The Board Remuneration Committee: The Challenges

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The Remuneration Committee of the Board is sometimes referred to as the Human Resources Committee. You need to have this committee properly constituted to enable it to effectively discharge its duties. If the committee is not performing its function effectively you will find a remuneration system that has no connection to the performance of the business. You may also find that the company's remuneration systems are frequently featuring in the press with negative press coverage. That damages the company's overall brand image.

The various corporate governance codes and regulations cover various issues related to the functions of this committee. I will not refer to any particular code in this article but will focus on what I think is best practice based on my experience.

Committee Composition- The first thing is to make sure the committee is properly constituted. Make sure the committee is made up of independent non –executive directors only if you can. The reason for this is that independent non – executive directors are less likely to be influenced by an interest groups as they go about their business. If you can't have all members being independent non-executive directors at least have the chairman being independent as a minimum.

In this case independent means independent from any shareholder influence. The challenge in Zimbabwe is that most non- executive directors are not independent as their selection is driven by particular shareholder interests. In organisations where governance structures are weak executive management recommends to the Board who should sit on the Board and subsequently of the remuneration committee. The Chief Executive Officer and the Head of Human Resources must only sit in this Committee at the invitation of the Committee and must not have any voting powers. They can contribute to discussion but ultimately the decisions must rest with the Independent Directors of the Committee.

It is not ideal for the Chairman of the Board to sit on the committee unless the chairman in an independent – non executive director. In some organisation shareholder structures do not allow for independent directors but if you can always try to get the composition right. Shareholder Inactivity – At most Annual General meetings, shareholders say nothing about executive pay thereby allowing poor pay governance to continue. The shareholders must approve executive pay and non – executive director fees at the AGM. In practice this meeting takes no more than an hour and most shareholders representatives have no clue as to what executives and non- executive directors are earning. They even approve pay levels that have not been interrogated thoroughly.

This is a tragedy for Zimbabwean organisations. The Role of the Committee – in a broaden structure the role of this committee covers leading and guiding the implementation of a sound human resources strategy for the business. Specific to remuneration, the committee must lead in the designing and crafting of a remuneration strategy for the business. To enable the committee to perform this task effectively the committee must sources for quality information on remuneration trends. To avoid pay governance issues emanating from biased or poor quality data the committee should liaise directly with Consultants who provide market salary information. They should be involved in setting the terms of reference for all their work without undue influence from the executives especially human resources.

Treat employee remuneration as an investment which must give a return. It is the role of the committee to ensure that the business get the maximum return from its investment in employee remuneration. The committee must note that while market trends are important, ultimately what should determine what the executives and the generality of the employees earn is the company’s ability to pay. The committee members must always check if the remuneration us sustainable in the long run. Other issues – The committee must demand full disclosure of all remuneration issues for all employees and focus should be on the executives. I notice that in most cases these committees have no access to executive contracts and remuneration. They must have a signed copy of the approved payroll for all employees and only allow minor changes at the lower level if these changes are not going to result in significant payroll cost. The committee must interrogate all executive contracts to ensure there is no risk to the organisation on termination. Due to time constraints I have noted that sometimes committee members do not pay too much attention to issues raised and these are the same issues that can blow up in the future leaving the whole board embarrassed. The biggest pay governance challenge for both executive and non – executive director’s remuneration is disclosure. The issue of confidentiality is taken too far in this country. While we are noticing improvements in non – executive director’s fees disclosure it’s disclosed as a lump sum not detailing how much each non-executive director earned during the period under review.

State enterprises and listed companies should lead in disclosing executive pay as part of the reporting process. It’s better for organisations to be ahead of the pack in terms of governance because with the passage time these strict reporting requirements being implemented in others jurisdictions will come to Zimbabwe. While the committee has the powers to deal with all the maters raised above, it must submit its proposals to the main Board for approval.

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