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Reviewing banking CEO's compensation

Prof Jan Kruger, associate professor at the Unisa Graduate School of Business Leadership (SBL) and top SBL Master of Business Leadership (MBL) graduate Barend Deysel have released a study that scrutinises CEO compensation in the context of growth in the performance of five companies over a seven-year period in the banking industry.

This is in response to the current criticism by politicians, the media and unions of the current CEO pay levels at firms listed on the JSE, particularly when compared with average employee salaries. The Gini coefficient index consistently ranks South Africa among countries with the highest levels of inequality between high-income groups and groups earning a basic wage, supporting public comment by union representatives that either the country's lower level employees are underpaid or senior employees are overpaid.

However, according to Kruger, these emotionally charged overgeneralisations are often not based on facts. The study outcome was determined by looking at the relationships that exists between CEO compensation, the company's performance, general employee compensation, company size, its peers, the general market performance and the general level of inflation.

"Overall, there is a statistically significant positive long-term correlation between the JSE Banking Sector market performance and CEO compensation," Kruger explained. Three out of five South African banks in the study showed a significant correlation between performance and compensation, giving merit to the CEO compensation rates at these banks.

Overcompensation in two banks

However, two of the five South African banks showed CEO overcompensation when compared to both company performance and the CEO compensation packages of their peers. "In both instances, CEO compensation significantly topped company performance measured over a seven-year period." When Kruger did an analysis to determine the underlying motivation for compensation, some justification was provided. However, the absolute levels of compensation remain contentious.

"In any organisation, it is important for shareholders that profit is generated. A key motivational factor in achieving this is that CEO compensation should be linked to performance levels. Employee salaries have less of a connection with performance. This means that a relatively insignificant portion of an average employee's salary comprises variable remuneration, in comparison with a CEO's compensation, which includes a substantial variable portion."

He highlights the recent phenomenon of certain CEOs willingly relinquishing their bonuses, the variable portion, when the companies they lead perform poorly. In 2012, Investec CEO, Stephen Koseff had his compensation cut by 87% while also asking not to be considered for a bonus. In the 2012 financial year, ABSA's CEO, Maria Ramos, deferred her R14 million incentive bonus. She would receive the bonus in shares in three equal portions in the next three years.

Kruger concludes that deeper investigation of correlative salary increases of CEOs and employees would inform future business discussions of organised labour and the issue of minimum wages.