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Executive Remuneration at Reckitt Benckiser plc

"The U.S. is about the size of the pie. The U.K. is about the slice of the pie."
- Bart Becht, CEO of Reckitt Benckiser

Reckitt Benckiser management believed that the company fostered an innovative and entrepreneurial culture through a remuneration system that relied strongly on performance-oriented pay. In fact, as stated in the 2001 Annual Report, "this [remuneration] system drives both in year performance, through the annual bonus system, and long-term alignment to shareholder value through the long-term incentive system. . . . Our compensation system is absolutely integral to our future success."[1] Nevertheless, with a recent trend in the United Kingdom toward more shareholder involvement in decision-making, especially executive compensation, and incidents of shareholder protest at other multi-national companies, senior managers and directors at Reckitt Benckiser were faced with the challenge of balancing executive and shareholder concerns.

The History of Reckitt Benckiser

Reckitt Benckiser plc. was formed in December 1999 by the merger of Benckiser N.V., a Netherlands-based household products company, and Reckitt & Colman plc., a United Kingdom-based consumer products company. Founded in Germany by Johann A. Benckiser in 1823 as an industrial chemical firm, Benckiser eventually branched into consumer products, launching Calgon water softener and Calgonit Automatic Dishwashing Detergent in the middle of the 20th century. Reckitt & Colman, which began in 1804 as a flour mill, prospered by manufacturing spices, most notably mustard. The company eventually divested most of its food lines in favor of household cleaning, health and personal care products. During the 1980s and 1990s it acquired several popular brands in these categories, including Airwick air fresheners, Black Flag insecticide, Woolite fabric care, Easy-Off oven cleaner, Lysol, Glass Plus, and Spray'n Wash.[2]

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[1] Reckitt Benckiser 2001 Annual Report.

[2] "Reckitt Benckiser plc, Company Profile," Available from Hoovers Online <http://www.hoovers.com> (accessed June 25, 2003).

Professors Jay W. Lorsch, V. G. Narayanan, and Krishna Palepu and Research Associates Ashley C. Robertson and Lisa Brem prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

When the two companies merged, Alan Dalby, the chairman of Reckitt & Colman was named chairman of the new company, and Bart Becht, who had been CEO of Benckiser, was named CEO. The new company divested several non-performing and unrelated brands, while it continued to grow and expand geographically through acquisitions, such as the purchase of Korean Oxy Company (makers of Oxy Clean fabric treatment) in 2001. In 2003 Reckitt Benckiser was number one in the world in household cleaning products and ranked third in the broader household goods category (see **Exhibit 1** for Global household goods market share).[3] It owned leading brands in disinfectants, garment care, automatic dishwashing and depilatories. In 2001, Reckitt Benckiser ranked 11th overall in consumer package goods behind leaders Unilever and Procter & Gamble (P&G) (see **Exhibit 2** for Consumer non-durable companies).

Overall, the merger was a commercial and financial success. In an interview in Reckitt Benckiser's newly built Slough, England headquarters in 2003, Bart Becht explained that the new company reflected the culture of each of the two combined companies, with 75% of the culture adapted from Benckiser and 25% from Reckitt & Colman. One important cultural aspect taken from Benckiser was the emphasis on performance-based pay. The synergy of the products of the two companies, coupled with the fact that they had complementary geographic strengths, contributed to their effective integration.

In 2002, sales at Reckitt Benckiser totaled 3.5 billion pounds (£). Fabric care and surface care products generated nearly 50% of sales, with home care, dishwashing, health and personal care accounting for another 42%.[4] The company had a 2002 profit before taxes of £545 million with annual growth of 26.7%, supported by 23,000 employees (1,300 in the U.K.) with operations in 60 countries. It sold products in 180 countries and had 50 manufacturing facilities across every continent. The company's main competitors included: Procter & Gamble (U.S.), Unilever (Netherlands and U.K.), Colgate-Palmolive (U.S.), The Clorox Company (U.S.), Henkel (Germany) and Dial Corporation (U.S.) (see **Exhibits 1 and 2**).[5] Going forward, the company raised its target for net income growth in the 2003 Interim Report to 14% at actual exchange.[6]

Company Strategy and Performance

The company's strategy was to grow by acquisitions and organic growth through line extensions and new products. Indeed, one important factor in the company's strategic success was its emphasis on new products, as new products launched in the past three years comprised 32% of net revenues and the company was on track to meet a targeted 40% by 2004. These new products expanded what the company considered to be its "top 15 Power Brands." Reckitt Benckiser was aggressive in marketing and advertising. Its media budget, which supported these new products, was 11% of net revenues, one of the highest among its competitors.[7]

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[3] John Parker, Phil Spencer, Sara Supino and Mark Purdy, Deutsche Bank Company Focus Global Equity Research, "Reckitt Benckiser A Breath of Fresh Air," (May 13, 2003). Published by OneSource Information Services, Inc., <http://www.onesource.com> (accessed June 29, 2003).

[4] "Reckitt Benckiser plc, Company Profile," available from Hoovers Online <http://www.hoovers.com> (accessed June 25, 2003) and "Company Report for Reckitt Benckiser PLC," available from Amadeus <http://www.Amadeus.bvdep.com> (accessed June 23, 2003).

[5] Reckitt Benckiser 2002 Annual Report.

[6] Reckitt Benckiser 2003 Interim Report, p.4.

[7] Reckitt Benckiser 2002 Annual Report.

As Becht outlined in the 2002 Annual Report, the strategy also consisted of the following core components:

- Deliver above industry average net revenue growth. We target to achieve this growth by focusing on high growth categories in which our top 15 Power Brands hold the market-leading positions.

- Leverage out net revenue growth into even stronger net income growth and strong cash generation through improving operating margins and cash flow management.[8]

Analysts considered Reckitt Benckiser to be a financial success (see **Exhibit 3** for company performance, 1999-2002). As the *Financial Times* noted:

> Investors' eyes may glaze over at talk of textured floor wipes and three-in-one dishwasher tablets. Yesterday's results from Reckitt Benckiser show why they should take notice. The Anglo-Dutch household products group has outstripped industry sales growth since its birth in 1999.[9]

Industry watchers pointed to its product innovations, cash flow and revenue growth as proof that the company would continue to grow into 2004 (see **Exhibit 4**).[10] Organic growth rates (constant currency) were between 6% and 7% from 2000 to 2002, with most of that growth in Europe and North America. Indeed, the company generated 47% of its revenue in Western Europe and 29% in North America.[11] As the 2002 Annual Report pointed out:

> We exceeded our financial targets for 2002. Net revenues for the year grew by 7% at constant exchange to £3,531m. Reported growth was 3%, affected by adverse exchange rates. Normalised net income grew by 20% to £408m. Net cash flow generation grew by 38% as we further improved profits, cut net working capital and improved our cash management.[12]

Remuneration Philosophy

The Global Nature of the Remuneration Plan

Reckitt Benckiser wanted to attract the best executives regardless of country of origin and believed that it must remain competitive for talent with U.S.-based competitors, such as P&G. There was also a related concern among those who formulated the company's remuneration policies that they pay executives in such a way that they would have complete global mobility. According to John Beadle, Compensation & Benefits Director, Reckitt Benckiser valued highly the "fresh thinking and new ideas [that] stem from people moving around from one market to another" and, in practice, moved everyone in the top commercial team at least once in his or her career. Reckitt Benckiser had

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[8] Reckitt Benckiser 2002 Annual Report.

[9] *Financial Times*, London. February 21, 2002.

[10] *See* Parker, *supra* note 3.

[11] "Business Brief -- Reckitt Benckiser PLC: First-Quarter Net Rose 17% on Strength in North America," *The Wall Street Journal*, New York, NY, May 8, 2003, available from ProQuest, ABI/Inform, <http://proquest.com> (accessed June 22, 2003).

[12] Reckitt Benckiser 2002 Annual Report.

developed a plan to motivate and retain top managers while adhering to a global remuneration policy. The plan was a reflection of the company's culture, and supported both international mobility and the development of global executives.

Fundamentals of the Remuneration Plan

As Beadle explained, "base pay is sufficient to live on. If one hits his or her targets he or she will be slightly better off than the competition. However, it is possible for one to exceed his or her targets and earn a maximum bonus of 3 ½ times the target bonus."

The theory behind the compensation plan was twofold: it should be performance driven at all levels of management and it should be easily understood with targets within each manager's "line of sight." Beadle emphasized that simplicity was a key factor in the remuneration plan. Essential to this concept of simplicity was the consistency of the plan throughout various levels of management, including the CEO. Additionally, the company did not use measures such as Economic Value Added, as those involved with formulating the plan felt it was too complicated when pushed down in the company.

The 2002 Annual Report pointed out: "We also put a heavy emphasis on winning. This explains not just our very performance oriented compensation system, but also our need for high quality people with passionate commitment."

To assure that they had such people, management, as explained by Becht, rated potential recruits on both competency and cultural fit. Cultural fit was considered critical and was determined based on a propensity for achievement, commitment, entrepreneurship, and teamwork. Executives involved in setting the compensation policies were convinced that attracting employees with these characteristics was essential to the success of the plan. The outcome of the hiring process, according to Beadle, was "a self-selected group of people who are motivated and excited by the remuneration system and who believe in themselves and in the system."

The plan consisted of three major parts: salary, short-term incentives, and long-term incentives (see **Exhibit 5**). Salaries were typically set around the median of competitors according to compensation surveys. Both base salaries and short-term incentives were paid in cash. Most of a manager's compensation was dependent on performance. If an executive met all targets, which were generally set at the average of the peer group performance, he or she would receive 40% of base salary as a bonus. However, if the individual substantially exceeded all targets, he or she could earn up to 140% of base salary. Generally, to achieve this, a performance of double the targets would be required. If none of the goals were met, the variable compensation would be zero (see **Exhibit 6**). Short-term incentives were based on factors within the manager's control. The three criteria used to determine the compensation of a manager in a business unit were revenue growth, profit growth, and networking capital reduction.

Long-term pay was based on targets related to corporate growth over three years as agreed to by the board of directors, upon the recommendation of the Remuneration Committee. The indicator used was earnings per share (EPS). The long-term incentives, paid in options and restricted stock, vested only if the company met the EPS targets. According to Beadle, Reckitt Benckiser was reducing the grants of options and moving towards granting more restricted stock. The EPS target for partial vesting was 6% growth per annum, or 19% over a three-year period that was based on historical industry growth averages. If the company grew EPS at 9% per annum or 30% over three-years, 100% of the long-term incentives would be granted (see **Exhibit 7**).

Due to a strong belief that holding stock in the company would cause employees to behave like owners, the Remuneration Committee also set a minimum share ownership policy. For example, the CEO was required to own 400,000 shares within six years of appointment and the top thirty managers were each required to own 50,000-200,000 shares depending on one's level (see **Exhibit 6**). Consultants from Bain & Company (a U.S.-based global consulting firm) endorsed Reckitt Benckiser's plan. In their view stock-based incentives, linked carefully to performance, could effectively bridge the gap between pressure to raise executive pay scales and the austere economic climate. They opined that Reckitt Benckiser was a best practice company in this regard:

> Even with the right measures in place, unless the incentives to perform are palpable, compensation becomes a blunt tool or, worse, a scheme that rewards mediocrity. At Reckitt Benckiser . . .senior managers' base salaries are well below competitors', and long-term incentives don't pay out unless the company achieves growth rates that are double the industry average. To earn their bonuses, executives must show measured progress toward the company's strategic targets. [13]

Compensation Decision Makers at Reckitt Benckiser

The Role of Human Resources

Human Resources worked with the board's Remuneration Committee and with senior managers to formulate and maintain the remuneration policy. Beadle's role was to be the inside expert on all compensation matters, including any design changes, and to ensure the effective administration of the compensation plan. The Human Resources department at Reckitt Benckiser also engaged an external compensation consulting firm to provide market data and commentary on market trends.

The Role of the Board of Directors

Members of the Remuneration Committee of the board (see **Exhibit 8**) were referred to by Beadle as the "custodians of the compensation strategy." It was this committee's responsibility to ensure that the policy was aligned with company culture and that it served the business strategy and executives themselves. Additionally, any changes in the compensation policy had to be approved by the entire board.

Shareholder Involvement

In late 2003 each London Stock Exchange listed company's remuneration policy had to be "blessed" not only by the board of directors, but also by the company shareholders. This shareholder approval was "advisory," but companies ignoring the shareholder vote would be subjected to negative media attention and shareholder protests. There was generally a move toward giving shareholders more influence in remuneration, both in the London Stock Exchange listing requirements and in The Combined Code. In July 2003 the Financial Reporting Council published a revised version of The Combined Code on Corporate Governance outlining governance guidance for companies as well as good practice suggestions. In accordance with The Code, shareholders at

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[13] Orit Gadiesh and Marcia Blenko, "Executive Pay: The Same Old Saw?" *The Wall Street Journal*, New York, N.Y., April 29, 2003, page B4. Available from ProQuest, ABI/Inform, <http://proquest.com> (accessed June 22, 2003).

Reckitt Benckiser voted on long-term incentive schemes. For example, at the May 2003 Annual Meeting shareholders approved the 2002 plan for the CEO and directors' pay.

Reckitt Benckiser directors believed that their performance-based compensation also adhered to provisions of The Code, which stated that "performance-related elements should form a significant proportion of the total package of executive directors and should be designed to align their interests with those of the shareholders and to give these directors keen incentives to perform at the highest levels."[14]

Shareholders also had the right to vote on the amount of dilution allowed under the plan. Limits were set in the U.K. on how much dilution could be allowed to compensate employees in "discretionary" (executive) plans. In order to implement its incentives program and to stay even with its U.S. competition, Reckitt Benckiser needed to obtain its shareholders' approval to raise this level to above the U.K. norm. Prior to the merger, Reckitt & Colman was listed on the London Stock Exchange; Benckiser was listed on the Amsterdam and New York Stock Exchanges. As a result, Reckitt Benckiser shares in 2003 were only 35% held in the U.K. (20% were held in the U.S. and 15% were held in Europe and Asia, with 16% retained by the Benckiser family). Even though such a small proportion of shares were owned in the U.K., the Remuneration Committee felt it was important that U.K. shareholders be comfortable with larger dilution. To accomplish this the chairman of the board and the chairman of the Remuneration Committee spent many days talking with U.K. shareholders about the need to exceed normal U.K. levels of dilution. In 2003 the shareholders approved the use of 2% dilution per year over 5 years for all employee share programs. This 2% dilution program was still below the 75th percentile of the U.S. peer group, where the range was 1.7-2.5% dilution per year.

Broader Issues on the Table

An area of general confusion for U.K. stockholders was the valuation of stock options. Criticism of several multi-national, globally competitive companies, similar to Reckitt Benckiser, had been voiced about how they had valued stock options, for example, whether the stock options should be valued at the price of the stock at the time of the grant. Another issue that concerned shareholders was the length of contracts for senior executives since they did not want to see companies paying executives large amounts if the company's performance did not warrant such compensation.

Initiatives taking place in the U.K. indicated that institutional shareholders were increasingly concerned about executive remuneration plans. As Christine Farnish of the National Association of Pension Funds said, "we want to see a greater alignment between executive pay and shareholders' interests.[15] To this end, there were a number of examples of remuneration plans about which shareholders expressed concern:

- 2003: GlaxoSmithKline CEO Jean-Pierre Garnier's remuneration package was voted down by the company's shareholders as being exorbitant.[16]

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[14] The Combined Code on Corporate Governance, July 2003, as found on the Web site of the Financial Reporting Council < http://www.frc.org.uk> (accessed October 21, 2003). The Combined Code summarized the recommendations of a number of corporate governance committees in the United Kingdom, dating back to the early 1990s.

[15] Christine Farnish, Chief Executive, National Association of Pension Funds, quoted in *Financial Times*, London, April 15, 2003.

[16] Julia Finch, "Hewitt threatens to snatch fat cats' cream," *The Guardian*, June 4, 2003.

- 2003: WPP CEO Sir Martin Sorrell's 3 year compensation contract only narrowly passed in a shareholder vote (54%) due to fears of a "golden parachute."[17]
- 2003: Shareholders protested Reuter's CEO Tom Glocer's severance package equaling £2.8 million after he presided over the worst loss in the company's history.[18]

Given the importance of incentive compensation in motivating key managers and developing a culture of risk taking and innovation, Reckitt Benckiser executives and members of the board of directors were concerned about how to sustain their incentive compensation programs while still meeting the changing expectations of shareholders. Management at the company considered it critical to maintain levels of compensation attractive to recruit and retain top managers globally, while also adhering to shareholder requests that remuneration not get out of hand.

[17] Adam Pasick, "WPP sees firming ad sector amid Sorrell pay row," *Reuters*, August 18, 2003.

[18] Chris Tryhorn, "Glocer under fire over pay deal," *The Guardian*, April 17, 2003. <www.mediaguardian.co.uk.>

Exhibit 1 Global Household Goods Market —Top 10 Companies (Share %)

	1999	2000
The Procter & Gamble Company	17.6	18.1
Unilever Group	14.4	14.3
Reckitt Benckiser plc	7.9	8.0
S. C. Johnson & Son, Inc.	5.8	5.9
The Henkel Group	5.1	5.0
Colgate-Palmolive Company	4.5	4.3
The Clorox Company	2.7	3.0
Kao Corporation	2.0	2.2
Sara Lee Corporation	1.7	1.8
Lion Corporation	1.6	1.6

Source: Adapted from Euromonitor, as reproduced by Deutsche Bank Global Equity Research, May 13, 2003.

Exhibit 2 Leading Household Products/Personal Care Companies Ranked By Sales (U.S.$ Millions)

	Fiscal Year End	Sales	Net Income
Unilever Group	Dec. 01	43,121.00	1,646.00
The Procter & Gamble Company	Jun. 02	40,238.00	4,352.00
Kimberley-Clark Corporation	Dec. 01	14,524.00	1,609.90
L'Oreal Group	Dec. 01	12,171.00	1,089.00
Colgate-Palmolive Company	Dec. 01	9,430.00	1,150.00
The Gillette Company	Dec. 01	8,960.00	910.00
Newell Rubbermaid	Dec. 01	6,910.00	265.00
Kao Corporation	Mar. 02	6,325.00	454.00
Fortune Brands	Dec. 01	5,680.00	139.00
Avon Products, Inc.	Dec. 01	5,990.00	430.00
Reckitt Benckiser plc	Dec. 01	5,002.00	501.00
Shiseido Co., Ltd.	Mar. 01	4,711.20	356.90
Estee Lauder	Jun. 02	4,144.00	168.50
S.C. Johnson & Son, Inc.	Jun. 00	4,200.00	NA
The Clorox Company	Jun. 02	4,061.00	322.00
Alberto-Culver ACCPW	Sep. 01	2,494.00	110.00
The Dial Corporation	Dec. 01	1,660.00	70.00
Revlon Consumer Products Corporation	Dec. 01	1,322.00	(150.00)
Tupperware Corporation	Dec. 01	1,114.00	62.00

Source: Adapted from Hoover's Online as reproduced in Standard & Poor's Industry Surveys. Howard Choe, Standard & Poor's Industry Surveys, "Household Nondurables, " (October 24, 2002) from Web site <www.onesource.com> (accessed June 29, 2003).

Exhibit 3 Company performance since the merger, 1999-2002

	2002 (£m)	2001 (£m)	2000 (£m)	1999 (£m)
Net Revenues	3,531	3,439	3,[illegible]60	3,054.4
Operating Profit	577	525	140	137.3
Cash flow	752	603	302	107.8

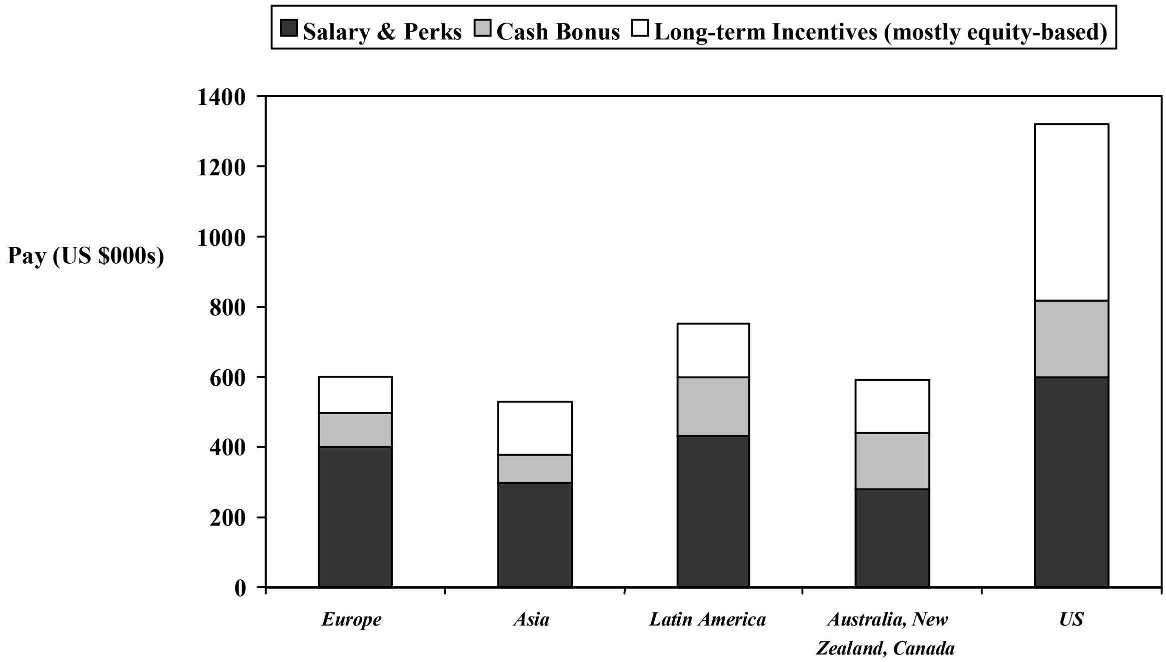
Source: Reckitt Benckiser Web site <http://reckittbenckiser.com> (accessed October 21, 2003).

Exhibit 4 Group Profit and Loss Account for the half-year ended 30 June 2003 (unaudited)

	1st half 2003 (£m)	1st half 2002 (£m)	Full-year 2002 (£m)
Net revenues from continuing operations	1,834	1,743	3,518
Discontinued and de-consolidated operations	-	13	13
Total net revenues	1,834	1,756	3,531
Cost of sales	(848)	(846)	(1,678)
Gross Profit	986	910	1,853
Net operating expenses	(706)	(655)	(1,276)
Operating profit from continuing operations	280	255	574
Discontinued and de-consolidated operations	-	2	3
Total operating profit	280	257	577
Net interest expense	(11)	(20)	(32)
Profit on ordinary activities before taxation	269	237	545
Tax on profit on ordinary activities	(70)	(64)	(137)
Profit on ordinary activities after taxation	199	173	408
Attributable to equity minority interests	-	-	-
Profit for the period	199	173	408
Ordinary dividends	(99)	(90)	(181)
Retained profit for the period	100	83	227
Earnings per ordinary share:			
On profit for the period	28.1p	24.6p	58.0p
On profit for the period, diluted	27.1p	23.7p	55.7p

Source: Reckitt Benckiser 2003 Interim Report 2003, p. 5.

Exhibit 5 2001 Average Executive Pay Levels (industrial companies with over $500 million in sales)



Source: Brian J. Hall, "Six Challenges of Equity-Based Pay Design," from data supplied by Towers Perrin.

Exhibit 6 Report on Director's Remuneration from Reckitt Benckiser's 2002 Annual Report

Report on Directors' remuneration

Remuneration Committee
The Remuneration Committee of the Board (the "Committee") is responsible for determining and reviewing the terms of employment and remuneration of the Executive Directors and senior executives. The remuneration principles established for this senior group of employees provide the framework for the remuneration packages of all other executives.

The Committee comprises four Non-Executive Directors under the Chairmanship of Dr Peter Harf, the Deputy Chairman. It meets as necessary, but at least three times each year.

As well as reviewing Executive Directors' base salaries, the Committee determines the incentive arrangements that will apply. It aims to set challenging and demanding performance targets and to ensure that incentive awards at the end of each year fully reflect the Company's performance.

Policy on remuneration
The Committee's overriding objective is to ensure that Reckitt Benckiser's remuneration policy encourages, reinforces and rewards the delivery of outstanding shareholder value. This approach has been a key ingredient in the success of Benckiser, and now Reckitt Benckiser. The graphs below show that the Company has, since the merger in 1999, outperformed both the UK FTSE 100 and the US remuneration peer group in terms of Total Shareholder Return (TSR).

Shareholders have, twice in the last four years, had an opportunity to vote on the remuneration policy, first at the time of the merger, and last year as part of the vote on the Company's long-term incentive policy and, in both cases, gave strong support. Shareholder approval of the remuneration policy is being sought again this year. The core principles on which this policy is based are described below.

First, in order to attract and retain the best available people, the Committee has – and will continue to adopt – a policy of executive remuneration based on competitive practice. Reckitt Benckiser competes for management skills and talent in the same international market place as its main competitors, the vast majority of which are based in the US. In accordance with this policy principle, total remuneration for Executive Directors and other senior executives will be benchmarked against the upper quartile of a peer group comprising Reckitt Benckiser's main competitors.

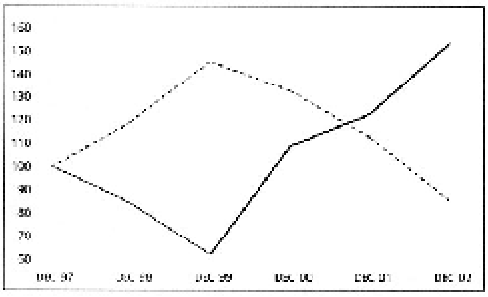
The second principle is that variable pay is, and will continue to be, the major element of our current Executive Directors' and senior executives' total compensation package. Accordingly, the Executive Directors' compensation package comprises, in addition to base salary, an annual cash bonus and share based equity incentives. Highly leveraged annual cash bonuses, linked to the achievement of key business measures within the year, are designed to stimulate the achievement of outstanding annual results. To balance the management's orientation between the achievement of short and long-term business measures, and focus them directly on increasing shareholder value, the Committee believes that share-based incentives are also appropriate.

In broad terms, if the Group achieves its target levels of performance, the variable elements will account for more than 80% on average of Executive Directors' total remuneration. If performance is unsatisfactory, then no cash bonuses would be paid and long-term incentives would not vest.

The final principle underlying the Committee's remuneration policy is to create a global executive team through a cost-effective international transfer programme and supporting policies.

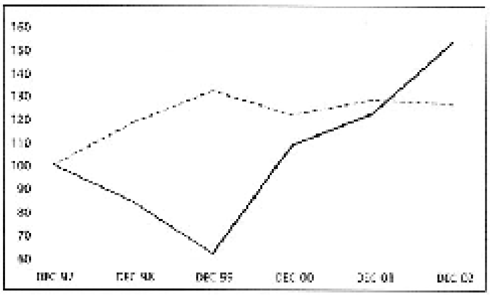
The Company believes that the remuneration package in place and the mix of fixed and variable pay within that package meets these three core principles. Therefore, it does not propose to make any significant changes in the forthcoming year. However, the Committee constantly reviews its policies and will inform shareholders of any proposed changes.

Historical TSR performance
Growth in the value of a hypothetical £100 holding over five years
FTSE 100 comparison based on spot values



Notes
The graph above shows the performance of Reckitt Benckiser in terms of TSR performance against the UK FTSE 100 index over a five-year period and conforms to the Directors' Remuneration Report Regulations 2002. The index was selected on the basis of companies of a comparable size in the absence of an appropriate industry peer group in the UK.

Historical TSR performance
Growth in the value of a hypothetical £100 holding over five years
Peer group comparison based on spot values



Notes
The graph above shows the performance of Reckitt Benckiser in terms of TSR performance against our US remuneration peer group over a five-year period. These companies include Church & Dwight, Clorox, Colgate-Palmolive, Dial, Gillette, Johnson & Johnson, Procter & Gamble, and Sara Lee.

Report on Directors' remuneration (continued)

Base salaries
Base salaries are normally reviewed annually with effect from 1 January. Increases are determined by reference to a peer group, comprising our main competitors, and individual performance. Salaries for Executive Directors and other Executive Committee members are typically around the median of competitor market practice.

Annual cash bonus
The annual cash bonus is closely linked to the achievement of demanding pre-determined profitable growth and asset management targets geared to above industry performance. The specific performance measures for the forthcoming year are net revenue and net income growth. The target percentage growth rates have been set with reference to prevailing industry growth and the growth of the Company's specific peer group. Still more stretching percentage growth rates have been set above target, and the achievement of these delivers higher bonus payments for superior performance.

For 2003, as in 2002, the Executive Directors will participate in an annual cash bonus scheme under which they may receive 100% (CEO) and 75% (CFO) of base salary for achieving a performance level which is set by the Board slightly above the industry median. For the achievement of outstanding performance, which the Board sets at a level approximately double the industry median, the bonus potential is 360% (CEO) and 270% (CFO) of base salary.

Similar incentive arrangements are used for other executives world-wide.

Annual bonuses are not pensionable.

Long-term incentives
The Committee believes that a significant element of equity-based remuneration ensures close alignment of the financial interests of the Executive Directors and other key executives with those of shareholders. This is underpinned by a significant share ownership requirement on senior executives, with penalties for non-compliance, which is described in more detail below.

Long-term incentives take the form of a mix of share options and restricted shares. Both the levels and mix of share options and restricted shares are determined with reference to competitive market data and the associated cost of share provision. The Committee has not altered its grant policy under its incentive plans in the previous year. The Committee benchmarks total remuneration for executives against the 75th percentile of its peer group. In carrying out the benchmarking exercise, the Company's long-term incentives and those of the peer group are valued using the Black-Scholes valuation methodology which is widely accepted and enables 'like for like' comparisons. The award levels under the long-term incentives for the executives are then determined by calculating the difference between the executive's target total cash compensation and upper quartile total remuneration amongst the Company's peer group.

The Committee also believes that the exercise of options and vesting of restricted share awards should be subject to the satisfaction of performance conditions even though such conditions are not typical practice among Reckitt Benckiser's peer group.

As the long-term incentives are designed to encourage sustained profitable growth, they will only vest following the achievement of pre-determined performance criteria linked to earnings per share (EPS) growth. In addition to focussing the executives on real profit growth, an EPS performance condition provides the most appropriate measure of the Company's underlying performance and is a measure which the performance of the Executive Directors can directly impact. EPS is measured on an adjusted (normalised) diluted basis as shown in the Company's reported accounts as this provides an independently verifiable measure.

The vesting schedule for the options and restricted shares rewards superior performance. For 2003, the Committee set the same targets and levels of awards as in the previous year, having regard to the industry context in which the Company operates and against sensible expectations of what will constitute performance at the top of the peer group, as well as taking into account factors specific to the Company. The Committee has set the targets for initial vesting under its long-term incentive plans of an average 6% growth in EPS per annum, equivalent to a 19% growth over a three-year period, which it considers, based on past performance, to be around the industry growth average. But for exceptional performance of an average 9% growth per annum, equivalent to almost 30% over a three-year period, which would be substantially above the industry average, all the options and shares will vest.

EPS growth per annum (%)	Compound EPS growth over 3 years (%)	% of options and shares vesting
6	19.1	40
7	22.5	60
8	26.0	80
9	29.5	100

If the performance condition has not been achieved, it may be re-tested in each of the two subsequent years, based on the previous three year period. If the condition has not been met within this time, the options and restricted shares lapse. If the performance condition is met, then the option term is ten years from the date of grant.

The scheme rules do not permit option prices to be fixed at a discount to market price.

Awards under the long-term incentive plans are not pensionable.

Share Ownership Policy
Executive Directors and other senior Executives are subject to a compulsory share ownership policy. The objective of this Policy is to emphasise the alignment of senior executives to the Company and its business targets.

In order to fulfil the Share Ownership Policy, Executive Directors and other senior executives must own the following number of shares:

Individual/Group	Ownership requirement
CEO (1)	400,000 shares
CFO/EVPs (6)	200,000 shares
Other senior executives (25)	50-75,000 shares

Executives, including those newly-recruited or promoted into senior executive positions, are allowed six years to reach these targets. If the Executive does not meet these requirements within the required time period, the Committee will not make any further option grants or awards of restricted shares to the Executive until the targets have been met. Further, if, in the Committee's opinion, an Executive is not making sufficient progress towards satisfying the requirement, then it will reduce the level of grants and awards to that Executive until improvement is demonstrated.

Pensions
In line with the Committee's emphasis on the importance of only rewarding the Executive Directors for creating shareholder value, Reckitt Benckiser operates a defined contribution pension plan, the Reckitt Benckiser Executive Pension Plan. Mr Becht and Mr Day are both members of this Plan with a company contribution rate of 17.5% of pensionable pay for Mr Becht and 25% for Mr Day. Mr Day's contributions were backdated to September 2000 when

he was appointed to the Board. Contributions in respect of Mr Becht and Mr Day are shown in Table 1.

Service agreements
For newly-appointed Executive Directors, the Committee has agreed that service contracts should generally continue to be rolling and be terminable on six months' notice. Termination payments, including compensation payable during any notice period, wherever possible, should not exceed 12 months' compensation.

Existing Executive Directors have service agreements which can be terminated by the Company on six months' notice with a lump sum termination payment amounting to the aggregate of one and one-half times base salary and two times the average of the bonuses received in respect of the two financial years completed most recently before the termination. The Committee has carefully considered the level of termination payments in the light of provision B.1.7 of the Combined Code and considers them appropriate having regard to the previous contracts of the current Executive Directors. It does not believe it would be in shareholders' interests to re-negotiate these contracts – please refer to Table 4.

Non-Executive Directors do not have service agreements, but are subject to re-election by shareholders every three years.

Remuneration policy for Non-Executive Directors
The remuneration for Non-Executive Directors consists of fees for their services in connection with Board and Board committee meetings. The Board, following recommendations from a sub-committee of the Board consisting of the CEO, Bart Becht, and the CFO, Colin Day, determines their fees. Fees are reviewed annually, with the Board taking external advice from Towers Perrin on best practice and competitive levels, taking into account the responsibilities and time commitment of each Non-Executive Director.

In addition to the basic fees payable, Non-Executive Directors, other than the Chairman, receive an additional £5,000 per annum for the Chairmanship of the Audit Committee and the Remuneration Committee – see Table 1.

It is the policy of the Board – which the Board has no plans to change – that Non-Executive Directors are not eligible for pension fund membership and will not participate in any of the Company's bonus, share option or long-term incentive schemes.

External appointments
Executive Directors of the Company may accept one appointment as a Non-Executive Director of another company. The Board must approve such appointments and any exceptions. Bart Becht's appointment as a Non-Executive Director of Prudential plc was approved by the board on 25 June 2002. Directors are permitted to retain fees for non-executive appointments.

Process of the Committee
The Committee is composed entirely of non-executive Directors. Dr Peter Harf chairs the Committee and its other members are Dr Håkan Mogren, Adrian Bellamy and Dr George Greener.

While Dr Harf is not an independent director as defined in the Combined Code, as he is a representative of a substantial shareholder, the Board believes he is well placed to chair the Committee.

Towers Perrin has been formally appointed as an external adviser to the Committee and, during the year, has provided advice to the Board on executive compensation levels, structure and design and issues relating to retirement benefits.

Internal advisers include the Chief Executive Officer, Bart Becht and the SVP HR, Frank Ruether. The CEO is not present when the Committee discusses his own remuneration.

Throughout 2002, the Company complied with the provisions of Schedule A of the Combined Code relating to the design of performance related remuneration (except where noted above). In preparing this report the Board has followed the provisions of Schedule B of the Combined Code. The contents of this report also comply with the Directors' Remuneration Report Regulations 2002.

Approved by the Board on 7 March 2003 and signed on its behalf by:

Dr Peter Harf
Director

Report on Directors' remuneration (continued)

Remuneration disclosures

In 2002, Reckitt Benckiser substantially out-performed its peers – yet the bonus paid to Executive Directors has dropped by over a third compared to 2001 when measured as a percentage of salary from 351% to 209% of base salary for the Chief Executive Officer and 263% to 157% for the Chief Financial Officer. While the Company had a net revenue growth of 3% (7% at constant rates) and a 23% increase in net income, it did not fully meet its own stretch growth goals set by the Board to the extent achieved in 2001.

Table 1

The information on pages 36 to 38 below comprises the auditable disclosures of The Report on Directors' Remuneration.

	Notes	2002 Salary and fees £000	Bonus £000	Benefits in kind £000	Other payments £000	Pension £000	Total £000	2001 Total £000
Chairman								
Dr Håkan Mogren		200	–	–	–	–	200	145
Executive Directors								
Bart Becht	1	803	1,568	65	38	130	2,604	3,487
Colin Day	2	344	486	32	12	76	950	1,231
Non-executive Directors								
Dr Peter Harf		45	–	–	–	–	45	45
Adrian Bellamy		40	–	–	–	–	40	40
Dr George Greener		40	–	–	–	–	40	40
Dr Ana Maria Llopis		40	–	–	–	–	40	40
Dieter Meuderscheid		40	–	–	–	–	40	40
Peter White		45	–	–	–	–	45	45
Hans van der Wielen		40	–	–	–	–	40	
Former Directors								
Alan Dalby		–	–	–	–	–	–	60
Prof Jean-Claude Larréché		–	–	–	–	–	–	15
John Rose		–	–	–	–	–	–	15
Total		1,637	2,054	97	50	206	4,044	5,247

Notes

1 The remuneration reported under "Other payments" in respect of Mr Becht relates to a Share Participation Scheme bonus (£27,837) of which £8,000 was taken in shares and a non-pensionable earnings supplement (£9,955) in relation to other contractual benefits.

2 The remuneration reported under "Other payments" in respect of Mr Day relates to a Share Participation Scheme bonus (£11,519) of which £8,000 was taken in shares.

3 The total emoluments of the Directors of Reckitt Benckiser plc as defined by Schedule 6 of the Companies Act were £3,838,225 (2001 £5,029,000).

4 The aggregate gains made by the Directors on the exercise of share options during the year were £3,377,603 (2001 £5,785,436). The unrealised gain on the vesting of restricted shares was £331,350 (2001 nil) and on exercise of share options was £963,364 (2001 nil).

5 The total emoluments of the highest paid Director (excluding pension contributions) were £2,473,975 (2001 £3,363,000).

The 2002 remuneration package for Executive Directors comprised base salary, annual cash incentive bonus, long-term incentives in the form of share options and restricted shares, pension contributions, fully-expensed company car (or cash equivalent) and health insurance, and school fees and tax advice in the case of the Chief Executive Officer.

Pensions

Mr Becht and Mr Day are both members of the Reckitt Benckiser Executive Pension Plan, a defined contribution plan, with a company contribution rate of 17.5% of pensionable pay for Mr Becht and 25% for Mr Day. Contributions of £218,484 were paid in 2001.

Contributions in respect of Mr Becht and Mr Day are shown in Table 1 above.

Table 2 – Directors' options and restricted share awards

Table 2 sets out each Directors' options over or rights to ordinary shares of the Company under the Company's various share option and restricted share schemes. The middle market price of the ordinary shares at the year end was £12.05 and the range during the year was £9.88 to £12.94.

Executive options and restricted shares	Notes	Grant date	At 1.1.02	Granted during the year	Exercised/ vested during the year	At 31.12.02	Option price (£)	Market price on award (£)	Market price on exercise/ vesting (£)	Exercise/vesting period
Bart Becht										
Options	1	1.1.98	375,000		375,000	–	4.960		11.8707	
	1	1.1.99	625,000			625,000	Euro 11.162			Dec 99 Dec 03
	2	29.9.99	1,200,000			1,200,000	7.040			May 03-Dec 09
	3	22.12.99	100,000			100,000	5.538			May 03-Dec 09
	3	18.12.00	500,000			500,000	8.819			May 04-Dec10
	3	17.12.01	1,000,000			1,000,000	9.504			May 05-Dec 11
	3	22.11.02		1,000,000		1,000,000	11.186			May 06-Nov 12
Restricted shares	2	29.9.99	60,000		30,000	30,000		7.650	11.0450	see note 2
	3	22.12.99	80,000			80,000		5.810		May 03-Dec 09
	3	18.12.00	400,000			400,000		8.800		May 04-Dec 10
	3	17.12.01	400,000			400,000		9.700		May 05-Dec 11
	3	22.11.02		400,000		400,000		10.960		May 06-Nov 12
Colin Day										
Options	3	4.9.00	45,000			45,000	8.338			Sep 03-Sep 10
	3	18.12.00	100,000			100,000	8.819			May 04-Dec 10
	3	17.12.01	200,000			200,000	9.504			May 05 Dec 11
	3	22.11.02		200,000		200,000	11.186			May 06-Nov 12
Restricted shares	3	4.9.00	36,000			36,000		8.235		Sep 03-Sep 10
	3	18.12.00	80,000			80,000		8.800		May 04-Dec 10
	3	17.12.01	80,000			80,000		9.700		May 05-Dec 11
	3	22.11.02		80,000		80,000		10.960		May 06-Nov 12
Peter Harf										
Options	4	1.1.98	250,000		250,000	6,765	5.100		11.8710	
		1.1.99	125,000			125,000	7.480			Dec 99-Dec 03
Hans van der Wielen										
Options	5	27.5.98	4,495		4,495	–	6.766		10.7130	

Sharesave scheme	Grant date	At 1.1.02	Granted during the year	Exercised during the year	At 31.12.02	Option price (£)	Exercise period
Bart Becht	15.9.00	2,777			2,777	6.616	Feb 08-Jul 08
Colin Day	20.9.01	1,967			1,967	8.412	Feb 07-Jul 07

Notes

1 These grants relate to Benckiser annual awards. Where the award has been exercised, the option price is shown in Sterling. Where the options are still to be exercised the option price remains denominated in Euro.

2 For compound average annual growth in earnings per share over a three year period of 6%, 7%, 8% and 9%, the percentage of options vesting under the initial grant on 29 September 1999 is 40%, 60%, 80% and 100% respectively. The remaining 25% of the initial restricted share grant will vest when the Reckitt Benckiser ordinary share price has been £12.32 or better for a 20 consecutive dealing day period.

3 Vesting of options and restricted shares is subject to the achievement of the following compound average annual growth (CAGR) in earnings per share over a three year period.

	Proportion of Grant Vesting (%)			
	40	60	80	100
CAGR for options and restricted shares granted in December 99 & September 00	6	9	12	15
CAGR for options and restricted shares granted in December 00	6	8	10	12
CAGR for options and restricted shares granted in December 01 & November 02	6	7	8	9

4 Non-Executive Deputy Chairman Peter Harf's options were granted to him over Benckiser N.V. "B" shares prior to the merger of Benckiser N.V. with Reckitt & Colman plc.

5 Awarded to Hans van der Wielen as a Supervisory Board Director of Benckiser N.V. at the Annual General Meeting held in 1998.

Report on Directors' remuneration (continued)

Table 3 – Interests in the share capital of the Company
The Directors in office at the end of the year had the following beneficial interests in the ordinary shares of the Company:

	7 March 2003	31 December 2002	31 December 2001
Bart Becht	736,753	736,753	703,624
Adnan Bellamy	8,380	8,380	8,380
Colin Day	80,882	80,882	60,673
George Greener	2,000	2,000	2,000
Peter Harf	799,518	799,518	657,240
Ana Maria Llopis	2,975	1,175	1,175
Dieter Meuderscheid	32,910	32,910	32,910
Håkan Mogren	–	–	–
Peter White	1,000	1,000	1,000
Hans van der Wielen	9,270	9,270	9,270

Notes
1 Mr Meuderscheid also owns one Benckiser N.V. B Share.
2 Except as shown, no person who was a Director (or a member of a Director's family) on 31 December 2002 had any notifiable share interests in any subsidiary of the Company.
3 The Company's Register of Directors' Interests (which is open to inspection) contains full details of Directors' shareholdings and options to subscribe.

Table 4 – Service contracts for Executive Directors

	Date of service contract	Unexpired term	Notice period	Compensation for early termination
Bart Becht	03/12/1999	n/a	6 months	1.5 x base salary, 2 x average bonus in previous two years
Colin Day	04/09/2000	n/a	6 months	1.5 x base salary, 2 x average bonus in previous two years

Table 5 (not auditable)
In 2002, members of the Executive Committee (nine) received around 40%, senior executives (next 30) around 20% and other executives (next 350) around 40% of the total awards made under the long-term incentive plans. The total grants have resulted in 1.2% of issued share capital being used for discretionary long-term incentive plans in 2002 and 3.9% over a rolling ten-year period from 1992 to 2002. See table 5 below.

Shares placed under option in all schemes in the last ten years, less lapsed

	Total (millions)
Discretionary Plans	
Reckitt Benckiser Executive Plans	23.14
Reckitt & Colman Executive Plans	3.99
Share Ownership Policy Plan	0.20
Employee	
Sharesave UK	0.90
Sharesave US	1.40
Sharesave Overseas	1.60
Share Participation Scheme	0.24
Total	31.47

Source: Reckitt Benckiser 2002 Annual Report, p. 33-38.

Exhibit 7 Earnings Per Share targets for Reckitt Benckiser

EPS Growth per annum (%)	Compound EPS growth over 3 years (%)	% of options and shares vesting
6	19.1	40
7	22.5	60
8	26.0	80
9	29.5	100

Source: Reckitt Benckiser 2002 Annual Report.

Exhibit 8 The Board of Directors, October 2003

Bart Becht, 47, Chief Executive Officer of the Company
(Member of the Nomination Committee)

Adrian Bellamy, 61, Appointed Non-Executive Chairman in 2003. Executive Chairman of The Body Shop Internationa. Plc, Chairman of Gucci Group NV and a Director of The Gap, Inc, The Robert Mondavi Corporation and Williams-Sonoma, Inc.
(Member of the Nomination Committee and the Remuneration Committees)

Colin Day, 48, previously Group Finance Director at Aegis Group Plc. Non-Executive Director of easyJet plc and Bell Group plc.

George Greener, 57, Appointed Senior Non-Executive Director in 2003. Chairman of British Waterways and The Big Food Group Plc and Non-Executive Director of Fleming Investment Trust plc.
(Member of the Remuneration Committee)

Peter Harf, 56, Deputy Chairman. Chairman of Coty Inc. and Director of Interbrew and the Brunswick Corporation. Chief Executive Officer of Joh. A. Benckiser GmbH.
(Chairman of the Remuneration Committee and Member of the Nomination Committee)

Ana Maria Llopis, 52, Executive Vice-President of the Financial and Insurance Markets at Indra, the leading Spanish IT consulting firm which acquired Razona in February 2002, where she was Chairman and CEO until its full integration. Non-Executive Director of British American Tobacco PLC.
(Member of the Audit Committee)

Judith Spreiser, 50, Chief Executive Officer of Transor Inc. and Director of Allstate Insurance Company, USG Corporation, Kohl's Corporation and Member of the American Institute of CPAs and Northwestern University's Board of Trustees.
(Member of the Remuneration Committee)

Hans van der Wielen, 59, previously President and Chief Executive Officer of Koninklijke Numico N.V. Chairman of Pink Roccade and Director of Gouda Vuurvast.
(Member of the Audit Committee)

Peter White, 62, previously Group Chief Executive of Alliance & Leicester plc.
(Chairman of the Audit Committee and Member of the Nomination Committee)

Source: Reckitt Benckiser Web site <http://www.reckittbenckiser.com> (accessed October 21, 2003).