Executive pay issue motivates social unrest

Deborah Hargreaves, the chairwoman of the UK High Pay Commission, says SA faces the same set of problem as Britain with executive pay having ballooned over the past 30 years to unjustifiable levels. However, income disparities in SA appeared to be starker, more extreme and posed more of an immediate threat to social stability

Ms Hargreaves was head of the year-long UK commission, which was established and funded independently by governme and business and delivered its report in November last year. She was in SA last week at the invitation of Economic Development Minister Ebrahim Patel.

Executive pay has become increasingly controversial in SA, with organised labour refusing to entertain wage restraint in t face of excessive pay for bosses.

Mr Patel hopes to broker "an incomes accord", which will set limits on executive pay and wages of those earning more tha R3000 a month. Big business - under the auspices of Business Leadership SA - has agreed to draw up a code of conduc for its members on executive remuneration.

Ms Hargreaves says in the UK public anger against excessive rewards for bosses has been fuelled by the financial crisis, which has seen middle-class incomes and wealth falling and resentment against the very rich rising.

As a result, the commission's report has been given a lot of government attention. Shareholder activism, transparency and fairness are its key themes.

UK business secretary Vince Cable has indicated he is in favour of most of the recommendations, which include publishir the salaries of top executives, standardising remuneration reports, requiring fund managers and investors to disclose their votes on remuneration and a requirement for all listed companies to produce a fair-pay report.

Most significantly, the UK's new Enterprise Act would make shareholder votes on executive pay binding. Up for debate still whether a 51% vote will be required to block executive pay or if a 25% threshold will be considered enough. While the rep did not suggest a binding shareholder vote, says Ms Hargreaves, it argued for holding executives accountable to shareholders through a three-year advisory vote on remuneration.

"One of the key things we recommended was more power to shareholders and government is now going through with legislation to make it binding," she says.

The public campaign around executive pay has given rise to what could be called "a shareholder spring", says Ms Hargreaves, with several high profile and many smaller cases of shareholder revolt. In several instances, including that of company Central Rand Gold in March, which is listed in London, CEs have resigned after large no votes on their remuneration.

"There have been an increasing number of votes against, not always majorities against, but a rising protest vote. Consider that 40% of shares in the UK are held by overseas owners, many of whom trade in and out quickly, it is hard to get a big shareholder vote. So it is a sign that shareholders have caught up with the public mood and are starting to take remunerati votes more seriously," she says.

Shareholder activism has also extended to pension funds. The design of an on-line tool, which enables fund members to e mail fund managers to ask them to vote against pay in specific instances, is proving popular, she says.

However, three key recommendations made by the commission have not been adopted by the UK government. The first is for the simplification of pay packages of executives into a basic salary plus one additional performance- related element.

"Executive packages have been loaded up with so many share awards, bonuses, pension payments and payments in lieu pension and have become so complicated that you can't work out what people are getting.

"Plus, these are hardly incentivising management as executives don't really understand some of these share programmes and how they will pay out. These were meant to align executives interests with shareholders, but it hasn't really worked. In 2010, 98% of directors got their bonuses - that is not a bonus that is just an extension of pay," Ms Hargreaves says.

The commission's recommendation for an employee representative on a remuneration committee has also not been taken board by government and is strongly objected to by business.

Its recommendation that government establish a centre to monitor high pay - given the disputes over what executives actua earn - is a third recommendation that the UK government does not plan to act upon.

"What government has done is an important first step, but the measures will not be effective on their own. So we still need keep the pressure up," she says.

Source: Business Day