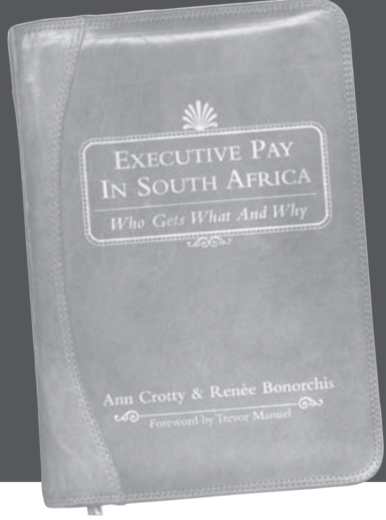
Review

Executive Pay in South Africa

Ann Crotty and Renée Bonorchis
(Cape Town: Double Storey Books, 2006)

Reviewed by Dominic Tweedie



Ann Crotty and Renée Bonorchis' *Executive Pay in South Africa* has deservedly caught the attention of people within the labour movement. The book's study of the remuneration of capital's most senior servants, naming names, provides a quantitative measure of what goes on at that level. It can arm union negotiators with facts to cut through some of the bluff that they face.

The book's sub-title is "Who Gets What and Why?". The first part of the question is well answered by the detailed snapshot of 50 major companies given in the Appendices that make up 40% of the book, and the commentary that makes up the rest. This empirical picture is painted as well as one would expect from the two witty and distinguished journalists responsible for it.

The second part of the question – "Why?" – is more difficult, and frankly I could not find an answer to it in this book. My first impression was that the authors intended the book as a denunciation of greed. But when I wrote this on a blog, Bonorchis pulled me up with an email repudiating the greed theory.

She wrote: "We looked at the lack of independent directors, the lack of clear disclosure, the lack of shareholder activism, the growth of cronyism, the lack of transformation and much much more in order to try and explain growing levels of wealth in the top echelons of the corporate world."

This is true about the book. But it leaves us little the wiser on the question: Why do senior employees of companies pay themselves enormous amounts of money in salaries and share options? Bonorchis' various "lacks" do not answer the question. "Because they can" is not an answer. Nor, admittedly, is simple "greed".

Yet in Crotty's newspaper columns there have been hints towards a rationale for the dynamics of South African capitalism. She once wrote that directors of Naspers have "the desire to be unassailable". On another occasion she asked why Sasol and Engen thought "they would be allowed to create an entity that so comprehensively dominates the local oil industry". In a critique of the ideas of Hernando de Soto, Crotty noted that from the hopeless, striving, black petty-bourgeoisie only a few individuals such as "Patrice Motsepe, Mzi Kumalo and Tokyo Sexwale … have managed to accumulate some 'live assets'."

The longing to "make a fortune", "not to have to do another day's work", or to possess a figurative "goldmine" haunts the imagination of junior clerks from their first drab day at the office. It is the capitalist desire to escape from employment, and become a "player" with huge assets not for consumption but for agency.

There are some such potent players in South Africa. They are the real bourgeoisie. They do not feature in this book. What we are looking at, however well paid they may be, are subordinate people still trying to make the difficult leap from the "executive" rung up to the top rank of owner, capitalist, bourgeois.

In South Africa the burning question is power and not whether pay is "fair". No remuneration package that is less than hundreds of millions of rands per annum can take a person into the ranks of the free bourgeoisie. This is the motive for super-salaries and other monster benefits.

The complaints of black executives are not about pay. More often the trouble is that they do not have power; that they are only used for "admin", and are not on the "front line". These typical words are taken from "Comment" on a financial web site. Blacks may think that white executives have power. They are bound to discover that under capitalism we are all flunkeys, except those who are rich enough not to work.

So the gratitude one feels for this useful book is tempered by the hope that Crotty and Bonorchis will turn their hands to another work explaining what really drives the system of capitalism, and naming the bourgeois, too.

LB

Dominic Tweedie is the editor of Cosatu's "The Shopsteward".

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Reviewed by Jacklyn Cock

In 2005 South Africa overtook Brazil in terms of social inequality measured by the Gini coefficient. A third of South African households were living below the poverty datum line of R322 a month, while chief executives of some South African companies were paid millions. Yet Tony Dixon, executive director of the Institute of Directors of South Africa maintains that "while some executives are excessively rewarded, the overall picture is not particularly alarming."

Readers of Crotty and Bonorchis's *Executive Pay in South Africa* may disagree. In a carefully constructed argument supported by a wealth of empirical material from local and global sources, they report that in 2005 chief executives of South Africa's 50 largest companies listed on the Johannesburg Stock Exchange were each paid on average R15.55 million including gains from share options. Some of the chief executives received considerably more, in the retail sector averaging over R35 million. Steve Ross, the chief executive of Edgars Consolidated received R112.4 million including gains from share options. From 2004 to 2005 the pay packages for the ten best paid executives increased by an average of 200%.

The authors say, "trends in the global economy over the past 10 or more years have been very good for executives and very bad for workers." Increasing executive remuneration and the wealth gap is a global trend, particularly in the USA and the UK. In the USA between 1989 and 2000 chief executive compensation increased 342% while the median hourly wage increased by 5.8%. In the UK the typical chief executive of a FTSE 100 company receives 120 times the pay of the average worker, compared with the gap of 237 times for his US equivalent.

The authors are not critical of the economic system which allows this. Their main concern is with maintaining a strong, free-market economy. This requires that top executives are well and appropriately remunerated. They argue that in recent years "exceptionally generous" packages have assumed that top executives were entirely responsible for the company's performance and its share price, with no allowance for external factors such as the strength of the rand and strong market conditions between 2000 and 2005.

They demonstrate convincingly that executive pay "has not shown the just rewards of good management. It has shown enrichment through the exercising of tranche after tranche of share options and the sale of many of the ensuing shares". In a strong argument on the difficult question of assessing executive performance to establish appropriate pay, they cite shareholder concern about the R1.3 million incentive bonus paid to Nampak chief executive John Bortolan for 2005 (on top of his R3.6 million basic package). "The shareholders' concerns were based on the fact that… there was little to justify a performance bonus at Nampak. Revenue was down; net profit was down; headline earnings were down." They argue that in the favourable economic conditions since 2002, both management and shareholders "have felt increasingly wealthy, content and disinclined to interrogate the link between executive performance and pay. It is very likely that shareholders in the retail and banking sectors are so pleased with the recent profit and share price performance that they will accept all the assumptions underpinning high remuneration and will be satisfied by the rather opaque one-paragraph explanations for them."

The authors quote Bebchuk and Fried 's 2004 US study which accounts for unjustifiable packages on the absence of arms' length negotiations between executives and the board of directors. "… it explains why executive remuneration surges ever upward despite various efforts to curb it. In essence, these efforts fail to address the key issue: the cosy relationship between the key players." They point out that Bebchuck *et al.* never "mention crony capitalism.

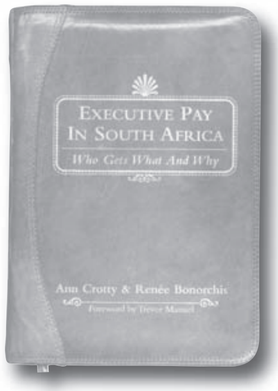
However everything they describe has the taste of crony capitalism, with all its problems of inefficiency and corruption." The authors find it disturbing that "the inefficiency described by Bebchuk and Fried not only impacts on the US economy, but because US remuneration levels have been used to justify pay packages elsewhere, it is spreading across the globe."

They acknowledge that some of the packages in 2005 were "enormous" but overall their tone is pragmatic and restrained. For example "executive pay could certainly do with a fair amount of reining in", or "the huge wealth generated by profits on share options has represented an inappropriate reward" in that "no single executive can claim to have control over equity market movements."

The authors are anxious that their book is not used by the "far left who want to use our work to justify their causes". However, their book reveals a good deal about what Bakunin calls the socially irresponsible, "psychopathic" nature of modern corporations.

They accept that "companies operating in a free market are profit-driven entities run by aggressive, profit-driven people". Furthermore, these people are driven by self interest. Tony Dixon maintains that share options are "problematic" because "the vesting periods are often very brief. This in turn encourages 'short-termism' and self interest on the part of executives." Corporate executives are marked by a "powerful sense of entitlement", "that has been allowed to thrive" and "took hold in the executive community."

The authors are concerned about the unrestrained power of corporate executives. "While our political leaders face checks and balances..., our corporate leaders divvy up their power behind closed doors, free from the scrutiny of stakeholders." They are critical of the high degree of interlocking directorships among the 50 companies surveyed, as well as shareowners inertia, "particularly institutional shareowners" and the lack of "independent directors" who can challenge authority on corporate boards. These boards are predominantly comprised of white men and the authors dare to suggest that "given the shortage of independent directors and the lack of diversity on many of the 50 boards we surveyed, it is tempting to believe that the nomination committees … avoided the daunting task of selecting challenging individuals. They seem instead to have opted for individuals who have experience and are comfortably familiar with other board members." This and the "cosy" relationship between boards and remuneration committees suggest the system of personalised networks that marks 'crony capitalism'.



But it is both 'normal' and 'crony' capitalism which permits an unacceptable wage gap.

The gap in South Africa in 2005 widenened to levels of 700:1 with the biggest gap in the retail sector. Using Labour Research Service (LRS) data on minimum wages, the wage gap is 1 500:1 when measured against the heads of the retail companies. LRS figures indicate that the majority of permanent employees in the retail sector are paid about R10 an hour, which is less than R25 000. For casual workers it is much less. Drawing on research by Bridget Kenny and Kally Forrest they show how this sector is marked by exploitative patterns of retrenchments and employment of casuals.

Crotty and Bonorchis show flashes of alarm. They write, "A wage gap that is unexplained and widening threatens our new democracy and causes rising unrest among workers … The challenge is to help distribute power and wealth in meaningful ways to as many people as possible." I agree but for many of us that means redistribution, or what Wolfgang Sachs terms "the alleviation of wealth" which he argues is necessary for the "alleviation of poverty".

The authors conclude with a call for a more responsible and active citizenship. They point out that "the narrowing of the income gap cannot be left to the efforts of trade unions alone… The onus is on all responsible citizens to call for institutional measures against these extremes of inequality, as we will all bear the social and political consequences if they are not addressed." Current levels of criminal violence is one of those consequences.

In the politicised debate about crime we can surely all agree that it flourishes in an unstable society. We can also surely agree that extreme differences in wealth and poverty contribute to social instability. The authors make a major contribution to this debate in their book.

LB

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