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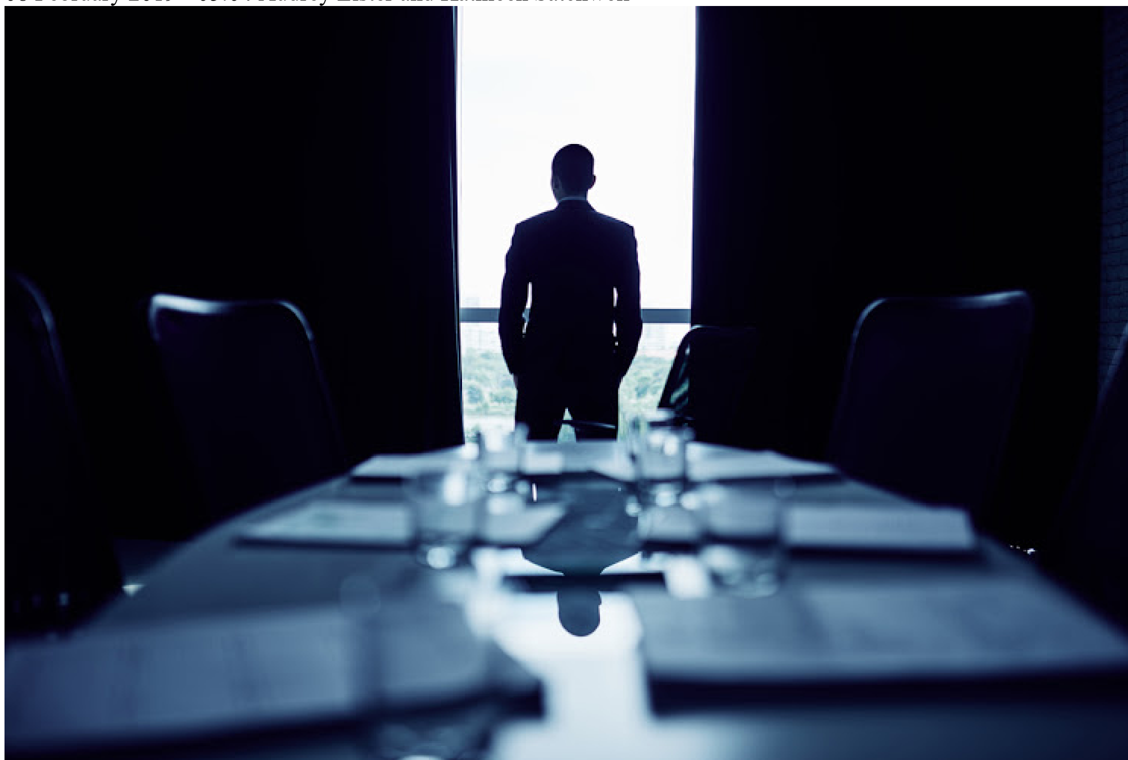
Opinion

A self-governed pay system has been a big part of SA’s growing inequality

The shocking reality is that executives are paid on the assumption they will be exceptionally successful — recent history is ignored

08 February 2019 - 05:04 Audrey Elster and Kathleen Satchwell



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Seventeen years after the JSE mandated that listed companies were required to disclose the details of directors’ remuneration it is apparent that, far from the hoped-for restraint, disclosure has helped to underpin pay increases that have created a super-wealthy executive class increasingly out of touch with the community in which it operates.

There was some expectation that the disclosure of the details of multimillion-rand pay packages would embarrass executives into demonstrating a degree of modesty. Instead the past 17 years have revealed the driving instinct among our business leaders to be akin to that of school-yard children – “mine must be at least as big as his”.

Add to this basic instinct a powerful industry of remuneration consultants and headhunters, who benefited from the ever-increasing payments, and there was little chance of restraint. From 2002 the cries of “market-related” and “bench-marking” set off an upward spiral of executive rewards that has done little to ensure sustainable profit growth.

Remarkably, for a group of individuals tasked with leading the economy, there has been no evidence of leadership in the crucial area of remuneration. It has all been about keeping in line with the pack.

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Over the past 17 years there have been only two exceptions to that lack of leadership: Imperial's Bill Lynch and PPC's Ketso Gordhan. Lynch, former Imperial CEO, urged restraint in the awarding of his own remuneration in the early 2000s, reflecting an attitude that is in stark contrast to the decision to use the recent group restructuring to justify steep increases to the current generation of executives.

Over at PPC, CEO Gordhan sparked a board revolt when, in 2014, he took a R1m pay cut and froze the remuneration of his top 60 managers so he could hike the pay of the group's 1,200 lowest earners. Before the year was out, Gordhan had resigned and a battle for control of the group was in full swing. Gordhan's team lost, ensuring that never again would there be mention of executive pay cuts or freezes at PPC.

Now, with 17 years of evidence under our collective belts, it is time for executives and the remuneration industry that feeds their greed and sense of entitlement, to look closely at what returns came in the wake of this unrestrained generosity. Seventeen years provides ample time to filter out the likely impact of short-term exogenous factors and get some indication of what contribution the executives have made to the long-term sustainability of their companies.

It is also sufficiently long to allow for the effects of restructurings and takeovers as well as stock market volatility and economic cycles.

A cursory glance at some of the evidence is not encouraging. Of the 50 JSE-listed companies included in a 2005 survey of executive pay, only 11 could be described as unquestionably stronger at the end of 2018. Included among the 11 is SABMiller, whose 2016 acquisition by AB InBev generated substantial returns to shareholders and executives; less certain are the returns to a broader base of stakeholders and society at large.

Three of the big five banks — Standard, FirstRand and ABSA — are included among the stand-out winners in terms of their share price performance. The eye-poppingly well-paid executives at these banks took advantage of the favourable macroeconomic and government-backed policy environment that prevailed for much of the period (even allowing for the destruction wreaked by the global financial crisis) to grow their operations.

By 2018, Investec was looking a little bedraggled and Nedbank was still struggling to match the share price performance of its peers.

At no stage did the varied performances of the big five banks discourage remuneration consultants from treating the executives of all five as though they were completely inter-changeable. This is what mindless market-related benchmarking achieves.

Bidvest, Discovery, Mr Price, Sanlam and Shoprite are among the comparatively few companies whose executives went on to prove they deserved some of the generosity heaped upon them. And of course Naspers, which had a unique remuneration policy, has been the outstanding success of the past 17 years.

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Considerably less successful were Edcon, Ellerines, Mittal, Murray & Roberts, JD Group — all feature among the standout failures whose executives were well rewarded even in the face of pending doom. But there were many others — Barloworld, Johncom, Liberty, Massmart, Nampak, Old Mutual, Sun International, Tiger Brands and Woolworths — where dull to declining corporate performance was rewarded by exceptional remuneration packages.

Executives in the country's once-powerful mining industry were also consistently rewarded for outstanding performances even when it was evident they were doing little more than riding the wave of global demand for commodities.

And what should we make of Anglo American, whose CEOs regularly feature among the best paid in the world despite the group's shrinking asset base? With the benefit of hindsight, it's apparent this company, which was once so dominant in the lives of every South African, made a series of faulty strategic decisions as it considered how best to cope with the end of apartheid and a much more open global trading and investment environment.

Even allowing for the "creative destruction" that Joseph Schumpeter describes as an important part of the incessant revitalisation of any business structure the failure (or lack of success) rate of SA's large companies is unsettling in the context of the consistently generous payments made to their executives.

While hindsight does allow for a more realistic and harsher judgment of their performance, the shocking reality is that every year executives are paid on the assumption they will be exceptionally successful. History, even recent history is ignored. There is no attempt to reclaim exceptional payments in the event of pedestrian performance.

Clawback provisions that have recently been introduced by some remuneration committees reveal just how

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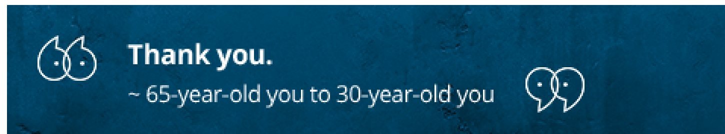
remuneration consultants, headhunters and remuneration committees has not helped to perpetuate the alleged shortage of supply of "appropriate" executive talent.

As former head of the UK's High Pay Commission, Deborah Hargreaves points out, in any normal market of supply and demand if the supply is scarce prices rise temporarily prompting an increase in the supply. Not so with executives, it seems.

We have had 17 years of a self-governed remuneration system that has underpinned growing inequality in our society. It is not an inevitable part of the capitalist system but the resulting inequality and the perception of lack of fairness does threaten the future of that system.

It is time we looked closely at the behaviour that has been incentivised by the past 17 years of generous pay and determine whether or not the executive remuneration system is fit for purpose. It might prove to have been appropriately generous and therefore fair, alternatively we might learn better ways to incentivise our business leaders as we struggle to achieve the sustainable development that this country and all its citizens need.

• *Elster and Satchwell are with the Raith Foundation.*



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