Forcing disclosure of wages and executive pay in South Africa is a good idea

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Plans are afoot to make amendments to South Africa's Companies Act that would require companies to report on wage differentials. This is the gap between executive pay and the lowest paid workers in the company.

The announcement was made by South Africa's Minister of Trade and Industry Ebrahim Patel.

This is a significant development. And in my view, long overdue.

The proposed change would go some way to address the challenge of inequality in South Africa as well as better regulate excessive executive pay. This is because transparency about wage differentials will mean companies cannot continue to ignore the inequalities in earnings in South Africa. Transparency will also enable social actors to question inequality in companies and to change it. On top of this, at least in theory, the massive inequalities between executive pay and the wages of workers would put some pressure on the highest earners to curb their excessive pay.

In my view, this approach to addressing the problem may be more effective than laws that stipulate maximum pay.

The disclosure approach would help modernize South Africa's corporate reporting in line with a framework designed to measure performance beyond financial returns to include environmental, social and governance responsibilities of business entities.

South Africa is one of the most unequal societies in the world. The country's gini-coefficient—which is used to measure levels of income inequality in a country—is the highest in the world among countries that have data to construct the index. It is estimated to be 0.65. Even very unequal societies in Latin America, such as Brazil (0.51) and Chile (0.48) have lower levels of inequality. At the other end of the spectrum, are egalitarian countries like Sweden's 0.29 and Denmark's 0.28.

Levels of inequality are borne out by a host of other statistics too. For example, the top 0.01% of the wealthiest South Africans—3500 individuals—own 15% of the total wealth in the country. Whereas the top 1% of individuals each have net wealth of R17.8 million, the bottom 50% of South Africans have net wealth of -R16 000. In other words their liabilities exceed their assets.

The initiative announced by the minister of trade and industry Ebrahim Patel comes against a backdrop of increasing awareness of the excessive levels of executive pay in the country. CEOs of the top companies in South Africa earn, on average, R24 million per year while the minimum wage for workers is just above R21 per hour—about R43 000 per year. One of the most striking statistics that demonstrates the massive wage inequality in South Africa was the calculation that it would take a low paid worker at Checkers—a large food retailer—290 years to earn the equivalent of what then its then CEO Whitey Basson earned in one month.

This is not the basis for a sustainable society. This level of inequality is a structural trap that holds people back, leads to lower levels of economic growth, and sooner or later, to much higher levels of social unrest.

Why it matters

The amendments being proposed are innovative. But they are by no means unusual. Companies being required to go public with this information is increasingly becoming the norm across the world.

The environmental, social, and corporate governance investment framework evaluates companies beyond their financials. It also measures them on environmental, social and governance performance. This approach is being used widely across the globe and more and more investment decisions are now based on this framework.

Within the 'social," companies are evaluated on the labor practices and levels of inclusion. For example, does the company pay fair wages; does it have good relationships with the communities around it; does it train workers; does it promote small business?

One measure is whether the gap between workers and executive pay is fair and justified.

A number of countries have laws in place that require companies to report on pay gaps. In California, for example, firms are required to submit pay data reports. In Europe and the UK, companies are required to report on the gender pay gap within their organization. The UK legislation has been effective at making gender pay inequality transparent.

South Africa's own corporate governance codes—the King IV report—is also in line with this framework, emphasizing the fact that companies are part of a wider society where inclusivity and sustainability need greater attention.

There is a lot that needs to be clarified about the proposed amendments: will it apply to all companies, or just listed companies? Will it apply only to large companies, with an employment threshold, such as the employment equity reporting requirements, which apply only to companies that employ more 50 workers? Will the amendments include the requirement to report on the gender pay gap, as is the case in many other jurisdictions? How is 'executive' defined? How does the legislation propose to deal with extensive sub-contracting arrangements that often hide low-paid work in so-called independent companies?

And will the minister use the opportunity to introduce tighter controls and reporting requirements on environmental considerations?

First step

Legislation to require reporting on issues such as wage differentials, the gender pay gap, and the impact on the environment are important for accountability and for creating the conditions for a more equitable society. But it's important to recognize that changes to the law, on its own, won't ensure more inclusive and equitable organizations.

As a society, South Africa needs to use the legislation to pressure companies to change the patterns of wage differentials. Without social action, the legislation alone will not change behavior.

For example, South Africa's Companies Act gives a lot of power to shareholders. Yet, shareholder action to hold executives accountable is not a hallmark of the country's corporate governance milieu. Even when highly paid executives have failed to perform, shareholders have found it difficult to hold executives to account..

To ensure more equity and accountability, the amendments being proposed by the minister will require civil society organizations, NGOs and trade unions to use the data for social action aimed at promoting inclusivity and equity in companies.

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