Whopping executive salaries

Widening wage gap picks up speed

In the previous *Labour Bulletin* **Simon Kimani Ndungu** looked broadly at the wage gap trend. In this second article he focuses on executive pay in both the public and private sectors in an attempt to understand why in the last few years the pay of South African executives has continued to rise to unacceptable levels in relation to the workforce.

In the last few years, South African executives in both the public and private sectors have continued to earn enormous amounts of pay.

Remuneration for company executives has risen considerably in the post-2000 period and studies show that between 2005 and 2006 alone, executive pay rose by as much as 34%. Research conducted by independent analysts, labour research institutions and trade unions demonstrates that executives in South Africa enjoy a disproportionate level of earnings in comparison with ordinary workers. In certain cases, executives have been awarded hefty salaries, bonuses and share options at the same time as their company performance has declined.

Executive pay has caused much public concern. Journalist Renee Bonorchis observes that if company executives want to reverse the growing public cynicism, they will have to make some effort to better explain the link between their pay and their performance. It does not appear that companies and government are paying any heed to this caution.

PRIVATE SECTOR EXECUTIVE PAY

While both public and private sector executives have been amply rewarded by the post-apartheid labour market, it is the latter who have taken home the biggest share of the national income.

In *Executive Pay in South Africa: Who Gets What and Why*, finance journalists Ann Crotty and Bonorchis showed that in 2005, the top five earning executives were from Pick 'n Pay (R65m), Anglo American (R62,2m), Shoprite (R59m), the JD Group (R46,2m) and BHP Billiton (R30,9m). Using these figures the two authors concluded that the average remuneration for a private sector Chief Executive Office (CEO) in 2005 was approximately R15,7 million and in the retail sector it was an incredible R35 million.

Independent research group, the Labour Research Service (LRS) analysed a sample of 238 packages for executive directors and 55 for CEOs. It found that in 2006, CEOs earned an average of R8,2 million, executive directors R4,6 million, and non-executive directors slightly over R300 000 per annum. Compared with executive packages in the previous year, 2005, these amounts reflected an increase of 14%, 17% and 6% respectively. The 55 executive directors in the sample earned a whopping R448,7 million. This led LRS to conclude that it would take an ordinary worker 273 years to earn what the average CEO gets in one year.

Between 2006 and 2007, the packages of CEOs rose from an average of R5,3 million to R6,1million. Those of executive directors grew from an average of R2,9m to R3,3 million while the packages of non-executive directors dipped slightly from an average of R300 000 to just over R200 000.

Even international companies with operations in South Africa have cashed in on what is a very rewarding environment for executives.

Lonmin is a company with its primary listing on the London Stock Exchange but has major operations in South Africa. It is also one of the mining giants in the platinum sector. In 2006 alone, the company spent more than £1,8 million (approximately R23m) on directors' remuneration, with the lowest-paid non-executive director

Anglo American Mark Cutifani: The top five earning executives are from Pick n Pay (R65 million), Anglo American (R62,2 million), Shoprite (R59 million), JD Group (R46,2 million) and BHP Billiton (R30. 9 million).

earning over £57 000 (R741 000). The CEO earned approximately £1,6 million (R20,8m).

In the same year, Lonmin spent the equivalent of R42 million on employee benefits for its entire workforce of 23 180 employees. The company argues in its 2006 annual report that one of the reasons for the huge wage gap between its executives and ordinary employees is "the need to attract, retain and motivate executives".

Similarly Tesco, a leading retail chain based in the United Kingdom buys a significant bulk of its groceries and wines from South African farms. Recently, the company's fruit pickers in the Western Cape protested about low wages and poor working conditions at the same time as the company's UK directors were earning millions of pounds in salaries and bonuses. For example in 2007, Tesco's CEO was given a guaranteed pay rise of between £4 million and £5 million per year (R52m-R65m) and awarded shares amounting to £11 million (R143m).

In 2006 Implats, a holding company consisting of up to seven mining companies, and whose board comprises of only 13 members, spent over R24 million (or an average of R2 million per executive) on executive pay and benefits. At the same time, the company spent a mere R3 billion on wages and salaries for its 30 808 ordinary workers across southern Africa which translates into an average of R97 000 per employee for the whole year.

One of the reasons people give to explain the expanding wage gap between company executives and workers is that executives have more responsibilities and therefore need to be rewarded appropriately. Such responsibilities vary from the day-to-day management of the company to being accountable to the company's stakeholders.

Interestingly, workers, who are an important part of the company's stakeholders, seem largely absent from this consideration. More often than not, wages for ordinary workers are not increased, even if companies make a profit. Yet, remuneration for executives increases on a constant basis irrespective of company performance. This is demonstrated by research conducted by the trade union, Solidarity, which in a 2006 study found that in certain cases, the basic salaries of company executives had risen by 18,5% and bonuses had increased by 66,2% but the companies had registered declining profits.

Cosatu (Congress of South African Trade Unions) has responded to increases in private sector executive remuneration by sharply criticising companies for awarding executives, huge salaries, benefits and bonuses. Cosatu's Patrick Craven has been quoted as saying that mining company Gold Fields' executive chairperson received a 140% salary increase in 2003, yet this chairperson simultaneously warned workers not to expect above inflation pay increases. The reason he gave was that the then strong rand had reduced the profit margin of gold on the international market.

Commenting on the mining industry, Simon Tebele, a manager at Anglo Platinum believes that the shortfall between what executives earn and what ordinary workers get is compensated through welfare benefits. However, in the absence of any reason to explain why different incentives are awarded to executives, this justification sounds rather hollow. It fails to answer the question why executives get financial incentives when ordinary workers receive welfare handouts. Such handouts are usually material things that workers can never cash or own. Executives on the other hand can sell their shares back to the companies which issued them.

Executives are quick to show costs only when such costs relate to workers' wages and benefits, but when executive salaries are increased, companies do not use a similar approach. Besides, as Jenny Grice of Numsa (National Union of Metalworkers of South Africa) has emphasised, company executive earnings are not always shown on paper as executives are not transparent and do not feel accountable to workers.

Rather, executives feel that their primary obligation is to shareholders as they have to fulfil what is now accepted in popular corporate terms as 'return on shareholder value'. Furthermore, Thomas Mamuremi of Nehawu (National Education, Health and Allied Workers Union) says executives "have a way of hiding

Implats CEO Keith Rumble: The company spent over R24 million on executive pay, and a mere R3 billion on wages and salaries for its 30 808 ordinary workers.

their salaries... the only way you can see they are earning more is through their expensive lifestyle".

PUBLIC SECTOR EXECUTIVE PAY

With the aim of luring skilled workers to the public sector, government has tried to match its remuneration packages for executives (directors and managers) with those offered in the private sector. The objective of this strategy is to reverse the exodus of skilled workers, mostly executives, to the private sector. Although this approach has brought wages for civil servants almost on a par with those of workers in the private sector, and even in some cases overtaken the latter, Ingrid Woolard argues that more remuneration benefits go to executives than to ordinary workers.

A director general in any government department earns in excess of R800 000 a year, while managers of the biggest municipalities such as Johannesburg, Ekurhuleni, eThekwini and Cape Town earn an average of R1 million a year.

In July 2007, Nehawu voiced its disappointment at the 57% salary increase given to senior civil servants yet government had offered a mere 6% pay rise for ordinary workers after the month-long public servants strike.

State owned enterprises like Telkom, Eskom, and Transnet have upped directors' packages considerably with their CEOs earning R5,6 million, R5,2 million and R6,9 million respectively in 2006.

To take Eskom as a case in point, the salary of its CEO was increased by 19% in 2006 after the company's profits surged. His annual package included a salary of more than R4 million, bonuses totalling more than R1 million and a housing subsidy of over R600 000. Other executives within the same parastatal also received huge increases with an incoming CEO getting a 39% pay rise while the financial director receiving a 27% pay increase.

PRIVATE AND PUBLIC COMPARED

Shortly after the new millennium, Woolard conducted a study in which she compared public sector wages with private sector salaries in South Africa. The results of her study showed that on average, ordinary workers in the public sector earn R60 000 per annum, compared to R220 000 per annum for executives. These findings are not unusual. The author concludes that the wage gap seems to be less wide in the private sector. She says that one of the reasons behind the 'narrow wage gap' in the private sector relates to the high demand for skills and educational qualifications which has the effect of levelling out the wage landscape. Our research does not support her assertion.

Comparisons between the public and private sectors shows that workers in the former earn on average lower salaries than those in the latter. Similarly, differences in executive pay in the two sectors are pronounced with company executives in the private sector earning almost three times the salaries and packages of their counterparts in the public sector.

CONCLUSION

In some instances, as Mamuremi argues, senior managers are involved in driving restructuring processes that cut down labour costs to increase company profitability. In addition, executives always get bonuses and other incentives once the rationalisation policies they have implemented have worked. Unfortunately this is often at the expense of workers.

Where the executives are public state officials, Mamuremi observes that when they ultimately give a wage increase to ordinary workers, such increase falls far below the actual rate of inflation making it difficult for workers to afford a decent standard of living.

It is clear that the post-apartheid economy has rewarded executives at an exorbitant rate. It has also ensured that rather than close the wage gap, one of the hallmarks of the apartheid labour market, it has instead widened it considerably. By and large, executives have continued to reap the fruits of what began more than a century ago as the super-exploitation of cheap black labour. LB

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