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IS THE CEO OF INVESTEC OVERPAID?

An analysis of executive director remuneration

1. Abstract

Sharpe, Mackay, Rankin and Aling in 'Are South Africa's CEO's overpaid' (2012) find that the chief executive officer (CEO) of Investec is the most overpaid CEO in South Africa. In the context of South Africa's income inequality and other social problems we investigated this claim by using a case study approach. We found that the Sharpe *et al.* (2012) approach did not accommodate individual company and sector circumstances and was thus too broad in scope to offer a definitive answer. We compared the remuneration of Investec's CEO with that of the other large South African banks and explained why an international comparison with peer companies is more appropriate. In addition we pointed out the problem with peer group comparisons, namely that it is unable to address the possibility that CEO's as a class are overpaid, and compared Investec's average executive director remuneration with that of the average employee.

Our results indicate that compared to other companies the CEO of Investec is not overpaid. Compared to the average Investec employee the CEO seems overpaid. This finding is related to the problem of inequality in South Africa and we argue that that peer group comparisons should not be accepted as the primary rationale for executive remuneration in South Africa.

2. Keywords

Executive remuneration; Investec; Peer group evaluation

3. Introduction

"John Pierpont Morgan, a robber baron, reportedly believed that a boss should earn no more than 20 times the wage of his lowliest (not median) underling." (The Economist, 2011)

A study conducted by Sharpe, Mackay, Rankin and Aling (2012) drew attention to the large remuneration packages that many South African CEO's receive. At the top of their list of overpaid South African CEO's was Investec's CEO, Stephen Koseff. The aim of this paper is to investigate this claim.

A detailed investigation into the remuneration practices at one specific company is of more interest if it contributes to our understanding of the context in which that practice took place. The context for the investigation is an international consensus that company CEO's have done very well (and possibly too well) in the last three decades; called a "dramatic rise in CEO compensation" by Elson and Ferrere (2012:3) or "CEO pay is out of whack" by the W.P. Carey School of Business at Arizona State University (2012). This increasing trend in CEO pay is even more worrisome in the South African setting. South Africa is one of the most unequal societies in the world (The World Bank, 2012:viii) with unemployment as a major contributor. Very high and increasing CEO pay will exacerbate inequality and possibly give rise to social tensions. Income inequality was even named as one of the contributing factors in the Marikana tragedy (Martinez & Visser, 2012). According to Deputy President, Kgalema Motlanthe, the distribution of wealth in the South African economy is "unfair" and "an ingredient for revolution" (Martinez & Visser, 2012).

A case study research design is used to investigate whether Stephen Koseff was overpaid (2008 to 2011). 2011 was the year of the Sharpe et al study. According to Bryman & Bell (2007:64) case study researchers often argue "that they aim to generate an intensive examination of a single case, in relation to which they then engage in a theoretical analysis". Our aim with this investigation is more modest in that we want to answer the specific question as an exploratory contribution in the theoretical analysis of CEO remuneration in the South African context. Two themes will be used to guide the data gathering process:

- How does Investec's CEO remuneration compare to that of other companies; competitor South African banks and international peer companies and
- How does Investec's CEO remuneration compare to the average Investec employee's remuneration.

The first theme is a variant on the standard practice of benchmarking pay to that of peers (Elson & Ferrere, 2012:6). In the process of investigating this theme it became clear that Investec regards itself as incomparable to the other large South African banks and this necessitates the consideration of international peer companies as well. Peer group comparisons are unable though to address the possibility that CEO's as a class are overpaid. Arguably it is this argument that is most important in the South African setting.

Primary and secondary data will be gathered as part of our investigation. Primary data will be obtained from interviews with Investec officials and secondary data will be obtained from company financial statements.

The study makes two contributions to South African accounting research. First, it investigates a specific claim made about the level of remuneration paid to the CEO of Investec. We find that compared to other large South African banks or an international peer group, Stephen Koseff is not overpaid. However, an analysis of the difference between Mr Kosheff's remuneration package and that of the average worker at Investec shows that the CEO's remuneration has risen significantly over the years in relative terms. These findings point towards CEO's as a class extracting significantly more remuneration from the economy than in the recent past. The second contribution is related to the problem of inequality in South Africa; our findings indicate that peer group comparisons should not be accepted as the primary rationale for executive remuneration in South Africa.

The paper proceeds as follows: section 3 discusses related literature, section 4 describes the methods and the data that will be used to address the research question, section 5 discusses and interprets the results and section 6 provides the conclusion.

4. Literature review

The policies that relate to South African CEO remuneration have been drawn evermore into the limelight. To further understand the breakdown of such remuneration, previous academic literature will be reviewed. Particular focus will be placed on; the drivers of remuneration, the financial crisis and remuneration, as well as remuneration in South Africa specifically.

a. Drivers of remuneration

In order to determine the remuneration of CEO's in business, there are various factors that influence the amount of remuneration which need to be considered. CEO compensation is usually composed of a base/guaranteed salary, an annual bonus plan as well as a long-term incentive plan (Bushman, Indjejikian & Smith, 1995:162). In the study, 'Are South Africa's CEO's overpaid' by Sharpe *et al.* (2012), they use tenure, employees and excess returns over shareholder's funds as measures to explain the variation in CEO salary. This yields the result that the CEO of Investec is overpaid by about R30 million for their 2011 year-end. This regression however gives a very poor fit (R2 of only 0.23) which shows that in South Africa there are many other factors to take into account in order to explain the variation in the remuneration. The model is basic and therefore omits too many fundamental factors when considering remuneration, which doesn't allow CEO remuneration in South Africa to be justified by the metrics used.

When the drivers behind CEO remuneration are considered; there are numerous factors to consider that may affect the composition of remuneration packages. These can be divided into three aspects namely; firm specific factors, individual factors and unobservable factors (Graham, Li, & Qiu, 2011). Firm specific factors are ones such as stock price, company profit, company size and so forth, individual factors are factors such as tenure and gender, and unobservable factors are factors such as latent managerial skills (Graham, Li, & Qiu, 2011).

In the article, 'Is Executive Remuneration out of Control?', Theunissen (2010) investigates whether CEO's in South Africa are indeed well-rewarded, to the detriment of other employees and if their remuneration can be justified in comparison with their performance. Theunissen (2010) analysed the data of 326 companies for the period of July 2008 to June 2009. In the study, Theunissen (2010) states that the variable part of remuneration is in fact positively linked to the JSE all-share index. A major source of the remuneration of CEO's are share options, which academics and remuneration committees believe align the interests of the CEO's with that of the company (Theunissen, 2010). Theunissen (2010) also finds that the performance of the individual companies is by no means a determinant of executive compensation. Owing to these findings, Theunissen (2010) concludes that remuneration committees are responsible for the remuneration of the CEO's and it is their diligence that should be questioned.

Another driver of CEO remuneration is growth opportunities for the company and the stage of the product life cycle (Bushman, Indjejikian & Smith, 1995:172). If the company has positive growth opportunities and is in the growth phase of its business life cycle, CEO remuneration tends to be higher. The study by Bushman, Indjejikian and Smith (1995) also includes many company specific variables such as CEO tenure and firm size in their models. In opposition to Theunissen (2010), a large portion of CEO's bonus is found to be determined by company specific performance (Bushman, Indjejikian & Smith, 1995:189).

James Johnston (2002:995) suggests that the explanatory variables for the variation in CEO remuneration are: company sales, profitability, corporate governance, tenure (job and company), promotion, age and sector. The promotion variable determined whether the CEO has been promoted internally or from an external source; this proves to be significant and negative and shows that internally promoted CEO's earn more (Johnston, 2002:995). The corporate governance variable indicates the presence of a remuneration committee; however this proves to be insignificant (Johnston, 2002:995). The sector variable proved highly significant as does company sales and profitability, which differs to Theunissen (2010) again (Johnston, 2002:995).

The drivers of CEO remuneration in Australian banks were researched by Hristos Doucouliagos, Janto Haman and Saeed Askary (2007:1363). Doucouliagos, Haman and Askary's (2007:1363) results showed that there exists an "absence of a contemporaneous relationship between directors pay and bank performance, and no association with prior year performance". This corresponds to the findings on the JSE. Doucouliagos, Haman and Askary (2007:1363) also found that that the key indicators of CEO remuneration in Australian banking are "bank specific managerial policies, lags in the administration of pay, bank size, directors' age and directors' stock ownership". Furthermore, Doucouliagos, Haman and Askary (2007:1363) discovered that CEO performance has played an increasingly more important role in their pay.

b. Financial crisis and remuneration

The 2007 financial crisis has been considered as the worst financial crisis since the Wall Street crash of 1929, and is believed to be the greatest financial downfall in recent history. The crisis left a wake of unemployment, bailouts and hardship resulting in excessive CEO remuneration being brought into the spotlight (Theunissen, 2010).

In the face of the recession, one would expect all the ‘players’ of the economy to be affected by its negative consequences, yet it remains evident that CEO’s managed to maintain their pay and in some cases even experienced increases in compensation (Anderson and Pizzigati, 2011).

In the South African context, the average remuneration of CEO’s in 2006 was 39 times that of the average worker. In 2009, this figure decreased to 36 times, yet the basic CEO salary (excluding benefits) increased from 18 times the average worker salary in 2006 to 20 times in 2009 (Theunissen, 2010).

It is evident that over the period of the financial crisis, the basic salaries of CEO’s continued to increase whilst the variable portion of their remuneration decreased, most likely due to the diminishing earnings and performance figures of many companies over this period of financial distress (Theunissen, 2010). Over the 2006 to 2009 period, CEO remuneration increased by 11.5% per annum whilst the yearly earnings of the average worker increased by 15.4% per annum over the same period. It must be noted however, that the basic CEO salary increased by 19.9% per annum over the 2006 to 2009 period (Theunissen 2010).

A study undertaken by Fahlenbrach and Stulz (2011) found that although there is belief that CEO’s created unnecessary risk for their companies to benefit their remuneration packages, CEO’s did not fail to align their incentives with shareholder interests.

It is evident that if CEO’s had taken risks that they knew were not in the interests of their shareholders’, one would expect to find that these CEO’s would have sold or shorted shares ahead of the financial crisis. This however, is not the case. However, employee share options result in significant upside and limited downside whilst for shareholders taking additional risk may result in both positive and negative outcomes.

The issue behind this topic is whether these CEO's deserve the compensation that they have received and whether their compensation reflects the skill and stress that revolves around preventing a company from experiencing financial distress and bankruptcy (James F. Reda and Associates LLC, 2009; Greenfield, 1999).

c. Remuneration in South Africa

Excessive CEO remuneration is a worldwide phenomenon. In South Africa in particular, the remuneration of company executives has come under intense scrutiny, especially during these turbulent financial times.

In an interview with the Financial Mail in 2008, Trevor Manuel mentioned, "In a country with the inequality and unemployment that we have, some of these exorbitant salaries are simply repulsive". Speaking at a Business Unity South Africa conference in November 2011, Finance Minister Pravin Gordhan reiterated this viewpoint stating that "remuneration links to the whole debate around inequality and I think there isn't enough coming from business at this time". There exists, in South Africa, a high level of income inequality and this differential carries over to the corporate sector where wages of South Africa's executives have doubled since 1995 according to P-E Corporate Services (2012). South Africa has some CEO's being paid 40 times the average salary of employees.

Despite efforts to reduce inequality and close the gap between executive compensation and compensation of employees, the gaps have become greater, not smaller. Nkosi (2010) proposes that this does not work in favour of national interest and hints that it leads to worker discontent, strikes and cripples services and the economy. Theunissen (2010) states that it takes two and a half months for the average South African CEO to earn R1 million and the average paid South African worker takes more than eight years to earn the same sum of money. Nkosi (2010) suggests that the reason CEO's receive such exorbitant compensation is that better paid executives are less likely to be inefficient and costs of inefficiency are greater than the cost of hiring a competent executive. In defence of CEO compensation, the Managing Director of P-E Corporate Services, Martin Westcott (2011) says: "Our executives are earning less than people in the US, UK and developed countries. But their spending power is higher, as the cost of living in South Africa is relatively low". Contrary to conventional belief, CEO's earn up to 52 times more than junior staff – this is the lowest worker-boss pay differential since 2004, therefore the gap is actually narrowing according to P-E Corporate Services (2011) .

The South African Companies Act (2008) requires all remuneration and benefits received by directors to be disclosed, whilst the King Code of Governance requires this disclosure to be fair and responsible. Consequently, CEO remuneration; should be enough to attract the right candidate; should be able to be sold as fair in the context of other salaries in the organisation; shouldn't stress the organisation's finances and should send the appropriate signal to the person, the staff and stakeholders. Despite the proposed intention of these guidelines, Ramahlo (2012) found that these measures have pushed up remuneration instead of curbing it.

Sharpe *et al.* (2012) displayed that if only excess return on shareholders' funds are included in a regression, 99.3% of variation in CEO pay is explained by factors other than firm profitability. Therefore, CEO remuneration is significant, based on motives that are hidden or unclear. In their article, it is evident that two factors are propelling excessive remuneration in South Africa; namely new technologies and immigration laws. CEO's who are able to navigate through the many threats and take advantage of many opportunities offered by technologies have commanded a substantial premium over the average worker. In terms of immigration laws boosting remuneration, the Immigrations Act of 2002 made it difficult for foreigners to work in South Africa. This served to create a shortage of senior managers allowing existing CEO's the opportunity to command salaries in excess of what is appropriate.

d. Conclusion

The literature review reveals that the factors, included by Sharpe *et al.* (2012) in their model to determine whether the CEO of Investec was overpaid in 2011, were too few and too basic to adequately answer the question. Unique company and sector circumstances can justify a higher level of remuneration. The use of comparisons to peer group companies overcomes most of the individualisation problems (that an average model cannot capture unique company and sector circumstances), but it remains a technique that gives a relative answer. If the benchmark is unreasonable then this technique will not help in any way to deviate from that benchmark. The literature review also shows that remuneration globally and in South Africa declined post the financial crisis and that executive remuneration is a very sensitive and possibly explosive social issue in South Africa.

5. Research method

a. Research approach

The quantitative research tradition has been closely linked to positivism, the aim of which, according to Coetsee (2010), 'is to record an objective reality that exists independently from human behaviour'. This paper, however, investigates a phenomenon where human behaviour is central and thus a world view that assumes an objective outside reality is inappropriate; therefore a more qualitative approach is needed. But, the choice of a qualitative approach is not at the total exclusion of quantitative data.

In addition, Robson (2011) prefers the fixed design versus flexible design distinction as opposed to the quantitative versus qualitative distinction. In agreement with his distinction, the exploratory/descriptive aim of this study is best approached within a flexible design approach.

A case study design is used. Case studies are the preferred method when (a) a 'how' or 'why' question is being asked, (b) the investigator has little control over events, and (c) the focus is on a contemporary phenomenon within a real-life context (Yin, 2009:2). Structure is added to the research approach by using the following two themes to guide the data gathering process:

- How does Investec's CEO remuneration compare to that of other companies; competitor South African banks and international peer companies and
- How does Investec's CEO remuneration compare to the average Investec employee's remuneration.

Both primary and secondary data are utilised. Primary data has been gathered using key informant interviews, feedback at presentations and email exchanges with the investor relations departments of the banks. Secondary data was sourced primarily from the annual reports of the companies and comprise the bulk of the evidence presented.

b. Unit of analysis

The unit of analysis is the company Investec Limited and the remuneration it paid to its CEO for the years 2008 – 2011.

6. Descriptive work, evidence and discussion

Mr Kosheff's remuneration will be compared to the remuneration of other CEO's of banks in South Africa and internationally. The latter approach is as a result of Investec's international operations and dual-listing. Further analysis will also be performed on Mr Kosheff's salary in relation to the average employee at Investec.

a. Comparison to South African Banks

	2012	2011	2010	2009	2008
Investec	5332500	38223000	32930800	24617800	47187225
Absa		20657293	19557779	13546829	11880533
FirstRand		19583000	16811000	9904000	12720000
Standard		27242000	6525000	5953000	14081000

Graph 1: Salaries of South African CEO's (Source: Company records and financial statements)

Note: The salaries of Absa, FirstRand and Standard bank for 2012 had not been released at the date of compilation.

The CEO of Standard Bank, Jacko Maree, received a total compensation of R27.2 million for the 2011 year which was made up of a basic salary of R6.9 million, R9 million deferred performance reward, R8.8 million cash reward and share options valued at R2.5 million. In 2010 however, Maree received no bonus, a basic salary of R6.5 million and only R500 000 in conditional share incentives which are due to vest in 2010. It is important to note that Maree did not receive a bonus in 2009 and 2010 as a result of declining profits due to the financial crisis (Bonorchis, 2012b).

Nedbank CEO, Mike Brown, received a total remuneration of R15.683 million for the 2011 year, an increase of 26% from 2010. This salary is made up of several components including a basic payment of R5.256 million, other benefits (such as retirement fund benefits) of R727 000 and a short-term incentive grant of R9.7 million (Clark, 2012).

Maria Ramos, CEO of ABSA, received a R14 million incentive payment, coupled with a total fixed remuneration figure of R6.657 million (which includes pension provision, medical aid etc.) in 2011, resulting in a total remuneration of R20.65 million. This represents a 5.6% increase from her 2010 total remuneration of R19.557 million (Clark, 2012).

The CEO of FirstRand Bank, Michael Jordaan, received a base cash salary of R4.283 million and R904 000 in retirement and medical aid benefits. This results in a total fixed payment figure of R5.187 million. Jordaan further received a performance bonus of R6.36 million and a deferred performance in FirstRand shares of R3.24 million. Jordaan therefore received total remuneration of R14.787 million for 2011. This represents an increase of 16.22% from the 2010 figure of R12.723 million, and a 39% increase from R10.631 million in 2009 (Clark, 2012).

It is clear from the quantitative evidence above that Investec's CEO, Mr Kosheff, receives the highest remuneration package out of his South African peers. Further discussion on the breakdown of his remuneration package will be given in the following section.

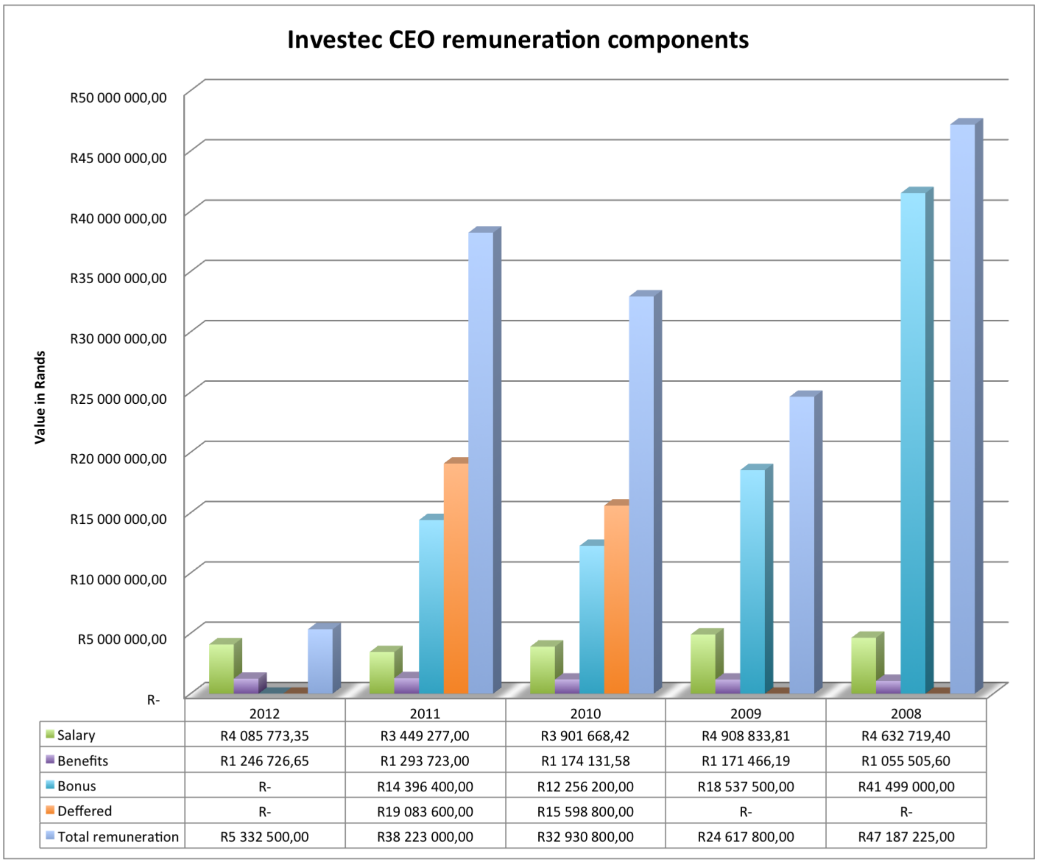
b. Investec's remuneration policy

Investec provides a very comprehensive remuneration report in their annual financial statements. The remuneration committee, led by George Alford who is a non-executive director, has reviewed Investec's remuneration policy to determine its validity after the intense scrutiny the company faced in the wake of the financial crisis (Alford, G. personal interview, 2012 September 3).

In the financial statements of Investec they list three components of executive remuneration, namely (Investec Limited, 2012):

- An industry competitive annual package (Salary, benefits)
- A variable performance reward (Bonus)
- Ownership in the form of a share incentive scheme.

Investec's executive directors are paid according to a benchmark and they consider the FTSE 350 General Finance firms in providing the most appropriate benchmark to date (Investec Limited, 2011:257).



	2012	2011	2010	2009	2008
Salary	R4 085 773,35	R3 449 277,00	R3 901 668,42	R4 908 833,81	R4 632 719,40
Benefits	R1 246 726,65	R1 293 723,00	R1 174 131,58	R1 171 466,19	R1 055 505,60
Bonus	R-	R14 396 400,00	R12 256 200,00	R18 537 500,00	R41 499 000,00
Deffered	R-	R19 083 600,00	R15 598 800,00	R-	R-
Total remuneration	R5 332 500,00	R38 223 000,00	R32 930 800,00	R24 617 800,00	R47 187 225,00

Graph 2: Components of Investec's CEO's Remuneration (Source: Company records and financial statements)

From the above graph 2, it can be seen that the fixed portion (salary) is very constant and kept relatively low in comparison to the bonuses and deferred components. Making up the major part of the remuneration rather, is the annual bonus, which is a performance-based reward. The deferred bonus, introduced in 2009, shows that a significant portion of the CEO remuneration is deferred, whereby after a specific period of time the share equivalent of the amount vests with the CEO and he is able to gain access to the funds by selling the shares.

When considering Investec and its remuneration policy, three key traits of the company need to be considered and explained in order to understand the reason for the company's 'excessive' remuneration; namely the fact that the company operates internationally, is dual-listed and is a bank. In an interview with the head of the remuneration committee, George Alford, further elaboration of these specific factors were given, which are discussed in the following section.

c. International operations and dual listing

Investec is an international company in the sense that it has operations in four principal markets in three continents across the world. Its headquarters are based in both Johannesburg, South Africa (where the company is listed on the Johannesburg Stock Exchange) and in London in the United Kingdom (where it is listed on the London Stock Exchange). It also has key operations in Ireland and Australia (Investec Limited, 2012).

The impact of this is that each country will constitute its own set of rules, regulations and standards that govern the actions and performance of Investec as an international company as a whole. Thus, a difficulty arises in setting a global standard that can apply to all the Investec employees worldwide.

Investec has chosen to adopt one high-level set of standards to suit its business operations on an international level. Policies relating to operations in each country can thus not easily be compared at the operational level which is why the remuneration policy, which is set to standards in the United Kingdom, cannot be compared to the policies set in South Africa by Investec’s competitors and associates.

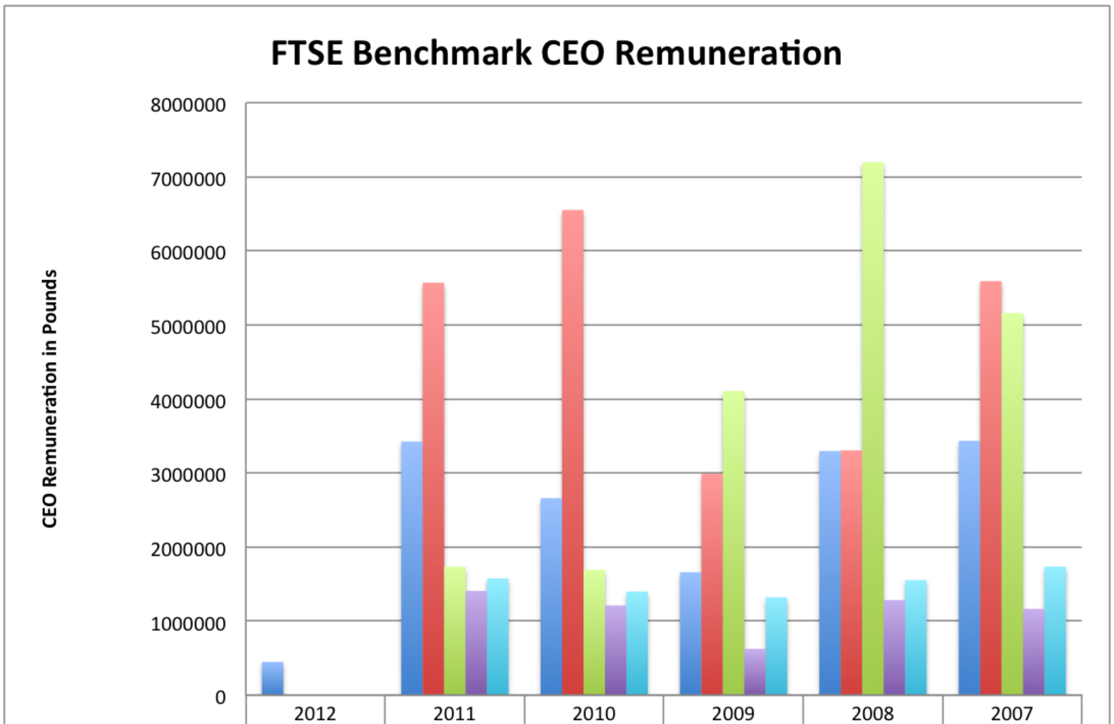
Investec states in their remuneration reports that they use the FTSE 350 general finance index as a benchmark to which they compare their remuneration for their executives.

Investec is a very unique and unusual organisation and thus finding an appropriate index is a very difficult task for the company to deal with. The company acknowledges that the FTSE is no longer a very accurate index to use as a benchmark owing to the FTSE not being directly related to the South African markets, as well as the emergence of 'new-age' companies in the FTSE that include doorstop lenders and other forms of micro-lenders. Despite this, the FTSE remains the most suitable and appropriate of the available options (Bonorchis. 2012a). Ideally, a hybrid index that could include companies that are similar to Investec in terms of operations in both the UK and South Africa would be best-suited to use as a benchmark.

For purposes of our own analysis, we set out to identify companies in the UK, whose operations relate the closest to Investec's operations. The following four companies were selected, in order to compare their corresponding CEO remuneration and return on equity to that of Investec:

Company	**Main Business Focus**
Schroders	Asset Management and Private Banking
Man Group	Hedge Fund
Provident Financial	Personal Loans Provider
Close Brothers	Private banking, Securities trading and Asset management

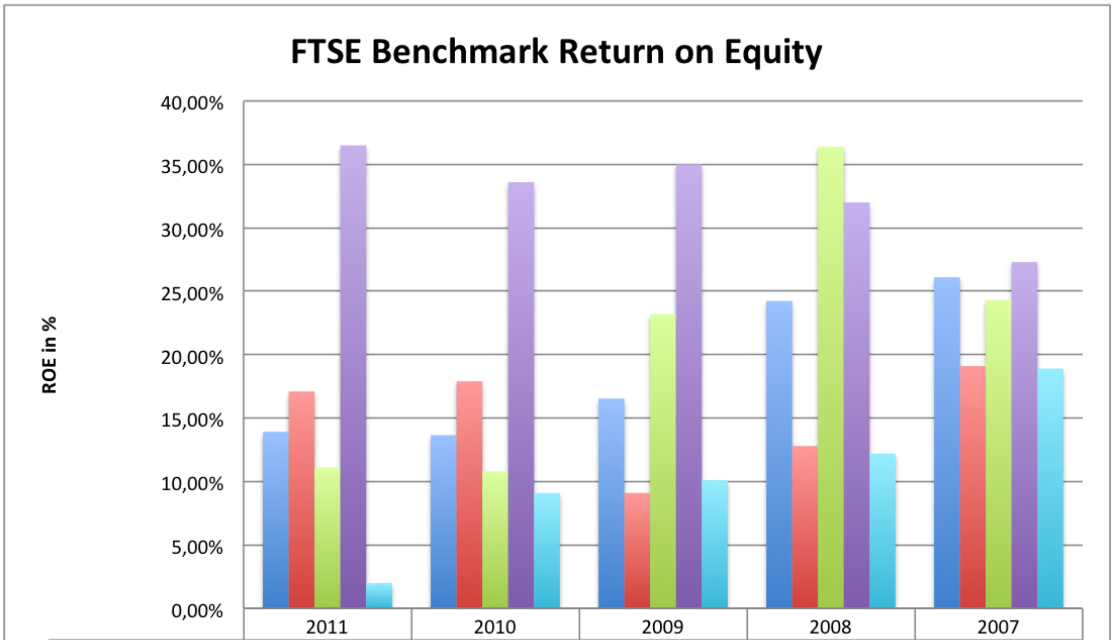
As can be seen below in graph 3, the remuneration received by Investec's CEO is not significantly more than those of the benchmark firms selected. Mr Kosheff is in fact not the highest paid CEO out of the benchmarks, as Schroders' and Man Group's CEO's are paid more than that of Investec.



	2012	2011	2010	2009	2008	2007
Investec	450000	3425000	2660000	1660000	3297500	3435000
Schroders		5570000	6552000	2992000	3306000	5591000
Man Group		1734000	1692000	4108000	7197000	5159000
Provident Financial		1408000	1212000	626000	1284000	1166000
Close Brothers		1577000	1400000	1322000	1554000	1737000

Graph 3: FTSE Benchmark CEO Remuneration (Source: Company records)

Next, the return on equity (ROE) of each of these companies was investigated, as can be seen below in graph 4. Even though Investec's ROE has declined, they have kept it at the median of the benchmark firms. Investec has provided an acceptable ROE relative to the numerous risk mitigation regulations that they have faced. The Close Brothers are perhaps Investec's most closely related competitor and when one considers the ROE they provide it is clear that Investec has performed relatively well under difficult market conditions.



	2011	2010	2009	2008	2007
Investec	13,92%	13,65%	16,54%	24,23%	26,10%
Schroders	17,10%	17,90%	9,10%	12,80%	19,10%
Man Group	11,10%	10,80%	23,20%	36,40%	24,30%
Provident Financial	36,50%	33,60%	35,00%	32,00%	27,30%
Close Brothers	2,00%	9,10%	10,10%	12,20%	18,90%

Graph 4: FTSE Benchmark Return on Equity (Source: Company records)

The results of these analyses shows that in comparison to companies in the UK, whose operations relate the closest to Investec operations, the CEO of Investec is not overpaid.

d. CEO remuneration in comparison to the average Investec employee

For this part of the study financial statement data was source from McGregor BFA, based at the University of Pretoria. McGregor BFA is a major provider of information for the financial analysis of South African listed and de-listed companies. The following data was extracted on the level of Investec Plc. (this is the highest group company and equivalent to Investec Limited):

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Directors' emoluments	7977	16326	9784	7254	11778	12078	8403	5620	4260	2822
Staff costs (excluding directors' remuneration)	831076	795592	600378	520271	552419	447952	391283	297460	260974	222377
No. of executive directors	4	4	4	4	4	4	4	4	4	4
No. of staff	7781	7237	6123	5951	6333	5430	4453	4163	4458	4874
Average directors remuneration	1994	4082	2446	1814	2945	3020	2101	1405	1065	706
Average staff member remuneration	107	110	98	87	87	82	88	71	59	46
Ratio	**19**	**37**	**25**	**21**	**34**	**37**	**24**	**20**	**18**	**15**

Table: Calculation of the ratio between the average executive director’s remuneration and that of the average staff member

As can be observed in the above table the relative remuneration of the directors peaked in 2007 and 2011 (the year of the Sharpe *et al.* study). In 2012 the ratio fell back radically but is still above the level of 2003. The implication is that executive fixed pay in 2012 is still so high that it far exceeds the relative pay in 2003 that included variable portions.

7. Recommendations for further research

There exists a great degree of subjectivity involved in the decision of what exactly CEO's should earn. What we will deem the 'human element' is unquantifiable. The 'human element' means that there may be a certain relationship between a remuneration committee member and a CEO or something to this effect that has an influence over how much the CEO receives. For this reason, it is difficult to cover all variables that influence the remuneration package. CEO remuneration cannot be assessed in isolation, as anchoring bias exists.

If this issue is to be researched further, earnings of CEO's before they had their particular position should be examined. This would provide a more adequate relative measure of how much their salaries have increased. Furthermore, a more in-depth analysis on the joint earnings of both the CEO and Managing Director of Investec could be investigated.

8. Conclusion

The study by Sharpe *et al.* (2012) claimed that Investec's CEO is the most overpaid CEO in South Africa. This claim is especially interesting within the debate on excessive executive remuneration and the high level of inequality in South Africa with its potential for instability. The aim of this exploratory article was to investigate this claim.

A case study research design was used to gather detailed evidence. When working with human actors it is important for the researcher to get as close as possible to the data. Two themes that guided the data gathering process emerged from the literature review:

- How does Investec's CEO remuneration compare to that of other companies; competitor South African banks and international peer companies and
- How does Investec's CEO remuneration compare to the average Investec employee's remuneration.

We did a comparison between Investec and the other South African banks, in which we found the CEO of Investec was earning more than the other South African banks' CEO's. Next, we investigated Investec's remuneration policy to determine the reasoning behind the seemingly large remuneration packages. We found that Investec uses the FTSE 350 general finance index as a benchmark for their remuneration. Investec is dual-listed, both on the Johannesburg Stock Exchange and the London Stock Exchange. Accordingly, the remuneration of the CEO of Investec was compared to the remuneration of CEO's of four comparable companies in the UK whose operations are deemed to be similar to those of Investec. It was found that the CEO of Investec was earning less than the other CEO's.

Compared to the average Investec employee it was found that the CEO earns a large multiple (more than 20 times) of the average employee's remuneration, that the multiple grew from 2003 and peaked in 2007 and 2011 and has since declined. Based on this multiple the CEO remuneration in 2011 seems excessive. It is argued that this part of the investigation points towards the South African problem of income inequality.

The conclusion of our study is that the claim by Sharpe *et al.* (2012) is not well substantiated. Compared to a peer group the CEO of Investec is not overpaid. Compared to the average employee he is. Our recommendation is that the focus in South African remuneration reports should move away from peer group performance to one where the comparison is rather to the broader South African society.

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