Factors driving changes to remuneration policies in South Africa

by Mark Bussin[*]

Abstract

This study was conducted in 2012 and replicates Bussin and Huysamen's (2004) work, conducted in 2003, on remuneration policies. It investigates the factors driving remuneration policy in South Africa and determines whether these factors have changed since 2003. Anonymous e-mail questionnaires were received from 131 senior company representatives. All participating companies were members of the South African Reward Association (SARA) or clients of a large remuneration consulting firm. Data were analysed using a chi-squared test and factor analysis. Results support Bussin and Huysamen's study, which found that the two main drivers of change in policy were the retention of talented staff and the financial results of the organisation. However, three components of remuneration are receiving greater prominence than they did in 2003: governance in the organisation, merit pay and retention strategies. These findings suggest a greater shareholder expectation that pay should be linked to performance, and that pay acts as a retention strategy for critical staff.

Key words: *compensation, remuneration, remuneration policy, reward, South Africa*

1 Introduction

Globally, the economic crisis, the collapse of public companies and rising public anger over executive pay packages have again focused attention on the strategic importance of remuneration policies in organisations (Petra & Dorata 2008). The US Treasury Secretary, Timothy Geithner, argued that excessive pay packages were partly to blame for the 2008 Wall Street crash and as a consequence introduced a "compensation tsar" to oversee remuneration in organisations that had received government bailouts. Geithner was also instrumental in introducing legislation giving shareholders a non-binding vote of confidence on remuneration issues ("say on pay") and he tabled legislation to ensure the independence of remuneration committee members (Farid, Conte & Lazarus 2011).

Within the South African environment, King III recommendations on corporate governance were introduced with effect from 1 March 2010, with a significant increase in focus on executive remuneration. Some of the requirements are increased disclosure on executive pay, a non-binding advisory vote on a company's remuneration policy and more extensive reporting requirements (King 2009).

Along with a greater emphasis on governance issues, the South African government is also focusing on public spending. Government has expressed concern over

[*] Prof M Bussin is a member of the Department of Industrial Psychology and People Management in the Faculty of Management at the University of Johannesburg.

Correspondence to: Prof M Bussin, Department of Industrial Psychology and People Management, University of Johannesburg, PO Box 524, Auckland Park, 2006. E-mail: drbussin@mweb.co.za

consistent increases in the public wage bill, which more than doubled in the five years ending 2009 (Gordhan 2010). In addition, protests over government's poor service delivery and labour unrest have highlighted South Africa's excessive wage gap and rising inequality (Aharoin 2014; PriceWaterhouseCoopers 2014). Other factors pushing South African organisations to review their remuneration policies include the renewed focus on staff retention, the implications for the financial situation of stakeholders, pressure from competitors, organisational redesign, and changes to legislation (Corporate Leadership Council 2010; Ogedegbe & Bashiru 2014).

The myriad of factors which drive the review of remuneration policies need to be understood in order to achieve good corporate governance, as well as inform the communication and change management necessary when the policies are implemented (Bussin & Huysamen 2004; Herkenhoff 2000; Tian & Wang 2014). The present study was conducted in 2012 and comparisons were drawn between this study and the 2003 study by Bussin and Huysamen. It is contended that the study has not dated as major changes to remuneration policy design happen infrequently and usually affect only one component of remuneration at a time (Bussin 2012).

Reward policies are a subset of a company's human resource policy, which is driven by the human resource strategy, which in turn must be integrated into the business strategy (Lawler 2000). As such the remuneration policy has an essential role to play in talent retention and attraction, and the motivation of employees (Deal, Stawiski, Graves, Gentry & Ruderman 2013; Lawler, Boudreau & Mohrman 2006) and needs to be integrated into the total human resource management strategy (Armstrong & Murlis 2007). WorldatWork (2007) offers a widely accepted rewards model that is comprehensive and takes cognisance of the multiple factors driving remuneration policy development.

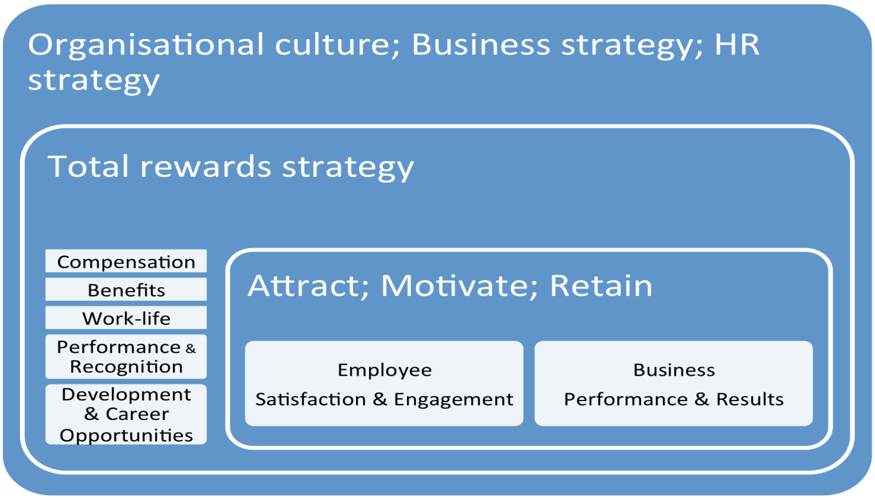
1.1 *Remuneration policy components*

The elements of the total rewards framework shown in Figure 1 below closely mirror the headings used in remuneration policies. Compensation is further sectioned into base pay, short-term incentives and long-term incentives. Remuneration policies are generally around 10 pages in length and cover most of the headings in this framework (Bussin 2012).

The Total Rewards Model (WorldatWork 2007:6) purports that rewards operate within the culture of the organisation, the business strategy and the HR strategy. There are five components of a rewards strategy that all work together to attract, retain and motivate employees. If they are successful, employee satisfaction and engagement will result and the business will see improved performance and results.

Salaries, incentives, benefits and perks generally comprise companies' biggest cost item – estimates vary from 50% (Milkovich & Newman 1999) to 80% (Singh & Loncar 2010). This means that remuneration can be used to gain competitive advantage as pay affects employee behaviour, which in turn impacts organisational success (Milkovich & Newman 1999). As capital and technology become more accessible, innovative pay strategies are becoming increasingly attractive (Aguinis, Gottfredson & Joo 2012; Milkovich & Newman 1999). Despite this, Bussin (2012) argues that the impact of pay packages on business strategy is not always well understood, and often changes in remuneration have not kept pace with other changes in business.

Figure 1
WorldatWork' s (2007:6) Total Rewards Model (adapted)



Shareholders expect remuneration committees to design, develop and implement pay packages that serve as tools for corporate strategy, but this requires an understanding of the drivers of remuneration policies (Main, Jackson, Pymm & Wright 2008).

1.2 *Factors driving changes in remuneration policies*

Remuneration policy is influenced by many factors. Decision makers usually do not know how much weight to give each factor, and often follow a reactive strategy as situations develop. Understanding the extent to which each of the factors drives remuneration decision-making will inform the relative weight that needs to be attached to the driver when making the remuneration changes. Various drivers of remuneration policy have been investigated in the literature and cognisance has also been taken of the factors used in the 2003 study – including pay for performance, employee turnover and retention, market imitation, risk management, enhanced corporate governance, individual preferences, institutional shareholder activism, and pay equity. The literature provides evidence of the following factors as drivers of remuneration policy.

1.2.1 *Pay for performance*

Agency theory outlines the separation of ownership and control. Owners incentivise management to perform and grow wealth while balancing the organisation's resources. Petra and Dorata (2008) found that only 30% of the share price market movement reflected corporate performance. This has led to the inclusion of Corporate Performance Targets (CPTs) in long-term incentive arrangements in some countries. In South Africa, this falls under the King III corporate governance recommendations; organisations have been strengthening their pay-for-performance schemes to align them with Agency Theory, comply with King III and satisfy stakeholders (Bussin 2012).

1.2.2 *Independence of remuneration committees*

The role of remuneration committees has expanded over the years as a result of shareholder pressure and governance requirements. Shareholder pressure is not likely to change, and governance requirements will probably increase. Remuneration committees monitor the design of remuneration practices to ensure fair remuneration and shareholder protection, as well as compliance with legislation and regulation (Randolph-Williams 2010).

Regulation requires the chairperson of a remuneration committee to be an independent, non-executive director (King 2009) and some countries require all committee members to be independent non-executive directors (Li & Qian 2011). The increasing requirement for independence of remuneration committee members is changing the profile of committees from an old boys club to a group of vociferous independent thinkers who are driving the transformation of remuneration policies.

1.2.3 *Employee turnover and retention*

According to studies conducted by Cornell University, the Saratoga Institute and Hewitt Associates, the often invisible cost of employee turnover ranges from 30% to 150% of the employee’s annual salary (WorldatWork 2007). Although some turnover is healthy and zero turnover is unlikely to be achieved, turnover levels must be monitored as they contribute significantly to labour costs, and also put a strain on an organisation’s ability to achieve its business plans (WorldatWork 2007). The Corporate Leadership Council (2010) notes that remuneration is becoming an increasingly important factor in attracting talent. The importance of this for the study is that unwanted employee turnover is expensive, and improving retention saves money.

1.2.4 *Market imitation*

Neo-institutional theory argues that organisations are heavily influenced by accepted market practice, which does not automatically lead to positive shareholder wealth (Main et al 2008). Similarly, directors compare their compensation to that of their peers in other companies and form a perception of equity (Kakabadse, Kakabadse & Kouzmin 2004).

1.2.5 *Risk management*

Remuneration committees are tasked with ensuring that the company remuneration policies neither encourage excessive risk-taking for short-term gains nor endanger long-term business sustainability (King 2009; Randolph-Williams 2010).

1.2.6 *Enhanced corporate governance*

In South Africa governance trends are following international trends in highlighting the need for greater transparency and reporting of remuneration practices (for example, King III corporate governance recommendations and the South African Companies Act, 2008). Gevers (2013) found that with the implementation of King III in 2010 and the promulgation of the new Companies Act in 2011, the corporate governance landscape in South Africa was irrevocably changed. At the same time, there were increasing protestations against what were perceived to be excessive executive remuneration packages.

1.2.7 *Individual preferences*

While differences in defining and categorising reward components are noted across several studies (Moore & Bussin 2012; Nienaber, Bussin & Henn 2011; Snelgar, Renard & Venter 2013, Schlechter, Hung & Bussin 2014), the division of reward components into categories seems to be based on logical classification rather than on the fact that employees seem to show a preference for all the components of a category.

Nienaber et al. (2011) found that individual reward preferences vary significantly according to age, race, gender and personality, and that these factors can predict reward preferences. It could be argued that remuneration professionals need to take individual preferences into account when designing new remuneration policies.

1.2.8 *Institutional shareholder activism*

Remuneration packages are often developed on the basis of how they might be perceived by institutional shareholders. Since the 1980s, UK-based institutional shareholders have influenced the conduct of remuneration committees. This is unlike the situation in the USA, where the focus has been on influencing the structure of the committees. Shareholder activism is increasing in South Africa (Gevers 2013).

Since 2002, UK regulations have provided for an advisory vote on the remuneration report, placing the remuneration committee under constant pressure. The US Securities Exchange Commission introduced the “Say on pay” vote in 2011 and in South Africa King III introduced the non-binding advisory vote which became effective from 2011, following the introduction of a similar practice in Australia.

1.2.9 *Pay equity – the wage gap*

PriceWaterhouseCoopers (2014) reports that the wage gap in South Africa has been consistently widening. Remuneration strategies tend to run counter to pay equity, which seeks greater pay parity. Remuneration practices are often designed to differentiate between employees in order to motivate them, for example, via performance management (Bain & Company 2013; Howard, Turban & Hurley 2002). If the performance management system is scrutinised, claims of discrimination could arise as performance-based pay uses the performance management system to award pay increases (Armstrong & Murlis 2007). This increases the wage gap and exposes the performance management system to close scrutiny.

In South Africa, the Department of Labour has said it will step up its scrutiny of unfair discrimination in employee remuneration, especially in large organisations (South Africa 1998). Defensible differentiation based on a robust performance management system is acceptable. However, the main point is that anything driving the wage gap will come under close scrutiny.

2 Purpose of the study

Bussin and Huysamen (2004) investigated the drivers of remuneration policy in South Africa. Subsequently, there has been little further research in the area, but there have been extensive changes in the corporate environment, and specifically in remuneration management. This study replicates Bussin and Huysamen’s earlier work in order to assess the factors driving remuneration policy changes, as well as to investigate the extent to which changing corporate culture has impacted remuneration policy review. Since the 2003 study there have significant shifts in stakeholder activism and an increasing focus on the wage gap, with a call for more equality. As a result of the violent strikes over pay, the remuneration issue has come in for increased scrutiny. It is hoped that this research will help to identify the most important drivers of remuneration policy. This will hopefully inform better decision making in the remuneration arena.

3 Research questions

This study addressed two research questions:

(1) What are the factors driving changes to remuneration policy?

(2) What are the components of remuneration policies and to what extent have they been changed, and which of these components have been impacted the most?

The questionnaire used to gather the data was similar to the 2003 questionnaire as it had been validated and the same data had to be collected for comparative purposes. A limitation of both studies is that the questionnaire did not ask for either the level/post grade or the age of respondents. Future studies in this area must ask for information on level/post grade and age to identify any differences in responses.

4 Methodology

4.1 *Research design*

The study replicated an earlier study by Bussin and Huysamen (2004), and followed an exploratory, quantitative survey design.

4.2 *Participants and sampling method*

Convenience sampling was used (Terre Blanche, Durrheim & Painter 2007). Two large databases of clients were sourced – one from the South African Reward Association and one from a large remuneration consulting firm. The databases yielded a potential 11 600 participants covering the whole of South Africa. A total of 131 usable surveys were returned, which is in line with what was expected for an unsolicited survey.

4.3 *Data collection*

Permission was obtained by the heads of the organisations from which the databases were drawn. Both organisations then emailed a request to complete the survey to the people listed in their databases, using a hyperlink to Survey Monkey. The survey was distributed and completed online as the sample size was so large and geographically diverse (Leedy & Ormrod 2010). Respondents were given six weeks to return the survey. Participation in the survey was voluntary and all responses were kept confidential. Participants returned their responses via an anonymous email link.

4.4 *Measures*

This study replicates Bussin and Huyseman's (2004) research and uses the survey instrument designed for that original research. The section on "impact" was removed, however, as it was not a focus of this research.

The survey instrument has three sections:

(1) Section 1: Background information on the organisation, including demographic variables

(2) Section 2: Factors driving changes to remuneration policy, measured using a 7-point Likert-type scale (1= not at all, 7 = to a very large extent)

(3) Section 3: Remuneration policy changes measured using a 4-point Likert-type scale (1= not at all, 4 = to a large extent).

The 7-point Likert-type scale was re-scaled for ease of comparison with the Bussin and Huysamen (2004) 3-point instrument. The rescaling was done to bring the Likert-type scale in line with the 2003 study, as follows:

- 1 and 2 = To a small extent
- 3, 4 and 5 = To a moderate extent
- 6 and 7 = To a large extent

Internal validity

Bussin and Huyseman (2004) tested the internal validity of the survey instrument using a triangulation approach. Interviews were used to construct a pilot instrument, which was analysed qualitatively. Quantitative analysis was then conducted on the complete survey instrument. The survey instrument was reliable and yielded results that identified the strongest drivers of remuneration policy. These results are shown in the findings section and the present study is compared to the 2003 study.

Reliability

Bussin and Huysaman (2004) found a Cronbach's alpha of 0.80 for the survey instrument.

4.5 *Analysis of the data*

The responses to the survey were collated using Qualtrics (online survey software). Descriptive statistics were used to analyse the demographic data. A chi-squared analysis was run to determine how closely the observed frequencies matched the expected frequencies. A factor analysis was used to determine the factors driving remuneration policy changes. Bartlett's Test of Sphericity was used to test the correlation between the dependent variables. The principal components extraction method with orthogonal rotation (Varimax method) and Kaiser normalisation were applied. According to Pallant (2007), the KMO ranges from 0 to 1; 0.6 is suggested as a minimum value and the Bartlett's Test of Sphericity should be significant ($p<.05$) for an acceptable factor analysis. In terms of the analysis conducted, both tests yielded acceptable results.

The Eigen values were calculated to represent the amount of the total variance explained by the identified factors that had been retained, using the Kaiser criterion of Eigen values >1 (Pallant 2007). Reliability was assessed using Cronbach's alpha. The first-order factors identified were tested for reliability as factors driving changes to remuneration policy.

5 Results

5.1 *Demographic profile of the participants*

The majority of participants were located in the private sector (72.5%) and 31% were employed by a listed company. This is comparable to Bussin and Huysamen's (2004) sample profile, where 75% of participants were in the private sector and 39.9% were listed.

There was a good spread of companies according to size, although Bussin and Huysamen's (2004) sample showed even greater diversity.

Table 1
Number of employees in participating companies

Category	Frequency	Percentage (%)	Bussin & Huysamen (2004) %
Up to 500 employees	62	47.3	32.4
500 to 5000 employees	36	27.5	36.5
More than 5000 employees	33	25.2	31.1
Total	131	100.0	100.0

The majority of participants said that their company had a remuneration committee (64.9%).

Table 2
Presence of a remuneration committee in the organisations

Category	Frequency	Percentage (%)	Bussin & Huysamen (2004) %
Remuneration committee	85	64.9	62.2
No committee	45	34.3	34.5
Do not know	1	0.8	3.3
Total	131	100.0	100.0

Table 3 demonstrates that the majority of participants were HR managers or directors. This is similar to Bussin and Huysamen's (2004) sample profile.

Table 3
Position titles of the survey participants

Category	Percentage (%)	Bussin & Huysamen (2004) %
Other	58.8	52.7
HR Manager/Director	41.2	47.3
Total	100.0	100.0

5.2 *Research question 1: Factors driving change to remuneration policies*

Table 4 lists the frequencies for each factor driving remuneration policies, ranked according to the extent to which they drive change. The top five drivers are retention of staff, financial results, surveys/benchmarking, affordability and internal advisers.

Table 4
Factors driving changes to remuneration policies, ranked in descending order.

Rank 2012	Rank 2003	Factor	To a small extent	To a moderate extent	To a large extent
1	1	Retention of key staff	15%	35%	50%
2	2	Financial results	17%	42%	41%
3	4	Surveys/benchmarking	20%	43%	37%
4	6	Affordability/rising costs	12%	54%	34%
5	5	Internal advisers, e.g. HR	24%	45%	31%
6	7	Productivity	14%	56%	30%
7	3	Strategic thrust	23%	47%	30%
8	14	Remuneration committee	39%	31%	30%
9	15	Shareholder expectations	40%	34%	26%
10	21	Governance/King III	31%	46%	23%
11	9	Board of directors	26%	52%	22%
12	8	Legislation	31%	48%	21%
13	11	Competitors	34%	46%	20%
14	12	Development/career progression	21%	62%	17%
15	16	Staff loyalty	24%	60%	16%
16	17	Turbulence in business environment	33%	52%	15%
17	20	Social upheaval/trade unions	59%	28%	13%
18	18	Advanced technological development	48%	39%	13%
19	10	Change in culture	39%	50%	11%
20	13	Economic restructuring/different work patterns	37%	53%	10%
21	19	External advisers, e.g. legal	56%	36%	8%
22	24	Corporate failures	60%	33%	7%
23	22	Publicity	60%	35%	5%
24	23	Investment/stock exchange analysts	72%	24%	4%

The present overall results are surprisingly similar to those of Bussin and Huysamen (2004). Affordability as a driver has risen two places in the 2012 study, while benchmarking has risen one place.

A chi-squared analysis of the results found that 75% of the drivers were dependent on some form of organisational type (see Table 5). Type of company refers to whether it is a private sector, public sector or state-owned company. Hussey and Hussey (1997:232) state that "the chi-squared test is a non-parametric technique which is used to assess statistical significance."

Table 5
Chi-square asymptotic significant (2-sided) for factors driving changes to remuneration policy (significant values in bold, p < 0,05)

Factor	Type of company	Listing of company	Organisational structure	Organisation finances	Number of employees	Number of years incorporated	Remuneration committee	Industry sector	Position of respondent
Factors dependent on organisation type									
Advanced technological developments	0.53	0.20	0.98	0.08	0.38	0.35	0.10	0.81	**0.04**
Board of directors	0.23	0.95	0.75	0.34	0.59	0.55	**0.01**	0.50	0.47
Career progression	0.82	0.60	0.89	0.16	0.11	0.51	0.58	0.44	**0.00**
External advisers, e.g. legal	0.53	0.12	0.14	**0.01**	0.09	0.61	**0.05**	0.64	0.81
Internal advisers, e.g. HR	0.89	**0.03**	0.63	**0.01**	**0.01**	0.35	**0.00**	**0.03**	**0.01**
Investment/stock exchange analysts	0.27	**0.00**	0.14	**0.00**	**0.00**	0.18	**0.01**	**0.05**	**0.00**
Legislation	0.46	0.07	0.08	0.10	**0.02**	0.93	0.34	0.93	0.60
Strategic thrust	0.92	0.25	0.80	**0.00**	**0.00**	0.54	**0.02**	0.12	0.60
Remuneration committee	0.40	0.06	0.10	**0.00**	**0.00**	0.45	**0.00**	0.21	0.36
Retention of key staff	0.31	0.55	0.37	0.11	0.24	0.32	0.18	**0.03**	**0.03**
Stakeholder expectations	0.06	**0.00**	0.09	**0.01**	**0.01**	0.38	**0.00**	0.37	0.28
Social upheaval/trade unions	-	0.10	**0.00**	**0.02**	**0.00**	0.07	0.07	**0.00**	**0.05**
Surveys/benchmarking	0.81	0.51	0.13	**0.00**	**0.04**	0.52	**0.01**	**0.03**	**0.00**
Governance	0.58	**0.00**	**0.00**	**0.00**	**0.00**	0.15	**0.00**	0.38	0.06
Publicity	0.18	0.13	0.09	0.10	0.06	0.65	**0.00**	0.47	0.43
Productivity	0.21	0.46	0.20	0.08	0.82	0.71	0.56	0.37	**0.00**
Turbulence in business environment	**0.04**	0.16	0.20	**0.00**	0.56	0.53	0.45	0.06	**0.05**
Financial results	**0.05**	0.31	**0.01**	0.25	0.13	0.85	0.13	0.18	**0.05**
Competitors	0.11	**0.01**	0.17	**0.04**	0.17	0.76	0.27	**0.02**	**0.03**
Factors independent of organisation type									
Affordability	0.59	0.30	0.10	0.09	0.49	0.54	0.64	0.98	0.72
Change in culture	0.63	0.29	0.57	0.07	0.06	0.48	0.15	0.63	0.23
Corporate failures	0.85	0.20	0.48	0.53	0.89	0.36	0.25	0.99	0.31
Economic restructuring	0.39	0.18	0.92	0.27	0.20	0.46	0.91	0.21	0.06
Staff loyalty	0.83	0.80	0.15	0.77	0.66	0.56	0.39	0.18	0.41

The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's Test of Sphericity were conducted on the 24 factors driving change to remuneration policy. The results are displayed in Table 6. The KMO is 0.88, above the suggested 0.6 minimum, which makes a Principal Component Analysis (PCA) acceptable. In addition, Bartlett's Test of Sphericity is significant, thereby making a factor analysis possible.

Table 6
KMO and Bartlett's test on the 24 factors driving changes to remuneration policy

KMO Measure of Sampling Adequacy		0.884
Bartlett's Test of Sphericity	Approx. chi-square	1382.568
	df	276
	Significance p	0.000

The PCA elicited commonalities for all 24 factors driving change. Eigenvalues were calculated and those above 1.0 were retained. Five met this criterion and were able to explain 60% of the variance. The component loadings are shown in Table 7.

Table 7
Component loading on the five first-order postulated factors

Factors	Component				
	1	2	3	4	5
Investment/stock exchange analysts	**.710**	-.049	.157	.137	.279
Publicity, e.g. media	**.659**	.073	.441	.054	.115
Your competitors	**.646**	.332	.117	.212	.056
Corporate failures, e.g. Enron	**.635**	-.002	.249	-.005	.113
Turbulence in business environment	**.581**	.224	.015	.465	.081
Stakeholder expectations	**.511**	.267	.113	.269	.240
Staff loyalty	.085	**.790**	.049	.148	.058
Retention of key staff	-.072	**.769**	.020	.092	.308
Development/career progression	.150	**.686**	.236	.119	.154
Productivity	.298	**.603**	.103	.453	.100
Legislation, e.g. EE Act, SARS audits	.145	-.109	**.704**	.199	.174
Social upheaval/trade unions	.130	.046	**.666**	-.051	.183
Economic restructuring/different work patterns	.197	.312	**.613**	.088	-.092
Change in culture	.259	.225	**.534**	.313	.156
External advisers, e.g. legal	.520	.007	**.526**	-.139	.275
Strategic thrust	.177	.335	**.477**	.436	.263
Board of directors	.184	-.023	.174	**.729**	.303
Affordability/rising costs	-.022	.284	.090	**.717**	.024
Financial results	.236	.428	-.090	**.565**	.276
Advanced technological developments	.320	.304	.357	**.368**	-.106
Remuneration committee	.163	.144	.188	.105	**.721**
Surveys/benchmarking	.152	.358	.013	.127	**.681**
Governance/King III Report	.351	-.037	.269	.392	**.594**
Internal advisers, e.g. HR	.241	.320	.341	.127	**.538**

Each component was assigned a label and Cronbach's alphas were run. All scores were above 0.65.

Table 8
Cronbach's alpha for the five components

Factor	Cronbach's Alpha
1. Macro-economic issues	0.802
2. Employee engagement	0.799
3. Statutory and social issues	0.783
4. Strategic leadership	0.692
5. Governance	0.768

The table below presents a summary of the factor structure after running varimax rotation.

Table 9
Summary of the factor structure after Varimax rotation

Factor 1: Macro-economic issues	Factor 2: Employee engagement	Factor 3: Statutory and social issues	Factor 4: Strategic leadership	Factor 5: Governance
Investment/stock exchange analysts	Staff loyalty	Legislation, e.g. EE Act, SARS audits	Board of directors	Remuneration committee
Publicity, e.g. media	Retention of key staff	Social upheaval/trade unions	Affordability/ rising costs	Surveys/ benchmarking
Your competitors	Development/ career progression	Economic restructuring/ different work patterns	Financial results	Governance/ King III report
Corporate failures	Productivity	Change in culture	Advanced technological developments	Internal advisers, e.g. HR
Turbulence in the business environment		External advisers, e.g. legal		
Stakeholder expectations		Strategic thrust		

5.3 *Research question 2: the components of remuneration policies and how they have changed*

Table 10 shows the components of remuneration policies, ranked by mean extent of change.

Table 10
Components of a remuneration policy, ranked by extent of change. The 2003 rankings are in brackets.

Components of a remuneration policy*	N	Mean	Std deviation
Merit pay (4)	131	2.62	1.019
Retention strategy (11)	131	2.55	1.047
Market positioning policy – benchmarking (5)	131	2.46	.987
Competence-based pay (13)	131	2.29	1.019
Base pay policy (9)	131	2.29	1.019
Short-term incentives (1)	131	2.27	1.023
Remuneration governance (16)	131	2.19	1.001
Legal compliance (14)	131	2.18	.991
Job evaluation or broadbanding policy (2)	131	2.15	1.026
Fringe benefits policy (7)	131	2.11	.874
Remuneration mix (12)	131	2.05	.944
Fixed-period employment contracts (17)	131	1.99	.973
Long-term incentives (6)	131	1.89	1.093
Retirement funds policy (10)	131	1.80	.972
Share schemes policy (15)	131	1.75	1.018
International remuneration (8)	131	1.54	.888
Rand hedging of salaries (18)	131	1.32	.611

It is noted that *merit pay* or performance-related pay (which was defined in the questionnaire as paying for individual contribution, usually measured by a performance management system) is the component with the highest mean under "Extent of change".

A KMO measure of sampling adequacy and Bartlett Test of Sphercity were tested on the 18 components of remuneration policies. The results indicated that no components should be excluded.

The KMO and significant p-values indicated that the 18 components of remuneration policy can be subjected to Principal Component Analysis. The Principal Component Analysis method of extraction yielded commonalities for each of the 18 components of remuneration policy and the initial Eigenvalues of the reduced matrix were calculated.

Table 11
Eigenvalues on the first-order postulated factors for the components of remuneration policy

First-order factors	Initial Eigenvalues		
	Total	% of variance	Cumulative %
Factor 1	5.400	30.0	30.0
Factor 2	1.902	10.5	40.5
Factor 3	1.529	8.4	49.0
Factor 4	1.204	6.6	55.7
Factor 5	1.049	5.8	61.5

Table 12
Component loading on the five first-order postulated components of remuneration policy

	Component				
	1	2	3	4	5
Market positioning policy - benchmarking	**.708**	.008	.041	.216	.033
Remuneration governance policy	**.703**	.239	.235	.018	.240
Job evaluation or broadbanding policy	**.566**	-.012	-.023	.480	.312
Remuneration mix	**.516**	.375	.506	.079	-.165
Retention strategy	**.506**	.340	.045	.432	-.059
Share schemes policy	.035	**.846**	.028	-.070	.085
Long-term incentives	.247	**.750**	.074	-.089	.136
International remuneration	-.015	**.635**	.038	.222	.359
Short-term incentives	.225	**.558**	.396	.220	-.398
Retirement funds policy	.091	-.011	**.759**	-.089	.163
Fringe benefits policy	.027	.147	**.713**	.187	.188
Total package concept	.406	.050	**.503**	.300	.000
Competence-based pay	.079	-.038	.077	**.797**	.076
Merit pay	.473	.133	.114	**.581**	-.040
Base pay policy	.203	-.021	.429	**.506**	.136
Rand hedging of salaries	.217	.274	.134	.136	**.621**
Fixed period employment contracts	-.087	.090	.435	.237	**.568**
Legal compliance	.459	.138	.271	-.254	**.541**

The results indicated that the five factors explain 61.5% of the variance. The first-order factors were labelled (see Table 13), and Cronbach's alphas run. All were above 0.54.

Table 13
Cronbach's alphas of the first-order factors of the remuneration policy components

Factor	Cronbach's alpha
1. Reward strategy	0.767
2. Variable remuneration	0.719
3. Employee benefits and total package	0.611
4. Rewards policy on pay progression	0.638
5. Employment contracts and compliance	0.543

Table 14
Summary of factor structure – Components of remuneration policy

Factor 1: Reward strategy	Factor 2: Variable remuneration	Factor 3: Employee benefits and total package	Factor 4: Rewards policy on pay progression	Factor 5: Employment contracts and compliance
Market positioning policy – benchmarking	Share schemes policy	Retirement funds policy	Competence-based pay	Rand hedging of salaries
Remuneration governance policy	Long-term incentives	Fringe benefits policy	Merit pay	Fixed-period employment contracts
Job evaluation policy/ broadbanding policy	International remuneration	Total package concept	Base pay policy	Legal compliance
Remuneration mix	Short-term incentives	Legislation, e.g. EE Act, SARS audits	Board of directors	Remuneration committee
Retention strategy	Staff loyalty	Social upheaval/ trade unions	Affordability/rising costs	Surveys/ benchmarking
Investment/stock exchange analysts	Retention of key staff	Economic restructuring/ different work patterns	Financial results	Governance/King III report
Publicity, e.g. media	Development/ career progression	Change in culture	Advanced technological developments	Internal advisers, e.g. HR
Your competitors	Productivity	External advisers, e.g. legal		
Corporate failures		Strategic thrust		
Turbulence in the business environment				
Stakeholder expectations				

This research found that 79% of the factors driving changes in remuneration policy have a dependency on broader company characteristics (p-value < 0.05). The following table illustrates these dependencies.

Table 15
Drivers of change in remuneration policy linked to company characteristics

Factor	Type of company	Listing of company	Organisational structure	Organisation finances	Number of employees	Number of years incorporated	Remuneration committee	Industry sector	Position of respondent
Factor is dependent on organisation type									
Advanced technological developments									X
Board of directors							X		
Career progression									X
External advisers, e.g. legal				X			X		
Internal advisers, e.g. HR		X		X	X		X	X	X
Investment/stock exchange analysts		X		X	X		X	X	X
Legislation					X				
Strategic thrust				X	X		X		
Remuneration committee				X	X		X		
Retention of key staff								X	X
Stakeholder expectations	X	X		X	X		X		
Social upheaval/trade unions			X	X	X			X	X
Surveys/benchmarking				X	X		X	X	X
Governance		X	X	X	X		X		
Publicity							X		
Productivity									X
Turbulence in business environment	X			X					X
Financial results	X		X						
Competitors		X	X	X				X	X
TOTAL	3	5	4	11	9	0	10	6	10

In the next section the findings are discussed and integrated with the literature review.

6 Discussion

6.1 *Demographic profile of respondents*

When compared to the Bussin and Huysamen (2004) study, the 2012 profile of respondents is similar overall. Some key differences are evident in the overall decrease in the number of listed companies in the sample, and the growth in smaller companies. This is probably due to the broader population targeted by the 2012 survey and also to the growing importance of remuneration within all types of organisations, irrespective of securities exchange listing status.

6.2 *Research question 1: The factors which drive changes to remuneration policy*

The five drivers of remuneration policy that attracted the highest mean score in the present study were:

- Retention of key staff (49.6%)
- Financial results (40.5%)

- Surveys/benchmarking (36.6%)
- Affordability/rising costs (34.4%)
- Internal advisers e.g. HR (31.3%)

The top two highest ranked items in the 2003 study, "Retention of key staff" and "Financial results" were similarly ranked in the 2012 study. Further, four of the top five factors which attracted the highest mean scores in 2003 are again listed among the top five factors for 2012.

The above results support Deloitte's survey (Kwan, Schwartz & Liakopoulos 2011), which found that up to 49% of CEOs have made changes to their remuneration policies as these were considered unsuccessful in attracting and retaining talent.

Based on the literature review it was expected that governance around remuneration would begin to play a significant role in organisations. For instance, Price-WaterhouseCoopers (2014) argued that boards have to display increased leadership and integrity because of changing legislation. Bussin and Huysamen (2004) found that the driver, "Governance/King II Report", was ranked 21st out of 24. But the present study found that this driver has increased tremendously in importance and is now ranked 10th out of 24. This is aligned with the global trend of increasing and improving governance, especially remuneration governance (King 2009; Farid et al 2011; Gevers 2013; Ogedegbe & Bashiru 2014).

The present research also found that the Remuneration Committee is ranked 8th, ahead of the Board of Directors, which is ranked 11th. It may be that the increased media attention and regulation introduced internationally and in South Africa (to limit perceived excessive remuneration and increase transparency of remuneration practices) have had the effect of raising the profile of the Remuneration Committee among respondents, even ahead of the influence of the Board of Directors, as regards their decision making around remuneration policies.

As table 4 shows, the respondents now perceive Affordability, Remuneration Committee, Stakeholder Expectations and Governance as important factors driving changes to remuneration policy in comparison with the 2003 study. This adds weight to the argument that remuneration committees have increased in capacity, complexity and requirements. The literature (Randolph-Williams 2010; King 2009) highlights the increased governance role assumed by remuneration committees in recent years. Specifically, remuneration committees have a role to play in ensuring that remuneration policies do not encourage excessive risk-taking for short-term gains. Also, the committees need to address the long-term sustainability and affordability of remuneration proposals. This goes some way to satisfying stakeholder expectations of good corporate governance.

The present research (see table 4) also highlighted the importance of the following drivers in remuneration policies: surveys/benchmarking; staff loyalty and corporate failure. It could be argued that as transparency and reporting requirements regarding remuneration packages increase, organisations have responded by using benchmarking and surveys to ensure an evidence-based approach to comply with acceptable market practice. It is probably also realistic to argue that this benchmarking is a means by which organisations can ensure that they practice good corporate governance and align these governance principles with remuneration policies.

The following drivers - Boards of Directors, Legislation, Competitors, Change in Culture and Economic Restructuring – decreased in mean scores from 2003 to 2012.

The reason is probably that participants increased their rating on the extent to which remuneration committees are able to influence change in the remuneration committees rather than broader, generic concerns around drivers such as the Board of Directors.

6.2.1 *Drivers of remuneration policy change are linked to company characteristics*

Table 15 highlights the following company characteristics as having a dependency on a number of factors driving changes in remuneration policy:

- Organisational finances
- Presence of remuneration committee
- Position or level of respondent
- Number of employees employed by the organisation

It seems logical that larger organisations in terms of financial size and employee numbers would have numerous factors driving changes to their remuneration policy. These organisations have the resources and risk amelioration mechanisms to address issues relating to remuneration.

Of particular interest are the drivers of remuneration policy change that are not related to organisational characteristics. These are:

- Affordability
- Change in culture
- Corporate failures
- Economic restructuring
- Staff loyalty

The only drivers that were highly rated by respondents were Staff Loyalty and Corporate Failures. Additional research will be required to determine why these drivers are seen as independent of company characteristics, but it is suggested that they are viewed as largely independent external drivers of change and may well be universal concerns for most organisations at present.

6.2.2 *Drivers of change in remuneration policies load on five factors*

A factor analysis of the 24 drivers of remuneration policy change found that they loaded on five factors.

Factor 1: Macro-economic issues: It is unsurprising that economic issues take precedence in driving change in remuneration policies, especially given recent local and global media scrutiny of remuneration issues. In the public sector in South Africa, service delivery mass action by residents in disadvantaged areas has also ensured that macro-economic issues remain central to all organisations' remuneration considerations.

Factor 2: Employee engagement: There is a high cost associated with having employees who are not engaged in the workplace (Kwan et al 2011; Corporate Leadership Council 2010; WorldatWork 2007). These reports highlight the concern expressed by CEOs that key staff retention was likely to remain high on the agenda and was likely to remain a challenge.

Factor 3: Statutory and social issues: The wage gap and income inequality are still issues on the public agenda. In South Africa, social upheaval and civil unrest have increased as a result of high levels of inequality and unemployment. The unrest has been coupled with economic and political uncertainty, which has made for an unpredictable business environment. The South African government continues to exert pressure, in particular on listed companies, via Department of Labour audits on employment equity plans. Increased regulatory and legislative pressure remains a challenge for business in South Africa.

Factor 4: Strategic leadership: The global financial crises and general slow-down in economies have resulted in shrinking markets and stringent controls on the granting of credit by lenders. These challenges, together with constantly improving technology and a strong focus on financial results, have contributed toward the emergence of this factor. In difficult economic conditions, strong leadership is required to steer the organisation and achieve growth. Remuneration policies constitute a powerful tool through which leaders can demonstrate strategic leadership, and the link between strategic leadership and business objectives makes this clear.

Factor 5: Governance: The release of King III recommendations on corporate governance in South Africa, together with calls by shareholder activist bodies and the non-binding vote on listed companies' remuneration reports, has ensured that governance remains on the priority list of the majority of organisations surveyed.

The factor analysis completed for this study differs from that of Bussin and Huysamen (2004), which identified seven factors:

- Governance
- Shareholders/stakeholders
- Organisation and work design
- Financial and leadership
- Legislation and agreements
- Competitors
- Staff retention

There was clearly a broader categorisation of factors in 2003, but in 2012 those factors have been reduced to fewer, more governance-related and economic factors.

6.3 *Research question 2: The components of remuneration policies, and the extent of change since 2003*

The mean scores of the components of remuneration policies show that Merit Pay and Retention Strategies have been the components subjected to the most change since the 2003 study. This supports literature which has identified employee attraction and retention as major issues of concern for business right now (Kwan et al 2011; Corporate Leadership Council 2011).

6.3.1 *Merit pay*

Bussin and Huysamen's (2004) study found that Merit Pay was ranked fourth overall in terms of the mean "Extent of change" to components of remuneration policy. And in the current study, Merit Pay was ranked first.

In terms of good corporate governance, directors of organisations are under pressure to ensure that individual performance aligns to the business strategy. Further, the "Say on Pay" legislation in the United States and the increasing pressure on listed organisations to comply with the King III Report recommendations have resulted in a pervasive focus on linking individual performance to remuneration decisions. It was therefore expected that merit pay would show a high degree of change over the previous three-year period as a component of remuneration policy.

6.3.2 *Retention strategy*

In terms of the factors driving changes to remuneration policy, Retention of Key Staff received the highest rating. It was therefore expected that the component of remuneration policies detailing retention strategies would also have a high rating in terms of changes over the previous three-year period. In addition, CEOs have indicated that retention of key staff is a major challenge (Kwan et al 2011); this component was ranked eleventh in the 2003 study and second in the current study.

6.3.3 *Market positioning policy – benchmarking*

In the current study Surveys/benchmarking was ranked third highest, one place up from the previous study. Main et al (2008) argue that remuneration practices are conditioned by the market. In addition, the increased remuneration reporting disclosure requirements are likely to have pressured organisations into a position where they are better able to compare themselves with listed competitors. It could be argued that the retention of key staff, already identified as the primary factor driving changes in remuneration policy, depends partly on reviewing market positioning policy.

It was expected that market position would show a high extent of change, given the role that minimum disclosure plays in benchmarking specifically executive remuneration in organisations. But it can also be argued that public disclosure contributes to the fast upward spiralling of executive remuneration, which is particularly concerning in South Africa with its vast wage gap.

7 Conclusion

This study identified the primary drivers of change in remuneration policy as "Retention of key staff" followed by "Financial results"; this was also the finding of the 2003 Bussin study. The top five factors in both studies show a high degree of similarity; however the greatest change was apparent when comparing the top ten factors in 2003 with the 2012 top ten factors driving changes to remuneration policy.

The following items appeared in the 2012 top ten but were not part of the 2003 top ten:

- Remuneration committee
- Governance
- Shareholder expectations

This clearly reflects the findings of the literature review that increased importance has been placed on these items by organisations since the 2003 study. In view of corporate failures since 2003 and a rising shareholder activism, this result is not surprising. What is surprising is that governance frameworks for setting remuneration policy have been in place since before the 2003 study. It is only now that these governance issues and structures are being taken more seriously, albeit only in the top ten factors. It is hoped that if this study were to be replicated in, say, another 10 years' time these factors would be in the top three drivers of remuneration policy. A key conclusion is that remuneration policy design has been slow to respond to major market realities such as the collapse of companies and a widening wage gap ratio. This finding has the following major implications for practitioners and decision makes in the remuneration arena. Firstly, that remuneration policy changes take a few years to respond to market forces, even desperate ones. Secondly, that the responses are incremental and not transformational; and thirdly, that the responses are too slow.

This study fills a gap in empirical research on factors driving changes to remuneration policy and on identifying which policy element showed the biggest change. The practical application is to create an awareness that remuneration policy should respond more rapidly to market events. This need is exemplified by the slow response of the South African mining houses to the major employee unrest seen over the past few years.

Respondents also had the opportunity to add additional comments to the questionnaire during the 2012 study. In instances where this functionality was used, the trend appeared to indicate that "scarce skills" is emerging as a possible new factor driving changes to remuneration policy.

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