

Executive pay is generally not suitable – study

THAT EXECUTIVE remuneration is far from an exact science is demonstrated by the results of the analysis of 230 companies undertaken by Prophet Analytics, which suggests that there is a significant tendency either to substantially overpay chief executives or to underpay them.

Featured on Prophet's list of overpaid chief executives are Glyn Lewis of Northam Platinum, Mike Upton of Group Five and Nonkululeko Nyembezi-Heita of Arcelor-Mittal SA (AMSA).

The firms overseen by each of these "overpaid" executives have been going through a particularly tough time in recent months. The platinum industry is currently in a slump as a result of weakening demand and difficult operating conditions.

After years of infrastructure spending, which underpinned strong profit performances by construction companies, Group Five's industry has been going through tough times. These have been made all the tougher by the competition authorities who are investigating allegations of anti-competitive behaviour.

Following years of profit-enhancing cost cutting, AMSA has been dogged by difficulties for years as various of its plants face forced closures for months at a time.

AltX and property are where most of the underpaid executives can be found, with the exception of Netcare's Richard Friedland.

The authors of the report contend that factors such as executive tenure, the number of employees and the value of assets under management should not be a consideration in determining executive remuneration. They argue that short-term profitability "is the sole rational basis for executive remuneration". They measure profitability as the return on shareholders' funds above the market return.

Absa Group is not included in the 230 companies surveyed, but it will be significant to see the extent to which executive remuneration rewarded to its executives on the basis of previous years' "overstated" profit will be clawed back in the wake of the significant write-offs taken by the company last year.

One thing seems certain, executive pay is controversial and is generally pitched at inappropriate levels. – Ann Crotty