

Bosses' bonuses 'too easy' – survey

WAGE GAP: CEOS HAPPY TO TAKE ON SLACK PERFORMANCE BENCHMARKS

Ingé Lamprecht

Chief executives' performance targets may not be challenging enough because it seems easy for them to get their bonuses, a new survey says.

An analysis of pay practices at Top100 JSE-listed companies by boutique fund manager Mergence Investment Managers, says a significant portion of modern executive remuneration is variable. So much so, that the proportion indicates bosses are more than happy to take on the challenge of their bonus conditions.

Brad Preston, portfolio manager at Mergence, says listed companies' remuneration policies have become incredibly complex.

Variable pay packets make a lot

of sense to shareholders who want to see executives paid in line with the company's performance.

The downside, Preston says, is that targets are put in place and bonuses are paid based on targets, but the targets are often not fully disclosed to shareholders.

Mergence's analysis of variable pay packages in 2012 and 2013 suggest that roughly 50% of CEOs received a 100% or more of their base pay in variable remuneration. The other half received between 0 and 100%.

The table below shows that in 2013 26% of CEOs received variable pay of more than 200% of their base compensation. Seventy-four percent received 50% or more of their base pay in bonuses.

Preston says this is a concern as it suggests the average CEO could receive a 100% of his base salary in

variable pay which raises the fear that on an aggregate level, the targets for variable pay and bonuses might not be challenging enough.

He says while there are companies in SA that are making inroads in constraining executive remuneration and ensuring that lower paid workers' salaries are increasing faster, there are others where the wage gap is increasing.

Wage gap

While there is a need to attract and retain the best international talent, this has to be done with the necessary sensitivity for rising levels of inequality, he says.

Mergence's research into remuneration practices shows an upward trend over the last five years, with the gap between CEO total compensation and average employee compensation increas-

ing from just under 120 times in 2009 to over 140 times in 2013.

The trend appears to be driven by actual increases in remuneration packages rather than just variability in bonuses and share grants. Preston says the increasing gap between executive pay and worker salaries is a global phenomenon.

Against this background executive remuneration is potentially more of a concern for South African listed companies than their peers because they are operating in an environment where this is a very sensitive topic and there is a much larger inequality within the society as a whole, he notes.

Preston says what is concerning is that SA stands out as having a larger wage gap than quite a few of its developed and developing market peers.