Executive Directors’ Remuneration Practices and Trends Report
Appendices

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Executive Summary

It gives us great pleasure once again to share our sixth edition of the Executive directors – Practices and remuneration trends report: South Africa 2014 with all our clients. In this edition we pick up on the issue raised in our January 2014 non-executive directors’ edition, where we looked at aligning an organisation’s purpose with executive remuneration and discussed whether or not there should be a link – and if so, how strong this link should be. We take this debate a little further in this publication.

We continue with our research on key trends in the executive remuneration space, but also cover the very topical issue of the pay gap. The issues of inequality are receiving significant attention from remuneration committees, social and ethics committees and main boards. There is still much debate about what exactly the corrective interventions should be, as the underlying cause may not only be the perceived high level of executive compensation, but also a host of other problems, including unemployment and poor service delivery.

Our 17th Annual Global CEO Survey once again found that attracting and retaining talent was still high on CEOs’ business agenda. Executive remuneration is being focused on from all angles, and CEOs recognise that the pay-for-performance model needs to be revisited.

Globally it is now common practice that executive pay rises are in line with those of the rest of the workforce, and we can expect the level of executive pay to start plateauing over the next few years as shareholder engagement and pay-for-performance become high priorities for remuneration committees. It is now routine for 20% to 25% of companies not to grant a pay rise, and where they are given, they are typically in line with pay rises for the greater workforce.

The same cannot necessarily be said for all our South African listed entities. Whilst the median is 4.5% for the JSE as a whole, when looking at certain industries, in many cases the increases are above inflation.

The politicians are watching closely, and having just had our general elections, we should not be surprised by an increased call for regulatory intervention.

Companies are tweaking reward packages, rather than undertaking any wholesale redesign. Increases in shareholding requirements or holding periods are the most common changes, alongside changes to long-term incentive plans. In the UK, investors are pushing for post-vesting holding periods, with the number of companies applying them expected to more than double during 2014, and more than half of companies being expected to comply by 2015.

We trust that you will find this publication on trends in the way corporates in South Africa approach executive remuneration, and the issues and challenges we raise around this, of interest and beneficial.

Gerald Seegers
Director: Human Resources Services
Sources of information

The data set out in this publication was drawn from information publicly available for the 12-month reporting period ended 30 April 2014. The information was taken from the annual reports of 354 (2013: 373) companies listed on the Johannesburg Securities Exchange (‘JSE’), with a total market capitalisation of 10.6 trillion rand (2013: R7.86tn). Companies delisted during the year and suspended companies have been expressly excluded. Active AltX companies are included and account for a market capitalisation of 23.7 billion rand (2013 – R10.2bn).

Format of information and definitions

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

These quartiles/percentiles are defined as:

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

Since the introduction of this annual publication in June 2009, we have held that there is no direct correlation between market capitalisation – calculated by reference to the number of shares in issue and the prevailing share price – and the remuneration of executive directors (reference to executive directors throughout this publication excludes non-executive directors). However, we believe that market capitalisation gives a good indication of size and complexity and is an appropriate metric to set peer groups and for benchmarking purposes. It is against this backdrop that data is analysed in terms of:

- **Large-cap** – the top 40 JSE-listed companies measured against market capitalisation;
- **Medium-cap** – 41 to 100 of the JSE-listed companies, using the same metric; and
- **Small-cap** – 101 to 354 of the JSE-listed companies.
The terms used throughout this publication are as set out below:

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

**The Johannesburg Securities Exchange**

South Africa is, once again, ranked first by the World Economic Forum (WEF) for regulation of security exchanges, and the JSE should be applauded for holding this top position against all other exchanges globally.

To underline this achievement, the following benchmarked rankings for the regulation of security exchanges are of interest:

- Finland is ranked 2nd;
- Brazil is ranked 7th;
- The Russian Federation is ranked 102nd;
- India is ranked 27th;
- The United Kingdom is ranked 24th; and
- The United States is ranked 30th.

The JSE regulations reflect a high standard of professionalism and a dedication to apply rules and regulations under difficult circumstances. It is a stock exchange that all South Africans can be justly proud of. The conscientious application of King III clearly supported the JSE in achieving first place.

Such a high standard requires support from other related fields of endeavour, and South Africa achieved other important rankings as well, as recognised by the WEF:

- First in the world for strength of auditing and reporting standards;
- First in the world for efficacy of corporate boards;
- First in the world for protection of minority shareholders’ interests;
- First in the world in their Legal Rights Index;
- Second in the world for the availability of financial services; and
- Third in the world for soundness of banks.

These accolades strengthen our endeavours to show consistent improvement in this publication to be worthy of the quality of reporting on which it is based. The JSE is the driving force behind the excellence of reporting evidenced in listed companies’ integrated annual reports, with reporting by companies from South Africa achieving world standards.
The value of shares traded is reflected in Table 1 below and has escalated from R767bn in 2004 to R2,9tn in 2013.

Table 1

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<tbody>
<tr>
<td>AltX</td>
<td>0,03</td>
<td>0,03</td>
<td>0,12</td>
<td>1,37</td>
<td>2,70</td>
<td>1,58</td>
<td>0,66</td>
<td>0,52</td>
<td>0,61</td>
<td>0,45</td>
</tr>
<tr>
<td>Basic Resources</td>
<td>365</td>
<td>336</td>
<td>600</td>
<td>898</td>
<td>1,191</td>
<td>983</td>
<td>996</td>
<td>925</td>
<td>829</td>
<td>753</td>
</tr>
<tr>
<td>Financial</td>
<td>143</td>
<td>225</td>
<td>298</td>
<td>439</td>
<td>505</td>
<td>483</td>
<td>454</td>
<td>415</td>
<td>473</td>
<td>588</td>
</tr>
<tr>
<td>Industrial</td>
<td>185</td>
<td>268</td>
<td>474</td>
<td>608</td>
<td>630</td>
<td>605</td>
<td>652</td>
<td>633</td>
<td>737</td>
<td>899</td>
</tr>
<tr>
<td>Services</td>
<td>74</td>
<td>172</td>
<td>230</td>
<td>358</td>
<td>486</td>
<td>427</td>
<td>544</td>
<td>531</td>
<td>542</td>
<td>679</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>767</strong></td>
<td><strong>1 001</strong></td>
<td><strong>1 602</strong></td>
<td><strong>2 304</strong></td>
<td><strong>2 815</strong></td>
<td><strong>2 500</strong></td>
<td><strong>2 647</strong></td>
<td><strong>2 505</strong></td>
<td><strong>2 582</strong></td>
<td><strong>2 919</strong></td>
</tr>
</tbody>
</table>

Trading of this magnitude demands credence and when the value of trading is considered, the responsibility borne by directors – especially executive directors – is a herculean weight that cannot always be measured in money.

In the same ten-year period, the JSE reflects the number of active listed companies in Figure 1.

**Figure 1**
Number of companies listed on the JSE – ten-year view

*Source: PwC Research*
Global developments

United Kingdom

After the longest and deepest recession in living memory, 2013 was the year when business became convinced that economic growth had resumed. Although trading remains difficult in a number of sectors, optimism has slowly returned, reflected in a 10% increase in the FTSE 100 index over the year. (PricewaterhouseCoopers LLP 2014)

Will transparency rein in long-term incentives?

A practice of channelling rewards through less visible mechanisms has developed among UK-listed companies, resulting in a number of executive awards not being included in the main table for remuneration. However, with the onset of the new narrative reporting requirements, a single total figure for top executives is required to be included in the annual report.

This increased transparency is coupled with the advisory shareholder vote required on the annual report every year and the binding shareholder vote on the directors’ remuneration policy, required every three years (or sooner where changes to the policy are made).

The section of the UK Corporate Governance Code (the Code) dealing with remuneration is due to be updated during 2014, in light of the new legislative requirements on reporting and voting on directors’ remuneration. The proposed changes are included in the latest two-yearly update to the Code, which would take effect for financial years beginning on or after 1 October 2014. These changes are subject to the outcome of the consultation process of the Financial Reporting Council (FRC), which closed on 27 June 2014.

The revised Code contains:

- A number of provisions designed to strengthen the role of remuneration committees, which would take on the lead responsibility for ensuring that company remuneration policies are ‘designed with the long-term success of the company in mind’;

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2 Regulations on directors’ remuneration disclosure released by the Department of Business, Innovation and Skills (BIS) on 7 June 2013.
• The requirement that companies would have to consider appropriate vesting and holding periods for deferred remuneration, and put in place ‘clawback’ arrangements that would enable them to recover or withhold variable pay when appropriate to do so;

• In annual reporting, when publishing the results of their annual general meetings (AGMs), companies would be expected to explain how they intend to engage with shareholders when a significant percentage of them have voted against any resolution;

• Companies would also be expected to state in their financial statements whether they consider it appropriate to adopt the ‘going concern’ basis of accounting, and identify any material uncertainties to their ability to continue to do so; and

• The FRC will also consider during consultations whether to allow companies to place their full corporate governance statement on their website, with a less complete version in the annual report and accounts. This would be a cost-effective alternative to limit the increased volume of the Integrated Annual Report.

Generally, the annual review revealed that compliance with the Code remains high. In the FTSE 350, 57% of companies stated full compliance – 6% more than last year – and 85% of the remainder complied with all but one or two of the Code’s provisions.4

In the context of increasing regulation, what are executives being paid and how?

We share some of the results covering pay decisions made by 43 FTSE 100 and 34 FTSE 350 companies, released in January 2014 in our PwC UK publication Going sideways – 2014 early season executive pay review.5 It found that:

• Companies are not redesigning reward packages, but making slight adjustments, with a median overall increase of 2.5% for CEOs and below 3% for other executive directors – this is with the retail price index being 2.7% and the consumer price index being 2% on average for 2013;

• Outside of the banking sector, changes are incremental rather than revolutionary;

• Increases in shareholding requirements or holding periods for vested shares are the most common changes observed, with half of companies expecting to have holding periods by 2015 and the other half waiting to see how the market develops in this regard;

• Increasingly, shareholders are valuing transparency about what was paid in relation to each metric disclosed in the remuneration plan above the disclosure of the targets themselves;

• Only one in six companies believes the quality of its shareholder engagement has improved due to the new UK Department for Business Innovation and Skills (BIS) rules;

• Interestingly, only around one-third of companies believe the new rules have caused their remuneration committee to take into account fairness between executives and the wider workforce to a greater degree than before; and

• 60% of companies are worried that the lack of flexibility in recruitment policy will make it more difficult to recruit executive directors, especially from overseas – with nearly a quarter of the companies surveyed expected to freeze base salaries.

Overall, despite the emerging economic recovery, few organisations are expecting executive pay to return to the levels of increases of the past, with most organisations expecting executive pay to plateau.

4 Ibid.
5 © PricewaterhouseCoopers LLP 141401-155123-BS-OS
Figure 2
Few companies in UK are expecting to make significant changes in 2014

According to the survey results, the suppression of base pay increases and the moderation of bonus payouts means that little is expected to change in future pay levels. (PricewaterhouseCoopers LLP 2014)

Source: PwC Survey of 34 FTSE 350 companies 2014

European Union (EU)
In Europe, legislation is to be proposed this year which will give shareholders voting rights to challenge executive pay at public companies through a binding shareholder vote. This follows the limits on financial services institutions imposed by CRD IV.

Further, France and Germany have expressed their support for the Swiss initiative, although both countries already have some sort of ‘say on pay’ and advisory shareholder vote in place. Regulation at an EU level is preferred, so the outcome of the EU efforts will be an indicator of how the rest of Europe will proceed.

BRICS
BRICS is an acronym for the combined economies of Brazil, Russia, India, China and South Africa. Although unique and different in size and complexity, each economy has its own securities exchange and for purposes of comparison with the JSE, brief outlines of the five markets and items of interest to this publication are included to give a broader understanding of South Africa’s placement in the alliance.
We start by comparing the total market capitalisation as a percentage of the gross domestic product in each of the five BRICS member states. The result is quite astounding.

Table 2

<table>
<thead>
<tr>
<th>GDP US$)</th>
<th>Listed companies market capitalisation US$</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>2 422 000 000 000</td>
<td>1 229 849 669 684</td>
</tr>
<tr>
<td>Russia</td>
<td>2 553 000 000 000</td>
<td>874 659 493 123</td>
</tr>
<tr>
<td>India</td>
<td>4 962 000 000 000</td>
<td>1 263 335 497 354</td>
</tr>
<tr>
<td>China</td>
<td>13 370 000 000 000</td>
<td>3 697 376 039 677</td>
</tr>
<tr>
<td>South Africa</td>
<td>595 700 000 000</td>
<td>1 050 907 300 000</td>
</tr>
</tbody>
</table>

Source: World Bank: World Development Indicators; BM&FBOVESPA; MICEX-RTS; NSE; SSE; JSE

The lower the ratio, the greater the contribution of the wider business community to the national income of a country. The average of market capitalisation to gross domestic product for Brazil, Russia, India and China is 37%. That of South Africa is 176%.

In this edition, we take a brief look at Russia and India’s recent regulatory framework updates.

Russia

The Russian Institute of Directors (RID) has been conducting annual surveys that show that since 2003, leading Russian companies have been demonstrating overall positive changes in corporate governance practices. Improvements came in the areas of shareholder rights, governance and control bodies, disclosures and corporate social responsibility. The most visible improvements occurred in boardroom practices and in the disclosure of information. The number of companies that implement more than 70 per cent of RID’s recommendations for best governance practices has increased. Thus, there are grounds for moderate optimism about the overall advancement of corporate governance practices in Russia (CenterInternationalPrivateEnterprise 2012).1

The general trend in corporate governance development in Russia has been positive and is characterised by the following:

- A new version of the Russian Code of Corporate Conduct has been structured, and release is imminent.
- Developments in private as well as state-related sectors such as oil, gas and electricity will be bound by the new Code.
- The new Code may improve governance practices in general. It is unclear if the transparency of ownership structures will improve.
- In many cases, the major shareholders own as much as 70 to 80 per cent of the capital.
- Related-party transactions are at risk currently – the new Code may also address this.
- Currently, poor dividend policies and unfavourable buy-out procedures for minority shareholders are practiced – the new Code may address this as well.

On the positive side:

- The number of independent directors on corporate boards has been increasing quite rapidly over the years, and they have had good track records in various sectors.
- Shareholder meetings are held regularly and management is open to having difficult discussions.

India

On 13 February 2014, The Securities and Exchange Board of India (SEBI) met in New Delhi to update regulatory conditions as they affect listed companies. Synopses of the proceedings as tabled are given here, and in certain respects similarities to King III and the new South African Companies Act are recognisable.
The Board has approved the proposals to amend the Listing Agreement with respect to corporate governance norms for listed companies.

The amendments propose, inter alia, that the provisions of the Listing Agreement be aligned with the provisions of the newly enacted Companies Act, 2013 and also provide additional requirements to strengthen the corporate governance framework for listed companies in India. The amendments are applicable to all listed companies with effect from 1 October 2014.

- The Board approved the following proposals:
  - Exclusion of nominee director from the definition of independent director;
  - Compulsory whistle-blower mechanism;
  - Expanded role of audit committee;
  - Prohibition of stock options to independent directors;
  - Separate meeting of independent directors;
  - Constitution of stakeholders relationship committee;
  - Enhanced disclosure of remuneration policies;
  - Performance evaluation of independent directors and the board of directors;
  - Prior approval of audit committee for all material related-party transactions (RPTs);
  - Approval of all material RPTs by shareholders through special resolution with related parties abstaining from voting;
  - Mandatory constitution of nomination and remuneration committee. The chairperson of the said committee must be independent;
  - At least one woman director on the board of the company;
  - It has been decided that the maximum number of boards an independent director can serve on in listed companies be restricted to seven and three in case the person is serving as a fulltime director in a listed company;
  - The total tenure of an independent director has been restricted to two terms of five years;
  - However, if a person has already served as an independent director for five years or more in a listed company as on the date on which the amendment to the listing agreement becomes effective, he shall be eligible for appointment for one more term of five years only; and
  - The scope of the definition of RPTs has been widened to include elements of the Companies Act and Accounting Standards.

In addition to the above, the Board also approved the proposal to put in place principles of a corporate governance policy dealing with:

- RPTs and the divestment of material subsidiaries;
- Disclosure of letters of appointment of independent directors;
- The letters of resignation of all directors; risk management;
- Providing training to independent directors; and
- E-voting facility for top 500 companies by market capitalisation for all shareholder resolutions and boards of companies to satisfy themselves that plans are in place for orderly succession for appointments to the board and senior management.

New regulations in India have brought in some interesting mandatory aspects, for example whistle-blowing, female group presentation (albeit very limited), board tenure, mandatory constitution of certain committees, strict related-party transaction control, letters of resignation of non-executive directors as well as risk management of parties providing training to non-executive directors. A very powerful change is the agreement to allow e-voting facilities for the top companies, which will enhance shareholder control, including say-on-pay. It is also interesting that senior management appointments are included in the resolutions envisaged for e-voting. These regulations move India ahead of the curve on corporate governance, especially regarding the agenda items highlighted.

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6 The regulation does not disclose if the female member is required to be executive or non-executive.

7 The purpose of this ruling is not entirely clear (Ed)
Aligning a company’s purpose and sustainable capital with remuneration

In January 2014, with the release of our sister publication dealing with South African market trends and fees practices for non-executive directors, we introduced the topic of the purpose-driven company, its role with regard to its stakeholders and the necessary link with executive remuneration. In this chapter, we take the discussion further.

‘Purpose’ and integrated reporting

Responsible businesses are at the heart of society. Those companies that understand their links with the communities they operate in and their impact on the environment are most likely to prosper in the long term.

Engagement with stakeholders has become a critical element of any sustainable organisation. By effectively connecting with their stakeholders, companies are able to differentiate themselves from their peers, motivate employees and, most importantly, inspire their customers by showing that they care about them. This process is reflected annually in the organisation’s integrated report.

By definition, an integrated report is ‘a concise communication about how an organisation’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term’.

The primary purpose of an integrated report is to explain to stakeholders and especially to providers of financial capital how an organisation creates value over time. It explains the organisation’s value creation process, not only for itself but also for others. The ‘others’ are becoming more and more relevant, as value is not created by or within an organisation alone – it is influenced by the external environment, created through its relationships with stakeholders and society at large, and it is dependent on various resources. This acknowledges that the value the organisation creates for itself is linked to the value it creates for others. Up to now the focus has been primarily on financial capital. Below we discuss the concept of adding ‘natural capital’ to financial capital, and we introduce the concept of ‘sustainable capital’.
In our earlier publication, we alluded to the fact that as this value is measurable, directors can either be held accountable or they can be equally rewarded or penalised. If executive remuneration were linked to this mix of metrics it would aid in promoting the correct behaviour within an organisation. However, we believe that financial profitability can no longer be the only business driver. Instead, profitability should be a gauge that the organisation is providing something that its stakeholders actually want.

**What about sustainable capital?**

Financial capital is spent over time. It is sustainable if cash flow is positive and liquidity is preserved.

‘Natural capital’ is sustainable development that ensures non-declining per capita national wealth by replacing or conserving the sources of that wealth.

All over the world companies are recognising the importance of these two distinct classes of capital, not because they choose to, but because it is necessary for an organisation to be sustainable to survive in a complex business environment.

The captains of industry and commerce will need to attune their wisdom and knowledge to stem the tide of the unrestrained pursuit of money wealth in favour of ecological wealth. The latter is limited and takes hundreds of years to heal, while the former is printed and can be spent in a day.

Maybe it makes sense for us to start by expanding on what we’re talking about when we refer to ‘natural capital’. According to Alan McGill, “Natural capital” describes any aspect of the natural environment that provides some kind of value to people – it can be divided into categories like air, water, land and so forth, or characterised by the specific natural assets it consists of, like stocks of fish, stands of trees and so on.”

Countries and companies are waking up to the importance of accounting for the environmental assets they use and own – but why, and why now?

Natural capital accounting is going to be a big deal for many businesses. Relatively few companies have a lot of natural capital under their direct control. Extractives, utilities, agriculture and forestry are the primary industries that do.

But virtually all companies have significant indirect influence over natural capital – in their supply chains. In a world of dwindling natural resources – resources you need to run your business – understanding the impact of your company and managing the consequences thereof is going to become business-critical.

PwC UK’s research has shown that only two of the FTSE 100 companies mentioned ‘natural capital’ in their annual reports and only six did so in their sustainability reports. Encouragingly, biodiversity and ecosystems do better – but those terms have been in the reporting and sustainability lexicon a lot longer. Almost half of the FTSE 100 mentioned them in their sustainability reporting.

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8 PwC has developed the Total Impact Measurement and Management (TIMM) tool.

9 Ecological wealth and natural capital are interchangeable in context.

10 The next big thing in sustainability; World Watch PwC 21 January 2014

11 PwC UK research

12 Ibid
We should see natural capital thinking permeating through company management and reporting over the next few years – especially because we’ve found that it has much more resonance as a concept in corporate circles than biodiversity or ecosystems.\textsuperscript{13}

It is no longer about the CEO viewing natural accounting as a risk factor. It is about understanding whether business actions are truly sustainable and underpin business performance and good growth.

Natural capital accounting straddles all pillars of sustainable development and can move the company’s focus beyond a short-term profit matrix to focus on all assets that can contribute to long-term sustainable growth.

When analysing balance sheet assets, there are a few metrics that aggregate to total assets. This is the financial metric.

Natural capital has six main components,\textsuperscript{14} all of which are measurable and feed the ecological framework, either protecting or destroying biodiversity.

These are:

- Air pollutants
- Greenhouse gas (GHG),
- Land and water pollutants,
- Land use,
- Waste, and
- Water.

The unfortunate truth is that the cost of this natural capital is very often greater than the value of the financial capital cost across the business chain.

The statement of financial position receives constant attention to ensure accurate oversight of financial capital to protect shareholder value and is well entrenched.

A new complex statement of sustainable capital as it affects the business will become an important driver in business and will receive oversight attention by directors and management. This will ensure consistent oversight to keep stakeholders informed, and to highlight sustainability and conform to industry compliance.

\textbf{Key performance indicators}

Remuneration committees of the future will be tasked with the responsibility to measure directors and management on a new dual basis: financial performance and sustainable performance.

These dual rails are converging rapidly. If switching mechanisms are not in place, the inevitable collision will be catastrophic for the company. Directors need to wear two hats – one financial, the second ecological.

Some companies have already embarked on serious policy revisions to guide the remuneration committee to include environmental key performance indicators on the agenda when deliberating executive remuneration.

The business dictionary for the measurement of management performance is being rewritten daily, with previously unheard of key performance indicators (KPIs) such as an eKPI for natural capital now being added to the traditional financial KPIs. Each industry is adding to these new measurements with newly created epithets, describing what is to be measured, that is, which KPIs and/or eKPIs should apply.

\textsuperscript{13} op. cit.

\textsuperscript{14} Data drawn from remuneration reports of public companies quoted on the New York Stock Exchange (NYSE), NASDAQ OMX Group (NASDAQ), Frankfurt Stock Exchange (DAX), London Stock Exchange (LSE), Toronto Stock Exchange (TMX), BM&F Bovespa (BOVESPA our), Australian Securities Exchange (ASX) and Swiss Exchange (SWX), gives a different nomenclature to eKPI: safety, environment, carbon footprint, GHG and green product goals, employees and ethnic responsibility, customer satisfaction, brand/CSR performance (ranking), community and stakeholder.
If the metrics are too many, then those who apply them will not cope and guesswork will be the result. Stakeholders too will not understand and will view explanations as excuses. What is required is a win-win situation.

All businesses are different and each would require a different set of eKPIs by which to measure the effective use of natural capital. So, without professional advice a company will not easily strike the right balance to ensure that the correct measures are in place.

Effectiveness is not necessarily found in quantity, but rather in quality. Less is more when it comes to measuring key performance, both financial and ecological.

In Canada, for example, companies listed on the Toronto Stock Exchange, in the TSX60 sector, consider sustainability performance in their annual incentive plan as follows:

- 57% do,
- 35% do not, and
- 8% do not disclose.

Of the companies, 24 pay a bonus for annual sustainability performance that carries a 20% average weight against 80% for financial factors. None of the TSX60 companies is measured for long-term sustainability performance, whereas eight companies set sustainability targets for executive performance (Strandberg 2013).

The board of directors and the remuneration committee cannot rely on emotions when fixing pay and are required to display a responsible consideration of measurable metrics.

There is a lack of metric consistency across sectors, based on which to compare how companies who include sustainability in their remuneration policy equate against each other.

KPIs are widely used to measure executive performance, but they are rarely used to set remuneration levels. In this case an over-reliance on backward-looking and compliance-orientated sustainability metrics is evidenced, whereas sustainability should be forward looking to be an effective measure.

Eight KPI metric categories predominate:

- Safety,
- Environment,
- Carbon footprint,
- GHG and green product goals,
- Employees and ethnic responsibility,
- Customer satisfaction,
- Brand/CSR performance (ranking), and
- Community and stakeholder.

Safety is the most frequently reported metric and concentrates mainly on injuries and on-the-job fatalities. This is a myopic indicator, given that it is historical.

Environmental metrics focus on contamination and spills. Here again, KPIs researched are mostly based on past events, except in the case of carbon footprint measures, which are proactive.

Sustainability goals linked to executive compensation resort under new metrics, but increasingly, company executives and boards consider the business risk and opportunities in this arena.

Measuring environmental improvement provides a window of opportunity to align compensation with sustainability.

Case study

The construction industry may, for example, use eKPIs similar to the following:

- eKPI 1 – Impact on the environment – construction process (client rating)
- eKPI 2 – Energy use – construction process (kgCO2/R100k)
- eKPI 3 – Mains water use – construction process (m3/R100k)
- eKPI 4 – Waste – construction process (m3/R100k)
- eKPI 5 – Waste to landfill – construction process (m3/R100k)
- eKPI 6 – Impact on biodiversity – construction process (client rating)

Data drawn from remuneration reports of public companies quoted on the New York Stock Exchange (NYSE), NASDAQ OMX Group (NASDAQ), Frankfurt Stock Exchange (DAX), London Stock Exchange (LSE), Toronto Stock Exchange (TMX), BM&F Bovespa (BOVESPA our), Australian Securities Exchange (ASX) and Swiss Exchange (SWX).
Taking the above construction-centric eKPIs as an example, measuring natural capital with the prospect of reward in achieving a measurable goal is profitable for management and for the environment.\(^\text{16}\)

These are but a few KPIs and eKPIs used in the construction and building industry. Different construction companies may use different eKPIs.

What is of interest in the above example is that the client, who is a ‘first tier’ stakeholder and not a shareholder of the supplier, is involved in setting some eKPIs.

Different eKPIs are weighted according to the importance of the measure. These are decided collectively by management and usually the risk committee in listed companies and passed to the nomination and remuneration committees for approval.

The remuneration committee is charged with designing incentive schemes to govern measurement against performance achieved.

We hold the opinion that building a sustainable future requires accountability. Company directors should be measured not only against historic financial metrics but also by the employment of future natural capital.

Remuneration committees will be tasked with the responsibility to consider the most appropriate measures to apply when contextualising an appropriate mixture of KPIs and eKPIs which will satisfy both the shareholder and the stakeholder.

In the same context, nomination committees will need to find the right candidates to appoint to the board who are well versed in the ‘science’ of sustainability, and qualified to interpret the new business environment they find themselves in.

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16 Hypothetical
Shareholder engagement is an increasingly complex and important endeavour. As the ‘shareholder spring’ continues worldwide, South African shareholders are standing up and taking more notice of company governance, with executive remuneration continuing to attract the bulk of shareholder attention. This is resulting in a corresponding awareness in companies of the need to engage their shareholders. To manage shareholder expectations, and ensure that their interests are adequately looked after, companies must maintain regular, transparent and informative dialogue with their shareholders. This dialogue should aim to build relationships with shareholders based on trust and mutual understanding.

It is a well-established principle that remuneration policies and practices should create value for shareholders. To support this principle, King III recommends that shareholders have an annual non-binding advisory vote at companies’ annual general meetings, allowing them to express views on remuneration policies adopted and the implementation thereof. The advisory vote is intended to ensure that shareholders are afforded an opportunity annually to debate the remuneration policy of a company with the board, allowing them to influence the board’s perspective on remuneration matters. However, the advisory vote also functions as a method for shareholders to express their concern on aspects of executive remuneration which they do not have a vote on.

If less than 50% of the advisory shareholder votes are in favour of a remuneration policy, although there is no obligation on the board to change the strategy and policies, it is advisable for the board to make efforts to engage with shareholders and investors to understand their concerns. To avoid such circumstances, proactive discussions with investors around intended changes to the remuneration policy are encouraged.

For maximum benefits, shareholder engagement and an analysis of investor views should be undertaken in two stages:

- proactively before a remuneration policy, long-term incentive or proposal regarding NED fees is tabled and presented for shareholder vote; and
- retrospectively, after a vote against, or an insufficient number of votes in favour of a remuneration policy, long-term incentive, or NED fees proposal.
Interestingly, international ‘say-on-pay’ trends reveal that although boards continue to engage shareholders, the requisite subsequent efforts are not always made to ensure that shareholder concerns are fully addressed. This can translate into the repetition of negative advisory votes. To ensure that shareholder engagement is adequately addressed, companies should ensure that they have a robust shareholder engagement and communication strategy in place.

Companies should consider the following to take their shareholder engagement to the next level:

• Undertake a proactive analysis of known major shareholders’ voting policies and records;
• Consider any available CRISA disclosures;
• Do the groundwork towards securing support for proposals before the vote;
• Approach shareholders openly, allowing them to express their views and concerns with ample time, before the advent of media attention surrounding the annual general meeting;
• Engage regularly with shareholders before the vote, to ensure their concerns are understood and can be addressed;
• Undertake a post-facto analysis of shareholder concerns;
• Engage in post-facto dialogue with shareholders; and

• Consider for disclosure within the remuneration report or remuneration policy:
  • A statement of shareholder views in the annual report setting out how shareholder views have affected the remuneration policy;
  • Details of any changes to the remuneration policy made in response to shareholder feedback; and
  • Details of shareholder issues and how they have been addressed.

Our continued analysis of proxy and institutional investor voting indicates that shareholders want to see a substantial part of remuneration for executive directors in shares and ‘at risk’, subject to sufficiently stretching performance conditions. Shareholders increasingly expect these measures to be disclosed in detail within the remuneration report, along with the reasons why those particular measures were selected. Shareholders are also requesting details surrounding how executives and prescribed officers actually performed against these disclosed targets.

Remuneration disclosure within remuneration reports is expected to be more transparent, focused and graphical, in line with the integrated reporting movement. This expectation has led to an increase in calls for personal and direct communication from the chairperson, and details surrounding actual actions undertaken by the remuneration committee during the year under review. Easily navigable remuneration reports, containing plain and simple language and describing clear links between strategy and remuneration policies, are becoming more commonplace both internationally and within South Africa.

What is the way forward?

Innovative methods of shareholder communication are being introduced internationally. With South Africa close behind major jurisdictions such as the UK, US, Canada and Australia in many areas of remuneration regulation, engagement techniques developed worldwide should be considered and initiated by South African companies.

Some options include:

• Regular group or one-on-one meetings with shareholders;
• Shareholder/Investor roadshows;
• Annual conference calls with institutional investors, focusing on corporate governance matters; and
• Virtual engagement via virtual annual meetings and/or online message boards, blogs, webcasts etc., where shareholders can express their questions before meetings.
Whilst some of these methods may seem futuristic, as our shareholders look to foreign shores to take their cues on shareholder activism, South African boards should be paying close attention to successful methods of shareholder engagement which have been invoked overseas (see below). Strong shareholder engagement policies should strengthen the relationship between the board and shareholders, ensuring that board members are able to fulfill their fiduciary duty.

**SDX protocol**

A newly suggested protocol for shareholder-director exchange (SDX) suggests that a framework for communication between the two might help perspective sharing and benefit both investors and management.

The ‘SDX protocol’ aims to address differences between directors and shareholders and promote direct, predictable and safe communication between them. The chair of the SDX working group described the protocol as simply ‘making it easier to engage’, adding that it might help avoid ‘costly proxy battles’ and would help ‘boards be braver about resisting short-term voices that they hear on analyst calls’.  

But according to two PwC surveys, that gap won’t be easy to bridge. The surveys, collated in the report *What matters in the boardroom*, show that substantial behavioural change is required if shareholders and directors are going to be able to communicate effectively. This is exacerbated when stakeholders other than shareholders are involved, and questions beyond the confines of the company are the focus of interrogation.

For example, when it comes to executive compensation, 92% of investors think it’s appropriate and important for the directors to engage, but 65% of directors think that it’s not appropriate or important.

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*World Watch PwC 25 February 2014*
In the UK and Europe it is more usual for board directors to meet shareholders in a variety of situations, but in the United States the environment for director-shareholder relations is tougher.

Ms Mary Jo White, SEC chairperson, is quoted as saying: ‘Engagement with shareholders should mean proactive outreach, and clear, direct and honest communications about how and why decisions are being made. The board of directors is – or ought to be – a central player in shareholder engagement.’

The goal appears to be the same, but the experiences differ.

Mary Ann Cloyd, Leader of PwC’s Centre for Board Governance, underlined the gist of What happens in the boardroom: ‘We prepared the report to compare the responses of these two groups to identify areas where viewpoints are shared or differences exist, and we found that perspectives largely depend on whose shoes you are in – directors or investors.’

Each group surveyed experienced many of the same events in very different ways – despite their nominal shared goal of long-term profitability of the company they either serve on the Board of, or own a stake in. But among the differences there were common threads too. The first was that overall, there is a trend of increasing communication and each group wants to get a foothold and derive value from any engagement. Around 30% of directors reported increased communication with institutional investors.

Both groups’ approach to increasing communication is affected strongly by circumstance:

- Investors want to talk more about a lot of issues.
- Directors don’t want to communicate on many topics because they’re concerned about Fair Disclosure regulations or mixed messages. In fact, 39% of directors surveyed do not speak with institutional investors at all.

The SDX protocol aims to address these differences using those common threads, without usurping management’s primary role in investor relations. For directors, it offers the possibility of more influence over proxy voting decisions on company proposals. For shareholders, it suggests that following the protocol will help them to influence governance policies and practices.

The protocol sets out a framework that suggests both parties cover the following before engaging:

1. A clear policy for engagement;
2. Proper identification of the engagement topics;
3. Establishing contacts for requesting and responding to an engagement;
4. Selecting the participants to represent the parties during the engagement;
5. Determining the medium of engagement – individual investor meetings, group meetings etc.; and
6. Preparing for the engagement – reviewing relevant material.

And the following after engaging:

1. Agreeing specific next steps resulting from the discussion and how to communicate to those who were not present; and
2. Agreeing to review the engagements on an annual basis and revising engagement approaches as necessary.

The current approach is still shareholder-centric, and much more introspection is required in the boardroom to broaden the parameters, which should be inclusive of the global domain.
The economics and ethics of pay
The dynamic tension between the economics and ethics of pay is a perennial topic of intense debate. This debate is now taking on spiritual proportions, with Pope Francis, the temporal and spiritual leader of the world’s largest faith-based organisation, the Roman Catholic Church, commenting on the matter.

He said in the first peace message of his pontificate that ‘... huge salaries and bonuses are symptoms of an economy based on greed and inequality and called again for nations to narrow the wealth gap.’ He also called for sharing of wealth and for nations to shrink the gap between rich and poor, more of whom are getting only ‘crumbs’.

‘The grave financial and economic crises of the present time ... have pushed man to seek satisfaction, happiness and security in consumption and earnings out of all proportion to the principles of a sound economy,’ he observed. ‘The succession of economic crises should lead to a timely rethinking of our models of economic development and to a change in lifestyles.’

In South Africa, the harrowing platinum sector strike, the election manifesto of the new Economic Freedom Fighters party, and public pronouncements in the press and on other platforms have brought the pay gap and entry-level workers’ pay under the national spotlight.

There is clearly a great deal of emotion and use and abuse of this issue for fair means and foul; however, the burning question to those who are in a position to influence the pay of executives, workers, public sector office bearers and government employees, is what an appropriate response should be that would be pragmatic, ethical and economically sustainable.

Inequality has emerged as a major source of concern for people all over the world who find it unacceptable that poverty should persist in a world of plenty. Reducing inequality is needed – first and foremost – in order to fulfil people’s universal aspiration to dignity and respect. But there are also more instrumental reasons to address excessive and growing inequalities, as the high levels of inequality are detrimental to economic growth and limit the potential of growth to eliminate poverty. However, the experience of many countries that have managed to significantly reduce gaps in human wellbeing over the last decade shows that the political space for resolute action can be created (UNIDEP_:Humanity_Divided-Confronting_Inequality_in_Developing_Countries 2014).

In South Africa, the unemployment scenario has reached critical levels, and unless this is tackled head-on then any discussion regarding the pay gap is an exercise in futility.

Education and training is a first requirement, which in time will foster innovation and ensure that the citizens of this country are equipped in a world of global value chains where knowledge capital is the greatest asset in closing the pay gap. Basic education needs to give more attention to employability and bring the world of work into effective curricula.

A recalibrated work ethic will evolve from an educated citizenry, and only then will commentators be in a position to calculate a meaningful ratio for sensible commentary.

As we enter the era of full disclosure, the chosen tool of secrecy is complexity. Were it not for regulation extracting directors’ remuneration, investors would be hard-pressed to determine what the values are. Harder still is the fact that only the tip of the iceberg is visible regarding the pay gap enigma, since very little regarding pay levels is in the public domain.

19 Philip Pullella, Dec 12, 2013 Reuters/Giampiero Sposito
Measuring the pay gap
The pay gap is an emotional and complex issue, but to measure it, three statistical measures within a company or organisation are:

- The ratio between the pay of the CEO and that of entry-level workers;
- The ratio between the pay of the CEO and the average pay for all employees; and
- The Gini coefficient.

None of these measures is ideal. The CEO/entry-level worker pay ratio is often used more for emotional arguments than constructive debate. This is the most extreme measure, which is hardly representative of pay distribution throughout the organisation. The second ratio, of CEO pay to average employee pay, is more representative and appears to be emerging as a useful measure. The Gini coefficient is the most scientific measure, ranging from 0 for a completely egalitarian income distribution, to 1 for extreme inequality, but it is very complex and difficult to understand.

Our advice to remuneration decision-makers is to know the ratio for your own organisation and to monitor how this ratio changes over time, and to understand the primary drivers of change.

Pay gap multiples in South Africa
So how do South Africa’s pay gap multiples compare to those in the rest of the world? In terms of the most extreme version of the multiple, the total pay of the CEO compared to that of entry-level workers averages around 150 times for JSE companies, with the larger companies reaching 300 times.

However, a recent PwC study of this multiple for global mining companies revealed that these companies typically average a multiple of over 600 times, with one company having a multiple of 1 200 times. So South African companies are not at the extreme high point of this range, but the existing multiples are still difficult to digest in our current emotionally charged socio-political environment.

An interesting recent publication by Mergence, a South African fund management company, shows that the ratio of total CEO pay to average company pay is around 73 times, with a range of 30 in Norway, up to 164 in the US, India at 32, Australia at 55 and the UK at 93.

South Africa’s pay for CEOs is thus not extreme compared to some countries with successful economies, but it is higher than that of other developing countries such as India.

United States
Using 2012 values, Bloomberg calculated ratios based on the United States government’s industry-specific averages for pay and benefits paid to company workers in the United States. The research was extended to reflect the average calculated, and measured this against CEO total income for Standard & Poor’s 500 Index top 250 companies. The results reflected a pay ratio ranging from 1 795 at the top (JC Penney Co.) to as little as 173 (Agilent Technologies Inc.), holding position 250.

At the end of September 2013, the Dodd-Frank Act promulgated the requirement for public companies to disclose the ratio of the chief executive’s compensation to the median employee pay. The aim for this rule was to highlight the pay disparity between top executives and general employees at the biggest and largest US companies. It remains to be seen whether or not this rule will actually narrow the gap.

Say-on-pay Switzerland
With the approval of the Swiss national ordinance against excessive pay (dubbed the ‘Minder Initiative’), all public companies headquartered in Switzerland, or which have shares traded on Swiss exchanges, must adapt to the new provisions during the transitional period of 1 January 2014 to 1 January 2016.
Some of the concepts that the Minder Initiative introduces are as follows:

- Companies are required to specify whether they offer prospective or retrospective binding votes on pay amounts in their articles of association.
- Board members may no longer receive severance packages, payments in advance, or bonuses for the takeover or transfer of business units.\(^{20}\)
- Starting in 2015, all annual meetings must hold separate votes on the compensation of the executive board, the board of directors and the advisory board, which are both annual and binding.\(^{21}\)

Although the Minder Initiative was passed, it seems the later 12:1 proposal, intended to limit executive pay to 12 times that of the lowest paid employee, was a step too far for the Swiss public, who voted against the proposal with 65.3% ‘no’ votes and only 34.7% ‘yes’ votes. Post the referendum, a closer look at all Swiss companies’ domiciled companies listed on the SIX revealed an interesting pattern.\(^{22}\)

### The Gini coefficient

The Gini coefficient is a highly controversial number. As a measure of statistical dispersion, which is intended to represent the income distribution of a nation’s residents, it is unsurprising that this is so. This is particularly so in a country such as South Africa, which is widely believed to be the nation with the highest Gini coefficient, earning it the label of the most unequal society in the world.

The Swiss seem to be content with the status quo regarding the pay gap at present. As a country which has always depended heavily on foreign investment, limiting top management pay would be counter-productive to the Swiss way of doing business.

<table>
<thead>
<tr>
<th>75th percentile</th>
<th>25th percentile</th>
<th>Median</th>
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<td>150</td>
<td>100</td>
<td>117</td>
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**The Gini coefficient ranges from a scale of ‘0’ representing perfect income distribution, to ‘1’ representing extreme earnings inequality.**

Calculations of South Africa’s actual Gini coefficient vary from 0.63 (World Bank) to 0.72 (Statistics SA). In comparison, the UK has a Gini coefficient of around 0.48, and the USA around 0.49.

It is generally accepted without question that the cause of the high Gini coefficient within South Africa is a high level of earnings inequality, or the pay gap between the highest and lowest earners within the country. However, is this perception accurate?

\(^{20}\) Article 95(3)b of the Swiss Constitution and Article 20(1-3) of the Transitional Provision.

\(^{21}\) Articles 18 (3)1, 18(3)2, Article 95(3)a of the Swiss Constitution, Article 18(3)1 of the Transitional Provision.

\(^{22}\) PwC South Africa research
Whilst it is widely acknowledged that South Africa has a uniquely high level of unemployment, the effect of this level of unemployment on concepts such as national earnings inequality is often not documented. Whilst the pay gap is expressed as the difference in earnings between the highest paid earner and the lowest paid earner, the Gini coefficient takes into account a high percentage of South Africans who are not earning any income at all.

In order to analyse the effects of South Africa’s high unemployment rate on the Gini coefficient, we utilised a sample from the PwC REMChannel® database of salary information for over 500 South African companies and nearly one million actual jobs. This yielded a Gini coefficient for the employed of only 0.44. If we take into account South Africa’s unemployment rate of 37%, our estimate of the Gini coefficient is 0.65, assuming that the unemployed receive no income. If we assume that all the unemployed received a social grant, then the Gini coefficient computed in this way falls to 0.63, which is very consistent with the generally accepted value for SA’s Gini coefficient.

If South Africa could reduce its unemployment to the equivalent level of a country like the USA (which has an effective level of unemployment of around 10%) then our calculation of the Gini coefficient on the same basis reveals a drop to 0.54. This new Gini coefficient is not far from the Gini coefficient of developed countries such as the UK and USA.

The calculations of South Africa’s Gini coefficient in the instance of a lower, more normal unemployment rate reveal that it may not be the earnings inequality between the highest and lowest paid earners, which is the root of South Africa’s high Gini coefficient, but the gap between the wages of the employed, and the zero earnings of the unemployed. Ultimately, this means that it is not reducing executive pay, but reducing the level of unemployment, which is critical to reducing earnings inequality within South Africa.

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23 REMChannel® is the largest available database of actual salary information within South Africa.

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The absolute level of CEO pay

A study in 2012 by PwC in conjunction with Business Leadership South Africa indicated that the total remuneration packages for CEOs of large local South African companies were of the order of R20m per annum. However, CEOs of similar-sized companies in the UK and the US earned R40m and R60m per annum respectively.

With the significant decrease in the relative value of the South African rand since then, the gap between local CEO pay and CEO pay in developed countries has probably increased significantly on a same-currency basis. This analysis did not consider the impact of the cost of living in the respective countries, but certainly indicates there is limited room for dramatic decreases in local CEO pay without the risk of losing leadership talent to developed countries.
Discussions in the board room

The issues of inequality and the pay gap are receiving significant attention from remuneration committees, social and ethics committees and the main board. In our role as advisors to many leading private- and public-sector companies we are seeing increasing meeting time devoted to these issues and are responding to frequent requests for research and recommendations in this regard.

There is often significant criticism from the press, Government and the public in general of the governance role of the board and its sub-committees in addressing remuneration issues. However, the degree of debate, the time devoted and the expertise of non-executive directors with respect to remuneration issues have increased significantly over the last few years.

CEO and executive pay

The observations above, that CEO and executive pay in developed countries is significantly higher than in South Africa, that the SA pay gap is driven more by unemployment than actual pay disparity within companies, and that we require talented leadership to grow South African business ventures and manage the significant risks we have in the South African economy, appear to indicate limited opportunity for any one company, or for companies in general in South Africa to dramatically reduce CEO and executive pay.

If any one company were to do this unilaterally, it could lose its executive talent, and the same would hold for a specific industry. CEOs are fairly portable, as their management and leadership skills can be applied across industries.

If CEO and executive pay throughout the country were slashed by regulatory or government intervention, the country would run the risk of flight of leadership talent, as South African CEOs are well respected in many other international markets.

So what should be done? We advise in respect of executive pay that:

- The pay of the CEO, executive committee and senior management should be treated with restraint,
- Measures be taken to ensure packages are reasonable relative to the market,
- Increases be modest,
- Significant focus be placed on the link between pay and performance, and
- Extremes of pay from inappropriate bonus and share plans be avoided.

In our view, apart from these pragmatic responses, focusing on more significant interventions that will enhance the pay and financial well-being of workers would be more effective than attempting to dramatically reduce CEO and executive pay.

Understanding worker needs and expenditure requirements

If the premise is to pay entry-level workers sufficient remuneration to fund a frugal but adequate level of expenditure, then it is important to truly understand the cost of living for this group of employees. StatsSA conducts an expenditure survey every five years, but we contend that employers should conduct more research into the expenditure requirements of their entry-level employees. The remuneration for these employees should be informed by these minimum requirements.

Using company buying power to improve worker benefits

The economics of pay limit the ability of companies to dramatically increase worker pay without a concomitant increase in productivity. However, there may be significant opportunities to assist workers to procure the essential and important goods and services they need to improve the quality of their lives at cheaper prices, using the buying power of the employer organisations. Paradoxically enough, the propensity of companies to use their corporate strength to provide superior employee benefits has waned dramatically over time, with the modern stance being to pay workers a cash package, and leave it up to them to procure the goods and services they need. This leads to a weak and fragmented procurement process, where workers often don't receive the optimal prices.
One of the only areas of employee benefits where companies have continued to procure on behalf of employees is that of insured benefits (such as life insurance) and the administration of retirement funds. The costs that large organisations are able to negotiate on behalf of their employees are dramatically lower than those offered to individuals.

There is certainly potential to investigate the procurement of goods and services that are essential for workers, such as food, housing, transport, connectivity and education, using corporate buying power and logistics, to significantly reduce the costs and improve the quality of workers and their families’ lives without increasing the wage bill.

**Garnishee orders**

Garnishee orders are another major factor that dramatically reduce the take-home pay of many workers. Garnishee orders are the outcome of a legal process for recovering debt owed to a lender or supplier, where the employer is obliged to deduct an amount from an employee’s wages until the original debt, plus deemed costs and a high rate of interest, have been fully repaid.

A review of the payroll of most organisations will reveal a significant number of such orders that severely harm workers’ financial wellness. The problem of unsustainable levels of debt is exacerbated in this segment by the very high levels of the deemed legal costs to the principal debt. For example, an initial debt of R2 000 could grow to R12 000 because of the additional costs and interest.

This is an area where organisations could dramatically contribute to workers’ financial wellness by considering action to extinguish or reduce their employees’ garnishee orders, and by taking measures to keep rehabilitated employees from landing back where they started.

**Conclusions**

One may conclude that there are certainly no simple resolutions to this complex issue. However, those tasked with influencing and determining pay at all levels within the private and public sectors should consider the following factors:

- The pay of the CEO, executive committee and senior management should be treated with restraint, and measures should be taken to ensure packages are reasonable relative to the market, increases are modest, significant focus is placed on the link between pay and performance, and extremes of pay from inappropriate bonus and share plans are avoided.

- Reducing unemployment in South Africa is potentially a more compelling social and ethical issue than the level of pay for entry-level workers, driving inequality, hardship and social tension, and companies and government should bear this in mind when allocating resources to human capital reward and development.

- The financial wellness of entry-level workers and establishing an appropriate level of pay for this group of workers which aspires to fund a frugal but adequate expenditure level is an important area of focus, and surveys and research which provide an improved understanding of the actual expenditure requirements should inform this objective.

- Consideration should be given to benefit programmes provided by organisations which utilise their buying power and the potential for more effective logistics to provide more cost-effective procurement of basic needs for their employees – food, housing, connectivity and education.

- Consideration could be given to the garnishee order crisis for entry-level workers, by implementing a once-off garnishee order amnesty and introducing measures to prevent rehabilitated workers from suffering further debt judgements by financial education and monitoring of impending action against employees.
The debate about executive remuneration has reached absurd proportions. The idea that a high school principal should earn a fixed ratio of the school janitor’s wage, or that a music megastar’s earnings should be connected in some way to the stadium cleaner’s, is preposterous. In this chapter we consider some of the origins and potential consequences of the ‘wage gap’.

At a fundamental psychological level, there appear to be two rudimentary feelings at work in this highly emotional debate. The first is jealousy, stated simply: ‘I want what you have.’ This is the emotion underlying trade unions’ demands for higher pay for union members by reference to executive remuneration. The second emotion is envy, stated simply: ‘I don’t want you to have what you have.’ This is the emotion underlying government officials’ resentment of executive pay. As any psychologist would note, envy is a much more hateful emotion than jealousy, because it seeks the destruction, through spite or resentment, of the object of desire; whereas jealousy involves the possession, whether exclusive or mutual, of the desired object.

The distinction drawn between the two rudimentary human feelings is important, because it suggests that government officials’ attitudes are far more dangerous than those of trade unions. Unionists specifically cite executive pay in an attempt to raise the wages of their members. Government officials, by contrast, cite executive pay in an attempt to regulate or even ban certain remuneration practices.

This is not to say that trade union attitudes toward executive pay possess any merit or lack any hazard. Typically, trade union members are older, more experienced and higher-skilled workers. The attempt to raise union members’ wages relates not only to the living standards and working conditions of union members, but also to an attempt to exclude competition from younger, less experienced and lower-skilled workers. If the equilibrium wage in, say, the platinum sector is R8 000 per month, and if unions succeed in raising the entry-level wage to R12 500 per month, the effect will be to exclude from the workplace anyone whose productivity does not justify the higher entry-level wage. Employers will, in this case, simply retrench or, more importantly, fail to hire those workers whose productivity does not meet the higher wage threshold. This is why the very first sentence in the Labour Relations Act (1995) excludes labour practices...
from the provisions of the Competition Act (1998), because many labour practices are clearly understood by lawmakers to be anti-competitive.

The key implication of the emotional character of the executive remuneration debate does not involve trade unions but rather government officials, who seem likely to regulate or ban certain executive pay practices in the coming years. Here, as with most government actions, the quality of government decision-making will be critical. In some countries, such as Switzerland and the United States, proposed limitations on executive pay make a great deal of sense: Why should an executive, terminated for poor corporate performance, be paid a severance package? Or, why should an executive be paid large cash bonuses for anticipated rather than realised corporate performance? In other countries, such as Guatemala and Venezuela, it seems likely that shaky or even hostile relations between the government and corporate sectors will have an adverse effect on executive pay, with catastrophic consequences for private sector performance.

It must be said that trade union and government rhetoric around executive remuneration has had one, largely unintended, consequence: The linkage between executive remuneration and corporate performance is growing, slowly, stronger. According to our research, using a cross-sectional dataset of 286 listed South African companies for 2013, 32.5% of current-year executive remuneration is based on company performance, compared to 21.1% in 2000. The linkage will likely grow stronger in future, perhaps exceeding 50% in 2020, by which time more than half of executive pay will be related to current-year financial performance. Our cross-sectional research also shows that multi-year corporate performance, defined as five-year trailing earnings, now accounts for 41.8% of executive remuneration, compared to 34.5% in 2000. The linkage between executive remuneration and the return on shareholders’ funds remains the strongest of all the linkages we have examined: The current-year return on shareholders’ funds accounts for 68.7% of executive remuneration, compared to 64.2% in 2000. The linkage with the return on capital employed is much lower than the linkage with shareholders’ funds, at 18.7%, which has interesting implications about the role that banks and other sources of financing play in executive remuneration, possibly through the effect that debt capital has on the variability of corporate performance; but, nonetheless, there are some strong linkages between corporate performance and executive remuneration – and these linkages are growing stronger over time.

Unfortunately it has taken strong rhetoric from unionists and potentially hazardous legislation from government to strengthen the ties between corporate performance and executive pay. One might have expected that shareholders would be more assertive than they have been. But relations between shareholders and managers are said to suffer from several serious problems. First, these relations are characterised by the ‘principal/agent’ problem, whereby shareholders (the principals) cannot fully control the objectives of managers (their agents), with the result that shareholders’ and managers’ objectives often differ and conflict. Second, relations between shareholders and managers are characterised by ‘asymmetric information’ (managers are more fully informed than shareholders), ‘incomplete contracts’ (shareholders cannot bind managers to all possible outcomes), and other problems. The problems are especially acute in the case of listed companies, where shareholders can sell their publicly traded shares instead of actively seeking changes in managerial conduct or performance.

Whatever the cause, it is welcome that linkages between corporate performance and executive remuneration are growing stronger over time. The results of nearly 250 years of economic theorising are conclusive: Corporations do best for society when they maximise profitability, which in turn maximises shareholder wealth. In other words, corporations do best when they pursue economic opportunities where the projected rate of return exceeds the cost of capital, for the reason that this results in the optimal allocation of scarce resources. ‘Optimal’, here, means that the allocation of resources is so beneficial that no-one in society can be made better off by an alternative allocation. The implication is that society gains when executive remuneration is aligned with corporate performance.

The power of this conclusion should not be understated. There are various rival schools of thought that would prefer corporations to act
contrary to shareholders’ objectives. The environmental school would prefer that corporations limit their profitability to ‘green’ alternatives. The efficiency-wages school would prefer that corporations maximise their employees’ working and living conditions. The balanced-scorecard school would prefer that corporations optimise between financial and non-financial objectives. The developmental school would prefer that corporations resolve social ills such as poverty and inequality directly by means of their financial resources.

The ‘wage gap’ is usually defined as the ratio of the chief executive officer’s (CEO’s) total remuneration to entry-level workers’ net remuneration, for the reason that this definition of the ratio typically yields the greatest discrepancy and consequently serves best the motives of those citing the ratio. As indicated above, for workers, or rather union members, the ratio relates to improving wages and working conditions and also to excluding competition from young, first-time entrants to the workforce. For government officials, the ratio relates to laws and regulations that would cap or otherwise interfere with the wage determination process for executives. As we have seen above, a direct, causal linkage between corporate performance and executive remuneration is highly desirable, for the reason that it results in the most optimal allocation of scarce resources. The implication is that capping executive remuneration will, at the same time, cap corporate and therefore economic performance in general.

Perhaps it is the unknown implications of government interference with the pay/performance linkage that has stayed government’s hand, despite its populist temptations. Certainly government interference in corporate behaviour has had bad or even disastrous implications in the past. For example, South Africa’s tax on dividends has led listed companies to accumulate R564 billion in cash on their balance sheets. South Africa’s depreciation allowances for assets of a capital nature have led to substitution of capital for labour as well as substitution of high-skilled for low-skilled labour. South Africa’s labour laws and regulations have led to the substitution of temporary workers for permanent workers as well as substitution of agency workers for companies’ own temporary workers. And South Africa’s dismissal protections and collective bargaining approach have yielded high wages, low productivity and high formal sector unemployment. Government actions have not been limited in the past by adverse consequences – and this will probably be the case, too, with executive remuneration.
Probably the only thing that management (and shareholders, through their boards of non-executive directors) can do to avoid government regulations in future is to regulate themselves. Self-regulation, in this context, would include greater use of (secret) votes at annual general meetings, including:

- shareholder approval of an explicit and predictable formula showing, in advance, how executive remuneration will be determined;
- shareholder approval of the precise measurement of corporate performance (e.g. return on equity, return on capital or gain in market capitalisation) to be used in the calculation of executive remuneration;
- shareholder approval of the proportions of cash and shares that are optimal in each case (e.g. 30% cash : 70% shares); and
- shareholder approval of the conditions under which the CEO and/or other C-suite officers will be terminated for poor performance.

One of the advantages of a more aggressive link, not only between corporate performance and executive remuneration, but also between shareholders’ objectives and executives’ objectives, is that the linkage can be used as a bargaining tool to link employees’ remuneration to productivity. There are clearly significant problems with the measurement of employee productivity. In some cases, employees work in teams where collective rather than individual measures of productivity are the only available measures. In other cases, employees can collude with supervisors or managers to inflate individual performance. In yet other cases, supervisor favouritism of particular employees can undermine the performance management system. Nonetheless, employee remuneration should in principle be linked to employee performance, and companies can make significant advances over the largely guaranteed remuneration that exists at present.

In summary, the ‘wage gap’ is an analytical fiction and a numerical artefact. It distracts executives from the true objective of corporations, namely maximising shareholder value. Yet unions’ and government officials’ recent emphasis of this measure of inequality has had the positive result of advancing the linkage between corporate performance and executive remuneration. This linkage should not only be encouraged but also extended to individual employees’ remuneration: If CEOs’ remuneration is linked to CEOs’ performance, then it follows that individuals’ remuneration should be linked to individuals’ performance. Executives should take advantage of the current milieu and growing tide of opinion to implement productivity-based employee remuneration while closely scrutinising the basis of their own pay.
Gender – A new era
March 8, 2014 marked International Women’s Day, a day designated to honour women for their political and social achievements. Two days later a high-profile conference was held in London to draw attention to sexual violence in war. The world is jaded by the horrendous atrocities meted out against defenceless women during countless wars waged in many countries. Keynote speeches emphasised that it is not only in conflict that women are abused, but that abuse touches the lives of women in all countries in the world.

But when it comes to the business world, there’s a strong feeling that women have not come far enough on issues like equal pay — and on having a seat in corporate boardrooms.

This is not well understood, or well managed. Data from the National Centre for Education Statistics in the United States reveals that college enrolment by gender clearly shows that the education gap between men and women is longstanding, and getting worse. Women are getting higher levels of education and men are not. It is estimated that by 2020 there will be three women in college classrooms for every two men.

In other parts of the world, women now account for more than half of the college and university graduates, and in many emerging economies, gender gaps in higher education are closing dramatically (Schwab 2010). These are not idle statistics; they are solidly backed up by the fact that in most countries and regions of the world, in the decade 1999 to 2009 women far outnumbered their male counterparts when it comes to college and university education enrolment.

Notwithstanding this, though, gender inequality in business remains headline news. Increasing the participation of women on corporate boards inspires heated debate around the world, and some countries have had to adopt legislation to enforce a presence. This phenomenon has been examined from many different angles, including the previous edition of this publication (July 2013 edition). Our research into this subject has continued unabated since then, and we have found that women add value to the corporate decision-making process.

Diversity in the boardroom is essential, not only as to gender, but also as to types of qualification and skills, and ethnic variety.

Homogeneity in any scenario, political or business, is never successful when portions of stakeholders are excluded. In today’s turbulent world it has become even more evident that inequality of representation is disruptive.

Female millennials, born between 1980 and 1995, make up a significant proportion of the current and future talent pool. Companies who are able to attract the best of these millennial workers will be working towards a baseline which will be invaluable for the next generation of management succession. (UNESCO_World_Atlas_of_Gender_Equality 2012).

Between 1918 and 2008, 552 million women joined the global labour force. Furthermore, one billion women are anticipated to enter the workforce over the next decade.24

The world is focusing heavily on executive talent, with human capital becoming as important as money capital. Women are as well educated and talented as men, and in many cases they have a higher education and are more talented.

The above indicators clearly reflect that women will be a well-educated sector of the population in future, and the trend globally is leaning towards more female directors on future boards. It is encouraging to see that South Africa is well placed in the education ranking, as depicted in Figure 6.

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Europe is divided over gender quotas

Businesswomen across the EU are edging closer to equal representation in the boardroom – but at what cost? Last November, EU MPs voted in droves for a draft law mandating a 40% female quota for non-executive board posts, pushing the proposal through with a crushing majority of 230.

In the German Bundestag at least the enthusiasm is tangible. Last April, the German legislature rejected another in a long line of recent quota proposals and Germany joined other heavyweight EU member states in voting against the European Commission’s proposal for boardroom quotas.

Now in Germany, the two parties slated to form the next German government have settled on a figure of 30% women for the supervisory boards of companies listed on the German stock exchange – a new attempt at a national law known simply as ‘frauenquote’.

But business leaders across Europe are already pushing back on both proposals. In Germany, the CEOs of the four largest car manufacturers, representing nearly €400 billion in annual revenue, have said that they would consider moving production outside Germany if forced to bring in the quota.

In the UK – one of the few opponents of the original proposal – the top echelons of business have been vocal too. Helena Morrissey, the CEO of Newton Investment Management, a global thematic investment boutique and subsidiary of BNY Mellon – called the EU’s decision ‘disappointing, unhelpful and unnecessary’. British politicians will be paying particular attention to Ms Morrissey’s opinion, given her prominent role as an advocate for women in business.

The draft law in question has five main elements:

- Publicly listed companies with less than 40% women among its non-executive board members will be required to set up a selection procedure that gives priority to qualified female candidates.
- No-one will get a job on the basis of their being a woman – but no woman will be denied a job because of her gender.
- Small and medium-sized companies are exempt from the law, due to their lesser economic importance and low visibility.
- EU member states must have sanctions for companies in breach of the Directive.
- The law is a temporary measure and will automatically expire in 2028. Companies who fail to meet the targets by 2020 could face sanctions, including restriction of their access to EU funding.

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25 PwC’s Global team have accumulated research findings regarding gender inequalities and the evolution of this topical subject as the scenario plays out in the EU. The information gleaned from this team is freely quoted here.
Now, nearly a year after the go-ahead to draft the law was given, the proposals await EU member state ratification and adoption by the European Parliament and Council jointly. It is highly likely that the majority of states will vote for the proposal to become law, given that only the UK and Sweden took issue with the substantive proposals put forward in November 2012. France, Spain, Holland, many of the Scandinavian nations and now Germany already support quotas.

Those against the quota proposal point out that Norway’s introduction of similar laws in 2003 worked only at the level implemented – the boards of listed companies – but note that the attitude did not trickle down to even the executive level. Not one of the 25 companies on the Oslo bourse has a female CEO and the gender pay gap is still estimated at around 15%. The concern for some is that quotas that single out large businesses constitute a matter of ‘optics’ and it is a symbolic solution only, tackling the symptom rather than the cause. Ms Morrissey has long argued that legislative quotas and sanctions are a waste of time compared to taking incremental steps to change companies below board and executive levels, and improving access to opportunity for women more broadly.

There are just not enough women in the boardroom.

Two years after EU Justice Commissioner Viviane Reding’s Women on the board pledge for Europe, 21 out of 27 national assemblies of the EU have given the go-ahead to draft a law on female quotas in the boardroom. The six dissenters are the Czech Republic, Denmark, the Netherlands, Poland, Sweden and the UK. Reasons for no-votes vary, but only Sweden and the UK voiced concerns about the substantive detail of the proposals. Sweden said that the plans impose restrictions on the dismissal of board members. The UK takes issue with the notion of a quota at all, with Parliamentary Under-Secretary of State for Women and Equalities, Jo Swinson, arguing that ‘the majority of women are not in favour of quotas’ for fear of tokenism.

The UK is ranked 18th out of a sample of 27 OECD countries for PwC’s Women in Work survey.

The EU will press ahead with crafting the legislation – 21 out of 27 member states is a healthy majority. Data from past surveys suggests that member state electorates are overwhelmingly in favour of legislation promoting gender balance on company boards. A recent reminder that corporations pay only lip service to gender equality was clearly reflected in the number of females representing countries and corporations at the Davos World Economic Forum (‘WEF’) showcase. When gender was counted, 85% were male and 15% were female participants.

Two years ago, the WEF introduced a quota system to encourage female participation which demanded that its 100 most important partners send one woman to the annual meeting. It is distressing that the number of women delegates has decreased since then (World Economic Forum 2014).
Survey findings

Regular press releases and insightful White Papers on board diversity are fuelling the debate for a more responsible approach toward women in the boardroom.26

United States

Women now hold 11% of board seats at the world’s largest and best-known companies. This marks an increase of one-half of a percentage point since December 2011 and only 1.7 percentage points since 2009. It is not very encouraging. There has been little progress on gender diversity for more than a decade. The proportion of female directors is highest among S&P 500 companies, at 16.9%; it is lower at S&P Midcaps (13.5%) and S&P Smallcaps (11.3%). In all three of these indices, moreover, the level of female representation has risen by fewer than 5 percentage points since 2001.

Europe

A modest improvement is evidenced in the representation of women on corporate boards. Yet, female representation on boards has risen only eight-tenths of one percentage point since 2009.

Norway, Sweden and Finland

These countries continue to lead the developed world in their percentage of female directors on the boards of listed companies, with 36.1%, 27.0%, and 26.8%, respectively.

Italy and France

These two countries are seeing significant increases in women’s representation following the passage of recent laws on board diversity. France now ranks fourth in the world for female directors, with 18.3%, and more than half of French boards have at least three women.

United Kingdom

The percentage of women on UK boards has risen 4% since 2009, possibly in reaction to the threat of EU-level regulation on the issue, and now stands at 12.6% of directors. In this country it would appear only token representation is the order of the day. This proves a dichotomy in that the UK is regularly on the forefront regarding regulatory improvements.

Canada

Progress on gender diversity among directors is stagnant: the proportion of female directors is at 13.1%, unchanged from a year ago and up less than 1 percentage point since 2009.

In Canada, 50% of the board seats of the 14 Crown Companies (state-owned) have to be reserved for women, based on quota legislation passed in Québec in 2006. Peter Dey, chairman of Paradigm Capital, who received the International Corporate Governance Network Lifetime Achiever award, says that whether or not a female director is present, he has not discerned any difference in boardroom decorum. He says that when a female director is present there is a different dynamic, which reflects that diversity brings more energy to the boardroom.

Japan

Representation of women on boards remains poorest in Japan, where 1.1% of directors are female.

India

There is an increase of 1.3 percentage points in the level of female directors since 2011, a faster rate of change than in many other countries. The proportion of women on its boards is now 6.5%.

Brazil

The Chairman of the Brazilian Institute for Corporate Governance (‘IBGC’) stated that the presence of a woman on the board of directors in Brazil makes a major difference. One major impact is that Brazilian men tend to say whatever they want to say, and they don’t restrict themselves as to the type of language they use. The presence of one woman on the board makes a difference in that language is controlled, there is less joking around and more constructive discussion ensues. Furthermore, he has also found that women tend to be more sensible and more thoughtful, and care more about how decisions made in the boardroom will impact people.

In Brazil, 24% of senior management are women, but they hold only 5.1% of board seat positions.

26 Board Diversity, Corporate Governance, Daily Viewpoint, GMI: Press Releases on survey authored by Kimberly Gladman, Ph.D., CFA, Managing Director, ESG Research, and Michelle Lamb, Senior Research Associate.
South Africa

In his 2013 State of the Nation Address, the State President made clear mention of legislation to establish a 50/50 policy position with regard to the representation of women in decision-making structures.

The National Assembly adopted the Women Empowerment and Gender Equality Bill on 5th March 2014.

The Bill has faced severe criticism from various commentators who stress the point that the bill offers nothing new and duplicates functions from the Commission on Gender Equality Act (1996), the Skills Development Act (1998), the Employment Equity Act (1998) and the Promotion of Equality and Prevention of Unfair Discrimination Act (2000).

Gender equality at management level in South Africa has remained flat at about 24% since 2009. Without proactive support at board level, in another five years one may find that the percentage is still inadequate to meet legislative aims.

The corollary to the 50/50 argument is that notwithstanding high education achievements it would be counter-productive to follow the letter of the legislature when appointing women to senior positions for the wrong reasons. Although the 50/50 ratio is laudable, it may not be practical.

The actual data extracted from published accounts for companies trading on the JSE as at 30 April 2014 underlines how much work needs to be done to achieve better representation, as is graphically presented in Figure 7.

Figure 7
South Africa South Africa: Gender gap listed companies

PwC’s study of mining industry

PwC UK carried out a survey sponsored by Anglo American, Rio Tinto and BHP Billiton. The purpose of the study was to look into gender diversity at board level at the top global mining companies, including the contribution women make to a better performing and more sustainable business. The report analyses the largest 100 and largest 500 mining companies (ranked by market capitalisation) that were publicly traded as at 22 July 2013 on any recognised stock exchange. Together, these mining companies have a market capitalisation of USD 200 billion. The data will be used to track, measure and analyse changes in trends in female development and retention in the mining industry over the next three years.

South Africa’s mining companies continue to have the best level of female representation at board level, followed by Canada, while Australia has the lowest percentage of women in executive management positions in the industry. South Africa is a leader when it comes to female representation at board level and in senior leadership roles. The complex regulatory environment in which South African mining companies operate their businesses has played an important role in driving the development and representation of women in the mining industry.

Source: PwC research

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Research shows that there is a strong correlation between having more women in management positions and on the board, and improved company performance across a number of metrics, including governance, financial, social and environment metrics.

Seven South African mining companies are included in the global Top 100 listed mining companies. There are currently 23.8% women in executive management positions, and 18.8% of the appointed board members are women.

Sixteen South African mining companies are included in the global Top 500 listed mining companies. In these companies, 21.4% of executive management positions and 19.3% directorships are held by women.

**Board composition**

For the second year in a row, the report shows that the mining industry has fewer women on boards than any other major industry, including oil and gas. At present, between 5% and 10% of the workforce in the mining industry is female, the smallest of any major global industry. In the top 500 listed mining companies in the world, 7.2% of directors are women, with the top 100 companies having 10.3% female directors. The report also discloses that only seven CEOs in the world’s top 500 listed mining companies are women. Since last year, Cynthia Carrol has stepped down as CEO of Anglo American, and there is now only one female CEO in the top 100 listed mining companies, Kay Priestly of Turquoise Hill Resources in Canada.

According to the findings of the study, of the 106 female directors in the top 100 mining companies, just three of them hold more than one directorship. Out of all the 500 listed mining companies reviewed, just 14 had reached the critical mass of 30% of women on their boards, with six of these being in the top 100. Some progress is being made, however, with 58% of the top 100 companies having at least one woman on their board, compared to 46% last year.

Of the core committees (remuneration, nomination and audit/risk), committee participation overall by women is 7.6%. South Africa again leads the way with female participation in mining companies, with the other territories some way behind. Over 21% of committee members on JSE-listed mining companies are women. Canada had the lowest participation on board committees by women (5.9%), closely followed by Hong Kong and the UK (6%).

It is interesting to note that almost 50% of male board directors have prior career experience in the mining industry, compared with just over 15% women. This may be linked to the lower proportion of female directors with engineering and geoscience educational backgrounds and to the fact that most of the female directors are in non-executive positions, states the study. Female directors are more likely to bring expertise from a financial or accounting, legal or governmental career, or from another sector.

In addition, the top 100 mining companies were assessed for environmental, social and governance (ESG) performance. This is a new area for reporting when compared to financial reporting, which has long been established. The study shows that boards with female appointees tend to contribute better to disclosure and transparency, and they also have a positive effect on a company’s environmental and social governance.

**Conclusion**

Women continue to make up a higher percentage of directors in developed markets (11.8%, up from 11.2% last year) than they do in emerging markets (7.4%, both this year and last).

Gender equality in the boardroom is an ‘in-the-face’ challenge that has to be addressed. Considering the challenges women face today, equality has many barriers to cross. Much is said about preparing directors for the challenges of modern business conditions – and these preparations are necessary to ensure an effective team to manage the company. Is the same attention being given to the other gender that holds the minority vote in the corporation? A cursory glance at management below director level clearly reflects that there is no serious shadow succession planning which includes young women.
As at 30 April 2014, there were a total of 354 active companies listed on the JSE. Suspended companies and companies listed under preferential shares are not included in this count, nor are their directors included in the research numbers.

Directing these companies are 1 145 executive directors, which translates to a 12% increase in the number of executives listed as directors in our 2013 edition. Reference to executive directors throughout this publication excludes non-executive directors.

Figure 8 reflects the position for the three years 2012 to 2014.

**Figure 8**
**Number of executive directors JSE companies by sector**

Source: PwC analysis

The 2008/2009 global economic crises extracted a heavy toll on companies in the HR arena. This, by default, included shrinking management numbers as well as executive director numbers. Worldwide, companies sifted nonessential members serving on the board, and the headcount was reduced.

South Africa was no exception. It is an unfortunate syndrome displayed as a cost-cutting measure. These decisions are usually counterproductive, since it is not always expedient to discompose management during crisis.
A major problem facing managers is that corporations will always be subject to short-term business fluctuations, and most often when business trends head south, panic takes hold. Decisions at this time require courage, and strategy should be reviewed to ascertain if there is a plan ‘B’ available before pruning the board. Decisions should be proactive and cost reduction delayed as long as possible.

The recovery in headcount is only evident in 2014, as depicted in Figure 9. In South Africa, a shortage of experienced management exacerbates the challenge.

**Reasons for reduction in number of directors 2012/2013**

The onerous regulatory and fiduciary responsibilities legislated in the new Companies Act implemented in May 2011 may be a valid reason – directors are reticent to be held to account to the extent of personal liability for business conduct beyond their control. Risk appetite is an acquired taste.

**Reasons for increase in number of directors 2013/2014**

- A measure of ACI appointments to gear up for the realities promulgated by the Broad-Based Black Economic Empowerment (B-BBEE) Amendment Bill of 2013, signed into law by President Jacob Zuma;
- Gender appointments pressured by stakeholder and globally accepted demands;
- An anticipated uptick in the economy in businesses to be competitively ready for demand-side\(^{28}\) possibilities emanating from the National Development plan: Vision 2030; and
- Development of a new business scenario with the implementation of the Special Economic Zones (SEZ) Act signed into law in May 2014.

The demands on executive directors in the medium term will be exacerbated by the paradigm shift in the South African business scenario as a positive move by government to boost the economy. The flipside is the lack of experienced business leaders and on-going labour unrest, which is dampening the business developmental possibilities.

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\(^{28}\) Definition of ‘demand side’ in this context relates to the economic theory that advocates use of government spending (or intended economic policy driven by government) and the growth in the money supply to stimulate the demand for goods and services and therefore expand economic activity – as will be the case with Vision 2030.
**Age profile**

Modern conditions by default require up-to-date knowledge and experience. Yet, there is much to be said regarding the latter that matures with age.

Not all directors need to be brilliant financiers or scientists to run a business, yet without the wisdom of the elderly cadre in the boardroom it would be void of intuitive business experience, which takes time to learn. JSE directors range in age from 29 to 93. The current median age profile for active executive directors on the JSE is depicted in Figure 10 below.

![Figure 10](image)

**Executive tenure**

Historically, executive directors enjoyed extended tenure in the boardroom, many reaching retirement age after having served in the company holding management or board positions for many years.

Succession planning was not high on the agenda and with a dearth of management experience, many up-and-coming future directors resigned their positions to easily secure more promising positions in other companies. Looking back a decade during the worldwide boom from 2004 to 2008, many qualified up-and-coming managers emigrated to English-speaking countries – the United States, United Kingdom, Canada, Australia and New Zealand. When the global financial crisis hit in 2008 they quickly discovered just how vulnerable their new positions were, and many have since returned to South Africa. According to recent reports issued by the government, more than 50% of those returning have been hired into managerial positions.

This inflow of talent will be welcomed by local business. In recent years, diversification and complex business parameters have forced the board to seek new incumbents holding qualifications to match decision demands.

Governance issues, ecological awareness and socio-economic pressures caused by globalisation were not in the game plan a decade ago. These conditions called for experience that lifelong employees could not match.

**Source: PwC analysis**

The absolute median age across all sectors for executive directors is 52 (2013: 51) and the average is 54 (2013: 54).
Executives in the highest ranks of management have become increasingly diverse in recent years, and the number of lifelong employees has continued to decline. (ProfPeterCappelli-WhartonBusinessSchool 2011)

In the Wharton study, a ‘relatively steep’ decline in the number of lifelong employees is evident despite increases in executive development and succession planning. Less than one third of the executives in 2011 had started their careers with their current employers, down from 45% in 2001 and more than 50% in 1980.

The trend that began 15 to 20 years ago – in which executives (and other employees) are seen as more interchangeable than they were in the past – will continue, despite some backing away from it since 2008. In other words, expect a return to less internal mobility and more job-hopping.

**JSE director tenure**

To afford an objective view of actual tenure held on the boards of directors across all sectors and positions, Figure 11 depicts the average years served by executive directors on the JSE.

![Figure 11](image_url)  
**Executive directors board tenure**

### Source: Historical Annual Financial Statements 1994 – 2013

When referring to the relationship between executive and non-executive directors today, as their responsibilities are bound inextricably by regulations and law, it would be amiss to not make mention of the average tenure between the two branches over the course of two decades.

Listed companies on the JSE normally follow a programme that ensures a staggered rotation of non-executive directors to the extent that it is not already regulated by the company’s memorandum of incorporation or relevant regulation. Rotation of board members should be structured so as to retain valuable skills, maintain continuity of knowledge and experience, and introduce people with new ideas and expertise. In addition, at least one third of non-executive directors should retire by rotation yearly, usually at the company’s AGM or other general meetings, unless otherwise prescribed through any applicable legislation. The retiring directors may be re-elected, provided that they are eligible. The board, through the nomination committee, should recommend eligibility, taking into account past performance, contribution and the objectivity of business judgement calls.29

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29 King III chapter 2: para. 74; 75
### Table 3

<table>
<thead>
<tr>
<th>Non-executive directors’ board tenure</th>
<th>Overall</th>
<th>Chair NED</th>
<th>Chair NED-I</th>
<th>Deputy Chair</th>
<th>Lead-I-NED</th>
<th>NED</th>
<th>NED-I</th>
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<tbody>
<tr>
<td>Average tenure</td>
<td>3.6</td>
<td>3.4</td>
<td>4.1</td>
<td>2.2</td>
<td>2.2</td>
<td>4.9</td>
<td>4.6</td>
</tr>
<tr>
<td>AltX</td>
<td>3.8</td>
<td>3.6</td>
<td>4.3</td>
<td>2.3</td>
<td>1.4</td>
<td>5.9</td>
<td>5.4</td>
</tr>
<tr>
<td>Basic resources</td>
<td>3.6</td>
<td>3.6</td>
<td>3.7</td>
<td>2.3</td>
<td>2.5</td>
<td>5.5</td>
<td>4.0</td>
</tr>
<tr>
<td>Financial services</td>
<td>3.2</td>
<td>3.0</td>
<td>4.0</td>
<td>1.4</td>
<td>2.3</td>
<td>4.6</td>
<td>4.1</td>
</tr>
<tr>
<td>Industrial</td>
<td>3.4</td>
<td>3.6</td>
<td>4.1</td>
<td>2.0</td>
<td>2.2</td>
<td>3.8</td>
<td>5.3</td>
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<td>4.3</td>
<td>3.2</td>
<td>2.5</td>
<td>4.6</td>
<td>4.3</td>
</tr>
</tbody>
</table>

So, we can see that executive tenure is around 36% longer for executives versus non-executives.

This information would conclude that listed companies are following an expected pattern of good governance over the long term, notwithstanding what today appears to be forced regulation.

**ACI representation**

The amendments to the B-BBEE Act and the Codes fundamentally change the current B-BBEE framework and are a powerful expression of the Government’s intention to promote and implement B-BBEE.

Before the Act was signed, Government policy was based on voluntary action in the manner in which a firm applies B-BBEE. In the Amendment Bill, a framework provides a structured methodology for measuring the B-BBEE rating of a firm.

Unlike the previous framework, this new framework introduces penalties in certain circumstances for deviations from the code. The penalties are steep and on conviction can carry a 10-year jail sentence for fronting. This is an important departure from previous Government B-BBEE policy. (GovernmentGazetteNo.37271 2013)

The B-BBEE Act and Codes do not impose legal obligations on firms to comply with B-BBEE targets. They do, however, impinge on a company’s ability to tender for Government and public entity tenders. In certain sectors like mining, licenses may not be obtainable.

Private sector clients also increasingly require their own suppliers to have a minimum B-BBEE rating in order to boost their own B-BBEE ratings. B-BBEE is therefore an important factor to be taken into account by any company conducting business in South Africa.

South African listed entities will be obligated to provide a report to the B-BBEE Commission on their compliance with B-BBEE.

The amendments to the Codes are deemed to come into effect from April 2015.
The current race classification for executive directors serving on the boards of JSE-listed companies is depicted in Figure 12.\textsuperscript{30}

**Figure 12**

*Executive directors: ACI board representation by industry sector*

![Graph showing executive directors by industry sector]

<table>
<thead>
<tr>
<th>Industry</th>
<th>ED Total</th>
<th>ACI Total</th>
<th>%ACI</th>
</tr>
</thead>
<tbody>
<tr>
<td>AltX</td>
<td>179</td>
<td>45</td>
<td>25%</td>
</tr>
<tr>
<td>Basic Resources</td>
<td>175</td>
<td>55</td>
<td>31%</td>
</tr>
<tr>
<td>Financial</td>
<td>226</td>
<td>66</td>
<td>29%</td>
</tr>
<tr>
<td>Industrial</td>
<td>357</td>
<td>70</td>
<td>20%</td>
</tr>
<tr>
<td>Services</td>
<td>208</td>
<td>64</td>
<td>31%</td>
</tr>
</tbody>
</table>

**Source: PwC analysis**

An interesting development concerning race in South Africa is the influx of Chinese. They will not have B-BBEE preferential classification for doing business with Government entities, nor will their customers be able to claim their classification as anything but ‘white’.

As the supply chain has developed in South Africa, as elsewhere in the world, the strict application of the new B-BBEE procurement rules will be counterproductive to economic growth – much is supplied by China and it will be really difficult to enforce the envisaged rules.

Local Chinese consortia supply sizeable quantities of Chinese goods to the manufacturing industry in particular. Chinese directors in control of companies will fall outside ACI legislation in terms of the definition.

\textsuperscript{30} Definition of black people under B-BBEE code: Natural persons who are African, Coloured or Indian (as well as certain Chinese) who are: (a) citizens of the Republic of South Africa by birth or descent; or (b) citizens of South Africa by naturalisation before 27 April 1994 or on or after 27 April 1994 and would have been entitled to acquire citizenship by naturalisation before that date.
Executive directors’ total guaranteed package—JSE trends
Summary of total guaranteed packages

For easy reference, the following summary draws together three years of TGP data for CEOs, CFOs and executive directors.

The average inflation in South Africa for 2013 was 5.77% (2012: 5.75%).

At the median level, TGP increased by 4.5% (2012 – 4.2%) overall, both years at below inflation levels for CEO and ED positions. CFO positions received increases above inflation. This was also the case in 2012. There was no fixed pattern, which tends to point toward either an adjustment for job performance or employee retention in the upper and lower quartiles.

The overall position clearly points to demand-side increases, probably due to a shortage of skilled employees drawn from the available employee pool.

Table 4

Summaries of the median TGP for all JSE companies (across sectors) at the upper, median and lower quartile as well as for CEO, CFO and ED roles are shown below.

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>% Increase</th>
<th>2013</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All of JSE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upper quartile</td>
<td>4667</td>
<td>11.9%</td>
<td>5112</td>
<td>9.5%</td>
</tr>
<tr>
<td>Median</td>
<td>2973</td>
<td>4.2%</td>
<td>3107</td>
<td>4.5%</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>1833</td>
<td>7.7%</td>
<td>2011</td>
<td>9.7%</td>
</tr>
<tr>
<td><strong>CEO all of JSE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upper quartile</td>
<td>5966</td>
<td>-0.3%</td>
<td>6624</td>
<td>11.0%</td>
</tr>
<tr>
<td>Median</td>
<td>3758</td>
<td>-12.9%</td>
<td>3943</td>
<td>4.9%</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>2835</td>
<td>7.2%</td>
<td>3002</td>
<td>5.9%</td>
</tr>
<tr>
<td><strong>CFO all of JSE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upper quartile</td>
<td>3434</td>
<td>-5.0%</td>
<td>3843</td>
<td>11.9%</td>
</tr>
<tr>
<td>Median</td>
<td>3066</td>
<td>20.0%</td>
<td>3422</td>
<td>11.6%</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>1801</td>
<td>19.0%</td>
<td>1901</td>
<td>5.6%</td>
</tr>
<tr>
<td><strong>ED all of JSE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upper quartile</td>
<td>3178</td>
<td>-0.2%</td>
<td>3416</td>
<td>7.5%</td>
</tr>
<tr>
<td>Median</td>
<td>2333</td>
<td>-14.4%</td>
<td>2429</td>
<td>4.1%</td>
</tr>
<tr>
<td>Lower quartile</td>
<td>1731</td>
<td>2.1%</td>
<td>1911</td>
<td>10.4%</td>
</tr>
</tbody>
</table>
The Foreign Exchange Trap

Executive directors that are paid in foreign currency are included in the TGP analysis. The values expressed in this report are in rand. When the foreign denominated remuneration is converted to South African currency, the depreciation of the South African rand may by default award substantial increases to the incumbents. To illustrate the increase between the two publications’ cut-off dates, Table 5 reflects the movement in the major currencies that affect the conversion to South African rand.

Table 5

<table>
<thead>
<tr>
<th>Currency</th>
<th>30 April 2013</th>
<th>30 April 2014</th>
<th>% Movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Dollar</td>
<td>9,4585</td>
<td>9,8067</td>
<td>3,7%</td>
</tr>
<tr>
<td>Euro</td>
<td>11,8579</td>
<td>14,7270</td>
<td>24,2%</td>
</tr>
<tr>
<td>British Pound</td>
<td>13,9469</td>
<td>17,8651</td>
<td>28,1%</td>
</tr>
<tr>
<td>US Dollar</td>
<td>9,1136</td>
<td>10,6226</td>
<td>16,6%</td>
</tr>
</tbody>
</table>

Basic resources

Sixty-three companies are listed in this sector. Fifty-one of these are mining companies. Out of 112 global mining jurisdictions, South Africa is ranked 64th, notwithstanding that the country possesses the most valuable in situ deposits, estimated at $25 trillion (Fraser_Institute_Survey 2014).

The mining sector faces many challenges.

Next to the industrial sector, basic resources account for 23% of total market capitalisation invested on the JSE. This category includes companies involved in the discovery, development and processing of raw materials. Basic resources are split into three groups – mining, base metal processing, and forestry and paper.

On 13 November 2013, Glencore Xstrata Plc. (GLN), one of the world’s largest global diversified natural resources companies, listed on the JSE Main Board. On the day of listing, GLN reflected a global market capitalisation of R732bn. The company is the third largest on the JSE by market capitalisation. A global network of more than 90 offices located in 50 countries supports Glencore’s industrial and marketing activities. The company has 150 mining and metallurgical sites, offshore oil production assets, farms and agricultural facilities. Glencore employs approximately 190 000 people. The presence of this company on the Main Board of the JSE is a hallmark event.
**Basic resources: Large-cap**

Eleven basic resource companies are included in the top 40 listed companies classed as large-cap. We examine the TGP paid to the executive directors for this sector. A synopsis of the increases awarded is given here.

### Table 6

<table>
<thead>
<tr>
<th>Basic resources: Large-cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage increases</td>
</tr>
<tr>
<td>CEO</td>
</tr>
<tr>
<td>CFO</td>
</tr>
<tr>
<td>ED</td>
</tr>
</tbody>
</table>

### Chief Executive Officer

In the basic resources sector, the CEO’s responsibilities are multifunctional and varied, depending upon which specific sector the company operates in. Mining is quite different to the forestry and paper, or base metal processing sub-sectors included here. The median TGP for the CEOs of large-cap companies in this sector, as shown in Figure 13 alongside, has shown a significant increase, this after a decline last year, and is now at a level higher than in 2011.

The CEO’s role includes the development and implementation of long-term strategies to ensure sustainability. This is particularly important in this sector, since the nature of the business has a lengthy time horizon, and decisions made today will affect the business many years into the future.

**Source: PwC analysis**
**Chief Financial Officer**

In the basic resources sector, the CFO’s controllership duties are particularly difficult in that the viability of investments is underpinned by the financial reserves in the company and preservation of natural capital which is not visible, but cash is required upfront to be viable in the long term.

The median TGP for CFOs of large-cap companies in this sector, as shown in Figure 14 alongside, has continued to show significant increases year-on-year. The shortage of skilled and experienced CFOs appears to continue, and thus incoming CFOs are demanding higher packages.

**Executive Director**

After a period of negative increases, the median TGP for EDs in this sector has remained static, as summarised in Figure 15 alongside.
**Basic resources: Medium-cap**

Nine basic resources companies are classed as medium-cap on the JSE Main Board, ranked 41 – 100. We examined the TGP paid to the executive directors in this sector. A synopsis of the increases awarded is given here.

<table>
<thead>
<tr>
<th>Basic resources: Medium-cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage increases</td>
</tr>
<tr>
<td>CEO</td>
</tr>
<tr>
<td>CFO</td>
</tr>
<tr>
<td>ED</td>
</tr>
</tbody>
</table>

**Chief Executive Officer**

In smaller companies, CEOs will often have a much more hands-on approach to their duties in the company. This does not lighten their load, and very often being hands-on makes for a more complicated job specification. The main function in no way diminishes their responsibilities, notwithstanding the size of company.

Whilst the median TGP for the CEOs of medium-cap basic resources companies appears to be relatively flat on last year, they are still in excess of 30% compared to their 2011 levels, as summarised in Figure 16 alongside.

**Figure 16**

**Basic resources: Medium-cap CEO (R’000)**

Source: PwC analysis
Chief Financial Officer

The median TGP for the CFOs in the medium-cap basic resources sector has followed the same trend, as summarised in Figure 17 alongside.

Executive Director

Research reflects that the job description for an ED in the medium-cap basic resources sector may be more specialised than in the larger companies, since it would appear that these organisations are less vertical.

The median TGP for these positions is summarised in Figure 18 alongside. After a significant decline in 2012, the median TGP has shown what appears to be a significant increase to 2012, but it is still lower than the 2011 level.
Basic Resources: Small-cap

Thirty-eight basic resources companies ranked below 100 on the JSE Main Board are included here. We examine the TGP paid to the executive directors for this sector. A synopsis of the increases awarded is given here.

Table 8

<table>
<thead>
<tr>
<th>Basic resources: Small-cap</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Percentage increases</strong></td>
</tr>
<tr>
<td>CEO</td>
</tr>
<tr>
<td>CFO</td>
</tr>
<tr>
<td>ED</td>
</tr>
</tbody>
</table>

Chief Executive Officer

Small-cap CEOs have seen a negligible increase, as summarised in Figure 19 alongside.

![Figure 19: Basic resources: Small-cap CEO (R'000)](image)

Source: PwC analysis
Chief Financial Officer

Similarly, the median TGP for the CFOs of basic resources small-caps has shown no increase and is modestly above the 2011 level, as summarised in Figure 20 alongside.

Executive Director

The executive directors managing mines, base metal processing, and forestry and paper within the small-cap sector are usually drawn from the ranks of senior management and have in-depth hands-on experience. An intimate knowledge of basic resources is essential in the complex business surrounding the extraction and beneficiation that is so vital in building an economy historically based on mineral wealth. Invariably, these executives have an engineering background or similar qualification. They are also in very short supply, since there is a tendency in South Africa for tertiary education products to follow the academic route.

The median TGP for executive directors of the smaller basic resources companies listed on the JSE reflects a negligible increase, after a significant decline in 2011. The median TGP for these directors, who are the core of future development, is summarised in Figure 21 alongside.

Source: PwC analysis
Financial Services

This sector is multifaceted and includes companies involved in banking, investment funds insurance and real estate. There is diversification between these companies, but all share one commonality – the handling of money. Not their own money, but other people’s money. This is a responsible and very unforgiving business.

Each individual situation may be different, yet a common thread is observable – responsibility for using money to make money for other people. Matters are no different from the quarterly improvement expected from listed companies. It is just much more intense. A fraction of a second can, for example, put a trader ahead of the competition. Decisions are made on average in less than two seconds. This is real pressure – when it’s other people’s money on the line.

What makes the financial sector different from a lot of jobs, though, is that different kinds of people have different ways of dealing with the stress they all have in common — a high-pressure job that has been under even more scrutiny since the financial crisis.

Financial services: Large-cap

Thirteen financial services companies are included in the top 40 listed companies classed as large-cap. We examine the TGP paid to the executive directors in this sector. A synopsis of the increases awarded is given here.

<table>
<thead>
<tr>
<th>Percentage increases</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>4.4%</td>
<td>6.0%</td>
</tr>
<tr>
<td>CFO</td>
<td>-5.0%</td>
<td>9.8%</td>
</tr>
<tr>
<td>ED</td>
<td>5.4%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>
Chief Executive Officer

On the world stage, CEOs in the financial services sector have been under severe criticism for taking excessive bonuses and being overpaid when quarterly profits are down. This has been the case in the United Kingdom and elsewhere, in the face of a revolt by shareholders exercising their right to say-on-pay. It is interesting to note that in certain circumstances other financial services companies who are major shareholders in the banks are the first to voice their opposition.

In South Africa, banks and other financial institutions play a vital role in the country, and in Africa they have no less responsibility. If values stated in the following analysis are converted into foreign currency, there is no comparison to remuneration levels in the United Kingdom and the United States.

The median TGP for the CEOs of large-cap companies in this sector as shown in Figure 22 below has shown a modest inflationary increase, as in the prior year.

Figure 22
Financial services: Large-cap CEO (R’000)

Source: PwC analysis
Chief Financial Officer
In the financial services sector, the CFO – especially of the large-cap companies – has onerous controllership duties, with the accuracy and timeliness of financial information being vital not only to the shareholders, but also to the wider stakeholders such as clients of the bank. CFOs have a double responsibility, since they are not only in charge of shareholder investment, but are also responsible for a wide range of controls to ensure the safety of clients’ money.

The median TGP for the CFOs of large-cap companies in this sector, as shown in Figure 23 alongside, has shown an above-inflationary increase after the decline in 2012, bringing it above the 2011 level.

Executive Director
Executive directors in banks, insurance companies, real estate and other financial services shoulder a heavy responsibility. As was the trend for the CEOs, the median TGP for the EDs of large-cap companies in this sector, as shown in Figure 24 alongside, has shown modest inflationary increases year-on-year.
Financial services: Medium-cap

Eighteen financial services companies are included in the JSE ranking among 41 and 100 listed companies classed as medium-cap. After an across-the-board decline in 2012, we have seen above-inflationary increases across the board this year. We examine the TGP paid to the executive directors in this sector. A synopsis of the increases awarded is given here.

<table>
<thead>
<tr>
<th>Table 10</th>
</tr>
</thead>
</table>

| Financial services: Medium-cap |
| --- | --- | --- |
| Percentage increases | 2012 | 2013 |
| CEO | -35,1% | 8,7% |
| CFO | -7,3% | 8,8% |
| ED | -7,5% | 12,9% |

Chief Executive Officer

Medium-cap CEOs do not have any less responsibility, except that the numbers in the companies may be smaller and the territorial reach may be less. For these reasons they are all paid less. The median TGP for the CEOs of medium-cap companies in this sector is as shown in Figure 25 alongside.

**Figure 25**

Financial services: Medium-cap CEO (R’000)

Source: PwC analysis
Chief Financial Officer

The trend is similar to that for CEOs, as is evident from the median TGP of the CFOs of medium-cap companies in this sector shown in Figure 26 alongside.

Executive Director

The median TGP for the EDs of medium-cap companies in this sector shows the greatest increase for this industry and is as shown in Figure 27 alongside.
Financial services: Small-cap

Fifty-four financial services companies are ranked as small-cap. We examine the TGP paid to the executive directors for this group in Table 11.

<table>
<thead>
<tr>
<th>Percentage increases</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>22.6%</td>
<td>11.3%</td>
</tr>
<tr>
<td>CFO</td>
<td>5.2%</td>
<td>10.8%</td>
</tr>
<tr>
<td>ED</td>
<td>-0.5%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

Chief Executive Officer

The median TGP for the CEOs of small-cap companies in this sector has been showing significant increases over the past years, as shown in Figure 28 alongside.

Figure 28
Financial services: Small-cap CEO (R’000)

Source: PwC analysis
**Chief Financial Officer**

The median TGP for the CFOs of small-cap companies in this sector has shown inflationary increases over the past years, as shown in Figure 29 alongside.

![Figure 29](image)

**Executive Director**

The median TGP for the EDs of small-cap companies in this sector has shown a below inflation increase this year, as shown in Figure 30 alongside, after a small decline in 2012.

![Figure 30](image)

*Source: PwC analysis*
Industrial

South Africa’s National Development Plan – Vision 2030 lays great emphasis on the development of industrial companies, especially in the engineering sector, where unskilled labourers can be trained and become effective workers in building a stronger country and increasing our productive output. Not many engineering companies are listed on the JSE, but this could be an important developmental phase in the future growth of the country.

With the topic of renewable energy receiving much attention, opportunities are already well underway for original equipment manufacturers to expand their manufacturing reach by utilising local engineering companies to manufacture component parts and accessories for wind turbines and solar installations under licence.

The country has the expertise when one considers that it is well entrenched in the manufacture of motor vehicles and component parts: to shift the focus to these new fields of manufacture is not beyond the capabilities of existing businesses. There is therefore good cause to pursue these avenues to support Vision 2030.

Industrial: Large-cap

Eight industrial sector companies are included in the top 40 listed companies classed as large-cap. We examine the TGP paid to the executive directors in this sector, in the large-cap group.

<table>
<thead>
<tr>
<th>Percentage increases</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>-40,0%</td>
<td>35,4%</td>
</tr>
<tr>
<td>CFO</td>
<td>10,4%</td>
<td>7,5%</td>
</tr>
<tr>
<td>ED</td>
<td>12,2%</td>
<td>-18,3%</td>
</tr>
</tbody>
</table>

Chief Executive Officer

The median TGP for the CEOs of large-cap companies in this sector has shown a significant increase this year, as shown in Figure 31 below, after a significant decline in 2012.

Source: PwC analysis
**Chief Financial Officer**

In the industrial sector it has been difficult since the financial meltdown for companies to obtain the necessary financial backing to expand their businesses. The CFO is the director charged with this responsibility, and a relative measure of success has been achieved in the area of cash flow and the management thereof. Fiduciary responsibility revolves around this position in lockstep with that of the CEO.

The median TGP for the CFOs of large-cap companies in this sector has continued to show above-inflationary increases year-on-year, as shown in Figure 32 alongside.

**Executive Director**

The median TGP for the EDs of large-cap companies in this sector has shown a significant decrease this year, as shown in Figure 33 alongside.
Industrial: Medium-cap

Twenty industrial sector companies are ranked between 41 and 100 of listed companies classed as medium-cap. We examine the TGP paid to the executive directors in this sector, in the medium-cap group. All have shown above-inflationary increases for the year.

<table>
<thead>
<tr>
<th>Percentage increases</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>5,7%</td>
<td>22,4%</td>
</tr>
<tr>
<td>CFO</td>
<td>4,9%</td>
<td>10,0%</td>
</tr>
<tr>
<td>ED</td>
<td>11,4%</td>
<td>12,9%</td>
</tr>
</tbody>
</table>

Chief Executive Officer

The median TGP for the CEOs of medium-cap companies in this sector has shown a significant increase this year, as shown in Figure 34 alongside.

Source: PwC analysis
**Chief Financial Officer**

The median TGP for the CFOs of medium-cap companies in this sector has similarly shown an above-inflationary increase this year, as shown in Figure 35 alongside.

**Executive Director**

Research indicates that there is a shortage of skilled managers to hold the post of executive director in the industrial sector, especially in the engineering field. This is mainly attributable to the career paths chosen by young people and the dearth of suitably qualified engineers who fit the requirements as experienced hands-on engineers or similar educational requirements. It is very difficult for companies to grow effectively in the industrial sector without qualified employees. Candidates for executives to direct effectively are hard to find.

The TGP median for the EDs of medium-cap companies in this sector has shown an above-inflationary increase this year, as shown in Figure 36 alongside.

*Source: PwC analysis*
**Industrial: Small-cap**

The small industrial companies play an important role in the economy of the country. These are the companies that stand the best chance of growing and attracting investors, since their share price is attractive and growth possibilities are favourable. Eighty industrial sector companies are included and ranked in the listed companies classed as small-cap. We examine the TGP paid to the executive directors in this sector, in the small-cap group.

<table>
<thead>
<tr>
<th>Table 14</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industrial: Small-cap</strong></td>
</tr>
<tr>
<td><strong>Percentage increases</strong></td>
</tr>
<tr>
<td>CEO</td>
</tr>
<tr>
<td>CFO</td>
</tr>
<tr>
<td>ED</td>
</tr>
</tbody>
</table>

**Chief Executive Officer**

The TGP median for the CEOs of small-cap companies in this sector has shown a below-inflationary increase this year, as shown in Figure 37 alongside.

**Source: PwC analysis**
**Chief Financial Officer**

The median TGP for the CFOs of small-cap companies in this sector has shown small decreases this year, as shown in Figure 38 alongside.

![Figure 38](https://example.com/figure38.png)

**Executive Director**

The TGP median for the EDs of small-cap companies in this sector has shown a below-inflationary increase this year, as shown in Figure 39 alongside.

![Figure 39](https://example.com/figure39.png)

*Source: PwC analysis*
Services

The services sector companies listed on the JSE represented 17% of market capitalisation as at 30 April 2014. The sub-sectors within this sector are analysed in Figure 40.

Figure 40
Services sector by sub-sector % of market cap (PwC) analysis

Source: PwC analysis

Services: Large-cap

Eight services sector companies are included in the top 40 listed companies classed as large-cap. We examine the TGP paid to the executive directors in this sector, commencing with the large-cap group.

Table 15

<table>
<thead>
<tr>
<th>Services: Large-cap</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage increases</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEO</td>
<td>-12,3%</td>
<td>24,8%</td>
</tr>
<tr>
<td>CFO</td>
<td>4,9%</td>
<td>1,7%</td>
</tr>
<tr>
<td>ED</td>
<td>-0,6%</td>
<td>4,6%</td>
</tr>
</tbody>
</table>

Chief Executive Officer

The median TGP for the CEOs of large-cap companies in this sector has shown a significant increase this year, as shown in Figure 41 below, following a decline in the prior year (although it was still well above the 2011 level). There were some outliers, but the median excludes the high TGP paid to these CEOs.

Figure 41
Services: Large-cap CEO (R’000)

Source: PwC analysis
**Chief Financial Officer**

The median TGP for the CFOs of large-cap companies in this sector has shown a modest below-inflationary increase this year, as shown in Figure 42 alongside.

**Executive Director**

The median TGP for the EDs of large-cap companies in this sector has shown a modest increase this year, as shown in Figure 43 alongside.

*Source: PwC analysis*
**Services: Medium-cap**

Thirteen services sector companies are ranked between 41 and 100 of the listed companies classed as medium-cap. We examine the TGP paid to the executive directors in this sector, in the medium-cap group. All have shown above-inflationary increases.

<table>
<thead>
<tr>
<th>Table 16</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Services: Medium-cap</strong></td>
</tr>
<tr>
<td><strong>Percentage increases</strong></td>
</tr>
<tr>
<td>CEO</td>
</tr>
<tr>
<td>CFO</td>
</tr>
<tr>
<td>ED</td>
</tr>
</tbody>
</table>

**Chief Executive Officer**

The median TGP for the CEOs of medium-cap companies in this sector has shown an above-inflationary increase this year, as shown in Figure 44 alongside, after a minor decrease in the prior year.

![Figure 44](image)

**Source:** PwC analysis
Chief Financial Officer

The median TGP for the CFOs of medium-cap companies in this sector has shown a significant increase this year, as shown in Figure 45 alongside, following the same pattern as in 2012.

Executive Director

The median TGP for the EDs of medium-cap companies in this sector has shown an above-inflationary increase this year, as shown in Figure 46 alongside.

Source: PwC analysis
**Services: Small-cap**

Thirty-one services sector companies are ranked as small-cap. We examine the TGP paid to the executive directors in this sector, in the small-cap group. All have shown significant increases over the past year.

### Table 16

<table>
<thead>
<tr>
<th>Percentage increases</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>-4,1%</td>
<td>20,8%</td>
</tr>
<tr>
<td>CFO</td>
<td>-3,0%</td>
<td>29,0%</td>
</tr>
<tr>
<td>ED</td>
<td>2,1%</td>
<td>15,5%</td>
</tr>
</tbody>
</table>

**Chief Executive Officer**

The median TGP for the CEOs of small-cap companies in this sector has shown a significant increase this year, as shown in Figure 47 alongside.

**Figure 47**

**Services: Small-cap CEO (R'000)**

![Graph showing TGP median for CEOs in Services: Small-cap](chart)

**Source:** PwC analysis
Chief Financial Officer

Similarly, the median TGP for the CFOs of small-cap companies in this sector has shown a significant increase this year, as shown in Figure 48 alongside.

Executive Director

The median TGP for the EDs of small-cap companies in this sector has shown a significant increase this year, as shown in Figure 49 alongside.
AltX Companies

Development does not start with goods; it starts with people and their education, organisation, and discipline. Without these, the potential of all resources remains latent and untapped. There are successful companies with the scantiest financial or natural wealth, yet enormous entrepreneurial spirit. These are the AltX companies. This is why this sector was created by the JSE.

Fifty-one AltX sector companies are included on the AltX Board of the JSE. We examine the TGP paid to the executive directors.

<table>
<thead>
<tr>
<th>AltX</th>
<th>Percentage increases</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>12,2%</td>
<td>-0,3%</td>
<td></td>
</tr>
<tr>
<td>CFO</td>
<td>9,3%</td>
<td>13,0%</td>
<td></td>
</tr>
<tr>
<td>ED</td>
<td>26,4%</td>
<td>-13,1%</td>
<td></td>
</tr>
</tbody>
</table>

Chief Executive Officer

Very often, the CEO of an AltX listed company was the owner or operator of the company before it sought working capital through the issue of shares via this sector of the JSE.

Many CEOs in this arena will also be holding a substantial shareholding, and thus their TGP is often less of a motivator in driving these companies.

The median TGP for the CEOs of AltX companies has shown a modest decrease this year, as shown in Figure 50 alongside.

Source: PwC analysis
Chief Financial Officer

The median TGP for the CFOs of AltX companies has shown a significant increase this year, as shown in Figure 51 alongside.

Executive Director

The median TGP for the EDs of AltX companies has shown a significant decrease this year, as shown in Figure 52 alongside.

Source: PwC analysis
Executive Directors’ Total Short-Term Incentives – JSE Trends
Short-term financial incentives are usually cash-based and formula-driven. In most cases, the formula consists of financial metrics (measuring financial capital), based on audited financial statements (termed ‘key performance indicators’ – or simply ‘KPIs’).

As discussed earlier, natural capital is fast becoming a key method for measuring the viability and sustainability of a company. The key performance indicators relating to natural capital are commonly referred to using the abbreviation ‘eKPI’.

Traditional KPIs are finance-centric, while eKPIs are eco-centric. Collectively, they can be said to measure the sustainable capital of the company. There is room for both KPIs and eKPIs, but the pendulum is swinging firmly toward eKPIs, where natural capital has a much greater role to play than is reflected in the balance sheet.

Different companies have different needs and measure their executive directors differently to compensate them for superior performance.

Business leaders and commentators hold diverse opinions regarding natural capital.

Suffice to say that ninety-seven per cent of climate scientists agree that climate-warming trends over the past century are very likely due to human activities, and most of the leading scientific organisations worldwide have issued statements endorsing this position. It follows that the pendulum can be expected to swing toward the realisation that natural capital is more important than financial capital. eKPIs will become a familiar reality in companies who value sustainability first, and wealth second. Without the former, the latter is not possible.

It should be clearly noted that stakeholders beyond the boardroom who view eKPIs as a necessity hugely outnumber those shareholders who are still only considering KPIs.

Matters that concern natural capital and that mitigate the effects of climate change will affect in a measurable way the bonuses paid to executive directors in the future. The background reasoning for say-on-pay will no longer be ‘have you made a profit?’ – it will more than likely be ‘what have you done to save the planet?’

We will monitor the development of eKPIs and related trends to the extent that they begin to affect the determination of incentives for executive directors.

---

31 National Aeronautics and Space Administration: Global Climate Change – Vital Signs of the Planet – Consensus 2014.
For now, the majority of incentives are finance-centric. The short-term cash incentives paid over the past three years to executives of listed companies trading on the JSE are analysed below.

**All industries: Large-cap**

Table 19

<table>
<thead>
<tr>
<th>Percentage increases</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>76%</td>
<td>-37%</td>
<td>131%</td>
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<td>CFO</td>
<td>21%</td>
<td>-17%</td>
<td>30%</td>
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<tr>
<td>ED</td>
<td>6%</td>
<td>-17%</td>
<td>75%</td>
</tr>
</tbody>
</table>

Figure 53

All industries: Large-cap: STI (R’000)

Source: PwC analysis
All industries: Medium-cap

Table 20

All industries: Medium-cap STI

<table>
<thead>
<tr>
<th>Percentage increases</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>25%</td>
<td>-28%</td>
<td>66%</td>
</tr>
<tr>
<td>CFO</td>
<td>-20%</td>
<td>-1%</td>
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<tr>
<td>ED</td>
<td>15%</td>
<td>17%</td>
<td>14%</td>
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</table>

Figure 54
All industries: Medium-cap: STI (R’000)

Source: PwC analysis
## All industries: Small-cap

### Table 21

<table>
<thead>
<tr>
<th>Percentage increases</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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</thead>
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<tr>
<td>CEO</td>
<td>1%</td>
<td>50%</td>
<td>-15%</td>
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<tr>
<td>CFO</td>
<td>18%</td>
<td>27%</td>
<td>-8%</td>
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<tr>
<td>ED</td>
<td>34%</td>
<td>27%</td>
<td>49%</td>
</tr>
</tbody>
</table>

### Figure 55

All industries: Small-cap: STI (R’000)

Source: PwC analysis
## South African marketplace

<table>
<thead>
<tr>
<th>Industry</th>
<th>Sectors</th>
<th>Total Industry</th>
<th>Total</th>
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<td><strong>AltX</strong></td>
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<tr>
<td></td>
<td>AltX Basic Resources</td>
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<tr>
<td></td>
<td>AltX Construction &amp; Materials</td>
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<td>AltX Financial Services</td>
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<td>AltX Services</td>
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<td><strong>Basic Resources</strong></td>
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<td></td>
<td>Base Metal Processing</td>
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<td>Mining</td>
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<td>Total</td>
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<td>Construction &amp; Materials</td>
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<td>Telecommunications</td>
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<td>Travel &amp; Leisure</td>
<td>11</td>
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<tr>
<td><strong>Venture Capital</strong></td>
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<tr>
<td></td>
<td>Venture Capital</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td></td>
<td></td>
<td><strong>354</strong></td>
</tr>
</tbody>
</table>
At PwC we apply our industry knowledge and professional expertise to identify, report, protect, realise and create value for our clients and their stakeholders. The strength of this value proposition is based on the breadth and depth of the firm’s client relationships. Networks are built around clients to provide them with our collective knowledge and resources. Our international network, experience, industry knowledge and business understanding are used to build trust and create value for clients. We are committed to making PwC distinctive through consistent behaviours that enable the success of our clients and people. We call this the PwC Experience and it shapes the way in which we interact with clients, with one another and with the communities in which we operate. This, along with our core values of Teamwork, Leadership and Excellence – and our strong Code of Conduct – guides us in all that we do.
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- David Yzelle – Independent project researcher

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