14th edition – South Africa

Executive directors

Practices and remuneration trends report

August 2022

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Contents

Acronyms used in this report

AGM	Annual general meeting
APRA	Australian Prudential Regulation Authority
COVID-19	Coronavirus disease 2019
D&I	Diversity and Inclusion
ESG	Environmental, social, and governance
EU	European Union
EVP	Employee value proposition
FCA	Financial Conduct Authority (UK)
GHG	Greenhouse gas
HR	Human resources
ICB	Industry Classification Benchmark
ISS	Institutional Shareholder Services
JSE	Johannesburg Stock Exchange
KPI	Key performance indicator
LTI	Long-term incentive
MRT	Material Risk Taker
RemCo	Remuneration Committee
STI	Short-term incentive
TGP	Total guaranteed pay
TSR	Total shareholder return
UK	United Kingdom
US	United States

Editor's note

Leila Ebrahimi
Editor

> "The global economy has been having a rocky ride. There was the pandemic, there was the supply chain squeeze coming out of the pandemic, and then Russia's invasion of Ukraine. Many developed countries now have inflation levels unseen for a generation or two and economic growth is down. — **Robin Pomeroy**[1]

[1] World Economic Forum, 2022. Will slow growth and inflation lead to stagflation? Economist Greg Daco speaks to Radio Davos. World Economic Forum, June 23, 2022.

As the world teeters on the edge of a global recession, and everyone gets to grip with the term 'stagflation', a few facts which relate to pay are relevant:

1. The move towards linking ESG and pay is not slowing down, and most large listed companies are now doing this in some form.
2. It seems strange to talk about a living wage in the midst of a recession, but this is exactly the right time to be doing so. We've seen good progress in this regard, so we are feeling positive that traction will build.
3. The cost of living crisis just adds to the body of evidence that shows that we need to think about employer/employee relationships differently, including how we pay. We've got some ideas about this, starting with how we think about benchmarking, and explore this in greater detail in chapter four.
4. We need to talk about 'windfall gains'. When are gains 'windfall'? How should we assess pay levels to ensure fairness? This links into the bigger conversation around fair pay.

It's Women's Month, and every time it rolls around we wait to be told that gender equality has made significant progress. We have all become familiar with the setbacks the pandemic posed to the equality agenda… but the world has normalised to a point where it is no longer appropriate to talk about excuses, or even look for reasons why inequality persists. We must look forward and commit to action. We have long maintained that the biggest step towards resolving the gender pay gap is equal gender representation within senior positions. We know this cannot happen without attrition. So this year, we have analysed new executive appointments in an effort to better understand: where the clear opportunity for immediate change exists, what is happening? You can find our analysis in chapter one.

Speaking of attrition, while the world experiences what has been coined as the Great Resignation, within South Africa we are also contending with the reality that many highly skilled employees are leaving their jobs for opportunities abroad (also referred to as 'the brain drain'). This has an inevitable effect on pay levels, and we evaluate how employers and employees are approaching the 'Grand Bargain' in chapter two.

The wealth of ESG information in the last year or so has been overwhelming. It's a challenge to know what to read, where to apply one's attention, and how to use our limited time to achieve maximum impact. And that's just on a personal level. Our reward practice has seen that businesses are grappling with similar questions.

This is why we are such strong proponents of a proper 'landscape analysis' or 'due diligence' before even thinking about linking ESG to pay. We have done some South African focused research into this link in chapter six, and give a snapshot on how the ESG landscape has changed locally, and contrast this to the global environment. What is not clear from the disclosure that we analysed, is whether that kind of robust landscape analysis has informed the measures selected and included. It is clear that the incorporation of ESG-inspired measures into executive pay structures has become much more common, but whether this has been done in a meaningful way which will drive real change is far less obvious — and in fact, is difficult to judge from the typical level of disclosure found on these issues.

However, we have definitely experienced, despite the challenges of the last few years, more clients talking to us about exploring fair pay within their organisations, and taking steps towards paying a living wage. Our ESG research evidences this move. The other side of the living wage discussion is ensuring that there are appropriate checks and balances on executive pay, and questions surrounding the managing of so-called windfall gains within the paradigm of 'pay for performance' have also recently surfaced. And some clients are going a step further — asking us, 'how do we provide evidence of progress on fair pay?'. We talk about one such possibility in our article on fair pay certification in chapter three.

Years ago, we spoke about ESG as something additional, or ancillary, to typical executive pay considerations. Today, we know that it is intrinsically linked; not least because the sustainability of profits in the long term depends on responses to ESG matters today.
And profits, and long-term value creation for shareholders are what executive pay structures are structured around. But the more we talk about it, the clearer it becomes that matters which seem to be on the periphery of pay, are ESG linked. When we talk about looking at benchmarking differently, it's ESG. When we talk about gender equality, it's ESG. Pay is so intrinsically linked to ESG that ESG is not something additional to add onto structures, or weave into scorecards. It's the standard against which we should be assessing all structures and policies. And it is a unique standard, which each organisation must establish for themselves following their own robust analysis.

Talked about like this, it's easy to get overwhelmed again. We know our clients want a starting point, a way to cut through all the noise and find the beginning of the ESG path which signals the start of the journey. We are responding to this by approaching ESG in bite-sized chunks, to optimise impact in a way that is achievable and represents the start of the journey towards sustainable profits, and fair outcomes for all.

And so, our theme for this year's report is ESG and beyond: let's get practical.

Information used in this report

This publication focuses on executive directors of companies listed on the Johannesburg Stock Exchange (JSE). Data presented is drawn from information publicly available on 28 February 2022 (the cut-off date) and is valid for the period from 1 March 2021 to 28 February 2022 (the 2022 reporting period).

The information has been extracted from PwC's internal database and the 288 (2021: 285) active companies on the JSE's Main Board and AltX. The total market capitalisation of these companies on the cut-off date was R18.73 trillion (2021: R16.8 trillion).

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

Directors' fees

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

Quartile/percentile ranges used in our analysis:

- **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 the set.

Company size

In our experience there is no definitive correlation between the market capitalisation of a company 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 remuneration data for companies listed on the JSE's Main Board is analysed in terms of:

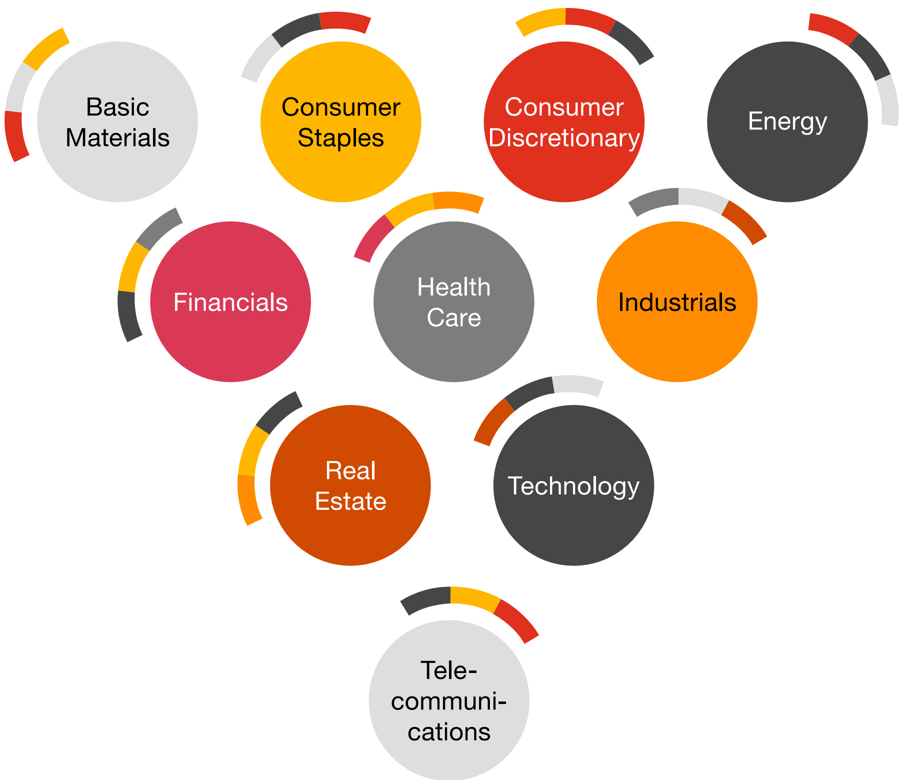
- **Super cap**
  The top 10 JSE-listed companies valued by market capitalisation.
- **Large cap**
  11 to 40 of the JSE-listed companies, valued by market capitalisation.
- **Medium cap**
  41 to 100 of the JSE-listed companies, valued by market capitalisation.
- **Small cap**
  101 to 288 of the JSE-listed companies, valued by market capitalisation.

AltX

AltX is the alternative public equity exchange for small and medium-sized companies operated by the JSE in parallel with the Main Board. Our AltX analysis as a stand-alone group refers to 25 (2021: 27) active trading companies with a total market capitalisation of R42.82 billion (2021: R24.02 billion).

Industry classification

This analysis applies the Industry Classification Benchmark (ICB), as used by the JSE.



1 Female executives in the JSE

Analysing new appointments

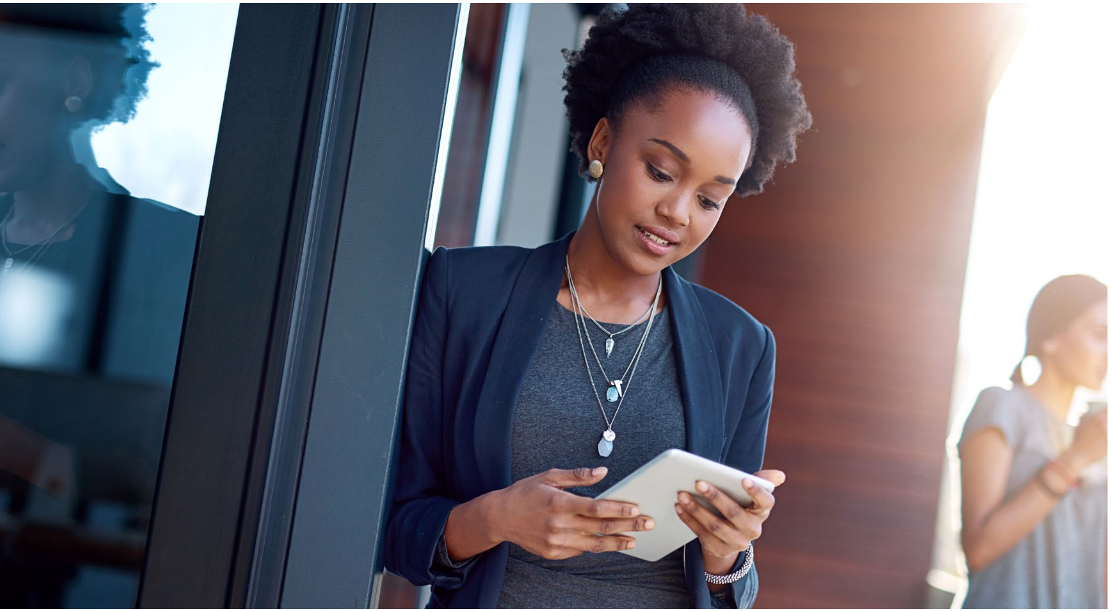
For more than 10 years, we have written about the importance and value of female representation in senior management and executive positions and yet disappointingly, our research shows that minimal progress has been made over this period of time. Our latest research and analysis shows that, as at the cut-off date, only seven of the top 100 JSE-listed companies (8%, up from 5% last year) are led by female CEOs, and the representation of female CFOs is 19% (compared to 17% last year)[2] . Over the entire executive population of all JSE-listed companies, 15% is female (vs 13% last year[3]). These executive statistics are less representative than the non-executive equivalent: our research shows 30% female representation for non-executives (encouragingly, this increases to 36% - 37% for large/medium cap). But if the average board size is 12, and two of these are executives, we can deduce then that at best, it is likely that four of the board members are female—in other words, 33% of the whole board. But still, for the majority of companies, board representation of females is lower than 1/3.

In this context, it is fair that many continue to question whether female representation is being appropriately addressed, and wonder whether rebalancing gender representation within organisations is a genuine priority. But change can be slow, as it must be facilitated by attrition, whether natural or accelerated. There is of course no expectation that well-performing male executives are replaced by female counterparts.

Perhaps then, a more worthwhile focus, and a statistic which is more indicative of change, is the percentage of women hired into vacant executive (or other senior) roles in the last year, contrasted to male appointments.

[2] Although not the focus of this article, the research also shows that initiatives surrounding race diversity should be addressed with 20% of CEO positions and 28% of CFO positions being held by ACIs respectively.

[3] Executive directors: Practices and remuneration trends report – 13th edition – August 2021 – South Africa



Our research shows the following:

Across the JSE, there were, from Jan 2020 till June 2022, 208 new appointments into executive positions. Of these, 53 (representing 25%) were female.

In the JSE Top 100, over the same period, there were 77 new appointments into executive positions, of which 21 (26%) were female.

In the JSE Top 40, over the same period, there were 33 new executive appointments, of which 10 (30%) were female.

Change is slow, but to show progress, new executive hires should be an area of priority. Could it be that a suitable pool from which to select female executive appointments is lacking or are there other reasons for such statistics? But this is not where the conversation ends. If this is the case, efforts need to be made to focus more on effective succession planning, and creating a conducive environment and culture, supported by appropriate and well-thought-out policies, to support women as they progress and develop their careers.

Does internal hire = success?

Drilling further into the Top 100 to investigate where companies were successful, it was interesting to note that of the 21 females who were appointed into executive roles, 60% were internal appointments. But how should we feel about this statistic? On the one hand, we might see this as positive. This indicates that succession planning is prioritised, that pipeline is being built, and fed through. But on the other hand, external hires are likely to trade at a premium, due to increased negotiating power, replacement or sign-on awards and other factors, which might exacerbate the pervasive gender pay gap. This suggests that hiring policies need to take into account organisations' gender representation ambitions whilst being sensitive to any need to 'correct' what may be perceived as outlier pay due to legacy issues such as long tenure. Looking at internal hires as a success factor also might give a false sense of progress, as these may represent senior females moving between executive roles within the organisation.

Another interesting perspective on the data is that of the industry-lens. Looking at the 21 female appointments in the JSE 100, two industries are dominant: six were in the basic materials industry, and seven in the real estate industry. We have explored before the 'women in mining' initiative, which creates external pressure to 'do the right thing' in the mining environment, and this may account for an increased focus on relevance in this industry.

But even without this external pressure, there is evidence that many companies have accepted the value and importance of gender-equal representation. The integrated reports of many JSE-listed companies include minimum percentage targets (most often, of between 35% – 50%) in female representation in management positions within a specified number of years to bridge the gap.

The war on female talent

An unintended consequence of this target-setting has been the intensification of the war on skilled female talent, with many companies struggling to retain their key and critical skilled female employees in the face of a serious bidding war. In other words, where internal pipeline is lacking, women who have successfully 'made it' in other companies become targets for poaching. Without widespread, appropriate succession planning, the problem will prevail, particularly in the context of a wider skills gap and executive talent shortage. And of course, the business need and shareholder value preservation will always trump the need for gender equality, if there is a lack of suitable candidates to choose from.

We think companies can drive and accelerate the change process by focusing on these key focus areas.

1. Accelerating the change process with KPIs

We know that meaningful buy-in and action from existing leadership towards gender equality efforts are required to move the dial on gender representation. In this regard, many suggest the use of weighted metrics in a company's incentive structures targeted specifically at promoting and driving female succession. Although "diversity and inclusion" is an exceedingly common metric in companies' short-and long-term incentive structures, there is sometimes no indication as to the detail behind the vague mention in the annual report. Our research this year into ESG metrics did show some progress in terms of disclosed metrics—indicating a possibility that there are underlying policies/targets/etc. which underpin these metrics.

Another aspect to consider is mentorship and skills transfer from existing leadership to female successors. Although this should be organic, incorporating it into the balanced scorecard may effectively elevate the commitment to a priority.

2. Succession planning for success

To build a pipeline for female senior leadership, succession plans should be formulated, and objectives clearly defined, with timelines and provision for regular assessments of the status quo—including a company's junior executives and senior management's attributes, experience, expertise and, most importantly, diversity.

Succession planning goes beyond merely identifying appropriate individuals (or finding the "perfect replacement") but also requires companies to actively seek to fill executive committee and senior management roles with skilled candidates from designated groups. This may often require financial resources to be made available to ensure that designated candidates, with potential, are placed on a development plan to ensure succession readiness.

To maintain transparency and encourage participation in the process, companies should outline their succession process with their female talent, as high-performing women, particularly those from underrepresented groups, are often the least likely to be selected for succession, as their leadership styles rarely match those currently in leadership positions.

Succession planning should also include the use of readiness programmes which ensure that women are retained within the system and are formally placed in the succession roles and where external appointments are necessary, that gender-inclusive recruitment methods are adopted.

Proper engagement with identified female successors is also key. Engaging females sooner than later, having transparent conversations around their needs and expectations for transitioning to a senior role, and clear discussion of timelines and support structures, are invaluable.

Once the succession plan is in place, it is important to get the culture right. The successful placement of more women in leadership positions is a good starting point, but it is important that companies focus on actions to change the landscape for women. Every leader recognises the time and effort it takes to build something that lasts. Failing to find someone to replace them once they step down can undo this work in a few short years.

3. Understanding and developing organisational culture

A substantial change in organisational culture is often required to create a conducive environment for building a strong female talent pipeline, including the addressing of any unconscious bias. Organisations should be aware of the existing culture, and listen to and engage with female employees to better understand their perceptions of their environment. Concrete actions are required to address any areas identified as needing improvement.

Most important to cultural change is the establishment of senior champions for gender equality in the workforce. The setting of policy provides a clear message regarding a company's commitment and efforts towards gender parity and the creation of the structure within which to implement it.

4. Creating a supportive policy framework

Cultural and other changes should be supported by well-formulated, clear policies, and the policy framework should be assessed with the diversity and inclusion objectives in mind. The environment must be conducive to, and supportive of, the intended outcomes. This may include new, specific initiatives being put in place, or existing policies being revisited to ensure they support the desired outcomes.

Other targeted initiatives aimed at addressing ancillary hurdles to the progression of women in the workplace should also be explored—such as providing childcare facilities, flexible working arrangements, a framework of support for women returning to work from maternity leave, and a zero-tolerance strategy for workplace bullying and sexual harassment. Another example of policies to assess are the recruitment and retention strategies: these should support gender-sensitive recruitment, retention and performance management strategies that are standardised and transparent, and have mechanisms in place which reduce bias.

Conclusion

To fully leverage off the benefits of female leadership and to provide for equal opportunity, companies need to commit to the gender diversity agenda. Targets are one part of the puzzle—companies need to formulate a strategy which includes coaching, training, organisational culture changes and robust succession planning. Where insufficient action is taken to prioritise female representation by boards and existing leadership, we will continue to have the discussions which have minimal impact in the improvement of the statistics on female leadership.

2 Striking the Grand Bargain: how to win trust and keep employees.

Almost two and a half years since the COVID-19 pandemic took its first major leaps, it is safe to say that the world's way of working has been altered, potentially forever. While many companies swiftly moved into survival mode and accelerated their adoption of digital ways of working, other divergent approaches emerged.

As widely reported, many companies have felt there is no need to require their employees to work from an office in the future, abandoning this requirement altogether. Others have insisted that employees return to the office full-time, despite employee pushback where there is no need to perform their functions from a specific location and the fact that, as a result, many simply no longer see the point of commuting daily.[4]

In a 2021 survey[5], 36% of executives said that a loss of corporate culture is the biggest challenge and makes them resistant to adopting hybrid working environments, though there are conflicting views on this, suggesting that where companies invest sufficient time and resources, they can thrive in the new era of work.[6]

4 Business Tech. 2021 "It's not worth driving into the office anymore in South Africa, workers say" Business Tech, May 23, 2022. *https://businesstech.co.za/news/technology/588966/its-not-worth-driving-into-the-office-anymore-in-south-africa-workers-say/?fbclid=IwAR32b66FKRfRhFIhZXHapecTxnhtdHHRnMpZVuH9SD-8MhM-ElNs8mgS6zw*.

5 PwC US Pulse Survey, August 19, 2021. *https://www.pwc.com/us/en/library/pulse-survey/future-of-work.html.*

6 Hinds, P. and Elliot, B. 2021. "WFH Doesn't Have to Dilute Your Corporate Culture". Harvard Business Review, February 01, 2021.

Employee pushback has reached new levels and the byproduct of the pandemic that is the Great Resignation has been discussed at length in the time since the first calls were received to return to the office (we explored this phenomenon in our 2022 Non-executive directors: practices and fees trends report, considering whether co-investment structures could be used to aid retention in current circumstances[7]).

For the time being, the answer to this predicament is a permanent hybrid working arrangement (particularly for employers hesitant to permanently give up, or who don't know what to do with, their office space[8]), though, even to this approach, some employers are resistant.

You can't have love (or flexibility) if you don't have trust

Where productivity levels have been maintained or even heightened by the remote working movement, the question is why don't employers want employees to work remotely? A lack of trust might be the quick answer, though we think it is more nuanced than this.

It has long been said that to succeed in the corporate world, you have to 'play the game' (which means networking with the 'right' people, making yourself known, putting in (and being seen to put in) long hours to show your commitment).[9] The success of remote work over the last two and a half years seems counterintuitive to this decades-old textbook approach to corporate success in a society of capitalism: level upon level of management controlling long hours of work and an army of subordinates from the office.

By its very definition, management is the art (or science, depending on who you ask) of controlling people or things; and with remote working, some managers may feel that their ability to do so has been reduced. A recent study conducted by the Society for Human Resource Management[10] found that 67% of managers said they spent

more time supervising remote workers than onsite workers. In addition, 72% said they would prefer all their subordinates to be working in the office. Where employees are not, or cannot be, trusted to manage their work at a distance, it is more difficult for management to keep track of everyone.[11] If hybrid working arrangements are here to stay, hiring and onboarding of new employees are bound to be similarly done: from a distance — so how do we overcome our fears that we cannot trust what we cannot see and build trust from afar?

Building trust from a distance depends on the individual and the team as a whole

Consider an employee who joined a company between March and July 2020, and who didn't meet their colleagues in person for several months thereafter. Seasoned employees may have found working from home to be liberating, but many new joiners probably struggled through an island of isolation. Building trust with someone new can be tricky when you're at a distance. This is because you can't connect and can't come together with colleagues in the ways we're used to experiencing.[12]

[7] PwC. 2022. "Fending off the Great Resignation: Retaining talent through co-investment", Non-executive directors: practices and fees trends report, 15th ed. *https://www.pwc.co.za/en/publications/non-executive-directors-report.html.*

[8] PwC. 2021. "It's time to reimagine where and how work will get done". *https://www.pwc.com/us/en/library/covid-19/us-remote-work-survey.html.*

[9] Kelly, J. 2021. "The Real Reasons Why Companies Don't Want You To Work Remotely". Forbes, August 17, 2021. *https://www.forbes.com/sites/jackkelly/2021/08/17/the-real-reasons-why-companies-dont-want-you-to-work-remotely/?sh=4c9547e7fb31.*

[10] Kelly, J. 2021. "The Real Reasons Why Companies Don't Want You To Work Remotely". Forbes, August 17, 2021. *https://www.forbes.com/sites/jackkelly/2021/08/17/the-real-reasons-why-companies-dont-want-you-to-work-remotely/?sh=4c9547e7fb31.*

[11] Kelly, J. 2021. "The Real Reasons Why Companies Don't Want You To Work Remotely". Forbes, August 17, 2021. *https://www.forbes.com/sites/jackkelly/2021/08/17/the-real-reasons-why-companies-dont-want-you-to-work-remotely/?sh=4c9547e7fb31.*

[12] Brower, T. 2020. "Working Remote: How to Build Trust From A Distance". Forbes, September 20, 2020. *https://www.forbes.com/sites/tracybrower/2020/09/20/working-remote-how-to-build-trust-from-a-distance/?sh=1e9f2449271e.*

Difficulties aside, our natural tendency is to trust, and reciprocity is a large part of building it. Though trust is expected to grow organically over time, each individual can take steps to fertilise the process:

- **Sharing more** about ourselves leads to others doing the same, creating a virtuous loop of trust over time;
- **Assuming that someone's intentions are good** at the outset will make you act more positively toward them;
- **Staying in close proximity** prevents the age-old 'out of sight, out of mind' trope. From a psychological point of view, familiarity breeds acceptance — when you reduce the sensation of something seeming strange or different, you're more likely to feel positively toward it — when we interact with people more often, we understand them better and have more on which to base our relationship and understand their behaviours (on this point, in particular, video calls and texting have been invaluable for remote teams since 2020);
- **Being predictable** is key to building trust and productive relationships — people crave certainty and when others can be expected to act in specific ways (for example, always following up or never letting someone down where possible) this goes a long way;
- **Being easy to read** means putting your thoughts and feelings into words. We trust people better when they are easy to read. Explaining your own silences, thoughts and behaviours enforces this idea;
- **Supporting others** goes a long way — stepping up and putting ourselves on the line for others to help and support them ensures a stronger bond;
- **Being selective** in the relationships we nurture — we should nurture all our relationships, but put the most energy into the ones where we have both kinds of trust — task (or situational) trust and relationship trust; and finally,
- **Holding people accountable** is crucial. Where someone fails to maintain the behaviours for which they seek your trust, they should be held accountable.

This is not to say that trust is instantly guaranteed, office time is dead and working remotely is a foregone conclusion. On the contrary, and like all social contracts, working remotely or non-standard hours in a team should be managed through basic rules or principles. Where a company offers flexibility and autonomy, employees should be expected to give a matching level of effort.[13] While these may be second nature to many people, some colleagues need to see things in writing. The core principle should be that, while working remotely or flexibly may mean that you're not at your laptop 24/7, one's flexibility should not be to the detriment of everyone else, and this can be supported through a robust team working policy that considers, inter alia:

- **Mutual respect** in managing the workloads, timelines, and deadlines of those who depend on your work, and upon whose work you depend, means delivering your work when you say you will and providing sufficient time for others to perform their functions;
- **Communication** is key. While you work flexibly/remotely, your team should know how and when they can contact you (during working hours, and what to do in an emergency). In the usual sense, this means sharing access to your calendar/diary and blocking out what you're doing, when, and periods of unavailability, as well as managing the expectations of your reporting line. Being available on your mobile or through chat apps (while you're not working during standard hours but not on leave), goes a long way for your team to know that you are, for all intents and purposes, present. Communication is core to taking responsibility and being part of the solution;
- **Being responsible** means working when you say you are, adhering to work delivery timelines, and not abusing the system when no one is 'watching you'; and
- **Managing where and how we work** means that, if you are not working from your office, you should be working in an environment where you will be most productive. A quiet environment with adequate lighting and furniture which is comfortable and conducive to working are critical (your couch or kitchen counter during loadshedding probably won't cut it).

[13] Brower, T. 2020. "Working Remote: How to Build Trust From A Distance". Forbes, September 20, 2020. *https://www.forbes.com/sites/tracybrower/2020/09/20/working-remote-how-to-build-trust-from-a-distance/?sh=1e9f2449271e.*

Being inflexible costs

Companies who have been slow to adopt technologies which support remote working — or draft clear rules and create secure structures for remote work — are playing catch-up.[14] A majority of employees who worked remotely as a result of the pandemic say that they are more productive and have grown accustomed to a better quality and integration of work and life. Where this balance is threatened and there is no room for negotiation with the employer, they'll quit.[15] Recent PwC research[16] shows that, in the wake of the pandemic, employees feel empowered by their circumstances and are ready to 'test' the market where their salary expectations and working arrangements are no longer met by their current employers. The truth is, employees with specialised skills and training are in demand — and they know it.

For the most part, it seems that executives have a good grasp on why their employees are looking for jobs elsewhere; in 2021, 34% of executives said that employees were leaving because of a lack of flexibility offered by their current employer.[17] In truth, the flexibility required by today's employees relates not only to how, when and where they work, but how they are rewarded — many companies continue to fall short in what they offer employees in two key areas: benefits and compensation (these were the reasons ranked highest by employees for wanting to change employers).[18] The Great Resignation poses a major human capital risk for companies who lag behind; a trend which shows no signs of slowing yet.

As noted in our 2022 Non-executive directors: practices and fees trends report chapter on the Great Resignation, the greatest increase in resignation rates is in the 30–45 age group with an average increase of more than 20% between 2020 and 2021.[19] This is cause for concern as this is an age group in which many employees are senior managers and expected to be entering executive roles. Their resignation causes not only an immediate problem (as senior management is the most costly to replace[20]) but impacts succession planning, too. Naturally, the importance of retaining talent at this level cannot be overstated. A 2020 analysis by McKinsey and Co.[21] found that the potential for remote work is highly concentrated among highly skilled, highly educated workers in a handful of industries, occupations and geographies — when considered in the context of resignation rates in the higher ranks, if remote working is what these employees want in order to deliver their best, it makes sense to consider it.

What these statistics don't consider, however, is how a lack of flexibility in working and/or remuneration arrangements affects the employees who stay rather than leave. Employees who feel like their jobs or how they are rewarded are not 'worth it' naturally have lower levels of morale; this can have various effects, such as lower levels of engagement, poor communication and diminished productivity. With rising inflation (the recent soaring costs of fuel specifically come to mind) and a system of inflation-linked salary increases, a monetary value can be attached to an employer's inflexibility, helping quantify why old arrangements simply no longer work for some employees. Naturally, this concept of cost is compounded by the time employees feel they waste travelling to and from the office, when they could use these extra hours (and money) in other, more fulfilling and meaningful ways.

[14] PwC US Remote Work Survey, January 12, 2021. *https://www.pwc.com/us/en/library/covid-19/us-remote-work-survey.html.*

[15] Kelly, J. 2021. "The Real Reasons Why Companies Don't Want You To Work Remotely". Forbes, August 17, 2021. *https://www.forbes.com/sites/jackkelly/2021/08/17/the-real-reasons-why-companies-dont-want-you-to-work-remotely/?sh=4c9547e7fb31.*

[16] PwC US Global Workforce Hopes and Fears Survey, May 24, 2022. *https://www.pwc.com/gx/en/issues/workforce/hopes-and-fears-2022.html.*

[17] PwC US Pulse Survey, August 19, 2021. *https://www.pwc.com/us/en/library/pulse-survey/future-of-work.html.*

[18] PwC US Pulse Survey, August 19, 2021. *https://www.pwc.com/us/en/library/pulse-survey/future-of-work.html.*

[19] Cook, I. 2021. "Who is Driving the Great Resignation?" Harvard Business Review, 15 September 2021. *https://hbr.org/2021/09/who-is-driving-the-great-resignation.*

[20] PwC Australia. 2021. The Future of Work. What workers want: Winning the war for talent. *https://www.pwc.com.au/important-problems/future-of-work-design-for-the-future/what-workers-want-winning-the-war-for-talent.htm.*

[21] Lund, S., Madgavkar, A., Manyika, J. and Smit, S. 2020 "What's next for remote work: An analysis of 2,000 tasks, 800 jobs, and nine countries". *https://www.mckinsey.com/featured-insights/future-of-work/whats-next-for-remote-work-an-analysis-of-2000-tasks-800-jobs-and-nine-countries.*

When it comes to retaining employees, money remains the top factor (71% of employees list it as their top reason for changing jobs), yet money isn't enough by itself to keep workers, who've been almost as likely to cite non-monetary factors (such as job fulfilment, the opportunity to be their true selves at work, wellbeing, choosing when and where they work) as their reason/s for wanting to leave a company.[22] Managing human capital in the 21st century requires innovative motivational and reward methods. We believe that the traditional purpose of total reward — to attract, retain and motivate employees — still holds true, but employees have come to value (and demand) more than just money.

Working arrangements and remuneration packages will look different in future

Understanding workplace power (particularly the recent shift in favour of employees) can help employers energise their workforce, tap into the power of their people and accomplish bolder goals.[22] Companies wishing to retain talent must balance their strategic and operational goals with shifting employee expectations. This is because there currently exists a unique opportunity to transform work, and deviate from the status quo. Only by redesigning work, and addressing remuneration issues, will organisations be able to continue to drive growth, better anticipate uncertainty and create a workplace that top talent is eager to join. For the time being, hybrid work is here to stay.[22] Companies must act swiftly to define their hybrid work model, make changes to processes and operating models, revamp strategic planning and, most importantly, re-look at remuneration arrangements, which all together attract and retain talent.[23]

Companies on hiring sprees are refining employee value propositions, focusing above all on corporate purpose and leadership. While those are important, they should expect candidates to negotiate hard for what they now see as table stakes: competitive packages and perks coupled with flexibility and expanded benefits such as career growth and upskilling opportunities. While traditional models of total reward mainly considered market benchmarks, cost analyses, and efficiency in administration, newer models focus on employee centricity, seeking to create synergies of career development, performance, alignment of organisational value, purpose, and allowing a certain level of value-based personalisation of reward and benefit offerings. Everyone

deserves the same degree of flexibility — it is not a generational need; every employee, at any age, benefits from, and is looking for, its availability.[24]

Effective total reward in the future means fully understanding your workforce, defining what matters to the company and them, and tailoring the approach to reward. Modern solutions are built on digital platforms which provide intelligent analysis of employee preferences in a data-driven way. These not only enable hybrid work but can also help ensure sufficient governance processes are in place to manage and track progress over time and help prevent proximity bias when it comes to promotions[25] — some such systems offer useful reporting and analytics dashboards to gain insights and aid quick responses to matters as they develop. Continued investment in technology will go hand in hand with evolving workforce policies, as has been the case for some time.

However sophisticated a total reward model may be, employees can only appreciate the value of the total reward suite if its benefits (and how competitive the unique offering is compared to the market) are clearly communicated to them. Strategies for working arrangements and total reward for the future will require higher levels of engagement with employees than ever before. Employers no longer have the upper hand, relying simply on increases in guaranteed pay as their retention strategy — employees of today seek higher levels of work-life integration, and this is a process of negotiation.

[22] PwC US Global Workforce Hopes and Fears Survey, May 24, 2022. *https://www.pwc.com/gx/en/issues/workforce/hopes-and-fears-2022.html.*

[23] PwC US Pulse Survey, August 19, 2021. *https://www.pwc.com/us/en/library/pulse-survey/future-of-work.html.*

[24] Donovan, A. 2019. "What PwC Learned from Its Policy of Flexible Work for Everyone." Harvard Business Review, January 28, 2019. *https://hbr.org/2019/01/what-pwc-learned-from-its-policy-of-flexible-work-for-everyone?utm_medium=social&utm_campaign=hbr&utm_source=LinkedIn&tpcc=orgsocial_edit.*

[25] PwC US Global Workforce Hopes and Fears Survey, May 24, 2022. *https://www.pwc.com/gx/en/issues/workforce/hopes-and-fears-2022.html.*

3 Turning the wage gap tide? Get certified.

Boards today are conscious of the requirement for fair and equitable pay at all levels of employment throughout the organisation and have, for the most part, accepted their responsibilities in this regard. Yet, 28 years after democracy, South Africa is often cited as the most unequal society in the world with a Gini coefficient of 0,65[26]. Beyond this, the South African median gender pay gap ranges between 23% and 35%, a figure higher than the average global gender pay gap of approximately 20%.[27]

On the positive side, we have, particularly in the last few years, noted real action in South African boards towards taking active steps on their fair pay journeys. With this, we have seen that boards and remuneration committees are keen to explore whether any forms of assurance are available to demonstrate efforts made in this regard in a credible and transparent manner. While South Africa does not currently have a consolidated Living Wage Foundation and thus no living wage certification is available, we believe that equal pay certification is one such way in which objective assurance of a company's efforts towards fair pay considerations can be demonstrated.

26 'How unequal is South Africa?' Department of Statistics South Africa *https://www.statssa.gov.za/?p=12930* (accessed on 6 May 2022).

27 'Equal pay for equal work: How does South Africa measure up?' Prof Anita Bosch and Shimon Barit *https://www.usb.ac.za/usb_insights/equal-pay-for-equal-work-how-does-south-africa-measure-up/#:~:text=Pass%20laws%20at%20regional%20and,of%20the%20Employment%20Equity%20Act* (accessed on 21 March 2022).

Fair pay is a social justice issue which measures equality relative to remuneration.[28] In this context, fair pay is a principle relating to a fair value of services rendered and the expectation of a fair process within an organisation. Fair pay acknowledges that all workers should receive a minimum level of remuneration that allows them to participate in the economy. Fair pay also includes the concept of equal pay for work of equal value, and legislation pertaining to this exists in many countries internationally. In the South African context, the criteria for assessing whether work is of equal value is found in regulation 6 of the Employment Equity Act Regulations.[29] Principally, equal pay is applied to work that is of the same or equal value when compared to an appropriate actual comparator at the same employer. However, the concept extends beyond that and recognises that different roles may have the same value and therefore equality is required across these roles as well.[30] This fairness of pay is an important element of ESG — forming a key part of the 'S' considerations.

This article discusses the importance of fair pay, the various viewpoints on fairness, why there is a need for equal pay for work of equal value and provides a starting point for how companies can prove and provide external assurance of their commitment to a fair pay journey to their remuneration committee, employees and other stakeholders.

[28] 'A guide to the application of King IV™: Governance of remuneration' South African Reward Association *https://www.sara.co.za/A%20Guide%20to%20the%20Application%20of%20KingIV%20Principle%2014%20on%20Remuneration%20Governance.pdf* (accessed on 6 June 2022).

[29] Regulation 6 of the Employment Equity Regulations in GN 37873 GG 10241 of 01 August 2014.

[30] 'EQUAL PAY' Cliffe Dekker Hofmeyr *https://www.cliffedekkerhofmeyr.com/export/sites/cdh/en/practice-areas/downloads/Employment-Equal-Pay-Brochure.pdf* (accessed on 18 March 2022).

Assess your viewpoint: Thoughts on fair pay

When starting the journey towards fair pay, it is easy to assume that there is a shared view of fairness. In reality, the consideration of what is fair is complex, nuanced, and influenced by context and many other factors. What constitutes fair pay to a particular person is rooted in their outlook on fairness. It may be helpful for a company's board of directors, when starting the journey, to hold a workshop where a shared view of fairness as it relates to pay, is debated and decided on for the company. Academic research and philosophies, such as our own PwC research[31] can guide these conversations, so boards can agree on a unique, shared view of fairness and distribution of pay which can form the basis for the fair pay philosophy and principles. Below is a discussion on the four most prevalent types of philosophical tribes regarding views on income distribution, as identified in the research:

Idealist

Distribution of wealth should lead to moral outcomes. Individuals should receive rewards based on their contribution, but all members of a community should have an income that is sufficient for them to lead a dignified life. Inequality should be accepted but as a means to making the worst-off as well-off as possible. Efficiency is not an important criterion by which outcomes should be judged.

Communitarian

All members of a community should have an income that is sufficient for them to lead a dignified life. Equal opportunities are important — nobody should be at a disadvantage because of the circumstances of their birth. An efficient outcome for the community overall matters. Individual talent and contribution is not an important criterion for allocating economic benefits.

Free Marketeer

Provided there are equal opportunities for all, talented people deserve to receive income in line with their contribution. Market efficiency is important in determining how income should be allocated. No one is automatically entitled to income or wealth. The economic system does not owe anyone a living, and doesn't need to improve the lot of the least well-off in the community, provided it is efficient overall.

Meritocrat

Provided all members of the community have an income that is sufficient for them to lead a dignified life, individuals are entitled to receive economic benefits because of their efforts and contribution. Equal opportunities are important — nobody should be at a disadvantage because of the circumstances of their birth. Efficiency is not an important criterion by which outcomes are judged, and the distribution of wealth need not be to the benefit of the least well-off in the community.

The common thread across these four viewpoints on fairness is that they are all rooted in a vision for equality. It should also be noted that three of these viewpoints emphasise the importance of an income that is sufficient to live a dignified life. This conversation surrounding a living wage is another area of particular interest for South African boards, and another area where external assurance (i.e. through a Living Wage certification) is sometimes sought.

[31] The ethics of pay in a fair society' PwC *https://www.pwc.com/gx/en/people-organisation/pdf/pwc-fair-pay.pdf* (accessed on 21 March 2022).

Setting the scene: The need for equal pay for work of equal value

There has been an increased global focus on the enactment of legislation in order to regulate equal pay for work of equal value. South Africa is no exception, having various regulatory and legal requirements that companies are required to comply with. Some of these include:

- The Employment Equity Act, which came into effect on 1 August 2014[32], prohibits companies from discriminating unfairly between the remuneration and conditions of employment of employees doing the same or similar work or work of equal value.[33]
- The King IV™ Report on Corporate Governance in South Africa addresses fair and ethical pay practices by calling on RemCos to ensure that the organisation remunerates fairly, responsibly and transparently.[34]
- The revised draft of the Companies Amendment Bill that was released for public comment on 1 October 2021 sees the introduction of certain mandatory disclosures relating to the pay gap, as well as introducing a binding vote on remuneration policy.[35]

Equal pay for work of equal value is not only a legislative issue but one which is rooted in the 'S' of ESG. Ensuring that employees are treated fairly and are well looked-after is an important social aspect in unlocking stakeholder value. In the midst of the Great Resignation and in the context of increased strain on salaries due to the rising cost of living it is more important than ever that boards fully interrogate and understand whether they are paying fairly, in every sense of the word.

32 Employment Equity Act 55 of 1998 as amended.

33 Employment Equity Act 55 of 1998 as amended.

34 Principle 14 of the King IV Report on Corporate Governance for South Africa

35 'Invitation for the Public to comment on the draft Companies Amendment Bill, 2021' Department Of Trade, Industry And Competition *https://www.gov.za/sites/default/files/gcis_document/202110/45250gen586.pdf* (Accessed on 6 May 2022).

Proving your commitment towards your fair pay journey

More and more South African boards are taking active steps to being responsible employers that demonstrate their commitment to fairness of pay. We have seen an increase in companies reporting on their fair pay efforts in their remuneration reports and have noted that while companies are doing the work internally, many companies are exploring ways to demonstrate the commitments they have made externally. A public commitment to fair pay sends a strong message about values and purpose, improves reputation, and serves as a differentiator for a company within its industry.

The EQUAL-SALARY certification[36] is one such possibility, and is a process that allows companies to verify and communicate that they pay their female and male employees equally for the same job or for jobs of the same value. The certification is a chance to put values into action and proves the company's commitment to equal pay for all employees. In addition to knowing that you are doing the right thing, there are also various benefits for employers. EQUAL-SALARY certification helps companies attract quality candidates, increase employee retention, improve employee satisfaction, improve company reputation, increase productivity, increase workforce diversity, increase performance and reduce legal risks.[37]

Internationally, this certification is made possible through a partnership between the independent non-profit foundation EQUAL-SALARY and PwC.

[36] *https://www.equalsalary.org/equal-salary-certification/*

[37] 'Equal Salary Certification is good for business' PwC *https://www.pwc.com/cz/cs/people-and-organisation/equal-salary-certification.pdf* (16 March 2022).

The certification is obtained through a process that consists of the following steps:

Step 1 – Statistical analysis

Anonymised company employee data is provided to the EQUAL-SALARY Foundation for analysis through a secured IT platform. The EQUAL-SALARY statistical regression model analyses the wage difference; this difference needs to be inferior or equal to 5% and the regression strength must exceed or equal 90% in order to proceed to Step 2. A list of individual employee cases falling outside these criteria is generated, enabling the company to put in place a specific action plan for these individuals.

Step 2 – On-site Audit (PwC)

An on-site audit is carried out by the PwC EQUAL-SALARY team following international standards on quality management to assess:

1. Management's commitment to equal pay for men and women;
2. Integration of equal pay strategies within HR processes and policies;
3. Employee perception of the company's pay practices.

Step 3 – Certification

Provided that there is a successful outcome from the PwC audit, the company is awarded the EQUAL-SALARY label from the EQUAL-SALARY Foundation. This label is a clear demonstration of a company's commitment to equal pay for men and women, and can be used on all company communications.

Step 4 – Monitoring Audits

The EQUAL-SALARY certification is valid for three years. During this period, certified companies complete two monitoring audits to ensure they implement a fair, nondiscriminatory wage policy for men and women.

The EQUAL-SALARY certification is growing in popularity. Globally, over 20 organisations, including UEFA, Ferrari, DHL Logistics UAE and the World Economic Forum, have obtained their certifications.[38]

[38] 'Certified Companies' Equal Salary *https://www.equalsalary.org/the-certified-companies/* (accessed on 24 March 2022).

Conclusion

While companies are increasing their efforts to pay fairly and close the gender pay gap[39], more urgent action is needed. Making a commitment and taking the steps to embark on a fair pay journey is an essential first step. An EQUAL-SALARY certification is a very useful tool in your fair pay toolbox to assist in ensuring fair pay across the organisation and in re-enforcing your commitment to your stakeholders by proudly showcasing your certification.

39 'It will take another 136 years to close the global gender gap' World Economic Forum *https://www.weforum.org/agenda/2021/04/136-years-is-the-estimated-journey-time-to-gender-equality/* (accessed on 24 June 2020).

4 Your employees want something different: how do you use your benchmarking to deliver?

The new world of work

The world of work has changed drastically over the last few years, and employees' expectations have permanently shifted. It is clear that employees are not prepared to go back to the pre-COVID way of working. This is evidenced by what has been termed the Great Resignation, an ongoing international economic event that saw an alarming number of employees voluntarily resign from their jobs as they rethink their careers, working conditions, and long-term goals. The Great Resignation looks a bit different in South Africa from what it does in countries such as the United States of America. While in other countries, it was observed that lower-earning employees were resigning, in South Africa we are also contending with the reality that many highly skilled employees are leaving their jobs for opportunities abroad (also referred to as 'the brain drain') or for consulting arrangements where they consult back to their previous employers, but on their terms.[40]

This is not a phenomenon of executive levels, and in fact, the intention to emigrate in particular becomes markedly lower after 35 years of age (reducing from 16% in the 18-24 year category to 8%[41]). In the US, 88% of executives interviewed for the PwC Pulse survey indicated that they are experiencing higher than normal attrition rates for their staff. In addition, 65% of employees interviewed indicated that they were looking for new jobs.[42] Locally, 69% of respondents to the REMchannel® October 2021 Salary and Wage Movement survey indicated that they struggle to attract new talent

[40] Daniel, L. 2022. "SA's version of the 'Great Resignation' is a little different – as are reasons for leaving". Business Insider South Africa, April 22, 2022. *https://www.businessinsider.co.za/the-great-resignation-in-south-africa-2022-4.*

[41] The Citizen. 2022. "More than 11% of South Africans with higher education considering emigration – study", May 12, 2022. *https://www.citizen.co.za/news/3096757/more-than-11-of-south-africans-higher-education-considering-emigration/*

[42] PwC US Pulse Survey, August 19, 2021. *https://www.pwc.com/us/en/library/pulse-survey/future-of-work.html.*

or retain their current employees.[43] The skill shortage has resulted in some companies resorting to increased remuneration levels to attract and retain talent at all critical, skilled levels.

It's not just the Great Resignation, either. The current economic circumstances add an additional layer of complexity as the cost of living is rising rapidly. This is due to the consumer price index recently rising to 6.5% in May and 7.4% in June, breaking through the upper limit of the South African Reserve Bank's monetary policy target range. The last time that headline inflation was above the target range was 5 years ago, in March 2017, when the rate was 6.1%.[44] This has very real implications for a lot of South African white-collar workers, as well as the obvious implications for the vulnerable employees in the lowest levels of income-earning categories.

What does this mean for reward strategy? There is pressure to rethink total remuneration strategies to ensure that companies can meet the demands and expectations of the workforce of today. Understanding the role of benchmarking in reward strategy is key; and perhaps the time has come for benchmarking to evolve from cost-containment to pay-package-optimisation, and fair-pay-confirmation, ensuring that business profits are appropriately directed towards the right level of employees. This change in approach to benchmarking will also assist companies in developing a culture where employees feel valued and heard.

The traditional approach is to consider the following, usually annually, to determine remuneration levels:

External salary benchmarking is used as a fundamental tool in determining market-competitive salaries as the first defence in attracting and retaining employees. Remuneration packages are typically designed to be fair, competitive, and affordable for the company.

Internal parity assessment is used to assess the pay of employees within the organisation, i.e. measuring employees' remuneration relative to all employees doing the same, substantially the same or similar work within the company.

Using benchmarking as a strategic reward tool

Benchmarking is a powerful tool, and while it may be criticised for the upwards effect on pay levels for executives, at the mid-tier and professional levels, the data insights available from a proper benchmarking approach are invaluable to reward teams fighting to retain their key talent. We have indicated below how benchmarking can be used within companies.

1. Dynamic benchmarking through a technology-enabled tool

In an increasingly demanding and rapidly changing environment, access to real-time information is critical to enable timely and appropriate responses to business needs and risks. A dynamic benchmarking tool can assist companies with real-time data to enable agile and data-driven decision making.

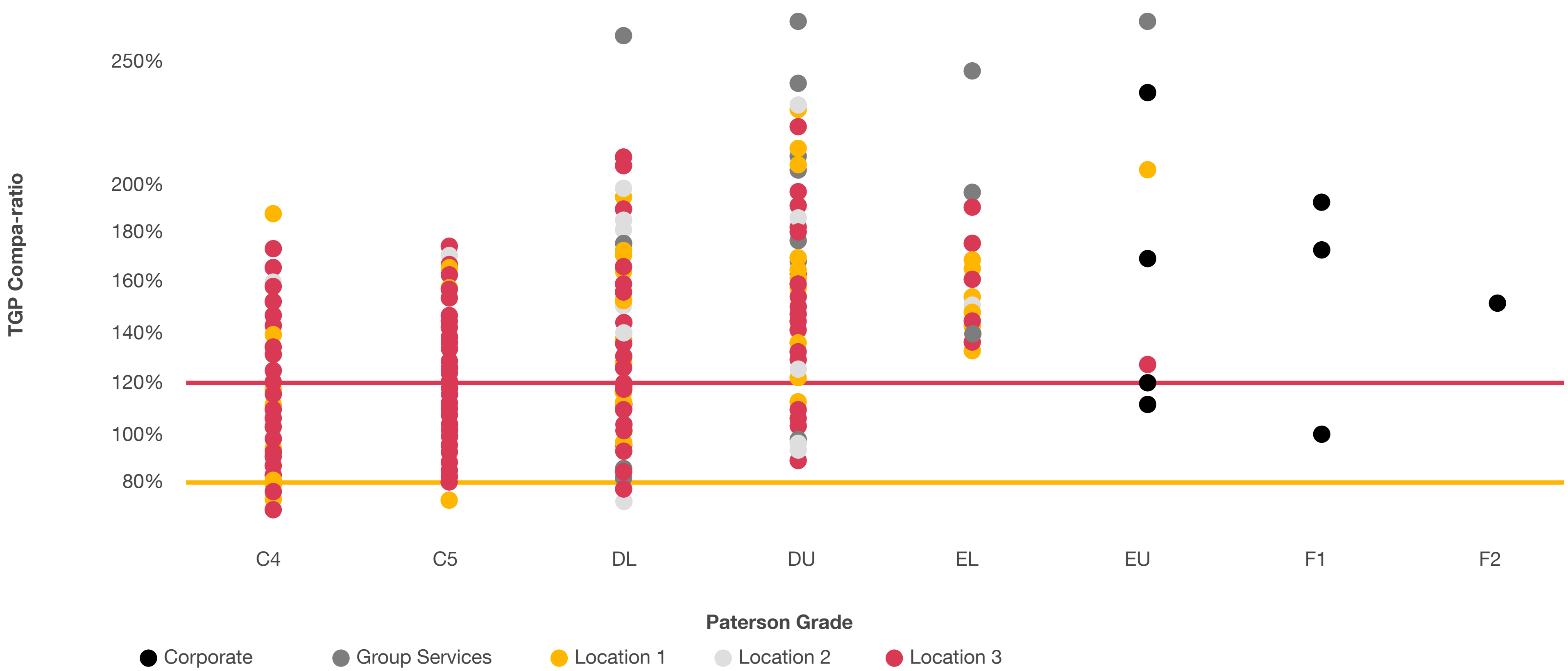
[43] Business Tech. 2021 "More South Africans are quitting their jobs – and experts warn its a ticking time bomb". Business Tech, November 7, 2022. *https://businesstech.co.za/news/business/534242/more-south-africans-are-quitting-their-jobs-and-experts-warn-its-a-ticking-time-bomb.*

[44] Stats SA. 2022. "Annual consumer inflation holds steady in April". Stats SA, May 18, 2022. *https://www.statssa.gov.za/?p=15385.*

The tool would look like this:

External parity: External benchmarking data from listed peers or external salary surveys is uploaded on an annual basis (or as and when required during the year). The tool calculates each employee's remuneration (per element of pay) relative to the market and identifies anomalies based on the percentile of pay targeted by the company. The company is able to isolate anomalies on an interactive basis and 'refresh' market data once corrective action is taken.

Figure 4.1 Market positioning: TGP Compa-ratio



Source: PwC analysis

Internal parity: The company is able to easily identify discrepancies in remuneration based on race, gender, location etc. due to the results being displayed visually, making it easier to read and interpret at a glance.

Figure 4.2 Internal parity: Annual TGP (Scenario 1)

Source: PwC analysis

2. Optimise your human capital spend

Benchmarking outcomes is only one of the data points that should be considered in determining appropriate remuneration levels. It is a useful tool in determining the funding required for your human capital investment. In assessing and managing this requirement, companies should consider the following:

2.1 Consider a reallocation of resources

A reallocation of resources can be considered if an increase to employee costs is required. Salaries and benefits are fixed costs that are funded from revenue generated, whilst incentives are a variable cost typically funded from profits. With pressure to increase profits, companies often attempt to keep their fixed costs as low as possible and focus on rewarding employees through incentives.

When companies shift their thinking of employee remuneration from a cost to an investment in human capital, companies start to reconsider how to fund this investment, both for reasons of being a responsible employer who is committed to doing the right thing, but also maximising return on investment.

An interesting case study which demonstrates the power of thinking differently, or deviating from a benchmarked approach is the old, but perhaps still relevant, concept of efficiency wages. Paying above-market wages to improve the productivity of their workforce is an old idea, dating back at least to Henry Ford's introduction of the five dollar day in 1914, at a time when the daily wage at manufacturing plants near his Highland Park factory was $2.30. Ford himself called it his finest cost-cutting move, because of the boost to productivity that came as a result[45].

With all of this in mind, companies can start the process by critically assessing how their profit pool is currently distributed, and whether this would benefit from recalibration.

A company's profit pool is typically allocated in the following manner:

- Employees (through incentives/variable pay);
- Shareholders (through dividends);
- Reinvestment back into the business (through maintenance or expansion capital expenditure); or
- Retained in cash reserves.

Companies should analyse and understand the allocation of profit between these elements. They should also consider if the portion of profit allocated to each element is appropriate and optimally driving the business strategy of the company.
The use of profit for one of these has an opportunity cost for the other; thus, continual reassessment of the allocation of profit is paramount for the effective carrying out of strategy. Specifically, the allocation of revenue and profit to employees should be critically assessed to ensure that maximum effect is achieved.

[45] Fisman, R. and Luca, M. 2018. "How Amazon's Higher Wages Could Increase Productivity". Harvard Business Review, October 10, 2022. *https://hbr.org/2018/10/how-amazons-higher-wages-could-increase-productivity.*

2.2 Implementation of a rigorous pay progression model

A pay progression model can be developed to manage or contain employee costs. Where anomalies are identified, a phased approach is introduced to align the current salaries with targeted salaries over time. The pay progression model considers defensible factors (influenced by a company's remuneration philosophy) over and above inflation, employment market movements and affordability in determining salary increases including the following:

- External market positioning;
- Internal parity;
- Performance rating as determined through the performance management process;
- Potential based on competency development, transformation and psychometric measures;
- Criticality of skill; and
- Tenure in the position.

For maximum effect, the pay progression model can be integrated with the dynamic benchmarking tool suggested on page 23 and 24, which enables reward professionals to isolate problem areas and track the progress in these areas more attentively.

3. Look beyond benchmarking and consider the wider context

It is tempting to think that attrition can be managed by numbers alone. But pay is only one aspect of the consideration. Companies should carefully assess the employee value proposition (EVP) that they are offering, and whether it is fit-for-purpose. The PwC Global Workforce Hopes and Fears survey found that when it comes to retaining employees, remuneration is the main consideration, but it is in itself not enough. Job satisfaction and the ability to be one's self were also among the top ranked considerations among employees considering a job change. Similarly, the PwC Pulse survey found that flexibility and benefits are nearly tied at the top of incentives for employees. Interestingly, these studies found that there was a large gap between what employers think their employees want and what employees actually want. It is worth taking EVP seriously in the age of the Great Resignation, not only due to the strain created by loss of key talent, but also because increased staff turnover generally leads to higher recruitment, training and onboarding costs[46].

It also should not be a surprise that research by Oxford University's Saïd Business School, in collaboration with British multinational telecoms firm BT, has found a conclusive link between happiness and productivity.[47] Happy, satisfied employees lead to increased productivity, which in turn leads to increased profits, which is good for all.

4. Consider a multinational focus, if justified

As the world and companies become more globalised, companies should be cognisant of their expanding footprint and should assess whether multinational or international companies should be considered as part of their benchmarking approach.

However, it is important to consider this approach carefully and assess whether it is truly justified, given the large discrepancies between pay levels and structures in different jurisdictions. The materiality of operations/footprint in various jurisdictions should be considered in determining a fair comparator group for benchmarking. In addition, the impact of multinational operations or assets may not be a factor for all employees. This is because it may not impact the complexity of their role, and it is important that this is thoroughly considered. Complexity of the roles being benchmarked must be taken into account, so that comparisons are fair and meaningful, and a change in approach to benchmarking does not increase pay levels unnecessarily.

Conclusion

In the face of this war for talent, the traditional benchmarking approach is long past its use-by date. In order to align to the new world of work, it is high time that we approach people and their salaries in a fresh and more strategic way and use benchmarking tools to their maximum effect to derive valuable insights.

[46] Dickson, G. 2021. "What You Need to Know About the Cost of Employee Turnover". Bonusly, December 6, 2021. *https://blog.bonus.ly/cost-of-employee-turnover.*

[47] University of Oxford. 2019. "Happy workers are 13% more productive". University of Oxford, October 24, 2019. *https://www.ox.ac.uk/news/2019-10-24-happy-workers-are-13-more-productive.*

5 Regulatory updates

Since our last regulatory update, the local and global regulatory landscape has remained stable. In South Africa, the legislative process related to the proposed amendments to the Companies Act appears to have come to a standstill with many companies unsure as to what lies ahead for remuneration reporting. Abroad, developments include an ongoing push for diversity in boards, calls for more guidance on malus and clawback provisions, and changes to remuneration policies that suggest where global leading market practice is heading.

In this chapter we include a high-level overview of the remuneration-related updates to legislation and regulatory frameworks specific to South Africa, the United Kingdom ("UK"), the United States of America ("USA") and Australia.

South Africa

Since providing an update on the Companies Amendment Bill[48] released for public comment in October 2021, no further communication regarding the draft bill has been provided by parliament. Many have speculated that the amendments proposing more extensive disclosure on executive remuneration and the wage gap have been met with strong opposition and concerns about the onerous impact of the amendments, both from a business and investment in South Africa perspective. Others have opined that the draft legislation requires more deliberation on the provisions related to the remuneration report and the consequences of the entire remuneration report not being approved by the proposed binding votes.

[48] Department of Trade Industry and Competition. 2021. Revised Companies Amendment Bill, 2021. Department of Trade Industry and Competition, October 2021. *http://www.thedtic.gov.za/wp-content/uploads/Revised_Companies_Amendment_Bill-1_October2021.pdf.*

Be disclosure ready: remuneration reporting

Under the proposed Companies Act, public and state-owned companies must present a remuneration report for approval as follows:

Composition of the remuneration report

- Background statement
- Remuneration policy
- Implementation report
- Pay gap disclosures, including:
  - Total remuneration of the top earner of the company
  - Total remuneration of the lowest paid employee of the company
  - Average remuneration of all employees
  - Median remuneration of all employees
  - Pay gap between highest paid 5% and lowest paid 5%

Approval

- The remuneration report must be approved by the board of the company and presented at the annual general meeting ("AGM") for approval and will be voted on by shareholders. The implementation report and remuneration policy each require a separate ordinary resolution.
- The remuneration policy must be submitted for approval by way of ordinary resolution at the company's AGM every three years or where material changes are proposed.

Remuneration votes	Less than 50% approval vote not received
Remuneration policy	It must be presented at the next AGM or at the next called shareholders' meeting until approval is obtained. The contents of the policy cannot be effected until approval has been obtained.
Implementation report	The RemCo, or other board committee responsible shall, at the following AGM provide an explanation on the manner in which shareholders' concerns have been addressed; and The RemCo (or relevant committee's) members must stand down for re-election every year of the rejection of the implementation report.

Further details regarding our commentary on the proposed Companies Act can be found in our 2022 Non-executive directors report[49].

[49] PwC. 2022. Non-executive directors: practices and fees trends report, 15th ed. *https://www.pwc.co.za/en/publications/non-executive-directors-report.html.*

United Kingdom

PS22/3: Diversity and inclusion on company boards and executive management

In April 2022, the Financial Conduct Authority ("FCA")[50] released its policy statement[51] setting out its final policy decision for proposals regarding Diversity and Inclusion ("D&I") on company boards and executive committees. It is believed that the measures identified will improve transparency on the diversity of company boards and their executive management for investors and other market participants.

The rules are also intended to give companies flexibility to decide on the most appropriate approach to collecting data for purposes of complying with data privacy laws whilst reporting against the targets on women's representation and for the related numerical disclosures. Following the broad support of the proposals in CP21/24[52] which mainly focused on disclosure against targets for representation of women and ethnic minorities, the FCA has introduced the following new Listing Rules (LR 9.8.6R(9) and LR 14.3.33R(1)) which require, as an ongoing listing obligation, issuers to include a statement in their annual financial report setting out whether they have met specific board diversity targets on a 'comply or explain' basis, and, if they have not met targets, to provide reasons.

The targets provided are as follows:

- At least 40% of the board are women.
- At least one of the senior board positions (Chair, Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO)) is a woman.
- At least one member of the board is from a minority ethnic background.

Issuers will also have to set out in their statement:

- The reference date used, and where this is different from the reference date used in respect of the previous accounting period, an explanation of why; and
- Any changes to the board that have occurred between the reference date and the date on which the annual final report is approved that have affected the company's ability to meet one or more of the targets.

Alongside the annual narrative comply or explain disclosure, it will also be required in terms of LR 9.8.6R(10) and LR 14.3.33R (2) for the relevant companies to publish numerical data on the sex or gender identity and ethnic diversity of their board, senior board positions (Chair, CEO, SID and CFO) and executive management in a table format. Issuers will also be expected to explain their approach to collecting the data across the individuals being reported on and for reporting against the targets and numerical disclosures.

[50] The Financial Conduct Authority represents the conduct regulator for over 51,000 financial services firms and financial markets in the UK.

[51] Financial Conduct Authority. 2022. "Policy Statement". Diversity and inclusion on company boards and executive management. Financial Conduct Authority, April 2022. *https://www.fca.org.uk/publication/policy/ps22-3.pdf.*

[52] Financial Conduct Authority. 2022. "Consultation Paper". Diversity and inclusion on company boards and executive management. Financial Conduct Authority, July 2021. *https://www.fca.org.uk/publication/consultation/cp21-24.pdf.*

Strengthening malus and clawback provisions in directors' remuneration arrangements

In March 2021, research showed that about 90% of FTSE 350 companies had malus and clawback provisions in place. However, whilst most companies had clawback triggers for misstatement of results or an error in performance calculations, far fewer companies had conditions for other events such as those resulting in reputational damage or a failure of risk management. A practical challenge noted with this, was the enforceability of these provisions where they exist. It was viewed that if they are drafted too broadly they become difficult to enforce, but if drafted too narrowly and specifically, they can exclude clawback where action should be taken. Based on this, the UK Government proposed strengthening malus and clawback arrangements to provide better reassurance against rewards for director failures.

Accordingly, the UK Government launched a broad consultation on reforms to audit and corporate governance in 2021 which included the following proposed set of minimum malus and clawback conditions as provided below:

- material misstatement of results or an error in performance calculations;
- material failure of risk management and internal controls;
- misconduct;
- conduct leading to financial loss;
- reputational damage; and
- unreasonable failure to protect the interests of employees and customers.

The proposal was that the UK Corporate Governance Code include provisions which recommend that certain minimum clawback conditions or 'trigger points' are included in directors' remuneration arrangements and that these have a minimum period of application of at least two years after an award is made. Following a review of the proposal in March 2022, it was then considered whether it would be necessary to further extend this to all listed companies, potentially through the Listing Rules[53].

On 31 May 2022, the findings of the consultation were published with many supporting the principle of increasing transparency and rigour in malus and clawback arrangements. However, several concerns with the suggested malus and clawback provisions were flagged including that they could be more specific and measurable in order to be useful to remuneration committees. Following this feedback, the UK Financial Reporting Council (who oversees the UK Corporate Governance Code) will be invited to consult on how the existing malus and clawback provisions in the Code can be developed to deliver greater transparency and to encourage consideration and adoption of a broader range of conditions in which executive remuneration could be withheld or recovered.

Impact of CRD V

In 2019, the latest iteration of the Capital Requirements Directive and Regulation, which establishes the prudential framework for financial institutions operating in the EU, was finalised and EU members were mandated to implement CRD V into local law. Accordingly, several updates have been made to the European Banking Authority's remuneration policies and UK regulations. Although CRD V is not applicable to South Africa, we have set out below some of the relevant changes which can be used as an indication of where global leading market practice is heading.

EBA updates

- Retention bonuses should not be awarded to merely compensate for performance-related remuneration not paid due to insufficient performance or the institution's financial situation.
- When awarding guaranteed variable remuneration, including the compensation for the buyout of a previous contract, when hiring new staff, institutions are not permitted to guarantee variable remuneration for longer than the first year of employment. Guaranteed variable remuneration is exceptional and can only occur where the institution has a sound and strong capital base.
- For remuneration packages relating to the compensation or buyout of contracts in previous employment, all requirements for variable remuneration and the provisions within these guidelines apply, including deferral, retention, pay out in instruments and clawback arrangements.
- Institutions should ensure to the extent possible that identified staff members are not able to transfer the downside risks of variable remuneration to another party through hedging or certain types of insurance, e.g. by implementing policies for dealing in financial instruments and disclosure requirements.

[53] Department for Business, Energy & Industrial Strategy. 2021. Restoring trust in audit and corporate governance. Department for Business, Energy & Industrial Strategy, March 2021. *https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/970673/restoring-trust-in-audit-and-corporate-governance-command-paper.pdf.*

UK regulations

- The requirement to limit variable pay to 100% of fixed pay (or 200% with shareholder approval) will apply to all CRD V MRTs of all firms in scope of the Directive.
- Malus and clawback will apply to all CRD V MRTs of all firms in scope of the Directive.
- Deferral periods will be extended from 3-5 years to 4-5 years. Currently, senior management are required to defer for five years and other MRTs for three years. The requirements for senior management will remain at five years, with other MRTs increasing to four years. The UK rules currently go further than the European rules, requiring a seven-year deferral for senior managers and a five-year deferral for 'risk managers'. This means it is likely that only the MRTs who are currently subject to a three-year deferral will need to increase their deferral by a year.
- The proportion of variable pay subject to deferral remains at 40%, or 60% for senior management and high earners (currently those earning over £500,000).
- Listed companies will now be allowed to use share-linked instruments or equivalent non-cash instruments to meet the requirement to pay 50% of upfront and deferred variable pay in instruments.

Australia

Update on the prudential standard on remuneration, CPS 511

In our 2022 Non-executive directors report, we reported on the release by the Australian Prudential Regulation Authority ("APRA") of its final Prudential Standard CPS 511 Remuneration and Response Paper[54]. Since our reporting, no further amendments have been made to the CPS 511; however, APRA has commenced its pre-implementation review of CPS 511, which includes a detailed review of the CPS 511 implementation plans at a subset of regulated entities. Thematic findings from this review are not expected to be published until early 2023.

[54] PwC. 2022. "Regulatory update", Non-executive directors: practices and fees trends report, 15th ed. *https://www.pwc.co.za/en/publications/non-executive-directors-report.html.*

Proxy advisors

Glass Lewis

No further updates have been made and the policy guidelines for the 2022 cycle, as summarised in our 2022 Non-executive directors report, for the United Kingdom[55] and the United States[56] remain applicable to date. No updates to the voting guidelines for South Africa have been made since 2020 and the 2021 voting guidelines remain applicable.[57]

ISS

No further updates have been made and the policy guidelines published in December 2021, as summarised in our 2022 Non-executive directors report, for South Africa[58], the United Kingdom[59] and the United States[60] remain applicable to date.

[55] United Kingdom: 2022 Policy Guidelines (Glass Lewis, November 2021) *https://www.glasslewis.com/wp-content/uploads/2021/11/UK-Voting-Guidelines-GL-2022.pdf*

[56] United States: 2022 Policy Guidelines (Glass Lewis, November 2021) *https://www.glasslewis.com/wp-content/uploads/2021/11/US-Voting-Guidelines-US-GL-2022.pdf*

[57] South Africa: 2021 Policy Guidelines (Glass Lewis, November 2021) *https://www.glasslewis.com/wp-content/uploads/2021/08/Voting-Guidelines-South-Africa-GL.pdf*

[58] Institutional Shareholder Services. 2021. 2022 Global Proxy Voting Guidelines Updates and Process of ISS Benchmark Policy Development, December 7, 2021. *https://www.issgovernance.com/file/policy/latest/updates/Executive-Summary-of-ISS-Policy-Updates-and-Process.pdf.*

[59] Ibid.

[60] Institutional Shareholder Services. 2021. Americas Proxy Voting Guidelines Updates for 2022, December 7, 2021. *https://www.issgovernance.com/file/policy/latest/updates/Americas-Policy-Updates.pdf.*

6 ESG and pay in the Top 40

After years of talking about it in theoretical terms, the incorporation of ESG metrics into executive pay structures has become commonplace. According to research by PwC[61], globally, 82% of senior leaders had ESG targets in their pay in 2021. From lagging this trend a few years ago, it appears that the US is now leading the pack, with 92% of their senior leaders having these targets in their remuneration structure, compared to the UK where 72% of their senior leaders have ESG targets in their pay. Our research also shows that listed entities are more likely to adopt ESG measures (with an 89% prevalence), but this phenomenon is also growing steadily in the private equity sector, where 85% of senior leaders have ESG targets in their pay.

What is not clear from this analysis, is whether robust due diligence has been performed to identify materially relevant ESG metrics and how ESG considerations have been effectively considered and incorporated into organisation's overall business strategy. The appearance of ESG metrics in executive pay structures is however promising and on face value, good progress is being made, and only time will tell if the background work on incorporation of these ESG metrics has been properly performed.

Whatever it might be, from a global perspective, there are no signs of the link between ESG and pay slowing down. To understand where South African companies are on their ESG journey, we performed research on how the top 40 JSE-listed companies link ESG to pay.

[61] PwC. 2022. Paying good for all. *https://www.pwc.com/payingforgoodforall.*

Short-term incentive

Of the Top 40 companies, only three companies did not show evidence of ESG metrics in their STI.

However, it is important to note that this represents a mere 'count', and the mention of the inclusion of an ESG metric within the pay structure does not speak to the robustness of the measure, or the quality of the disclosure.

37 companies disclose the use of weighted ESG metrics in their STI (93%)

11 companies disclose the use of an ESG-related modifier in their STI (30%)

Of the companies who disclosed the use of a modifier, save for one company, all modifiers were applied to downwardly adjust the calculated STI.

Of the weighted inclusions, the range of weighting to ESG ranged between **5%** and **33%** with most companies applying a weighting of **20%**.

As has historically been the case, many mining companies continue to use STI modifiers to address any safety-related incidents including fatalities (9 of the 11 companies use an STI modifier). Two of the 11 companies using an STI modifier utilise a 'risk assessment' modifier which takes into account wider aspects such as profitability, corporate conduct, financial impact of risk events, or other events that have a material negative impact on any stakeholders including employees, customers and the community.

Long-term incentive

Of the Top 40 companies, five did not show evidence of ESG metrics in their LTI.

35 companies disclose that they use weighted ESG metrics in their LTI (88%)

7 companies disclose the use of an ESG-related modifier in their LTI (20%)

Of the weighted inclusions, the range of weighting to ESG ranged between **10%** and **33%** with most companies applying a weighting of **20%**.

What is not clear from the disclosure is the quality of the ESG metrics being included, and whether they reflect ESG considerations being truly interwoven within business strategy. It is hoped that the selection of ESG metrics is pursuant to appropriate methodology, which includes the assessment of material ESG factors for the business. This analysis also does not 'check' whether included measures align to publicly stated ambitions and strategy for the company; and while this might be possible to check in some instances, in others, disclosure is too high-level to meaningfully assess this link.

Another trend noted from the analysis is the fact that ESG metrics within comparable companies often align. Is this due to measures being selected due to 'market practice' and an outward look towards peers, or perhaps due to pressure from the current (or a previous) set of investors to incorporate particular measures?

Stacking up to global trends

Globally, ESG targets remain more common in STI plans, with 75% of the companies surveyed incorporating ESG targets in their bonus plans contrasted to 50% in their LTI plans.

Globally, it was also observed that ESG targets have a typical total weighting of 10-15% while investors want 15-20%. In our local environment, we appear to be closer to the 20% mark.

Social considerations

While the global focus on ESG has related mainly to environmental considerations, in South Africa, social considerations play a bigger role with income inequality being a primary consideration. However, it cannot be forgotten that the risks associated with climate change, especially in African countries, have many knock-on socioeconomic implications such as food insecurity, increasing health risks, and migration. In addition, all of these risks increase the risk for social unrest and upheaval. This emphasises the interconnectedness of the environmental and social considerations of ESG strategy in the African context.

Our CEO Survey[62] showed that 73% of South African CEOs felt very or extremely concerned about social inequality stemming from, for example, gender, race, ethnicity and wealth negatively impacting their company over the next 12 months, a figure which is more than four times higher than that of global CEOs.

Social inequality is closely linked to issues such as the minimum and living wage. The living wage has been a much-discussed topic locally in the last few years, with a lot of the debate surrounding the play off between paying a living wage, or employing more people at a minimum wage. Given this debate, and the lack of a local formal view on a living wage, it may be surprising to note that 18 of the Top 40 disclose that they are paying the equivalent of a living wage or explicitly commit to a living wage. Basic materials and financial services dominate this statistic with eight companies in each industry.

What are the focal areas?

With a quarter of the Top 40 comprising mining and energy companies, it is unsurprising that health and safety remained the most prevalent measure with environmental measures coming a close second. What has emerged is what appears to be a renewed focus on people-related measures, with a quarter of the Top 40 going beyond mere disclosure of transformation and providing more focus towards succession planning, talent management and retention, and, for two companies, this includes a specific mention of gender diversity.

Governance: does it feature?

Governance measures are less observed, only being used by a small number of companies. This is likely due to companies using malus and clawback provisions as a mechanism for monitoring and ensuring compliance with governance-related aspects. Malus and clawback is widely incorporated in the South African market: 37 of the Top 40 disclose the use of a malus and clawback policy.

Applying ESG to incentive structures: here's what to consider

It appears that the incorporation of ESG into pay structures is inevitable. And perhaps this is, on the balance, a good thing. But, as we have often mentioned, it is vital that this is done right. Let's recap some of our practical considerations for incorporating ESG into incentive structures:

- **Use existing measures aligned to strategy —** and be clear why you have chosen them. It should be easy to explain to an investor the strategic rationale for an ESG measure and how it links to publicly stated ambitions.
- **Focus on the big issues, in particular those requiring a step change**. It is best to work on the issues which will have the greatest impact, or where the need for change is most pressing. Focus on the big issues, and the smaller ones will take care of themselves.
- **Calibrate your targets appropriately**. ESG issues could quite easily be calibrated in a way that results in higher payouts. Boards should ensure shareholders trust ESG targets and their calibration. At the top end, payouts must require truly exceptional ESG changes to be delivered.
- **Ensure your measures are clear and not overly complex**. Measures should be easy to understand and not follow a complex formula. In many cases, shareholders will prefer targets subject to external assurance.

[62] https://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2022.html

And of course, if companies do not adequately disclose their efforts, a lot of effort can go to waste. Investors expect full and transparent disclosure of the relevant detail behind the disclosed metric or modifier, and as per the JSE's most recent sustainability disclosure guidance[63], an organisation should describe the performance metrics and targets it uses to measure, monitor, and manage its sustainability impacts, risks and opportunities, and its performance against these metrics and targets. At the least, the following should be illustrated:

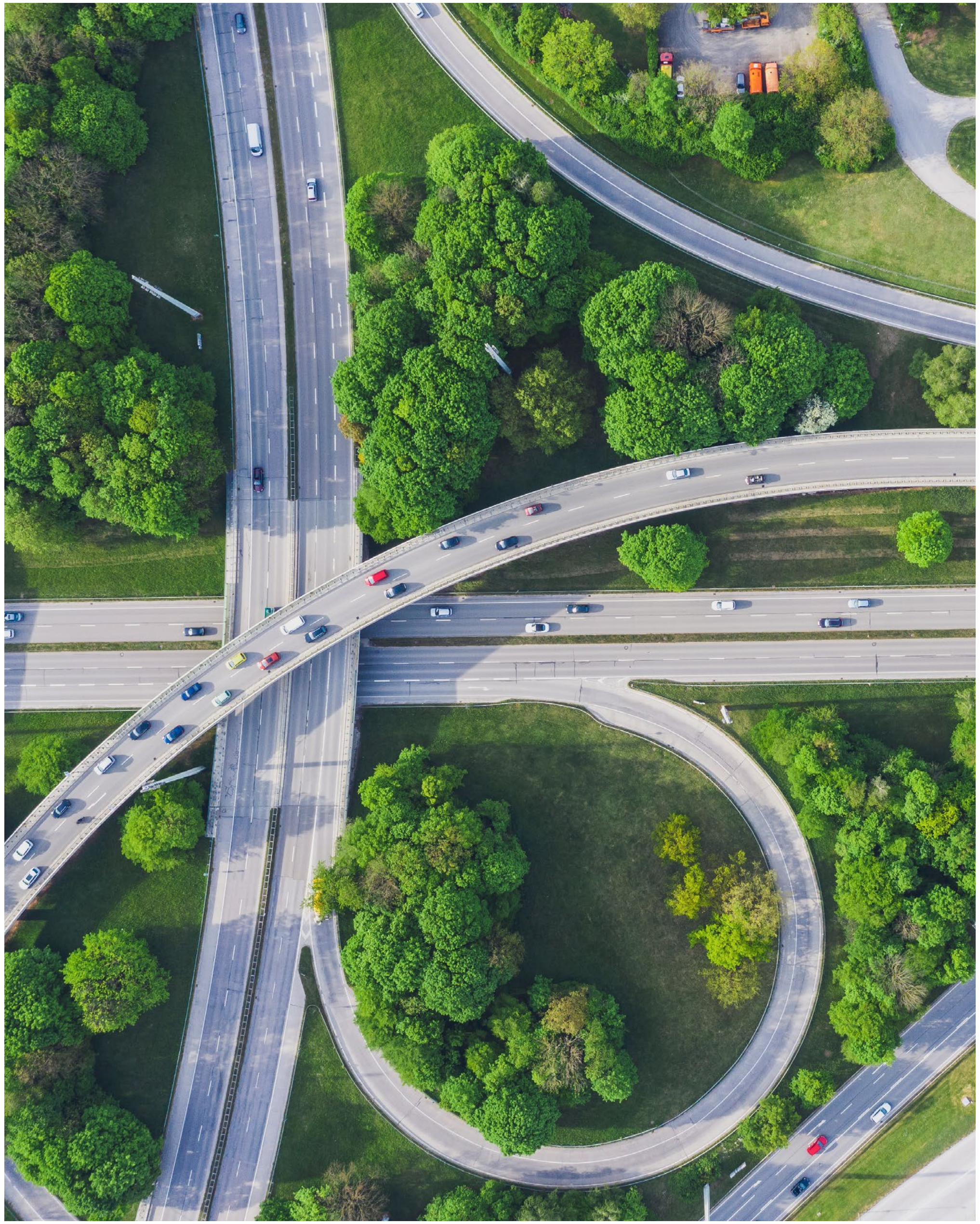
- The metrics used to measure performance
- The methodologies used to calculate performance
- The nature of the ESG targets, including where relevant:
  - Whether the targets are absolute, normalised, intensity or activity-based;
  - The period of time over which performance is measured; and
  - Any milestones or interim targets
- Any amendments to the metrics or targets and the reasons for these changes, including, where possible, any restated comparative figures
- The company and individual performance against these targets and metrics

It follows that the above guidance would be useful for companies to consider when disclosing ESG targets used in incentive structures.

Concluding remarks

It is clear that the incorporation of ESG metrics into incentive structures is inevitable, with JSE-listed companies closely echoing the global trend. Companies should ensure that a robust materiality analysis has been performed to ensure that the metrics selected for inclusion in the STI or LTI represent the areas where they can most meaningfully have an impact. Targets should be calibrated carefully and not represent a 'soft landing'.

Listed and unlisted South African companies may not currently be subject to the same level of reporting scrutiny and responsibility as their global counterparts, but in the midst of potential regulatory changes, this may not remain the case for much longer. Not least in light of this, transparent disclosure is an equally important aspect to consider when incorporating ESG into incentive structures.



[63] JSE Sustainability and Climate Disclosure Guidance *https://www.jse.co.za/our-business/sustainability/jses-sustainability-and-climate-disclosure-guidance*

7 Profile of an executive director

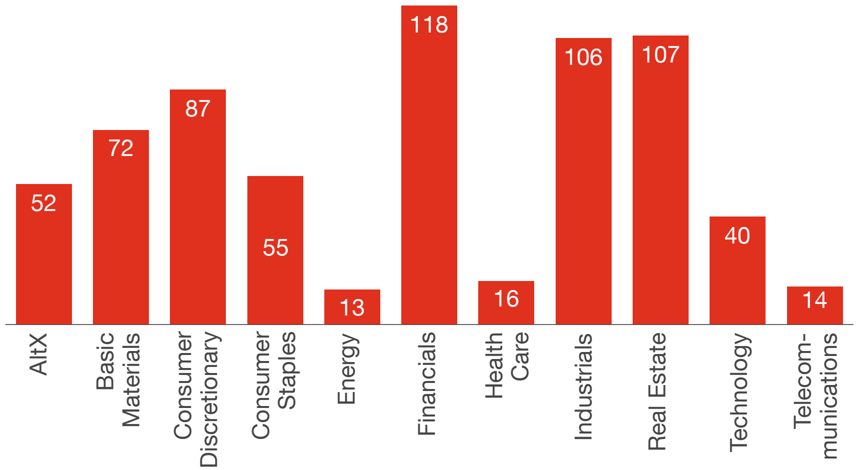
The strategic direction of a company is set by the board of directors, with the CEO and CFO being the mandatory board appointees and the main executioners of the strategy. EDs are responsible for the successful leadership of and management of the organisation. But what does an executive director look like in 2022?

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

We have analysed JSE-listed companies as at 28 February 2022 (the cut-off date). Our analysis is based on the information that is publicly available from 1 March 2021 to the cut-off date. We have excluded preference shares, special-purpose listings and companies that were suspended as at the cut-off date.

As at 28 February 2022, there were 288 active JSE-listed companies with 680 EDs. The 680 EDs comprise 281 CEOs, 258 CFOs and 141 EDs.

Figure 7.1 JSE: Number of EDs per industry

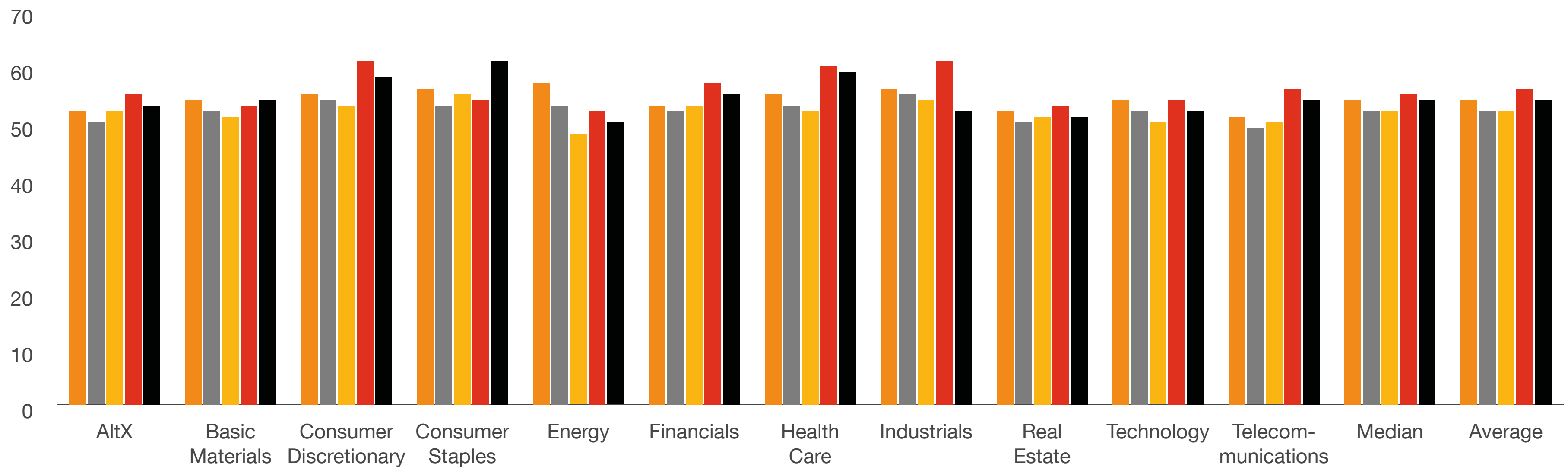


Source: PwC analysis

Average age

The average age of EDs has remained relatively constant over the past five years, and remains at 54 years.

Figure 7.2 JSE: Average age of EDs



	AltX	Basic Materials	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Real Estate	Technology	Telecom-munications	Median	Average
2022	52	54	55	56	57	53	55	56	52	54	51	54	54
2021	50	52	54	53	53	52	53	55	50	52	49	52	52
2020	52	51	53	55	48	53	52	54	51	50	50	52	56
2019	55	53	61	54	52	57	60	61	53	54	56	55	56
2018	53	54	58	61	50	55	59	52	51	52	54	54	54

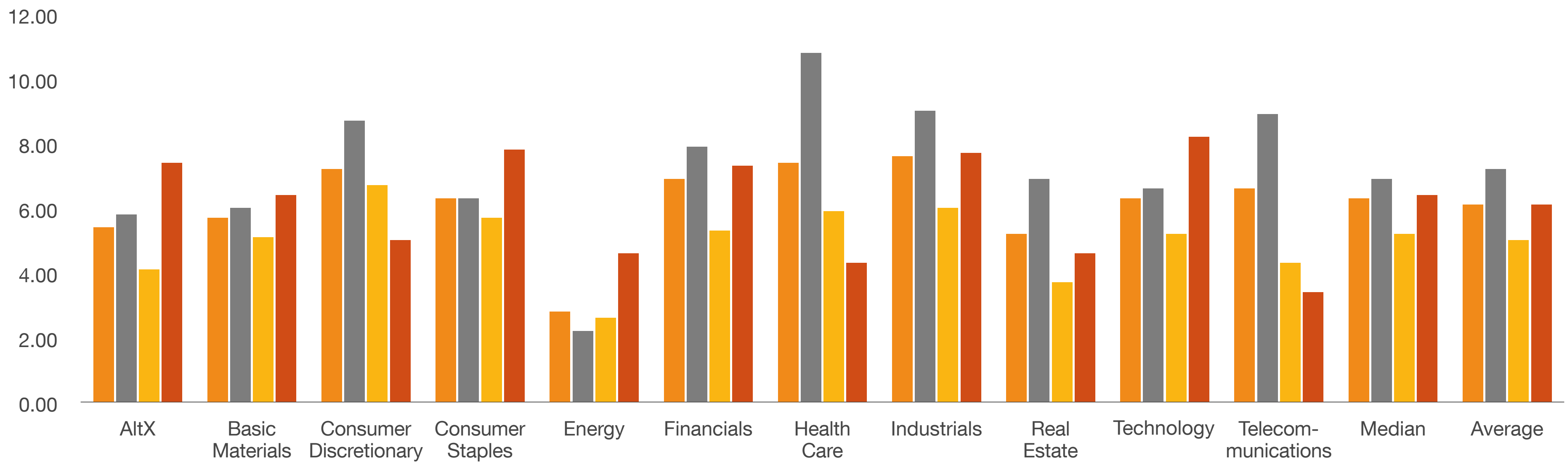
Source: PwC analysis

ED tenure

The average tenure for EDs ranges between 2.8 and 7.6 years across industries, with CEOs having a wider range of between 2.2 to 10.8 years.

The median of the average ED tenures across the industries is 6.3 years, which remains unchanged from last year, although the average has slightly decreased from 6.2 years to 6.1 years.

Figure 7.3.1 JSE: Average tenure of EDs

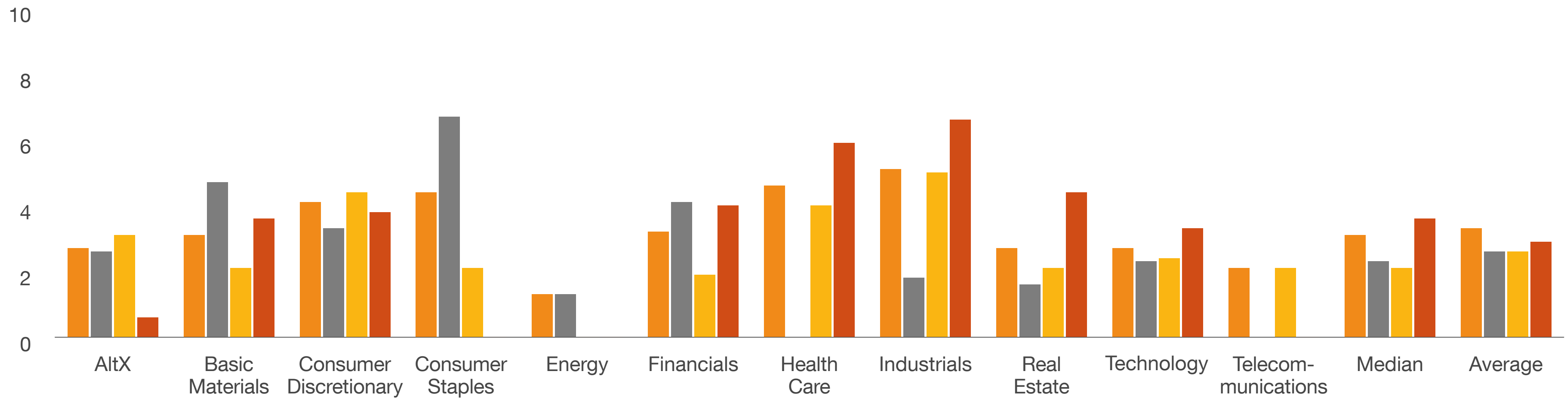


	AltX	Basic Materials	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Real Estate	Technology	Telecom-munications	Median	Average
Overall	5.4	5.7	7.2	6.3	2.8	6.9	7.4	7.6	5.2	6.3	6.6	6.3	6.1
CEO	5.8	6.0	8.7	6.3	2.2	7.9	10.8	9.0	6.9	6.6	8.9	6.9	7.2
CFO	4.1	5.1	6.7	5.7	2.6	5.3	5.9	6.0	3.7	5.2	4.3	5.2	5.0
ED	7.4	6.4	5.0	7.8	4.6	7.3	4.3	7.7	4.6	8.2	3.4	6.4	6.1

Source: PwC analysis

Splitting the analysis between male and females shows that females tend to be in roles for a shorter duration than their male counterparts. The average tenure for male EDs ranges between 2.9 and 8.1 years across the different industries, with the female equivalent ranging being 1.3 and 5.1 years.

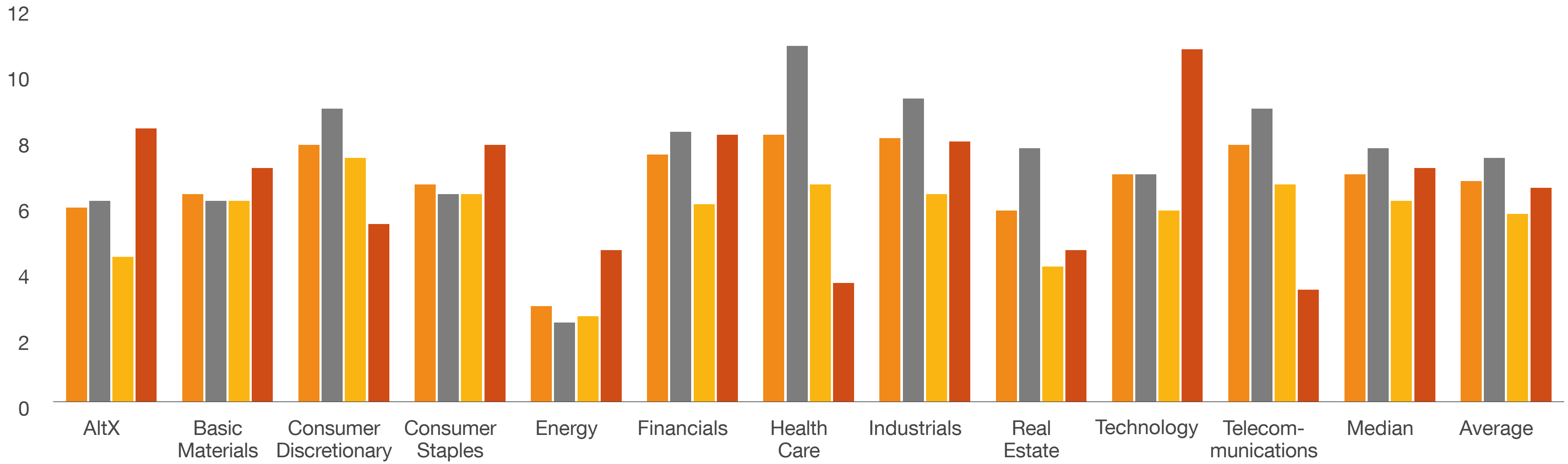
Figure 7.3.2 JSE: Average tenure of female EDs



	AltX	Basic Materials	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Real Estate	Technology	Telecom-munications	Median	Average
Overall	2.7	3.1	4.1	4.4	1.3	3.2	4.6	5.1	2.7	2.7	2.1	3.1	3.3
CEO	2.6	4.7	3.3	6.7	1.3	4.1	0.0	1.8	1.6	2.3	0.0	2.3	2.6
CFO	3.1	2.1	4.4	2.1	0.0	1.9	4.0	5.0	2.1	2.4	2.1	2.1	2.6
ED	0.6	3.6	3.8	0.0	0.0	4.0	5.9	6.6	4.4	3.3	0.0	3.6	2.9

Source: PwC analysis

Figure 7.3.3 JSE: Average tenure of male EDs



	AltX	Basic Materials	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Real Estate	Technology	Telecom-munications	Median	Average
Overall	5.9	6.3	7.8	6.6	2.9	7.5	8.1	8.0	5.8	6.9	7.8	6.9	6.7
CEO	6.1	6.1	8.9	6.3	2.4	8.2	10.8	9.2	7.7	6.9	8.9	7.7	7.4
CFO	4.4	6.1	7.4	6.3	2.6	6.0	6.6	6.3	4.1	5.8	6.6	6.1	5.7
ED	8.3	7.1	5.4	7.8	4.6	8.1	3.6	7.9	4.6	10.7	3.4	7.1	6.5

Source: PwC analysis

Race and gender

The race analysis performed is based on the top 100 JSE-listed companies on a role basis (i.e. CEO, CFO and other EDs) while the gender analysis is based on all 288 active companies based on their market cap, but not role, due to the low female representation in the CEO and CFO roles.

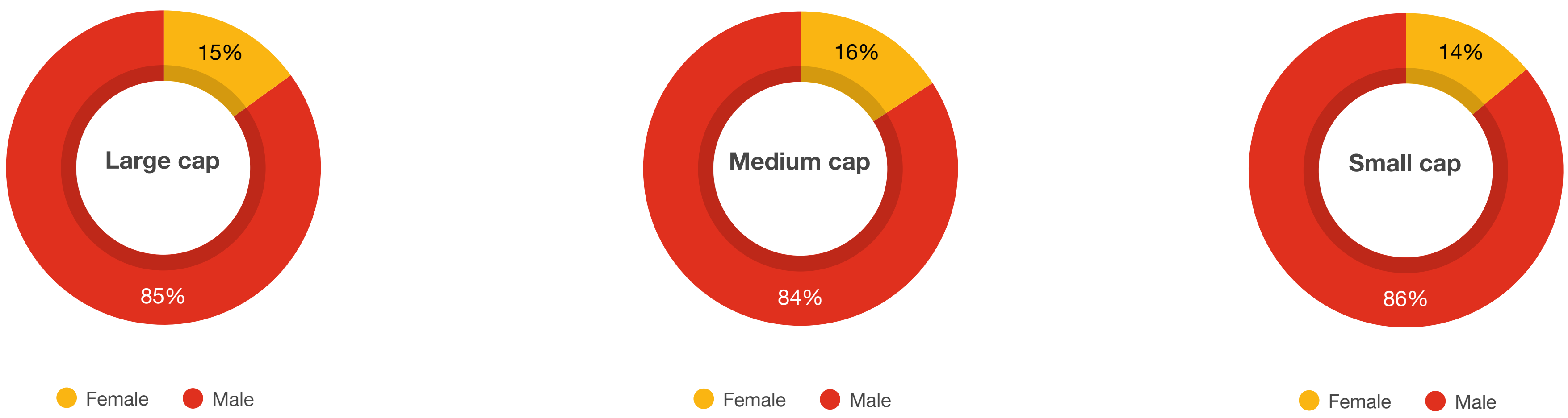
Gender

Only 15% (84 women) of the ED population is female (including CEOs and CFOs). The overall level of female representation is similar across companies of different sizes (i.e. large, medium and small cap), ranging from 14% - 16%. Noting that there have been changes to the active companies from last year, this appears to represent a small positive trend from last year, where 13% of the overall ED population was female.

Female representation at CEO and CFO level is 8% (22 women) and 22% (56 women) respectively.

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

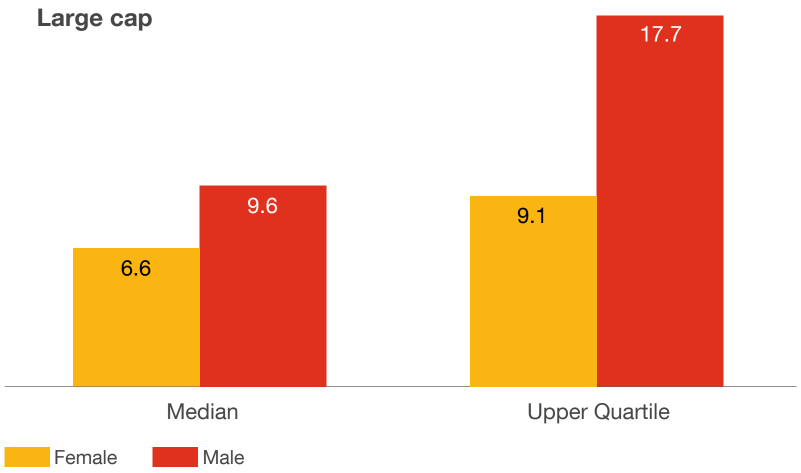
Figure 7.4 JSE: Gender representation by company size



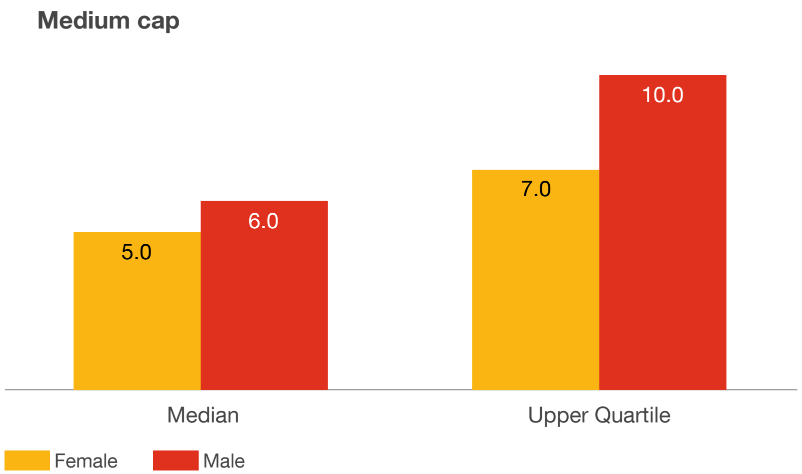
Source: PwC analysis

The gender pay gap is most significant for large-cap companies: a 32% median pay gap and a 49% upper quartile pay gap. This has actually slightly increased from last year, where the gaps were 28% and 48% respectively. Medium-cap companies had the lowest pay gaps: 16% at the median and 30% at the upper quartile, which is a significant improvement from last year where the gaps were 46% and 51% respectively. Small cap companies had pay gaps of 34% at the median (27% last year) and 29% at the upper quartile (30% last year).

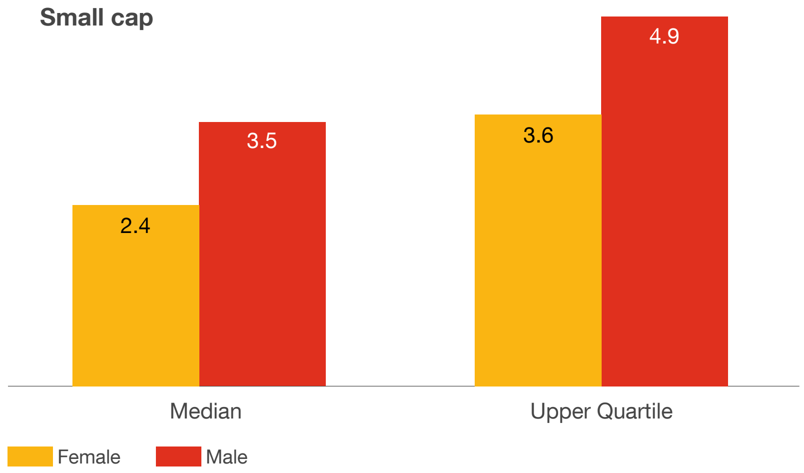
Figure 7.5 JSE: Gender pay gap by company size (R'm)



Source: PwC analysis



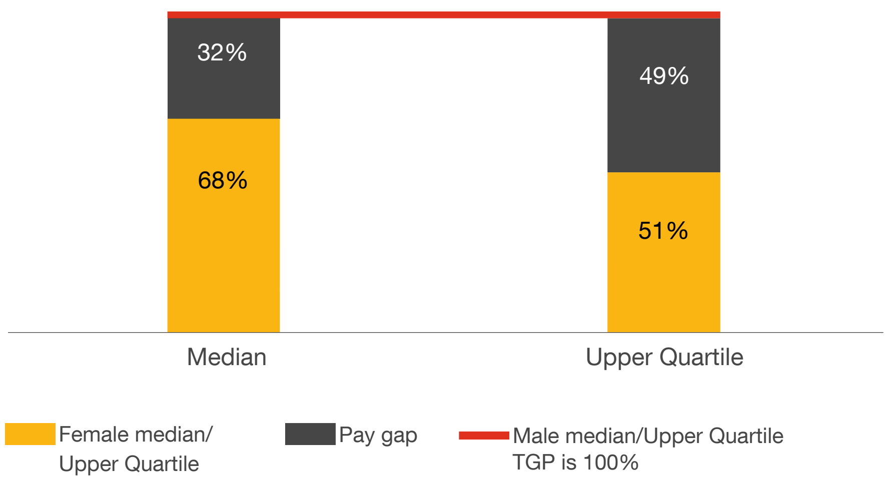
Source: PwC analysis



Source: PwC analysis

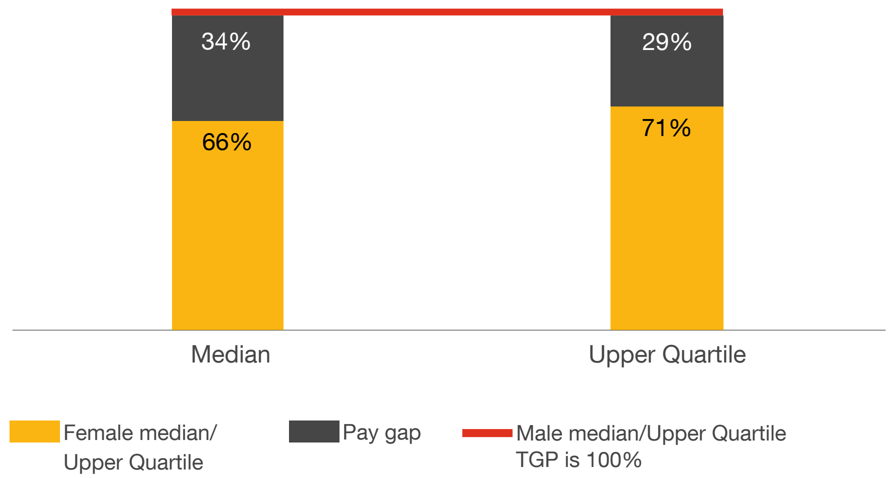
Figure 7.6 JSE: Gender pay gap by company size (%)

Large cap



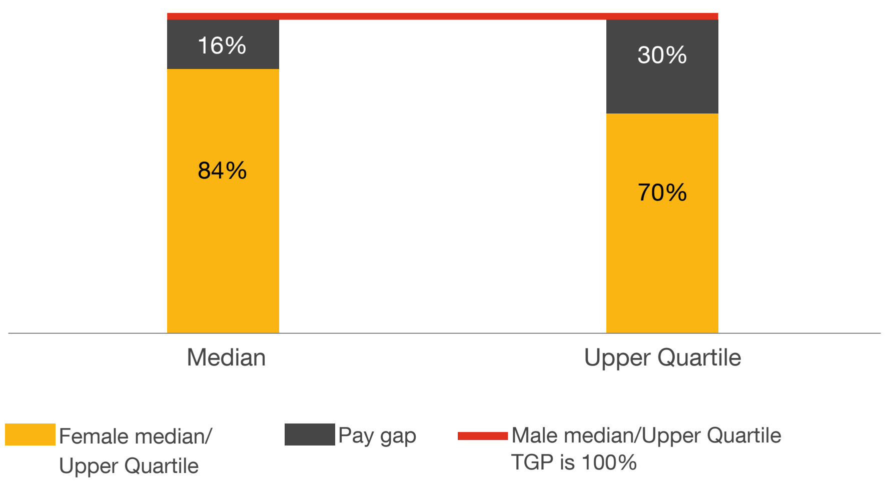
Source: PwC analysis

Small cap



Source: PwC analysis

Medium cap



Source: PwC analysis

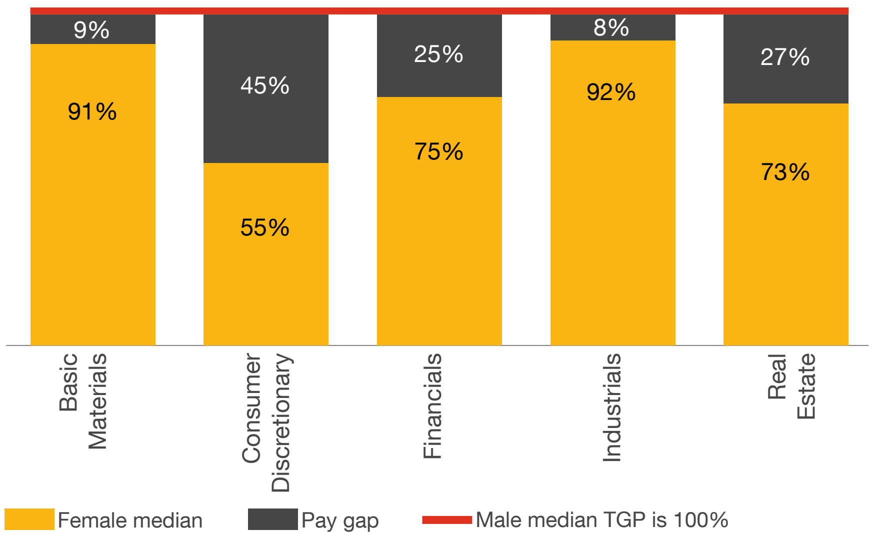
Gender pay gap per industry

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

Turning to industries, the pay gap ranges between 8% for Industrials to 45% for Consumer Discretionary (on a median basis).

The pay gap ranges are also influenced by the number of incumbents analysed, as such, as an additional reference point we have provided you with the number of females vs males in each of the industries.

Figure 7.7 JSE: Gender pay gap by industry (median basis)

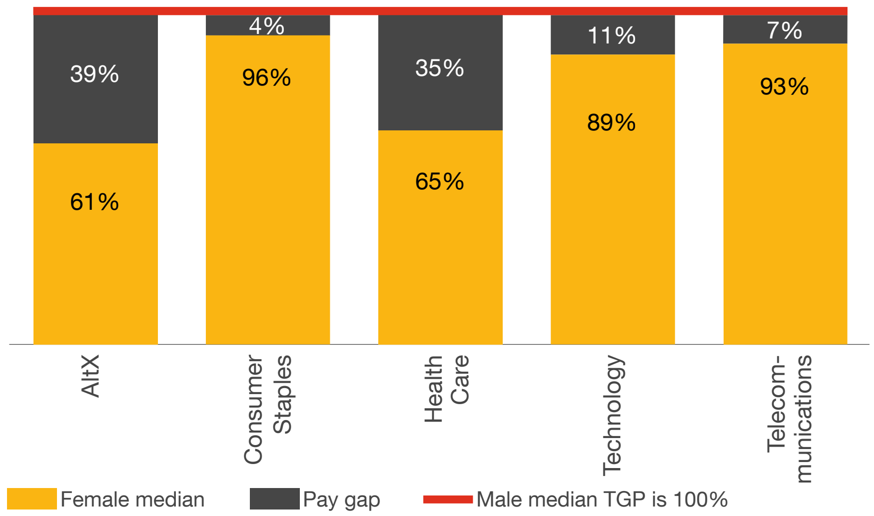


Females	8	12	16	9	16
Males	51	63	93	77	75

Source: PwC analysis

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

Figure 7.8 JSE: Gender pay gap by industry (average basis)



Females	6	5	3	6	3
Males	27	40	11	32	10

Note: There are insufficient female EDs in the Energy industry and it has been excluded from the analysis.

Source: PwC analysis

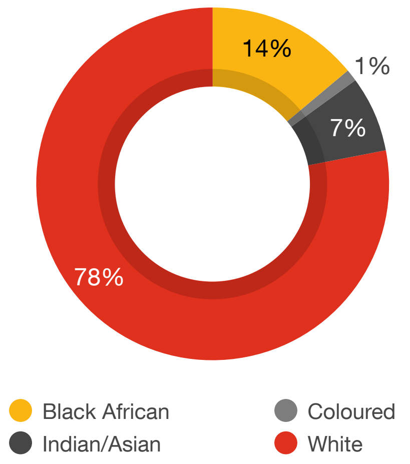
Race

We have analysed the racial diversity among the JSE Top 100 companies by focusing on the ED roles rather than company size. As non-South African citizens do not classify themselves according to the South African race categories, non-South African EDs could not be included in this analysis.

CEO

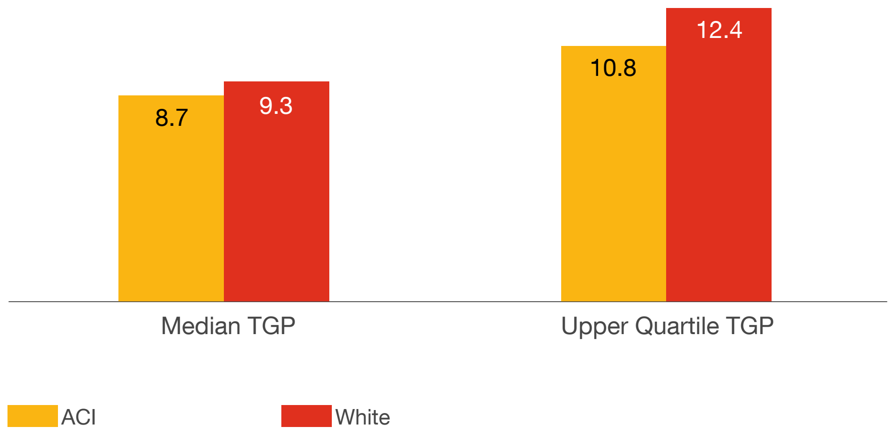
Black South African, Coloured and Indian/Asian representation at CEO level for the top 100 JSE-listed companies remains low with a combined representation of 22%, including a single Coloured CEO.

Figure 7.9 JSE: CEO representation by race



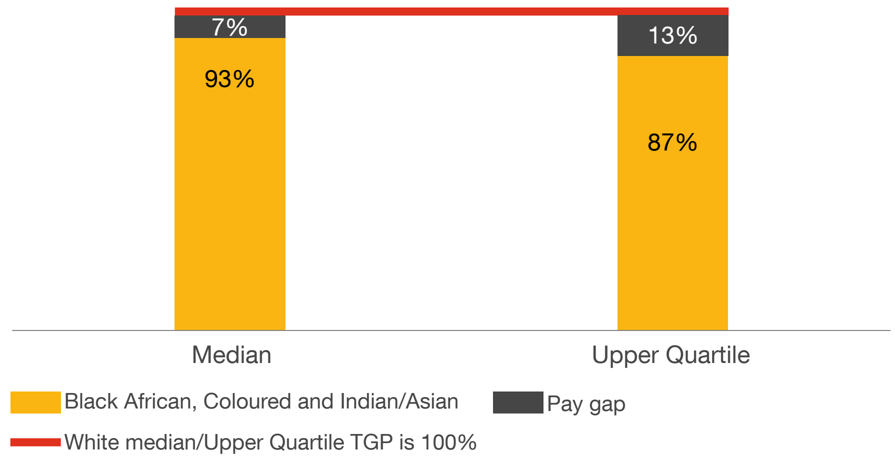
Source: PwC analysis

Figure 7:10 JSE: CEO TGP by race (R'm)



Source: PwC analysis

Figure 7.11 JSE: CEO race pay gap

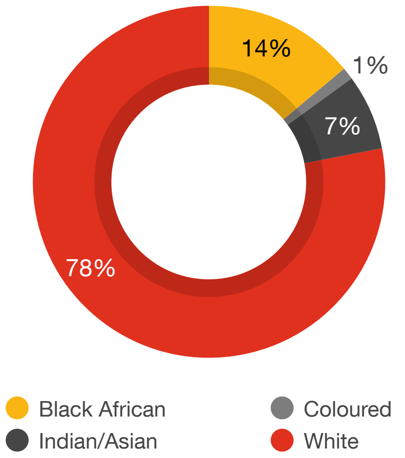


Source: PwC analysis

CFO

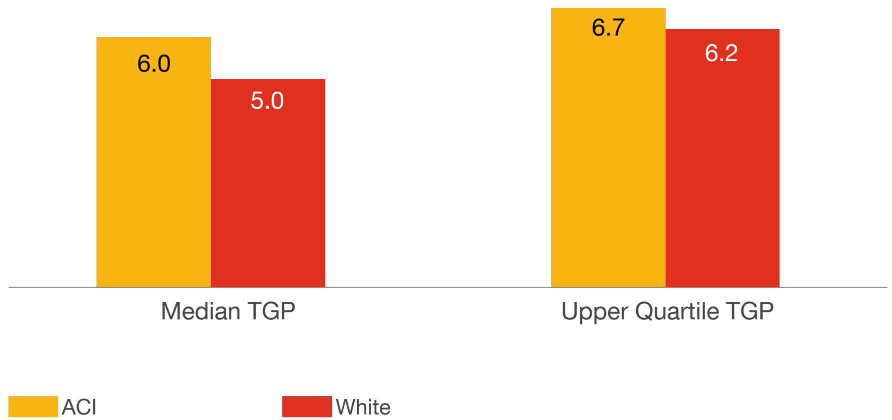
Similarly to the CEO representation, the Black South African, Coloured and Indian/Asian representation for the top 100 JSE-listed companies is a combined 22%.

Figure 7.12 JSE: CFO representation by race



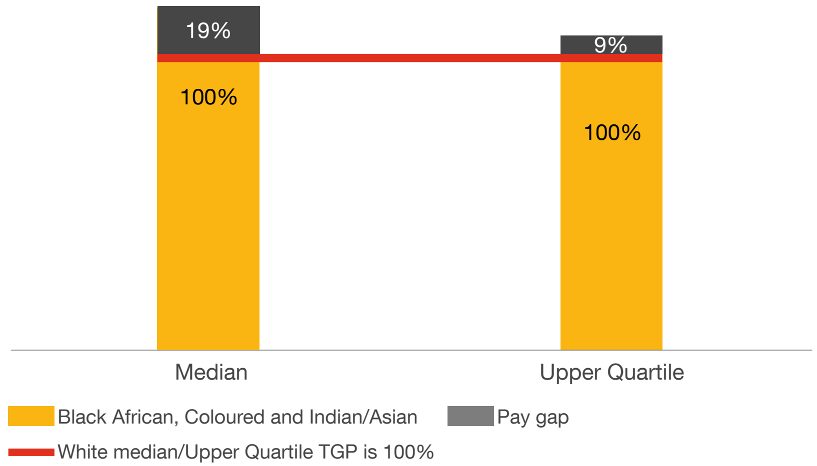
Source: PwC analysis

Figure 7.13 JSE: CFO TGP by race (R'm)



Source: PwC analysis

Figure 7.14 JSE: CFO race pay gap

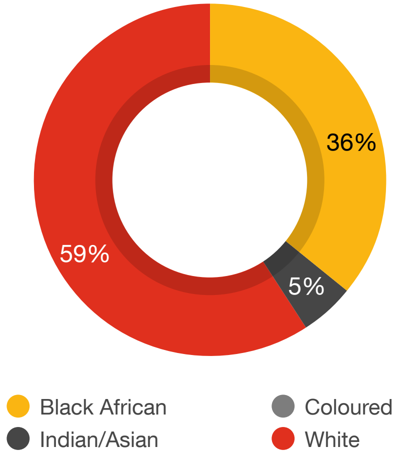


Source: PwC analysis

ED

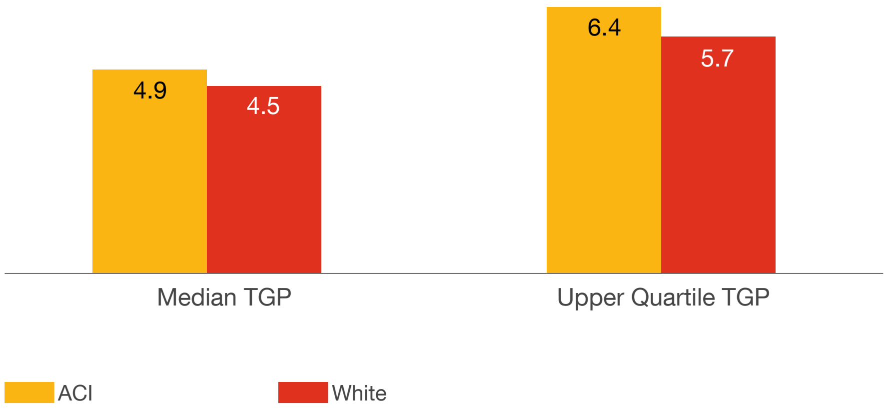
Representation of other EDs is far better than it is for CEOs and CFOs with 41% of other EDs (excluding CEOs and CFOs) being Black South African, Coloured and Indian/Asian.

Figure 7.15 JSE: ED representation by race



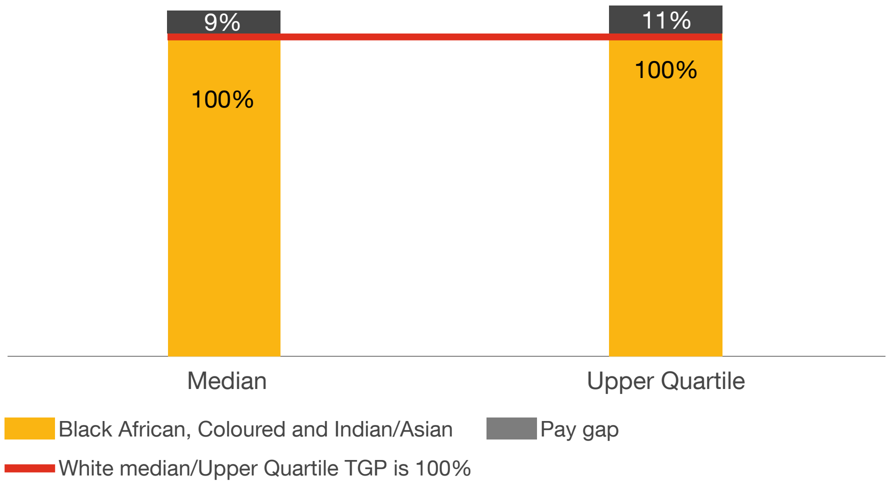
Source: PwC analysis

Figure 7:16 JSE: ED TGP by race (R'm)



Source: PwC analysis

Figure 7.17 JSE: ED race pay gap



Source: PwC analysis

8 JSE executive directors' remuneration

This section of the report provides an analysis of JSE executive directors' TGP and STI for the period 1 March 2021 to 28 February 2022.

This analysis is based on active directors as at 28 February 2022. In instances where executive directors have resigned from their roles as at the cut-off date, we have excluded them. In the event that executive directors have been appointed to their roles after the company's financial year end, they too have been excluded from the analysis as they would not have been included in the latest integrated report.

When executive directors are remunerated in a foreign currency, their TGP is converted into South African rand using the exchange rates as at the cut-off date (28 February 2022).

Rand exchange rates

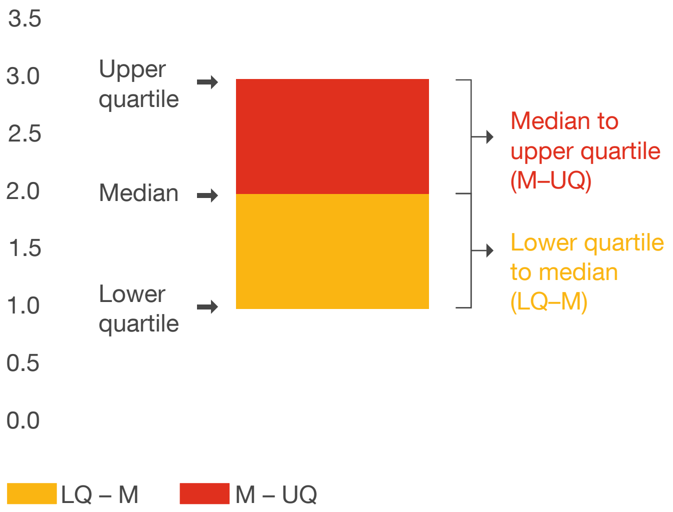
Currency	February 2022
Australian dollar	11.147
Swiss franc	16.724
Euro	17.286
UK pound	20.690
US dollar	15.436

Please note that the analysis presented in this chapter serves to show high-level indicative ranges of remuneration at a point in time, and is not appropriate to be used as a direct reference point for benchmarking purposes. The analysis is also not appropriate to be used to determine increase trends for the executive group, as the constituents of the group used to determine the analysis does not remain consistent year-on-year due to market movements. Accordingly, a percentage movement from 2021 to 2022 has not been provided.

Total guaranteed package

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

Figure 8.1 Guide to data presentation

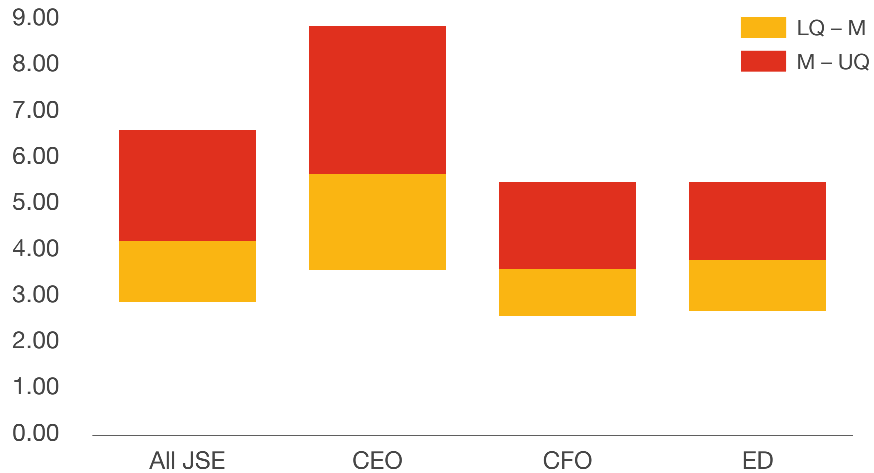


Source: PwC analysis

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

JSE: All industries

Figure 8.2 JSE: All industries (R'm)



	All JSE	CEO	CFO	ED
Lower quartile	2.90	3.64	2.61	2.66
Median	4.22	5.71	3.63	3.76
Upper quartile	6.61	8.92	5.51	5.46

Source: PwC analysis

Super cap (top 10)

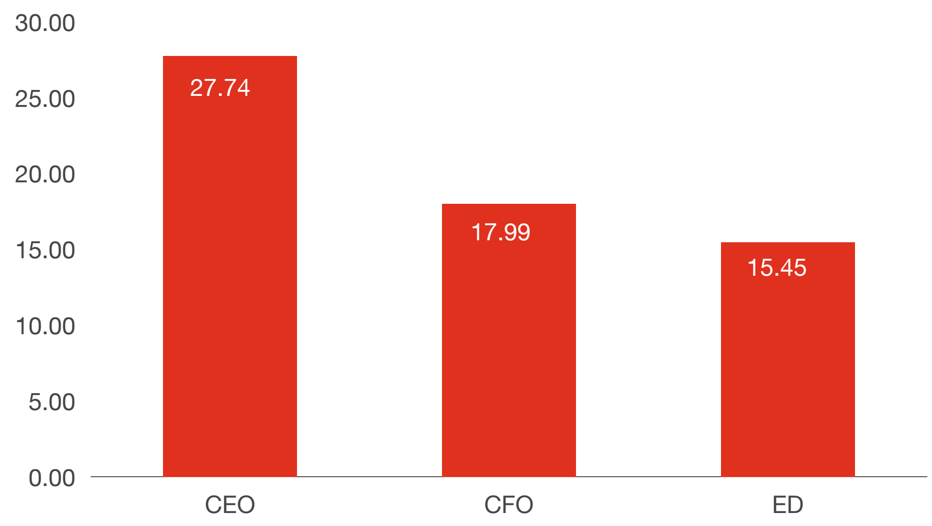
Super caps represent the top ten companies on the JSE. As at 28 February 2022, these companies accounted for 66% of the exchange's total market capitalisation. The companies that make up the JSE top ten are shown in the table below, while the figures that follow illustrate remuneration averages calculated for them.

JSE super cap companies, 2021 vs 2022

2021	2022
Prosus N.V.	BHP Group Ltd
Naspers Ltd	British American Tobacco plc
Anheuser-Busch InBev SA/NV	Anheuser-Busch InBev SA/NV
British American Tobacco plc	Prosus N.V.
BHP Group Ltd	Glencore plc
Glencore plc	Compagnie Financiere Richemont S.A.
Anglo American plc	Anglo American plc
Compagnie Financiere Richemont S.A.	Naspers Ltd
Anglo American Platinum Ltd	Anglo American Platinum Ltd
FirstRand Ltd	FirstRand Ltd

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

Figure 8.3 Super cap: Average TGP (R'm)



Source: PwC analysis

Executive directors’ remuneration by industry

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

Remuneration by industry

Industry	Number of companies	Market capitalisation (R'm)	Proportion contribution to the total market capitalisation (%)
AltX	25	42,871	0.23%
Basic Materials	35	7,192,327	38.40%
Consumer Discretionary	36	1,457,553	7.78%
Consumer Staples	22	3,832,111	20.46%
Energy	6	137,831	0.74%
Financials	51	2,102,801	11.23%
Health Care	7	203,561	1.09%
Industrials	43	390,386	2.08%
Real Estate	41	431,715	2.30%
Technology	16	2,251,789	12.02%
Telecommunications	6	687,414	3.67%
	288	**18,730,358**	**100.00%**

Source: PwC analysis

Large cap

The TGP trends analysis for the CEOs, CFOs and EDs of large-cap companies are shown in the graphs below.

Figure 8.4: Large cap: All industries (R'm)

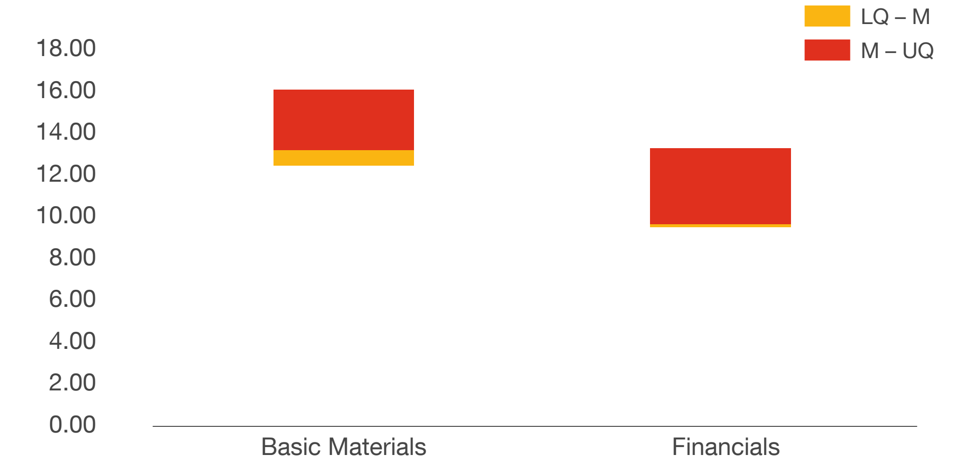
	CEO	CFO	ED
Lower quartile	9.37	5.99	5.15
Median	13.09	7.22	6.37
Upper quartile	20.17	10.43	7.74

Source: PwC analysis

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

CEO

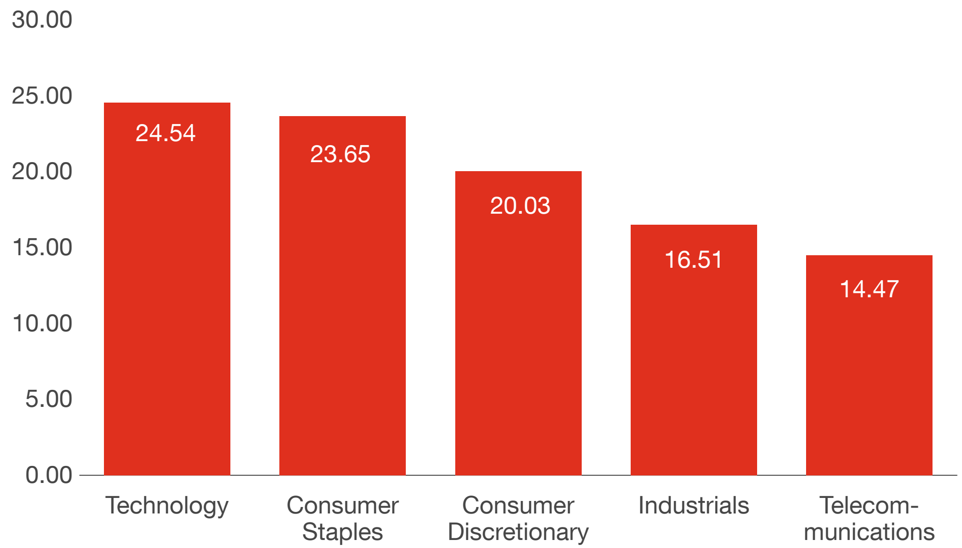
Figure 8.5 Large cap: CEO quartiles (R'm)



	Basic Materials	Financials
Lower quartile	12.27	9.31
Median	12.98	9.45
Upper quartile	15.87	13.09

Source: PwC analysis

Figure 8.6 Large cap: CEO averages (R'm)

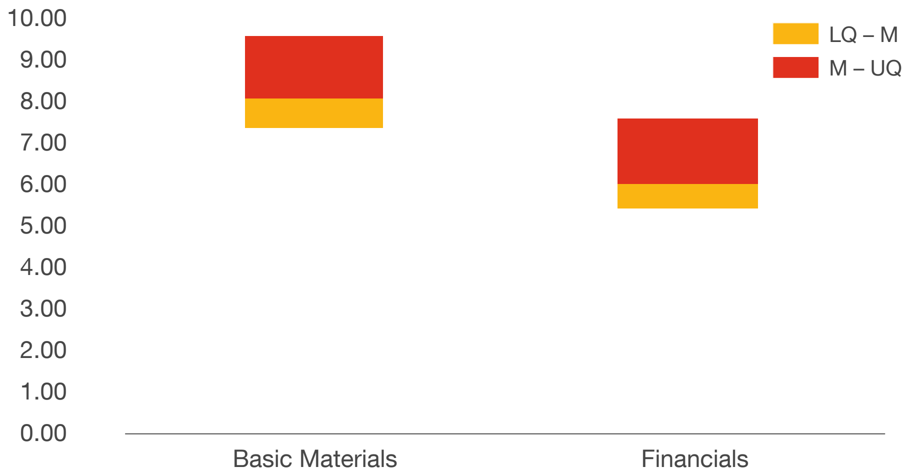


Source: PwC analysis

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

CFO

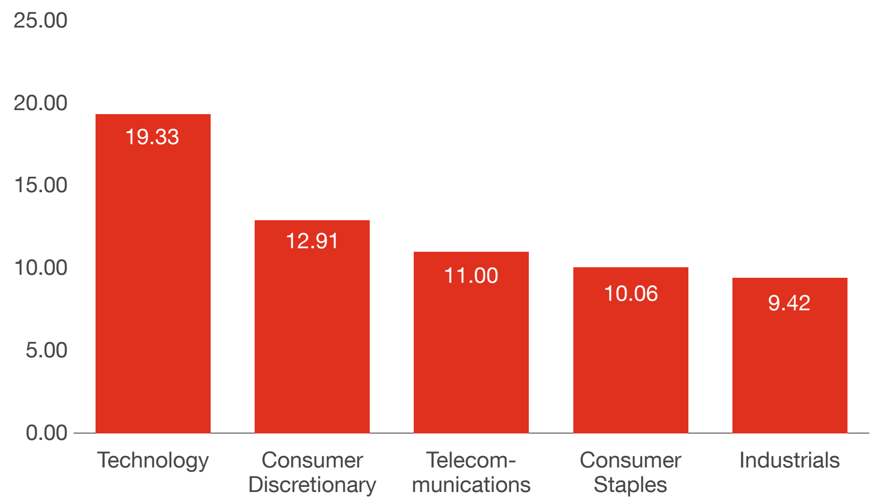
Figure 8.7 Large cap: CFO quartiles (R'm)



	Basic Materials	Financials
Lower quartile	7.38	5.44
Median	8.07	6.02
Upper quartile	9.57	7.60

Source: PwC analysis

Figure 8.8 Large cap: CFO averages (R'm)



Source: PwC analysis

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

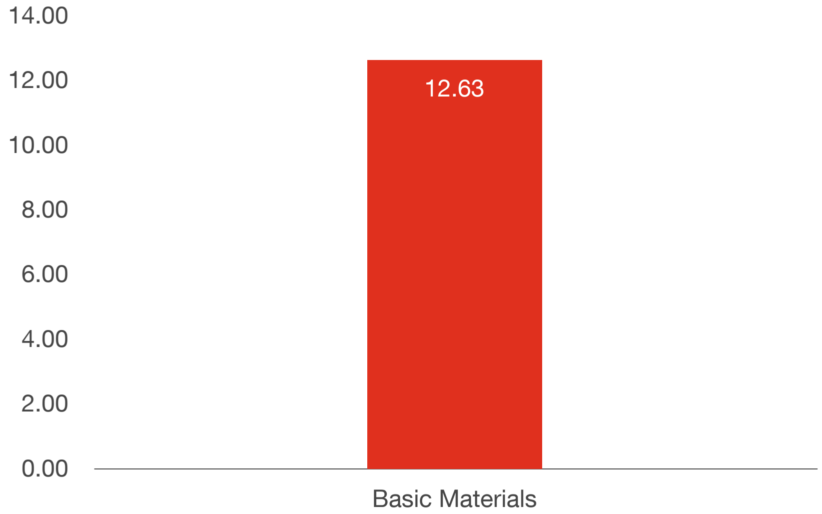
EDs

Figure 8.9 Large cap: ED quartiles (R'm)

Lower quartile	5.27
Median	6.34
Upper quartile	7.16

Source: PwC analysis

Figure 8.10 Large cap: ED averages (R'm)



Source: PwC analysis

Insufficient data points were available for other industries.

Medium cap

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

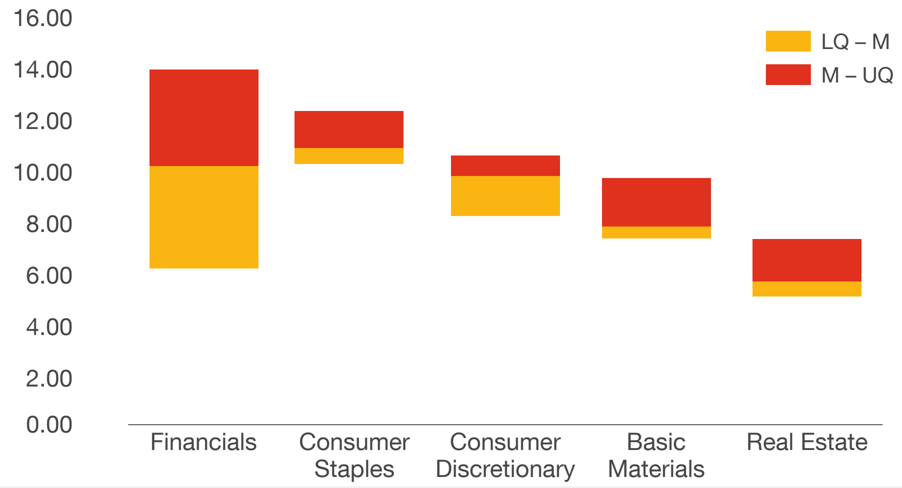
Figure 8.11 Medium cap: All industries (R'm)

	CEO	CFO	ED
Lower quartile	6.22	3.56	3.19
Median	8.34	4.90	4.02
Upper quartile	11.15	6.36	5.50

Source: PwC analysis

CEO

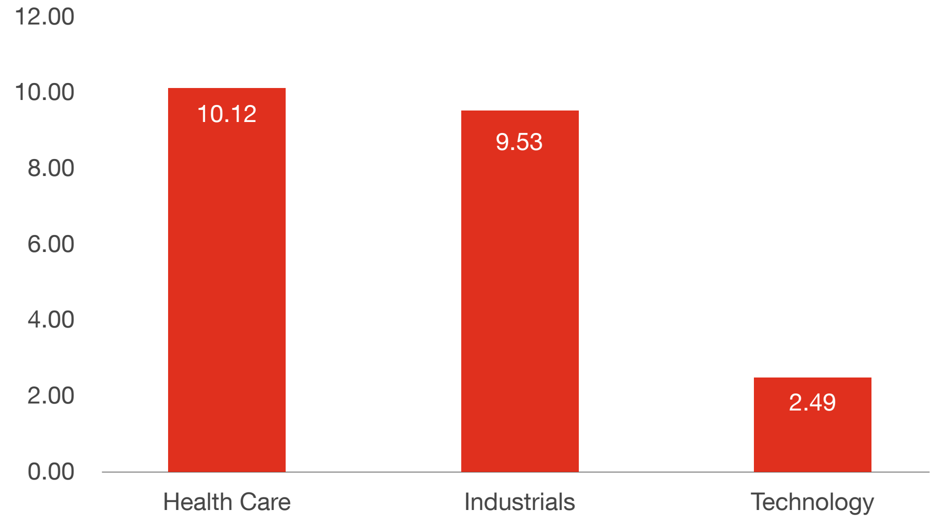
Figure 8.12 Medium cap: CEO quartiles (R'm)



	Financials	Consumer Staples	Consumer Discretionary	Basic Materials	Real Estate
Lower quartile	6.08	10.13	8.12	7.24	4.98
Median	10.05	10.74	9.65	7.68	5.55
Upper quartile	13.78	12.19	10.44	9.57	7.21

Source: PwC analysis

Figure 8.13 Medium cap: CEO averages (R'm)

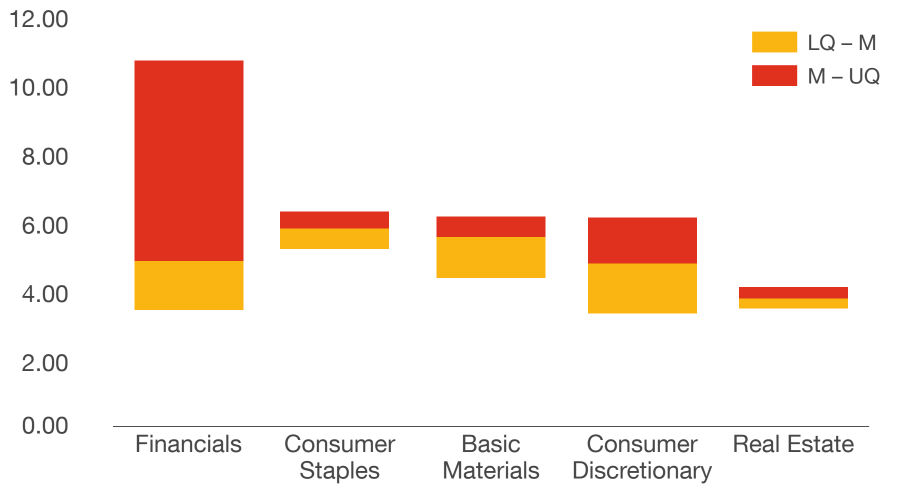


Source: PwC analysis

Due to there being insufficient data points, the Energy and Telecommunications industries have been excluded from the analysis.

CFO

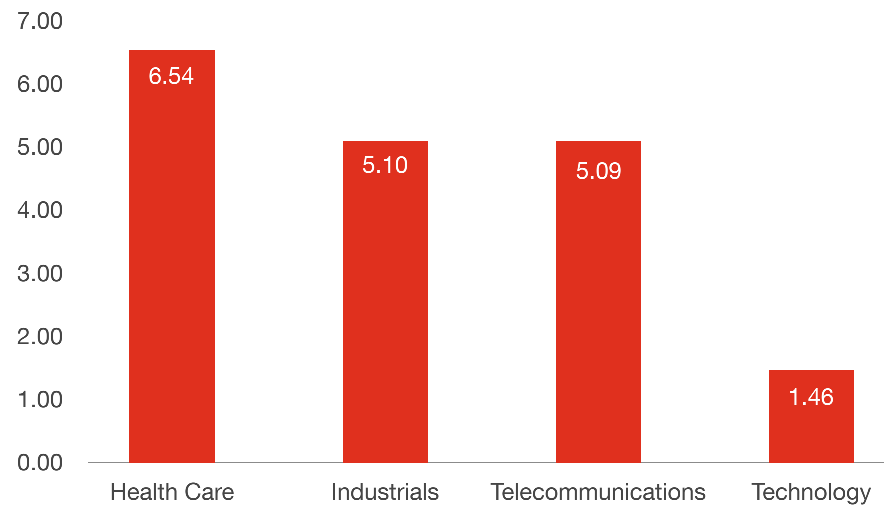
Figure 8.14 Medium cap: CFO quartiles (R'm)



	Financials	Consumer Staples	Basic Materials	Consumer Discretionary	Real Estate
Lower quartile	3.39	5.16	4.32	3.29	3.43
Median	4.80	5.75	5.50	4.72	3.71
Upper quartile	10.64	6.24	6.09	6.06	4.05

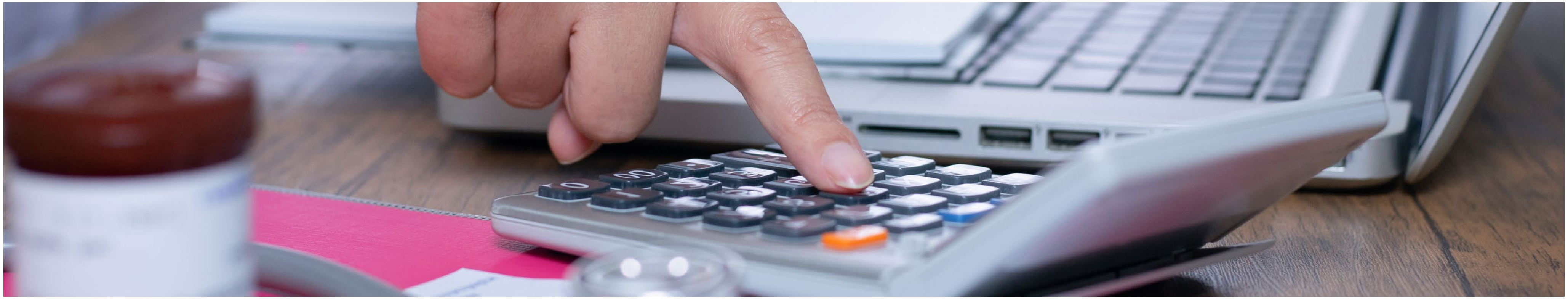
Source: PwC analysis

Figure 8.15 Medium cap: CFO averages (R'm)



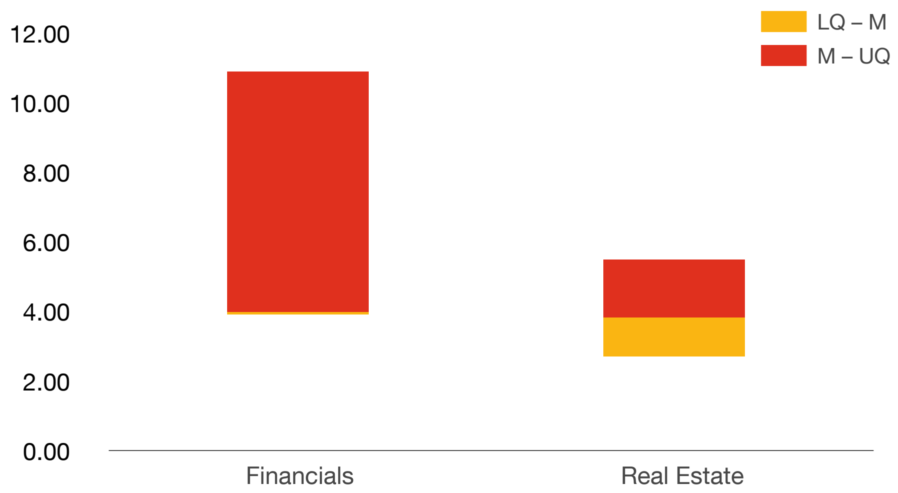
Source: PwC analysis

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



ED

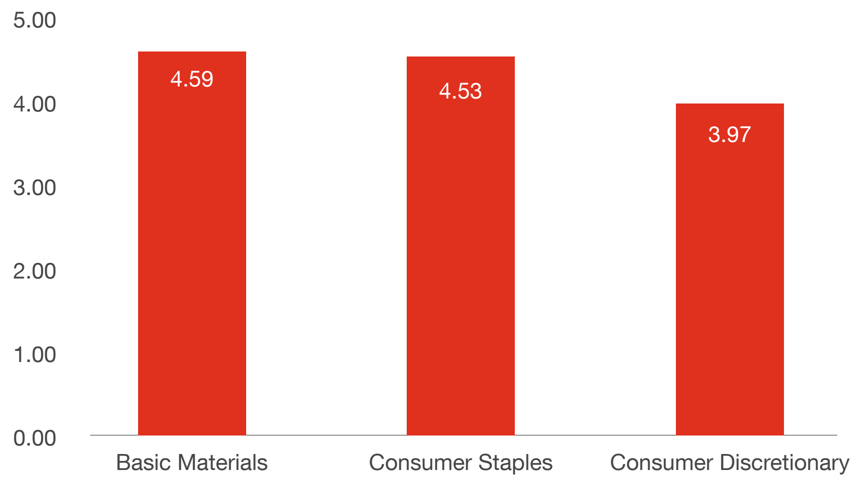
Figure 8.16 Medium cap: ED quartiles (R'm)



	Financials	Real Estate
Lower quartile	3.91	2.71
Median	3.98	3.81
Upper quartile	10.90	5.48

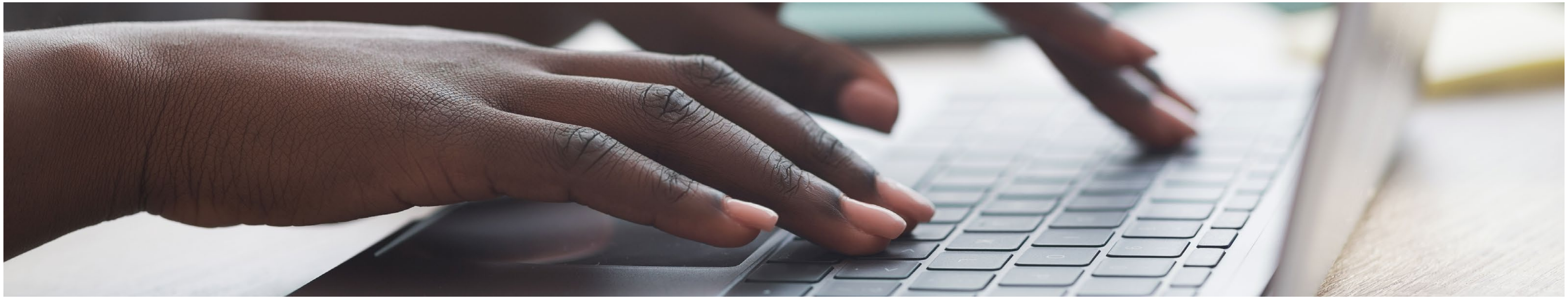
Source: PwC analysis

Figure 8.17 Medium cap: ED averages (R'm)



Source: PwC analysis

Insufficient data points are available for the Energy, Health Care, Industrials, Technology and Telecommunications industries.



Small cap

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

Figure 8.18 Small cap: All industries (R'm)

	CEO	CFO	ED
Lower quartile	2.78	1.96	2.29
Median	4.22	3.07	3.05
Upper quartile	6.04	3.80	3.93

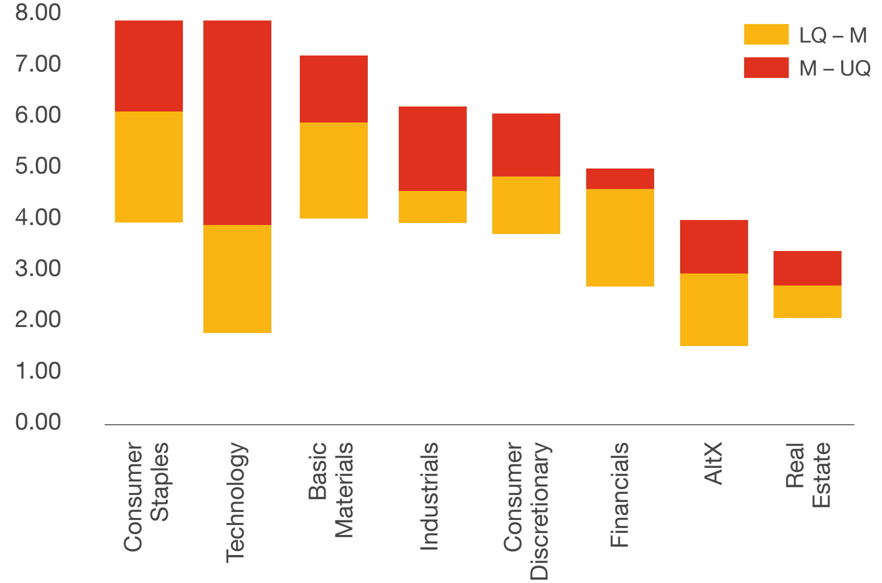
Source: PwC analysis

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

Insufficient data points are available for the Energy industry.

CEO

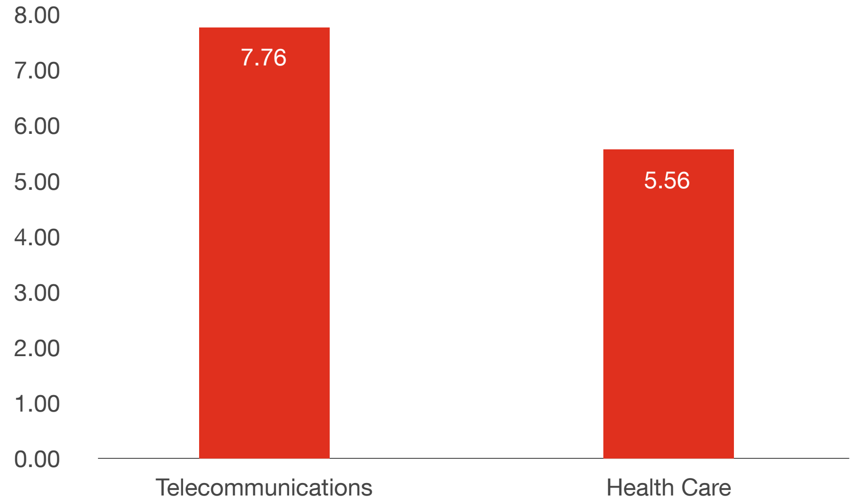
Figure 8.19 Small cap: CEO quartiles (R'm)



	Consumer Staples	Technology	Basic Materials	Industrials	Consumer Discretionary	Financials	AltX	Real Estate
Lower quartile	3.95	1.80	4.03	3.94	3.73	2.70	1.54	2.09
Median	6.11	3.90	4.90	4.56	4.85	4.60	2.95	2.73
Upper quartile	7.89	7.89	7.21	6.21	6.09	5.00	4.00	3.40

Source: PwC analysis

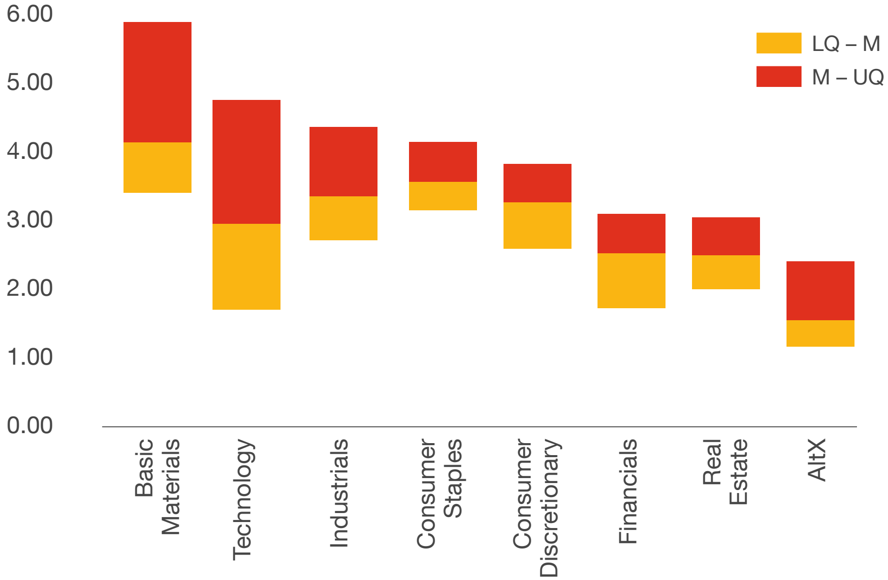
Figure 8.20 Small cap: CEO averages (R'm)



Source: PwC analysis

CFO

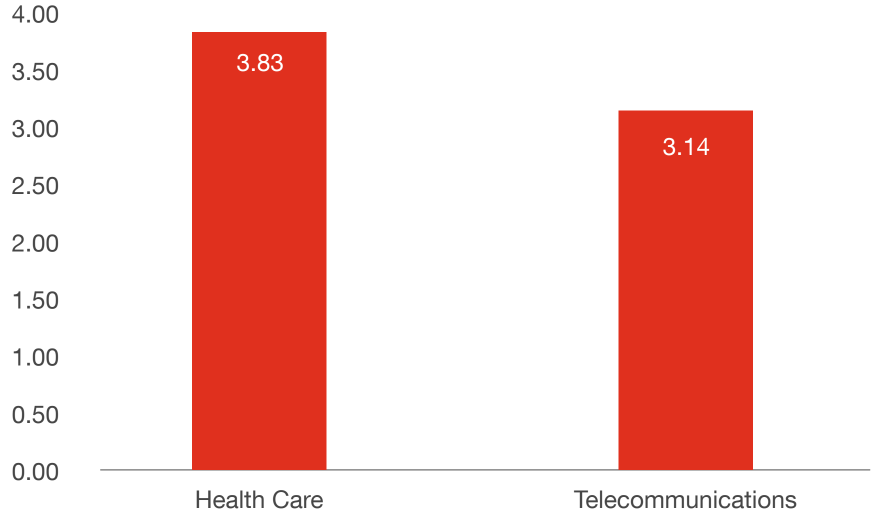
Figure 8.21 Small cap: CFO quartiles (R'm)



Lower quartile	3.41	1.71	2.72	3.16	2.60	1.73	2.01	1.17
Median	4.14	2.96	3.37	3.57	3.26	2.53	2.49	1.55
Upper quartile	5.90	4.76	4.38	4.15	3.83	3.10	3.04	2.42

Source: PwC analysis

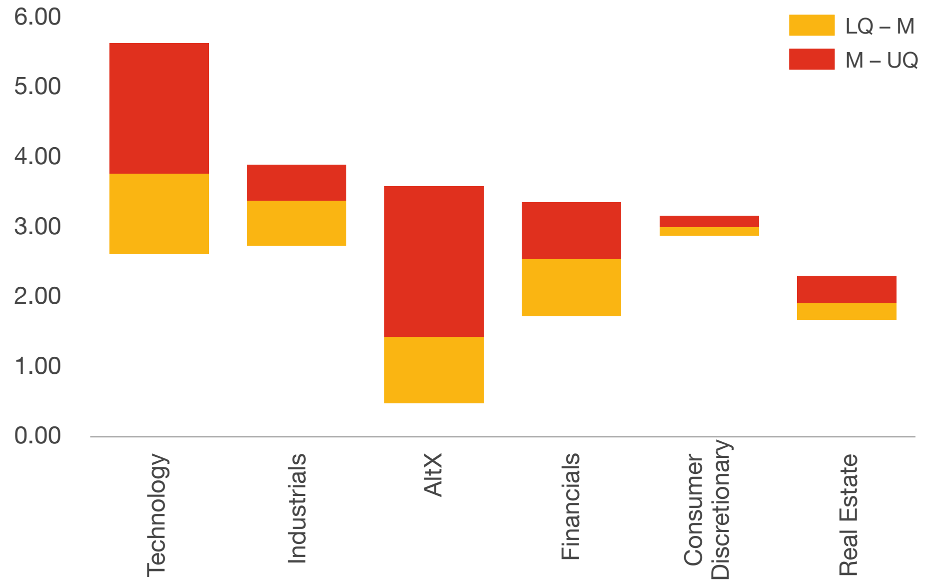
Figure 8.22 Small cap: CFO averages (R'm)



Source: PwC analysis

ED

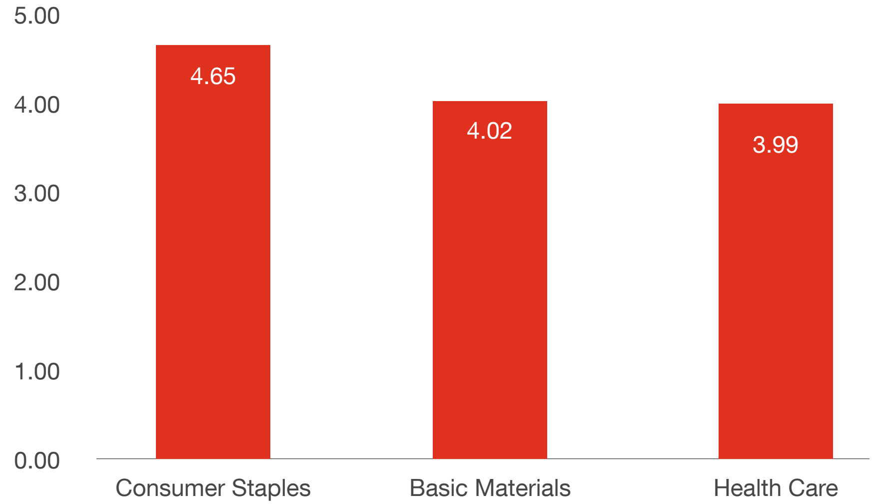
Figure 8.23 Small cap: ED quartiles (R'm)



	Technology	Industrials	AltX	Financials	Consumer Discretionary	Real Estate
Lower quartile	2.62	2.74	0.48	1.73	2.88	1.68
Median	3.76	3.39	1.43	2.54	3.00	1.91
Upper quartile	5.63	3.91	3.60	3.36	3.17	2.30

Source: PwC analysis

Figure 8.24 Small cap: ED averages (R'm)



Source: PwC analysis

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

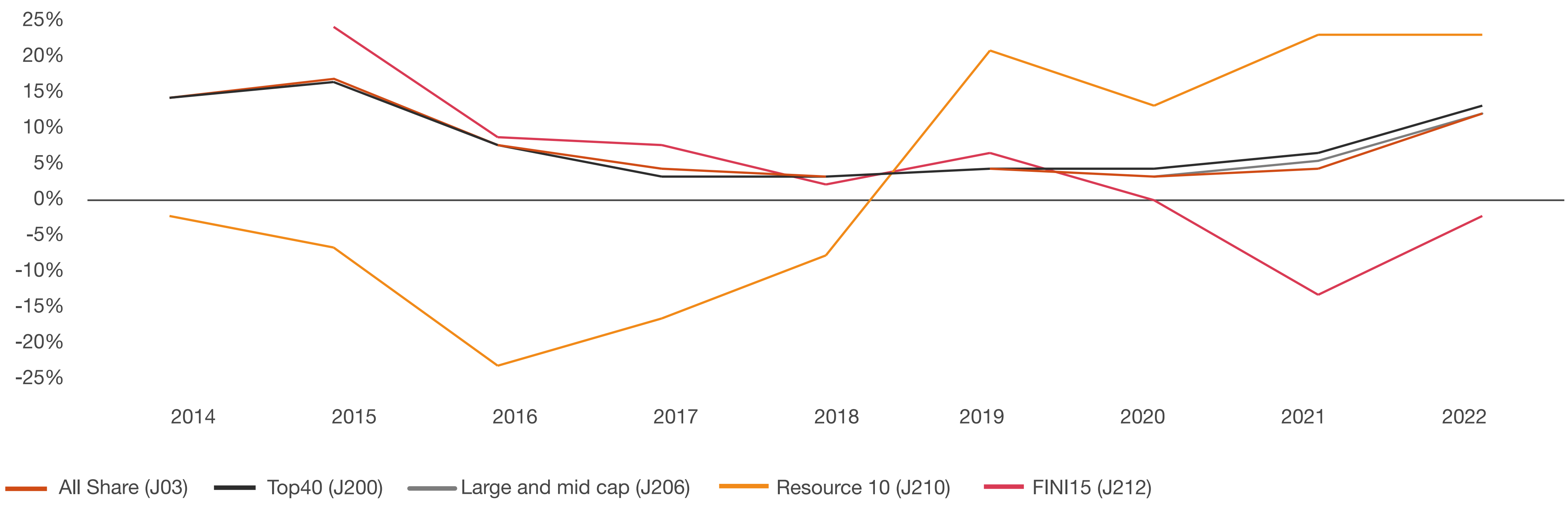
Short-term incentives

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

In last year's report we noted that COVID-19 had impacted the quantums of STIs being paid to executive directors (resulting in lower or no STIs being paid). We have noted a recovery in STIs to pre-pandemic levels. Generally, the recovery in variable incentives payable should be aligned to the recovery in the performance of companies. To assess this, we have analysed the performance of the JSE All Share index (and other indexes) over a three-year rolling period. Based on our analysis outlined in figure 8.25 we note that the TSR performance of the indexes has improved.

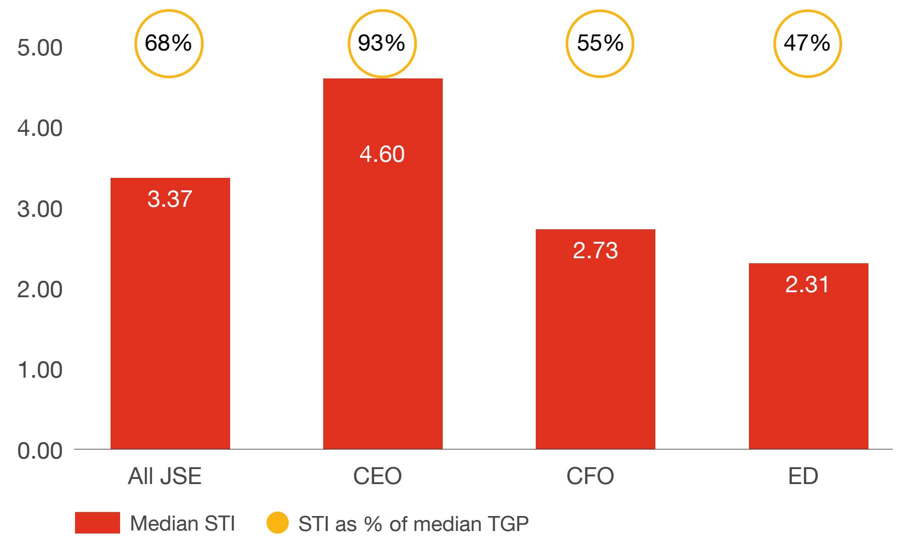
When analysing the median STIs paid as a percentage of the median TGP, the TGPs of the incumbents who were actually paid STIs were used (and not the median TGPs disclosed above).

Figure 8.25 JSE: Market performance – 3-year rolling CAGR



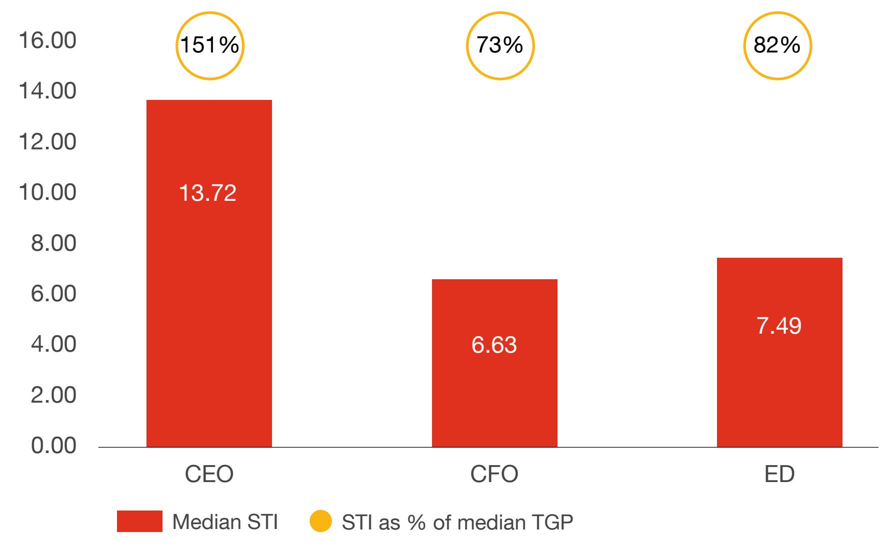
Source: PwC analysis

Figure 8.26 JSE: All industries: Median STIs (R'm)



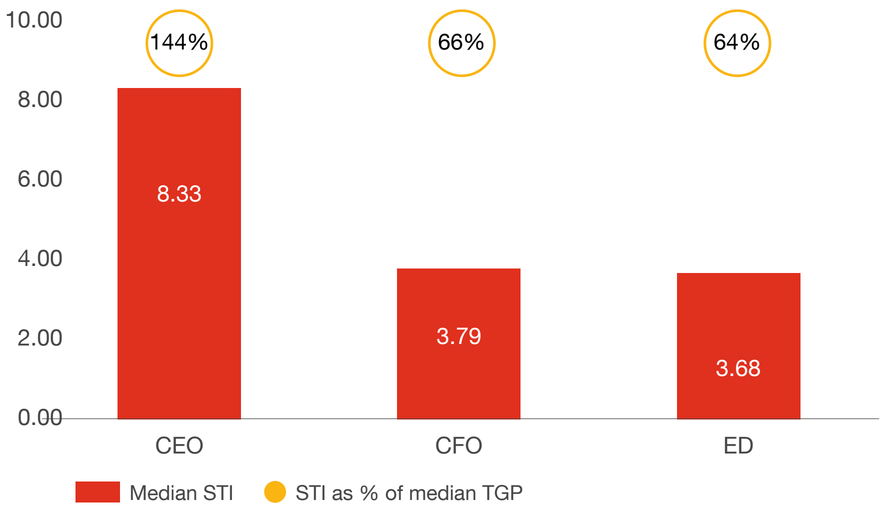
Source: PwC analysis

Figure 8.27 Large cap: Median STIs (R'm)



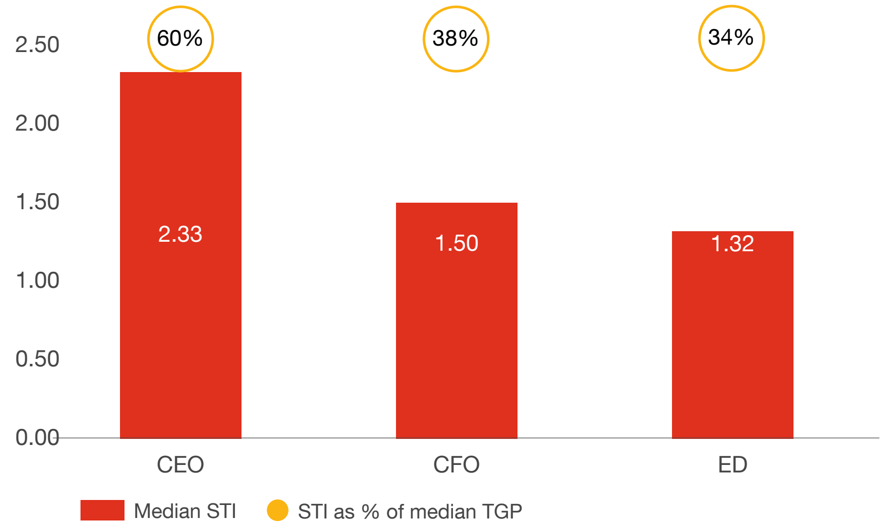
Source: PwC analysis

Figure 8.28 Medium cap: Median STIs (R'm)



Source: PwC analysis

Figure 8.29 Small cap: Median STIs (R'm)



Source: PwC analysis

Appendices

The South African marketplace ICB classification (288)

AltX (25)

Main Board (263)

Basic materials	35
Chemicals	3
Industrial Metals and Mining	15
Precious Metals and Mining	15
Industrial Materials	2

Consumer Staples	22
Food Producers	12
Beverages	2
Personal Care Drug and Grocery Stores	7
Tobacco	1

Consumer Discretionary	36
Consumer Services	3
Retailers	18
Media	3
Travel and Leisure	8
Personal Goods	1
Leisure Goods	2
Automobiles and Parts	1

Energy	6
Oil Gas and Coal	5
Alternative Energy	1

Financials	51
Open End and Miscellaneous Investment Ventures	4
Banks	8
Finance and Credit Services	1
Investment Banking and Brokerage Service	26
Closed End Investments	5
Life Insurance	5
Non-life Insurance	2

Health Care	7
Pharmaceuticals and Biotechnology	3
Health Care Providers	4

Industrials	43
Industrial Support Services	8
Construction and Materials	11
Electronic and Electrical Equipment	5
General Industrials	9
Industrial Transportation	9
Industrial Engineering	1

Real Estate	41
Real Estate Investment Trusts	32
Real Estate Investment and Services	9

Technology	16
Software and Computer Services	14
Technology Hardware and Equipment	2

Telecommunications	6
Telecommunications Service Providers	6

About People and Organisation: Reward

The PwC Reward practice consists of 19 dynamic professionals, all experts in different, but related professional fields. We combine our qualifications and experience to deliver proven value and project success. We handle complex and strategically important reward projects, providing high-quality, meaningful and detailed reports, analyses and research, along with unique solutions for specific needs. Our team of solvers is agile and diverse, bringing together a broad range of capabilities, people and organisation skills, with an increased focus on developing digital products that enable our clients to operate with greater efficiency and versatility. This allows us to deliver remuneration solutions that are founded on strong governance principles, speak directly to an organisation's strategy and are designed to add value in the future. Our network is unmatched in the market and we draw on our global expertise to design and develop a relevant, multifaceted range of bespoke solutions 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 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.

At PwC, we apply our industry knowledge and professional expertise to identify, report, protect, realise and create value for our clients and their stakeholders. In an increasingly complex world, we help intricate systems function, adapt and evolve so they can benefit communities and society.

In our network of firms in 156 countries with over 295,000 staff members, our approach is centred on what we call 'The New Equation', which is about building trust in society through shared values and open communication, in order to deliver sustained outcomes to our clients. We are human-lead, and tech-powered, and believe that by combining the best people and technologies, we will apply an innovative mindset to identify opportunities to create value. We use technology to help solve complex business challenges, free up capacity and leverage the power of technology to identify new opportunities for our clients and in our communities.

Most importantly, we are focused on delivering quality. We reinforce the quality of our work through investment in people, data, tools, technology, products and services.

The New Equation

Community of solvers

Building trust + Delivering sustained outcomes

Human-led and tech-powered

Delivering quality

Community of solvers

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