seen as the deputy leader if the CEO is for any reason rendered unavailable. Second, many FDs, far from straining for the CEO's job, are happy in their role but feel that share awards are an important part of being recognised as an equal.

Both reasons, says Pearce, stem from the shift in the boardroom towards financial analysis becoming much more important. "It's becoming more and more accepted that the CEO and the FD are a double act," he says. "I guess remuneration will start to reflect that – and I guess it should."

Too much skin in the game may well skew the FD's sense of being the necessary thorn in the board's side

As Pippa Miller, chief financial officer of financial services firm AES International puts it: "If the FD contributes to the success of the company to the same extent as the CEO and has the same burden of responsibility, then they should be remunerated accordingly."

First among equals

Duncan Brown, director of reward services at the Institute for Employment Studies, is on the side of the FD in obtaining the same share award as their CEO.

"I think the job of the FD is now seen as first among equals," he says. "That has given them, in some cases, a salary premium over other board jobs."

Swag Mukerji, CFO of Safetykleen Europe, goes further. "The CFO has the most difficult role on the board," he tells *Financial Director*. "He has to balance the necessity to commercially support the CEO while simultaneously acting as the eyes and ears of the board and particularly the non-executive directors."

This, he says, is the argument for significantly closing the gap between the equity stakes of the CEO and the CFO.

Brown says that in enlightened companies this is already happening.

But perhaps FDs should be careful what they wish for. CEOs often suffer criticism for their short-termism, for being too eager to cash in on the instant value-creating gratification of acquisitions and too focused on quarter to quarter rather than year to year.

An inequality in equity may seem a small price to pay for the CEO who bears the brunt of what can be intense media scrutiny when something goes wrong.

"Any good FD should aspire to have a unique relationship with their CEO, as their confidant, conscience and foil," Richard Pennycook, finance director at FTSE-100 supermarkets group Morrisons says. "But the CEO ultimately carries the weight of responsibility and is inevitably going to be rewarded for that."

Janet Williamson, corporate governance expert with the Trades Union Congress, says: "There are arguments that substantial equity stakes create excessive micro-managing of the share price over and above longer-term value generators. Shareholder interests are better served by ensuring success over the next 10 to 20 years."

Thorn in the side

Too much skin in the game may well skew the FD's sense of being the necessary thorn in the side of the board, the voice of dissent on an idea carrying too much risk or lacking in consideration of long-term value creation.

If some FDs want superstar reward packages, or conversely would rather see the CEO reined in, one truism remains: "It is always a team that delivers," says Pennycook.

Concurring, Williamson says: "The board is meant to be a team. If there is a culture of competitive up-bidding among the board in terms of reward packages, there is a real danger that that culture filters down through the organisation."

But there looks to be an ongoing conversation about FDs and share awards as part of remuneration versus what the CEO gets.

As UK businesses become more like those in the US – where the CEO more frequently carries the cult of personality and the requisite remuneration demands – FDs inevitably will move in a likewise direction, particularly against the backdrop of pressure to find and build growth.

Finance directors do not see why that should be seen as less valuable and therefore less able to be recognised with the same number of shares as the CEO will get.

Richard Guest, CFO of Stock Spirits Group, says: "I think the UK is moving towards the 'CEO superstars' mentality of the US. You see it in the FTSE-100 and in private equity."

If reward is linked to value creation, says Guest, then "it's win-win".

Having a say on pay

The new stewardship code is giving shareholders a louder voice. Does this mean FDs will face boardroom battles over bonuses? **Richard Crump** reports

In the wake of the world financial crisis, executive remuneration has become an explosive issue, not least for finance directors. After all, FDs are the custodians of the financial health of their business and when things go wrong, how they are remunerated naturally comes under the microscope.

Twelve months ago, the world was in the grip of the worst recession in memory, with the remuneration of senior executives subject to intense media scrutiny. FTSE-100 FDs' take-home pay fell for the second time in a row, and FTSE-250 FDs suffered a near-30 percent drop in bonus payouts.

The UK has officially come out of recession and, as confidence appears to be waiting in the wings, this has been reflected in the remuneration of FDs. According to *Financial Director*'s latest salary survey, FTSE-100 FDs have returned to all-time highs.

After the backward step of 2008, in 2009 the total pay of FTSE-100 FDs saw an 11.7 percent increase, helped by a 27.3 percent increase in bonus payments. FTSE-250 FDs experienced a slightly smaller 23.3 percent increase in bonus payments.

According to Deloitte's latest report on executive director remuneration, awards are more likely to be at usual levels in 2010. Bonus payouts, which in 2009 were lower than previous years, also appear to be back at more typical levels in 2010.

Although this may prompt some commentators to suggest that remuneration for executives is very much business as usual, some elements have clearly changed.

"I don't think remuneration structures have changed for good, but neither is it a case of reverting to business as usual," says Colin Melvin, chief executive of Hermes Equity Ownership Services.

"What has changed is the quality of interaction between shareholder and company. That is good for FDs because they get proper support and challenge from their long-term shareholders."

Executive remuneration continues to hit the headlines and in recent months there has been a great deal of noise about shareholder activism, with suggestions that shareholders would be flexing their muscles in the 2010 AGM season.

Shareholder revolt

This was the case with Cable & Wireless (C&W), which faced a shareholder revolt in March this year over a controversial incentive scheme that put three executives in line for millions of pounds if targets were met. Last year, C&W also suffered a shareholder rebellion when 38 percent of its investors failed to endorse its renumeration report after the Association of British Insurers objected to it.

But it seems C&W was an exception. According to Deloitte, votes in favour of remuneration reports have generally been higher than last year.

When there is a need for opposition, too often shareholders are not speaking out. "Generally, shareholders are not as vocal as journalists," quips Melvin.

But things are changing. Melvin says more discussions between shareholders and directors around remuneration are taking place before annual general meetings, heading off many disputes.

Melvin believes this is, in part, a result of the new stewardship code, which places greater emphasis on better dialogue and more engagement from shareholders.

"This is first time anywhere that we have a code for shareholders," says Melvin. "A comply-or-explain corporate governance code has existed for some time, but we haven't had anything to guide shareholders."

As a result, he expects shareholders to take a more active interest in the companies they invest in and remuneration committees need to be ever mindful of shareholder expectations.

Greater engagement from shareholders is having a positive effect. Many companies have taken on board the views of shareholders that long-term awards should not pay out the maximum amount where company performance has been weak and, in 2009, a significant number of companies made lower than usual awards, the Deloitte report found.

Also, a large number of companies are now including a wider range of performance measures in long-term plans that support the strategic aims of the company.

Shareholders will also be pleased to learn that there has been a further increase this year in the number of companies requiring at least part of any bonus paid to be deferred for a number of years. This is welcomed by Guillaume Prache, managing director of Euroinvestors and Euroshareholders at the European Investors' Working Group.

"Bonuses and remunerations need to be better aligned to the interests of management and shareholders," says Prache. "FDs are very much involved in the strategy of the company. The key principle is that incentives should not be made in one shot, but paid over three years."