



Thread Advisory



Phone: +6012 206 7758



Email: claudia@thread-advisory.com



Website: www.thread-advisory.com

SHOULD TOP MANAGEMENT BE PAID DIFFERENTLY?

This is more than a philosophical question. It is loaded, and must be contextualized so that we can come up with an adequate answer.

For the past few months, I have been working with a client to understand the competitiveness of their monetary rewards and recognition programmes. This piece of work is an integral component of their organizational growth strategy which intends to ensure they can make informed decisions around how best to structure attractive remuneration packages not only for new recruits but for all the employees serving the organization.

As I am busy conducting the benchmark exercise, I am in parallel putting together some information to be submitted to the Remuneration Committee and the Board of Directors around yearly salary increments and performance-linked bonuses. And here is when the question popped up: Should the CEO and selected top management employees be awarded the same level of salary increment and performance-related bonuses, or should they be rewarded with a different scheme in recognition of the role they have been tasked to perform?

It is not so straight forward. By answering the following questions, organizations will be better positioned to make the right decision in consideration of the relevant circumstances:

1. **What do you want to recognize with a different reward scheme?** If a CEO and the management team are leading a stable organization which is adequately providing goods or services, steadily growing its revenue streams, managing its cost structure and producing stable profit and returns to the shareholders, then I will say good for them! Keep going.

However, if the CEO and some members of the management team have been brought in to turn around an organization that is in financial distress, loosing customers, having cost overruns and being unable to pay its partners / providers...then we have a special type of leaders who most certainly are bringing to the table proven experience in situations of similar nature and a particular type of skill sets required to undertake a turnaround strategy. These are specialists, who have honed specific critical capabilities that will improve the chances of a successful turnaround. They command a premium.

2. **Will a different reward scheme help to attract or retain?** If the CEO, and other Top Management leaders are performing according to expectations and their rewards package is competitive against the market, then there is no real need to think about a different scheme.

However, and as probably is the case, the organization going through turnaround may have failed to keep up with the competitive market forces and trends around rewards and recognition, then it may be necessary to consider the design of special packages that will either attract or retain top management individuals with specialized turnaround skill sets. They are in demand.

3. **What alternatives are available?** In a “business-as-usual” environment, it is almost expected that market-driven increments and bonus payouts are awarded to performing employees.



Thread Advisory



Phone: +6012 206 7758



Email: claudia@thread-advisory.com



Website: www.thread-advisory.com

In more recent times, organizations have opted for other ways to recognize performance through financial incentives like offering shares or share options, or developing profit-sharing schemes, or deploying long-term incentives. These schemes are more sophisticated in nature and are generally designed to drive a “skin-in-the game” attitude, and a longer-term view of performance and business results. These schemes are suitable and work well to recognize successful turnarounds, and those who drive them.

4. **How can we ensure it is fair?** This is a philosophical question which needs to be answered with an additional question: **Fair to whom?** Many organizations focus on ensuring “internal equity” which means they will pay within the same level / range of compensation everyone who performs roles of similar nature or at the same organizational level. Compensation decisions are therefore considered with an internal perspective in mind.

However, other organizations focus on ensuring they pay according to market forces, which in practical terms mean that people from the same organizational level or performing similar roles may be paid very significantly different, in recognition of the distinctive skills / experience they bring to the organization. Compensation decisions are therefore considered with an external perspective in mind.

So, in our case, the organization will need to take a stand around which equity (i.e. internal or external) they are keen to use to drive their compensation decisions.

5. **Can you afford it?** In “business-as-usual” circumstances, it is expected that increments and performance bonuses should be self-funded through the yearly revenue growth and profits being generated, therefore the pressures of having to “find” the resources to fund the reward schemes are less prevalent. What will matter most is the design of a scheme that is perceived equitable, transparent and objective.

However, an organization in distress may not have the luxury of having funds being allocated or budgeted to reward employees at any level for their contributions beyond what is contractually required. As salary increments and performance-bonus are in most cases discretionary, it will be necessary to have specific conversations at board level to ascertain the suitability of crafting separate reward packages for those entrusted to undertake the turnaround. There is a “chicken-and-egg” situation here: if the organization does not bring individuals capable of undertaking a successful turnaround, who may be more expensive than the “business-as-usual” leaders, the chances of the turnaround succeeding are lesser. But bringing individuals with the required skills, may be considered expensive, thus contributing to the negative financial situation, at least in the short term. Not an easy decision, but one that needs to be taken.

So, for those of you responsible for designing compensation packages, don’t just consider the external benchmarks and internal equity. Reflect on the organizational context, as it will provide you with the required information that should help you to construct relevant, attractive and compelling recommendations.



Thread Advisory



Phone: +6012 206 7758



Email: claudia@thread-advisory.com



Website: www.thread-advisory.com

If you want to engage the support of an external advisor to review your organization's compensation philosophy and schemes, please get in touch with me at claudia@thread-advisory.com or whatsapp me at +6012-2067758.