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Praemium Reward Advisors
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Remuneration: The Window on Corporate Credibility

Your annual report says you value people, integrity, collaboration and the long term. Your executive scorecard, and the remuneration outcomes, either confirms or contradicts that.

"Remuneration is the most honest page in any organisation. Values statements cost nothing, but bonuses cost real money. What a board is prepared to pay for is what it actually believes in. The gap between the two is your credibility deficit," says Ray Harraway, Director at Praemium Reward Advisors.

In South Africa, the Companies Act, the JSE Listings Requirements and King V all demand accountability and alignment between reward and sustainable value creation. Compliance is the easy part. The real test is brutally simple: do you reward what you say matters?

Employees read incentives, not mission statements
Every organisation claims teamwork, innovation, customer centricity, ethical leadership and people development. Now look at the scorecard, and the remuneration outcomes for the disclosed officers in the remuneration report.

- Celebrate teamwork, pay for individual heroics? Employees know what matters.
- Champion innovation, punish thoughtful failure? You've taught everyone to play it safe.
- Demand that executives build future leaders, then pay them for cost cuts and short-term productivity? Development is just a statement.
- Preach cross-unit collaboration, reward silo results? You've engineered turf wars and called it accountability.

What gets paid becomes culture. What doesn't gets paid quietly disappears, however often the CEO mentions it at the town hall.

Culture is a scorecard
Take two companies. The first pays leaders on earnings growth, budget delivery and operational metrics. The second balances financial results with talent, customer outcomes, risk, sustainability and strategic execution. Both claim to value "responsible leadership".

Only one is paying for it. The first breeds short-termism: slashed costs, starved capability and hard decisions postponed to someone else's tenure. The second is far more likely to build something that lasts.

This matters more every year. Investors, regulators, employees and society no longer ask only what you delivered. They ask *how*. A number achieved by hollowing out the business is not performance. It is a loan against the future, and someone else will repay it.

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The boardroom test

A powerful question a remuneration committee can ask is not "are we compliant?" It is "does our remuneration policy reflect what we truly believe drives success?" Put your published values and strategy next to your incentive scorecards. Then answer honestly:

- If we want people to speak up, do we reward leaders who surface problems early, or only those who deliver good news?
- If talent is our greatest asset, why do financial metrics outweigh succession and leadership development?
- If sustainability is strategic, does it move a single rand of incentive pay, or does it just live in the annual report?
- If integrity is a core value, could an executive collect a maximum bonus while undermining it?
- If customers come first, can an executive earn a superior payout while customer trust erodes?

Here are some harder questions:

- Do we reward what we publicly declare important, or what we privately discuss when pay decisions are made?
- Do executives earn their rewards by delivering the strategy in the integrated report, or a different set of priorities agreed in the boardroom?
- If an employee reads our scorecards, would they conclude our values are real or merely aspirational?
- Would shareholders, employees and regulators reach the same verdict on us from our pay outcomes as from our annual report?

Results are not value

Results and value creation are not the same thing. Results can be manufactured. Costs can be cut past the bone, investments deferred, talent neglected, innovation smothered and risk management sacrificed to this year's number. The bonus is paid, and the damage surfaces after the executive has left or been promoted. Value creation is harder.

It is sustainable, durable and beneficial to a broader set of stakeholders than the share price alone. King V's emphasis on ethical leadership and responsible corporate citizenship points directly here.

None of this makes financial performance less important. It means financial performance must be judged alongside the quality of how it was achieved. Leading remuneration committees ask:

- Were the results achieved the right way?
- Were risks properly managed?
- Was talent strengthened or depleted?
- Did leaders contribute to enterprise-wide success?
- Is the organisation more resilient than it was a year ago?

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If a committee cannot answer those questions, it is paying for outcomes it does not understand.

Remuneration committees: custodians of trust
Remuneration committees were once seen as guardians of market competitiveness: benchmarking, quantum, peer groups. That view is obsolete. Today they are custodians of organisational trust. Every design choice sends a signal about what is tolerated, celebrated and ignored. They decide whether purpose, strategy, culture and performance pull in the same direction or against each other.

A well-designed reward system aligns all four. A poorly designed one can undo the most compelling corporate narrative in a single bonus cycle. Few governance mechanisms available to a board carry that much power over integrity, and few are used so casually.

The exercise of discretion
The exercise of discretion is arguably the toughest job of the remuneration committee, that requires skill, experience and sound judgment. In the first instance, the remuneration policy must confer on the committee the power to exercise discretion. Discretion is essentially the adjustment of a formulaically driven pay outcome.

More to the point however, KING V's Disclosure Framework requires full disclosure of any discretion that was exercised, marking a new age of transparency that committees must get comfortable with.

Credibility cannot be claimed. It must be paid for
Employees watch what earns recognition. Investors watch what drives executive payouts. Regulators watch whether governance commitments show up in decisions. Society watches whether companies keep their promises.

The most credible organisations are not those with the most sophisticated remuneration frameworks. They are those whose pay decisions, year after year, match what they say they stand for.

"In an age of radical transparency, there is nowhere left to hide," concludes Ray Harraway, Director at Praemium Reward Advisors.

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