



Executive directors

Practices and remuneration trends report



10th edition, July 2018, South Africa



www.pwc.co.za/executive-directors-report

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1.

Executive summary

It gives us great pleasure to share the tenth edition of our Executive directors: Practices and remuneration trends report with all of our clients and board members.



Executive directors face a number of challenges that evolve every year; and their companies are increasingly being held to account for their contribution to social upliftment in the face of pervasive inequality. The boardroom discussions over the past few years around sound corporate governance standards have recently been thrown into sharp relief, and corporate failures across the world are a very real consequence of poor corporate governance.

Remuneration reporting trends and the dynamics around say on pay in South Africa have changed since the introduction of the amended JSE Listings Requirements. We discuss these developments and how the influence of proxy voting agencies over international investor voting decisions has been called into question.

In the 11th edition of our Non-executive directors: Practices and fees trends report, published in January 2018, we first explored the implications of corporate failures for non-executive directors who have a fiduciary duty towards their companies. In this edition, we extend this discussion to the impact of corporate failures on executive remuneration, and discuss whether the time has come for companies to put risk-adjustment mechanisms such as malus and clawback to the test.

We also consider the future of executive benchmarking, as movements in market capitalisation (a commonly used barometer of success, and by extension executive pay increases) are not always directly attributable to executive efforts. We suggest a new approach to



benchmarking that first involves determination of a pay range (using data from a suitable comparator group), followed by determining the executive's movement through the range, which would be linked to performance during the executive's tenure.

CEOs are under pressure to digitally transform their organisations. Companies need to ensure that they conduct rigorous succession planning to ensure that future CEOs within the talent pipeline have the skills available to digitise their businesses rather than merely sticking to traditional ways of doing business.

Fair and ethical remuneration, and the most appropriate measures government, business, labour and other stakeholders must take in order to better the lives of more junior workers to establish a 'living wage', remains under debate. The Gini coefficient of the employed has declined slightly from 0.431 to 0.429, and the pay ratio of the largest South African companies has increased from 61.8 in 2017 to 64.7 in 2018.

At our cut-off date of 30 April 2018 there were 359 active JSE-listed companies with a combined market capitalisation of R14.5 trillion (2017: R14.0 trillion). The dominant sector is industrials (34.5%), followed by services (25.7%), financial services (21.1%), and basic resources (17.4%). Preference shares and Alt-X make up 1.1% and 0.1% respectively.

As at the cut-off date, the top 10 companies listed on the JSE account for 60% of the total JSE market cap, totalling R8.7 trillion (2017: 60%: R8.4 trillion). As we did in the ninth edition, we have examined the remuneration paid to these 'super-cap' companies separately.

We have continued our analysis of executive remuneration trends of the FTSE 100 for the reporting period as at the cut-off date 30 April 2018. Base pay and stated benefits across all sectors and positions reveal that median remuneration sat at US\$1 082 000 compared to US\$1 060 000 in 2016. Turning to the analysis of the seven sub-Saharan African countries, the median remuneration paid to executive directors across these jurisdictions is US\$163 000 (2016: US\$166 000).

The cut-off is 30 April 2018 (market-cap, director head-count etc.) is correctly referred to as such, but the reporting period is 2017.

Remuneration paid to executive directors must be justifiable to all stakeholders, not just the shareholders, and recent corporate failures have called into question, inter alia, whether companies have adequate risk-adjustment mechanisms in place for executive remuneration. Benchmarking methodologies need to be developed further, and companies need to take gender equality more seriously in all areas, including in eliminating unjustified

pay differentials. Fair and responsible remuneration is a concept that must be implemented in relation to employees across an organisation, and pay conditions for junior employees must be given special focus.

Anelisa Keke

Editor

The top **10** companies listed on the JSE account for **60%** of the total JSE market cap



2.

Sources of information



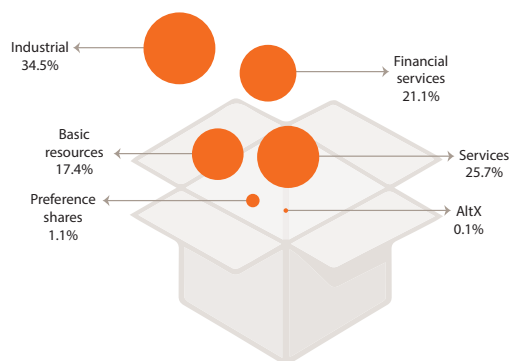
The data used in this publication has been drawn from information publicly available for the 12-month reporting period ended 30 April 2018 (the 2017 reporting period).

Information was extracted from the annual reports of 359 (2017: 360) actively trading companies listed on the Johannesburg Stock Exchange (JSE) during the 2017 reporting period, which had a total market capitalisation of R14.5 trillion (2017: R14.0 trillion).



At our cut-off date of 30 April 2018, an analysis of the market capitalisation reflects the following:

Figure 1: Market cap by sector value distribution



Source: PwC analysis

We have excluded the directors of those companies that have either delisted or were suspended at the cut-off date. Residual market capitalisation for these companies is also excluded. Also excluded, are directors on boards of companies with only preference shares.

As with our reporting of trends in previous publications, it is once again notable that asymmetrical distribution by market capitalisation values continue. At the cut-off date, just 31 JSE-listed companies (2017: 33) accounted for 80% of the market's capitalisation. Large-caps hold 84% (2017: 83%), medium-caps 12% (2017: 12%) and small-caps 4% (2017: 5%).

The top-100 companies, comprising large- and medium-caps, account for 90% (2017: 95%) of the total invested capital on the JSE.

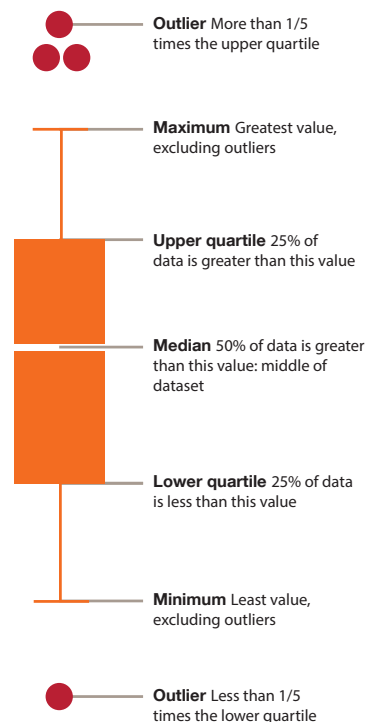
Format of information and definitions

Remuneration levels rarely follow a normal distribution curve – rather, these levels tend to fluctuate. For this reason, we have used a quartile/percentile range rather than giving averages, except where noted in context, and standard deviations that assume normality.

The quartiles/percentiles are defined as:

- **Lower quartile** (25th percentile) 75% of the sample earn more than this level and 25% earn less.
- **Median** (50th percentile) 50% of the sample earn more than this level and 50% of the sample earn less.
- **Upper quartile** (75th percentile) 25% of the sample earn more than this level and 75% earn less.

Percentile classifications used in this report



Since the introduction of this annual publication in June 2009, we have held that there is no direct correlation between market capitalisation and the remuneration of executive directors. However, we believe that market capitalisation gives a good indication of size and complexity and is an appropriate metric to set peer groups and for benchmarking purposes. It is against this backdrop that data is analysed and outliers are excluded in both maximum and minimum values.



The market capitalisation breakpoints are:

- Large-cap: The top-40 JSE-listed companies;
- Medium-cap: 41 to 100 of the JSE-listed companies; and
- Small-cap: 101 to 359 of the JSE-listed companies.

We have separately analysed information pertaining to the top-10 listed companies by market capitalisation.

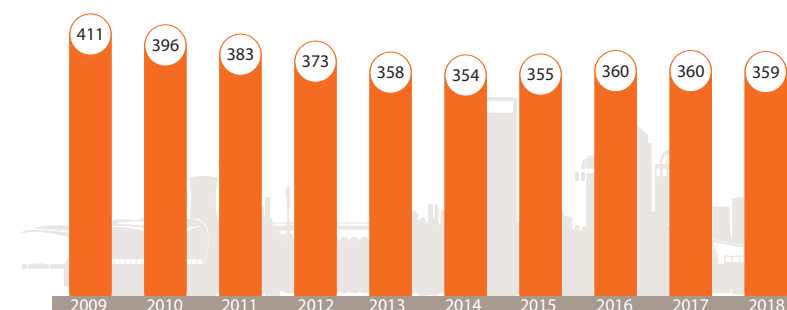
Terms used in this publication

- **Total guaranteed package (TGP)**
All components of remuneration that are guaranteed, including base salary and benefits that typically accrue on a monthly basis (retirement, medical, travel allowance, etc.).
- **Short-term incentive (STI)**
All cash-based payments that are paid to an individual based on company and individual performance for a 12-month period. STI differs from target STI, which is reflective of the company's policy regarding potential STI earnings.
- **Long-term incentive (LTI)**
All cash and equity-based awards that accrue to an individual based on company performance over a period longer than 12 months.
- **Variable pay**
Refers to short-term incentives and long-term incentives.
- **Share gain**
Gains earned on LTI.

Johannesburg stock exchange

- The JSE is the largest stock exchange in Africa.
- The number of active trading companies listed at 30 April for the last ten years are shown below.

Figure 2: Number of companies listed on the JSE, 2009-2018



Source: PwC analysis

3.

Say on Pay: What lessons have we learnt?

Danielle Botha



Globally, there is an increasing convergence of governance and executive remuneration practices.

This has influenced the say-on-pay movement whereby shareholders are given an opportunity to vote on the pay of executives, as well as provide their views on proxy filings (where relevant) and remuneration reports. Say on pay has provided shareholders with the right to either accept or reject remuneration policies and given them a degree of power over pay within organisations in which they invest.



In the 2017 edition of this report, we commented on the adoption of certain elements of the King IV™ Report on Corporate Governance (King IV™) by the JSE. Their adoption makes it compulsory for all JSE-listed companies to adhere to, among other things, the non-binding advisory vote by shareholders on the remuneration policy and implementation report, both of which must be tabled for approval annually and in separate resolutions.

Critics of the non-binding vote are of the view that it will have little or no effect on remuneration policies of companies and will not stimulate change.¹ However, as King IV™ points out², the non-binding vote is appropriate as the governing body is ultimately accountable for the performance and governance of the organisation, albeit that internationally, many jurisdictions have adopted a binding vote.

Is it too early to tell whether the introduction of the non-binding vote has influenced the remuneration policies of South African companies? Listed companies that submitted their annual reports to the JSE on or after 01 October 2017 had to submit their reports for the two separate non-binding votes.

¹ Sbu Luthuli, Eskom Pension and Provident fund Principle Officer in a debate on executive remuneration hosted by Deloitte and the JSE. <https://www.moneyweb.co.za/news/industry/say-on-pay-should-be-revisited-eskom-pension-fund/>

² King IV™ Principle 14, Recommended Practice 37.2.

The tables below show the highest South African institutional investor opposition to remuneration policies and implementation reports respectively between 01 September 2017 and 06 May 2018. The statistics, gathered by Proxy Insights, show the overall voting record of some of South Africa's major institutional investors in respect of listed companies' remuneration policies and implementation reports respectively.

Highest opposition to remuneration policy

Investor	Votes (%)		
	For	Against	Abstentions
Allan Gray Proprietary Limited	64.3	28.6	7.1
Coronation Fund Managers	77.6	20.9	1.5
Investec Asset Management	83.1	6.5	10.4
Old Mutual South Africa	63.0	37.0	-
Public Investment Corporation	55.1	44.9	-
Stanlib Asset Management	90.3	6.5	3.2

Source: Proxy Insights Limited

Highest opposition to implementation report

Investor	Votes (%)		
	For	Against	Abstentions
Allan Gray Proprietary Limited	81.8	9.1	9.1
Coronation Fund Managers	77.1	22.9	-
Investec Asset Management	86.7	8.9	4.4
Old Mutual South Africa	66.1	33.9	-
Public Investment Corporation	60.9	39.1	-
Stanlib Asset Management	85.7	9.5	4.8

Source: Proxy Insights Limited



It is impossible to tell whether institutional investor votes for or against remuneration policies and implementation reports relate to low-quality reports or to poor policy decisions. In some instances, investors provided reasons for votes against the policy, although this disclosure is only made by certain South African investors.

Analysis will undoubtedly improve in years to come when more data is available to evaluate the impact of the say-on-pay movement and the non-binding vote in South Africa.

In the section that follows, we discuss the impact of the Institutional Shareholder Services (ISS), the UK's most influential shareholder advisory firm, on voting outcomes related to say on pay and seek to determine whether they help or hinder shareholder activism.

ISS: Friend or foe?

Recent experiences in South Africa and internationally suggest that governance-related corporate failures are partly due to an absence of active institutional investors, or investment behaviour driven by short-term results.³

In light of this view, PwC UK conducted a study published in January 2018, *ISS: friend or foe to stewardship*⁴. Shareholder advisory firms such

as the ISS, have come under intense scrutiny in recent times and are often accused of wielding power to sway voting outcomes without the accompanying accountability.

The study sought to analyse the concern that these firms and the ISS in particular, follow a mechanistic approach to voting recommendations, providing recommendations based on tick-box formulations, which some investors follow without question. At the heart of this accusation is the assertion that in utilising these services, shareholders are outsourcing their stewardship responsibilities and that the advisory firms to whom they are outsourced, take this responsibility lightly and exercise it inappropriately.

Do voting recommendations actually drive voting behaviour?

The PwC study found that this question is not a simple one to answer despite the large amount of data available. The reason for this is that while there may be a correlation between ISS voting recommendations and voting outcomes, correlation does not necessarily indicate causation.

For example, low-quality company proposals will lead to the ISS recommending a negative vote, but would have led shareholders to vote against the proposals even in the absence of the ISS recommendation. Therefore, the fact that there is a correlation between recommendations and votes, may overstate the extent to which voting outcomes are influenced by shareholder advisory firms.



³ <https://www.vdma.co.za/shareholders-vote-executive-remuneration/>

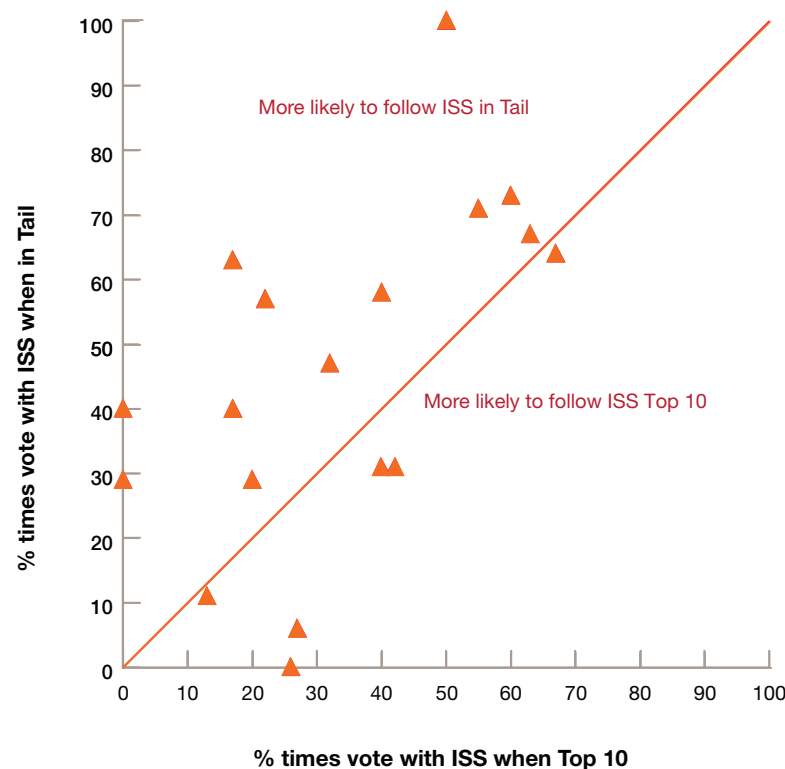
⁴ <https://www.pwc.co.uk/human-resource-services/assets/documents/iss-friend-or-foe-to-stewardship.pdf>



The study conducted a separate analysis of the voting behaviour among the Top 10 shareholders in a company on one hand, compared with the remainder of the shareholder register (referred to as ‘the Tail’) on the other hand. The rationale was that if shareholders blindly followed ISS voting recommendations, the impact of an ISS ‘against’ vote would be the same for the Top 10 and the Tail.

The results can be seen from in figure 3. Most investors (in UK companies) are more likely to follow a negative ISS recommendation if they are in the Tail for a particular company, compared to when they are in the Top 10 for that same company. Two-thirds of shareholders follow ISS more as a Tail shareholder than they do as a Top 10 shareholder (i.e. more are in the top left of figure 3).

Figure 3: Shareholder voting behaviour: Top 10 versus Tail



Source: Proxy Insights Limited, PwC analysis

Frequency of individual investor following ISS negative recommendation when they are a Top 10 investor vs when they are a Tail investor in another company (each dot is one shareholder)

This means that shareholders devote more time to stewardship when they are in the Top 10 than when they form part of the Tail, where they are comparatively more likely to follow ISS voting recommendations.

The findings strongly suggest that there is a relationship between the ISS recommendation and the voting outcome, albeit not proven by absolute statistical rigour.

What can we learn from this research?

There are a number of important takeaways from this research:

- Investors need to take ownership of their decisions and realise that unthinkingly following voting recommendations does not amount to fulfilling their stewardship responsibilities. This is also an important point to bear in mind should South Africa decide to move towards a binding vote on remuneration. There should be a greater focus on shareholder education to build a robust stewardship system.
- Companies must realise that while voting recommendations do influence some shareholders, this influence is not as strong as was originally thought. Companies must take responsibility for poor votes and consider that the reasons behind them may lie in poorly drafted or formulated policies that do not withstand scrutiny.
- Advisors and consultants should take care about advising clients to adopt policies based solely on the voting records of shareholder advisory firms such as the ISS. Advice should be based on the aspects in respect of which the underlying shareholders are likely to have concerns and not on winning the institutional vote.



- Lastly, institutional shareholders should recognise their role in the system and the level of responsibility they share. Recommendations should not be mechanical and based on a tick-box approach, but should recognise the causal connection that these recommendations have on investors.

Say-on-pay trends in other countries

The 2017 edition of this publication focused on global say-on-pay trends in the US, UK, Australia and certain European jurisdictions. Below, we briefly touch on developments in some of these jurisdictions over the past year.

United States⁵

The 2017 proxy voting season in the US was characterised by environmental, social and governance issues like climate change and board diversity.⁶

While overall shareholder support for say on pay remained high at 91%, a fair number of companies continued to fall short of important benchmarks:

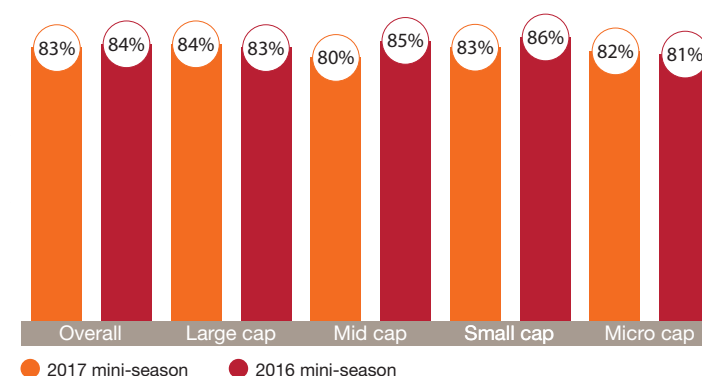
- Approximately 7% of companies did not surpass the 70% shareholder support threshold.
- Among companies with less than 70% support last season, 31% failed to gather 70% support again this season.
- Of the 1 883 say-on-pay votes that occurred, 88% received majority support for an annual say-on-pay vote.

⁵ Harvard Law School Forum on Corporate Governance and Financial Regulation, Manoff, M and Klemash, SW: "2017 Proxy Voting Season", accessed 30 May 2018.

⁶ ProxyPulse September 2017, Broadridge and PwC. "2017 proxy season review", accessed 30 May 2018.

Say-on-pay results reported in ProxyPulse⁷ for the 2016 and 2017 mini-seasons, namely from 1 July 2017 to 31 December are shown in figure 4.

Figure 4: Average say-on-pay support levels



Source: ProxyPulse, March 2018

Some notable developments in corporate governance also took place in 2017:⁸

- The Framework for US Stewardship and Governance was launched in January 2017 and took effect in January 2018. This is a voluntary framework, including stewardship principles for institutional investors, which calls for transparency around investors' philosophy on corporate governance, proxy voting and engagement guidelines and activities. While these codes are becoming more common in large global markets, the framework

⁷ ProxyPulse March 2018, Broadridge and PwC. "2018 proxy season preview and 2017 mini-season wrap up", accessed 30 May 2018.

⁸ See note 7, supra.



is the first of its kind in the US with 38 US and international investors becoming signatories. The framework reflects the fact that key investors are not blindly following the recommendations of proxy advisors and signals a commitment to increased transparency around corporate governance.⁹

- Significant increase in policy promises to hold directors accountable for gender diversity.

A notable aspect not previously mentioned is that the SEC required, as from 1 January 2018, that listed US organisations disclose the ratio of pay of their chief executive's annual total remuneration to the median annual total remuneration of all company employees. This development is notable in light of the move towards an ethical remuneration framework in South Africa as part of King IV™. This aspect is covered in more detail in chapter 6 of this publication.

⁹ Harvard Law School Forum on Corporate Governance and Financial Regulation, Manoff, M and Klemash, SW: "2017 Proxy Voting Season", accessed 30 May 2018.

United Kingdom

Analysis of the AGM voting results for FTSE 100 and FTSE 250 companies in 2017 reveal the following trends:¹⁰

- In respect of the resolutions proposed on the remuneration report, of the 186 FTSE 250 companies reviewed, 34 companies (18%) received a substantial vote against the resolution and two companies received insufficient votes cast in favour of the resolution for it to be passed.
- The average percentage of votes received in favour of remuneration report resolution as at June 2017 was 93.11%. In respect of the remuneration policy, of the 186 FTSE 250 companies reviewed, 64% proposed a resolution to approve the policy and 14% received a substantial vote against the resolution.
- The average participation of shareholders was 73.4% for the FTSE 100 and 73.3% for the FTSE 250. Over the past five years the average participation for the FTSE 100 has been steadily increasing and stands 2.4 percentage points higher than participation levels in 2013.

However, this is the first time in five years that average participation of the FTSE 250 has fallen below that of the FTSE 100.

¹⁰ Vitale, D: "2017 AGM's: A season in review", available at <https://www.icsa.org.uk/knowledge/governance-and-compliance/features/2017-agms-a-season-in-review>, accessed 30 May 2018.

Participation levels in an AGM are an indication of shareholder engagement. Low engagement may pose a risk to a company as this leads to an increased influence of minority shareholders or activist investors at the meeting.

Similarly to the US, UK companies are also subject to a variant of the CEO pay ratio rule, requiring the disclosure of the chief executive's remuneration compared with the median for all employees. The US pay ratio is explored further in chapter 6.

Australia

Statistics suggest the 2017 AGM season showed far fewer drastic outcomes than in the preceding year.¹¹ The following aspects are notable:

- Among ASX 200 companies there was a significant decline in the number of 'strikes' (a 25% vote against) against remuneration reports in 2017. This number decreased from 11 strikes in 2016 to five in 2017, with only one company receiving a strike in both years.
- There was an increase in companies receiving a close call 'against' vote of between 20–24%, rising from five in 2016 to nine in 2017.
- For nearly two-thirds of companies, voting results on remuneration reports in 2017 were consistent with 2016.

¹¹ <https://www.manifest.co.uk/australias-2017-agm-season-less-tumultuous-2016/>

Topical issues in Australian corporate governance and say on pay in 2017 included:¹²

- Pay equity and income inequality remained topical, placing executive remuneration under continued scrutiny.
- Four prominent themes were accountability for executive pay reinforced through pay outcomes, reasonableness of quantum of executive pay, remuneration models customised to the company and with simple disclosures, and alignment with shareholders.
- Quality shareholder engagement remained critical to reduce scrutiny, particularly where changes to the remuneration framework were made.

In Australia companies are not compelled to disclose the CEO pay ratio. However, commentators posit that pressure is mounting for this to change.¹³

¹² PwC Australia: “10 minutes on what you need to know: 2017 AGM season”, October 2017 – accessed 30 May 2018.

¹³ <http://theconversation.com/australia-should-compare-ceo-and-average-worker-pay-like-the-us-and-uk-65898> and <https://www.theguardian.com/australia-news/2016/sep/28/australia-should-compare-ceo-and-average-worker-pay-as-the-us-and-uk-do> (numerous sources), accessed between 3 May and 30 May 2018.

Conclusion



The outcomes discussed here suggest that the increased shareholder consultation required by the binding vote has led to more positive voting outcomes.

Conducting open discussions with shareholders is key to making positive strides in remuneration governance and despite not yet having introduced a binding vote, South Africa is on a path towards improved remuneration governance, not least on say on pay. This has been prompted by King IV™ and the JSE, but we foresee further developments to follow.

4.

Candid remuneration reporting and clear disclosure

Robynn Green



Executive remuneration is often perceived to be excessive and unjust when measured against performance and remuneration across the rest of the organisation, and the opacity of remuneration disclosure among some South African companies only adds to this perception.



When preparing the ideal remuneration report, financial performance is not the only relevant key indicator. The concept of responsible corporate citizenship is another significant factor to bear in mind, particularly considering the trend towards sustainability and integrated reporting.

This chapter looks at various methods to better communicate remuneration outcomes to stakeholders, providing a brief update on local remuneration reporting trends and considering the practicality and implication of introducing a further layer of remuneration reporting for lower level employees. It is assumed that any remuneration report would also meet the requirements of all applicable statutory and governance rules and regulations.

Local update on remuneration reporting

After the results of annual general meetings (AGMs) are published, we typically see a range of remuneration-related themes highlighted by institutional investors as key areas of concern. This past year these included:

- Reasonableness of quantum and excessive executive remuneration;
- Lack of performance conditions pertaining to variable pay;
- Discretion applied to bonus payouts where targets were not met;

- Insufficient disclosure of performance conditions, weightings and targets;
- Inappropriate peer group used for benchmarking purposes; and
- Skewed long-term alignment with shareholders.

What, how much and why?

These are cause for introspection and remuneration committees are encouraged to apply their minds carefully and, to assist themselves, proactively engage with their stakeholders to piece together a recipe for success.

- Remuneration committees have to ask themselves the following questions:
- Are we mindfully considering principles of fair and responsible remuneration?
- Are we actively investigating internal inequities and do we have effective processes in place to eliminate unjustified differentiations in remuneration (particularly between people doing the same work or work of equal value)?
- Are we using appropriate performance conditions and are the targets that have been set stretching enough?
- Where we apply our discretion, are we doing so justifiably?

- Are we effectively considering non-financial conditions and other key performance indicators (KPIs) that encourage meaningful non-financial metrics such as sustainability, and how do these assist us in determining an executive's earning potential?
- Are we following the correct methodology in terms of calculating our remuneration figures and does our single figure table accurately reflect the remuneration due to an individual during the reporting period?
- Are we proactive in our approach when engaging with stakeholders and do we genuinely take into account the feedback received when making forward-looking remuneration policy decisions?

A closer look at the new LTI disclosure format

During the past year, with the gradual implementation of King IV™, there has been considerable support from organisations and investors for the new LTI disclosure format (comprising of the single-figure reporting table, the table of unvested LTIs and settled LTIs).

This methodology encourages companies to create a comprehensive view of payments and potential payments that executives could receive. Companies that have incorporated the King IV™ recommended practices regarding



the single-figure remuneration reporting table and the table of unvested and settled LTIs have put significant effort into displaying accurate figures in their implementation reports (as recommended by King IV™) in order to reflect all the relevant components of remuneration.

The new LTI disclosure format is widely regarded as the ideal opportunity to create a more transparent way of disclosing the full view of remuneration due in any current financial year, presented in a straightforward, user-friendly format. Consequently, organisations and stakeholders now have a single point of reference where they can examine remuneration and consider how it relates to company performance.

See below a brief refresher on the new LTI disclosure format:

- **Income statement (single-figure table)**
Single-figure reporting of remuneration paid or accrued to executives in a particular financial year.
- **Balance sheet (table of unvested LTIs)**
Reporting on the balance and movements of deferred short-term incentives and long-term incentives during the financial year.
- **Cash flow statement (table of settled LTIs)**
Reporting the cash flow received by executives during the year from the settlement of deferred short term incentives and long term incentives.

The difficulty most companies have experienced, especially companies with complex LTI structures, lies in the practicality of valuing deferred STIs and LTIs in order to arrive at an accurate figure for inclusion in the single-figure table.

Various considerations may impact the figure that is ultimately included in the single figure such as the type of instrument, whether vesting is subject to the achievement of performance conditions, the vesting profile and the timing of reporting. It is essential that companies are meticulous when it comes to measuring variable pay, and that the approach taken is followed consistently from year to year.

The value of single-figure reporting lies not only in the simplified presentation of remuneration data, the consistent approach from year to year and allowing for peer comparison, but also in understanding how to report the various components of the single figure-table (especially with regards to LTIs).

That said, single figure reporting is not the final answer to good remuneration reporting. It must be reported in the context of the remuneration policy that applied during the previous financial year. Context surrounding remuneration and performance outcomes should be included in the chairperson's background statement, the forward-looking remuneration policy and the implementation report (i.e. STI and LTI performance outcomes, and the table for unvested LTIs). The whole remuneration report (parts 1, 2 and 3) read together should provide a complete picture of an organisation's position and the resulting remuneration outcomes, safeguarding against any unwarranted deviations.

Methods for being clear and candid

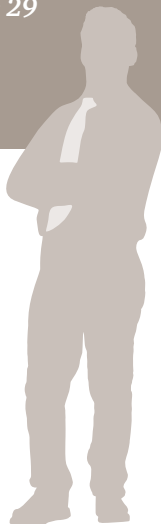
The remuneration report is one of the vital communication methods of an organisation. Generally, great strides have been made in this domain, as we see more and more organisations striving to meet sound governance standards in remuneration reporting.



Is executive pay appropriate?

Executive pay is set competitively to the market and should not only be linked to performance, but also to principles of fair and responsible pay in relation to all employees.

King IV™ Principle 14, Recommended Practice 29



Apart from using plain language and a simple format, there are several other ways in which a company can make its remuneration report more effective and engaging for shareholders and the broader stakeholder community. We have considered the methods listed in PwC UK's *Building trust through clear and candid reporting*¹ and included those suggestions most suitable in South Africa.

Be upfront and set the tone of the remuneration report : The background statement

The background statement (usually framed as a letter from the chairperson of the remuneration committee to the shareholders) sets the scene for the rest of the remuneration report, providing context i.e. an overview of an organisation's performance and resulting remuneration outcomes, anticipating stakeholder concerns and/or answer ongoing queries regarding the remuneration policy, and ultimately delivering an organisation's key remuneration message pertaining to the status quo or forward-looking policy changes.

King IV™ recommends the inclusion of the following elements in the background statement to provide context for remuneration decisions.

- Internal and external factors that influenced remuneration;
- The most recent AGM results of voting on the remuneration policy and implementation report and the measures taken by an organisation in response thereto; and
- The key focus areas (both current and future) and key decisions taken by remuneration committee during the reporting period (including any substantial changes made/considered to the remuneration policy).

South African listed companies should note that the results of shareholder engagement (within very specific parameters) must be recorded in the background statement to the extent that 25% or more of the shareholders voted against the previous year's remuneration policy or implementation report.

The background statement, where it is framed as a letter from the chairperson, is most effective when the reader can sense sincerity in the tone of the chairperson's message, given his/her personal touch in the contents of the message, allowing for a meeting of the minds between the writer and the reader.

The digital age: Using technology to your advantage

In order to have the edge in clear reporting, organisations should make use of all of the technological tools available to them. Embedding a video of the chairperson's message in the background statement, or a voice recording or graphic visuals are a few examples of the interactive communication features that can add considerable value to the remuneration report.

An organisation-wide view

In previous years, the remuneration report was meant to address the remuneration of executive directors and prescribed officers only. Organisations are now expected to set the direction for how remuneration should be approached and addressed on an organisation-wide basis.

Considering the movement encouraged by King IV™ towards a more inclusive and comparative report on remuneration, and in an effort to recognise unjust pay practices, organisations should take a broader view and include details of remuneration (including policy decision-making, application of discretion, fair and responsible practices, employee engagement etc.) and improve their disclosure as it cascades down towards lower-level employees as well.

¹ PwC UK. *Building trust through clear and candid reporting* (December 2016), available at <https://www.pwc.co.uk/services/human-resource-services/insights/building-trust-through-clear-and-candid-reporting.html> (accessed on 3 May 2018).



Disclosing an organisation's approach to its internal Gini coefficient and pay ratio (but not the actual numbers) has steadily become more popular to highlight its approach to measuring internal equity. That said, companies are not expected to disclose their actual internal Gini coefficient or pay ratio in the remuneration report – these should be used as internal barometers for performance.

Disclosure of target-setting and variable pay outcomes against set targets

The detailed process around setting performance targets can be commercially sensitive, and although King IV™ encourages disclosure thereof, organisations will typically disclose this information only to the extent that it is necessary to do so. A brief, high-level description of the target-setting process could be regarded as sufficient for purposes of the forward-looking policy section of the remuneration report.

Organisations should disclose in detail the achievement of the short- and long-term incentive performance conditions against targets without disclosing the actual targets (which would be retrospective in the implementation report). The achievement of the targets should ultimately correspond with the final number reflected in the single-figure table.

Clarifying consistency with or deviations from an approved remuneration policy

A sensibly drafted remuneration report noticeably links performance with the current remuneration outcomes (and possible future outcomes) year-on-year. This is greatly assisted by the introduction of the single figure and unvested LTI tables that provide the reader with an idea of the total remuneration earned in the relevant financial year and the expected value of unvested LTIs.

If at any point there is any form of deviation from the remuneration policy, for any reason and as approved by the remuneration committee or the board of an organisation, the implementation report should disclose this clearly and explain the rationale behind this decision.

Performance alignment and creating long-term shareholder value

The company can voluntarily provide the shareholders with an overview of performance and the average remuneration outcomes over a period of three to five years. An illustration of this kind clearly depicts how remuneration is linked to performance and (in the event that performance improved over the period) shows how value has been created for shareholders over time. Furthermore, this could be an indication of the effectiveness of the company's LTI strategy, where it is tied to financial performance conditions.

Benchmarking to the market

Organisations often perform remuneration benchmarking exercises, either in terms of their internal policy or due to an internal succession event. An appropriate peer group is selected and various metrics are taken into account when determining which companies should form part of this peer group.

Organisations should continue to provide adequate justifications for the earning potential of their executive directors and prescribed officers. The time may have come for companies to critically assess their approach to remuneration benchmarking – this is discussed in more detail in the chapter seven of this publication.





Conclusion



When reporting on the structure of remuneration paid to employees below executive level, an organisation should focus on its approach towards fair and responsible pay and its commitment to eliminate all instances of unjustified differentiation between employees doing work that is the same or substantially the same.

Building and maintaining an organisation's status as a responsible corporate citizen requires it to obtain and hold the trust of all its stakeholders. Remuneration reporting and disclosure is as much a creative process as it is a regulated one, and where organisations make meaningful improvements in reporting and disclosure, doing so goes a long way towards building trust with their key stakeholders.

5.

Corporate failures: Their impact on executive remuneration

Marika Kleynhans



Executive remuneration is a multifaceted issue which has perennially caused significant debate among shareholders, business groups and the wider public. The 2008 global financial crisis and the recent number of corporate failures have again highlighted the importance of good corporate governance and ensuring that remuneration packages are appropriately structured so as not to drive excessive risk-taking.

Corporate failure of a company involves the discontinuation of the company's operations leading to the inability of the company to turn sufficient profits or revenue to cover the expenses of the business.¹ This can happen for a variety of reasons, including but not limited to incompetence or gross misconduct by management, or a material failure in risk management. In light of the

¹ Business Jargon available at <https://businessjargons.com/corporate-failure.html> accessed on 4 April 2018.



recent level of corporate failures, it is worth examining the impact of these failures upon executive remuneration and to explore in particular:

- The different duties of directors and specifically directors' liabilities in terms of South African company law;
- The various remedies available to stakeholders in terms of South African company law; and
- The use of clawback provisions in light of a corporate failure.

Director's duties

It is well known that executive directors have duties and responsibilities towards the companies that they lead.² The duties of directors are derived from the common law and the Companies Act 71 of 2008 as amended (the Act). The common law duties of directors include honesty, loyalty and good faith. In terms of the Act, the fiduciary duties of directors are not only mandatory and unalterable, but also prescriptive and applicable to all companies. These duties set the standard for directorial behaviour and are meant to protect the company and its shareholders.

² Prior to the introduction of the Act, directors' duties were governed by the common law, which dictated that directors must act in good faith and in the best interests of the company.

A director of a company stands in a fiduciary relationship to the company and must consequently act in good faith towards the company, avoid conflict between his own interests and those of the company and exercise his powers for the benefit of the company.³

Methods of holding executives accountable – the Companies Act

The Act aims to increase both the transparency and accountability of those individuals tasked with leading and managing companies. Directors and officers who are in breach of the law, or in breach of their fiduciary duties and responsibilities, are personally liable for the losses caused by their actions (or inactions).

In terms of the Act, shareholders could have a claim for damages against any person who intentionally, fraudulently or through gross negligence causes the company to do anything inconsistent with the Act, or any limitation, restriction, or qualification in the company's memorandum of incorporation.

A liable director will also be held jointly and severally liable for the legal costs incurred in the court proceedings by the company to enforce its liability against them in terms of the

³ PwC South Africa "Steering Point" Companies Act Series No. 6 (October 2014), available at <https://www.pwc.co.za/en/assets/pdf/steering-point-no-6-companies-act-october-2014.pdf> (accessed on 19 June 2018).

Act.⁴ This includes the liability to restore to the company any amount that was improperly paid by it as a result of the actions of the director, which is not otherwise recoverable by the company in terms of the Act. Proceedings to recover any damages or losses or costs for which a person may be held liable in terms of the Act, are subject to a three-year prescription period.

The Act, *inter alia*, prohibits reckless trading and provides that "any person who contravenes any provision of this Act is liable to any other person for any loss or damage suffered by that person as a result of that contravention." It is furthermore worth noting that, in terms of sections 76 and 77 of the Act, a director may be held liable for breaching both his common law (in terms of the law of delict) and statutory fiduciary duties.

The Act does contain a defence mechanism for directors, known as the business judgment rule (as set out in section 76(4) of the Act). This mechanism allows directors to avoid liability in certain instances, if they can prove:

- They acted with full knowledge of a particular matter;
- They were not conflicted in the matter; and
- They genuinely believed they were acting in the best interests of the company when they took the decision relating to the particular matter.

⁴ Section 77 of the Act.



Therefore, although the Act provides stakeholders with remedies through which to address instances where directors have failed in their duties and responsibilities to the company, relying on these provisions is likely to result in costly and arduous litigation for the parties involved. This is further complicated by the fact that the damages and/or losses suffered by the company may not be easy to quantify, which in turn could lead to drawn-out litigation that takes years to resolve. Note that in terms of section 77(6), proceedings against a director may only be brought within three years after the act or omission that gave rise to that liability.

The question that must be answered is what effect a breach of fiduciary duties or misconduct will have on the remuneration of executives and whether companies should claw back incentives paid to or vested in a culpable executive in the event of corporate failure.

In light of this, we now turn to view the role that clawback provisions can play in addressing executive remuneration in the light of corporate failures.

Methods of holding executives accountable – malus and clawback

In light of recent well-publicised corporate failures, we have noticed an increased focus on whether companies are effectively ‘paying for failure’. The focus is on the role that executive remuneration plays in increasing the company’s risk exposure, and the terms ‘malus’ and ‘clawback’ are becoming more popular in remuneration committee meetings.

Long-term incentive schemes are typically meant to align the interests of executives with the interests of shareholders and rewarding executives for positive growth (and the creation of shareholder value) in the company. It stands to reason therefore that, in the event of the occurrence of a trigger event (see below) or a corporate failure where shareholders suffer a loss in value due to the actions (or inactions) of executives, the executives should not remain unaffected by retaining the incentives received prior to the trigger events coming to light.

Malus provisions are used as an ex-ante risk adjustment over executive pay. These provisions are usually imposed over executives’ short-term and long-term incentives. The trigger events for malus are often the same as or very similar to those prescribed for clawback.

Clawback, in its essence, creates the obligation for executives to repay amounts to the company that should rightfully not have been paid to them. Companies have taken various approaches to introducing clawback, including:

- Through the adoption and implementation of a clawback policy that applies to (all) variable pay awards; and/or
- Through inclusion of clawback provisions in an executive’s employment contract.

As indicated in the 2016 edition of this report, governments are taking an increasingly interventionist stance regarding risk adjustments of executive remuneration, with an increasing number of jurisdictions prescribing policies and contracts that companies are obliged to enter into with their executives.⁵

A properly drafted clawback policy could simultaneously act as both a deterrent that discourages executives from taking questionable actions that are not in the company’s best interests, as well as a punitive measure through which executives are obliged to pay back amounts to the company as specified in the clawback policy where the individual’s wrongdoing is uncovered at a future date, after the vesting of his or her awards.

⁵ PwC South Africa Executive Directors: Practices and remuneration trends report 2016 available at <https://www.pwc.co.za/en/assets/pdf/executive-directors-report-2016.pdf>, accessed on 04 April 2018.



Typical circumstances under which payouts may be deemed to be unjustified, typically referred to as ‘trigger events’ are set out below.

Trigger events



Misstatement

Material misstatement of the financial statements of a group company – deliberate or not.



Conduct

(Gross) misconduct, fraud or dishonesty, or material breach of obligations to the company. This includes adverse legal and/or findings by a court or regulator against the company in which the executive is found to have culpability.



Harm/Failure

Group or business unit suffers a material failure in risk management.

A good example of unjustified remuneration is where there is a material misstatement of the company’s financial statements. Misstatements can occur both through unintentional error, as well as through deliberate misconduct and can have a significant influence on the decision-making of investors and other stakeholders in the company. When a material misstatement of the financial statements later comes to light, it stands to reason that the executives should not be able to retain any remuneration that is contingent on the misstated information.

It is advisable for a company to properly consider whether or not to apply the clawback policy to current as well as previously employed executives that were employed during the period in which a trigger event occurred. The argument exists that, should the clawback policy not extend to executives who have subsequently left the employ of the company, a current executive could feel pressured to resign if the policy was not also applicable to previous executives.⁶

South African companies should also carefully consider the tax implications of clawback on share-based incentive awards (whether settled in cash or in equity) before implementing it, as there is little to no guidance from the South African Revenue Service in this regard.

The labour law implications of clawback, in particular justifying the conclusion that a particular executive is responsible for the trigger event, should also be carefully considered. Companies should ensure that the proper disciplinary processes are followed for that particular executive before relying on the provisions of their clawback policies.

Clawback provisions usually operate for a fixed period, which varies from company to company. In the United Kingdom, variable pay awards made to material risk takers working in banks are subject to clawback for seven years from the date of award. At the moment, there is little indication of how South African prescription laws⁷ (in terms of the Prescription Act) will affect clawback in South Africa once it is implemented – although this is a legal question, it would have bearing on the effectiveness of clawback.

Is it time to put clawback to the test?

We have noted a slow but continuous rise in the number of companies adopting clawback provisions as an ex-post risk adjustment over their executive pay. As with malus, these clawback provisions are typically exercised at the discretion of the remuneration committee where certain ‘trigger events’ occur.

⁶ “The clawback of executive remuneration where financial statements are materially misstated.” Australian Government Discussion Paper, December 2010 <http://archive.treasury.gov.au/documents/1926/PDF/101220%20Clawback%20of%20executive%20remuneration%20-%20Final%20-%20Approved.pdf> accessed on 5 April 2018.

⁷ In terms of the Prescription Act 68 of 1969 as amended.



- The introduction of both malus and clawback provisions over variable pay plans;
- Implementing a post-vesting holding period¹² for long-term incentive awards; and
- Ensuring that performance conditions are very clearly disclosed, and the majority of the incentives are subject to company performance. Non-financial strategic measures can include metrics related to the company's recovery over time, but these should not be overriding performance measures.

¹² A post-vesting holding period, typically incorporate into share scheme plan rules, is a mandatory period subsequent to the vesting of incentives, during which time the executive is not able to dispose of the vested shares. This is a useful practical mechanism through which to recover incentive pay-outs in the event of a claw-back.

Conclusion



There are compelling reasons why companies should consider introducing clawback policies. Although stakeholders have legal recourse against errant directors, clawback provisions could, if implemented correctly, allow for an alternative method of recovering incentives that should not have been paid.

However, there are many considerations across the tax and legal spectrum that companies need to take into account before implementing clawback. In light of the current climate and recent corporate failures, it is advisable for companies to start asking themselves if they have appropriate measures in place to hold executives to account if the need arises, and if necessary recover their variable pay.

6.

The economics and ethics of pay 2018

Martin Hopkins



Since the introduction of an Economics and ethics of pay chapter in the 2014 edition of this publication, this theme has gained significant momentum in the national discourse, with politicians, economists and regulators getting increasingly involved, both locally and globally. There is a significant consensus that addressing inequality, unemployment and poverty should be national priorities, although the means of doing so is under intense debate.

In this edition we provide an update on the new King IV™ requirements on fair pay, trends in executive remuneration, the latest estimate of the Gini coefficient of the employed and the pay ratio, and discuss how companies are addressing the plight of their most junior workers. We also consider the first round of King IV™-compliant reports and give feedback on the outcomes of PwC's global *Ethics of incentives* survey, which we introduced in the 2017 edition.



King IV™ and fair pay

The King IV™ Report¹ issued in late 2016 provides clear guidance to the boards of companies to focus on and report on the issue of fair and responsible remuneration. Principle 14 of King IV™² states that the governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long-term.

Principle 3 (14) states that the governing body should oversee and monitor, on an ongoing basis the management of an ethical workplace including employment equity and fair remuneration. Fairness is defined in King IV™ as “... the equitable and reasonable treatment of the sources of value creation, including relationship capital as portrayed by the legitimate and reasonable needs, interests and expectations of material stakeholders of the organisation”.

In our paper³ in the 2017 edition of the African Journal of Reward, we noted the progress made in establishing a minimum wage in South Africa, discussed approaches to quantifying the wage gap, and the basis for establishing

an ethical framework for remuneration by the remuneration committee (Remco) in consultation with the social and ethics committee for consideration and adoption by the board.

The responsibilities of the Remco have increased significantly since the introduction of King IV™. No longer is it sufficient for Remcos to focus on the pay of the executives and senior management, to the exclusion of employees at other levels. It is expected that, as a starting point, Remcos dedicate sufficient time to understanding and unpacking what ‘fair pay’ means in light of the unique values and business strategy of the organisation, with input from the executive team where appropriate.

This understanding should be translated into a set of principles for fair and ethical pay practices that span from practices relating to executive pay (for instance, the principle of pay for performance and how the company incorporates this into its remuneration design), to policies relating to the lowest paid worker (for instance, the principle of a minimum ‘living wage’ for even the lowest paid worker). These principles will likely contain both the minimum standards from which the company should not deviate, and the ideals that the company aspires to and works towards. Where appropriate, a company should set goals and targets for fair and ethical pay practices against which it can measure itself, and continue to

monitor its progress. Importantly, the Remco must identify what tools it will use to monitor progress, and start to think about what and how to report the progress made to its stakeholders.

Remcos must be able to satisfy themselves that they have enough information available to them in order to determine how they are performing against their goals and targets, monitor progress and identify where there are potential deviations from the established principles.

While we live in the age of data, principles of fairness often involve elements of relativity, and thus, the ability to access comparator company data will prove to be a significant advantage to Remcos that seek to determine how fair and ethical their practices are in comparison to their peers. This will, of course, require listed companies to report more transparently on their internal fair-pay policies and principles.

Remcos may also take the approach of analysing existing remuneration structures and practices to identify areas of potential unfairness, and use the outcomes of this analysis to identify focus areas when crafting the company’s principles of fair and ethical pay.

¹ The King IV™ Report on Corporate Governance for South Africa 2016, The Institute of Directors of Southern Africa.

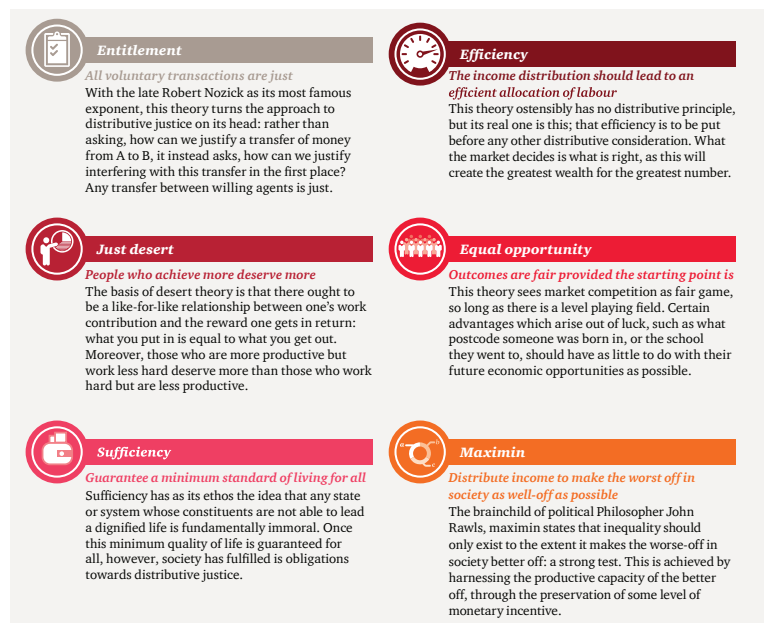
² King IV™ is a trademark of the Institute of Directors.

³ “Finding the Balance – Towards and Ethical Framework for Remuneration” (Hopkins, Crous, Botha), (April 2017) in the African Journal of Reward, Ed. 2.

PwC and London School of Economics Survey on the ethics of pay

This survey is part of a research project that is being conducted by Professor Alexander Pepper and Dr Susanne Burri of The London School of Economics (LSE) in conjunction with PwC in the United Kingdom.⁴ The survey was released in 2017 and we provided a detailed report on its findings in our publication on non-executive director practices and fee trends, released in January 2018. However, the findings are also relevant in the context of executive directors and can guide our thinking in this area.

Figure 5: Six principles of distributive justice



Source: PwC UK and London School of Economics

⁴ PwC UK and London School of Economics, "Fair Pay in a Just Society: What do executives think?" October 2017, available at <https://www.pwc.com/ethicsofpay> (accessed 8 December 2017).

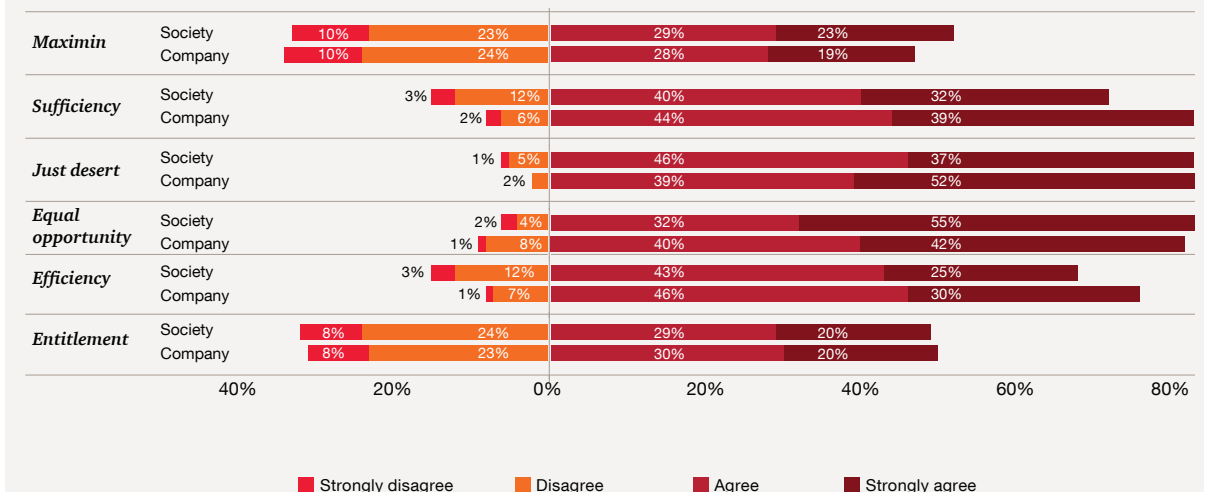
All principles secured at least some support from half the respondents, although some were more favoured than others. Entitlement, which gives companies the freedom to pay their employees as they please, and imposes no obligation on society to intervene in wealth outcomes, is least supported. In the same bracket is Maximin, which argues for allowing inequality only to the extent that it maximises the welfare of the least well-off. Doing nothing to help the least well-off is as unfavoured an idea as doing everything to help the least well-off.

Results for principles that were viewed as just in the context of a participant's ideal company or society are shown in figure 6.

Figure 6: Proportion of respondents agreeing that a principle is important in their company or society

Results for principles that were viewed as just in the context of a participant's ideal company or society are shown below:

Proportion of respondents agreeing that a principle is important in their company or society



Source: PwC UK and London School of Economics



It is interesting that these findings resonate with an approach to top executive pay in which ‘pay for performance’ is strongly supported, together with the ‘living wage’ approach for junior workers, with an important underpin of efficiency so that business can thrive. The two most extreme views, extreme capitalism and extreme socialism did not gain as much support.

Executive pay trends

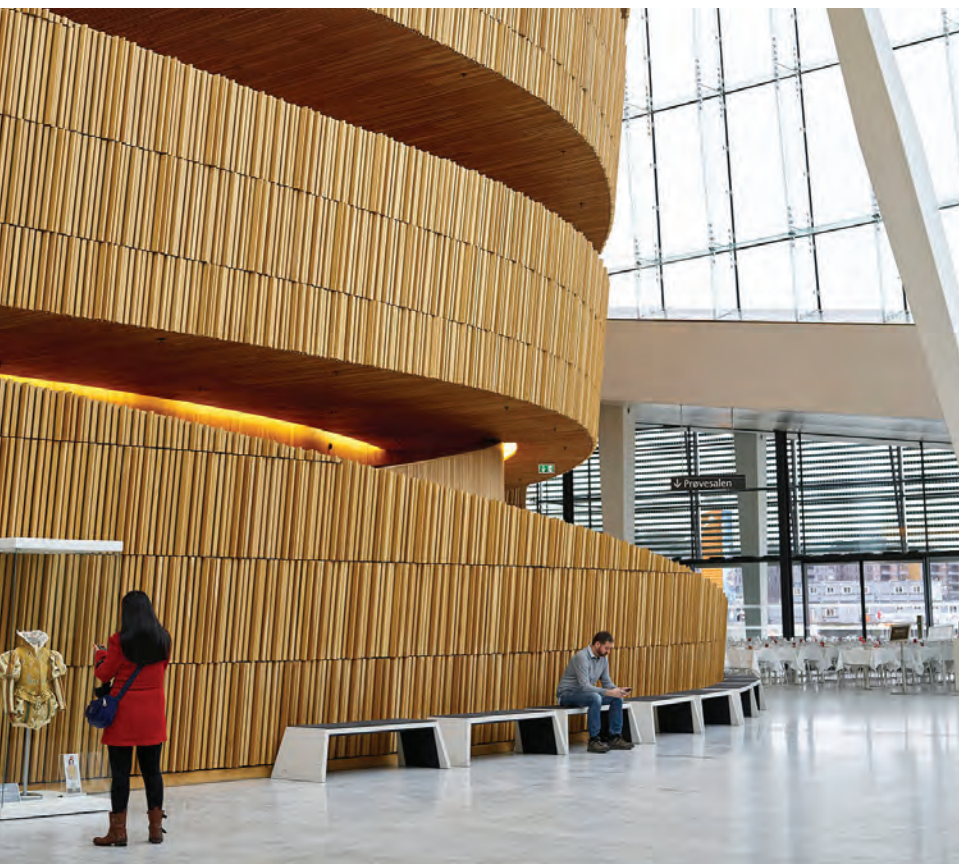
Large listed companies continue to exercise caution when considering the pay levels of their CEO and executive committee members. While average levels of pay remain high relative to workers, and are viewed as excessive by labour and the general public, increases in guaranteed pay have generally remained subdued and are below those granted to workers.

Structurally, the trend towards less volatile and geared long-term incentives (share awards) remains in place, with share options and share appreciation rights being replaced by restricted shares, bonus shares and performance shares, which are more likely to avoid extreme payouts.

In the UK and the EU, regulatory changes in the financial services sector (CRD IV), which cap the absolute level of variable pay to 100% of fixed pay (up to 200% with shareholder approval) have also decreased the volatility and maximum earning potential of banking executives. We are seeing the impact of these regulations in South Africa among British and European-owned banks such as Barclays Africa, Investec and Mercantile Bank.

In addition, malus and clawback provisions, which require forfeiture of, and in some cases repayment of, cash and share-based incentives in the event of material misstatement of financial results, or major reputational or economic disaster, have added to the governance measures associated with executive remuneration.

Institutional investors are also requiring executives to build up their own shareholding in the company to target levels that are generally expressed as multiples of their own guaranteed package. These are known as minimum shareholding requirements (MSR).





The Gini coefficient of the employed and the pay ratio

In the 2014 edition of this publication, we calculated the Gini coefficient of the employed in South Africa as 0.44. This was calculated using all employees' data in the PwC RemChannel® salary survey. This figure is lower than the national statistic, which is quoted at 0.67 in the Davis Committee Report⁵ discussing the proposed introduction of a wealth tax.

The Davis Report also notes with concern the even higher wealth Gini coefficient of 0.95 in South Africa. The primary reason for the difference between that national figure and our estimate of the Gini of the employed is the high rate of unemployment in South Africa.

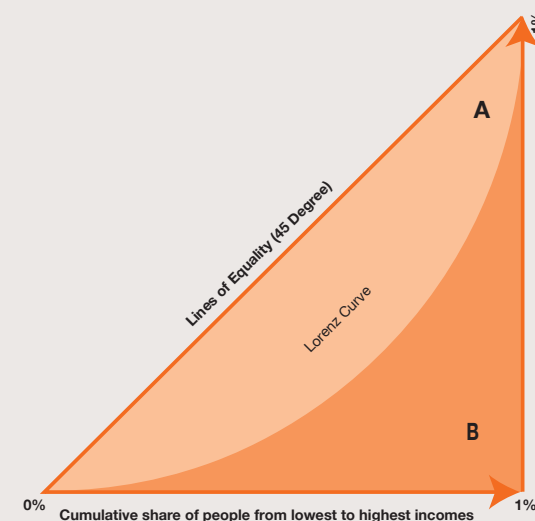
⁵ Report on the feasibility of a Wealth Tax in South Africa, the Davis Tax Committee, March 2018, available at <http://www.taxcom.org.za/docs/20180329%20Final%20DTC%20Wealth%20Tax%20Report%20-%20To%20Minister.pdf> (accessed on 30 March 2018).

About the Gini coefficient

The Gini coefficient measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household.

The Gini coefficient measures the area between the Lorenz curve and a hypothetical line of absolute equality (A), expressed as a proportion of the maximum area under the line (B).

Thus a Gini coefficient of 0 represents perfect equality, while a coefficient of 1 implies perfect inequality.



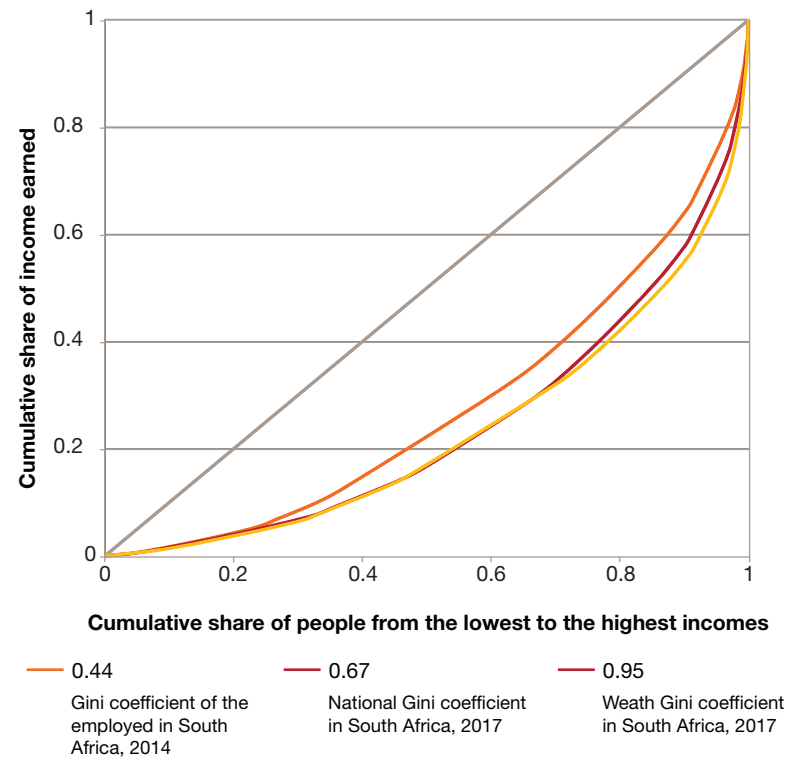
The Gini coefficient is equal to the area marked A divided by the sum of the areas marked A and B:

$$\text{Gini} = \frac{A}{(A+B)}$$

Source: World Bank



Figure 7: Income and wealth inequality in South Africa



Source: PwC analysis

While the official unemployment rate remained unchanged at 26.7% in the first quarter of Q1: 2018 compared to Q4: 2017, the expanded unemployment rate, which includes discouraged work-seekers increased by 0.4 of a percentage point to 36.7% quarter-on-quarter.

We have updated our calculation of the Gini of the employed in South Africa, based on the salary data in the PwC RemChannel® salary survey database as at May 2018. This is made up of 989 960 employee salaries, and the figure for this year has decreased slightly to **0.429** in 2018 from **0.431** in 2017 and has decreased significantly from **0.44** in 2014 when we first measured this indicator.

The pay ratio for a company, which is the ratio between the total remuneration of the CEO of a company and the average of the total remuneration of all other employees of the company ranges from **12.7 to 64.7** this year compared to **12.8 to 61.8** in 2017, and **12.7 to 64.8** in 2016.

We have noted the publication of the first round of US pay gap ratios, which must now be disclosed in accordance with US Dodd-Frank Act regulations. A recent article published by our US firm quotes an analysis performed by Pearl Meyer & Partners, which noted the following key trends in the US:

- **Industry:** The materials, consumer goods and healthcare sectors have the highest ratios. Information technology, real estate and financial fields sectors have lower ratios.
- **Revenue:** Companies with revenue in excess of \$10 billion have an average ratio of about **235:1**. Those with revenues under \$1 billion average about **35:1**.
- **Employees:** Companies with more than 20 000 employees have an average ratio of **230:1**. Those with fewer than 1 500 employees have an average ratio of **47:1**.



A further corroborative article by Proxy Insights tabulates the following details from this first round of US pay ratio submissions.

Pay-gap ratio disclosures, selected companies

	Sector	Industry	CEO name	CEO compensation	Company median pay	CEO median ratio
Weight Watchers International Inc	Consumer Cyclical	Personal Services	Mindy Grossman	\$35 524 002	\$6 013	5908:1
Mattel Inc.	Consumer Cyclical	Leisure	Margaret Georgiadis	\$31 275 289	\$6 271	4987:1
McDonald's Corporation	Consumer Cyclical	Restaurants	Stephen Easterbrook	\$21 761 052	\$7 017	3101:1
Gap Inc. (The)	Consumer Cyclical	Apparel Stores	Arthur Peck	\$15 587 186	\$5 375	2900:1
Live Nation Entertainment Inc.	Consumer Cyclical	Media – Diversified	Michael Rapino	\$70 615 760	\$24 406	2893:1
Yum China Holdings Inc	Consumer Cyclical	Restaurants	Joey Wat	\$9 571 017	\$3 396	2818:1
Aptiv PLC	Consumer Cyclical	Auto Parts	Kevin P. Clark	\$13 800 347	\$5 464	2526:1
ManpowerGroup	Industrials	Staffing & Outsourcing Services	Jonas Prising	\$11 987 783	\$4 828	2483:1
First Data Corp	Industrials	Business Services	Frank Bisignano	\$102 210 395	\$50 406	2028:1
Hanesbrands Inc.	Consumer Cyclical	Apparel Manufacturing	Gerald W. Evans Jr.	\$9 581 985	\$5 237	1830:1

Source: Proxy Insight Limited

Pay-gap ratio disclosures by index

	CEO compensation	Company median pay	CEO median ratio
S&P 500	\$12 566 220	\$81 151	155:1
S&P MidCap400	\$6 778 128	\$75 278	90:1
S&P SmallCap600	\$4 288 875	\$77 141	56:1

Source: Proxy Insights Limited



Pay-gap ratio disclosures by sector

	CEO compensation	Company median pay	CEO median ratio
Consumer Cyclical	\$8 423 347	\$41 453	203:1
Consumer Defensive	\$7 539 647	\$42 695	177:1
Industrials	\$6 238 343	\$58 757	106:1
Basic Materials	\$5 938 887	\$76 927	77:1
Communication Services	\$5 997 169	\$82 525	73:1
Technology	\$5 810 185	\$84 076	69:1
Energy	\$7 246 188	\$110 834	65:1
Financial Services	\$4 757 990	\$76 076	63:1
Utilities	\$7 533 501	\$130 355	58:1
Healthcare	\$6 725 734	\$121 164	56:1
Real Estate	\$5 089 645	\$101 473	50:1

Source: Proxy Insights Limited

These disclosures reveal a much higher level of income disparity in the US compared to South Africa, but the US's unemployment level is only 8% compared to South Africa's 26.7%. This explains why the US national Gini coefficient is only 0.42.⁶

These observations suggest that a thriving economy, as well as focusing on the development of human capital on an inclusive basis, will both drive economic growth and merit significant growth in income and employment for a much greater segment of our population.

During the 2018 State of the Nation Address⁷, President Cyril Ramaphosa emphasised the need for growth, increased employment and human capital capacity building. He noted the objectives of initiating measures to set the country on a new path of growth, employment and transformation, building a social compact that will create drivers of economic recovery. He also noted the focus on a commitment to re-industrialise on a scale and at a pace that draws millions of jobseekers into the economy, to re-energise the mining, agriculture and tourism industries, as well as entrepreneurial and innovative small businesses.

A specific objective that the President emphasised is to work in partnership with business, organised labour and community representatives, creating opportunities for young people to be exposed to the world of work through internships, apprenticeships, mentorship and entrepreneurship. He also noted that we urgently need to develop our capabilities in the areas of science, technology and innovation.

His focus on education was confirmed by his discussion of fully subsidised free higher education and training for poor and working-class South Africans over a five-year period. He affirmed that an investment of this scale in higher education is expected to contribute to greater economic growth, reduce poverty, reduce inequality, enhance earnings and increase the competitiveness of our economy. He also noted that government will continue to invest in expanding access to quality basic education and improving the outcomes of our public schools.

The Davis Committee Report has specific commentary on inequality and the feasibility of wealth taxes, noting that:

Inequality in South Africa is unacceptably high. Persistent high wealth inequality has the potential to undermine social, economic and democratic values. ... A wealth tax is not, however, the only available instrument to address the inequities of income and wealth. Other methods of redress include land reform and programmes on the expenditure side of the fiscal budget such as increased access to quality health and education and the provision of infrastructure as well as effective government leading to growth and employment.

⁶ The World Bank GINI index, May 2018, available at <https://data.worldbank.org/indicator/SI.POV.GINI>, accessed on 05 June 2018.

⁷ The South African State of the Nation Address, February 2018, President Cyril Ramaphosa, available at <http://www.thepresidency.gov.za/state-of-the-nation-address/state-nation-address-president-republic-south-africa%2C-mr-cyril-ramaphosa>, accessed on 05 June 2018.
Executive directors: Practices and remuneration trends report



So where does this suggest companies and employers can assist? Mentorship, apprenticeships and continued focus on development of employees, as well as making direct contributions to education; and focusing, as all companies should, on growth and creation of economic value for shareholders and all other stakeholders.

The minimum wage and the living wage

During the State of the Nation address discussed above, the President proudly noted that

... on the 1st of May this year, we will introduce the first national minimum wage in South Africa. This historic achievement – a realisation of one of the demands of the Freedom Charter – is expected to increase the earnings of more than six million working South Africans and improve the living conditions of households across the country. The introduction of a national minimum wage was made possible by the determination of all social partners to reduce wage inequality while maintaining economic growth and employment creation.

The conflation of the concepts of a ‘minimum wage’ and a ‘living wage’ has led to disputes over the course of this year with organised labour. A minimum wage is a legislated absolute minimum pay level, whereas a living wage is an aspirational minimum pay level for full-time staff that permits a frugal but dignified life.

There is no definitive study available to establish a South African living wage level, but the general view among reward professionals and large corporates is that this is around R10 000 to R12 000 per month. We note that several large corporates have made particular efforts to raise the pay for their most junior workers to around this level, and that some now actually disclose this in their remuneration reports.

Conclusion



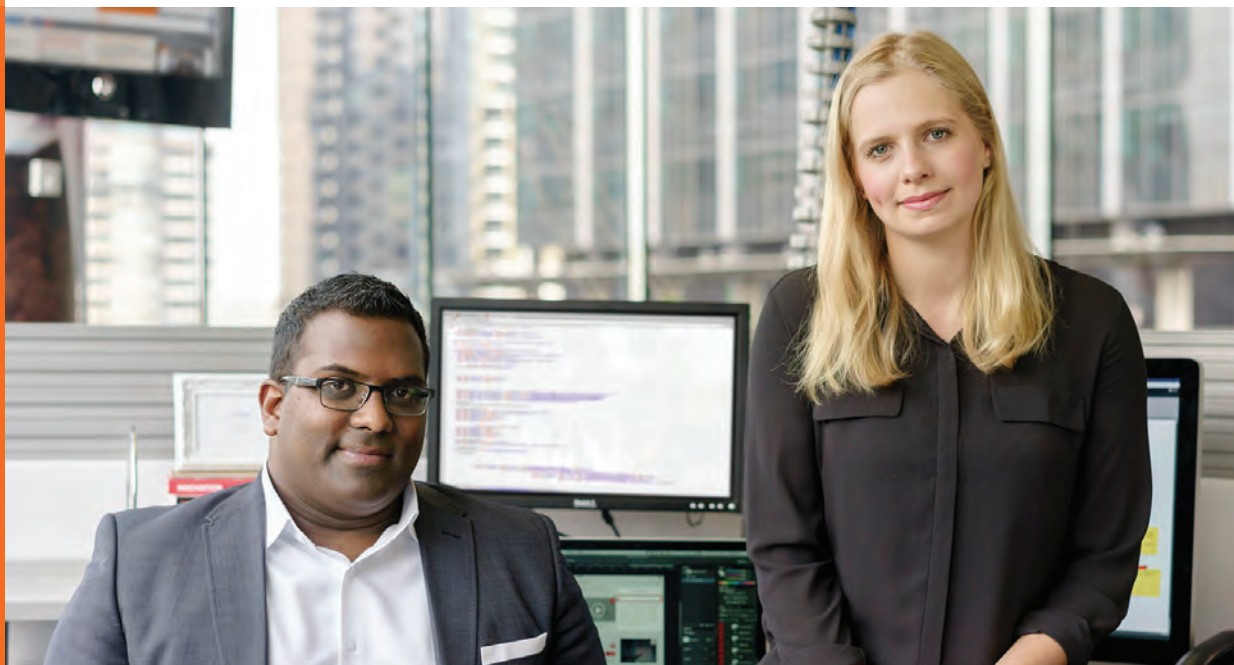
It is clear that discussions on the contribution of fair pay to addressing the issues of inequality, unemployment and poverty are gaining momentum. The national focus on these matters and the clear focus on business growth and human capital development is evident in statements by President Ramaphosa and other government leaders, the King IV™ requirement to consider fair and responsible remuneration in the context of the overall remuneration of the organisation, which is now being seen in some of the December 2017 year-end company reports, and the almost daily mention of the matter in the national discourse.

Our opinion remains that focusing on the financial wellness of junior workers, and aspiring to pay at least a living wage is a sound strategy for businesses in South Africa. In addition, partnering with government and other social partners to invest in education and skills development provides a longer-term solution to addressing inequality and bringing about economically sustainable prosperity.

7.

Is executive benchmarking as we know it dead?

Leila Ebrahimi
Andréas Horak



Is benchmarking as we currently know it still relevant, and does it allow us to craft appropriate total reward packages for executives that reflect the strong pay-for-performance link that is expected by shareholders and other stakeholders alike?

Benchmarking: The historical approach

A primary goal for any HR practitioner is the attraction and retention of employees, particularly those considered critical to the performance of the organisation. Traditionally, benchmarking has been one of the primary tools used to achieve this goal – both in terms of setting pay levels for incoming employees, and for assessing the ongoing relevance of pay levels to the market for existing employees.



Companies and advisors have historically approached benchmarking in one of two ways:

- A salary survey, used to access relevant market data for the role; and / or
- For executives and prescribed officers, whose pay is publically disclosed, the preferred approach has been to benchmark each role against collected data from a bespoke comparator group, which in turn is determined with reference to size and industry considerations.

The challenge of the median

Determining a reference point for setting pay is challenging, making some form of benchmarking exercise extremely valuable. While the most universally accepted practice seems to be benchmarking to the median, the appropriateness of benchmarking to the median of the market can only be established where the 'market' (or comparator group) referred to is determined accurately. There has been increased debate among institutional investors and other interested parties recently regarding the appropriate methodology for determining a peer group to benchmark against.

In the accompanying table, we discuss some pressure points which have influenced our thinking around a new approach to benchmarking.

Considerations for a new approach to benchmarking



#1 Increased focus on pay for performance

A strong pay-for-performance link has become increasingly widespread within the variable pay component of total reward, but are we migrating towards a time where it is expected in respect of fixed pay levels as well?

The natural evolution of short and long-term incentives gives us a hint as to where the policy for setting fixed pay could be heading. Variable pay structures have evolved from simple market-based instruments such as options or share appreciation rights, to taking into account other views of performance that are more sophisticated than market growth (i.e. share price growth) alone.

This is evident in the emergence of full-share instruments, which are less risky and provide more certain outcomes for participants, and where the performance conditions are based on key performance indicators (KPIs) that shareholders care about. In the changeover from a bull to a bear market, an award of share appreciation rights may be underwater regardless of an executive's strategic efforts to curb the loss of shareholder value, although their efforts should be rewarded.



#2 De-risking remuneration structures

In the spirit of enhancing corporate governance within organisations, risk within remuneration designs has become a current focal area. While short-term incentives have moved away from purely discretionary arrangements towards more formulaic structures with appropriate safeguards, long-term incentives have evolved into more solid instruments that do not encourage employees to take undue risk to realise massive returns.

It is generally accepted that the more risky pay structures are, the higher the potential for reward should be. However, pressure from shareholders and other interest groups to de-risk and decrease the overall quantum of pay has increased.

A focus on performance is key, but while the spotlight has been on variable pay, which has historically constituted a significant portion of pay packages, policies surrounding the setting of guaranteed pay have remained stagnant. This brings us to the question of whether it remains appropriate for us to continue to benchmark and adjust guaranteed pay to the median of the comparator group.

An alternative approach may be to adjust executive pay on an annual basis to align with the performance of the business relative to its comparators. This approach is aligned with the need to design remuneration strategies in innovative ways that encourage executives to be proactive in their strategy while providing stakeholders with the comfort that total executive pay is sufficiently linked to performance.



#3 Benchmarking in the era of big data

Big data has evolved from being a buzzword to being our reality. While the availability of massive volumes of data is not a new phenomenon, tools to interpret and analyse the data continue to become more sophisticated. In this era of data analytics, benchmarking will always remain relevant. However, benchmarking methodology must be adapted, so that we are able to employ ever more sophisticated predictive analytics techniques, ultimately resulting in a more informed and multidimensional way of setting executive remuneration than relying on simple benchmarking methodologies alone.

Ultimately, remuneration specialists must adapt, and learn how to analyse and make sense of the reams of new data available to craft remuneration packages that make sense in the market and provide a strong and defensible link to performance. To stay ahead of the curve, it is vital to use data to anticipate where the market is going, rather than merely understanding where the market is or was.



#4 Pushback from shareholders

As market conditions within the South African market remain volatile, regularly adjusting pay to the median of a size-based comparator group has received significant pushback from the investor community. Institutional investors and proxy advisors have started asking probing questions regarding the methodology underlying the determination of executive pay that is seemingly appropriate, particularly where company performance has fallen short of expected levels.

In addition, the criticism of the effect of benchmarking on executive pay levels is well documented. If pay is constantly moved upwards to the median level, and the median is moving upwards with market inflation, there is an inevitable upwards push on executive pay levels that divorces executive pay from the reality of performance.

The answer? A phased approach

Increases to executive pay need to be justified using a more robust methodology – just as variable pay has evolved to take on a stronger focus on sustainable long-term performance and strategic success without exposing the business to undue risk. There is a shared understanding that movement in market cap cannot always be correlated to strategic efforts by executives. It follows that increases or adjustments to executive remuneration should not be influenced by this movement, but rather by elements that are reasonably within the ambit of executive control.

Nonetheless, benchmarking remains a valuable tool. However, the approach and application needs to be modified to maintain relevance in today's environment. A new approach could be to benchmark in two phases. The traditional route of determining comparator groups based on 'size and responsibility' measures may remain appropriate for an initial determination of a pay range for executives, with lower- and upper-quartile market points representing the guardrails of that range. Placement of a particular executive within that range would be based on demonstrated performance of the incoming executive, and the strategic nature of the role.



The second phase would be to determine the executive's movement through the range, which will be linked to performance during the executive's tenure. This newer school of thought involves determining an appropriate comparator group relative to which the company's performance (relative to shareholder-approved KPIs) could be assessed. This comparator group would naturally be more industry-focused, with a primary focus on industry-based earnings, returns and strategic measures.

As the relatively small number of listed companies within the South African environment poses a challenge to effective benchmarking, performance relative to international comparators may become more relevant, although the comparative size of such organisations remains a challenge. While such a benchmarking approach may seem like more of an aspirational goal at this stage, international data is fast becoming more accessible and relevant through the application of analytical tools, which can counter the effects of cost-of-living and organisational size variances between countries.

A well-crafted pay progression model, which considers multiple years' performance as a factor in determining pay increases or adjustments, should be used as a tool to manage pay levels for executives within the boundaries of the established range.

The challenge

The challenge that remuneration specialists and remuneration committee members constantly face is the design of strategies and policies that are aligned with sound corporate governance principles, while motivating executives and safeguarding shareholder interests. Only by challenging the status quo regarding how remuneration policies have historically been approached will we be able to do our part to guard against corporate failures and play our role in creating future-proof organisations that are focused on sustainable value creation.

The pending question is "where will we find the performance data required for the new proposed approach?" Global business has been actively focusing on acquiring and mining data to provide them with a competitive edge in the market. In South Africa, with the onset of the new wave of remuneration reporting aligned to King IV™ standards, we will have more relevant data than ever in the public sphere, and in a user-friendly format. We are hopeful that with the effort and dedication of remuneration specialists, the data needed to move towards performance-based benchmarking will soon be publically accessible.



8.

Gender parity

Mariangela Venturi



While the issue of gender parity has been under the spotlight for a number of years, progress on the issue has been slow. As of April 2018, there were only 24 female CEOs of Fortune 500 companies, a representation level of just 4.8%.

There is still only one female CEO among the JSE top 40 companies. In order to build future economies that are both dynamic and inclusive, we must ensure that there is equal opportunity for all.

When women are not equally integrated into the economy, the global community misses out on skills, ideas and perspectives that are critical for addressing global challenges and harnessing new opportunities. Currently, women contribute only 37% towards global GDP and recent estimates suggest that economic parity could increase global GDP by US\$5.3 trillion by 2025.¹



There are various ways in which the gender gap can be addressed in the corporate sector both on a global level and in South Africa. These include legislating the disclosure of companies' gender gap and providing quotas for women on boards and in executive positions. There are also broader challenges that need to be explored in bridging the gap between men and women in the workplace.

The advent of integrated reporting appears to be the best approach to allow companies to clearly report their gender position and provide the data to enable companies to explore the challenges to bridging the gap.

UK reporting requirement: update

In April 2017, the British government joined the list of countries, including the US, Australia, Sweden and Denmark, which requires the disclosure of gender pay data. It legislated new reporting requirements that oblige companies with over 250 employees to disclose on an annual basis their gender pay gap from April 2018 onwards. The regulations require that the companies disclose information on the differences in remuneration between male and female employees, and include the following data:

- The gender pay gap (mean and median averages);

- The gender bonus gap (mean and median averages);
- The proportion of men and women who receive bonuses; and
- The proportion of men and women in each quartile of the organisation's pay structure.

More extensive information regarding these requirements can be found in last year's edition of this report.²

The above information must be published on the company's website as well as the government-sponsored website, Gender Pay Gap Service, which is accessible to the general public. Companies may also publish a narrative explaining the results and setting out any action they intend taking to reduce the gap in the long term.

The purpose of the legislation and disclosure requirements is to provide reporting companies with opportunities to address the identified disparities and to tackle the causes of inequalities. This in turn will accelerate progress on gender equality by closing the pay gaps and bringing more women into senior positions. Gender pay reporting could boost productivity by encouraging employers to explore whether they are making the most of their talent.

The deadline for reporting this year was 4 April 2018 and the data filed by more than 10 000 companies sheds light on the imbalance between the average earnings of men and women in the UK. The figures show that few women hold the most highly-paid positions and in some cases there is a lack of bonus parity. Given that long-term incentives and bonuses are typically reserved for higher-level positions, which as the results display are occupied by men, the lack of bonus parity is not surprising. More than 1 500 companies failed to report before the deadline and these companies may face legal action.

Analysis of the 10 014 employers who submitted data in time revealed that almost 80% pay men more than women.³ There was no sector that paid women more than men on average. The data showed that women were being paid a median hourly rate that, on average, was 9.7% less than that paid to their male colleagues. The sectors with the largest gender pay gaps were facing difficult questions as the deadline closed, with construction, finance & insurance and education exposed as the industries with the largest gaps.

³ The Guardian, Gender pay gap figures reveal eight in 10 UK firms pay more, 4 April 2018.

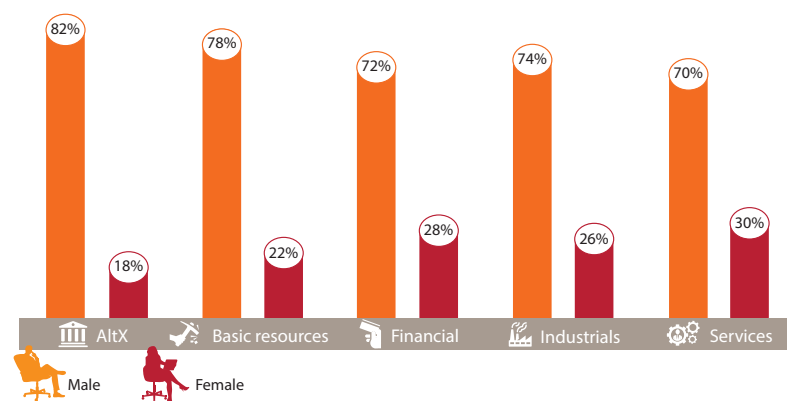
² PwC South Africa Executive directors: Practices and remuneration trends report (2017) available at <https://www.pwc.co.za/en/assets/pdf/executive-directors-report-2017.pdf>, (accessed on 20 June 2018).

Voluntary initiatives such as Think, Act, Report developed in the UK aim to provide assistance to employers in closing the gender pay gap in various companies. They provide a step-by-step framework that helps employers include gender equality in business planning and processes.

South Africa progress update

In South Africa, there has been some progress in women emerging in executive roles, and there are companies that are enjoying the benefits of a diverse board and which have introduced initiatives to boost the representation of women at executive level within their organisations. However, despite improvements, the proportion of women to men in executive roles is still low. The gender gap in South African listed companies in 2017 (by sector) is illustrated below.

Figure 8: South Africa: Gender gap among listed companies, 2017



Source: PwC analysis

In 2017, Bain & Company released a report following extensive research on the career paths of men and women in South Africa.⁴ The results show that in 2017, 31% of South African companies have no female representation in senior leadership roles. The latest Businesswomen's Association of South Africa (BWASA) census on women in leadership indicated that 22% of board directors are women, but only 7% are executive directors. Furthermore, only 10% of South African CEOs are women and if one considers only JSE-listed companies, this proportion drops to 2.2%. Overall, the percentage of women in senior leadership roles has been relatively flat, with representation increasing slightly from 26% in 2004 to 28% in 2017.

There are a number of drivers responsible for organisations achieving positive results in gender diversity. These include employment equity legislation and the JSE Listings Requirements as well as internal company policies regarding quotas and targets. An example of this is a South African mining company that included a detailed breakdown of employment by gender and race per occupational level in its sustainability report.

The World Economic Forum's (WEF) Global Gender Gap Report 2017 provides results based on its Global Gap Index which ranks 144 countries on the gap between women and men on health, education, economic and political indicators. It aims to understand whether countries are distributing their resources and opportunities equitably between women and men, irrespective of their overall income level.

The results of the report are startling: Overall, 68% of the global gender gap has been closed, a decrease from the 2015 and 2016 results. Behind the decline is a widening of the gender gap across all four of the report's pillars: educational attainment, health and survival, economic opportunity and political empowerment. These

⁴ Bain & Company, Gender (Dis)parity in South Africa, May 2017



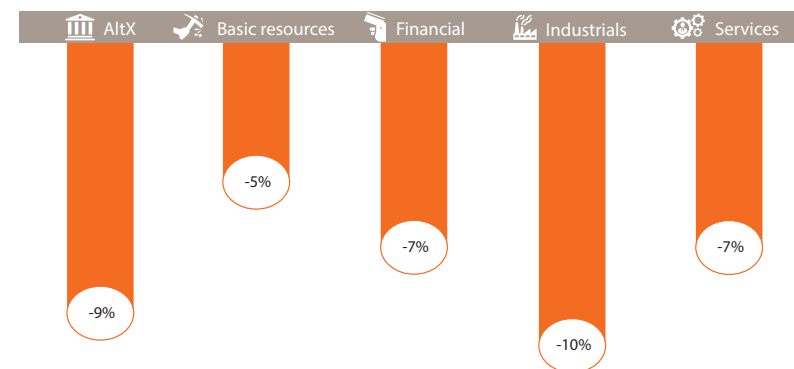
latter two areas are of particular concern because they already carry the largest gaps and, until this year, were registering the fastest progress. The report estimates that the global workplace gender gap will now not be closed for the next 217 years.

South Africa has retrogressed in crucial global indices, but narrowly made the top 20 countries in the WEF report. Despite ranking 19th (a drop from 15th in 2016), South Africa received a ranking of 89 in respect of economic opportunity and political empowerment. This shows that there is still a lack of female inclusion and leadership within South Africa that needs to be addressed.

Many companies are openly committed to addressing the gender pay disparity and in reviewing their policies. However, as with the results of the UK reporting disclosures, the results must not be viewed in isolation. Bridging the gender pay gap in South Africa does not simply require that more women are placed in senior positions. Beyond encouraging female entrepreneurship and the provision of greater opportunities in higher-pay and higher-skill roles, comes an ancillary responsibility. The gender disparity can only improve if companies acknowledge the areas in their organisations where women are under-represented and focus on identifying the reasons and barriers to their progression. The gender TGP median pay gap in 2017 amongst JSE listed companies (by sector) is set out alongside.



Figure 9: Gender TGP median pay gap male/female 2017



Source: PwC analysis

There are various prejudices in the workplace environment that need to be targeted in order to bridge the gender pay gap. These include companies' reluctance to hire female employees because of perceptions regarding maternity leave, that they will leave their careers for childcare or work part-time.

Although these prejudices are often subconscious, they do exist and are an impediment to women progressing in their careers. Similarly, women are less likely to speak up regarding their remuneration and tend to assume that their pay is based on market-related salaries.

If real progress is to be seen, companies need to pay attention to the difficulties women face in their career progression and address the reasons why there are few women sitting in senior positions within the company.



Businesses can play a role in improving female representation at senior levels by taking active steps to build a pipeline of female leaders within their own organisations.

Global investor sentiment: Gender and diversity on boards

There are various initiatives worldwide that aim to address gender disparity. The United Nations Global Compact 2018 has developed principles for empowering women in the corporate world to ring-fence best practices and international standards for gender equality.

Through the Women Empowerment Principles, various best practices are identified, which include assuring that there is sufficient participation of women (30% or greater) in decision making and governance at all levels and across all business areas.⁵ The exhaustive list found under the Women's Empowerment Principles provides a comprehensive policy and boards should adopt these principles and place women's empowerment on their agenda.

⁵ Principle 2 of the Women Empowerment Principles

In South Africa, the Public Investment Corporation's (PIC's) Corporate Governance and Proxy Voting guidelines set out that when voting on individual directors, the PIC will also consider the overall composition of the board, in terms of executive and non-executive directors, dependent and independent directors, and overall diversity (as outlined in the vote on the annual financial statements). It will favour candidates that contribute to the diversity of the board, in terms of skills, background, experience, gender and race. It promotes the board bringing together individuals with different skills, backgrounds and frames of reference. In cases where the PIC believes that the board has not adequately addressed this issue, it will nominate directors for election at a shareholders' meeting.

The UK Corporate Governance Code has always emphasised that boards should promote gender diversity. As part of its proposed changes for 2018, it will require boards to demonstrate how senior management and board appointment and succession planning practices are designed to promote diversity, not only of gender but also of social and ethnic backgrounds.

A UK company's nomination committee report will also need to explain its approach to succession planning, actions taken to promote diversity in the talent pipeline, the link between diversity and corporate strategic objectives and the gender composition of its senior managers. The revised Code sets out good practice so that the boards of companies can ensure appointments to boards and succession plans are based on merit and objective criteria to avoid groupthink, and promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

Leading proxy advisory services firm Glass Lewis, in its 2017/2018 proxy voting guidelines for numerous regions, is putting a greater emphasis on gender diversity. Specifically in reference to the United States, it indicates that although gender diversity will be one of the considerations made when evaluating companies' oversight structure from 2019, it will recommend voting against nominating a chair of a board that has no female members. Furthermore, and depending on other factors, including the size of the company, the industry in which the company operates and the governance profile of the company, it may extend this recommendation to vote against other nominated committee members. Having said this, no consideration regarding gender diversity appears in the South African guidelines.

The issue of gender diversity also remains a priority for shareholders. Shareholders like State Street Global Advisors and BlackRock in the United States recently adopted new diversity policies or guidance on board diversity and State Street even voted against directors at hundreds of companies that it believed had not made sufficient strides in diversifying their boards.

Yet despite the increased focus from institutional investors, fewer of the new board seats in 2016 went to women than in the prior year. In addition, only 25% of boards in the S&P 500 have more than two female directors. Even so, about half of female directors told PwC US that their board is already sufficiently diverse. In the United States, 80% of women say that the pace of diversity on boards is too slow, while only 33% of male directors agree.⁶

Some countries have adopted mandatory quotas to increase the participation of women on boards. In 2008, Norway obliged listed companies to reserve at least 40% of their director seats for women or face dissolution.

In the following five years, more than a dozen countries set similar quotas at 30% to 40%. In Belgium, France and Italy, too, firms that fail to comply can be fined, dissolved or banned from paying existing directors. Germany, Spain and the Netherlands prefer soft-law quotas with no sanctions.

⁶ PwC, 2017 Annual Corporate Directors Survey, October 2017

Conclusion



The representation of women is vital in companies and more focus should be given to closing the gender pay gap. It is important to note that solving the issue of gender disparity cannot be a case of just placing women in senior positions. Companies need to recognise the potential lying within their own workforces and bring more of their female talent into senior positions through incentives, retraining and better pay, and making traditionally male-dominated professions more inclusive.

This won't be an overnight fix for the labour market, however decisions surrounding gender equality cannot be delegated any longer and further introspection is required from companies. The introduction of gender pay gap disclosure in the UK and the gender diversity policy required by the JSE Listings Requirements will provide greater transparency about the factors contributing to the gap and hold companies to account to take action.

9.

Global regulatory update

Anelisa Keke



Many countries have adopted and proposed regulations regarding executive remuneration in recent years, and many of these regulations aim to hold companies to account for their remuneration practices. According to the *OECD Corporate Governance Factbook*, regulatory frameworks for risk management and remuneration policy – two issues where the OECD identified weaknesses that contributed to the global financial crisis – have been particularly dynamic, with the number of jurisdictions that have established requirements and recommendations related to these key issues increasing considerably.¹

Eighty-nine percent of the 46 jurisdictions surveyed by the OECD (including South Africa) have introduced general criteria regarding the structure of remuneration, mainly through the ‘comply or explain’ system. The OECD research also indicates that only 1% of these jurisdictions make requirements or recommendations for ex post risk adjustments (including golden parachutes and malus and clawback provisions), which were noted as rare for non-financial listed companies around the world. That said, some jurisdictions have mandated or regulated malus and clawback for financial services companies, and in South



Africa some non-financial services companies have expressed an interest in adopting risk adjustment mechanisms.

As in previous years, recent regulations place a focus on the financial services sector, and the proper alignment between risk and remuneration in these companies. However, the debate around the effectiveness of a national minimum wage versus a living wage, and pay ratios, has made its way onto government agendas across the globe.

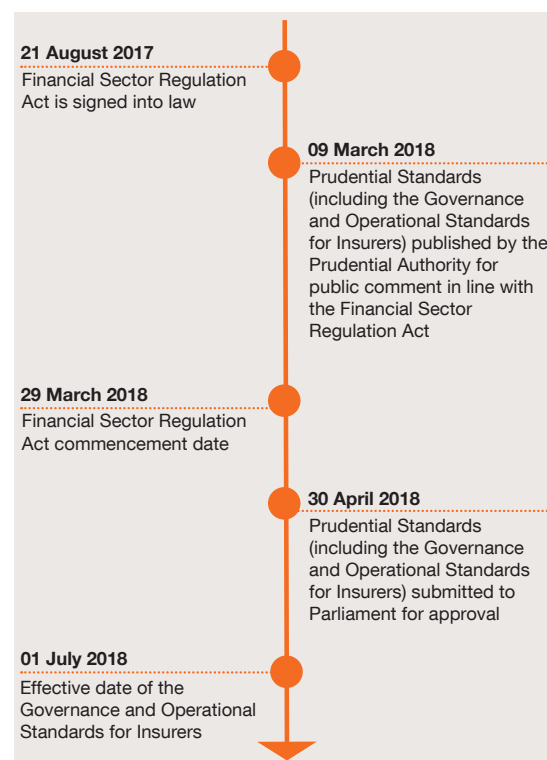
Proposals for the introduction of reporting pay ratios, as well as the introduction of a national minimum wage in the United Kingdom, demonstrate the kind of concern being shown at government level regarding pay conditions for junior employees. Chapter six of this publication explores the South African pay ratio versus that of some of companies in the United States that have recently begun reporting. While South Africa is considerably less regulated (insofar as remuneration is concerned) than other jurisdictions, an increasingly active local institutional shareholder base (as well as the amended Johannesburg Listings Requirements) have resulted in listed companies being held to account for the outcomes of executive remuneration.

South Africa

Twin Peaks

The timeline below summarises the key developments in the adoption of the Twin Peaks regime in South Africa.

Twin Peaks timeline



The Prudential Authority has submitted the draft Governance and Operational Standards for Insurers to Parliament for comment.² The Financial Sector Conduct Authority also administers the rules regarding intermediaries and other commission earners in the insurance sector and is responsible for providing guidance on key remuneration concepts applicable to intermediaries such as the 'equivalence of reward'.

It is unclear at this stage whether the Prudential Authority will release standards regarding remuneration practices among South African financial institutions as a whole (and not just insurers). If it decides to do so, we will be interested to see:

- If it will introduce compulsory risk adjustment mechanisms, such as malus and clawback requirements;
- If it will introduce compulsory deferral of short-term incentives for executives and senior managers, and other material risk-takers, and the length and extent of this deferral (i.e. whether they will follow the international financial services regulatory trend of deferring a set percentage of short-term incentives into long-term incentives); and

² South African Reserve Bank Draft Prudential Standards (April 2018), available at <https://www.prudentialauthority.co.za/Insurers/LegislationRegulatoryInstruments/Pages/Draft-Prudential-Standards-to-Parliament.aspx>, accessed on 06 June 2018.



- Whether post-vesting holding periods will become compulsory.

The Prudential Authority could consider following Australia's example and begin by conducting a review of remuneration practices within large financial institutions, as well as an impact assessment of introducing compulsory regulations of executive pay (together with sector-wide consultations), before introducing remuneration-related regulations.

The unintended consequences of introducing such regulations would also need to be assessed carefully. Overregulation of pay may affect the ability of financial services companies to set competitive pay packages for their key talent, whose skills are valuable on the international market.

European Union

EBA Report on Benchmarking of Remuneration Practices and data on High Earners 2016

In April 2018, the European Banking Authority (EBA) published its annual report on high earners, as at the end of 2016.³

³ European Banking Authority "EBA Report: Benchmarking of remuneration practices at the European Union level and data on high earners (data as of end 2016)" (2018) available at <https://www.eba.europa.eu/documents/10180/2087449/EBA+Report+on+Benchmarking+of+Remuneration+and+High+Earners.pdf>, accessed on 16 April 2018.

The main results were:

- The number of high earners who were awarded EUR1 million or more in remuneration for 2016 slightly decreased from 5 412 in 2015 to 4 597 in 2016 (-10.6%). This was driven mainly by changes in the exchange rate between EUR and GBP, which led to a reduction in income of staff paid in GBP when expressed in EUR; around 89.47% of high earners were 'identified staff' (staff whose professional activities have a material impact on an institution's risk profile) (2015: 85.73%).
- The supervisory framework for remuneration practices is still not sufficiently harmonised; in particular, the application of deferral and payout in instruments differs significantly among member states and institutions. This is mainly due to differences in the national implementation of Capital Requirements Directive IV, which in many cases allows for waivers of these provisions when certain criteria are met.
- Following the introduction of the so-called bonus cap — a maximum ratio of variable to fixed remuneration of 100% (or 200% with shareholders' approval, where implemented by the member state) — the average effective ratio of variable to fixed remuneration for all identified staff continued to decrease, to 57.1% in 2016 (2015: 62.2%; 2014: 65.5%).

- The number of identified staff decreased significantly, from 67 802 in 2015 to 53 382 in 2016 (-21.3%). This reduction was caused mainly by two banks that together reduced their numbers of identified staff by nearly 15 500, having identified a significant proportion of staff in the past. The number of identified staff in the rest of the sample shows a small increase.

United States

SEC guidance note on pay ratio disclosure

The United States Securities and Exchange Commission (SEC) published a *Guidance Note on the implementation of the Dodd-Frank Act* requiring the disclosure of the pay ratio by listed companies (i.e. registrants).⁴

According to the guidance note, required disclosure may be based on a registrant's reasonable belief; use of reasonable estimates, assumptions, and methodologies; and reasonable efforts to prepare the disclosures. It grants a certain amount of leeway on the test that a registrant should use to determine who constitutes an 'employee'; the use of internal records that reasonably reflect annual compensation to identify the median employee (even if these records do not show every element of compensation); and the exclusion

⁴ Securities and Exchange Commission release no. 33-10415; 34-81673, available at <https://www.sec.gov/rules/interp/2017/33-10415.pdf>, accessed on 12 December 2017.



of non-United States employees from the analysis where they constitute 5% or less of the registrant's total number of employees.

Recent trends regarding pay ratio disclosure in the United States, following the implementation of the SEC regulations, are discussed in detail in Chapter 6 of this publication.

Australia

Review of remuneration practices at large financial institutions

The Australian Prudential Regulation Authority (APRA) published an information paper regarding remuneration practices at large financial institutions in April 2018.⁵ Overall, the frameworks and practices of the financial institutions included in the review fell short of the sound practices set out in the relevant prudential guidance.

Some of the key findings include:

- The design of risk-management performance measures was not always given sufficient weighting, although the use of gatekeepers in this regard was generally effective. Assessment metrics were more closely tied to company rather than individual

performance, resulting in a 'herding' effect. Performance conditions reflected an excessive focus on shareholder return-based measures, rather than financial soundness or risk-adjusted performance measures. The performance measures for the chief risk officer were not always properly differentiated from the wider executive team.

- Risk-based assessments of performance were often not based on evidence, and deferral periods were too short (between one and two years for STIs and three years for LTIs). Performance scorecard assessments for executives were not always well documented.
- Risk-based adjustments to variable pay were made below executive level, but not always at executive level, suggesting an inappropriate assignment of accountability for poor risk outcomes. Clawback was not specifically considered. The report noted "although clawback is often considered to be difficult to execute, both from a legal and operational perspective, an institution will be better positioned to enforce clawback by having the appropriate provisions within remuneration policies, incentive plan terms, and individual employment contracts." Furthermore, the consideration of long-term measures or risk adjustments to bonus pools was not always adequately considered.

- The practices of making sign-on payments that are not related to variable remuneration arrangements with the employee's former employer, and guaranteed bonuses being made and extended beyond one year, was not consistent with sound risk management or pay for performance.
- There was no consistent method of identifying material risk takers, nor were they always identified collectively (i.e. all employees within a group that may collectively affect financial soundness).

Board remuneration committees were properly structured overall, but sometimes received inadequate information, and they did not challenge this; reviewing remuneration policies and statutory profit measures was not always done rigorously.

Banking Executive Accountability Regime

The Australian government has adopted a number of measures to drive a more accountable and competitive banking system through the Banking Executive Accountability Regime (BEAR).⁶

⁵ Australian Prudential Regulation Authority "Information Paper: remuneration practices at large financial institutions" (April 2018), available at <https://www.apra.gov.au/sites/default/files/180328-Information-Paper-Remuneration-Practices.pdf>, accessed on 06 June 2018.

⁶ Administered in terms of the Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 5 of 2018, available at <https://www.legislation.gov.au/Details/C2018A00005>, accessed on 11 June 2018.



Some of the key elements are shown below.⁷

Elements of the Banking Executive Accountability Regime

Focus area	Highlights
Registration of senior executives	<ul style="list-style-type: none"> Requirement to advise APRA of all senior appointments prior to them being made. Requirement to complete accountability maps for senior executives.
Enhanced powers to remove and disqualify	<ul style="list-style-type: none"> APRA will have powers to deregister and disqualify senior executives and directors that have been found not to have met the new expectations.
Increased expectations and penalties	<ul style="list-style-type: none"> Conduct standards for executives and directors – covering matters such as conducting business with integrity, due skill, care and diligence and acting in a prudent manner. Introduction of civil penalties for authorised deposit-taking institutions (ADIs) who fail to meet the new expectations (e.g. hiding misconduct), or do not appropriately monitor suitability of executives to hold senior positions.
Deferral, vesting and malus	<ul style="list-style-type: none"> A minimum of 40% of an executive's variable remuneration to be deferred for a minimum period of four years, increasing to 60% deferral for certain executives such as the CEO. APRA will also be given stronger powers to require ADIs to review and adjust their remuneration policies when APRA believes such policies are not appropriate.

Source: PwC Australia

The minimum period of deferral is four years, or a shorter period as approved by the APRA. Financial services companies are required to have a remuneration policy in force that, if a person has failed to comply with his or her accountability obligations under the Act, the person's variable remuneration will be reduced by an amount that is proportionate to that failure. There is a de minimis exemption from the deferral rules for amounts of variable remuneration lower than a certain threshold (i.e. AUD50 000).

⁷ PwC Australia "10 minutes on...Perspectives on the new Banking Executive Accountability Regime" (May 2017), available at <https://www.pwc.com.au/consulting/assets/publications/ten-minutes-perspectives-banking-executive-accountability-regime-may17.pdf>, accessed on 16 May 2018.

International

Financial Stability Board

Supplementary guide to the FSB Principles and Standards on Sound Compensation Practices

The Financial Stability Board (FSB) has released a supplementary guide to the 2009 *FSB Principles on Sound Compensation Practices*, focusing on the use of compensation to mitigate misconduct risk.

Some of the key findings include:

- All variable pay should be at risk of reduction when misconduct occurs.
- The duration of the 'look-back' period during which risk management failures and misconduct risk can be identified can be set by firm (i.e. financial institution) policies.
- The processes for managing misconduct risk through compensation systems should include, at a minimum, ex ante processes that embed non-financial assessment criteria.
- Methods of adjusting pay such as malus and clawback, and in-year adjustments, should be provided for.
- Firms should have an internal definition of misconduct based on their characteristics, values and business and that promotes adherence to legal, professional, internal conduct and ethical standards.



- Control functions (e.g. human resources, risk management, compliance and internal audit) are expected to play a role in designing appropriate compensation policies and developing risk and conduct-related performance metrics, and identifying and reporting misconduct. Senior and middle management are also expected to play an oversight role on conduct, and educating their employees on the consequences of misconduct.
- Incentive schemes should use qualitative and/or quantitative assessments of an employee's conduct. Performance assessments and compensation outcomes should consider the full spectrum of risks.
- At a minimum, adjustments should occur (i) in cases of misconduct that have led to significant loss to the institution, its customers or counterparties; and (ii) where there is fraud, gross negligence or material failure of risk management controls, including a serious breach of internal rules or regulation, regardless of the scale of the damage.
- Where compensation adjustments are made before the full impact of the risk management failures or misconduct is known, appropriate subsequent adjustments should be made to ensure that the final adjustment fully reflects the impact of the incident or misconduct. The duration of the look-back period should be in line with national laws and regulations.
- The granting and vesting of all awards made to individuals undergoing internal or external investigation may be frozen until the investigation is complete.
- The implementation of risk-based adjustments should be matched by a sound internal policy and implementation framework.

At the moment, there is no legislation in South Africa that requires banks to adopt remuneration-based measures to mitigate misconduct risk. However, as the South African Reserve Bank is a member of the Financial Stability Board, South African banks (and indeed other financial institutions) would do well to pay close attention to this guide (which, while non-binding, provides a useful insight into international practice).

10.

CEO succession in a digital world

Auxillia Zimunhu



“As the digital revolution transforms every aspect of our lives – from how we create and consume products and services, to how we communicate, entertain, and relate to one another, the implications for chief executives and boards of directors are almost immeasurable.¹”

¹ Raj L. Gupta 'Corporate Governance in a digital world' (24 August 2017), available at <http://www.fundamatics.net/author/raj-gupta/> (accessed on 24 May 2018).



CEOs are increasingly worried about the speed of technological change:

- **76%** see it as a threat to their growth prospects; and
- **38%** are extremely worried (up from 29% in the previous year).
- They know that they need to move further and faster.

Source: PwC's 21st Annual Global CEO survey



There is no doubt that due to the rapid changes digital transformation has brought about in the corporate landscape, companies should strive to adopt sound succession plans for their top executives, particularly the CEO. Today more than ever, CEO succession planning is a rising concern, since CEOs who stay in their role until retirement are becoming the exception rather than the rule. Well-developed and executed succession plans can mitigate the risk of a leadership vacuum when a CEO retires or resigns, which may result in a loss of investor confidence.²

In managing the transition from one CEO to another, the board of a company has an important responsibility to select a digitally astute incoming CEO as well as to ensure that the exit of the outgoing CEO is as smooth as possible, both of which can be managed through proper succession planning. Globally, CEOs are already concerned about the scale of digital innovation and whether their companies can cope with it.

CEOs themselves should also ensure that, during their tenure, they select and groom successors who can navigate their companies through the Fourth Industrial Revolution (rather than selecting candidates who are more likely to stick to traditional ways of conducting business).

² Egon Zehnder, Kim Van Der Zon 'Bullet-Proof Succession Planning' (31 July 2016), available at <https://www.egonzehnder.com/what-we-do/ceo-search-succession/insights/bullet-proof-succession-planning> (accessed on 24 May 2018).

PwC's 21st annual survey of global CEOs found that with the rise of cyber terrorism, artificial intelligence and shortages of key skills, digital transformation is a key consideration for most CEOs around the globe.

To recruit and retain the calibre of CEO that is capable of leading an organisation through pervasive economic uncertainty, executives need to ensure that senior executives are paid fairly and equitably both at recruitment and retirement.

In the following section, we explore potential ways of encouraging long-term decision-making for CEOs approaching retirement through the use of long-term incentives by looking at the current market trends around post-retirement vesting.

Trends in post-retirement vesting of long-term incentives of CEOs

In many companies, executive compensation packages and succession planning are managed separately. Successful succession planning should aim to ensure that the interests of retiring CEOs are aligned to the long-term interests of the company after the end of their tenure, as the business decisions that they make during their tenure can impact the company for years after they retire. One way of achieving this is through extending the vesting periods for LTIs so that they vest after the CEO retires.

Generally, post-retirement vesting is not specifically addressed in South African institutional investor voting policies. Some listed companies ensure that as part of their LTI allocation policy, they do not make LTI awards to their executives within three years of their anticipated retirement date (assuming that the LTI vesting period is three years). However, some companies do have post-retirement vesting built into their LTI plan rules, which is generally considered best practice.

Post-retirement vesting should, however, be properly justified against the performance of the particular individual. Accelerated vesting, however (i.e. full vesting without taking into account the achievement of performance conditions), is not considered to be in line with market practice.

Incentivising incoming CEOs

CEOs recognise that the ultimate prize are those workers with the critical skills that organisations need to work alongside automation; hence, organisations will need to pay careful attention to the employee value proposition and the employee experience to motivate and retain these employees.³ Similarly, boards will need to structure CEO remuneration packages in such a way as to attract the right skills and talent to effectively drive digitisation.

³ PwC's 21st Global CEO Survey: Key findings on talent (2018), available at <https://www.pwc.com/gx/en/ceo-survey/2018/deep-dives/pwc-ceo-survey-talent.pdf> (accessed on 24 May 2018) at 15.



In some instances, organisations may prefer to recruit future CEOs internally, and in these circumstances talent mapping and grooming suitable candidates is essential. Good succession planning will require companies that prefer recruiting CEOs internally to design remuneration strategies that include appropriate LTIs and coaching plans to develop the prospective CEO's skills.

If a company is recruiting externally, it may need to offer the incoming CEO a sign-on award to compensate him or her for awards forfeited by joining a new company. Where the quantum of the sign-on award is significant or has not been properly explained in the company's remuneration report, it is usually not well received by the market and can draw attention away from the company's financial and strategic successes.



Key trends highlighted in PwC's 2018 Annual Global CEO Survey

The CEO of Oracle, Safra Catz summarises the significant change artificial intelligence (AI) has brought about:

... I've been hearing about AI for 30 years...but it was always a future promise. What's different now? First, the underlying compute capability is so much faster, meaning systems can crunch through a deluge of data almost instantaneously. Two, the ability through software to manage and analyse that data is so much better.

Artificial intelligence expands technology's potential and there is the clear risk that it may displace more and more of the human workforce and contribute further to social isolation and the disruption of communities.

However, emerging technologies can also help meet human needs in new and profound ways (e.g. telemedicine, distance learning) and will create new industries and unforeseen types of new jobs that will be more creative and fulfilling. Some CEOs are already laying the commercial groundwork to allow this socially positive innovation take place.⁴

PwC research predicts that AI will contribute an additional US\$15.7 trillion to global GDP by 2030, an increase of 14%. This boost to the overall economy, however, will come at great cost to those companies that cannot rise to the challenge in time. Therefore, companies need to take serious steps to ensure that they drive digital transformation, not least by recruiting and retaining the right talent.⁵

Globally, CEOs who participated in the survey say they are concerned about the availability of key skills and the speed of technological change. Cyber threats rank as the foremost concern among CEOs in North America (with 53% of CEOs concerned about this risk factor) but rank only seventh in Africa, trailing imminent threats such as social instability and an increased tax burden.⁶

⁴ PwC's 21st Annual Global CEO Survey (2018), available at <https://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2018/za> (accessed on 24 May 2018) at 27.

⁵ PwC's 21st Annual Global CEO Survey (supra) at 15.

⁶ PwC's 21st Annual Global CEO Survey (supra) at 16.

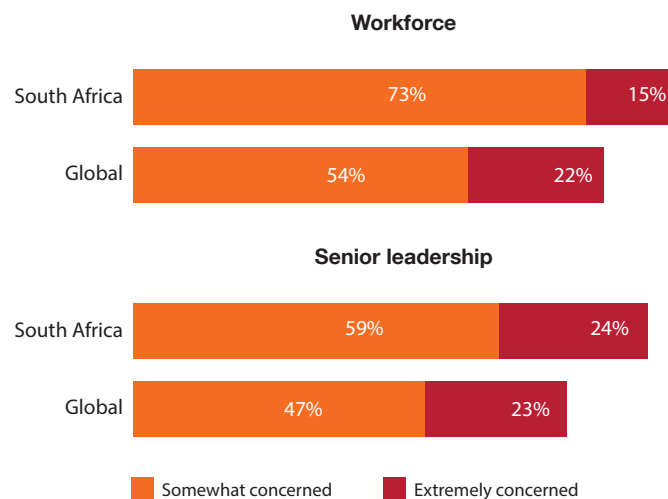
Impact of digitisation on talent management

CEOs are concerned about the extent to which their organisations can cope with digitisation, and where they will find the talent necessary to take advantage of the Fourth Industrial Revolution.

Ninety-eight percent of South African CEO respondents say they are worried about the availability of key skills. Globally, more than 76% of CEOs are concerned about the lack of digital skills (22% are extremely worried) within their own workforce, and 23% are extremely concerned about the digital skills of their own leadership teams. South African CEOs are also somewhat concerned about these issues, particularly in their organisations, as shown in the accompanying figures, which compare the views of South African CEOs to their global counterparts.

Figure 10: Figure 1: CEOs are concerned about digital skills

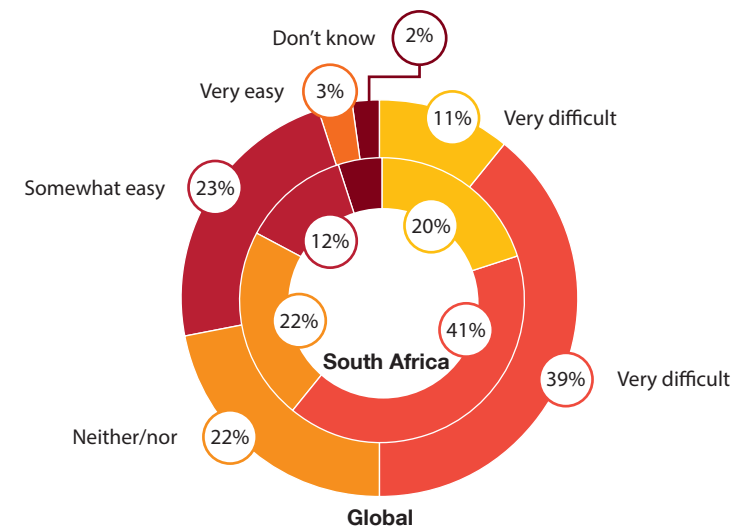
Q. Thinking specifically about digital skills, how concerned are you about the availability of these skills amongst your workforce and senior leadership



Source: PwC 21st Annual Global CEO Survey

Figure 11: CEOs are struggling to find digital talent

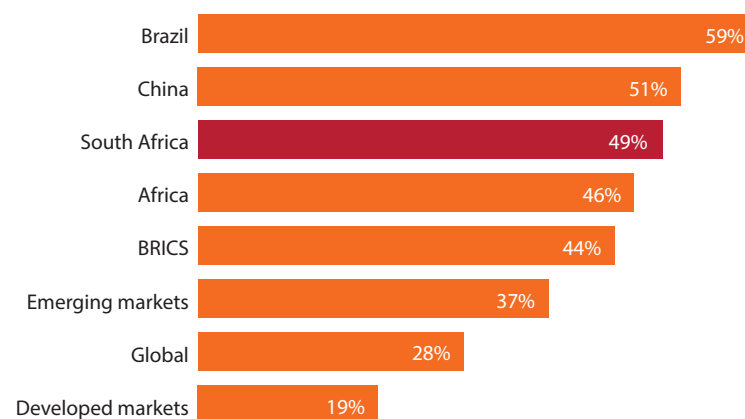
Q. Overall, how easy or difficult is it for you to attract digital talent?



Source: PwC 21st Annual Global CEO Survey

Figure 12: Many CEOs are extremely concerned about the availability of digital skills in their own countries

Q. Thinking specifically about digital skills, how concerned are you about the availability of these skills in the country in which you are based (Summary: extremely concerned)



Source: PwC 21st Annual Global CEO Survey

It is obvious that companies need to prioritise digital transformation so that they can effectively compete in a world where digital developments such as AI and the speed of technological change can either significantly enhance, or negatively impact business success. The results will depend on the company's readiness to embrace change, and whether its human workforce can work effectively alongside automation and AI.

Conclusion

There is no doubt that with the rise of digitisation and the demand for high-performing talent that can drive digital transformation, it is of paramount importance that boards put in place well-designed succession plans for CEOs and top management. These must be supported by market-related remuneration packages, long-term decision making (and remuneration packages that support this), and leadership with the skills necessary to lead their organisations successfully into the future.

11.

Profile of an executive director

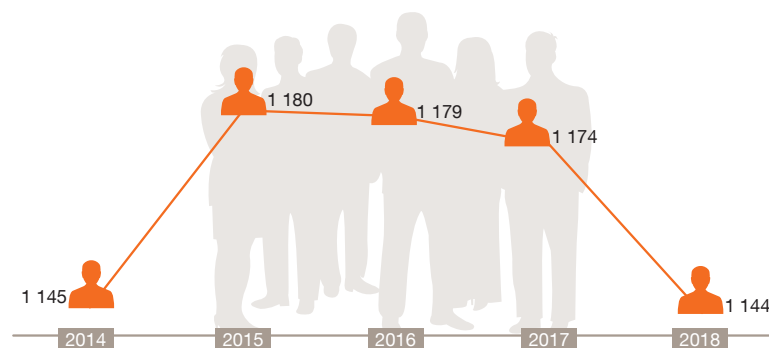


Executive directors are responsible for the successful leadership and management of the organisation according to the strategic direction set by the board of directors. Mandatory appointments are CEO and CFO.



The cut-off date to view published accounts for listed companies was 30 April 2018. As at this date, there were 1 144 (2017: 1 174) executive directors appointed to active JSE-listed companies. There were 342 CEOs (2017: 355), 325 CFOs (2017: 310) and 477 executive directors (2017: 509) in office at that date.

Figure 13: Executive directors JSE headcount, 2014–2018

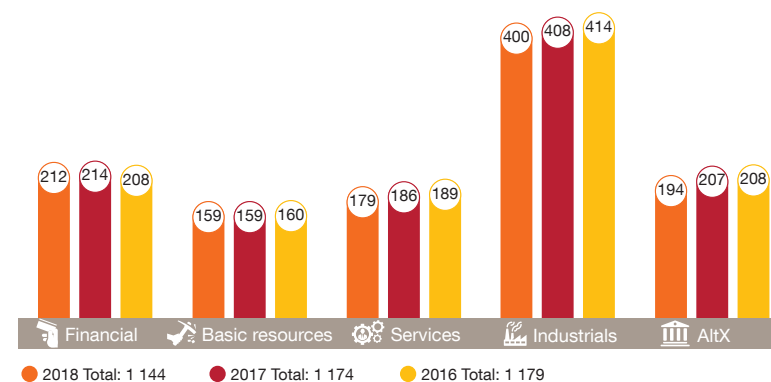


Source: PwC analysis

The number of executive directors has levelled off over the past few years. During the 12 months ended 30 April 2018, 19 new companies listed on the JSE, 25 companies delisted and 14 companies changed their names.

Headcount across sectors is similar to that reported during past periods.

Figure 14: Number of executive directors of JSE companies by sector



Source: PwC analysis



There is no meaningful change in the average age of executive directors at 55. The median age is 54.

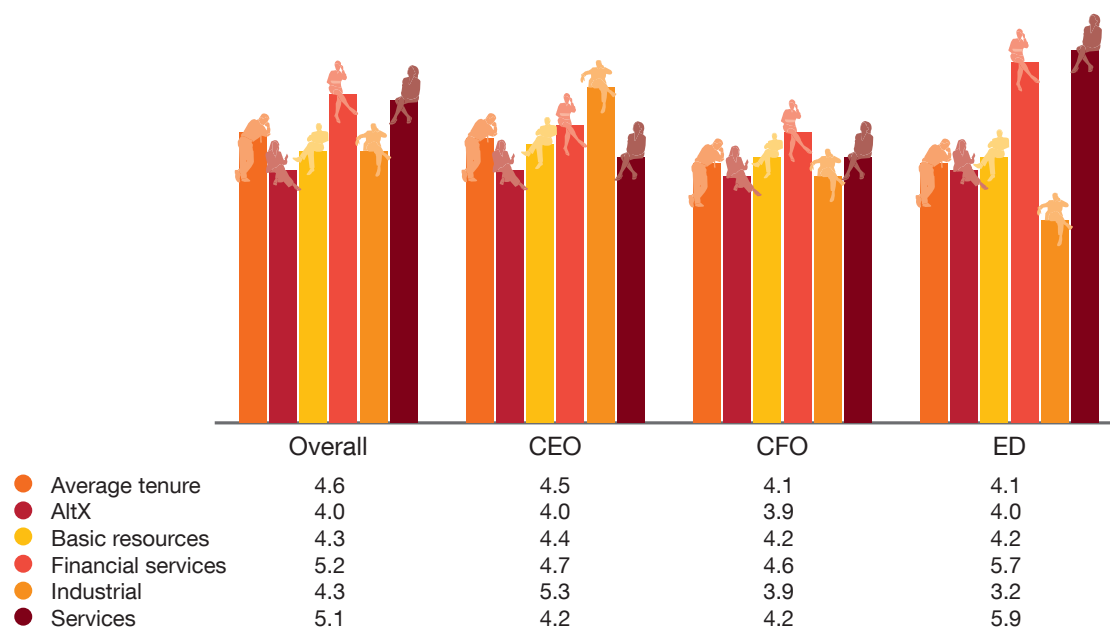
Figure 15: Average age of executive directors by subsector



Source: PwC analysis

Average board tenure for executive directors on the JSE for reporting periods 1994 to 2018 is 4.6 years. The longest tenure is for EDs, followed by CEOs and the CFOs, trailing somewhat at 4.1 years.

Figure 16: Executive directors' average board tenure, 1994-2018



Source: PwC analysis

12.

Executive directors' remuneration: JSE trends



Total guaranteed package

Total guaranteed package (TGP) is that portion of remuneration that is paid regardless of company or employee performance and is a fixed cost made up of salary plus stated benefits. Here we review the TGP over a three-year timescale.

LTIs are excluded since these is not only complicated to define but difficult to report on given the different schemes companies have implemented over the years.

When directors are paid in foreign currency and the amounts are converted into rands, fluctuations in the exchange rate may result in substantial increases or decreases in the value of their remuneration. On the JSE, 184 (2016: 153) executive directors were paid in foreign currency during the reporting period under review.



Rand exchange rate against major currencies

Since April 2017 to the current cut-off date, the exchange rates of the principal currencies in which some executives receive their remuneration have been more volatile than in the prior period where the rand appreciated overall.

Rand exchange rate

Currency	28 April 2017	30 April 2018	Rand appreciation/depreciation
Australian dollar	10.025	9.414	6.1%
Euro	14.569	15.171	-4.1%
UK pound	17.277	17.357	-0.5%
US dollar	13.376	12.446	6.9%

Source: Oanda.com

Summary: Total guaranteed package

For ease of reference, the following summary draws together two years of data showing TGP levels and increases given to CEOs, CFOs and executive directors. The average inflation in South Africa for the 2017 reporting period, after consumer inflation rebasing and reweighting for the reporting period was 5.3% (2016 6.6%).

Total guaranteed package

	2015		2016		2017	
	R'000s	Increase/Decrease	R'000s	Increase/Decrease	R'000s	Increase/Decrease
All of JSE						
Upper quartile	6 040	8.70%	6 339	4.90%	6 551	3.30%
Median	3 694	12.00%	3 906	5.70%	4 200	7.50%
Lower quartile	2 147	3.20%	2 275	6.00%	2 496	9.70%
CEOs						
Upper quartile	7 697	7.90%	7 891	2.50%	8 750	10.90%
Median	4 572	10.70%	4 846	6.00%	5 214	7.60%
Lower quartile	3 134	2.30%	3 332	6.30%	3 577	7.40%
CFOs						
Upper quartile	4 649	11.00%	4 888	5.10%	4 998	2.30%
Median	3 213	-12.1%	3 396	5.80%	3 667	8.00%
Lower quartile	1 901	-3.4%	2 021	6.30%	2 358	16.70%
EDs						
Upper quartile	4 229	14.20%	4 382	3.60%	4 447	1.50%
Median	2 805	9.00%	2 975	6.10%	3 183	7.00%
Lower quartile	1 985	-1.3%	2 149	8.30%	2 246	4.50%

Source: PwC analysis

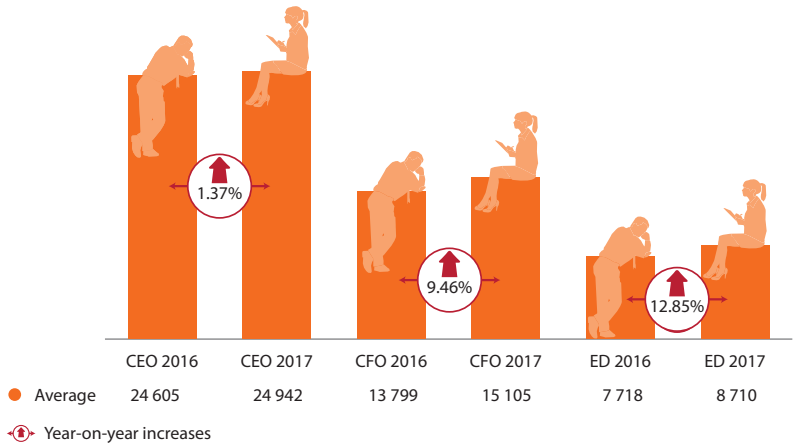


Published accounts are not coterminous since companies have different financial year ends. The comparator years are the latest accounts available during the reporting period. This methodology is consistent for remuneration trends in all editions of this publication.

Top 10

As at the cut-off date, the top-10 listed companies on the JSE accounted for 60% of the market capital invested, totalling R8.7 trillion (2017 60%: R8.4 trillion). We analyse the total guaranteed packages paid to the executive directors of these companies (regardless of industry sector) during the reporting period. Since the sample is not sufficiently large to calculate quartiles, only the average has been calculated.

Figure 17: TGP paid to executives of JSE top-10 companies (R'000s)



Source: PwC analysis



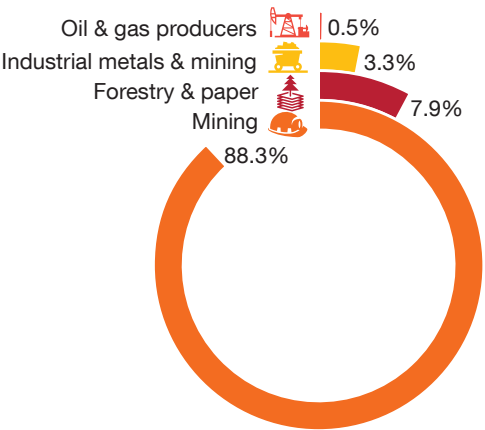


Basic resources

There are 46 active companies included in this sector, with only seven achieving large-cap status on the JSE. Oil and gas producers have now been included in this sector. Most of these large-cap companies have global operations, with their headquarters and primary listings outside of South Africa. Remuneration levels within these large-cap companies are either in the upper quartile or are outliers.

At the cut-off date, basic resources account for 15.9% of total JSE market capitalisation.

Figure 18: Basic resources: Market capitalisation by subsector



Source: PwC analysis

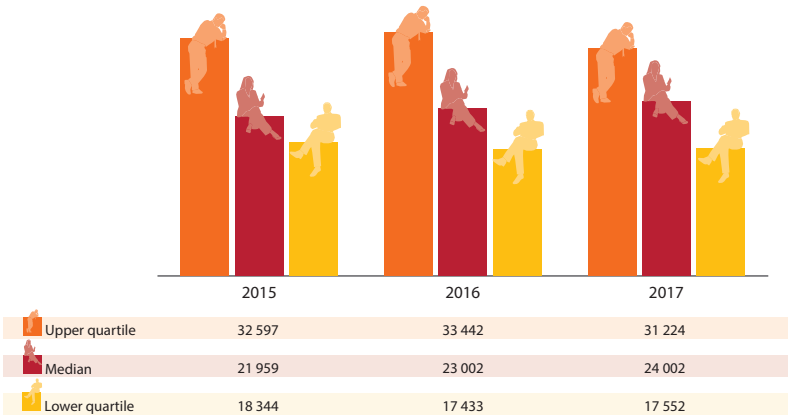
Basic resources: Large caps

Median increases awarded in 2016/2017

	2016	2017
CEO	4.8%	4.3%
CFO	6.1%	8.7%
ED	6.6%	14.8%

Source: PwC analysis

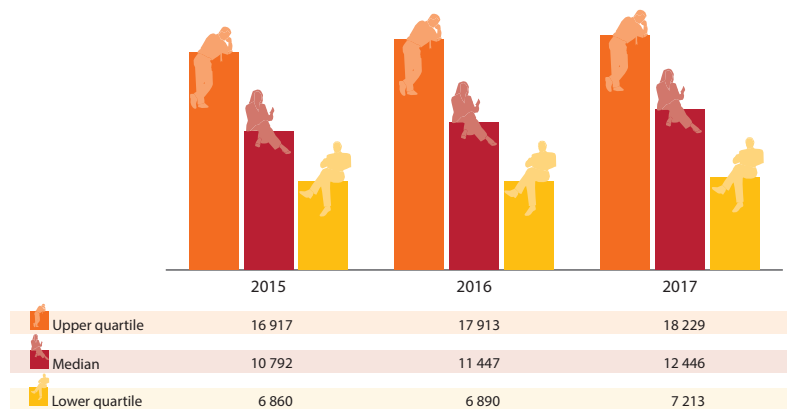
Figure 19: Large-cap CEO (R'000s)



Source: PwC analysis

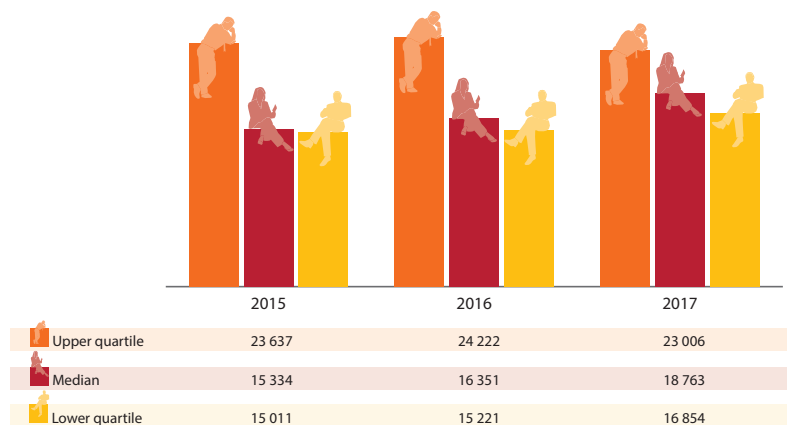


Figure 20: Large-cap CFO (R'000s)



Source: PwC analysis

Figure 21: Large-cap ED (R'000s)



Source: PwC analysis

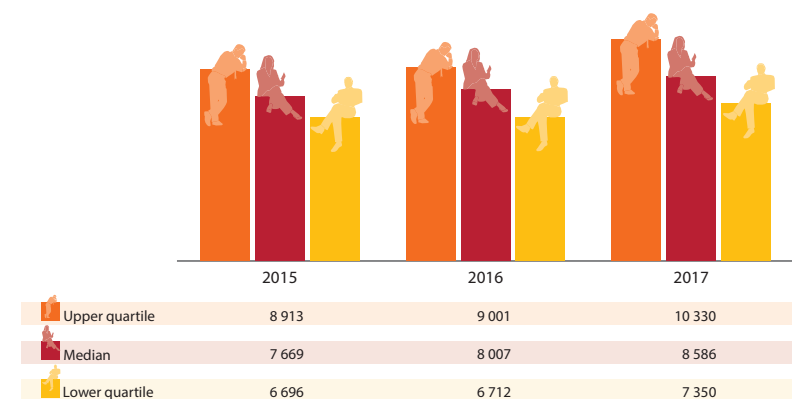
Basic resources: Medium caps

Median increases awarded in 2016/2017

	2016	2017
CEO	4.4%	7.2%
CFO	3.9%	2.3%
ED	6.4%	8.3%

Source: PwC analysis

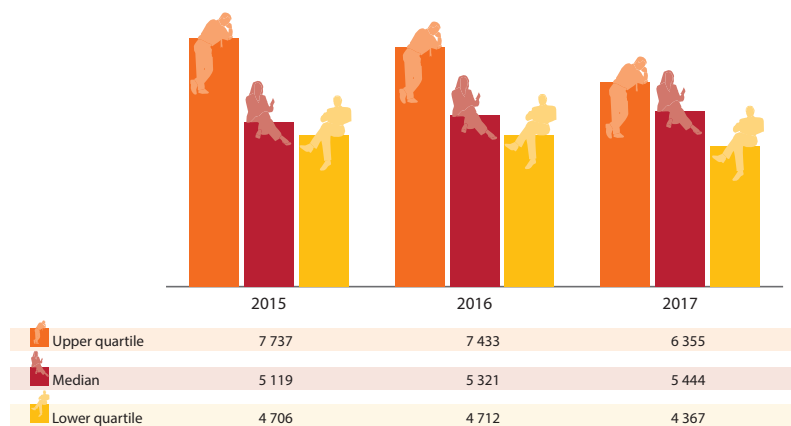
Figure 22: Medium-cap CEO (R'000s)



Source: PwC analysis

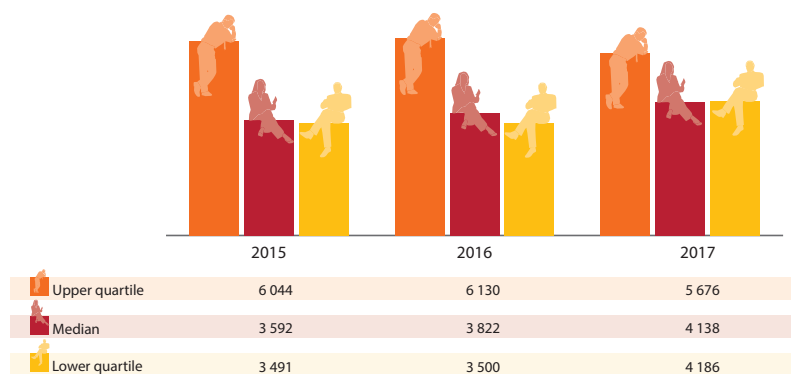


Figure 23: Medium-cap CFO (R'000s)



Source: PwC analysis

Figure 24: Medium-cap ED (R'000s)



Source: PwC analysis

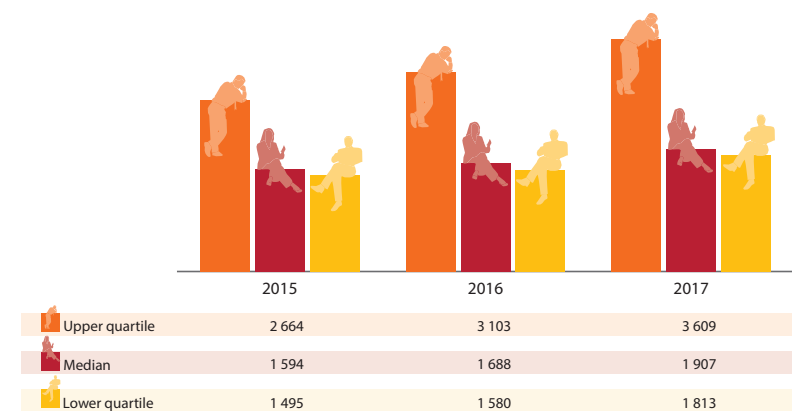
Basic resources: Small caps

Median increases awarded in 2016/2017

	2016	2017
CEO	5.9%	13.0%
CFO	8.6%	14.9%
ED	5.4%	11.4%

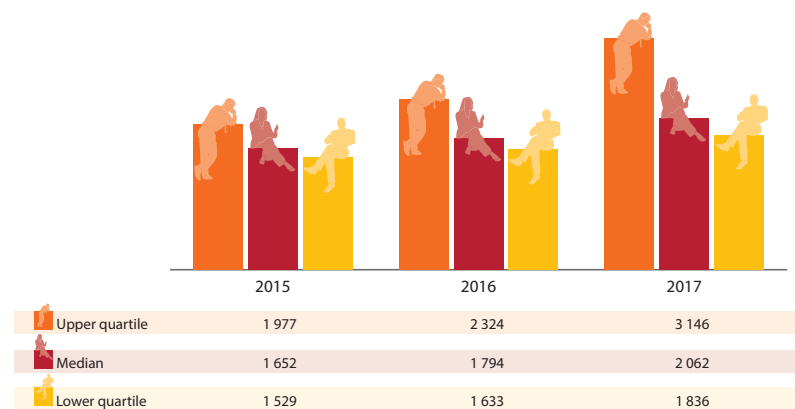
Source: PwC analysis

Figure 25: Small-cap CEO (R'000s)



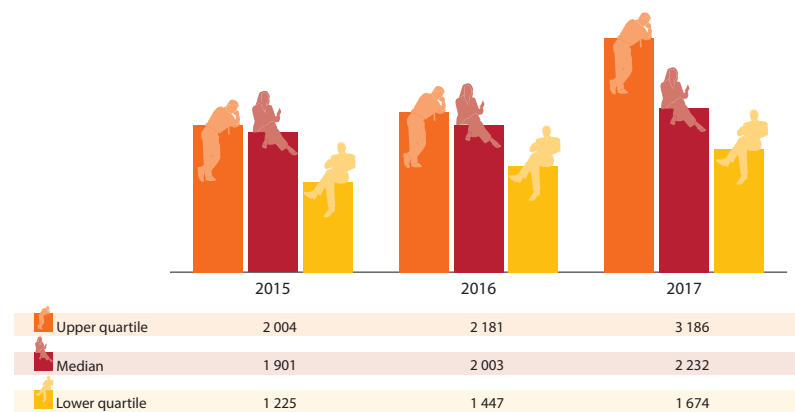
Source: PwC analysis

Figure 26: Small-cap CFO (R'000s)

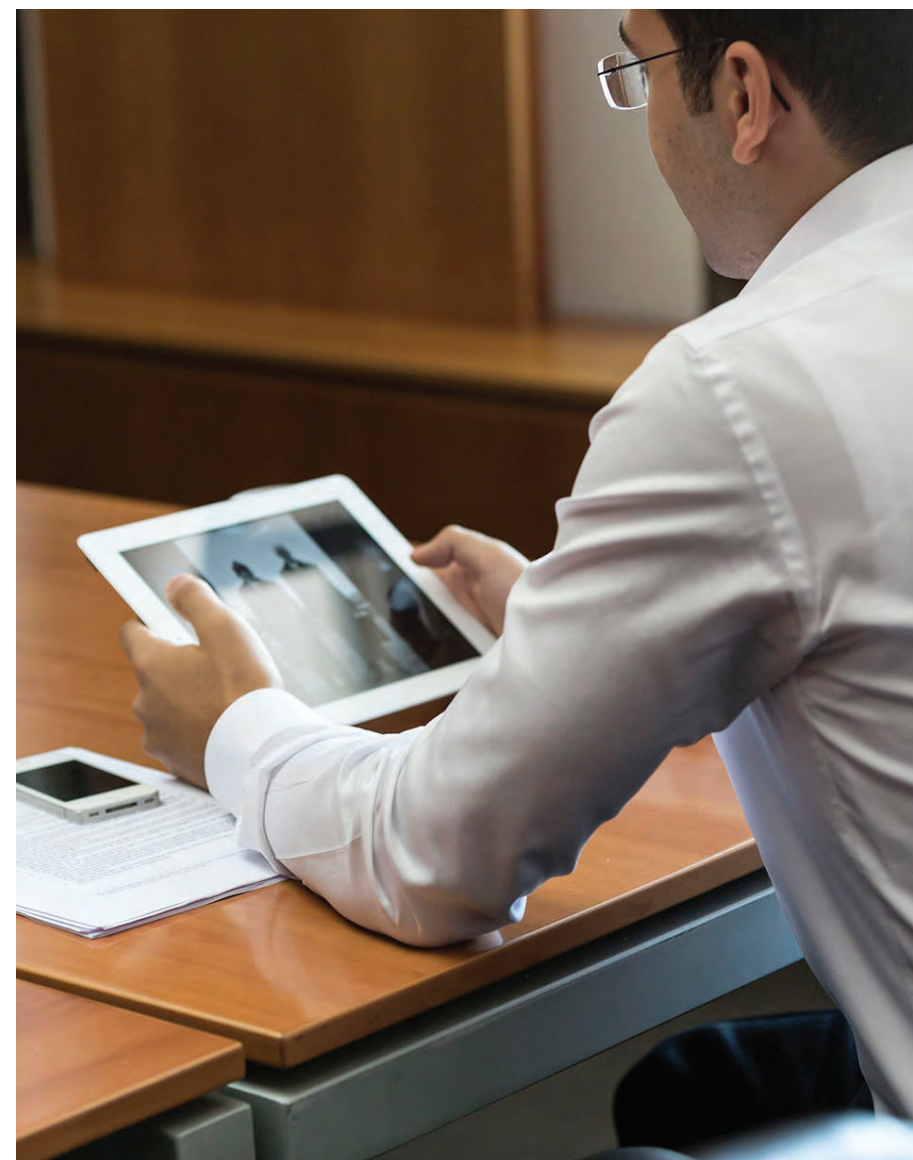


Source: PwC analysis

Figure 27: Small-cap ED (R'000s)



Source: PwC analysis





Financial services

On 1 April 2018, South Africa's financial regulatory system changed fundamentally, as two new regulators came into operation - the Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA), thereby introducing a new 'Twin Peaks' model of financial sector regulation in South Africa.¹

On 7 December, the Basel Committee on Banking Supervision (BCBS) published the much-awaited final instalments of its reforms for the calculation of risk-weighted assets (RWA) and capital floors. These papers complete the work that the BCBS has been undertaking since 2012 to recalibrate the Basel III framework – which was introduced to address the most pressing deficiencies that emerged from the financial crisis of 2007-2008 and make banks more resilient.²

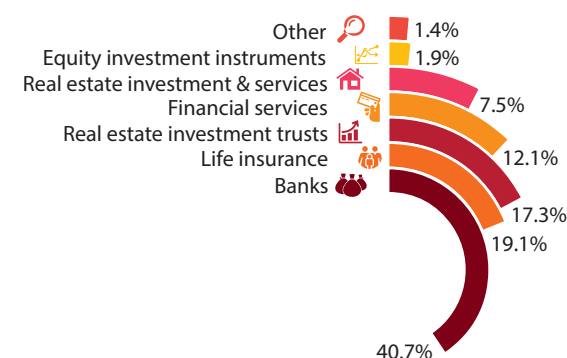
The financial services sector is under sharper scrutiny than ever and the responsibility on directors' shoulders have increased.

¹ Government: Press: http://www.treasury.gov.za/twinpeaks/Press%20release%20Twin%20Peaks%20implementation%20March2018_FINAL.pdf

² For in-depth analysis of the banking sector, visit: <https://www.pwc.co.za/en/assets/pdf/2h17-major-banking-analysis-march-18.pdf>

At the cut-off date there were 115 companies included in this sector, spread over seven subsectors, representing 21% (R2.995 trillion) of the total JSE market capitalisation.

Figure 28: Financial services: Market capitalisation by subsector



Source: PwC analysis

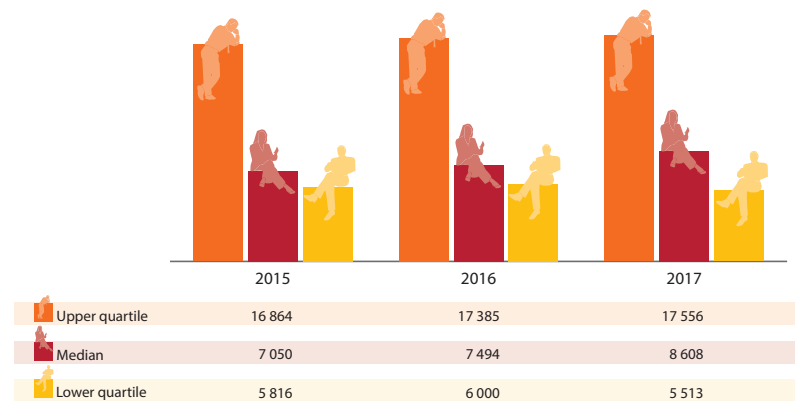
Financial services: Large caps

Median increases awarded in 2016/2017

	2016	2017
CEO	6.3%	14.9%
CFO	6.9%	6.4%
ED	7.0%	15.5%

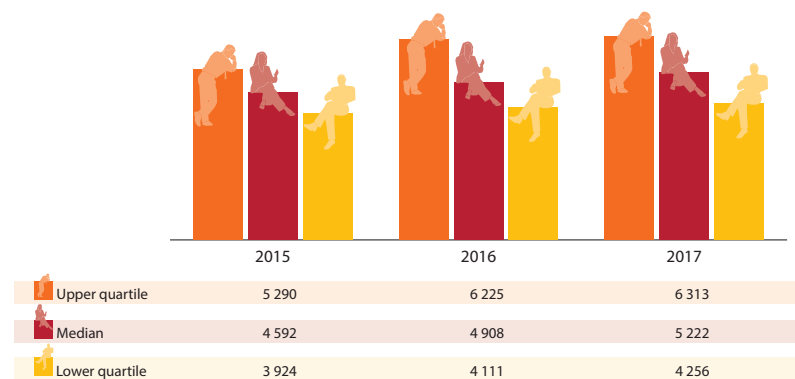
Source: PwC analysis

Figure 29: Large-cap CEO (R'000s)



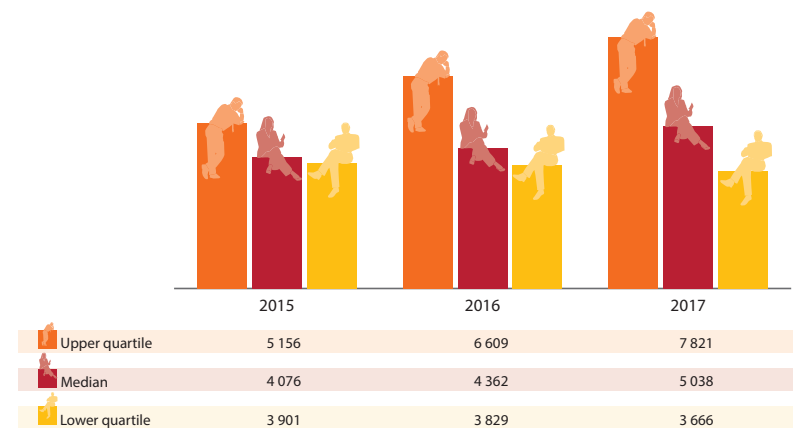
Source: PwC analysis

Figure 30: Large-cap CFO (R'000s)



Source: PwC analysis

Figure 31: Large-cap ED (R'000s)



Source: PwC analysis



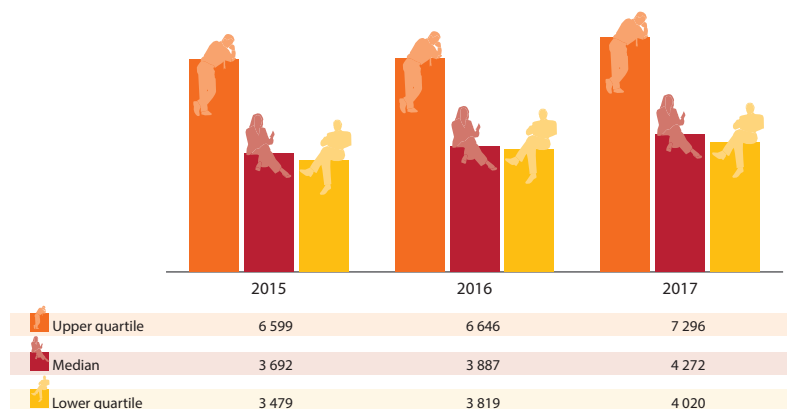
Financial services: Medium caps

Median increases awarded in 2016/2017

	2016	2017
CEO	5.3%	9.9%
CFO	9.4%	15.1%
ED	3.3%	1.2%

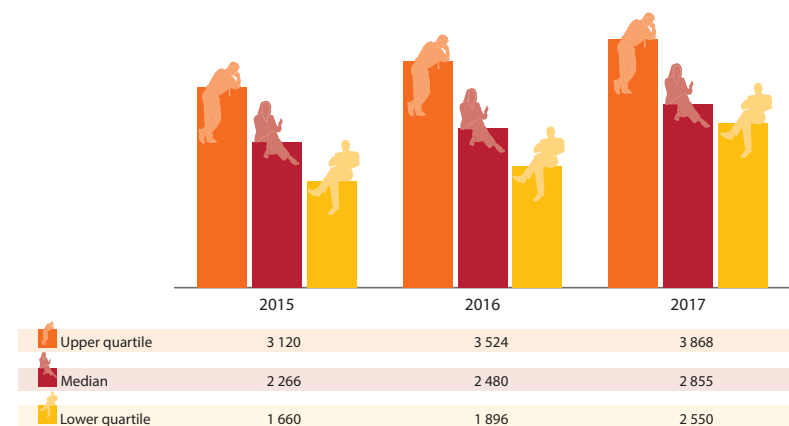
Source: PwC analysis

Figure 32: Medium-cap CEO (R'000s)



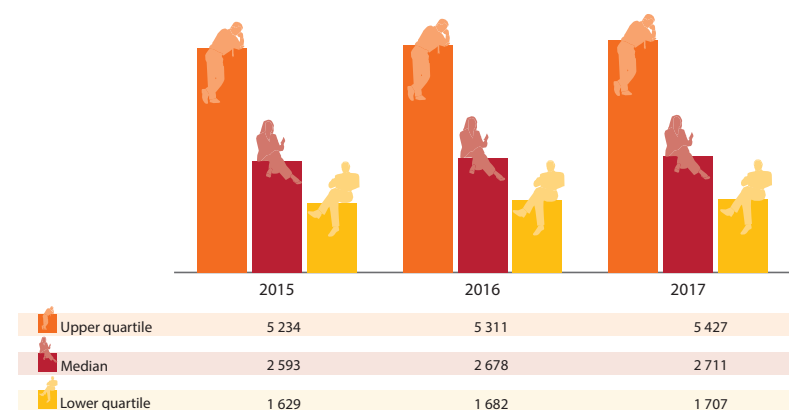
Source: PwC analysis

Figure 33: Medium-cap CFO (R'000s)



Source: PwC analysis

Figure 34: Medium-cap ED (R'000s)



Source: PwC analysis



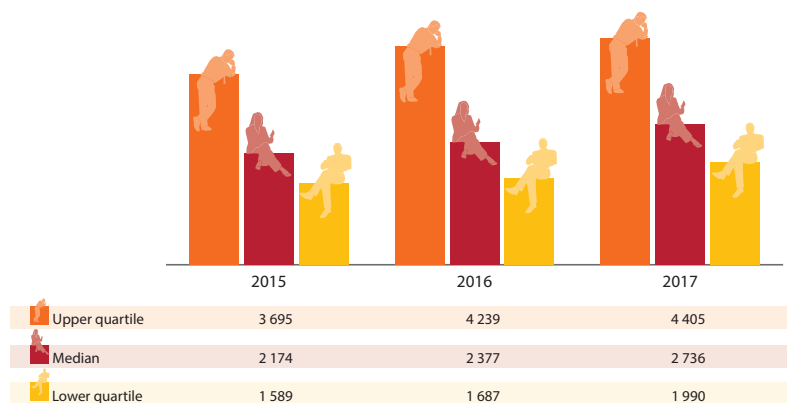
Financial services: Small caps

Median increases awarded in 2016/2017

	2016	2017
CEO	9.3%	15.1%
CFO	6.5%	14.6%
ED	5.8%	11.8%

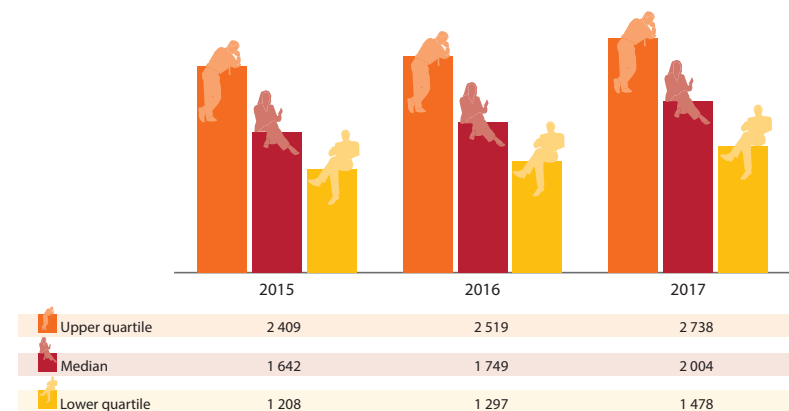
Source: PwC analysis

Figure 35: Small-cap CEO (R'000s)



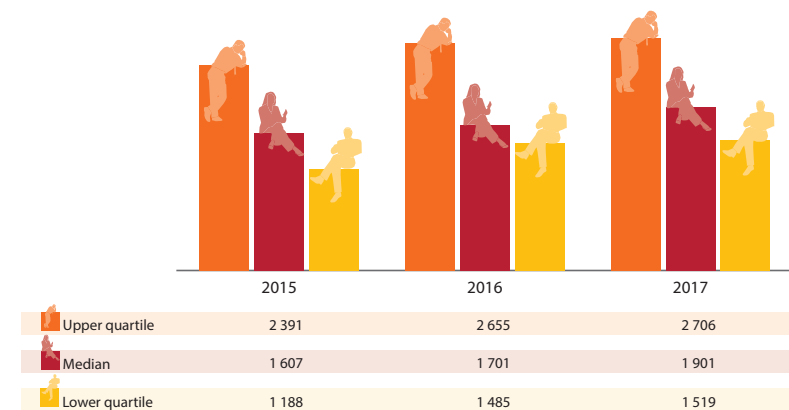
Source: PwC analysis

Figure 36: Small-cap CFO (R'000s)



Source: PwC analysis

Figure 37: Small-cap ED (R'000s)



Source: PwC analysis



Industrials

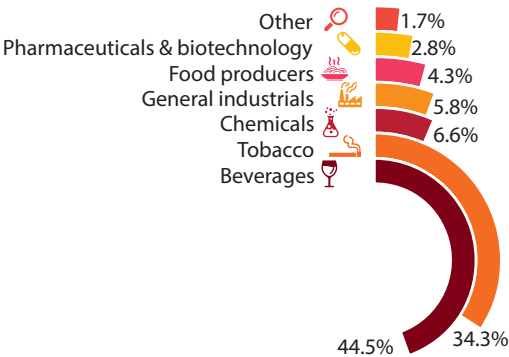
At the cut-off date, there are 110 companies included in this sector, spread over ten subsectors with a total market capitalisation of R4.9 trillion and representing 34.3% of the total JSE market capitalisation.

Outside of the beverages and tobacco subsectors, many companies are showing little growth as a result of slow economic growth in the country. Some are finding export opportunities to bolster their businesses.

The construction industry is under particular pressure with a diminishing pool of construction work. Increased competition exacerbates business challenges, together with government pressure to transform the subsector, tighten liquidity, decreasing order books and margins that are under pressure.

The pharmaceutical and biotechnology subsector is playing an active role in growing GDP with revenue derived from locally-manufactured products, in particular over-the-counter medicines, generics and antiretrovirals. Much of the product from the subsector is exported, with China becoming the most critical customer.

Figure 38: Industrials: Market capitalisation by subsector



Source: PwC analysis

Industrials: Large caps

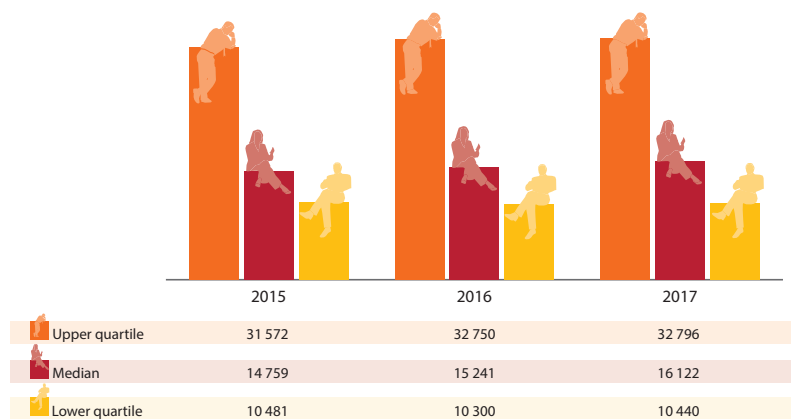
Median increases awarded in 2016/2017

	2016	2017
CEO	3.3%	5.8%
CFO	2.2%	1.1%
ED	6.3%	2.8%

Source: PwC analysis

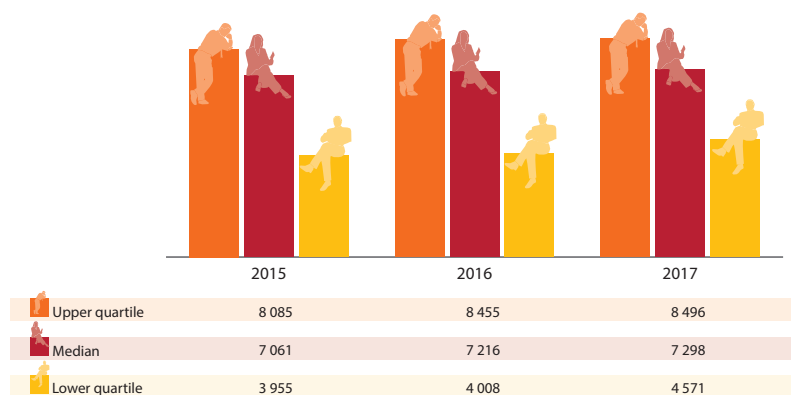


Figure 39: Large-cap CEO (R'000s)



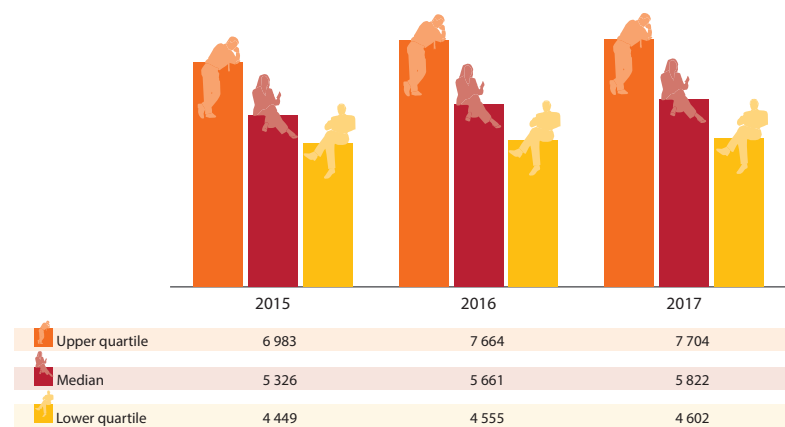
Source: PwC analysis

Figure 40: Large-cap CFO (R'000s)



Source: PwC analysis

Figure 41: Large-cap ED (R'000s)



Source: PwC analysis

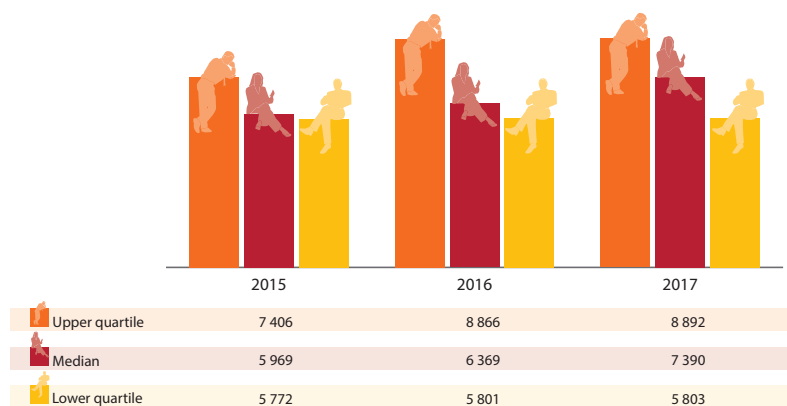


Industrials: Medium caps

Median increases awarded in 2016/2017

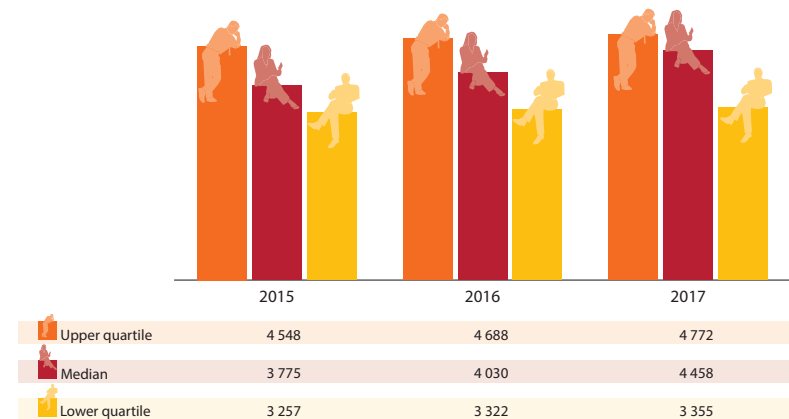
	2016	2017
CEO	6.7%	16.0%
CFO	6.8%	10.6%
ED	4.7%	4.1%

Figure 42: Medium-cap CEO (R'000s)



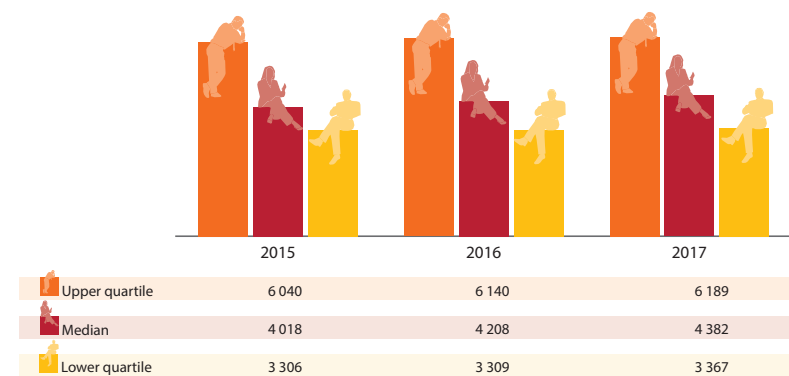
Source: PwC analysis

Figure 43: Medium-cap CFO (R'000s)



Source: PwC analysis

Figure 44: Medium-cap ED (R'000s)



Source: PwC analysis



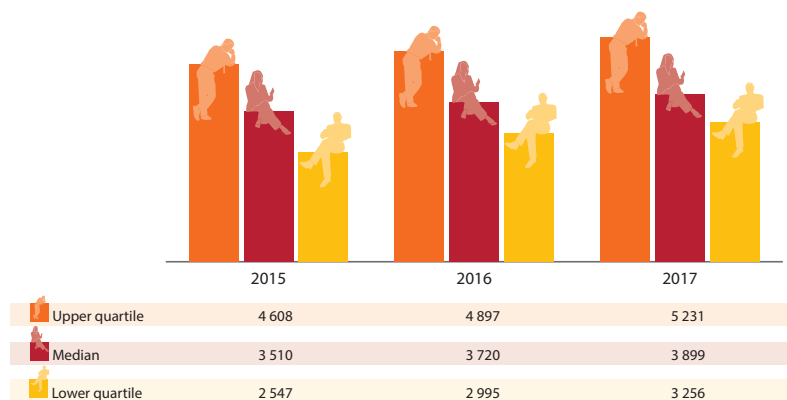
Industrials: Small caps

Median increases awarded in 2016/2017

	2016	2017
CEO	6.0%	4.8%
CFO	6.5%	10.1%
ED	8.2%	5.4%

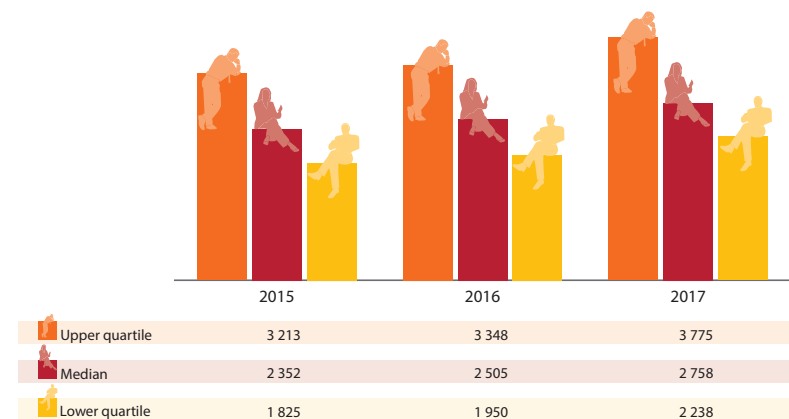
Source: PwC analysis

Figure 45: Small-cap CEO (R'000s)



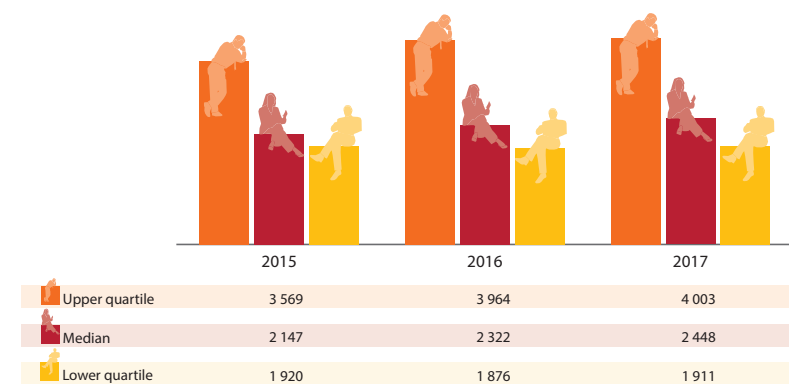
Source: PwC analysis

Figure 46: Small-cap CFO (R'000s)



Source: PwC analysis

Figure 47: Small-cap ED (R'000s)



Source: PwC analysis



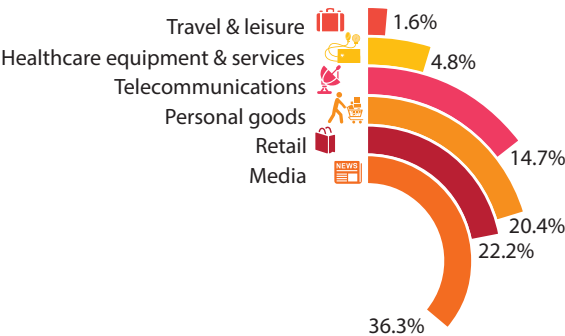
Services

At the cut-off date, there were 51 companies in this sector with six subsectors accounting for 26% of total market capitalisation on the JSE.

Media accounts for 36% of market cap within this sector. This high percentage derives from Naspers, which has a market capitalisation of R1.3 trillion.

All service sector companies stand to increase value provided the economy picks up.

Figure 48: Services: Market capitalisation by subsector



Source: PwC analysis

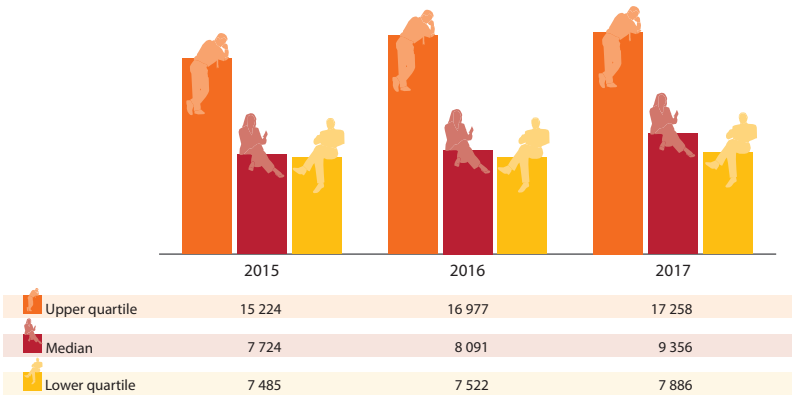
Services: Large caps

Median increases awarded in 2016/2017

	2016	2017
CEO	4.8%	15.6%
CFO	8.1%	10.4%
ED	7.7%	12.5%

Source: PwC analysis

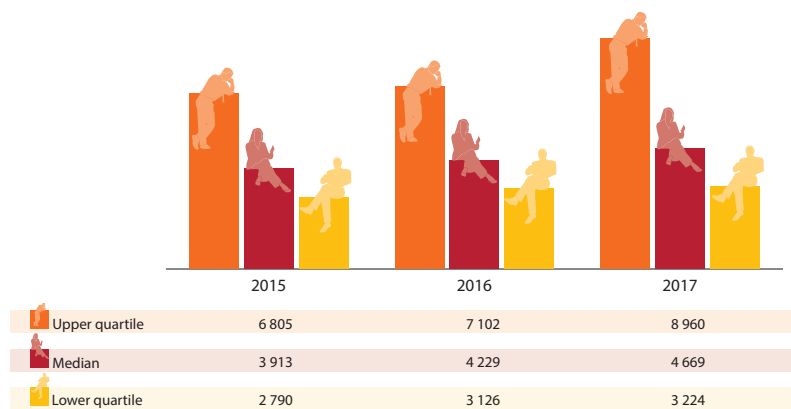
Figure 49: Large-cap CEO (R'000s)



Source: PwC analysis

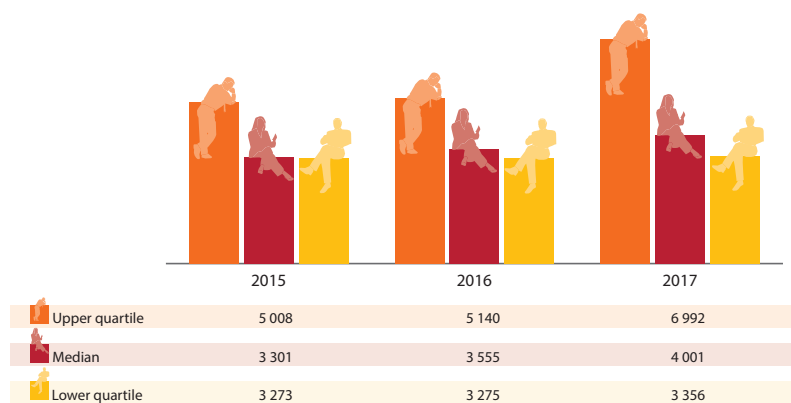


Figure 50: Large-cap CFO (R'000s)



Source: PwC analysis

Figure 51: Large-cap ED (R'000s)



Source: PwC analysis

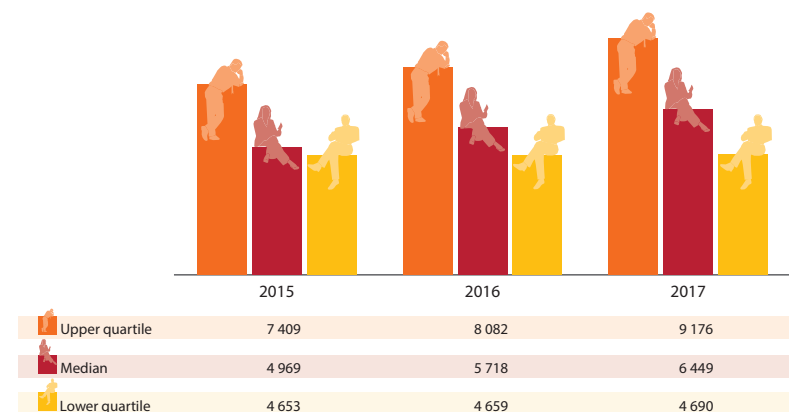
Services: Medium caps

Median increases awarded in 2016/2017

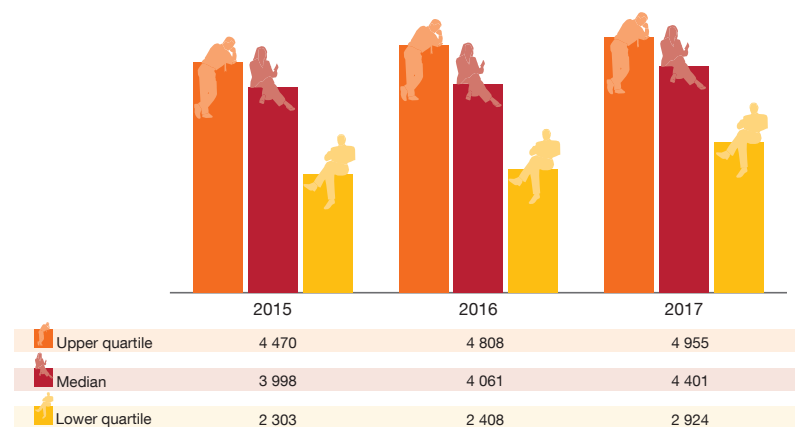
	2016	2017
CEO	15.1%	12.8%
CFO	1.6%	8.4%
ED	8.1%	10.5%

Source: PwC analysis

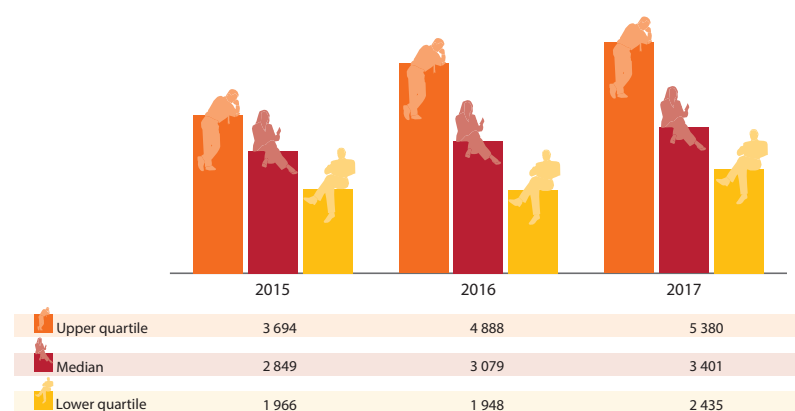
Figure 52: Medium-cap CEO (R'000s)



Source: PwC analysis

**Figure 53: Medium-cap CFO (R'000s)**

Source: PwC analysis

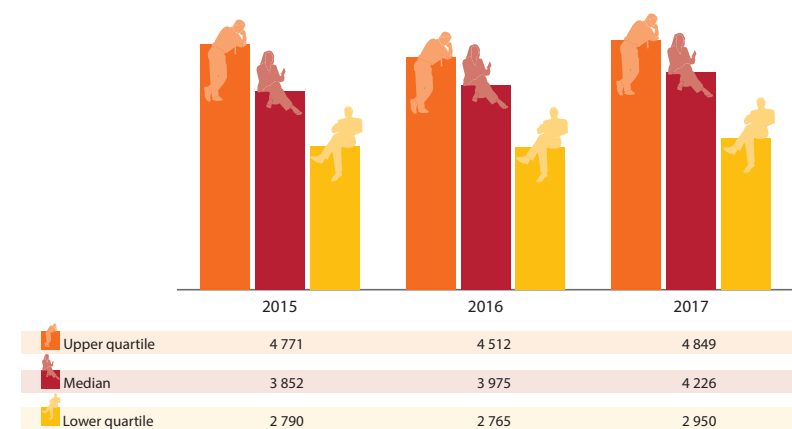
Figure 54: Medium-cap ED (R'000s)

Source: PwC analysis

Services: Small caps*Median increases awarded in 2016/2017*

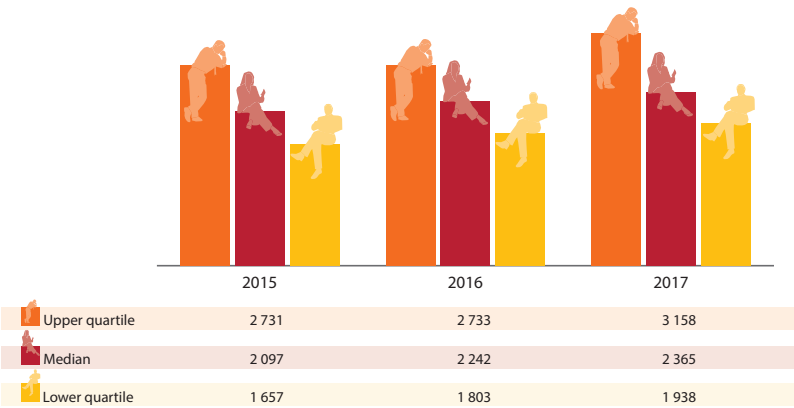
	2016	2017
CEO	3.2%	6.3%
CFO	6.9%	5.5%
ED	7.8%	11.2%

Source: PwC analysis

Figure 55: Small-cap CEO (R'000s)

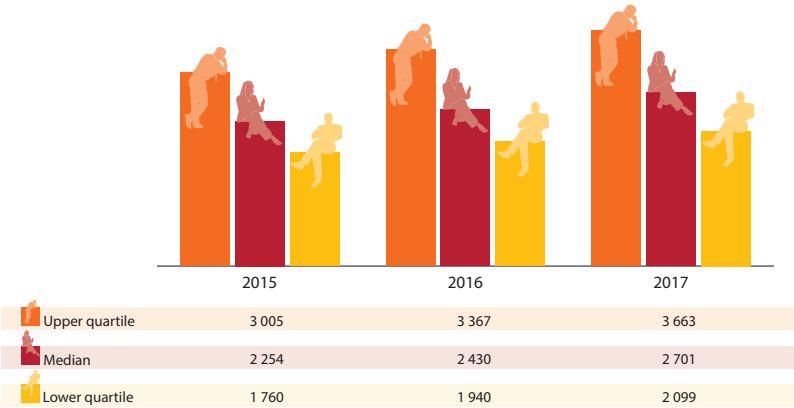
Source: PwC analysis

Figure 56: Small-cap CFO (R'000s)



Source: PwC analysis

Figure 57: Small-cap ED (R'000s)



Source: PwC analysis





AltX

At the cut-off date, there were 37 actively trading companies listed on the AltX.

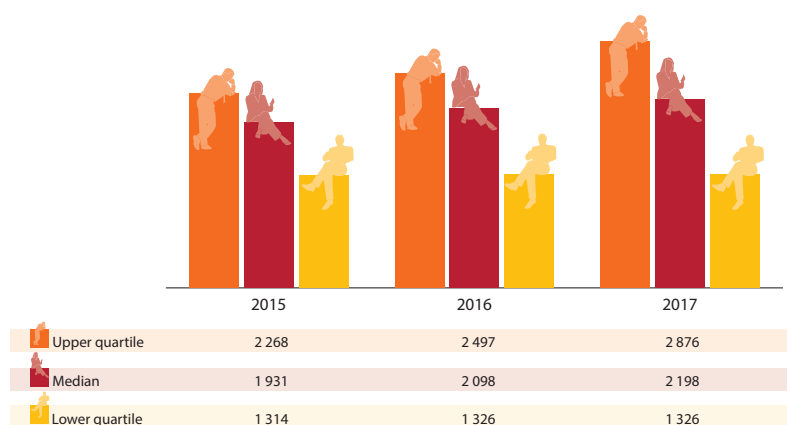
The AltX is the JSE's board for small and medium-sized high-growth companies. The AltX provides smaller companies with access to capital, while providing investors with exposure to fast-growing smaller companies in a regulated environment.

Median increases awarded in 2016/2017

	2016	2017
CEO	8.6%	4.8%
CFO	6.7%	6.4%
ED	6.7%	0.8%

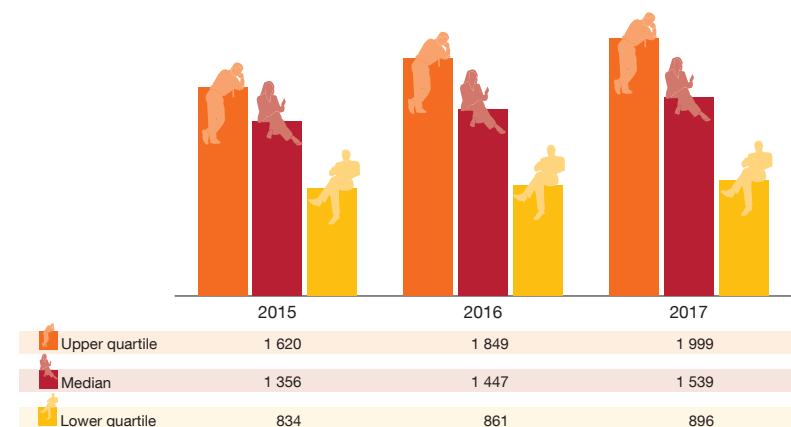
Source: PwC analysis

Figure 58: AltX CEO (R'000s)



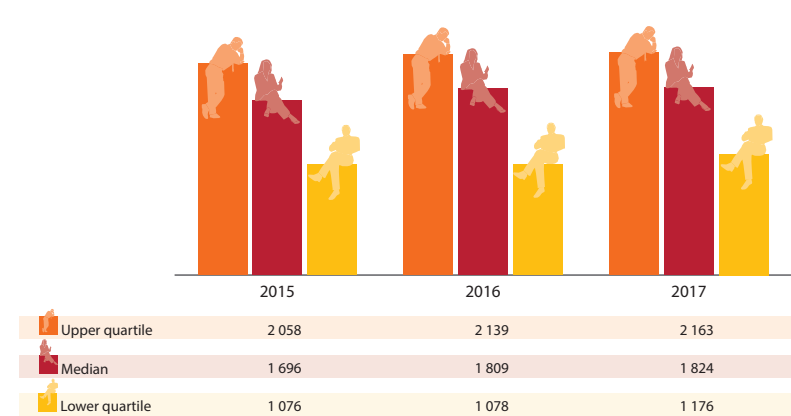
Source: PwC analysis

Figure 59: AltX CFO (R'000s)



Source: PwC analysis

Figure 60: AltX ED (R'000s)



Source: PwC analysis

Short-term incentives

Short-term incentives (STIs), also often referred to as annual incentives, are paid to compensate executives for achieving the short-term business strategy. The intention is to ensure achievement of goals based on KPIs or other measurements based on a company compact with the directors or management charged with the task of making things happen. The type and maturity of the business have significant influence on how STIs are paid.

Historically, STIs would typically pay for the achievement of company financial targets. This methodology conflicts with current sustainable business economics since the process concentrates on short-term results in favour of shareholders only. There is a trend emerging in which STIs and LTI are merging into a measurement of the sustainable development of the company.

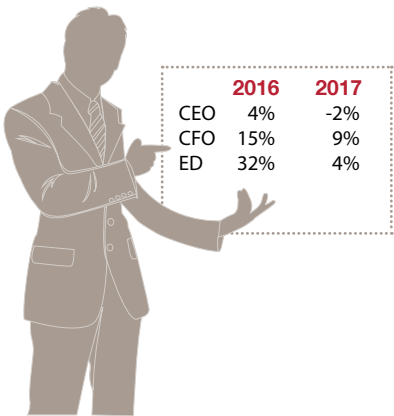
Annual incentive opportunity is expressed as a target percentage of the executive's salary or total guaranteed package, and plans are typically constructed to provide threshold, target and maximum levels of performance which then generate corresponding levels of pay. The highest level is typically known as the maximum, with a pay-out tier of typically 200% of target. Invariably, if the threshold is not reached there is no incentive due.

The figures that follow depict current STI trends for executives in all sectors of the JSE.

All industries: Large caps

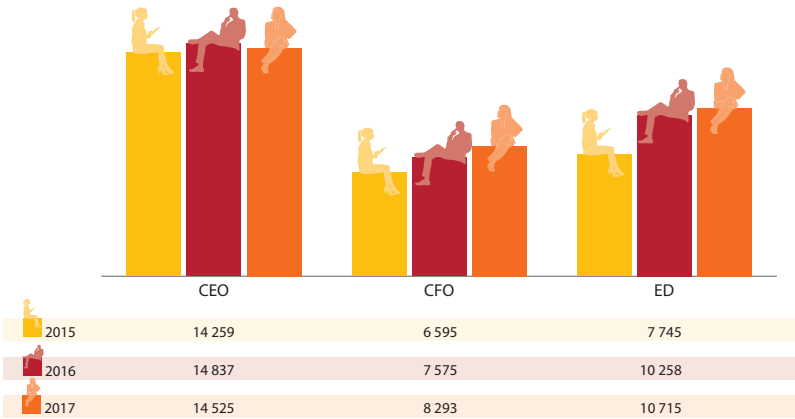
STI increases in large-cap companies in 2017 were well below the prior year. The percentage calculated is from a high STI base. There is no clear explanation for the increase levels in 2017 compared to 2016; the challenging economic environment and its effect on the achievement of STI performance conditions may have played a role. Some newly-listed companies feature among the top 40. Measurable trading for bonus achievement has not been achieved in these entities, but will no doubt be reflected in 2019 STI awards.

Median increases awarded in 2016/2017



Source: PwC analysis

Figure 61: Large-cap STIs (R'000s)



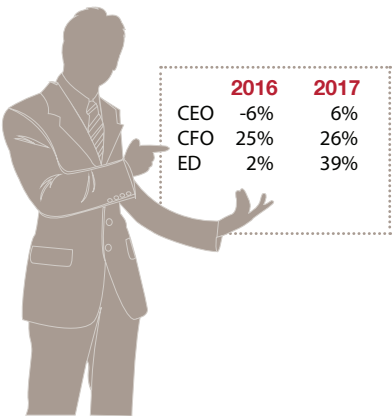
Source: PwC analysis



All industries: Medium caps

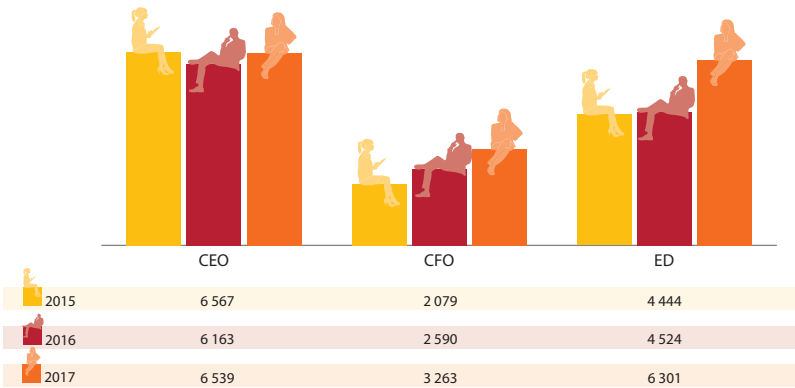
The listing of a few new large-cap companies has pushed others down into the medium-cap category. This may account for the increase in the median increases awarded during the year, particularly to executive directors. Executive directors are closer to the coal face in operations where crucial multiple key performance areas (KPA)s apply to a plethora of diverse parameters from financial performance, to health and safety and environmental impact. Rewards for meeting KPA targets as professional managers should be definable KPAs.

Median increases awarded in 2016/2017



Source: PwC analysis

Figure 62: Medium-cap STIs (R'000s)



Source: PwC analysis



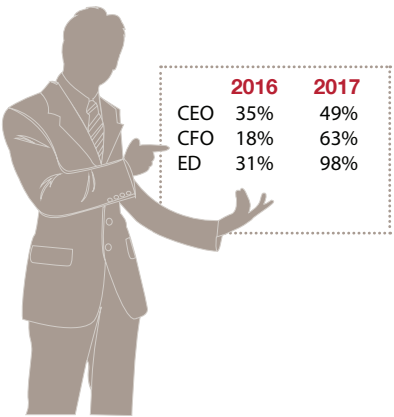
All industries: Small caps

Small-cap companies listed on the JSE are three and a half times more in number compared to large and medium cap entities. These are the companies that will someday grow into the upper echelons on the main board. The median increases for STI have escalated both in 2016 and 2017. Our research suggests that this is at least partially attributable to the shortage of suitable executive directors in the South African market.

Besides encouraging incumbents to take up positions as executive directors and the need to meet stringent regulatory requirements, generous incentives are paid to mitigate against aspects such as health and safety and environmental impacts, provided the KPAs set by the board reach the standards set.

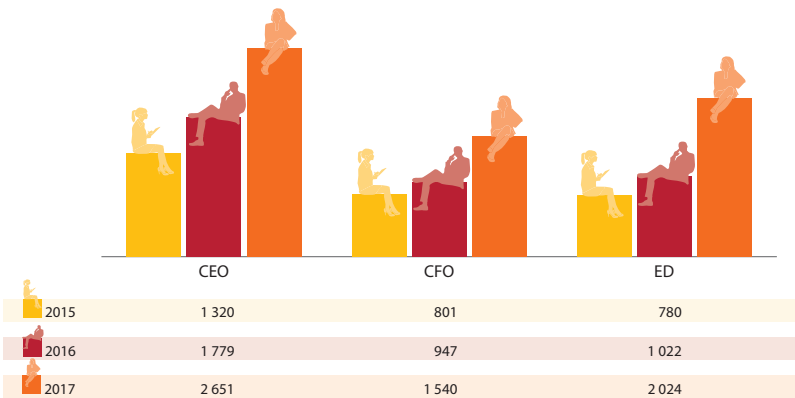
Another factor to be borne in mind is that these increases, though high in percentage terms, may be calculated from a low base.

Median increases awarded in 2016/2017



Source: PwC analysis

Figure 63: Small-cap STIs (R'000s)



Source: PwC analysis

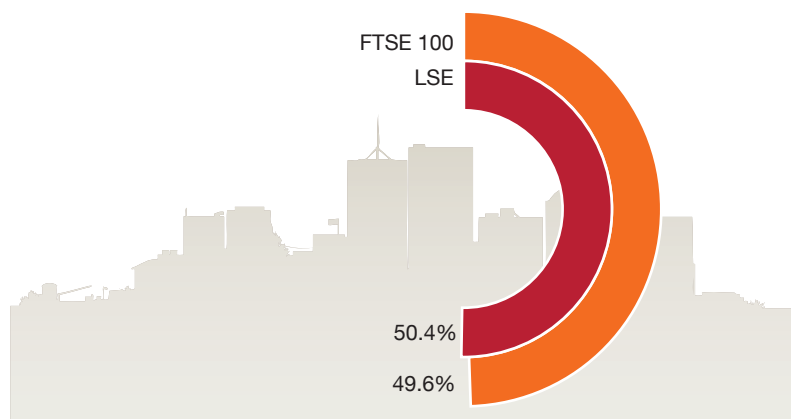
13.

FTSE 100 executive director remuneration trends



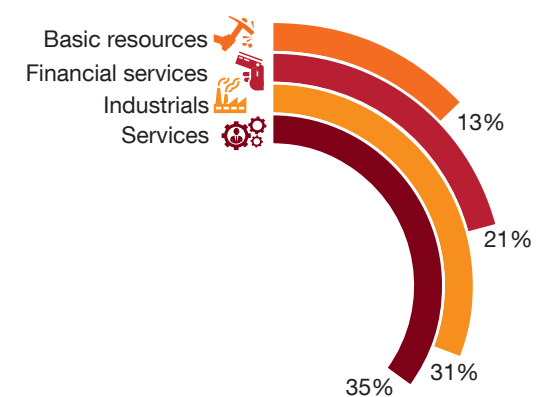
At the cut-off date there were 2 028 (2017: 2 036) active companies listed on the London Stock Exchange with a market capitalisation of GBP3 949 trillion.

Figure 64: Market capitalisation: FTSE vs LSE



Source: PwC analysis

Figure 65: FTSE 100 sector profile



Source: PwC analysis



FTSE companies

- 3i Group plc
- Admiral Group plc
- Anglo American plc
- Antofagasta plc
- Ashtead Group plc
- Associated British Foods plc
- AstraZeneca plc
- Aviva plc
- BAE Systems plc
- Barclays plc
- Barratt Developments plc
- Berkeley Group Holdings (The) plc
- BHP Billiton plc
- BP plc
- British American Tobacco plc
- British Land Company plc
- BT Group plc
- Bunzl plc
- Burberry Group plc
- Carnival plc
- Centrica plc
- Coca-Cola HBC A.G.
- Compass Group plc
- CRH plc
- Croda International plc
- DCC plc
- Diageo plc
- Direct Line Insurance Group plc
- easyJet plc
- Evraz plc
- Experian plc
- Ferguson plc
- Fresnillo plc
- G4S plc
- GKN plc
- GlaxoSmithKline plc
- Glencore plc
- Halma plc
- Hargreaves Lansdown plc
- HSBC Holdings plc
- Imperial Brands plc
- Informa plc
- InterContinental Hotels Group plc
- International Consolidated Airlines Group S.A.
- Intertek Group plc
- ITV plc
- Johnson Matthey plc
- Just Eat plc
- Kingfisher plc
- Legal & General Group plc
- Lloyds Banking Group plc
- London Stock Exchange Group plc
- Marks And Spencer Group plc
- Mediclinic International plc
- Micro Focus International plc
- MONDI plc
- Morrison (WM) Supermarkets plc
- National Grid plc
- Next plc
- NMC Health plc
- Old Mutual plc
- Paddy Power Betfair plc
- Pearson plc
- Persimmon plc
- Prudential plc
- Randgold Resources Ltd
- Reckitt Benckiser Group plc
- RELX plc
- Rentokil Initial plc
- Rio Tinto plc
- Rolls-Royce Holdings plc
- Royal Bank of Scotland Group plc
- Royal Dutch Shell plc A
- Royal Dutch Shell plc B
- Royal Mail plc
- RSA Insurance Group plc
- Sage Group plc
- Sainsbury (J) plc
- Schroders plc
- Scottish Mortgage Investment Trust plc
- SEGRO plc
- Severn Trent plc
- Shire plc
- Sky plc
- Smith & Nephew plc
- Smith (DS) plc
- Smiths Group plc
- Smurfit Kappa Group plc
- SSE plc
- St. James's Place plc
- Standard Chartered plc
- Standard Life Aberdeen plc
- Taylor Wimpey plc
- Tesco plc
- TUI A.G.
- Unilever plc
- United Utilities Group plc
- Vodafone Group plc
- Whitbread plc
- WPP plc



FTSE 100 remuneration

For purposes of this report, to have relevance to the total guaranteed pay data reported for JSE-listed companies, we have included only the base pay and stated benefits paid to directors serving on the boards of FTSE 100 companies.

The trends reflected are extracted from the annual reports of the most recent FTSE 100 participants falling within our 2017 reporting period ended 30 April 2018. Two-year historical data has now been included to show trends in remuneration paid, and although the companies included in the FTSE 100 selection change on a quarterly basis, we have tracked trends in remuneration actually paid.

The trends are presented as follows:

- All sectors;
- Basic resources;
- Financial services;
- Industrials; and
- Services sector.

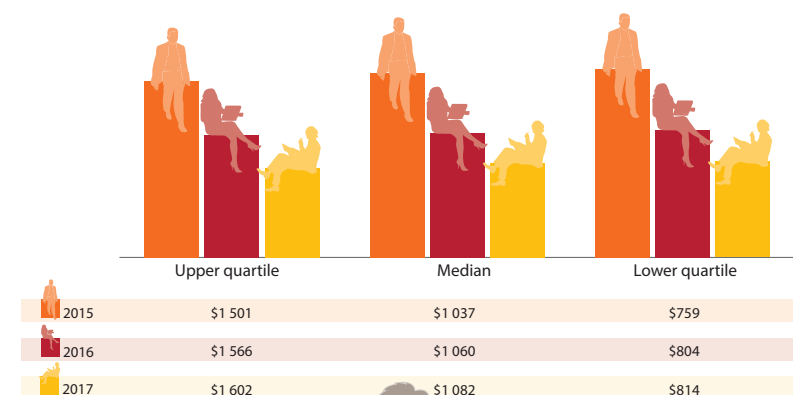
Under each sector further granularity is drawn to reflect the remuneration for the following positions:

- CEO;
- CFO; and
- ED.

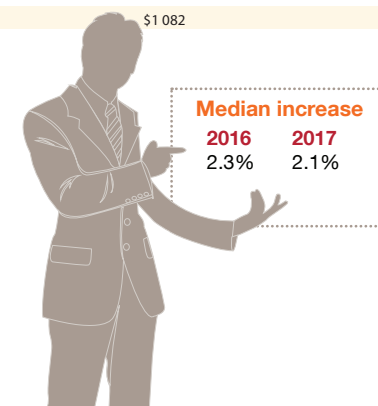
The values extracted are converted to US dollars and presented as upper quartile, median and lower quartile.

All sectors

Figure 66: All positions: Base pay and stated benefits (US\$'000s)



Source: PwC analysis



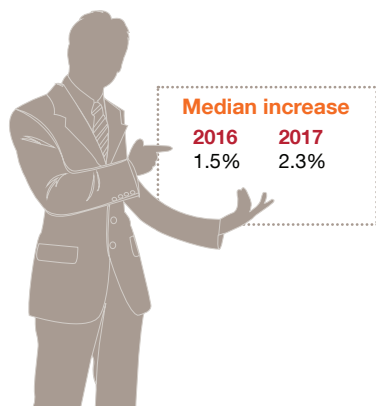
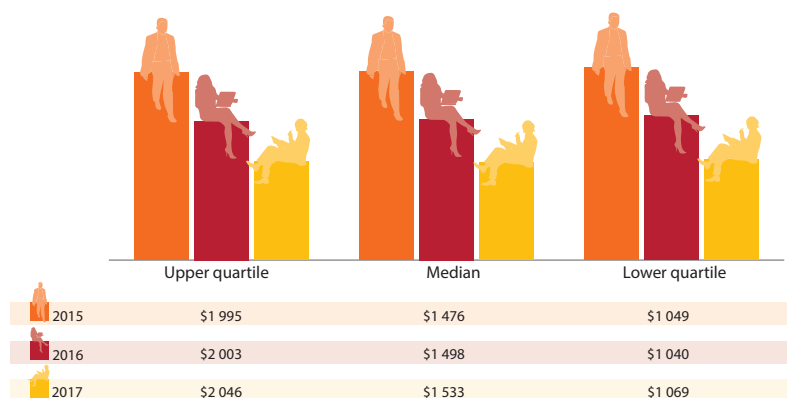
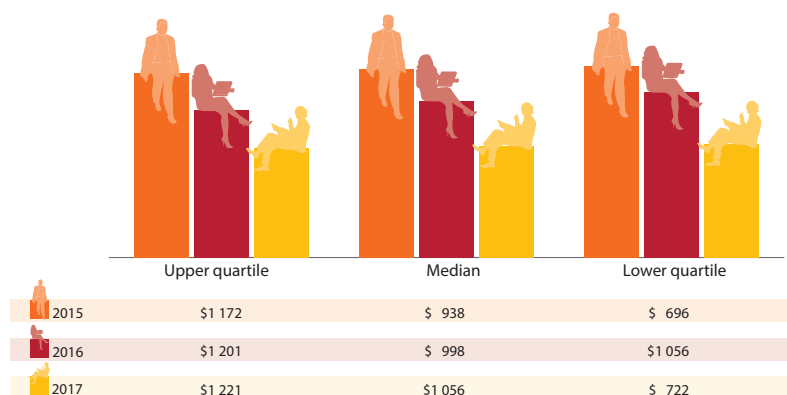


Figure 67: CEO: Base pay and stated benefits (US\$'000s)



Source: PwC analysis

Figure 68: CFO: Base pay and stated benefits (US\$'000s)



Source: PwC analysis

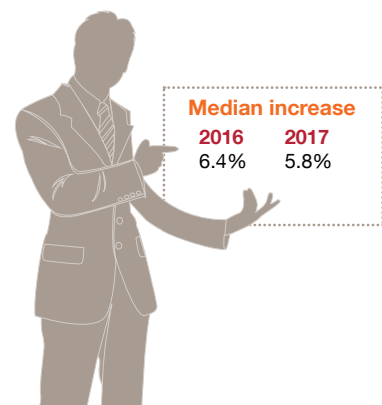
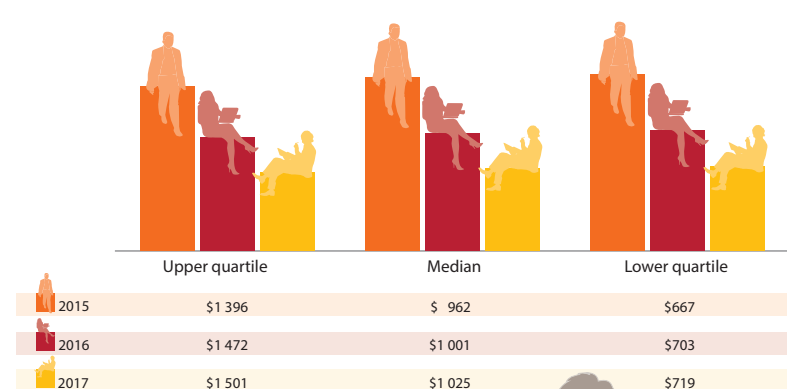
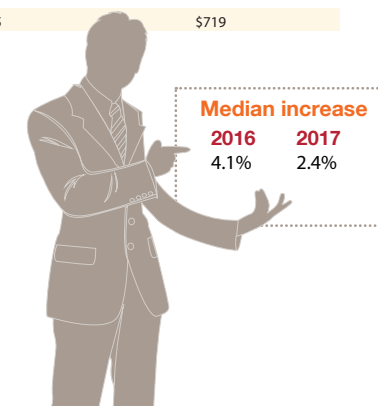


Figure 69: ED: Base pay and stated benefits (US\$'000s)



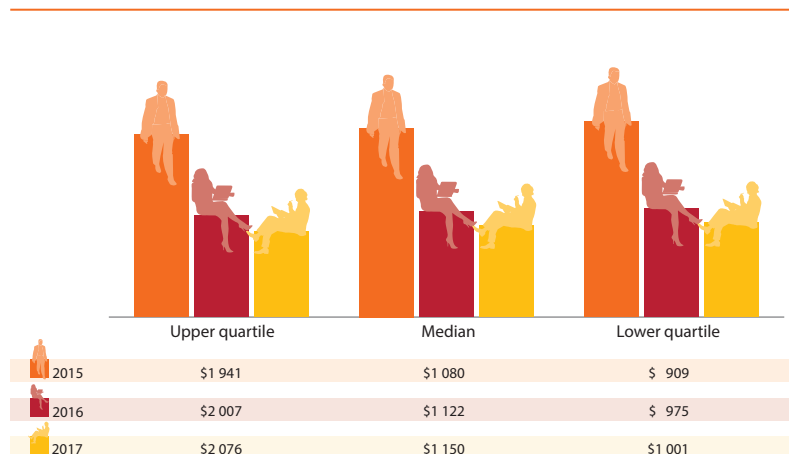
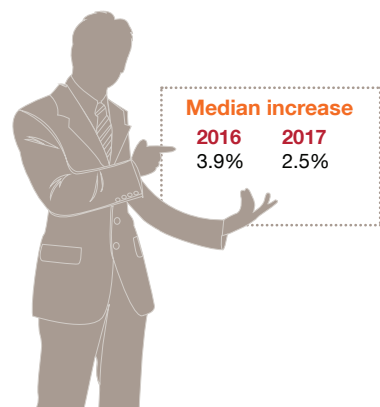
Source: PwC analysis





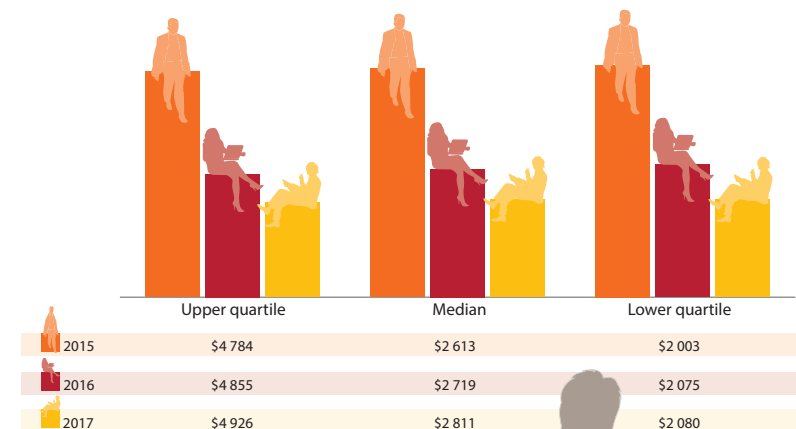
Basic resources

Figure 70: All positions: Base pay and stated benefits (US\$'000s)

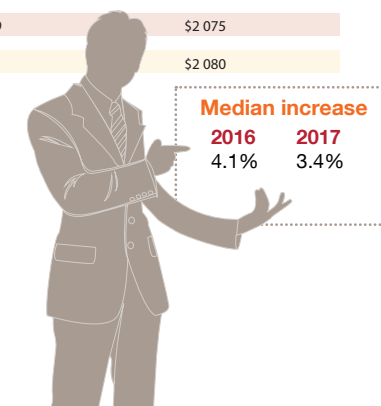


Source: PwC analysis

Figure 71: CEO: Base pay and stated benefits (US\$'000s)



Source: PwC analysis



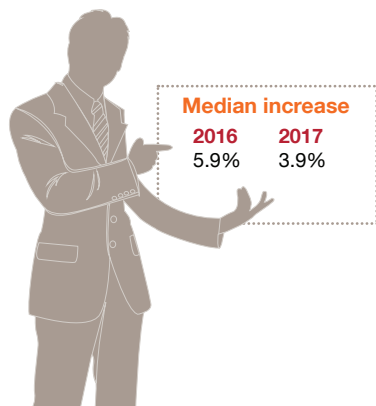
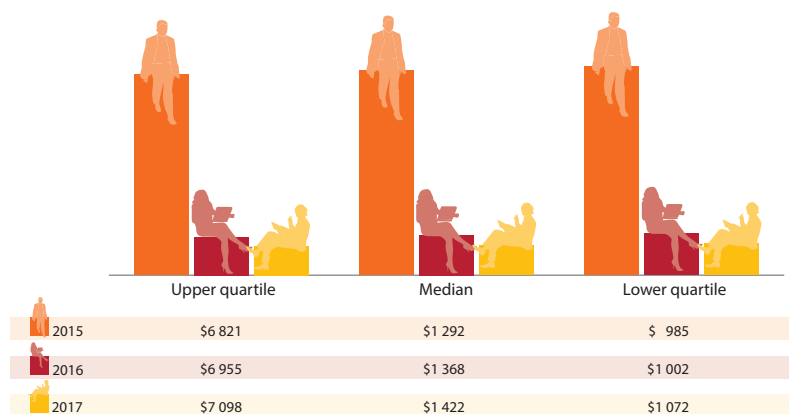
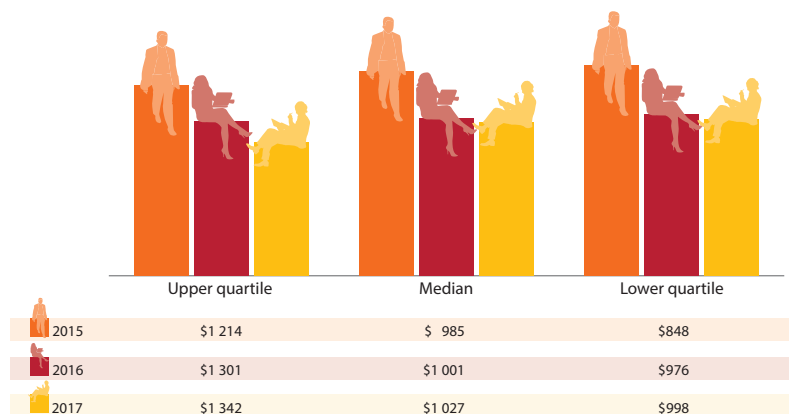


Figure 72: CFO: Base pay and stated benefits (US\$'000s)



Source: PwC analysis

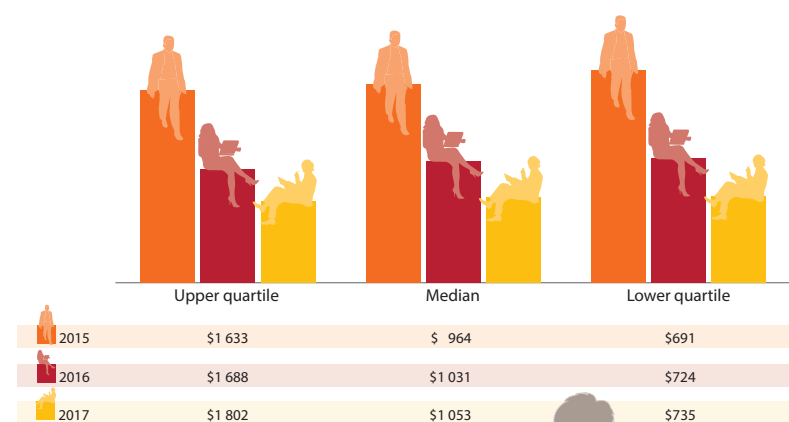
Figure 73: ED: Base pay and stated benefits (US\$'000s)



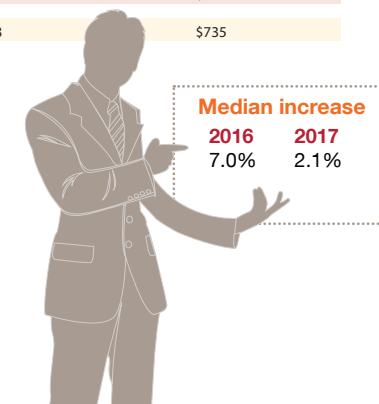
Source: PwC analysis

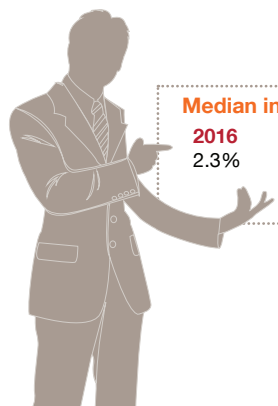
Financial services

Figure 74: All positions: Base pay and stated benefits (US\$'000s)

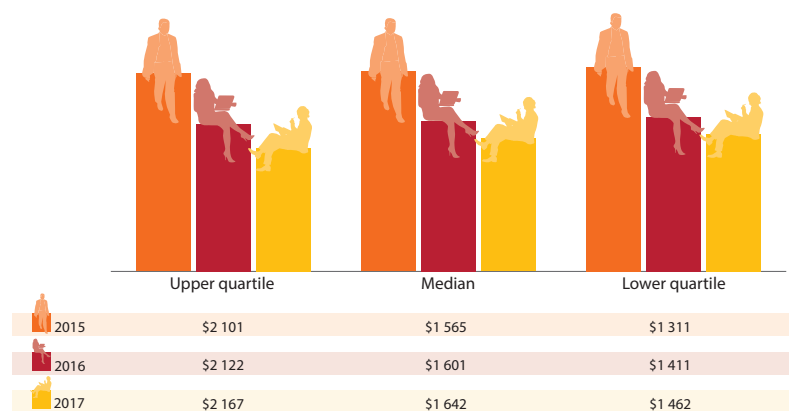


Source: PwC analysis

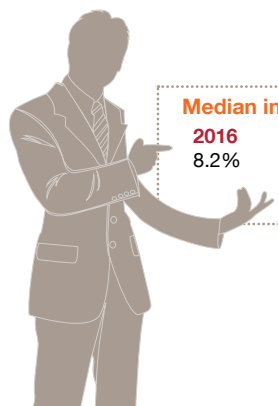


**Median increase**

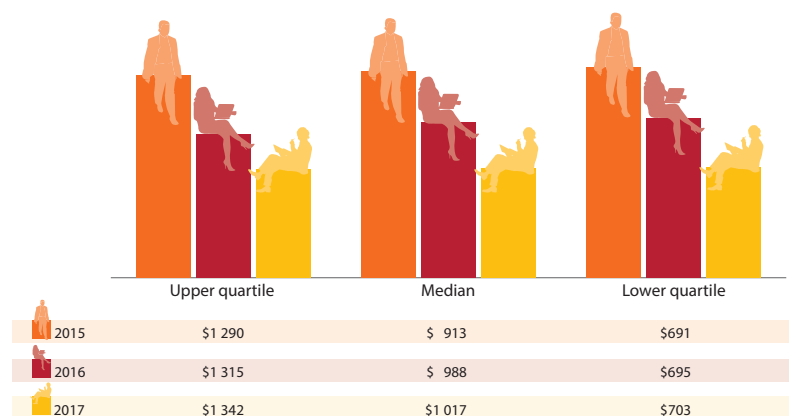
2016	2017
2.3%	2.6%

Figure 75: CEO: Base pay and stated benefits (US\$'000s)

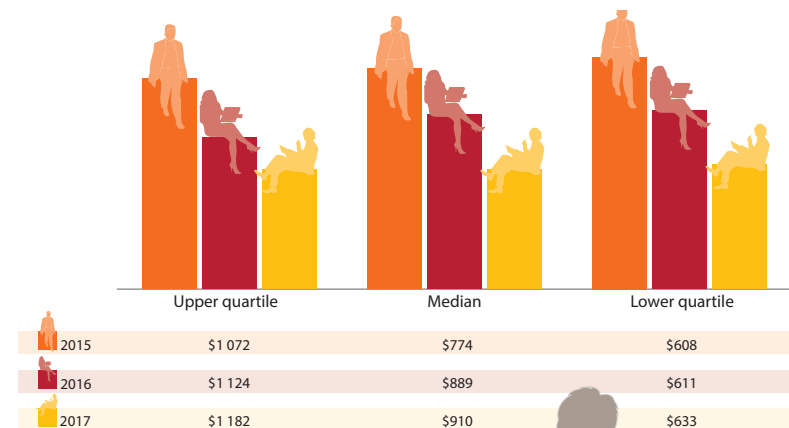
Source: PwC analysis

**Median increase**

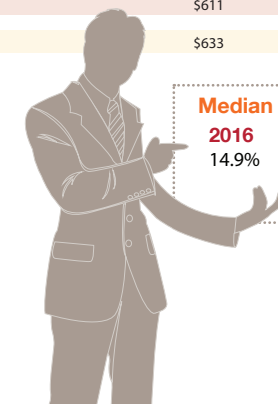
2016	2017
8.2%	2.9%

Figure 76: CFO: Base pay and stated benefits (US\$'000s)

Source: PwC analysis

Figure 77: ED: Base pay and stated benefits (US\$'000s)

Source: PwC analysis

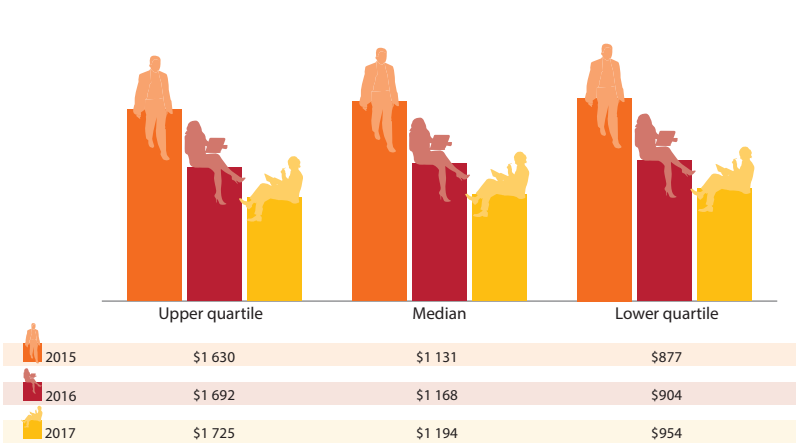
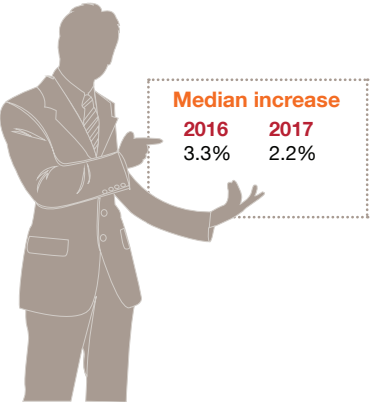
**Median increase**

2016	2017
14.9%	2.4%



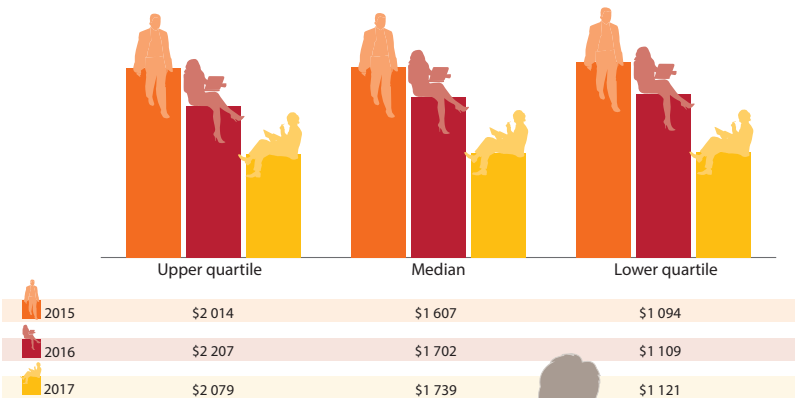
Industrials

Figure 78: All positions: Base pay and stated benefits (US\$'000s)

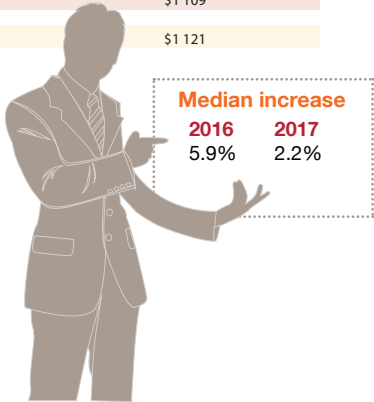


Source: PwC analysis

Figure 79: CEO: Base pay and stated benefits (US\$'000s)



Source: PwC analysis



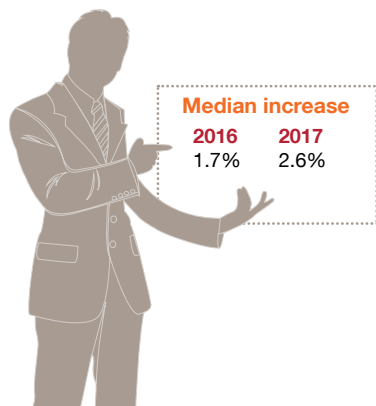
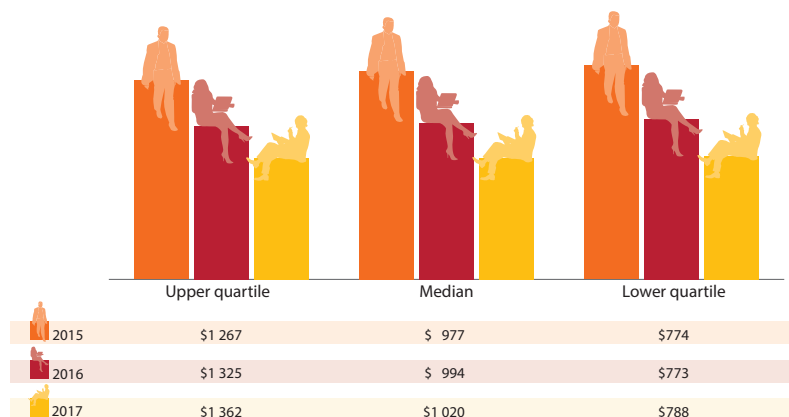
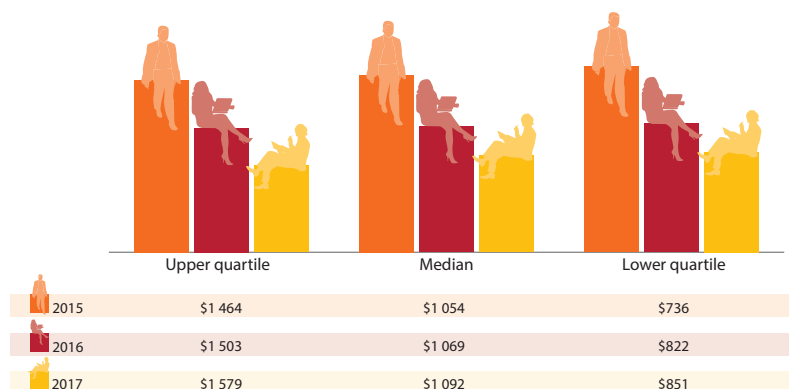


Figure 80: CFO: Base pay and stated benefits (US\$'000s)



Source: PwC analysis

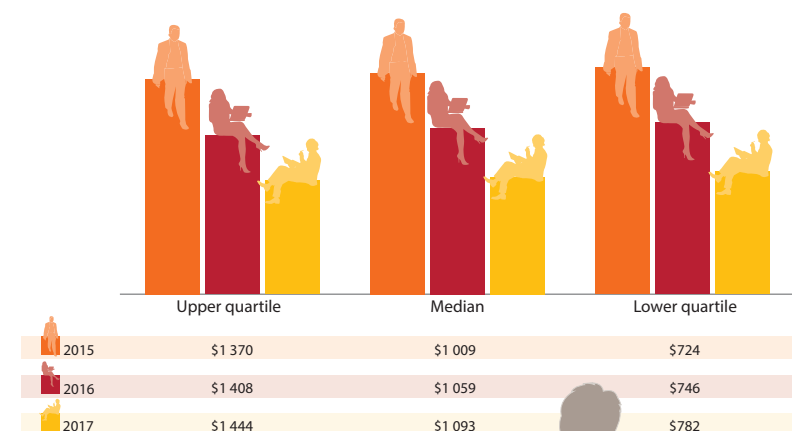
Figure 81: ED: Base pay and stated benefits (US\$'000s)



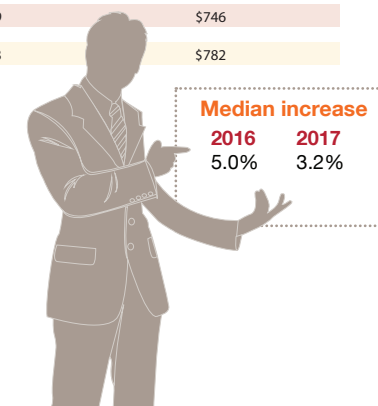
Source: PwC analysis

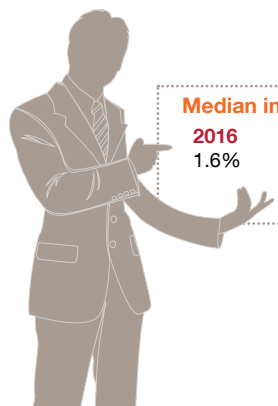
Services

Figure 82: All positions: Base pay and stated benefits (US\$'000s)

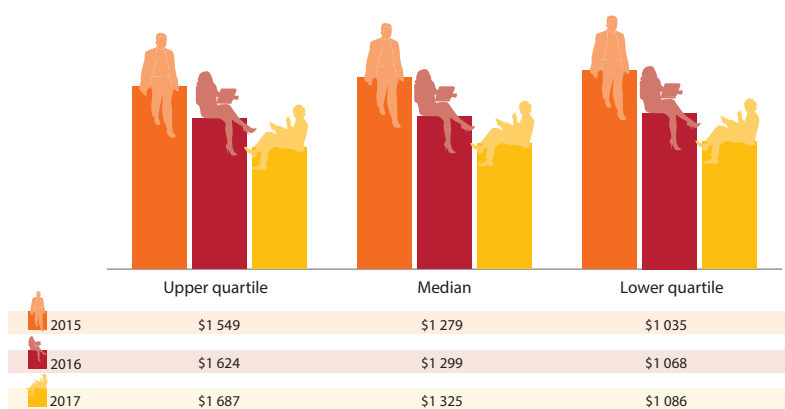


Source: PwC analysis

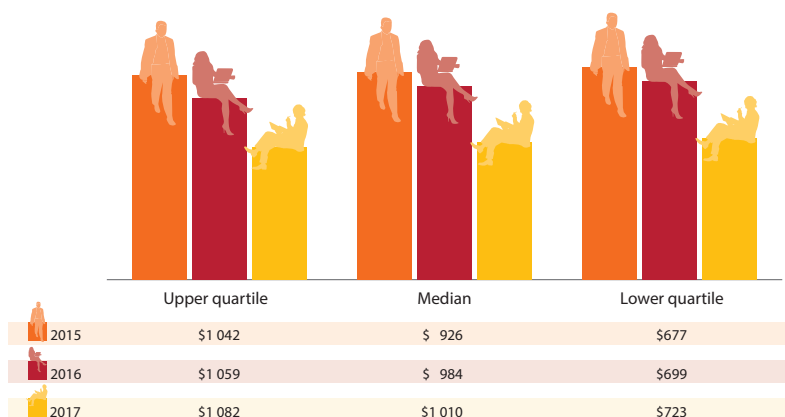


**Median increase**

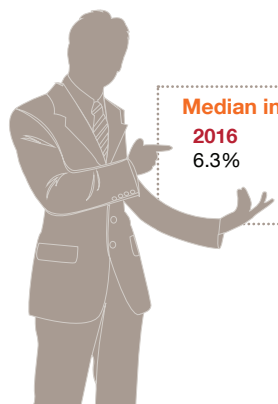
2016	2017
1.6%	2.0%

Figure 83: CEO: Base pay and stated benefits (US\$'000s)

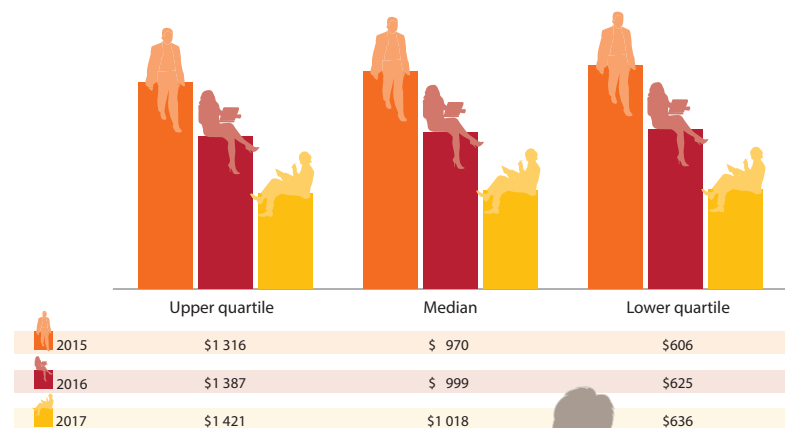
Source: PwC analysis

Figure 84: CFO: Base pay and stated benefits (US\$'000s)

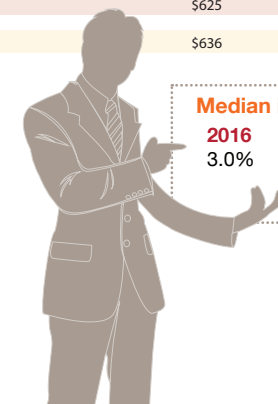
Source: PwC analysis

**Median increase**

2016	2017
6.3%	2.6%

Figure 85: ED: Base pay and stated benefits (US\$'000s)

Source: PwC analysis

**Median increase**

2016	2017
3.0%	1.9%

14.

Remuneration trends in other sub-Saharan African countries



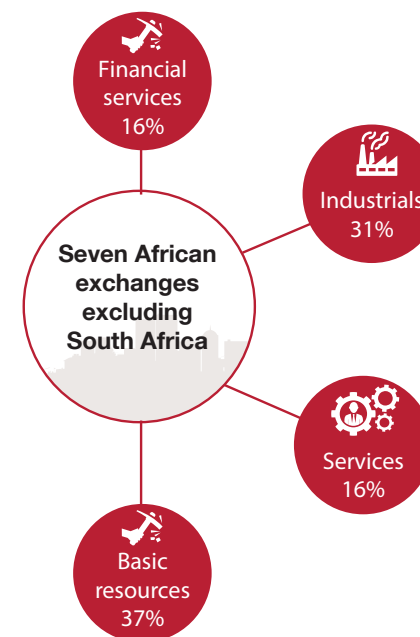
There are 29 stock exchanges among 54 independent states in Africa. Most of these are fledgling markets. Some are regional exchanges and do not represent any particular country.

Lack of transparent reporting limits granular representation of all African-listed companies. For the 2017 reporting period, our analysis covers 407 (2016: 412) companies listed on seven sub-Saharan African stock exchanges, as shown in the accompanying map.

Sub-Saharan stock exchanges analysed



Figure 86: Sectoral breakdown of companies analysed



Data analysed

To maintain comparability to total guaranteed pay reported for JSE-listed companies, in this report we present the aggregate of base pay and stated benefits paid to executive directors serving on the boards of African companies as TGP.

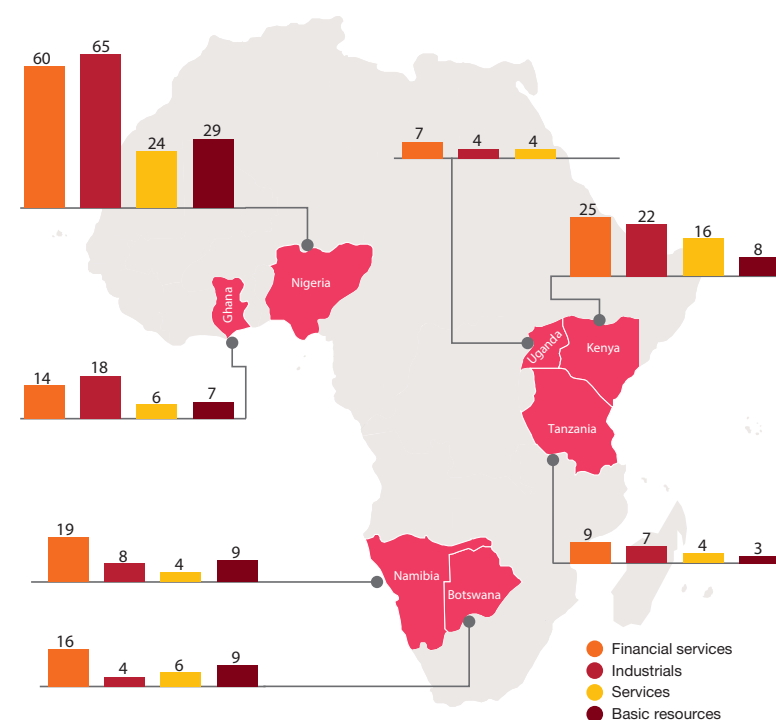
Sector analysis by country of remuneration is not yet possible given the lack of information and the small number of listed entities in each sector.

For countries selected, further detail is provided by reflecting remuneration paid to the following executives:

- CEO;
- CFO; and
- ED.

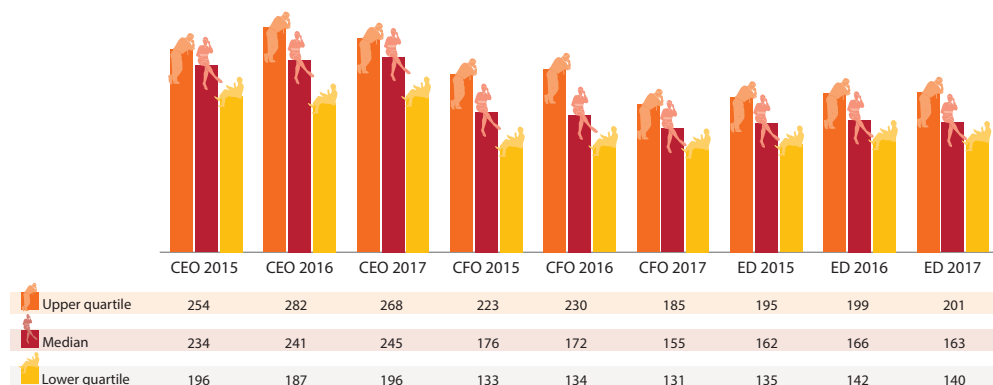
Values have been converted into US dollars, using the closing dollar spot rate at midnight on 30 April 2018.

Figure 87: Selected stock exchanges: Number of companies listed by sector



Base: 407 companies listed on seven sub-Saharan stock exchanges
Source: PwC analysis

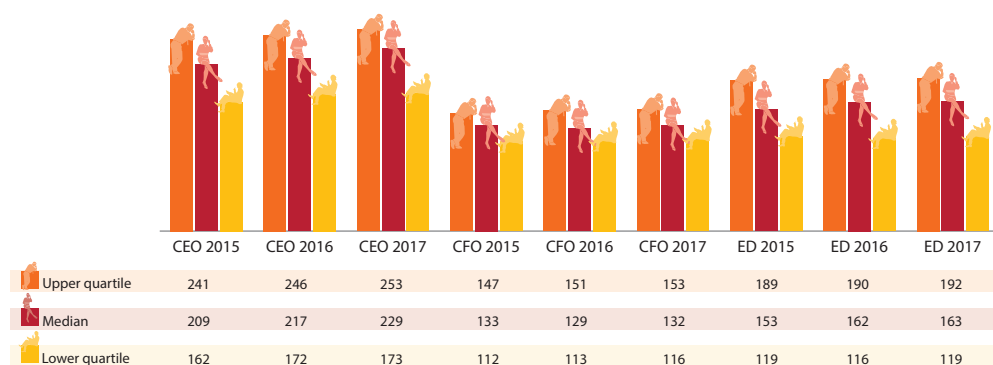
Figure 88: TGP of EDs in selected stock exchanges (USD '000s)



Base: 407 companies listed on seven sub-Saharan stock exchanges
Source: PwC analysis

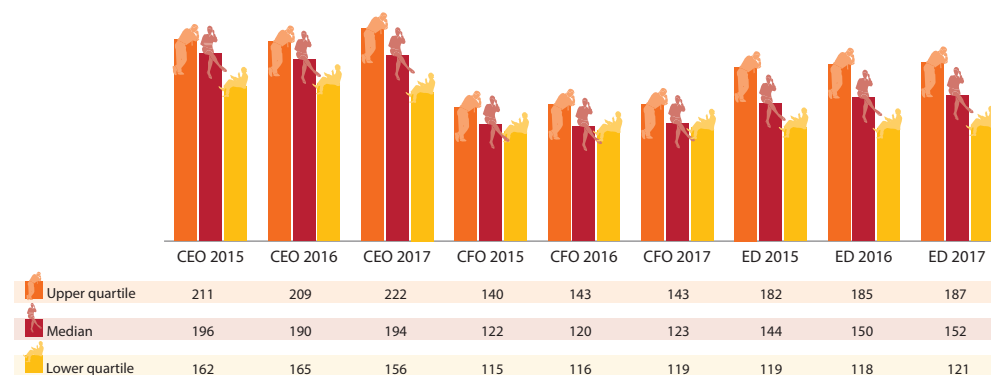
Remuneration of executive directors by country

Figure 89: Botswana: TGP (USD '000s)



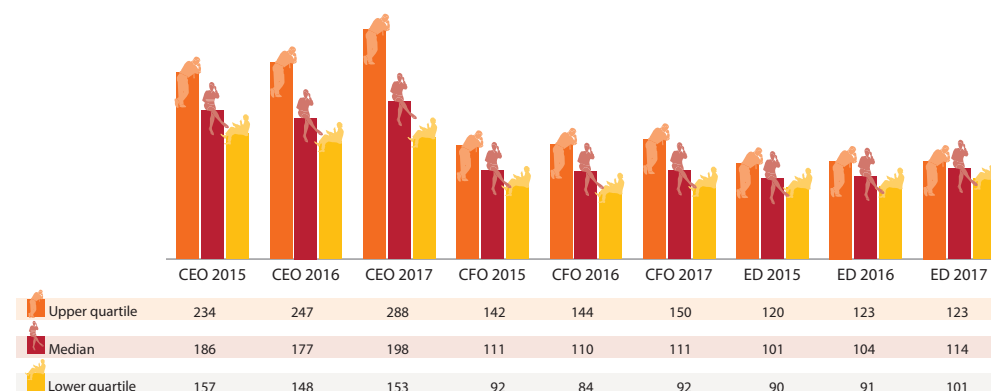
Base: 35 companies listed on the Botswana stock exchange
Source: PwC analysis

Figure 90: Ghana: TGP (USD '000s)



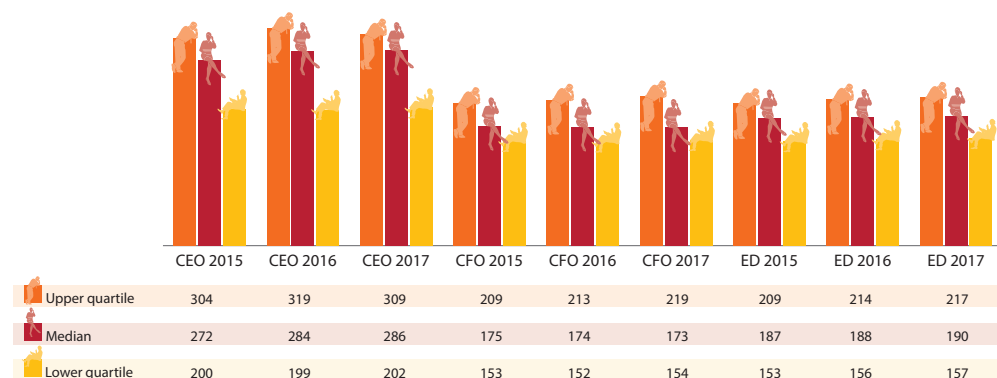
Base: 45 companies listed on the Ghana stock exchange
Source: PwC analysis

Figure 91: Kenya: TGP (USD '000s)



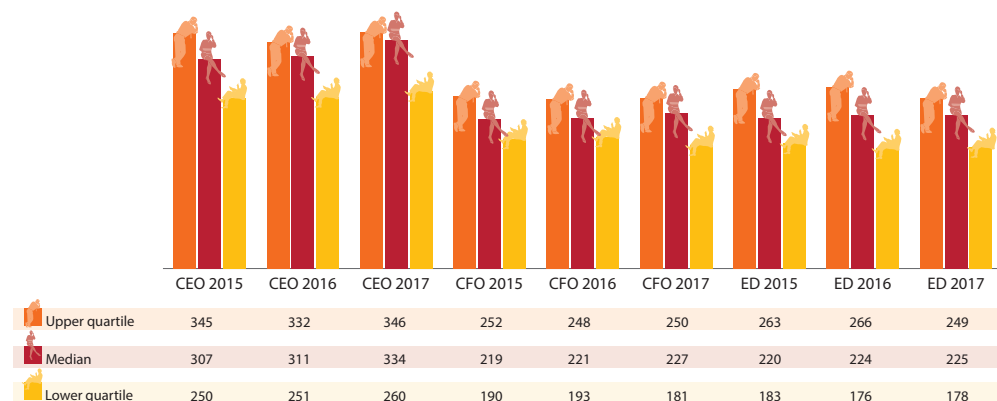
Base: 71 companies listed on the Kenya stock exchange
Source: PwC analysis

Figure 92: Namibia: TGP (USD '000s)



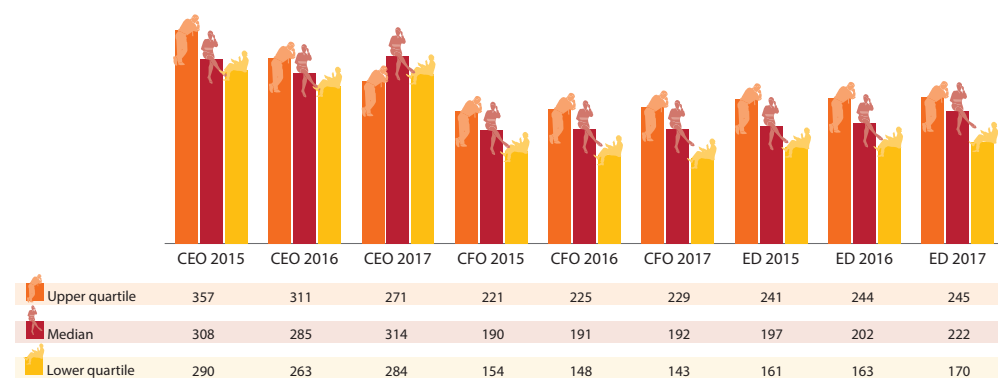
Base: 40 companies listed on the Namibia stock exchange
Source: PwC analysis

Figure 93: Nigeria: TGP (USD '000s)



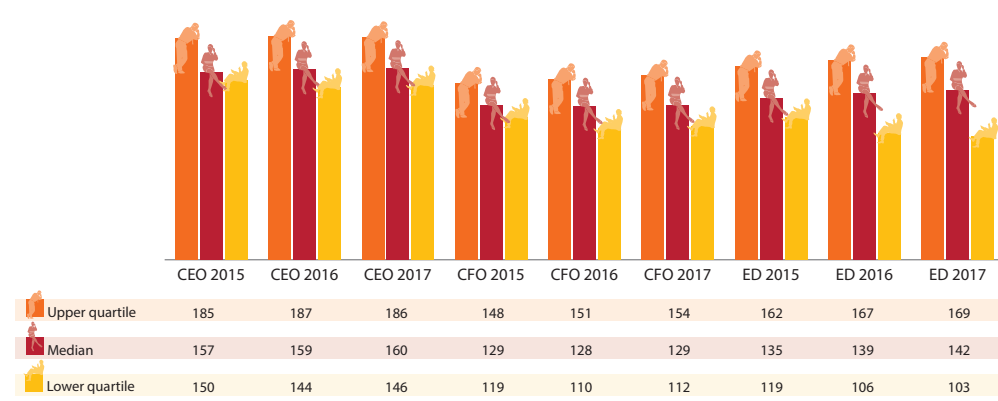
Base: 178 companies listed on the Nigeria stock exchange
Source: PwC analysis

Figure 94: Tanzania: TGP (USD '000s)



Base: 23 companies listed on the Tanzania stock exchange
Source: PwC analysis

Figure 95: Uganda: TGP (USD '000s)



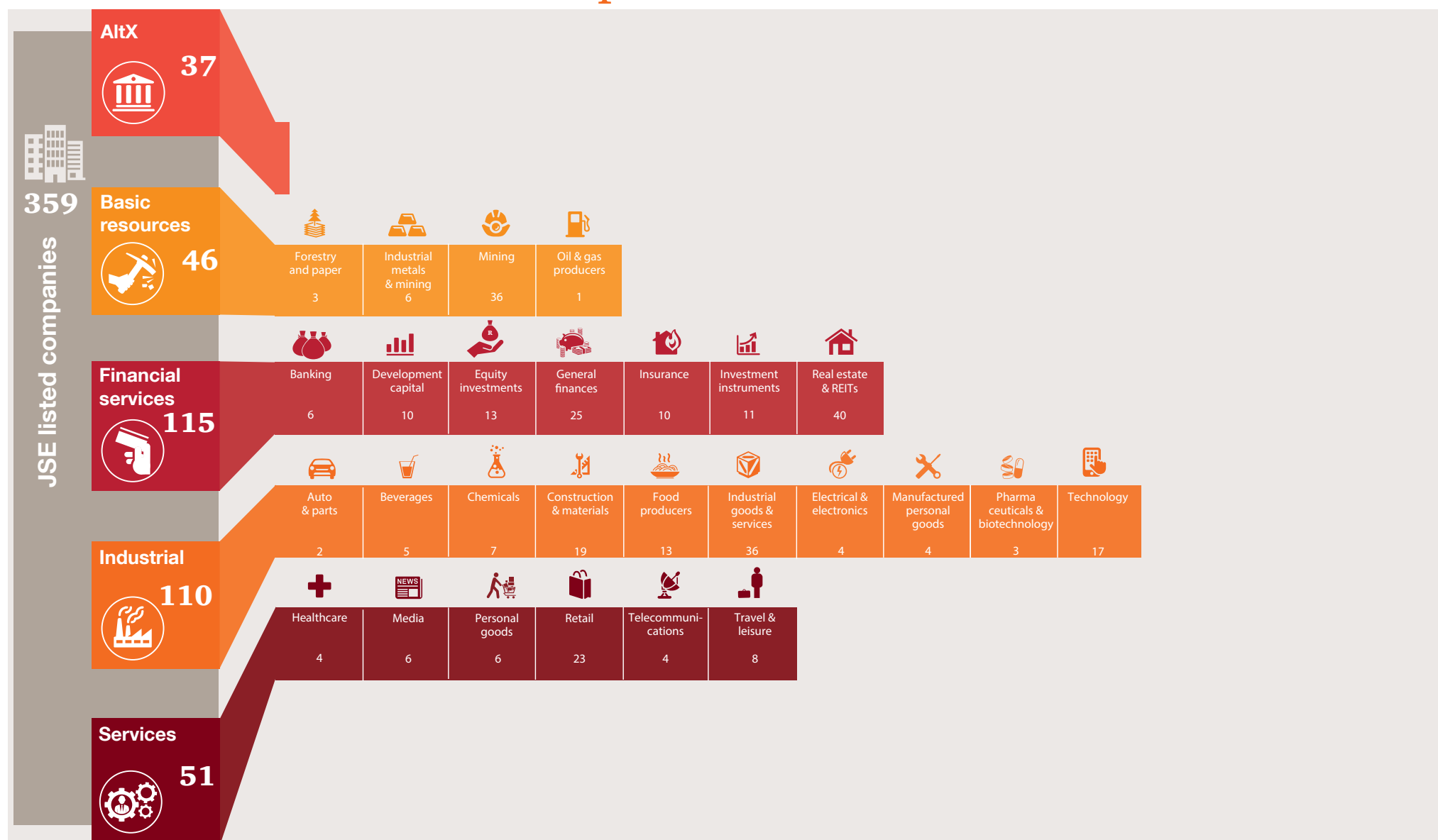
Base: 15 companies listed on the Uganda stock exchange
Source: PwC analysis

15.

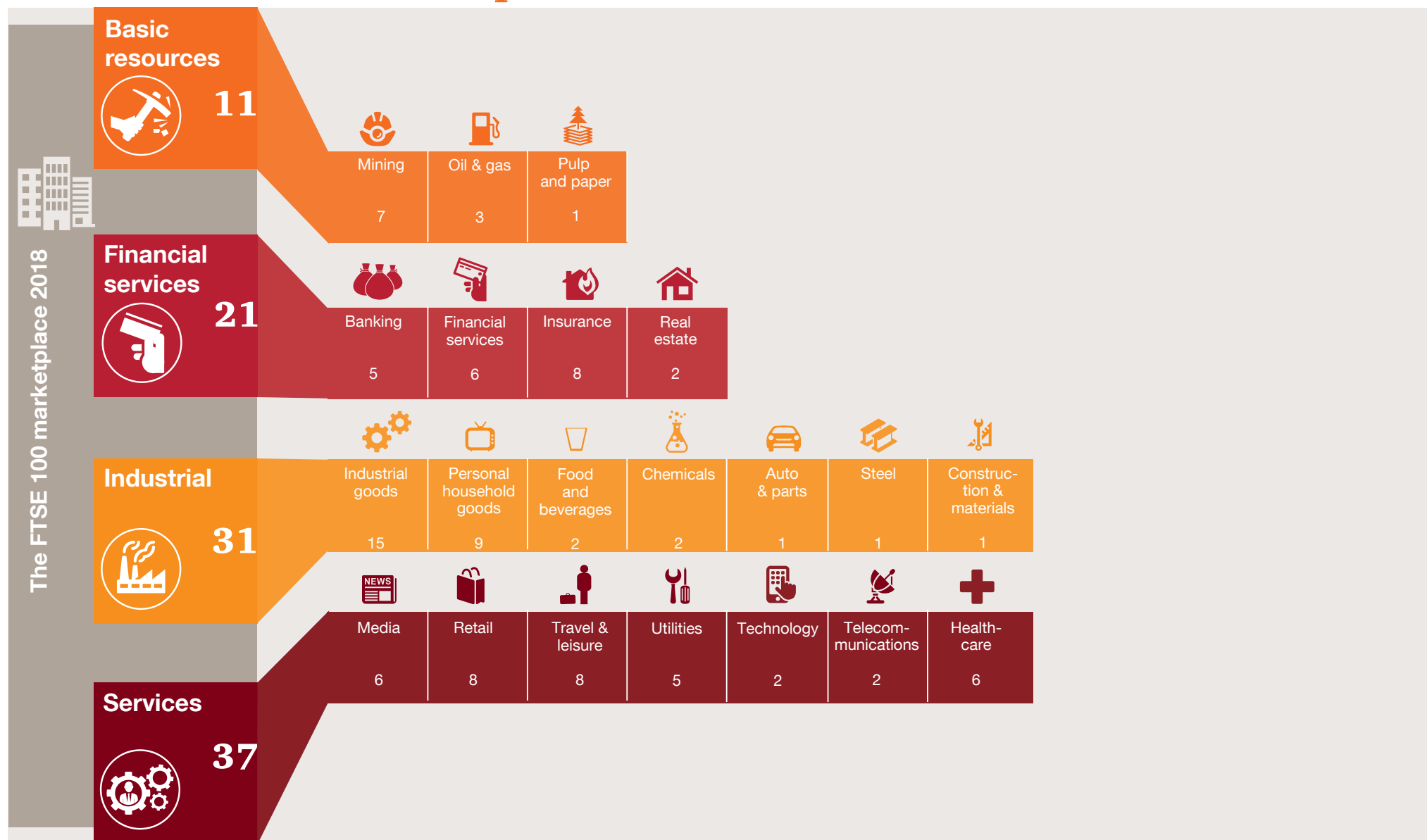
Appendices



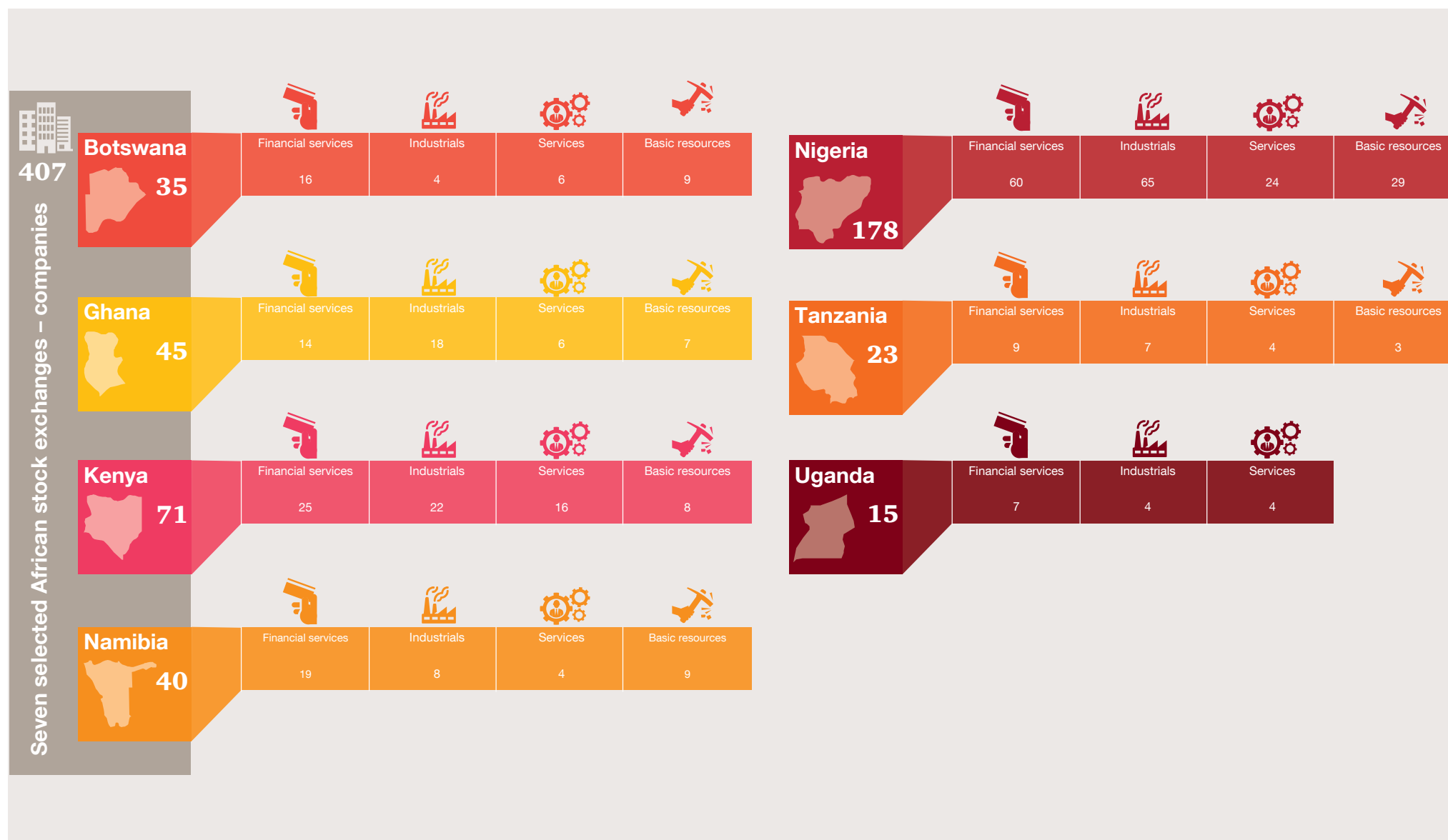
The South African marketplace



The FTSE 100 marketplace 2018



The African marketplace 2018 (seven countries, excluding South Africa)



About PwC

At PwC we apply our industry knowledge and professional expertise to identify, report, protect, realise and create value for our clients and their stakeholders.

The strength of this value proposition is based on the breadth and depth of the firm's client relationships. Networks are built around clients to provide them with our collective knowledge and resources. Our international network, experience, industry knowledge and business understanding are used to build trust and create value for clients.

We are committed to making PwC distinctive through consistent behaviours that enable the success of our clients and people. We call this the PwC Experience and it shapes the way in which we interact with clients, with one another and with the communities in which we operate. This, along with our core values of Teamwork, Leadership and Excellence – and our strong Code of Conduct – guides us in all that we do.



Acknowledgements

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- PwC Reward team
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