



Executive Pay – Topic of the day or the catalyst for reward change?



When government and opposition find themselves arguing over who is going to be the toughest on a topical issue, you can bet your last pound that stringent legislation will follow. Last weekend, the issue of Executive remuneration finally fell firmly into that category. David Cameron's appearance on the Andrew Marr show ([click here to view](#)) led with the issue, and was preceded by a Guardian interview with

Ed Miliband on Friday ([click here to view](#)) containing heavy references to Executive pay in the context of 'responsible capitalism'.

Clearly, it is the coalition who will frame the immediate legislative environment. Cameron indicated very clearly that legislation on the issue was likely to follow in the Queen's Speech. Under the guidance of Vince Cable, the legislation is likely to include much of what has been trailed in the press over the last few weeks.

This means we could soon see binding shareholder votes on remuneration elements, and more transparency in the reporting of remuneration levels. There might be a firming up of the rules on the use of shares in short-term incentives, amongst other tweaks in the way rewards are delivered. We are also reasonably likely to see a move towards the reporting of a pay-ratio of some kind, measuring the differential between Executive remuneration and the average. A note of caution here though - any such ratio will need careful construction if it is to be relevant across all sectors of UK industry.

In addition, there have been repeated references to Remuneration Committee structures. It is likely that the final proposals will stop short of the employee representation proposed by the High Pay Commission (supported by Labour). However the Prime Minister did make pointed reference to 'crony capitalism' as a contributory factor in his conversation with Andrew Marr. It would therefore not be surprising to see new guidance on the make-up and remit of the committees contained within the legislation.

The overriding aim of all potential changes is to increase 'fairness' in pay levels across industry. Both parties have steered clear of suggesting that high pay itself is unfair, preferring to suggest that it is when pay is not linked to performance that the problems start.

In principle, it is hard to argue with this stance. As reward practitioners, we should also be thinking about whether and how we drive the 'fairness' agenda beyond the scope of the legislation.



Despite the apparent range of legislative change being touted, there are still a number of areas not being overtly talked about by the politicians. These are the areas where companies will be able to differentiate themselves - tackling issues publicly to the benefit of their brand.

These include more internal scrutiny and challenge of the measures applied to long term incentives, which can often reward short-term share price volatility rather than long-term growth. More active internal challenge of Remuneration Committee advisors may also be desirable, to precipitate a move away from the 'market median' as a primary measure when setting base pay levels. Arguably though the most important area to address is not directly related to Executive pay, but is the setting, reporting and communication of pay and remuneration further down the organisation.

If bosses pay is perceived to be too high, it follows that the 'ordinary' worker must perceive their pay to be too low in comparison. This is often because the pay process itself is opaque - employees have little idea who makes pay decisions, what factors are used and how fairness across their organisation is achieved.

Companies must prove to employees that remuneration management for employees is robust, transparent and well managed. Often a change will be required to facilitate this, as despite often being the largest single spend in a company, pay policy management and system support can be woefully under invested. Remedying this and ensuring that all employees understand the technicality of managing their own reward will in turn help them to understand rewards for all employees. This then reduces any internal perception of unfairness, increasing engagement, motivation and ultimately productivity and profit.

Looking at things that way around, this is clearly more than a political issue-du-jour. Addressing legislative changes as well as the underlying issue head-on could actually be a huge opportunity. By taking a lead on driving fairness within your organisation, you could deliver an increase in both reputation and profitability. Perversely, this is likely to push up the value of any performance related awards, albeit one much more likely to be acceptable to politicians, shareholders and employees alike.

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