

Good Governance of Senior Staff Remuneration in South African Higher Education

February 2006

Final Report and Recommendations of the Independent Reference Group



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Acronyms

CEO	Chief Executive Officer
CSIR	Council for Scientific and Industrial Research
CTP	Committee of Technikon Principals (precursor of HESA)
DoE	Department of Education (national)
DPSA	Department of Public Service and Administration
FTE	Full-Time Equivalent (student enrolments)
GAAP	Generally Accepted Accounting Practice
GEAR	(Macro-Economic Strategy for) Growth, Employment and Redistribution
HEB	Higher Education Branch (of the DoE)
HESA	Higher Education South Africa
HSRC	Human Sciences Research Council
MRC	Medical Research Council
PPE	Plant, Property and Equipment
SABS	South African Bureau of Standards
SARS	South African Revenue Service
SAUVCA	South African Universities Vice-Chancellors Association (precursor of HESA)
SET	Science, Engineering and Technology

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Executive Summary

This report sets out the findings and recommendations of the independent Reference Group established to oversee a Higher Education South Africa (HESA) study of senior staff remuneration in South African higher education.

Chapter 1 makes the case for public accountability for senior staff remuneration in higher education. The terms of reference and methodology of the study are outlined.

Chapter 2 examines senior staff remuneration practice in South African higher education institutions, situating its analysis in the context of generally accepted principles of good practice, and of the circumstances within which various remuneration practices have been followed by institutions. Central findings of the analysis are that senior staff remuneration in South African higher education institutions is highly inconsistent in almost every dimension, and that, in some two-thirds of institutions, there is little relationship between the actual remuneration of senior staff and institutional complexity.

Chapter 3 examines system-level, institutional and sectoral governance of senior staff remuneration in South African higher education. It situates the analysis in the context of good governance principles consistent with the policy and regulatory environment, and with national goals for higher education. Central findings of the analysis are: regular provision of information and analysis regarding senior staff remuneration, both to the sector and to the wider public, would enhance system-level governance; institutional Councils should ensure the more direct and coherent exercise of their accountability for senior staff remuneration; and a sectoral code of practice incorporating implementable benchmarks and workable mechanisms to direct compliance, would enhance public accountability in the area of senior staff remuneration.

Chapter 4 sets out the recommendations of the Reference Group. These are directed at HESA, higher education institutions (Councils and management) and the state. In brief, these are:

- Recommendations involving state and sector:
 - Effective system-level governance of senior staff remuneration should build in mechanisms for the collection and analysis of remuneration data that allow trends to be linked to the macro-economic environment and the performance needs of higher education and its senior leadership.
 - HESA and government should agree on objective performance indicators for higher education, and these should be used by HESA to measure and assess system and institutional performance, the performance of institutional leaders, and the appropriateness of remuneration levels.
 - The Department of Education (DoE) should continue to collect data relating to remuneration and the financial performance of higher education institutions, and HESA should play a complementary role in analysing and disseminating this information.
 - Councils' public accountability for remuneration decisions should be reinforced by an appropriate mechanism at system level.
- Recommendation regarding the need for sectoral self regulation:
 - HESA should take interrelated steps to build sectoral self-regulatory capacity, including a specific code of practice on senior staff remuneration.
- Recommendations regarding a code of good practice:
 - The development and promotion of good-practice guidelines and benchmarks for senior staff remuneration should be purposefully integrated by HESA into its strategic interventions.
 - Councils should better exercise their accountability with respect to senior staff remuneration, and Council members should be appropriately trained in order to do so.
 - Institutions should ground their remuneration approaches in public goals and values for higher education, as set out in public policy, and including accountability, effectiveness, efficiency, equity, affordability, and sustainability.
 - Institutions should ground their remuneration approaches in good corporate governance principles and practices as set out in the King Code of Corporate Practices and Conduct.
 - Institutions should attend to framework policy for remuneration and appropriate process integration to ensure the good governance of senior staff remuneration.
 - The value of disclosure and participation in the governance of senior staff remuneration should be

- promoted.
 - Higher education institutions should ensure they have specialist remuneration capacity and capability available properly to advise on remuneration levels and remuneration management.
 - Comprehensive systems of performance management should be promoted and implemented more widely in higher education institutions, and should link strategic planning, institutional performance and risk, and individual performance, through a system of indicators, targets and tracking measures.
 - An institutional complexity index should be developed after due research and consultation, and be incorporated into a sectoral code of practice on senior staff remuneration as a rational frame of reference for remuneration decision making and monitoring.
 - Council and its remuneration committee should take into account good-practice norms for grade equity in setting and reviewing senior staff remuneration.
 - A set of remuneration ranges for Vice-Chancellors should be developed after due research and consultation, and be incorporated into a sectoral code of practice for senior staff remuneration.
- Recommendation regarding the need for sectoral monitoring:
 - HESA should select and implement an effective monitoring mechanism as part of implementing a sectoral code of practice for senior staff remuneration.

1 Framework of the Investigation

1.1 Introduction

This report is the outcome of a Higher Education South Africa (HESA) investigation into the remuneration of senior staff in South African higher education institutions. The investigation was prompted in November 2004 by a request from the Minister of Education for a sectoral study on the issue, and by a sectoral commitment to a greater degree of self-regulation which would ensure effective, efficient and accountable practice in such areas as senior staff remuneration¹.

The study was overseen by an independent Reference Group². In December 2005, the Reference Group presented its findings and recommendations to the HESA Board of Directors for endorsement and execution.

1.2 Focus on Senior Staff Remuneration in South African Higher Education

Senior staff remuneration in South African higher education is an issue that currently attracts the attention of the higher education sector, the state and the public for a number of reasons.

First, Vice-Chancellors and senior staff in publicly-funded institutions draw on the public purse for their remuneration. Remuneration levels, and the appropriateness of remuneration decisions, are a matter of interest to government, Parliament and broader society. Alongside institutional autonomy, public accountability is a cornerstone of the higher education policy framework in this country. While public higher education institutions are established in policy and law as autonomous entities, they must exercise this autonomy at the same time as demonstrating that they are using public resources effectively, efficiently, equitably and wisely in the pursuit of national goals (including research output, skills development and the use of science and technology to address national challenges). The remuneration of senior staff in higher education should similarly be set and reviewed in line with the principles of effectiveness, efficiency and equity, and as appropriate to the social and public purposes of higher education in a developing economy.

Second, remuneration is a matter of strategic importance for the higher education sector and for individual institutions. It enables institutions to attract and retain necessary qualities and skills for higher education leadership and optimal institutional performance. Senior staff remuneration decisions should enable institutional mission and strategy.

Third, in contemporary South African higher education particular importance is placed on the efficient use of public funds, and the alternative sourcing of private funds, in a climate of fiscal discipline. Significant higher education transformation must be accomplished within tight financial parameters. The remuneration of senior staff in higher education should be demonstrably affordable and sustainable both at the individual institutional level and for the sector as a whole, in the short, medium and long terms. Remuneration decisions should extract value for money.

Fourth, good management practice in higher education is increasingly expected to align with good management practice in corporations. The management of remuneration is therefore an element of good financial, human resource, and risk management, and of effective strategic planning. However, the skills set required of higher education executives (many of whom are, by tradition, academic leaders with little management experience or training) is changing, and remuneration levels will need to take into account dimensions of complexity of the management task.

Fifth, it is evident from available data that there is wide-ranging disparity in the levels of remuneration paid to Vice-Chancellors and senior staff at South Africa's universities and universities of technology. There is no obvious relationship between remuneration and factors such as size of institution, or institutional budget. It is unclear how consistently frameworks of reference or benchmarks are used in setting levels of remuneration.

Finally, poor governance of remuneration may reflect broader governance and management inadequacies. Senior staff remuneration decisions function in practice and perception as institutional 'health indicators' and therefore provide a useful test ground for sectoral self-regulation.

Data in the public domain pertaining to the remuneration of Vice-Chancellors, executives and other senior staff

in South African higher education institutions are extracted from institutions' financial reports as submitted to the Department of Education (DoE) in terms of annual reporting regulations³. The remuneration of an institution's Vice-Chancellor is a matter decided on by Council, on the advice of the remuneration committee of Council (or its equivalent). The remuneration of other executives is also typically recommended to the Council by the remuneration committee (or in some cases by the Vice-Chancellor). Yet no sectoral self-regulation, or sector-wide guidelines, exists to guide the Councils of institutions in setting remuneration levels of senior staff.

Media coverage of specifically Vice-Chancellors' remuneration has tended to point overwhelmingly to issues of concern in the realm of 'public opinion', and the following points were highlighted at the end of 2004:

- Remuneration levels may be inappropriate given the current state of development of South African higher education, and given the status of universities and universities of technology as public institutions.
- Remuneration levels are inappropriate given the shortage of funds for higher education, particularly in terms of student financial aid.
- Remuneration levels do not appear to be linked to measurable and variable indicators.
- Remuneration levels are disproportionate to the salaries paid to academic staff (which are particularly low).
- Remuneration levels are disproportionate to public sector salaries⁴.
- The range of remuneration is too wide, suggesting a need for some form of standard-setting framework.
- Remuneration has escalated sharply since 2000.
- Remuneration information is not easily available to stakeholders at institutions.

1.3 Terms of Reference of the Study

The Reference Group considered that the enquiry into senior staff remuneration needed to be framed within the wider context of governance, rather than be a study merely into appropriate benchmarks which could be used by South African higher education. The following rationale informed the study:

1. To respond to public perceptions and concern around remuneration levels of Vice-Chancellors and other senior staff in higher education institutions, as well as to a request to investigate the matter by the Minister of Education.
2. To contribute to the ongoing development of good governance in South African higher education.
3. To support development of the higher education sector's overall capacity for self-regulation, effectiveness and efficiency, by focusing in the short term on the significant and topical issue of remuneration.
4. To reinforce public confidence in the accountability of higher education by demonstrating the sector's willingness to address the issue of senior staff remuneration in a focused and transparent manner, and to act appropriately on the findings of its investigation.

Specifically, the objectives of the study were formulated as:

1. To obtain factual data on levels of senior staff remuneration.
2. To establish how senior staff remuneration levels are determined and reviewed, specifically in relation to the promotion of good governance.
3. To explore contextual and comparative issues relevant to senior staff remuneration in higher education.
4. To develop a good governance model for senior staff remuneration that aligns with the purposes of sustainable and strategic transformation of higher education on the one hand, and supports the development of effective sectoral self-regulation systems on the other hand.
5. To recommend guidelines and benchmarks to assist Councils and institutions in determining and reviewing the remuneration of Vice-Chancellors, executives and senior staff.

1.4 Methodology

The research team began its work in May 2005. Key elements of the project methodology included:

1. Data collection: data was obtained from the DoE and from institutions. In particular, two workshops with HESA members were held at which 20 (87%) of South Africa's 23 public higher education institutions were represented (all 23 institutions were invited to participate). Written responses to a set of questions were provided by 13 (57%) of the institutions, allowing a qualitative (but not statistical) analysis of the governance of senior staff remuneration. Twenty-one (91%) of the institutions provided senior staff remuneration data as at 30 June 2005, allowing a statistical analysis of remuneration practice. In most cases, the data were verified by the Vice-Chancellor of the institution, before being submitted to HESA.

2. Analytical framework development: literature and policy review was conducted, and key principles, analytical dimensions and remuneration indicators for analysis of primary data were generated.
3. Data analysis.
4. Report drafting: a research report was prepared, as well as this report setting out the findings and recommendations of the Reference Group.

As the titles of executive posts vary considerably across institutions (see Table 2) it was agreed that the following definition would be used to determine which posts were to be included in the analysis of remuneration data:

Vice-Chancellor (inclusive of Principal and Rector), and all executive management: i.e. Council-appointed posts reporting to the Vice-Chancellor/Principal or Rector.

All sources of income attached to the post (or individual in the post), were used, consistent with the need to declare this income to the South African Revenue Service (SARS) – while excluding amounts paid on behalf of the employee for statutory purposes. Data were collected under these headings:

- Basic Pensionable Salary
- Basic Non-Pensionable Salary
- Annual Bonus
- Deferred Compensation
- Car/Travel Allowances
- Housing Allowances/Benefits
- Company Car Benefit
- Entertainment, Cellular Telephone and Computer Allowances
- Employer Contributions to Retirement and Medical Schemes
- Performance Bonus Payments
- Any other payments not reflected under these headings.

Appendix C: Glossary of Key Terms in this Report sets out some important terminology and definitions used for the purposes of the study.

2 Remuneration Practice in South African Higher Education Institutions

2.1 Remuneration Practice Context

Remuneration in any organisation is an issue of strategic, tactical and political importance and must allow for conflicting interests to be managed in a manner perceived by all parties as:

- Equitable in the outcomes it produces.
- Effective in achieving its objectives in terms of attraction, retention and motivation of staff.
- Efficient in reacting to internal and external demands.

Over the last two decades, increasing emphasis has been placed on implementation of good practices in remuneration governance. This has led, in particular, to the disclosure of executive earnings, structures, mechanisms and people responsible for reviewing and setting these. As a result, organisations have learned to ensure that they are following best practice in terms of their remuneration policies, with the following trends being common:

- Entering into performance-based contracts where objectives for executives are intended to achieve a strong performance culture within the organisation. Goals are set by the governing body against specific growth targets in the business plan or operating plan, and are agreed over a two- to three-year time plan with annual benchmarks. The same governing body would be responsible for the review of performance at least every year and, in many cases, twice.
- Structuring executive packages on a total cost-to-company basis, made up of base pay, short-term incentives and long-term share incentives – the latter two linked to performance. Short-term incentives make up between 30% and 60% of total annual remuneration and, the higher the incentive, the greater the motivation for achieving the goals set. Globally, organisations are tending towards performance-based pay being at least 50% of the remuneration package.
- Using at least two reliable sources for external benchmarking of organisations in a similar industry, and of similar size and complexity; as well as external advisers.
- Ensuring that there is not only external pay equity, but also equity within the organisation, in terms of the different levels of remuneration.
- Developing remuneration policies which guide the work of the remuneration reviewing committee.
- Disclosure of all executive remuneration packages on an annual basis; as well as disclosure of the structures, and names of people used to review these.⁵

Globally, there is a strong tendency to structure pay as a remuneration package, stated as an overall amount. This is then divided into the following elements:

- Basic pensionable pay – fixed annually.
- Contributions to retirement and medical schemes – fixed annually.
- Performance reward – variable dependent on performance, and up to a maximum amount as stated in the overall package.

With respect to normative salary structures, and internal payline equity, research indicates that there is significant debate about what constitutes ‘best practice’. Also, there is no single approach to establishing equity in the internal payline, owing mainly to such factors as the current levels of remuneration, organisational affordability and organisational health. For example, in a study of 37 organisations, it was found that there were 19 separate approaches, and that only two of these were common in five of the companies surveyed. These were:

- Comparison of market benchmarks with internal benchmarks.
- A comparison of job evaluation with market benchmarks.⁶

Midpoint differentials between grades can range from 3% to 60%, and scales range either side of the grade midpoint from 15% to 40%. Organisations need to look at current pay levels, specifically targeted external benchmarking, turnover rates of skilled and scarce staff, and organisational affordability, in determining the ‘best fit’ for their institution. Well managed salary structures will attempt to contain the difference on either side of the midpoint for each grade, using the guideline of 20% except where broadbanding principles have been

applied. In the present study, as all higher education institutions have submitted data for each single grade, it is not necessary to expand on the ranges for broadbanding.

Further, the difference between the midpoints of each grade tend to follow the general guidelines of 15% for the unskilled to the semi-skilled categories (Peromnes Grades 18 to 12); 20% for middle and senior management (Peromnes Grades 12 to 5); 25% for executive management (Peromnes Grades 5 to 2); and between 40% and 50% for the difference in midpoints between executive management and the CEO. Incorporating these norms into the salary structure goes a long way to ensuring internal equity.

The ability to access international trends and benchmarks was recognised as important in assisting the debate on South African levels of remuneration for this sector. However, comparing remuneration levels across countries is tricky, with far from conclusive results. An informal exercise was conducted as part of this research to compare Vice-Chancellors' remuneration in the United States, the United Kingdom and South Africa, using two purchasing power parity indices. This showed the difficulty of constructing any sensible international comparative argument around remuneration levels without very detailed and closely understood data. For example, using the Big Mac 2001 index, only the very highest-paid UK Vice-Chancellor earned more than the South African counterparts in the top five positions in 2003. In the literature, many factors are seen to influence Vice-Chancellors' remuneration, e.g. length of tenure; size of institution; institutional revenues, expenditures, overall performance and other institutional factors; economic factors; geographical factors; personal factors, including academic background, gender, and receipt of public honours. Yet there is little agreement across contexts as to the precise nature of the influence.

2.1.1 Remuneration Practice Context and South African Higher Education

South African higher education institutions need to ensure they implement good remuneration practices, such as those indicated above. No detailed research into remuneration practices in South African higher education in earlier periods has been located. However, general experience of the sector suggests that, until the early 1990s, institutions had their own protected territories for student recruitment, while staff recruitment was in principle open to all, using the attractiveness of the institution and opportunities for academics and research, as the major draw card. Where salaries in a particular institution may have been low in comparison with those of other institutions, and where that institution could not afford to increase them substantially, compensation was enhanced by offering increased benefits, such as leave, housing, travel allowances and fee remission.

With the increasing focus on financial viability, institutions began to experience stronger competition. This competition was not limited to student enrolments, but also encompassed the attraction and retention of key staff.

Without any sectoral controls or guidelines over staff remuneration, and with only the DoE's guideline that total staff costs should fall between 57.5% and 63% of recurrent unrestricted income⁷, salaries and associated benefits could be designed and redesigned relatively easily to attract staff. Internal procedures facilitated a quick review of salaries as a counter-offer for staff who had been offered a position at another institution. Current disparities illustrate the consequences of this practice. For instance, there are very wide ranges of low and high salaries within a particular academic or administrative rank, with national ranges in remuneration of lecturers, for example, of up to 230%. Leave provisions vary between 20 to 60 working days per annum in different institutions, and other benefits are similarly variable.

By the early 1990s, most institutions had constituted a committee of Council to deal with remuneration issues and others had constituted an equivalent committee or process. However, it would appear that no specific training was made available to ensure that committee members were apprised of good practice methods in assessing remuneration levels. The general practice was to grant increases using the current level of remuneration as the baseline. Organisational complexity as a base criterion for the assessment of remuneration, and benchmarking against sectoral and external data, were not commonly used in justifying the remuneration recommended to Council. Nor was the internal relationship between grade remuneration taken into account in order to retain integrity. This resulted, in some cases, in a difference of as much as 123% between the remuneration of the Vice-Chancellor and the Deputy Vice-Chancellors in the same institution (see Figure 2 in Section 2.3.2).

Performance-related pay did not begin to feature as a practice until the mid-1990s, when the competitive nature of the higher education sector began to reflect in the salaries paid to senior staff members, and when remuneration committees began to look more holistically at the total cost-to-company of a member of staff,

inclusive of the benefits applicable within the institution.

The current situation with respect to senior staff remuneration in South African higher education is reflective of this history, with post titles, package structuring, actual remuneration levels, benefits and grading varying significantly within, and between, institutions.

2.2 Structures Underpinning Remuneration Systems

2.2.1 Elements of Remuneration Used by Institutions

Table 1 shows that all public higher education institutions offer 'Basic Salary', 'Retirement' and 'Medical' schemes, and most offer 'Annual Bonuses' (as opposed to performance bonuses) and 'Car/Travel Allowances'. 'Other Payments' are insignificant in terms of the total salary package and are made up of items such as home telephone and parking – applying to only two (9.52%) of the institutions.

Table 1: Percentage of Institutions Applying Elements of Salary Packages

Basic Pens. Salary	Non-Pens. Salary	Annual Bonus	Deferred Comp.	Car/Travel	Housing	Co. Car	Entertain.	Cell.	Computer	Retirement: E'ers Cont.	Medical: E'ers Cont.	Perfor. Bonus	Other Payments
100.00	71.43	80.95	19.05	90.48	57.14	14.29	23.81	38.10	14.29	100.00	100.00	28.57	9.52

Basic plus Benefits is used as a remuneration system by 38.1% of the institutions while the Remuneration Package approach is used by 61.9%. All institutions in the former category have indicated that they are planning to adopt a Remuneration Package system as soon as possible.

Performance bonuses are paid by 28.6% of the institutions with a further three institutions planning to implement these in 2006. Performance bonus payments ranged from 1% to 35% of the remuneration package, averaging at 17%, and with only four of the 23 payments reported being above 20%. It would seem that, while the movement towards a performance payment system for senior staff in higher education institutions is healthy, the percentage of the package which these payments constitute is such that they are unlikely to encourage exceptional performance. The fault may be that in some cases the basic package is too large, and in others that the performance payment is too small.

In those institutions where performance bonuses are paid, formal contracts have been entered into with senior staff. However, their efficacy, with particular regard to appropriateness and measurability, has not been researched. In the course of workshops with institutions as part of this study, it became apparent that, in most cases where performance bonuses are paid, these are paid against the *meeting* of agreed performance objectives. One institution specifically mentioned, however, that performance bonus payment in that institution is contingent on the executive's *exceeding* agreed performance objectives. The issue of performance management is discussed further in Section 3.3.2.

2.2.2 Grading of Executive Posts

Most higher education institutions use the Peromnes job evaluation system, with the recent trend being towards the JE Manager system. Although these two systems use different methodologies in the basic criteria applied, as well as in assessing the points awarded to each criterion, there is nevertheless a very high correspondence between the results of the two systems in terms of the final ranking of the post being evaluated. In practice, the use of the Peromnes system has become problematic in its implementation. This is because institutions use different evaluation processes and approaches, and have varying degrees of competencies amongst the evaluating personnel. This has resulted in some institutions going beyond the top grade of Peromnes 1, into Peromnes 1+ and 1++, thereby creating anomalies. For the purpose of this study, the hierarchical ranking of executive posts within institutions makes it possible to ignore the Peromnes grade and rather talk in terms of Grades 1, 2 and 3, with Grade 1 being the Vice-Chancellor.

2.2.3 Executive Titles

Submitted data for this study indicates that institutions have identified different posts for Council appointment.

The grade evaluation for second- and third-tier posts has also been inconsistent. While the impact of this is not seen specifically at the top level (i.e. CEO/Vice-Chancellor), the impact becomes more troublesome at the second and third tiers.

Table 2: Post Titles in the Second and Third Levels

Grade 2	Grade 3
Advisor to the Rector	Campus Director
Campus Rector	Campus Principal
Chief Financial Officer	Chief Director
Chief Operations Officer	Chief Financial Officer
Dean	Dean
Deputy Vice-Chancellor	Deputy Vice-Chancellor: Administration
Executive Director: Finance	Executive Dean
Executive Director: Human Resources	Executive Director
Executive Director: Finance and Operations	Executive Director: Finance
Executive Director	Executive Director: Human Resources
Registrar	Executive Director: Student Affairs
Registrar: Academic	Institutional Registrar
Registrar: Governance	Registrar
Vice-Rector	Vice-Rector
Vice-Principal	

While there is sufficient consistency across post titles for the analysis to retain integrity, it can be noted that the uniqueness of individual higher education institutions precludes standardised titles, and the duplication of titles in Grade 2 and Grade 3 posts (Table 2) therefore makes analysis more difficult. The assumption was tested that this duplication came about because the less complex institutions (in terms of their size and shape) graded their posts one rank lower than the more complex institutions. However, the test proved inconclusive. As one of many examples, some small institutions had graded the Registrar as a Grade 2 while significantly larger institutions had given the same post title a Grade 3. This anomaly gives rise to the complex debate on size and shape (or complexity) of institutions, and will be discussed further in Section 2.4.

2.3 Remuneration Analysis

Data were submitted by the institutions on the basis of the full remuneration package, i.e. total earnings inclusive of any income or benefit accruing to the individual and subject to tax considerations. All figures are reflected as Remuneration Package per annum unless otherwise stated. The two institutions that did not submit 2005 data have been included in the more general graphs using the declared 2004 Remuneration Packages, identified as such in the graphs. It should also be noted that, in institutions which have merged over the past two years, some Vice-Chancellors of the previous individual institutions have not been appointed as the Interim or substantive Vice-Chancellor of the new institution. These individuals have retained their salary packages although they have taken a post subordinate to that of the Interim or substantive Vice-Chancellor in the organisational structure. Data for these individuals have been excluded from this analysis, to avoid skewing the interpretation.

2.3.1 Overall Remuneration for Grades 1, 2 and 3: Higher Education Sector

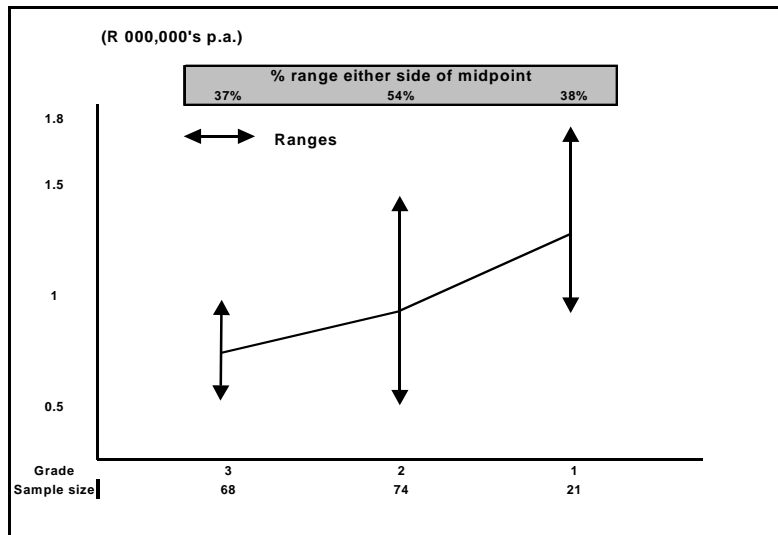
Across the sector, the respective range differences on either side of the midpoint for each grade are 37%, 54% and 38%, as against the norm of 20% (Figure 1). While it is to be expected that a sectoral range would be higher than that within an institution, these ratios are significantly higher (from 85% to 170%) than the norm, and could therefore suggest an unacceptable degree of movement of skilled executives between institutions, chasing employment packages.

The difference between the midpoints of Grade 3 and Grade 2 is 24%, and between Grade 2 and Grade 1 is 35%. This is within the norm.

Initial analysis indicates that for grades below 1, 2 and 3, the picture is very different. Ranges between minimum and maximum for the sector are up to 152%, with only three categories of employment within the normative

range. Although it is beyond the scope of this study, this spread per job category within the sector needs to be addressed and requires further investigation.

Figure 1: Ranges, Midpoints and Progression between Grades for the Higher Education Sector



Note 1: Institutions with 2004 data are not included.

2.3.2 Overall Remuneration for Grades 1, 2 and 3: By Institution

The ranges above and below the midpoint within institutions for Grades 2 and 3 are well within normative standards, with Grade 2 between 0.5% and 20.5%, and Grade 3 between 0.5% and 12.5%. The differences between the midpoints of these three grades are shown in Table 3.

Table 3: Difference between Grades by Institution as a Percentage

	Median Grade 2 to VC	Highest Grade 2 to VC	Median Grade 3 to Grade 2
No grades 2 or 3			
No grade 2			
	123.4	70.0	19.5
	75.6	55.6	n/a
	68.2	54.9	-2.7
	57.7	44.0	n/a
	56.5	40.0	10.2
	56.4	56.2	15.9
	55.4	55.4	9.7
	54.0	37.5	12.3
	52.5	52.5	7.9
	43.6	43.6	n/a
	42.7	28.2	n/a
	39.0	33.7	-2.8
	38.3	19.5	n/a
	29.3	21.0	25.0
	28.2	12.8	34.3
	21.5	18.7	27.1
	18.9	17.6	26.5
	17.2	10.6	33.9
	12.6	2.0	n/a

Note 1: n/a = No posts for institution in this grade.

Note 2: Figures in red are higher than acceptable norms.

Using the guideline of a CEO being between 40% and 50% better paid than the midpoint of Grade 2 executives,

42% of the institutions are above this norm, with a high of 123.4%. In taking the highest-paid Grade 2, as opposed to the midpoint, and calculating the difference to the CEO, this figure drops to 28.5%. As far as the higher education sector is concerned, this does not reflect a healthy relationship between the CEO and his/her deputies, and did not appear to be justifiable in terms of ranked responsibilities relative to the size of the organisation. Conversely, the five institutions at the bottom of Table 3 reflect similarly unhealthy signs, in that the differentials are far too close: in one case the highest-paid deputy is remunerated only 2% lower than the CEO.

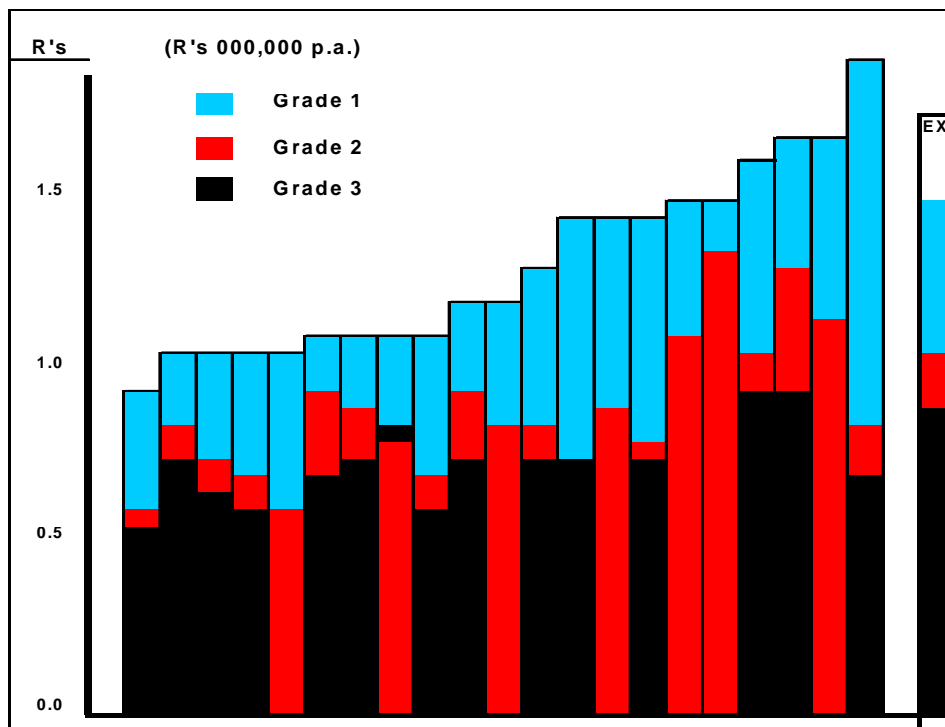
Grade 3 executives fare better against the 25% norm, with the exception of two institutions where the Grade 3 midpoint is higher than the Grade 2. This suggests that the grading is either incorrect, or has been incorrectly reported.

This relationship is better illustrated in Figure 2, where the column on the extreme right is an example of the relationship between the three grades, using the normative percentage differences.

While the Vice-Chancellors' remuneration is sorted in ascending order, neither the same, nor even a similar, profile is seen in Grades 2 or 3. In two cases, the midpoint for Grade 3 is higher than that for Grade 2. Of the remaining 19 institutions, only one bears any resemblance to the example used.

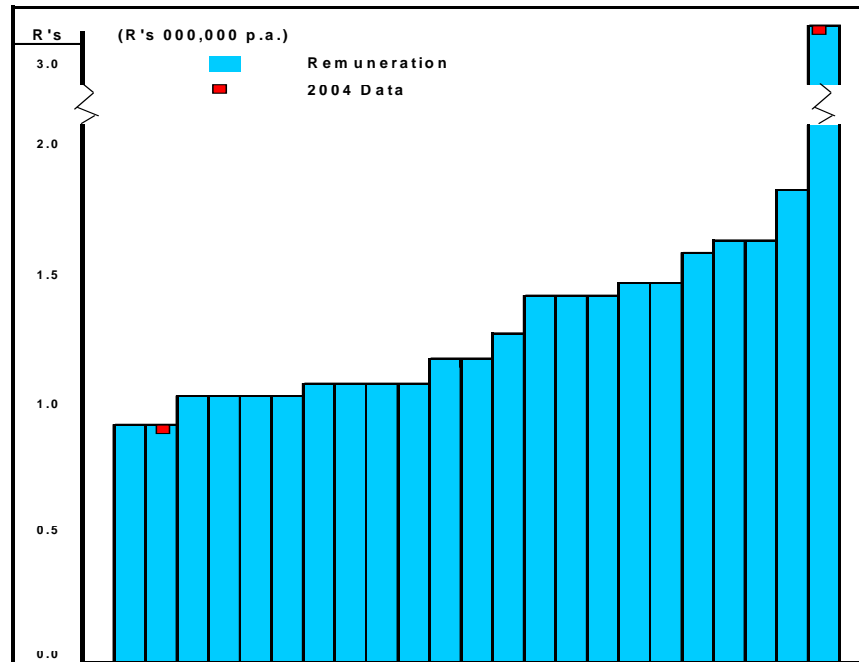
This must be an area for concern. Staff from different institutions within the sector exchange information as to the respective level of remuneration packages and different approaches to remuneration below the level of CEO cannot be explained solely on the basis that a given institution's finances simply do not allow for any increases. Demotivation of lower-paid staff will be exacerbated by awareness of disparities, and this increases the chance of high staff turnover. Remuneration decision-making structures within institutions have, despite the recent trend of using market data for evaluation of institutional earnings, allowed this situation to develop.

Figure 2: Midpoint of Grades 2 and 3 in Relation to Vice-Chancellors



2.3.3 Remuneration of Vice-Chancellors by Institution

Figure 3: Vice-Chancellors' Remuneration by Institution



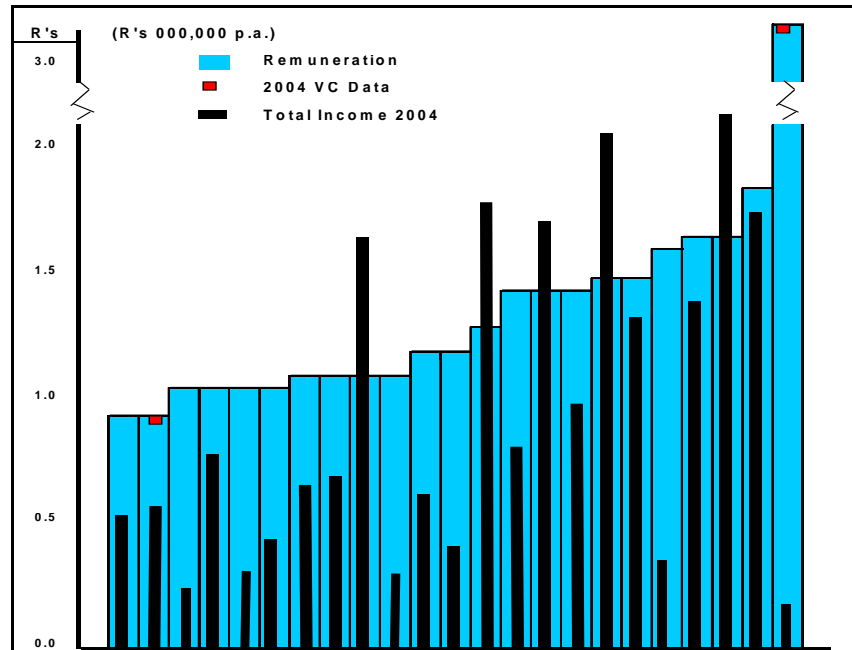
The data are listed in Appendix A: Executive Remuneration Data, as Collected by the Study.

The data in Figure 3 are sorted in ascending order by remuneration, indicating a range from R942,290 to R3,295,000, irrespective of the size and shape of the institution. This graph, as it stands, does not present an objective picture. Within every sector, it is acknowledged that organisations, companies or institutions will vary in terms of a wide range of measurable dimensions. These, collectively, give some understanding of the complexity of managing the organisation, particularly from the CEO's perspective. Where this complexity factor is high, it follows that the CEO's level of remuneration should be higher than that of an organisation where the complexity is at a relatively lower level. On this basis, it is quite possible that the highest-paid CEO within the sector could earn at least four times more than the lowest-paid. The range is not in itself problematic, provided that the earning capacity of the CEO is in direct proportion to the complexity of running the organisation.

Remuneration was analysed in terms of such institutional dimensions as Inland vs Coastal, Rural vs Urban, and Historically-Disadvantaged vs Historically-Advantaged. No conclusive relationship was evident. Further comparisons were run on Vice-Chancellors' remuneration in 2003 and in 2005, but the merging of institutions and changes in incumbents, rendered such analysis invalid.

Figure 4 introduces one of many measurable dimensions of complexity: that of total income (2004), as reported by the institutions through audited financial statements. The relationship between CEO remuneration and institutional income indicates that only five of the institutions (21.7%) show a progressively similar profile to the earnings of their institution. One Vice-Chancellor earns 1.8% of the total institutional income, while the lowest proportion is 0.072% and the average is 0.26%. Further analysis of the data sorted according to remuneration levels from low to high, indicates that 52% of the institutions have the Vice-Chancellor's remuneration higher than the preceding institution, when the former institution's total income is lower.

Figure 4: Vice-Chancellors' Remuneration by Institution and Total Income



Note: the scale used for total income is in R billions while that for remuneration is R millions.

Yet, using total institutional income as the only dimension to determine relative complexity, is obviously insufficient, as it does not constitute a holistic picture. The following section deals in more detail with this aspect.

2.4 Establishing a Model for an Institutional Complexity Index

It should be noted that the exercise that follows sets out to demonstrate the possibility of a model that could be used to determine CEO remuneration in relation to the complexity of managing that institution. The model as described in the narrative is not a finished product: further debate and modelling are required to achieve a guideline that has sufficient credibility for use by the sector.

In sectors outside the public sector, organisations have identified a number of dimensions that establish a sense of the size and shape, and therefore of the complexity, of running that organisation. Some of these are:

- Staff numbers
- Units of production
- Annual turnover
- Annual profit
- Asset value of plant, property and equipment (PPE)
- Growth
- Cycle of the business (e.g. growth, consolidation)
- Risk assessment
- Geographic spread of the business
- Sectoral competitiveness⁸.

Understandably, it is not possible to apply all of these criteria to higher education. However, if determining the complexity of an institution and senior staff remuneration commensurate with that complexity, is important (and Figure 4 indicates that it is), then an effort should be made to do a similar exercise for the higher education sector.

As noted, this exercise is an evolutionary one and needs to be tested, supplemented, or otherwise adjusted,

before being endorsed in absolute terms as an appropriate and accurate formula. It is nevertheless strongly recommended that a comprehensive approach such as this one be used by institutions in setting senior staff remuneration levels (and by the sector in monitoring them), together with the other traditional benchmarks of affordability and external surveys.

The analytical dimensions that have been used to do this initial exercise are:

- Number of permanent and contract staff
- Undergraduate student (headcount) enrolments
- Postgraduate student (headcount) enrolments
- Unweighted full-time equivalent (FTE) student enrolments
- Weighted FTE student enrolments
- Recurrent unrestricted income⁷
- Other income (third-stream income⁹)
- Ratio between total income and recurrent unrestricted income
- PPE asset value.¹⁰

The importance of third-stream income, as an aspect of institutional complexity, is acknowledged by using it in two dimensions ('Other income' and 'Ratio between total income and recurrent unrestricted income'). Institutions that have been successful in creating high levels of third-stream income will have commensurately higher index levels.

The following areas require further investigation and inclusion where a credible method can be developed to measure each area:

- Number of campuses and sites of delivery
- Degree of substantive change taking place at that institution, e.g. merger and incorporation
- Degree of diversity within the institution and its community
- Degree of system efficiency existing
- Scarcity factor of CEO skills
- Geographic location of the institution (ease of access).

Currently, there are no known relevant research or data on any of these factors in terms of quantification, and it is suggested that the practice of using external specialists familiar with the sector, be considered to recommend values. Consideration should also be given to determining whether the factors finally selected for incorporation into the institutional complexity index, carry an 'add-on' value separate from the main remuneration package, in order to ensure that sectoral comparisons remain understandable.

Consideration was given to using institutions' annual throughput and graduation rates, and research outputs, in developing the institutional complexity index. However, it was considered that these factors are more the result of the performance of an institution, than a function of its structural complexity, and as such might more appropriately form part of the objectives under a performance-based remuneration system. This position is open to further debate.

In the case of each analytical dimension, institutions were ranked using their figure as a fraction of the highest in that category. The fractions were then totaled to give a total index for each institution. In spite of the exclusion of campuses as analytical dimensions, the result moves towards a possible reliable institutional complexity index that could be used to assess complexity in terms of management difficulty and demand.

Table 4: Ranked Comparisons against Model of Institutional Complexity Index and Vice-Chancellors' Remuneration

Instit. Comp. Index	Rank	VC Remuneration Rank
6.6005	1	3
5.3495	2	7
4.3932	3	9
4.3109	4	2
3.8084	5	11
3.5901	6	15
3.5179	7	6
3.1795	8	4
2.8967	9	8
2.1786	10	10
1.8750	11	12
1.7879	12	23*
1.7692	13	17
1.6381	14	20
1.6289	15	13
1.6217	16	22
1.5667	17	18
1.5452	18	19
1.3840	19	16
1.0772	20	5
0.8904	21	14
0.6620	22	21
0.6417	23	1*
*	2004 data	

It is apparent that the profile of Vice-Chancellors' remuneration does not follow a pattern similar to that of the preliminary institutional complexity index profile. Further analysis shows that an exact match between the rank according to the institutional complexity index, and the rank according to the level of remuneration, occurs in only one institution: the institution ranked tenth highest on the institutional complexity index is also ranked tenth highest on the remuneration scale. Six institutions have a differential of one rank between the two. The remaining 16 institutions have differentials of between two and 22 ranks, with an average difference of seven ranks.

2.5 Corporate Comparison

External benchmarking is a necessary component of remuneration review and management. This section endeavours to identify corporate sectors against which higher education institutions can be measured. There are, however, four main difficulties in using survey data on corporations for valid remuneration comparisons in the higher education sector:

- Corporations use criteria which are not applicable to higher education, for example: market capitalisation and profit ratios.
- Extensive delegated authority in the corporate sector is vested in the CEO, whereas in the higher education sector, strategic decisions generally remain within the direct domain of the Council.

- In public higher education institutions which serve a range of social and public purposes, which do not pursue profit, and which are dependent to a significant extent on public funds for the fulfillment of objectives, executive pay levels need to be tempered by a sense of what is appropriate in terms of higher education’s goals and accountabilities.

Nevertheless, Remchannel (Pty) Ltd, a South African organisation that manages one of three national salary survey systems, has developed a set of criteria based on actual financial parameters of South African listed companies, using a quartile analysis model, that classify corporations into eight levels of size and shape. This model is attached as Appendix B: Remchannel Consulting Model of Corporate Categories. Using the criteria of Turnover (Total Income), Assets (PPE Asset Values) and Employees, it is possible to fit the institutions into ‘size and shape’ levels with some degree of accuracy. The criterion of Salary Costs is not used, as these costs in higher education institutions are typically significantly higher than those in the corporate world. The levels of best fit are from Levels 3 to 6 of the eight levels in the corporate model.

Figure 5: Vice-Chancellors’ Remuneration against Model of Institutional Complexity Index and Corporate Category

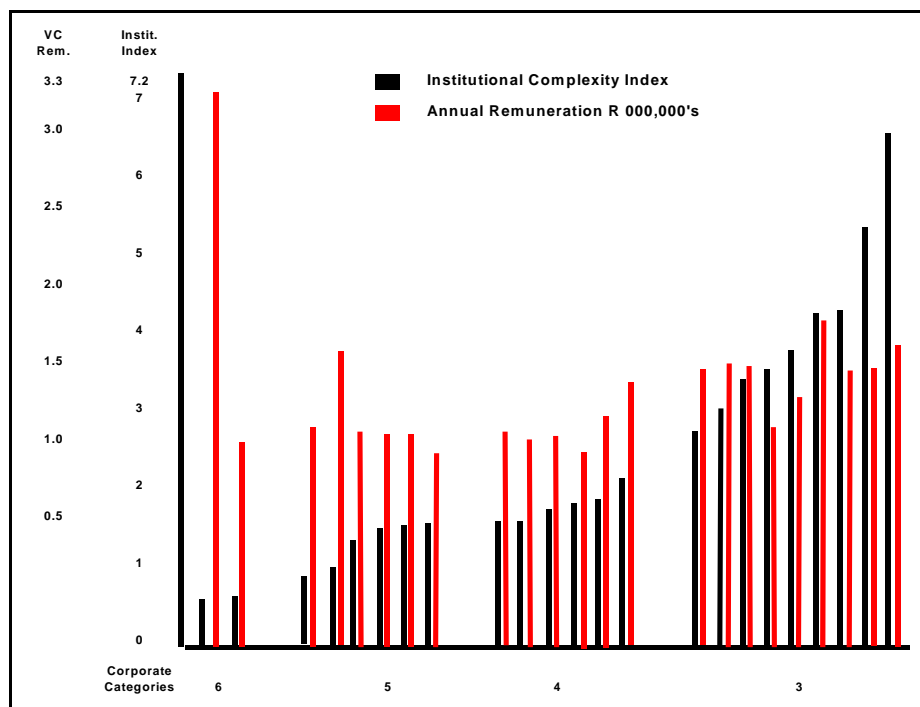


Table 4 explored the relationship between remuneration and institutional complexity. Figure 5 uses the corporate indices from Table 8 in Appendix B to locate institutions within categories of size and shape.

While the institutional complexity index moves steadily upwards from left to right through corporate categories 6 to 3, the average remuneration for each category from left to right moves in the opposite direction for categories 6 to 4 (R2.2 million, to R1.16 million, to R1.15 million) and then upwards significantly in category 3 (R1.49 million). This suggests further that there is no significant relationship between CEO remuneration and institutional complexity across the higher education sector.

This approach serves the purpose of identifying the pattern of executive remuneration in higher education, and the lack of a well managed remuneration system within the sector, in terms of remuneration norms. It also establishes a foundation on which an effective remuneration structure for the sector can be proposed. This is explored further in Section 2.7 of this report.

2.6 Public-Sector Comparison

As with corporate comparisons, comparisons between remuneration levels in higher education and in public-sector organisations, are vexed. Remuneration information disclosed for senior ministerial officials does not include the value of certain benefits (e.g. official residences, security, personal staff such as valets), and comparisons with ministerial remuneration have therefore been excluded from this survey. It is also true that public-sector entities handle highly variable budgets and asset values, some of which may run into billions of rands. Nevertheless, all public-sector organisations are publicly funded and are similarly bound by requirements of public accountability, and some limited indicative comparisons are warranted.

Information on remuneration in the public sector was obtained from the Department of Public Service and Administration (DPSA)¹¹. The information from the DPSA reflects total remuneration package ranges for senior management staff at the level of a Deputy Director-General and a Director-General, effective 1 January 2005 (it can be noted that these two levels are often referenced, albeit informally, for comparing the remuneration of higher education executives).

- Deputy Director-General: R647,727 to R697,779
- Director General: R834,252 to R898,716

These remuneration ranges have been superimposed on Vice-Chancellors' remuneration in Figure 6.

Figure 6: Public Sector and Vice-Chancellors' Remuneration Levels

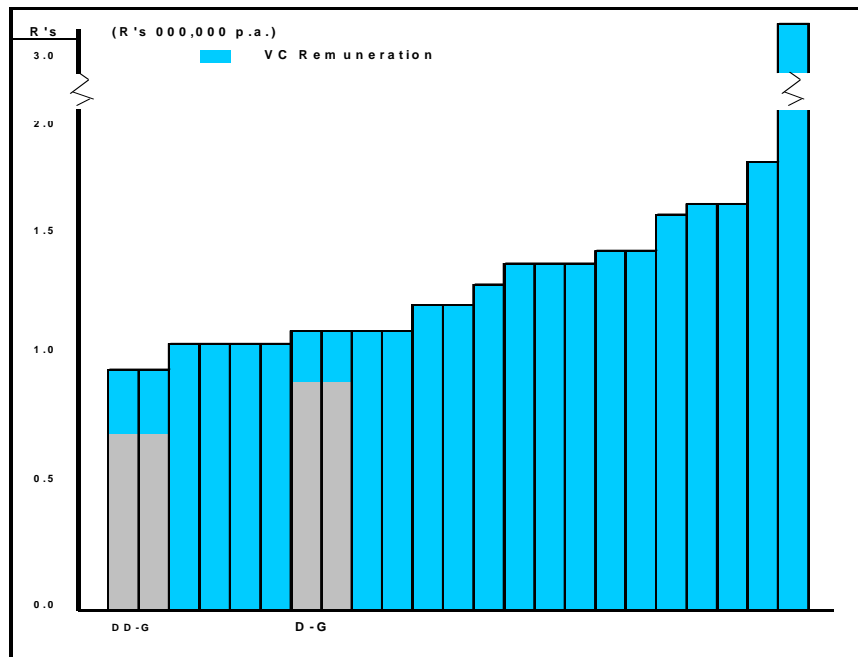


Figure 6 indicates that remuneration of Vice-Chancellors is consistently higher than the government remuneration packages.

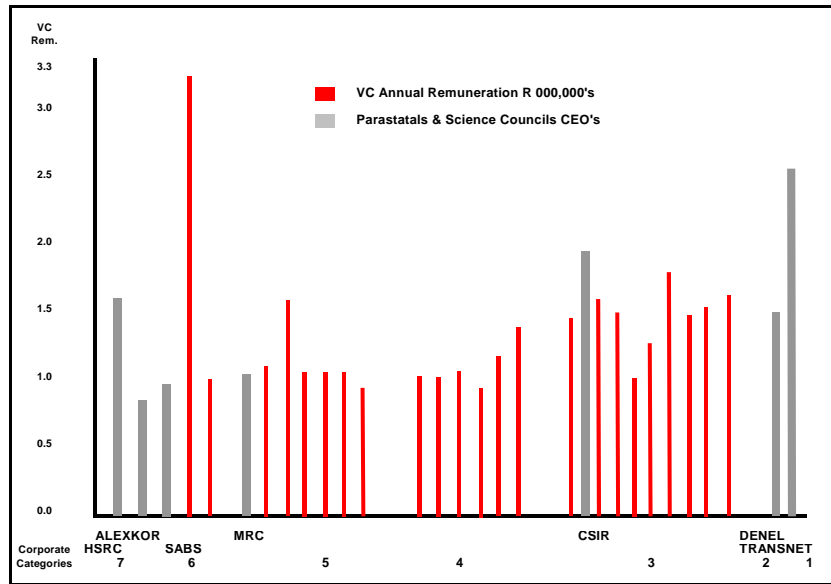
Information on CEO remuneration for a sample of parastatal organisations and science councils was obtained from their annual reports for the year ended March 2005. Annual reports state that these figures represent total remuneration paid to the CEO, including performance bonus payments where applicable.

In Section 2.5, institutions were categorised using the Remchannel Consulting Model. The same indexing system is used here for the parastatals and science councils, drawing on the financial figures given in the annual reports. Alexkor, the Human Sciences Research Council (HSRC) and the South African Bureau of Standards (SABS) fit into Corporate Category 6/7; the Council for Scientific and Industrial Research (CSIR) fits into the

lower end of Category 3; Denel and Transnet are respectively Category 2 and Category 1 companies which are higher than any of the higher education institutions. The corporate complexity of the Medical Research Council (MRC) could not be assessed on available information.¹²

In Figure 7, the remuneration figures of CEOs in parastatals and science councils are superimposed on Vice-Chancellors' remuneration, in order of corporate category. The MRC has had to be placed arbitrarily.

Figure 7: Parastatals and Science Councils, and Vice-Chancellors' Remuneration Levels



There is a degree of coherence between CEO remuneration in parastatals/science councils, and Vice-Chancellors' remuneration in two cases in this sample. The remuneration of the second Vice-Chancellor in Category 6 is at a similar level to that of the CEOs of Alexkor and SABS. The remuneration of the sixth Vice-Chancellor in Category 3 begins to approach that of the CEO of the CSIR. However, overall coherence is weak. Furthermore, there are inconsistencies within the parastatals and science councils themselves: the CEO of Denel, for example, earns less than the CEOs of the CSIR and the HSRC respectively, which are less complex institutions. Of conceptual significance is that Transnet had an annual turnover some 20 times greater than the largest turnover for a higher education institution; and assets of R70 billion against R894 million for the highest asset value in a higher education institution. However, this analysis yields no obvious conclusion as to the relationship between remuneration of Vice-Chancellors and their CEO counterparts in the sample of parastatals and science councils.

2.7 Evaluation of Remuneration Practice

First, this analysis finds that senior staff remuneration in South African higher education institutions is highly inconsistent in almost every dimension. This raises questions about the quality and outcomes of governance processes in certain institutions, and a concern as to governance processes of these institutions in the wider sphere of their operations. It also raises the question of sectoral monitoring and guidance to assist and influence the process of setting appropriate remuneration levels within the sector. Clearly, there is a need for an appropriate framework and well defined mechanisms to guide consistent practice by individual institutions, and across the sector. (See **Recommendation 6.**)

Second, remuneration management capacity and expertise may be inadequate in some institutions. Notably, the research found that the majority of the institutions have no specialist Remunerations Manager, specifically employed to manage and advise on remuneration levels. Given that staff costs account for between 63% and 78% of recurrent unrestricted income, and constitute the single most significant line item in the income statement, this is problematic. Higher education institutions wishing to demonstrate accountable use of public

funds, should be in a position to show that internal capacity and skills meet the needs of effective remuneration management. Matching external expertise needs to be appropriately and consistently accessed and applied. (See **Recommendation 6 - G.**)

Third, the remuneration relationship within certain institutions, particularly between Grades 1 and 2, indicates that senior staff remuneration principles are not consistently applied by institutions and their Councils across different grades. This relationship may lead to dissatisfaction or demotivation among deputy executives in particular cases. It is accepted that the CEO carries significantly more personal responsibility than his/her deputy. However, given that final authority vests in Council and its appointed committees, a remuneration differential of anything in excess of 50% cannot be justified (in some cases this was 123%). The norm in the case of the difference in midpoints between members of executive management and the CEO is between 40% and 50%. Council and its remuneration committee (or equivalent) should take into account such good-practice norms for grade equity in setting and reviewing senior staff remuneration. (See **Recommendation 6 - J.**)

Fourth, Figure 5 indicates that the sector consists of institutions that vary considerably in size and complexity, but CEO remuneration is almost 'flat-lined' across the whole spectrum. Anomalies at either end of the sector reflect remuneration levels of disproportionate magnitude to institutional size and complexity under this analysis. The in-principle basis of these packages must be questioned for reasons related to all the touchstones referenced in this report (accountability, effectiveness, efficiency, equity, affordability, sustainability). In addition, the issue of stability within the higher education sector's executive leadership may be affected, as executives may be unduly disposed to move for money. To resolve such unexplained anomalies over time, the sector should institute a rational frame of reference which can be used by institutions for appropriate remuneration decisions, and for the purposes of monitoring reasonable and consistent practice across institutions. This study proposes a model for an institutional complexity index. Further attention, refinement and testing would be an important part of the implementation process. Efforts towards refinement of the index should be accommodated within HESA's emerging strategic focus on strengthening the information base of the sector to facilitate analysis and decision making. (See **Recommendation 6 - I.**)

Fifth, a number of good remuneration practice guidelines are emerging from this research (some of these are covered in more detail in the next chapter), and should be adopted by those institutions not already using them to reinforce good governance and good practice in the area of senior staff remuneration. These include:

- Establishing a remuneration committee which has a clear mandate and obligations of full reporting to the body appointing it, which remains fully accountable.
- Establishing a remuneration committee whose independent members are well informed with regard to good remuneration practices, in particular, where performance is rewarded against set goals; and are skilled in the management of such a scheme, in terms of setting goals, monitoring progress and evaluating final performance.
- Ensuring that there is internal, or accessible, specialist capacity and capability on remuneration matters.
- Ensuring that the internal specialist(s) have access to external expertise in the form of salary surveys and best-practice methodologies, and that this external expertise is properly applied internally.
- Developing a remuneration policy that clearly reflects the institution's intentions with regard to the review and setting of remuneration levels in so far as the following are concerned:
 - Clear links between the remuneration policy and the mission and strategic goals of the institution;
 - Objectives that need to be met in terms of attracting, retaining, motivating and developing staff of the institution;
 - The remuneration system that will be applied, and how the components of the Remuneration Package system will be administered and reviewed with specific reference to performance incentives. (It can be noted that, while both Basic plus Benefits, and Remuneration Package, systems are possible, a Remuneration Package approach is recommended by this study: in particular, one that is inclusive of significant, and properly-managed, performance-related incentives (benchmarked, for example, against academic excellence, throughput and employability) in relation to total package. In this regard, it should also be noted that the monetary value of a performance-related incentive needs to be part of the total remuneration package, and not simply added on to the current level of remuneration.);
 - Periods of review;
 - Mechanisms that will be used in the review;
 - Benchmarks of external surveys that will be used for comparative purposes (e.g. 50th percentile: given that the majority of institutional funding is from public money, it would be difficult to argue that the external (all sectors) benchmark used should be any higher than the 50th percentile; pay

- related to institutional complexity would be sufficiently differentiated to recognise excellent, as opposed to ordinary, performance);
- Clearly-stated policy on percentages for grade ranges, inter-grade differentials and the ‘pay slope’;
- The affordability parameters of the institution based on long-term sustainability;
- Principles of disclosure that are internally consistent, and consistent with consensus policy values for higher education.
- Consistent use of external expertise to advance additional information on demographic and market skills-scarcity factors.
- Paying special attention to internal equity in terms of the norms detailed in Section 2.1, in so far as the range either side of the midpoint within grades, and between the midpoints of grades, is concerned.

The inescapable conclusion from this study is that the majority of institutions are not applying most of these aspects of good remuneration practice. As with the development of an institutional complexity index, the promotion of good-practice guidelines for senior staff remuneration should be integrated by HESA into its strategic interventions and be mainstreamed into the management of all institutions, including via a sectoral code of practice on senior staff remuneration. (See **Recommendation 6 - A.**)

Sixth, and lastly, a possible model for remuneration ranges for Vice-Chancellors, informed primarily by the institutional complexity index, is suggested as a starting point (Table 5 and Figure 8). It should be noted that, as with the development of an institutional complexity index, this suggested model requires further work. However, the principles of differentials between categories of institutions should probably not be varied to any great degree.

The rationale of this model is the following:

- That the norms mentioned in Section 2.1 for differences between the midpoints of grades, can be used for the differentiation between the four corporate category groups of institutions – i.e. 20% between categories 6, 5 and 4, and 40% between categories 4 and 3 (see Figure 5). The rationale for this changing differential is that the average of the institutional complexity indices for corporate category 3 is significantly higher than the differences between the averages for corporate categories 4 and 5, i.e. 2.3 times greater than category 4, which is 1.3 times greater than category 5.
- That the difference above and below the midpoint for each group is 20%.
- That the range for the highest category is set at a visual ‘best fit’ and that the principles of category differentials, as outlined above, are then applied downwards to the other categories of institutions.

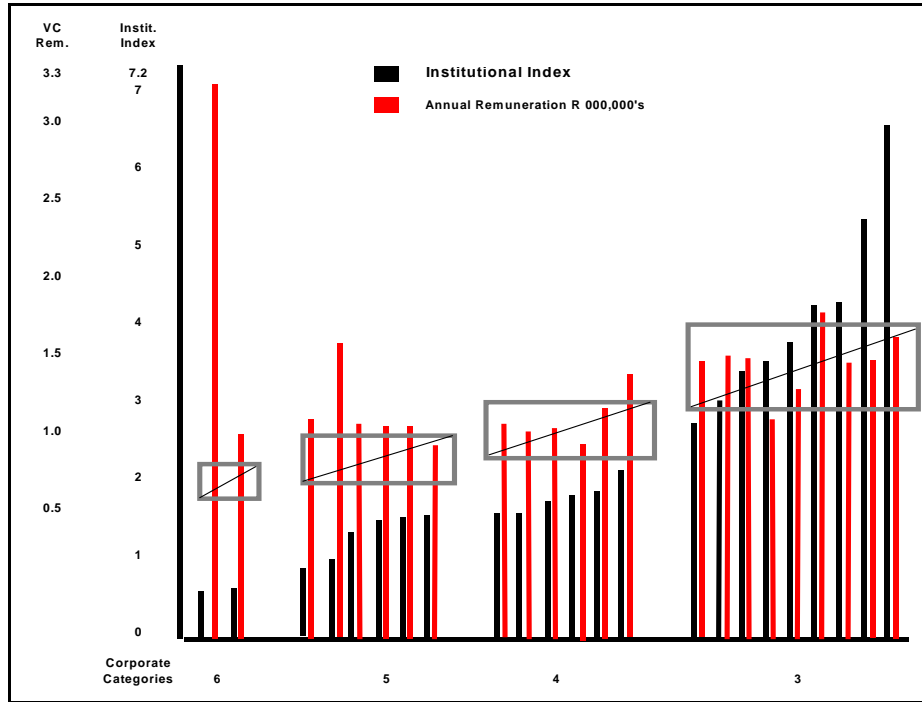
A model of this kind would translate into a set of proposed remuneration ranges for Vice-Chancellors as follows:

Table 5: Model of Proposed Remuneration Ranges for Vice-Chancellors

	Minimum	Midpoint	Maximum
Category 6	R 590,000	R 710,000	R 860,000
Category 5	R 710,000	R 850,000	R 1,020,000
Category 4	R 845,000	R1,015,000	R1,220,000
Category 3	R1,185,000	R1,422,000	R1,706,000

It is acknowledged that a Vice-Chancellor might be unlikely to accept remuneration at the lower end of category 6. However, it is suggested that a package of R860 000 should not be ruled out for a small institution. This would allow for a second tier of executives at R650 000, with senior professors in excess of R500 000 per annum. The average remuneration package for professorial staff in 2005 across the sector was R440 000.

Figure 8: Model of Proposed Remuneration Ranges for Vice-Chancellors (Overlaid on Figure 5)



Note 1: Remuneration should, ideally, match the diagonal line within each range as the institutional complexity index increases.

While these proposals do not address the problems of the internal institutional relationship between Grades 1, 2 and 3, they do meet the requirements of payline equity and would create, at Vice-Chancellor level at least, remuneration ranges relative to the complexity of managing each institution. The proposals do not address the relationship between executive remuneration and other levels of employment within an institution, as this was not within the terms of reference of this study. However, the proposals do take into account affordability for each institution, by building a relationship between institutional income, institutional complexity and the Vice-Chancellor's remuneration.

Once the appropriate remuneration level for the Vice-Chancellor has been established, remuneration levels for the executive management of each institution can be set using the normative guidelines for midpoint differentials for Grades 2 and 3, as suggested in Section 2.1.

The model suggested further creates a foundation on which an appropriate and rational sectoral remuneration structure should be built. (See **Recommendation 6 - K.**)

3 The Governance of Senior Staff Remuneration in South African Higher Education

3.1 Good Governance Context

Public higher education institutions serve social and public purposes and are publicly funded to a substantial degree. Of the total income, government grants currently cover 50% on average (with variation across institutions), with 25% from fee income and 25% from private income sources. Government grants as a proportion of total income vary from 35% to 65%, depending on the capacity of institutions to raise private funds.¹³ This study has found on the basis of DoE data for 2004 that, of a total higher education income of R21.6 billion, third-stream income as a percentage of total institutional income ranged between 4% and 52%, averaging at 22%. Even where public institutions successfully raise third-stream income, they cannot be regarded as ‘private public institutions’ exempt from the accountability requirements applicable to all, because government funding remains significant.

Effective and principled remuneration practice in South African higher education must therefore be understood within the governance framework for higher education, established in policy by the White Paper of 1997, and in law by the Higher Education Act of 1997¹⁴. In South African higher education, good governance is conceptualised as a set of arrangements in which autonomous institutions accept and demonstrate public accountability for their decisions as consistent with the transformative goals of national policy and the requirements of reporting.

Governance incorporates intersecting system and institutional spheres¹⁵, and good governance requires, in each sphere, structures, processes, policies, practices, relationships and results that support the purposes of higher education transformation. A third ‘sectoral governance’ sphere, constituting the collective of higher education institutions in the system, has relevance for this study. The study has been undertaken in part because HESA believes that ‘sectoral governance’ has a contribution to make to effective senior staff remuneration governance and practice.

Drawing on the policy and legal framework, and referencing the different spheres of governance, criteria of good governance can be derived to evaluate the performance of South African higher education in respect of senior staff remuneration. These criteria are:

Values driving policies and practices for senior staff remuneration should be consistent with values and principles that have been established for higher education governance as a whole (equity and redress; democratisation; effectiveness and efficiency; development; quality; academic freedom; institutional autonomy; and public accountability)¹⁶. At institutional level, senior staff remuneration policies, structures and processes of governance that give effect to these, must be informed by principles and values of equity (fair opportunities), democratisation (participative decision making), development (facilitating transformation), effectiveness (optimal institutional functioning) and efficiency (sustainability and affordability). At system level, regulations must be designed to support the effectiveness and efficiency of remuneration practice, and its contribution to a value-for-money approach to quality in delivery across the higher education system.

The co-existence of institutional autonomy and public accountability sets up a healthy tension. Institutions may assert that remuneration decisions fall within the scope of autonomous decision making and should not be regulated. The state may argue that autonomy is no justification for remuneration levels that are unsustainable (i.e. inflated, inequitable and inappropriate in light of available public funds or responsible financial management). If poor remuneration governance and practice is widespread, it may therefore need to be centrally regulated in the interests of public accountability. Each of these contending arguments has value –and, in principle, contestation should not arise so long as each party is satisfied that the other is fulfilling its part of the ‘balance’ between autonomy and accountability. In practice, however, questions of balance are controversial in South African higher education governance, owing to differences of interpretation as to the degree of autonomy or accountability required to strike a healthy equilibrium. Sectoral self-regulation in the area of senior staff remuneration *may* present an appropriate option for facilitating autonomy, while safeguarding policy values and intentions. A sectoral commitment to the implementation and monitoring of self-regulation needs to be demonstrated to allay public concern.

Relevant governance structures and processes should themselves embody these principles. Institutions are autonomous and therefore, at system level, there are currently few defined structures and processes of

governance in the area of senior staff remuneration. However, in the interests of due public accountability, the DoE has itemised disclosure of senior staff remuneration as an element of its reporting regulations¹⁷ for higher education institutions. Here, aspects of good governance include the setting of clear expectations with respect to the content and format of reporting on senior staff remuneration; review of information submitted for accuracy and completeness; monitoring of trends, shifts and discrepancies with appropriate follow-up at institutional level, or consultation at sectoral level; and appropriate public disclosure of information.

The Council¹⁸ of a higher education institution is its highest decision-making body, accountable for governance in the best interests of the institution, and for ensuring that the institution is a going concern. Although there is no formal mechanism whereby Councils are held accountable for their actions and policies, it is nevertheless clear that their authority rests within the provisions of the higher education policy and legal framework. Councils must apply the goals of public policy at institutional level, must be accountable for the use of public funds, especially in terms of demonstrable results that contribute towards the achievement of national goals, and must report on the results achieved using formats prescribed by DoE where necessary.

The exercise of Council accountability with respect to senior staff remuneration decisions therefore requires the formulation and implementation of Council-approved policy whose elements should include that:

- Council agrees remuneration levels for senior staff, as well as equity of the payline for all staff, bearing in mind the income, expenditure and financial performance of the institution.
- Council is able to justify, internally and externally, and in the short and long terms the affordability and sustainability of remuneration packages for senior staff in relation to different income streams and steps taken to manage any associated risk.
- Council is able to demonstrate value for money, in that remuneration levels of senior staff support the achievement of key policy goals, such as equity, effectiveness and efficiency in relation to senior appointments.
- Council is able to justify remuneration levels against indicators and benchmarks that relate to the public value of higher education – e.g. quality of educational and research delivery, enrolments that align with policy goals and institutional mission, efficient throughput and graduation rates, and so on.
- Where the Council delegates any functions to a remuneration committee (or equivalent), it nevertheless remains accountable, must approve the parameters for remuneration decisions, and must ensure that structures and processes are sufficiently participative (i.e. involve stakeholders), transparent (i.e. satisfy appropriate levels of disclosure), and include requisite remuneration expertise. A Council cannot under any circumstances agree that information concerning the remuneration of senior staff is known only to the remuneration committee, and not fully disclosed to the Council.

Good governance of senior staff remuneration in higher education should be aligned with good governance in this area in the corporate sector. Convergence between good governance practices in the higher education and corporate sectors is inevitable. Each sector has evolved a conception of good governance in relation to explicit principles of accountability and transparency. Further, the efficiency and sustainability principles which are traditional determinants of good practice in the corporate world have been brought increasingly to bear on a higher education sector which must ‘do more with less’ public funding. Thus, in addition to the governance framework specific to higher education, institutions are required by regulation to conform to good corporate governance practice, particularly as this has been codified by the King Committee on Corporate Governance¹⁹ and by the South African statements on Generally Accepted Accounting Practice (GAAP). The King Code’s recommendations as to principles and practices for the governance of senior staff remuneration are in line with codes of good corporate governance practice around the world.

Awareness of institutional history and/or context should influence decision making as to senior staff remuneration policy and practice. Governance in the area of senior staff remuneration must seek to address and transform legacy patterns in remuneration, and to avoid perpetuating distortions under new circumstances. Institutions may have differential access to third-stream income; differential proportions of institutional expenditure on infrastructure versus staff salaries; and different approaches to the management of student debt, with resultant institutional deficits that may have impacted on available resources with which to pay staff salaries. Merging institutions have an opportunity to apply good governance in determining remuneration levels. These need to be mediated both in the system sphere (by the DoE, as it approves or endorses merger arrangements) and in the sectoral sphere (guidelines for institutions as they agree the staffing establishment of the new entity).

Decisions regarding senior staff remuneration must support the efficient and sustainable development of higher education. At the system level, good governance requires the establishment of reasonable norms for senior staff remuneration. The application of these norms should be tracked via reporting regulations and other feedback mechanisms, to ensure the viability of staffing costs across a system that incorporates institutions with different histories. At institutional level, good governance requires that senior staff remuneration levels be set and reviewed in the short and long terms, according to affordability in terms of the institution's budget and staffing needs, in order to support delivery against all aspects of the institutional mission.

Decisions regarding senior staff remuneration must support the effective and strategic development of higher education. Good governance of senior staff remuneration must secure necessary leadership capabilities and capacities to fulfil the generic purposes of higher education and the specific missions of higher education institutions. These include achieving national and institutional targets with respect, for example, to participation rates, throughput rates, graduation rates, research outputs and qualified graduates in specific fields of study.

Senior staff remuneration decisions must promote the equitable and democratic transformation of higher education. Decisions must be transparent and fair in the view of all stakeholders, and must support the equitable utilisation of funds for staffing, including academic salaries²⁰.

Sectoral self-regulation of senior staff remuneration in South African higher education would be an effective support to good governance in the other spheres if it could meet the following essential criteria:

- Facilitating an effective balance between public accountability and institutional autonomy in this area, such as reducing the need for regulation, and aiding institutions in fulfilling their DoE reporting requirements.
- Enabling appropriate transparency of remuneration information for all stakeholders and the public at large.
- Encompassing good practice accepted by the sector, the state, stakeholders and the public and eliciting their positive response, such as advocacy and compliance by the sector; non-interference by the state; and support from stakeholders and the public.
- Being clear (codified), accessible (disseminated within and beyond the sector) and implementable (through suitable measures for benchmarking, directing compliance and tracking non-compliance).

3.2 System Governance

3.2.1 *The Relevance of the Macro-Economic Framework*

South Africa's Growth, Employment and Redistribution (GEAR) macro-economic strategy highlighted a two-pronged government focus: growth through exports and investments; and job creation and resource allocation via fiscal policy, budget reform and public service restructuring. GEAR explicitly set a sustainable growth target of 6%, which has been re-articulated by President Thabo Mbeki in 2005, as the goal for the period 2010-2014. GEAR heralded the way for government's increasing focus on goals of efficiency and responsiveness in higher education to economic imperatives. This formed part of the higher education White Paper's focus alongside goals of equity and democratisation.

The White Paper spelled out the dual transformation challenge of national social and economic development, and successful participation in the global knowledge society with its rapid economic and technological changes. This set a specific agenda for the role of higher education in economic development, as one aspect of its broader social and public purposes. Higher education must support the human resource development needs of a rapidly changing society; it must provide high-level personpower to strengthen South Africa's enterprises, services and infrastructure; and it must produce, acquire and apply new knowledge to meet the needs of industry and of social reconstruction²¹.

In 2001, the National Plan for Higher Education²² translated this agenda into a range of strategies and indicative targets which remain determinant in 2005. These include a medium-term increase in the participation rate from 15% to 20%; graduation rate benchmarks to ensure greater access and success; shifting the ratio of enrolments between the humanities, business and engineering, and science, engineering and technology (SET) from 49:26:25 to 40:30:30; student and staff equity targets to be set and monitored by institutions in their equity plans and institutional rolling plans; strategies to build high-level research capacity; and strategies to ensure a diverse and differentiated institutional landscape and appropriate programmes and qualifications mix.

Beyond this, objective performance indicators for institutions have still to be definitively scoped and agreed by government, the sector and other actors. There is clearly a pressing need for such objective performance

indicators, at both system and institutional levels, if the higher education system is to be suitably aligned, and if multi-partner responsibilities are to be suitably defined, to achieve the transformation and growth required. Across the sector, there are positive signs of progress specifically in improved participation rates; improved student equity in enrolments, opportunities and outcomes; and increased research output targets²³. However, areas of challenge persist in that throughput and graduation rates have remained static across the system over the last decade²⁴, and, in some cases, have declined.

Reliable performance indicators would provide a basis on which system and institutional performance, and the remunerated performance of institutional senior staff, can be measured and judged. In addition, the appropriateness of remuneration levels across the system, or in comparable institutions, could then be assessed in line with the state of development of higher education and the extent to which the sector is fulfilling aspects of its public and social role, including supporting sustainable economic development. (See **Recommendation 2.**)

Higher education does not carry alone the responsibility of meeting the high-level skills and knowledge needs of the South African economy. It must achieve these through constructive relationships with government and business. Effective system-level governance of senior staff remuneration needs to build in mechanisms for the collection and analysis of remuneration data situated in both an ongoing dialogue between different actors as to the performance needs of higher education and its senior leadership; and in an acknowledged and appropriate set of roles and responsibilities (see **Recommendation 1**).

Efforts must be made by government to ensure a) that Treasury's mechanism for determining the quantum of funds available for public higher education, and b) the factors used for allocation of those funds, are continuously monitored to reflect need, and hence to support the role of senior leadership at institutional level. Both state and sector should apply the results of such monitoring processes to ensure that the overall affordability and sustainability of remuneration levels are being tracked, and effectively communicated to institutions²⁵. Third, accurate feedback should be elicited by higher education from business as to the match between institutions' graduates and their employability, as a gauge of performance. Fourth, initiatives by the sector as a collective (via HESA) are required to enhance the economic value of higher education and to collect and disseminate relevant information. Sectoral monitoring and analysis of higher education remuneration trends should interpret these in the light of the macro-economic environment. Finally, practical expression should be given by institutions and Councils that self-government of senior staff remuneration is a process intended to be facilitative of the achievement of national development goals, not separate from them.

3.2.2 System Governance of Senior Staff Remuneration

The Higher Education Act of 1997 requires that Councils of public higher education institutions keep records of all proceedings and complete accounting records of all assets, liabilities, income, expenses and any other financial transactions. The Council must provide annually a report on the overall governance of the institution, as well as an audited statement of income and expenditure, and a balance and cash flow statement²⁶. The White Paper of 1997 requires that institutions receiving public funds should be able to report how, and how well, money has been spent²⁷. Public funding is conditional on institutions' providing strategic plans and reporting performance against institutional goals²⁸. The White Paper also notes that the Higher Education Branch (HEB) of the DoE is charged with information collection and analysis, and monitoring and reporting on higher education²⁹.

Within this broad legal and policy framework, senior staff remuneration in South African higher education is governed at the system level through a set of reporting regulations gazetted by the DoE in 2003. Amended reporting regulations have been drafted for gazetting by early 2006, and aspects of these amendments are relevant to reporting on senior staff remuneration.

General features of the current annual and financial reporting regulations are:

- Emphasis on compliance with good corporate governance standards (King Code).
- Emphasis on compliance with stringent accounting standards (GAAP)³⁰.
- Emphasis on liability for accountable, effective and efficient use of public funds.
- Emphasis on collecting comparable information within and between institutions, enabling identification of trends and flagging of issues requiring attention.

The annual report prepared by institutions for the DoE is a public document intended to be available to all

stakeholders of the institution. Specific features of the reporting regulations in respect of senior staff remuneration are:

- A requirement for disclosure of senior managers' remuneration packages:
 - A reporting table is provided and requires that the annualised gross remuneration of senior management be disclosed by name and office held³¹. In addition, exceptional payment amounts exceeding a set limit (R249 999³²), must also be disclosed by name and office held.
 - 'Senior management' comprises office-holders so defined in the Institutional Statute, or as otherwise so deemed. At a minimum, the principal, vice-principal, registrar, executive officers for finance, for human resources and for estates, and executive deans are included³³.
 - Gross remuneration includes all amounts received for which the individual is liable for income tax e.g. salary, supplementations, fees and annual bonuses, allowances in monetary terms, market or income-tax value of applicable benefits, overtime or commuted overtime, and employer's contribution to benefits. Exceptional amounts include commutation of leave, special bonuses, and 'restraint of trade' payments.
 - Amendments to the regulations are likely to require a clear distinction in the reporting of gross remuneration components of basic salary, employment benefits, and other allowances.
 - Amendments to the regulations are likely to strengthen the provision that institutions must submit the completed reporting table as an integral part of the annual financial statements³⁴. Auditors will be requested to qualify the annual financial statements where the format of remuneration information does not comply with disclosure requirements as stated. This amendment is motivated by the practice by some institutions of submitting the information on loose sheets, instead of its being an integral part of the annual report.
- A recommended configuration of Council committees. This configuration serves to embed senior staff remuneration decision making in a scheme of governance connecting institutional and operational planning, budgeting, financial management, risk management, and systems of performance management and reward. Council should constitute a remuneration committee, a planning and resources committee, an audit committee and a finance committee³⁵.
- Emphasis on the identification, management and reporting of risk in both financial and non-financial areas, thus including any risk which may be attached to an institution's ability, or inability, to attract and retain leadership and senior management staff necessary to the achievement of its mission and strategy³⁶.

3.2.3 Evaluation of System Governance

System-level governance of senior staff remuneration as described goes a long way towards satisfying good governance criteria. It is currently consistent with public policy values, especially those of public accountability, effectiveness and efficiency; and is aligned with good corporate governance. Higher education institutions expressed overall support for the current regulatory framework and regard the King Code to be compatible and appropriate.

However, one critical area of improvement for system-level governance is the regular provision of information and analysis regarding senior staff remuneration, both to the sector and to the wider public. At present, the DoE provides (on compact disc) financial indicators as derived from institutions' annual reports, grouped in comparable sets, to all public higher education institutions for the purposes of information sharing. However, this is not accompanied by any analysis of senior staff remuneration trends, good practice or areas for improvement in the system. Nor does the DoE (or anyone else) routinely provide remuneration information in the public sphere via the media. There is an opportunity to enhance value by ensuring that senior staff remuneration information is duly evaluated and utilised for the intended purposes of steering the system and leveraging the public accountability of institutions. As already noted, the White Paper charges the HEB of the DoE with information collection and analysis, and monitoring and reporting on higher education. Yet, capacity constraints upon the DoE must be acknowledged.

Gaps in the provision and analysis of senior staff remuneration information should be closed by appropriate allocation of roles and responsibilities to DoE and others. The DoE could require and specify a more structured performance report from institutions, which would serve to balance financial information, and information on academic progress and delivery, currently contained in the reports on governance by Council, Senate and other committees, and in the Vice-Chancellor's report.

If provided with all institutions' annual reports, using this more detailed information set, HESA could produce an analysis of senior staff remuneration levels and trends, in relation to national development goals, e.g. 6%

annual economic growth and specified human resource development needs. Key points of the analysis could be communicated to the Minister of Education for the purposes of policy monitoring and/or development, and for public communication. An annual press release with details of senior staff remuneration levels in higher education may be a useful way of managing public perceptions, and building public confidence in remuneration governance and practice in the sector. (See **Recommendation 3**.)

Furthermore, from an institutional and sectoral perspective, the research identified a number of issues for attention. First, there was a concern that more stringent regulatory and/or reporting requirements by the DoE would upset the delicate autonomy/accountability balance. Institutions would resist any centralised systems for the setting of remuneration, such as DoE-determined bands for the remuneration of specified senior management positions.

Second, institutions were split on the merits of disclosure of senior remuneration packages. Envisaged amendments to the reporting regulations are set to achieve greater conformity in this regard, effectively preempting some institutions' attempts to observe the letter but not the spirit of disclosure. This illustrates that where institutions use autonomy as a justification for such behaviour, regulation is an inevitable result. While institutions accepted the requirement of disclosure to the DoE, in terms of the gazetted regulations, they were inconsistent in terms of disclosure within their own institutions. Some disclosed to the full Council details of senior staff remuneration by name and office of the executive/senior staff member, as part of the annual financial statements. Others did not disclose details any more widely than to members of the remuneration committee. Some disclosed senior staff remuneration in line with limits formerly set by DoE, of gross remuneration above R499 000. A small number disclosed remuneration above some other designated limit, e.g. one institution had a limit of R250 000. Some published senior staff remuneration details by name and office in their institution's annual report, as a means of disclosure to stakeholders, other role players and the wider public.

Those in favour of disclosure by name indicated that this had significantly increased levels of trust with staff and unions, and considered it good practice in terms of transparency and the accountable use of public money. In addition, they indicated that it gave individual staff members a sense of the value of their performance in comparison with similar-level positions in the institution. Those against disclosure by name were of the view that this would be a breach of confidentiality, would encourage pay inflation, and could create controversy around inconsistencies in remuneration packages which exist for sensitive reasons.

Third, efforts to compare and contrast existing DoE data showed not only extremely wide ranges in remuneration packages, but other variations that were difficult to understand or explain. In institutions' view, one explanation for this might be that 'apples' were being compared with 'pears'. Accordingly, there was a feeling that the DoE should define required categories and format of senior staff remuneration information more clearly than it had already done (and it appears that the revised regulations will do just this). As an alternative explanation, given that institutions currently have no consistent approach for building a remuneration package, they may format their reporting differently, as based on a variable understanding of DoE requirements.

Finally, it must be reiterated that Councils are not accountable to any individual, group or body for remuneration decisions made, just as they are not accountable to a specified party in any other area. Although Councils must submit an annual report to the DoE, there is no mechanism for interrogating or remedying particular financial decisions, including remuneration decisions. This is evident from extreme outlier examples of remuneration in the analysis of Chapter 2, which have persisted since at least 2003. Defining a workable accountability mechanism for Councils is a complex and sensitive issue in South African higher education, given the need to keep accountability and autonomy in balance. A sectoral code of governance, and code of practice on senior staff remuneration, might be made to function effectively as 'peer review mechanisms'. Yet the quality of governance – in remuneration matters as elsewhere – would benefit from the identification of a suitable accountability mechanism to close the gap between public and sector. Accordingly, discussion and policy development by government and the sector should seek to address this gap. (See **Recommendation 4**).

3.3 Institutional Governance

3.3.1 Key Governance Structures

Legislation makes Council the highest governance authority in institutions and it therefore follows that Council is accountable for senior staff remuneration decisions. Table 6 summarises the dimensions of this accountability.

Table 6: Council Accountability for Senior Staff Remuneration

Irrespective of any Council-determined schedule of delegations to other governance structures or members of management, the Council retains accountability for executive and senior remuneration decisions. Specifically, aspects of its accountability include:
<ul style="list-style-type: none"> • Determining, and overseeing the implementation of, the institution's senior remuneration policy/policy framework including equity aspects of this, or a related, framework.
<ul style="list-style-type: none"> • Determining institutional policy on disclosure of senior staff remuneration, taking cognisance of statutory or regulatory obligations to disclose senior staff remuneration information to other role players.
<ul style="list-style-type: none"> • Considering any risk arising from remuneration policy, remuneration decisions and remuneration disclosure including reputation risk, and ensuring that risk management and control systems are in place.
<ul style="list-style-type: none"> • Determining all elements of the remuneration package of senior staff at a minimum, of the Vice-Chancellor/CEO/Principal.
<ul style="list-style-type: none"> • Reviewing, if necessary amending, and approving recommendations for the remuneration of senior staff, including where authority is delegated to a remuneration committee or to the Vice-Chancellor.
<ul style="list-style-type: none"> • Assessing senior staff performance in line with performance targets where these have been set, and consistent with agreed performance management systems where these have been established.

Any other governance structure utilised by public higher education institutions for the purposes of determining and reviewing senior staff remuneration, draws its powers or authority directly from the Council. Most typically, the Council establishes a remuneration committee, perhaps by another name: e.g. emoluments committee. The committee makes recommendations to the Council, or with delegated authority from the Council. The terms of reference of the remuneration (or equivalent) committee as most frequently cited by institutions are reasonably consistent across institutions. They are also broadly in line with model terms of reference recommended by the King Code, although these are more detailed³⁷. They include:

- Recommending remuneration policy and strategy to the Council.
- Recommending and/or reviewing parameters for the review of executive and senior staff remuneration, in line with institutional policy.
 - Some committees recommend and review parameters for executive remuneration, and review parameters for senior staff remuneration where these decisions are delegated to the Vice-Chancellor or another member of management.
- Determining and reviewing remuneration of members of executive and senior management.
 - Review of remuneration is on an annual basis and is linked by some means a) to review of executive/senior management performance, and b) to market information.
 - The scope of the committee's remit tends to vary within the stipulations of remuneration policy, or within the schedule of Council delegations. The committee may set and review remuneration of management falling within a given (e.g. Peromnes) grade; or may set and review remuneration of executive management only, while senior management remuneration review is delegated to the Vice-Chancellor. The committee may set and review the Vice-Chancellor's remuneration only, while other executive and senior remuneration is set and reviewed by the Vice-Chancellor in consultation with the Chair of Council.

Membership of the remuneration committee typically comprises the Chair of Council (who also chairs the committee), as well as other external members of the Council. The latter may be designated in terms of specific roles, such as the Deputy Chair of Council, the Chair of the finance or audit committee or may be elected by virtue of appropriate expertise. In some cases, the Vice-Chancellor is named by the institution as a member of the remuneration committee, although this appears to be a qualified membership. The Vice-Chancellor ceases to function as a member when the remuneration committee is dealing with senior salaries business; or that the Vice-Chancellor's *ex officio* status may be interpreted to mean s/he is a non-voting member. The committee may also seek the perspective of other members of management in an advisory or technical capacity, such as heads of finance and/or human resources, remuneration manager or specialist. These provisions for membership of the remuneration committee are consistent with good practice under the view of the King Code³⁸.

3.3.2 Key Governance Processes

Most institutions acknowledge in principle the importance of linkages between the process of senior staff remuneration determination and review, and other key governance and management processes, such as annual budgeting, planning and budgeting cycles over a longer duration, managing financial and operational risk, annual performance appraisal or review as part of a performance management system, and annual salary negotiations where senior staff remuneration forms part of these. In practice, the degree of integration of the various processes is variable and it is also apparent that robust performance management systems exist only in a minority of institutions.

Well developed process linkages appear to be derived in the first instance from an 'integrated' remuneration policy which requires Council/remuneration committee decision making to take into account information arising from consideration of factors of affordability, 'skills scarcity', and race and gender equity. In addition, information generated by benchmarking surveys, performance appraisal or performance management reviews where these exist, and designated level and grade of a post, is applied. Four sophisticated performance management systems at institutional level were identified by the research.). These systems articulate individual performance output agreements with departmental, faculty and institutional strategies and plans, and, in three cases, link them to remuneration review. In one case, institutional risks, as determined, rated and assigned to individual managers by the audit committee, are also reflected in the performance output agreements of senior staff. These performance management systems set an example for other higher education institutions to follow.

Almost all institutions cite gathering independent and expert/specialist information to inform the work of the remuneration committee, as supportive of effective governance of senior staff remuneration in their institutions. Thus the departments of finance and/or human resources typically research and present market information obtained from annual surveys of remuneration practices in higher education and/or other sectors, as conducted by specialist commercial entities, e.g. Deloitte Human Capital Corporation, PE Corporate, Remchannel. Information may also be sought directly and/or informally from other institutions, such as proposed remuneration levels and increases for the current year.

3.3.3 Policy Frameworks

All higher education institutions report some form of policy guiding their senior staff remuneration decisions, although policy is formulated to varying degrees of detail. This may simply be a set of Council-approved principles, applied with varying degrees of formality. Newly merged institutions appear to have given, or to intend to give, special attention to aspects of remuneration policy and process.

The following are elements that feature with reasonable consistency across higher education institutions in policy for senior staff remuneration:

- Remuneration policy and practice must be designed to attract, retain, reward and motivate executive and senior management of high quality and potential, and who will add value in terms of the institution's mission, strategy, goals and operational requirements.
- Remuneration must be affordable to the institution and sustainable over time.
- Remuneration must be set on the basis of portfolio responsibilities and/or job grade related to the selected job evaluation system.
- Remuneration must be linked to assessment of performance output and/or to a performance contract and, in some cases, to special efforts to encourage a culture of performance reward.
- Remuneration should satisfy requirements of internal equity and fairness, allowing for fair differentiation in the remuneration of individuals, based on acceptable determinants of remuneration.
- Remuneration should be comparable with that paid for similar jobs in comparable institutions in the sector.
- Remuneration should be adjusted if necessary for factors such as skills scarcity, strategic priority, market profile of an individual and, in some cases, employment equity.
- Reputable remuneration surveys and market benchmarks are used to determine and adjust remuneration scales and remuneration structure, and in order to maintain appropriate linkage to the national and, in some cases, international, pool of resources from which executive and senior management in higher education are drawn.
- Remuneration packages are monitored annually.

Where institutions use annual market surveys as a means of comparing institutional packages and guiding remuneration review, then institutions generally decide explicitly how they intend for remuneration packages to

relate to benchmarks, i.e. to match the industry median, to lead the market and therefore match upper and top percentiles, or to lag the market and match lower percentiles.

3.3.4 *Participation of Stakeholders and Disclosure*

In some cases, linkage between the remuneration committee and stakeholder forums is explicit. In these cases, the remuneration committee may determine mandates for negotiations with unions, or take into account decisions reached by a joint forum for salary negotiations. Yet a high proportion of institutions could cite no specific processes for securing the participation of stakeholders in the governance of senior staff remuneration. Stakeholder perspectives on senior staff remuneration are usually accessed using the mechanism of policy consultation, but some institutions remain ambiguous about the potential value of stakeholder participation in the senior staff remuneration area. More than one institution appeared to believe that stakeholders participate 'through representation on the Council', unaware that staff and student representatives on Council do not sit as mandated representatives of a constituency³⁹.

Although institutions acknowledged that the Institutional Forum is to advise the Council on such specific matters as race and gender equity policies, selection of candidates for senior management positions, and matters of institutional culture⁴⁰, they tended not to cite any linkage between these advisory functions and advice on senior staff remuneration issues. Finally, the reticence of some institutions in the matter of disclosure of senior staff remuneration packages, may be based partly on a concern that disclosure could lead to undue controversy.

Institutional practice around disclosure of actual remuneration information is highly variable. Disclosure of remuneration information lies on a continuum from 'narrow disclosure' to 'full disclosure'. Narrow disclosure is to the DoE as per regulatory requirements, with limited internal disclosure by name to members of the remuneration committee only. Full disclosure is publication in the institution's annual report of senior staff remuneration packages by name, and extending beyond management positions included in the regulatory provisions. New regulatory provisions on disclosure by the DoE seem set to reduce variation in institutional practice.

3.3.5 *History and Context*

Institutional history appears to exert a limited influence on contemporary approaches to senior staff remuneration. In recent years, most institutions have moved to a more systematic and market-related approach to remuneration with the appointment of necessary structures to take remuneration decisions. This has occurred in some instances with the conscious purpose of overcoming governance failings of the past. In addition, institutional restructuring through mergers and incorporations has promoted overhaul of governance of senior staff remuneration with some awareness of contemporary trends and good governance.

3.3.6 *Evaluation of Institutional Governance*

Taken alone, information provided by institutions about their governance arrangements for senior staff remuneration, might suggest that these arrangements are adequate, if patchy. However, important provisos prevent this assessment. It seems that a gap exists between governance as espoused, and governance as implemented. The real test of espoused governance lies in the analysis (Chapter 2) of remuneration practice, which is certainly not satisfactory. There are some clear areas for improvement, and some apparent incongruities to be resolved, in institutional governance.

First, descriptions of institutional governance indicate that governance of senior staff remuneration *is* value-driven, but primarily within a corporate, rather than a public policy, paradigm. One reason may be that financial and annual reporting regulations have highlighted explicitly the King Code of practice. Institutions may therefore have been prompted to make certain adjustments in line with this. In addition, increasingly managerialist influences on the governance of higher education worldwide have made recourse to comparative market information, benchmarks and corporate practices, more natural for institutions. A further explanation is that remuneration matters have long been informed by professional finance and human resources perspectives at institutional level. These perspectives may have come from the university's administration, or from external Council members on the remuneration and finance committees, who have corporate expertise.

In this case, the corporate paradigm is compatible with public policy for higher education and its imperatives of efficiency and effectiveness, but it is nonetheless interesting that the research did not locate an institutional policy that referenced explicitly the higher education public policy environment. There are potential risks

attached to the prevalence of corporate values in institutional governance of senior staff remuneration, when other aspects of corporate culture, such as strong performance evaluation tied to job security, are not also embraced. (See **Recommendation 6 - C** and **Recommendation 6 - D**.)

Second, while institutions broadly agree on Council accountabilities with respect to senior staff remuneration, it is less clear that all the implications of these accountabilities are apprehended. This is highlighted, for example, by the practice of not disclosing senior staff remuneration to the full Council, or by the weak development of performance management systems for senior staff in some institutions. In addition, it is not clear that the role of Council members as trustees of the public interest is always fully understood, highlighted by the misunderstanding that stakeholder members of Council function on this body as mandated stakeholder representatives. Council’s accountabilities with respect to determining and reviewing executive and senior staff remuneration are embedded in Council’s overall accountability for ensuring good governance of the institution and for maintaining the institution as a going concern. This includes ensuring that when nominations for Council membership are made, necessary financial and human resource management expertise is accessed and leveraged on relevant Council committees, including the remuneration committee. Council members should also be trained to understand their various roles and accountabilities, including for remuneration decisions. In addition, Councils should continually interrogate their decisions from the perspective of probity and liability and must determine what provision is being made to safeguard these principles when a Council approves a deficit budget. (See **Recommendation 6 - B**.)

Third, the overall quality of institutional governance will be enhanced by elaboration of framework policy and attention to aspects of appropriate process integration. There are various ways in which Councils could seek to address this issue. One would be to ensure that policy for remuneration is established within a solid framework such as the one suggested at a high level in Table 7.

Table 7: Elements of a Remuneration Framework⁴¹

<ul style="list-style-type: none"> Establishing a governance charter, or code of ethics, to promote good governance as appropriate for the South African higher education context, and with applicability for senior staff remuneration decision making.
<ul style="list-style-type: none"> Reinforcing through appropriate policy and process, Council-level accountability for senior staff remuneration decisions.
<ul style="list-style-type: none"> Establishing, with due transparency as to composition and terms of reference, a remuneration committee, or other Council committee, for the purposes of recommending remuneration policy and senior staff remuneration to the Council, or for Council endorsement.
<ul style="list-style-type: none"> Consulting, adopting and disseminating Council-approved remuneration policy and principles.
<ul style="list-style-type: none"> Ensuring that policy addresses key integration points for effective decision making in the area of senior staff remuneration, and establishes appropriate mechanisms or processes to give effect to these, e.g. links to strategic planning, budgeting, risk management, performance management processes.
<ul style="list-style-type: none"> Ensuring a clear boundary between the role of Council and its committees, and the role of management, in developing and approving senior staff remuneration policies, practices, packages and schemes.
<ul style="list-style-type: none"> Defining the institution’s approach to senior staff remuneration disclosure and ensuring this is integrated within the institution’s broader disclosure processes.

A second approach would be for Council to conceptualise the roles and responsibilities of the remuneration committee in an appropriately comprehensive way, and to translate this conceptualisation into the committee’s terms of reference. One mechanism for this might be to constitute committee membership to include the Chairs of key Council committees, such as finance, planning and resources, and audit committees, and so ensure congruence across the various aspects of Council oversight. Some institutions already utilise this model. Another mechanism would be to specify within the terms of reference necessary periodic interactions, or briefings, between the remuneration committee and other Council committees, and necessary stakeholder interactions and approvals for any senior staff remuneration arrangements. (See **Recommendation 6 - B** and **Recommendation 6 - E**.)

Fourth, it seems that the value of robust systems of performance management should be promoted more widely. One key value of a comprehensive performance management system – that is to say, one which links strategic planning, institutional performance and risk, and individual performance, through a system of indicators, targets and tracking measures - is that it accommodates the process integration already advocated. Another is that it provides objective evidence as a basis for decisions in which Council, the senior staff who are being rewarded, and other stakeholders can have confidence. As a concept, performance management is not inherently inimical

to a higher education environment. Academic promotion has been linked to research output, and achievements relating to teaching and community service for many years.

Robust systems of performance management are essential supports to the effective utilisation of fixed-term contracts for executive management positions, and the growing tendency to award performance bonuses to executives. Where no proper system of performance management or appraisal is in place, the outcomes of mandated annual salary negotiations should apply across the board. (See **Recommendation 6 - H.**)

Fifth, the value of participation in the governance of senior staff remuneration should be promoted. The clearest and least controversial mechanism for participation is through the consultative development of remuneration policy, and through regular policy review which involves institutional stakeholders, including the Institutional Forum. Specified points of linkage between the remuneration committee and stakeholder forums constitute another good mechanism for participation. It appears that the merits of disclosure with respect to senior staff remuneration, as a vehicle to promote participation in institutional governance by opening the door to comment, and as a means of demonstrating public accountability, are poorly understood by some institutions and their Councils. It appears that more consistent and greater disclosure by institutions may soon be enforced by regulation. Beyond this, the opportunity still exists for institutions to disclose remuneration beyond the regulated boundary, with possible gains in terms of stakeholder trust and public confidence. (See **Recommendation 6 - F.**)

3.4 Sectoral Governance

In the research, institutional views on the viability of sectoral self-regulation of senior staff remuneration yielded the following perspectives:

- There was apparently broad support for the rationales, principles and criteria for sectoral self-regulation of senior staff remuneration. However, this broad support must be characterised as ‘superficial’, given underlying issues and concerns below.
- Institutions’ respective understandings of the boundaries of autonomy and accountability varied considerably. The wide continuum of institutional practice with respect to disclosure of senior staff remuneration provides a practical example of this.
- Institutions opposed the introduction of additional or tighter regulatory provisions on senior staff remuneration.
- Institutions were readier to express the fear that sectoral self-regulation would serve as a form of imposition, than to advance the view that sectoral self-regulation could be simultaneously a healthy counterbalance to central regulatory pressure, and a support to effective remuneration governance and practice at institutional level.
- Institutions believed a sectoral self-regulatory code in the area of senior staff remuneration should focus on principles of governance, rather than on specific aspects of practice – i.e. an ‘arms length approach’ was preferred.
- Some institutions were concerned that monitoring via a sectoral code would be inappropriately used to track and direct compliance.

3.4.1 *Evaluation of Viability of Sectoral Self-Regulation of Senior Staff Remuneration*

Institutional perspectives provide ambiguous evidence, at best, for the viability of sectoral self-regulation in the area of senior staff remuneration. Yet it must be remembered that this study of senior staff remuneration is the first attempt to translate HESA’s in-principle commitment to self-regulation into concrete action. Building shared understanding of the goals and potential of self-regulation, is still very much a process under way. This evaluation therefore focuses on steps necessary to give effect to HESA’s commitment, both generally, and with respect to senior staff remuneration as the test case in point in this study.

First, HESA should direct efforts towards effecting attitudinal shifts both within the sector, and on the part of the state. It must grasp the opportunity, as it establishes the nature, direction and strategy of the unified sectoral body, to craft a strong sectoral image premised on the imperative of self-directed sectoral transformation, and the enhancement of a public accountability culture.

Second, HESA needs to bolster self-regulatory capacity within the sector using a programmatic approach, so that HESA serves prominently as a proactive enabler of accountable and effective higher education delivery. Critical roles and projects for HESA have already been identified in areas such as strengthening the information

base of the sector to facilitate analysis and decision making, and strengthening the sector's contribution to high-level skills and human resources development.

Third, HESA needs to leverage sectoral commitment and capacity through concrete mechanisms that can be adopted, or deployed, at institutional level; and which can serve to complement, or fill gaps left open by, the resources of the state. The collection and provision of reliable information and analysis is certainly one mechanism of this kind. Another would be the establishment of a widely-consulted sectoral code of governance, to which specific codes of practice (such as one on senior staff remuneration) would serve as schedules. The virtues of an overarching sectoral code of governance would include the following:

- The code would promote good governance generally and establish framework principles for this to be applied across all areas, with the agreement of the sector.
- It would provide a vehicle for identifying, at the outset and on an ongoing basis, areas where there is sectoral agreement that more highly specified codes of practice - with their own indications of necessary governance mechanisms, indicators and benchmarks grounded in available data and reliable frames of reference - would enhance the effectiveness and accountability of institutions and of the sector as a whole.
- Given that HESA aims to direct its attention to improved collection, analysis and dissemination of sectoral data, the code of governance would implicitly acknowledge that indicators and benchmarks may from time to time require adjustment, consistent with agreed monitoring and review processes.
- The code could build in a general sectoral governance review process as part of HESA's own governance framework, while allowing for the monitoring of specific areas, according to specified mechanisms, on an established rotation (e.g. annual census at a specific date).

(See **Recommendation 5**.)

With a sectoral code of practice for senior staff remuneration specifically in mind, this study makes particular recommendations for good governance mechanisms, and proposes indicators and benchmarks for refinement (as discussed in Chapter 2). A starting point for a viable monitoring mechanism would be for institutions to make available to HESA a copy of their annual reports. These should include reports on senior staff remuneration, as submitted to the DoE, with a brief accompanying statement as to how institutional remuneration governance and practice has taken account of the code. Institutions would be required to note instances where the institution has departed from the code, with reasons provided. HESA would maintain a library of reports and compile an analysis and recommendations accordingly, at the agreed time of sectoral review. Appropriate engagement between HESA and the Ministry would enable exchange of perspectives on progress and any necessary remedial steps, as well as creating a feedback loop to the DoE's own improved processes of collection of remuneration information. (See **Recommendation 7**.)

4 Recommendations

The following recommendations are made by the Reference Group with a view to ensuring that senior staff remuneration governance and practice in higher education are consistent with, and promote, higher education's status and importance as a public good. The recommendations are intended to build on existing good governance and practice in senior staff remuneration, where these are in place in higher education, and to improve governance and practice where required.

The Reference Group takes the view that the instruments for sectoral self-regulation to be developed in terms of the recommendations, e.g. goals and performance indicators for higher education, public accountability mechanism for Councils, code of practice for senior remuneration and concomitant guidelines and benchmarks, can be finalised only after due research and with extensive consultation with all higher education institutions. It is not intended that the outcomes should be so prescriptive or uniform as to frustrate the autonomous nature and role of these institutions.

4.1 Recommendations Involving State and Sector

Recommendation 1: Senior Staff Remuneration and the Macro-Economic Environment

Effective system-level governance of senior staff remuneration should build in mechanisms for the collection and analysis of remuneration data linked to a) an ongoing dialogue between government, business and the higher education sector, as to the performance needs of higher education and its senior leadership; and b) an acknowledged and appropriate set of roles and responsibilities for each actor. In particular, sectoral monitoring and analysis of higher education remuneration trends should interpret these in the light of the macro-economic environment.

Recommendation 2: Objective Performance Indicators for Higher Education and Senior Staff Remuneration

HESA and government should agree on objective performance indicators for higher education and its institutions, consistent with system goals to achieve required transformation and growth. Responsibilities of each partner should be clearly defined. Once in place, these indicators should be used by HESA to measure and assess system and institutional performance; to set expectations for, and track, the performance of institutional senior staff; and to monitor the appropriateness of remuneration levels in the system and in institutions.

Recommendation 3: System-Level Collection, Dissemination and Analysis of Remuneration Information

The DoE should continue to collect data relating to remuneration and the financial performance of higher education institutions. HESA should play a complementary role in analysing this data and providing it to the sector and the wider public.

Recommendation 4: Reinforcing Council Accountability for Remuneration Decisions

Councils' accountability for remuneration decisions should be reinforced. The identification of a suitable public accountability mechanism for Councils would improve the overall quality of system and institutional governance in remuneration and other matters, and policy development by government and the sector should seek to address this gap.

4.2 Recommendations for Sectoral Self-Regulation

Recommendation 5: Building Sectoral Self-Regulatory Capacity for Effective Senior Staff Remuneration

HESA should take interrelated steps to build sectoral self-regulatory capacity. These should include crafting a strong sectoral image premised on the imperative of self-directed sectoral transformation, and the enhancement

of a public accountability culture; bolstering self-regulatory capacity within the sector using a programmatic approach; and leveraging sectoral commitment and capacity through concrete mechanisms that can be adopted at institutional level, and that complement the resources of the state. A specific code of practice on senior staff remuneration should incorporate reliable guidelines, benchmarks and a rational frame of reference.

Recommendation 6: Developing a Code of Good Practice

Recommendation 6 - A: Promoting Good Practice

The development and promotion of good-practice guidelines and benchmarks for senior staff remuneration should be purposefully integrated by HESA into its strategic interventions, in the first instance through incorporation into a sectoral code of practice on senior staff remuneration.

Recommendation 6 - B: Council Accountability for Remuneration Decisions

Councils should better exercise their accountability with respect to senior staff remuneration, and Council members should be appropriately trained in order to do so. It is also recommended that senior staff remuneration should, without exception, be disclosed to the full Council, and not only to members of the remuneration committee, as is the current practice in some institutions.

Recommendation 6 - C: Public Goals for Higher Education and Governance of Senior Staff Remuneration

Institutions should ground their remuneration approaches in public goals and values for higher education and broader attempts to assure quality in higher education, as set out in public policy. These goals and values include, amongst others, accountability, effectiveness, efficiency, equity, affordability, and sustainability.

Recommendation 6 - D: The King Code and Governance of Senior Staff Remuneration

Institutions should ground their remuneration approaches in good corporate governance principles and practices, as set out in the King Code.

Recommendation 6 - E: Integration of Remuneration and Other Governance Processes

Institutions should give attention to framework policy for remuneration, and to appropriate aspects of process integration, in order to enhance the overall quality of governance of senior staff remuneration.

Recommendation 6 - F: Participation and Disclosure

The value of disclosure and participation in the governance of senior staff remuneration should be promoted within the sector as part of public accountability.

Recommendation 6 - G: Management of Senior Staff Remuneration at Institutional Level

Higher education institutions should ensure they have specialist remuneration capacity and capability available properly to advise on remuneration levels and remuneration management, including advising on the consistent implementation of good practice guidelines and benchmarks.

Recommendation 6 - H: Comprehensive Systems of Performance Management

Comprehensive systems of performance management link strategic planning, institutional performance and risk, and individual performance, through a system of indicators, targets and tracking measures. Such systems should be promoted and implemented more widely in higher education institutions as a basis for remuneration decisions in which Council, the senior staff who are being rewarded, and other stakeholders can have confidence. In any institution where no proper system of performance management or appraisal is in place, the outcomes of mandated annual salary negotiations should apply across the board.

Recommendation 6 - I: Institutional Complexity Index

It is critical to institute a rational frame of reference which can be used by institutions and their Councils for appropriate remuneration decisions, and by the sector for the purposes of monitoring reasonable and consistent senior staff remuneration practice across institutions. An institutional complexity index, along the lines of the model proposed by this study, should be developed after due research and consultation, and be accommodated within HESA's emerging strategic focus on strengthening the information base of the sector to facilitate analysis and decision making.

Recommendation 6 - J: Grade Equity in Senior Staff Remuneration

Council and its remuneration committee (or equivalent) should take into account good-practice norms for grade equity in setting and reviewing senior staff remuneration. As a key indicator, Councils should ensure that the differential between the remuneration of a Vice-Chancellor and his/her deputies does not exceed 40-50%.

Recommendation 6 - K: Remuneration Ranges for Vice-Chancellors

A set of remuneration ranges for Vice-Chancellors, along the lines of the model suggested by this study, should be developed after due research and consultation, and be incorporated as appropriate into a sectoral code of practice for senior staff remuneration.

Recommendation 7: Sectoral Monitoring of Senior Staff Remuneration in Higher Education

A viable and effective monitoring mechanism is essential for the implementation of a sectoral code of practice for senior staff remuneration, and should be selected and implemented by HESA. Ideally the monitoring mechanism should create an effective feedback loop between sector and government.

Notes and References

¹ In the latter months of 2004, the issue of the remuneration of Vice-Chancellors (as a specific subset of senior staff in higher education) became a focus of attention for the South African higher education sector, and also attracted public attention and media scrutiny. The matter was raised with the South African Universities Vice-Chancellors Association (SAUVCA) by the Minister of Education at a meeting on 4 October 2004. Recognising the importance of exploring the matter fully, SAUVCA, at its Annual General Meeting on 15 October 2004, appointed a Task Team to develop terms of reference for a comprehensive study. Draft terms of reference were approved by SAUVCA's Executive Committee on 19 November 2004, shortly after a parliamentary question to the Minister on this issue (2 November 2004) and national media coverage in the same month. SAUVCA convened an independent Reference Group which approved the terms of reference and scope of the study in April 2005. In the interim, given that this was an issue of concern for the technikon sector just as much as for the university sector, the Committee of Technikon Principals (CTP) had appointed a task team and conducted a study of its own on the matter. In June 2005, HESA was established as a unified sectoral body (and hence successor body to SAUVCA and the CTP). It was agreed by the HESA Executive Committee in August 2005 that the remuneration study initiated by SAUVCA would be completed under the auspices of HESA as a single sectoral study incorporating perspectives of both universities and universities of technology.

² Members of the Reference Group: Dr Mamphele Ramphele (Chair), Chair: Circle Capital Ventures; Prof Hugh Africa, Chairperson: Higher Education Quality Committee; Ms Miranda Feinstein, Director: Edward Nathan Corporate Law Advisers; Mr Rick Menell, Deputy Chairman: African Rainbow Minerals; Prof Jerry Steele (independent). The Reference Group was convened by Ms Piyushi Kotecha, Interim CEO, HESA. It was assisted by Ms Tessa Yeowart, Executive Manager, HESA; and by researchers: Mr Craig Lyall-Watson, independent; and Ms Ashley Symes, independent.

³ Republic of South Africa/Department of Education (August 2003). Regulations for Annual Reporting by Higher Education Institutions. Government Gazette No 25407, Notice 1240, 29 August 2003. Pretoria, Government Printers: Section 2.1.3 and Schedule (Implementation Manual): Section 5.8(15) and Section 7.8.

⁴ Comparisons were made with the reported 2003 salaries of the President (R964 000), the Minister of Education (R746 000) and Judges (R600 000). These figures are quoted in: 'Technikon fat cat earns R3m', Mail and Guardian, 12-18 November 2004, Vol. 20, No. 46. Neither basis nor breakdown of the figures is stated.

⁵ A range of sources was reviewed in isolating these trends, including: Association of British Insurers (7 December 2004). Principles and Guidelines on Remuneration; DBS Financial Services Group (2004). Annual Report 2004: Policy on Employee Remuneration; Lycos Europe nv (24 May 2005). Agenda for Annual General Meeting; Parity Professional Services (2005). Interim Report; Royal Dutch Petroleum Company (2004). Annual Report and Accounts 2004; Shire Pharmaceuticals Group plc (2004). Annual Report 2004; and: University of Sussex (undated). Staffing Policies.

⁶ Atchison, TJ, Belcher, DW and Thomsen, DJ (2000). Designing Wage Structures. ERI Economic Research Institute. Available at <http://www.eridlc.com/onlinetextbook/chpt15/text.main.htm> (accessed 18 October 2005): Chapter 15.

⁷ 'Unrestricted income' is a term used in South African higher education to mean the sum of the government subsidy and student fee income, usually referred to in the institutional income statement as 'Council-controlled income' (i.e. income under the absolute control of the institution's Council). When the term is used in relation to the proportion of unrestricted income that should be allocated to an institution's personnel budget (e.g. as recommended by the DoE), it relates specifically to the *recurrent* unrestricted income.

⁸ See, for example: Porter, ME (1980). Competitive Strategy. New York, Free Press: Macmillan.

⁹ The term 'third-stream income' is widely used in higher education circles to refer to institutional income from private sources such as donors and funders, from investments, and from entrepreneurial activities initiated by institutions. 'First-stream income' is a term used to refer to government subsidies; while 'second-stream income' refers to income from student fees.

¹⁰ All data used in the analysis are extracted from the 2004 data of the DoE.

¹¹ Department of Public Service and Administration. Annexure A to Circular 1 of 2005. Available at http://www.dpsa.gov.za/documents/rp/2005/1_7_1_5_1_AnnexureA.pdf (accessed 20 October 2005).

¹² Telkom's CEO has an annual remuneration of R6.9 million and is not reflected in Figure 7.

¹³ Ministry of Education. (February 2004). A New Funding Framework: How Government Grants are Allocated to Public Higher Education Institutions. Pretoria, Ministry of Education: 2.

¹⁴ Department of Education (1997). 'A Programme for the Transformation of Higher Education'. Education White Paper 3. Government Gazette No 18207, 15 August 1997. Pretoria: Government Printers; and Republic of

South Africa (1997). Higher Education Act No 101 of 1997. Government Gazette No 18515, Notice 1655, 19 December 1997. Pretoria: Government Printers.

¹⁵ The South African Constitution determines that all 'spheres of government and all organs of state must cooperate with one another in mutual trust and good faith'. This includes government departments, as well as public higher education institutions, because they perform a public function. Republic of South Africa (1996). Constitution of the Republic of South Africa, Act No 108 of 1996. Government Gazette No 17678, Notice No 2083, 18 December 1996. Pretoria: Government Printers: Chapter 14, Section 238 and Chapter 3, Section 41(1)(h).

¹⁶ White Paper 1997: Sections 1.17-1.25.

¹⁷ RSA/DoE August 2003: Section 2.1.3 and Schedule (Implementation Manual): Section 5.8(15) and Section 7.8.

¹⁸ The composition, roles and responsibilities of Council are fully set out in Higher Education Act 1997: Section 27. With respect to academic governance, a Council governs bilaterally with the Senate whose composition, roles and responsibilities are set out in Higher Education Act 1997: Section 28.

¹⁹ King Committee on Corporate Governance (2002). King Report on Corporate Governance for South Africa - 2002. Parktown, Institute of Directors in Southern Africa (IODSA). A Code of Corporate Practices and Conduct is formulated as a mechanism to promote compliance with good corporate governance guidelines, and forms a distinct element of the report: King 2002: 20-41. The Code recommends specifically that the principles it sets out should be adapted appropriately by state and public enterprises. King 2002 (Code of Corporate Practices and Conduct): Section 1.3.

²⁰ The terms of reference of this study do not extend to a consideration of academic remuneration.

²¹ White Paper 1997: Section 1.12.

²² Ministry of Education (2001). National Plan for Higher Education. Pretoria, Ministry of Education.

²³ Council on Higher Education (November 2004). South African Higher Education in the First Decade of Democracy. Pretoria, Council on Higher Education: Sections 4.4 and 6.4.

²⁴ Ibid: Section 13.3.

²⁵ DoE has already given institutions one broad benchmark, namely: total staffing costs should not exceed 57.5% to 63% of recurrent unrestricted income.

²⁶ Higher Education Act 1997: Section 41(1)-(3). Institutions are obliged to report in terms of other legislation, e.g. the Employment Equity Act No 55 of 1998 requires all designated employers to submit an income differential statement.

²⁷ White Paper 1997: Section 1.25.

²⁸ White Paper 1997: Chapter 4.

²⁹ White Paper 1997: Section 3.30.

³⁰ Forthcoming amendments to the regulations are likely to specify that institutions must report in line either with international GAAP standards, or with South African GAAP standards.

³¹ RSA/DoE August 2003: Section 2.1.3, Table 5 and Schedule: Section 7.8.

³² RSA/DoE August 2003: Section 7.8.

³³ RSA/DoE August 2003: Schedule: Section 7.8.

³⁴ RSA/DoE August 2003: Schedule: Sections 4.6, 5.3 (p.50) and 5.8.

³⁵ RSA/DoE August 2003: Schedule: Section 3.1.2.1.

³⁶ RSA/DoE August 2003: Schedule: Section 3.1.6.

³⁷ King 2002: 210-216 (Appendix 5, Section 3).

³⁸ King 2002 (Code of Corporate Practices and Conduct): Section 2.5.2. Also see King 2002: 60 (Section 1, Chapter 4, paragraph 19).

³⁹ Higher Education Act 1997: Section 27(7)(b).

⁴⁰ Higher Education Act 1997: Section 31(1)(a).

⁴¹ Adapted from: Deloitte (November 2003). Executive Remuneration Best Practice Principles and Guide. Deloitte [Australia: prepared for Business Council of Australia]: Figure 2.1 (p.9).

Appendix A: Executive Remuneration Data, as Collected by the Study

Table 8: Executive Remuneration, June 2005 (Total Annual Package, by Descending Order of Vice-Chancellors' Remuneration)

	Vice-Chancellor	Range Second Level	Range Third Level
1 *	3,295,000	N/A	N/A
2	1,791,957	650,000 - 1,000,000	620,000 - 750,000
3	1,640,100	906,774 - 1,279,727	No level 3
4	1,635,430	1,187,604 - 1,450,092	856,388 - 1,063,768
5	1,616,076	1,055,819	962,365
6	1,508,758	1,264,872 - 1,478,793	No level 3
7	1,485,597	992,773 - 1,243,668	No level 3
8	1,470,857	773,046 - 879,150	682,108 - 843,683
9	1,457,609	850,000 - 1,012,226	No level 3
10	1,437,168	No level 2	716,819 - 738,087
11	1,290,499	781,087 - 938,329	700,000 - 786,087
12	1,189,605	828,570	No level 3
13	1,172,110	952,628 - 987,565	747,885 - 777,250
14	1,128,160	719,127 - 722,097	593,802 - 709,979
15	1,123,500	798,000 - 840,000	714,000 - 913,500
16	1,100,000	914,292 - 935,424	676,992 - 798,792
17	1,095,000	903,889 - 988,153	654,216 - 740,158
18	1,067,408	523,623 - 684,984	No level 3
19	1,066,014	601,408 - 752,634	618,104
20	1,031,040	728,388 - 852,300	631,848 - 643,200
21	1,030,144	869,293	754,860
22 *	953,000	N/A	N/A
23	942,290	617,295	552,220-598,500

Note 1: Asterisks denote 2004 data where no information was available for Grades 2 and 3 (N/A).

Note 2: 'No level 2' means the institution had no Grade 2 executive.

Note 3: 'No level 3' means i) in the cases of institutions 12 and 18: posts at the third level were currently vacant; and ii) in the cases of institutions 6, 7 and 9: posts at the third level were excluded from the data as per the definition applied by the study (see page 3), where posts normally to be found at Grade 3 were in fact at Grade 2 for that institution.

Appendix B: Remchannel Consulting Model of Corporate Categories

Level	Turnover	Assets	Market Cap	Net Profit	Salary & Wage	Employees
1	>10 000	> 10 000	> 5 000	> 1 000	> 4 000	>20 000
2	3 001 - 10 000	2 501 - 10 000	1 501 - 5000	251 - 1 000	1 201 - 4 000	6 001 - 20 000
3	1 001 - 3 000	1 001 - 2 500	501 - 1 500	101 - 250	401 - 1 200	2 001 - 6 000
4	501 - 1000	451 - 1 000	251 - 500	51 - 100	201 - 400	1 001 - 2 000
5	251 - 500	251 - 450	101 - 250	26 - 50	101 - 200	501 - 1 000
6	101 - 250	101 - 250	51 - 100	11 - 25	41 - 100	201 - 500
7	26 - 100	31 - 100	11 - 50	6 - 10	11 - 40	51 - 200
8	Up to 25	Up to 30	Up to 10	Up to 5	Up to 10	Up to 50

Appendix C: Glossary of Key Terms in this Report

Basic Salary	The monthly salary paid for a job performed, not including benefits, incentive premiums, specific allowances, or any other pay element other than the base, pensionable amount.
Basic plus Benefits	Basic salary plus any additional amounts that would be paid directly to the employee.
Broadbanding	The practice whereby a number of single grades have been collapsed into one broad grade.
Chief Executive Officer (CEO)	The most senior executive post within an organisation/ institution.
Council	The highest governance authority of a South African public higher education institution, with key fiduciary, strategic and oversight functions. In order to sustain public confidence, at least 60% of a Council's members must by law be external to the institution. Councils and their members must act in the best interests of the institution, in a manner aligned with the public interest.
Department of Education (DoE)	The national department of government charged with implementing national education policy. In terms of the South African Constitution, higher education is a national competence and the Higher Education Branch (HEB) of the DoE has responsibility for implementing higher education policy.
Governance	The structures and processes of policy design, decision making and oversight of policy implementation. Higher education governance includes three levels: the higher education system as a whole (system governance), individual institutions (institutional governance), and a sectoral level of governance, at the point where the collective of institutions, and the higher education system, converge.
Higher Education Act	The Higher Education Act of 1997, as amended, constitutes the prevailing legal framework for South African higher education.
Higher Education Institution	A university or university of technology (formerly technikon). This report deals with public institutions only, and not with private providers of higher education.
Higher Education Sector	The collective of higher education institutions in South Africa. This report deals with public institutions only.
Higher Education South Africa (HESA)	A leadership organisation representing the public higher education sector. As a unified sectoral body, HESA effectively replaces the former South African Universities Vice-Chancellors Association and Committee of Technikon Principals.
Higher Education System	The collective of higher education actors in South Africa, including government, institutions and other role players. This report deals with the public higher education system only.
Incentive	Pay plans designed to reward the accomplishment of specific results – usually tied to a specific time period.
Institution	See Higher Education Institution.
King Code	The King Committee on Corporate Governance promotes the highest standards of corporate governance in South Africa, and the Code of Corporate Practices and Conduct (contained in the King Committee's Report of 2002) promotes compliance with good corporate governance guidelines. An institution's Council must report to the DoE in line with King's general reporting standards, as well as with financial reporting standards in line with Generally Accepted Accounting Practice (GAAP). The audit committee of a Council must monitor compliance with the King Code.
Midpoint	The figure that represents the arithmetic average of a given salary range or pay grade.
Range	The monetary range from minimum to maximum of a given grade.
Remuneration Package	The total earnings of an employee inclusive of benefits subject to personal tax and exclusive of any statutory amounts paid. It is common practice with this system that employees can select payment options within the package, within certain parameters and at a specified time annually.
Remuneration Structure	The grades, ranges and pay-slope within an institution.
Remuneration System	The system of payment used – Basic plus Benefits or Remuneration Package.
Sector	See Higher Education Sector.
Senior staff (in	Vice-Chancellor, and all executive management. For the purposes of the analysis,

higher education)	executive management means specifically: Council-appointed posts reporting to the Vice-Chancellor/Principal or Rector.
System	See Higher Education System.
Third-stream Income	Institutional income from private sources such as donors and funders, from investments, and from entrepreneurial activities initiated by institutions. 'First-stream income' refers to government subsidies; while 'second-stream income' refers to income from student fees.
Total Cost-to-Company	All amounts incurred by the institution as a direct cost – would include statutory payments, office cost, training costs, etc.
Unrestricted Income	The sum of the government subsidy and student fee income, usually referred to in the institutional income statement as 'Council-controlled income' (i.e. income under the absolute control of the institution's Council). When the term is used in relation to the proportion of unrestricted income that should be allocated to an institution's personnel budget (e.g. as recommended by the DoE), it relates specifically to the <i>recurrent</i> unrestricted income.
Vice-Chancellor	The senior-most post in a public higher education institution. Where the title Vice-Chancellor is used in the analysis, it includes the titles of 'Rector', 'Principal and Vice-Chancellor', 'Rector and Vice-Chancellor', or any other title used to indicate the Chief Executive Officer (CEO) of the institution. Alternatively, the term CEO is also used.
White Paper	The 1997 White Paper, 'A Programme for the Transformation of Higher Education', constitutes the prevailing policy framework for South African higher education.