TYPE OF INDUSTRY AS A PAY BENCHMARKING TREND, CHALLENGE AND CONSTRAINT IN EXECUTIVE REMUNERATION

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Abstract

This article takes up the question of executive remuneration with particular focus on the type of industry as a pay benchmarking criterion used in deciding on executive remuneration in the context of South African state-owned enterprises (SOEs). Data was analysed qualitatively by means of case study and thematic analysis. The research findings revealed concerns about inability to benchmark and match similar types of organisations according to the nature of business and the type of industry. The recommendation was that the skills set of an executive should be considered as the best benchmarking technique for executives across companies of similar size and complexity in South African SOEs.

Keywords: Remuneration, Pay Benchmarking, State-Owned Enterprises, Industry

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1. Introduction

Executive remuneration remains a controversial topic, especially in South Africa where the wealth gap between rich and poor is constantly on the increase (Scholtz and Smit, 2012). Developments in and around South African state-owned enterprises (SOEs) have seen executive remuneration being put under scrutiny by both members of the public and the media (KPMG Report, 2010; Sowetan, 2010). Labour unions in particular have been of the opinion that the remuneration gaps are expanding and that the situation constitutes a major threat to job creation and the fair distribution of income in the workplace and the economy as a whole (Van Zyl, 2010). Other public interest groups, for example, the Black Management Forum, have also noted with concern the continuing hefty payments to chief executive officers (CEOs) of major industry players, and found this to be a slap in the face for poverty and joblessness (Theunissen, 2010). This is because there is no justification for the exorbitant pay that executives earn compared to the general employees, especially in the context of South African SOEs.

What is more, there have been concerns about South African SOEs benchmarking themselves against Johannesburg Stock Exchange (JSE)-listed companies in terms of executive remuneration when their mandates were different from those of such companies (Sowetan, 24 April 2012).

While much has been mentioned about the employment effects of the privatisation of South African SOEs, the debate has largely overlooked the impact of these events on wage levels (Hatting, Hodges and Rospabe, 2003). When some SOEs where privatised, the understanding then was that a South African SOE would shift to become a partially private firm that would operate in a highly regulated industry structure with limited competition. Over time South African SOEs were expected to earn abnormal profits and unionised labour was going to share in some of those profits (Hatting, et al., 2003). However, according to an ANC policy discussion paper on South African SOEs and Development Finance Institutions (DFIs) published in 2012, South African SOEs and DFIs were not created to maximise profits or incur losses; the mandate of South African SOEs and DFIs was to achieve a balance between the required level of self-funding and undertaking developmental projects that the private sector would ordinarily not do.

In view of these dual characteristics of South African SOEs, the question consequently arises whether such enterprises should compensate their employees according to private or public sector standards. Since South African SOEs are seen as fulfilling expectations on commercial projects, executives in such structures would obviously want to be compensated relative to their counterparts in the private sector. Besides, it is doubtful whether executives who are employed in non-commercial South African SOEs would settle for remuneration lower than what similar positions receive in other South African SOEs. Thus, pay benchmarking in the context of South African SOEs remains a challenge.

Prior to this research, there has been limited if any empirical study on the type of industry as a pay benchmarking exercise for setting executive remuneration, especially in the context of the South African SOEs. However, in general it seems that
research on executive remuneration has always been limited. For example, Boive, Bednar and Barker (2012) contend that the limited research that has explored issues of executive remuneration tends to focus on how executive pay varies with performance. As noted by Boive et al., the one area that has been left largely unexplored is the process by which executive remuneration is determined. The debate on executive remuneration should therefore not focus primarily on how much executives are paid (Fleming and Schaupp, 2012; Scholtz and Smit, 2012; Theunissen, 2010) since such information only casts light on the end product or what may be perceived by members of the public as exorbitant pay. Rather, discourse on executive remuneration should focus on the process and the criterion used to determine executive remuneration. It is therefore the aim of the present article to discuss standardised practices according to which executive remuneration could be determined. The standardised practice should be able to establish more specifically the role of industry as a pay benchmarking exercise for purposes of setting executive remuneration in the context of South African SOEs. However, there is still no clarity yet on how to benchmark such institutions with dual characteristics from both the public and the private sector. In light of the aforementioned discussion, the research questions for this study can thus be stated as follows:

a) What is the impact of the type of industry as a pay benchmarking criterion in determining executive remuneration in South African SOEs?

b) What are the trends, challenges and constraints associated with using the type of industry as a pay benchmarking criterion in determining executive remuneration in South African SOEs?

This article argues that addressing the type of industry as a pay benchmarking exercise is an effective measure to overcome challenges and constraints experienced in setting executive remuneration, but mostly a solution to finding a standard practice to curb the perceived exorbitant pay in South African SOEs.

In what follows, section 2 places the discussion in the context of the theoretical perspectives in which the type of industry as a determinant of executive remuneration could be explained. The methodology followed in this research is discussed in section 3 and the results are presented in section 4.

2. Literature review

The study on which this article is based will take a closer look at contingency theory and the institutional theoretical perspectives on executive remuneration and more specifically, on the type of industry as a determinant of executive remuneration in the context of the South African SOEs. A brief discussion of the two theoretical perspectives of executive remuneration is presented next.

2.1 Theoretical perspectives on executive remuneration

First, contingency theory calls for attention to the environmental influences that may influence the determination of executive remuneration. Contingency theory views external elements of executive remuneration, such as the industry, national and political factors, as the main determinants of executive remuneration in an organisation (Trevor, 2011). Contingency theory suggests that how executives are remunerated is a result of how the organisation would like to compare with other similar organisations in the industry. This seems to imply that executive remuneration policies may also depend on external contextual factors such as the external environment. Nevertheless, Trevor (2011) contends that “if contingency theory predictions hold true, collectively speaking, the effects of the industry (as an element of the environment) might be viewed as a contextually independent variable upon which firms’ pay practices, as dependent variables, are contingent. If conformity of pay practices is observed within the sample of firms – both at industry level and firm level – the standard explanation of the normative influence of the ‘industry effect’ is both established and powerful”. (p. 42)

Secondly, and related to contingency theory, is institutional theory. Institutional theory argues that it is impossible to explain the observed differences in pay level and remuneration without examining the role of institutional forces such as mimetic isomorphism (norms that develop in professions that receive similar training) and coercive isomorphism (corporate governance system, practices and regulations) (Balkin, 2008). Mimetic processes resulting in organisational isomorphism reflect those pressures arising from the desire to emulate the legitimate practice of influential others owing to uncertainty (DiMaggio and Powell, 1991; Kesseler, 2001). Mimetic isomorphism has become an approach to deal with uncertainty in selecting a pay system, where the benefit of adopting a particular pay strategy over another is largely unknown (Trevor, 2011).

Thus, institutional theory seems to suggest that how an organisation decides to remunerate its executives will be influenced by the manner in which other similar organisations governed by similar rules and regulations set executive remuneration. This seems to imply that comparable organisations are a benchmark according to which an executive package can be decided by an organisation.

Having explored the theoretical underpinnings of the type of industry as a pay benchmarking criterion, it is also important to consider trends that have an impact on pay benchmarking related to industry as an external element.

2.2 Trends in executive remuneration benchmarking
Executive remuneration has historically been an internal organisational matter (Mcgovern and Williams, 2012). However, recent developments have shifted from treating executive remuneration as a micro or internal consideration, in which only internal equity and job evaluation were used to determine remuneration. The modern rise of external influencers, in the form of mimetic isomorphism (practices of peer organisations) and coercive isomorphism, has shifted the focus to giving considerable attention to multiple, external points of view on executive remuneration (Scholtz and Smit, 2012; Trevor, 2012). This seems to mean that setting executive remuneration is no longer an internal affair but an exercise affected by external environmental factors. Such external factors extend to include the interest expressed in executive remuneration by investors, the media, trade unions, researchers and the public at large.

However, it seems the influence of external environment factors on executive remuneration is not a new concept. For example, Kuhnen and Niessen (2010) contend that anecdotal evidence suggests that widespread public opinion regarding CEO remuneration has in fact shaped executive pay since the 1990s, as it has influenced boards of directors and CEOs, as well as remuneration consulting companies that make executive pay recommendations. Thus, multiple outside points of view are used to essentially define the “modern” era in executive remuneration, often making executive remuneration a balancing act between outside forces wishing to affect executive remuneration and internal goals of retaining and motivating talent within an organisation (Scholtz and Smit, 2012).

However, the process of using the type of industry as a pay benchmarking criterion in executive remuneration is also confronted with challenges and constraints, as discussed next.

### 2.3 Challenges and constraints with the type of industry as a pay benchmark of executive remuneration

While economic literature has mostly focused on the determinants of executive remuneration from desirable positions throughout the labour market (DiPrette, Eirich and Pittinsky, 2012) or on how executive pay varies with performance (Boivie, Bednar & Barker, 2012), the question as to how pay is set for executive positions in large organisations has always been fraught with challenges. It seems that there has always been an issue regarding whether or not executive remuneration should be informed by the industry or sector. However, according to Risher (2012), a central question that should be addressed is the definition of the relevant labour markets. In practical terms, this means identifying the employers that should be excluded according to industry and/or size (Lorsch and Khurana, 2010). Lorsch and Khurana (2010) further state that in such a market, what and how an executive should be paid is determined by the supply and demand for the talent the executive represents.

However, Oberholzer and Theunissen (2013) contend that an acceptable benchmarking model is still needed to determine firstly whether a particular executive is being over- or underpaid in the context of business-specific elements and secondly, whether the model is able to indicate an acceptable level of remuneration. Seemingly, there are contributing factors to the challenge on benchmarking executive remuneration, the chief concern being the external environment. As noted by Lorsch and Khurana (2010), remuneration consultants had sought a method of making market rates transparent through much-discussed remuneration surveys, which were used to establish the “price” of various executive positions by company size, industry and geography, among other elements. Moreover, companies can potentially use compensation peer groups to inflate pay by choosing peers that are larger, choosing a high target pay percentile or choosing peer firms with high pay (Bizjak, Lemmon and Nguyen, 2011). Although peers were largely selected based on characteristics that reflect the labour market for managerial talent, Bizjak et al. (2011) found that peer groups were constructed in a manner that biased compensation upward.

Nevertheless, Ghose (2011) asserted that pay benchmarking was best conducted within industry definitions, as more often than not, executives progressed in their career development to senior positions from within the same industry. Similarly, the more modern argument suggests that at senior levels, the skill sets required are basically the same and are usually independent of the industry. Therefore, some of the recommendations are that the best benchmarking is the one based on evaluating remuneration for executives’ skill across companies of similar size and complexity.

What follows is the methodology used in the study.

### 3. Methodology

To answer the research questions in this study, rich data was required that could examine context-specific factors, drawn from the experiences and practices of key informants with regard to executive remuneration in the context of South African SOEs. For this study, the researcher chose the qualitative method for gathering and analysing data. A qualitative research approach was deemed to be most appropriate in order to extract insight and perceptions from research participants on the perception of the type of industry as a pay benchmarking criterion in setting executive compensation in the context of the South African SOEs.

Since this research focuses on the determinants of executive compensation in South African SOEs,
the literature review and empirical investigation are both presented from the interpretive paradigm. The interpretive paradigm involves taking people’s subjective experiences seriously as the essence of what is real for them (ontology), making sense of people’s experiences by interacting with them and listening carefully to what they tell one (epistemology), and making use of qualitative research techniques to collect and analyse information (methodology) Terreblanche (2006).

In addition, the researcher adopted a social constructivism and thematic analysis approach to comprehend the process of how industry as a pay benchmarking exercise was used and to establish what themes and patterns emerged to reach conclusions about the phenomena under investigation.

3.2 Sampling

For the purposes of this study, the target population consisted of executives in South African SOEs. The sample of enterprises used for the study was drawn from the directory of SOEs. The enterprises studied fall within different industries, which include financial development, telecommunications, information technology, transportation and freight.

3.3 Sampling procedure

A purposive sampling technique was used to gain access to the respondents. In purposive sampling, people are chosen for a particular purpose (Leedy and Ormrod, 2013). As part of the exploratory phase in the current study, eight individuals who are experts in the field of executive remuneration were chosen based on their first-hand experience and engagement with compensation and executive compensation in particular. This sample consisted of experts from consulting firms advising on executive compensation, academics, compensation practitioners and human resources executives in South African SOEs. Consequently, 13 in-depth interviews with executives from 13 of the different organisations among the 21 South African SOEs were conducted. Thus in the case of this study, respondents were uniquely qualified to provide the desired information by virtue of their past experience. Their task was to review and deliberate on the type of industry as an element of executive compensation in the context of South African SOEs.

3.4 Entrée and establishing researcher roles

Permission to undertake this study was sought by writing official letters of request and sending emails to executive human resource managers of SOEs. Out of 21 SOEs only 13 gave permission for the research to be undertaken within their jurisdictions. The participants were contacted and dates and times that best suited them were scheduled for interviews. The researcher explained the purpose of the study and the context of the interview. Participants were informed about what was expected of them and the amount of time likely to be required for their participation. Participants were assured of confidentiality. All this information was provided in a language that the participants could understand.

3.5 Data collection

The study was carried out by conducting primary data collection through one-to-one interviews with executives and experts in the field of executive remuneration in SOEs. The interviews were all tape-recorded and notes were taken during the interviews. The tape-recorded interviews were transcribed with the assistance of a professional transcriptionist. The transcribed responses were checked against the tape-recordings for consistency, in order to ensure the integrity and credibility of the research data (Guba and Lincoln, 1995; Schurink; Fouche and De Vos, 2011; Terre Blanche and Durrheim, 1999).

3.6 Data analysis – thematic analysis

Making sense of the extensive amount of data involved an approach that was consistent with narrative analysis and interpretation (Gabriel, 2000; Pinnington et al., 2009). Thus, thematic analysis as a method of data analysis was applied through the process of data coding. Overall, the transcriptions containing interview data were coded according to the topic, and the key emerging themes were generated by using thematic analysis (Yin, 1994).

3.7 Trustworthiness

In this study, the four criteria used to ensure trustworthiness were truth-value, applicability, consistency and neutrality. Applying strategies of credibility ensured the truth-value, and applying strategies of transferability ensured applicability. Applying strategies of dependability ensured consistency, and neutrality was ensured by applying strategies of confirmability (Guba and Lincoln, 1995).

3.8 Research ethics

In conducting a qualitative study, the usual ethical guidelines apply, including protection from harm, voluntary and informed consent, and participants’ right to privacy regarding anything they might reveal about themselves (Leedy and Ormrod, 2013). Assurance in the form of emphasis on confidentiality as far as participants’ identity and use of data were concerned was emphasised. Attempts were made during the study to ensure that all ethical criteria required to conduct a scientific study were adhered to.
4. Results

Consistent with the research objective that the author pursued, a constructivist theory analysis led to structuring the data according to two theme clusters, namely industry as an external pay benchmarking exercise, and the trends and constraints in using industry as pay benchmarking.

4.1 Type of industry as a pay benchmarking exercise in executive remuneration

The research participants were requested to account for the impact of the type of industry as an external factor of executive remuneration in the context of South African SOEs. The subthemes derived from the theme were identified as the competitive market forces and benchmarking.

Box 1 below indicates the broad theme in relation to executive remuneration, as well as the subthemes, and provides examples of original responses that were analysed.

<table>
<thead>
<tr>
<th>Theme</th>
<th>Subtheme</th>
<th>Response</th>
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<tbody>
<tr>
<td>Industry as an external factor</td>
<td>Competitive market forces and benchmarking</td>
<td>&quot;... we compare ourselves in terms of what is happening in the industry&quot; (RP1)</td>
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<td>&quot;... in order to ensure that we retain our executives we need to match what the industry gives to their employees.&quot; (RP9)</td>
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<td>&quot;... we look at our competitors, we also look at the size of the different types of organisation ...&quot; (RP2)</td>
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<td>&quot;... benchmarking ... market determines the availability and pull of resources ... industry plays a big role on determining where we pitch the salaries of our execs ...&quot; (RP5)</td>
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<td>&quot;... the job and the size of the organisation as well as the turnover, will tell you where you fit in the market.&quot; (RP2)</td>
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(RP) stands for research participant

The type of industry was seen as an important determinant of executive remuneration in the context of South African SOEs. Participants described the type of industry as part of the external and competitive business environment in which an organisation operates. Research participants mentioned that consideration of the type of industry would involve the matching of the organisation to specific organisations of similar type and size in its business environment. From the description of the industry, it became apparent that reference to the type of industry was to immediate competitors with which an organisation could be compared. As indicated by research participant 5:

To a large extent the industry plays a big role on determining where we pitch the salaries of our executives. We are always mindful of the fact that we on a given day have meetings with our investors, on a given day we [are] talking to our key customers and it is important that the executives you send out to engage in those trade negotiations are ones that are not set up to fail. So the people we meet with on a daily basis, our customers, our investors and our competition do influence to a large extent on what we want to drive as an organisation. Because at that level they can have confidential discussions about where their remuneration is pitched and a lot of poaching happens at that level as executives don’t look for jobs in the newspapers, it is always about the people they meet in those relationships.

However, it seems from the comment that the industry was not only a determinant, but also important in that it was where the skill of the incumbent executive could be displayed in winning over critical stakeholders and customers of the organisation. What seemed important from comments by research participants was the influence of the external business environment and the expectation of the executive to display the required skill necessary to achieve organisational strategic objectives. Losing the required skills to competitors was enough motivation for organisations to set executive pay that was competitive. As indicated by research participant 9:

‘Yes. We do consider the industry and the reason being that this is where we will be using … losing our skills to. So in order to ensure that we retain our executives we need to match what the industry gives to their employees.

This would appear to mean that the type of industry would be useless as a measure or determinant of executive remuneration, without paying specific attention to the type of skill possessed by an incumbent executive. It would seem from the responses of the research participants that using the type of industry as a determinant of executive remuneration would incorporate the benchmarking of skills with similar skills in other organisations of a similar type and size. This would suggest that industry as an external factor is dependent on the relativity of the size for comparative purposes, but even more so, on the skill of an executive as an internal aspect used
to achieve external comparative remuneration measurement. As indicated by research respondent 5:

External factors we look at ... the type of pay, we look at our competitors, we also look at the size of the different types of organisation ... We look at relevance in terms of job versus the jobs that we have ... eerr ... so there is a number of other sub-factors that we look at ... am in comparison ... am ... those are the things we look at ... we look at components of the pay ... am ... both internal and external and see that we are aligned ... we love to be ahead of the game because ... aaah ... that’s where our competitive advantage comes into play. So ... external as much as we can get but most of the time is not readily available especially the competitive advantage bits, the long-term incentives and those type of share schemes and stuff ... where is not available becomes a challenge ... Yes.

As much as more emphasis was placed on the type of industry as an external environmental determinant of executive remuneration, it seemed that much emphasis was placed on the industry as a benchmark according to which the comparative strength of internal pay against external pay offered by competitors could be measured.

### 4.2 Type of industry as a challenge and constraint in executive remuneration

<table>
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<tr>
<th>Theme</th>
<th>Subtheme</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comparability</td>
<td>1. Private sector vs public sector</td>
<td>&quot;... we find ourselves always constrained to benchmark ourselves with our own industry ... there is a tendency for executives and staff salary demands that we have to be comparative to the banking industry which is the private sector ...&quot; (RP3)</td>
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<td>2. Local and global trends</td>
<td>&quot;the greatest constraint is that we have to work and explain to people to be mindful in terms of the levels ... balancing that value proposition retention and attraction sometimes becomes a bit of a concern ... with your executives and with your general employees ...&quot; (RP10)</td>
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<td>3. Size and type of organisation</td>
<td>There is a challenge with executive skills, so the market premium executive skill has increased yearly ... different methodologies coming to the market place ...&quot; (RP13)</td>
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<td></td>
<td>4. Skills of an executive</td>
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<td>5. Lack of transparency</td>
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<td></td>
<td>6. Different external consultancy sources and services used</td>
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(RP) stands for research participant

#### 4.2.1 Private sector vs public sector as a competitive market for pay benchmarking

Some research respondents mentioned that it was always difficult to conduct salary benchmarking for an SOE among themselves, because of differences in the nature of business, without intruding on the private sector. In addition, not only did the sector seem to be a challenge, but there were only a few similar organisations among South African SOEs that allowed comparability.

Other respondents highlighted the fact that there were challenges in using a competitive market for drawing comparisons and benchmarking executive remuneration. Respondents mentioned that the competitive market was not clearly defined for ease of comparison. What emerged strongly from some of the interviews was that the nature and type of business of the organisation was an impeding factor that made it difficult to match organisations, since even though they were SOEs, their mandate and type of business differed. Some research respondents mentioned that it was always difficult to conduct salary benchmarking for South African SOEs among themselves without tapping into the private sector owing to the differences in the nature of business. As research participant 5 explained:

We take guidance, we take note, we look at the market, we report on ... are we on line, are we on target ... are we a year or two behind. We do take cognisance of what is specifically happening in the aviation. A number of them have closed down, and a number of them have reduced working hours.

#### 4.2.2 Local and global trends as a benchmark

The type of industry as a pay benchmarking exercise was also regarded as a challenge in terms of matching similar types of organisations nationally and internationally. Some of the organisations would struggle to find a local competitor because of their unique type of business and regulation by the government. The scope of the industry and the size of the organisation were further complicated by the need to benchmark at the global level. As a result, such organisations would struggle to find a local organisation with which they could be compared, and would therefore be forced to consider trends in the global market. As indicated by research respondent 1:

On an annual basis ... we go out there and we compare ourselves in terms of what is happening in the industry and we will pick up if there have been developments in terms of perhaps benefits ... am ... we would look at that and come and adjust to a point
where we even ... aah ... have taken a view ... not only we want to compare ourselves with national but we want to look at what is happening globally because we believe we ... aahm... in an environment where we [are] influenced by global trends and it is important to also be able see what is happening out there and you know ... strive to be ...to apply best practice.

4.2.3 Size and type of organisation

Some research participants also pointed out that in some instances where a comparison was possible, such industries would impose certain constraints in terms of how an organisation would be matched according to size and type of organisation. As explained by research participant 3:

Well ... am ... We have quite a different kind of organisational setup. First and foremost we are a DFI (Development Finance Institution). Secondary aspect is that we are a state-owned enterprise. However, we play in the space of commercial banks. We compete directly with the private companies. That is where we lose and gain talent from. In terms of industry benchmark we find ourselves always constrained to benchmark ourselves with our own industry ... which is the DFI. In terms of the broader sector we are sitting at the SOEs and we normally wouldn’t compare because some SOEs are small, medium and large SOEs. We are a medium SOE and we can’t compare with the likes of other larger SOEs.. However, we ... there is a tendency for executives and staff salary demands that ... we have to be comparative to the banking industry, which is the private sector. However, there is a lot of influence that shapes executive remuneration that we have to compare with our industry. So, that is the conundrums that the organisation finds itself.’

4.2.4 Skills of an executive as a benchmark

It seems that besides the industry as the most important benchmark, the skills of the incumbent seem to be an important element considered to facilitate pay benchmarking.

I think for us critically now is the issues around skills. Skills are shaping how compensation should be, especially critical skills and the retention of people that gives us what would be our competitive advantage.

4.2.5 Lack of transparency

The research participants displayed an element of frustration with regard to the use of published surveys on executive remuneration. The concern was that surveys available in the public domain were not a true reflection of what was happening in practice, as indicated by research participant 9:

So the benchmarks at the moment are more moving towards averages rather than what is happening in reality. I am not sure if companies declare everything as far as the structure of executive remuneration is concerned. So what you are getting from the market is the benchmarks; however, what you see coming through when you conduct recruitment is slightly different in practice. So when you recruit for example an engineer, the benchmark show[s] salary between here and there but when you [are] actually looking for the best of people, they actually look for much more money than that. So there is a slight difference between the 25th and the 30th benchmark than what people are looking for in terms of the actual remuneration which is a bit of a challenge. So the benchmark on the guaranteed side they may be showing the true picture but on the variable component, companies are not declaring, it is their competitive edge.

4.2.6 Different sources as a benchmark

It seems as if the challenge in benchmarking is further exacerbated by using different sources. SOEs not only use different consultants, but also a combination of surveys from different consultants. In the end, the final decision on executive remuneration is the integration of all information to suit their circumstances.

We use external consultants in the organisation maybe once in three years just to track and see whether we are on the right track, but we make good use of surveys including 21st century, we use top executive surveys of PE Corporate, we also use the Deloitte. We do our own benchmarking on our own as well, and then we have our remuneration type circle like the DFIs and some of the SOEs. We get together to discuss the remuneration elements which we have done by ourselves.

Nevertheless the research participants all agreed that the type of industry remained a common criterion amongst other elements, according to which executive remuneration could be determined. Based on the findings, it would seem that the type of industry predicts executive remuneration in South African state-owned enterprises.

Conclusion

Based on the research findings, it seems that the greatest cause for concern among the research participants was inability to benchmark and match similar organisations in terms of the nature of the business and the industry within which reasonable comparisons could be achieved. This study identified six areas of concern that made it difficult to benchmark executive remuneration in South African SOEs. The areas of concern included lack of differentiation criteria to distinguish between private vs public sector organisations, local and global trends,
size and type of organisation, lack of transparency, and different sources for benchmarking. This may imply that South African SOEs are restricted and have limited referent or similar organisations with which they can compare themselves. The findings in this study seem to align with those of previous studies. For example, Risher (2012) asserts that a central issue that should be addressed is the definition of the industry. In practical terms, this means identifying the employers that should be excluded by industry and/or size.

Furthermore, the type of industry within which an organisation could be compared depended on the type of job function and the size of the organisation, which should be comparable to similar types of organisations. Industry as a pay benchmarking criterion in executive remuneration and as investigated in this study may have significant implications for remuneration philosophy that guides the setting and implementation of executive remuneration in the context of South African SOEs. Because of the inability of human resource executives and remuneration practitioners in general to find more industries to which SOEs could be compared and against which executive compensation benchmarked, findings in this study support Ghose’s (2011) proposition that rather than just consideration of the type of industry, the skill of the executive should be regarded as even more important, since at senior levels the skill sets required are broadly the same and are usually independent of the industry.

Thus, skills set of executives rather than the type of industry should be used. This is so because according to Bizjak, Lemmon and Nguyen (2011), using industry alone could be restrictive and has a negative impact on the process, since companies can potentially use compensation peer groups to inflate pay by choosing peers that are larger, choosing a high target pay percentile, or choosing peer firms with high pay. Although peers are largely selected based on characteristics that reflect the labour market for managerial talent, Bizjak et al. (2011) found that peer groups were constructed in a manner that biased compensation upward. Rather, the skills of executives and the complexity of their jobs should be the main criteria for benchmarking executive remuneration in South African SOEs. The type of industry should only be considered as far as it identifies the relevant skill and the job function of the executive for comparison purposes.

Oberholzer and Theunissen (2013) mention the need for an acceptable benchmarking model to determine firstly whether a particular executive is being over- or underpaid in the context of business-specific elements and secondly, whether the model is able to indicate an acceptable level of remuneration. In answer to this, it will be necessary to consider the skill of the incumbent executive, since the skill will relate to the industry and the type of business of the organisation, including the size of such an organisation relative to similar-sized organisations.

Furthermore, using the skills set of an executive will address lack of transparency in setting executive remuneration by establishing standard practice by using a job evaluation system common to all South African SOEs. Such a system should be able to evaluate not only the level of skill possessed by an incumbent, but also the complexity of the job function.

Therefore, the recommendation of this study is that job complexity and the skills set of an executive, which could be determined through job evaluation, should be considered as the best benchmarking technique for executives across companies of similar size and complexity in the context of South African SOEs. However, whether skill can cut across all sectors and be applied equally across all industries in practice remains to be seen.

References: