

Directors' fees

Given the levels of inequality, high unemployment and related social ills and the importance of a wage income; we need to question why company directors are awarded higher increases than workers while also continuing to retrench workers.

Labour Research Service (LRS) explores why SA executives are being so highly paid and provides an overview of the salaries and bonuses paid during the previous financial year.

The widening wage gap and growing inequality in South Africa is once again reflected in this year's Directors' Survey, as corporate executive's fees are afforded much higher increases than workers. These findings are supported by a UNDP and other reports, which have found that earnings inequality is growing, while the *Financial Mail* noted that '...the figures suggest the gap between CEO pay and average or low-skilled employee pay is not only wide but increasing' (*Upfront* November 2004:60).

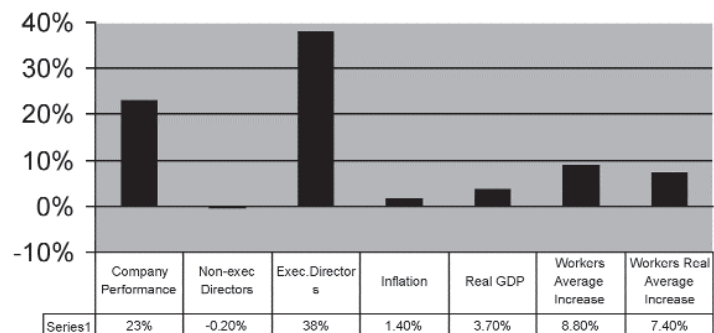
Whilst company performance, based on pre-tax profit has increased by 23%, executive directors' fees have increased by 38% from an average of R2,6 million in 2003 to R3,7 million in 2004 (this excludes gains from share options). This amounts to a R1,1 million increase during a period, which has seen an increasing number of retrenchments, outsourcing and casualisation of labour. Once again,

directors have managed to receive increases well above inflation of 1,4%; insulating them against any erosion of their financial well-being.

Based on findings from previous LRS surveys, it is apparent that when companies perform poorly, directors continue to reward themselves with above inflation increases, and when companies perform well they reward themselves phenomenally. To really test the worth of an executive in South Africa, one of their performance criteria must be the ability to find alternatives to 'soft options' of cost cutting, like retrenching workers. Telkom's chief executive officer, Sizwe Nxasana, pay was tripled from R1,7 million in 2003 to R8,2 million in 2004, while the telecommunications monopoly, which has no competition, continues to lay off thousands of workers.

It is important to remember that the directors' fees in this survey exclude gains

Comparing % Change of Directors' Fees, Company Performance, Workers' Wages (nominal & real), Inflation and GDP from 2003 to 2004



from share options, as many companies still do not disclose this information in their company annual reports. Where information is disclosed, it is difficult to determine precisely how executive directors have benefited when exercising their share options.

EXECUTIVE PAY PER SECTOR

The table above illustrates the gross inequality within the workplace and mirrors the levels of income inequality existing in South Africa today. The ratio of executive and non-executive earnings indicates the number of years a worker earning the average minimum wage in that industry or

sector will take to earn what the average director earns in one year. In mining it will take a worker 257 years to earn what the average executive director earns in one year; in food and beverage 115 years; in construction 138 years and retail 187 years.

CONCLUSION

Workers earning the average minimum wage (LRS Actual Wage Rates Database) have managed to gain a nominal increase of 8,8% in 2004. Their annual earnings have increased from R24 096 in 2003 to R26 214 in 2004 - an increase of R2 118 per annum. Although this is above the CPI of 1,4% for 2004, giving these workers a

real increase of 7,4%, it is considerably less than the average increase of R1,1 million given to executive directors. This corroborates LRS and other commentators' views that income inequality continues to grow in South Africa.

Unless a shift is made from only focusing on profit growth to a more developmental approach, which incorporates the interests of all South Africans, it is unlikely this trend will be reversed.

This is an edited version of the 2005 Directors' Fees Survey compiled by the Cape Town-based Labour Research Service

Ratio of Average Director's Fees to Average Minimum Wage for 4 Sectors

	Mining	Food and Beverage	Construction	Retail
Executive Directors	6,733,693	3,512,782	2,936,752	3,678,588
Non-Executive Directors	248,380	283,840	167,469	110,618
Workers	26,244	30,420	21,348	19,704
Ratio of Executive to Workers	257	115	138	187
Ratio of Non-Exec to Workers	9	9	8	6

