
Reward: fair and foul

A new report suggests that fairness is the greatest motivating factor in reward but our understanding of what's fair and what's not is highly complex.

It's the time of the year when many UK banks and financial institutions announce their bonus payments for senior executives and traders and inevitably, this has once again focused attention on the sensitive issue of executive pay, and the associated bonuses and long-term incentives that have increasingly become expected components of top remuneration packages. Yet while the economic downturn may have thrust this issue – particularly for those in the financial sector – firmly into the spotlight, executive remuneration has actually spent the last decade quietly spiralling upwards.

According to the recent Hutton report *Fair Pay in the Public Sector*, the median pay for FTSE 100 chief executives has increased from 47 times the national minimum wage and 88 times the average earning in 2000 to a colossal 124 and 202 times respectively. “We haven't got top pay right in Britain,” says Will Hutton, author of the report and executive vice chair of The Work Foundation, who will take up a new post as principal of Hertford College, Oxford University, from September 2011. “There are a lot of institutional shareholders, directors and remuneration committees which just think pay across the private sector has got completely out of hand for not much reward. There may be individuals who can justify what they have done but collectively they're not worth twice as much as they were 10 years ago. Everyone knows that, including them. The question is how to stop it.”

Hutton makes a number of recommendations in the report but a central concept is that of the earn-back, whereby chief executives and other senior managers put aside a percentage of their salary each year and are only awarded this if they hit certain pre-agreed targets. “If you have chief executives with base pay of £1m, how about them putting 20% at risk through an earn-back, and then they can have a cash bonus?” he suggests. “The only conversation we have at the moment is about what the degree of upside is and we've created this culture where if things go wrong you still have your base pay, quite a lot of your cash bonus and certainly your pension entitlement.”

There are signs that there's an appetite for change, certainly among shareholders if not the executives themselves.

You can read the full version of this article in the Summer 2011 edition of *Hourglass* magazine, which will be published in June.



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