Time for transparency on executive pay in South Africa

By Dr Salomé Teuteberg

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Retail executives earn 700 times more than the lowest paid workers in their industry.

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An amendment to the Companies Act — when it is finally passed into law — should provide welcome information on differences between the highest and the lowest paid employees in a company, in a country which is one of the most unequal in the world.

Three quarters of employed people in the country earn less than R5,800 per month, according to Business Market Research. Yet South African chief executive officers (CEOs) are among the best paid in the world. When ranking CEO salaries, a 2016 Bloomberg survey found that South African CEOs were the seventh most highly paid. But our Gross Domestic Product (GDP) per head is only 68th in the World Economics Global Wealth rankings.

Remuneration of directors is among the most hotly debated topics in corporate governance, with shareholders wanting information and directors wanting privacy. Some policy on this does exist in the King Report on Corporate Governance.

But the Companies Amendment Bill will elicit much more detailed information, by compelling companies to divulge the difference between lowest paid and highest paid workers – or at least to be more transparent on these numbers. Explaining the Bill, the Department of Trade, Industry and Competition says on its website: “The Bill seeks to clarify responsibilities between directors and senior management on the one hand, and shareholders on the other hand as well as addressing public concerns regarding high levels of inequalities in society. Excessive remuneration particularly at the highest levels of a company is a matter of great concern internationally and in SA.”

“The amendments respond to shareholder concerns regarding excessive executive pay through two principal mechanisms: first, greater disclosure requirements in annual reports of companies; and second, improved shareholder rights in respect of remuneration policies.”

“Amendments in the Bill require that certain categories of firms disclose information on the remuneration of directors and prescribed officers. Furthermore, it requires that companies disclose the average remuneration of all employees, and the ratio between the total remuneration of the top 5% highest paid employees and the total remuneration of the bottom 5% of the lowest paid employees of the company. Shareholder approval is required for the company’s remuneration policy.”

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The bill was posted for comment in October 2021, and the comment period expired 30 days later. But the department says it is still processing the bill.

In South Africa, the average CEO gets a total guaranteed annual package of R5.7m (according to PriceWaterHouseCoopers in the year ending February 2022). CEOs also typically earn short term incentives (a form of bonus) of about R3m to R4m. A minimum wage worker in SA earns R21.69 per hour, or less than R42,000 a year. Typically, these workers do not earn bonuses.

This varies per industry. Research by the Labour Research Service (LRS) in 2021 found the lowest wages to be in the wholesale and retail trade, with a minimum wage of R4,257 a month. According to our sample of retail companies, retail CEOs earn on average over R3m a month (R37m a year in 2021). This is over 700 times what a low-level wage earner earns.

Even on a generous understanding of hours worked (with an entry level worker working 45 hours a week and a CEO working 80 hours a week), a retail CEO still earns 407 times per hour more than an entry level worker. It would take this worker 723 years of working full time to earn what the average CEO earns in one year.

We don’t argue that CEOs and workers should be paid equally. But we do argue against such large gaps, especially in South Africa where inequality is persistent.

Unsurprisingly, business leaders argue that, to keep talented and highly skilled executives in the country, South African companies need to offer “competitive” salaries. Companies claim to offer performance-based packages, where executives are rewarded when the company does well. This can be measured by profit margins and share prices (among other things). But this kind of thinking assumes that the CEO is the most significant factor in ensuring the success of a company when many other factors (including other workers) are at play.

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Furthermore, remuneration packages and long term incentives are often agreed to before a CEO has proven their worth. In fact, CEOs are often paid high remuneration packages despite the company performing poorly. A prime example of this is Massmart, a perpetually underperforming company that, despite reporting a loss of almost R2bn in 2021, still paid its CEO a long term incentive of over R8m and a cash bonus of R2m (total remuneration of over R29m). Workers at Massmart have been denied increases and have experienced many delays in negotiations during this same timeframe.

From the LRS's own sample, Neal Froneman of Sibanye-Stillwater received the highest CEO remuneration for the year, inclusive of a R270m bonus. The Association of Mineworkers and Construction Union (AMCU) opposed this bonus when bargaining for a wage increase for their members, saying '[w]e only asked for R1,000 as an increase when he is earning R1,500 per minute and R215 per second.' Froneman claims that his pay was fair given the remuneration of his peers. However, Froneman was paid over R80m more than his closest 'peer' (Mark Cutifani of Anglo American who received total remuneration of R210m, including a R47m cash bonus).

Whether or not you agree that executives are overpaid, inequality in South Africa is deepening. The high salaries and perks enjoyed by top executives exacerbate this. It is important for the government, communities, and civil society, especially trade unions, to carefully consider the impact of remuneration policies, and it is the obligation of companies to ensure that these contribute to the overall well-being of the country and its people.

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Views expressed are not necessarily those of the publishers.

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