

How to approach executive remuneration in the evolving landscape - Part 1

 By Chris Blair

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South Africa is one of the most unequal societies in the world, with the world's largest Gini co-efficient - a measure of inequality between the 'haves and have-nots'. And in this time of crisis, business purpose is moving quickly from making profits for shareholders towards a 'new social contract' - a commitment that addresses social and environmental problems.



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We are seeing a move from 'shareholderism' to 'stakeholderism'. In other words, capitalism is giving way to prioritising the protection and quality of life. Governance has been catapulted into the limelight under the banner of ESG (environment, social and governance) with a fresh look at ESG measures that address the 'reset' that society is demanding.

These circumstances have resulted in seven top remuneration committee and executive remuneration trends around the world, both in developed and in developing economies:

1. Increasing mandates of remuneration committees
2. Reducing the wage gap or increasing the median pay of workers
3. Addressing gender, race/ethnicity diversity and inclusion
4. Inclusion of ESG measures in short-term incentives (STIs) and long-term incentives (LTIs)
5. Evolving performance management for a less contingent and greater virtual workforce
6. Greater focus on employee wellness and engagement
7. The design of new pay systems for new profile leaders



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Remuneration committees' mandates have been challenged by the wider stakeholder – and internally – to become more inclusive and extend their reach. Remuneration committee charters are extending their original mandates from all aspects of executive compensation, disclosure and shareholder engagement to include:

- Broad-based human capital strategies
- Human capital management, e.g.:
- Retention
- Talent management
- Diversity
- Pay equity
- Gender and ethnic gap
- Recruiting practices
- Performance management
- Workforce management
- Employee engagement
- Employment value proposition
- Talent management policies, programs and processes, including training and development, promotions, termination provisions, and others
- Succession planning
- In addition to oversight of compensation for executives, includes others that the Committee may designate beyond the Board of Directors and executives
- Internal disclosures (optional)

The wage gap or pay ratio (measures of pay between the CEO or top earners and the bottom or median earners) has become a growing issue worldwide. And it is being remedied in a few ways:

- Legislated compensation caps are putting a ceiling on top earners' wages.
- New governance structures are being implemented.
- A lower percentage of the wage bill is being spent on executives and executive pay limits are being set as a portion of net income.
- Five year moving average pay gap targets are being set and executive pay freezes or variable pay deferrals are being implemented (largely driven by Covid).
- Profit sharing is being implemented across all staff.

Remuneration committees are widely adopting strategies that address the growing wage gap to reduce it over time. In a recent Just Capital survey, the top 100 USA companies surveyed have increased their median pay by 18%. Change is definitely in the works. The face of remuneration following the pandemic will probably never be the same again.

ABOUT CHRIS BLAIR

Chris Blair, Chief Executive Officer of 21st Century Pay Solutions Group (Pty) Ltd, has consulted to over 500 organisations - both in Southern Africa and internationally. Chris holds a BSC Chem. Eng. and MBA in Leadership & Sustainability and is registered as a Chartered Human Resource (CHR) Practitioner with the South African Board for Personnel Practice (SABPP). He is also accredited as a Master Reward Specialist through the South African Reward Association (SARA).

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