

Balanced executive remuneration

The on-going discussion surrounding executive remuneration has caused heated and controversial debate amongst many critics, investors, employees and stakeholders of organizations worldwide. Allied with the debate, international survey suggests the gap between rich and poor over the last 50 years has significantly widened, despite global economic growth.

In SA, the controversy is exacerbated by the fact that South African companies are not obliged to obtain shareholders' approval pertaining the amount executive directors are remunerated in their capacities as employees.

Conversely, since 2000, shareholders in the United Kingdom have been given the right to vote on a company's remuneration report for directors.

Devising appropriate executive remuneration packages for directors can be one of the most contentious issues a Board faces, not least because of the publicity executive pay has attracted in recent years.

Studies of human behaviour show that remuneration (the extrinsic motivation par excellence) is not the single most important factor that will attract, retain and motivate people but that intrinsic motivators such as organizational management (autonomy, power, recognition), satisfaction with working conditions, motivation levels, employee retention, ability to influence work and the prospects of dealing with challenges, are also at play. Many visibly successful organizations balance their executive remuneration packages between the intrinsic and extrinsic compensation; whilst least successful organizations may place additional focus on extrinsic compensation to retain the individual.

Maintaining the balance between rewarding entrepreneurship and governance is a discipline that must be finely managed by the Board, ideally assisted by a Remuneration Committee as recommended by King II. Remuneration Committees that plan and design executive remuneration packages thoughtfully stand the chance of enhancing organizational performance, thereby benefiting all stakeholders.

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A PowerPoint report covering this topic can be purchased through CGF at www.cgf.co.za
