

Remuneration observations SOES and Public Office Bearers

SARA

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One of the negative consequences of publishing executive pay has been that making this information public has pushed companies paying lower remuneration over time to raise their executive pay. After all, which company believes, when they seek new staff, that they will attract the kind of talent they want by paying "lower than average" remuneration to their executives?

I only refer to private sector executive remuneration. Public sector remuneration is another story altogether.

Then finance minister Trevor Manuel in August 2008 --said government was as concerned as ever about pay levels, especially where there is no relation to the performance of the company of the executive (Financial Mail, 2008). Manuel also felt excessive salaries were unjustified in the context of South Africa's 23% unemployment rate and mentioned: *"In a country with the inequality and unemployment that we have, some of these exorbitant salaries are simply repulsive."* FM

What about "executives" in parastatals-one very large parastatal paid its Acting CEO R10.8m last year. He earned nothing close to this in the private sector-(see his track record)This is taxpayers money-we are the shareholders.

This is a form of theft ? *Sunday Times*

The concerns regarding excessive remuneration packages of CEO's has come on top of longstanding community discomfort about the widening gap between the remuneration of executives and other employees, as well as some large termination payments with perceived lack of justification. Public opinion polling over the years consistently shows that most respondents believe executives to be overpaid (Solidarity)

The Black Management Forum (BMF) noted with concern "*the continuing hefty payments*" to Chief Executive Officers (CEO's) of major industry players and says it is a slap in the face of poverty and joblessness. The BMF's MD, Gaba Tabane, said many had been vocal about the exorbitant remuneration packages of CEO's of state owned enterprises (SOEs) in the past.

"Invariably, we expect South Africa to raise the same concern when the same happens in the private sector." (Newsfin, 2010)

The southwestern Chinese metropolis of Chongqing will limit the pay of top executives at companies it controls, the official Xinhua News Agency reported Saturday.

Under the new regulation, the annual pay of top managers at Chongqing-owned state enterprises will be limited to 10 times that of ordinary employees, Xinhua said.

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The Norwegian government has put forward new guidelines on management remuneration in state-owned companies, in connection with the presentation of its white paper on state ownership in December 2006. The guidelines stipulate that state-owned companies are not to make use of stock options in their management remuneration programmes.

The largest trade union confederation, the Norwegian Confederation of Trade Unions (Landsorganisasjonen i Norge, LO), was largely satisfied with the government's white paper. LO welcomed a **more active ownership by the state** and the fact that management salaries are to be curtailed.

JOHANNESBURG, Wednesday

South African Finance Minister Pravin Gordhan has criticized the "unacceptable" rate at which South African chief executives, including those of state-owned enterprises, awarded salaries to themselves, saying this practice was a "recipe for future disaster", local media reported.

The fat salaries created a dangerous culture and deepened the divide between rich and poor, he said.

Speaking in the South African parliament in Cape Town yesterday, Gordhan said the remuneration committees and boards of directors had to be "kicked out" of their current mind-set and new parameters established, "Extreme earnings disparities cause offence not just when they are associated with profiteering or financial malfeasance, but also when the reward for honest work seems disproportionate or weakly aligned with incentives " *The Citizen*

The country needed a "genuine discussion" about preposterous pay scales enjoyed by top management, Public Enterprises Minister Malusi Gigaba said .

Observations

- The remuneration of company directors and executives is an issue that has attracted considerable interest from shareholders, business groups and the wider community
- Concerns are raised about excessive remuneration practices
- Instances of large payments despite poor company performance, have fuelled community
- Concerns that executive remuneration is out of control
- Pronounced concerns around widening wage gap differentials are expressed

INDEPENDENT COMMISSION FOR THE REMUNERATION OF PUBLIC OFFICE BEARERS (POB)– CONTEXT

- The Shclebusch commission was established in 1985 to inquire into the structure of remuneration and conditions of service for Ministers and members of the Presidents Council
- The Melamet Commissioned was established in 1994 to further the initiative by considering remuneration of persons elected to legislative bodies in the various spheres of government – the aim was to establish a coherent and consistent remuneration structure
- Section 207 of the Interim Constitution of 1993 promulgated a Commission to make recommendations on remuneration and conditions of service to all spheres of government
- Commission on the Remuneration of Representatives functioned from 1995 to 1998
- Section 219 of the new Constitution prescribed that National legislation must establish the Independent Commission For the Remuneration of Public office bearers – established in 1997

The Role of The Commission

- To provide **independent** assessment and recommendations on the remuneration and conditions of service for Public office bearers
- The commission is important in that it promotes a democratic, open and transparent process whereby Public Office Bearers do not set remuneration for themselves
- They conduct relevant research and studies to aid and facilitate their function of making recommendations
- They also promote transparency in that they make public their annual recommendations
- In making recommendations, the commission is required to give consideration inputs and submissions by Public office Bearers, general public perceptions, economic circumstances and current trends in remuneration

Benefits of the approach

- Deliberate and focused coordination
- Fair and open processes of determination
- Platform to drive equitable determination
- Elimination of conflict of interests
- Promotion of consistency across all spheres of government
- Transparency and openness in communicating recommendations
- Continuous research and benchmarking to keep salaries aligned and responsive to current and comparative remuneration trends

SOEs- The Context

- There must be a common understanding among conversers as to what state-owned enterprises are:
 - state-owned enterprises exist as an identity against other identities such as privately owned enterprises and other form of legally sanctioned enterprising activities.
 - There is a need to distinguish state-owned enterprises from other entities of the state as well as from non-state entities.
 - The hierarchy of complexities and ambiguities within the context of state-owned enterprises influence determination of remuneration
 - Ambiguities starting from state versus government, private versus public corporations; and within the space of state-owned enterprises state-owned enterprises versus state –owned businesses, publicly – owned businesses versus publicly – owned enterprises, etc.

The current SOE reality

- There is no coordinated and consolidated approach to remuneration in SOEs
- This is further compounded by the mixed ownership model for SOEs with entities reporting to different sector ministries
- Need for refined definition and classification of the various entities embracing the hierarchy of complexities

How much is good pay for Executives

A complex matter - some general principles:

- The remuneration should be enough to attract the right candidate
- The remuneration should be able to be sold as fair in the context of other salaries in the organisation
- Executive remuneration shouldn't stress the organisation's finances
- Executive remuneration should send the appropriate signal to the person, to the staff, and to other stakeholders.
- Beware of “ **The Animal Farm**” syndrome

How much is good pay for Executives

- The Executive pay gap” has become a very political issue, not only in South Africa but globally.
- This should be part of the annual remuneration review process, whereby organisations should make comparison to address the
 - internal alignment issues, equity, fairness & commensurate pay issues within organisations.
 - pay should also be compared with that paid to employees and not only their peers in the competitor space

Areas for consideration in SOE remuneration discussions

- **The role and importance of SOEs in the South African economy**
- **The relationship of the shareholder and the the SOE Board in determining and implementing remuneration**
- **Clear articulation of the role and mandate of the SOEs to the South African public – clarifying strategic importance, performance and mandates**

Integrated approach for SOEs

- integrated approach to the effective management of director and executive remuneration at SOEs is important
- recommendations should consider both the **effective management of remuneration** and also the **factors that contribute to the effective management of remuneration**.

Factors that contribute to SOE effective pay management

- Recognition that SOE director and executive remuneration at SOEs is a complex issue
- Shareholder to develop, confirm and communicate a framework for SOE remuneration
- Encouraged to implement responsible remuneration practices for their executives and senior management
- Development of a clear performance criteria and framework aligned to approved SOE Strategy

Factors that can contribute to SOE effective pay management

- Organisational remuneration policies based on the broader SOE remuneration framework
- **A short- and long-term incentive policy**
- Possible consideration of an institutionalised remuneration panel to reinforce a coordinated approach
- Shareholder to ensure effective leadership both at governance and executive level
- Encourage accountability and transparency
- Develop a clear employment framework relating to contractual provisions

Conclusion

- Levels of CEO remuneration in South Africa is sending out the wrong message regarding fairness to the average worker
- In some instances it is difficult to marry the rewards to exceptional & talented performances
- Company performance is not the sole result of the executive. It is the collective result of all the employees- distribution of benefits should reflect the collective effort
- Remuneration, financial viability and sustainability of the organisation should be aligned
- Being a substantial role player in the labour market, government as SOE shareholder should lead by example in such a way that income is distributed more equally amongst all employees. This will send the appropriate signal to the to the staff, other stakeholders and the rest of the labour market