The Value of Leadership

Tracking CEO performance in today's Reputation Economy

where
reputation
is no longer
a risk.

POLECAT™

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Research Methodology

In order to conduct this research we used Polecat's proprietary platform RepVault to analyse English-international online and social postings related to FTSE 100 CEO data over a 90 day period and a 180 day period. Analysis was further focused using our proprietary reputation taxonomies, which filter data for relevance to key topics that impact these business critical areas. The data also focused on target companies, to provide deeper level insights into CEOs most mentioned in conversation taking place online and across social media.

Throughout the report we mention 'Impact'. This is a measure of significance, based on a proprietary algorithm we have developed to quantify the volume or force of conversation which is based on document count, reach of particular data sources, and how closely related documents are to the company and reputation topic.

CIPD Executive pay: review of FTSE 100 executive pay research was also cited in this publication, August 2018. Additional citations include HBR article by Alison Taylor of BS; as well as a Department for Business, Energy and Industrial Strategy (2017) Corporate governance reform: the government response to the green paper consultation.

Executive Summary

- Market appraisal of CEOs typically centres around CEO compensation levels and business performance. Overcompensation is often called-out and prioritised in league tables that are designed to question the 'fairness' of executive pay.

- Male CEOs in the FTSE 100 are the most highly paid according to industry research, however they are not leading conversation and delivering reputational gains relative to their earnings on behalf of their companies.

- Female CEOs in the FTSE 100 outpace male CEOs, leading conversation across online and social media. In addition, female CEOs also drove positive reputation impact across key reputation topics, leading on innovation and shareholder value issues.

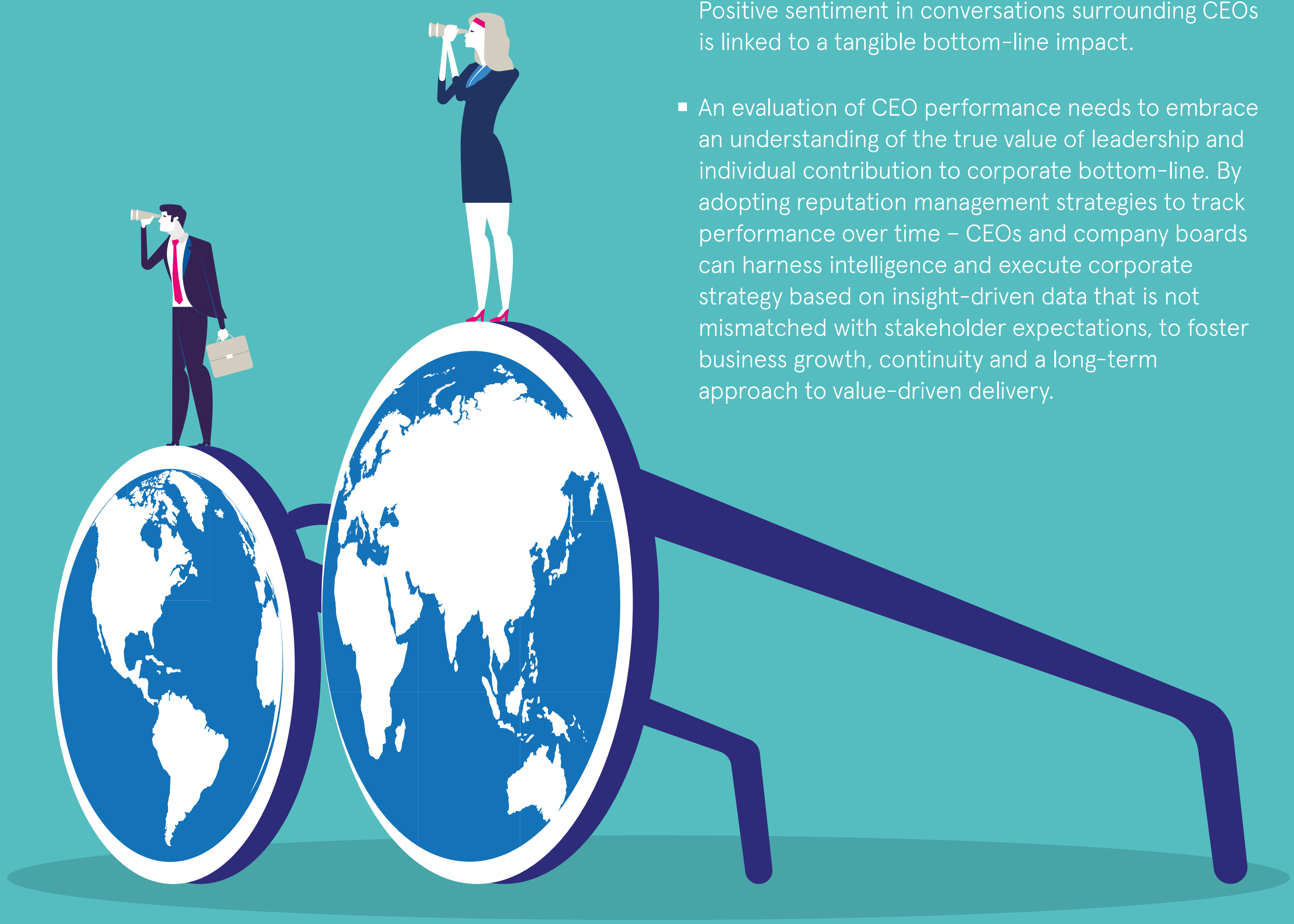
- Remuneration provides a one-dimensional approach to analysis when addressing wider CEO performance and accountability. One that is also not in line with the evolving priorities and responsibilities of CEOs.

- CEOs are now expected to carry a broader role beyond actions that drive financial performance, including the requirement that they engage in and understand the strategic, operational and business environment in which their stakeholders participate.

- Innovation, Social Impact, Business Compliance, Business Continuity, Culture and Environment are drivers of corporate reputation success that provide a holistic view of appraising CEO performance - one that is aligned with wider stakeholder interests.

- Measuring the reputational drivers of CEOs also provides indicators on consumer confidence in CEOs. Positive sentiment in conversations surrounding CEOs is linked to a tangible bottom-line impact.

- An evaluation of CEO performance needs to embrace an understanding of the true value of leadership and individual contribution to corporate bottom-line. By adopting reputation management strategies to track performance over time – CEOs and company boards can harness intelligence and execute corporate strategy based on insight-driven data that is not mismatched with stakeholder expectations, to foster business growth, continuity and a long-term approach to value-driven delivery.



Introduction

Pay and performance

The litmus test for chief executives' performance worldwide is often a binary exercise in seeing reward provided in exchange for improvement to corporate bottom-line. But this singular indicator of success and driver of performance is intrinsically flawed.

The arrest and subsequent downfall of Carlos Ghosn, former Chairman of Nissan and CEO of Renault, has shown that while a CEO can drive significant financial returns, their compensation is quickly negated when a crisis of their own causing unfolds. CEOs are placed under scrutiny for their direct actions and can present as much liability as asset to their business, company boards, and stakeholders.

In an unfortunate twist of fate, the scandal that has embroiled Ghosn is now presenting reputational risk and contagion across the Japanese automotive industry that he was once credited with reviving. The damage is also spreading to Nissan's board of directors, with several executives under investigation because of the scandal.

Today's global company faces increasing shareholder and societal pressure to meet multiple business challenges that respond to shifting employee and customer expectations. Company boards therefore, need to be focused on the success of longer term, value-driven corporate strategies that respond to stakeholder expectations and are, in turn, supported by agile leadership teams delivering sustainable business continuity and longevity.

The industry norm for performance-based compensation is increasingly interrogated and widely debated. The legacy platform from where CEOs and leadership teams sat at the helm as a governing force is now at the mercy of stakeholder disruption. Organisations that have evolved their own business models and augmented board priorities, are innovating fast to include stakeholder engagement, good governance and policies that help create responsible business practices. Failing to analyse the myriad of factors driving corporate performance, misses a large part of the modern CEO's remit.

Polecat Intelligence provides organisations with a holistic view of corporate reputational impact, by tracking and understanding six drivers of reputation: Innovation, Social Impact, Business Compliance, Business Continuity, Culture and Environment. The following report analyses how several global CEOs measure up against these drivers, and provides insight into the wider implications for the organisations that they lead.

We examine what is a true and authentic test of the value of leadership in today's complex reputation economy.

In Focus_

Nissan – Renault – Mitsubishi

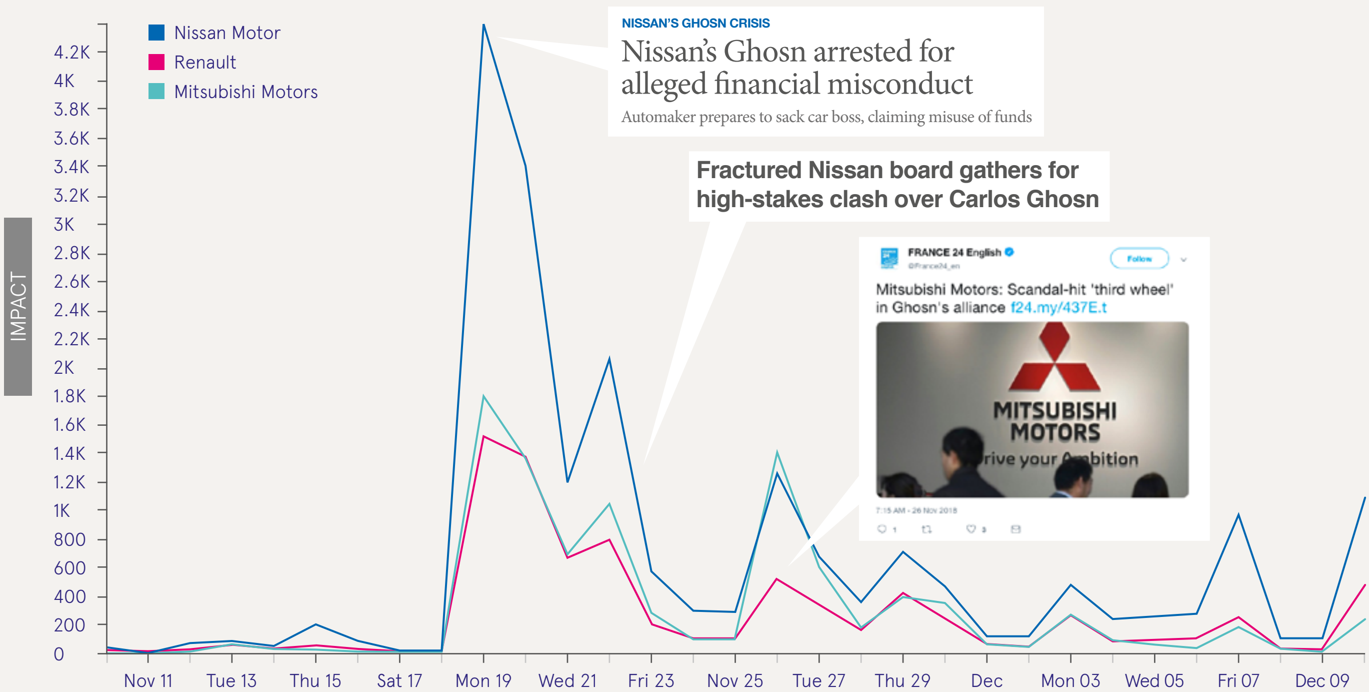
The erosion of reputation, driven by scandal and intrigue

Ghosn's arrest for failing to fully disclose his compensation sent shockwaves across the industry and caused share prices to plunge across major car manufacturers, with Renault shares falling 8.4% and Nissan by 6.4% immediately after the arrest. For decades, Ghosn was seen as a 'rock star' CEO, at the top of his game and a powerful influence on the creation and stability of the automotive trifecta he forged with Nissan-Renault-Mitsubishi.

Nicknamed "le Cost Killer" in France because of his ruthlessness in boosting performance at Renault, he brought a similar cost-cutting strategy to Nissan. It was at a human cost - with Ghosn closing factories, cutting jobs and placing workers on temporary contracts. Operating profits, however, soared in both companies.

In what now marks a huge fall from grace, Ghosn is currently languishing in a Japanese prison and the future of leadership at the Alliance in transition, with financial impact and reputational contagion to these manufacturers, still ongoing.

Notably, scrutiny over Ghosn's pay began well before the scandal came to light. Ghosn's fame within the industry and glamorous status failed to sit well with Japanese stakeholders and he was often at loggerheads with Renault's shareholders regarding his pay package. Dissent over executive pay, therefore, could be a forewarning for executives and perhaps also point to current shortfalls in corporate governance that led Ghosn to under-report his pay for so long. The fall of this once-great leader highlights how one CEO is not greater than the company they led - or their stakeholders.



Auto-manufacturers Nissan, Renault and Mitsubishi Motors were all impacted by the Ghosn affair, with each company registering a high volume of conversation as the contagion spread across online and social media (4000+ postings). The triple alliance and tied investments among the three manufacturers, that once stood at the bellwether for global car manufacturing success, took its toll on reputation of all three brands over time, in the aftermath of Chairman Ghosn's direct actions. Source: Polecat intelligence.

For what it's worth, the measure of performance

As the industry re-appraises Ghosn after the scandal, how do corporates generally appraise CEOs? Routinely, analysts remain focused on CEO compensation levels and its link to business performance. League tables are positioned to question "fairness" over excessive pay concerns.

For example, HR professional body CIPD widely publish reports on executive pay for FTSE 100 CEOs. Overcompensation for select CEOs have been called out (Persimmon and Melrose), and the overall results yield a picture of reward and breakdown of compensation that is distinctly at odds with their employees' pay.

Table 1: The ten highest paid CEOs In 2017

Chief executive (2017)	Company	2017 pay	2017 pay ratio
Jeff Fairburn	Persimmon	£47,087k	1,130:1
Simon Peckham	Melrose Industries	£42,764k	1,134:1
Rob Perrins	Berkeley Group	£27,963k	273:1
Jeremy Darroch	Sky	£16,343k	312:1
Martin Sorrell	WPP	£13,930k	295:1
Dimitris Lois (died 2 Oct 2017) and Zoran Bogdanovic (from Dec 2017)	Coca-Cola HBC AG	£13,783k	563:l
Rakesh Kapoor	Reckitt Benckiser	£12,480k	362:1
Andre Lacroix	Intertek	£11,683k	458:l
Nicandro Durante	British American Tobacco	£11,423k	424:l
Bob Dudley	BP	£10,486k	106:1
Mean of top ten		**£20,794k**	**506:1**

Table 1 shows a list of individual remuneration packages from FYE 2017 and the ratio of CEO single figure pay in comparison to each company's mean staff package.
Source: CIPD 2018.

The missing link to corporate performance

In a 2017 UK Government consultation paper published on corporate governance, officials expressed concern around the "non-alignment of long-term incentive plans with executive remuneration and company performance"[1]. The link between CEO pay and corporate performance remains opaque, and to date- companies are still incentivising 'top earners' based on a largely self-referential C-suite culture and board discretion.

Yet remuneration is not an indicator of corporate performance. With increasing emphasis on enhanced board priorities and corporate governance oversight, how are CEOs to be made accountable and measured against their company's impact on wider stakeholder interests?

In the court of public opinion, the individual role and responsibilities of the CEO are evolving quickly. CEOs can no longer simply be driven by board priorities but must anticipate and respond to a broad scope of social expectation and responsibility – including playing a progressively activist role to meet pressing environmentally and social concerns.

CEOs and Boards therefore need to review their remuneration committee policies, and re-evaluate their own performance objectives, to challenge complacency and recognise and reward exceptional performance and results. As such, CEOs and leadership teams should be appraised for the initiatives they take to drive long-term value-creation or wider corporate purpose that ultimately delivers business success and outcomes for their respective companies.

[1] Department for Business, Energy and Industrial Strategy (2017) Corporate governance reform: the government response to the green paper consultation, p17. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_d

In Focus_

Kraft - Heinz

In pursuit of activism, values and perpetuity

In a recent HBR article penned by Alison Taylor of BSR, CEO activism conflates a number of different perspectives and issues that binds CEO responsibilities with multiple stakeholder interests – beyond simply direct shareholder duties they are charged with. While CEOs may sometimes be driven by activist pursuits based on specific issues, from climate change to political ones, there is ground to cover. Engagement with civic society is far more complex with wider stakeholder interests to embrace and relationships to harness, from employee voices to non-profit organisations and the local communities that have generated vast brand equity and value on behalf of major global companies.

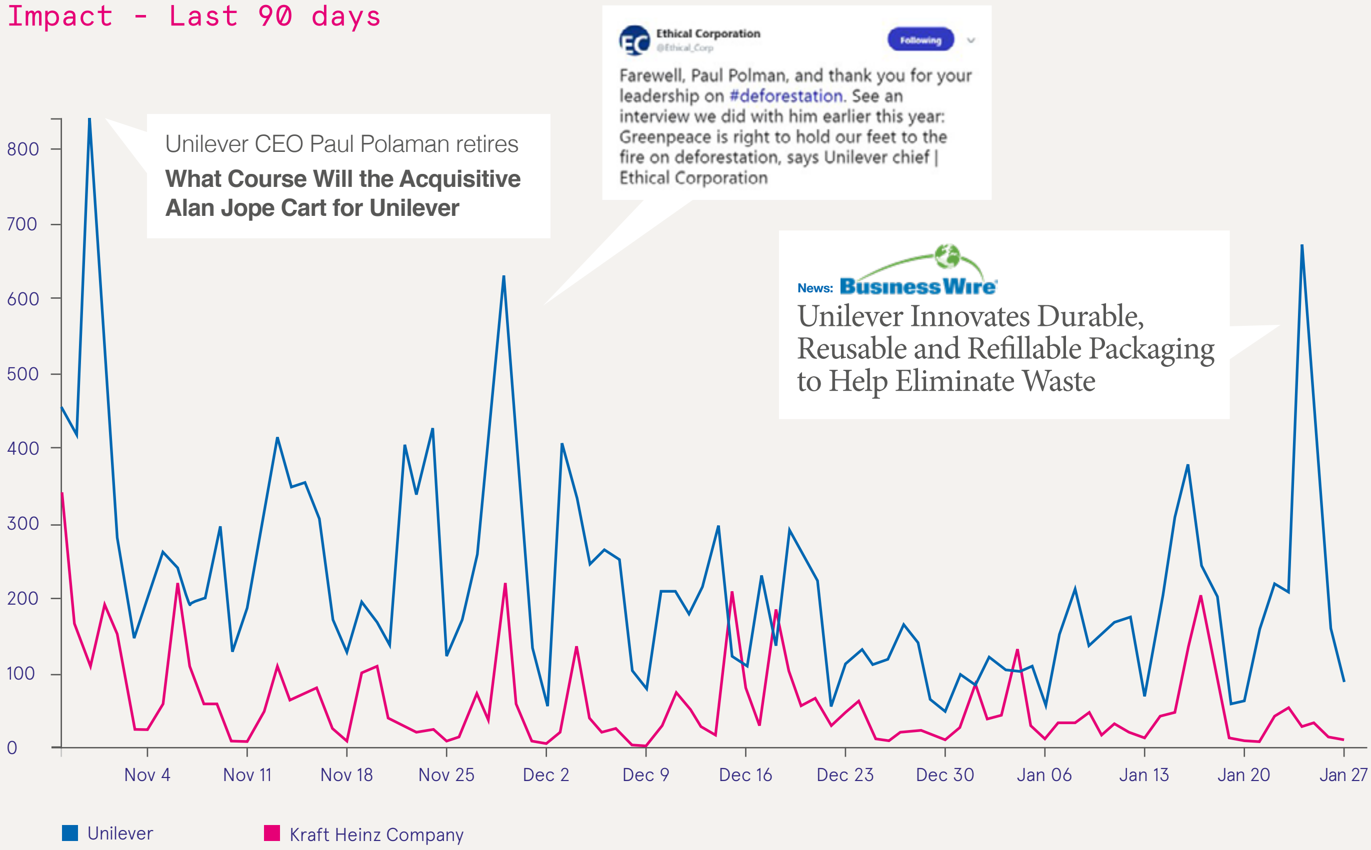
The Icarus effect was felt most recently by Bernardo Hees, CEO of Kraft Heinz. The CEO and his leadership team's continuing "buy-and-cost consolidation" strategy stalled after Unilever rejected the Kraft Heinz takeover bid in 2017. Analysts speculated that the rationale for the failed acquisition hinged on a clash of corporate cultures – with Unilever upholding its business ethos of "responsible capitalism", whereby it defended long-term value creation for shareholders as the basis of its corporate values.

In contrast, the reputation earned by Hees and his leadership team for aggressive buy-outs drove short-term profitability and shareholder value, reached its limits, and was not widely supported by various stakeholders in the Unilever camp.

To echo the sentiments made by Taylor, *"when business interests and values conflict, values are the dominant variable"*. Importantly, Hees and his leadership team learned lessons from the failed merger, and Kraft Heinz realigned its business model, with renewed rigour placed on sustainable, long-term corporate growth. Most recently, illustrated through a food bank programme launched by Kraft Heinz to feed federal workers' families during the U.S. Government shutdown.

Hees' revitalized corporate agenda includes an emboldened CSR programme to eliminate hunger in developing countries by 2021 - but he will most certainly be tested by the market for the actions he will be taking as CEO. Will Hees and Kraft Heinz rise above the critics that view these tactics as "greening policies" and pay heed to the interests of wider communities and the societal responsibility, that Kraft Heinz carries as the 5th largest food producer in the world?

Impact - Last 90 days



The failed acquisition by Kraft Heinz was not a surprise for many analysts that saw a competing clash of cultures between both companies. In a telling sign of differences in corporate performance based on reputational indicators, Unilever continues to outpace Kraft Heinz in volume of conversation and reputational impact over time. With Unilever, the announcement of CEO change from Polman to Jope dominated conversation, as well as a number of "Environment" issues and topics around packaging, Despite the Kraft Heinz enhanced CSR programme, it falls behind its peer against several reputational indicators. Analysis across 90 day period. Source: Polecat Intelligence.

Identifying drivers of corporate reputation

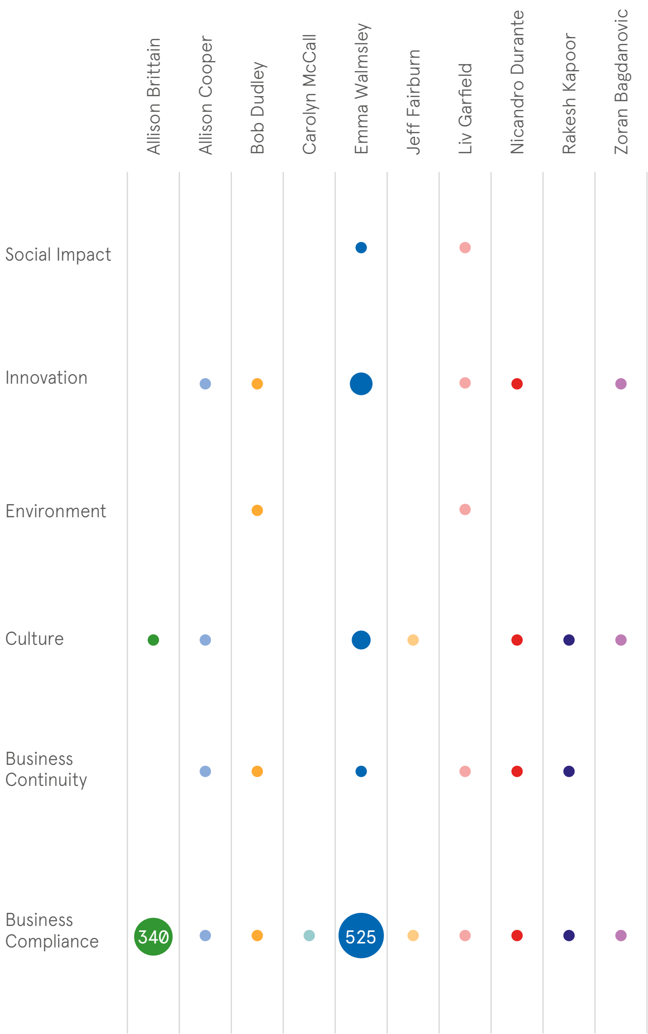
Innovation, Social Impact, Business Compliance, Business Continuity, Culture and Environment – are drivers of corporate reputation success that provide a holistic view of appraising CEO performance – catering to a company's wider stakeholder interests, from its employees, shareholders, suppliers, consumers and society.

Polecat Intelligence adopts these six critical reputation drivers, to gather insight about top FTSE CEOs. In the analysis below, Business Compliance issues stood prominently – to reflect the vast majority of online conversation with high a volume of mentions relating to shareholder issues.

Notably, against the top FTSE 100 CEOs based on overall compensation (CIPD 2018), *the CEOs driving conversation were not necessarily those that are highest paid in rank and order.* Jeff Fairburn, CEO of Persimmon topped pay league tables but drove far less impact for pay and correlation to corporate and reputation success.

Emma Walmsley, CEO of GSK dominates volume of conversation for the pharma giant, leading on major acquisitions and corporate strategies, to outpace her peers in the market.

All CEO's against Taxonomies - 2018.08.01 - 2019.01.28



A view of highest paid FTSE 100 CEOs measured against an alternative indicator of performance: corporate reputation success. Emma Walmsley, CEO of GSK leads on conversation driving shareholder value (520+) postings), as well as corporate and business innovation (190+ postings), well ahead of her peers in the market. Analysis is based on previous 180 day period.
Source: Polecat Intelligence.

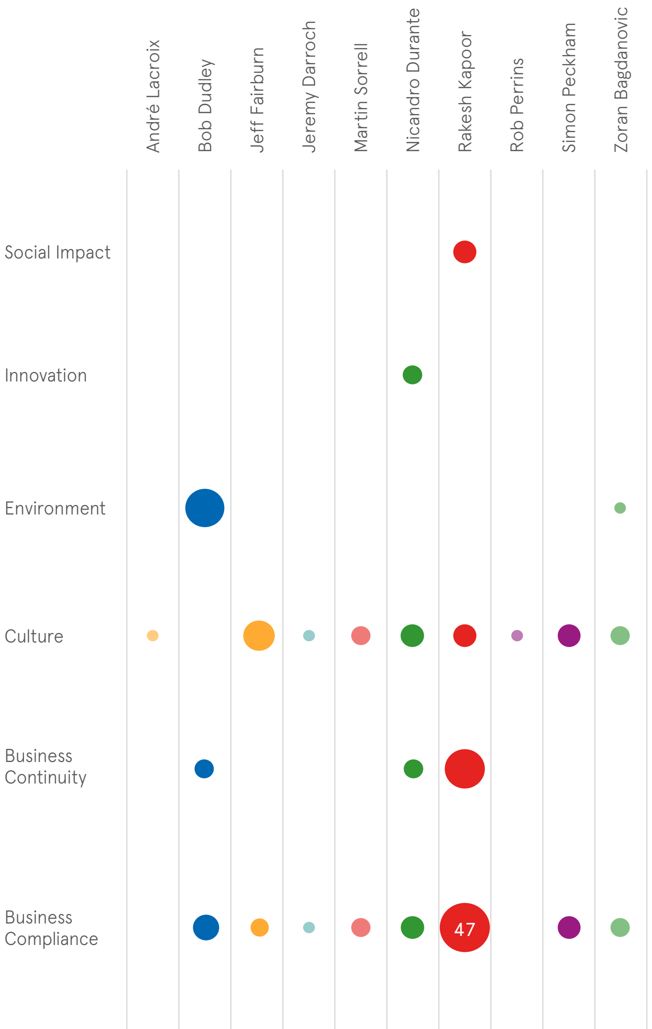
The Alpha myth of the male CEO

While market analysts focus on traditional indicators that rank pay and performance – typically dominated by male CEOs that comprise the FTSE 100 highest paid list, *female CEOs are driving share of voice and reputation success on behalf of corporates.*

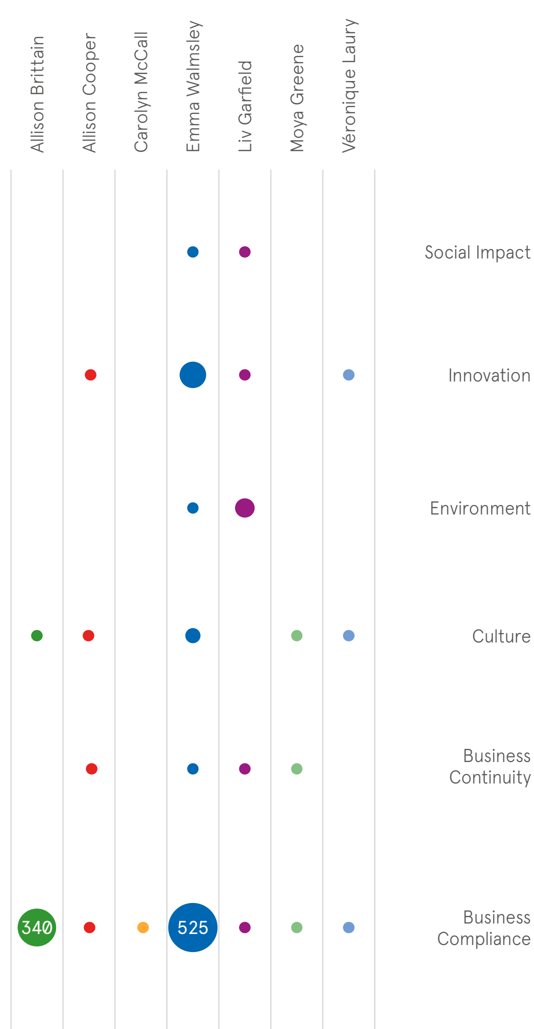
Importantly, female CEOs have dominated conversation, across all FTSE 100 players, both male and female.

Emma Walmsley, CEO of GSK, tops volume of conversation for the company's recent Pfizer acquisition and demerger conversation, followed closely by Alison Brittain, CEO Whitbread for leading the sale of the Costa Coffee brand to Coca-Cola. Rakesh Kapoor of Reckitt Benckiser rounds up 3rd place place with 47 postings. Against Kapoor, GSK's Walmsley stood out with more than 10 x volume of mentions in conversation.

Male CEO's against Taxonomies
2018.07.31 - 2019.01.27



Female CEO's against Taxonomies
2018.07.31 - 2019.01.27



Right: Female CEOs against taxonomies: Emma Walmsley CEO at GSK tops volume of conversation, with key corporate acquisitions and shareholder issues, under the category of Business Compliance as a key reputation driver (500+postings). Brittain from Whitbread followed closely behind with M&A discussion (330+postings). Note seven female CEOs served in FTSE 100 during 2017/18. Left: Male CEOs against taxonomies: Rakesh Kapoor of Reckitt Benckiser gathered far less mentions (47 postings) at the announcement of his impending departure. Based on analysis across previous 180 day period. Source: Polecat Intelligence.

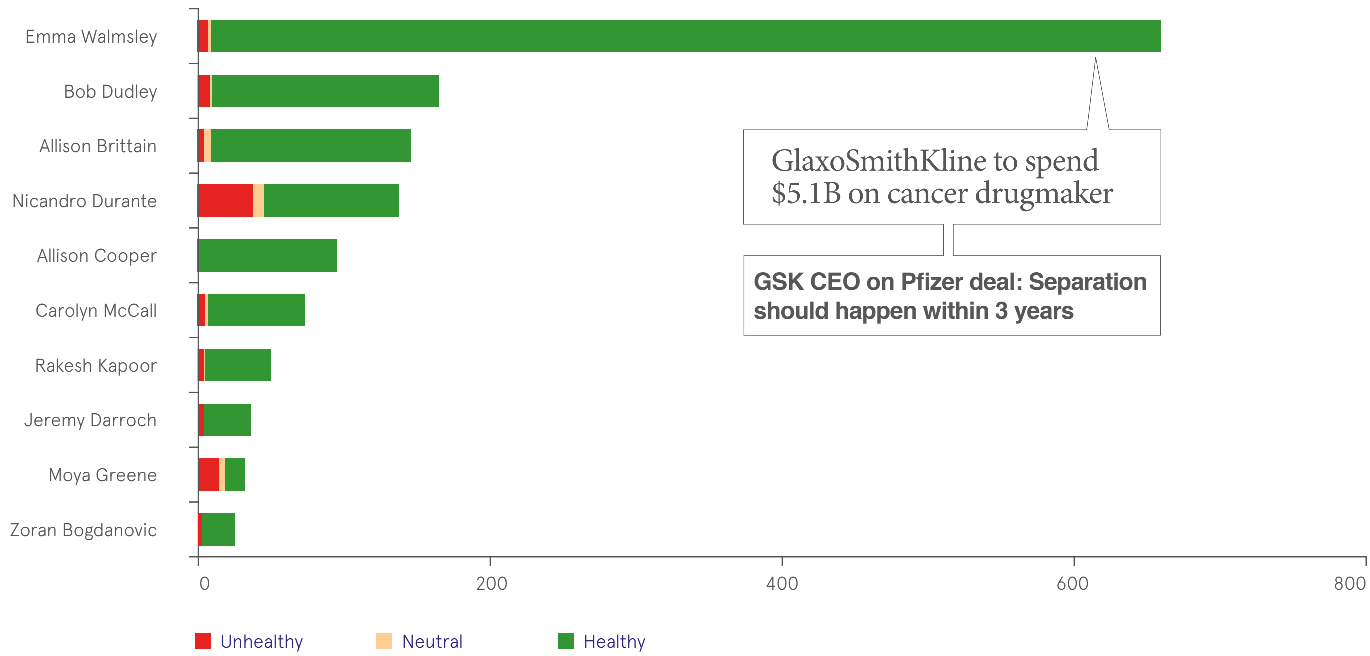
Confidence in CEOs speak volumes and creates bottom-line impact

For CEO Walmsley, the tone of conversation across online postings in recent weeks, is also overwhelmingly positive, with an average sentiment analysis score of "healthy". The conversation uplift recognizing her corporate status as a dynamic dealmaker among FTSE players, having led GSK into multiple deals this year (Novartis) and the strategic changes that lie ahead (a demerger with Pfizer), which benefit both shareholder and consumer interests. Ultimately, culminating in a 7% uptick on share price on announcement date on 19th Dec.

Although seemingly mired in controversy for GSK, analysts have pointed to a number of strategic corporate moves by CEO Walmsley to create a clear division between its consumer healthcare and pharma business lines – in direct response to shareholder pressures.

Over time GSK has continued to create reputation impact as a key FTSE 100 player, above all other competitors. In Sept Whitbread drove conversation after a controversial ad campaign that denounced "avocadoes", but other peaks in conversation relate to M&A talks and profits driven by the company. Persimmon plc did not sufficiently impact upon corporate reputation against both GSK and Whitbread, despite the fact that its CEO was highest paid CEO last financial year.

Top CEOs - 2018.09.20 - 2018.12.19



CEO Walmsley dominates conversation with volume of online conversation peaking at 640+ postings against 130+ alongside nearest peers, including Bob Dudley, BP Group Chief Executive. Sentiment in relation to conversation, for CEO Walmsley is in the majority positive, pointing to the recent demerger announcement and leadership at GSK this year. Based on analysis to 30 day period to Dec end. Source: Polecat Intelligence

Conclusion

The future of performance monitoring based on corporate reputation indicators

When Chief Executive Paul Polman exited Unilever recently, he left a long-standing legacy of strong financial performance that was underpinned by a long-term business strategy focused on a responsible business model that drove corporate reputation. Correspondingly Unilever's shares have far outperformed the FTSE 100 index during Mr Polman's tenure, rising about 150 per cent since 2009, while the FTSE is up 70 per cent. *(Source: FT)*

Over time GSK has, in a similar vein continued to create reputation impact as a key FTSE 100 player, above all other competitors. Market analysts have pointed to a number of strategic corporate moves by CEO Walmsley to create a clear division between its consumer healthcare and pharma business lines – in direct response to wider stakeholder pressures, including its board and key investors.

Crucially, the *definitive evaluation of CEO performance will be tracked over time* – as corporates assess performance based on strategies they implement as they rise to the occasion and respond to wider stakeholder interests that truly generate business longevity and continuity.

Additionally, the themes, issues and topics driving reputation success for corporates can be unearthed and interrogated in depth and analysed peer-to-peer, to drive a holistic understanding and insight of CEO performance.