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EOS Case Studies / Reckitt Benckiser
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EOSRiskStrategy

Reckitt Benckiser (RB) is a leading global household and personal care company. Growing from its home care roots, with strong positions in fabric care, surface care, air care and dishwashing, RB has made a string of acquisitions in the consumer health market and is positioning itself as a Health & Hygiene Home company.

Background

RB has generated significant shareholder value, since the current chief executive officer assumed his role at the end of 2011, leading to a doubling of the company's market capitalisation to approximately £48bn.

This value creation should however not come at the expense of strong risk oversight and sustainable business practices. An overly narrow focus on shareholder interests and profitability (as also reflected in RB's executive remuneration framework) may lead to increased risk taking and neglect of the 'non-financial' impacts of corporate activities such as ethical conduct and consumer safety.

Humidifier sanitiser products, developed and sold by RB's Korean subsidiary Oxy RB, have been shown to cause death and lung injury of consumers, beyond having a significant financial and reputational impact.

Our engagement

In our engagement with company directors – which has been intensified in the past three years throughout a series of meetings – we repeatedly challenged the board on its strategy, risk oversight and executive remuneration framework.

Last year at the AGM, our discomfort with board risk oversight was expressed in a vote recommendation against the re-election of the audit committee chair – who subsequently received a high level of dissent by shareholders (31% votes against). We also raised our concerns about the narrow remuneration performance conditions, encouraging the board to consider a broader range of metrics –

preferably to include a risk-adjusted return on capital given the acquisitive nature of the company.

Shortly after, we met RB's new chief safety, quality and compliance officer and the chair of the newly established corporate responsibility, sustainability, ethics and compliance committee to monitor progress made in establishing more proactive product stewardship.

Changes at the company

Developments in South Korea have led to the creation of a dedicated safety, quality and compliance function, together with a board sub-committee to provide the necessary oversight. More recently, the company hosted an investor event, where the new chair, committee chairs, as well as sustainability executives provided further insight on RB's strategy, risk oversight and sustainability objectives. Encouragingly, the directors have acknowledged the need to embed a culture of responsibility throughout the organisation and have added responsibility as one of its core values. In addition, RB has separated out sustainability to become more integrated with broader business teams under a new operational leadership.

Furthermore, the executive remuneration framework, which has received a high level of dissent in recent years, is now under review with the potential inclusion of an additional performance metric (beyond earnings per share). Notwithstanding the market leading shareholding requirement for executives, the pay structure remains highly leveraged and an overall review of quantum of pay remains important.

We will seek further meetings with the company directors, including the chair of the sustainability committee and the newly appointed head of sustainability, to assess the execution of the more stakeholder-oriented strategy and existence of robust board oversight. We will also consult on the new remuneration policy, which will be voted by shareholders at the 2019 AGM.