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South Africa

Practices and remuneration trends report

Executive directors

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

Content

Acronyms used in this report

APRA	Australian Prudential Regulation Authority
BEAR	Banking Executive Accountability Regime (Australia)
CEO	Chief executive officer
CFO	Chief financial officer
CARES Act	Coronavirus Aid, Relief and Economic Security Act (United States)
CRD IV	Capital Requirements Directive IV (United Kingdom)
ED	Executive director
EHRC	Equality and Human Rights Commission (United Kingdom)
EIOPA	European Insurance and Occupational Pensions Authority (European Union)
ESG	Environmental, social and governance
EU	European Union
EVP	Employee value proposition
FAR	Financial Accountability Regime (Australia)
GEO	Government Equalities Office (United Kingdom)
ISS	Institutional Shareholder Services (proxy advisory firm)
JSE	Johannesburg Stock Exchange
LTI	Long-term incentive
NAV	Net asset value
NEDLAC	National Economic Development and Labour Council
NMW	National Minimum Wage
PA	South African Reserve Bank Prudential Authority
PRA	Prudential Regulation Authority (United Kingdom)
RemCo	Remuneration committee
REF	Restricted equity fund
SA	South Africa
SDGs	Sustainable Development Goals
STI	Short-term incentive
TERS	Temporary Employer/Employee Relief Scheme (South Africa)
TSR	Total shareholder return
TGP	Total guaranteed pay
WACC	Weighted average cost of capital
UK	United Kingdom
US	United States

Editor’s note

> **The pandemic represents a rare but narrow window of opportunity to reflect, reimagine, and reset our world”[1]**
>
> *– Professor Klaus Schwab, Founder and Executive Chairman, World Economic Forum.*

1 “Now is the time for a ‘great reset.’” World Economic Forum. 3 June 2020. https://www.weforum.org/agenda/2020/06/now-is-the-time-for-a-great-reset/

The benefit of COVID-19 (if there can be said to be one), is that it presents a unique opportunity to be a catalyst for change, allowing companies who successfully harness it to reposition themselves to effectively leverage the downturn by tapping into opportunities to understand their business better, reprioritise their products and services, and identify which differentiating capabilities will give them the competitive advantage in the ‘new normal’.

Topics such as environmental concerns and pay inequality have been pushed to the forefront by the pandemic, and talks of ‘the great reset’ have entered the public discourse. But in terms of executive pay, what, if any, relevance does this have?

We have seen in South Africa that as companies interrogate whether their existing growth strategies remain relevant in this new context, a renewed understanding of their social responsibility emerges.

There are some harsh realities to face in a society in the grips of a recession. The extent of unemployment and hunger has exploded, with the private sector having to step up to play a greater role in the community. New leadership skills will be required to navigate companies through this pandemic and recession. Organisations are needing to become more agile, more flexible, and must ensure that they are planning for the future, and understanding potential risks that may come in many forms.

Climate change, the risks associated with income disparity and unfair pay within organisations are some of the risks that threaten the sustainability of the value executives have laboured to create.

As investors wake up and ask companies what they are doing to mitigate against such risks, we are seeing a scramble to incorporate appropriate underpinnings into remuneration structures, and rising alarm that environmental, social and governance (ESG) strategies are underdeveloped, and the materiality of different ESG risks to the business has not been fully assessed. We believe that if targets are meaningful, and linked to a planned strategic shift, then they can be an effective risk mitigation tool that investors will support within pay plans. Overseas, this shift has already begun.

This year has seen the proposal of Companies Act amendments, which it seems will bring the long-anticipated mandatory disclosure of the pay gap within South African companies. With this comes the difficult, but important question of "How much is enough?" when it comes to CEO pay. We explore this topic in this edition, contrasting local pay levels to those overseas for interesting context. These developments, and comparisons, seem to point more strongly than ever towards the argument for the living wage, and indeed, the struggles that we have witnessed during the lockdown make it difficult to believe that anything lower than a living wage is fair, or sustainable. Of course, the unavoidable task then becomes the creation of more employment opportunities. We believe that by effectively harnessing the opportunities created by COVID-19, companies have an opportunity to effectively reposition themselves to grow in the future, in a way that creates meaningful employment.

No strategy can be implemented without the support of employees, and any strategic change must take into account how best to support employees to ensure they are engaged, and understand the strategy and what it means for them. This includes the executives, for whom pay is an important tool that boards can utilise to reward performance that is aligned to strategic goals. More than this, executives have an opportunity to think creatively about pay, and to look after their employees in ways that will ultimately make our country a better place to be for all.

As companies shift down a gear to strategise and reposition, they have the chance to consider what is important, and what is realistic. Some argue that the relentless pursuit of growth can lead to bad decision-making, and we have seen our fair share of corporate failures in the last few years. Perhaps now is the time to consider de-risking executive pay plans in favour of simpler plans that provide alignment with shareholders by rewarding not only the achievement of stretch growth at any costs, but the slower, steadier growth that materialises in years to come.

Leila Ebrahimi
Editor

Information used in this report

This publication focuses primarily on the JSE and includes analyses of the FTSE 100 and FTSE 250 as well as seven African stock exchanges. Data set out here is drawn from information publicly available on 29 February 2020 (the cut-off date) and is valid for the period from 1 May 2019 to 29 February 2020 (the 2020 reporting period).

Information has been extracted from PwC's internal database and the 301 (2019: 365) active companies listed on the JSE's Main Board and AltX. The total market capitalisation of these companies on the cut-off date was R13.3 trillion (2019: R14.1 trillion).

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

Directors' fees

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

This year, we have slightly changed our methodology to reflect medians on a non-adjusted basis, as we believe this provides a more accurate analysis. For this reason, we have not shown comparator figures in this year's report.

Quartile/percentile ranges used in our analyses:

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

Company size

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

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

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

AltX

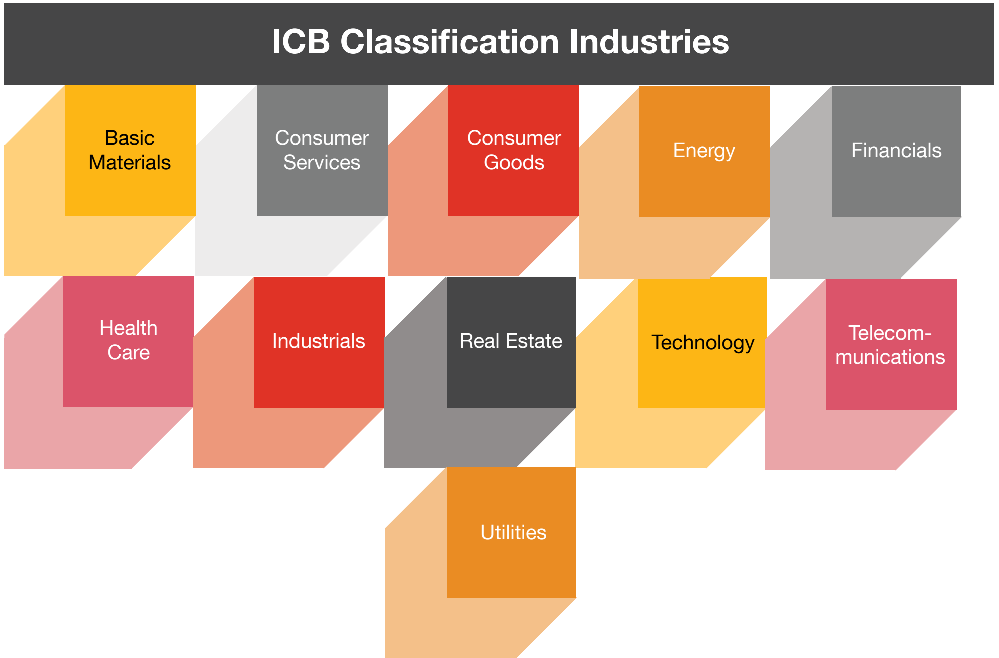
AltX is an alternative public equity exchange for small and medium-sized companies and is operated by the JSE in parallel with the Main Board. Our AltX analysis as a stand-alone group refers to 29 (2019: 34) active trading companies with a total market capitalisation of R14.876 billion (2019: R21.150 billion).

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

Industry classification

In this report we apply the Industry Classification Benchmark (ICB), as applied by the JSE.[1] Fees paid to chairpersons and non-executive directors appointed to JSE-listed company boards have accordingly been analysed according to ICB industry classification.

ICB industries



1 The Global Industry Classification Standard (GICS) and the Industrial Classification Benchmark are two competing schemes for classifying stocks into sectors and industries worldwide. Differences between the two are minor and they each have an industry and sector framework for investment research, portfolio management and asset allocation.

1 Turnaround incentives

In the context of COVID-19 and the global recession, there have been significant impacts and disruptions on already struggling economies both in the local and global market, which will likely result in turnaround incentives receiving more attention in future years.

Based on our observations in the market and insights gained from PwC's COVID-19 CFO Pulse Survey series[1,2], there is unlikely to be a quick return to 'normal' business and economic demand is expected to be suppressed globally for the foreseeable future.

In considering this, a turnaround agenda will play a prominent role in the time to come — whether as a contingency plan, or as a reality. Some companies may also elect to delist from the JSE. We have also seen that extraneous shock factors in the market often initiate unprecedented changes in strategy, which would not otherwise happen. However, in order to drive a successful turnaround strategy, a considerable effort is required, and a turnaround incentive which is tied to the strategy presents a valuable opportunity to offer executives incentives tied specifically to the necessary behaviours that should be driven by them through the company.

To achieve success in implementing a turnaround strategy, executives, remuneration committees (RemCos) and other relevant stakeholders should be familiar with the turnaround process, understand the leadership team's objectives during the process, and have a grasp of the challenges the organisation faces in reaching these objectives.

1 PwC COVID-19 CFO Pulse https://www.pwc.com/gx/en/issues/crisis-solutions/covid-19/global-cfo-pulse.html (accessed on 30 June 2020)

2 PwC tracked the sentiment and priorities about the COVID-19 outbreak among CFOs in countries around the world, including in Africa. The negative impact of the novel coronavirus on revenue and/or profits is largely a given, with all African participants expecting a reduction this year, and more than half expecting a decrease of up to 25%. Although 24% of CFOs believe their company could return to 'business as usual' within three months if COVID-19 were to end today, there is a growing sentiment in many territories that recovery may take much longer. Overall, 9% of CFOs would expect it to take more than a year.

The prominence of turnaround incentives in the market

While the introduction of turnaround incentives in instances of extraneous factors may be valid, they are difficult to justify when the reason for their introduction can be linked to bad decision-making by the current or previous executive team. In introducing a turnaround incentive, it is key that it is not perceived by the market and shareholders as giving executives and the company 'permission to fail' and that they are being extended a bailout by shareholders through the introduction of the turnaround incentive. In determining whether a turnaround incentive should be introduced, there should be clear adherence to the principle of not rewarding failure.

At the same time, there are concerns about the influence of extraneous factors that may necessitate a significant change in strategy in order to recoup lost value. In this context, a question that arises is how much executives should be held accountable for extraneous factors that have taken place. We have observed that several companies have been forced to contend with business interruptions and unprecedented loss of value. They are now navigating this uncertainty and restrategising to determine methods that will allow them to recoup the lost value so as to keep the company afloat and avoid mass retrenchments.

We are of the view that a distinction must be made between companies that introduce turnaround incentives as a result of the company suffering losses due to unethical conduct (i.e. fraud or misrepresentation by the executive/s which results in a misstatement of the financial statements) and those that introduce a turnaround incentive as a result of genuine extraneous factors that have suppressed the company's share price, and it is therefore necessary to implement a turnaround strategy to regain stability in the company and drive specific objectives.

It is important that the possibility of a turnaround incentive not be written-off before it is thoroughly considered, as a turnaround environment will arguably have the potential to severely impact a much larger group of stakeholders than shareholders alone. These include debt providers and employees, as the ability for a company to pay back its net debt and the potential for retrenchments become real concerns.

Role of different stakeholders

Turnaround incentives require collaboration and input from the company's shareholders, who have the most 'say on pay'. However, this will need to be considered in relation to other stakeholder groups who will need to support companies in changing course (whether permanently, or temporarily).

This may include considerations of not being profitable in the short-term in order to create value (including profit for shareholders) in an ethical and sustainable way, as turnaround incentives are often associated with a short-term decrease in profitability.

When introducing and determining the key features of a turnaround incentive, the contrasting stakeholder interests need to be managed and balanced to come to a result that seeks to achieve the objectives of the turnaround incentive and which equally derives value for all stakeholders. We have set out on the next page several of the key stakeholders who could be involved during the introduction of a turnaround incentive.

Stakeholders to turnaround incentives

RemCo

As the delegated and sometimes overarching committee responsible for remuneration within a company, the RemCo will be tasked with the responsibility of:

- Determining suitable targets that remain stretching and which will justify the sometimes higher quantums associated with turnaround incentives; and
- The identification of performance conditions that are linked to the turnaround strategy. This will require cross-collaboration with other board committees, including the audit committee, to gain further insight into appropriate performance conditions.

Executives

Executives often spearhead the introduction of a turnaround incentive, be it due to their current incentives not paying out or due to their proximity and intimate knowledge of the company. Given this unique position, while their input may be valuable, it should be carefully considered to ensure there are no conflicts of interest and that their recommendations are scrutinised by the relevant committee. Further to this, since they will be the main proponents of the turnaround incentive, it must be sufficiently attractive and motivating.

Lenders

The presence of lenders is not uncommon in the discussion and implementation of turnaround incentives as the company is often in dire straits and requires financial assistance and support to dig itself out of a proverbial financial hole. Lenders may seek to exercise their rights relating to more regular financial reports to monitor financial performance and to ensure transparency during the turnaround period.

Board

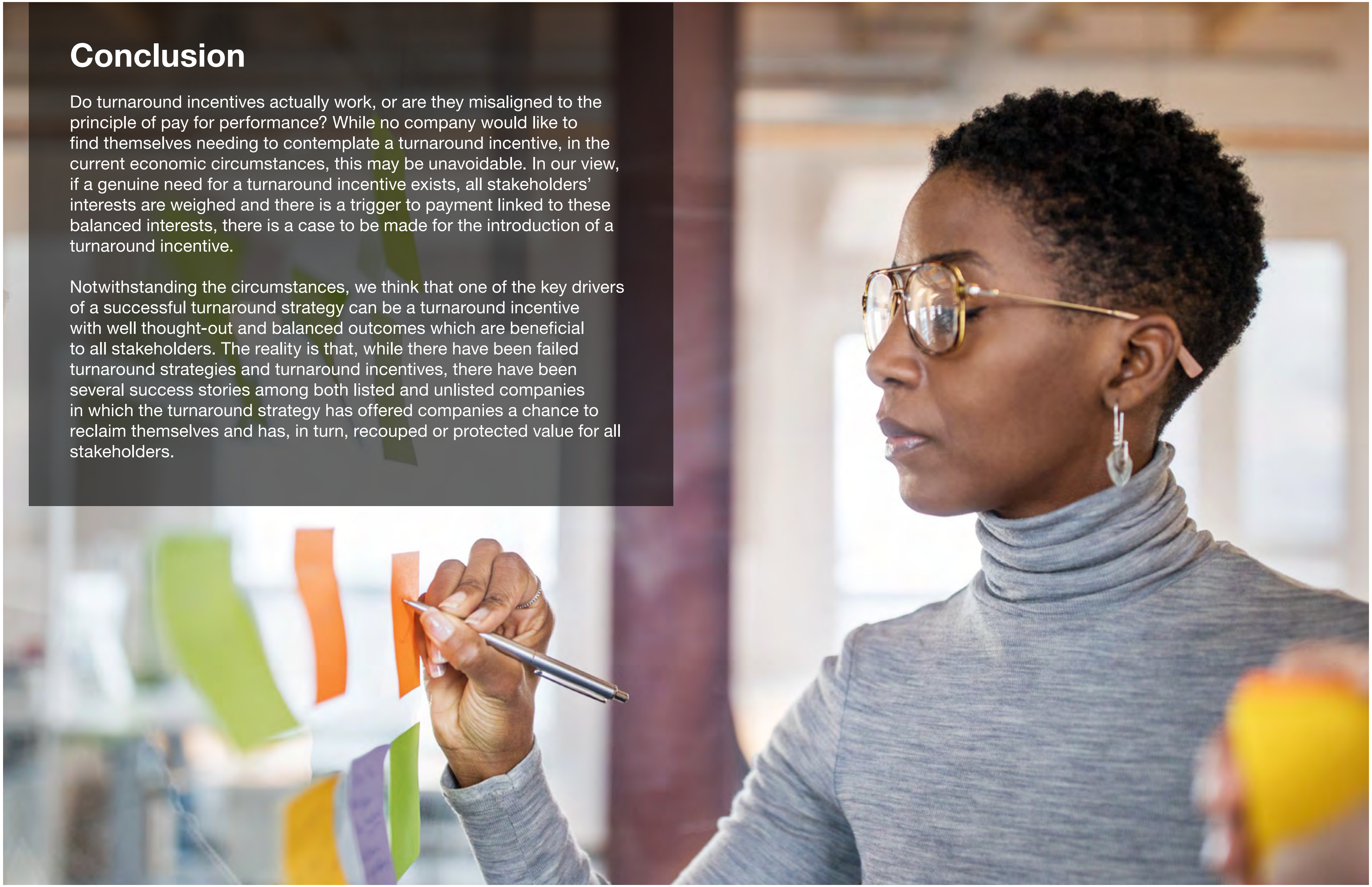
The board often represents the middle man in discussions between shareholders and lenders, especially when things have become particularly shaky and the turnaround incentive is linked to the recovery of a company or in instances where there is a substantial net debt which is repayable to the lenders. This role may also be fulfilled by the RemCo.

Shareholders

Shareholders' interests are tied to receiving better returns and they, therefore, often push for stretching targets that only deliver reward for participants when there is significant creation of shareholder value. Depending on the circumstances leading up to the introduction of a turnaround incentive (i.e. whether the extraneous factors can be linked to the actions of the executive), they may also be reluctant to approve turnaround incentives or may want significant involvement in the determination of the turnaround incentive structure. Shareholders will also want to ensure that the actions undertaken during the turnaround incentive (such as the disposal of assets) deliver shareholder value.

Wider employee force

Turnaround incentives are often accompanied by large-scale retrenchments, which often creates a disconnect between the need to drive business performance while also containing costs. Employees' interests are often not taken into account and they sometimes become casualties as they are not viewed as critical to the success of the turnaround strategy, given that the achievement of the turnaround incentive is linked to performance conditions that they do not have line of sight over or have minimal or even no control over.



Conclusion

Do turnaround incentives actually work, or are they misaligned to the principle of pay for performance? While no company would like to find themselves needing to contemplate a turnaround incentive, in the current economic circumstances, this may be unavoidable. In our view, if a genuine need for a turnaround incentive exists, all stakeholders' interests are weighed and there is a trigger to payment linked to these balanced interests, there is a case to be made for the introduction of a turnaround incentive.

Notwithstanding the circumstances, we think that one of the key drivers of a successful turnaround strategy can be a turnaround incentive with well thought-out and balanced outcomes which are beneficial to all stakeholders. The reality is that, while there have been failed turnaround strategies and turnaround incentives, there have been several success stories among both listed and unlisted companies in which the turnaround strategy has offered companies a chance to reclaim themselves and has, in turn, recouped or protected value for all stakeholders.

2 Safeguarding value during a free fall

It's a familiar dialogue for most of us these days. Can long-term incentives be relevant without growth targets? Or, in certain circumstances, is there an argument to be made for long-term incentives paying out for the protection of value — the minimisation of the effects of the economic downturn, supported by a rebalancing of stakeholder interests?

One of the founding principles of executive variable remuneration design is the rewarding of executives for successfully creating value for shareholders. With this as a foundation, most current long-term incentives (LTIs) result in payouts that positively correlate with the increase in total shareholder return (TSR). In the context of our current recession, exacerbated by the impact of COVID-19, the following questions must be asked:

- Are LTIs still relevant, especially taking into consideration recent economic developments;
- In the event that LTIs are still relevant, what sort of instruments would be deemed appropriate to grow shareholder value or more appropriately maintain value and balance both shareholder and stakeholder interests; and
- With this in mind, what sort of performance conditions should companies base their variable pay outcomes on?

To unpack these questions, the current approach being taken to incentives needs to be examined. By far the most dominant executive incentive strategy among South African listed companies is the use of instruments with zero downside risk and in most cases, limited or controlled upside potential. These most commonly take the form of LTIs that are linked to equity growth, and settled in equity, with vesting linked to the satisfaction of performance conditions based on the growth of the business over the course of a three-to-five-year period.

An alternative structure, less commonly used, is the model in which management is incentivised to become shareholders through the use of management buy-in plans, in some instances with the added feature of buy-in financial assistance. This has real downside risk for executives, and is considered by its proponents to create 'true alignment'. Naturally, such an approach does not come without a warning flag — as we have seen, it can be risky to expose executives to finance arrangements, and companies must proceed with caution to ensure they do not fall foul of relevant legislation.

We'll call these two structures 'traditional approach', and the 'buy-in approach', respectively.

Traditional approach

With a traditional approach, the following two broad philosophies are observed with reference to measuring performance:

Absolute performance:

- Measuring performance against a company's absolute growth aspirations with reference to minimum shareholder return requirements (i.e. WACC).
- This philosophy focuses on performance irrespective of the economic environment or the general market as management has full control over the asset portfolio and strategy to make investment and divestment decisions (i.e. control over rebalancing portfolio, as shareholders are passive investors).

Relative performance:

- Measuring performance relative to a specific market or industry.
- The general view is that management will be rewarded in a growth market on the basis that portfolio growth delivered outperforms a market or industry index.
- Commensurately, management will also be rewarded for deploying a defensive strategy when there is a downturn in the economic climate, hence, even if a portfolio contracts, as long as the contraction is less than a market or industry index, management has still performed and should be rewarded.
- This philosophy is typical in instances where shareholders are active investors and management is required to hold onto assets for strategic purposes.

In a typical listed company, with a broad-based shareholding, institutional investors would usually demand absolute growth because they are passive investors, and are of the view that executives have the power to shift strategy as needed, enabling them to be agile enough to deliver the expected minimum shareholder return. However, in the current environment, globally we are seeing a tendency to move towards relative total shareholder return in response to the difficulties of target setting. In South Africa, this has challenges associated with limited true comparator companies.

A defensive strategy may be appropriate where major strategic shifts are required — such as in the instance of an extraneous shock factor. Thus, it would make sense that the introduction of such a strategy (and the performance conditions which go along with it) could find support from an investor base in certain instances, for an agreed limited period of time.

Buy-in approach

With a 'buy-in' approach, executives will find themselves indebted to the organisation in a depressed share price scenario. This places a slightly different spin on the question of incentives. While an executive with a traditional LTI might be quicker to agree that the share price is unlikely to normalise back to a pre-shock price, an executive who partakes in a buy-in structure might find themselves in a different camp. Perhaps this outcome is fair, and indeed when considering the true alignment that its proponents claim it creates, such buy-in schemes may find favour in the current environment.

Whether a buy-in scheme will effectively incentivise an executive who finds themselves in the midst of a turnaround to succeed is unknown, but perhaps they are as likely to do so (through their 'skin in the game' investments) as their traditional counterparts. A more likely consequence is the generally unwelcome scenario of executives being 'bought out' of such incentive schemes at the bottom of the cycle.

So what does it all mean?

Arguably, there is a case to be made for rewarding executives and senior management to 'safeguard value during a free fall'. This would mean a temporary deviation from traditional growth measures to those more suited to a defensive strategy. Shareholder engagement will be essential, both to ensure that the strategy is supported, and that the incentive is considered fair and appropriate.

Additionally, as with all things, a measure of conservatism, and contextual appropriateness is necessary. Where there are suppressed profits, and a defensive strategy is employed, while incentives may be appropriate, the generous incentives of the good times will likely not be well received by struggling shareholders. Similarly, in companies where major retrenchments and widespread pay cuts have been implemented, executive pay will be scrutinised in even finer detail.

While there is no denying the amount of effort and work that turning a business around entails, there is a sense that the recoupment of value, and shift in a new strategic direction is not an endeavour that executives undertake alone. There is a large, and often loyal, employee contingent which supports any such movement, and it is vital that executive remuneration is, as the King IV™ Report on Corporate Governance (King IV™) implores, considered 'in the context of overall employee remuneration'.

3 Sustainable businesses

For a while now, numerous shareholders have intensified their communications on their expectations regarding the inclusion of non-financial metrics in variable remuneration scorecards. Variable remuneration structures are considered to be an critical lever for the important cultural and behavioural changes that are needed within organisations.

However, many shareholders have expressed discomfort with the manner in which non-financial metrics have been included, citing soft targets, the inclusion of ESG objectives purely for PR purposes with no meaningful link to the company, and wide RemCo discretion, which results in a portion of the short-term incentive (STI) and LTI being a so-called ‘free ride’.

This has resulted in an increase in questions regarding the inclusion of such metrics — how is satisfaction measured? What are the targets? What is the range of appropriate outcomes? Is there an ‘auditable’ way of measuring the results?

A further question which is asked is how well do businesses report their achievement of the United Nations' Sustainable Development Goals (SDGs) also known as Global Goals. A survey conducted as part of PwC's SDG Challenge 2019 revealed that only 1% of companies measure their performance against the disclosed SDG targets.[1] Are these targets relevant for companies (there is some criticism that perhaps these are more appropriate at country level), or should companies be translating the spirit of these goals into real business-specific targets in conjunction with their stakeholders? The concept of 'co-creation' becomes relevant in this context. This is not a strategy to be determined at board level, with no input from other stakeholders. At the same time, RemCos struggle to develop appropriate performance measures relating to ESG performance where there is a lack of definitive board strategy on such issues.

One potential answer to this problem is linked to the work PwC has been doing around the SDGs. The proposal is that, as an initial step, companies should undertake an evaluation of all 17 SDGs to understand which of these their business can impact. These should then be prioritised, and the SDG targets in terms of each of these explored for applicability.

From this, a company-specific longer-term scorecard, and a shorter-term scorecard should be developed, which consists of measurable targets at threshold, target and stretch levels. These scorecards can then be used as an input to the STI and LTI outcomes. PwC has developed the Global Goals Business Navigator to help businesses identify which of the Global Goals are most relevant, given the countries and sectors they operate in.[2] We are also aware of other South African businesses developing ESG measurement tools. Perhaps this then is a good starting point?

A change of course

COVID-19 has brought a new lens to a number of these issues. As the socio-political impacts of pay decisions in organisations have been dragged into the spotlight in the context of such a large-scale humanitarian crisis, businesses are beginning to look inwards and re-strategise, assessing how to add value for a wider range of stakeholders than their shareholders alone. In the words of Harvard professor Bill George, writing for Fortune magazine:

> **"If there is any consequence resulting from the Covid-19 pandemic, it's the acceleration of the shift to stakeholder capitalism away from companies' singular emphasis on shareholders".[3]**

While bigger conversations about what these new developments mean for business continuity, it remains to be seen whether traditional models of doing business will be successfully overturned. In the interim, and closer to home, these conversations have begun to have a very real impact on pay structures. It has been understood for a while that the setting of prospective three-year targets is a challenge, but in uncertain times, this challenge becomes an impossibility.

Traditional variable pay structures will thus need to adapt, and it is interesting to note that, within this context, strategic and non-financial measures begin to take centre stage. However, this is not without some trepidation, as we have seen in other jurisdictions that there has been strong pushback from investor groups on the use of non-financial measures. In addition to pure financial measures, revenue/earnings quality measures are critical to assess and include — for instance, cash flow measures could become more relevant in this environment.

In many ways, COVID-19 is akin to a turnaround environment. The key question that arises is whether the shareholders, who have the most 'say on pay' in relation to other stakeholder groups, will support companies in changing course (whether permanently, or temporarily), and not being profitable in the short term, in order to create value (including profit for shareholders) in an ethical and sustainable way. We have seen that extraneous shock factors can allow for unprecedented changes in strategy to be made, which would otherwise not be able to happen, and it is important that this strategy also feeds down to an organisation's people strategy'. COVID-19 has clearly demonstrated that the ability to adapt to a new normal quickly will be a differentiating factor in our 'new world'.

1 PwC, SDG Challenge 2019: Creating a strategy for a better world. https://www.pwc.com/gx/en/services/sustainability/sustainable-development-goals/sdg-challenge-2019.html
2 "Creating insight: navigating the global goals." PwC. https://www.pwc.com/gx/en/services/sustainability/sustainable-development-goals/navigating-global-goals.html
3 "The coronavirus crisis has accelerated the shift to stakeholder capitalism". Forbes. 20 May 2020. https://fortune.com/2020/05/12/coronavirus-corporate-social-responsibility/

Never waste a good crisis

In our PwC CEO Pulse on Crisis survey[4], 65% of CEOs said they experienced at least one crisis in the past three years, and more than 30% predicted that they will face more than one crisis in the next three years. Should we take this to mean that crisis management is part of a 'new normal' set of skills that is required for business leaders?

Another megatrend that impacts sustainable business is digital transformation. This has been much talked about over the last couple of years and it is clear that companies that are 'future fit', have invested in ensuring they remain ahead of trends, have experienced less business disruption, and are reaping the benefits. In PwC's COVID-19 CFO Pulse Survey conducted in March 2020, 60% of CFOs expected productivity losses due to lack of remote work capabilities (as at March 2020).[5]

4 "Welcome to the crisis era. Are you ready? ", PwC CEO Pulse on Crisis, https://www.pwc.com/gx/en/ceo-agenda/pulse/crisis.html (Accessed 02 July 2020).

5 "PwC's COVID-19 CFO Pulse Survey", PwC, https://www.pwc.com/us/en/library/covid-19/pwc-covid-19-cfo-pulse-survey-global.html (Accessed 02 July 2020).

Workforce planning and strategy

Workforce planning and strategy has become more important, and COVID-19 has effortlessly proven this. Flexible working arrangements and assessing your company's remote work strategy are important factors to incorporate into a 'Mayday plan'. Interestingly, 49% of CFOs surveyed in PwC's COVID-19 CFO Pulse Survey said they would make remote work a permanent option for roles that allow it.

Perhaps more focus can be placed on risk committees and social and ethics committees as their primary focus is ensuring compliance with laws and regulations as well as managing the risks in the business.

Some high-level considerations to include in a Mayday plan for workforce planning and strategy:

- Refresh workforce strategy, including organisational design[6] and assessing your remote work strategy;
- Determine which aspects of the ways of working will be continued post-crisis;
- Continue momentum for digital ways of working through investment in upskilling and specific skills and capabilities;
- Maintain/establish access to key talent pools and sources;
- Establish transformational change; and
- Determine a plan of action for STIs and LTIs during this time of crisis, including assessing the company's liquidity and performing scenario modelling to determine the financial impact thereof.

6 Do you have the workforce strategy you need for tomorrow? PwC Workforce Strategy Diagnostic

New world. New skills. How do values impact on reward design?

Companies will do well to focus on how their incentive plans feed into their values and their sense of purpose — as history indicates that organisations with a clear sense of purpose tend to survive and thrive beyond periods of financial distress such as the current one.[7]

Leading with responsive, empathetic communications and policies, and implementing two-way feedback channels to check-in on the workforce are important in this context. It is a time to reinforce respect and inclusion, and support employee wellness while refining (or establishing) employee well-being programmes.

It is clear that there are many considerations, beyond the ESG measures, that are typically associated with the term, that need to be taken into account when considering business sustainability. The acceleration of megatrends in the current environment should be a wake-up call for many organisations that to 'fail to plan' for these driving forces of change is to 'plan to fail'.

7 "Kotter, J. P., and J. L. Heskett. "Corporate Culture and Performance." New York: Free Press, 1992."

New world values impacting reward design

Information age

- Tailor-made reward systems that speak to employees' unique needs
- Data-driven decision-making

Purpose of organisation

- Marked movement away from shareholder primacy towards stakeholder-inclusive approach
- Emergence of 'purpose-driven' organisations changes the discussion around variable pay
- Influence on common LTI measures such as total shareholder return

Innovation

- Traditional reward systems designed to be punitive towards failure
- The need for the mindshift towards experimentation, which requires failure, will influence reward systems in the future

Fairness

- Increasing frustration with inequality
- Calls for disclosure of the pay gap increasing
- Calls for taxing of the super-wealthy
- COVID-19 has exposed the plight of the working poor

Respect and autonomy

- Line-of-sight reward systems, rather than schemes perceived to be a 'lottery'
- Transparent systems with limited discretion
- Resistance to paternalistic structures in favour of enhanced autonomy

Care

- Increased awareness of the real value of traditionally devalued 'care' jobs in the COVID-19 environment
- New world sees process-driven work being automated, while creative and caring roles become more valued
- Some movement towards team-based rather than individual pay

4

What do you do when your CEO is overpaid

This has been a year that has exposed the vulnerabilities of lower level workers. In the context of job insecurity, and particularly within the South African context, food insecurity, there have been increasing calls for executive pay cuts. There are also expectations that the pay cuts that have temporarily been made to executive pay as a result of COVID-19 should be made permanent.[1]

It is not our intention to debate whether excessive inequality is bad for society, as there is ample evidence to suggest that this is indeed the case. Instead, we aim to explore what the pay gap looks like in South Africa, in order to give context to what we anticipate is an unavoidable conclusion: that mandatory pay gap disclosure will be introduced in local legislation within the next few years.

We will also investigate some of the common criticisms levelled against executive remuneration benchmarking, and to present a balanced view, explore some of the practical challenges we have seen companies experiencing when it comes to the design of executive reward. We also investigate a few options available to a RemCo once it determines that executive pay levels are indeed too high.

The pay gap is a particularly hot topic in the context of proposed amendments to the Companies Act, which contemplates bringing in mandatory disclosure of the pay gap, using the most extreme form of the pay gap (lowest paid employee within the organisation against highest-paid employee, or CEO). This comes hot on the heels of the updates to the EEA4 form, which we covered in detail in our recent Non-executive directors practices and fees trends report.[2]

1 Just Share, "Covid-19 shows us that executive pay cuts are possible", April 2020. https://www.justshare.org.za/media/news/covid-19-shows-us-that-executive-pay-cuts-are-possible-2

2 PwC South Africa, "Non-executive directors: Practices and fees trends report." February 2020. https://www.pwc.co.za/en/publications/non-executive-directors-report.html

What does ‘overpaid’ actually mean?

As the highest paid individual within an organisation, the topic of CEO pay will always be controversial. It is a widely held view that CEOs are overpaid, and the comparison to the pay of an average worker is most often used as a reference point for this statement. The classic, and oft-cited “ideal CEO to average worker ratio” is a ratio of 20:1 (or 25:1), as advocated by Peter Drucker.

Drucker, who is considered to be the father of modern management theory, advocated this ratio in the 1980s and, while it may be considered dated, it continues to be cited in academic papers and articles, with institutions such as the Harvard Business Review often citing Drucker’s famous pay principle.

Drucker provided early warnings on the dangers of enriching executives and argued that exceeding a ratio of 20:1 would result in an increased feeling of resentment among employees and overall, decreased employee morale.[3] It is interesting to note that Americans today, according to a recent study by Harvard Business School researchers, are even less forgiving, considering a ratio of no more than 7:1 to be appropriate.[4]

Fast forward to the current day, and it would seem that Drucker’s warnings may have been in vain, with “CEO to average worker pay ratios” quoted at 287:1[5] for an average company on the S&P 500 in the US and a ratio of 117:1[6] for CEOs of the UK’s largest 100 companies (note that these ratios are based on a CEOs’ total pay).

3 MANAGERism, “Director’s pay — something has to change.”, June 2013 https://www.managerism.org/topics/governance-compliance/thinkpiece-no-10,

4 Kiatpongsan, Sorapop, and Michael I. Norton. “How Much (More) Should CEOs Make? A Universal Desire for More Equal Pay.” Perspectives on Psychological Science. November 2014. https://dash.harvard.edu/handle/1/13348081.

5 American Federation of Labor and Congress of Industrial Organizations, Executive Paywatch, available at https://www.aflcio.org/paywatch, accessed on 29 April 2020.

6 Chartered Institute of Personnel and Development, The truth about executive pay, available at https://www.cipd.co.uk/news-views/changing-work-views/truth-exec-pay, accessed on 4 May 2020.

How does South Africa compare?

When examining the income disparity between CEO and lower-level employee income levels in South Africa, the question that arises is how one establishes an appropriate level of pay at both the top and at the bottom. For lower-level employees, the National Minimum Wage (NMW) is generally used as the reference point from which income at these levels is set.

However, the NMW is typically considered to be inappropriate as it fails to provide individuals at this level with a decent standard of living. In addressing this issue, the analysis that follows introduces a ‘living wage’ and determines what an appropriate living wage would amount to. In doing so, we are able to establish what could be considered to be an appropriate income cap for the highest earners by applying the Drucker principle.

In assessing income inequality between CEOs and lower-level employees in South Africa, we have performed an analysis of CEOs’ total guaranteed pay (TGP) against the following income reference points:

- NMW: In current legislation the NMW equates to a monthly income of R3 633.
- Unskilled employee median income , which represents the median income of a entry-level worker: Obtained from the PwC REMchannel® salary survey database.
- Semi-skilled employee median income: Obtained from the PwC REMchannel® salary survey database.

The analysis that follows has been performed in relation to TGP data and does not take into account variable pay elements such as STIs and LTIs, which form a significant part of a CEO’s total remuneration. We regard this as the starting point to a broader discussion, as we believe that if fixed pay is appropriately set, this will form the basis for fair total remuneration packages, as STIs and LTIs are typically determined in a relation to TGP.

In addition, as variable pay is used for the purposes of rewarding successful strategy, it is extremely difficult to compare variable pay levels to fixed pay levels, as the nature of ‘pay-for-performance’ is associated with a risk-return strategy, and should be highly variable based on the performance of an organisation. We are therefore of the view that a fair critique of variable remuneration levels could more effectively be approached from two angles: firstly, is the maximum (in relation to an appropriate fixed pay level) acceptable? And, secondly, is the outcome aligned with the performance of the organisation during the relevant period?

Reference points used in the analysis

Median CEO TGP

	Median TGP (pre-tax)	Median TGP (post-tax)
JSE overall	R 5242 000	R 2833 100

Note: The median values have been adjusted using a marginal tax rate of 45%.

Lower-level employee income reference point

	Annual income (pre-tax)	Annual income (post-tax)
National Minimum Wage	R 43 596	R 43 596
Unskilled median	R 146 832	R 120 402
Semi-skilled median	R 200 388	R 164 318

Note: The above values have been adjusted for using a marginal tax rate of 18%. The NMW has not been adjusted for tax as the annual income falls below the threshold of R83 100.

Results of the analysis

The table below provides an analysis of the median CEO TGP compared to the income reference points for the lower-level employee. The ratios calculated determine how many times the median CEO TGP exceeds the lower end employee income reference points on a post-tax basis:

Lower-level employee income reference point

	Ratio analysis (Median CEO TGP: Lower-level employee annual income)
	CEO TGP (JSE overall)
National Minimum Wage	66 times
Unskilled median	24 times
Semi-skilled median	18 times

In calculating the ratios in this section, annual income values on a post-tax basis have been utilised in order to ensure a more like-for-like analysis is performed (as adjusting for tax removes the impact of the significant variation in personal income tax rates between CEO income and the annual income of the reference points used), which is more representative of a 'quality of lifestyle analysis' with reference to take-home pay.

Commentary on the results of the analysis

When comparing the CEO TGP for a median JSE company against the Drucker principle of 20:1 (or 25:1), it would appear that significant disparity exists when comparing CEO TGP against the NMW. However, when compared to the unskilled and semi-skilled median pay reference points per REMchannel®, it is interesting to note that the ratios are closely aligned with the Drucker Principle.

The ratio analysis therefore provides evidence that a suitable level of annual pre-tax income for employees at lower levels should be set at the unskilled income level of R146 000 for a median JSE company, which corresponds more or less to a the most recently published figure for the pre-tax living wage of R11 300 per month.[7]

Put differently, if the NMW (a monthly salary of R3 633) is indeed the correct minimum wage, then CEO fixed pay for top South African listed companies should be more aligned to a (pre-tax) R1.90–R2.40 million range, which seems, even from a conservative point of view, to be somewhat low. Applying this logic to our living wage data point of a (pre-tax) monthly salary of R12 000 gives us a (pre-tax) CEO fixed pay range of R5.25–R6.60 million.

The analysis supports the argument for the living wage, and indicates that at least from a South African perspective, efforts at reducing income disparity within our country may be better directed at increasing the pay of the lowest level workers, rather than seeking to cap executive pay at the top. Having said this, it is noted that the analysis takes only fixed pay into account, and a CEO is eligible for other elements of pay beyond this (albeit performance-linked, and if correctly structured, only payable where stretching performance targets acceptable to shareholders have been met). However, it should also be considered that the Drucker Principle is focused on the average employee of a company, whereas the reference points for which ratios were determined against above are focused on employees at the bottom end of a company's hierarchy. As a result it would be expected that the ratios for employees at these levels would exceed 25:1.

Interestingly, the majority of the CEOs of the JSE-listed companies would fall comfortably underneath the upper end of the range (R6.60 million), indicating that this could be a viable reference point.

7 Wage Indicator Foundation https://wageindicator.org/salary/wages-in-context

Results of the analysis: JSE top 10

Analysis of CEO pay among top 10 JSE-listed companies reveals the following:

Median CEO TGP

	Median TGP (pre-tax)	Median TGP (post-tax)
JSE overall	R 5 242 000	R 2 833 100
JSE top 10 companies	R 23 600 000	R 12 990 000

Note: The median values have been adjusted using a marginal tax rate of 45%. We have used a 45% rate across all entities for the purposes of analysis, even though CEOs may be subject to different tax rates depending on jurisdiction..

JSE top 10 listed companies are predominantly companies whose primary operations are based in foreign territories and as a result the respective CEOs are remunerated in foreign currency terms. The median CEO TGP for the JSE top 10 companies is currently R23.6 million (pre-tax).

Excluding foreign-based companies and using the top 10 'local' companies listed on the JSE reveals the following:

Median CEO TGP

	Median TGP (pre-tax)	Median TGP (post-tax)
JSE overall	R 5242 000	R 2833 100
JSE top 10 companies	R 23600 000	R 12 990 000
JSE top 10 (SA based) companies	R 11 500 000	R 6325 000

The analysis above is food for thought in the income disparity argument, as an entry-level worker will remain the same regardless of global footprint or jurisdictional location of the company as a whole. When compared to the living wage of R12 000 (pre-tax) per month, a CEO of a top 10 company has an income ratio of 110 times and a CEO of a top 10 company that is South African based has an income ratio of 54 times.

As a further comparative reference point, the median TGP for CEOs of the top 10 London Stock Exchange (LSE) companies is currently £1.55 million, which translates to a pre-tax value of R28.7 million (converted at an 2019 average rate of exchange of R18.5/£1). Taking into account a cost of living adjustment, this aligns broadly to the JSE top 10 global median CEO TGP illustrated above.

There is a lot of criticism of benchmarking, but what is the alternative?

While anchoring CEO pay to lowest/average worker pay is one way of establishing executive levels of pay, it is more theoretical than practical. The practice of total remuneration benchmarking is the usual way of determining 'appropriate' executive pay levels. Benchmarking is seen to be an objective method for RemCos to gauge how an executive team is positioned against comparable companies and determine if the company's current remuneration policy is adequate to attract, retain and motivate executives.

While benchmarking is not without its pitfalls and is often criticised, there is a lack of alternatives available.

Primary among this criticism is the so-called 'ratcheting effect', i.e. that the use of the 50th percentile as the targeted percentile creates a situation in which pay is perpetually increased when companies regularly adjust individual pay upward if it falls below the 50th percentile (or whatever the desired positioning), but rarely adjust it downward if above the 50th percentile. When this approach is taken year after year and is applied by most companies, it is a certainty that remuneration will rise for all executives.

In response to this approach, we note that the supply and demand for all executives is not perfectly competitive and not solely based on remuneration. It is therefore not necessary to constantly adjust remuneration for all executives to the 50th percentile where benchmarking shows it to be below this point. Employees, particularly executives, do not move from one company to the next simply to earn a small increase in their remuneration package. Movement between jobs is motivated by many factors, including role, career development, culture and workplace environment.

In other words, constantly adjusting remuneration upwards to be competitive with the market's 50th percentile may be unnecessary to retain talent, and thus an indefensible practice. This is, of course, not to say that an adjustment is never defensible — and where benchmarking indicates that an executive is paid well below the 50th percentile, or there has been a consistent discrepancy for a number of years, the RemCo could justifiably consider an adjustment to the executive's remuneration.

In the South African market, benchmarking is often performed against a predetermined group of companies referred to as a comparator group. The use of a comparator group raises various potential problems:

- Comparator groups are not independently selected and management often provides input into the comparator group. Management often aims to include significantly larger 'aspirational' companies in the comparator group in order to attract talent from these companies. This can inflate the benchmarked number, resulting in higher guaranteed pay and incentives.
- The companies used in the comparator group may be performing very differently or may be in a different part of their life cycle to the company being benchmarked. Companies with exceptional or very poor performance will influence the benchmark results significantly.

Despite these potential shortcomings, we still believe that benchmarking is a critical step in setting executive remuneration — but it should not be the only step and benchmarking results should not be looked at in isolation. It is important that benchmarking should be used as one objective datapoint in a range of different data points. RemCos need to apply their minds to a variety of data points to provide them with a sensible range in which to plot the remuneration of each individual. The data points could include the following:

- A bespoke benchmark against a comparator group;
- A salary survey benchmark such as REMchannel®;
- One or more fair-pay measures such as the Gini coefficient or a Palma ratio; and
- Any other data points the RemCo determines relevant in determining what an executive is worth to the company.

As variable pay is a function of performance, it is critical that, when analysing a benchmark result, the RemCo should take the performance of the company as well as the performance of the comparator group over previous last 5–10 year cycle into account to contextualise the results of the benchmarking.

How to align pay that is considered to be 'too high'

Once the RemCo has determined what reference points it will use to answer the question of whether executives are appropriately paid, a holistic assessment should be made , with consideration of the pertinent question of what options are available to a RemCo, should it find itself in a situation where an executive is 'overpaid'.

In reality, it is unlikely, if not impossible, that the RemCo will be able to convince an executive to accept a pay cut. In addition, first-mover disadvantage is feared, and a real obstacle to any wholesale shift in approach, in the absence of legislation.

Pay progression

Where pay is high considering a relevant comparator group, the most commonly used strategy to align guaranteed pay is a pay progression model. A pay progression model can be built to take various factors into account, of which one is market positioning. Our experience has shown that pay progression models are best applied as a long-term strategy and are not an effective strategy to align remuneration in the short term.

Effective short-term strategies to align guaranteed pay include:

- Reducing guaranteed pay to be in line with the market; or
- Determining a glide path to correct guaranteed pay over three to four years.

As a response to COVID-19 and the financial pressures put on businesses, many executives have taken temporary pay cuts. This is, however, a temporary measure taken by companies and their executives to help relieve the financial burden on organisations and help them continue to pay their staff and limit retrenchments. Although there is some market pressure to make these cuts permanent, we anticipate this to remain a temporary measure and don't expect to see executives taking pay cuts in the long run.

In a normal trading environment, it's difficult to reduce guaranteed pay as it is contractually agreed to and the executive in question would have to agree to a pay cut, which is unlikely. Naturally, an opportunity exists to set pay differently at the get-go, such as, requiring an annual renegotiation of executive pay in light of specific factors such as performance and market conditions.

An easier strategy to implement would be to determine an adjustable three-to-four-year strategy (glide path) to align TGP to the market. This strategy would use the current TGP as a starting point and a targeted market-related TGP as the end goal. Increases or pay freezes would then be determined on a per case basis, depending on the difference between the current TGP and targeted TGP. It is recommended that this strategy and the targeted TGP be reassessed on an annual basis in order to take changes in the company and the industry into account.

Another approach could be to agree a set methodology with shareholders to set out circumstances in which shareholder approval is required for increases. Such circumstances could include:

- Varying from the market median by more than a preset percentage. For example, if the CEO's TGP is sitting at more than 120% of the predetermined comparator group's median; or
- Exceeding the predetermined measure for pay parity within the organisation.

What about variable pay?

Variable pay for executives comes under as much, if not more, scrutiny as TGP. Numerous attempts have been made internationally, most notably with Capital Requirements Directive (CRD IV), to fix variable pay relative to fixed pay. However, as variable pay is calculated as a percentage of fixed pay, the forced capping of variable pay can lead to unhelpful responses such as increasing the fixed pay (or equally, could lead to a low-balling of performance targets).

In essence, every legislated maximum tends to give rise to a counter-reaction, with the overriding commonality being that boards wish to be able to set pay at levels they feel are appropriate. Certainly, in an era defined by a more socially responsible approach to workforce strategy, overriding conditions linked to fair pay could be introduced to bring in a level of 'fairness' to executive pay. In the South African context, we would argue that in the majority of cases it is more appropriate to focus on rectifying the pay levels of entry-level workers, than obsessing over executive pay quantums, particularly where variable pay is appropriately performance-linked.

5 Employee retention in challenging times

Employee turnover is an ongoing, widespread concern for many organisations. The costs of replacing a lost employee, and the challenge of sourcing scarce skills required to execute on the organisation's strategy ensure that retention remains high on the agenda. The impact of the COVID-19 pandemic and measures taken to contain it have resulted in many people across the world losing their jobs, with South Africa being no exception.

Further to this, with companies forced to implement tactical cost-containment measures, many employees have been forced to take pay-cuts (in some instances temporary, and in other instances, permanent). The need for longer-term cost containment in this context remains, while the risk of disgruntled and disengaged employees increases.

While employees are frustrated by pay cuts and short-time work, the impact of COVID-19 and the recession have also resulted in many variable pay incentives not paying out. In some instances, this may result in employees seeking 'greener pastures' — perhaps in companies in industries less impacted by the external factors causing these pay issues. In other instances, key skills with depleted variable incentive pipelines may become prime hunting grounds for savvy headhunters.

The recession, which we now face, means that companies need to think about their payroll costs in the longer term, but during an economic downturn it is vital that an organisation retain those employees with the right skills and competencies to drive the growth and success of a business. A loss of talented employees can negatively impact on customer service and the capacity to develop future leadership.[1]

How are the related problems of retention issues, and decreased employee engagement brought about by the recession and associated cost cuts to be successfully addressed? While, historically, there have been many instances of 'throwing money at the problem', in times of strained financial performance, this possibility is taken off the table. At this point, 'low-cost' but 'high-impact' changes to culture, employee benefit tweaks, and alternative incentive structures moving from theoretical ideas to practical solutions should be seriously considered.

1 Zamir, MN, Hamid,S and Mohammed, S. "Talent Sustenance During Economic Slowdown" available at https://www.researchgate.net/publication/234128725_Talent_Sustenance_During_Economy_Slowdown

Harnessing the power of organisational culture

Where salaries have been reduced, and variable pay is constrained, a company's employee value proposition (EVP) needs to be looked at from a creative angle. While EVP is often talked about as a trend, practically speaking, many employers have not fully realised employee engagement levels through the full suite of tools available to them. Instead, employers have been accused of "banging people on the head with money". Ironically, now that there is a shortage of money to throw at the problem, awareness of the power of EVP and company culture has started to take root.

At a fundamental level, employees want to work at a company where they feel valued and can contribute to the company's success. The workforce of today expects a certain level of control and autonomy, and resists a paternalistic approach to pay and rewards. This trend is noticeable in the way that STIs have evolved towards more transparent structures in terms of which employees feel that they can truly influence the outcomes of the payment that they ultimately receive. In a similar manner, employee benefits have become more bespoke to each employee, with an expectation that the one-size-fits-all approach be scrapped in favour of something meaningful, while still maximising take-home pay even in the context of cost containment measures.

There are numerous theories relating to employee engagement in the workplace. One of the better known of these is the SCARF model, developed by David Rock. The model considers five social factors that affect how individuals feel and behave within a team: Status, Certainty, Autonomy, Relatedness and Fairness. The SCARF model uses a combination of motivational theory and neuroscience to help organisations improve the engagement and motivation of their workforce.

The model is based on the foundation that human brains need to either minimise danger or maximise reward. The five social factors have the ability to make employees feel either rewarded or threatened. Where a brain feels threatened, the employee may experience reduced cognitive performance and make more mistakes and be less effective at collaborative thinking, planning and making decisions.[2] When the brain is maximising reward, the employee is more likely to have a positive state of mind, feel engaged and go the extra mile.

The illustration on the next page sets out the five social factors or triggers that affect how individuals feel and behave within a team. Where companies or managers get these factors right, they help employees function at their best, whereas getting them wrong leads to stress and less than optimal functioning.

2 World of Work Project 'David Rock's SCARF model' https://worldofwork.io/2019/07/david-rocks-scarf-model/ (accessed 15 May 2020)

The SCARF model of social threats and reward

Status

Our perception of importance as it relates to other people

- Mishandling feedback or suggesting that someone is ineffective at a task can threaten an employee's sense of status.
- Give positive feedback to employees as well as public acknowledgement of successes.
- Provide learning opportunities for employees to upskill and build their credentials.

Certainty

Reducing ambiguity and making predictions

- The brain requires a sense of understanding the future and lack thereof will result in a threatened state — the less certainty we have, the more threatened we feel.
- Ensure that the expectations of a job/role are clear and explicit.
- Share organisational strategies with employees.
- Align an employee's work to the organisational goals and strategies.

Autonomy

Our ability to rely on ourselves and have control over our environment

- Micromanagement of employees is a big threat to autonomy.
- Allow people to manage their workdays with flexibility options.
- Give employees the room to use their own initiative.
- Measure employees on outcomes and not hours/activities.

Relatedness

Connection and a sense of belonging

- Employees who feel unsupported may experience a threat response.
- Ensure that employees know how their work aligns to the organisation's goals and strategies.
- Incorporate the company's values and purpose into the company culture.

Fairness

Perception of being treated fairly

- Where employees perceive unfairness, such as bad behaviours not being addressed or nepotism, it can lead to a threat response.
- Increase transparency about what is going on behind the scenes.
- Increase communication with employees and involve them in business issues.
- Be consistent in the treatment of people.

In order to drive sustainable leadership, company growth, reduce costs and balance long-term and short-term performance effectively, it is important for companies to review their existing employee retention strategies to establish whether they remain fit for purpose and assist in driving positive employee engagement. Companies have the opportunity to assess the current mix of financial and non-financial incentives to determine their effectiveness as retention and engagement tools.

Managing costs over the longer-term through creative employee benefits

Short-term cost containment measures implemented to enable companies to survive the pandemic — including the most commonly implemented measures such as salary cuts and short-time work — have evolved to longer-term requirements for cost management. This has happened in the context of a growing understanding that demand is not going to revert back to 'normal' anytime soon.

Companies need to ensure that they are able to effectively engage the resources that they already have, improve productivity within the existing workforce and look at the key drivers of their overall productivity measures.[3] Against the backdrop of minimising payroll costs, an opportunity to recreate a 'new normal' emerges — one which is aligned to the workforce trends we have been predicting will be part of the 'new world' for a while.

One of the main themes here is the idea of flexible working arrangements as a way to manage costs in a manner that simultaneously has the potential to increase employee morale and productivity, reduce tardiness and absenteeism, reduce employee turnover and enhance the image of a company as an employee-friendly place to work.

Companies can consider arrangements such as:

- **Reduced working hours (with commensurate pay reduction)**
  Short-time working arrangements (i.e. reduced working hours for reduced pay) are perceived to be a 'fairer' way of reducing salary costs than lay-offs, as has been observed in a few instances internationally. Seen through a different lens, given the choice to more permanently or temporarily be able to flexibly structure their employment terms, many employees may welcome the opportunity for a four-day week (with a commensurate reduction in pay).

- **Unpaid sabbaticals and unpaid leave days**
  Many employees have been forced to either utilise their paid leave reserves, or take unpaid leave through the lockdown. Going forward, companies may wish to grant employees enhanced (unpaid) leave with flexible funding (for example, allowing employees to take reduced pay for a number or months to 'save up' paid leave days which they can use), or allow employees to take (unpaid) sabbaticals after a certain period of employment, through creating the necessary structures to support the business continuity of the relevant team or business operations.

- **Flexible working location**
  Flexible working arrangements can also drive long-term cost containment in other areas. In instances where employees are able to work remotely, companies will be able to save on costs related to real estate and other sundries by not having to provide office space or other day-to-day services for all employees.

Considering remuneration and benefits, the often overlooked area of employee benefits that an employee receives by virtue of their employment have the possibility to allow companies to offer more valuable benefits to employees in a tax-efficient manner, allowing them in some instances to maximise their take-home pay for the same cost to the employer. This is a particularly attractive arrangement where salary cuts have been implemented, and can go a long way towards easing the strain that some employees experience.

We believe that the key to this lies in making use of the benefits already provided for within the Income Tax Act 58 of 1962 to provide tailored employee benefits that allow employees to derive more value from their total cost-to-company pay. Benefits offered could range from housing and rental accommodation to canteen meals on a pre-tax basis.

Proper implementation of such benefits can cushion the impact of the economic downturn on employees, particularly in a salary-growth constrained environment, with little to no additional costs to the employer.

Important questions that companies should be asking themselves:

- Do we know what our employees want?
- Should we rethink our approach to remuneration and benefits and can we offer our employees something different?
- What issues are our employees facing right now, and what changes can we make to resolve these?

3 PwC "Beyond Cost Containment" https://www.pwc.co.za/en/publications/beyond-cost-containment.html (accessed 2 June 2020)

Rethinking traditional incentive tools

At the C-suite level, employee engagement is also strained in times of economic downturn. Variable remuneration, which is commonly used by companies to attract, retain and motivate executive directors and members of senior management to work towards delivering the company's business strategy, is rendered ineffective due to the lack of performance against what are most often growth-oriented performance measures.

This results in many companies rethinking their LTIs, questioning both the appropriateness of the structure, and the performance conditions.[4] At the same time, the usual option of 'retention bonuses' and buy-outs, normally so disliked by shareholders, are unavailable due to the cost containment strategy. Add to this the pressure from shareholder activists and other stakeholders to make executive pay cuts permanent, and the increased workload that external pressures have brought about to stabilise and preserve business, and it is indeed conceivable that executives could find themselves classified as a retention risk.

While it could be argued that executives have 'nowhere else to go', it stands to reason that no board (or shareholder) would wish to find their company run by executives who believe themselves to be in a 'hostage situation', or perceive their pay to be unfair in light of their effort and shareholder value recoupment efforts.

4 We have set out some of our thinking regarding turnaround incentives, and the use of performance measures linked to safeguarding value elsewhere in this report, and for this reason do not discuss these here.

Simplification of LTIs

The current circumstances provide an opportunity to simplify highly complex incentive structures, which are not well understood (and thus not seen as holding great value for participants), and to seek to de-risk incentives in exchange for reduced, but more certain quanta on an overall total remuneration basis.

The use of LTI plans has been criticised in recent years by some investment groups and politicians for their complexity, short-termism and for allowing management to reap large payouts that are not necessarily linked to performance.

A study by the Purposeful Company found growing support among investors and companies for greater adoption of restricted or deferred share models, i.e. where part of an annual bonus is paid subject to service and performance conditions measured over a longer period, and even after retirement. The study was based on a survey of investors and companies, interviews with shareholders, asset managers, proxy advisors and remuneration consultants as well as academic research that looked at companies using deferred share schemes.[5]

Companies are furthermore finding it challenging, if not next to impossible, to set appropriate performance targets during this time. One option could be to consider awarding LTIs that are subject to either long-term strategic performance conditions, or no performance conditions and which will vest over a period of five to seven years. However, it must be noted that although this idea has been floated in various groups, it is as yet unclear where many institutional investors and proxy advisors (particularly in the South African market) ultimately stand on this proposal.

An economic downturn also introduces an opportunity for companies to reconsider their business strategy, and this in turn presents an opportunity for the introduction of novel incentive structures closely aligned with the new strategy. This opens the conversation for moving away from traditional financial performance-only plans, towards structures that incorporate what are considered to be controllable factors, appropriate to each job grade, which are formulated from a cascading of the new strategy.

For example, a LTI could measure employee input over the performance period, with employees able to 'bank' the value, which is only able to be cashed out (in shares or cash) once a specific financial hurdle is achieved (share price or total shareholder return). This approach will assist in driving employee performance, while the use of an output metric will ensure that the value created translates into real growth in value for shareholders.

5 "UK companies urged to switch from long-term incentive pay schemes." Financial Times. 20 October 2019. https://www.ft.com/content/8a80daa2-f1b8-11e9-ad1e-4367d8281195 (accessed 20 May 2020)

Assisting employees to save and create wealth through restricted equity funds

A restricted equity fund (REF) is a new generation long-term savings plan that was developed to provide employees with a savings mechanism designed to maximise their investment and returns during the course of their employment with the company, while also being tax efficient. This has the benefit of creating a strong retention link through the creation of deferred remuneration that the employee can see grow, aiding employee engagement as the employer creates the possibility for the employee to create visible familial wealth in a more diversified manner than a traditional LTI.

The REF structure is designed to yield significantly higher long-term returns when compared to (i) employee post-tax investments or (ii) post-tax retirement fund contributions, and is used to capitalise on investment returns through an investment philosophy focusing on:

- The achievement of optimal long-term capital appreciation and dividend income;
- The effectiveness of dividends in the structure; and
- A carefully selected and managed equity portfolio with an optimal offshore equity allocation.

This type of structure is also well suited to more senior employees who have had their retirement savings impacted by the retirement reform of a few years ago.

Conclusion

While companies grapple with managing the costs of employees in the face of a prolonged economic downturn and business challenges, it is vital that they closely monitor employee engagement to ensure they are not left with a disengaged workforce that is not motivated to deliver on the new strategy, which is required to reinvigorate business.

When considering the EVP, companies should be creative, and seek to understand what their employees truly value, rather than following a paternalistic approach and dictating the terms of employment. Greater autonomy and flexibility granted to employees in terms of their benefits will in itself improve motivation and engagement which, when combined with more certain variable remuneration structures, can enhance employees' perceptions of being treated fairly by their employer. Getting these triggers right will go a long way towards having an engaged and satisfied workforce that provides the vital 'feet on the ground' to deliver on a new strategy for a new world.

6 Focusing on the S in ESG

Introduction

The impact of COVID-19 on economies around the world has been devastating and the effects of lockdowns far-reaching. These effects have exacerbated the already recessionary economic climate in South Africa. Interestingly, it has been widely noted that the pandemic and its impact on the economy has accelerated trends related to gender pay discrimination and income inequality and renewed calls for change and reform. While important social issues related to inequality have previously been relegated to second place in light of more pressing economic concerns, in the current environment, it has become apparent that systemic change is required.

While the terms ESG and sustainability are often used to refer specifically to environmental factors, the current circumstances have put the spotlight on the 'social' factors within the ESG framework and their paramount importance. In this article we will explore two pertinent social issues relating to remuneration within a South African context: income disparity and the gender pay gap.

Income disparity

Increasing conversations on income inequality

Since the release of King IV™ in November 2016, many companies have indicated their commitments towards fair, transparent and responsible remuneration in their annual reports. However, despite their commitments and the understanding of the importance of narrowing the income gap, the perception remains that income inequality in South Africa continues to increase. For many, the pay packages of executives and the widening income gap between executives and lower paid workers represent the failure to alleviate and properly tackle income inequality.

It is well accepted that the income disparity conversation in South Africa, like our history, is unique, and for the most part takes precedence over the gender pay gap discussion. In October 2018, President Cyril Ramaphosa convened a Jobs Summit aimed at identifying solutions for job retention and job creation in order to stimulate greater participation in the South African economy. One of the actions provided for as part of the Framework Agreement signed under the auspices of NEDLAC, was to address the significant disparities between executive pay and those of the lowest paid workers. It was also agreed that research should be undertaken to determine the extent of the disparity and how it manifests across various sectors in the economy, to better understand the disparity and to identify suitable reporting mechanisms that could be phased in for employers to comply with.

Regulatory intervention at last?

Although there has been no feedback on direct actions taken as a result of the signed Framework Agreement, amendments were made to the Employment Equity Act Regulations in 2019[1] and substantial amendments to the Companies Act have been proposed. The proposed amendments include, among other things[2], that public and state-owned companies disclose the following in their annual remuneration reports:

- Remuneration of the employee with the highest remuneration in the company;
- Remuneration of the employee with the lowest remuneration in the company; and
- Average and median remuneration of all employees and the remuneration gap between the lowest paid employee and the highest paid employee.

These proposed amendments demonstrate a movement within South Africa towards regulated disclosure of the pay gap, following a global trend. As expected, responses to the proposed amendments have been mixed. Many parties have submitted that since there will be inconsistency in the manner in which remuneration gaps are calculated, which has been observed when complying with the amended Employment Equity Act Regulations, it is premature to include these mandatory disclosures as they would not be able to be accurately used as a comparative measure.

1 PwC Non-executive Directors: Practices and trends report, https://www.pwc.co.za/en/assets/pdf/ned-report-2020.pdf

2 More detail regarding regulatory updates and the proposed amendments to the Companies Act can be found in Chapter 7 of this report.

On the other hand, Just Share, a well-known non-profit responsible investment and shareholder activist organisation, submits that the Companies Act should mandate more specific disclosures that provide context to the remuneration report. These disclosures should include aspects such as how the remuneration was deemed to be fair and responsible in the context of overall employee remuneration; the difference in the company's policy on the remuneration of directors and that of other employees; and an explanation of how the salary and employment conditions of the company's employees other than the directors were considered when setting the policy, including whether, (and if so, how), the company consulted with employees, and whether any remuneration comparison measures were used.

Executive remuneration through the lens of government and investors

COVID-19 is likely to have a significant impact on any progress made in closing the income gap. In seeking to minimise the impact of the pandemic on individuals, the government has introduced a number of measures. These include the COVID-19 Social Relief of Distress grant of R350, to be paid to unemployed jobseekers for a period of six months, and the Temporary Employer/Employee Relief Scheme (TERS) benefit to provide salary relief to employers and employees impacted by the lockdown. These measures are, however, temporary and will require companies to dig deep to keep retrenchments low, remain profitable and remain in business.

In other countries where companies affected by COVID-19 have received extensive government assistance, and retrenchments have been made, calls for executive bonuses to be frozen have increased. Back home, South African executives and CEOs have heeded the call from President Ramaphosa to forgo a portion of their salaries and donate it to the Solidarity Fund, which also aims to reduce the impact of COVID-19 on employees and companies. However, while 63,3% of global investors[3] in a recent survey confirmed that they would like to see executive pay cuts continue post COVID-19, we do not expect this is likely to occur.

Investors have also shared guidance on executive pay in the context of COVID-19. In a March 2020 guidance note, the International Corporate Governance Network[4] highlighted the question of fairness that should be considered when companies are forced to lay off staff or ask staff to operate with pay cuts:

"Company management and boards are dealing with a fine balancing act between their employees' health, honouring supplier agreements and supporting customers by restarting operations ahead of time, which can put both employees and customers at risk. Maintaining or increasing executive pay in such cases could threaten stakeholders' trust and motivation as well as the company's social license to operate. As such, COVID-19 has the potential to invigorate a debate about high levels of executive compensation and its impact on income inequality and society's capacity to respond to global emergencies."

Similarly, the Investment Association[5], in noting shareholder expectations in response to COVID-19, affirmed in April 2020:

"...where a company has sought to raise additional capital from shareholders, or has required Government support such as furloughing employees, shareholders would expect this to be reflected in the executives' remuneration outcomes. The Principles of Remuneration are clear that executive remuneration should be reflective of the pay and conditions in the wider workforce. COVID-19, and the measures taken to avert its wider spread, will result in many employees being furloughed or asked to take pay-cuts."

These statements suggest that shareholders are supportive of companies that proposed temporary salary reductions/variable pay freezes for executives, and demonstrates that shareholders expect executive pay in the current environment to be aligned with the experiences of the company, employees and other stakeholders.

But is it appropriate to apply these shareholder views to South African executive pay? While the impact of COVID-19 is not unique to South Africa, and there have been large job losses globally, the governments of many overseas countries have been in a position to provide extensive social support to their citizens; a phenomenon which has not been replicated in South Africa where our social support is limited. Given the impact of COVID-19, and to ensure business continuity, some argue that executives are working harder than ever to maintain a level of status quo, retain jobs, support their employees and communities, and to strive for business continuity. In this context, they contend it may be appropriate to adopt a more flexible approach to executive remuneration.

The impact on businesses will differ, but the challenge of reducing costs will be universal, perhaps introducing unwelcome impediments to the drive to alleviate internal income disparities (for example, efforts to move towards a living wage are likely to be stalled or halted). However, while executives strain to find the appropriate balance between the drive to retain and pay employees, and the need to reduce costs wherever possible, there is a clear public expectation that companies should strive to protect the vulnerable in our society, including those entry-level workers who in turn are likely to support many other unemployed members of society.

3 Proxy Insight "COVID-19: A New Era for Corporate Governance". June 2020 https://www.proxyinsight.com/wp-content/uploads/dlm_uploads/2020/06/Corporate-Governance-and-COVID-19.pdf

4 The International Corporate Governance Network is a group of investment firms which promotes effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide. https://www.icgn.org/

5 The Investment Association champions investments management and is a group of investment firms ranging from small firms in the UK to Europe-wide and global players, representing industry interests to policymakers and regulators, helping explain to the wider world what the industry does. The IA* Principles of Remuneration are designed to give companies clarity on their members' expectations on executive remuneration https://www.theia.org/

Gender pay gap

Although the wage gap discussion in South Africa is usually positioned in relation to the disparity in income between the highest paid and lowest paid within an organisation, we cannot (and should not) ignore the gender pay gap. COVID-19 provides companies with an opportunity to reconsider their strategy and leverage the benefits provided by women being in leadership positions, as highlighted in this Harvard Business Review article.[6]

Pay differentials between men and women are a persistent form of gender inequality in the workplace. The Global Gender Gap Index 2020[7] found that the progress towards closing the gender pay gap has stalled. No country (including the top-ranked ones) has yet achieved gender parity in wages. Although there are many initiatives globally aimed at solving the gender parity problem, none has managed to resolve the issue.

There is a widespread belief that in order to effectively improve the statistics, wider disclosure should be mandated. Within the reporting framework in South Africa, there is a renewed focus on transparency and improved disclosure. However, very few companies make disclosures in their integrated reports that set out the gender pay gap and the steps they are taking to close the gaps, and reiterate that diversity and gender pay inequality remains a focus area.

Having said this, there does not appear to be a strong move towards mandatory gender pay gap disclosure in South Africa as the focus remains on income inequality disclosure. From a global perspective, there are also mixed views as to whether mandatory gender pay gap disclosure assists in bridging the gap.

For example, although mandatory gender pay gap reporting was introduced in April 2017 in the United Kingdom, very little progress has been observed. This may be attributable to a lack of focused effort and collective responsibility taken on the part of both corporates and government. Some companies are simply too fixated on the reporting of the gender wage gap and the limitations thereof, rather than making a concerted effort to address the actual issues hindering progress.

6 Harvard Business Review "Disfunction in the Boardroom." June 2013. https://pwc.myhbp.org/leadingedge/asset/view/R1306F-PDF-ENG

7 "Global Gender Gap 2020," World Economic Forum. 2020. http://www3.weforum.org/docs/WEF_GGGR_2020.pdf, accessed on 9 June 2020

With the focus of companies and governments now being redirected to dealing with the pandemic, it is not anticipated that much progress will be made in the short term. For the 2020/2021 cycle, given the advent of COVID-19, the requirement for companies to provide disclosure on the gender pay gap within their organisations was suspended.[8] However, many companies nevertheless voluntarily reported their pay gaps. Katy Bennett, a PwC UK director, comments that although this suggests an increase compared to the median mean last year (of 13.1%), the results may be misleading given that not all companies disclosed and cautioned the market regarding future outcomes as these would be affected by the impact of COVID-19[9].

In her latest study, Prof Anita Bosch, Research Chair for Women at Work at the University of Stellenbosch, analysed global trends on the enforcement of mandatory transparent pay reporting in order to give direction to strengthening South Africa's mechanisms for achieving gender economic equality.[10]

Her recommendations push for mandatory wage gap disclosure as a way to compel employers to remunerate fairly and equally, and for South Africa to view gender equality as an achievable reality and not an improbable ideology. In her research, she emphasises that despite the presence of constitutional rights and enabling legislation to prevent workplace gender discrimination, South Africa continues to see a stagnant median gender pay gap of between 23% and 35%.

A 2017 International Labour Organisation report found the median gender pay gap to be 28.8% based on hourly wages, and 30.3% based on monthly earnings.[11] These statistics show South Africa to be performing poorly in addressing the gap, given that the average global gender pay gap is approximately 20%.

As a first step, Bosch recommends that there be annual reporting to the Employment Conditions Commission, with consideration to phasing in the publishing of company data more publicly in future, once implementation problems have been resolved.

8 Due to the Coronavirus outbreak, the Government Equalities Office (GEO) and the Equality and Human Rights Commission (EHRC) took the decision to suspend enforcement of the gender pay gap deadlines for this reporting year (2019/20).

9 "FTSE 100 gender pay gap progress stalls." https://www.accountancydaily.co/ftse-100-gender-pay-gap-progress-stalls

10 "Gender pay transparency mechanisms: Future directions for South Africa," 26 March 2020, Vol 116 No 3/4 (2020): South African Journal of Science; https://www.sajs.co.za/article/view/6772

11 https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_650553.pdf

Bosch goes further to call for a financial penalty to be levied for unjustifiable and stagnant gender pay gaps among the employees of the same employer — one that is sufficient to act as a deterrent to non-compliance (as a fixed amount per period of non-compliance), as is done in Iceland, or be calculated per employee found to have been discriminated against, as is done in Belgium. Penalties should thus promote compliance with gender pay legislation and transparency mechanisms, and ultimately disincentivise discriminatory pay practices.

Reporting is only one leg of any potential solution, and companies should actively be determining how they can build diversity and inclusion into their EVP (and potentially, their incentive plans), particularly in areas such as succession planning, talent management and flexible working arrangements. They should also take steps to identify and better understand how to attract, develop and retain female talent in order to slowly narrow the gender pay gap.

Although the introduction of the National Minimum Wage in 2019 improved the gender pay gap at the lower levels, research performed by Jacqueline Mosomi at the University of Cape Town, found that there is still under-representation of women at the senior levels of occupations.[12]

This problem is not as easy to address as some might think. We have observed that many companies actively pursue improvement of their diversity, and strive to close any gender pay gaps they discover, but face very real challenges in doing so. Some of these are industry-specific, such as the struggles faced by traditionally male-dominated industries such as mining, which face challenges employing women in senior leadership positions. This is partly due to the small talent pool, which in turn creates complexity.

It is clear that breaking down the barriers to female representation is not simply a case of making the roles available to women, but also remaining cognisant of the subconscious impediments that cannot always be measured.

Gender parity in pay is proving hard to achieve and there has been little recent progress made among JSE-listed companies. Although 12 women have been appointed as CEOs of listed companies since May 2019, of the total number of listed companies on the JSE at the cut-off date, only 5.8% (19) had female CEOs.

12 Distributional changes in the gender wage gap in the post-apartheid South African labour market Jacqueline Mosomi, https://sa-tied.wider.unu.edu/sites/default/files/pdf/SATIED_WP31_Mosomi_March_2019.pdf

Fair, responsible and transparent remuneration

In a post COVID-19 environment, the revised focus on stakeholder primacy, and the interest in the 'social aspects' of ESG will be integral to consider in the redesign of any incentives, and in the implementation of any remuneration structures. However, the inclusion of any ESG measure should be based on the materiality of the measure to the business, whether in the form of managing risks to long-term sustainable value creation, or in the form of harnessing opportunities reflected by incorporating metrics wider than financial measures alone. As always, it is important that this is done responsibly, and that any measures selected are capable of being meaningfully assessed.

In order to tackle inequality effectively, both from an income disparity and gender pay gap perspective, companies will need to bring these issues to the forefront of their strategy. COVID-19 has highlighted these often overlooked issues, and created a catalyst for change which should be embraced. In accordance with King IV™ companies now need to step up and apply the principle of fair, transparent and responsible remuneration to all levels of employees, and champion measures that focus on wider stakeholders to ensure that they minimise any future risks that may arise due to the non-prioritisation of these important issues.

At the same time, growing public awareness of pay disparities, particularly in the context of what companies are doing to address them is increasing pressure on governments and regulators to intervene and take action to ensure solutions are found. From a South African perspective, this is already evident in the amendment of the EEA4 form and proposed amendments to the Companies Act. Further developments in this area are to be expected.

7 Regulatory update

This section sets out a high-level summary of remuneration-related developments in South Africa and abroad.

South Africa

Companies Act

We are aware of possible future amendments to the Companies Act 71 of 2008, which may bring about changes to the voting regime on remuneration reports and the disclosure of certain income inequality measures. Although these proposed amendments have yet to be formally gazetted for comment, we have set out below a high-level overview of our understanding of the possible changes related to remuneration. In addition, we revisit similar and/or comparable regulations in other relevant jurisdictions to facilitate critical comparison and a deeper understanding of the proposed amendments.

Remuneration reporting

Further to the reporting and disclosure principles set out in King IV™, we understand that the Companies Act may be updated to include a section that deals with the duty to prepare a director's remuneration report and provides an overview of the report. From our observations, the proposed amendment provides limited details on the expected format of such a report, merely noting that it should be in three parts (as is already suggested by King IV™). This could potentially lead to vastly different levels of disclosure on remuneration.

It also appears to imply that there will be one shareholder vote on the remuneration report in its entirety, rather than the current two-part vote on the remuneration policy and implementation report. Unlike the position in the UK (discussed below), there is no mention of a binding vote on the remuneration policy.

Wage gap reporting

Further to the recent updates to the Employment Equity Regulations to include an updated EEA4 form, the possible amendments envisaged in the Companies Act include disclosure of:

The remuneration (including variable remuneration) of the employee with the highest remuneration in the company, be it the CEO or any other prescribed officer;

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

Shareholder voting and the 'two-strike' rule

Building on the current two-part shareholder advisory vote on the remuneration policy and implementation report, as is currently required in terms of the JSE Listings Requirements, a further possible amendment includes the introduction of the 'two-strike' rule against the RemCo. This will mean that, where either the remuneration policy or the implementation report (or both) is rejected by at least 25% or more of shareholders at two consecutive AGMs, the RemCo responsible for overseeing the remuneration practices of the company must resign as members of the RemCo and a new RemCo will need to be appointed.

Global views

Australia: The two-strike rule

Australia currently implements the two-strike rule in terms of the Australian Corporations Act of 2001, which came into effect in July 2011. This law is designed to hold directors accountable for executive salaries and bonuses. The entire company board can face re-election if 25% or more of shareholders disagree with how much executives are being paid. The 'first strike' occurs when the company's remuneration report receives a 'no' vote of 25% or more at the AGM. The 'second strike' comes into play when the company's subsequent published remuneration report also receives a 'no' vote of 25% or more.

When both strikes have taken place, shareholders all vote at the same AGM to determine whether all the directors need to stand for re-election. This determination is known as a 'spill resolution' if passed with 50% or more eligible votes cast. Within 90 days a 'spill meeting' must take place, where all directors involved will be required to stand for re-election, except the CEO, who is permitted to continue to run the company. This reform was intended to provide an additional level of accountability for directors, with increased transparency.

In practice, however, it is questionable whether this rule achieves the purpose for which it was implemented. A primary criticism of the two-strike rule is that the rule gives shareholders too much influence and sway over the company — it has the potential to be used as a vehicle to convey shareholder displeasure about any aspects around the management of a company, which leaves room for potential abuse. As a result, recent opinions published in Australia express the desire to have the two-strike rule abolished.[1]

In an article for The Sydney Morning Herald, PwC Australia partner Emma Grogan observed that the two-strike rule was being used to illustrate disapproval with decisions taken by a company. She noted that the challenge with the two-strike rule is that the vote against remuneration reports is really the main way in which shareholders can show objection to actions by the company, and is therefore not always used in relation to remuneration matters as was intended, and that this can potentially destabilise a company. Grogan further commented that companies are so set on avoiding a negative vote and a second strike, that they would refashion their remuneration policies, sometimes to the detriment of the company, to prevent it, especially when it was a difficult year in terms of company financial performance.[2]

Although the two-strike rule is not yet a reality in South Africa, the two non-binding votes on remuneration have also been observed to be a mechanism through which shareholders express their displeasure with company practices. In our interactions with RemCos, we have noted that companies will often retain traditional/market accepted remuneration practices — rather than introduce novel incentive structures more suited to driving the implementation of their business strategies — for purposes of avoiding negative votes on their remuneration policies.

In a report on the 2019 annual general meeting season, PwC Australia noted that although the number of ASX 200 companies receiving a strike reduced slightly in 2019, the level of 'no' votes remained significantly higher than what was seen prior to 2018.[3]

1 Fernyhough J "The two-strikes rule 'must go'" Financial Review. 26 March 2019 https://www.afr.com/companies/financial-services/the-two-strikes-rule-must-go-20190326-p517kp

2 Dunckley M "Time is up for two strikes rule on executive pay, say advisers" The Sydney Morning Herald. 22 April 2019.https://www.smh.com.au/business/companies/time-is-up-for-two-strikes-rule-on-executive-pay-say-advisers-20190420-p51fvf.html

3 PwC Australia "10 Minutes on… 2019 Annual General Meeting season - No loosening of the grip" https://www.pwc.com.au/publications/10-minutes-program/10-minutes-on-2019-agm-season-no-loosening-of-the-grip-jan20.pdf

2019	ASX 100	% receiving a strike	8.33%	(7 out of 84)
2019	ASX 100	Average % vote ‘against’ remuneration report (and minimum / maximum range)	8.41%	0.3% to 47.58%)
2019	ASX 200	% receiving a strike	7.27%	12 out of 165
2019	ASX 200	Average % vote ‘against’ remuneration report (and minimum / maximum range)	7.61%	0.01% to 53.00%
2018	ASX 100	% receiving a strike	10.84%	(9 out of 83)
2018	ASX 100	Average % vote ‘against’ remuneration report (and minimum / maximum range)	11.82%	0.14 to 88.43%)
2018	ASX 200	% receiving a strike	8.54%	14 out of 164
2018	ASX 200	Average % vote ‘against’ remuneration report (and minimum / maximum range)	9.43%	0.01% to 88.43%

PwC Australia

It was reiterated that the vote on the remuneration report continues to act as a lightning rod for shareholder concerns — for example, companies with a high percentage of votes ‘against’ are often also experiencing scrutiny over financial performance, compliance, societal and/or environmental issues. It is further noted that, in response to shareholder feedback, some companies that received negative votes in 2018 made material changes to their remuneration structures, reverting back to more traditional structures.[4]

In conclusion, it is also worth noting that there have to date been no instances in Australia in which a board spill resolution has been carried since the introduction of the two-strike rule. This would suggest that, although shareholders are willing to express their discontent with remuneration and broader issues through the remuneration report vote, this does not flow through to supporting the disruption of a board spill. PwC Australia has, however, continued to see higher votes against the re-election of RemCo chairpersons in instances where substantial issues regarding remuneration practices have emerged.

4 PwC Australia “10 Minutes on… 2019 Annual General Meeting season - No loosening of the grip” https://www.pwc.com.au/publications/10-minutes-program/10-minutes-on-2019-agmseason-no-loosening-of-the-grip-jan20.pdf

United Kingdom: The binding vote

In the United Kingdom all publicly listed companies have to put their remuneration policies to a vote at the annual general meeting (AGM), at least every three years. If the shareholder resolution on the remuneration policy is not passed, a company will have three options:

- Continue to operate according to the last remuneration policy to have been approved by a shareholder resolution;
- Continue to operate according to the last remuneration policy to have been approved by a shareholder resolution and seek separate shareholder approval (via a resolution at a meeting) for any specific remuneration or loss of office payments that are not consistent with the policy; or
- Call a general meeting and put a remuneration policy to shareholders for approval. This could, but need not be, an amended version of the policy last put to shareholders for approval.[5]

These arrangements afford shareholders a binding vote on the remuneration policy of a company every three years (or when it is changed), offering a chance for the purpose and objective of the remuneration policy to be achieved. Accordingly, if a remuneration policy has failed the company for three years it is reasonable to expect the RemCo to bring about changes to it.

France: The ex ante and ex post binding vote

France follows the 'comply and explain' rule set out in their AFEP-MEDEF Code[6], which is the corporate governance code of reference for publicly traded companies, in conjunction with Sapin II Law[7]. It defines principles of corporate governance by outlining rules on remuneration for corporate officers, controls and transparency.

In 2016, France implemented a binding say-on-pay vote that is hard-coded in the AFEP-MEDEF Code and Sapin II Law, which grants shareholders a right to vote on the remuneration of directors of companies listed in a regulated market. It includes two binding AGM votes on:

- The forward looking remuneration policy — i.e. the principles and criteria used to calculate, divide up and award all elements of executive remuneration before any payments are made; and
- The implementation of the remuneration policy — i.e. the remuneration elements and benefits of any kind paid or awarded to each director in respect of the previous financial year.

Should shareholders reject the resolution on the remuneration policy, the previously approved remuneration principles and criteria shall continue to apply. In the absence of these, remuneration shall be determined in accordance with the pay awarded for the previous financial year or, failing that, in accordance with existing practice within the company.

In the event that shareholders vote against the implementation of the remuneration policy, the fixed elements of remuneration are not affected, but the variable or exceptional elements awarded in respect of the previous financial year cannot be paid out unless the director's total pay package has been approved by shareholders at the AGM.

The result of the negative binding vote in either case will be that the remuneration policy may not be implemented and the variable pay awarded as set out in the implementation report may not be paid to the executives.

5 "The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 – Frequently Asked Questions." UK Department for Business, Energy & Industrial Strategy. June 2019 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/808993/corporate-governance-directors-renumeration-policy-renumeration-report.pdf

6 AFEP-MEDEF Corporate Governance Code for Listed Corporations June 2018

7 Loi Sapin II pour la transparence de la vie économique ("Sapin II Law") December 2017

Our view on the possible proposed amendments and the two-strike rule

In considering possible amendments to the Companies Act, and in particular the introduction of the two-strike rule, consideration should be given to the success and failure of this as applied in Australia. One should cautiously consider whether the implementation of such a rule would give effect to its intentions, or whether it could give rise to unintended consequences such as shareholders and shareholder activists using the rule to enforce their own agendas on companies. In such an instance, companies and their boards could aim to standardise their remuneration policies to please their shareholders, even in instances where such 'preferred' policies may not be in the best interests of a company, to avoid potential shareholder pushback.

South African Reserve Bank: Call for a freeze on bonuses

On 6 April 2020, the South African Reserve Bank Prudential Authority (PA) issued a press release on regulatory relief measures and guidance to the banking sector in response to COVID-19.[8] It acknowledged that the impact of COVID-19 is likely to have a lasting and detrimental effect on the economy. The PA further issued a guidance note[9] in terms of section 6(5) of the Banks Act 94 of 1990, setting out recommendations on the distribution of dividends on ordinary shares and the payment of cash bonuses to executive officers and material risk takers in light of the negative economic impact of COVID-19 and the temporary regulatory capital relief provided by the PA.

The Guidance Note acknowledges the importance of banks conserving their capital resources to retain their capacity to support the real economy in an environment of heightened uncertainty, while continuously complying with the prescribed prudential requirements and ensuring the long-term safety and soundness of the bank.

As a result, the Guidance Note deems that capital conservation must take priority over any distribution of dividends on ordinary shares and the payment of cash bonuses to executive officers and material risk takers. It outlines the expectations of the PA that no distribution of dividends on ordinary shares and no payment of cash bonuses to executive officers and material risk takers should take place during 2020.

Furthermore, the PA expects the board of a bank to take appropriate action in respect of any dividends that may have already been declared by the bank and in respect of the accrual, vesting and payment of variable remuneration in a manner that is aligned to the principles in the Guidance Note and in accordance with the relevant legal requirements.

8 South African Reserve Bank - Prudential Authority Press release on regulatory relief measures and guidance to the banking sector in response to COVID-19 https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/9842/Prudential%20Authority%20Media%20Release%20-%20Regulatory%20relief%20and%20guidance%20to%20the%20banking%20sector.pdf

9 G4/2020 - Recommendations on the distribution of dividends on ordinary shares and payment of cash bonuses to executive officers and material risk takers in light of the negative economic impact of the COVID 19 pandemic and temporary regulatory capital relief provided by the Prudential Authority.

Australia

New proposed Financial Accountability Regime

The Australian Treasury published a paper on 22 January 2020, setting out the Financial Accountability Regime (FAR) — the government's proposed model to extend the Banking Executive Accountability Regime (BEAR) to all Australian Prudential Regulation Authority (APRA) regulated entities. This paper comes in response to the Australian government's commitment to implement recommendations of the Financial Services Royal Commission.

The paper itself sets out the principles to be implemented under the proposed FAR. The formal regulatory text had yet to be released at time of this publication. The intention is for the relevant legislation to be introduced by the end of 2020.[10]

The BEAR established standards of conduct by imposing a strengthened responsibility and accountability framework for directors and senior executives in authorised deposit-taking institutions (ADIs). The objective of the proposed FAR is to extend this responsibility and accountability framework across all APRA regulated industries. The intention is to increase the transparency and accountability of financial entities in these industries and improve risk culture and governance for both prudential and conduct purposes.

FAR entities will be split into two categories — 'core' and 'enhanced compliance', which replace the small, medium and large classifications of ADIs under the BEAR. In essence there will be no differentiation between small, medium and large ADIs.

Among other obligations, the FAR will impose deferred remuneration obligations. In terms of the FAR, all entities will be subject to the same deferred remuneration obligations regardless of their classification. Currently, ADIs are required to defer a specified percentage of an accountable persons' variable or total remuneration for a specified period, if the amount that would be deferred under the BEAR is greater than a threshold.

The specified percentage of remuneration to be deferred is based on the size categorisation of the BEAR entities into small, medium or large. In terms of the FAR, 40% of the variable remuneration of all accountable persons would need to be deferred for at least four years, if the amount that would be deferred under the FAR is greater than A$50 000. Entities would not be required to defer any variable remuneration if it is not a feature of a particular accountable person's remuneration structure.[11]

The key changes between the proposed requirements and those under the current BEAR are:[12]

- The removal of the total remuneration test (i.e. lesser of 40%–60% of variable remuneration or 10%–40% of total remuneration);
- The simplification of deferral proportion requirements with the same deferral percentage now required across all FAR categories; and
- For large ADIs, removal of the differentiated percentage deferral requirements between the CEO and other Accountable Persons.

Although the requirement is simpler, it is likely to have an impact on smaller ADIs which have relied on the total remuneration test to determine the deferred amount — typically deferring the equivalent of 10% of their total remuneration as it was typically less than 40% of variable remuneration.

Remuneration policies will also need to allow for the reduction in variable pay if an Accountable Person breaches their FAR obligations.

Entities will further need to comply with the requirements set out under the draft APRA CPS 511 including deferred remuneration obligations. We discuss this draft document in more detail in our Non-executive directors: Practices and fees trends report 2020.

10 "Implementing Royal Commission Recommendations 3.9, 4.12, 6.6, 6.7, and 6,8 Financial Accounting Regime." Australian Government Treasury. 22 January 2020 https://treasury.gov.au/sites/default/files/2020-01/c2020-24974.pdf

11 Ibid.

12 PwC Australia "2 minutes on… Financial Accountability Regime proposals paper 2020." https://www.pwc.com.au/publications/10-minutes-program/2-mins-on-financial-accountability-regime-proposals-paper-23jan20.pdf

COVID-19 response

As companies continue to feel the wide-ranging impacts of COVID-19 on their businesses, a number of Australian stakeholders published their views on how executive remuneration should be managed given the impact of the pandemic on the economy. We set out a summary of the expectations and guidance on remuneration management below:

- APRA: There is an expectation that boards proceed to appropriately limit executive short-term incentive bonuses in addition to a reduction in dividends as part of overall capital management expectations.
- Australian Institute of Company Directors: Guidance was provided through key considerations for boards and RemCos, which include:
  - Assessing the impact on the business;
  - Establishing a robust framework for exercising discretion;
  - All remuneration should be on the table; and
  - Consider shareholder expectations and communicate early.
- Australian Council of Superannuation Investors: Boards are encouraged to use their discretion to review all remuneration outcomes in the coming months and to take into account the appropriateness of any payment in light of the experiences of the company's shareholders, employees, clients and the broader community.

United Kingdom

UK Stewardship code 2020

The UK Stewardship Code 2020, a revision to the 2012 edition of the Code, took effect from 1 January 2020. We provide more detail on this updated code in our Non-executive directors: Practices and fees trends report 2020.

Prudential Regulation Authority

As part of the response to the impact of COVID-19, the Prudential Regulation Authority (PRA) has requested that the seven largest UK banks and building societies not pay cash bonuses to senior staff and material risk takers during 2020 and further suspend dividends to be made for 2020. Banks were also requested to take appropriate action with respect to the accrual payment and vesting of variable remuneration over coming months. The PRA has further urged all UK insurers to carefully consider decisions relating to variable pay in the context of prudential risk management.

EU

European Insurance and Occupational Pensions Authority

As part of the EU's response to COVID-19, the European Insurance and Occupational Pensions Authority (EIOPA) requests companies to:[13]

- Suspend all discretionary dividend distributions and share buy-backs aimed at remunerating shareholders;
- Review their current remuneration practices and policies and ensure that these reflect prudent capital planning in the context of the current COVID-19 economic situation;
- Set the variable portion of remuneration at a conservative level and consider postponing variable elements of remuneration; and
- Explain to the relevant national competent authority where a company considers themselves legally required to pay out any amounts of variable remuneration.

13 EIOPA statement on dividends distribution and variable remuneration policies in the context of COVID-19 https://www.eiopa.europa.eu/content/eiopa-statement-dividends-distribution-and-variable-remuneration-policies-context-covid-19_en

United States

The Coronavirus Aid, Relief and Economic Security Act (CARES Act)[14] was signed into law on 27 March 2020, providing financial assistance to individuals and businesses impacted by the COVID-19 pandemic. Among other things, the CARES Act imposes certain limitations on the remuneration and benefits payable:

- By businesses that either receive a loan or a loan guarantee under the Act and further provides that certain of these businesses must maintain or not reduce workforce levels for designated time periods;[15] or
- By air carriers and certain contractors that provide services to air carriers receiving financial assistance to be used for the continuation of the payment of employee wages, salaries and benefits.

In the case of the former, compensation limitations apply for the period commencing on the date that the company enters into an agreement with the Secretary of the Treasury and ends on the first anniversary of the date that the loan or loan guarantee is no longer outstanding. In the case of the latter, the limitation applies for a two-year period, commencing 24 March 2020.[16]

During the above restricted periods, no officer or employee whose total compensation exceeded $425 000 in calendar year 2019 may receive:

- Total compensation, during any 12 consecutive months, exceeding his or her total compensation in 2019; or
- Severance pay or other benefits upon termination of employment that exceeds twice the maximum total compensation received by the employee in 2019.

In addition, during the restricted period, any employee whose total compensation exceeded $3 million in calendar year 2019 may not receive total compensation during any 12 consecutive months in excess of the sum of:

- $3 million; and
- 50% of the total compensation received by the employee in calendar year 2019, in excess of $3 million.

For purposes of these provisions, ‘total compensation’ includes salary, bonuses, stock awards and other financial benefits.[17]

The limitations on compensation do not apply to any employees whose compensation is determined through an existing collective bargaining agreement entered into prior March 2020.

14 US Congress Coronavirus Aid, Relief and Economic Security (“CARES”) Act, 116th Cong. 2nd sess. 2020 https://www.congress.gov/bill/116th-congress/senate-bill/3548/text#toc-idb797bc213c5140b9ada4942903cfcb61

15 Section 3103 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

16 Andrea Rattner, Colleen Hart, Joshua Miller, Seth Safra, Ekaterina Napalkova, Katrine Magas, “The CARES Act - what employers need to know” The National Law Review no 184 (2020) https://www.natlawreview.com/article/cares-act-and-compensation-what-employers-need-to-know

17 Section 3103(b) of the CARES Act.

Global

Proxy advisors

In addition to responses from various regulators across the globe, proxy advisors Glass Lewis[18] and Institutional Shareholder Services (ISS)[19] released global guidance, which acknowledges that incentive plans will materially change as a result of the impact of COVID-19. It is noted that companies should take a proportional approach to the impacts on shareholders and employees as well as providing disclosure to shareholders on the rationale for making such changes.[20]

Glass Lewis notes that most changes to executive remuneration policies are unlikely to receive wide shareholder support.[21] However, if policies take a proportional approach to the impact that COVID-19 has on executive remuneration, shareholders and employees, they are more likely to receive support from shareholders.

Glass Lewis further expects an increase in shareholder concerns relating to repricing, dilution, burn rates, hurdle adjustments, changes to vesting periods, caps and cuts on incentives, and the quality of disclosure concerning the limits and exercise of board discretion. It further warns that employees and executives should not expect to be worth as much as they were before this global crisis and that increased scrutiny will be placed on executive remuneration, with most proposals causing extra expense to shareholders likely to be voted against.

ISS has provided guidance to companies when it comes to adapting their remuneration policies to the current economic crisis caused by COVID-19.[22] This includes, for example, where companies wish to materially change their performance measures or targets for their short-term incentive plans, which will generally be addressed by shareholders in their 2021 annual general meetings. Companies are encouraged to provide comprehensive disclosures to shareholders beforehand regarding their rationale for making such changes.

The aforementioned guidance from the most well-known proxy advisors should be considered by all companies when making changes to their remuneration policies in the coming months.

18 A Bertinetti “Everything in Governance is Affected by the Coronavirus Pandemic. This is Glass Lewis’ Approach” Glass Lewis https://www.glasslewis.com/everything-in-governance-is-affected-by-the-coronavirus-pandemic/

19 “ISS Annual General Meetings & COVID-19: A Review of the Regulatory Landscape” Institutional Shareholder Services https://www.issgovernance.com/file/publications/ISS-Annual-General-Meetings-COVID-19.pdf

20 PwC Australia: “10 minutes… How companies are managing reward and performance in a COVID-19 environment” https://www.pwc.com.au/publications/10-minutes-program/10-minutes-on-reward-and-performance-in-a-COVID-19-environment-april-2020.pdf

21 A Bertinetti

22 “Impacts of the COVID-19 Pandemic - ISS Policy Guidance” Institutional Shareholder Services https://www.issgovernance.com/file/policy/active/americas/ISS-Policy-Guidance-for-Impacts-of-the-Coronavirus-Pandemic.pdf

8 Delisting: an opportunity to reinvent incentives?

The JSE has seen an increased number of delistings of late, which have been influenced by the recession facing the South African economy and, more recently, by the impact of the global COVID-19 pandemic and the measures taken to contain it. The share price volatility and poor growth prospects many companies experience will result in an increased number of scenarios arising, in which the market capitalisation of a business may be significantly suppressed in comparison to its net asset value (NAV). This may lead many companies to consider delisting.

Delisting — either by going private or being backed by private equity — is generally a trigger for a change to existing remuneration policies and incentive structures. Each of these scenarios will have a major impact on the structuring of executive pay. In this chapter we consider some of the executive remuneration decisions to be considered in these circumstances and question whether a universal solution is possible.

What should the relation between fixed and variable pay be?

This question is driven by cost implications on the one hand, and the risk versus return appetite the executives or the private equity house will accept. The new policy could differ substantially from the policy applied at a listed level. While the pay of public company executives is an important reference point, because this role offers a credible career choice for executives operating investee companies, and provides very visible pay data due to public company remuneration reporting requirements, the risk versus return trade-off is typically much higher in private equity backed companies. This will inherently lead to questions being asked, such as whether a reduction in fixed pay on the one hand, and an increase in potential variable pay on the other, are more appropriate. RemCos of companies in these circumstances should consider the philosophical question of risk versus return and its impact on executive pay with care, as this is likely to set the scene for the design of any variable pay arrangements.

How should variable pay be structured and settled?

Following from the question posed above, the structure of variable pay and level of risk the executives are expected to take will differ depending on a company's specific investors. In general terms, a focus on driving growth in intrinsic value is preferred as a value-accrual mechanism, but there is also opportunity for more bespoke schemes that build on this as a basis, and which speak to the company-specific strategy after delisting.

In terms of incentive design, a less regulated environment, together with less scrutiny, means that there is increased flexibility to design unique, and perhaps more tax-efficient vehicles, which there might not be scope for within a listed environment.

The question of the settlement of share plans is also pertinent and RemCos may consider moving from the prevalent equity-settled plans to more appropriate cash-settled plans.

Within the listed environment, companies need to play by a certain set of rules for incentive design, including forward-looking performance conditions, comprising a balanced scorecard of metrics (often financial), which align with shareholders' expectations. In the unlisted environment, depending on whether the delisting is also coupled with private equity investment, new remuneration structures will take on different characteristics. With private equity investment, this would mean that variable pay becomes based less on a 'balanced scorecard' of financial metrics, and more on the delivery of intrinsic value/NAV value, coupled with the successful implementation of an exit strategy at the end of the relevant period. This is, in fact, akin to the oldest and truest form of an LTI — the option — which some still consider to be the only instrument that truly aligns executive interests to those of the shareholders.

One should ask whether the simplicity of an option-type incentive arrangement has been too easily discarded, and might be the answer to reintroducing simplicity in LTI design, which has so long been called for. It should, however, be borne in mind that within the private equity environment, a small management team — generally taking the form of a general partner — would be the only participants in the carried interest (option-type arrangement), compared to the listed environment, where LTIs are generally far more broadly deployed.

A blunt instrument such as an option is not necessarily fit for purpose beyond the topmost leadership of an organisation. In fact, there is a definite trend towards the design of differentiated incentives for top leadership, and that of other members of senior management. This secondary level of participants think in less ambiguous terms and want concrete KPI sets (over which they have line of sight, can 'control' to some degree, and feel that they can justifiably and objectively be measured against). Options do not provide this line of sight, and perhaps, this is why, historically, they were reserved as an instrument for top leadership only.

Of course, the use of the option, which has been falling out of favour for a while, is not without risk, and the continual pursuit of aggressive and absolute growth that the option inspires can lead to unsustainable surges in earnings rather than the creation of steady but sustainable earnings growth.

A question that arises is whether the LTI is really capable of aligning executives' interests with all stakeholders' interests, or whether it is more suited to achieve pure alignment with shareholders. Should the latter be the case, there is an argument to be made that intrinsic value growth, which can be realised by shareholders through the sale of shares (in the listed environment) or a liquidity event (in the unlisted environment), would be the sole metrics to be considered within LTI design.

Can the two worlds be married?

Particularly within an environment characterised by recession and a pandemic, in which it is difficult, if not impossible, to set forward-looking targets, incentive schemes that measure management on an intrinsic value approach, with final value output being paid out only to the extent that intrinsic value converts to real shareholder value, may be the most optimal design. This is particularly relevant within a South African context where market sentiment can be misaligned with true value creation.

Within the unlisted environment, where design is more flexible, this gives rise to the ability to design differentiated LTIs that speak to a particular strategy, while being able to deliver benefits in a more tax-efficient manner.

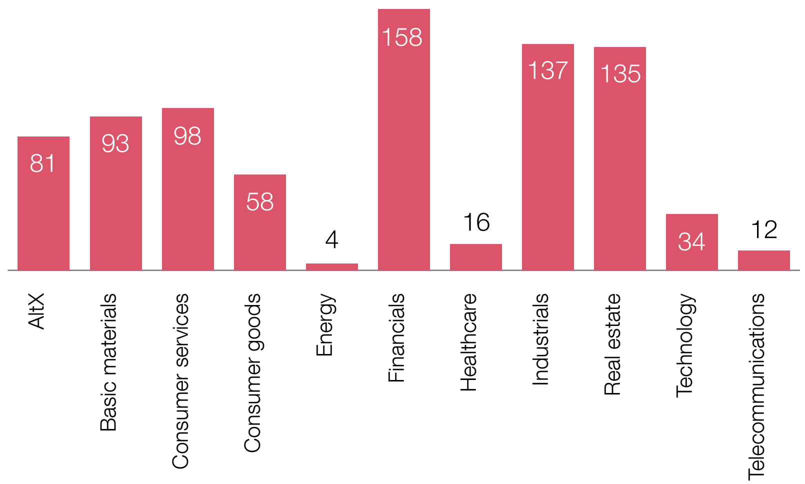
9 Profile of an executive director

Strategic direction is set by the board of directors, with the CEO and CFO being mandatory board appointees. EDs are responsible for the successful leadership and management of the organisation. But what does an executive director look like? In this chapter we explore the profile of an executive director.

This section focuses on companies listed on the JSE, with data drawn from information publicly available as 29 February 2020 (the cut-off date) and covers information for the period from 1 May 2019 to the cut-off date. The analysis excludes preference shares, special-purpose listings and companies suspended at the cut-off date.

As at the cut-off date, there were 826 EDs appointed to 301 active JSE listed companies, excluding EDs appointed to preference share companies, special purposes listings and suspended companies. There were 329 CEOs, 291 CFOs and 206 other EDs. During the period of analysis, five new companies were listed, 22 companies were delisted, and 11 companies changed their names.

Figure 1: JSE: Number of EDs per industry

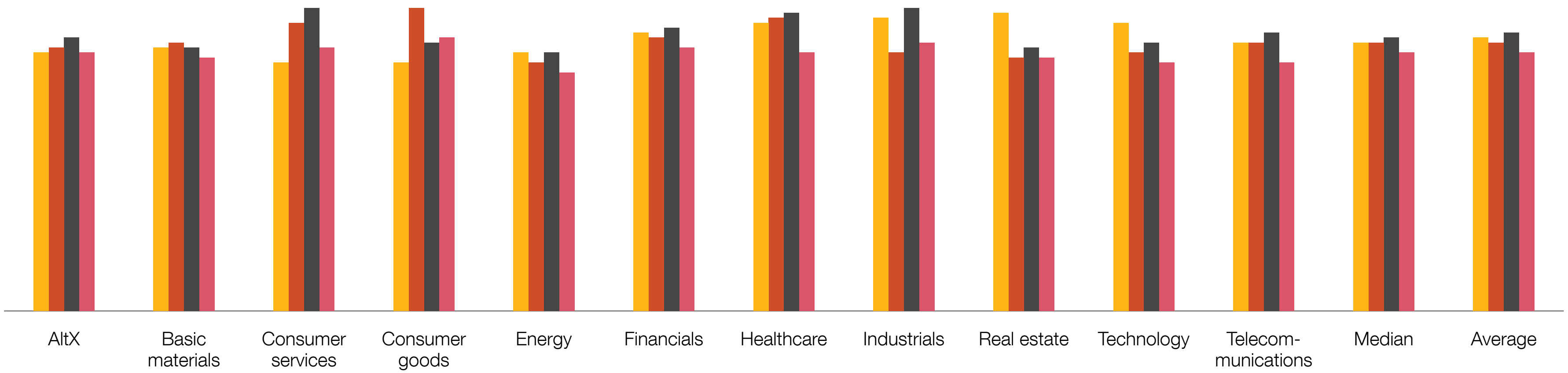


Source: PwC analysis

Average age

Average age across most sectors has remained fairly constant over the last four years, with the average falling from 55 to 52 years.

Figure 2: JSE: Average age of EDs



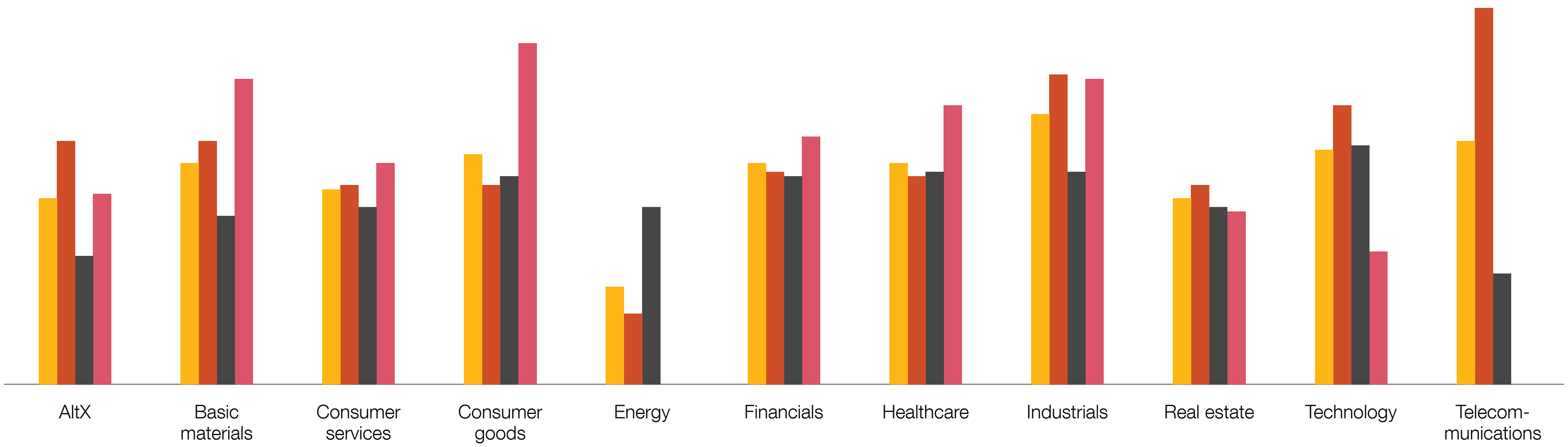
	AltX	Basic materials	Consumer services	Consumer goods	Energy	Financials	Healthcare	Industrials	Real estate	Technology	Telecom-munications	Median	Average
2017	52	53	50	50	52	56	58	59	60	58	54	54	55
2018	53	54	58	61	50	55	59	52	51	52	54	54	54
2019	55	53	61	54	52	57	60	61	53	54	56	55	56
2020	52	51	53	55	48	53	52	54	51	50	50	52	52

Source: PwC analysis

ED tenure

The average tenure for EDs in the same position for the same company varies between 1.6 and 8.5 years.

Figure 3: JSE: Average tenure of EDs



	AltX	Basic materials	Consumer services	Consumer goods	Energy	Financials	Healthcare	Industrials	Real estate	Technology	Telecom-munications
Overall	4.2	5.0	4.4	5.2	2.2	5.0	5.0	6.1	4.2	5.3	5.5
CEO	5.5	5.5	4.5	4.5	1.6	4.8	4.7	7.0	4.5	6.3	8.5
CFO	2.9	3.8	4.0	4.7	4.0	4.7	4.8	4.8	4.0	5.4	2.5
EDs	4.3	6.9	5.0	7.7		5.6	6.3	6.9	3.9	3.0	

There is no data available for EDs in the energy and telecommunications industries.

Race and gender

In this report, ED representation by race has been performed by analysing the top 100 JSE listed companies. The race analysis has been performed on a per role basis, covering CEO, CFO and other EDs.

From a gender perspective, our analysis covers all JSE listed companies. However, due to a lack of representation of women in CEO and CFO roles, we are unable to present meaningful gender pay gaps on a per role basis.

Gender

In terms of gender, the primary challenge still relates to representation, with women making up less than one-fifth of the JSE ED population at 14% (114 women), including CEOs and CFOs. At CEO level, this lack of representation is more marked, with female representation of just 6% (19 women).

Without meaningful representation, a gender pay gap analysis of individual positions is not useful, as comparing a male median income with the median of the much smaller female group cannot be viewed as a fair comparison.

To make our analysis more meaningful, we have presented the gender pay gap for the entire JSE sample group across all industries, and have further broken this down into a large-cap, medium-cap and small-cap analysis, and a per-industry analysis. As the results illustrate, there is still much work to be done.

Figure 4: JSE: Gender representation by company size

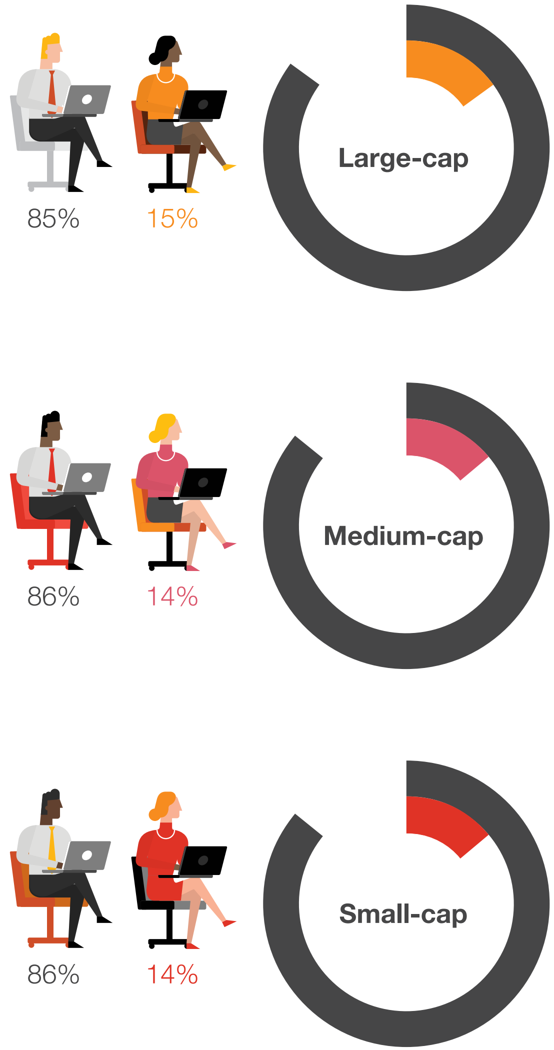


Figure 5: JSE: Gender pay gap by company size (R'millions)

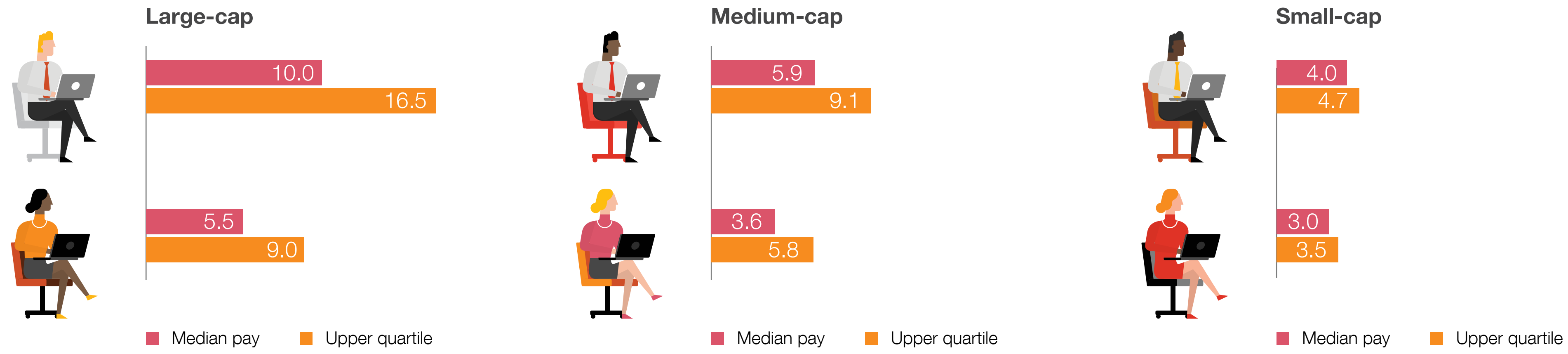
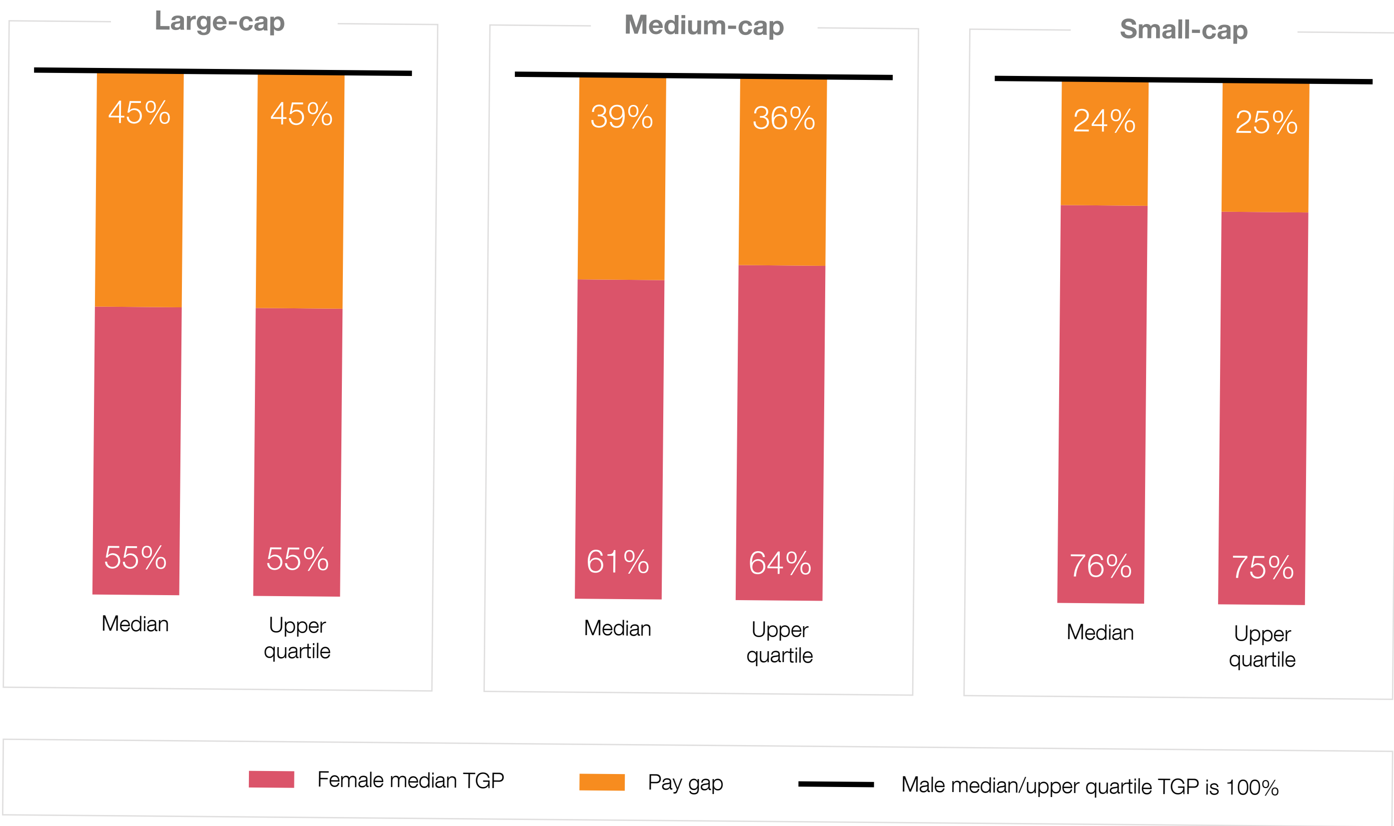


Figure 6: JSE: Gender pay gap by company size



Source: PwC analysis

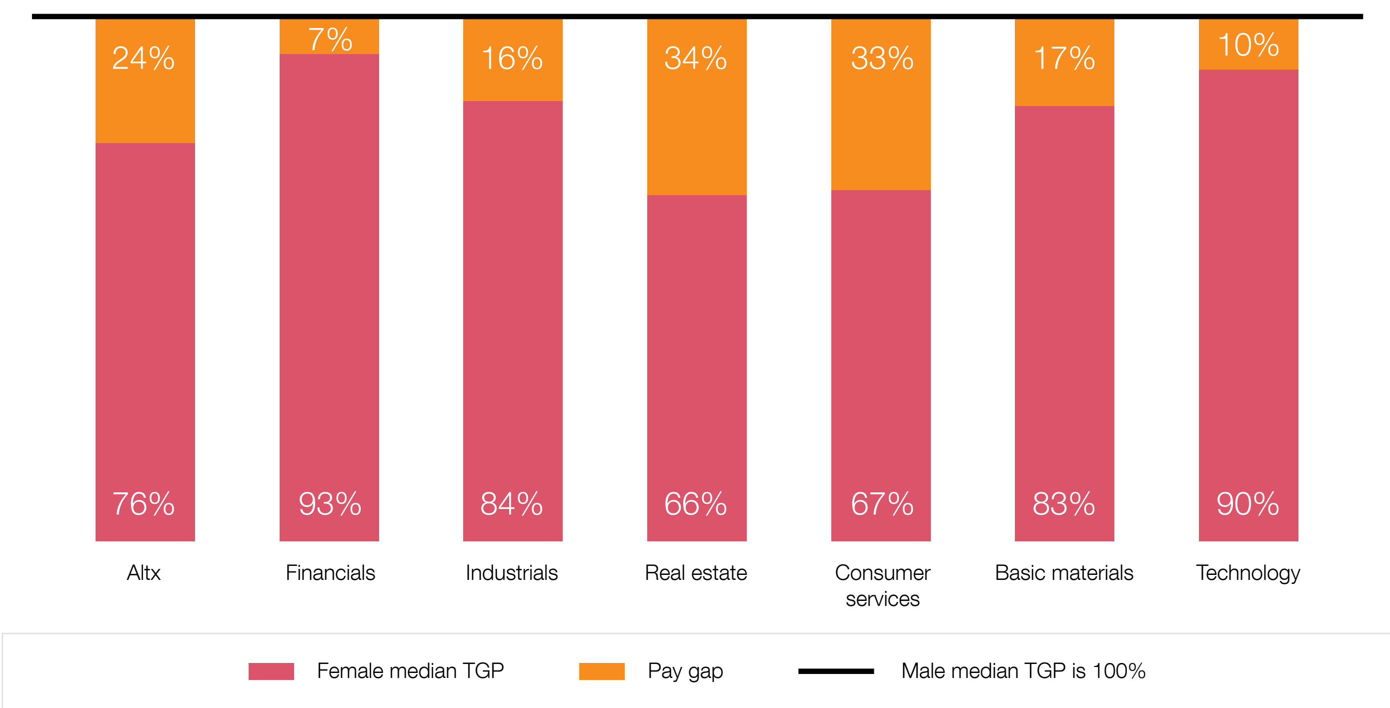
Within large-cap companies, the gender pay gap is most significant, with a marginal improvement among medium-cap and a 25% gap among small-cap companies. However, limited female representation at CEO level across companies of all sizes has a significant impact on the pay gap, as CEOs typically earn more than other executive directors.

Gender pay gap per industry

On a per industry basis, the difference in pay gaps between industries is revealing, ranging from a small 7% in financial services to a hefty 34% in real estate, on a median basis.

The gender pay gap analysis per industry has been presented on a median TGP pay basis for industries where there is sufficient female representation to enable the calculation of medians.

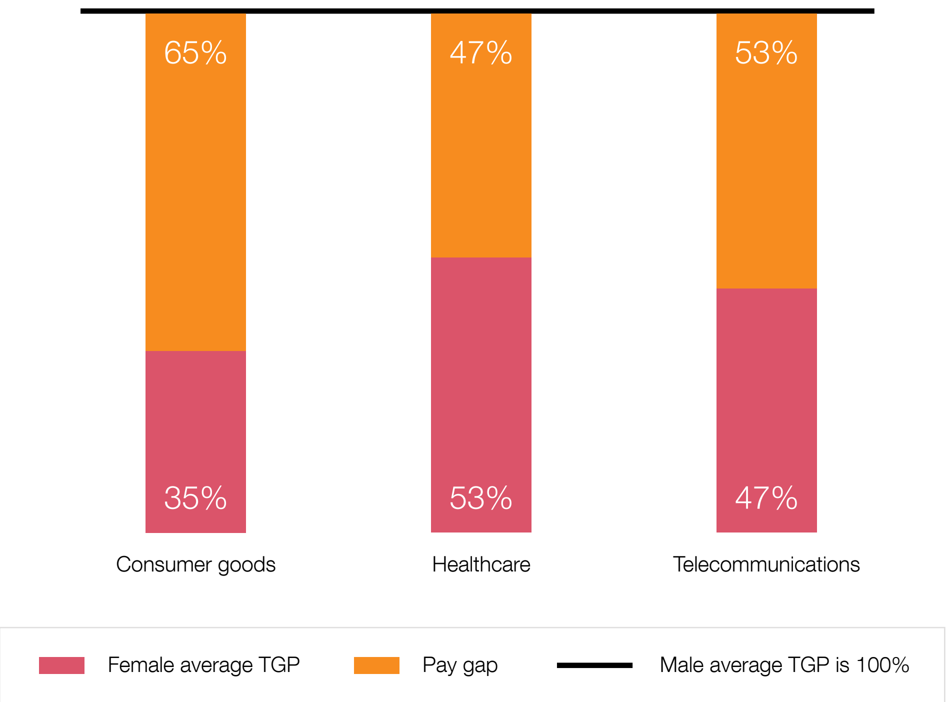
Figure 7: JSE: Gender pay gap by industry (median basis)



Source: PwC analysis

The pay gap analysis for the consumer goods, healthcare and telecommunications industries in Figure 8 has been determined using average TGP instead of median values. This is due to the fact that there was insufficient female representation, and thus insufficient data points, to determine a median female TGP for these industries.

Figure 8: JSE: Gender pay gap by industry (average basis)



Source: PwC analysis

As there was no female representation at an executive level within the energy industry, we were unable to determine a gender pay gap for this industry.

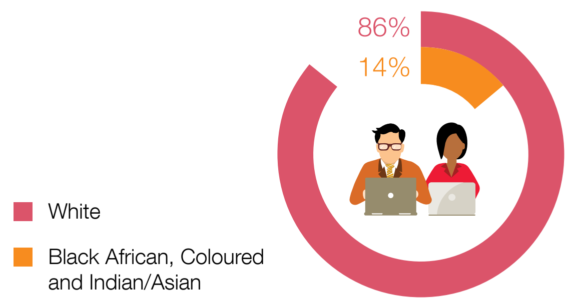
Race

In terms of race, representation at executive level also remains problematic. Due to a lack of diverse representation, we have analysed representation and pay gaps between the broad categories of 'White' executives and 'Black African, Coloured and Indian/Asian' executives, to allow for more meaningful analysis. These categories align with Stats SA's race classification.

CEO

Black African, Coloured and Indian/Asian representation at CEO level remains very low at 14% among the JSE's top 100 companies. The median pay gap is moderate for the CEO at 15%. However, at the upper quartile mark, the pay gap increases significantly to 37%

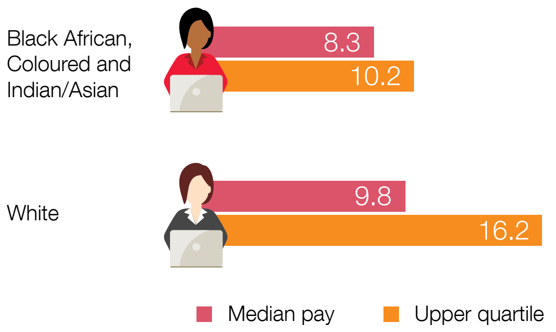
Figure 9: JSE: CEO race representation



Note: Black Africans represent 75% of the Black African, Coloured and Indian/Asian sample.

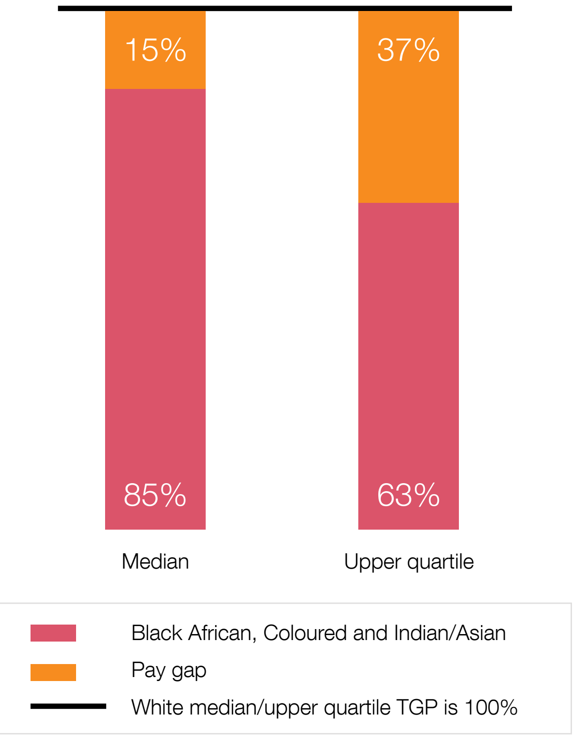
Source: PwC analysis

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



Source: PwC analysis

Figure 11: JSE: CEO race pay gap

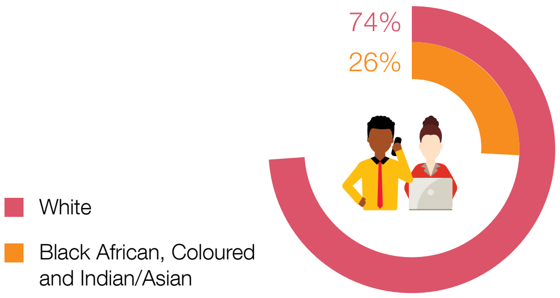


Source: PwC analysis

CFO

Black African, Coloured and Indian/Asian representation at CFO level is 26% among JSE top 100 companies. The pay gap is slightly more than the CEO gap, at 17% at the median level. However, at the upper quartile mark, the pay gap of 32% is lower than that seen among CEOs.

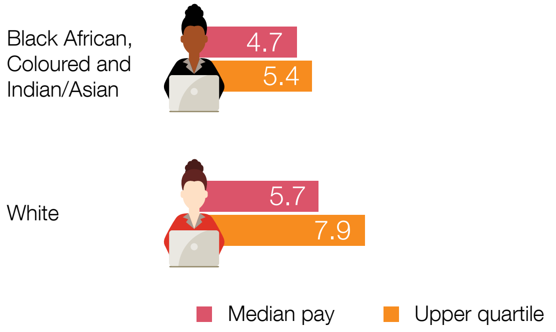
Figure 12: JSE: CFO race representation



Note: Black Africans represent 50% of the Black African, Coloured and Indian/Asian sample.

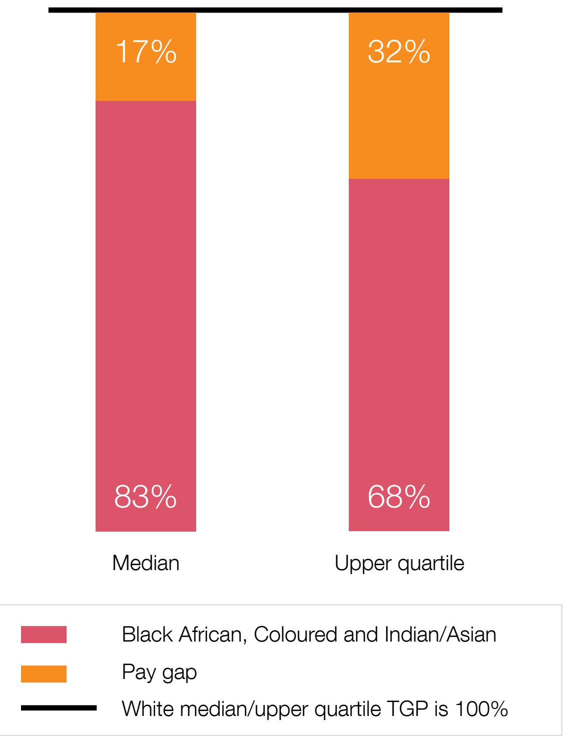
Source: PwC analysis

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



Source: PwC analysis

Figure 14: JSE: CFO race pay gap



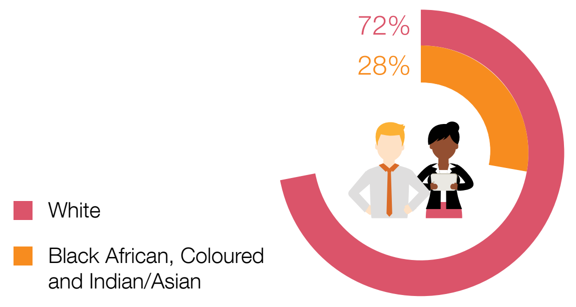
Source: PwC analysis

ED

Black African, Coloured and Indian/Asian representation at ED levels other than CEO and CFO is somewhat better, with a 28% representation in the JSE top 100.

The pay gap for this group at 26% at the median level and does not change much at the upper quartile (28%).

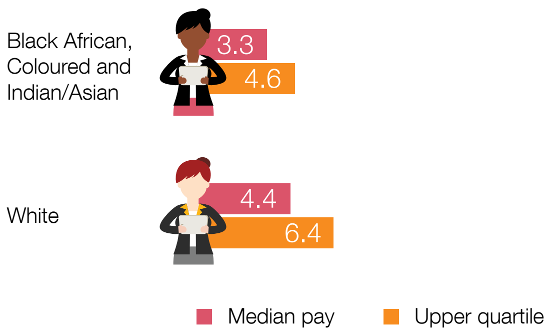
Figure 15: JSE: ED race representation



Note: Black Africans represent 58% of the Black African, Coloured and Indian/Asian sample.

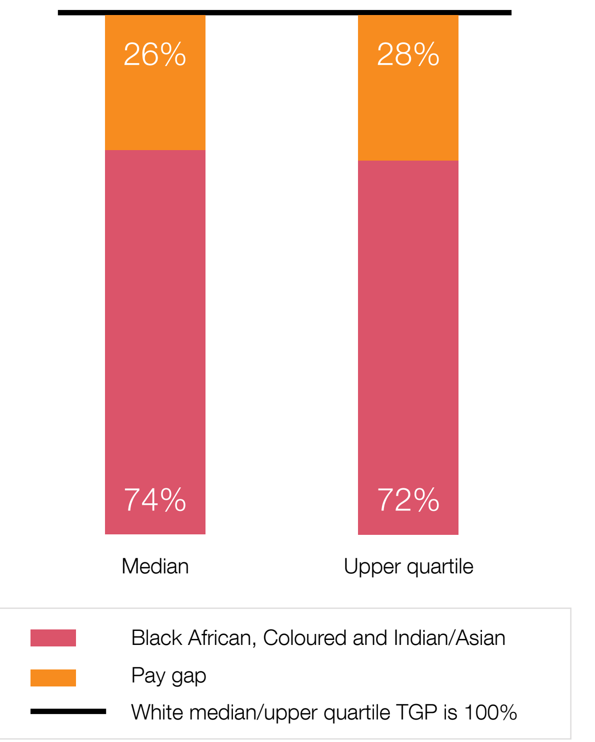
Source: PwC analysis

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



Source: PwC analysis

Figure 17: JSE: ED race pay gap



Source: PwC analysis

10 JSE executive directors' fees

This section of the report provides an analysis of JSE executive directors' fee trends for the period 1 May 2019 to 29 February 2020.

We shifted the cut-off date slightly to 29 February 2020 to avoid the impact of COVID-19 on the results, as we were of the view that this would skew the findings. Thus, our next report in 2021 will include an analysis of the full period, reflecting the impact of COVID.

When EDs are remunerated in a foreign currency, their remuneration is converted to rand using the exchange rate as at the cut-off date (February 2020).

Published accounts are not coterminous since companies have different financial year ends.

Rand exchange rates

Currency	February 2020
Australian dollar	10.131
Swiss franc	16.107
Euro	17.096
UK pound	20.038
US dollar	15.574

Source: FXTOP, https://fxtop.com/en/historical-currency-converter.php

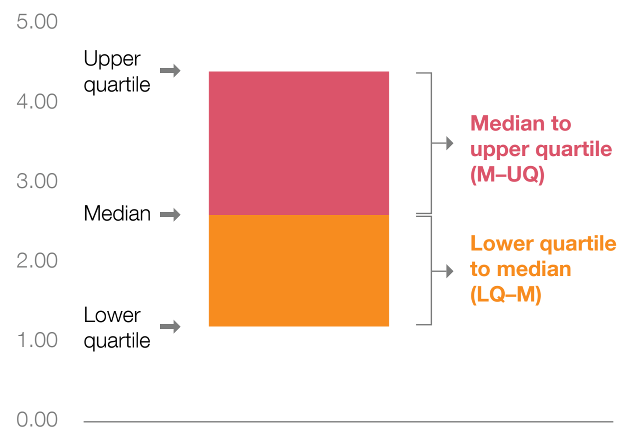
Please note that the remuneration trends set out in this report represent a general analysis, and are not a suitable substitute for appropriately customised remuneration benchmarking.

Total guaranteed package

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

We have changed the manner in which we present our analysis to that shown previously, making year-on-year comparison not possible. Where insufficient data points were not available, the average has been used. We also provide forecast increases for JSE's Main Board sourced from the PwC REMchannel® survey.[1]

Figure 1: Guide to data presentation



1 The REMchannel® survey is an extensive and detailed internet-based remuneration survey, customised for the complexities of various remuneration practices. The database currently contains the detailed salary information of the most junior workers up to the CEOs for more than 550 companies.

TGP for analysed roles for all companies and all industries is depicted in the following tables and accompanying charts.

JSE all industries

Figure 2: **JSE: All industries (R'millions)**

	All JSE	CEO	CFO	ED
Lower quartile	2.54	3.60	2.19	2.16
Median	3.86	5.24	3.20	3.14
Upper quartile	6.10	8.57	5.03	4.64

Source: PwC analysis

Super cap (top 10)

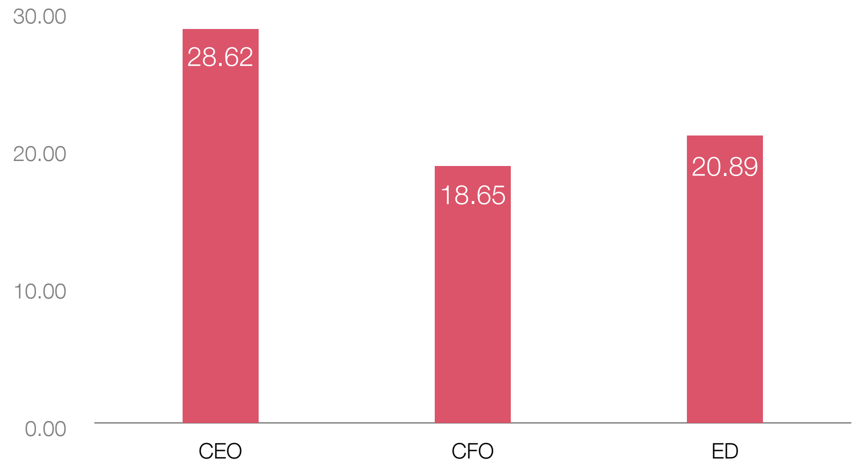
The top 10 listed companies accounted for 69% of total market capitalisation on the JSE at the cut-off date.

JSE top 10 companies

	2019	2020
1	Anheuser-Busch InBev SA	Prosus N.V
2	British American Tobacco plc	British American Tobacco plc
3	Naspers Ltd	Anheuser-Busch InBev SA
4	Glencore plc	Naspers Ltd
5	BHP Group plc	BHP Group plc
6	Compagnie Financière Richemont SA	Compagnie Financière Richemont SA
7	Anglo American plc	Glencore plc
8	FirstRand Ltd	Anglo American plc
9	Standard Bank Group Ltd	Anglo American Platinum Ltd
10	Sasol Ltd	FirstRand Ltd

At the cut-off date, remuneration data for Prosus N.V was not available. This is due to the fact that the company was only listed on the JSE during September 2019.

Figure 3: Super cap: Average TGP (R'millions)



Source: PwC analysis

In this section, we provide a remuneration trends analysis for the various industries within the JSE.

Large cap

The remuneration trends analysis for CEOs, CFOs and EDs in large-cap companies is shown in the graph below.

Figure 4: Large cap, all industries (R'millions)

	CEO	CFO	ED
Lower quartile	9.16	5.85	4.87
Median	13.34	7.62	5.59
Upper quartile	20.35	10.53	9.65

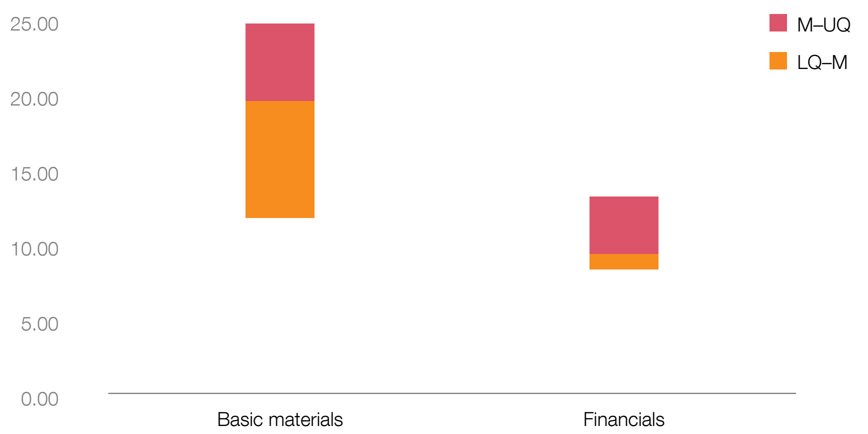
Source: PwC analysis

There are no large-cap companies listed on the AltX or in the energy industry.

The graphs that follow provide an industry based remuneration trends analysis.

CEO

Figure 5: Large cap: CEO quartiles (R'millions)

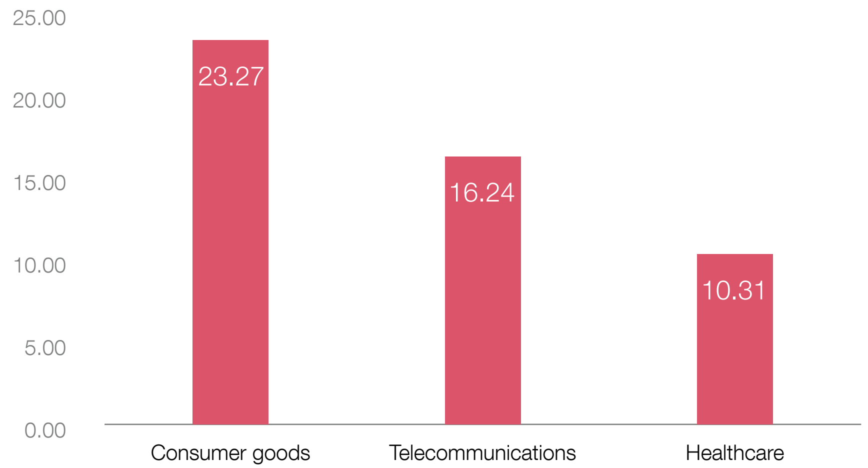


	Basic materials	Financials
Lower quartile	11.71	8.27
Median	19.48	9.29
Upper quartile	24.65	13.10

Source: PwC analysis

There is not sufficient data to present analysis of CEOs in the consumer services, real estate, industrials and technology industries.

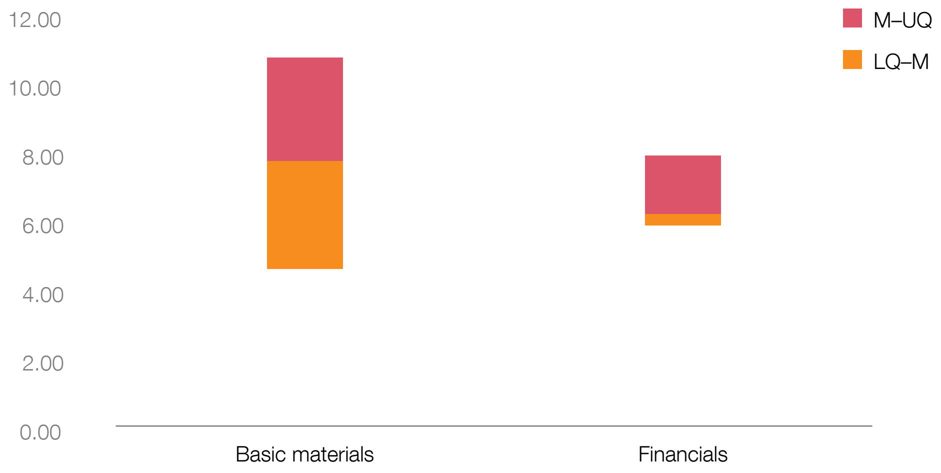
Figure 6: Large cap: CEO average (R'millions)



Source: PwC analysis

CFO

Figure 7: Large cap: CFO quartiles (R'millions)

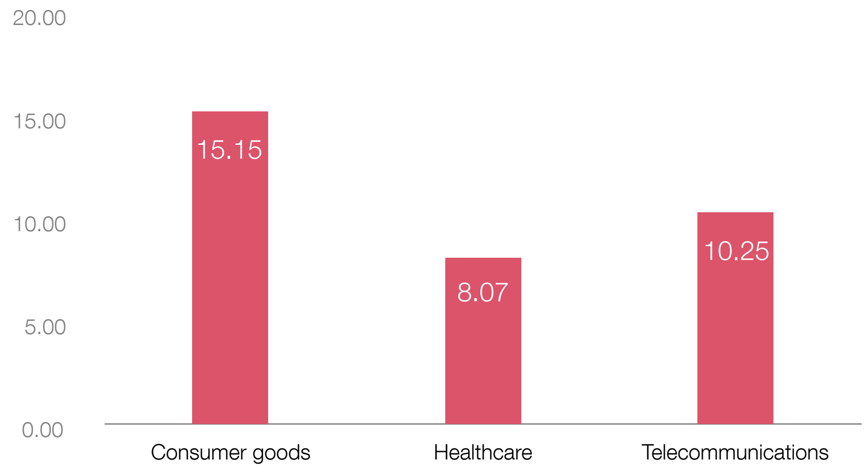


	Basic materials	Financials
Lower quartile	4.57	5.83
Median	7.70	6.16
Upper quartile	10.71	7.86

Source: PwC analysis

The consumer services, industrials, real estate and technology industries have been excluded from this analysis due to insufficient data.

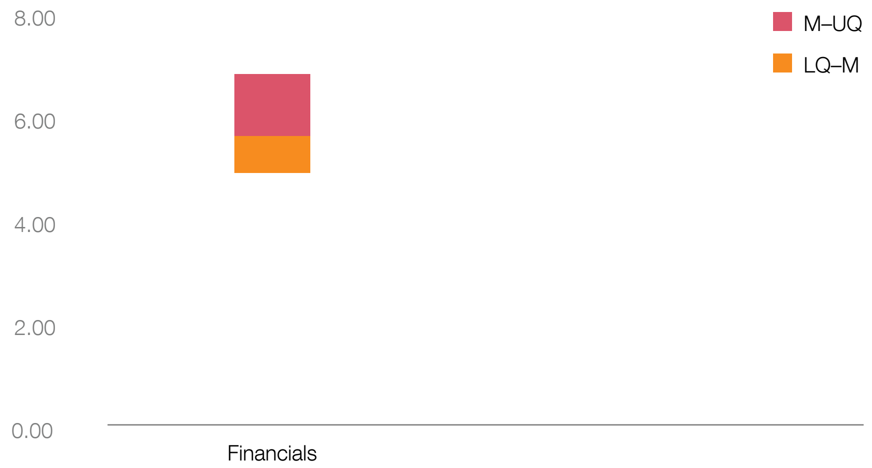
Figure 8: Large cap: CFO average (R'millions)



Source: PwC analysis

EDs

Figure 9: Large cap: ED quartiles (R'millions)

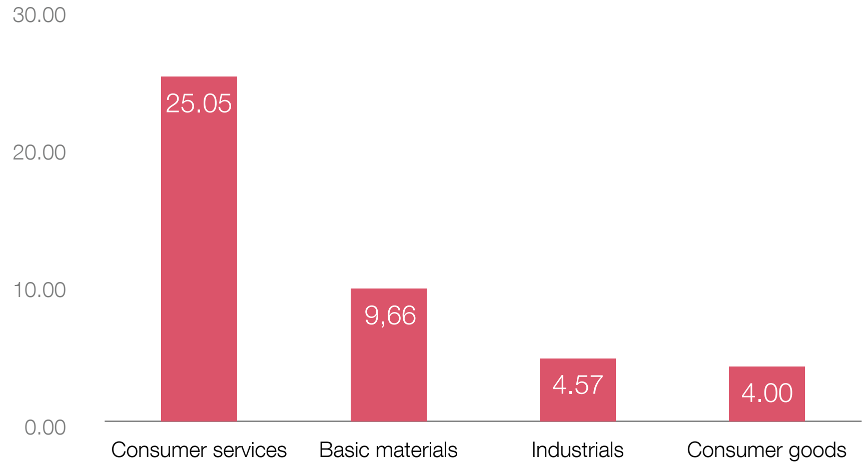


Lower quartile	4.88
Median	5.59
Upper quartile	6.80

Source: PwC analysis

The healthcare, real estate, telecommunications and technology industries have been excluded from this analysis due to insufficient data.

Figure 10: Large cap: ED average (R'millions)

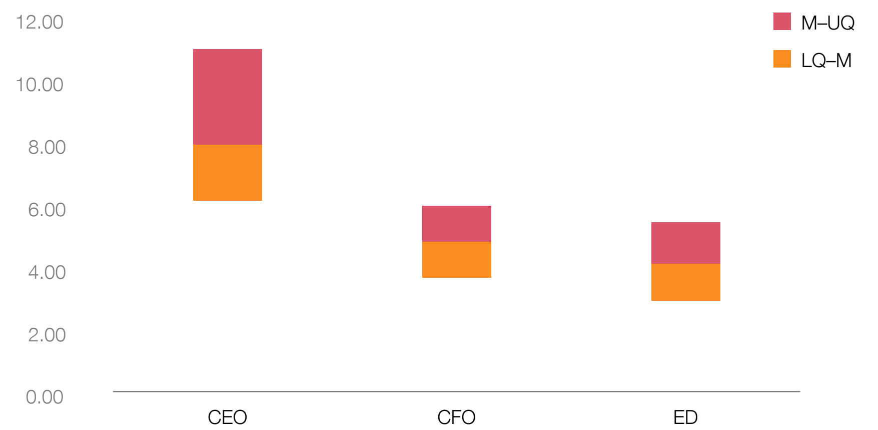


Source: PwC analysis

Medium cap

The remuneration trends analysis for CEOs, CFOs and EDs in medium-cap companies is shown below.

Figure 11: Medium cap: All industries (R'millions)



	CEO	CFO	ED
Lower quartile	6.11	3.65	2.90
Median	7.89	4.80	4.08
Upper quartile	10.96	5.95	5.42

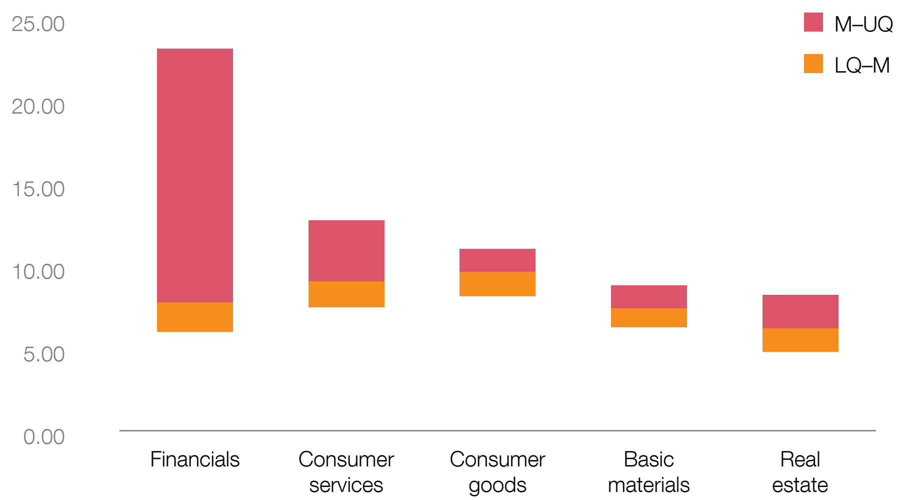
Source: PwC analysis

There are no medium cap companies listed on the AltX, energy and technology industries.

The graphs that follow provide an industry-based trends analysis.

CEO

Figure 12: Medium cap: CEO quartiles (R'millions)

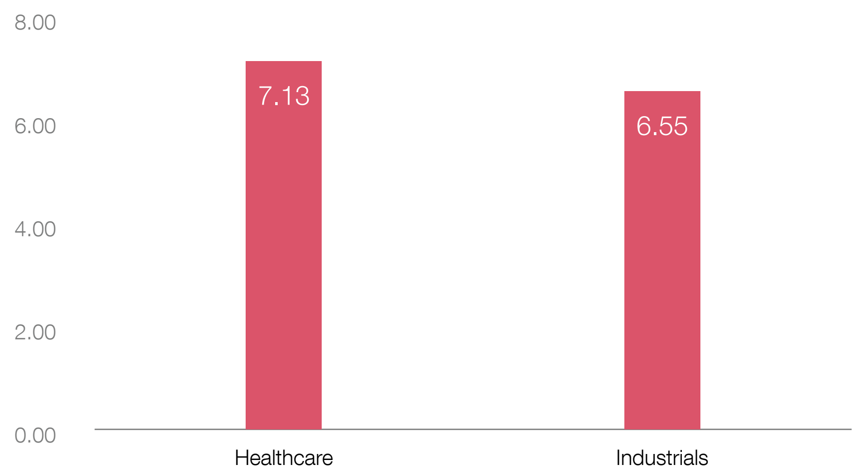


	Financials	Consumer services	Consumer goods	Basic materials	Real estate
Lower quartile	6.01	7.47	8.15	6.28	4.79
Median	7.77	9.02	9.63	7.41	6.18
Upper quartile	23.11	12.72	10.99	8.79	8.23

Source: PwC analysis

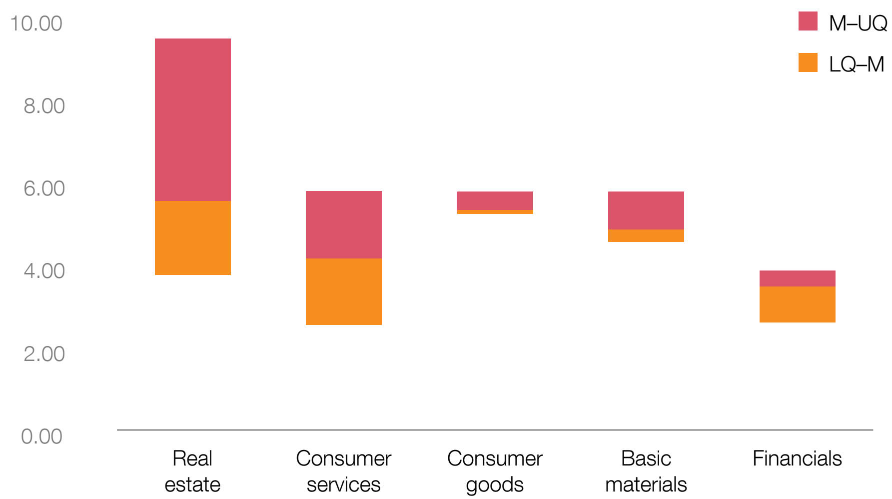
The telecommunications industry has been excluded from this analysis due to insufficient data.

Figure 13: Medium cap: CEO average (R'millions)



Source: PwC analysis

Figure 14: Medium cap: CFO quartiles (R'millions)

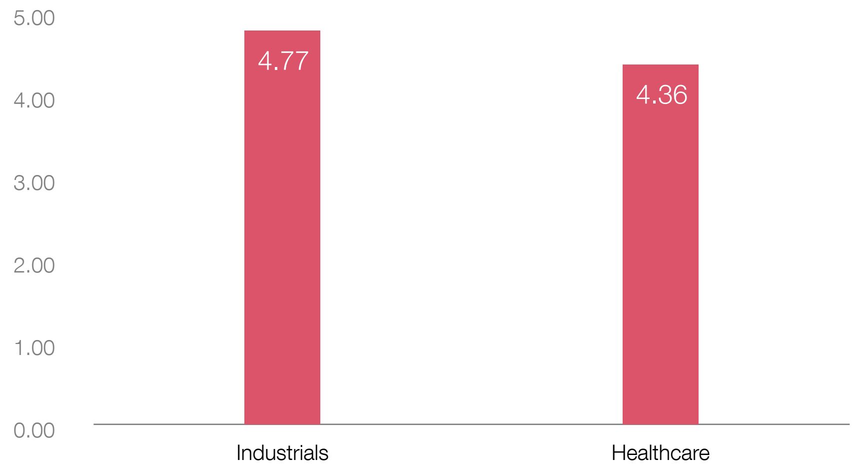


	Real estate	Consumer services	Consumer goods	Basic materials	Financials
Lower quartile	3.76	2.55	5.24	4.56	2.61
Median	5.55	4.15	5.33	4.86	3.47
Upper quartile	9.48	5.79	5.78	5.77	3.87

Source: PwC analysis

The telecommunications industry has been excluded from this analysis due to insufficient data.

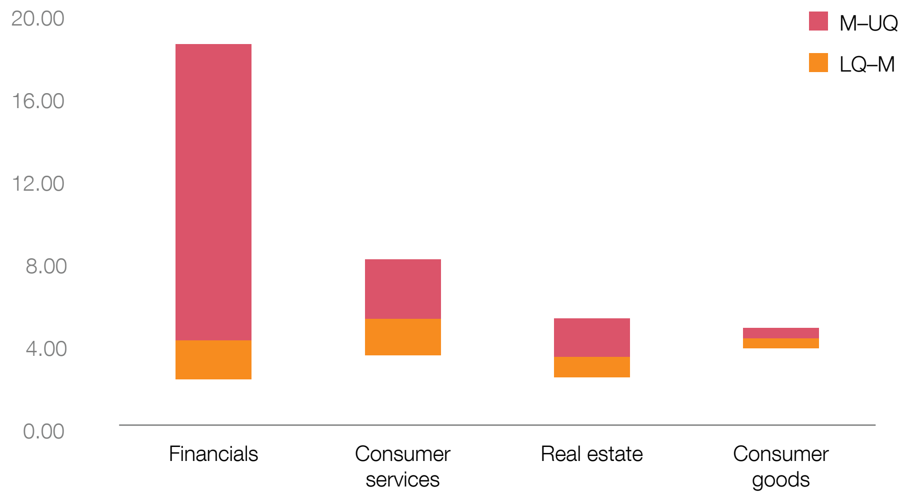
Figure 15: Medium cap: CFO average (R'millions)



Source: PwC analysis

ED

Figure 16: Medium cap: ED quartiles (R'millions)

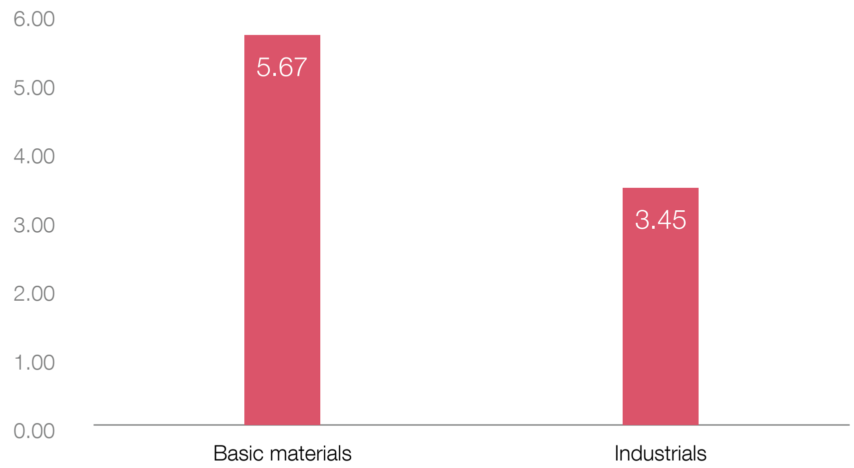


	Financials	Consumer services	Real estate	Consumer goods
Lower quartile	2.21	3.38	2.32	3.73
Median	4.08	5.14	3.30	4.20
Upper quartile	18.43	8.03	5.16	4.71

Source: PwC analysis

The healthcare and telecommunications industries have been excluded from this analysis due to insufficient data.

Figure 17: Medium cap: ED average (R'millions)

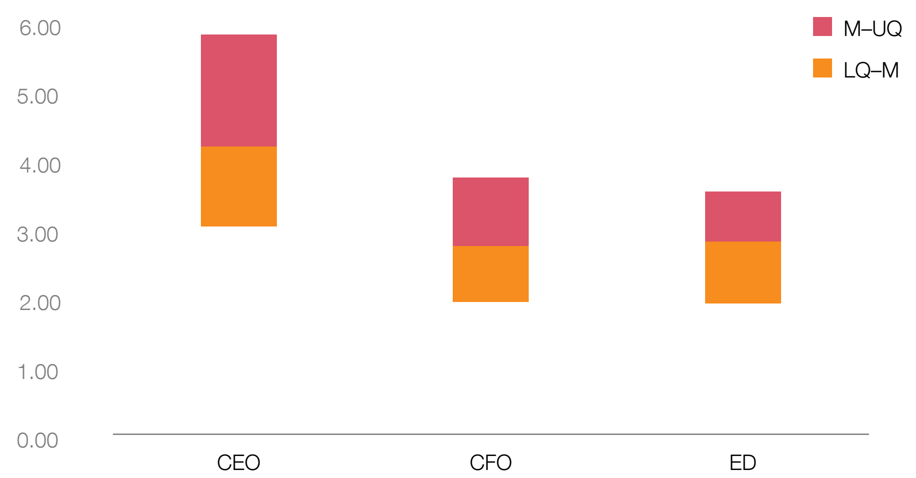


Source: PwC analysis

Small cap

The remuneration trends analysis for CEOs, CFOs and EDs in small-cap companies is shown in the graph below.

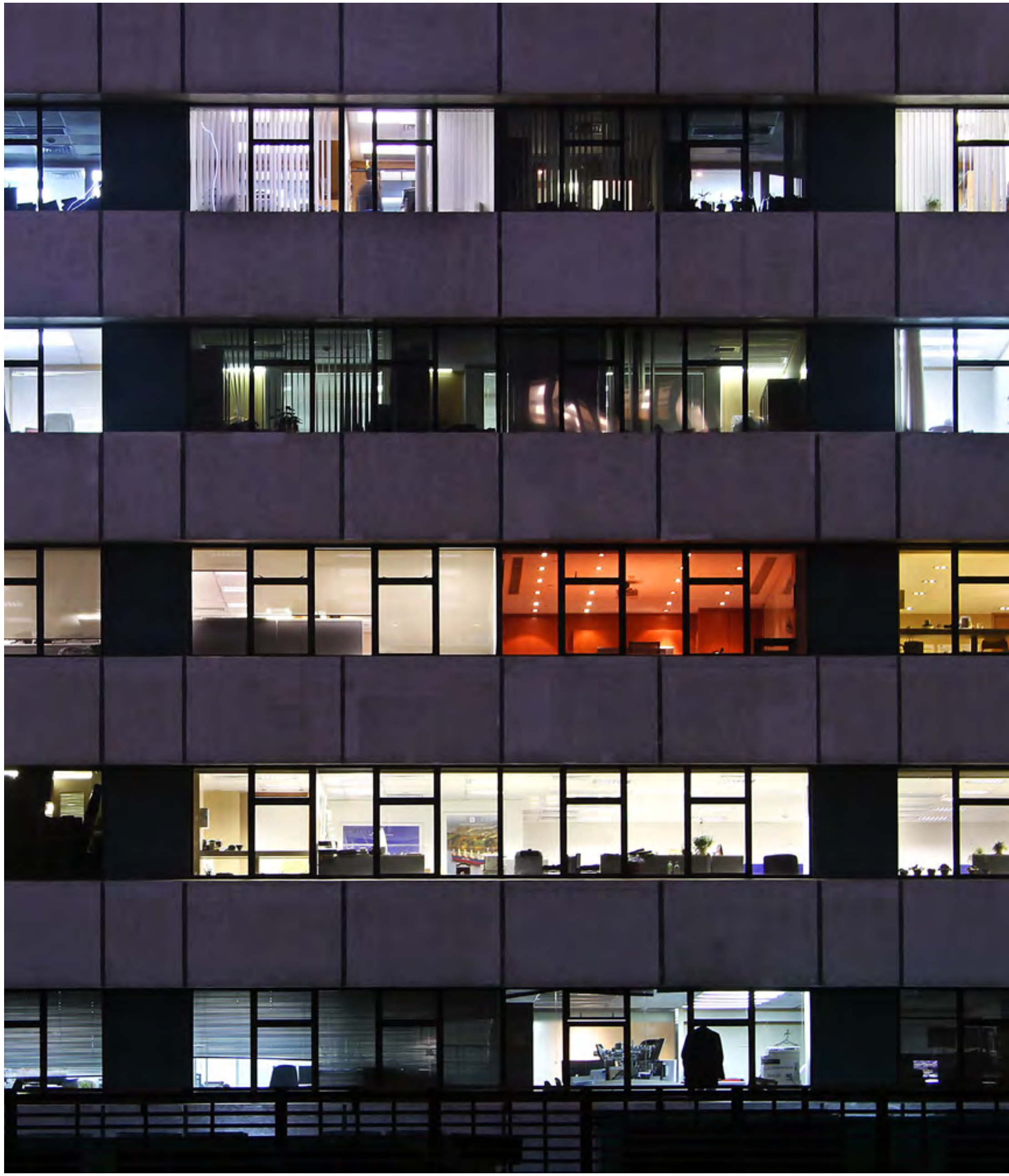
Figure 18: Small cap: All industries (R'millions)



	CEO	CFO	ED
Lower quartile	3.02	1.92	1.90
Median	4.18	2.73	2.80
Upper quartile	5.81	3.73	3.52

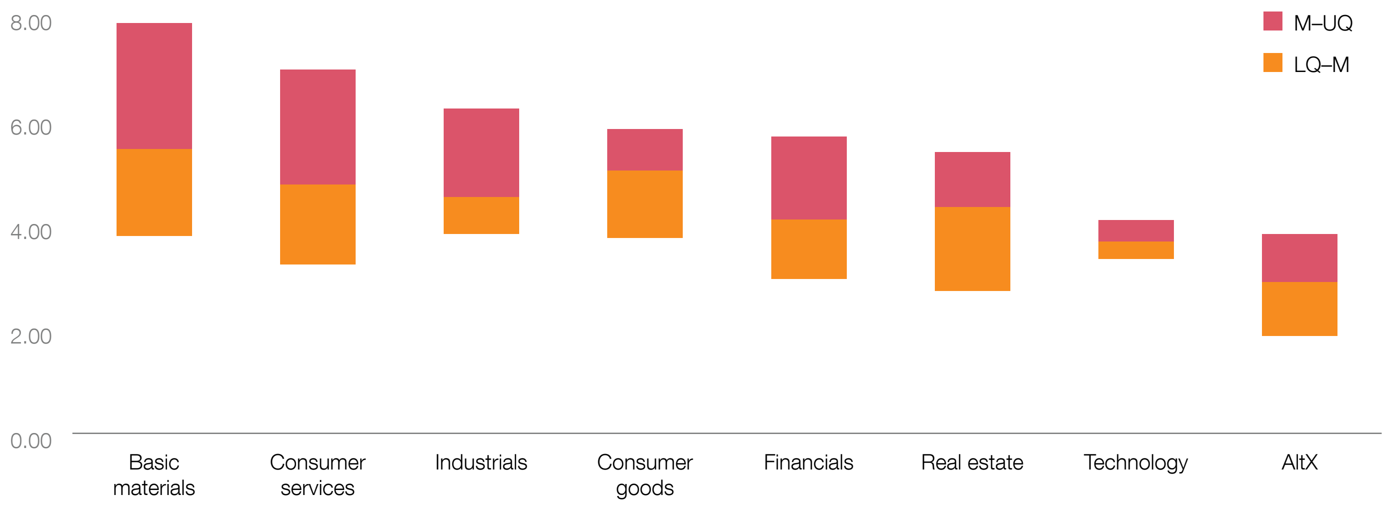
Source: PwC analysis

An industry-based trends analysis for all companies (including the AltX) is shown in the graphs that follow.



CEO

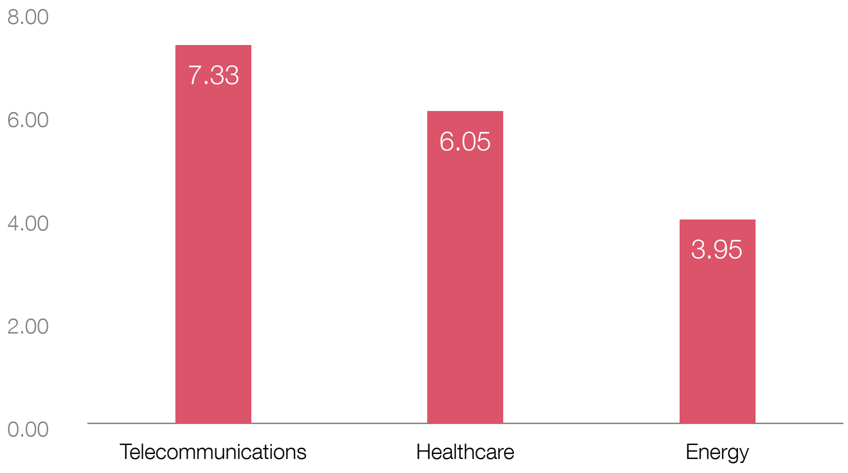
Figure 19: Small cap: CEO quartiles (R'millions)



	Basic materials	Consumer services	Industrials	Consumer goods	Financials	Real estate	Technology	AltX
Lower quartile	3.78	3.23	3.81	3.73	2.96	2.73	3.33	1.87
Median	5.44	4.76	4.52	5.03	4.09	4.33	3.67	2.89
Upper quartile	7.85	6.96	6.21	5.82	5.68	5.38	4.08	3.82

Source: PwC analysis

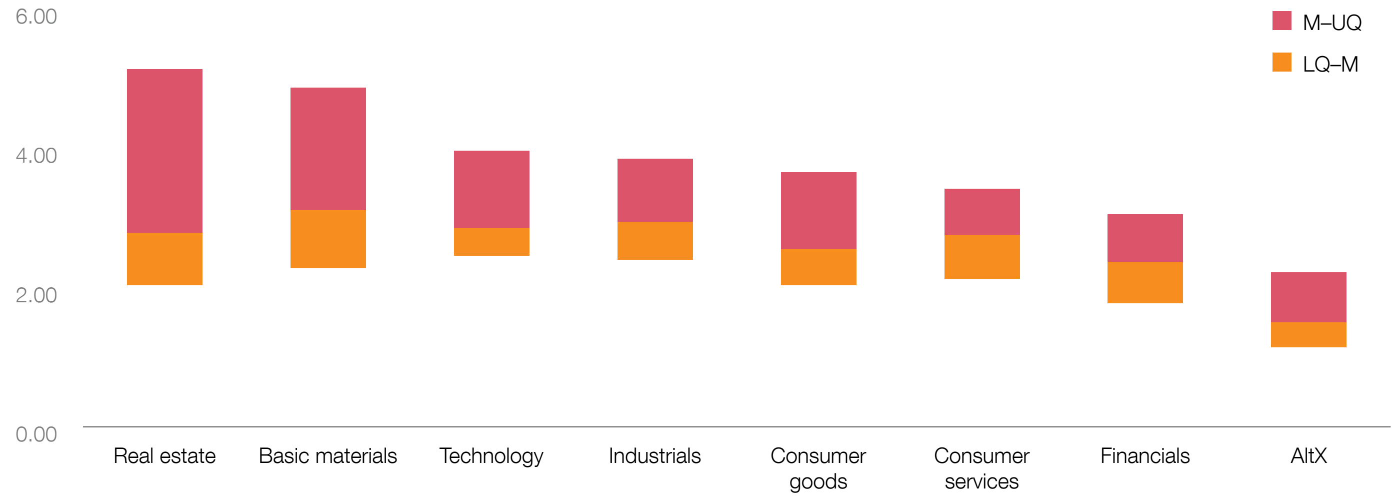
Figure 20: Small cap: CEO average (R'millions)



Source: PwC analysis

CFO

Figure 21: Small cap: CFO quartiles (R'millions)

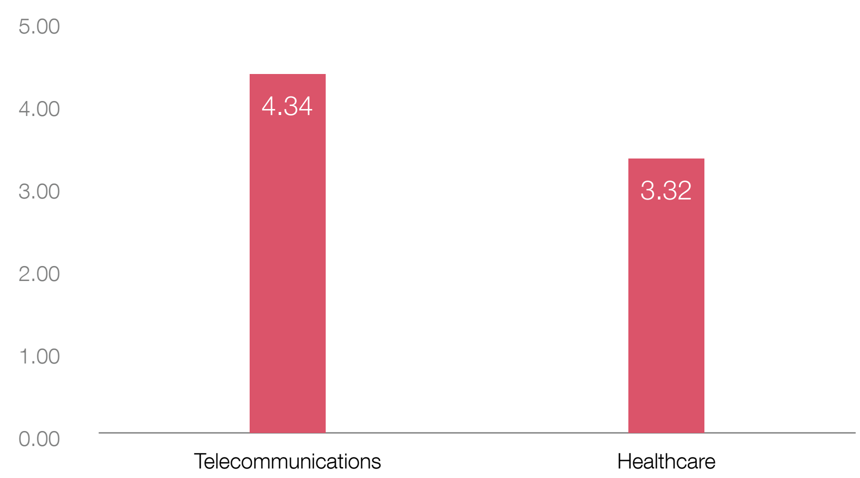


	Real estate	Basic materials	Technology	Industrials	Consumer goods	Consumer services	Financials	AltX
Lower quartile	2.03	2.28	2.46	2.40	2.03	2.12	1.78	1.15
Median	2.78	3.11	2.85	2.94	2.55	2.75	2.37	1.50
Upper quartile	5.13	4.87	3.96	3.85	3.66	3.41	3.05	2.21

Source: PwC analysis

As there is insufficient data available for a CFO in the medium-cap energy industry, it has been excluded from this analysis.

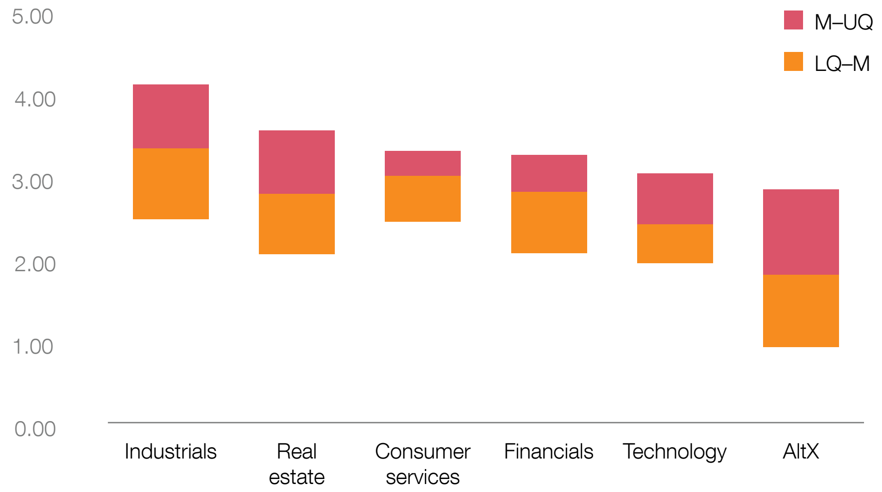
Figure 22: Small cap: CFO average (R'millions)



Source: PwC analysis

EDs

Figure 23: Small cap ED quartiles (R'millions)

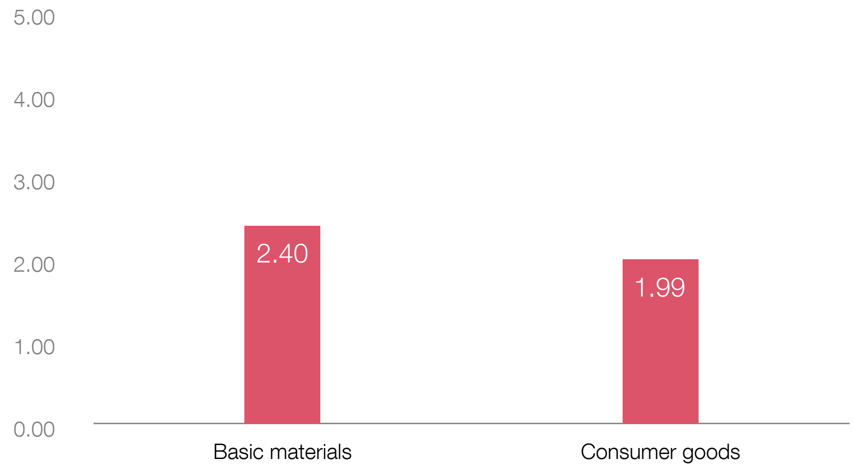


	Industrials	Real estate	Consumer services	Financials	Technology	AltX
Lower quartile	2.47	2.04	2.44	2.06	1.93	0.92
Median	3.33	2.77	2.99	2.80	2.40	1.79
Upper quartile	4.10	3.54	3.29	3.24	3.03	2.83

Source: PwC analysis

The telecommunications, healthcare and energy industries have been excluded from this analysis due to insufficient data.

Figure 24: Small cap: ED average (R'millions)



Source: PwC analysis

Forecast TGP increases

Industry	Increase
All industries	5.2%
Basic materials	5.1%
Consumer services	5.3%
Consumer goods	4.4%
Energy	5.1%
Financials	5.4%
Healthcare	5.1%
Industrials	5.3%
Real estate	5.8%
Technology	5.1%
Telecommunications	4.4%

Source: REMchannel®

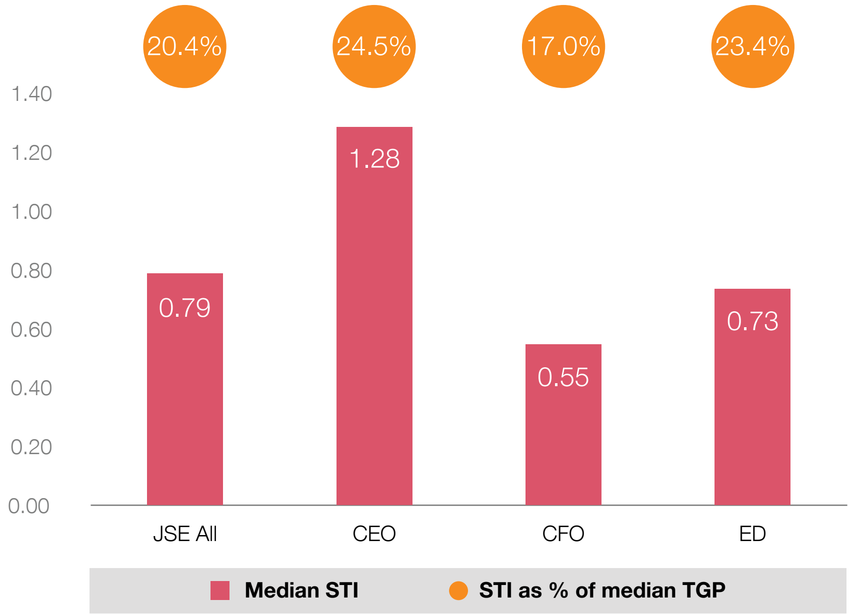
Short-term incentives

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

Following the onset of the COVID-19 pandemic, many STIs have not paid out (or will not pay out) due to the non-meeting of previously set targets. This in turn creates difficulty in setting new targets for upcoming financial years — STI metrics are typically largely financial, but in the current context, these measures may not be appropriate, and the incorporation of ESG measures becomes more important than ever.

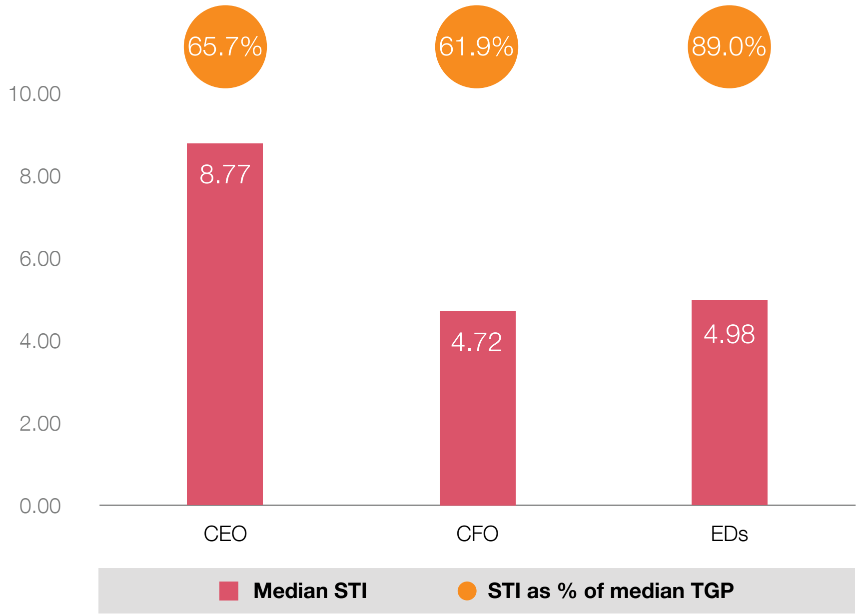
The figures that follow depict current STI trends across all industries for EDs.

Figure 25: JSE: All industries, median (R'millions)



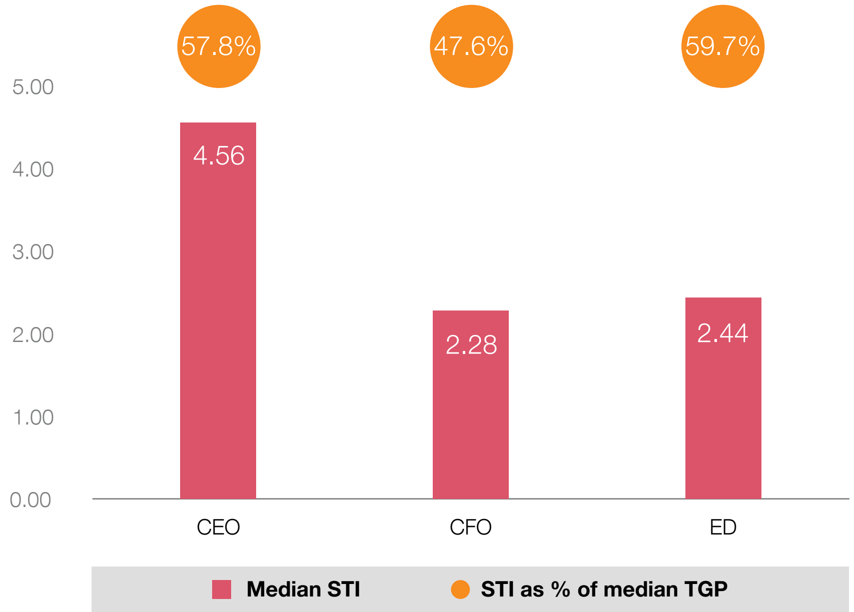
Source: PwC analysis

Figure 26: STI: Large cap (R'millions)



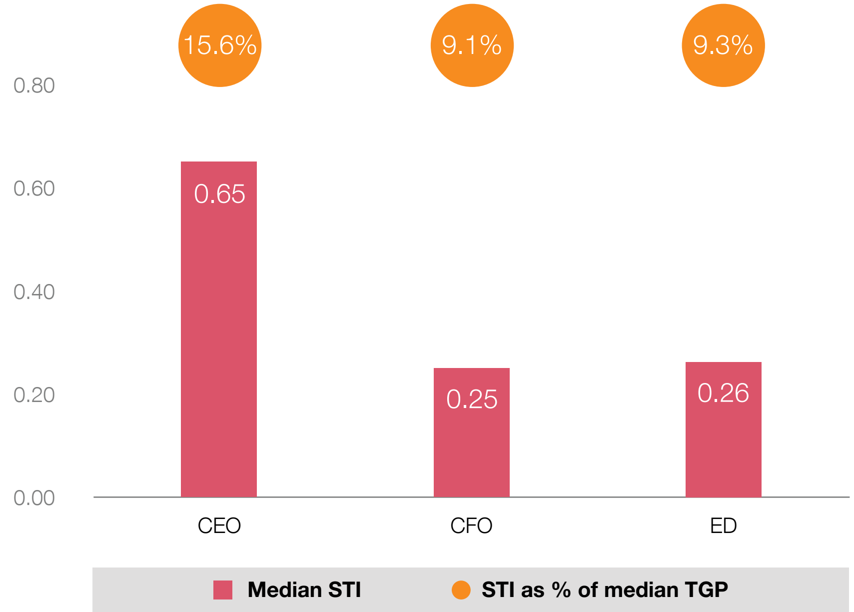
Source: PwC analysis

Figure 27: STI: Medium cap (R'millions)



Source: PwC analysis

Figure 28: STI: Small cap (R'millions)



Source: PwC analysis

11

FTSE 100 and FTSE 250 executive remuneration trends

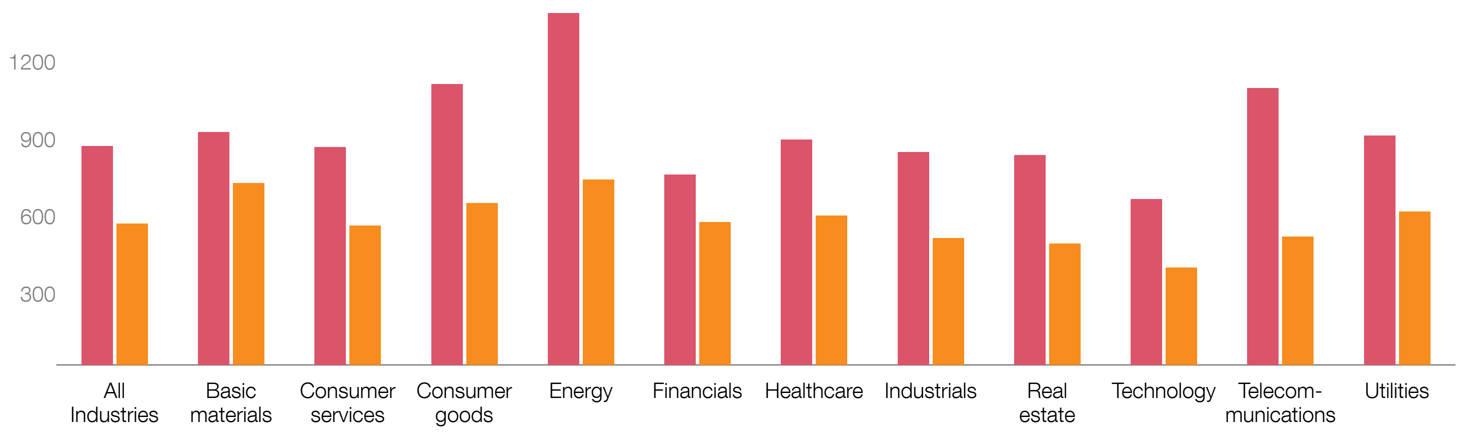
This year, we have included a summary of the median base salary trends as well as the forecast increase percentages provided by PwC UK's Executive and Management Reward Survey.[1] The remuneration trends analysis has also been obtained from a PwC UK survey and is based on both listed and similar sized unlisted companies in terms of revenue.

Base salary trends have only been provided for CEOs and EDs (including CFO) for all industries and on a per industry basis.

The analysis in this chapter was performed over the period of 1 April 2019 to 30 September 2019, over a sample of 127 listed companies and 92 unlisted companies.

1 PwC UK Executive & Management Reward Survey. The UK survey benchmarks the remuneration packages of board directors and senior managers in FTSE 100, FTSE 250 and Small Cap companies as well as equivalent sized UK private companies and divisions.

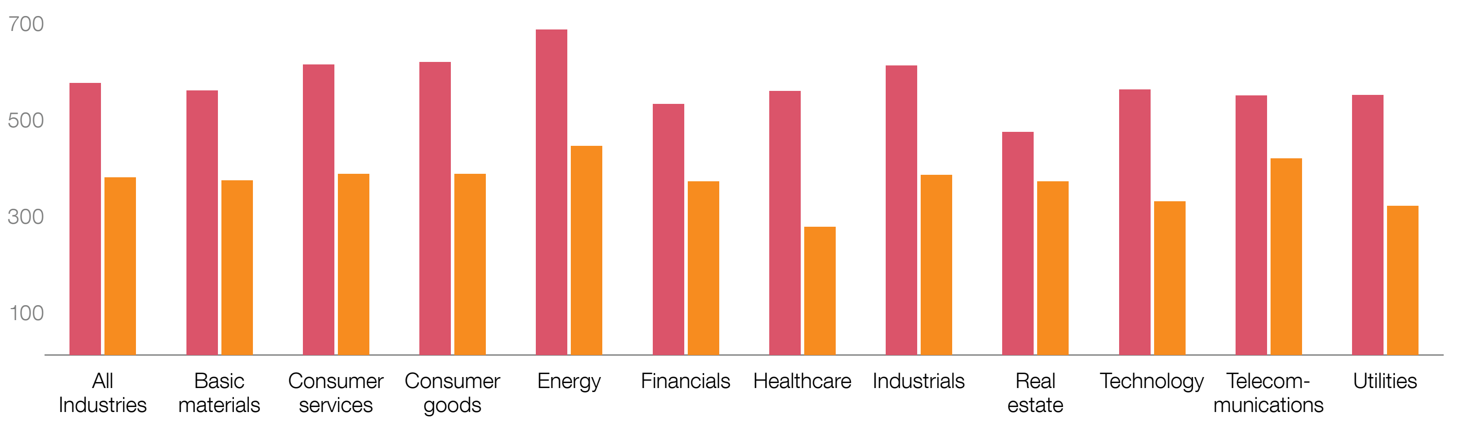
Figure 1: FTSE 100: All industries (£'000)



	All Industries	Basic materials	Consumer services	Consumer goods	Energy	Financials	Healthcare	Industrials	Real estate	Technology	Telecom-munications	Utilities
CEO	850	904	846	1 090	1 366	738	875	827	814	643	1 075	890
ED	549	705	540	628	720	555	580	492	471	377	499	595

Source: PwC analysis

Figure 2: FTSE 250: All industries (£'000)



	All Industries	Basic materials	Consumer services	Consumer goods	Energy	Financials	Healthcare	Industrials	Real estate	Technology	Telecom-munications	Utilities
CEO	564	548	602	607	675	520	547	600	462	551	538	539
ED	368	362	375	375	433	360	266	373	360	319	408	309

Source: PwC analysis

The table below illustrates the forecast increases for EDs:

	FTSE 100	FTSE 250
All industries	2.3%	2.4%
Basic materials	2.2%	2.2%
Consumer services	2.3%	2.3%
Consumer goods	2.5%	2.5%
Energy	2.3%	2.3%
Financials	2.0%	2.0%
Healthcare	2.5%	2.5%
Industrials	2.0%	2.0%
Real estate		2.5%
Technology		2.5%
Telecommunications	2.5%	2.5%
Utilities	2.0%	2.0%

12

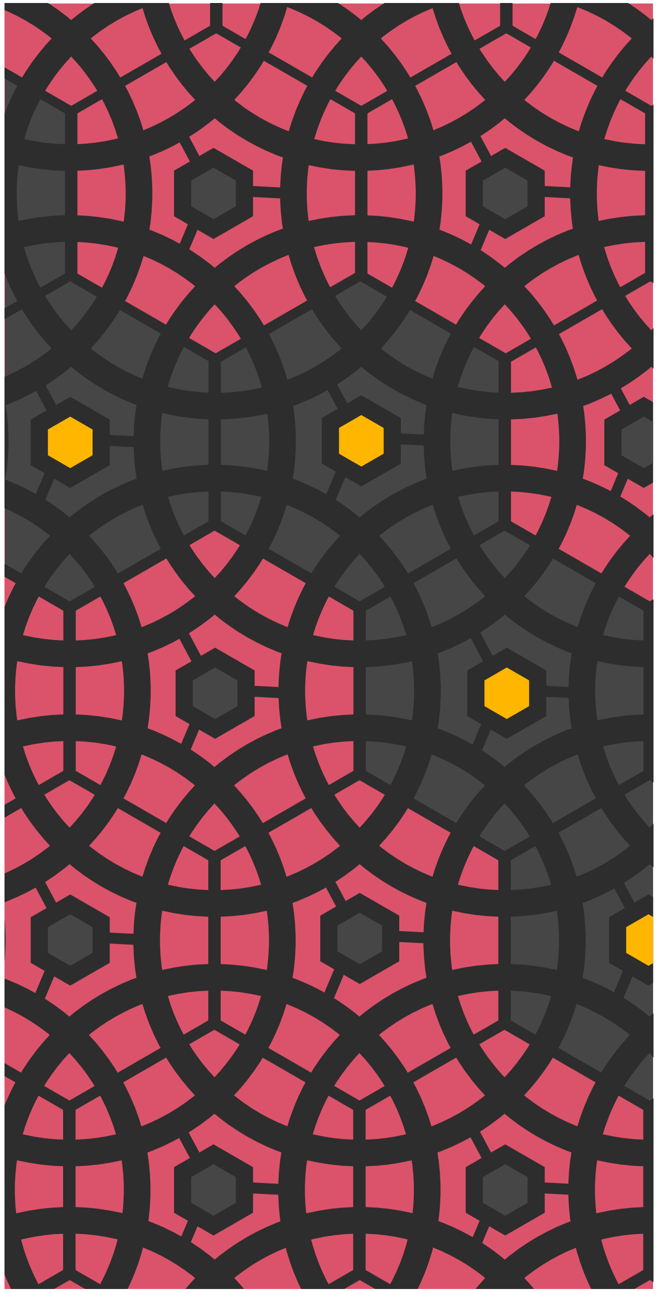
Remuneration trends in other sub-Saharan countries

We have analysed remuneration trends among 419 companies listed on seven sub-Saharan African stock exchanges (excluding South Africa).

Sub-Saharan stock exchanges analysed

Sectoral breakdown of companies analysed

Industry	Proportion of companies listed
Basic materials	15%
Consumer goods	13%
Consumer services	11%
Financials	20%
Healthcare	4%
Industrials	16%
Energy	4%
Real estate	8%
Technology	5%
Telecommunications	3%
Utilities	1%



Data analysed

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

For the countries selected, we have analysed remuneration trends of a total of 1 156 EDs, of which 352 are CEOs, 151 are CFOs and 653 are other EDs.

The remuneration paid to the EDs of the companies analysed has been converted from each country's functional currency to the US dollar. Values were converted at midnight on 29 February 2020. As exchange rates fluctuate on a year-on-year basis, a percentage increase from 2019 to 2020 is not provided.

As in other sections of this report, we have changed the manner in which we present our quartile analysis, as illustrated in the graphical representation below:

Figure 1: Guide to data presentation

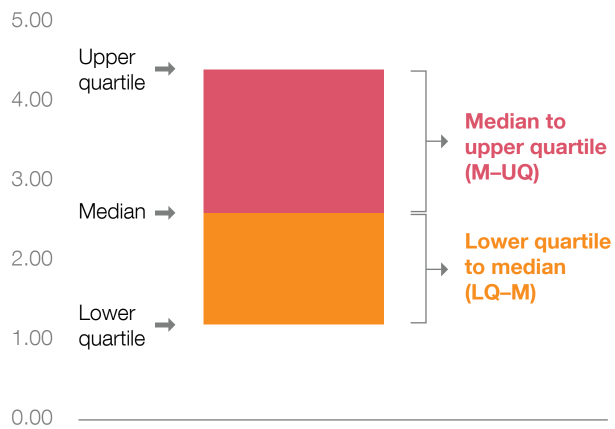
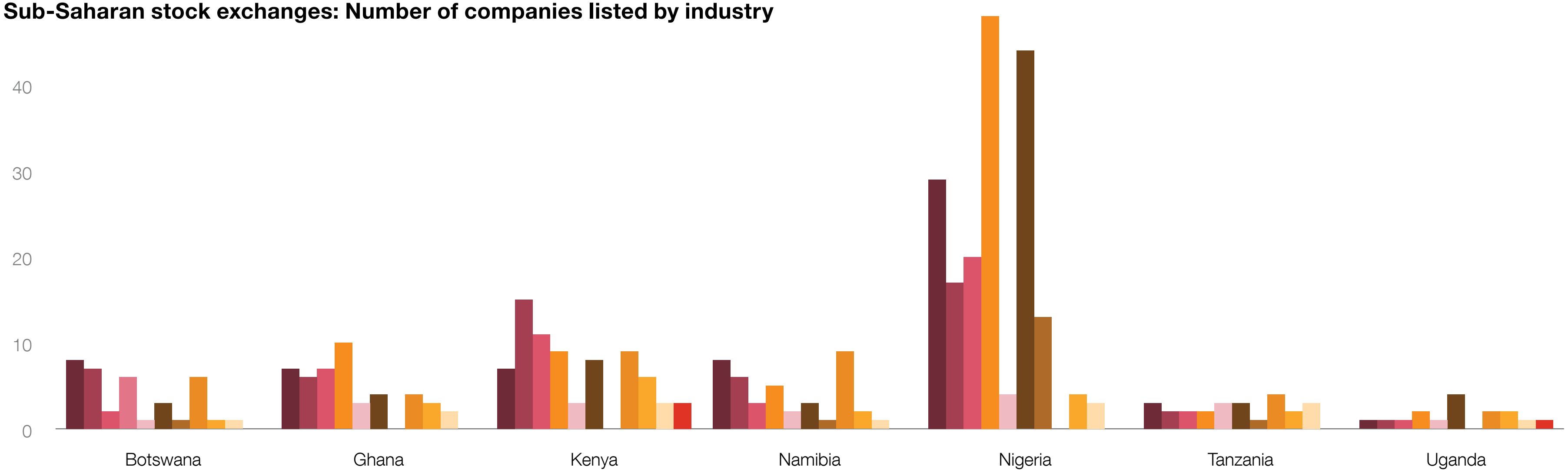


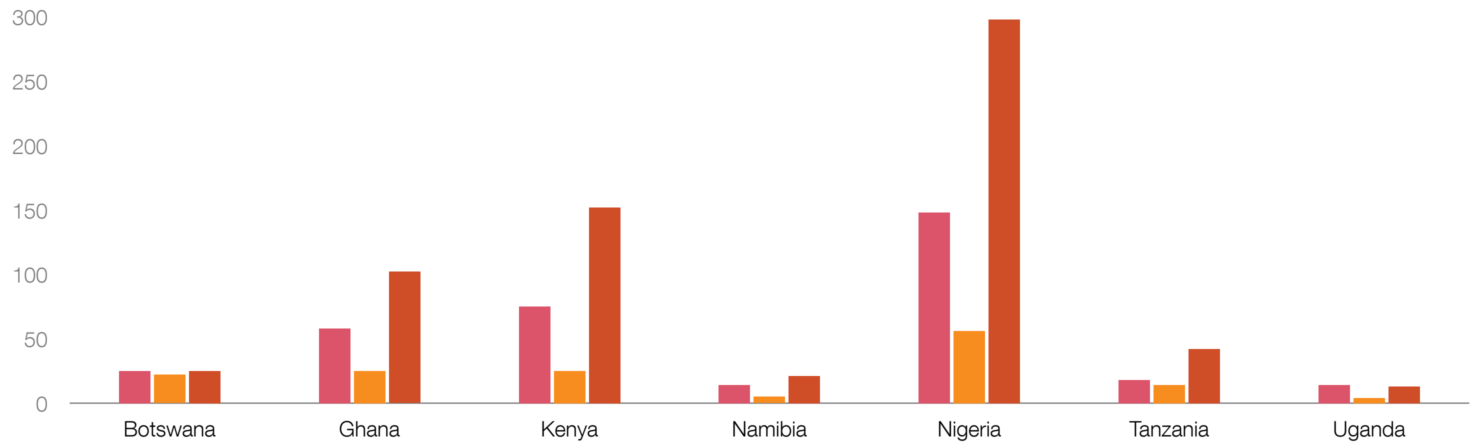
Figure 2: Sub-Saharan stock exchanges: Number of companies listed by industry



	Botswana	Ghana	Kenya	Namibia	Nigeria	Tanzania	Uganda
Basic materials	8	7	7	8	29	3	1
Consumer goods	7	6	15	6	17	2	1
Consumer services	2	7	11	3	20	2	1
Financials	6	10	9	5	48	2	2
Healthcare	1	3	3	2	4	3	1
Industrials	3	4	8	3	44	3	4
Energy	1	-	-	1	13	1	-
Real estate	6	4	9	9	-	4	2
Technology	1	3	6	2	4	2	2
Telecom-munications	1	2	3	1	3	3	1
Utilities	-	-	3	-	-	-	1

Source: PwC analysis

Figure 3: Sub-Saharan stock exchanges: Number of EDs analysed in each country

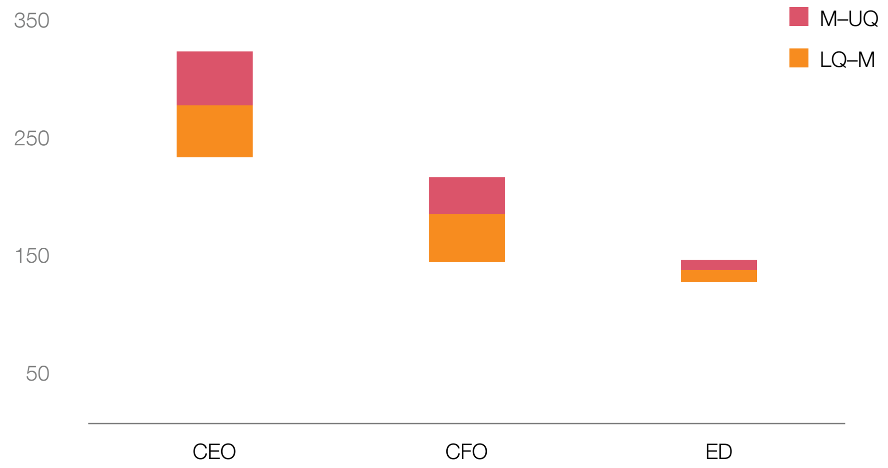


	Botswana	Ghana	Kenya	Namibia	Nigeria	Tanzania	Uganda
CEO	25	58	75	14	148	18	14
CFO	22	25	25	5	56	14	4
ED	25	102	152	21	298	42	13

Source: PwC analysis

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

Figure 4: Sub-Saharan stock exchanges: All industries ($'000)



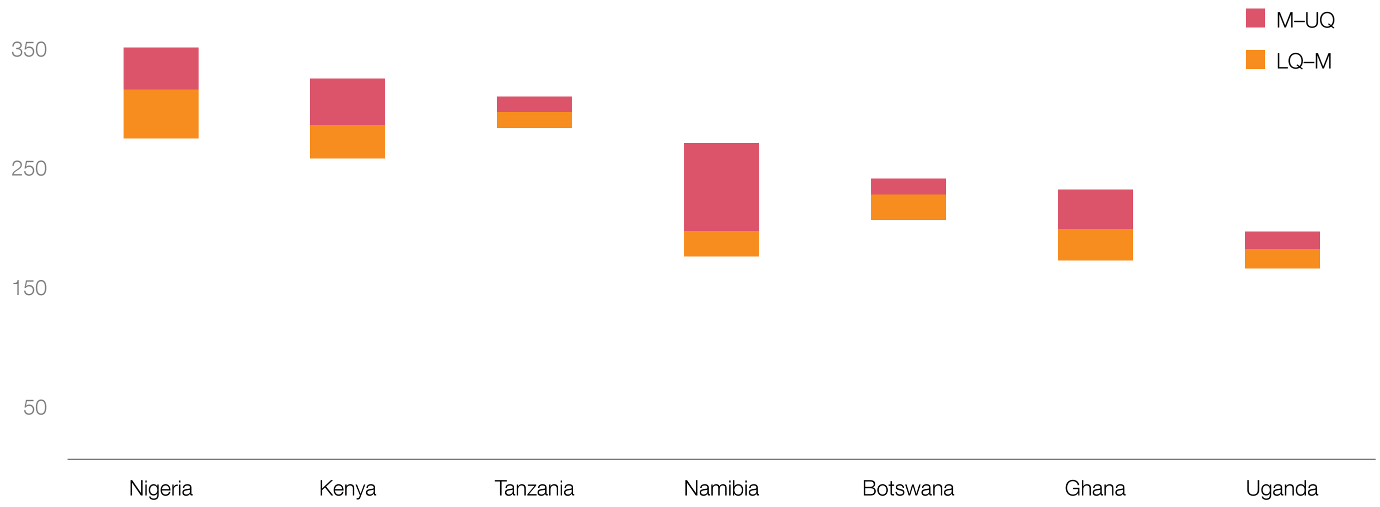
	CEO	CFO	ED
Lower quartile	226	137	120
Median	270	178	130
Upper quartile	316	209	139

Source: PwC analysis

ED remuneration trends by country

Each stock exchange has been examined separately. The remuneration trends for CEO, CFO and EDs are shown in the charts that follow.

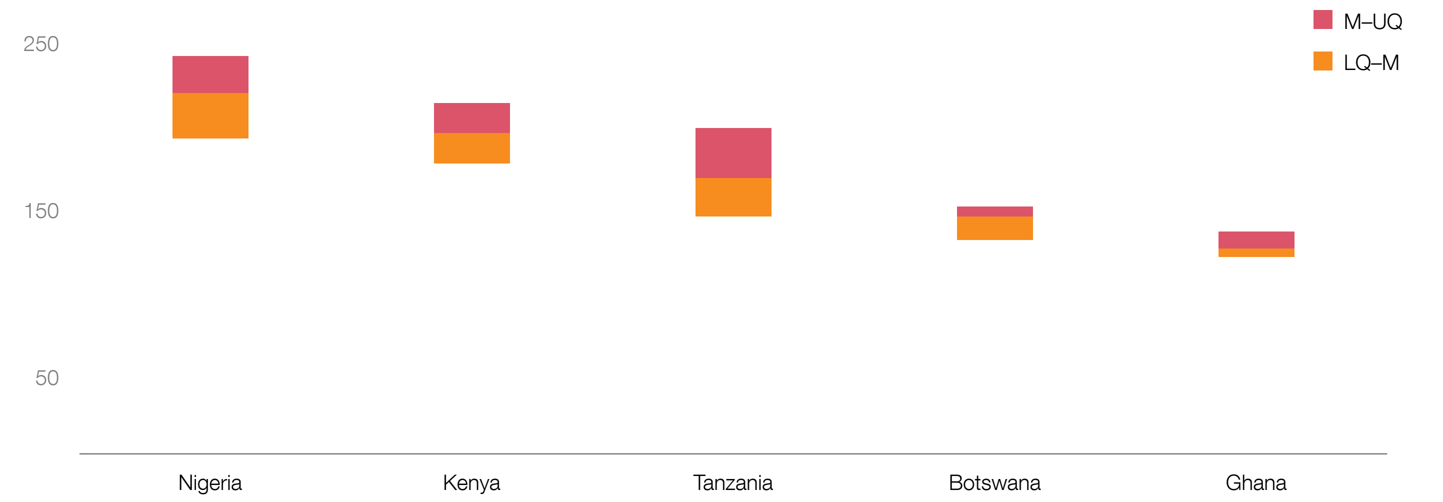
Figure 5: Sub-Saharan stock exchanges: CEO ($'000)



	Nigeria	Kenya	Tanzania	Namibia	Botswana	Ghana	Uganda
Lower quartile	269	252	278	170	201	167	160
Median	310	280	291	191	222	193	176
Upper quartile	345	319	304	265	235	226	191

Source: PwC analysis

Figure 6: Sub-Saharan stock exchanges: CFO ($'000)

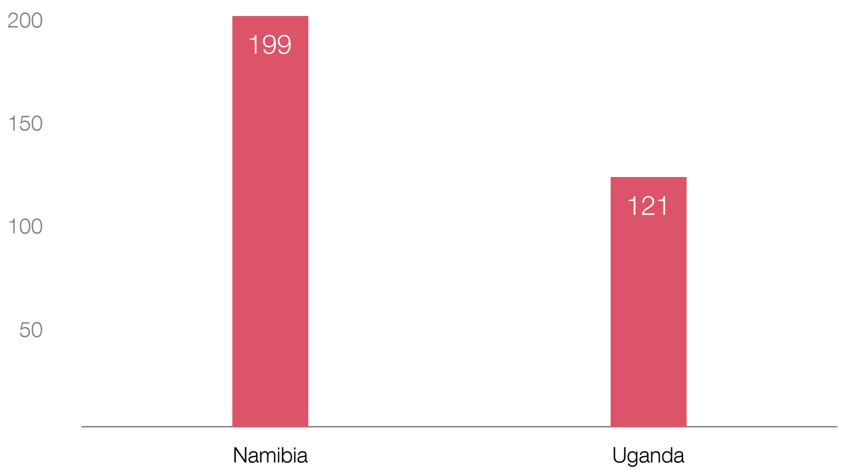


	Nigeria	Kenya	Tanzania	Botswana	Ghana
Lower quartile	189	174	142	128	118
Median	216	192	165	142	123
Upper quartile	238	210	195	148	133

Source: PwC analysis

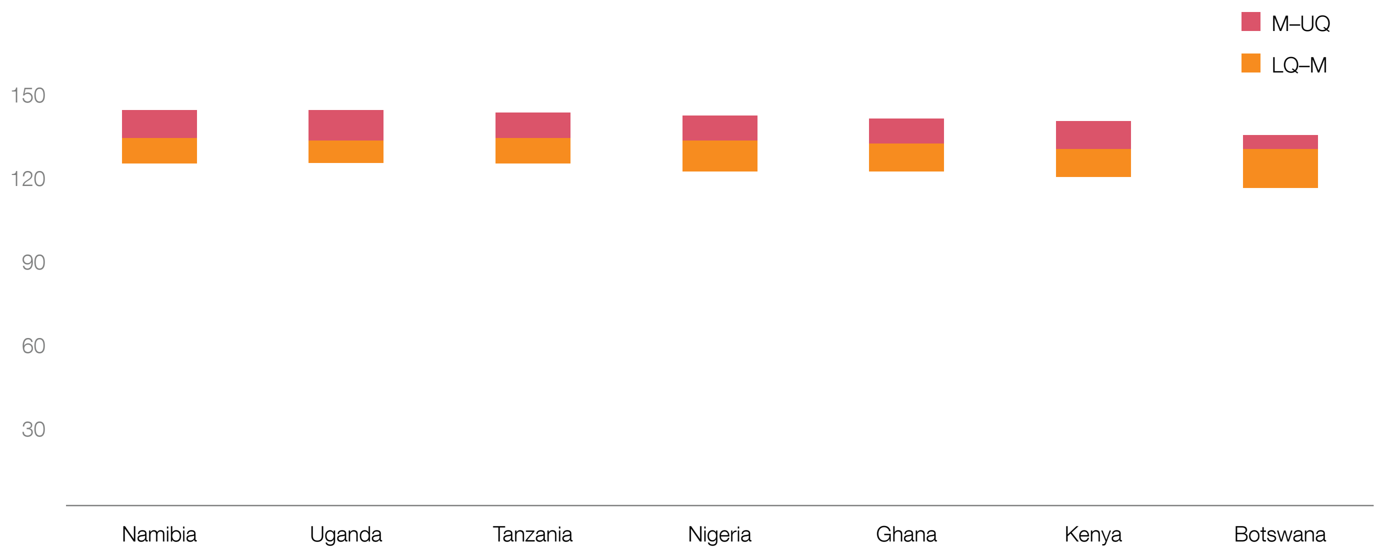
A quartile analysis could not be performed for Namibian and Ugandan CFOs due to insufficient data points,. We have provided an average analysis for these two countries.

Figure 7: **Sub-Saharan stock exchanges: CFO, average ($'000)**



Source: PwC analysis

Figure 8: Sub-Saharan stock exchanges: ED ($'000)



	Namibia	Uganda	Tanzania	Nigeria	Ghana	Kenya	Botswana
Lower quartile	123	123	123	120	120	118	114
Median	132	131	132	131	130	128	128
Upper quartile	142	141	142	140	139	138	133

Source: PwC analysis

Appendices

The South African marketplace ICB classification (301)

AltX (29)

Main Board (272)

Basic materials	41
Chemicals	5
Forestry & paper	3
Industrial metals & mining	4
Mining	29

Consumer goods	19
Automobiles & parts	1
Beverages	2
Food producers	12
Household goods & home construction	1
Leisure goods	1
Personal goods	1
Tobacco	1

Consumer services	40
Food & drug retailers	6
General retailers	20
Media	5
Travel & leisure	9

Financials	99
Banks	7
Equity investment instruments	9
Financial services	26
Life Insurance	6
Nonequity investment instruments	1
Nonlife insurance	3
Real estate investment & services	13
Real estate investment trusts	34

Healthcare	7
Healthcare equipment & services	4
Pharmaceuticals & biotechnology	3

Industrials	47
Construction & materials	11
Electronic & electrical equipment	5
General industrials	10
Industrial engineering	3
Industrial transportation	8
Support services	10

Oil & gas	2
Oil & gas producers	2
Alternative energy	0

Technology	12
Software & computer services	10
Technology hardware & equipment	2

Telecommunications	5
Fixed line telecommunications	1
Mobile telecommunications	4

African marketplace (419)

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

	Total		Basic materials		Consumer goods		Consumer services		Financials		Healthcare		Industrials		Energy		Real estate		Technology		Telecom-munications		Utilities	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Botswana	36	35	8	9	7	6	2	2	6	5	1	1	3	3	1		6	6	1	2	1	1		
Ghana	46	45	7	7	6	6	7	7	10	9	3	3	4	4			4	4	3	3	2	2		
Kenya	74	74	7	8	15	15	11	11	9	9	3	3	8	10			9	9	6	6	3	3	3	
Namibia	40	40	8	9	6	6	3	3	5	5	2	2	3	3	1		9	9	2	2	1	1		
Nigeria	182	180	29	29	17	15	20	20	48	48	4	4	44	44	13			13	4	4	3	3		
Tanzania	25	23	3	3	2	2	2	2	2	2	3	3	3	4	1		4	4	2	2	3	1		
Uganda	16	15	1	1	1	1	1	1	2	2	1	1	4	3			2	2	2	2	1	2	1	
	419	412	63	66	54	51	46	46	82	80	17	17	69	71	16	-	34	47	20	21	14	13	4	-

About PwC

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

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. We use our international network, experience, industry knowledge and business understanding to build trust and create value for clients.

We are committed to making PwC distinctive through consistent behaviours which 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.

About People and Organisation: Reward

The PwC Reward practice consists of 20 dynamic professionals, all experts in differing but related professional fields. We combine our qualifications and experience to deliver guaranteed value and project success. We handle complex and strategically important reward projects, providing high-quality, meaningful and detailed reports, analyses and research, along with unique solutions for specific needs.

Our team is agile and diverse, allowing us to deliver remuneration solutions that are founded on strong governance principles and speak directly to the strategy of your organisation. Our network is unmatched in the market and we draw on our global expertise to provide a relevant, multifaceted range of services aligned with international trends and best practice, while remaining locally focused.

We believe that for inclusive growth to be achieved in South Africa, remuneration structures should reward innovation and growth as delivered by executive teams, while being rooted in fairness and transparency for all employees. As a team we regularly engage with key industry players to ensure that current market sentiment and developing trends are known, and proactively applied in the context of our client engagements, to add value and win shareholder approval.

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