Reklame
ADVERTENSIE . BEMARKING . PUBLISITEIT

Praemium Reward Advisors
3 November 2026

Executive Pay during economic pressure

Should executives be rewarded for resilience during difficult trading conditions?

Executives can deserve a reward for protecting a business during difficult trading conditions, even when profits fall. Yet resilience should never become an automatic justification for bonuses after targets have been missed. The defensible approach is to reward demonstrable contribution, assess it against credible alternatives and share the consequences of adversity fairly.

For remuneration purposes, resilience means the capacity to absorb disruption, adapt and preserve the business's ability to succeed. It can include securing liquidity, maintaining essential operations and protecting future competitiveness. The debate concerns whether these achievements justify variable pay when conventional financial measures disappoint. Both sides have a persuasive case, says Dr. Mark Bussin, Director at Praemium Reward Advisors

The case for rewarding resilience
The strongest argument is that reported results do not tell the whole story. Executives cannot control every movement in commodity prices, exchange rates, customer demand or infrastructure reliability. They can influence the organisation's preparedness and response. Assessing leadership solely against an unchanged profit target may confuse a difficult environment with poor management.

Consider a hypothetical company whose operating profit falls from R1 billion to R800 million while comparable businesses experience declines of 40%. The company has delivered a weaker absolute result, but its 20% decline may indicate effective management.

Research by Gibbons and Murphy explains how relative performance evaluation can preserve incentives while partially filtering out shocks common to an industry or market. The comparison must, however, account for differences in exposure and starting position.

Value preservation also deserves consideration. Securing funding before credit becomes scarce, maintaining customer relationships and keeping essential skills may protect a recovery that is not yet visible in earnings. A narrowly designed annual bonus can encourage executives to cut maintenance, training or investment merely to improve this year's result. Recognising durable resilience can help counter that incentive.

Research on the initial COVID-19 shock found that US companies with greater financial flexibility experienced smaller share-price declines. This supports the economic value of preparedness, although it does not establish that additional executive bonuses create resilience. "Credit should extend to sound decisions made before a crisis, including prudent financing and continuity planning, rather than being reserved for dramatic interventions once trouble arrives," says Dr. Bussin.

There is also a practical argument about leadership continuity. A capable team may be particularly valuable during a recovery, when replacement could disrupt decisions and relationships. A carefully justified retention arrangement can therefore serve the company's interests. Its purpose should be stated openly, with payment linked to future service and appropriate recovery outcomes.

Taken together, these arguments support recognising exceptional stewardship even in a disappointing year. They do not establish an entitlement to the same bonus that would have been earned in favourable conditions. Some reward can be justified while total remuneration still falls materially.

The case against rewarding resilience
The strongest objection is that managing adversity is already part of an executive's job. Salary compensates the individual for responsibility, judgement and leadership across the business cycle. Pressure, long hours and personal commitment are not sufficient evidence of exceptional performance. If resilience simply means continuing to perform ordinary duties during a downturn, a separate payment risks rewarding executives twice for the same responsibility.

A second objection concerns accountability for the crisis itself. Excessive borrowing, weak controls, neglected maintenance or dependence on one supplier can magnify an external shock. Before celebrating a rescue, the

remuneration committee should examine whether the same executives helped create the vulnerability. Rewarding the repair without examining the original decisions can encourage preventable risk-taking.

Attribution is equally difficult. The assertion that matters would have been worse without management is plausible but hard to verify. Survival may owe much to an inherited balance sheet, employees' sacrifices, lenders' concessions or an improving market. Carefully selected peers and optimistic estimates of avoided losses can make almost any disappointing outcome look commendable. Organisational resilience is usually a collective achievement.

The symmetry of reward also matters. If executives benefit when favourable markets lift profits, but receive compensating awards when adverse markets reduce them, variable pay starts to resemble guaranteed income. A committee that adjusts for unfavourable external conditions should explain how it treats favourable conditions. Otherwise, shareholders bear the downside while executives retain much of the upside.

Fairness creates a further challenge. Employees may have accepted wage restraint or lost their jobs, while investors may have suffered substantial losses.

A large executive award in those circumstances can weaken confidence in the board's judgement. Even where management has made a valuable contribution, the size, timing and distribution of recognition require scrutiny. The claim that only senior executives demonstrated resilience is especially difficult to defend.

Investor voting guidance reflects these concerns. ISS's 2026 South African guidelines scrutinise bonuses without a clear performance link, inadequately explained special awards and discretion inconsistent with shareholder interests, particularly decisions outside the previously communicated policy. This does not prohibit every resilience award, but it places considerable weight on evidence and explanation.

Finally, apparent resilience can conceal deferred damage. Cash flow may improve because suppliers are paid late, maintenance is postponed or productive capacity is cut. A company may survive the year while emerging less competitive. Immediate rewards can therefore precede the evidence needed to distinguish sustainable recovery from temporary relief.

From this perspective, reduced or zero incentives can be an appropriate consequence of weak outcomes, even where executives worked exceptionally hard. That position does not deny their contribution. It recognises that performance pay involves a real possibility of earning less, and that the business's capacity to pay matters alongside individual merit.

A defensible basis for reward

A credible approach starts by incorporating resilience into the existing reward framework. Measures agreed in advance might include cash generation, liquidity headroom, continuity of critical operations and the retention of essential capabilities, alongside profitability and returns. Each measure needs a clear definition, a challenging standard and safeguards against actions that improve the score while damaging the business.

King V provides a useful foundation

Its remuneration practices envisage responsible, transparent discretion when formulaic outcomes produce windfall gains or are unfairly punitive. They also emphasise fairness between executive and employee remuneration. This creates room for judgement while requiring the committee to consider the wider consequences of its decision.

The committee should establish what management actually changed and what evidence supports the claimed benefit. Comparable businesses, the company's initial financial position and operational records can help test the explanation. The assessment should recognise inherited advantages and contributions from employees and other stakeholders. Resilience already rewarded through annual or long-term incentives should not attract a duplicate special award.

Where a major shock makes the original measures unsuitable, any exercise of discretion should remain within the applicable policy and approval requirements. The committee should explain the original outcome, the adjustment and its rationale. Retrospectively replacing missed targets with easier ones requires particularly strong justification. Discretion must also permit reductions when a formula produces an excessive result.

The amount and timing should reflect uncertainty and affordability. A smaller award, partly deferred and subject to evidence of sustained recovery, may be more defensible than an immediate full bonus. Agreed malus and clawback provisions should allow awards to be reduced or recovered in specified circumstances. Serious misconduct or material failures in risk management should weigh heavily against payment.

In the hypothetical company, a reduced award could be justified if management demonstrably preserved customers, liquidity and productive capacity while outperforming comparable peers. The case would weaken if the result owed mainly to inherited advantages or unsustainable cuts. Sacrifices by employees and other stakeholders should also constrain the award. A weak absolute result should still constrain the eventual payout.

Executives should therefore be eligible for recognition when their decisions demonstrably preserve or create sustainable value during adversity. The burden of proof should be substantial, and the reward proportionate.

"A board should be able to explain what was achieved, why management deserves credit and why the payment is fair to those who also carried the business through the downturn," concludes Dr. Mark Bussin, Director at Praemium Reward Advisors.

ENDS

MEDIA CONTACT: Rosa-Mari Le Roux, 060 995 6277, rosa@reklame.co.za

For more information on Loxton Forensics please visit:

Website: Praemium reward advisors