Things to consider when determining executive remuneration

Many commentators have questioned the fairness of executive packages, highlighting the disparity in remuneration between CEOs and workers and calling for greater regulation of those salaries and benefits.

According to Dr Mark Bussin, executive committee member of the South African Reward Association (SARA), this is a problem domain ideally suited to the reward specialist.

General workers

"First, one must understand how remuneration is determined at various levels," explains Bussin.

For general workers, a fair wage is decided through collective bargaining, striking a balance between what employers can afford and trade union negotiators are willing to accept. "It's notable that recent increases have been in the 7% to 8% range - higher than CEOs. Companies, aware of the pay gap, it seems, are trying to close it."

Salaried staff

For salaried staff, various factors are considered, including salary surveys, inflation, education, personal performance and the scarcity of an employee's skills. "Ultimately, the finance department budgets for an overall payroll increase in line with inflation, currently around 6%."

CEOs and directors

Executive salaries are more complex, as CEOs and directors face much higher pressure than other employees do. "Their track record for leading companies successfully, in the face of overwhelming personal risk, is why they are engaged. As such, they command commensurate reward." They are usually compensated in two ways.

- Fixed pay - Executive officers get a fixed salary that is mainly determined by benchmarking. This includes salary surveys and comparative studies of companies of similar size and complexity. Their pay in relation to these

measurements will depend on the organisation's remuneration policies.
- Variable pay - Executive officers also receive short-term and long-term incentives. Short-term incentives are based on performance targets that, if achieved, usually result in a reward of between 50% to 100% of fixed annual salary. Long-term incentives, linked to company performance, are full shares and share appreciation - the value of the increase in share price.

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Pay discrepancies

However, an ill-conceived remuneration package can reward even an underperforming executive officer. “These are the cases we see highlighted in the media. The perception that executives are overpaid is then generalised, when most often their salaries are carefully formulated against industry norms.”

Real or imagined, companies want to avoid any notion of biased remuneration. Dr Bussin says the King IV Report offers greater transparency by requiring executive remuneration reporting as a single total figure. “Businesses can leverage this opportunity to show that their executive officers are indeed compensated fairly.”

Using reward specialists

A reward specialist should be engaged to ensure executive pay does not overstep the boundaries of sanity. At times, shareholders or the board may be desperate to turn a company's fortunes around, making them bullish about a maverick hire. Here, the reward specialist offers an impartial perspective based on in-depth analysis.

“Lastly, reward specialists can create a communication plan that educates employees, shareholders and the public on company remuneration policies and executive compensation, avoiding both the reality and perception of their executives being overpaid,” concludes Dr Bussin.