Why still secrecy around directors' salaries?

Managers complain that workers continue to demand high wages. The ***Labour Research Service*** *investigates what directors are being paid and looks at the continued failure of companies to disclose director's salaries.*

Calls by the King Report on Corporate Governance for companies to reveal the salaries of directors goes unheeded. It remains an area still shrouded in secrecy.

Some concerns have been raised around the King Report's recommendation in its second report for companies to 'provide full disclosure of director remuneration on an individual basis giving details of earnings, share options and all other benefits'. Concerns range from the fact that this would violate a director's individual right to privacy; it could put the director and his/her family at risk because they will become targets of kidnappers and better paying companies could poach senior staff of lower paying companies.

Another concern raised by Lot Ndlovu, the chief executive officer (CEO) of People's Bank, is that disclosing earnings of directors would demotivate millions of black people. 'There are not enough black people delighting in the fruits of the free enterprise system. These revelations are not likely to raise their confidence in the system.'

General trends

The lack of transparency around directors' fees was derived from a survey of 80 companies. Executive directors' earnings are up by 23% from 2000 from an average of R1 511 323 for 2000 to an average of R1 859 626 for 2001. This is almost three times higher than the rate of inflation, more than 12 times higher than the rate of economic growth (GDP), and three times higher than the increase of low paid workers. The earnings of non-executive directors have increased even more from an average of R120 091 in 2000 to R162 008 in 2002 – an increase of 35%.

In a context of an economic slowdown, retrenchments and rising inflation due to the depreciation of the domestic currency, the growth of directors' earnings reveal that they have managed to insulate themselves from these effects and secured their own personal interest.

Company performance, measured by net pre-tax profit has improved between 2000 and 2001 by 30%. Directors' increases therefore, compare well with this improvement. Many companies are registering better performances due to retrenchments, meaning that their wage bill is declining. In distributive terms, workers are getting a smaller portion of the profits while managers, directors and shareowners increase their lot.

Increases per sector

A survey of increases in food & beverages, retail and banking reveals that while the increase of executive directors' earnings in the retail sector is moderate (14%), company performance had decreased by 6% from the previous year. Non-executive directors' increases are much higher at 58%.

In banking and food & beverage the percentage increase for executive directors is less than the increase of pre-tax profits between 2000 and 2001. Non-executive directors, however, got a higher increase of 23% in both sectors. While directors got a higher increase than workers did in retail, it was 2% lower in banking and food & beverage.

When comparing the ratio of a minimum worker's wage to that of the executive director's earnings, a huge gap in income exists in all sectors. An executive director's income is 103 times that of a worker in retail, 63 times in banking and 53 times in food & beverages.

Top and bottom earners

There is a definite unevenness among companies regarding directors' salaries. Some companies pay extremely high salaries – over R10m in the case of the CEO of Old Mutual, a life assurance company – while others are far below the average of R1,86m (less than R300 000 for Argent Industrial, an engineering and construction company).

The tables indicate that the highest earners are in financial and information technology while the lowest earners are in construction and retail. This corresponds to the sectors with highest and lowest average minimum wages. Construction workers and workers in retail get an annual wage of R13 646 and R16 204 respectively while workers in the service sector get R22 436 annually.

Relation to exchange rate

According to the Reserve Bank, the exchange rate was quite stable in the first half of last year compared to the 12% weighted average drop and an 18% drop against the US$ in 2000 against the US$ in 2000. The weighted average decline was only 0,2% for the first half of 2001 and the exchange rate with the US$ declined by 6% over the same period.

In the fourth quarter, however, the rand depreciated sharply against the dollar and other major currencies (an annual 40%

Companies paying the highest average per executive director for 2001

Company	Year	Average executive director earnings
Datatec	2000	3 250 000
	2001	10 250 000
Alexander Forbes	2000	4 000 000
	2001	6 000 000
Investec Group	2000	3 000 000
	2001	5 128 900
First Rand	2000	6 200 000
	2001	4 845 667

Companies paying the lowest average per executive director for 2001

	Year	Average executive director earnings
Wilson-Bayly Holmes	2000	235 000
	2001	257 000
The House of Busby	2000	249 500
	2001	321 167
Sage Group	2000	550 889
	2001	513 222
City Lodge	2000	490 600

depreciation against the US$).This means that directors' earnings in South Africa will fall relative to earnings of directors in major economies but they are more than compensated by the whopping 85% increase the previous year.

It is also important to note that the number of South African companies listing on the London Stock Exchange and elsewhere has grown in the past four years and directors now get paid in hard currencies.The effect of the depreciating rand on workers, who get paid in local currency, but still have to pay for the increases in imported goods will be grave.

Rise in inequality

While the South African government and business leaders claim that much has been done since the democratic transition in 1994, the fact is that inequality and poverty has increased since then.

The Gini index reflects that South Africa is among the countries with the highest levels of inequality in the world with a Gini index of 59,3.This is higher than Zimbabwe (Gini index of 56,8) and Nigeria (Gini index of 45); twice as high as the UK (Gini index of 32) and on par with Brazil (Gini index of 60).What this means is that 46% of total income goes to 10% of the population (highest earners) while 1,1% of total income goes to 10% of the population which are the lowest earners.

The character of this inequality has been changing since the 1970s.Then, whites accounted for 71% of personal income and Africans 20%. By 1990 whites accounted for 54% and Africans 33%. It is important to remember that whites make up only 12% of the population while Africans make up 78% so that as long as more than 12% of income goes to whites and less than 78% goes to Africans the racial inequalities continue to grow.The increase in inequality, according to the South African Survey, is due largely to the growth of unemployment, which has risen by 59% between 1995 and 2000.

But South Africa is not unique. According to World Bank president James Wolfensohn,'half the world's population lives on less than $2 a day; 80% of the global population has only 20% of global gross domestic product; and within each country there is a massive imbalance between the rich and poor'.

Robert Wade, a professor of political economy at the London School of Economics, also argues that global inequality has been increasing since the industrial revolution and has speeded up in the last two decades. Income of the worlds poorest 10% dropped by a quarter and income of the worlds richest increased by 8%.

The existing gap between directors' earnings and workers' wages' coupled with the fact that directors' earnings are increasing faster than workers' wages only entrenches and deepens inequality in South Africa.The deepening inequality places a big question mark over the 'trickle down' theory that economic growth will lead to job creation and thereby reduce poverty and inequality.

It is becoming increasingly clear that inequality is holding back growth. If South African workers were rewarded with increases comparable to their directors, consumption spending would go up and the economy would therefore be stimulated to meet the basic needs of people.This would reduce the growing levels of poverty – estimated to be growing by 2% a year.

This is an edited version of the report on directors' fees compiled by the Cape Town-based Labour Research Service. For a full report contact the LRS (021) 447-1677.