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Practices and remuneration trends report

Executive directors – 13th edition – South Africa

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Contents

Acronyms used in this report

AGM	Annual general meeting
AGPC	Australian Government Productivity Commission
APRA	Australian Prudential Regulatory Authority
ASX	Australian Securities Exchange
COVID-19	Coronavirus disease 2019
DIPS	Distributable income per share
DPS	Dividend per share
EMEA	Europe, the Middle East and Africa
ESG	Environmental, social, and governance
ESS	Employee share scheme
EU	European Union
FCA	Financial Conduct Authority (UK)
HE	Headline earnings
HEPS	Headline earnings per share
HR	Human resources
IA	Investment Association (UK)
ICGN	International Corporate Governance Network
IIRC	International Integrated Reporting Council
ISS	Institutional Shareholder Services
KPI	Key performance indicator
LTI	Long-term incentive
M&A	Mergers and acquisitions
MiFIDPRU	MiFID
REIT	Real estate investment trust
RemCo	Remuneration committee
SASB	Sustainability Accounting Standard Board
SDGs	Sustainable Development Goals
STI	Short-term incentive
TGP	Total guaranteed pay
TSR	Total shareholder return
UK	United Kingdom
US	United States

Editor's note

Leila Ebrahimi
Editor

It is the middle of 2021 and we remain in the grips of the COVID-19 pandemic. However, with a worldwide vaccination programme underway, including within South Africa, the end seems to finally be in sight. The continuing effects of the COVID-19 pandemic dominate our world today, along with the more established megatrends of technological disruption, climate change and fractured geopolitics. It is difficult to pronounce definitively what effect these trends have had, and will have, on reward practices globally or in South Africa.

In our companion report on non-executive directors published in January 2021, we looked at the incorporation of environmental, social and governance (ESG) measures into South African incentive structures, and found a developing trend of companies incorporating ESG measures within both short- and long-term incentives. Since that research was conducted, we have only seen this trend strengthening, and our clients will attest that there is no respectable boardroom today in which ESG is not a carefully considered, and much discussed, topic. We have included in this report some highlights from recent global PwC research and thinking, which builds upon our previous article, and links to much of what we have been discussing with our clients over the last year in terms of the link between ESG and reward.

We also take a detailed look at the impact COVID-19 has had on remuneration structures, and found that it has not been as profound as we expected it to be. What did stand out was a greater call for, and need for, the use of discretion to balance opposing interests and unexpected factors. This makes sense — with the fundamental changes in the operating environment that companies are experiencing, predicting future outcomes with any sense of accuracy becomes an impossibility.

Rigid structures that envisage linear outcomes are no longer suitable, and reward structures must incorporate appropriate flexibility. We have seen signs of this flexibility emerge within recent incentive designs, and combined with the growing trend to seek a more in-depth understanding of what employees (at executive and other levels) value and expect from their pay and benefit arrangements, this has led to a number of more unique reward arrangements being introduced.

Despite this, most will agree that over the last decade, the fundamentals of how we reward executives, and other employees, within the corporate world have not changed much. But this does not mean that old practices should not be reconsidered, particularly as we move into the post-COVID-19 world.

Our world has profoundly changed, and we understand that our clients can only succeed by creating a virtuous circle between earning trust and delivering sustained outcomes. For us at PwC, we call this 'The New Equation', and have based our new global strategy around this idea.

In line with this approach, our global Reward practice has considered what The New Equation would look like for total reward, and came to the conclusion that while it may be true that pay, incentives and benefits haven't significantly changed for decades, people's preferences have. This introduces much food for thought in terms of structuring reward to attract and retain the key talent business requires to succeed in this profoundly changed world. Key to this restructuring is asking employees how they prefer to be paid — if the pandemic has taught us anything, it is that a 'one-size-fits-all' approach will no longer work.

Expanding upon the theme of 'trust', an emphasis of The New Equation; earning trust in the context of executive remuneration involves all those endeavours that we have been chasing for a good few years now: increasing transparency about structures and possible outcomes, exercising of discretion, increasing communication and, importantly, designing reward structures that are robust and lead to fair outcomes. What is 'fair' is a complex and contextual consideration, and appropriate consideration must be given to it. This report explores some of the actions we believe you should be taking to ensure you are giving effect to the principle of fair and responsible pay.

Trust is also the foundation of a sound relationship between the board and its shareholders — and as the voting rights of shareholders continue to strengthen in effect, we must consider not only what companies must do to uphold their side of the deal, but also what shareholders and proxies must do to ensure they are acting responsibly in exercising their votes.

Executive pay remains a focus area for government and we anticipate that South Africa will soon see the long-expected legislative changes that focus on disclosing (and ultimately, narrowing) the earnings gap between executives and the lowest-paid workers. The extent to which these changes will affect the existing voting rights of shareholders is yet to be seen.

Of course, as the worldwide vaccination programme gains momentum, and uncertainties begin to lift, we see signs of increased confidence in a strong economic recovery among business leaders. Locally, we have hit bumps in the road, including the recent unrest in parts of the country, and the third wave of the COVID-19 pandemic. Nevertheless, we sense that CEOs are largely undaunted by macroeconomic concerns around inflation and geopolitical factors such as tax policy, protectionism and increased regulatory scrutiny, and appear to have a clearer vision of where value creation opportunities exist in current portfolios, including a sharper focus on M&A strategies to accelerate growth, gain scale and digitise to reshape their businesses. For reward structuring, changes in control have specific implications, which must be carefully considered in the initial design. As part of any regular health check on executive reward structures, outcomes in a change of control situation should be considered and it should be ensured that these are appropriate, fair, appropriately disclosed and motivate the right kind of behaviour by the executives.

Information used in this report

This publication focuses primarily on the JSE and includes analyses of the seven sub-Saharan African stock exchanges. Data set out here is drawn from information publicly available on 28 February 2021 (the cut-off date) and is valid for the period from 1 March 2020 to 28 February 2021 (the 2021 reporting period).

Information has been extracted from PwC's internal database and the 285 (2020: 301) active companies listed on the JSE's Main Board and AltX. The total market capitalisation of these companies on the cut-off date was R16.8 trillion (2020: R13.3 trillion).

This trend analysis excludes preference shares, special purpose listings and suspended companies.

Directors' fees

Directors' fees rarely follow a standard distribution curve. For this reason, we have used a quartile/percentile range rather than averages and standard deviations that assume normality. We include averages as a point of interest or where there are not enough data points to perform quartile analysis.

Quartile/percentile ranges used in our analyses:

- **LQ – Lower quartile (25th percentile)**
  75% of the sample earns more and 25% earn less than this fee level.
- **M – Median (50th percentile)**
  50% of the sample earns more and 50% of the sample earns less than this fee level.
- **UQ – Upper quartile (75th percentile)**
  25% of the sample earns more and 75% earn less than this fee level.
- **Average**
  Calculated by dividing the sum of the values in the set by the number of data points in that set.

Company size

In our experience there is no definitive correlation between market capitalisation and the remuneration of directors. However, we have found that market capitalisation is a good proxy for size and complexity. It is also an appropriate metric to use when identifying comparator groups for benchmarking purposes. It is in this context that data for companies listed on the JSE's Main Board is analysed in terms of:

- **Large cap**
  1 to 40 JSE-listed companies valued by market capitalisation.
- **Medium cap**
  41 to 100 of the JSE-listed companies, valued by market capitalisation.
- **Small cap**
  101 to 301 of the JSE-listed companies, valued by market capitalisation.

As with previous reports, we have also provided a remuneration analysis of the 'super cap' (top 10) JSE listed companies. These have been categorised according to their market capitalisation.

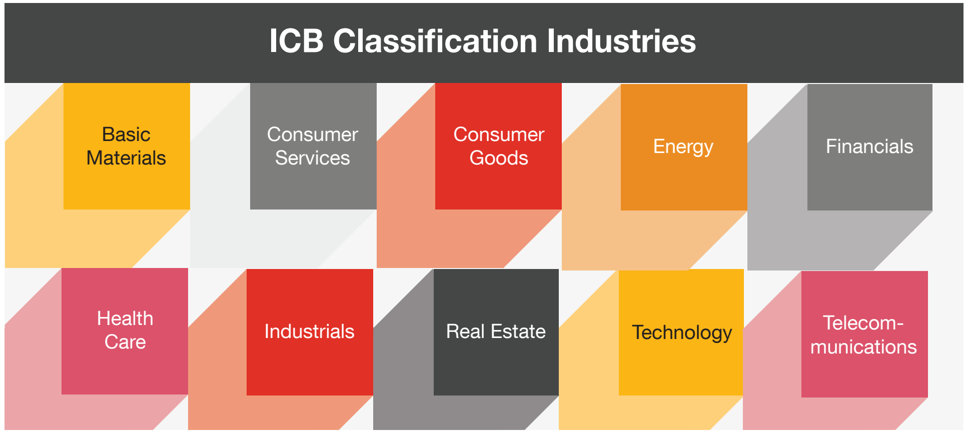
AltX

AltX is an alternative public equity exchange for small and medium-sized companies and is operated by the JSE in parallel with the Main Board. Our AltX analysis as a stand-alone group refers to 27 (2020: 29) active trading companies with a total market capitalisation of R24.02 billion (2020: R14.88 billion).

The reduction in market capitalisation in this group is a result of tough economic trading conditions resulting in certain AltX companies delisting or being suspended.

Industry classification

In this report we apply the Industry Classification Benchmark (ICB), as applied by the JSE.



1 Health check on executive pay: Reflecting on the impact of COVID-19 on executive remuneration

The COVID-19 pandemic and measures taken to contain it have affected companies in profound ways. With this came greater complexity and uncertainty in the environment in which remuneration decisions are made.

In South Africa, remuneration decisions were in some instances further impacted by the decisions of regulators taken in response to the pandemic. One example is the South African Reserve Bank, which issued Guidance Note 4/2020 cautioning banks against paying bonuses to executives and material risk takers in favour of capital conservation, especially where lower-level employees were impacted by the pandemic. This left remuneration committees (RemCos) debating what to do about bonuses where targets had objectively been met. Furthermore, boards and RemCos faced the challenge of not only ensuring that remuneration decisions balanced the interests of multiple stakeholders, but also of unpacking the question of 'what is fair and reasonable' within this environment, which was thrust in the spotlight given the many social inequalities highlighted by the pandemic.

Following a publication issued by our PwC colleagues in Australia,[1] PwC South Africa conducted research among the Top 150 JSE-listed companies[2], to explore what the most prevalent remuneration-related changes brought about by the COVID-19 pandemic have been. Given that disclosure around the level of discretion applied in these circumstances is often opaque and in light of the fact that some companies are yet to disclose their arrangements, we have augmented the research with our own market observations. We highlight and explore some of the trends identified in this chapter.

1 "Managing remuneration during and post COVID-19: discretion is key," PwC Australia, October 2020. *https://www.pwc.com.au/people/assets/10-mins-on-discretion-is-key-oct20.pdf*

2 For purposes of this research, companies with year ends from September 2020 have been considered.

Short-term incentives: 16 months into the pandemic, a year now seems like a very long time

Where companies make changes to short-term incentives (STIs) as a result of COVID-19's economic impact, there is a legitimate expectation that substantial narrative and rationale be disclosed — naturally, the more significant the deviation from the company's historical incentive policy and application thereof, the more substantial the rationale required.

Our research of short-term incentives revealed the following trends:

- **Non-payment or deferral of STIs**
  The most prevalent observation was that no STI was paid during the year in order to protect the financial liquidity of companies. Some companies opted to defer payment to a later date.

- **Use of different STI performance conditions**
  Our observations include a change from headline earnings per share (HEPS) to headline earnings (HE) in the financial industry, DIPS (distributable income per share) instead of DPS (dividend per share) in the real estate investment trust (REIT) industry and the replacement of financial measures such as total shareholder return (TSR) with strategic targets due to uncertainty and volatility in the current economic climate.

- **Downward adjustment of STI quantum**
  We observed a number of companies that paid out lower STIs by reducing their on-target or maximum STI percentages, balancing corporate finances and strategy against the need for fair and reasonable incentivisation. Some companies also set their targets low at the start of the pandemic and then overachieved on those targets, which resulted in downward adjustments.

- **Upward adjustment of STI quantum**
  A few companies made discretionary upward adjustments to their STI outcomes, subject to liquidity targets, to take into account the significant changes in the economic climate due to COVID-19 and to mitigate retention risks.

- **Introduction of an STI deferral mechanism/settlement of a portion of the STI in shares**
  Some companies chose to introduce new deferral mechanisms, or settle in shares, to assist with managing liquidity and cash-flow concerns.

- **Delaying the setting of performance targets**
  Deciding to set targets at a later date has enabled some companies to obtain a more comprehensive understanding of the effects of the pandemic on their business and prevent rushed decision-making that might result in unintended and regrettable outcomes. In limited instances companies have also opted not to set any targets and assess performance and the end of the year with discretionary payments.

- **Suspension of the implementation of a revised STI plan**
  In some instances, after taking into consideration the remuneration environment and performing an holistic assessment, it was determined that the implementation of a revised STI plan would be deferred.

Long-term incentives: predicting the future becomes even more difficult

Early on in the pandemic, we published 'Healthy LTIs in a COVID-19 environment'[3] in which we explored some of the challenges presented when making LTI awards, as well as LTIs vesting during this uncertain period. The setting of LTI targets for awards is a challenging exercise in ordinary business conditions where the performance of the company can reasonably be expected to be sustainable into the future. In the wake of COVID-19, casting an eye into the future to forecast the performance of the business has become even more challenging, and many feel that the setting of appropriate performance targets is an almost impossible task given the prevailing uncertainty. LTI target setting is likely to continue to be a challenging exercise of balancing the interests of all stakeholders — particularly shareholder expectations — and ensuring that incentives remain motivational for executives.

We have observed the emergence of various approaches to LTIs, all of which have received differing reactions from shareholders. These include:

- **Postponing the making of LTI awards and setting performance targets**
  Our analysis found this to be the most common approach adopted. This was likely due to companies not wanting to take the risk of setting goals that could become meaningless — either through setting targets too low, resulting in excessive payouts, or setting targets that were unachievable and thus disincentivising to the participants. On this basis, a number of companies held off setting LTI performance targets in the hope that, over time, the company would gain better insights into the impact of COVID-19 on the business and the ability to forecast. The delay, while understandable, has the potential to create uncertainty for executives as well as cause an increase in shareholder scrutiny. Nevertheless, we found shareholders were generally sympathetic towards companies that have adopted this approach, with the caveat that targets will be scrutinised closely once the company discloses them to the market.

- **Business-as-usual LTI awards**
  In contrast to the above findings, some companies made use of their reduced share price and made the same LTI awards as would be made under normal business circumstances. In other instances, companies made LTI awards, but opted to apply a nominal higher share price rather than the ruling share price, to cater for the impact of COVID-19 on the share price and not provide an advantage to the LTI participants.

- **Implementing broader performance ranges and/or reducing thresholds**
  Although not widely observed among JSE-listed companies, some companies set wider performance ranges in order to cater for the uncertainty and volatility in the market. For companies that have been severely affected by COVID-19, lower thresholds have been set for entry-level performance targets, while more stretch has been incorporated in maximum vesting levels.

- **Adjusting existing performance targets for in-flight awards**
  A limited number of companies adjusted the performance conditions of their in-flight awards. This was not well-received by shareholders. How the future application of discretion is to be received by shareholders when the LTIs vest, is yet to be determined, but based on feedback on the discretion applied to current LTI outcomes, where such discretion is perceived to have been applied to the benefit of executives, the results are unlikely to be favourable.

[3] "Healthy LTIs in a COVID-19 environment," PwC South Africa. Accessed 21 July 2021. https://www.pwc.co.za/en/publications/healthy-ltis-in-a-covid-19-enviroment.html

- **Additional retention awards to curb the impact of non-vesting of LTIs**
  In limited instances, retention awards were introduced to address the potential of performance awards not vesting due to COVID-19. These too were not received favourably by shareholders. The making of any awards to executives without a performance link, even in the COVID-19 environment, is not favoured by shareholders and institutional investors.

- **Pre-empting the need to adjust future LTI vesting outcomes**
  Although a common approach appears to be for RemCos and/or boards to reserve the right to adjust LTI outcomes downwards in order to avoid windfall gains, the unprecedented impact of COVID-19 has resulted in many organisations anticipating the potential need to review and/or adjust targets in future reporting periods after these targets have been set, and disclosing as such in their remuneration reports.

- **Amendments to the performance period**
  In a few instances, companies have decided to disregard the impact of the financial year most impacted by COVID-19 in evaluating LTI performance conditions. As a compromise, some have imposed longer vesting periods and disregarded performance during the COVID-19 period.

Changing of remuneration structures and frameworks

Given the impact of COVID-19, some companies adopted changes to their remuneration frameworks, often as an interim solution, either to:

- adapt to their revised strategic focus areas,
- manage the uncertainty and impact of COVID-19 in their industry, including the difficulty in setting performance conditions and/or targets, or
- address retention risks.

The most common changes observed were:

- **Altering performance conditions**
  Some companies introduced qualitative measures as part of their awards, either linking to a specific strategy or challenges being experienced in the particular industry, or to counter the difficulty of setting financially-linked targets. Other companies included new performance measures that linked to the sustainability of the company in light of the pandemic. In some instances, a greater focus/weighting towards liquidity, cash flows and recovery was provided.

- **Adoption of special ‘turnaround incentives’**
  We have observed the adoption of special incentives in industries most hard hit by the pandemic. This included tailor-made milestone-based incentives, which are partly settled in cash and partly settled in shares with a longer vesting period attached. Some companies have also opted to use their conventional LTI structures, but used a one-year performance period, thereby avoiding the challenges of calibrating three-year forward-looking performance conditions, with longer, staggered vesting period.

- **Minimum shareholding requirement compliance**
  Although not widely reported on, many companies are considering the impact of low share prices on their existing minimum shareholding requirements and reassessing the compliance thereof.

- **Reduction of TGP**
  With many executives taking a reduction in total guaranteed pay (TGP), with some reductions being more significant in terms of the extent and period of the reduction, companies have had to consider the following:
  - **Which salary should the determination of incentive be based on?**
    In our experience, mixed practices have been pursued, but where TGP reductions were temporary, the majority of companies use the pre-COVID-19 reduced TGP as a base for incentives. In instances where salary reductions are permanent, the new TGP is used as a base to determine incentives.
  - **Do companies repay what was 'lost'?**
    This decision has been largely based on the level of recovery seen by companies and no common theme was identified.

Discretion: Apply the formula, or apply our minds?

Our research suggests that the application of discretion has varied across companies. However, we have observed that ongoing economic uncertainty and resultant financial performance have impacted the remuneration decision-making process across a number of areas, as highlighted above.

Most companies appear to have considered the need for discretion, and there were a notable number of companies that did apply discretion. This was mostly to override a formulaic outcome in the STIs or to pre-emptively cancel STI awards, or introduce deferral or alternative settlement, as discussed above. Interestingly, instances of the application of upwards discretion (where outcomes were considered to be unfair given the unique efforts of executives over the relevant period) were also observed. The application of discretion to LTI outcomes was not common, but some companies did apply discretion to in-flight LTI awards, citing the fact that targets or conditions were no longer appropriate in the current economic environment, or that longer performance periods were required to reduce COVID-19's impact on award outcomes.

Overall, boards have considered the disclosure of discretion applied to be more important than was previously the case (particularly in balancing incentivisation against cost containment in terms of what is 'fair and reasonable'). This change in approach, including the trend towards more transparent disclosure, is likely to set the bar for best practice going forward, even after the economy recovers and the impact of COVID-19 wane.

While it is anticipated that many of the trends discussed here will be temporary measures, to be reconsidered once the effects of the pandemic are no longer being experienced, given that we are more than a year into the pandemic with no clear indication as to when there will be stability, it is likely that many of the steps outlined above will be applied by companies in more than one reporting year.

2 Pack your bag: Embarking on your fair pay journey

The time to meaningfully address fair and responsible pay is upon us. No longer can ignorance be feigned, no longer can urgency be denied. Globally, this is a priority, and while no single person has all the answers, much like ESG concerns, this is no longer a justifiable reason to delay. As with all journeys, the first step is the most important.

Internationally, regulations around diversity and inclusion, and around (executive) pay and the disclosure thereof, continue to increase. In many countries, mandatory disclosure of pay ratios, including in some countries, gender pay ratios, are now a reality. Calls for transparency are deafening and remuneration committees are now duty-bound by King IV™ to assess executive remuneration decisions in the context of what is 'fair and responsible'. We have often reflected on the fact that the responsibilities and expectations of remuneration committees continue to increase, and it is evident that these now include a clear expectation that remuneration committee members have greater visibility and oversight of pay and diversity metrics.

A basic, compliance-based approach may be a start, but to truly discharge this responsibility, an informed and holistic approach should be adopted: one which harnesses the opportunities that diversity and inclusion (and fair pay) bring to an organisation. We believe that there are four good reasons to make getting fair pay right a priority within your organisation, and expand on these within this chapter. We also offer an idea of what a roadmap for your fair pay journey could look like, and hope that it will encourage you to take that all-important first step.

Reason one: There is a strong moral case to 'do the right thing'

In recent years much has been written and debated about the 'business case' for diversity and inclusion, often stating that companies with a diverse board of directors bear better results. But should we be so focused on whether there is a business case for diversity in the workplace, or should we simply focus on improving diversity because it's the right thing to do? This is a particularly relevant question in South Africa, considering the challenges of our unique history, and our unique socio-economic landscape.

It seems universally agreed that all members of society (and thus, employees) should be enabled and encouraged to reach their full potential, regardless of their gender, race, or any other characteristic. A fair, open, inclusive and tolerant society in which everyone has the same opportunities to utilise their talents and earn a living is a standard that we all strive towards, separate from the consideration of 'what is good for business'.[4]

Overstating the business case for diversity detracts from and understates the real changes needed to enable society to reach this standard, and in the worst case, can harm the credibility of tangible steps taken by companies toward true diversity and inclusion, as it comes with the risk that should business case diversity initiatives fail to deliver, people may withdraw their support for them.

Creating fairness within companies — truly open and inclusive cultures — plays an important role in addressing the current and past societal injustices and inequalities that many citizens in South Africa face. We must strive for a country, and a world, in which everyone has a fair opportunity to flourish and contribute their best.

This requires important change beyond that which is visible.

Evidence suggests that the real effects of diversity start when efforts are made at the management level of the organisation, rather than with the board of directors (where not everyone is involved in the day-to day-management of the company, as changes at this level might not translate into organisation-wide progress). In addition, it's important that there is clearly demonstrated buy-in from executive leadership, as they will need to drive the required cultural shift.

It is possible to shift cultures within organisations, but real change is slow unless a focused intervention is undertaken and employees are emotionally engaged — understanding that the root of cultural change is always emotional, rather than rational. This will require the leaders of the organisation to take the necessary time and care to analyse and understand the existing subcultures within their organisations, and put in place plans to address and shift these. Using the concept of 'the critical few' — in which a few carefully identified things that some people do day after day, that would lead your company to succeed if they were replicated at greater scale — is an effective way to drive this change.[5]

While the argument that diverse boards guarantee better results may be debatable, the fact is that the more diverse the team of people on a project or in a business, the more diverse the potential outcomes. Whatever the approach adopted, it will take time to learn and implement the approaches that consistently harness the benefits of diversity for business performance. What is key, however, is how people are treated in ranking, assignments and pay.

4 This concept is also explored in detail by Tom Gosling in "Getting to the Heart of the Case for Diversity," (blog) 7 May 2021. *https://www.tom-gosling.com/blog/getting-to-the-heart-of-the-case-for-diversity.*

5 This is further explored by Jon Katzenbach in his book *The Critical Few*. Katzenbach, Jon, and Gretchen Anderson. *The Critical Few: How Leaders Really Transform Culture*. Oakland: Berrett-Koehler Publishers, 2019. *https://www.strategyand.pwc.com/gx/en/insights/books/the-critical-few.html.*

Reason two: It's good for business, if you can get it right

Although the business case should not be the start and end of the discussion, and even though the strength of the so-called 'business case' for diversity and inclusion may be contested, the 'learning and effectiveness paradigm'[6] remains an accepted approach to diversity within business. This approach is based on research that supports the idea that the cultivation and adoption of a learning orientation leads to increased effectiveness within business. This means that diverse teams that learn from different viewpoints, experiences and inputs of the represented identity groups contribute to stronger, more effective businesses. Therein lies the true business case, rather than boilerplate statements that state the importance of diversity and imply that increasing diversity automatically leads to improved business results.

This approach emphasises that it is not enough to make sure your boardroom (or other meeting) table is representative of diverse identity groups. Converting cultural differences into business results such as better team decision-making and higher quality of output requires deeper work to be done. This includes ensuring that every person at the table truly feels that they 'belong', which involves doing work to eliminate any status differences brought about by, for instance, unequal pay. In short, egalitarianism must be demonstrated: the doctrine that all people are equal and deserve equal rights and opportunities. Inevitably, and in a society with such unequal income distribution as ours, pay is a big part of this.

A key point can be missed by focusing on a simplistic business case that is the equivalent of 'increased diversity = better business results'. To truly unlock the benefits of diversity, all employees need to feel genuinely heard, valued and respected, not just be granted a seat at the table. They need to operate from an equal footing, have the power to influence decisions and set the agenda, and importantly, must have their contributions rewarded and recognised. This not only includes being paid fairly, but being given equal opportunities to advance and improve their potential to earn.

Beyond the boardroom and team meetings, a great employee experience, including pay that is perceived to be fair and which is motivating, is crucial to ensure that employees remain happy and motivated. It also ensures that organisations are able to retain and motivate employees and key talent to deliver on their strategy and purpose, and empowers organisations to attract future talent in the competitive labour market. Such a focus on attracting and retaining the right talent, and real action and transparency around fair pay, is a wise business imperative to adopt for all organisations.

6 "Getting Serious About Diversity: Enough Already with the Business Case," Harvard Business Review, last modified 1 November 2020. *https://hbr.org/2020/11/getting-serious-about-diversity-enough-already-with-the-business-case.*

Reason three: Being on the right side of the law

Ensuring that all your employees are remunerated in a manner that is fair and ethical is critical to ensuring the success of your wider diversity and inclusion strategy. While many companies may commit to fair and ethical pay because it's the right thing to do, or because they believe in the business case, there are also a number of local standards and regulations that recommend adherence to the principle of fair and responsible pay, as well as the implementation of a fair pay policy. South Africa's current standards and regulations, as well as the expected Companies Act amendments, which will see the introduction of mandatory pay disclosure, are expanded on in some detail below.

The Employment Equity Regulations

The Employment Equity Regulations (EER) came into effect on 1 August 2014, introducing provisions for equal pay for work of equal value giving effect to the principles set out in the Employment Equity Act. These regulations address the unequal treatment of employees in respect of remuneration and other terms of employment, obliging employers to identify and correct any instances of unjustified differentiation. With the new EEA4 disclosure requirements of 2019, it is not sufficient to merely have a section within the company's remuneration policy on fair and responsible pay.

The EEA4 submission includes details of the number of employees and income differentials at each occupational level in terms of race and gender. The submission also calls for the disclosure of the average annual remuneration of the top 10% and bottom 10% of earners as well as the median earner's remuneration in the organisation. Additionally, organisations are also required to indicate whether or not they have a policy in place to address and close the vertical gap between the highest and lowest paid employees in their workforce.

King IV™

The King IV™ Report on Corporate Governance in South Africa (King IV™) addresses fair and responsible pay practices, by calling on remuneration committees to ensure that their organisations remunerate fairly, responsibly and transparently. The remuneration committee is tasked with setting the direction of how this is to be achieved and formulating a remuneration policy (and other relevant policies) that encompasses arrangements to ensure that the remuneration of executive management is fair and responsible in the context of overall employee remuneration of the organisation.

Companies Act

The proposed amendments to the Companies Act, if approved, would require mandatory disclosure of the following fair pay ratios, calculated on an annual basis:

- the total remuneration of the highest paid employee in the company
- the total remuneration of the lowest paid employee in the company
- the average and the median remuneration of all employees
- the remuneration gap reflecting the ratio between the lowest paid and highest paid employees.

Additionally, the proposed amendments may mean that organisations face a binding vote on remuneration policies and implementation reports, in which case, the existence of a fair pay policy becomes even more important. The remuneration committee should take proactive steps now to create and implement a fair and responsible pay policy and framework to stay 'ahead of the game'.

Reason four: Sustainable business includes acting on important social considerations, including fair pay

Modern societal expectations are that companies are purpose-led organisations, committed to contributing towards important social, environmental and governance (ESG) goals through their influence in society. Many frameworks surrounding ESG metrics have been developed and refined over the last few years, and many companies have put in place a 'Head of Sustainability' to navigate these and create a strategy and framework for ESG's incorporation within the business. Many of these frameworks, such as the United Nations sustainable development goals (SDGs)[7] and the Sustainability Accounting Standard Board (SASB) standards are relevant to the discussion surrounding fair pay, and should be borne in mind as part of the larger ESG conversation.

Considering the SDGs as a starting point, there are three clear goals which relate directly to the fair pay journey:

Goal 1: No poverty

Decent, fairly paid, secure employment lifts people out of poverty. For many companies, their biggest impact on poverty will be through creating decent work and economic growth. This discussion links to discussions surrounding the living wage, a key consideration when determining fair pay policy within an organisation. Businesses that pay their staff below a living wage are at serious risk of significant reputational damage. Furthermore, businesses are increasingly considering fair pay in the context of their supply chains, both to manage potential reputational risk and as a positive lever for lifting people out of poverty. Of course, there is also evidence that higher wages can lead to increased productivity, serving everyone's best interests.

Goal 5: Gender equality, and Goal 10: Reduced inequalities

Economic inequality, or the gap between rich and poor, continues to widen globally; in developed and developing countries alike, the poorest half of the population often controls less than 10% of its wealth. By supporting equal opportunities in employment, in terms of recruitment, pay and promotion, business has a vital contribution to make to reducing inequality. For example, with regards to gender, women with equal rights are better educated, healthier and have greater access to land, jobs and financial resources. Their increased earning power in turn raises household incomes.

Evidence also demonstrates that where women have greater involvement in household decision-making, children go on to have better prospects and enjoy greater well-being, which reduces poverty in succeeding generations. High levels of inequality correlate with lower economic performance and social problems such as crime, both of which provide a less stable business environment, creating a vicious circle in which it is difficult for businesses to operate and for people to get paid what their efforts are worth.

Pay ratios are a key consideration here, as well as policies to increase the transparency of employee pay (for example, allowing employees the right to disclose their salaries voluntarily). Incentive schemes that go deeper than senior management can also be considered in this regard.

7 For a more comprehensive read on how businesses can address the SDGs, please see PwC's SDG guide: "Sustainable Development Goals (SDG) – Impact on Business," PwC, accessed 12 July 2021. *https://www.pwc.com/globalgoals.*

Steps on your fair pay journey

Embarking on a fair pay journey can be a long and intensive process, but it doesn't have to be intimidating. Below, we have outlined a roadmap for success, demonstrating the steps that we believe are the starting points to getting fair pay right within your organisation.

Defining fair and responsible remuneration

Define what fair and responsible pay means to your company. The philosophy and principles that you commit to should inform any pay-related decisions. Where appropriate, goals should be set.

What is fairness? Fairness can be defined as employees receiving the same pay and benefits, and not being discriminated against based on any arbitrary grounds such as race, gender or sexual orientation.

However, we know that it is not that simple, particularly in a society as unequal as South Africa's. Everyone may not want, need, deserve, or even be able to derive benefit from, the same thing.

Take stock of where you are currently

Determine where you currently stand with regards to fair and responsible pay, from a **policy** perspective as well as a **pay disparity** perspective.

Evaluate your current policies and procedures to identify any aspects that increase your risk of pay disparities and perform an analysis to identify any pay disparities.

We recommend a dual approach:

- **a macro analysis** for a holistic overview, and
- **a micro analysis** to understand the detail behind any disparities discovered.

Goal setting and strategising

With guiding principles in place, and detailed knowledge of your 'status quo', the next step is to adopt an action plan.

Strategies and approaches for addressing identified disparities should be formed and any identified action points arising from the analysis should be broken down into **achievable, measurable targets with a defined timeframe for resolution.**

Developing a framework

The philosophy and principles, as well as agreed goals should be recorded in a **comprehensive fair and responsible pay policy framework.**

Details of annual processes and reporting protocols should be recorded. Details of the tools that will be adopted to measure and monitor adherence to the stated policy should also be included.

Related policies and processes (such as those relating to recruitment) should be reviewed and updated to ensure the identified principles are reflected.

Compliance

What gets measured gets done.

Continue to monitor and report on an annual basis to ensure accountability to the organisation and its stakeholders.

Revisit your framework on a regular basis to ensure it stays on top of trends, expectations, and legislative/regulatory changes.

Provide change management, training and communication support throughout the process.

Conclusion

It is clear that the time has come for leaders to step forward, take action and actively address fair pay in their organisations. It is critical that leadership takes the lead and is seen by employees, stakeholders and other members of society to be committed to creating working environments in which all employees are valued and rewarded and have equal opportunities to grow, develop and flourish within the organisation.

There are many good reasons to commit to fair pay within the organisation and, as we continue to learn and grow in our understanding of what it means to truly embrace diversity and inclusion, there are no excuses for not taking the first definitive steps towards ensuring fair pay for all employees an organisation impacts.

3 ESG: No gain if you don't sustain

The topic of ESG continues to dominate the discussions at many companies as they begin to grapple with what ESG means for their organisations and what changes they need to make, particularly when it comes to remuneration.

While the importance of ESG measures and their integration into incentive structures cannot be ignored in the business sector, many companies experience challenges in determining how they should be linked to executive remuneration and what the first steps are in their ESG journey. In determining how to include performance measures, it is important that companies not merely include ESG for the sake of compliance or silencing their stakeholders and in so doing, carry the risk of hitting the target but missing the point.[8]

[8] *Linking executive pay to ESG goals*. Strategy + business, 2021. *https://www.pwc.com/gx/en/issues/reinventing-the-future/take-on-tomorrow/download/Linking-exec-pay-ESG.pdf*.

The four dimensions of ESG remuneration

The selection of ESG metrics requires companies to obtain insights from their strategic and operational leadership and reflect on their purpose, underlying values and the practicalities of incorporating ESG metrics into remuneration based on their current internal processes. PwC in collaboration with the London Business School identified four design dimensions that leaders and remuneration committees need to weigh up when deciding how to integrate ESG into remuneration structures.[9]

Input vs output

Quantitative objectives such as reducing emissions lend themselves to output goals or external targets. These are often based on measures of stakeholder impact and include aspects such the total amount of emissions produced or employee engagement scores. Given the inherent objectivity, shareholders prefer objective output measures. But there are situations, such as strategic transformation, where input goals are also useful for addressing ESG issues that need to be measured in a more qualitative way. Input measures or input targets are those the company uses to benchmark itself. Examples of these include developments in diversity initiatives or investments in green technology. These are measured by stakeholder outcome and not by the outcome of the measure itself.

Both input and output measures are useful insofar as they are aligned to the company's strategy and are capable of being collected and analysed, and enable the company to communicate the data needed to support the assessment of whether the targets have been met.

[9] *Paying well by paying for good*. PwC UK and London Business School, 2021. *https://www.pwc.co.uk/human-resource-services/assets/pdfs/environmental-social-governance-exec-pay-report.pdf.*

Individual KPIs vs scorecards

To effectively integrate ESG into remuneration structures, it is important to keep track of and measure progress towards ESG goals. Sometimes an organisation will have one or two critical ESG issues that tower above others in significance, meaning that focusing on one or two KPIs may be appropriate. In other cases, an ESG issue may be multidimensional with many different objectives. In these cases, a carefully constructed and transparently disclosed scorecard may work better. It is important to strike a balance between ensuring the scorecard is sufficiently comprehensive to capture the range of the company's ESG priorities and having a scorecard that is complex, and by extension unmanageable, and that fails to address the ESG issue.

Long-term incentive vs annual bonus

One of the challenges companies encounter is deciding whether the inclusion of ESG would be more effective in their STIs or LTIs. While environmental goals sit comfortably within the LTI because of their long-term orientation in that it will take several years for real progress to be observed, some ESG targets, such as health and safety goals and even gender pay targets, can be robustly calibrated over a single year. It is better to set ambitious, well-calibrated one-year targets than vague long-term ones.

Underpins vs scale targets

In most cases, ESG metrics will work most effectively as scaled targets, with threshold and maximum performance levels. This is particularly the case for transformational objectives such as emissions reductions. However, some issues will have pass or fail performance standards, below which reductions in payout are appropriate and which may serve as a gateway to an incentive payout. Safety is such an example.

The changing shift of ESG measures

Although not necessarily termed as such, the use of ESG measures is not a new concept in executive remuneration. However, there has been a shift in the variety of measures used. Previously, 'Old ESG' measures relating to regulatory requirements, risk management and safety or employee metrics were more prevalent. As a shift in emphasis towards company sustainability and social responsibility has emerged, a new category of measures, 'New ESG', is emerging, centred on the environment, society and communities and will include measures linked to diversity, sustainability and other social responsibility actions. While companies have historically only included Old ESG metrics, the changing environment and shareholder and wider stakeholder feedback has resulted in companies casting their net wider to include New ESG metrics.

This is evident from the PwC US survey[10] results with consumers, employees and executives where many expressed that organisations should invest in making sustainable improvements to the environment and society, and not just comply with regulation. While consumers have long said that they value sustainability, the COVID-19 crisis appears to have shifted consumer behaviour related to supporting healthier, safer, more environmentally and socially conscious products and brands. The ESG aspects consumers and employees were most concerned about was the effects of climate change and the corporate race to net zero, with this investment priority coming secondary for executives after privacy and data security.

Based on the survey results, a disconnect was however observed between consumer and executive perception when it came to issues such as improving racial and gender diversity and inclusion, with 61% of executives feeling companies' actions on such initiatives were improving versus only 40% of consumers. There does however appear to be shared frustration at the progress of ESG efforts such as diversity within organisations, with 73% of consumers feeling let down at the slow progress of diversity and inclusion, and 64% of business leaders expressing disappointment that the diversity and inclusion commitments are not yet showing desired results.

10 "Beyond compliance: Consumers and employees want business to do more on ESG," PwC US, 2021. *https://www.pwc.com/us/en/services/consulting/library/consumer-intelligence-series/consumer-and-employee-esg-expectations.html?j=171426&sfmc_sub=184577&l=16_HTML&u=3035355&mid=510000034&jb=1*.

The prevalence of ESG measures: A comparison between USA, the EU and the UK

Pay Governance conducted a comprehensive survey of the use of ESG measures in incentive remuneration in January 2021.[11] A total of 95 US companies participated in the survey, with only 22% indicating that ESG measures were used in their incentive designs in 2020, and 29% confirming that they will use ESG measures in their 2021 incentive designs.

In contrast, 90% of the 30 EU and UK companies[12] that participated in the survey said that they make use of ESG performance measures in their incentive designs. It is interesting to note that despite the alignment between sustainability and shareholder value only emerging over a longer period of time, 95% of the US companies surveyed who make use of ESG measures in their incentive designs, use these measures in their short-term schemes. Only 5% make use of them in their long-term schemes. In the EU and the UK, 89% of the companies surveyed who make use of these measures in their incentive designs incorporate them in their short-term schemes, while only 41% incorporate them in their long-term schemes.

Despite the difference in prevalence of ESG measures between the USA and the UK/EU, it should be noted that there are vast similarities in the measures used across these jurisdictions:

- A combination of quantitative and qualitative metrics was most prevalent in measuring ESG.
- A scorecard approach was the most common approach used, with 67% of UK/EU companies and 48% of US companies reporting using it. The use of a measured metric (UK/EU: 26% and US: 36%) and individual objective (UK/EU: 22%: and US: 36%) was also observed.
- A weighted measured component was also strongly preferred as opposed to a modifier or discretionary adjustment.

11 John Ellerman, Mike Kesner, and Lane Ringlee, "Do UK and EU Companies Lead US Companies in ESG Measurements in Incentive Compensation Plans?," The Harvard Law School Forum on Corporate Governance, last modified 18 June 2021. *https://corpgov.law.harvard.edu/2021/06/18/do-uk-and-eu-companies-lead-us-companies-in-esg-measurements-in-incentive-compensation-plans/*.

12 The research was based on 30 companies from the UK's FTSE 100 and EU's STOXX 50 indices across a broad spectrum of industry sectors and countries.

- The weighting of ESG measures was typically under 25%, with 10%–15% being the most common weighting, which indicates that the preference remains for financially-based metrics to form the majority of performance metrics.

With respect to environmental performance measures, reduced carbon emissions/greenhouse gas was the number one performance measure in the UK/EU companies followed by waste reduction, with US companies more commonly making use of energy efficiency/renewable energy followed by reduced carbon emissions measures. Diversity was the top ‘social’ performance measure, although US companies also selected a companion metric, inclusion and belonging, at a much higher rate (43%) compared to 19% in the UK/EU.

The survey results indicate that UK and EU companies are well ahead of the US in the inclusion of ESG metrics in incentive plans although many US companies are conducting materiality assessments to select the metrics and goals that will have the greatest impact on the company’s long-term performance

Conclusion

There is increasing pressure for companies to incorporate ESG metrics into their incentive structures. Nevertheless, companies should ensure that the underlying motivation for including metrics is sound and that they have fully assessed the materiality of the ESG goal and the ramifications (and sometimes unintended consequences) of including ESG metrics.

RemCos, leaders and other design makers should be wary of moving too quickly and in doing so falling prey to misaligned ESG metrics. Where there is an insufficient link between the ESG metrics and the company, their inclusion will have been in vain. As such, companies should have regard to the development (insofar as they do not have one) of a robust ESG strategy that considers the views of stakeholders and shareholders, is underpinned by the company’s purpose, values and business strategy, and takes into account the design dimensions set out above.

4 Remuneration voting: Game on?

Companies and boards devote extensive amounts of time and energy to structuring remuneration arrangements that are considered fair and reasonable, and which can withstand the scrutiny of shareholders and wider stakeholders.

Understandably, shareholders wish their input to be considered in the structuring of such arrangements, as well as expecting any legitimate existing concerns to be addressed. Through shareholder resolutions at the annual general meeting, shareholders are formally given a ‘voice’ or ‘say on pay’ — but in the absence of adequate, open and transparent communication about remuneration arrangements, there is a risk that shareholders will feel that they have not been sufficiently ‘heard’, culminating in what some may describe as a tug-of-war with boards.

Boards may feel that the task of appeasing a diverse set of shareholders with differing views and agendas is impossible. On their side, they may feel that the hours spent in proactive engagement with shareholders are ill-spent, citing poor voting attendance at AGMs, or an over-reliance on proxy advisors that may not understand or have time to consider the specific background or nuances of remuneration-related policies and decisions. There is also a concern that an excessive focus on financial considerations and short-term profit-maximising goals could contradict the responsible investment philosophies underpinned in King IV™, CRISA and PRI and result in insufficient focus on strategy and long-term value creation.[13]

[13] N Mans-Kemp & M. van Zyl. “Reflecting on the changing landscape of shareholder activism in South Africa,” *South African Journal of Economic and Management Sciences* (2021) 24(1) 1-11. https://dx.doi.org/10.4102/sajems.v24i1.3711.

While the premise of say-on-pay appears to be one of driving shareholder-executive alignment, and promoting a long-term value creation approach, some may feel that this is outdated, reflecting on the fact that many shareholders are, in reality, short-term investors. With increasing pressure from shareholders for executives to be subjected to structures that pay out over much longer time periods, frustration may arise where shareholders are able to exit the investment at a time convenient to them, but executives are 'locked in'. Boards, tasked with the role of incentivising executives to create value, may find themselves struggling to reconcile these parallel realities, resulting in them feeling that they are ill-equipped to approve structures that they deem necessary for the well-being of the businesses that they have been tasked to oversee.

The increasing trend of shareholders using their votes against the reappointment of non-executive directors when they are unhappy with remuneration structures, and the inbound changes to strengthening the shareholder say-on-pay vote as it relates to remuneration, further increases the frustration levels.

Previously, shareholder communication via transparent disclosure was seen to be enough. Today, the picture is quite different. PwC's 2020 Annual Corporate Directors Survey[14], a study conducted to gauge the views of public company directors in the US for more than a decade, reveals the following trends concerning shareholder engagement:

- 58% of directors say that board members (other than the CEO) engaged directly with the company's shareholders during the prior year, up from 42% in 2017.
- Part of this shift in engagement relates to investors' recent focus on ESG concerns, and the desire to hear from directors about how the company is approaching them. The global pandemic and economic upheaval caused by COVID-19 has led to far greater scrutiny of ESG issues , especially as they relate to companies' human capital management, which includes executive remuneration.
- 87% of directors think the engagement has a positive impact on voting outcomes, up from 59% in 2016. In addition, directors are much more comfortable with engagement than they used to be. In 2014, 42% of directors agreed that shareholder engagement presented too great a risk of disclosing non-public information. By 2018, that figure had dropped to 19%.
- 37% of companies actively engage on the topic of remuneration — which ranks third after company strategy and board composition.

All of this appears to point in a clear direction, indicating that where priorities are not aligned, this will result in suboptimal outcomes for all role players.

In this chapter we will investigate the participants in this often tense relationship, look at the 'rules of the game' by considering current and proposed legislation and regulatory frameworks, and ask the key questions all stakeholders should be thinking about to address the tricky issue of remuneration voting. Ultimately, we seek to answer the question: Can there be a win-win scenario for all parties concerned?

The participants: players and spectators

In an ideal scenario, the interests of participating role players should be balanced. When considering remuneration voting, this is no easy task.

The role players include:

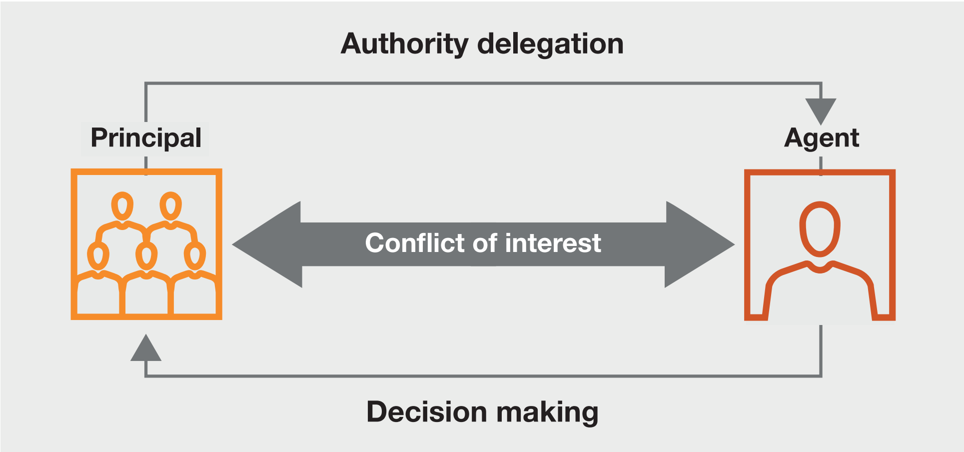
14 "Insights from PwC's 2020 Annual Corporate Directors Survey," PwC, 2020. *https://www.pwc.com/us/en/services/governance-insights-center/library/annual-corporate-directors-survey.html.https://www.pwc.com/us/en/services/governance-insights-center/library/annual-corporate-directors-survey.html*.

The ‘rules of the game’?

What are the rules to this game? While in theory, the tug-of-war should be governed by formal legal and corporate governance principles, there are many unspoken rules to the game.

The origins of ‘say-on-pay’ are rooted in agency theory, based on the idea that the principals (shareholders) engage the agent (directors) to perform certain services on their behalf, and principals delegate decision-making authority to the agents.[15] In this agency relationship, the misalignment of interests between shareholders and directors is created by the separation of ownership and control, which results in the phenomenon known as the ‘principal-agent problem’.[16] It is in this context that many countries have adopted ‘say-on-pay’ measures in an attempt to mitigate conflict of interest when determining the remuneration of executives.

The principal-agent problem



[15] M.C. Jensen & W.H. Meckling “Theory of the firm: Managerial behavior, agency costs, and ownership structure” (1976) Journal of Financial Economics 3(4):305-360.

[16] A. A. Berle & G. C. Means “Modern corporation and private property” (1932) New Brunswick: Transaction Publishers.
E. F. Fama & M. Jensen “Separation of ownership and control” (1983) Journal of Law and Economics, 26(2):301-325.

As it currently stands, the JSE Listings Requirements afford shareholders two ‘say-on-pay’ opportunities in the form of non-binding votes on remuneration at the AGM, with the first being on the forward-looking remuneration policy and the second on the retrospective implementation report, as they appear in the remuneration report of the integrated report.

The origin of these votes is King IV™. Recommended Practice 38 provides that the remuneration policy should record the measures that the board commits to in the event that either the remuneration policy or the implementation report, or both, have been voted against by 25% or more of the voting rights exercised by shareholders. Such measures should provide for taking steps in good faith and with best reasonable efforts towards an engagement process to ascertain the reasons for the dissenting votes, as well as appropriately addressing legitimate and reasonable objections and concerns raised, which may include amending the remuneration policy, or a clarification or adjustment of remuneration processes.

It has become clear that shareholders consider this retrospective engagement insufficient — undoubtedly, they expect proactive, regular engagement on executive remuneration matters.

Some of the unspoken ‘rules’ that we have observed include:

- Any engagement with shareholders, whether in writing or face-to-face, should be conducted by the chairperson of the RemCo, rather than a member of the executive management team (particularly not the CEO or CFO). This is due to the inherent conflict of interest associated with an executive director motivating their own pay structures and the quantum of opportunities available to them.
- The RemCo should engage with investors directly and regularly regarding the design of the remuneration policy and any remuneration decisions being considered. This is particularly the case if such decisions deviate from previously published policy or are unusual in any way. They should be clear on the rationale for any decisions or design detail, and be able to communicate this clearly.
- RemCo chairpersons should demonstrate that they fully understand the remuneration policy and how it is linked to the company’s business strategy, and that they are not overly reliant on remuneration consultants or executive management.

- Continuous engagement with shareholders is vital — it is clear that a brief teleconference with many participants, or superficial engagement with minimal detail provided, and close to the AGM, will be considered insufficient.
- RemCos must be prepared and provide details of what is being proposed. Space must also be provided for responses to previous shareholder input. Shareholders will often want details regarding governance that would not necessarily be in a company remuneration report, for example:
  - how remuneration decisions were made;
  - what level of discretion was exercised; and
  - scorecard metrics, the evaluation process and consideration of non-financial KPIs.

Executive remuneration can be a complex issue and some policies and decisions will need to be broken down in remuneration reports and engagement sessions in order to be fully understood.

Although local law does not currently provide for a binding shareholders' vote or true 'punitive' measures when shareholders are repeatedly dissatisfied with remuneration policies, South Africa tends to follow global market trends. We have commented before on the draft Companies Amendment Bill, 2018, which it appears will bring in more onerous requirements for the preparation of the directors' remuneration report for submission to the shareholders at the company AGM, and the effects of negative votes[17].

It is tempting to focus on the shareholder right to 'say-on-pay', forgetting that, like any power, it is required to be used responsibly. Thinking about what this means leads us to a set of 'responsible voting principles' that apply to shareholders/institutional investors wishing to exercise their votes. The voting of shareholders and institutional investors is a powerful signal in the market, will affect market sentiment and may drive a company's strategy in a specific direction.

[17] *Executive directors: Practices and remuneration trends report*. PwC, 2020. *https://www.pwc.co.za/en/assets/pdf/executive-directors-report-2020.pdf*

What a set of principles for ‘responsible voting on executive remuneration’ could look like

Responsibility of shareholder/institutional investor	Corresponding RemCo responsibility
Publish voting principles relating to (executive) remuneration design and ensure that they are easily found and accessible. They should also indicate ‘red flags’ and ‘preferences’. Any changes must also be timeously communicated to investee companies.	Ensure that investor voting policies are obtained and that the principles contained therein are properly understood.
Ensure that voting policy relating to (executive) remuneration design is clear and sufficiently detailed to provide effective guidance to RemCos.	Ensure that investor voting policies are understood and, if not, to reach out to investors to clarify any points that might not be clear.
Ensure that voting rationale is sent to the chair of the RemCo and head of investor relations as soon as possible after voting.	Contact investors as soon as possible after voting to understand their voting rationale.
Ensure that the voting rationale is detailed enough to provide proper guidance to the RemCo and to not use copy-and-paste commentary from voting policy.	Ensure that they familiarise themselves with the voting rationale and, if the rationale is not detailed or clear, to reach out to the relevant investor for clarity.
Ensure availability for proper shareholder engagement, whether telephonically, via teleconference or in person, and be appropriately prepared for any such engagement.	Contact investors immediately after voting rationale has been digested to set up a meeting to engage and receive feedback.
To duly consider feedback received from the RemCo relating to input given, and consider on an individual basis, rather than applying blanket ‘one-size-fits-all’ principles.	Ensure feedback on inputs given or issues raised is provided to the relevant parties and ensure availability for discussion of issues or details that may not be fully understood during an earlier encounter.
To be appropriately prepared for any engagement session and before voting, including fully digesting the remuneration report, and other details provided, and asking clarifying questions where necessary.	Ensure disclosure is sufficiently detailed and that the remuneration report is transparent in disclosing both the policy and application of the policy (remuneration decisions taken), including clear rationale.
Not to overly rely on reports produced by proxy advisors, and to conduct their own analysis.	Receive and review proxy advisor reports, providing commentary or clarification where required.
Be mindful of, and bear in mind the context of, business objectives that the RemCo is obligated to drive through remuneration.	Explain to investors the business strategy and reasons for remuneration decisions in detail and in sufficient time before the annual general meeting.
Keep in mind that all decisions made at the AGM will affect the company long after the investors have moved on to other companies and to make all decisions for the long-term benefit and sustainability of the company.	To make decisions best suited to the business (even if they may be contrary to voting policies), and not implement crowd-pleasing plans for fear of a negative vote if these are not suitable for the business.

The above set of basic principles demonstrates that getting engagement right is a two-way street. Informed voting on more complex and unique issues requires dedication of time and energy, leading to the emergence of proxy advisory firms, which provide voting advice on the increasing number of shareholder matters required to be voted on by shareholders/institutional investors. However, the analysis provided by proxy advisors should be interpreted with caution as, often, there may be a lack of understanding on their part due to their lack of relationship with the company they are analysing, which sometimes leads to incorrect conclusions and unwarranted outcomes.

Conclusion

Establishing clear rules to the game will help optimise outcomes for all players. There is no doubt that RemCos need to take a new approach to shareholder engagement, which includes more proactivity and willingness to share details and, to some extent, 'co-create'. But making significant changes to their policies to please shareholders (who could in fact be shorter-term speculators) is not a desired outcome of such engagement. Ultimately, as a subcommittee of the board, the RemCo's foremost responsibility is to make the right decision for the company, understanding that the shareholder is but one stakeholder.

Shareholders and institutional investors, on the other hand should carefully consider their corresponding responsibilities when it comes to exercising their voting rights to ensure that successful and meaningful engagement occurs within the boundaries of good corporate governance. The RemCo is empowered to make remuneration-related decisions that are best for the long-term sustainability of the company on whose board they serve.

5 Pulling the trigger: Executive payouts in change of controls

Introduction

The effects of COVID-19 have been varied and far-reaching — with a global recession already in effect, the pandemic exacerbated the downward turn many businesses had only just strapped themselves in for.

With focus drawn not to these businesses, but to supporting those worst affected by the pandemic, usually watchful eyes might miss aspects of the uptick in mergers and acquisition (M&A) activity, which is expected to ramp up in the coming year as takeovers of COVID-19-weakened players continue. Additionally, companies that manage to emerge unscathed or more successful from the pandemic will be looking out for new acquisitions to further bolster their newly established or strengthened positions.

Those paying most attention to the outcomes of this activity are CEOs and executive directors of M&A target companies, as the outcomes might result in their employment being terminated. This article examines what compensation in these situations looks like and what mechanisms lead to its payment?

Single vs double trigger

The method, form and quantum of payment often depends on the events that lead to the employment of the CEO or executive director/s being terminated. Payments triggered by the change in control of a company alone are referred to as 'single trigger events', while a severance or 'constructive termination' (a 'good reason' termination) after the change in control is referred to as a 'double trigger event'. The primary purpose of double trigger arrangements on a change of control is to keep senior executives focused on pursuing corporate transactional activity that is in the best interests of the company and its shareholders, regardless of whether the executives may ultimately lose their positions as a result thereof.

'Golden parachute' payments are those made upon termination of employment after the occurrence of a single or double trigger event. In theory, golden parachutes are designed to allow executives to retain their objectivity during the change in control process by enabling them to evaluate the terms of the proposed change in control agreements without the concern that they will not be adequately compensated by the new owners of the company. Golden parachute payments also enable companies in industries where takeovers are common to attract and retain talented executives who would otherwise seek employment in 'safer' sectors.

Local practice: King IV™, shareholder and institutional investors' views

A company's remuneration committee is tasked with the governance of executive remuneration and has the task of making multiple remuneration-related decisions which are aligned and in the best interest of the sustainability and success of the business (and its shareholders). However, executive remuneration is also a subject of much public scrutiny and critique, and accordingly, it is necessary to outline possible risks that should be considered when structuring executive remuneration, to ensure that from a balanced and objective perspective, shareholder sentiment is not adversely affected by disclosure, either at the time the payment structure is set out or once the trigger event has occurred.

Payments triggered either by termination of an executive, or by a change of control, attract much attention and the views of proxy advisors and institutional investors are usually quite well developed in this area. The South African governance landscape could be considered 'conservative' or less developed compared to international standards, which are explored below. Local governance requirements oppose 'golden parachute' payments that result in:

- paying for failure, which is generally associated with a single trigger or any contractually agreed payment for termination of employment that could be paid in 'bad leaver' instances or
- payments made in recognition of service with no performance criteria attached (which double trigger payments could be classified as).

Most local investors do not state their specific views within publicly disclosed remuneration voting guidelines. For instance, the Public Investment Corporation's voting guidelines[18] contain no specific guidance on the topic of termination of employment or a change of control. The policy simply provides that " ... *companies should provide full disclosure of director remuneration …" including incentive awards and "all other benefits received*", while Allan Gray provides no specific guidance, but includes an overarching comment that "... *there should be a clear link between performance-based pay and the actual performance of the executive.*"[19]

18 *Corporate Governance and Proxy Voting Principles, Policies and Practical Application*. Public Investment Corporation. 2007. *https://www.pic.gov.za/DocCorpGov/PIC%E2%80%99s%20corporate%20governance%20policy%20[1MB].pdf.*

19 *Policy on Ownership Responsibilities*. Allan Gray. 2012. *https://www.allangray.co.za/globalassets/articles/qc/2012/q3-2012/policy-on-ownership-responsibilities.pdf*

Some local investors do include specific views; Sanlam Investment's policy provides the following:

> *"in the case of change of control, we favour a rollover of the scheme into a new scheme rather than accelerated settlement (which could influence the judgement of scheme participants) … there should be no scope approval, other than to modify vesting terms if the outcome is not warranted."*[20]

As for proxy advisors, Institutional Shareholder Services (ISS) will generally recommend a vote against the implementation report where significant termination-related or restraint of trade payments have been made to executive directors, and the reasons for these are not disclosed or, where if disclosed, do not adequately justify the size of the payment.[21] Glass Lewis believes that policy and implementation reports should provide clear disclosure of an appropriate framework for managing executive remuneration and for specific guidance to be provided for, inter alia, ex gratia, sign-on or retention payments, excessive termination benefits and change of control provisions.[22]

The voting policies for South Africa of ISS and Glass Lewis do not provide explicit guidance on double triggers, which is likely due to the fact that the practice (and general M&A activity) is less common in the environment. That said, the ISS voting guidelines do provide that where incentive scheme rules allow for accelerated vesting upon termination (including change of control circumstances), without reference to the relevant performance criteria, ISS will recommend a vote 'against' them.[23]

20 *SIM Responsible Investment Policies and Procedures Document*. Sanlam. 2018. *https://www.sanlaminvestments.com/SISharedDocuments/SIM%20Responsible%20Investment%20Policies%20and%20Procedures%20Document.pdf.*

21 *South Africa Proxy Voting Guidelines. Benchmark Policy Recommendations*. ISS. 2020. *https://www.issgovernance.com/file/policy/active/emea/South-Africa-Voting-Guidelines.pdf*

22 *South Africa Guidelines. An overview of the Glass Lewis Approach to Proxy Advice.* Glass Lewis. 2020. *https://www.glasslewis.com/wp-content/uploads/2020/10/Guidelines-South-Africa.pdf*

23 *South Africa Proxy Voting Guidelines. Benchmark Policy Recommendations. ISS. 2020. https://www.issgovernance.com/file/policy/active/emea/South-Africa-Voting-Guidelines.pdf.*

International practice

United States

The United States represents quite a different corporate playing field, which is more aggressive than South Africa's, where M&A activity is more prevalent and significantly different labour laws apply. The voting policies of some US-based institutional shareholders are supportive of double trigger payments, subject to certain caps.

The legislation that governs these practices is contained in the Dodd-Frank Wall Street Reform and Consumer Protection Act, passed in 2010.[24] The 'Say on Golden Parachute' vote is a shareholder advisory vote required under Section 951, to approve new executive compensation arrangements in connection with a merger, acquisition, consolidation, proposed sale or disposition of all or substantially all assets. The section mandates extensive disclosure on such compensation arrangements that have not been previously approved by shareholders by vote. The 'Say-on Golden-Parachute' vote and disclosure are only required where shareholders are being asked to approve a transaction. The following guidance is provided by US-based proxy advisors:

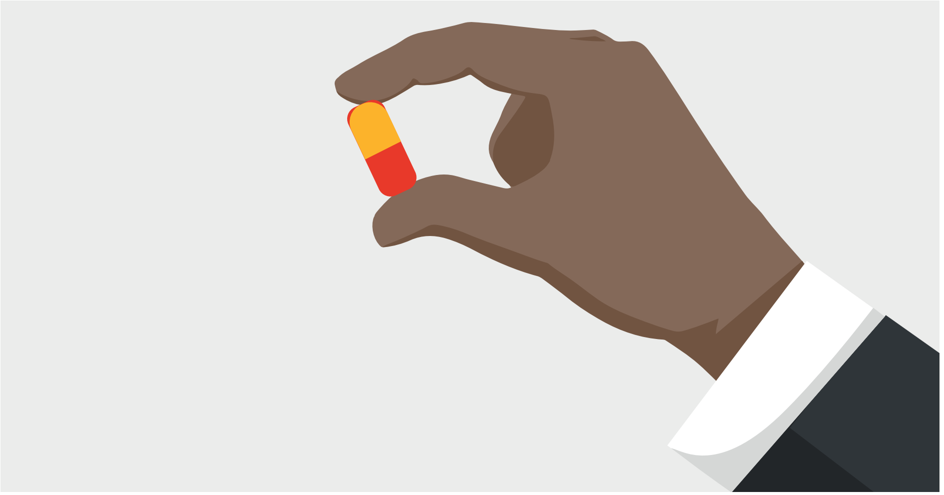
- **ISS:** A liberal change-of-control definition that could result in vesting of long-term incentive awards by any trigger other than a full double trigger would be considered an overriding factor that may result in an 'Against' recommendation from ISS. Note that this is contained within the US-specific guidance.[25]
- **Blackrock:** "*We encourage companies to structure their change of control provisions to require the termination of the covered employee before acceleration or special payments are triggered*".[26]

24 *Dodd-Frank Wall Street Reform and Consumer Protection Act. Washington*: Government Printing Office, 2010. *https://www.govinfo.gov/content/pkg/PLAW-111publ203/pdf/PLAW-111publ203.pdf.*

25 *United States Proxy Voting Guidelines*. Benchmark Policy Recommendations. ISS. 2020. *https://www.issgovernance.com/file/policy/active/americas/US-Voting-Guidelines.pdf.*

26 *BlackRock Investment Stewardship. Proxy voting guidelines for U.S. securities*. BlackRock. 2021. *https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-guidelines-us.pdf*.

Another US consideration: Triggers as poison pills



So-called 'poison pills' are defensive strategies adopted by companies to prevent, discourage or avoid potential takeovers, by making them look less attractive to potential suitors. Usually, poison pills are used to make a company's shares unfavourable to the acquirer by significantly raising the cost of acquisition and/or creating a large disincentive to deter takeover attempts altogether. Poison pills are often structured as rights offers, which flood the market with additional shares, offered to existing shareholders at a discount, triggered as soon as an unwanted party purchases a certain percentage of shares. This practice is aggressive and the associated downside is dilution, so shareholders are obliged to purchase more shares in order to retain their shareholding.

That said, poison pills may also be structured as a single/double trigger provision in an executive's contract. While not dilutive for shareholders, if the trigger leads to a cash payment, the costs of acquisition would be inflated.

At present, it seems that major proxy advisors do not agree on the use of, and advisory approach to, poison pills.[27] However, while Glass Lewis remains sceptical of these tactics, it has emphasised that its "*current policy is designed to apply a nuanced, contextual assessment of these provisions*".[28] As a result, Glass Lewis is supportive of poison pills that meet certain provisions, that is, those which are limited in scope to achieve a particular objective (such as completing a merger, or to avoid hostile takeover). In the time of COVID-19, Glass Lewis considers the pandemic a reasonable context for adopting a poison pill under certain conditions:

- the duration of the pill is one year or less, and
- the company discloses a sound rationale for adoption of the pill as a result of COVID-19.

As a cautionary note, *inter alia*, the proxy advisor advises that if the pill does not meet these conditions, it will recommend opposing the re-election of all board members who served at the time of the pill's adoption. Companies are also advised to give shareholders confidence that the renewal of the pill in future would require shareholder approval.[29]

27 Driebusch C. and Elliott R. 2020. "Pipeline Operator Williams Comes Under Fire". *The Wall Street Journal, 7 April 2020*. *https://www.wsj.com/articles/pipeline-operator-williams-comes-under-fire-11586286169*.

28 *"Poison Pills and Coronavirus – Understanding Glass Lewis' Contextual Policy Approach,".* Glass Lewis. 2021. *https://www.glasslewis.com/poison-pills-and-coronavirus-understanding-glass-lewis-contextual-policy-approach/*.

29 Ibid.

United Kingdom

The following guidance is provided by UK legislation and UK-based proxy advisors:

- The Companies Act, 2006, provides that change of control provisions in directors' contracts must be consistent with their duties in terms of the act. The code obliges directors to:
  - promote the success of the company.
  - act within their powers and use them for a proper purpose.
  - avoid putting themselves in a position where their personal interests conflict with their duties as directors.[30]

  It appears that payments made to a departing director under contractual provisions — for example, an express payment in lieu of a golden parachute clause — are not covered by the requirement for shareholder approval. However, if the payment seems excessive, it can be challenged as a breach of directors' duties.

- The Investment Association (IA) suggests that scheme rules should state that there will be no automatic waiving of performance conditions in the event of a change of control. Any early vesting as a consequence of a change of control should take into account the vesting period that has elapsed at the time of the change of control, with a consequent reduction in the size of the awards that vest and any early vesting as a consequence of change of control should be on a time prorated basis, taking into account the vesting period that has elapsed at the time of change of control.

  Remuneration committees should also satisfy themselves that the measured performance provides genuine evidence of underlying financial achievement over any shorter time period, and their reasoning should be explained in the remuneration report, or other relevant documentation sent to shareholders. The IA notes that shareholders would prefer, in the event of change of control, that outstanding awards due to directors are rolled over into equivalent awards in the successor entity.[31]

  This is supported by the Association of British Insurers and the National Association of Pension Funds' Joint Statement on Executive Contracts and Severance in the UK Corporate Governance Code, which states that contracts of employment should not provide for additional compensation for severance as a result of change of control.[32]

- ISS UK guidelines do not support special one-off payments to executives on a change of control event. **Exit payments should be linked to the fixed pay due for the notice period, with no guaranteed entitlement to any unearned variable pay**. The vesting of outstanding long-term awards should be prorated for performance and time served as an executive.[33]

- The International Corporate Governance Network (ICGN) provides that contractual provisions regarding severance and change of control should be strictly limited and that arrangements of this nature should not adversely affect an executive's alignment of interests with shareholders or their incentive to pursue superior long-term value. ICGN also provides that severance payments should be limited to situations where the company terminates employment without cause, death or disability, and **remuneration committees should ensure that the company has a policy that caps or limits the amount of severance that can be paid**.

  Remuneration committee disclosure should include this type of arrangement, reasoning for it and the potential financial outcome. Additionally, ICGN's Guidance on Executive Remuneration (section 2.6) provides that in the event of a change of control, or other corporate event, where a loss of employment is realised, only pro-rata performance criteria that reflect a real measure of underlying achievement should be awarded.[34]

30 *Companies Act 2006. Legislation.gov.uk. 2006.* *https://www.legislation.gov.uk/ukpga/2006/46/contents*.

31 *Principles of Remuneration*. The Investment Association. 2020. *https://www.ivis.co.uk/media/13885/principles-of-remuneration-2021.pdf*.

32 *Joint Statement on Executive Contracts and Severance*. Association of British Insurers and National Association of Pension Funds. 2008. *https://www.ivis.co.uk/media/5896/ABI_NAPF_Joint_Statement_14feb2008_2_v_5.pdf*.

33 *United Kingdom and Ireland Proxy Voting Guidelines. Benchmark Policy Recommendations*. ISS. 2020. *https://www.issgovernance.com/file/policy/2020/emea/UK-and-Ireland-Voting-Guidelines.pdf*.

34 *Guidance on Executive Director Remuneration*. International Corporate Governance Network. 2016. *https://www.icgn.org/sites/default/files/Item%2012_ICGN%20Executive%20Director%20Guidelines.pdf*.

Australia

Australian Securities Exchange (ASX) Listing Rule 10.18 prohibits officers of an entity from receiving a termination payment due to change in control of a company[35] and the Australian Government Productivity Commission's (AGPC) inquiry report on Executive Remuneration in Australia provides that shareholder approval is required for termination payments exceeding a specific quantum limit. Companies are also required to disclose termination entitlements in the annual remuneration report.[36] The Australian Prudential Regulation Authority's Prudential Practice Guide (section 84) provides that accelerated or unusually large payments to terminate executives are generally inconsistent with prudential practice and may expose a regulated institution to considerable risk.[37]

AGPC's report provides that the size of termination payments in Australia is not directly limited by regulation. Rather, under the Corporations Act there is a requirement for shareholder approval in certain circumstances — in particular (in current legislation), where the proposed payment exceeds a prescribed multiple of the executive's remuneration package (averaged over the past three years). Given concerns that some termination payments in Australia have rewarded failure, the government introduced reforms, circa November 2009, to lower the threshold for shareholder approval from seven times total remuneration to an amount equivalent to one year's base salary, and broaden the scope of what is considered a 'termination payment'.

35 *Listing Requirements*. Australian Stock Exchange. 2016. *https://www2.asx.com.au/about/regulation/rules-guidance-notes-and-waivers/asx-listing-rules-guidance-notes-and-waivers*.

36 *Productivity Commission Inquiry Report. Executive Remuneration in Australia*. Australian Government Productivity Commission. 2009. *https://www.pc.gov.au/inquiries/completed/executive-remuneration/report/executive-remuneration-report.pdf*.

37 *Prudential Practice Guide. PPG 511 – Remuneration*. Australian Prudential Regulation Authority. 2009. *https://www.apra.gov.au/sites/default/files/PPG%20511%20Remuneration.pdf.*

Austria

Mutual agreements of termination ("golden handshake") are rather common in Austria to avoid legal proceedings and to reduce associated risks for the employer. From a labour law perspective there are no legal frameworks regarding "golden handshakes"and the freedom of contract applies in such a case. There are therefore no statutory provisions regarding the range or limit of an optional payment concerning the termination with a golden handshake, which is typically concluded in order to avoid legal proceedings with the employee, particularly proceedings regarding the termination of employment contracts. Further such agreements usually are concluded to reduce risks for the employer especially in cases of restructuring or mass layoff.

Although there are no statutory obligations, the Corporate Governance code provides that:

> *"When concluding contracts with management board members, care shall be taken that severance payments in the case of premature termination of a contract with a management board member without a material breach shall not exceed more than two years annual pay and that not more than the remaining term of the employment contract is remunerated. In the case of premature termination of a management contract for material reasons for which a management board member is responsible no severance payment shall be made.*
>
> *Any agreements reached on severance payments on the occasion of the premature termination of management board activities shall take the circumstances under which said management board member left the company as well as the economic situation of the company into consideration."*[38]

38 *Austrian Code of Corporate Governance*. Austrian Working Group for Corporate Governance. 2021. *https://www.corporate-governance.at/uploads/u/corpgov/files/code/corporate-governance-code-012021.pdf*.

France

Golden parachutes are generally limited to a maximum of two years of an executive's highest pay and subject to taxes. The pay of heads of state-owned companies has been capped since mid 2012.[39]

Spain

The Spanish government has penalised compensation paid to outgoing leaders of large companies since 2013 by abolishing a tax break previously available on a portion of the payment. The country also plans to provide shareholders with a binding vote on executive pay in the banking sector.[40]

Switzerland

As of 2013, Switzerland has banned golden parachutes (in addition to 'golden hellos' or sign-on payments), which award executives unconditional (non performance-linked) payments for accepting or leaving a job, under risk of criminal sanction for contravention.[41]

39 *Corporate Governance Code of Listed Corporations.* Afep-Medef. 2020. *https://www.se.com/ww/en/Images/afep-medef-code-revision-january-2020-en_tcm564-134746.pdf.*

40 *Good Governance Code of Listed Companies.* Comisión Nacional Del Mercado De Valores. 2020. *https://www.cnmv.es/DocPortal/Publicaciones/CodigoGov/CBG_2020_ENen.PDF*.

41 *Leading or Lagging: where does the UK stand in the international debate about top pay?* The High Pay Centre. 2021. *https://highpaycentre.org/leading-or-lagging-where-does-the-uk-stand-in-the-international-debate-about-top-pay/* and The Sydney Morning Herald. 2013. "Swiss vote in favour of golden parachute ban". *https://www.smh.com.au/business/swiss-vote-in-favour-of-golden-parachute-ban-20130304-2ff46.html.*

Disclosure considerations

While the preference may be to not disclose proposed trigger arrangements, due to market sensitivity and the potential for negative market sentiment, it is clear that investors would expect disclosure of such arrangements within the remuneration report (within part 2, the overview of the main provisions of the forward-looking remuneration policy). For instance, Glass Lewis' South Africa policy states:

> *"Companies should disclose the main terms of employment agreements with key executives, including severance arrangements, changes in control provisions and any other material contractual commitments. Disclosure should include a description of the agreements with sufficient detail of all material factors so that shareholders fully understand those terms. Companies should provide estimated payments under specific scenarios so that shareholders can determine the potential payouts under each agreement."*[42]

King IV™, within the recommended practices relating to remuneration, is also clear that any contractually agreed upon termination payments should be set out within the remuneration report.

The quality and detail of actual disclosure of such remuneration arrangements by JSE-listed companies differs greatly, and it is difficult to ascertain with any degree of certainty what type of arrangements exist, but are not being disclosed. It is unavoidable that such payment would be required to be disclosed within the retrospective remuneration implementation report once made, and this is likely to attract scrutiny (particularly where there was no prospective disclosure of the existing arrangement). This should be approached carefully at the time, with a sensitive narrative explaining why such arrangements may be made.

It is also possible to allow shareholders an advisory vote on this particular item (i.e. introduce an additional third advisory vote in addition to that of the remuneration policy and remuneration implementation advisory votes, which shareholders currently enjoy in terms of the JSE Listings Requirements[43]). This would give the shareholders similar rights to those US shareholders enjoy in terms of the say-on-pay vote on golden parachutes, as mentioned above, and may serve to 'ring-fence' any negative sentiment in terms of this aspect of remuneration from the other aspects of remuneration shareholders are voting on.

Conclusion

Single and double trigger payments are not yet common practice in South Africa, however, in the current environment, with a rise in change of control events, shareholders can expect this to change. Companies are obligated to ensure that, whatever the arrangement, they have complied with the necessary governance, engagement and disclosure requirements. It is then a question of what their shareholders think, and how their thoughts are reflected in voting outcomes.

Until a binding vote is legislated for shareholders, perhaps under the ambit of amendments to the Companies Act[44], companies will only be obliged to consider the opinions of dissenting shareholders once the votes have been cast and the proverbial chips have fallen, but should instead consider that proactive engagement on these matters, that is, helping shareholders fully understand the rationale for the decisions being made, could prevent unnecessarily unfavourable voting outcomes.

[42] *South Africa Guidelines. An overview of the Glass Lewis Approach to Proxy Advice.* Glass Lewis. 2020. *https://www.glasslewis.com/wp-content/uploads/2020/10/Guidelines-South-Africa.pdf*.

[43] *Listings Requirements*. Johannesburg Stock Exchange Limited. 2017. *https://www.jse.co.za/sites/default/files/media/documents/2019-04/JSE%20Listings%20Requirements.pdf*.

[44] *Executive Directors: Practices and Remuneration Trends Report.* PwC. *12th ed. 2020. https://www.pwc.co.za/en/assets/pdf/executive-directors-report-2020.pdf*.

6 Gender diversity: Where are we at?

It is 2021, and female representation in senior management and executive roles remains low. Our research shows that the representation figures in South Africa have remained relatively stagnant.

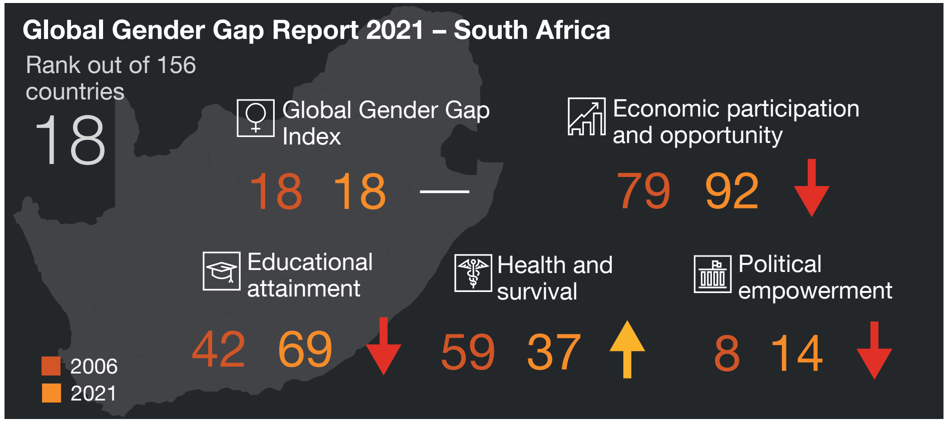
From a gender pay gap perspective, the gap is most pronounced in medium-cap companies, with a gender pay gap of 46% observed at the median and 51% at the upper quartile, with a smaller pay gap observed in small-cap companies with gaps of 27% and 30% observed respectively at the median and upper quartiles.

This year, 2021, finds us still in the grips of COVID-19 with a struggling economy, albeit not without signs of hope. It is understood that amid a multitude of new and evolving challenges to business, leaders worldwide have had to balance the need to provide comfort to shareholders regarding their investments and returns with the need to remain empathetic to the plight of their employees and other stakeholders, taking into account the impact the pandemic has had on their lives.

Throughout all of this, the topic of diversity has remained the elephant in the room. There is a sense that the issue of addressing diversity needed to be ‘put on ice’ while the world fought a more urgent threat. However, there is also a view that the pandemic has highlighted and exacerbated gender and race inequality, and there is an appreciation globally that many companies lack cohesive strategies to address this topic. Regardless of the view taken, it is clear that there is still a lack of significant progress, and action must be taken.

Below, we present a summary of some of the key issues around gender diversity that companies should be taking heed of.

Impact of the COVID-19 pandemic on gender equality



COVID-19 appears to have entrenched and exacerbated the gender pay gap. There has been significant media coverage as to the disproportionate impact that the pandemic has had on women[45], particularly at the lower levels, as they have felt the impact of being retrenched[46] and having to carry the burden of unpaid labour during periods of lockdown restrictions.

Since its first publication in 2006, the *Global Gender Gap* report has highlighted the evolution of gender-based gaps in four areas: economic participation and opportunity, educational attainment, health and survival, and political empowerment. The 2021 Report[47] shows that at the current rate of progress, it will take 267.6 years (2020: 257 years) to close the gender gap in economic participation and opportunity. Although there has been an increase in the proportion of skilled women and wage equality (albeit at a slower pace), there is still a persistent lack of women in leadership positions.

45 Davids, Niémah. “COVID-19 Could ‘derail’. Gender-equality Progress in SA’s Labour Market.” University of Cape Town News, 17 November 2020. *https://www.news.uct.ac.za/article/-2020-11-17-covid-19-could-derail-gender-equality-progress-in-sas-labour-market.*

46 “Covid-19 Job Cuts Hit SA Women Hardest, New Claims Stats from Old Mutual.” Old Mutual. Accessed June 2021. *https://www.oldmutual.co.za/news/covid-19-job-cuts-hit-sa-women-hardest-new-claims-stats-from-old-mutual-confirm/.*

47 *Global Gender Gap Report 2021*. World Economic Forum. 2021 *http://www3.weforum.org/docs/WEF_GGGR_2021.pdf*

The 2021 report acknowledges that the data available for the current year does not fully reflect the impact of the pandemic, with many countries showing that the gender gaps in labour force participation have not yet been fully felt and are likely to get wider — further emphasising the point that the pandemic has slowed gender parity progression in many countries.

Regarding South Africa, while the country scored highly for the political emancipation of women (as has historically been the case), ranking 14th, it ranked 92nd in terms of economic participation and opportunity, and 131st for wage equality for similar work. A comparison of South Africa’s 2021 scores against its 2006 scores[48] demonstrate that relatively speaking, very little progress has been made and that save for health and survival (where we moved from 59th to 37th in 2021), we have dropped rankings in economic participation and opportunity (from 79th position), in educational attainment (from 42nd to 69th) as well as in political empowerment where we dropped from 8th to 14th. Despite this, we see little real action being taken or demonstrable progress being made.

Since our legislation and remuneration framework often echoes that of the UK, it is interesting to observe the trends and the extent to which progress has or has not been made in that country. After suspending the mandatory gender pay gap reporting requirement in 2020, the UK Equalities and Human Rights Commission announced a six-month extension to October 2021 for designated companies to report their 2021 gender pay gap data.

Although there were perceived to be justifiable reasons for the suspension and extension since many companies in the UK closed down during the pandemic-induced lockdowns, concerns were raised by business groups about the underlying message being sent by the suspension of the requirement, i.e. that gender inequality was not important and that by suspending the 2020 reporting and postponing the enforcement of the 2021 disclosures, the underlying intention of the reporting requirements was undermined. This perception was intensified by the fact that of all the requirements businesses had to report on, gender pay gap reporting was the only requirement suspended during this period.

48 The Global Gender Gap Index benchmarks were initially introduced in 2006 and the methodology of the index benchmarks have remained the same since their inception.

As of the April 2021 reporting deadline, only a quarter of eligible employers had published their data, with most companies that had reported being those least affected by the pandemic.[49] Analysis of their disclosures showed the gender pay gap to have narrowed for the third consecutive year. However, an accurate assessment can only be made once all eligible employers have published their data.

Vesselina Stefanova Ratcheva, the Global Gender Report Insight Lead believes '*this is a risky time for gender parity*' with the issues of gender equality and equity together with COVID-19 providing a great deal of backsliding, which would likely further impact the closing of the gender gap.[50] She went on to say that '*unless there is a concerted effort to reinvest in gender parity and to put in place the foundations for gender-equal recovering, there could be a lot more of that backward progress*' and echoed the sentiments expressed in the report that there needs to be a focus on mid-career reskilling policies, and unbiased hiring and promotion practices.

Ratcheva implies the need for immediate, and drastic action. For many, such a call to action necessitates tighter regulation and increased legislation that forces companies to act. In South Africa, many stakeholders would welcome legislation governing this important matter — whether in a form similar to the UK's with mandated reporting on the gender pay gap, or otherwise.

It is therefore interesting that locally, despite discussions about gender diversity and pay equity, the gazetted amendments to the Companies Act do not make any provision for disclosure of the gender pay gap.[51] The amendments only introduce mandatory reporting of the income gap between the highest and lowest paid employees within a company.

49 "One in Four Publish Gender Pay Gap Data by Usual Deadline," Personnel Today. Last modified April 2021. *https://www.personneltoday.com/hr/less-than-2500-publish-gender-pay-gap-data-by-usual-deadline/*.

50 "A risky time for Gender Parity," Forbes Africa. Last modified 15 June 2021. *https://www.forbesafrica.com/focus/2021/06/15/a-risky-time-for-gender-parity/*

51 National Gazette No. 41913, (page 407) of 21 September 2018, Vol. 639. *https://www.greengazette.co.za/documents/national-gazette-41913-of-21-september-2018-vol-639_20180921-GGN-41913*.

What can companies do to increase female representation in their organisations?

Gender pay gap reporting is only one part of the gender inequity equation. But how can companies nurture and develop their female talent to join the ranks of leadership? What steps can be taken to cultivate an organisational environment that strives to promote and advance female leaders?

The CEO, in collaboration with the board chair and the rest of the C-suite, as well as potentially a steering committee, carry a key responsibility, not only in setting the tone and overall culture of the organisation, but also in prioritising the importance of diversity. For any type of diversity and progress to succeed, sufficient buy-in and promotion from the CEO and executive team and clear consensus on the associated goals is required.

The actions taken could include the 'steps on a fair pay journey' discussed in Chapter 2, and would begin with the gathering of data and analysis to determine where the company stands from a diversity perspective. This analysis should include an analysis of promotion, resignation and recruitment decisions particularly at middle management and above levels to identify patterns and potential roadblocks to progress.

Many companies are willing and have expressed their desires both to shareholders and wider stakeholders of their commitment to gender parity, yet very few companies analyse their employee data or track their progress against metrics — it is virtually impossible to determine if progress is being made if the company's starting point is not established (if it is not disclosed) and progress against this point is not regularly assessed. Without the necessary data analysis and insight, providing details of where the company stands and where it is moving to, there is no way to establish where progress needs to be made or for any plans to be made to address anomalies and remedy the lack of female representation in leadership roles.

Once the necessary data have been analysed, it is necessary for policies, practices and partnerships to be put in place to encourage an inclusive working environment and future success. In terms of gender diversity, these could include the following:

- **Mobilising a steering committee aimed at diversity and inclusion**
  Many diversity and inclusion committees are made up exclusively of senior management, but a number of companies are rethinking this model by including representatives ranging from the board members to frontline workers to obtain diverse viewpoints in forming the strategy and carrying out change management throughout the organisation. Some are going further by having the steering committee report to the board and CEO, thereby elevating its status. There is also an emerging trend of appointing a chief diversity officer, which is discussed in detail below.
- **Enhanced communication plans**
  Many business leaders believe their company's diversity and inclusion efforts are well-established and known to their employees, yet in many instances, employees have only a vague idea of what the company's intentions are and cannot provide clear answers about what initiatives their employer has in place. Furthermore, although they are well-meaning, many of the initiatives put in place are aimed at complying with corporate governance principles and are disconnected from the individuals they are aiming to advance. Companies should ensure that they communicate with relevant individuals within the organisation regarding what programmes and policies should be developed and introduced. They should also ensure that these are clearly communicated throughout the organisation to ensure clarity and consensus, and ultimately, deliver meaningful progress.
- **Enhance transparency**
  Very few listed companies share specific diversity and inclusion data (such as gender breakdown of employees per level), either internally or externally. Doing so would not only build a shared level of understanding among current (and future) employees across all levels of the organisation, but may actually help build trust among these groups as it is reflective of level of transparency and commitment to progress. This type of data is sensitive, and what can be collected will differ based on country-specific regulations, so organisations should focus on building a culture of trust to encourage disclosures of voluntary information.
- **Succession planning**
  Although many companies have succession plans in place for their CEO and CFO, very few have made provision for other senior management roles in the company that would eventually feed into C-suite roles. However, this is equally as important and often provides a critical pipeline for female integration into senior leadership roles.
- **Mentoring and sponsorship programmes**
  Mentoring remains a key method of imparting knowledge to female leaders and helping them be more effective in their current roles. However, sponsorship programmes are few and far between. Sponsors go beyond the role of a mentor and actively advocate for the women in question. Sponsorship may go beyond the impact of one individual and may comprise many individuals within the organisation who introduce an individual woman to influential people, who broaden her network and exposure to her peers, provide coaching and advice, provide key opportunities, and who publicly advocate for her in situations where she cannot advocate for herself. In a recent report on women in leadership, 95% of women interviewed mentioned having a sponsor being critical to their success.[52] In assigning a sponsor, a natural affinity and social connection should exist to avoid superficial sponsorships that garner no success. With limited female leadership, this is often difficult to do, however efforts should be made to provide for genuine sponsorship programmes, with the female employee making the selection of who their sponsor is.
- **Skills development**
  'Leaders are made, not born' — all great leaders require additional skills to empower them on their leadership journey and assist them in achieving their professional aspirations and the company's goals. Diverse skills programmes aimed not only at prospective talent, but for all management, on inclusive leadership and other soft and hard skills should be provided to empower leaders from all backgrounds by giving them ample opportunities for success.

52 *Making the Invisible Visible – Women in Leadership Report 2021*. Oliver Wyman. 2021. *oliverwyman.com/content/dam/oliver-wyman/v2/publications/2021/jan/Oliver-Wyman-Women-in-Leadership-Making-the-Invisible-Visible.pdf*

Increase in chief diversity officer role

The human resources role that existed historically has changed drastically over the years and in many ways, many HR functions within companies are not equipped to handle the growing list of responsibilities and duties imposed on them. On the aspect of diversity, many HR practitioners have not received the necessary training and do not possess the skill set required to tackle the issue of diversity. Given the importance of diversity and inclusion and the time it takes to bring about change, we have observed a growing trend globally of chief diversity officers and similar type executive roles being appointed. This has been precipitated by the acknowledgment that for meaningful progress in diversity and inclusion to be made, diversity needs to be put at the forefront of a company's focus and a person who can dedicate their full-time attention to diversity efforts and who can have an impact, needs to be brought in. In appointing the role of a chief diversity officer, a company can also task an individual and team with the responsibility and corresponding accountability for compliance, advocacy and education in the company on diversity and inclusion.

Concluding remarks

We are seeing a marked increase in the communication of commitments to diversity and inclusion, but real progress appears to be slow. COVID-19 has set us back, with more pressing matters of survival and adaptation being prioritised, often at the expense of 'slow-burn' issues such as diversity. But as we have predicted for a while now, these issues will not be able to be ignored for much longer. Real action is required, with or without the introduction of mandatory reporting, otherwise companies will find themselves losing the trust that is so important to remaining in business in this profoundly altered world which we find ourselves in.

7 Regulatory update

The local and global regulatory environment continues to be dominated by the impact of COVID-19 and providing guidance to companies on best-practice remuneration, how institutional investors and other key role players are considering remuneration and changes to the remuneration framework.

This impact also references the renewed focus on inclusivity, diversity and social equality. We set out high-level overviews of these updates below, in both the local and global environment, with particular focus on policy updates by proxy advisors.

Executive compensation in the context of COVID-19: Glass Lewis' guidance updates

Glass Lewis, in preparation for its 2021 proxy season, released specific guidance resources for Europe, the Middle East and Africa (EMEA), the United States and Canada in early 2021, exploring justifications for bonuses and revised target metrics with a specific focus on pay for performance. It maintained that its approach to executive pay has not changed and reiterated that it will consider whether proposals are appropriate based on overall quantum, a company's disclosure and its responsiveness to shareholder concerns. However, it noted that the executive landscape is adapting, being affected not only by market-wide disruptions and the importance of shareholder alignment, but also the increased scrutiny on the widening executive pay gap and increased focus on social and environmental issues and human capital management.

In the EMEA region[53], the focus was on, inter alia:

- **Dividends**
  Where dividends have been cancelled or reduced, Glass Lewis expects executive pay to reflect this.
- **Employees**
  Where there have been furloughs or retrenchments of employees, the proxy advisor expects 'consistency' between changes in the yearly disbursements for both employee and executive pay and for companies to explain how these events were considered in adjusting executive salaries (adjustments in the last and forthcoming years) and variable pay outcomes, in their remuneration reports.
- **Stakeholder perspectives**
  Where stakeholders have expressed concern over proposed executive payouts or pay policies, Glass Lewis believes the company should provide an explanation as to how these concerns were considered and accounted for in decision-making.
- **Share grants**
  In determining the appropriateness of long-term equity grants, Glass Lewis expects adequate consideration to be given to a depressed share price in calculating the size of the grant and that companies provide a rationale on addressing potential windfall gains at the time of vesting.

53 *Approach to Executive Compensation in the Context of the COVID-9 Pandemic – EMEA Region*." Glass Lewis, last updated April 2021. *https://www.glasslewis.com/wp-content/uploads/2021/01/EMEA-Executive-Comp-Approach-to-COVID.pdf?utm_campaign=Brand%20-%20Thought%20Leadership&utm_source=Coronavirus%20Resource%20Page%20-%20European%20Comp%20Update&utm_medium=Website&utm_term=Coronavirus%20Resource%20Page%20-%20European%20Comp%20Update&utm_content=Coronavirus%20Resource%20Page%20-%20European%20Comp%20Update*

With regards to its remuneration analysis for the United States and Canada[54], Glass Lewis discusses 'say-on-pay' proposals, with a focus on analysing overall pay levels rather than simply a reduction in executive-based compensation, which it views as a token of solidarity. There is particular focus on the following:

- **Increases to quantum**
  Glass Lewis is of the view that, with the exception of where a company has performed exceptionally well, short-term incentives that have been paid out need to be subject to scrutiny.

- **Forwards vs backwards**
  Performance-based payouts to executives need to be subject to a robust incentive structure that ensures performance conditions fully reflect the efforts of executives.

- **One-off awards**
  These awards deviate from a company's usual incentive scheme. As such, Glass Lewis is cautious of any approach involving one-off awards. Factors that should be considered when making use of one-off awards include whether the award is reasonably sized in relation to peer levels and the company's past pay levels, whether there are additional performance conditions or vesting criteria, the company's history of using this mechanism as an incentive approach and whether there was adherence to predetermined agreements regarding severance-based or one-off award payments.

- **Major structural changes**
  Caution should be taken with regard to any significant structural changes in light of the current market uncertainty. Decision-making in this respect should include an evaluation of whether these changes continue to align pay and performance as well as the reasoning behind any proposed changes.

54 *Approach to Executive Compensation in the Context of the COVID-19 Pandemic – United States & Canada*". Glass Lewis, last updated April 2021. *https://www.glasslewis.com/wp-content/uploads/2021/01/EMEA-Executive-Comp-Approach-to-COVID.pdf?utm_campaign=Brand%20-%20Thought%20Leadership&utm_source=Coronavirus%20Resource%20Page%20-%20European%20Comp%20Update&utm_medium=Website&utm_term=Coronavirus%20Resource%20Page%20-%20European%20Comp%20Update&utm_content=Coronavirus%20Resource%20Page%20-%20European%20Comp%20Update*

Proceed, but be careful: The Prudential Authority's latest guidance to banks

The COVID-19 pandemic resulted in both a health and economic crisis worldwide. South Africa was not spared from this and, as a result, the Prudential Authority provided substantive temporary regulatory relief to banks, branches of foreign institutions and controlling companies.[55]

It is against this backdrop that the Prudential Authority issued a further Guidance Note (3/2021) in terms of section 6(5) of the Banks Act 94 of 1990, which follows its 2020 guidance. The new Guidance Note advised banks to continue to act prudently with regards to their remuneration policies and payments made to directors in light of ongoing difficult financial times.[56] Banks were further reminded of their duty in terms of Regulation 39(1) of the Regulations relating to banks, to ensure that adequate and effective process of corporate governance is followed.[57]

From a remuneration perspective, the most important advice from this Guidance Note is that neither dividends on ordinary shares nor cash bonuses to executive officers should be paid where the entity made use of the substantive relief measures offered by the Prudential Authority. On the other hand, the Guidance Note also made reference to Regulation 38(4), which states that when the Prudential Authority is of the opinion that a bank's policies, processes and procedures relating to compensation or remuneration are inadequate, it may, among other things require the said bank:

- to maintain additional capital, calculated in such a manner and subject to such conditions as may be specified in writing by the Prudential Authority; or
- to duly align the bank's compensation or remuneration policies, processes or procedures with the bank's relevant exposure to risk.[58]

As a result, the core message from the Prudential Authority is that dividends on ordinary shares and cash bonuses to executives may be paid, subject to the stipulation on having used the relief measures and to maintaining sufficient levels of capital in the circumstances.

55 *Directive 2/2020*. Issued in terms of section 6(6) of the Banks Act 94 of 1990. South African Reserve Bank Prudential Authority, 2020.

56 *Guidance Note 3/2021*. Issued in terms of section 6(5) of the Banks Act 94 of 1990. South African Reserve Bank Prudential Authority, 2021.

57 Regulations of Act 94 of 1990.

58 Regulations of Act 94 of 1990.

Addressing the wage gap: proposed amendments to the Companies Act

In his 2021 Budget Vote speech, Minister of Trade, Industry and Competition, Ebrahim Patel expressed his desire to address the wage gap between high earners and minimum wage employees within companies in South Africa.[59]

Minister Patel confirmed that an amendment Bill to the Companies Act 71 of 2008, requiring disclosure of wage differentials in companies would be finalised within 60 days following this announcement, which was made on 18 May 2021. While the Minister was careful not to divulge much detail about the content of the proposed Bill, he revealed how the Bill's strategy will seek to address the wage gap:

- The Bill would allow for broader shareholder and stakeholder inclusion in the decision-making process of executive remuneration.
- The Bill would focus on public transparency in that the identified wage gaps within companies will be made public.
- The Bill would not stipulate the manner in which executives shall be remunerated.

At the time of publishing, no further information has been released regarding the proposed updates.

59 "Budget Vote 2021 Ebrahim Patel, Minister of Trade, Industry and Competition," Speech, Parliament, Cape Town, 18 May 2021. *http://www.thedtic.gov.za/budget-vote-2021-ebrahim-patel-minister-of-trade-industry-and-competition-18-may-2021-parliament-cape-town/ accessed*.

Toward sustainability: Standardising ESG measures

In recent years there has been a shift towards ESG measures presenting a significant indicator of a company's overall performance.[60] We included dedicated sections on this topic in both our *Executive Directors: Practices and remuneration trends 2020 and Non-executive Directors: Practices and Fees trends 2021* reports. Despite this ongoing movement, ESG reporting measures adopted by companies have been inconsistent as there has not been any significant standardisation in this regard.[61] In June 2021, the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC) merged to form the Value Reporting Foundation.[62] This is a significant step towards providing uniform ESG reporting standards and is expected to enhance productivity between the two bodies as they are able to share their resources to achieve their aligned goals.[63]

The merger follows the development by the World Economic Forum International Business Council (WEF-IBC) of common metrics for ESG reporting supported by all of the Big Four accounting firms last year,[64] which centred around four pillars of principles of governance, planet, people and prosperity.[65] It is clear that consistency in sustainability reporting cannot be ignored any longer.

60 "Environmental Social and Governance (ESG) Investing," OECD. Accessed 16 July 2021. *https://www.oecd.org/finance/esg-investing.htm.*

61 Edmans, Alex. "The Inconsistency of ESG Ratings: Implications for Investors," Eco-Business. Last modified 17 February 2020. *https://www.eco-business.com/opinion/the-inconsistency-of-esg-ratings-implications-for-investors*.

62 Tysiac, Ken. "Sustainability Reporting Harmony Boosted by SASB-IIRC Merger." FM Magazine. Last modified 9 June 2021. *https://www.fm-magazine.com/news/2021/fun/sustainability-reporting-harmony-sasb-iirc-merger.html*.

63 Ibid.

64 Cohn, Michael. "Big Four Firms Release ESG Reporting Metrics with World Economic Forum," Accounting Today. Last modified 23 September 2020. *https://www.accountingtoday.com/news/big-four-firms-release-esg-reporting-metrics-with-world-economic-forum*.

65 Ibid.

Australia

Towards a principles-based approach: A new era for remuneration in Australia?

On 12 November 2020, The Australian Prudential Regulation Authority issued its revised draft of Prudential Standard CPS 511 Remuneration.[66] The main alteration is the lifting of minimum standards across its regulated entities. Of particular interest is the change in approach to financial and non-financial performance conditions.[67]

While the initial draft[68] stipulated that Significant Financial Institutions such as banks should limit their financial performance conditions relating to variable compensation to a maximum of 50%, the revised version stipulates that these institutions should show that there has been 'material weight' given to non-financial performance.[69] This provides these institutions with some flexibility to determine appropriate weighting for non-financial performance conditions in accordance with their strategic objectives.

[66] Prudential Standard CPS 511 Remuneration- Revised Draft. Australian Prudential Regulatory Authority. 2020 Accessed on 10 June 2021. *https://www.apra.gov.au/sites/default/files/%5bdate:custom:Y%5d-%5bdate:custom:m%5d/Revised%20Draft%20Prudential%20Standard%20CPS%20511%20Remuneration%20-%20Clean%20-%20November%202020.pdf*.

[67] Blackham T, Hang A & Ross K "An Update on Regulatory Requirements for Financial Services in Australia." Aon, 2020. *https://rewards.aon.com/en-us/insights/articles/2021/an-update-on-regulatory-requirements-for-financial-services-in-australia (accessed on 10 June 2021)*.

[68] Prudential Standard CPS 511 Remuneration - First Draft. Australian Prudential Regulatory Authority. Accessed 11 June 2021. *https://www.apra.gov.au/sites/default/files/draft_prudential_standard_cps_511_remuneration_v2.pdf*.

[69] "Revised remuneration prudential standard released for consultation by APRA," Ashhurst. Accessed 11 June 2021. *https://www.ashurst.com/en/news-and-insights/legal-updates/revised-remuneration-standard-released-for-consultation-by-apra/*.

Removing cessation of employment as a taxing point

During the Federal Budget speech in May 2021, it was announced that regulatory changes would be made to make it easier for companies to offer their employees participation in employee share schemes (ESSs), through the removal of cessation of employment as a taxing point.[70]

Currently, under a tax-deferred ESS, the deferred taxing point is the earliest of:

- cessation of employment;
- in the case of shares, when there is no risk of forfeiture and there are no genuine restrictions on disposal;
- in the case of options, when the employee exercises the option and there is no risk of forfeiting the resulting share and there are no genuine restrictions on disposal; or
- the maximum period of deferral of 15 years.

The change announced by the Federal Government will result in tax being deferred until the earliest of the remaining tax points. This was a welcome change given that many awards currently do not vest on termination of employment, but remain in operation and retain their original vesting conditions and dates. This is particularly relevant in the current environment where, due to COVID-19, a number of Australian employees' employment was terminated due to redundancy (and thus they were treated as good leavers, retaining a number of their ESS interests). Based on the current tax rules, these employees have therefore been left with a tax liability on cessation of employment but with no access to the underlying equity to fund the tax liability. The removal of this taxing point will avoid significant cash-flow issues for employees and allow for the simplification of equity plans.

This change will apply to ESS interests issued on or after 1 July 2022, following Royal Assent of the enabling legislation, which is not yet available and will not apply retrospectively.

[70] "Federal Budget 2021 Insights: Attracting global business and talent," PwC Australia, 2021. *https://www.pwc.com.au/publications/federal-budget-2021/analysis-and-insights/attracting-and-retaining-global-business-and-talent.html*

United Kingdom

The Financial Conduct Authority (the FCA) published its second Consultation Paper setting out its proposed implementation of the Investment Firms Prudential Regime on 19 April 2021.[71] The consultation paper sets out the proposal that all investment firms regulated by the FCA be subject to a new remuneration code known as the Markets in Financial Instruments Directive (MiFID) (to be known as the MiFIDPRU Remuneration Code'.[72]) The proposed remuneration report has three objective proportionality levels namely 'small and non-interconnected firms', 'non-small and non-interconnected firms' and FCA investment firm groups.[73] Despite the different objective proportionality levels, the remuneration policy of all firms will be subject to certain common requirements such as the policy being proportionate to the size of the firm, gender neutral, reflective of effective and sound risk management, and the policy being aligned to the company's business strategy and objectives.[74] Measures should also be in place to prevent conflicts of interest.[75]

'Non-small and non-interconnected firms' are subject to more detailed requirements in addition to the basic requirements described above. Examples of these additional requirements include:

- the identification of material risk takers;
- applying appropriate ratios between fixed and variable remuneration;
- the application of performance conditions and rules for variable remuneration; and
- the composition of a remuneration committee.[76]

71 "Remuneration update: *FCA consultation on the implementation of the IFPR*," PwC, 2021. *https://www.pwc.co.uk/industries/financial-services/regulation/understanding-regulatory-developments/remuneration-rules-on-the-implementation-of-the-ifpr.html*.

72 "*A new UK prudential regime for MiFID investment firms*," Financial Conduct Authority, 2021. *https://www.fca.org.uk/publication/consultation/cp21-7.pdf*.

73 "*Remuneration regulation update*," PwC, 2021. *https://www.pwc.co.uk/financial-services/assets/pdf/remuneration-rules-under-the-new-ifpr-in-the-uk.pdf.*

74 "*Second FCA Consultation on New Prudential Regime for Investment Firms*," Latham & Watkins, 2021.*https://www.lw.com/thoughtLeadership/second-fca-consultation-on-new-prudential-regime-for-investment-firms*.

75 Ibid.

76 Ibid.

FCA Consultation paper 21/24: Diversity on company boards and executive committees [77]

In the wake of domestic and wider international initiatives to promote greater diversity on list company boards, in July 2021, the FCA proposed the amendment of its Listing Requirements. Seeking to increase transparency for investors on the diversity of company boards and executive management, the proposed amendments would require companies to annually:

- publish diversity data on their boards and executive management (gender and ethnicity); and
- disclose on a 'comply or explain' basis as to whether they meet specific board diversity targets.

The proposals also consider the increasing scrutiny of company by investors looking at ESG factors, and a desire for better data to inform decisions. The proposals would apply to UK and overseas companies with equity shares in either the premium or standard listing segments of FCA's Official List, while the disclosure and transparency changes apply to companies with securities traded on UK regulated markets.

Responses to the proposal are open until October 2021. We expect to continue to see increasing regulation and reporting obligations on diversity in the coming years.

77 Diversity and inclusion on company boards and executive committees. Financial Conduct Authority. 2021. *https://www.fca.org.uk/publications/consultation-papers/cp21-24-diversity-inclusion-company-boards-executive-committees*

8 Profile of an executive director

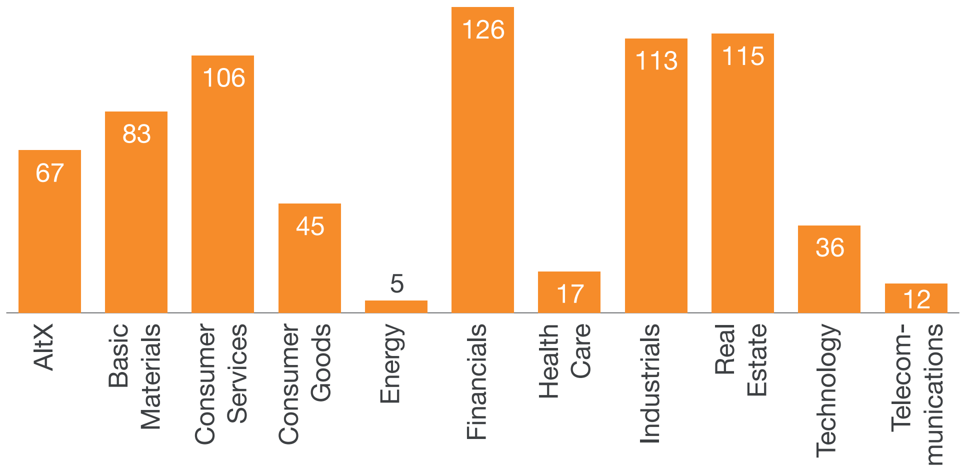
In this chapter, we outline the characteristics of a JSE executive director, focusing on their age, race, gender and tenure.

The strategic direction of a company is set by the board of directors, with the CEO and CFO being the mandatory board appointees and the main executioners of the strategy. EDs are responsible for the successful leadership of and management of the organisation. But what does an executive director look like?

We have analysed JSE-listed companies as at 28 February 2021 (the cut-off date). Our analysis is based on the information that is publicly available from 1 March 2020 to the cut-off date. We have excluded preference shares, special purpose listings and companies that were suspended at the cut-off date.

As at 28 February 2021, there were 285 active JSE-listed companies with 725 EDs. The 725 EDs comprise 280 CEOs, 269 CFOs and 176 EDs.

Figure 8.1 JSE: Number of EDs per industry

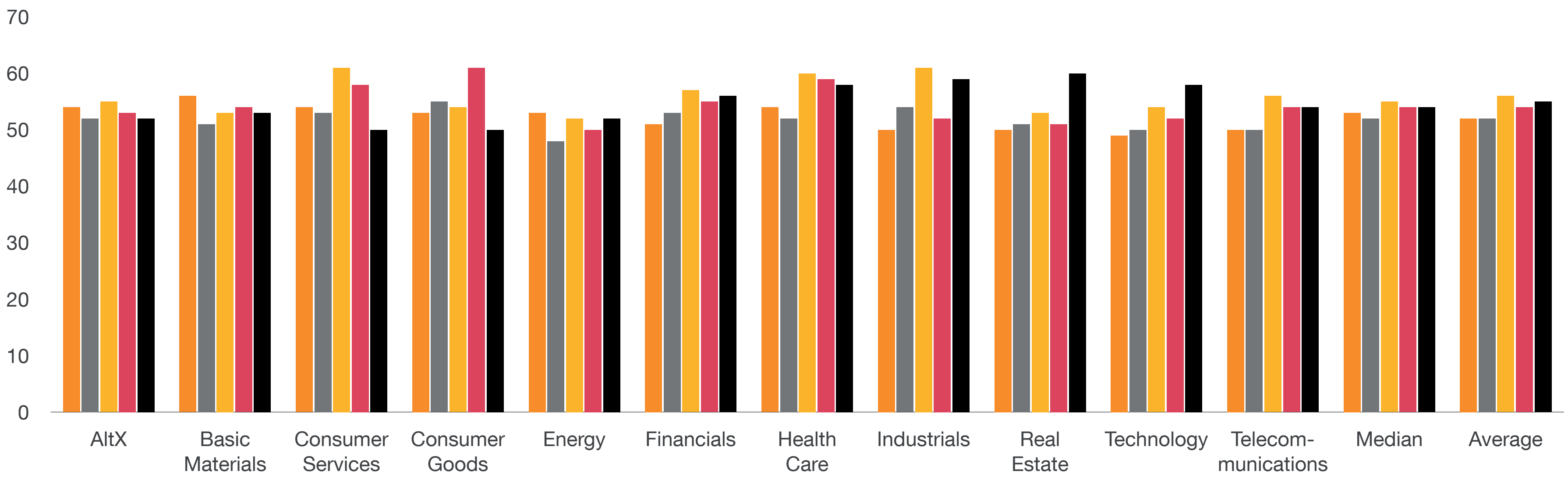


Source: PwC analysis

Average age

The average age of EDs has remained relatively constant over the past five years with the average age of EDs in 2020 and 2021 being 52 years.

Figure 8.2 JSE: Average age of EDs



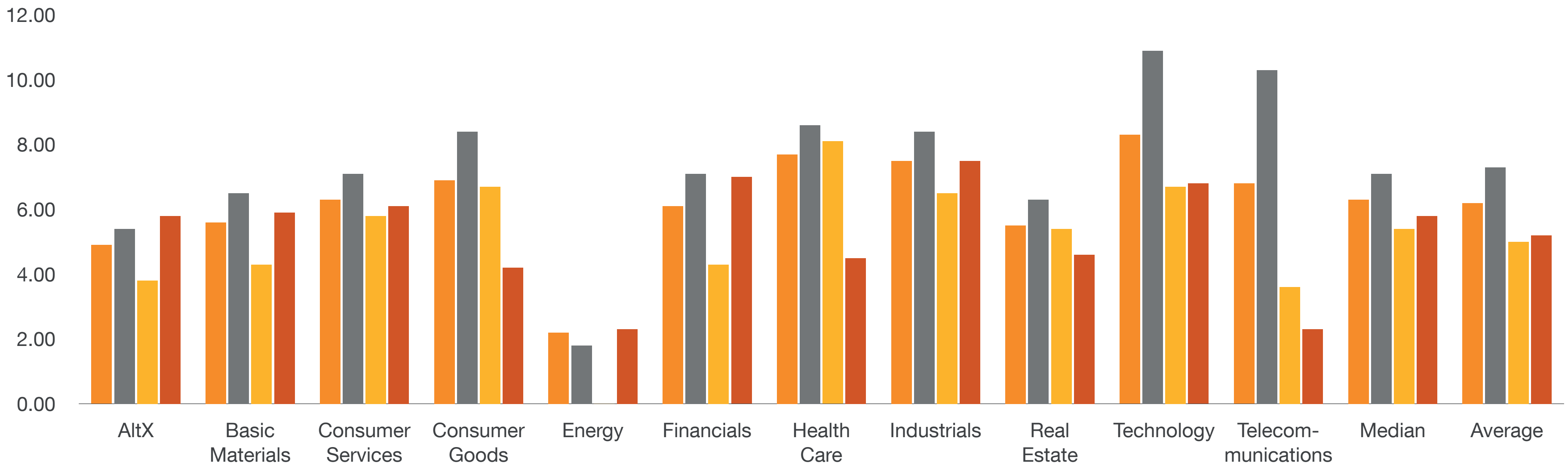
	AltX	Basic Materials	Consumer Services	Consumer Goods	Energy	Financials	Health Care	Industrials	Real Estate	Technology	Telecom-munications	Median	Average
2021	54	56	54	53	53	51	54	50	50	49	50	53	52
2020	52	51	53	55	48	53	52	54	51	50	50	52	52
2019	55	53	61	54	52	57	60	61	53	54	56	55	56
2018	53	54	58	61	50	55	59	52	51	52	54	54	54
2017	52	53	50	50	52	56	58	59	60	58	54	54	55

Source: PwC analysis

ED tenure

The average tenure for EDs by industry ranges between 1.8 and 10.9 years with Telecommunications CEOs being at the higher end of the range.

Figure 8.3 JSE: Average tenure of EDs



	AltX	Basic Materials	Consumer Services	Consumer Goods	Energy	Financials	Health Care	Industrials	Real Estate	Technology	Telecom-munications	Median	Average
Overall	4.9	5.6	6.3	6.9	2.2	6.1	7.7	7.5	5.5	8.3	6.8	6.3	6.2
CEO	5.4	6.5	7.1	8.4	1.8	7.1	8.6	8.4	6.3	10.9	10.3	7.1	7.3
CFO	3.8	4.3	5.8	6.7	-	4.3	8.1	6.5	5.4	6.7	3.6	5.4	5.0
ED	5.8	5.9	6.1	4.2	2.3	7.0	4.5	7.5	4.6	6.8	2.3	5.8	5.2

Note: Due to limited data being available for companies within the Energy industry we were unable to derive an average tenure for an Energy industry CFO.

Source: PwC analysis

Race and gender

In this section of the report, the race analysis is based on the top 100 JSE-listed companies while the gender analysis is based on all 285 active companies. The race analysis has been performed on a role basis (CEO, CFO and other EDs).

From a gender perspective, our analysis focuses on the sizes of the companies as opposed to the role of the individuals analysed. This is due to of a lack of female representation for the CEO and CFO roles.

Gender

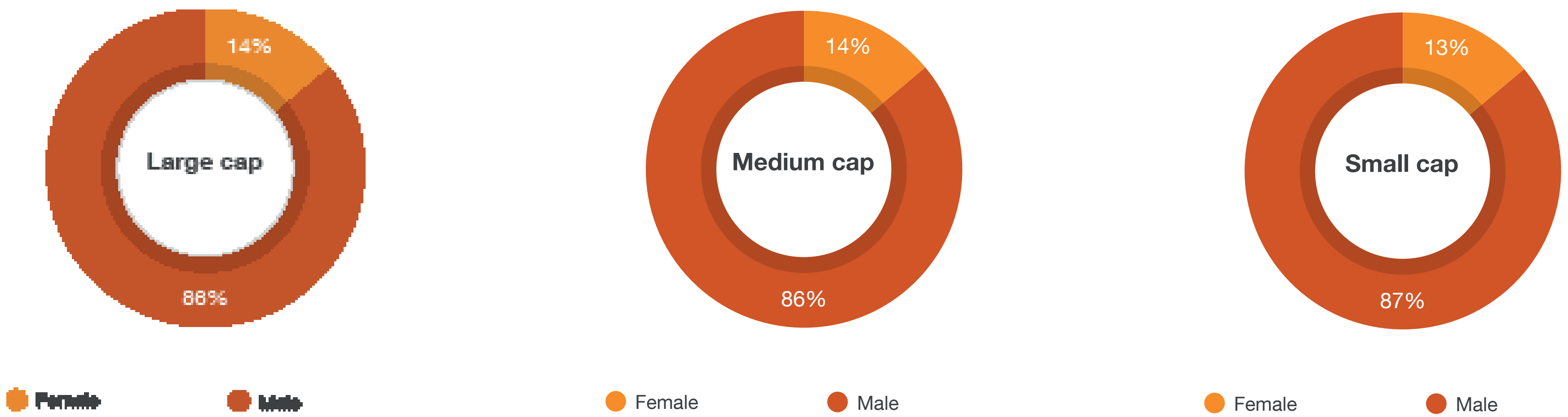
Only 13% (81 women) of the ED population is female (including CEOs and CFOs). The overall level of female representation is also consistent across companies of different sizes (large, medium and small cap).

In terms of roles, female representation at CEO and CFO level (these being permanent members of the board) is 5% (12 women) and 17% (38 women) respectively.

Although diversity (specifically gender representation) has become a greater focus point, there is still significant under-representation of female EDs, particularly at CEO level.

Due to the lack of representation in each ED role, we are unable to provide a meaningful role-based gender wage gap analysis in which we compare the median pay of male EDs to that of female EDs. We have, however, analysed the gender wage gap across companies of different sizes and industries.

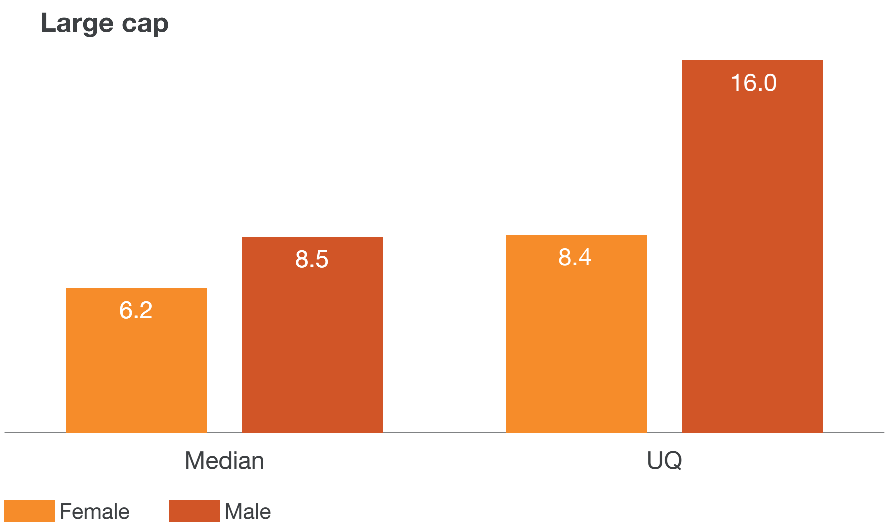
Figure 8.4 JSE: Gender representation by company size



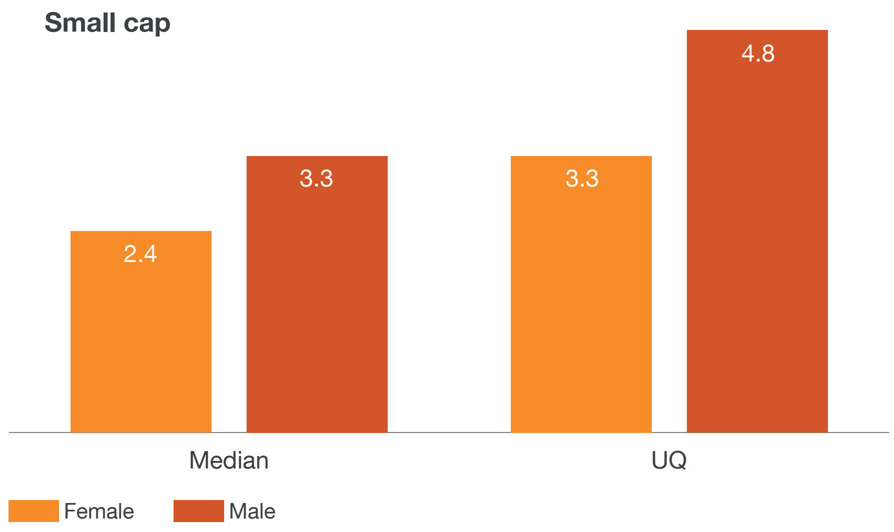
Source: PwC analysis

It was observed that the gender pay gap was from a quantum perspective the most severe at the large-cap upper quartile (UQ), which predominantly references the top 10 JSE-listed companies with a global footprint.

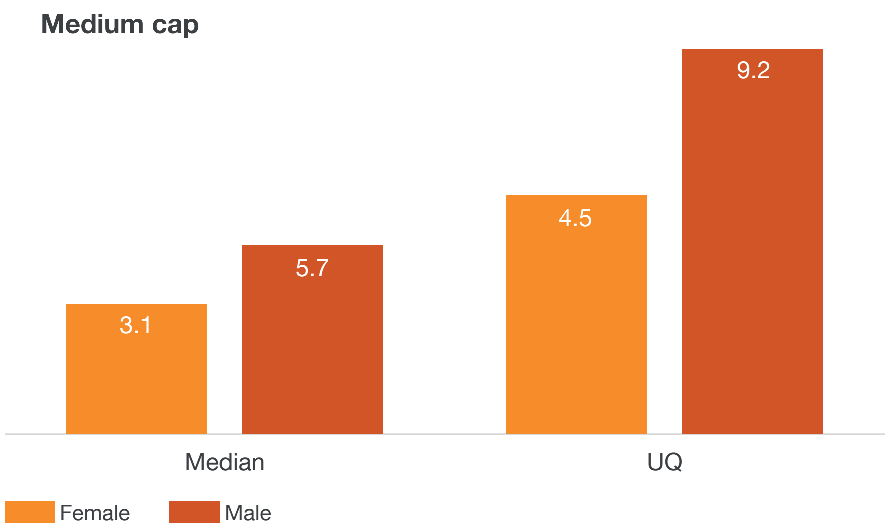
Figure 8.5 JSE: Gender pay gap by company size (R'm)



Source: PwC analysis



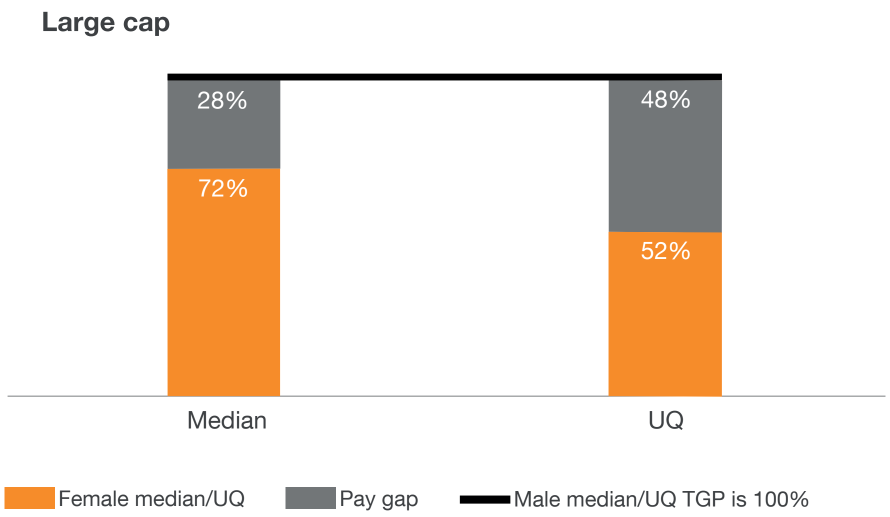
Source: PwC analysis



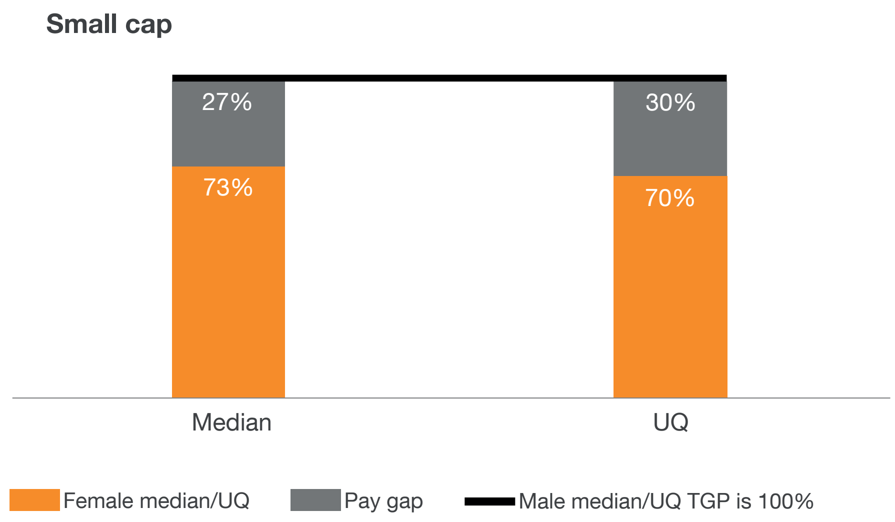
Source: PwC analysis

The gender pay gap is most significant for medium-cap companies (46%–51%), while small-cap companies have a lower gender pay gap (27%–30%).

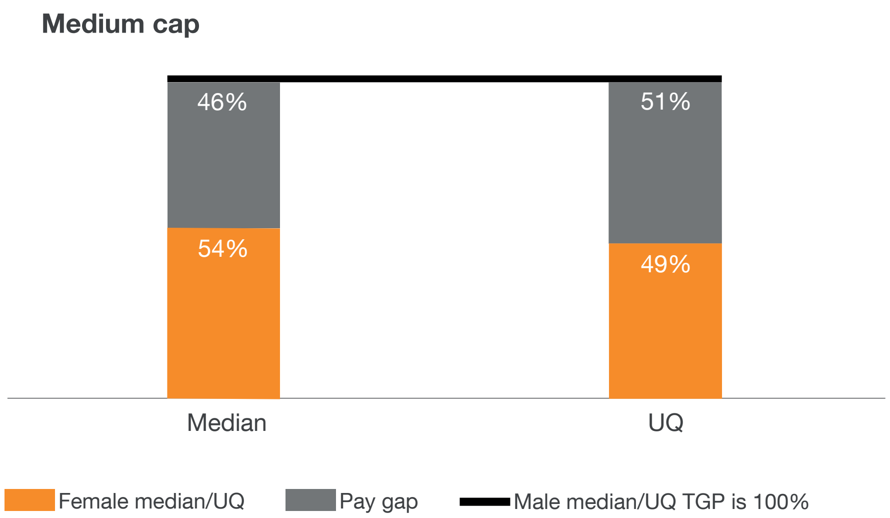
Figure 8.6 JSE: Gender pay gap by company size (R'm)



Source: PwC analysis



Source: PwC analysis



Source: PwC analysis

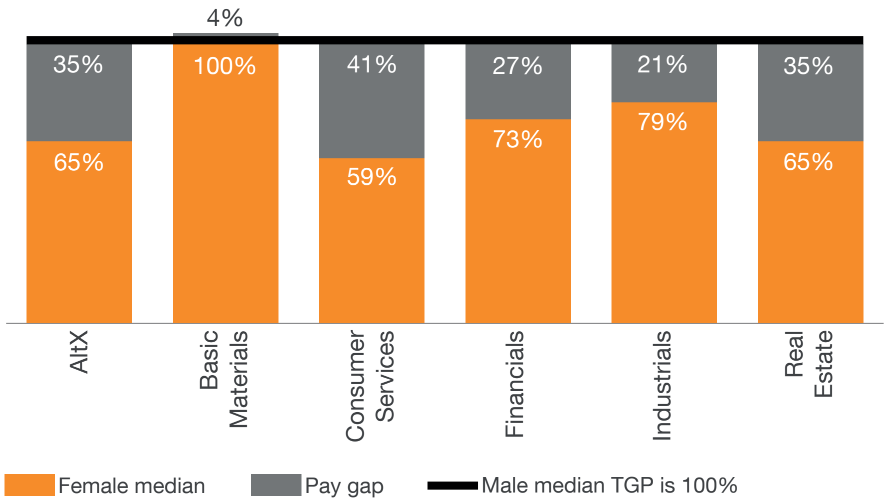
Gender pay gap per industry

Our preference is to provide a gender pay gap analysis on a median basis, but in instances where there are fewer than six data points, the analysis is presented as averages.

From an industry perspective, the gender pay gap industries, the pay gap ranges between 21% for Industrials to 41% for Consumer Services (on a median basis). Meanwhile, the Basic Materials industry pays a 4% premium to its female EDs.

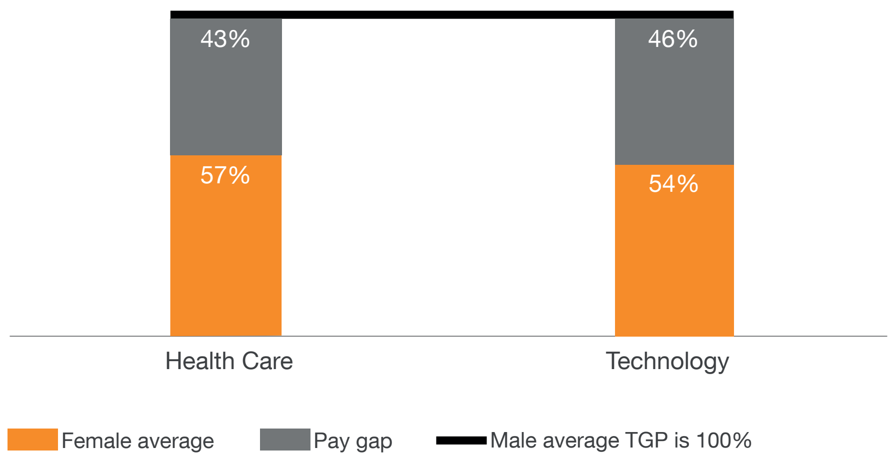
Due to there being insufficient data points, we have calculated the gender pay gap for the Health Care and Technology industries using averages instead of median values.

Figure 8.7 JSE: Gender pay gap by industry (median basis)



Source: PwC analysis

Figure 8.8 JSE: Gender pay gap by industry (average basis)



Note: Consumer Goods and Telecommunications have been excluded from the analysis as each industry has only one female ED. There are no female EDs in the Energy industry and it has been excluded from the analysis.

Source: PwC analysis

Race

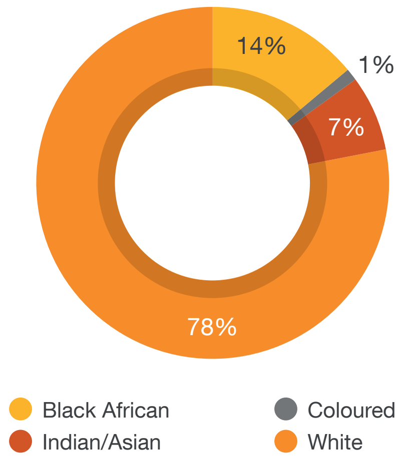
We have analysed the racial diversity among the top 100 JSE-listed companies by focusing on the ED roles rather than company size. From a race pay gap perspective, a marginal pay gap was observed at CEO, CFO and among other ED roles at median TGP level.

CEO

Black African and Indian/Asian representation at CEO level for the top 100 JSE-listed companies remains low with a combined representation of 22%, including a single Coloured CEO.

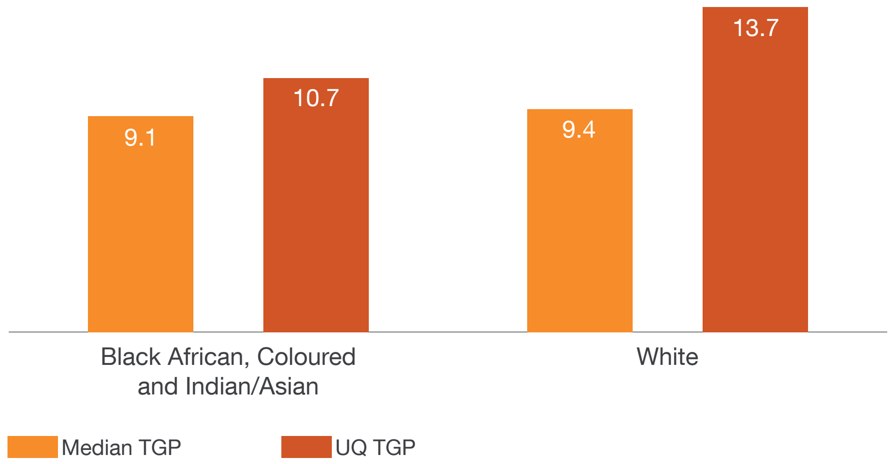
In terms of pay gaps, we note that there is a pay gap of 3% for median TGP and 22% for the upper quartile TGP between Black African, Coloured and Indian/Asian executives and their White counterparts.

Figure 8.9 JSE: CEO representation by race



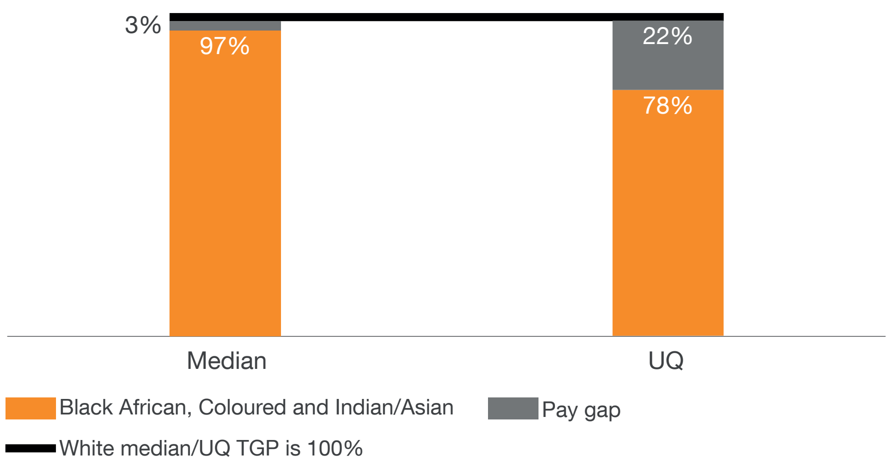
Source: PwC analysis

Figure 8:10 JSE: CEO TGP by race (R'm)



Source: PwC analysis

Figure 8.11 JSE: CEO race pay gap



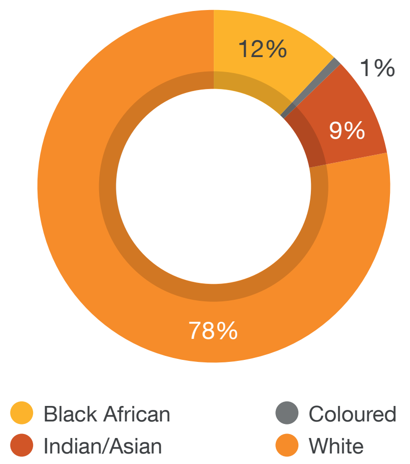
Source: PwC analysis

CFO

Black African, Coloured and Indian/Asian representation for the top 100 JSE-listed companies is a combined 22%.

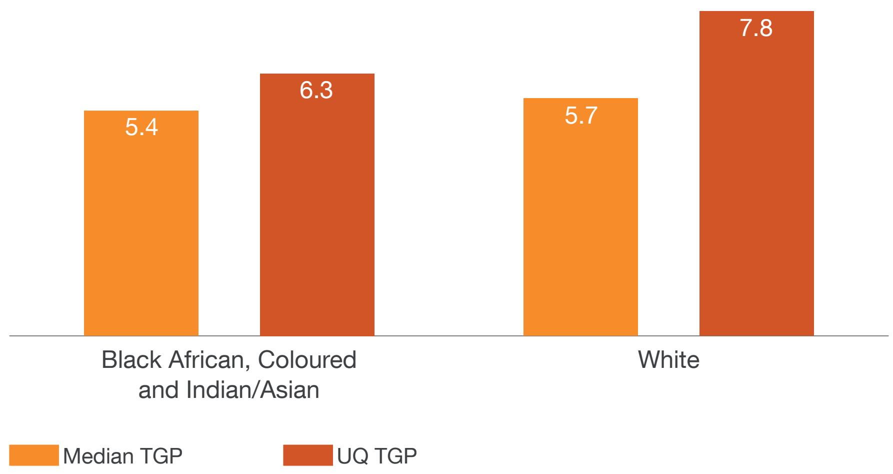
Similar to our findings about CEOs, we note that there is a pay gap of 4% for median TGP and 19% for the upper quartile between Black Africans, Coloured, Indian/Asian CFOs and their White counterparts.

Figure 8.12 JSE: CFO representation by race



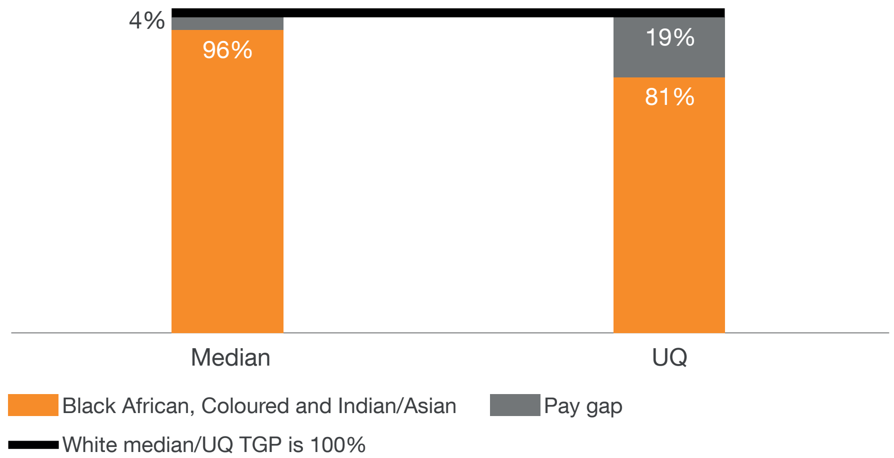
Source: PwC analysis

Figure 8:13 JSE: CFO TGP by race (R'm)



Source: PwC analysis

Figure 8.14 JSE: CFO race pay gap



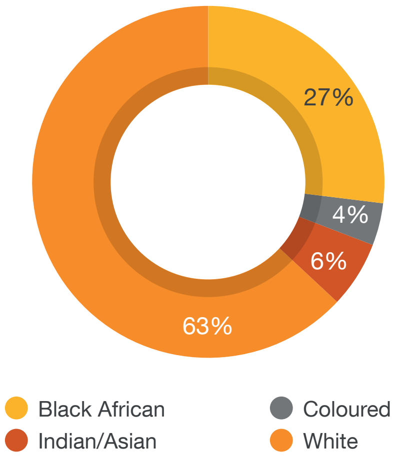
Source: PwC analysis

ED

At the other EDs role, racial representation is improved when compared to CEO and CFO roles, with 37% of other EDs (excluding CEOs and CFOs) being Black African, Coloured and Indian/Asian.

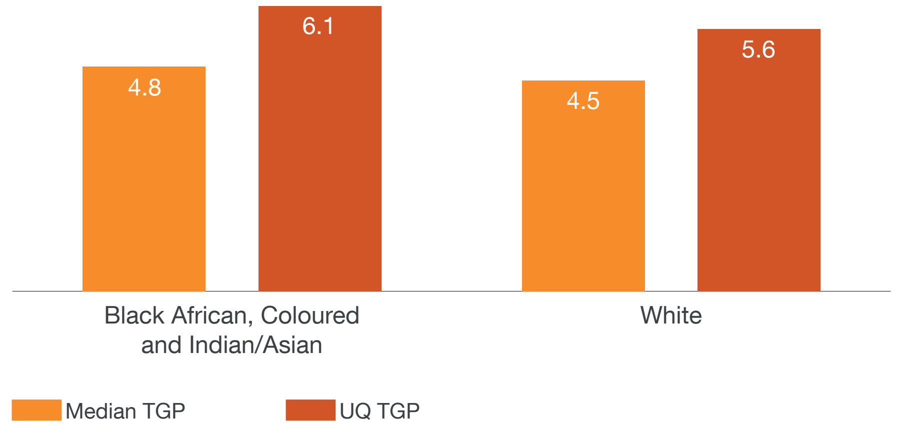
Pay gaps among other EDs follow a trend opposite to those of CEOs and CFOs. Our analysis reveals a premium of 6% (on a median basis) and 10% (on the upper quartile basis) being paid to Black African, Coloured and Indian/Asian EDs.

Figure 8.15 JSE: ED representation by race



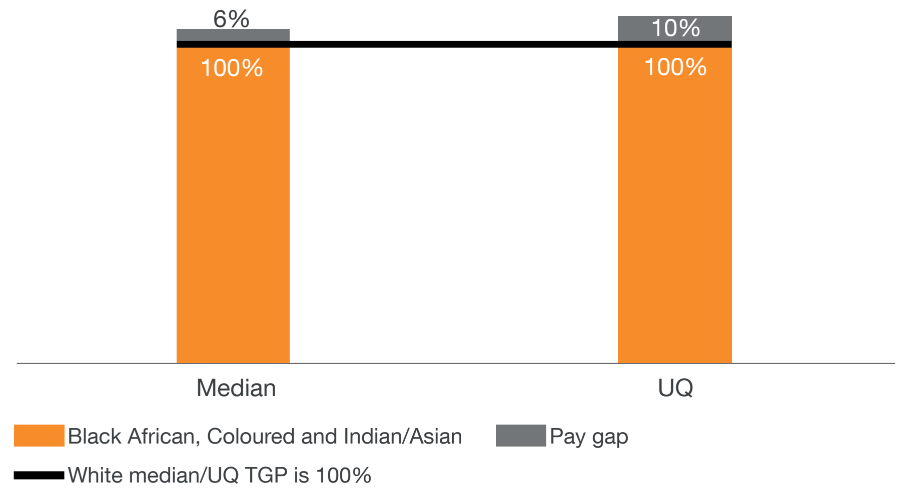
Source: PwC analysis

Figure 8:16 JSE: ED TGP by race (R'm)



Source: PwC analysis

Figure 8.17 JSE: ED race pay gap



Source: PwC analysis

9 JSE executive directors' remuneration

This section of the report provides an analysis of JSE executive director TGP for the period 1 March 2020 to 28 February 2021.

This analysis is based on active executive directors as at 28 February 2021. In instances where active executive directors have resigned from their roles, we have excluded them. In the event that executive directors have been appointed to their roles after the financial year end, they too have been excluded from the analysis.

Where executive directors were remunerated in a foreign currency, their TGP was converted into South African rand using the exchange rates as at the cut-off date (28 February 2021).

Due to the points noted below, a percentage movement from 2020 to 2021 has not been provided.

- A change in methodology has been introduced, resulting in remuneration paid to EDs who have resigned during the period being excluded from the analysis.
- The impact of COVID-19 is difficult to assess, as it has influenced different industries to varying extents. The response to this impact has been that some EDs took a temporary or permanent reduction in remuneration, or did not receive increases.
- The impact of COVID-19 on companies and their market capitalisation has also resulted in significant movements of companies between the categories of large cap, medium cap and small cap, which may distort the analysis within these subcategories.

Please note that the analysis presented in this chapter should be used for information purposes only, and not as a direct reference point for benchmarking purposes.

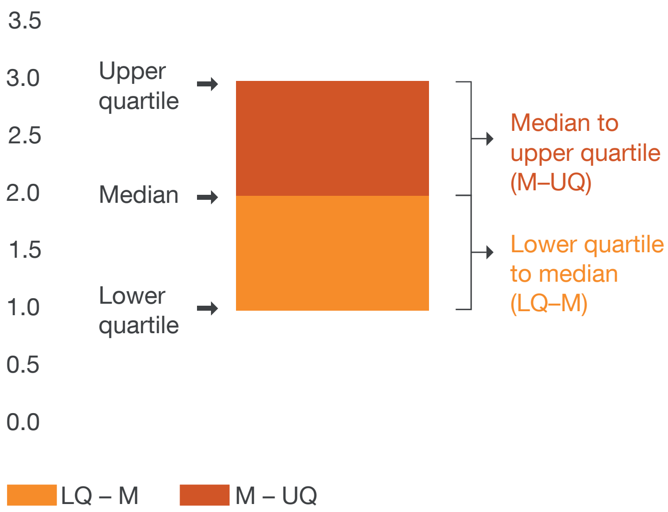
Rand exchange rates

Currency	February 2021
Australian dollar	11.600
Swiss franc	16.478
Euro	18.103
UK pound	20.795
US dollar	14.935

Total guaranteed package

TGP represents the portion of total remuneration that is paid regardless of company or employee performance. It is a fixed cost made up of basic pay plus benefits.

Figure 9.1 Guide to data presentation



Source: PwC analysis

The role-based TGP analysis for all companies and industries listed on the JSE has been provided in the tables that follow and accompanying graphs.

JSE: All industries

Figure 9.2 JSE: All industries (R'm)

	All JSE	CEO	CFO	ED
Lower quartile	2.44	3.37	2.25	2.06
Median	3.89	5.17	3.34	3.32
Upper quartile	6.09	8.44	5.15	4.65

Source: PwC analysis

Super cap (top 10)

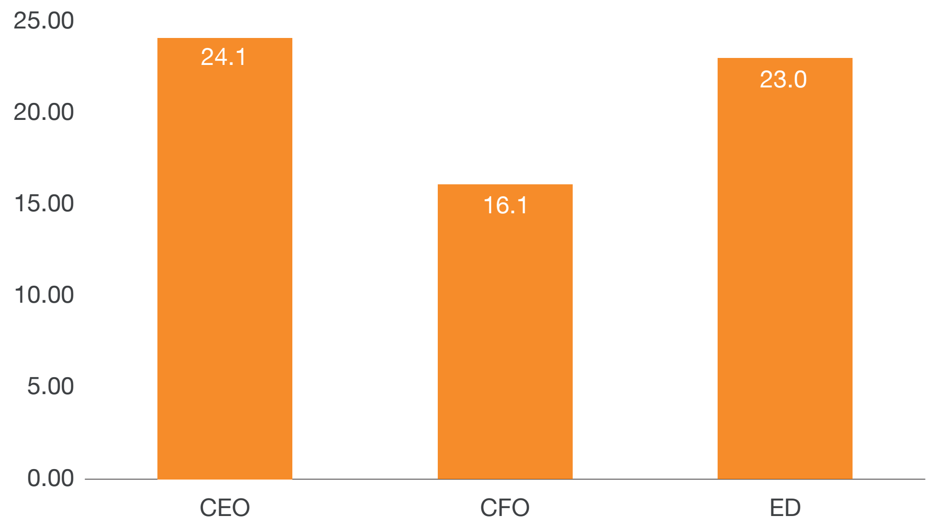
Super caps represent the top ten companies on the JSE. As at 28 February 2021, these companies accounted for 71% of the exchange's total market capitalisation. The companies that make up the JSE top ten are shown in the table below, while the figures that follow illustrate remuneration quartiles calculated for them.

JSE super cap companies, 2020 vs 2021

2020	2021
Prosus N.V.	Prosus N.V.
British American Tobacco PLC	Naspers Ltd
Anheuser-Busch InBev SA/NV	Anheuser-Busch InBev SA/NV
Naspers Ltd	British American Tobacco plc
BHP Group plc	BHP Group plc
Compagnie Financière Richemont S.A.	Glencore plc
Glencore plc	Anglo American plc
Anglo American plc	Compagnie Financière Richemont S.A.
Anglo American Platinum Ltd	Anglo American Platinum Ltd
FirstRand Ltd	FirstRand Ltd

As at the cut-off date, the remuneration data for AB InBev was not available.

Figure 9.3 Super cap: Average TGP (R'm)



Source: PwC analysis

Executive directors' remuneration by industry

In this section we provide executive director remuneration for each industry. The table below outlines the industries analysed as well as their contribution to the total market capitalisation of the JSE.

Remuneration by industry

Industry	Number of companies	Market capitalisation (R'm)	Proportion contribution to the total market capitalisation (%)
AltX	27	24,017	0.14%
Basic Materials	38	4,652,931	27.57%
Consumer Goods	18	3,799,281	22.51%
Consumer Services	41	721,758	4.28%
Energy	1	2,113	0.01%
Financials	45	1,516,456	8.98%
Health Care	7	168,145	1.00%
Industrials	46	395,957	2.35%
Real Estate	43	364,891	2.16%
Technology	14	4,837,390	28.66%
Telecommunications	5	395,290	2.34%
	285	1,687,823	100.00%

Source: PwC analysis

Large cap

The TGP trends analysis for the CEO, CFO and EDs of large-cap companies is shown in the graphs below.

Figure 9.4: Large cap: All industries (R'm)

	CEO	CFO	ED
Lower quartile	8.75	5.53	4.34
Median	10.87	7.42	5.30
Upper quartile	16.51	9.75	6.64

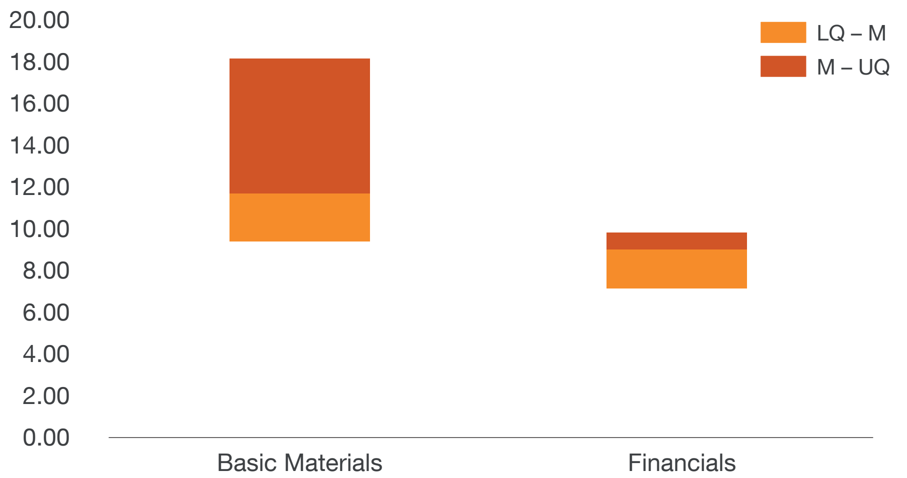
Source: PwC analysis

There are no large-cap companies on the AltX and in the Energy industry.

The graphs that follow provide a TGP trends analysis by industry.

CEO

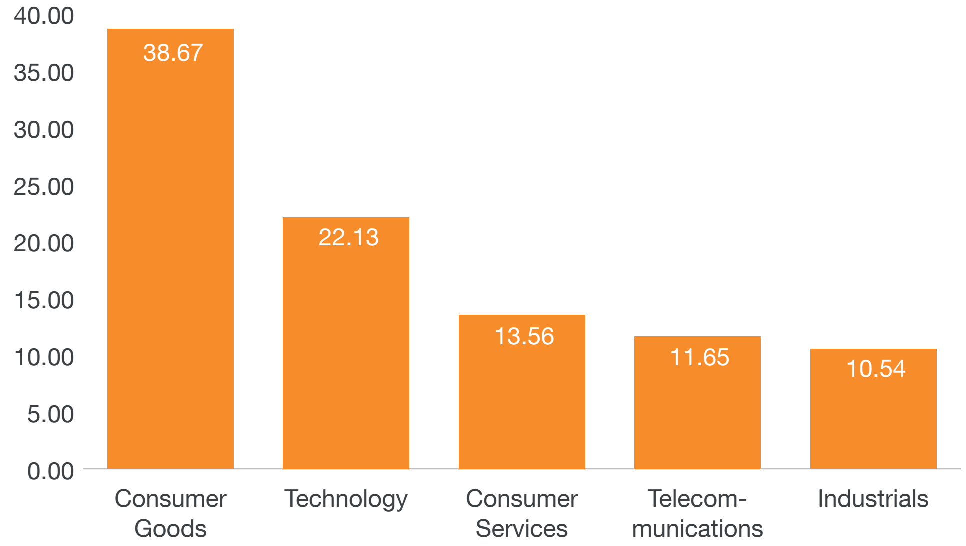
Figure 9.5 Large cap: CEO quartiles (R'm)



	Basic Materials	Financials
Lower quartile	9.41	7.14
Median	11.71	8.99
Upper quartile	18.15	9.82

Source: PwC analysis

Figure 9.6 Large cap: CEO averages (R'm)

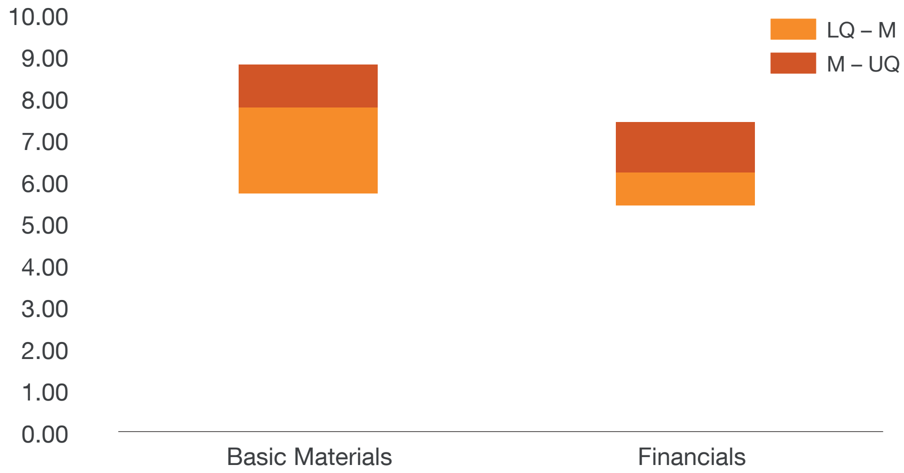


Source: PwC analysis

Due to there being insufficient data points, the Health Care and Real Estate industries have been excluded from the analysis.

CFO

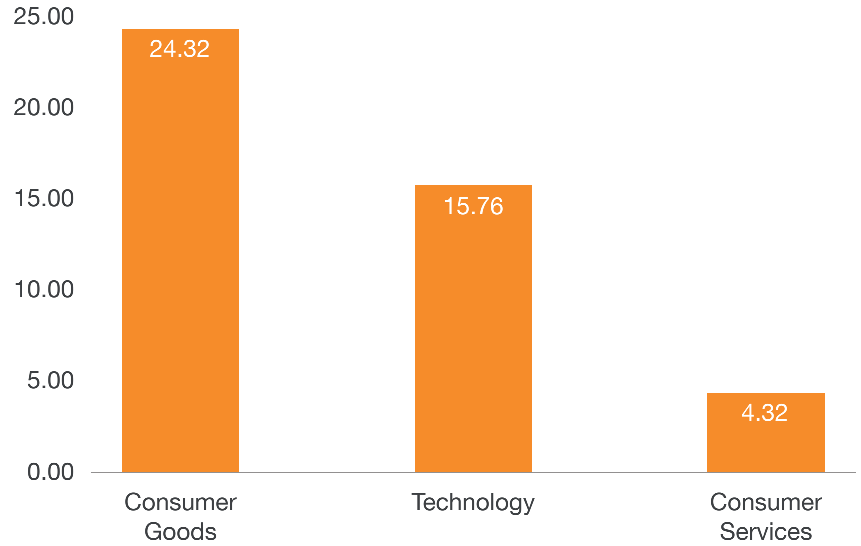
Figure 9.7 Large cap: CFO quartiles (R'm)



	Basic Materials	Financials
Lower quartile	5.71	5.42
Median	7.77	6.21
Upper quartile	8.79	7.42

Source: PwC analysis

Figure 9.8 Large cap: CFO averages (R'm)



Source: PwC analysis

Due to there being insufficient data points, the Health Care, Industrials, Real Estate and Telecommunications industries have been excluded from the analysis.

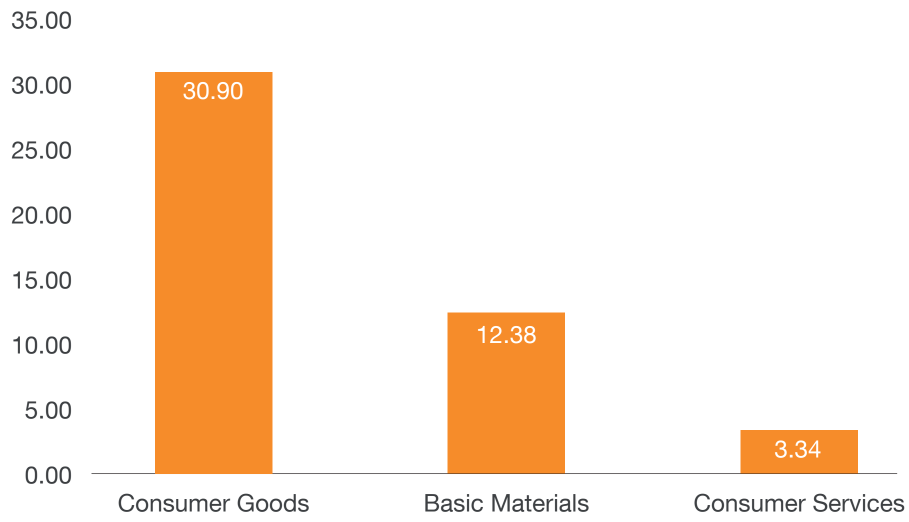
EDs

Figure 9.9 Large cap: ED quartiles (R'm)

Lower quartile	3.99
Median	5.32
Upper quartile	5.95

Source: PwC analysis

Figure 9.10 Large cap: ED averages (R'm)



Source: PwC analysis

Due to there being insufficient data points, the Industrials and Real Estate industries have been excluded from the analysis.

The Health Care, Technology and Telecommunications industries have been excluded as a result of the unavailability of data.

Medium cap

The TGP trends analysis for CEOs, CFOs and EDs for medium-cap companies is provided below.

Figure 9.11 Medium cap: All industries (R'm)

	CEO	CFO	ED
Lower quartile	5.55	3.47	3.03
Median	7.89	5.20	3.91
Upper quartile	10.54	6.33	5.22

Source: PwC analysis

There are no medium-cap companies on the AltX or in the Energy and Technology industries.

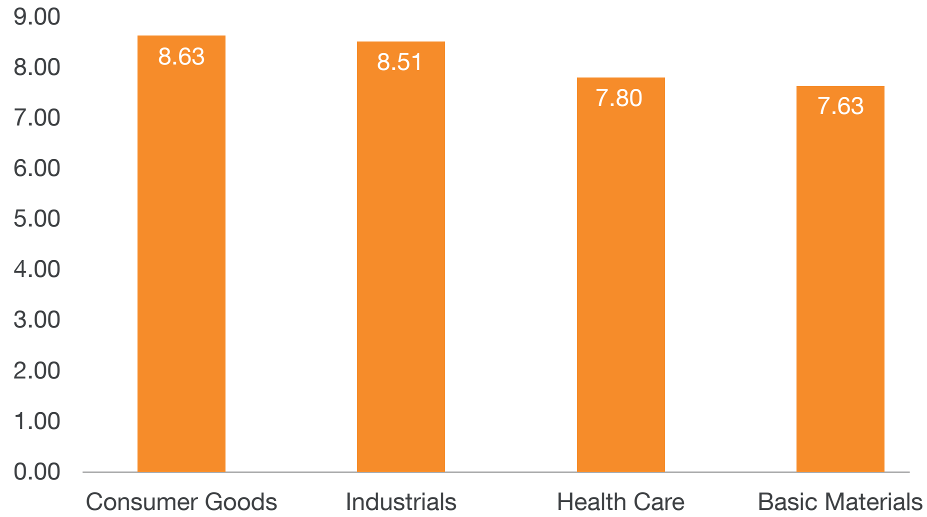
CEO

Figure 9.12 Medium cap: CEO quartiles (R'm)

	Financials	Consumer Services	Real Estate
Lower quartile	4.46	5.53	4.86
Median	6.76	9.55	5.69
Upper quartile	13.73	11.96	7.33

Source: PwC analysis

Figure 9.13 Medium cap: CEO averages (R'm)

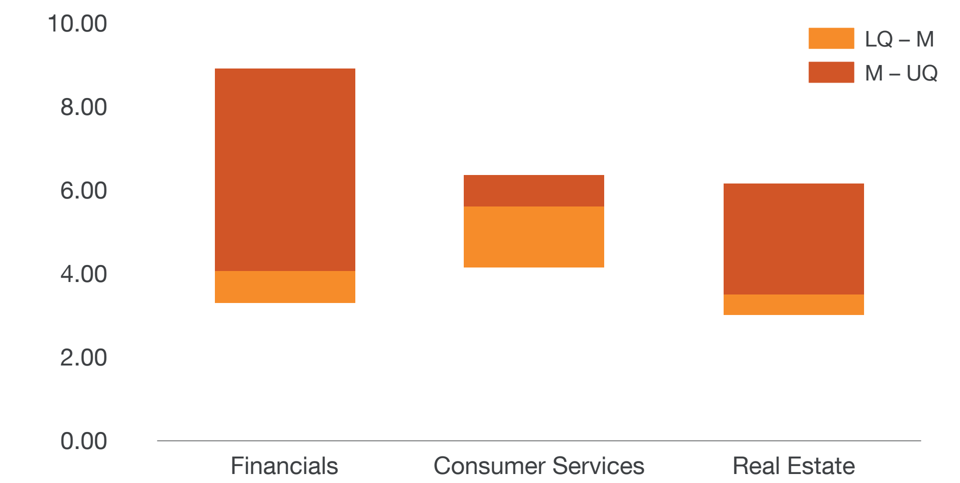


Source: PwC analysis

Due to there being insufficient data points, the Telecommunications industry has been excluded from the analysis.

CFO

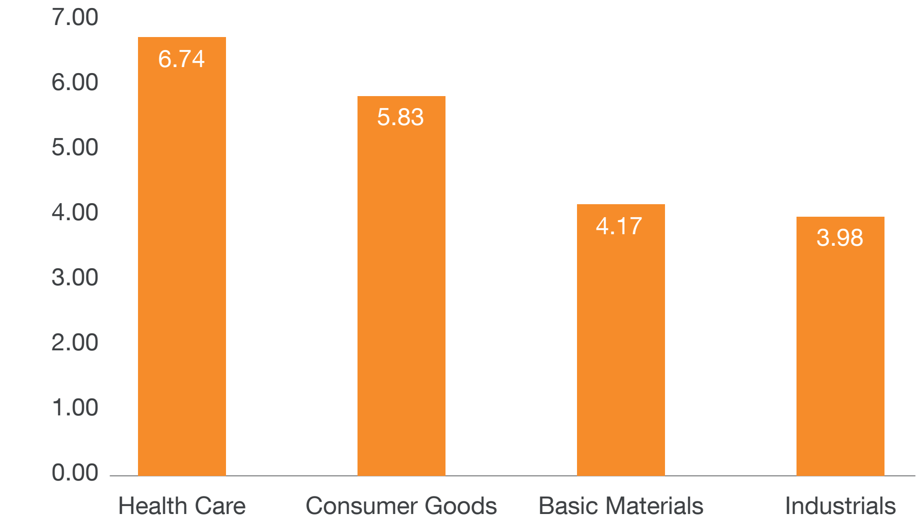
Figure 9.14 Medium cap: CFO quartiles (R'm)



	Financials	Consumer Services	Real Estate
Lower quartile	3.31	4.15	3.02
Median	4.08	5.61	3.51
Upper quartile	8.92	6.35	6.16

Source: PwC analysis

Figure 9.15 Medium cap: CFO averages (R'm)

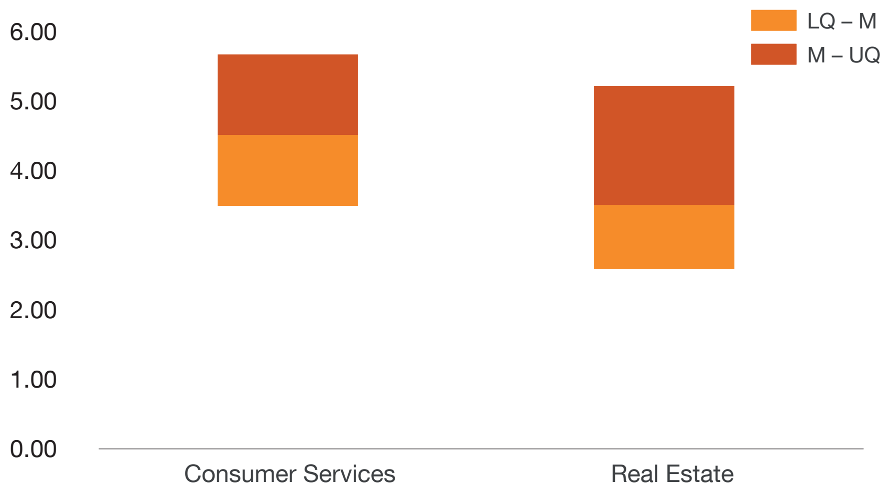


Source: PwC analysis

Due to there being insufficient data points, the Telecommunications industry has been excluded from the analysis.

ED

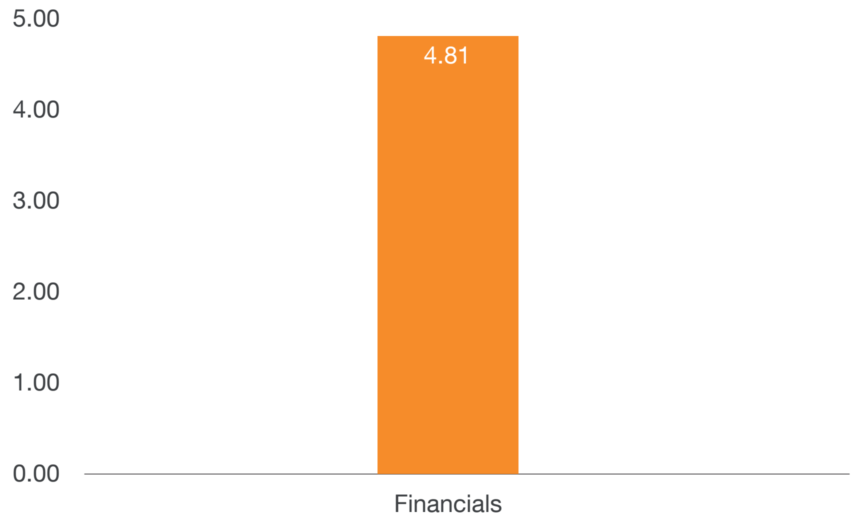
Figure 9.16 Medium cap: ED quartiles (R'm)



	Consumer Services	Real Estate
Lower quartile	3.50	2.59
Median	4.53	3.51
Upper quartile	5.68	5.22

Source: PwC analysis

Figure 9.17 Medium cap: ED averages (R'm)



Source: PwC analysis

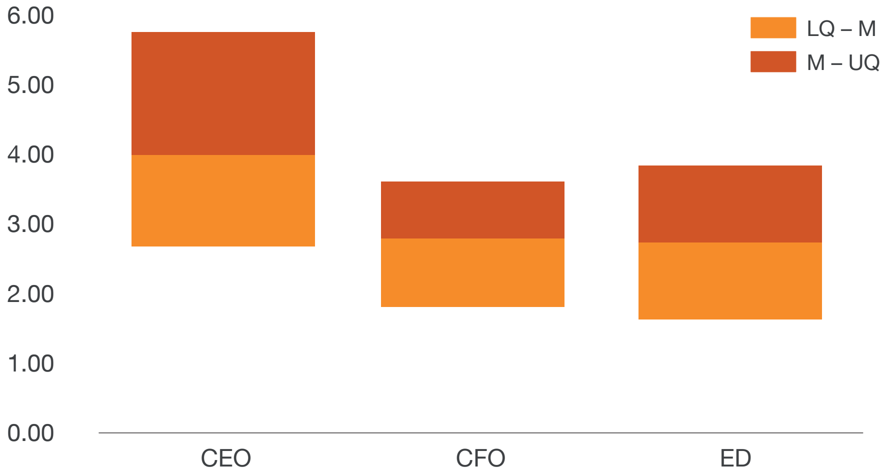
Due to there being insufficient data points, the Basic Materials, Consumer Goods and Industrials industries have been excluded from the analysis.

No data points are available for the Health Care and Telecommunications industries.

Small cap

The TGP trends analysis for CEOs, CFOs and EDs for small-cap companies is provided below.

Figure 9.18 Small cap: All industries (R'm)

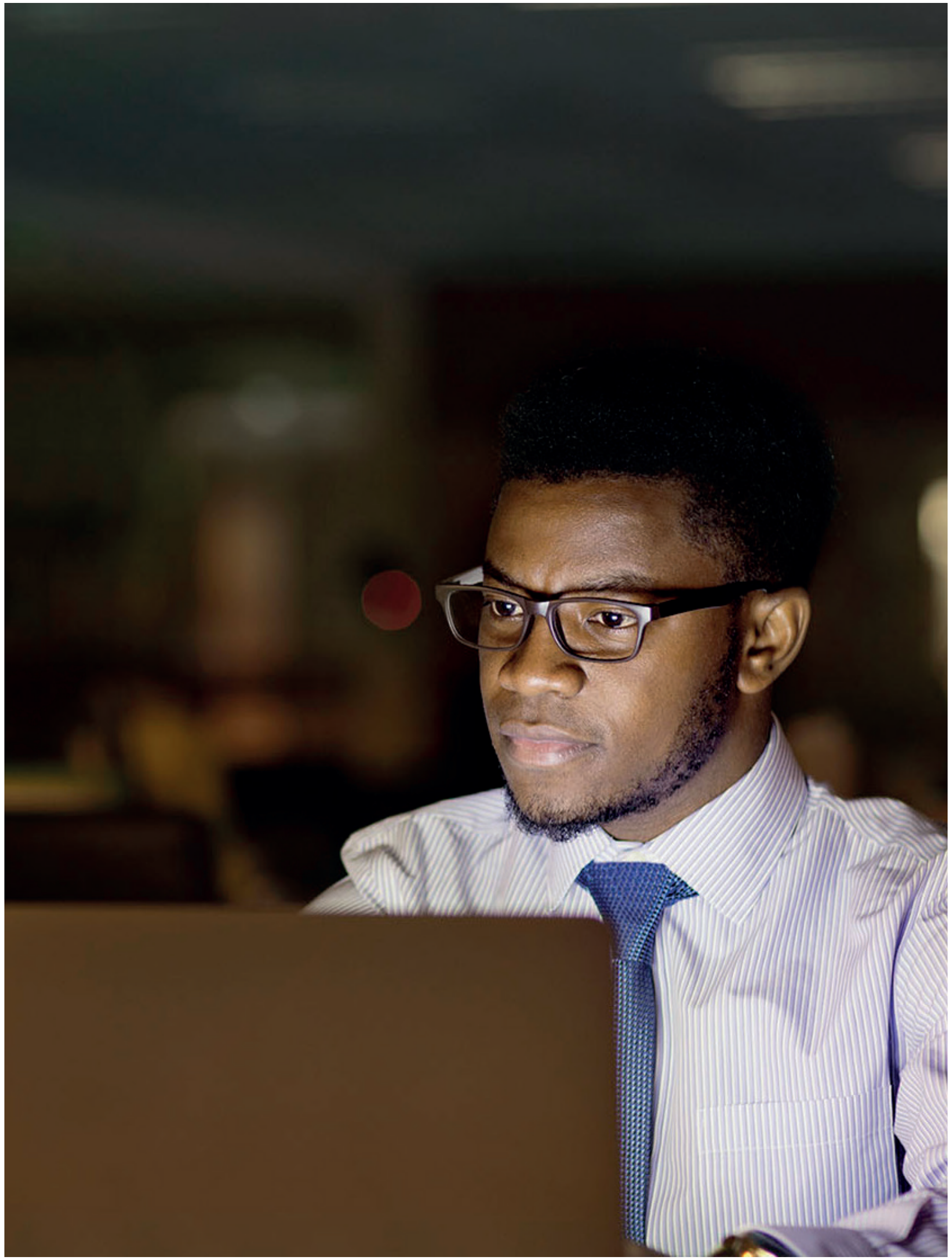


	CEO	CFO	ED
Lower quartile	2.68	1.81	1.63
Median	4.00	2.78	2.73
Upper quartile	5.77	3.60	3.84

Source: PwC analysis

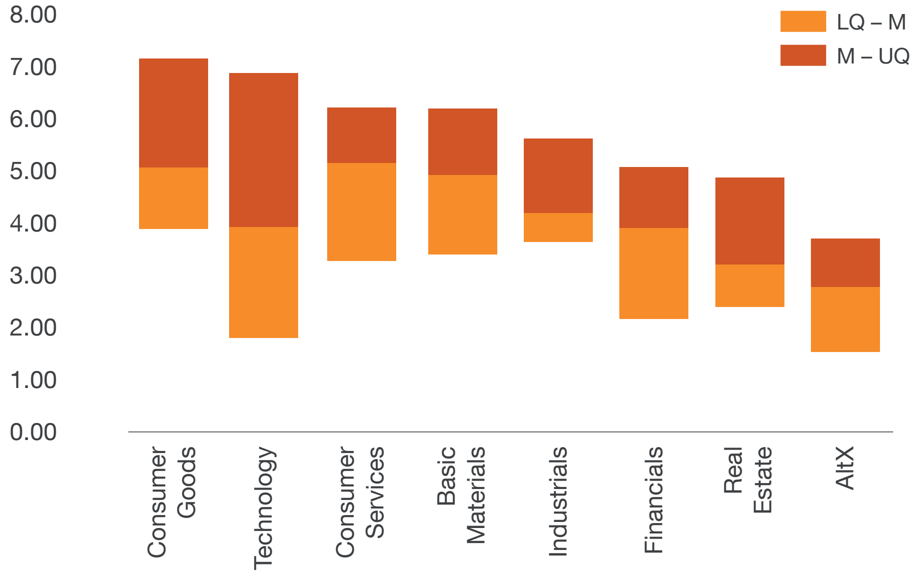
The industry based TGP trends analysis for all companies (including AltX) is demonstrated in the graphs that follow.

No data points are available for the Energy industry.



CEO

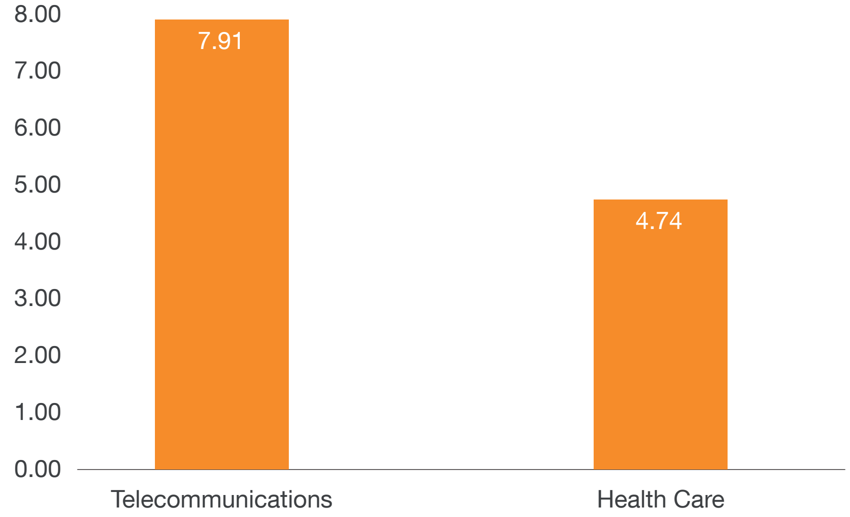
Figure 9.19 Small cap: CEO quartiles (R'm)



	Consumer Goods	Technology	Consumer Services	Basic Materials	Industrials	Financials	Real Estate	AltX
Lower quartile	3.89	1.80	3.28	3.40	3.64	2.17	2.40	1.53
Median	5.06	3.92	5.15	4.92	4.20	3.91	3.21	2.77
Upper quartile	7.14	6.88	6.22	6.20	5.62	.07	4.87	3.70

Source: PwC analysis

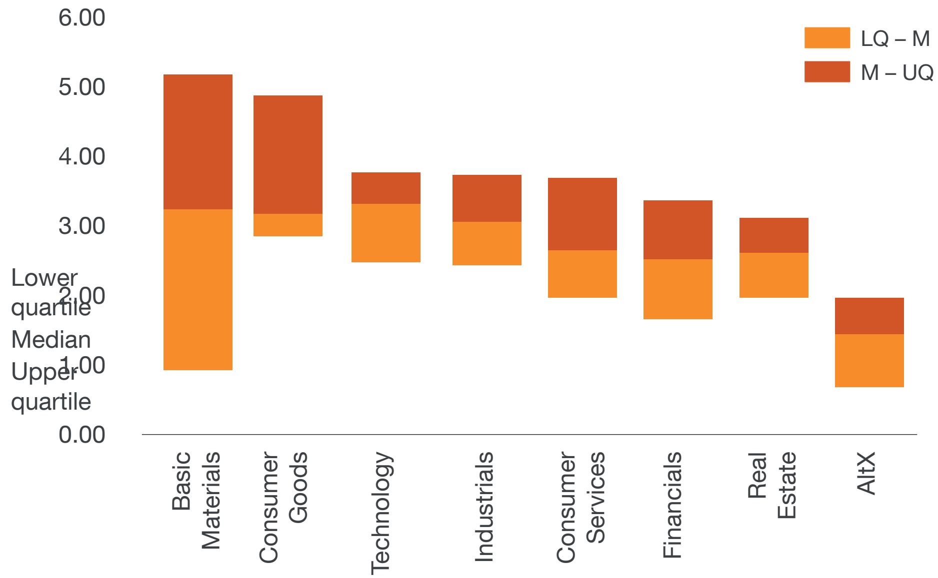
Figure 9.20 Small cap: CEO averages (R'm)



Source: PwC analysis

CFO

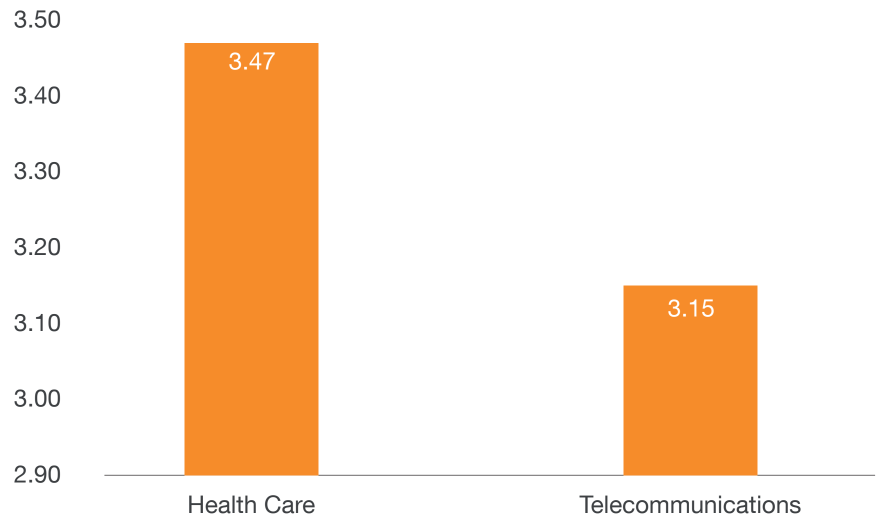
Figure 9.21 Small cap: CFO quartiles (R'm)



Lower quartile	0.93	2.85	2.48	2.44	1.97	1.66	1.97	0.68
Median	3.24	3.17	3.32	3.06	2.65	2.52	2.61	1.44
Upper quartile	5.17	4.88	3.77	3.73	3.69	3.36	3.11	1.97

Source: PwC analysis

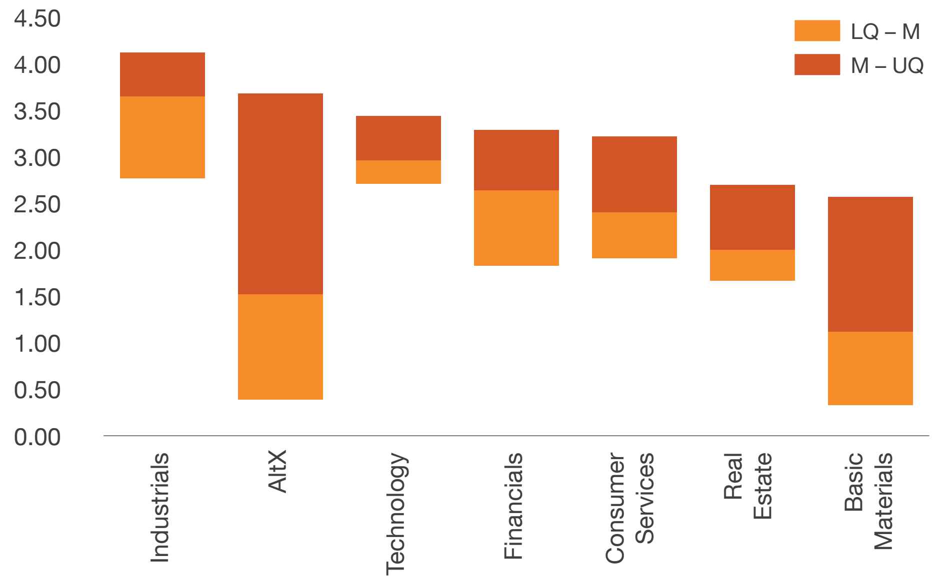
Figure 9.22 Small cap: CFO averages (R'm)



Source: PwC analysis

ED

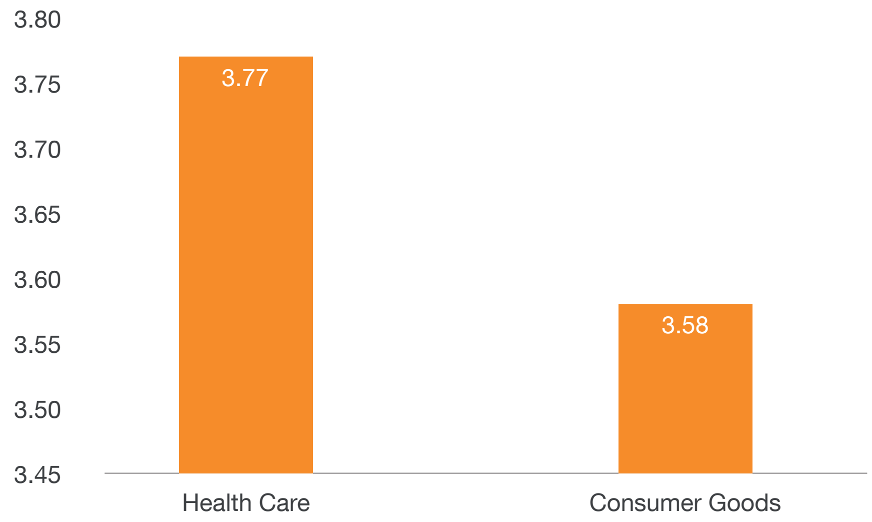
Figure 9.23 Small cap: ED quartiles (R'm)



	Industrials	AltX	Technology	Financials	Consumer Services	Real Estate	Basic Materials
Lower quartile	2.77	0.39	2.71	1.83	1.91	1.67	0.33
Median	3.64	1.52	2.96	2.64	2.41	2.00	1.12
Upper quartile	4.12	3.68	3.44	3.29	3.23	2.70	2.57

Source: PwC analysis

Figure 9.24 Small cap: ED averages (R'm)



Source: PwC analysis

Due to insufficient data points, the Telecommunications industry has been excluded from the analysis.

Short-term incentives

STIs are cash payments that are intended to remunerate EDs (and other employees) for the achievement of annual business and personal goals, aligned with the organisational strategy.

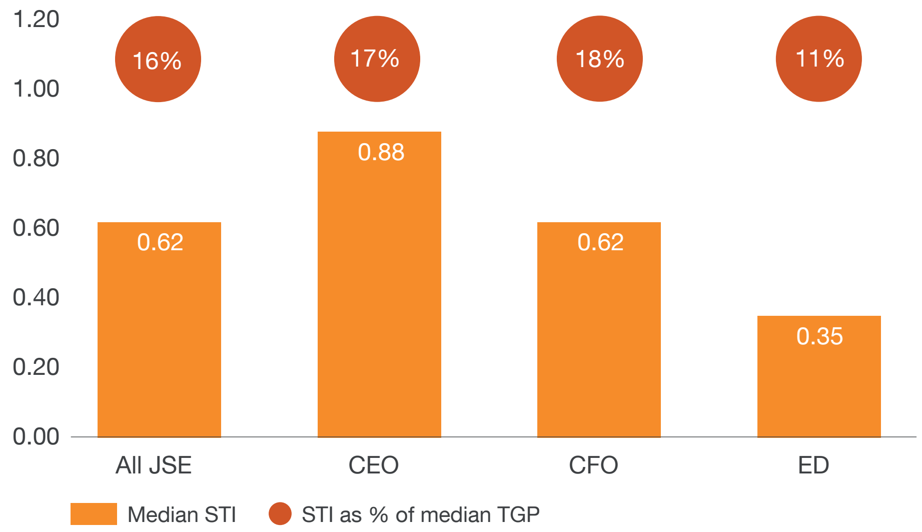
COVID-19 has affected business in various ways, which in turn has increased both the complexity and uncertainty of the environment in which remuneration decisions needed to be made for FY20 and the periods which follow. Within the South African environment, remuneration decisions were in some instances further impacted by the decisions of regulators taken in response to the pandemic — one example is Guidance Note 4/2020 issued by the South African Reserve Bank, which cautioned banks against paying bonuses to executives and material risk takers in favour of capital conservation, especially where lower level employees were impacted by the pandemic and which left RemCos debating what to do about bonuses where targets had objectively been met.

Various reactions were observed among JSE-listed companies in response to Covid-19, including:

- following the formulaic outcome of the existing STI plans (no adjustments made).
- applying discretion (to override the formula) when assessing the extent to which performance conditions had been met or the quantum calculated using the formula.
- disregarding the formula entirely and paying discretionary bonuses.
- cancellation or deferral of the settlement of STIs.

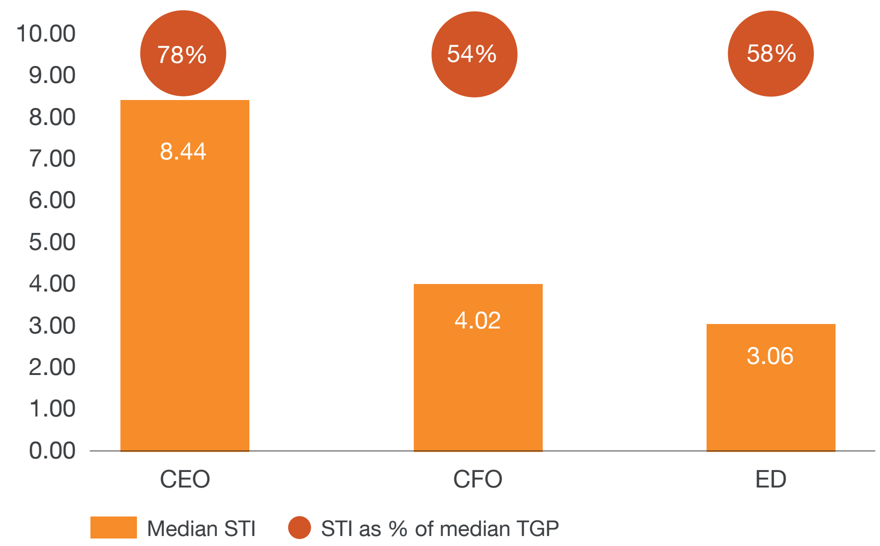
The graphs that follow depict the current STI trends for EDs across all industries. They also show STI as a percentage of median TGP.

Figure 9.25 JSE: All industries: Median STIs (R'm)



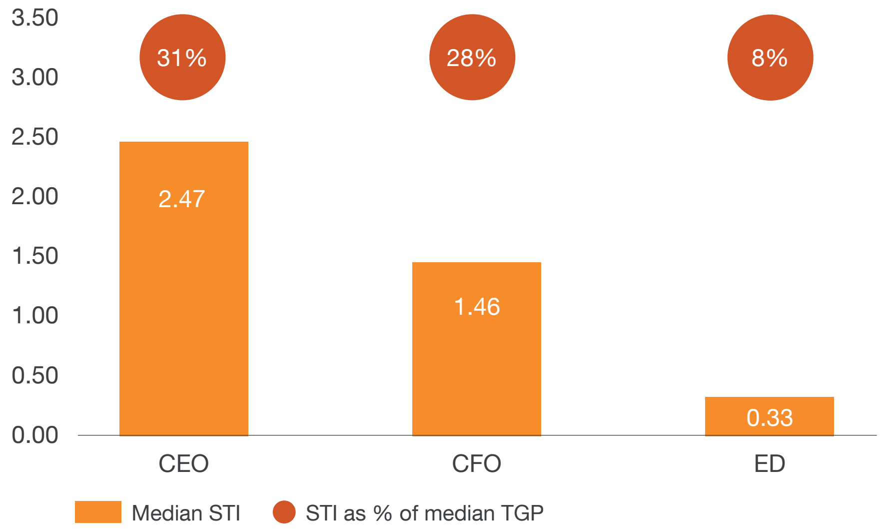
Source: PwC analysis

Figure 9.26 Large cap: Median STIs (R'm)



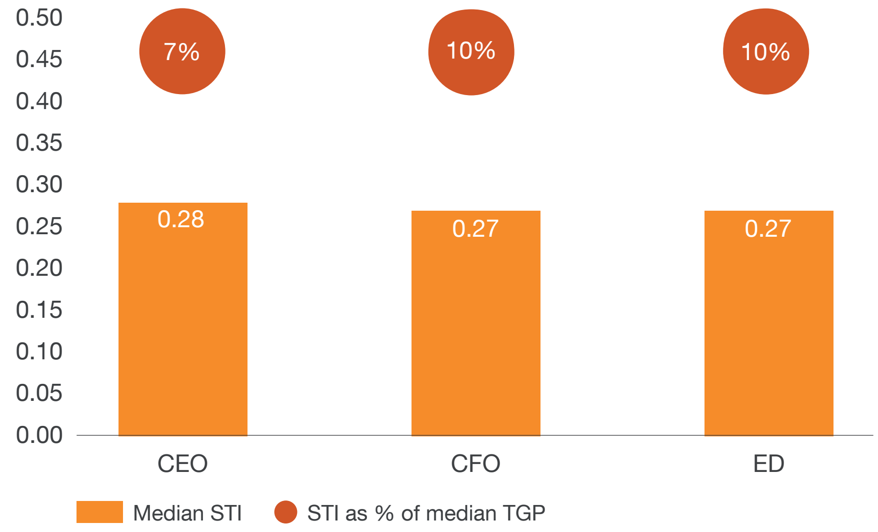
Source: PwC analysis

Figure 9.27 Medium cap: Median STIs (R'm)



Source: PwC analysis

Figure 9.28 Small cap: Median STIs (R'm)



Source: PwC analysis

10 Remuneration trends in other sub-Saharan countries

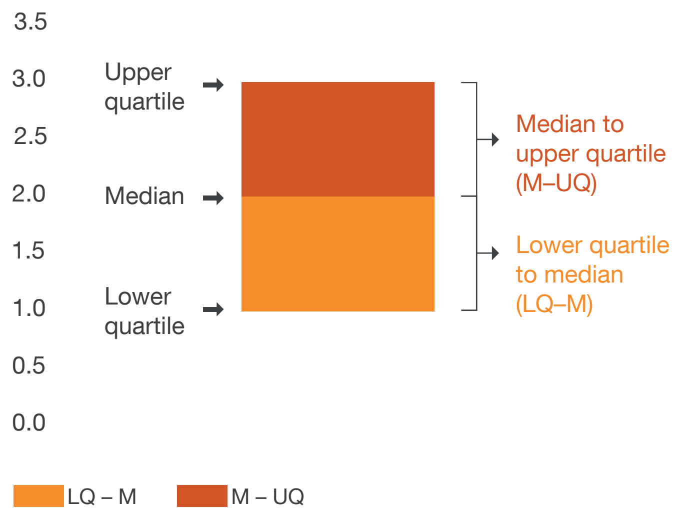
We have analysed TGP trends among 382 companies (2020:419) that are listed on the seven sub-Saharan African stock exchanges (excluding South Africa).

The 382 companies analysed have 1,137 (2020: 1,156) active executive directors, of which 305 are CEOs (2020 352), 149 are CFOs (2020: 151) and 683 are other executive directors (2020: 653).

Sectoral breakdown of the companies analysed

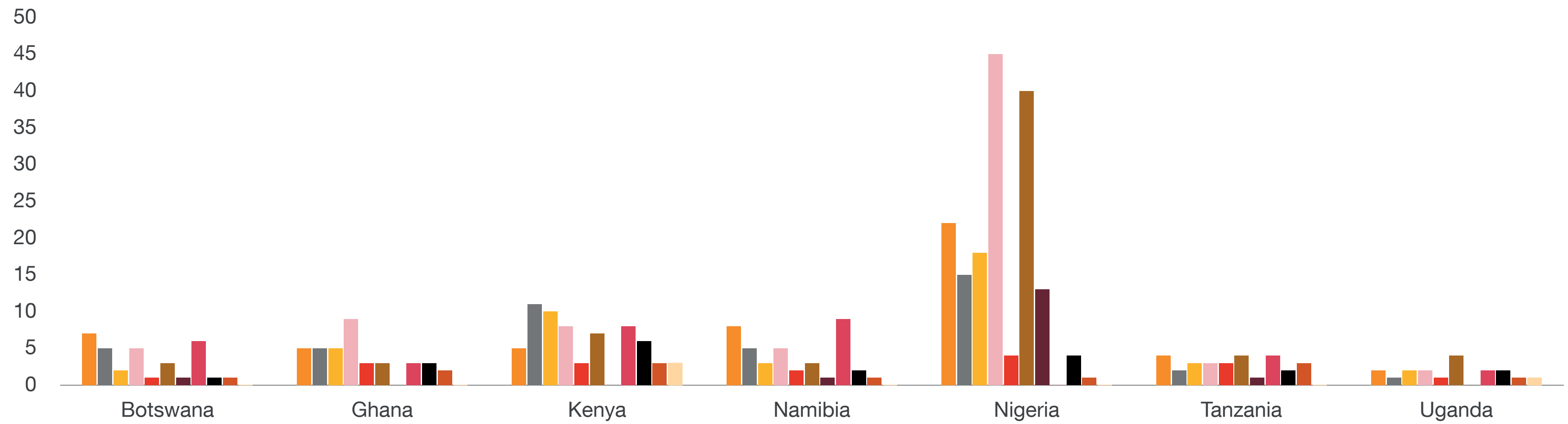
Industry	Number of companies listed	Proportion of companies listed
Basic Materials	53	14%
Consumer Discretionary	44	12%
Consumer Staples	43	11%
Financials	77	20%
Health Care	17	4%
Industrials	64	17%
Energy	16	4%
Real Estate	32	8%
Technology	20	5%
Telecommunications	12	3%
Utilities	4	1%
Total	**382**	**100%**

Figure 10.1 Sub-Saharan stock exchanges: Number of companies listed by industry



Source: PwC analysis

Figure 10.2 Sub-Saharan stock exchanges: Number of EDs analysed in each country



	Botswana	Ghana	Kenya	Namibia	Nigeria	Tanzania	Uganda
Basic materials	7	5	5	8	22	4	2
Consumer discretionary	5	5	11	5	15	2	1
Consumer staples	2	5	10	3	18	3	2
Financials	5	9	8	5	45	3	2
Health Care	1	3	3	2	4	3	1
Industrials	3	3	7	3	40	4	4
Energy	1	0	0	1	13	1	0
Real Estate	6	3	8	9	0	4	2
Technology	1	3	6	2	4	2	2
Telecoms	1	2	3	1	1	3	1
Utilities	0	0	3	0	0	0	1

Source: PwC analysis

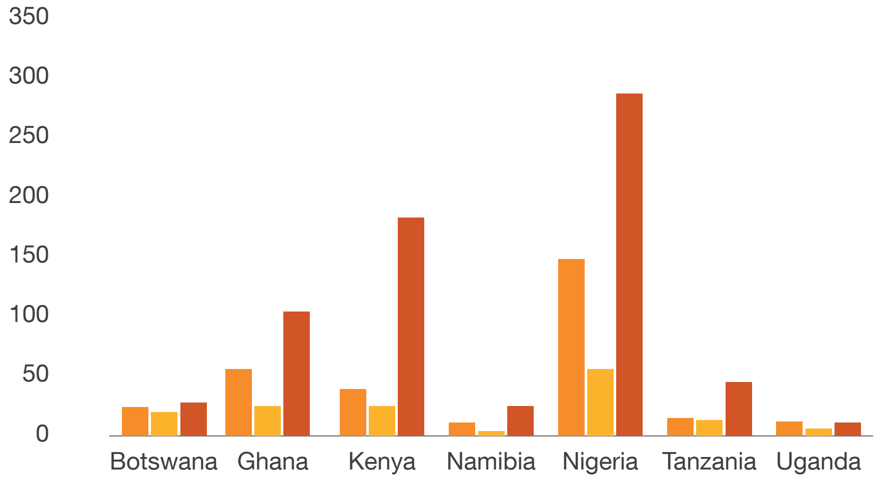
Data analysed

To maintain comparability to TGP reported for JSE-listed companies in chapter 8, in this section of the report we present the aggregate of base pay and stated benefits paid to the EDs serving on the boards of sub-Saharan African companies as TGP.

The TGP paid to the EDs of the companies analysed has been converted from local sub-Saharan and other currencies into US dollars using the exchange rate as at the cut-off date (28 February 2021). Due to exchange rate fluctuations and the impact of the COVID-19 pandemic, a percentage movement from 2020 to 2021 is not provided.

The TGP paid to EDs across all industries is shown in the graphs that follow.

Figure 10.3 Guide to data presented



	Botswana	Ghana	Kenya	Namibia	Nigeria	Tanzania	Uganda
CEO	24	56	39	11	148	15	12
CFO	20	25	25	4	56	13	6
ED	28	104	183	25	287	45	11

Source: PwC analysis

Figure 10.4 Sub-Saharan stock exchanges: All Industries (USD'000)

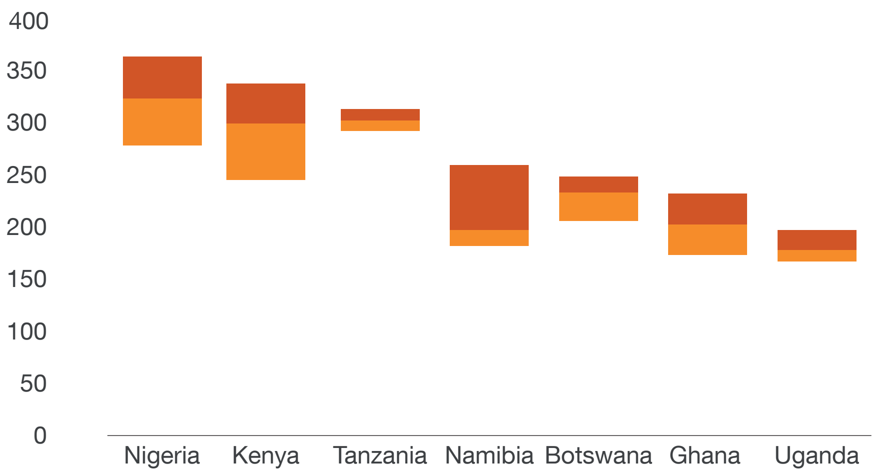
	CEO	CFO	ED
Lower quartile	232	144	125
Median	278	186	137
Upper quartile	328	214	148

Source: PwC analysis

ED remuneration trends by country

Each stock exchange has been analysed separately. The TGP trends for the CEO, CFO and EDs are presented in the graphs that follow.

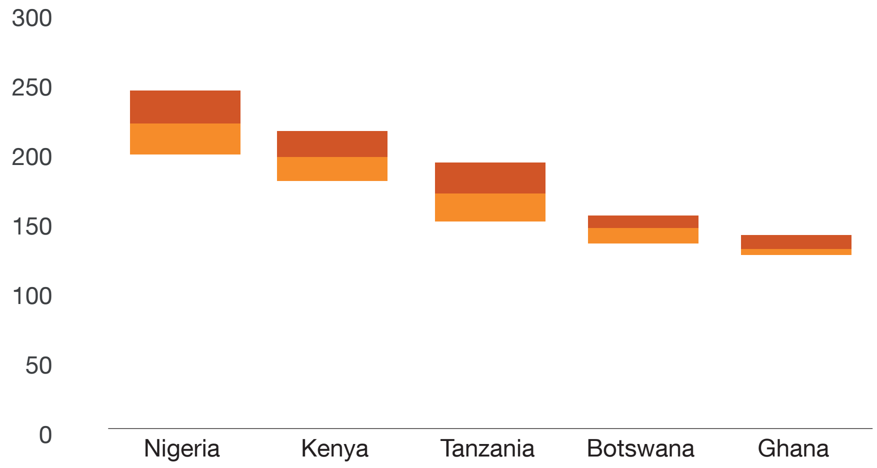
Figure 10.5 Sub-Saharan stock exchanges: All industries CEOs (USD'000)



	Nigeria	Kenya	Tanzania	Namibia	Botswana	Ghana	Uganda
Lower quartile	278	245	292	182	206	173	167
Median	323	299	302	197	233	202	178
Upper quartile	362	337	313	259	248	232	196

Source: PwC analysis

Figure 10.6 Sub-Saharan stock exchanges: All industries CFOs (USD'000)

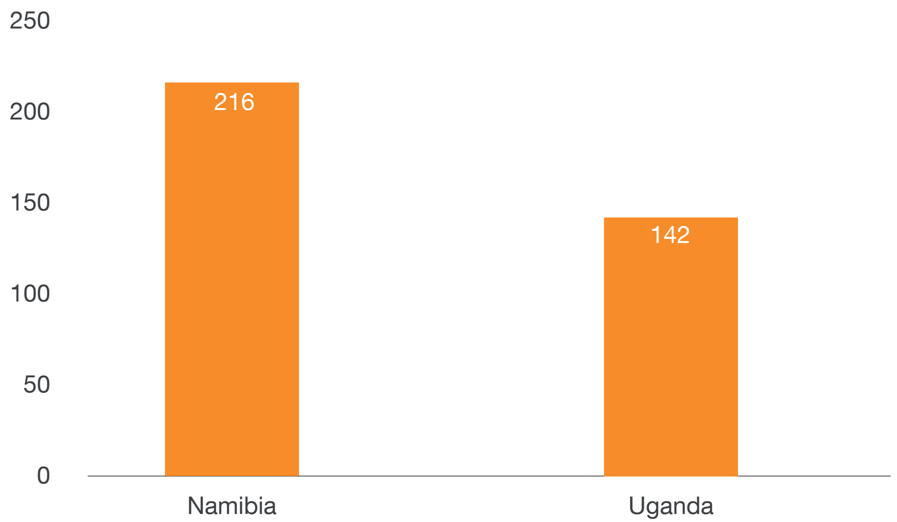


	Nigeria	Kenya	Tanzania	Botswana	Ghana
Lower quartile	197	178	149	133	125
Median	219	195	169	144	129
Upper quartile	242	214	191	153	139

Source: PwC analysis

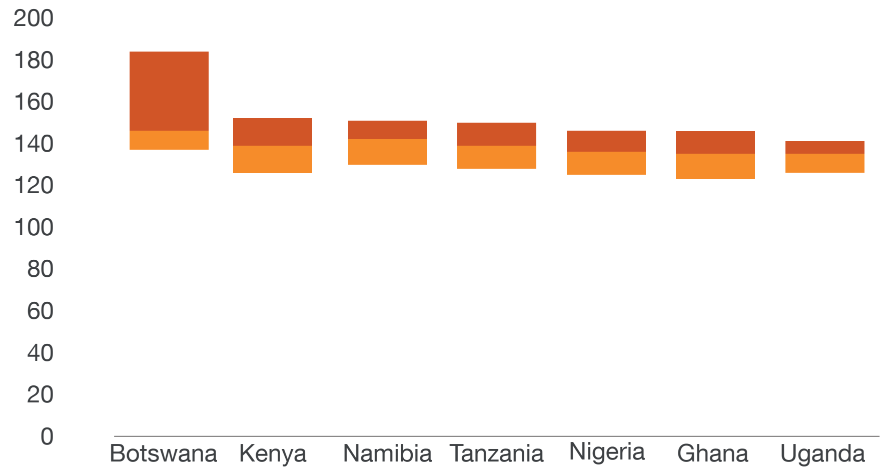
Due to insufficient data points, a quartile analysis could not be performed for CFOs in Namibia and Uganda. As such, we have provided an average analysis for these two countries as shown on the next page.

Figure 10.7 Sub-Saharan stock exchanges: All industries CFO, average (USD'000)



Source: PwC analysis

Figure 10.8 Sub-Saharan stock exchanges: All industries EDs (USD'000)



	Botswana	Kenya	Namibia	Tanzania	Nigeria	Ghana	Uganda
Lower quartile	137	126	130	128	125	123	126
Median	146	139	142	139	136	135	135
Upper quartile	183	152	151	150	146	146	141

Source: PwC analysis

Appendices

The South African marketplace ICB classification (285)

AltX (27)

Main Board (258)

Basic materials	38
Chemicals	4
Forestry & paper	2
Industrial metals & mining	4
Mining	28

Consumer Goods	18
Automobiles & parts	1
Beverages	2
Food producers	12
Leisure goods	1
Personal goods	1
Tobacco	1

Consumer Services	41
Food & drug retailers	7
General retailers	21
Media	4
Travel & leisure	9

Energy	1
Oil & Gas Producers	1

Financials	45
Banks	8
Equity investment instruments	7
Financial services	20
General Financial Sector	1
Life Insurance	6
Non-equity investment instruments	1
Non-life insurance	2

Health Care	7
Health Care equipment & services	4
Pharmaceuticals & biotechnology	3

Industrials	46
Construction & materials	8
Electronic & electrical equipment	5
Forestry & Paper	1
General industrials	10
Industrial engineering	2
Industrial transportation	10
Support Services	10

Real Estate	43
Financial Services	1
Real Estate Investment & Services	11
Real Estate Investment Trusts	31

Technology	14
Software & computer services	12
Technology hardware & equipment	2

Telecommunications	5
Fixed line telecommunications	1
Mobile telecommunications	4

African marketplace (382)

The table below sets out the number of companies analysed in each African territory (other than South Africa) and within each territory, which industry each company falls under.

	Total		Basic Materials		Consumer Goods		Consumer Services		Financials		Health Care		Industrials		Energy		Real Estate		Technology		Telecom-munications		Utilities	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Botswana	32	36	7	8	5	7	2	2	5	6	1	1	3	3	1	1	6	6	1	1	1	1		
Ghana	38	46	5	7	5	6	5	7	9	10	3	3	3	4			3	4	3	3	2	2		
Kenya	64	74	5	7	11	15	10	11	8	9	3	3	7	8			8	9	6	6	3	3	3	3
Namibia	39	40	8	8	5	6	3	3	5	5	2	2	3	3	1	1	9	9	2	2	1	1		
Nigeria	162	182	22	29	15	17	18	20	45	48	4	4	40	44	13	13			4	4	1	3		
Tanzania	29	25	4	3	2	2	3	2	3	2	3	3	4	3	1	1	4	4	2	2	3	3		
Uganda	18	16	2	1	1	1	2	1	2	2	1	1	4	4			2	2	2	2	1	1	1	1
	382	**419**	**53**	**63**	**44**	**54**	**43**	**46**	**77**	**82**	**17**	**17**	**64**	**69**	**16**	**16**	**32**	**34**	**20**	**20**	**12**	**14**	**4**	**4**

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.

Our purpose is to build trust in society and solve important problems. We're a network of firms in 155 countries with over 284,000 people who are committed to delivering quality in assurance, advisory and tax services. Our values guide how we work with our clients and each other, inform the type of work we do, and hold us accountable to do our best. They govern our actions and determine our success. They also help us work towards our purpose of building trust in society and solving important problems. Our core values are:

The trust that our clients, communities and our people place in PwC, and our high standards of ethical behaviour, are fundamental to everything we do. Our values underpin our Code of Conduct, which is our frame of reference for the decisions we make every day. It's how we do business.

About People and Organisation: Reward

The PwC Reward practice consists of 18 dynamic professionals, all experts in differing but related professional fields. We combine our qualifications and experience to deliver proven value and project success. We handle complex and strategically important reward projects, providing high-quality, meaningful and detailed reports, analyses and research, along with unique solutions for specific needs.

In an environment of constant change, the ability of organisations to demonstrate agility and adaptability is critical to their sustainability and future success. Fundamental to this success is how the organisation retains, motivates and incentivises key employees in a way that maximises their productivity and value creation for shareholders and stakeholders alike. We believe the answer is developing reward structures that give thorough consideration to the changing business landscape and which drive behaviour that collaboratively builds trust and delivers sustained outcomes. This requires that reward structures and incentive plans reflect the business strategy and market conditions, take into consideration environmental, social and governance factors, and ensure that they translate into pay outcomes.

Today, companies are held to higher standards than ever before, with their approaches to reward, underlying performance conditions and the behaviours they drive under the microscope from shareholders, regulators, the media, employees and wider stakeholders. Understanding the impact of these evolving forces on the competitiveness of reward is increasingly difficult. Our approach is to consider the interests of all stakeholders as integral parts of the broader management ecosystem, which comprises benefits, leadership, motivation, influence, performance management, global mobility and business strategy. Our reward team, and global reward network is unmatched in the market and we draw on our wealth of global consulting expertise to provide a relevant, multifaceted range of services aligned with international trends and best practice, while remaining locally focused.

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