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THIS WEEK'S TOPIC:

How should CEO pay be aligned with company performance? What would be an acceptable ratio of CEO pay to the wages of the average worker in the organisation?

The elephant in the boardroom

BT ILLUSTRATION: SIMON ANG

Carl Freer
Founder
Watstock

COMPENSATION policy is one of the most important factors in an organisation's success. Not only does it shape how top executives behave but it also helps determine what kinds of executives an organisation attracts.

This is what makes the vocal protests over CEO pay so damaging. By aiming their protests at compensation levels, uninvited but influential guests at the managerial bargaining table (the business press, labour unions, political figures) intimidate board members and constrain the types of contracts that are written between managers and shareholders.

As a result of public pressure, directors become reluctant to reward CEOs with substantial (and therefore highly visible) financial gains for superior performance. Naturally, they also become reluctant to impose meaningful financial penalties for poor performance. The long-term effect of this risk-averse orientation is to erode the relation between pay and performance and entrench bureaucratic compensation systems.

G Rathakrishnan
CEO
London School of Business and Finance, Global

THE board and the CEO are responsible for their stakeholders. If a responsible board decides to pay a bonus to the CEO, whatever the sum may be, then it is absolutely right.

The capitalist economy, mainly driven by the aggressive corporate culture in the US, and perhaps even to some degree in Europe, is the main cause of this uneven distribution despite the performance of the company.

Boards must first be responsible to their stakeholders – which include staff and the society they operate in. The remuneration and bonuses dished out to CEOs and top executives must be reasonable and performance-based, and not based on contracts negotiated before appointment. Sadly, it is the latter that is prevailing in today's economic climate.

Maren Schweizer
Director
Schweizer World Pte Ltd

I BELIEVE that a CEO's pay should coincide with the following: company-wide integrated performance system; short-term annual targets; long-term company targets; easily-understood targets.

With a company-wide integrated system, I have

Chris J Reed
CEO and Founder
Black Marketing

AS much as the CEO is worth. There is no point in comparing a CEO's worth with an average employee's salary. It's like comparing Christian Ronaldo with an average football player. It's all about how much value you bring to the company and you should be paid commensurate with that.

If you are driving growth, hitting sales targets, increasing shareholder value delivering innovative and future-proofing programmes and concepts then you should be paid as many millions as it takes to keep you achieving and motivated.

On the other hand, if you are failing at all of this, your pay should also be decreased equally against the

Comparing CEO pay with average pay is a different approach. Presumably the objective of setting an acceptable ratio is to decrease CEO pay and/or increase average pay, but imposing a maximum ratio could lead companies to outsource low-paid jobs.

Also, different sectors have vastly different ratios – for example, the gap between the top and middle is bound to be greater in retail than in investment banking.

Despite this, ICAEW supports the publication of pay ratios as a method of encouraging fair comparisons between similar companies, monitoring trends year on year and making it easier to spot outliers.

The US has recently introduced a requirement for companies to publish the ratio of CEO pay versus median pay, and a similar publication requirement is

average worker. Instead, we should consider adopting more of a pay-for-performance culture like in the US, to better align the CEO's pay with that of the company's profitability.

We should create better-designed remuneration structures pegged more to performance and long-term incentives such as share options for greater and more sustainable corporate performance.

Pay ratios is a "pie-splitting" mentality. Let's focus on enlarging the pie instead.

Lim Soon Hock
Managing Director
PLAN-B ICAG Pte Ltd

CEOs should only be paid for performance. This means having clearly articulated KPIs, approved by the board. CEOs are accountable for the performance of a company.

It follows that if the company is not doing well, CEOs must not be disproportionately compensated or over-remunerated. In this regard, a CEO's pay should have a large variable component that is tied to the delivery of KPIs.

There should also be clawbacks if CEOs are compensated for certain accomplishments in the year, but these turn bad in subsequent years. This is to ensure that CEOs bring in only good, proper and sustainable business.

Benchmarking salaries of the company for all levels, including the CEO, with the market in the industry that the company is in, ensures that the ratio of the CEO's pay to the wages of the average worker in the organisation is not only acceptable but most importantly, equitable.

A CEO is unlikely to be able to deliver his KPIs if he is seen to be exploiting his employees. His mission is to make his employees successful. If they are, he is automatically successful.

It also means that the employees have to be rewarded fairly and be recognised for their contributions in an equitable way.

Christophe Duchatellier
CEO, Asia-Pacific
The Adecco Group

A COMBINATION of internal and external factors results in different operating conditions and business risks for every company even in the same industry.

Defining a single pay ratio would not be reflective of this and may, in fact, disincentivise management performance.

That said, it is important that a remuneration policy following: company-wide integrated performance system; short-term annual targets; long-term company targets; easily-understood targets.

With a company-wide integrated system, I have experienced the benefits of transparency, motivation, and a fair system that encourages employee contribution.

Next, using a short-term annual target and long-term targets help keep a positive KPI, where there is a positive change in operations performance, sales revenue and profit. Complexity and frequent changes kill acceptance.

Lastly, easily understood targets in companies help employees work on achieving them instead of discussing the "hows" and "whats".

I believe that a fixed ratio (between CEO pay and workers' wages) is not the right way. Firstly, the wages of CEOs, C-level colleagues, and senior executives should be variable in combination with well set targets, usually between a 30 and 50 per cent variable of the total direct annual compensation.

However, we also need to keep in mind the question, "What is in it for me?" for all stakeholders in an organisation. If a CEO manages to convince every stakeholder that there is something in it for them, the CEO's paycheck should not matter excessively as long as the cash flow is positive.

Helen Ng
Chief Executive Officer
General Storage Company Pte Ltd

THE stark income disparity between CEOs and rank-and-file workers is the elephant in the boardroom that companies need to address. According to a new report from the Economic Policy Institute in the US, CEOs at the 350 largest US companies made a staggering 271 times what the average employee earned in 2016, regardless of individual productivity.

Instead of obsessing over CEO pay ratios, we should peg CEOs' pay to business performance and employee engagement. This would spur CEOs to not only create value for the company and shareholders, but also improve employee satisfaction.

should be paid as many millions as it takes to keep you achieving and motivated.

On the other hand, if you are failing at all of this, your pay should also be decreased equally against the weakness of your performance.

You can't have it both ways but there should be no link between your pay and the average employee's wages as it misses the point of pay being linked to performance.

Dileep Nair
Independent Director
Keppel DC Reit Management Pte Ltd

GOOD corporate governance demands effective stewardship from the CEO. Such performance is incentivised by having performance-linked compensation, particularly through long-term incentives (LTIs).

It is perverse for companies to reward CEOs with bigger bonuses when profits go down, or worse, giving bonuses at all when they make losses.

Our Corporate Governance Code already encourages companies to disclose the extent their CEO's pay is linked to LTIs. This should be mandated.

The Code should also ask companies to disclose their CEO-to-average worker pay ratio. This will help to stem any exponential increase in CEO wages as in the US where the ratio has gone beyond 350. Keeping the ratio to within the 50-100 band would be a responsible target.

Mark Billington
Regional Director
ICAEW South-east Asia

AS a reasonable rule-of-thumb in life, rewards should reflect risks taken and results achieved and this should equally be true for CEO total remuneration and not just pay. There can be circumstances which justify not aligning CEO remuneration with company performance, for example, when a CEO is appointed to a deteriorating company because he/she has a solid track record of turning businesses around.

Victor Mills
Chief Executive
Singapore International Chamber of Commerce

IT should all be very simple. Remuneration for the CEO of any company should always be linked to the achievement of positive outcomes for the company and for its stakeholders. Positive outcomes include optimal workplace culture where teams are led to collaborate to serve customers ethically and for the long term.

The end result should be sustainable profitability. No one should be rewarded for under-performance or for taking a short-term approach or for unethical behaviour. That it isn't always this simple is down to ego, dysfunctional remuneration systems which reward short-termism, individual greed and poor board oversight or none at all.

between similar companies, monitoring trends year on year and making it easier to spot outliers.

The US has recently introduced a requirement for companies to publish the ratio of CEO pay versus median pay, and a similar publication requirement is about to be introduced for UK-quoted companies.

Edwin Khew Teck Fook
President
The Institution of Engineers, Singapore

CEO pay should be aligned tightly with company performance, and not used as a transient means to attract and retain high-level executives. Imbalanced remuneration systems will incite an undesirable focus on short-term gains at the expense of long-term business viability.

When designing executive pay policies, companies should emphasise a sustainable business strategy and build bonus and incentive programmes that are proportionate to performance and risk. Remuneration plans could balance fixed elements aimed at attracting talents with variable components.

The ratio will vary according to the industry and CEO's responsibilities, but factors adding to a CEO's pay that are deviant from the average worker's pay must be agreed upon by shareholders and clearly communicated to all staff.

Reuter Chua
Head
ACCA Singapore

MERE disclosure of the CEO's pay has had no significant impact on bringing the CEO's pay ratio – relative to the average worker – down, as there are many factors that drive the CEO's remuneration.

In fact, it may be observed that disclosure has had the opposite effect of ratcheting up the CEO's pay. It might seem like just a question of governance as the board usually approves the CEO's pay, with assistance from the compensation or remuneration committee.

However, the demand for a particular CEO to helm the organisation, amid competitive offers, is driven by market forces external to the organisation. This is usually not within the organisation's control.

Organisations should nevertheless ask whether the CEO's remuneration is justified relative to the benefits that the organisation hopes to obtain – similar to the approach of an investment appraisal. It would be unrealistic to apply a general formula to various organisations.

Ronald Lee
Managing Director
PrimeStaff

THE issue of CEO pay is a highly divisive one and understandably so. Figures from the recent study by Korn Ferry Hay Group are disconcerting, as it found, for example, that one-third of SGX-listed companies with bonus payouts for their CEOs in FY2016 gave them bigger bonuses than the previous year when the company had actually been less profitable.

However, it may be useful to note that some of these could be due to poorly-designed compensation packages that companies had already committed to when the CEO was first hired.

I don't necessarily believe that there should be a recommended ratio pegged to CEO pay vis-a-vis the

Defining a single pay ratio would not be reflective of this and may, in fact, disincentivise management performance.

That said, it is important that a remuneration policy rewards performance, is aligned to the short and long-term interests of stakeholders, and is internally fair and externally competitive. Performance metrics should be clearly defined and regularly tracked.

Furthermore, remuneration plans should be regularly assessed to ensure that they are relevant and fulfilling their purpose.

This kind of good governance around remuneration philosophy, principles and plans can help companies to attract, retain and motivate employees in order to achieve their business objectives.

David Leong
Managing Director
PeopleWorldwide Consulting Private Limited

CEO pay alignment is a sensitive issue that involves the interests of stakeholders from shareholders to the lowest-paid employee.

The calibration of the total compensation – basic wage, stock options, allowances and performance bonuses – is not exactly a science or art. It's perceived equity and balance, whether the CEO's pay relative to the net profit is deemed fair. Hence the sensitivity.

Crafting a fair package that needs to both motivate and spur action and performance is delicate. What therefore is deemed fair? The CEO's total compensation cannot be seen to be disproportionate to the company's revenue and profitability.

There is no magic number but a range between 20-30 times of the average worker's pay would be deemed equitable.

Robin C Lee
Group COO
Bok Seng Group

ALIGNING pay with company performance is not just for CEOs. All senior executives who have ascended the corporate hierarchy should ideally have a higher proportion of their salaries tagged to their personal performance in the company.

It is absolutely disconcerting to learn that one-third of our Singapore-listed firms awarded disproportionately bigger bonuses to their CEOs during a less profitable year while a staggering one-fifth of these firms even rewarded their CEOs for a negative year!

Clearly, this is outlandish and surely will not sit well with shareholders nor staff in those loss-making companies.

Hence, greater implementation of pay-for-performance must be asserted.

The full list of views from CEOs is available at http://businesstimes.com.sg

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