South African Reward Association
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Top remuneration trends for 2019

King IV™ is set to have a major impact on how companies look at remuneration in 2019 and beyond, says Dr Mark Bussin, Master Reward Specialist and Exco Member of the South African Reward Association (SARA).

“There has been a lot of discussion about King IV’s recommendations about non-binding votes and engaging with stakeholders about remuneration, but I think that the emphasis on single-figure reporting is likely to pose the greatest challenge—and have the longest lasting effects,” he says.

“Single-figure reporting is integral to King IV’s move towards a full disclosure view of remuneration, not the traditional one based exclusively on just providing director remuneration in lengthy tables.”

To arrive at the single figure recommended by King IV, companies will have to undertake the difficult task of valuing the shares to which executives and directors are entitled, whereas in the past they were able simply to state what the awards were.

This move is aimed at making it easier for analysts as well as other stakeholders to gain a consistent view of the company’s true position.

However, given the fact that market values and company performance are both highly unpredictable, a fair amount of educated guesswork will be unavoidable.

The answer, Dr Bussin, believes, is to decide on a methodology for arriving at the desired value and then use it consistently over time.

“In the end, we are looking to understand the direction in which the company is moving more than the absolute values,” he says. “It’s very important also to disclose the assumptions on which the final conclusions are based.”

A related trend will be to get better at performance-related pay. Dr Bussin believes that a lot of work needs to be done in this area.

In particular, companies need to be better at disentangling luck from skill. To a large degree, company performance is determined by the market: in a rising market, everybody’s revenues go up, in a falling one, they go down. He argues that performance-based remuneration should reflect outperformance of the average rather than simply rewarding better performance.

“To be fair, the reward should be based on how much more the company has risen than its peers in a rising market, or on how much less it declined in a falling one,” he explains.

“People get unhappy about high executive remuneration when they cannot see a link between what the executive in question did and the company’s performance. Companies will therefore need to get much better at articulating what an individual actually did to earn his or her bonus.”

A third key trend for 2019 will be closing the gap between what is paid to men and women for doing the same job, and also between the highest and lowest paid within an organisation.

To make progress in these areas, and to avoid simply mindlessly complying with legislation or codes, it will be necessary for companies to explain what lies behind their remuneration strategy, and how they propose to move towards a fairer dispensation.

He argues that the gap between highest and lowest wages within the company is perhaps the most worrying because it is currently widening, and the lowest paid employees are particularly vulnerable to the impact of artificial intelligence and robotics as the so-called Fourth Industrial Revolution gathers pace.

The only way to counter this, he believes, is to greatly increase the effectiveness of the educational system. Some commentators argue that in fact the Fourth Industrial Revolution will likely create more jobs than it destroys, but only for those with the right level of skill.

“All of these trends are ultimately powered by King IV’s welcome insistence that ‘performance measures that support positive outcomes across the triple context in which the organisation operates, and/or all the capitals that the organisation uses or affects’ should be used when crafting remuneration policies,” Dr Bussin concludes.

“The days of easy formulas are over: we have to be able to justify why we are paying what we do by showing that we are rewarding individuals who have created value for the company and society more broadly.”

ENDS

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