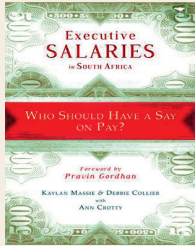


# Review of *Executive salaries in South Africa*

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Executive salaries in South Africa: Who should have a say on pay?

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## Review Title:

Review of *Executive salaries in South Africa*

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## Introduction

In this book chief executive officer (CEO) remuneration pay packages (during 2012) of 50 major South African listed companies are analysed. Included in the study are four state-owned entities (SOEs) as well as a semi-privatised SOE.

This book is a follow-up to a study by Crotty and Bonorchis (2006) in which they anticipated that without government intervention, executive remuneration packages would continue to increase. Disappointingly, these forecasts have come true, despite employment equity measures and changes to corporate governance requirements in the King III Code of Governance Principles (2009).

This book reveals that the average cash and benefits packages of the 50 CEOs studied amounted to approximately R13.1 million during 2012. After gains made on investing and exercise of share incentives are included, the amount rises to almost R49 million. During 2005, on average, executives received more than R15 million in guaranteed package, bonuses and gains on share options, all included.

Unlike in the 2005 study, the figures reported in the 2012 study take account of restraint-of-trade and termination-related payments. Termination-related payments are an important element of executive remuneration and account for a small portion of the increase. For example, once termination and restraint-of-trade payments were left out of the equation, the average cash and benefits package of the 50 CEOs came to over R12.3 million instead of the R13.1 million mentioned above.

The authors also mention some improvements from the 2005 study. In the 2005 study, all the CEOs whose remuneration packages were studied were male. In the 2012 study, seven of the 50 were female and almost a quarter of the CEOs were black. However, the substantial packages revealed in this book are still paid to white males.

Written with the South African context in mind, *Executive salaries in South Africa* provides a clear and detailed account of especially executive remuneration and income equality in South Africa. This text also touches on international perspectives regarding executive remuneration. It looks at possible ineffectiveness and growth-limiting characteristics of excessive executive remuneration and the size of the disparity between the pay of affluent executives and that of the salaried underprivileged.

South Africa's increasing income inequality and its history of discrimination, poverty and social unrest call for something more that needs to be done to reverse this trend. In this book, the authors consider the following questions:

- What will it take for companies to restrain excessive executive remuneration?
- How do we increase the shareholders' say on pay to ensure that the board of directors responsible for determining pay take into account various stakeholder interests?
- Should a court of law, the Department of Labour, employees, income tax or the remaining 99% of the public have a say on what the 1% are being paid?
- How do we amend corporate governance standards, the tax code and labour legislation to achieve these goals?
- How do we turn shareholders into activists and empower the workforce?
- Is change only possible if a more important modification in attitudes is achieved?

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The authors address these ongoing matters and consider likely methods to curb excessive executive remuneration. The authors are of the opinion that without these interventions, South Africa will remain on a path of unpredictability and unrest, whilst the 'rich get richer and the poor become poorer'.

Although the authors titled their book *Executive Salaries*, they are concerned not only about executive salaries, but with all forms of executive remuneration (or executive pay). They also offer several probable solutions towards a more equal salary structure throughout South Africa. These include using the King III Code's (2009) directive to remunerate directors 'fairly and responsibly'. The authors moreover present a convincing case for a national minimum wage as 'a basic floor at subsistence level to prevent the exploitation of labour'.

## General overview

This book follows an eight-chapter structure and starts with a foreword by Pravin Gordhan, the Minister of Finance in 2014. Mr Gordhan calls for a new business culture rooted in empathy and one that goes the extra mile 'to enhance the lives of the poor and contribute to the transformation of our economy and society' (p. vx). Mr Gordhan expresses his opinion that the private sector has an enormous role to play in the rebalancing of access to opportunities (Ensor, 2014).

In Chapter 1, the authors consider the different components of remuneration packages paid to the 50 executives examined in the book. They examine the top 15 executives and the diverse forms of remuneration the CEOs receive. What makes this study unique is that the authors investigate the highest value of share incentives agreed to during the year, revealing the top 15 long-term incentive packages awarded in 2012. In addition, the authors compare the packages of executives in SOEs to those of other JSE-listed companies. They also study the size of the increase in cash and benefits packages paid between 2005 and 2012, as well as the extent of wage differentials within these companies. The conclusion in Chapter 1 is that for many of the companies studied in this book, there is some link between pay and performance. On the other hand, for a number of companies, no such link exists. The authors, nonetheless, caution that the existence of this link 'does not and cannot justify the overall levels of pay being doled out to most company CEOs' (p. 29).

In Chapter 2 both the global and local perspectives on shareholder value creation are explored. The global perspective focuses primarily on the United States and the United Kingdom. This chapter also explores the question of whether present remuneration structures provide exorbitant incentives to executives to take part in value-destructing behaviour. The South African practice of 'share buy-backs' is also discussed. Share buy-backs are a practice where companies buy back their own shares from shareholders with the intention to grow the share price. This is regularly performed at a time when executives are selling their own

shares on the market. Chapter 2 covers solutions to these problems, as well as suggestions for reform.

The next chapter deals with the prevailing South African corporate governance perspective associated with executive remuneration. This includes corporate law and the 2009 King III Code. The measures that are in place to align the interests of boards, executives and shareholders when it comes to the issues of executive remuneration are considered. Moreover, the following are discussed:

- The obligations of directors to act in the best interest of the organisation.
- The amount and type of disclosure on remuneration required by law.
- The accessibility and value of the shareholders' say on pay through the non-binding shareholders advisory vote on a company's remuneration policy.
- A number of court proceedings that could be used by shareholders to impose these corporate governance standards.

The conclusion in this chapter is that regardless of all of the regulations in place within South Africa, executive pay levels have continued to climb sharply. The authors conclude that it is clear that regulation by itself is not sufficient to overcome the agency problems discussed in this chapter. They maintain that executives still retain power over the board to influence pay decisions and that board members still lack motivation to ensure that the decisions they make are in the best interests of shareholders.

In Chapter 4, the global landscape is reviewed. The purpose here is to ascertain which corporate governance practices overseas could give direction towards improving South Africa's corporate governance standards. The authors discuss trends from the United States, the European Union, the United Kingdom, Australia and Switzerland associated with the objectivity and role of remuneration committees, remuneration disclosure standards and shareholders' say on pay. The effectiveness of these regulations at linking executive remuneration to executive performance is also discussed. This chapter finishes off with a concise summary of developments in Switzerland.

Chapter 5 provides ideas on how to enhance South Africa's corporate governance criteria of executive remuneration. These recommendations are based on lessons that can be learned from the international governing experience. With regard to paying executives and linking pay to performance, the authors suggest that South Africa could make various amendments to the JSE listing requirements, the *Companies Act* (Act No. 71 of 2008) as well as the King III Code (2009). The authors believe that these amendments would be beneficial in many ways. For example, it would increase disclosure relating to remuneration by companies in their annual reports, improve the independence and role of remuneration committees as well as improve shareholders' say on pay. This chapter concludes with the finding that

South Africa's corporate governance regulations trail behind their global peers when it comes to pay practices.

Chapter 6 covers the different remuneration practices in SOEs. The numerous pieces of legislation, regulations and government policies linked to executive remuneration in SOEs are explained. The authors go on to discuss corporate governance and remuneration practices in SOEs and briefly touch on the findings of the Presidential Review Committee on SOEs. In this chapter the authors point out that part of the problem with executive remuneration is the 'fragmented regulatory framework for SOEs and non-compliance with existing protocol and guidelines' (p. 133). Areas are suggested where government policy could be reformed and made uniform. This is first of all to ensure that SOE executives are remunerated consistently across SOEs and secondly to consider the vital role that SOEs have in transforming South African society. The authors further recommend that legislative provision be made for 'the establishment of a central remuneration authority, which will set guidelines and standards for remuneration of boards and executives in SOEs' (p. 133). This recommendation is in line with the recommendations from the Presidential Review Committee on State-Owned Entities (2013).

The influence of South African tax regulations on executive remuneration is discussed in Chapter 7. Of particular interest in this chapter is the discussion on how executives and companies are currently taxed in South Africa on executive remuneration packages. In the latter part of Chapter 7, the authors consider whether any of the regulations applied abroad should be adopted in South Africa to ensure that tax laws are used as a more effective method of regulating executives' take-home pay. This chapter concludes with suggestions for reforming the South African tax landscape. The objective thereof is, for example, to reduce after-tax income inequality in South Africa.

Chapter 8 explores features of South Africa's existing labour law that govern income inequality and excessive executive remuneration. Also discussed is the principle of equal pay for work of equal value. The company's responsibility to report and address income differentials that maintain historical discrimination is also discussed. This chapter furthermore explores opportunities that exist to provide employees with a say on pay, including collective bargaining. Suggestions are also made on how to improve the say on pay granted to employees at all levels of the company. Chapter 8 ends with a summary of potential forms of regulatory intervention.

The authors conclude their book with a chapter called 'Conclusion: A way forward'. They begin the chapter with a brief summary of the archetypal executive remuneration practices, more specifically how executive remuneration is structured. The rest of the chapter focuses on the formulation of practical policy interventions. In essence, this final chapter provides an outline of possible forms

of regulatory interventions that may move South African society a step closer toward the goal of an objective sharing of returns.

The authors quite rightly state (p. xix) that:

it is important that analysis of executive pay takes place. Companies play a critical role in society, providing not only goods and services to society but also income to employees and investors. Economic growth depends on company activity. (p. xix)

## Overall impression and conclusion

Massie and Colliers' discussions throughout the book are appropriately supported with empirical findings on executive pay and income equality in South Africa. Throughout the book the authors make suggestions that could help rein in excessive levels of remuneration. The aim of their suggestions are also to promote unbiased and responsible remuneration policies.

What sets this book apart from various other studies is that it includes share-based payments. The book reveals that the value of an annual remuneration package can be overshadowed by gains on share options awarded in long-term incentives (Crotty, 2014). Although it is normal practice in South Africa to avoid share-based payments, the exclusion of share awards not only understates the level of generosity, but also makes comparisons misleading, especially with international figures (Crotty, 2014).

This book is a value-add and delivers a comprehensive study of executive remuneration in South Africa. It is a worthwhile read for all human resource professionals, organisations, remuneration committee members and shareholders that are concerned about executive remuneration. This is especially true considering the fact that the link between pay and performance has for some time now come under increased scrutiny, not only in the popular press, but also from an academic perspective (Crafford, 2012; Nicely, 2009).

Although this is not a textbook for students, it may act as additional reading for postgraduate students and researchers in the field of human resource management, labour economics and finance. It is also highly recommended for business leaders and shareholders alike who want to demonstrate good leadership, responsibility and fairness in developing remuneration policies. Moreover, the book is considered valuable to researchers as they will be able to build on the research presented in this book.

The *Business Report* describes Crotty and Bonorchis's book of 2006, *Executive pay in South Africa: Who gets what and why?*, as:

A probing study of executive pay in South Africa. ... It sets out to understand the reasons behind the rapid increase of executive remuneration levels over the past few years and to provide an insight into the facts, figures and issues around the subject. In a country desperate to overcome the inequalities of the past, this

book is important for what it reveals and for what it suggests might be done to better deal with remunerating chief executives. (n.p.)

I concur with the above statement when it comes to Massie and Collier's *Executive salaries in South Africa: Who should have a say on pay?* These words are as relevant today as they were in 2006.

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