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Are South African shareholders neglecting their responsibility to address the growing wage gap?

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Introduction



- ❖ South Africa has one of the **highest wage gaps** in the world
- ❖ Remuneration committees **justify** large executive packages
- ❖ Some top executives in South Africa also feel **entitled** to large packages
- ❖ The growing pay inequality, however, has many **adverse socio-economic consequences**



Introduction





Research questions



- ❖ Do (ordinary) **shareholders** have a **responsibility** to address the inequality caused by excessive executive remuneration?
- ❖ If so, **how** can shareholders go about investing in an ethically justifiable manner?
- ❖ Are South African investors **neglecting their responsibility** to address the growing wage gap in the country?
- ❖ If so, what can be done to **rectify** the situation?



RQ1: Shareholder responsibility



- ❖ **Goodstein and Wicks** (2007): shareholder responsibility is a function of:
 - **Reciprocity**
 - Companies benefit from ordinary share capital; shareholders benefit from dividends and capital gains
 - Mutual responsibility to fulfil duties (also to other stakeholders)
 - **Interdependence**
 - Parties share a common fate – unfair pay practices affect everybody
 - **Accountability**
 - Shareholders have a responsibility to keep remuneration committees accountable for their decisions



RQ2: Shareholder activism



- ❖ Different **shareholder activism** strategies:
 - **Engaging in private negotiations** with boards
 - **Voting** at annual general meetings
 - **Divesting** i.e. doing the 'Wall Street Walk'



- ❖ **Growth** in institutional shareholder activism **globally**
 - **Financial** activism (dividend policy, merger and acquisitions, share repurchases, etc.)
 - **Social** activism (sustainability, human rights, executive remuneration, etc.)



Shareholder activism (cont.)

- ❖ Marked increase in shareholder activism on remuneration concerns **post-2008**



- ❖ Research indicates **'no' votes** have led to **some changes** in remuneration policies



RQ3: Shareholder activism in South Africa

- ❖ Shareholder **apathy is rife**, despite King III, **legislative developments** and the code for responsible investing (CRISA)
- ❖ Most institutional investors prefer to **engage behind closed doors**
 - No data available on issues raised or companies' responses
- ❖ Few institutional investors attend and **vote at AGMs**
 - No standardised data available on voting outcomes





Shareholder activism in SA (cont.)



- ❖ Anecdotal evidence suggests a **growing discontent** among institutional investors regarding remuneration issues



Central Rand Gold



ArcelorMittal

- ❖ Given the lack of data on institutional shareholder activism, the focus shifted to **individual shareholder activists** in South Africa



Shareholder activism in SA (cont.)



- ❖ Theo Botha's journey started in **2002**
 - The SAGE Group – omitted losses in US operations from SA annual report
- ❖ The “**Botha sting**” has since become come powerful





Research design and methodology



- ❖ **Secondary qualitative data** collected on Botha's activism endeavours from May 2002 to July 2014
- ❖ Conducted an **in-depth personal interview** with Botha in July 2013 + following up discussions
- ❖ Applied the three phases of **deductive qualitative content analysis** as proposed by Elo and Kyngäs (2007)



Botha's modus operandi



Asks questions at AGMs (prepares meticulously)	136 AGMs
Makes comments about a specific company / director in the media	34 cases
Engages in private discussions with directors prior to or after the AGM	8 cases
Engages with the JSE about 'misbehaving' listed companies	3 cases
Initiates legal proceedings	2 cases





Issues addressed by Botha



❖ Botha mainly engages on **corporate governance issues**

Category		N		%
Financial			80	17.5
Corporate governance	Remuneration-related issues	87	325	71.1
	Board-related issues	102		
	Communication with shareholders	66		
	Corporate governance in general	70		
Environmental			11	2.4
Social			41	9.0
Total			457	100.0



Issues addressed by Botha (cont.)



- ❖ A **quarter** of all issues raised by Botha centred on remuneration:
 - **Lack of clarity on remuneration policy** (what are the performance targets, benchmarks and key performance indicators used?)
 - Justification for the **size and composition** of remuneration packages in light of **poor financial performance**
 - Failure to **link pay to performance** and attendance of board meetings / Failure to **cap** bonuses
 - **Faulty reporting** of certain payments

- ❖ Botha is **highly critical** of apathy amongst institutional investors on these issues



RQ4: Promoting shareholder responsibility in South Africa



- ❖ The evidence suggests that institutional investors in SA are indeed **neglecting their responsibility** to address the growing wage gap

- ❖ What could be done to **rectify** the situation?
 - The SA **legislator** could change the non-binding vote on companies' remuneration policies to a **binding vote** (as in the UK)

 - The **legislator** could also institute a '**two strikes rule**' (as in Australia)



Summary and conclusions (cont.)



- ❖ What could be done to **rectify** the situation? (cont.)
 - The **JSE** could amend its **Listing Requirements** to obligate greater disclosure on companies' remuneration policies
 - More **consultants** could offer **specialised voting services**
 - **Industry bodies** could call for more **standardised disclosure** on voting policies and practices among members
 - **Business educators** should instil a greater sense of **moral sensitivity, judgement and courage** among students



Summary and conclusions (cont.)



“It is time that institutional investors in South Africa start taking up the flame [on this burning issue]” (Botha, July 2013)

Thank you. Questions?