



CEO compensation levels in French CAC 40 companies have recorded a growth rate of 13.8% since 2017 – yet mainly due to changes in the index composition

Focus France: CEO compensation in the European context

Average CEO compensation levels in France for financial year 2018 have increased to their maximum since 2015 and reached the € 5.2 million mark, which represents a growth rate of 13.8% in comparison with 2017. This significant increase in CEO compensation levels is however primarily attributable to changes in the index composition. When only considering companies already listed in the CAC 40 in the previous year, the increase is rather moderate and amounts solely to 3.7%.

According to this year's analysis of annual reports conducted by hkp/// group, the CEO compensation levels among CAC 40 companies are significantly lower than those observed among companies listed in the STOXX® Europe 50 and EURO STOXX 50® indices. This difference in CEO compensation is partly due to the larger size of the European top companies listed in the STOXX indices. This year's special analysis shows however that – even if adjusted for company size – CEO compensation levels in the CAC 40, especially for large companies, are still slightly below those in STOXX companies.

The disclosure practices among CAC 40 companies are considered among the best in the European comparison – with the new legislation set forth in 2019 yet further improvements can be expected.

CEO compensation levels

Compensation levels in French CAC 40 companies vary significantly across the index constituents and range between less than € 2 million and about € 23 million in direct compensation¹. The CEOs of luxury and technology companies tend to be paid higher than those of other industries. The major part of the compensation packages of the top-earners in the CAC 40 is made up of multi-year variable compensation elements. In some cases, these compensation elements are especially high this year due to exceptional grants for particular achievements, like a successful company transformation.

¹ Direct compensation = Base salary for financial year 2018 + actual bonus paid for financial year 2018 + multi-year variable compensation granted in financial year 2018

Top 3 highest-paid CEOs		
Company	Chief Executive Officer	Direct Compensation, in k EUR
Dassault Systèmes	Bernard Charlès	22,847
Kering	François-Henri Pinault	12,098
TechnipFMC	Douglas J. Pferdehirt	11,093
Bottom 3 lowest-paid CEOs		
Company	Chief Executive Officer	Direct Compensation, in k EUR
Credit Agricole	Philippe Brassac	2,181
Orange	Stéphane Richard	1,952
Renault	Carlos Ghosn	1,224

Fig. 1: The highest paid and the lowest paid CEOs in the CAC 40 in 2018.

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The exceptional growth in CEO direct compensation in the CAC 40 is mainly due to special LTI grants in 2018, but also base salaries as well as actual annual variable compensation show a rather strong development in the last three years.

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Alena Vititneva, Consultant hkp/// group



The compensation levels at the lower end of the compensation ranking may be explained by unique situations in the respective companies. Examples are the loss of the right to new grants of variable compensation due to office termination or the double function executed by the CEO, also serving as a Chairman of the Supervisory Board and receiving an additional compensation for this role, which is not considered in the analysis of CEO compensation.

Compensation levels in France and Europe

The average CEO direct compensation among the leading French companies experienced a growth of 13.8% compared to financial year 2017 (only 3.7% in the like-for-like comparison). “The exceptional growth in CEO direct compensation in the CAC 40 is mainly due to special LTI grants in 2018, but also base salaries as well as actual annual variable

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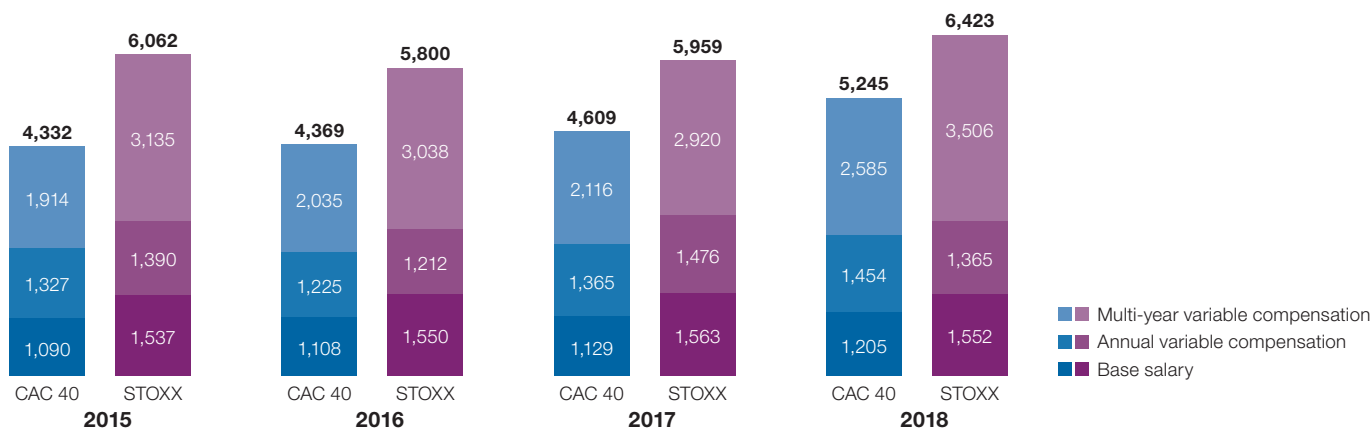


Fig. 2: Average CEO direct compensation in k EUR in CAC 40 and STOXX companies in 2015-2018; foreign currencies converted into Euro at the average exchange rate for 2018

compensation show a rather strong development in the last three years”, explains Alena Vititneva, hkp// group Consultant.

The opposite can be observed in relation to the compensation figures of European top companies – average base salaries and actual bonus payouts in STOXX companies rather stagnated over the past years. The average STOXX CEO direct compensation without the outlier Anheuser-Busch InBev merely increased by 0.8% in 2018, compared to 2017.

Yet average CEO compensation levels in CAC 40 companies are still about 18% lower than those in STOXX companies, which is mainly driven by the fact that CAC 40 companies are considerably smaller than companies in the STOXX indices, which comprise Europe’s largest and most successful listed organizations.

The average company size in the CAC 40 and the STOXX indices is only comparable in terms of headcount. When consider-

ring other size indicators, like revenue or market capitalization, STOXX companies are on average almost twice as big as their CAC 40 counterparts.

Compensation levels adjusted for company size

In order to control for differences in company size when comparing CEO compensation levels in STOXX and CAC 40 companies, this year’s special analysis evaluates direct compensation in relation to market capitalization for companies listed in both indices. In this analysis, market capitalization serves as a proxy for company size.

The results of the analysis can easily be shown in a scatter plot (see figure 4 on the next page): The vertical axis shows the CEO direct compensation level, whereas the horizontal axis depicts the market capitalization of the respective company at the end of financial year 2018. Lilac dots represent STOXX companies, whereas the blue triangles represent CAC 40 companies.

When analyzing the relation between CEO direct compensation and market capitalization by adding linear trend lines, we find a positive trend for both indices, i.e. the higher a company’s market capitalization, the higher the direct compensation level of the respective CEO. However, the correlation turns out to be relatively weak, although it is somewhat stronger for STOXX companies. Considering an average size STOXX company, CEO direct compensation is predicted to be about 10% lower for a company of the same size in the CAC 40, based on the CAC 40 trend line. This pay difference between CAC 40 and STOXX CEOs is especially prominent for larger companies (market capitalization >50,000 m EUR). So even if we control for company size, particularly large CAC 40 companies seem to exhibit somewhat lower CEO pay levels than STOXX companies of the same size.

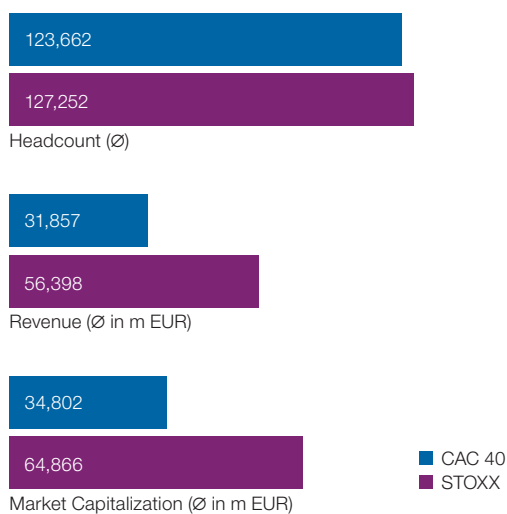


Fig. 3: Average size of companies in CAC 40 and STOXX 2018

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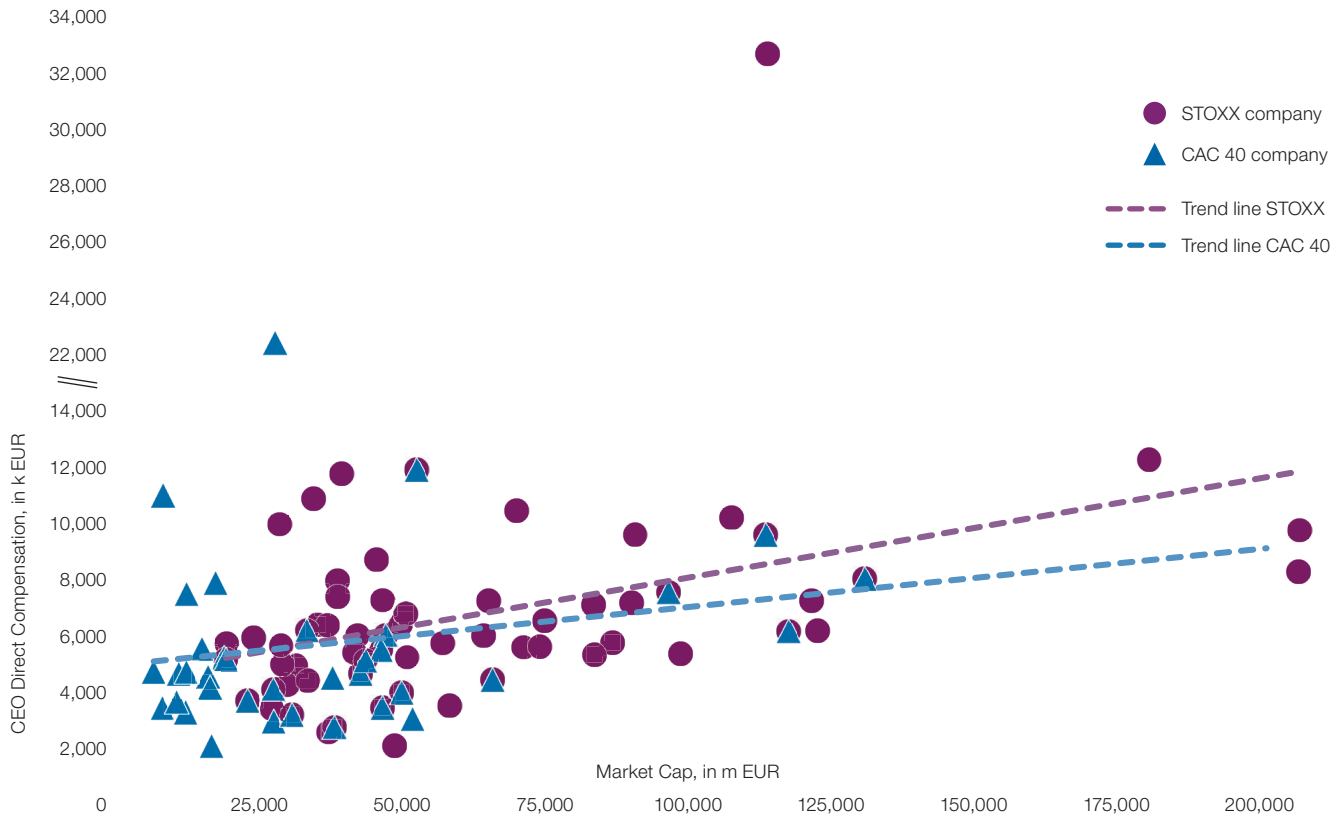


Fig. 4: CEO direct compensation in k EUR and market capitalization in m EUR in STOXX and CAC 40 companies; only companies with CEOs full-year in position in financial year 2018 included

Corporate Governance in France

Concerning corporate governance, French companies are often criticized for combining CEO and Chairman offices, as this might limit the control function within the board of directors. The French law and the Afep-Medef code (Corporate Governance Code of Listed Corporations/Code de gouvernement d'entreprise des sociétés cotées by Afep and Medef), however, allow corporations with one-tier systems (board of directors) to choose between the separation of the offices of Chairman and Chief Executive Officer and the combination of both. It does not favor either option.

According to the hkp///group analysis, in 60% of all companies in the CAC 40, the CEO holds an additional non-executive role as Chairman, Vice-Chairman or ordinary Supervisory Board member. French companies which have a combined role for the Chairman and Chief Executive Officer typically appoint a Lead Director who acts as a sounding board to the Chairman, an intermediary for other Non-Executive Directors as well as an alternative communication channel for major shareholders. Another French peculiarity is that in almost 50% of CAC 40 companies the CEO is the only statutory Executive Director, whereas this is only true for 12% of STOXX companies in European countries other than France.

Looking at the current best practice regarding disclosure and transparency of Executive Director compensation, CAC 40 companies show a relatively high level of transparency in their remuneration reports. This is due to the fact that most companies apply the recommendations of the Afep-Medef code, which contains recommendations on good corporate governance, including the design and disclosure of Executive and Non-Executive Director compensation for listed companies.

Article 25 of the Afep-Medef code precisely describes which and how compensation elements should be disclosed and provides standard tables for compensation disclosure. "Due to the wide-spread application of the standard tables of the Afep-Medef code, CAC 40 companies show a very high level of transparency when it comes to disclosure of Executive Director compensation. The tables show all compensation elements due for and paid in the current as well as in the previous financial year so that Executive Director compensation can be easily compared across companies as well as over time. Multi-year variable compensation is typically disclosed as fair value at grant, which is an international golden standard for disclosure of multi-year share-based compensation elements.", explains hkp///group Manager Verena Vandervelt.

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In a European comparison, CAC 40 companies show both a high level of transparency in disclosing Executive Director compensation in their remuneration reports as well as a high involvement of shareholders through binding “say-on-pay” votes.

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Verena Vandervelt, Manager hkp// group



By June 2019, EU member states must have implemented the second European Shareholders Rights Directive (SRD II) into national law, which states that shareholders must have the right to vote on the remuneration policy of Executive and Non-Executive Directors at every major change and in any case at least every four years. EU member states can choose to implement a binding or merely consultative vote of shareholders.

Moreover, the SRD II requires companies to conduct a non-binding shareholders' vote on the remuneration report, which discloses the individual compensation levels for Executive and Non-Executive Directors for the most recent financial year. While the SRD II generally provides higher disclosure standards and shareholder rights than formerly stipulated by national laws in several European countries, a binding “say-on-pay” for shareholders of listed companies was already implemented in France by “Loi Sapin II” from 2017 on.

By modification of Articles L225-37-2/L225-82-2 and L225-100 of the French Commercial Code, “Loi Sapin II” introduced a binding “say-on-pay” vote for shareholders regarding the remuneration policy for the upcoming financial year (ex-ante vote) as well as a binding vote on the actual compensation to be paid to each Corporate Officer (Executive Directors as well as the Chairman of the board of directors) for the most recent financial year (ex-post vote).

Although the principle of “say-on-pay” has historically already been well established in France, several aspects of the European SRD II regarding Executive Director compensation have been addressed by “Loi PACTE” (“law on business growth and transformation”), which came into effect on May 22, 2019. Loi PACTE enables the French government, within

12 months after its promulgation, to transpose the provisions of the SRD II into the French Commercial Code by way of ordinances. Therefore, “Ordonnance n° 2019-1234” was implemented on November 27, 2019 to further enhance a consistent and binding regulatory framework for director compensation in French listed companies.

By this ordinance, Article L225-37-3 of the French Commercial code was modified to specify that companies must publish a clear and comprehensive remuneration report within their Corporate Governance Report, which includes detailed information on all compensation elements paid in and due for the previous financial year for each director – including directors who left office during the financial year in question. The disclosure requirements for the remuneration report in the modified version of the same article have been sharpened and encompass the disclosure of several new elements. One new element, which was first introduced by Loi PACTE in May 2019, is that companies must now report the compensation level of each Corporate Officer relative to the average and median compensation levels of the company's employees, including the development of this ratio during the last five financial years. Another example is that companies are now required to not only report fixed, variable and special compensation elements for each director separately, but also to publish the proportion of fixed and variable compensation elements.

Besides the sharpened requirements for the remuneration report, “Ordonnance n° 2019-1234” modifies Article L225-37-2 of the French Commercial code to stipulate that the Non-Executive board must create a clear and comprehensive remuneration policy. Furthermore, the “say-on-pay” requirements of SRD II are addressed: in addition to the ex-post vote on individual compensation payout for Corporate Officers already introduced by “Loi Sapin II”, the new version of the article now requires that the ex-post vote in a first step includes the shareholder approval of the overall remuneration report for the previous financial year – as required by SRD II. Moreover, companies are now allowed to deviate from their remuneration policy in exceptional circumstances provided that the remuneration policy describes the elements that can be deviated from.

Despite the recent additions to the French Commercial code, the individual ex-post vote is currently still not applicable to Ordinary Non-Executive Directors. Therefore it remains to be seen if additional regulatory changes will be implemented by way of new ordinances in order to further improve the corporate governance and disclosure practices regarding board compensation in France.

About hkp/// group



Verena Vandervelt, Manager, studied Business Administration at the University of Cologne and completed an international double-degree program (CEMS), majoring in Human Resources Management and Finance. She spent her semesters abroad at the University of International Business and Economics in Beijing and at HEC Paris. Since her start at hkp/// group in spring 2014, Verena Vandervelt primarily accompanies projects on Top Executive compensation with a focus on compensation benchmarks, design of variable compensation systems and job grading. Furthermore, she leads international compensation surveys for Top Executives in DAX- and mid-sized companies as well as international studies on Executive und Non-Executive Director compensation in Europe.

verena.vandervelt@hkp.com



Alena Vititneva, Consultant, did her Bachelor's in International Management at the Graduate School of Management of the Saint-Petersburg State University. She spent a semester abroad at the University of Cologne, where she also completed her Master's degree in Business Administration majoring in Corporate Development and Behavioral Economics. She collected practical "Compensation & Benefits" related experience in several DAX-companies during her studies. Alena Vititneva joined hkp/// group in September 2016 and is mainly involved in projects concerning Compensation Insights & Technology topics. She is responsible for German as well as international top executives surveys and specializes in the valuation of share based payments.

alena.vititneva@hkp.com

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Contact

Thomas Müller, Partner, Head of Marketing & Communication International
hkp Deutschland GmbH
Phone +49 69 175 363 323
Mobile +49 176 100 88 237
thomas.mueller@hkp.com

 www.xing.com/company/hkpgroup

 www.linkedin.com/company/hkpgroup

 www.twitter.com/hkp_group

Amsterdam

Vondelstraat 89A
1054 GM Amsterdam
The Netherlands
Phone +31 20 737 0687
amsterdam@hkp.com

Dordrecht

Singel 380
3311 HM Dordrecht
The Netherlands
Phone +31 78 613 72 76
dordrecht@hkp.com

Frankfurt

Friedrich-Ebert-Anlage 35-37
60327 Frankfurt am Main
Germany
Phone +49 69 175 363 30
frankfurt@hkp.com

Zurich

c/o Aeberli Treuhand, Zimmergasse 17
8008 Zürich
Switzerland
Phone +41 44 542 81 60
zurich@hkp.com
