Non-executive directors

Practices and fees trends report

14th edition January 2021
South Africa

pwc

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

Contents

Editor's note

Leila Ebrahimi

As we ease into 2021, we have an opportunity to think about what should be, or what could be, and move beyond the boundaries created by 'what is'. While 2020 showed us that change is possible when forced upon us, 2021 invites us to bring about the changes we wish to see, on our own terms.

It is difficult to change organisations — big ships that seem hard to steer except in marginal shifts. But we believe that if there ever was a time to think about transformative change, this is it. So what does that entail in the realm of people and remuneration?

In this edition we explore some themes which, while not new, have developed significantly in the past year. These important topics, such as diversity and ESG integration, underpin the main theme — the 'people agenda' — which asks organisations whether their people strategy is transactional, or transformative. We are seeing real appetite and impetus for change in the way we do business, with investors and other stakeholders demanding that we discard what we perceive to have worked in the past, and look forward to the future, exploring a longer time frame in which value can be created, or destroyed.

Boards, and non-executive directors are central to this change, and are being asked to consider what business should look like, to reflect on what the organisation's purpose is, and to deliver answers that go beyond the simplistic response of maximising profit and returns towards an answer that encompasses these concepts, contextualised in terms of the world that we live in, characterised by real threats emerging from social and environmental realms.

To bring about this kind of approach, we have found that boards need more quality contextual information at their fingertips, and thus this report explores ways in which such information can be delivered in an easy-to-access manner, enabling boards to access meaningful content in real time.

Reflecting on purpose is a worthwhile endeavour, but not necessarily one that boards are well practised in. We have found South African boards are not always comfortable talking about issues that form part of a transformative agenda — including ESG. Surprisingly, many local companies still do not have a well-formulated ESG strategy.

Similarly, while there are various shareholder and regulatory pushes to drive diversity in its many forms, lip service is more common than real, considered action that seeks to recognise and address the root causes of a lack of diversity in companies. Some organisations still have not fully accepted that diversity is good for business. Reluctance to change, a hesitance to lead from the front (with corresponding insistence on benchmarking to market practice), and a stubborn view that what worked in the past will continue to serve us, means that many organisations have found themselves struggling to adapt to the challenging environment that businesses have found themselves in.

The time for the 'compliance mentality', which many organisations have found themselves adhering to, has passed, and now the adage 'adapt or die'' comes into its own — as it is too late to 'disrupt yourself before you are disrupted'. We have been disrupted — and the challenge is to take the pieces and build something better, stronger, and more resilient by being purpose-driven — instead of merely trying to put the pieces back together exactly as they were before.

Glossary of terms used in this report

AGM	Annual general meeting
APR	Approved Persons Regime (UK)
APRA	Australian Prudential Regulation Authority (Australia)
BEAR	Banking Executive Accountability Regime (Australia)
ESG	Environment, social and governance
EVP	Employee value proposition
FAR	Financial Accountability Regime (Australia)
FCA	Financial Conduct Authority (UK)
FTSE	Financial Times Stock Exchange
GHG	Greenhouse gas
GDP	Gross domestic product
GRESB	Global Real Estate Sustainability Benchmark
HEPS	Headline earnings per share
HR	Human resources
ICGN	International Corporate Governance Network
ISS	Institutional Shareholder Services
JSE	Johannesburg Stock Exchange
King IV™	The King IV Report on Corporate Governance™
KPI	Key performance indicator
LSE	London Stock Exchange
LTI	Long-term incentive
M&A	Mergers and acquisitions
NED	Non-executive director
RemCo	Remuneration committee
REIT	Real estate investment trust
ROE	Return on equity
ROIC	Return on invested capital
SA	South Africa
S&P	Standard & Poor's
SIMR	Senior Insurance Managers Regime (UK)
SMCR	The Senior Managers and Certification Regime (UK)
SRDII	Shareholder Rights Directive II (UK)
STI	Short-term incentive
TGP	Total guaranteed pay
TSR	Total shareholder return
UK	United Kingdom

Information used in this report

This publication focuses primarily on the JSE and includes analyses of seven African stock exchanges. In previous years we also provided an analysis of the fees paid to chairpersons and non-executive directors of FTSE 100 and FTSE 250 companies. Due to the impact of COVID-19, the analysis for the FTSE 100 and FTSE 250 companies could not be performed.

Data set out here is drawn from information publicly available on 31 October 2020 (the cut-off date) and is valid for the period from 1 December 2019 to 31 October 2020 (the 2020 reporting period).

The analysis is based on actual fees paid to non-executive directors as disclosed in the annual reports of JSE-listed companies for the period under review (rather than forecast fees as disclosed in the notice of AGM). The total market capitalisation of the 278 (2019: 313) companies on the cut-off date was R13.44 trillion (2019: R14.70 trillion). This trend analysis excludes preference shares, special-purpose listings and suspended companies.

Directors' fees

As in previous years, we have analysed the data using quartiles/percentiles 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.

We have changed our methodology and only focus on active directors as at 31 October 2020, as opposed to all directors that have been reported on in the annual reports of companies. Therefore, in instances where non-executive directors have resigned from their roles, we have excluded them. In the event that non-executive directors have been appointed to their roles after the financial year end, they too have been excluded from the analysis. For this reason, we have not shown comparator figures in this year's report.

Quartile/percentile ranges used in our analyses:

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

Company size

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

- **Super cap**
  The top 10 JSE-listed companies valued by market capitalisation
- **Large cap**
  11 to 40 JSE-listed companies valued by market capitalisation.
- **Medium cap**
  41 to 100 of the JSE-listed companies, valued by market capitalisation.
- **Small cap**
  101 to 278 of the JSE-listed companies, valued by market capitalisation.

AltX

AltX is an alternative public equity exchange for small and medium-sized companies and is operated by the JSE in parallel with the Main Board.
Our AltX analysis as a stand-alone group refers to 24 (2019: 32) active trading companies with a total market capitalisation of R6.99 billion (2019: R14.388 billion). The reduction in market capitalisation in this group is due to tough economic trading conditions resulting in certain AltX companies delisting or being suspended.

Industry classification

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

ICB industries

The people strategy

1

Introduction

The mandate of the remuneration committee (RemCo) is ever-evolving, and RemCo conversations are pushing the boundaries of their remit. While RemCos traditionally concerned themselves with executive pay alone, Principle 14 of King IV™ widened the authority of RemCos, specifying that they:

> *should assume responsibility for the governance of remuneration by setting the direction for how remuneration should be approached and addressed on an organisation-wide basis.*[1]

[1] Recommended Practice 26 of King IV™

This call from King IV™ echoes what many RemCos are experiencing; an increased expectation from stakeholders that RemCos pay greater attention to the wider context in which pay considerations are made, and are alive to the unique people context both within the organisation itself, and within which the organisation operates. This has only been intensified by the COVID-19 environment, which has had profound implications for workforces in many industries.

RemCos are being asked to predict and strategise in a world in which organisations are experiencing change at a faster rate than ever before. For the RemCo, this means that it is no longer sufficient to consider remuneration 'in a vacuum', and ensuring that the best people are being attracted, engaged and retained is a conversation that cannot be limited to remuneration structures alone.

In this 'new world', there are 'new skills' which are required, and this, combined with a decreasing pool of South African talent, also contributes to the need for a strong people strategy, which supports and speaks to the overarching business strategy of the organisation.

While significant hours and resources are expended to create successful business strategies, often far less attention is directed to the people strategy and considering how to best engage and inspire the individuals who will drive and implement these strategies, and who are core to the organisation's success.

The question is whether this expansion is a natural evolution of the RemCo's mandate, or is this the domain of another body or committee, and is there consensus that the remuneration strategy and human resources (HR) strategy in its basic form is no longer sufficient?

Going beyond the RemCo mandate

RemCos can no longer operate in a silo in which remuneration is their only weapon in tackling the issues that appear on their agendas. This links to the growing awareness that the issues that are close to a RemCo's heart such as retention, the motivation of critical and key skills, and fair and responsible remuneration, cannot be solved with remuneration alone and stakeholders are no longer willing to accept 'money being thrown at the problem'.

A typical RemCo mandate is limited to actions related to remuneration, with no specific guidance on other steps which can be taken. This results in few RemCos having an overarching understanding of what is happening within an organisation from a 'people' perspective. Limited time to deviate from a strict (and packed) agenda, and the discouragement of 'off-topic' discussions means that there can be a disconnect between what is happening in the organisation on the ground level, with employees, and what appears on the RemCo agenda and is within the knowledge base of RemCo members.

Can a RemCo make effective decisions without this knowledge? And even if so, should there not be a board committee that considers strategic people issues, and how the people strategy gives effect to the business strategy as a whole? It is difficult to foresee how a board can be truly effective without this link being present.

Is there room for a people and culture committee?

In February 2019, the High Pay Centre, an independent organisation in the UK focused on the causes and consequences of economic inequality, released a report recommending the consideration that the RemCo be replaced by a people and culture committee and consider wider factors in their decision-making.[2]

Among other things, the report repeated the call for a movement away from shareholder primacy, which is often short-term-focused, to promote 'proportionate remuneration which supports long-term success', as provided for in the UK Code on Corporate Governance.

In the report, which is based on an extensive review of the operation of RemCos in the UK, the High Pay Centre concluded that the existing RemCo model is flawed. It noted an opportunity cost to the considerable resources companies spend on the fees of RemCos, which determine the pay of a small number of executives, and that they operate with a narrow focus in terms of company performance. The report recommended that even where organisations do not adopt a people

[2] "RemCo Reform: Governing Successful Organisations That Benefit Everyone." CIPD. Accessed 17 November 2020. https://www.cipd.co.uk/knowledge/strategy/governance/reforming-remuneration-policy

and culture committee, they should nevertheless clearly demonstrate in their annual reports how their practices relate to their strategy for people management and corporate culture.

Many British and Australian companies have introduced a people and culture committee with specified terms of reference aimed not only at executive remuneration but also at activities linked to employee engagement, organisational culture and other people-related issues. In South Africa, while various organisations have a combined RemCo and HR committee, it is evident in their terms of reference that the focus remains on executive management with minimal to no attention paid to the interests of employees and other stakeholders. One of the key features of the people and culture committee terms of reference is an overarching people strategy that underpins the activities and agenda items appearing on the committee's annual work plan.

What is a people strategy?

While many, if not all companies have developed remuneration strategies, very few have developed a comprehensive people strategy, which unlike their remuneration and HR strategy, sets out the strategic objectives as they relate to employees and provides detail regarding the mission and values of the organisation.

A people strategy is informed by the values underpinning the organisation and aims to ensure that the organisation is an employer of choice with culture, policies and procedures which set high expectations, while providing a stimulating and inclusive environment for its people and sustaining its national (or global) reputation.

The workplace is ever-evolving and a well-developed people strategy can assist companies, particularly in the current economic climate in which many companies are reconsidering and revitalising their strategies, in providing a people-centred guide to the choices and decisions that need to be made to steer the company towards its future growth prospects and the achievement of the business strategy.

A distinction between an HR strategy, which many companies have, and a people strategy is that while an HR strategy is process-orientated in setting out the yearly work plan undertaken by the organisation such as benchmarking and pay scales, and which is typically completed with a tick-box approach, a people strategy takes a longer-term approach and contemplates identifying the organisation's workforce as a core asset to be developed, crafted and harnessed as a key mechanism in the delivery of the organisation's forward-looking strategy.

A key question to developing a people strategy:

What steps need to be taken in harnessing the best of people, whether this be through training, skills development, or the deployment of specific skills to bring about our strategy and enable our people to be future-fit?

While limited research has been conducted in the South African context, internationally, it has been shown that a strong people strategy is prevalent in purpose-driven organisations, resulting in a competitive advantage[3] associated with an outperformance of financial markets by as much as 42%.[4]

A people-driven strategy goes beyond the starting point of benchmarking and matching an organisation's practices to those of its peers to seek to curate an attractive employee value proposition (EVP), which is retention based, unique to the organisation, and speaks to the needs of the employees. It is well accepted by now that an attractive EVP is critical when bringing change to an organisation, to obtain employee buy-in and trust, and will support an organisation in delivering its future strategy, enhancing its employer brand, and increasing employee engagement.

3 "Purpose-driven Leadership for the 21st Century: How Corporate Purpose is fundamental to reimagining capitalism." Leaders on Purpose, 2019. https://www.thegeniusworks.com/wp-content/uploads/2019/10/Leaders-on-Purpose.pdf

4 "Purpose-Driven Companies Outperform The Financial Markets By 42 Percent." Pontefract Group. Last modified 4 August 2020. https://www.danpontefract.com/purpose-driven-companies-outperform-the-financial-markets-by-42-percent/#:~:text=Purpose%2DDriven%20Companies%20Outperform%20The%20Financial%20Markets%20By%2042%20Percent,-It%20seems%20that&text=In%20a%20survey%20of%201%2C500,by%20a%20whopping%2042%20percent.

Important questions in developing a people strategy

We have set out below some of the questions organisations should ask in developing the components of their people strategy:

- What are our human capital risks and how do we mitigate them — are there gaps in our leadership, culture, skills, and capacity?
- What is the organisation's approach to acquiring, attracting, motivating and retaining key talent?
- Is there a leadership development strategy aimed at improving and developing the skills, capabilities and abilities of the current leaders, and high-performing employees of the organisation?
- Effective engagement strategies have been linked to lower attrition rates, improved productivity and efficacy, and higher profits. What steps are being taken to engage with employees to assess their needs and preferences?
- What mechanisms has the company put in place to cultivate a positive employee experience in the workplace?
- Is there a robust performance management strategy that actively and objectively evaluates how employees perform their responsibilities and deliver value to the organisation? Does the strategy enable and encourage leaders to coach those who are not making the necessary contributions?
- Is there a stand-alone diversity and transformation strategy aimed at creating a diverse and inclusive workforce and workplace?
- Is there a strong agile organisational design that is linked to the effective utilisation of workflow processes, procedures, structures, systems and technology to match the organisation's overarching business model?
- Has the organisation curated an attractive EVP linked to the unique needs and preferences of its workforce?
- Is there a future-fit remuneration strategy comprising a high pay-for-performance link?
- Is there a fair and ethical framework aimed at narrowing the income gap between executives and lower-level employees?

Using data in a people strategy (people analytics)

People analytics and the use of data are the foundation for building a successful future-focused people strategy. While the use of data in decision-making is present in other parts of an organisation such as sales and marketing, it often does not feature for RemCos, despite the significant value that can be derived. Digitalisation and its effects on the working world of the future need to be recognised by the RemCo and technology identified that can be used to further its objectives.

It is often said that the real winners won't necessarily be the organisations that secure the best and latest technology but the organisations that use technology to get the best out of their people. Very few companies make use of their available data, with even fewer consistently using analytics to provide insight into how effectively their employees' skills are being deployed.

Data-driven approaches, which analyse the wide spectrum of readily-available data and feed the results into their people strategy and an interactive dashboard such as those highlighted in the next section in this report, provide RemCos with insights as to employee engagement, diversity statistics, and income pay differentials, as well as other critical insights. These all aid the RemCo in discharging its duties, and support value creation.

Conclusion

In order for RemCos to add value in a dynamic business environment in which business strategies are being forced to undergo a fundamental redesign, the importance of a well-thought-out people strategy cannot be understated. Organisations, through their people strategies, should concentrate on building up their people's capabilities, talent and leadership competencies for future competitive advantage to shift people to where the future value will come from, ensuring they are 'future-fit' and able to achieve their strategic business goals within the desired time frames.

Getting this right, and linking people strategies to the business purpose will result in organisations that are resilient and well placed for sustainable growth in the future world. To support this, emerging technology and the appropriate quantitative and qualitative analytics should be embraced and made available to the RemCo, or people and culture committee, to enable them to make well-informed decisions that support the people strategy and positive business outcomes.

Dashboards for boards

2

The risk and responsibilities inherent in a RemCo member's role are significant, decisions relating to executive pay ever more complex, and meeting and preparation time increasingly limited. While NEDs are not involved in the day-to-day running of the company, they are expected to make overarching decisions that have long-term impacts on the company's future success and that also impact shareholders profoundly. It is widely agreed that remuneration committee meetings, and the associated processes, are complex and time-consuming, and RemCos often feel that they may not have quick and easy access to the data analysis and insights that they require to effectively discharge their responsibilities.

In accordance with King IV™, the RemCo should ensure that the company remunerates fairly, responsibly and transparently in order to promote the achievement of strategic objectives and positive outcomes in the short-, medium- and long-term.

In order to do this, the Remco must ensure that appropriate consideration is given to all contextual matters that may influence decisions relating to executive pay. Increasingly, there is also an expectation that the RemCo considers pay at all levels of the organisation, which introduces the question of whether RemCos' remit should be widened, evolving the Remco, which expends effort *"disproportionate to the importance of the output they delivered (that is, the pay of a very small number of people at the top of the company)"*[5] to the human resources and/or people and culture committees.

We are already seeing many companies developing dashboards in areas of the business such as human resources, to assist HR in understanding their people issues 'at a glance', and provide them with current-state analysis and trends forecasts. So-called 'executive dashboards', which present a summary of these people issues to the board, are also becoming more prevalent. Ultimately, bringing together people data and finance data in an easy-to-understand and access format helps leadership understand the impact that people are having on the business, and gives them the context they require to make those important decisions.

[5] "RemCo Reform: Governing successful organisations that benefit everyone." CIPD in association with High Pay Centre, 2019. *https://highpaycentre.org/wp-content/uploads/2020/08/report_for_website.pdf*

As a result of the ‘new normal’ way of working that recent world events have forced us to embrace sooner than anticipated, we have observed that technology has become an important part of the way we work. The value of having people analytics data at our fingertips has become an accepted way of running a business, and organisations that do not harness the power of real-time data can find themselves lagging behind their peers. We should therefore embrace this opportunity to digitally enable RemCos to make better, faster decisions. Harnessing the power of real-time people data means RemCos can access a digital platform with information specifically tailored to inform the members about the company-specific information they need in order to help them carry out their duties with care.

Information that could be incorporated into a living RemCo dashboard include:

- The prior year single figure of remuneration table as well as the scenario graphs indicating the executive remuneration on a threshold, target and stretch scenario for the financial year;
- The predetermined and RemCo approved benchmarking approach that the company follows. If a comparator group is used, the comparator group will be specified. Similarly, if a salary survey is used, the survey will be specified;
- The most recent benchmarking results. The compa-ratios for each executive director and prescribed officer, measured against the market median (or any such percentile that the company specifies) for total guaranteed pay (TGP);
- The performance conditions and targets set for the short-term incentive (STI) and long-term incentive (LTI) for all outstanding awards;
- A ten-year view of the performance conditions and the outcome per performance condition;
- The outcomes of STI and LTI over the last ten years in order to assist the RemCo in determining whether the targets are appropriately set. The following guideline could be considered:
  - Threshold or higher achievement: eight to nine times every ten years (80-90%);
  - Target or higher achievement: six times every ten years (60%);
  - Stretch achievement: roughly once every ten years (10%);
- Whether there are any discretionary, out of cycle awards or sign-on awards that have been made to executives. The rationale behind such awards as well as the quantum of the awards;
- The most recent voting outcomes on the remuneration policy and the implementation report;
- A summary of feedback received from shareholders and proxy advisors during the last annual general meeting (AGM) season and any commitments made in response thereto;
- The current and historical fair pay ratios calculated for the company and the industry, as specified in the fair and responsible pay policy; and
- A five-year view on other important financial/non-financial metrics (which might not form part of STI/LTI) e.g. metrics of sustainable value creation as referenced in the World Economic Forum report “Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation”[6,7] or other financial metrics that the company reports on to shareholders.

6 The paper sets out a series of metrics to improve how companies demonstrate their contributions towards creating more prosperous, fulfilled societies, and a more sustainable relationship with our planet. One of the pillars focuses on people across the themes of dignity and equality, health and wellbeing and skills for the future. The other pillars cover planet, prosperity and principles of governance.

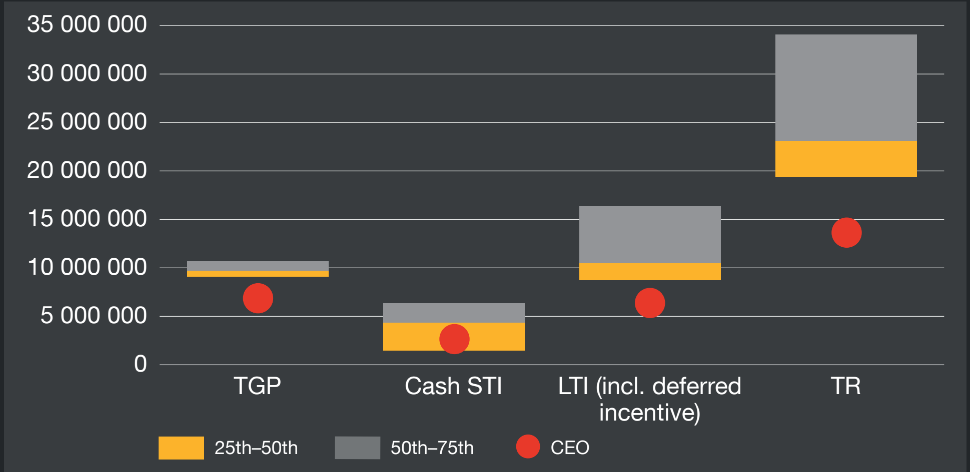
7 “Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation.” World Economic Forum, 2020. https://www.weforum.org/reports/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation.

RemCo dashboard

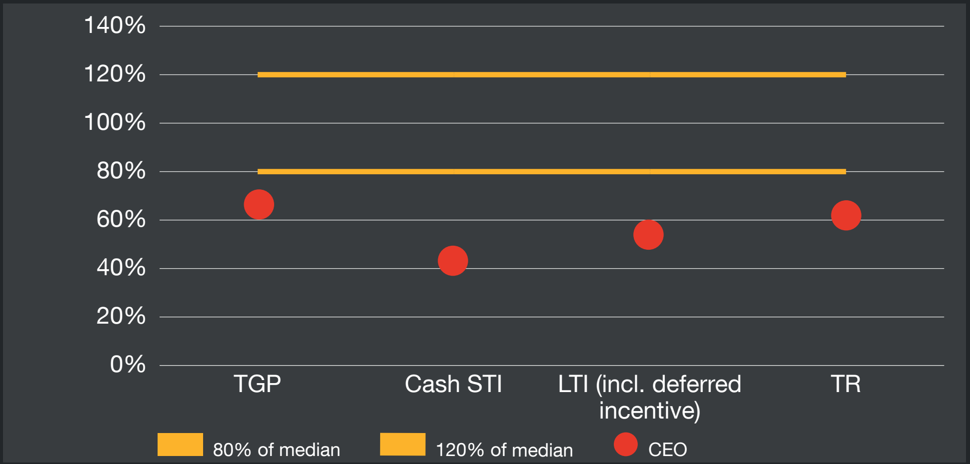
CEO overview | Variable pay | Historical outcomes | Ad hoc payments | Shareholder feedback | Fair pay

CEO pay overview

Benchmark vs comparator group percentile analysis



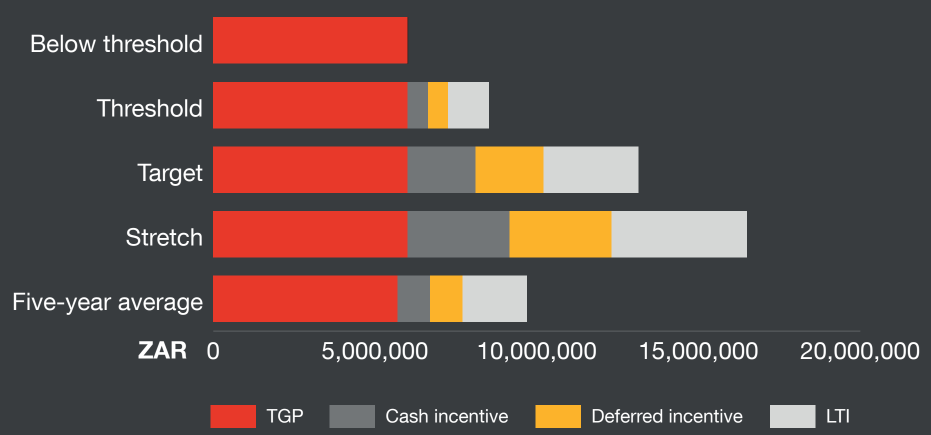
Compa-ratio to median of comparator group



Other overviews

CEO | CFO | Other Exco

FY21 pay policy vs five-year historical average



	Base salary	Retirement and medical aid	Cash incentive	Deferred incentive	LTI reflected	Total
Chief executive officer (ZAR)						
2020	6,000,000	500,000	2,000,000	2,000,000	3,750,000	14,250,000
2019	5,800,000	480,000	1,800,000	1,800,000	4,000,000	13,880,000

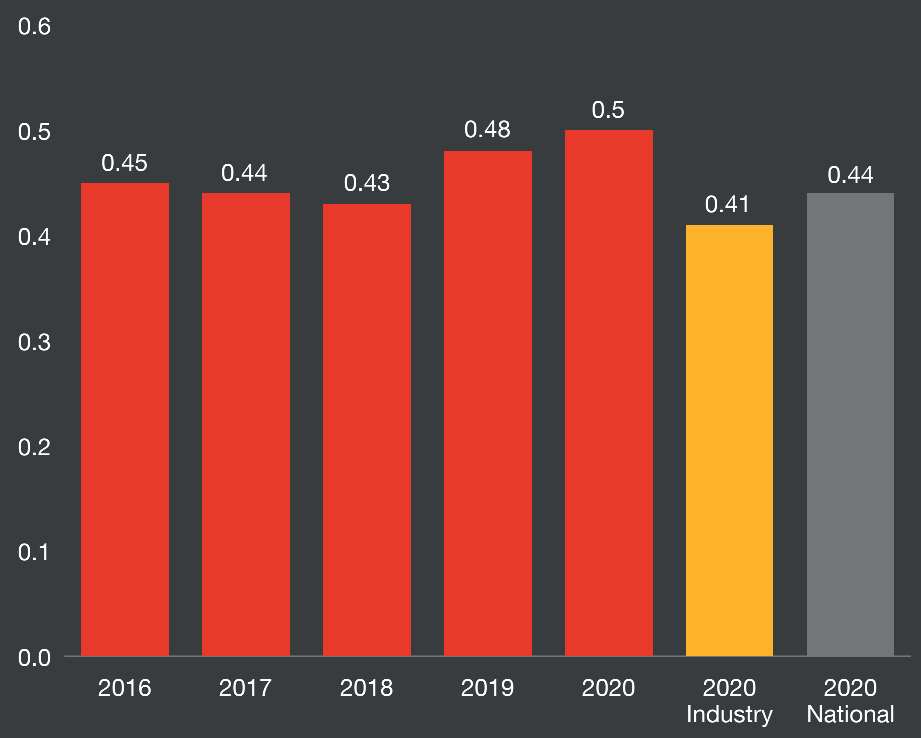
RemCo dashboard

CEO overview | Variable pay | Historical outcomes | Ad hoc payments | Shareholder feedback | Fair pay

Fair pay overview

Gini coefficient (5 year view)

The Gini coefficient is a measure of statistical dispersion intended to represent the income distribution of a nation's residents or a company's employees. It ranges from 0–1, where 0 represents a completely egalitarian income distribution, and 1 represents extreme inequality.



Further datapoints

- Lowest and average paid employee
- Wage gap CEO vs lowest paid employee
- Number of employees earning in excess of R250,000 p.a.
- **Gini coefficient**
- Wage gap CEO vs average employee
- Population of employees earning in excess of average
- SA national wage gap
- Drucker principle analysis
- Palma ratio

Action points from 15.11.2020 RemCo

- Management to perform more detailed race and gender based analysis and present to RemCo for noting.
- Management to run cost analysis to calculate aggregate rand value of fixing identified disparities and present to RemCo for approval.
- Management to present roadmap for next steps.
- Management to explore and identify appropriate unconscious bias training and present to RemCo for noting.

Purposeful board strategy and KPI setting

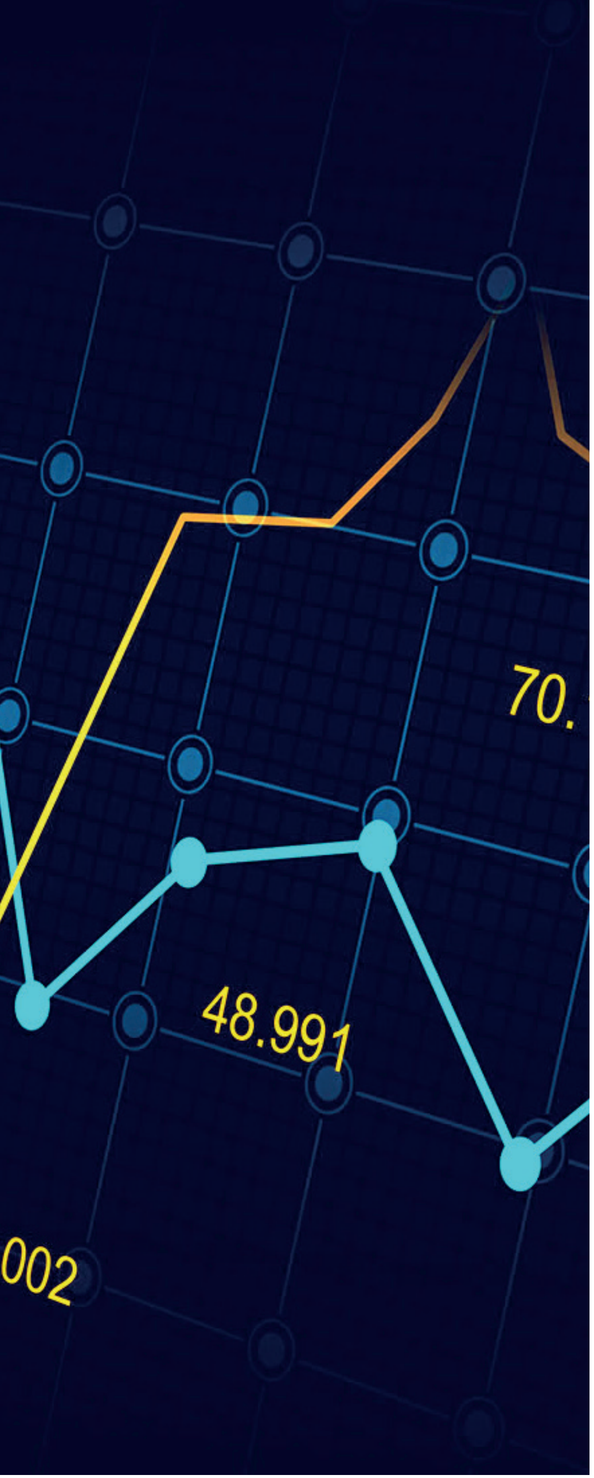
3

Many boards are reconfiguring strategies as a result of the COVID-19 pandemic. But not all boards are ensuring that the new strategy translates directly into the KPIs that executives are being measured and rewarded on. Within this article we explore the question of whether boards and RemCos should be thinking differently about the link between strategy and executive pay in light of recent events, and the current economic environment.

The traditional approach to measuring performance

Traditional executive pay design has focused on output measurement to quantify true shareholder return. This possibly came about as a result of boards not wishing to be too prescriptive to executive management regarding the manner in which value should be created. The measurement of 'value creation', as it is found in incentive scheme design, often takes the form of TSR, or total shareholder return, combined with certain returns or earnings measures.

This approach has been reinforced by institutional investors, who each have their own preferences for specific measures to be applied to incentive payments. However, this focus may ignore the fundamental question of 'how?' — i.e. how were the earnings or returns achieved? If executive management is only measured on the output that it delivers, it is worth exploring what would warrant an approach that focuses on ensuring that such value is delivered in a manner that supports all stakeholders (rather than shareholders alone), and paves the way for continued, long-term sustainable value creation that may extend beyond an executive's natural tenure horizon.



Simplification of incentive structures has been an earnest design aim for the last 5–10 years, but there could be a risk that the oversimplification of complex strategy into a few output measures (particularly in tough times) may reward executives for the achievement of returns or earnings ‘at any cost’, potentially in a manner that is not aligned to the purpose of an organisation, or in a way that does not promote sustainable value creation, putting at risk longer-term success and sustainability, both in terms of shareholder value, and other stakeholder interests.

Business strategy and remuneration strategy: the golden thread

The linking of business strategy and remuneration strategy is not a new idea. Any strategy an organisation adopts, and the strategic levers that need to be pulled to achieve the strategy, should filter through to the remuneration structure and the KPIs or performance measures linked to the incentives. For instance, a strategy of maximising profits may be linked to strategic levers of sales optimisation and effective cost management of specific problematic expense areas.

Accountability relating to capital efficiency and the generation of growth returns on underlying assets remain an important focus as they provide a sense check as to whether value has been created for shareholders. However, moving beyond a focus on outcomes to a focus on ‘quality measures’ could give additional comfort to shareholders, and other stakeholders, that the outcomes have not been achieved through ‘easy wins’ that may put an organisation at risk in the long term. This approach calls for the board to consider introducing a balanced scorecard of more granular indicators that specify the strategic levers they believe should be pulled to optimally achieve the strategy that has been put in place. Linking these to incentive payouts may then be a more appropriate way to measure performance, and link pay outcomes with ‘performance’, in the form of delivery in terms of the agreed strategy.

As an example of this, one need look no further than the popular return on equity (ROE) measure, which is often found as a performance measure within executive remuneration structures. All shareholders expect that the successful outcome of any strategy employed should be the delivery of a return in excess of the underlying cost of equity (which is representative of the shareholders’ opportunity cost).

However, the delivery of ROE hinges on three underlying strategic pillars (as outlined in the DuPont analysis) namely:

- net profit margin;
- asset turnover; and
- financial leverage.

Thus, to deliver sustainable, significant growth in ROE over an extended period of 5–10 years (rather than the typical 1–3-year period that incentives usually relate to), strategic execution should focus on:

- optimal asset utilisation and expansion (supporting growth in asset turnover);
- financial leverage (focusing on sustainable ways to fund the asset expansion strategy); and
- optimal cost optimisation (focused on methods to reduce debt financing costs and identification of cost efficiencies within the value chain).

Following the logic set out above, one could ask whether the executive team’s performance should not be primarily evaluated over the successful management of the three underlying ROE pillars, rather than on the ROE performance alone.

The problems with performance measures today

Each institutional investor has their own preferred way of measuring value creation, and measures they prefer to see within executive scorecards, or reflected in the long-term incentive. However, there are also common criticisms levelled against some of the more common performance measures, which are detailed below:

Criticisms of conventional KPIs

Common criticisms	Comments
Effect of impairments on returns measures	The acquisition of businesses for values that are later determined to have been inflated due to goodwill, and in terms of which impairments are later taken, are a source of contention for investors where performance measures (such as return on invested capital [ROIC]) determine returns on an asset base that is impaired during the cycle. One possible suggestion to remedy this approach is to adjust for the effect of impairments in the asset base. However, this approach must be carefully considered, as it may result in undesirable outcomes, such as holding a new executive team accountable for the 'sins of their predecessors'.
Remuneration structures reward 'transactional behaviour' such as mergers and acquisitions (M&A) activity, rather than measuring the success of such transactions	While M&A activity could contribute to delivery of value, there is a risk that the newly acquired assets could erode margins over the long term (5–10 years) and provide an individual margin below the historical margins of the existing asset base. However, in the case where there is still growth in absolute terms, such erosion will not necessarily be detected, and will not be reflected in pay outcomes. This issue could be mitigated by incorporating factors within a balanced scorecard that assess whether the M&A activity aligned with the strategic direction of the organisation, and was thus a 'good fit', rather than assessing short-term impact on returns or earnings measures.
The manner in which performance conditions are measured 'hides' bad behaviour	The use of point-to-point (year-to-year) vs. an average over the entire performance period for returns measures is one of the aspects commonly commented on, as the two approaches may provide conflicting outcomes. This concern highlights the risks of using a simple outputs focused measure as it may hide underlying complexities.
For measures such as headline earnings per share (HEPS), which are linked to macroeconomic factors, the impact of these numbers (e.g. gross domestic product [GDP]) being negative	Traditional measures focus on growth, however, a strategy (particularly in the current environment) may focus on safeguarding value within an environment in which the macroeconomic factors are unpredictable. A focus on a balanced scorecard of input measures may better provide a better assessment of delivery on such a strategy and provide fairer pay outcomes.

Some of these common criticisms can be resolved by boards adopting a more granular approach that considers the various levers (or inputs) that need to be focused on to achieve the measured outcome, rather than just measuring the output alone.

Conclusion

In reality, no performance measure or ratio is perfect, and the possibility for manipulation, or misaligned outcomes will always exist. The approach discussed here contemplates a move away from purely measuring what executives are 'delivering', towards seeking to measure and reward 'what they are doing' i.e. behaviours which the board has identified are aligned to the successful implementation of the chosen strategy.

Such an approach would also allow boards to be more agile in their monitoring of the implementation of strategy, rather than merely being able to evaluate successful implementation at the outcomes stage. Of course, the difficulty lies in distilling which particular inputs lead to the outputs you are looking for, and this will be a key part of the board's job in setting strategy.

Board diversity

4

Board diversity is a topic we have explored in previous editions of this report and which continues to be a topical and important consideration for all organisations. Increased board diversity has not only been associated with better performance, but also linked to more developed boardroom views on environment, social and governance (ESG).

We continue to see development and progress in this area, with a number of prominent proxy advisors and institutional investors taking stronger stances on the issue of board diversity during 2020. However, our experience leads us to believe that there is still a widespread need for South African organisations to ensure that they have outlined a strong business case for a more diverse board, and have adopted robust board diversity policies as the starting point for real, meaningful change.

Simply put, and in the words of the World Economic Forum, *'the business case for diversity in the workplace is now overwhelming'*.[8] While we know that diversity goes beyond racial and gender representation alone, this is a natural starting point for diversity efforts. Morally and ethically, there is no debate that the promotion of diversity in the boardroom, and in the workplace generally, is the only equitable approach. Many recent studies unequivocally demonstrate that financially speaking, and for the long-term value creation of an organisation, diversity is the way to go.[9] In this article, we discuss a new study by PwC that shows there are even greater benefits to diversity — such as the link between board diversity and more developed views on ESG issues.

[8] "The Business Case for Diversity is Now Overwhelming. Here's Why." World Economic Forum, accessed 27 November 2020. *https://www.weforum.org/agenda/2019/04/business-case-for-diversity-in-the-workplace/.*

[9] See for example:

Kersley, R.; Klerk, E.; Boussie, A.; Sezer Longworth, B.; Anamootoo Natzkoff, J. and Ramji, D. "The CS Gender 3000 in 2019: The Changing Face of Companies." Credit Suisse Research Institute, October 2019, p. 22–23. *https://www.credit-suisse.com/about-us-news/en/articles/news-and-expertise/cs-gender-3000-report-2019-201910.html*

Lorenzo, R.; Voigt, N.; Schetelig, K.; Zawadzki, A.; Welpe, I. and Brosi, P. "The Mix That Matters: Innovation Through Diversity." The Boston Consulting Group, 2017. *https://www.bcg.com/publications/2017/people-organization-leadership-talent-innovation-through-diversity-mix-that-matters.aspx*

Gompers, P. and Kovvali, S. "The Other Diversity Dividend," Harvard Business Review, July/August 2018. *https://hbr.org/2018/07/the-other-diversity-dividend*

Holger, D. "The Business Case for More Diversity," The Wall Street Journal, October 26, 2019. *https://www.wsj.com/articles/the-business-case-for-more-diversity-11572091200?shareToken=stc911902db723474d92eb5843b4ea1732*

The link between board diversity and ESG

For years, PwC's Annual Corporate Directors Survey has been monitoring boardroom views on a number of ESG issues, like climate change, income inequality, diversity and human rights. This year's survey of 693 American company directors across more than 12 industries found that these issues are finally gaining traction in the boardroom — but too slowly to make any real impact in the short term.[10] However, the survey also found that balancing gender representation on boards can bring about positive changes to the way in which boards discuss and prioritise ESG. This is a powerful reason to act, and will move the dial on two important issues.

The survey found that female directors are 60% more likely to see the link between ESG and strategy and 80% more likely to link issues like climate change with company strategy. With the increased focus of institutional investors and other stakeholders on these issues, this board focus would be a welcome and beneficial shift.

[10] "PwC's 2020 Annual Corporate Directors Survey." PwC, 2020. https://www.pwc.com/acds2020

Shareholder activism and board diversity: Firmer global policies

The year has also seen some interesting, and welcome, policy changes by institutional investors and proxy advisors on the topic of board diversity.

In 2020, the Institutional Shareholder Services (ISS) implemented changes to its diversity policies in several markets. In the US, companies on the Russell 3000 Index and S&P Composite 1500 Index that have not identified any ethnically or racially diverse board members will face recommendations against the chairs of their nominating committees and potentially other directors.

Regarding board gender diversity, ISS made a number of adjustments, both to raise the current minimum board gender diversity thresholds in some markets, and in others to introduce the expectation that boards should have at least one female director.

From February 2021, ISS will raise the minimum threshold for larger (FTSE 350) companies in the UK and Ireland to 33% and expand the expectation of at least one woman on the board to smaller companies in the UK and Ireland. Beginning in 2022, ISS will raise the existing minimum board gender diversity policy thresholds for larger companies in Canada and Continental European markets to 30% of the board. Effectively, this means that ISS will recommend a vote 'against' a chair/director where the gender diversity policy has not been complied with.

Linking to the topic of ESG, ISS also clarified its approach to director elections in the form of an explicit statement that ISS may recommend voting against a director's re-election if there are significant failures in oversight of environmental and social risks (ESG).

CGI Glass Lewis' South African guidelines state the following with regards to board diversity:

> *JSE Listing Requirements state that companies must have a policy on the promotion of gender diversity at board level. King IV Report on Corporate Governance also mentions the importance of the existence of targets for gender representation in a governing body. Given the importance of gender diversity in a global context we will closely monitor companies approaches to gender diversity going forward.*
>
> *We may recommend that shareholders vote against a nomination committee chair or SEC chair in certain cases where a company has failed to adopt a gender diversity policy or targets and/or has no female board members.*

In 2020, CGI Glass Lewis also updated its UK guidelines to reflect their expectation that FTSE 350 companies provide meaningful disclosure regarding their performance against the board ethnic diversity targets set in the Parker Review.[11] CGI Glass Lewis further clarified that it will generally recommend against the chair of the nomination committee of any FTSE 350 board that has failed to meet the 33% board gender diversity target set out by the Hampton-Alexander Review[12], and against the chair of the nomination committee at any other company on the London Stock Exchange's (LSE) main market that has failed to ensure that the board is not composed solely of directors of one gender.

[11] "Ethnic Diversity Enriching Business Leadership." The Parker Review Committee, 2020. *https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/news/2020/02/ey-parker-review-2020-report-final.pdf*

[12] The Hampton-Alexander Review, an independent, business-led framework supported by the UK Government, set recommendations in 2016 for FTSE 350 companies to improve the representation of women on their boards and in leadership positions.

CGI Glass Lewis also made changes in 2020 to its Australian 2018/2019 guidelines on board diversity, stating that effective for AGMs held from 1 January 2021:

> *… if a company board with six or more directors (including the MD) has less than two female directors, we may consider recommending shareholders vote against board members. Similarly, if a company board has five directors, we expect to see at least one female director. We may provide exceptions if the company demonstrates high female representation in the senior management team or otherwise discloses a credible plan to address the lack of diversity on the board and in the senior management team in near future periods.*

While there are different expectations of different countries in terms of diversity, the South Africa-specific policy of ISS, which is one of South Africa's largest proxy advisors, contains no detailed provisions that would warrant negative votes against directors where diversity policies are considered insufficient. We are also unaware of any South African institutional investor voting policies that contain similar provisions relating to voting on issues linked to board (or wider) diversity.

Considering the evidence of progress

Following the release of King IV™ and the update to the JSE Listings Requirements (3.84(i))[13] in 2017, many South African companies have implemented a policy on the promotion of gender and racial diversity at board level. A Business Engage report[14] released in October 2020 indicates that 104 companies have set voluntary targets (2019: 81), however there were twice as many companies which did not set actual targets. Of the 104 which have set targets, the Business Engage research shows that 62 companies have achieved the targets in terms of gender policy. However, a sampling of these policies reveals that there is still work to be done.

Having a clear policy on boardroom diversity is a good first step. But to truly bring about meaningful change, these policies need to be well formulated, and include specific considerations. As a starting point, we believe that such policies should:

- **Set measurable objectives for board racial and gender diversity**

  It is noted that the JSE Listings Requirements refer to 'voluntary targets', but encouragingly, a number of JSE-listed entities do reflect targets for gender and race representation at board level. It is less common to see timelines associated with such targets, which can mean that progress towards these targets is slow. It is also good practice, as with any targets, to set different levels. What is the minimum that the board deems acceptable, and what is a stretch target? This can encourage a focus beyond mere compliance.

13 "Listings Requirements" JSE Limited, 2017. *https://web.jse.co.za/sites/default/files/media/documents/2020-01/Service%20Issue%2027_1.pdf*

14 "State of Gender on JSE Listed Boards." Business Engage, 2019. *https://www.businessengage.co.za/state-of-gender-on-jse-listed-boards/*

- **Mandate the annual evaluation and reporting of progress against such objectives**

  The JSE Listings Requirements specify that, where voluntary targets are put in place, progress must be reported to shareholders within the annual report. Reporting is important and organisations that take their diversity efforts seriously show this through the quality of their reporting. The mere reporting of achievements against targets (where voluntary targets have been adopted) or the inclusion of a simple statement that a diversity policy has been adopted are the bare minimum. We are encouraged that leading organisations globally have moved towards detailed narratives of their efforts, including a clearly articulated business case that links into business strategy, and is endorsed by the board and the CEO.

- **Detail the link between diversity and board succession planning**

  King IV™ highlights the importance of a succession plan for both executive and non-executive governing body members as critical to the effectiveness of the governing body. Practice 13 of Principle 7 states:

  > *the governing body should establish a succession plan for its membership which should include the identification, mentorship and development of future candidates.*

  At board level, diverse representation is a deliberate effort, and combined with appropriate policies regarding staggered rotation, the clear linkage of the company's stance on diversity to the succession policy can be an effective way in which to ensure progress is made against set diversity targets.[15] We found that the link between these two ideas could be stronger, and boards should review policies to ensure sufficient development of policy around this topic. It is crucial for diversity that boards put in place appropriate appointment mechanisms to ensure that real efforts are made to tap into the untapped pool of diverse qualified and talented individuals that lie outside of the current network of the board.

15 "Succession Planning for the Governing Body." Institute Directors Southern Africa, 2017. *https://cdn.ymaws.com/www.iodsa.co.za/resource/collection/05E93ACB-10BE-4507-9601-307A66F34BD8/Corporate_Governance_Network_Succession_planning_for_the_Governing_Body.pdf*

- **Link diversity efforts to the board evaluations, and disclosure thereof**

  There was limited evidence of a clear link between the stated policy on diversity and the board evaluations. As the ICGN suggested in their 2016 guidelines, *"as part of the annual evaluation, the board should include an annual self-assessment of its performance in achieving its board diversity goals"*.[16] But this is only the start. An interesting study released in 2017[17] suggests there are great benefits to be gained from following a behavioural (rather than merely procedural) approach to board reviews, in terms of which board evaluators can assess and comment on the "impact they see of group composition on boardroom behaviour, culture and effectiveness". In this manner, board evaluations can become a critical tool in obtaining information relevant to the diversity goals of an organisation.

[16] "ICGN Guidance on Diversity on Boards." International Corporate Governance Network (ICGN), 2016. https://www.icgn.org/sites/default/files/ICGN%20Guidance%20on%20Diversity%20on%20Boards%20-%20Final.pdf

[17] Sealy, R.; Tilbury, L.; and Vinnicombe,S. "Leading Diversity in the Boardroom: Board Evaluation Project 2017." in The Female FTSE Report 2017: Women on boards, back on track?, 2017. https://ore.exeter.ac.uk/repository/bitstream/handle/10871/32821/Sealy%2C%20Tilbury%20%26%20Vinnicombe%2C%20Board%20Evaluation%202017.pdf?sequence=1&isAllowed=y

To set a target, or not to set a target

There is still some resistance to setting targets, perhaps stemming from an association with the term 'quotas'. It is important to stress that a quota is rigid, dictating a non-negotiable number or percentage of positions reserved for certain individuals, whereas a target is more flexible in nature, and usually is not associated with penalties for non-compliance.

The 'Women on South African boards' report[18] expands on this topic in light of gender targets. There is widespread support for targets to further transformation goals, and it is by now common knowledge that the JSE Listings Requirements support the introduction of voluntary targets. However, there appear to be no consequences for JSE-listed companies that have not complied with the requirements, whether related to the setting of policy or compliance with the voluntary targets.

As an example of target setting, the 'Women on South African boards' report promotes the following targets for listed companies in terms of gender representation:

- set a target of at least 30% women's board representation, with 40% as a stretch target;[19]
- set specific targets for women representation as committee members and committee chairs; and
- show gender parity in the nomination of candidates at the longlist stage and for companies to document reasons why shortlisted candidates are backed.

[18] Bosch, A.; van der Linde, K.; and Barit, S. "Women on South African boards: facts, fiction and forward thinking." University of Stellenbosch Business School, 2020. https://www.usb.ac.za/wp-content/uploads/2018/02/Women_on_SA_Boards_March2020.pdf

[19] The report finds that this would be a reasonable target since their research found that one in three listed companies had reached the 25% level.

We have noted that many companies apply similar targets to racial transformation, however (as with gender targets) it is important to ensure that targets are reflective of the demographics of our country.

A boardroom diversity policy only addresses the issue at the highest level of leadership, which — although an important starting point — runs the risk of oversimplifying a complex issue. As well as considering diversity at board level, companies must consider initiatives for increasing gender and race diversity at senior management levels, both to ensure a pipeline of suitable candidates, and to ensure that the composition of management also reflects the importance of diversity to the organisation's strategy. These should all be disclosed appropriately.

Boards should think creatively about ways in which they can develop identified talent, including initiatives like sponsorship arrangements, putting in place shadow boards, or assisting identified individuals to gain experience through cross directorships. In terms of women, boards should consider what real support the organisation is giving to women through their childbearing years to ensure that they are able to continue to work and contribute during this period.

It is important that the board includes the development of mechanisms to identify, develop and promote racial and gender diversity within the organisations and in the CEO's and other executives' scorecards, ensuring that there is accountability for targets set, and measurement of the success of initiatives in this regard.

Clear and vocal commitment by the CEO, and appropriate cascading of CEO goals further down within the organisation will provide the best chances of achieving set targets and goals. Accountability can be enhanced through the linkage of diversity measures to the executive remuneration structures — and, if well-formulated and clearly articulated, this can also serve as a positive step towards the inclusion of 'ESG metrics' within executive remuneration plans.

Time to recognise the barriers, and move beyond these to speed up change

We have seen real progress, but barriers still exist. Underlying these perhaps is the continued discomfort associated with open discussions relating to race and gender in the workplace, and at board level, and the dogged belief that 'what has worked in the past will continue to serve us well', which is a stumbling block for change.

The hesitation to change due to the belief that change would introduce unwelcome risk, is real, and could be exaggerated by the current uncertain economic environment. The *"conflation of diversity with reassurance of merit is an indicator of subtle bias that associates diversifying boards with 'lowering the bar'"*.[20] The 'old boys club' of directors remains a reality, and it is not active efforts, but unconscious bias and a lack of diverse networks that present the greatest barrier to female[21] and racially diverse board representation.

These issues culminate in a lack of urgency and progress that feels slower than what is acceptable. Slow progress to bring about diverse and inclusive organisations is not a problem unique to South Africa — yet it seems the global community has acted faster, and more decisively, on this issue than we have.

We hope 2021 will see boards looking afresh at their board diversity policies, solidifying the business case for diversity in their organisations and interrogating their succession, board evaluation, and other policies and practices to ensure that the issue is addressed from all angles. We would also like to see more companies adopting targets — not quotas — that are measured and reported on as a demonstration of real commitment to a truly diverse and inclusive board.

[20] "Ethnic Diversity Enriching Business Leadership." The Parker Review, 2020. *https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/news/2020/02/ey-parker-review-2020-report-final.pdf*

[21] "Women on South African boards"

Translating ESG into performance conditions: A practical approach

5

Embedding ESG into an organisation is often challenging. There are many reasons for this, starting with the fact ESG is a diverse, multifaceted, complex concept with short-, medium- and long-term implications, which many have difficulty understanding. This can result in a lack of true buy-in from internal stakeholders, a problem that is exacerbated by the myriad of different standards that now exist.

It is important for organisations to clearly establish with whom the responsibility for ESG integration lies — and this cannot be outsourced to a 'head of ESG' or social and ethics committee alone. In truth, all executives are responsible for ESG, and this should be reflected through the appropriate incorporation of ESG metrics into variable pay structures.

Company-wide responsibility for ESG is akin to the way risk is managed in a business; while certain individuals may need to have overall accountability/oversight for the risk function, the activity and culture of risk management filters into every position within the business. As the old saying goes 'what gets measured, gets done', and the same applies to the incorporation of ESG. Incorporating ESG into STI and LTI structures:

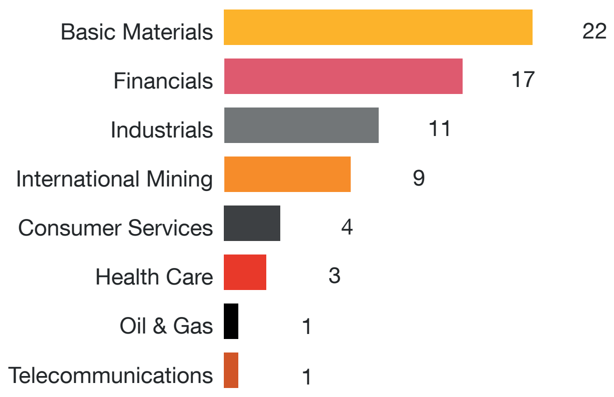
- demonstrates a clear commitment by the organisation to ESG impact;
- ensures buy-in from the management team; and
- drives the right behaviour and ensures everyone is working towards common, agreed goals.

The starting point, however, should be consideration of how your organisational purpose reflects and incorporates ESG, and beyond this, how your remuneration strategy and policies give effect to this. Without this link, and an honest assessment of which ESG risks and opportunities are material for your organisation, the incorporation of ESG metrics into executive pay structures will merely be paying lip service to those measures, and inevitably attract pushback from shareholders and investors, rather than gaining their added support. Across a number of its global policies (excluding South Africa), the ISS has clarified its approach to director elections. This would take the form of an explicit statement that ISS may recommend voting against a director's re-election if there are significant failures in oversight of ESG.

Does ESG feature in South African executive pay structures?

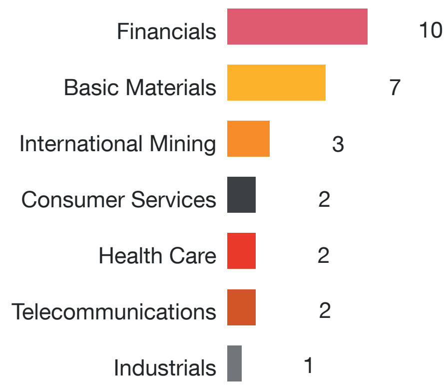
Of the companies listed on the JSE, 95 have disclosed performance links to ESG measures. Of these, 68 have ESG metrics integrated in STIs and 27 have integrated ESG into their LTI plans.

Figure 5.1 How many companies across industries have ESG measures in their STI



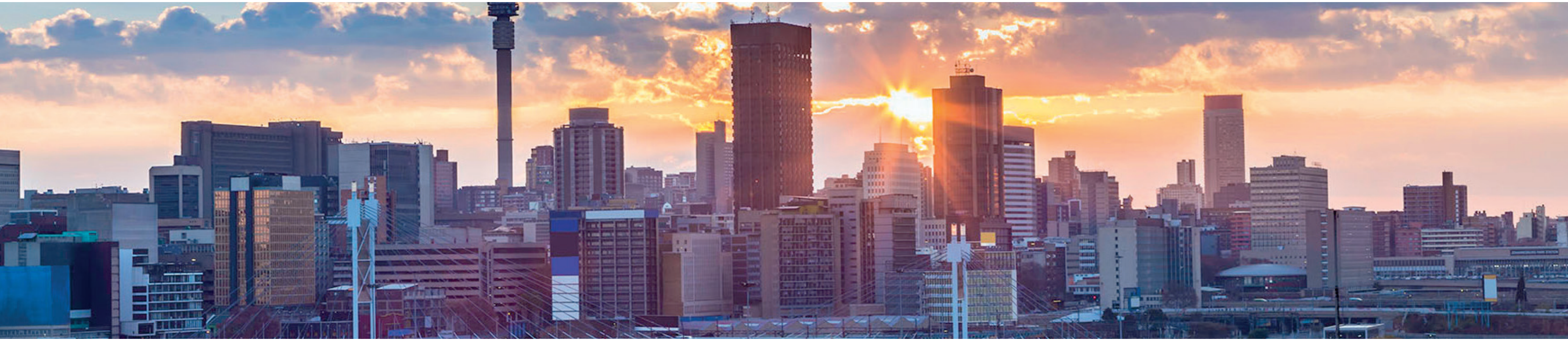
Base: 68, Source: PwC analysis

Figure 5.2 How many companies across industries have ESG measures in their LTI



Base: 27, Source: PwC analysis

From our analysis of the market, locally (South Africa) and globally, we have found a number of common measures used across industries and have set these out on page 22 and 23.



Measures commonly used to evaluate ESG performance

Environmental

Basic Materials/International Mining and Industrials

- Water consumption
- Recyclable products
- Tailings facilities
- Environmental incidents impacting production
- Energy efficiency and energy management initiatives
- Greenhouse gas intensity
- Reducing CO2 emissions
- Sustainability and sustainable profitability
- Mineral resources and reserves per share
- Mineral resource additions and reserve pre-depletion
- Responsible consumption and production
- Development and waste stripping
- Dow Jones Sustainability Index

Financials: Banking, Insurance and General Financials

- ESG as per FTSE Russell UK ESG 100 Index
- Sustainability
- Effective management of energy and utility

Effective management of Energy and Utilities

- Sustainability and renewables
- Global Real Estate Sustainability Benchmark (GRESB)
- Energy efficiency
- Renewable energy generation
- Solar energy in development
- Climate change resilience
- Effective energy management
- Rainwater harvesting
- Stormwater management and conservation

Social

Basic Materials/International Mining and Industrials

- Talent management and leadership/succession planning
- Employee turnover
- Social incidents impacting production
- HIV management performance
- Transformation
- Safety, health, environment and quality (SHEQ)
- Fatal risk control

Financials: Banking, Insurance and General Financials

- Ethical business practices
- Leadership and people development/succession planning
- Employee turnover
- Transformation and diversity
- Organisational health

Effective management of Energy and Utilities

- Development of people, culture and values
- Transformation
- Diversity planning
- Succession planning and training
- Organisational health

Governance

Basic Materials/International Mining and Industrials

- Audit, risk and compliance
- Lost time and injury frequency rate ratings

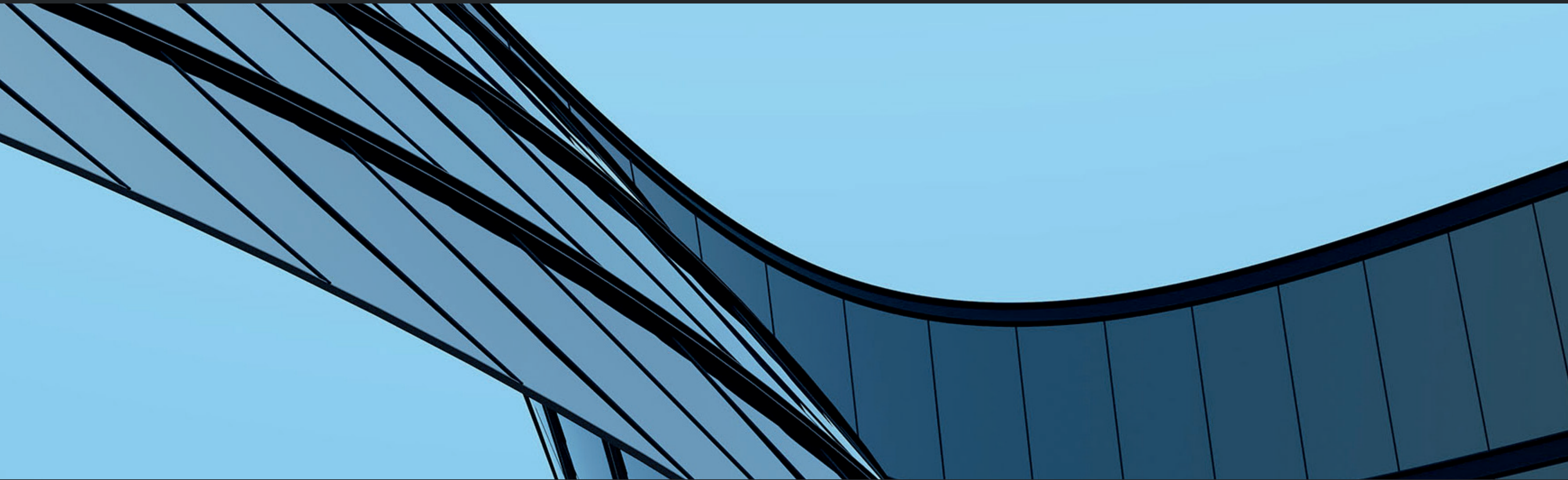
Financials: Banking, Insurance and General Financials

- Diversification of earnings
- Information governance
- Recycling capital
- Audit, risk and compliance
- Balance sheet management
- Regulatory strategy
- Corporate governance entrenched in investee companies

Effective Management of Energy and Utilities

- Compliance with industry best standards
- Audit, risk and compliance
- Health of stakeholder relationships/stakeholder engagement
- Inclusion in the FTSE/ JSE responsible Investment Index
- Recycling capital

As the illustration demonstrates, the incorporation of ESG has begun to take root within variable incentive structures. However, investors and other stakeholders often raise the valid concern that while companies may focus on the right subject matter, they could miss key issues due to the difficulty associated with achieving material ESG goals, and the difficulty of obtaining assurance/reporting on issues that are most relevant to them. For this reason, it is essential that the integration of ESG within variable incentives is not too broad, and incorporates targets that are of most relevance to the organisation. This will help to ensure that criticism of 'manipulation' or the use of 'soft targets' to increase executive pay are not levelled against the organisation.



Most common weightings for ESG measures in STI and LTI plans

ESG measures being between 20% and 30% of STI scorecard	ESG measures being 10% and 30% of LTI performance conditions

How does ESG feature in executive pay structure internationally?

Corporate Citizenship[22] did a brief in May 2020 on the different ESG measures used by large global companies in their incentive plans. Details about some of the companies reviewed are set out below:[23]

- Intel Corporation disclosed metrics related to diversity, inclusion, employee experience and, as of 2020, climate change and water stewardship.
- Danone links both its STI plans and LTI plans to ESG factors. Its annual variable compensation is weighted over three elements — economic (60%); social, societal and environmental (20%); and managerial (20%). In 2020, the social, societal and environmental portion was awarded based on strong employee sustainability engagement results, Danone's 1.5°C climate commitment and continued strong results on the CDP Climate survey.
- Shell has included 'sustainable development' metrics in its STI plans for a number of years, including safety performance and upstream/direct greenhouse gas (GHG) performance. In 2019, Shell responded to pressure from activist shareholders by including an 'energy transition' metric in its LTI plans (weighted 10%). The metric is based on a 'mix of leading and lagging measures': reduction in Shell's net carbon footprint (a new carbon intensity measure that includes customer emissions), as well as growth in Shell's power, biofuels and carbon capture efforts.

[22] Corporate Citizenship is a global consulting firm, specialising in responsible and sustainable business.

[23] Corporate Citizenship "Making sustainability pay: company examples of ESG incentives" (May 2020) https://corporate-citizenship.com/2020/05/28/making-sustainability-pay-company-examples-of-esg-incentives/

- Unilever is another example of a company that has created a composite 'index' measure of sustainability in its LTI plans, known as its 'Sustainability Progress Index', with a 25% weighting. Following the introduction of the index in 2017, Unilever faced pushback from investors, who wanted more transparency in how the index was calculated. The board subsequently agreed to publish an annual progress report, capturing the assessment of its corporate responsibility and compensation committees on performance against key elements of the Unilever Sustainable Living Plan, as well as external ratings.

The Principles of Responsible Investment Secretariat has also conducted case studies[24] on how companies globally have integrated ESG measures into their executive remuneration. The companies reviewed included Stockland Corporation Ltd (Australia), Intel Corporation (United States of America), Eskom Ltd (South Africa), Koninklijke DSM N.V. (Netherlands) and Agrium Incorporated (Canada), among others.

Although this trend is generally promising, research shows the links between ESG metrics and executive remuneration are generally weak and there is still a significant lack of data available to assess companies' practices. Only a very small percentage of global companies disclose clear and strong ESG targets included in their incentive structures.

Generally, the percentage of incentives based on ESG performance is small and few companies consider ESG measures over a period exceeding one year. It also still appears that most companies integrate ESG metrics in the annual cash bonus rather than in their long-term incentives. Considering that managing ESG performance and impact should be part of an organisation's long-term strategy, organisations should be cautious about limiting their ESG accountability to short-term measures, which play out over a limited timeframe.

[24] "Integrating ESG issues into executive pay." Principles for Responsible Investment (PRI), 2012. https://www.unpri.org/download?ac=1878

Conclusion

While the incorporation of ESG metrics into executive pay is important to ensure that ESG is embedded meaningfully within an organisation, it does not come without risks. As Rob Lewenson, of Old Mutual Investment Group recently observed:

The COVID-19 pandemic has revealed another risk to investors, namely: *'governance washing'* in the way of inauthentic delivery on sustainable governance guidelines.[25]

Old Mutual Investment Group has identified this as a real risk that requires focus to avoid reinforcing specific ESG blind spots in their portfolios ahead of this year's proxy voting season.

Targets should be robust, and meaningful, demonstrate clear rationale and link to the greater ESG strategy, with transparent disclosure and reporting being essential to ensure accountability. ESG should be incorporated carefully, and should not be perceived to be a means of increasing executive pay levels.

[25] Lewenson, R. "COVID-19 reveals inauthentic governance practices as a new risk to stakeholders." Old Mutual Investment Group, May 2020. *https://www.oldmutualinvest.com/institutional/knowledge-room/COVID-19-reveals-inauthentic-governance-practices-as-a-new-risk-to-stakeholders*

Regulatory update

6

Since our last regulatory update in our *Executive Directors: Practices and remuneration trends report* 2020[26], released in August, the local and global regulatory landscape has still been reeling from the impact of COVID-19 on the economy and corporate environment. The following section sets out a high-level overview of remuneration-related developments in South Africa and abroad.

[26] www. pwc.co.za/executive-directors-report

South Africa

Companies Act

There have been no further updates regarding proposed amendments to the Companies Act 71 of 2008 since the publication of our *Executive Directors: Practices and remuneration trends report*. We continue to monitor the situation and will provide further updates in forthcoming reports.

Foreign remuneration exemptions: Disaster Management Tax Relief and Tax Relief Administration Bills

In June 2020, the Disaster Management Tax Relief Bill, 2020, and Disaster Management Tax Relief Administration Bill, 2020, were introduced in Parliament in order to give effect to tax proposals, announced by the Government in March and April, aimed at addressing the fiscal and economic effects of the COVID-19 pandemic on South Africa.

Due to travel restrictions imposed as a result of the pandemic, many South African tax residents have been unable to travel abroad for work purposes. When a South African tax resident renders services abroad, they may be able to claim an exemption from tax in South Africa on the services rendered abroad, known as the foreign remuneration exemption, contained in section 10(1)(o)(ii) of the Income Tax Act.

In summary, the exemption requires an individual to have been physically outside of South Africa for more than 183 full days in a 12-month period, of which more than 60 days were continuous. On meeting these conditions, the remuneration for services rendered abroad will be exempt. The exemption does not apply to services rendered in South Africa and is limited to R1.25 million.

As a result of travel restrictions, many South African residents may not be able to meet the requisite days requirement, resulting in the exemption not being applicable.

In order to account for the travel restrictions, the Taxation Laws Amendment Bill has amended the legislation. The 66-day period commencing on 27 March 2020 will be subtracted from the total number of days required for exemption eligibility. Consequently, for the exemption to apply, the relevant person need only have spent more than 117 full days working outside of South Africa for the 12-month period under assessment. The requirement to have spent more than 60 continuous days outside the country remains unchanged. More detail regarding the exemption and proposed relief can be found in PwC's Tax Alert released on 26 October.[27]

ISS South Africa voting policy updates

The ISS South Africa Proxy Voting Guidelines were updated with effect from 1 October 2020.[28]

Summary of the updates:

- A policy has been added that supports the re-election of auditors and/or proposals on auditor remuneration, unless there are concerns about the effectiveness of the auditors.
- A vote 'for' is suggested in the re-election of the audit committee and/or audit committee members, unless the board chair is a member of the audit committee (applicable to large, widely held companies).
- 'Tenure' has been added to the classifications of a non-independent, non-executive director.
- The section regarding fees for non-executive directors has been expanded to discuss fees payable, which speak to an individual's responsibilities as an NED on the board.
- With satisfactory disclosure, share incentive schemes will be voted 'for', unless the scheme rules allow for accelerated vesting upon termination without reference to relevant performance criteria.
- The section supporting shareholder proposals (ESG) on a case-by-case basis has been reinstated.
- A section regarding an NED's length of tenure on the board has been added.

27 "Tax Alert - COVID-19 and the exemption for foreign remuneration: proposed relief in light of travel restrictions." PwC, 2020. https://www.pwc.co.za/en/assets/pdf/taxalert/tax-alert-covid-19-and-the-exemption-for-foreign-remuneration.pdf.

28 "South Africa Proxy Voting Guidelines." ISS, 2020. https://www.issgovernance.com/file/policy/active/emea/South-Africa-Voting-Guidelines.pdf.

United Kingdom

Senior Managers and Certification Regime

Recent failures in corporate governance have thrown a spotlight on the role of NEDs and their ability to challenge decisions. Increased regulation and personal accountability mean that board positions involve an increasing time and effort commitment. The Senior Managers and Certification Regime (SMCR), which outlines specific legal responsibilities in financial service companies, has recently been extended to the rest of the sector to include building societies. This regulation introduces changes as to how people and firms are regulated in the financial services industry, replacing the Approved Persons Regime (APR), which applied to certain senior/approved persons at regulated firms. In the case of insurance firms, it replaces the Senior Insurance Managers Regime (SIMR).

There are three main elements to the regime:

- the senior managers regime (which regulates Senior Management Functions and the accountability of the Senior Managers who hold them);
- the certification regime (which regulates specific functions which are not Senior Management Functions, but can have a significant impact on customers, the firm and / or market integrity); and
- conduct rules which apply directly to a firm's workforce.

SMCR aims to reduce harm to customers and strengthen market integrity by creating a system which enables both firms and regulators to hold people to account. SMCR aims to:

- encourage staff to take personal responsibility for their actions;
- improve conduct at all levels; and
- make sure firms and staff clearly understand and can show who does what.

What firms are required to do under SMCR depends on whether the firm is classified as 'Limited Scope', 'Core' or 'Enhanced', and where a firm relies on a third party for the operation functions, such firm remains fully responsible for carrying out all of its regulatory obligations. Accordingly, while functions may be outsourced, accountability for them may not.[29]

Under the SMCR rules, failures can lead to reputational damage for board chairmen, and chairmen of audit and risk committees, prompting some concerns that the pool of qualified NEDs is shrinking. What the correct balance should be, between taking on more risky endeavours, compromised reputation and remuneration, continues to be debated.

Implementation of the Shareholder Rights Directive II

The provisions of the revised Shareholder Rights Directive (SRDII) relating to directors' remuneration could be described as a 'catching up exercise' as the rest of the European Union is brought broadly into line with the legislative framework for shareholder votes and disclosure regime that was introduced in the UK for quoted companies in 2013. However, there are subtle differences between the SRDII requirements and those that currently apply to UK quoted companies.

While there was initial uncertainty as to whether it would be necessary for the UK to implement the SRDII, it is now clear that the UK government had intended to transpose the SRDII remuneration requirements by 10 June 2019. Other elements of the SRDII reforms will be transposed in the UK by amendments to the FCA Handbook and by other statutory instruments.

[29] "The Senior Managers and Certification Regime: Guide for FCA solo-regulated firms." Financial Conduct Authority, 2019. https://www.fca.org.uk/publication/policy/guide-for-fca-solo-regulated-firms.pdf

SRDII has been drafted from a European perspective and, although the principles are consistent with those motivating UK legislation, some adjustments are required to British statute books to meet the specific requirements.

The draft legislation – The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 – implements Articles 9a and 9b of the SRDII. The Department for Business, Energy & Industrial Strategy in the UK has released transposition notes explaining how each of the requirements have been transposed into UK law. The changes affect both the binding vote framework and the disclosure requirements and extend the scope of the regime to unquoted traded companies and to chief executives (and deputy chief executives, if any), who are not on the board.

Although there is nothing in the legislation to cause alarm, additional disclosures will be required in both the Annual Report on Remuneration and the Directors' Remuneration Policy.

Coupled with the 2018 amendments to Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), which represent the existing regulations and which introduced the CEO pay ratio, additional disclosure of exercises of discretion and the impact of share price growth, the additional disclosures required in terms of the draft legislation may encourage companies to consider a wider review of the structure of their Directors' Remuneration Report.

The draft legislation came into force on 10 June 2019, with various implementation dates for specific changes.

Australia

Financial Accountability Regime

In January 2020, the Australian Treasury released a paper on the Financial

Accountability Regime (FAR). It sets out the Government's proposed model to extend the Banking Executive Accountability Regime (BEAR) to all entities regulated by the Australian Prudential Regulation Authority (APRA). We explored the paper, BEAR and FAR in our latest Executive Directors report. Similar to the BEAR, the FAR imposes:

- accountability obligations;
- key personnel obligations;
- accountability map and accountability statement obligations;
- notification obligations; and
- deferred remuneration obligations.

While submissions were expected during February 2020, and given COVID-19-related postponements, it is anticipated that the draft FAR legislation Exposure Draft will be released in early 2021 and presented at the Winter 2021 Parliamentary sitting. While the implementation date remains unknown, it is possible that the implementation date could be 1 January 2022 and ideally align with CPS 511 Remuneration, APRA's new standard on remuneration, which is to be finalised.

More information on the FAR is provided in PwC Australia's 'An update on the Financial Accountability Regime' publication.[30]

[30] "An update on the Financial Accountability Regime." PwC Australia, 2020. https://www.pwc.com.au/insurance/far-extending-bear-insurers.pdf

Profile of a JSE non-executive director

7

In this chapter, we outline the characteristics of a JSE non-executive director.

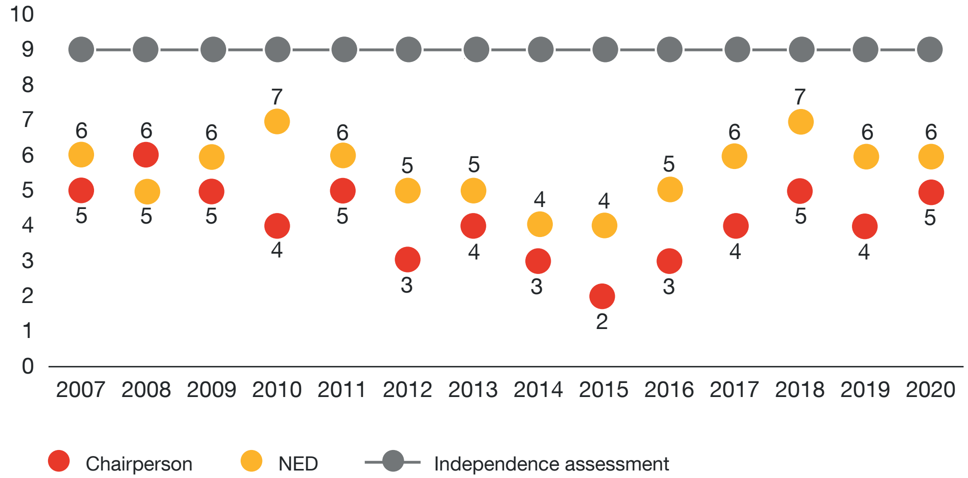
As at 31 October 2020, the total number of non-executive directors serving on boards of active companies on the JSE was 2,106 (2019: 2,224), which is 118 less than in the prior reporting period.

Board tenure

The median tenure for chairpersons of JSE-listed companies is six years (2019: six).

The median tenure for non-executive directors has increased to five years (2019: four).

Figure 7.1 Median board tenure, 2007–2019



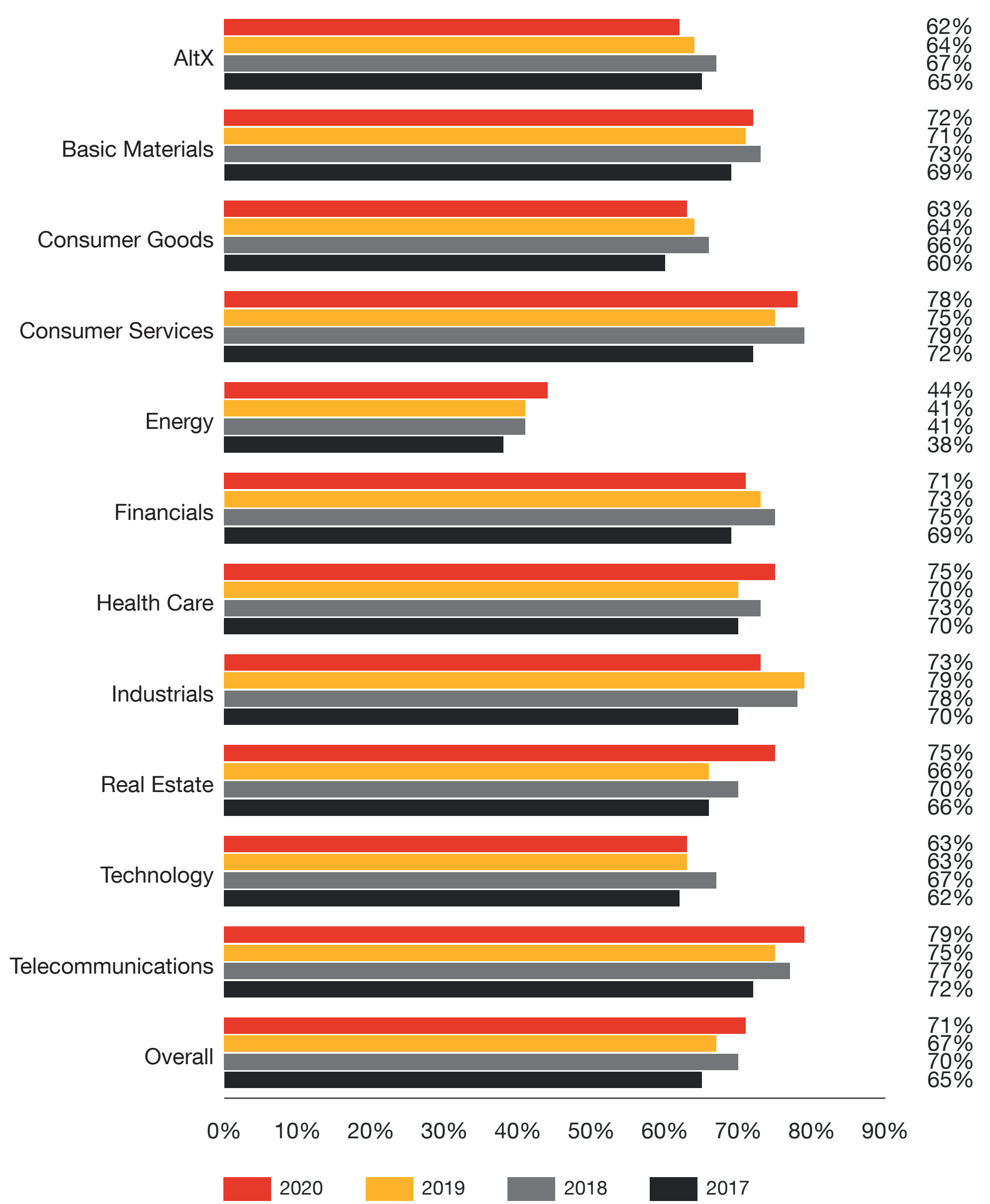
Source: PwC analysis

Independence

Independence rules generally aim to ensure that directors avoid conflicts of interest that may impede their services to the board. Shareholders continue to place pressure on listed companies where directors tenure is perceived to be excessive, or the potential for conflict of interest exists.

It is encouraging to see that our independence markers continue to demonstrate a suitable level of independence. The Energy industry still lags in terms of independence composition, although a gradual improvement is noted.

Figure 7.2 Proportion of independent non-executive directors, 2017–2020



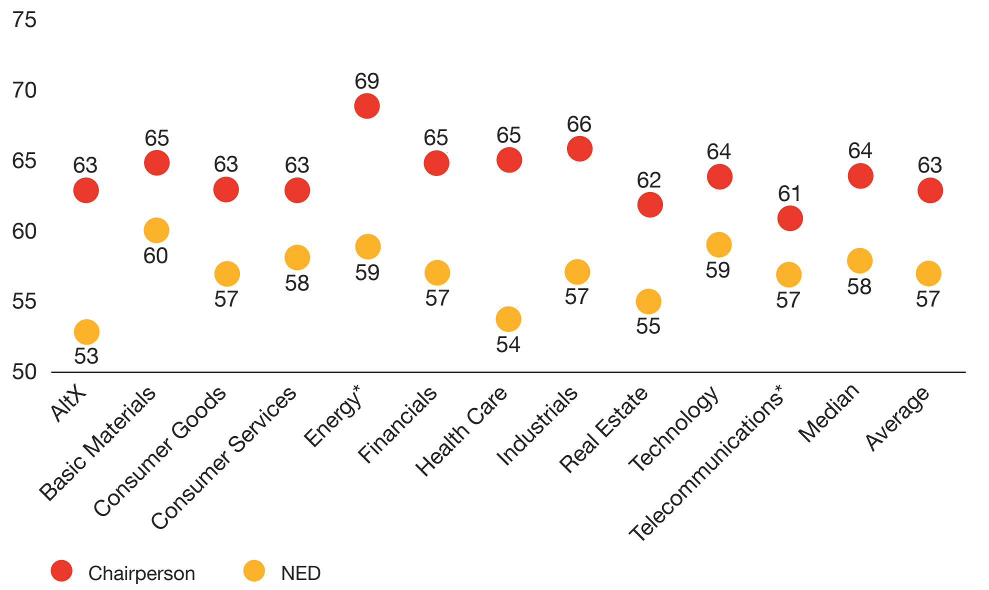
Source: PwC analysis

Age

Age diversity has not historically been a major focal area, and typically board members tended to be older, as many boards equated age with experience. A mixture of young and old non-executive directors is important to ensure diversity of thinking and approach, and to ensure that boards are able to face the challenges of the digital age.

Our research indicates that the median age of South African chairpersons is in the sixties, with the median age of board members in the upper fifties. This indicates a need for a greater focus on transformation within South African boards, and the consideration of age dynamics when assessing effective board functioning and making board appointments.

Figure 7.3 Median age of board members



* Due to insufficient data points, a median age for Energy and Telecommunications chairpersons could not be calculated, and we have instead provided an average.

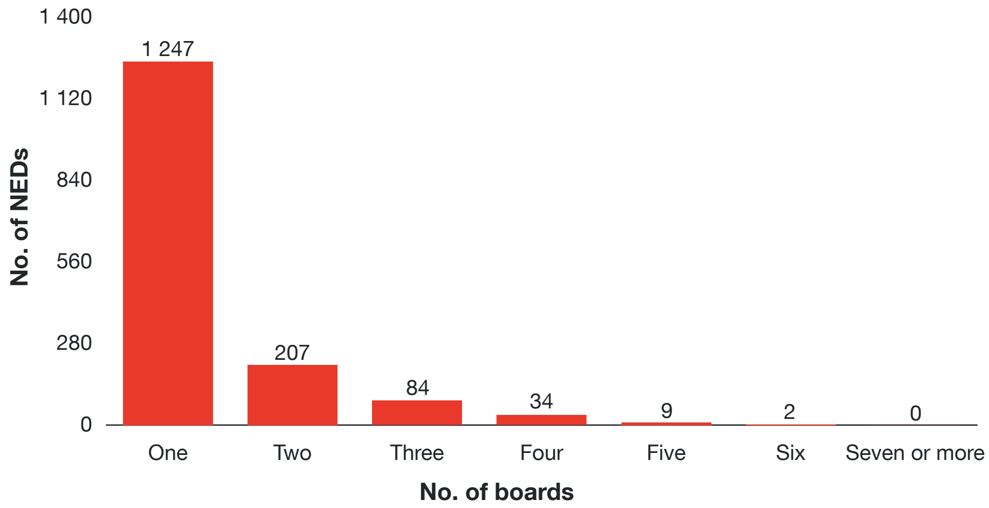
Source: PwC analysis

Multiple board memberships

There should be a healthy balance between not becoming 'over boarded' — i.e. serving on too many boards, resulting in not having sufficient time available to fulfil board member responsibilities — and having the requisite network and exposure that serving on more than one board may afford a non-executive director. It is interesting to note that the proxy advisor ISS has indicated in other jurisdictions that where directors have multiple board appointments (generally seen as five or more mandates), the ISS may recommend a vote against such directors. There is no such inclusion at present within the ISS South African guidelines.

Fewer than 50 non-executive directors served on four or more boards during the 2020 period. None served on more than six boards in 2020.

Figure 7.4 Non-executive directors' membership of multiple boards

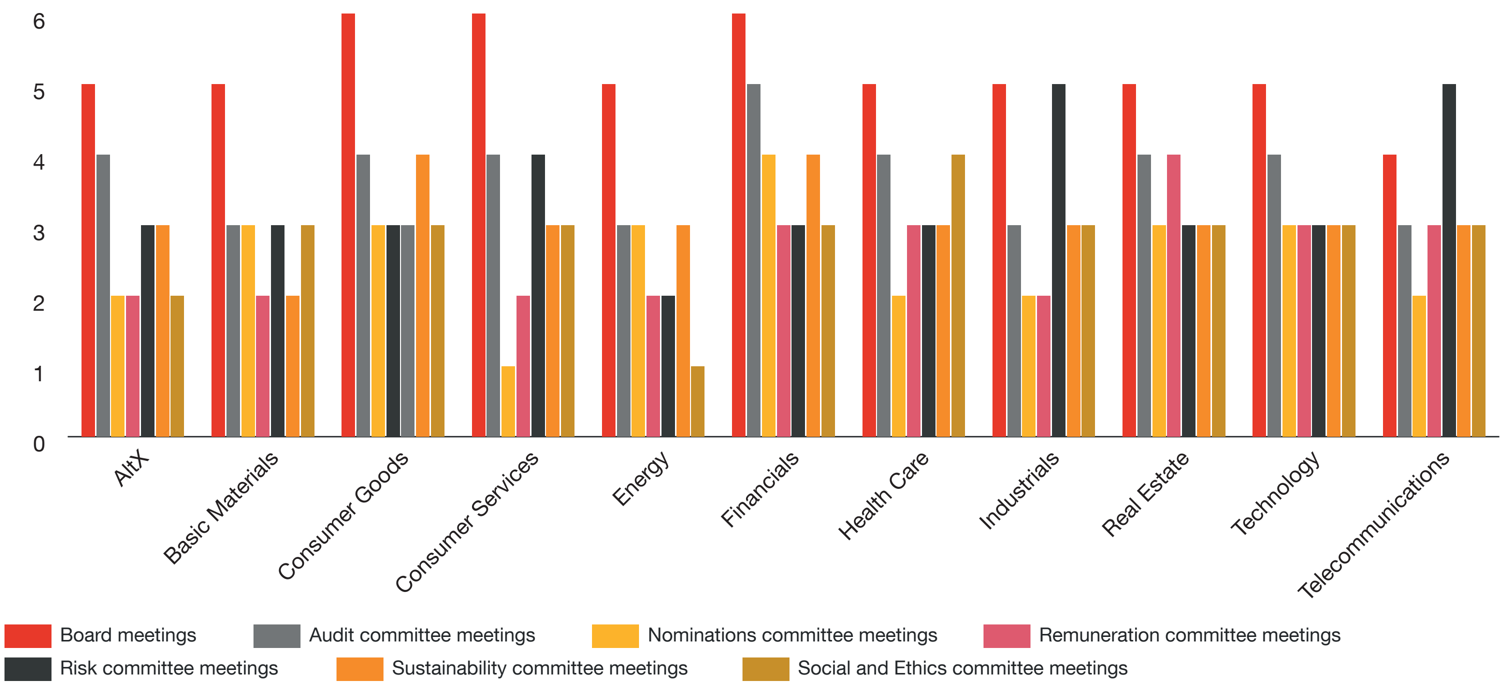


Source: PwC analysis

Meetings

The figure below sets out the average number of meetings held by the boards and all major subcommittees of all JSE and AltX companies analysed.

Figure 7.5 **Average number of meetings held by industry, including AltX**



Source: PwC analysis

Diversity

According to the JSE Listings Requirements, issuers are required to adopt a policy on the promotion of broader diversity on the board, focusing not only on race and gender, but also on the promotion of other diversity attributes such as culture, age, field of knowledge, skills and experience. The company must publish its performance against the policy annually in its integrated report.

We have analysed the racial diversity among the JSE Top 100 companies, and have included additional analysis on nationality.

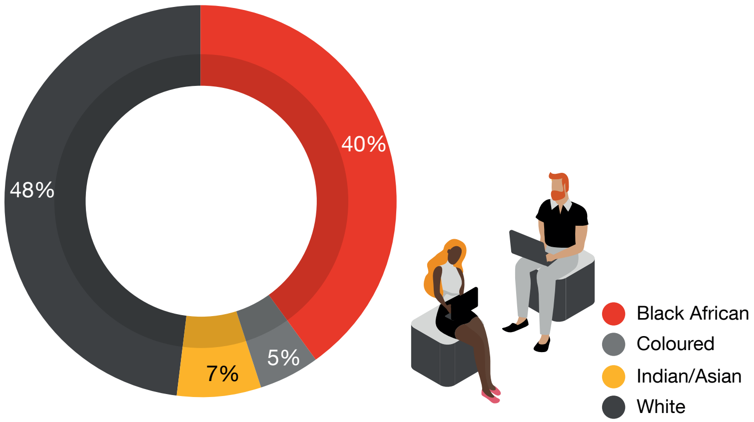
Nationality and race

Our analysis shows that 81% of the non-executive directors are South African. Within this group, the racial split analysis has been classified in terms of the following categories:

- Black African
- Coloured
- Indian/Asian
- White.

The analysis has been performed for chairpersons and other non-executive directors.

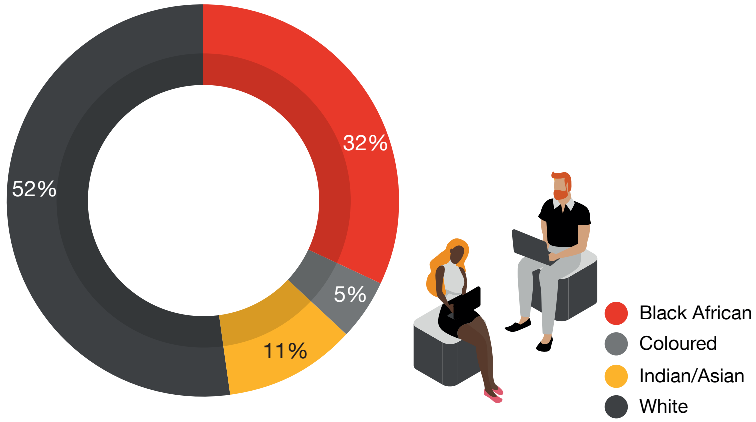
Figure 7.6 Racial diversity (all non-executive directors, including chairpersons)



Source: PwC analysis

Of the South African non-executive directors (including chairpersons), the most were White (48%), with Black African non-executive directors making up 40%. The remaining two categories reflect low percentages, with Indian/Asian non-executive directors at 7%, and Coloured non-executive directors at 5%. This split remains very unreflective of South Africa's racial demographics.

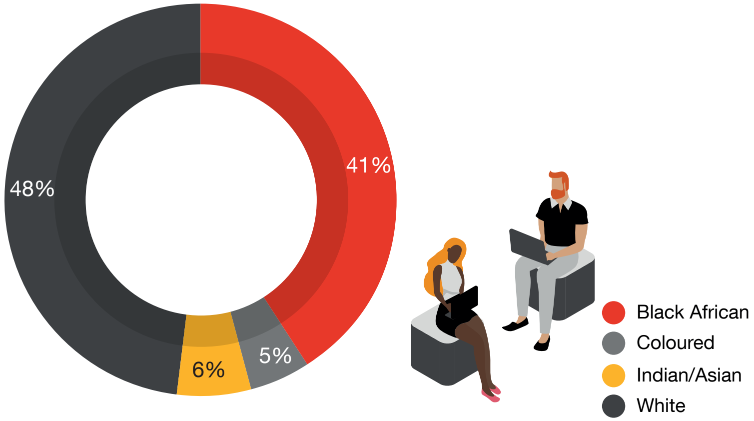
Figure 7.7 Racial diversity: Chairpersons



Source: PwC analysis

Looking only at chairpersons, the representation of Black African non-executive directors decreased from the combined 40% in figure 7.6, to 32%, while the White and Indian/Asian categories increased to 52% and 11% respectively. The representation of Coloured chairpersons is consistent with the combined representation of Coloured non-executive directors at 5%.

Figure 7.8 Racial diversity: Non-executive directors, excluding chairpersons



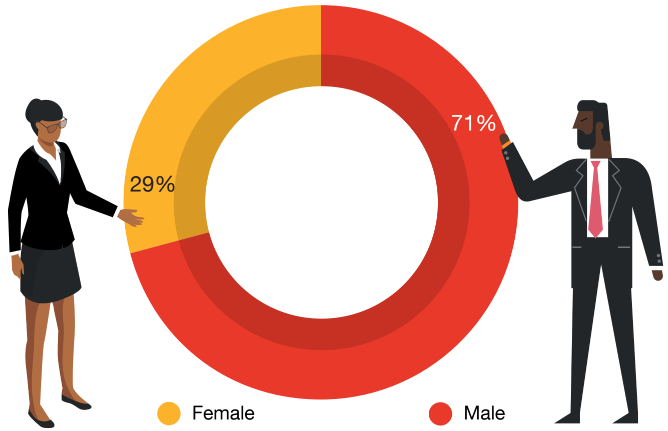
Source: PwC analysis

Gender

We have analysed gender diversity among all JSE-listed companies.

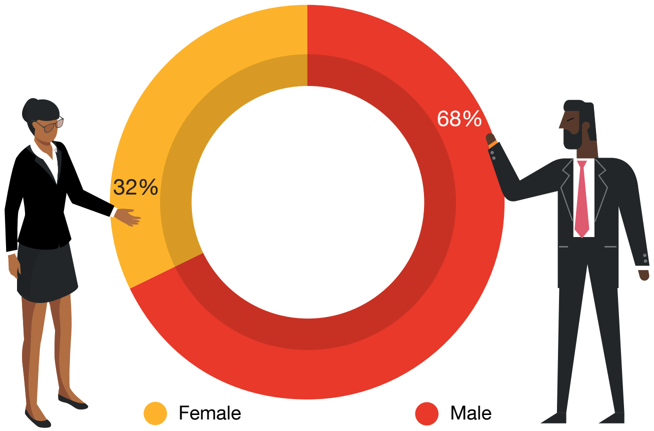
Our analysis shows that there is still a heavy weighting (71%) towards male non-executive directors among JSE-listed companies. This is very close to our findings from last year (limited to Top 100), which was a 70% male and 30% female. There is not much variation between large cap (68% male), medium cap (66% male) and small cap (74% male) companies.

Figure 7.9 Gender diversity: All JSE



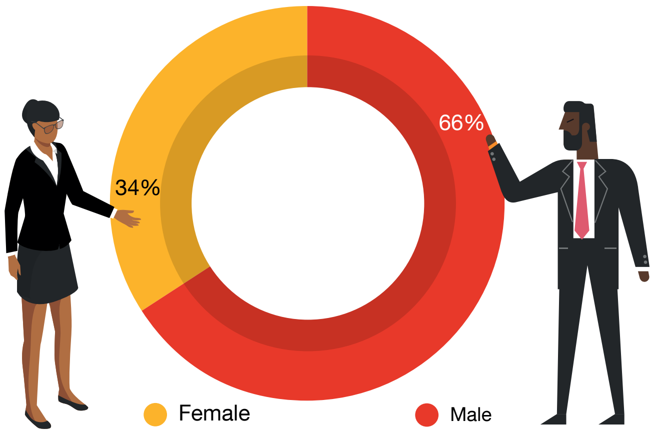
Source: PwC analysis

Figure 7.10 Gender diversity: Large cap



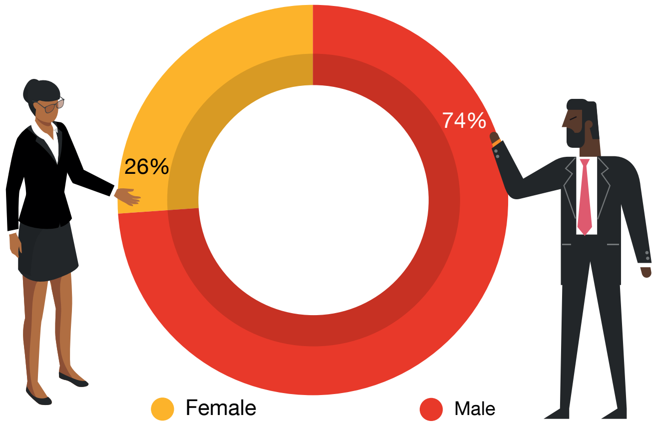
Source: PwC analysis

Figure 7.11 Gender diversity: Medium cap



Source: PwC analysis

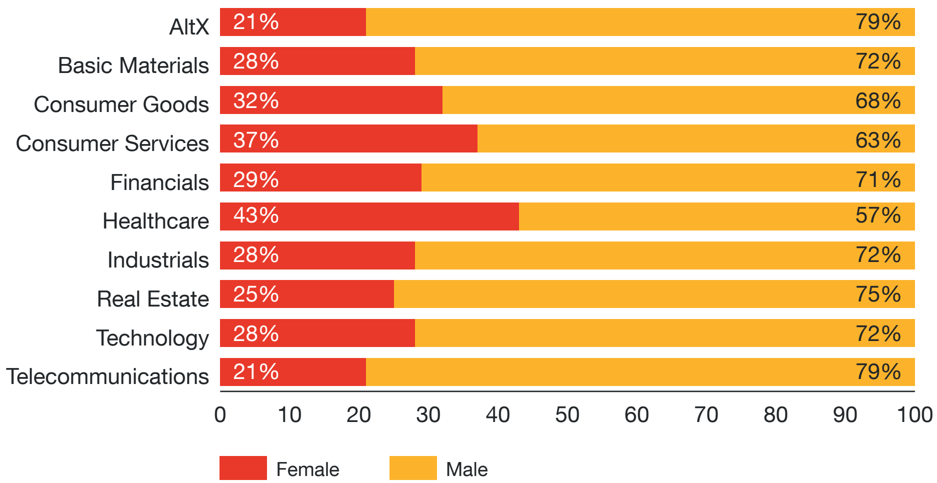
Figure 7.12 Gender diversity: Small cap



Source: PwC analysis

Among industries, Health Care is the most equally represented, with 57% male and 43% female non-executive directors. Industries with fewer than five companies were excluded from our analysis.

Figure 7.13 Gender diversity by industry



Source: PwC analysis

JSE non-executive directors' fees

8

This section of the report provides an analysis of JSE non-executive director fees for the period 1 December 2019 to 31 October 2020. The analysis is based on actual non-executive director fees disclosed in the annual reports of JSE-listed companies for the period under review (rather than forecasted fees as disclosed in the notice of AGM).

This analysis is based on active directors as at 31 October 2020. In instances where non-executive directors have resigned from their roles, we have excluded them. In the event that non-executive directors have been appointed to their roles after the financial year end, they too have been excluded from the analysis.

When non-executive directors are remunerated in foreign currency, their fees are converted into South African rands using the exchange rates as at the cut-off date (31 October 2020).

Other points to note:

- A change in methodology has been introduced, resulting in fees paid to non-executive directors who have retired during the period being excluded from the analysis.
- Twenty percent of the analysed non-executive director population is paid in foreign currency, which impacts the analysis as a consequence of exchange rate volatility (a ZAR devaluation of 10.86% against the US dollar and 11.6% against the British pound during the review period was observed).

- The impact of COVID-19 is difficult to assess, as it has influenced different industries to varying extents. The response to this impact has been that some non-executive directors took a temporary or permanent reduction in fees, or did not receive increases. In contrast, COVID-19 may have resulted in additional meetings and the associated payment of ad hoc fees for such meetings may have countered the effect of fee suppression in some instances. The impact of COVID-19 on companies and their market capitalisation has also resulted in significant movements of companies between the large cap, medium cap and small cap categories, which may distort the analysis within these subcategories.

As a result of the methodology of our analysis (actual fees paid vs. proposed fees), and the points noted above, we caution that the analysis within this chapter should be used for informative purposes only, and not as a direct reference point for benchmarking purposes.

Non-executive directors' fees: JSE all industries and AltX

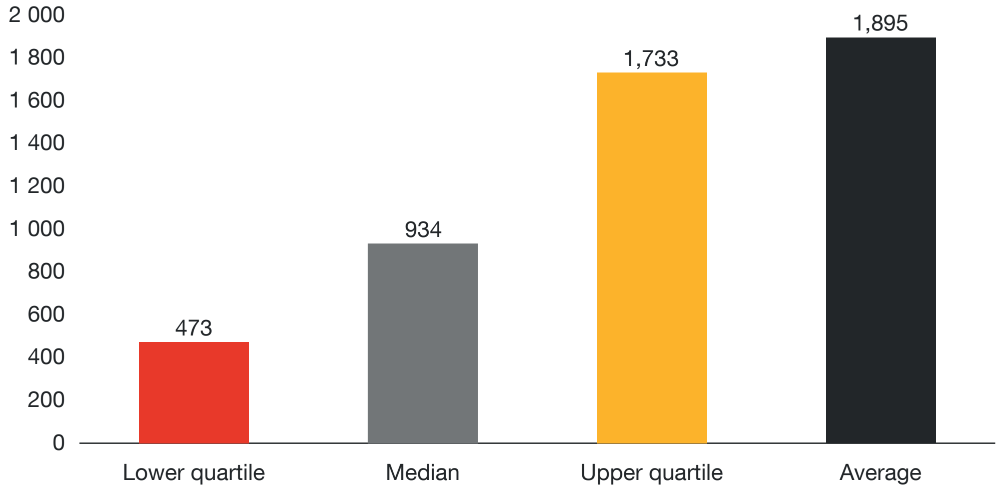
The four categories of non-executive board members examined are:

- Chairperson
- Deputy chairperson
- Lead independent director
- Non-executive director.

Chairperson

The role of a chairperson is time-consuming as it includes additional work carried out between scheduled meetings, representing the organisation externally and interacting with fellow board members and employees. As noted above, the onset of the COVID-19 pandemic during the review period may in certain instances have further increased the workload, resulting in additional ad hoc meetings and time commitment from both chairpersons and non-executive directors.

Figure 8.1 JSE all industries: Chairperson (R'000)

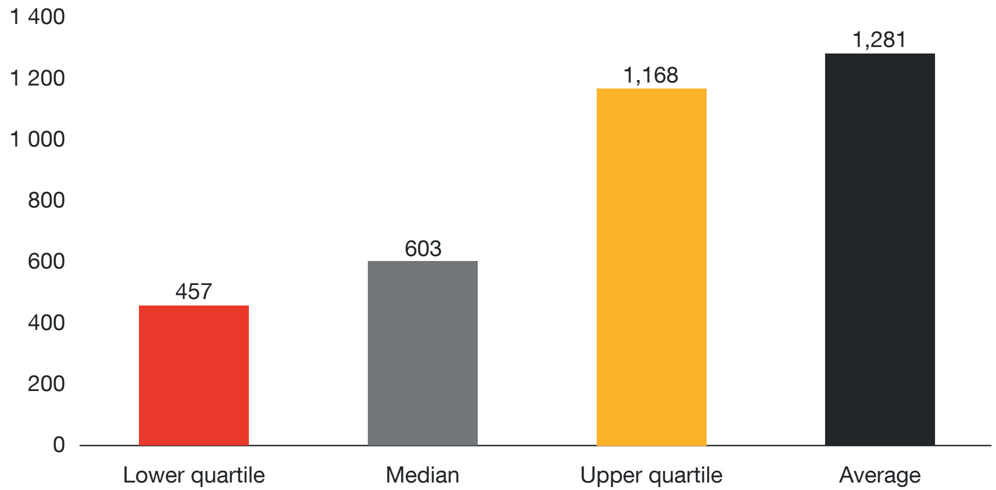


Source: PwC analysis

Deputy chairperson

Some organisations include a position of deputy chairperson. This person assists the chairperson and fills in at meetings if the chairperson is unavailable.

Figure 8.2 JSE all industries: Deputy chairperson (R'000)



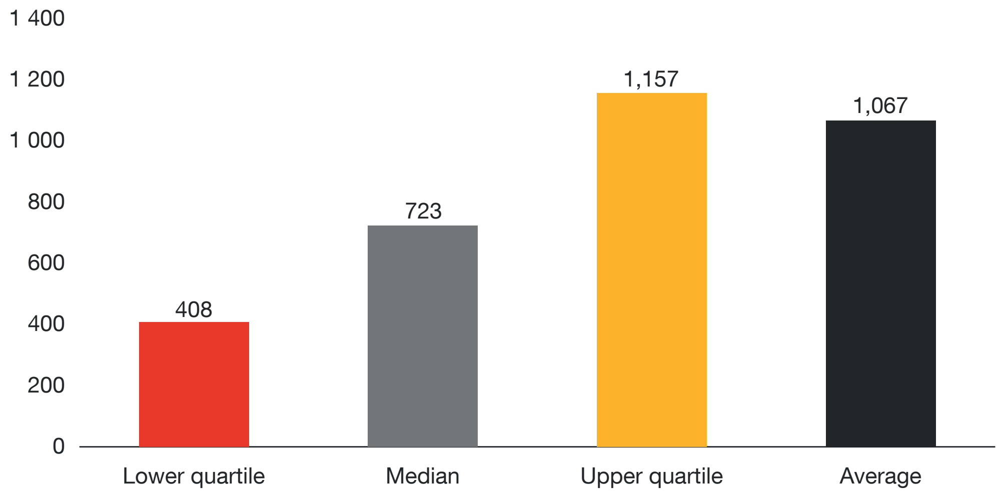
Source: PwC analysis

Lead independent director

The lead independent director is required to preside at all meetings of the board at which the chairperson is not present, or where the chairperson is conflicted, including any session of the independent directors.

Their duties include calling meetings of the independent directors, where necessary, and serving as principal liaison between the independent directors and the chairperson. Their responsibilities would also include liaising with major shareholders if requested by the board in circumstances in which the chairperson is conflicted.

Figure 8.3 JSE all industries: Lead independent director (R'000)

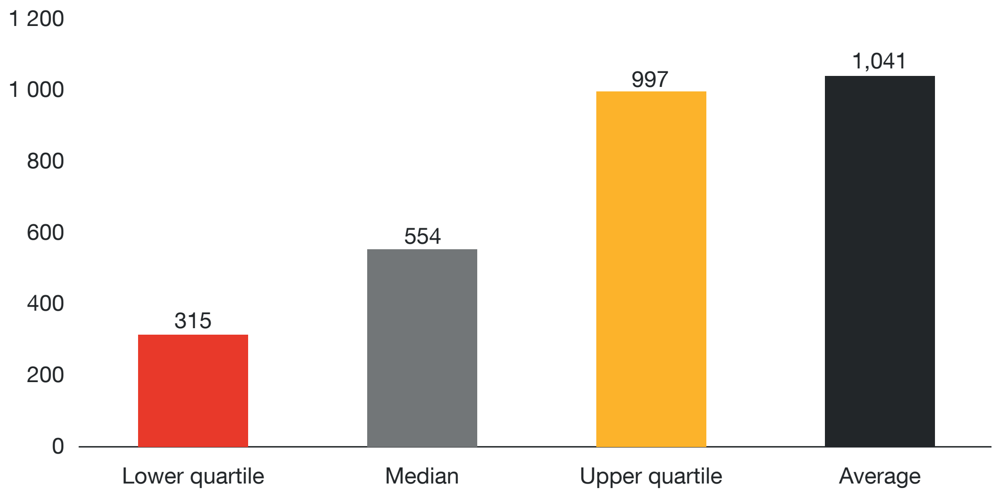


Source: PwC analysis

Non-executive director

Non-executive directors are required to make up the majority of a board's membership, and the majority of the non-executive directors should be independent.

Figure 8.4 JSE all industries: Non-executive director (R'000)



Source: PwC analysis

Non-executive director fees: Super caps

Super caps represent the top ten companies on the JSE. As at 31 October 2020, these companies accounted for 70% of the exchange's total market capitalisation. The companies that make up the JSE top ten are shown in the table below, while the figures that follow illustrate remuneration quartiles calculated for the super caps.

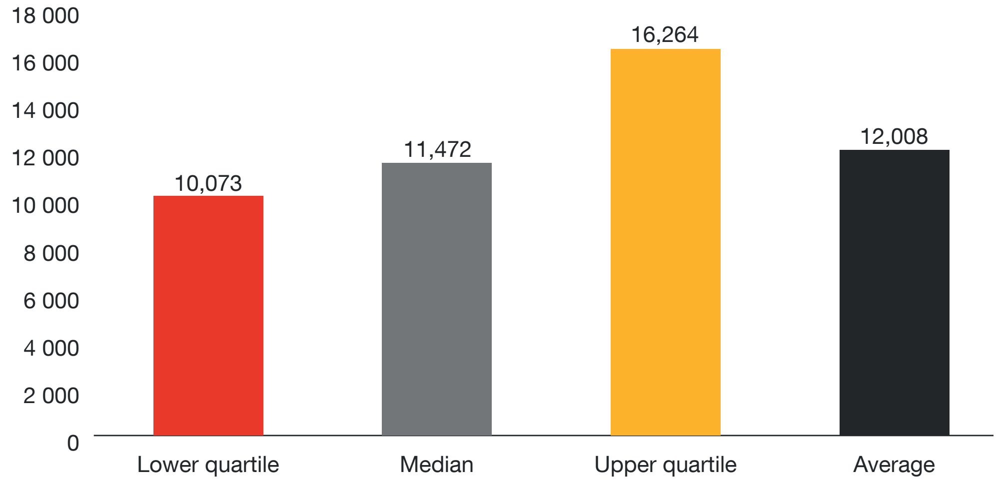
JSE super caps, 2020 vs 2019

2019	2020
Prosus N.V.	Prosus N.V.
Anheuser-Busch InBev SA/NV	Anheuser-Busch InBev SA/NV
Naspers Ltd	Naspers Ltd
British American Tobacco PLC	British American Tobacco PLC
BHP Group PLC	BHP Group PLC
Compagnie Financière Richemont S.A.	Compagnie Financière Richemont S.A.
Anglo American PLC	Anglo American PLC
Glencore PLC	Glencore PLC
Anglo American Platinum Ltd	Anglo American Platinum Ltd
FirstRand Ltd	Vodacom Group Ltd

The JSE super caps have remained the same other than the replacement of FirstRand Ltd with Vodacom Group Ltd.

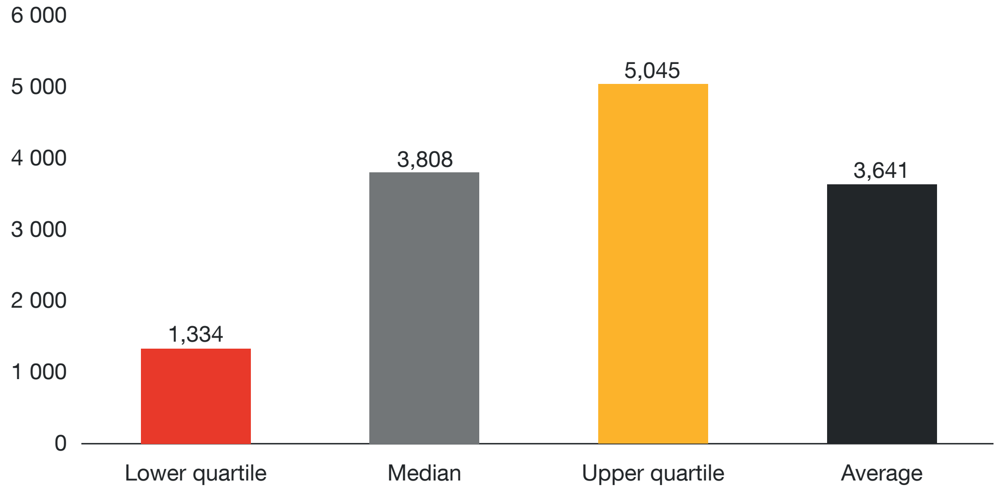
The median fees for the super-cap chairpersons and non-executive directors (excluding chairpersons) follow below.

Figure 8.5 Super caps: Chairperson (R'000)



Source: PwC analysis

Figure 8.6 Super caps: Non-executive director (R'000)



Source: PwC analysis

Non-executive directors’ fees by industry

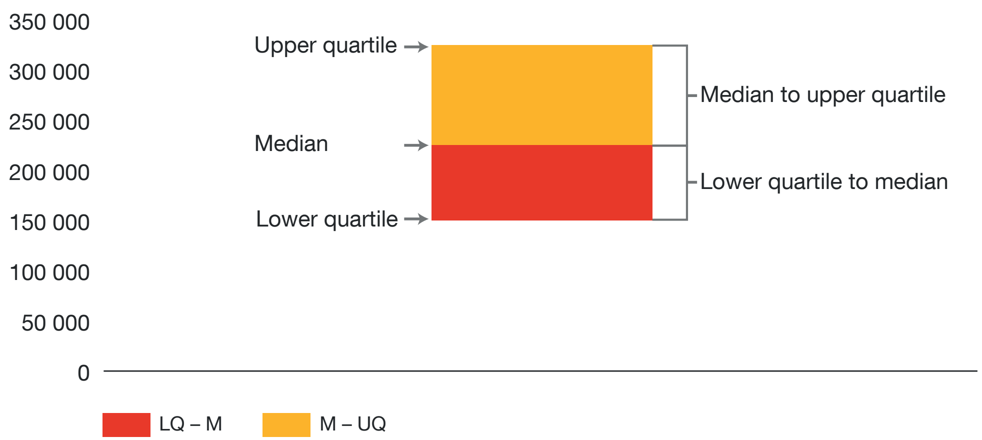
In this section we provide non-executive director fees for each industry. The table below provides the industries analysed as well as their contribution to the total market capitalisation of the JSE, including the AltX.

JSE market capitalisation by industry (%)

	2020	2019	2018
Basic Materials	24.7%	26.3%	23.1%
Consumer Goods	25.3%	26.8%	29.5%
Consumer Services	4.6%	10.4%	16.5%
Energy	0.1%	0.0%	0.2%
Financials	9.3%	18.1%	17.2%
Health Care	1.1%	1.4%	1.7%
Industrials	1.2%	1.6%	3.0%
Real Estate	2.1%	4.3%	5.0%
Technology	29.0%	7.7%	0.3%
Telecommunications	2.6%	3.4%	3.5%

The figures shown on pages 43 to 48 illustrate our non-executive director fee analysis. Where sufficient data points were not available, the average has been used.

Figure 8.7: Guide to data presentation

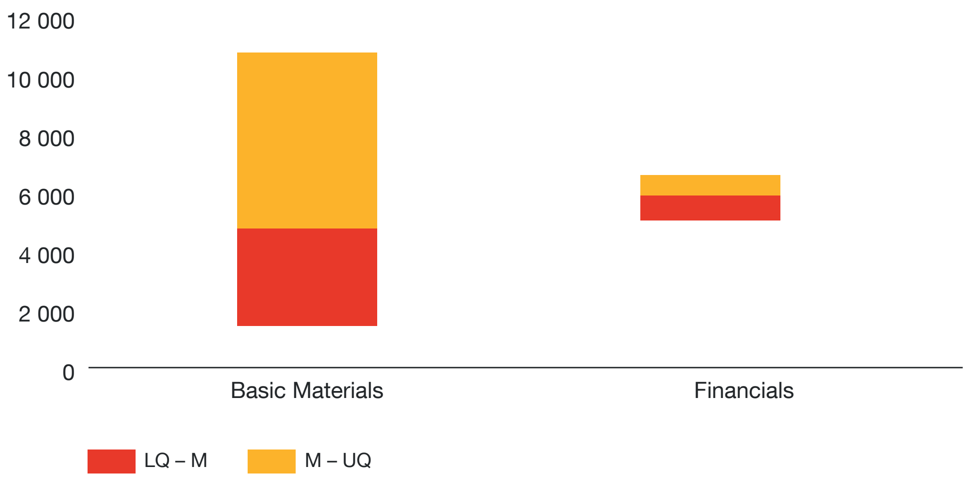


Chairperson

Large cap

The quartile analysis for the Basic Materials and Financials chairpersons is shown below.

Figure 8.8 Large cap: Chairperson, quartiles (R'000)

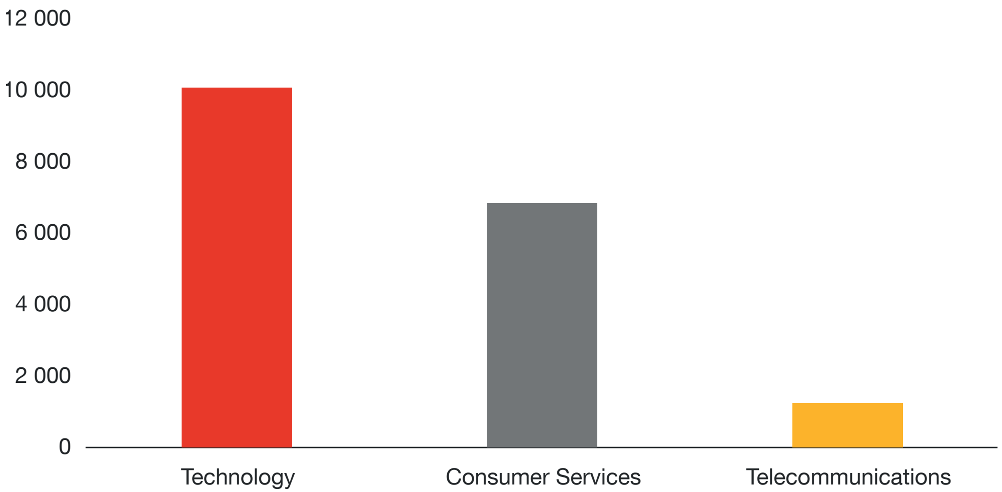


Industry	Lower quartile	Median	Upper quartile
Basic Materials	1,428	4,756	10,756
Financials	5,029	5,871	6,578

Source: PwC analysis

The average fee analysis for Technology, Consumer Services and Telecommunications chairpersons is shown below.

Figure 8.9: Large cap: Chairperson, averages (R'000)



Industry	Average
Technology	10,073
Consumer Services	6,839
Telecommunications	1,239

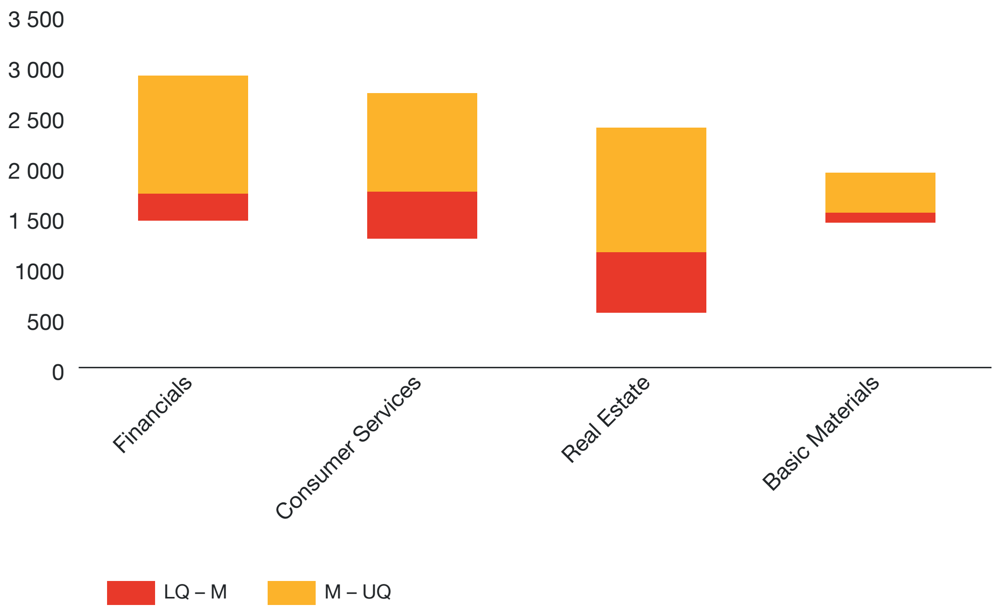
Source: PwC analysis

Due to insufficient data points, Consumer Goods, Industrials and Health Care chairpersons have been excluded from the large cap analysis. The Energy and Real Estate industries include no large cap companies.

Medium cap

The quartile analysis for Financials, Consumer Services, Real Estate and Basic Materials is shown below.

Figure 8.10: Medium cap chairperson, quartiles (R'000)

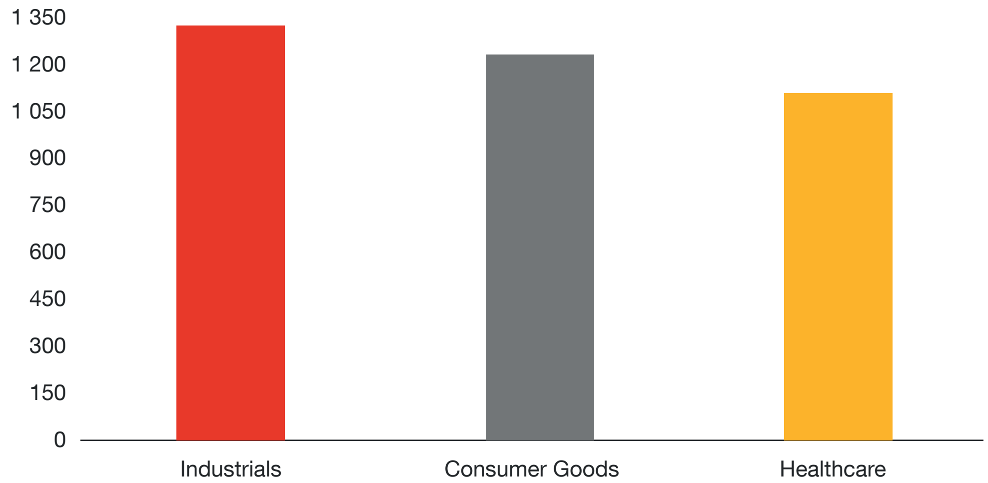


Industry	Lower quartile	Median	Upper quartile
Financials	1,458	1,725	2,894
Consumer Services	1,278	1,744	2,723
Real Estate	542	1,142	2,379
Basic Materials	1,437	1,534	1,932

Source: PwC analysis

The average fee analysis for Industrials, Consumer Goods and Health Care chairpersons is shown below.

Figure 8.11: Medium cap chairperson, averages (R'000)



Industry	Average
Industrials	1,326
Consumer Goods	1,233
Health Care	1,109

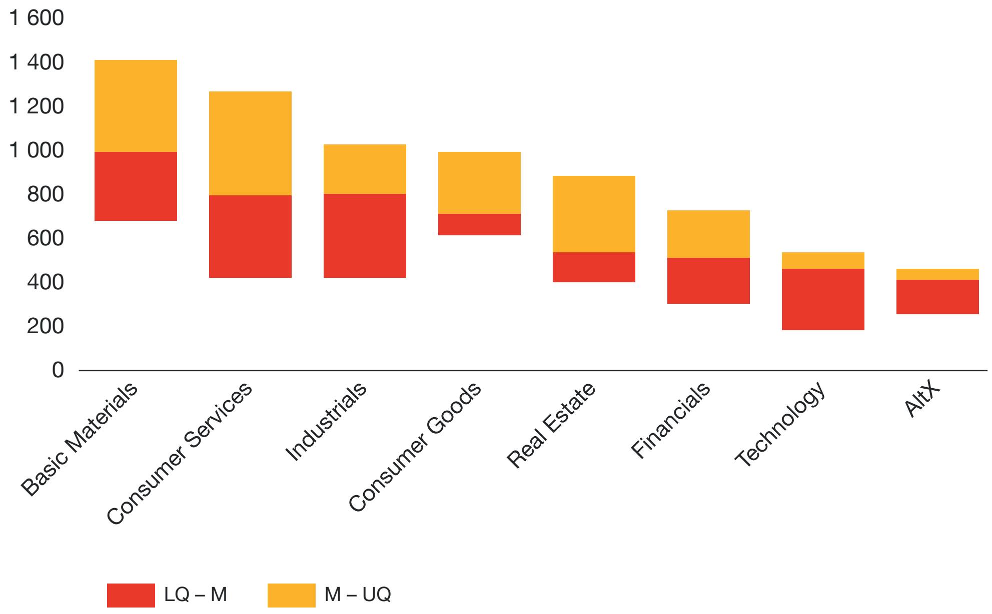
Source: PwC analysis

Due to insufficient data points, the Technology and Telecommunications industries have been excluded from the medium cap analysis. There are no companies from the Energy industry in the medium cap category.

Small cap, including AltX

The quartile analysis for all industries, including AltX but excluding Energy, Health Care and Telecommunications is shown below.

Figure 8.12: Small cap chairperson, quartiles (R'000)

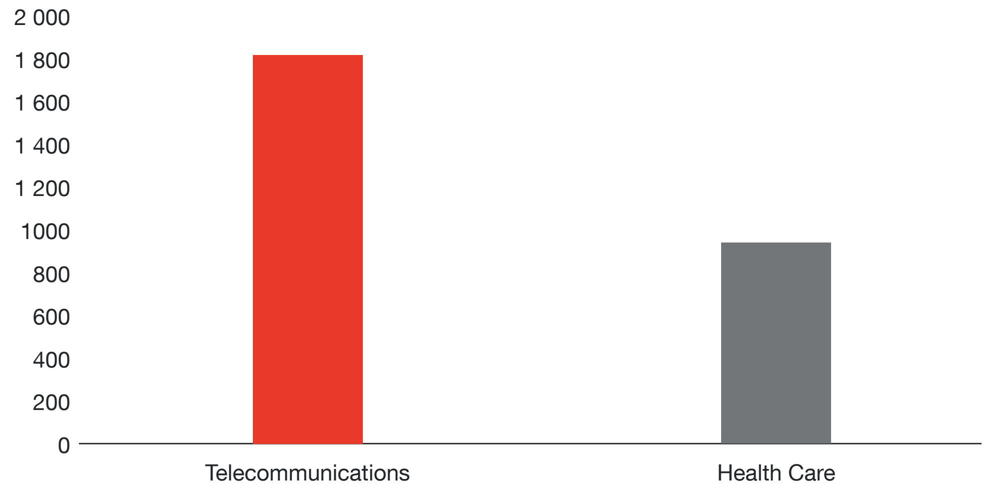


Industry	Lower quartile	Median	Upper quartile
Basic Materials	680	993	1,410
Consumer Services	423	795	1,266
Industrials	421	802	1,027
Consumer Goods	615	712	993
Real Estate	403	537	883
Financials	304	511	728
Technology	184	462	536
AltX	256	411	460

Source: PwC analysis

The average fee analysis for Telecommunications and Health Care chairpersons is shown below.

Figure 8.13: Small cap chairperson, averages (R'000)



Industry	Average
Telecommunications	1,816
Health Care	938

Source: PwC analysis

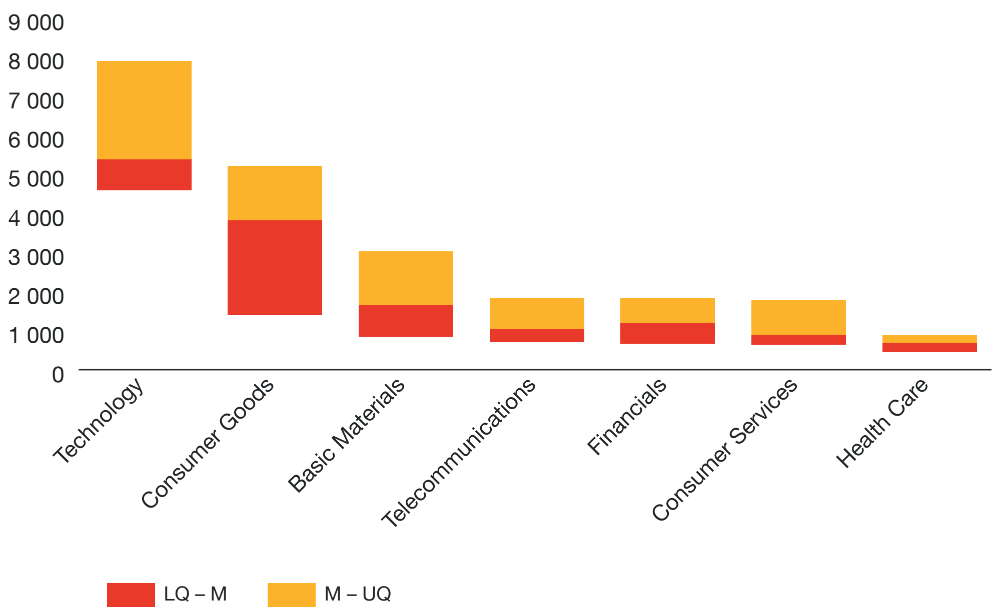
Due to insufficient data points, the Energy industry has been excluded from the small cap analysis.

Non-executive directors, excluding chairpersons

Large cap

The quartile analysis for the Technology, Consumer Goods, Basic Materials, Telecommunications, Financials, Consumer Services and Health Care non-executive directors is shown below.

Figure 8.14: Large cap non-executive director, quartiles (R'000)

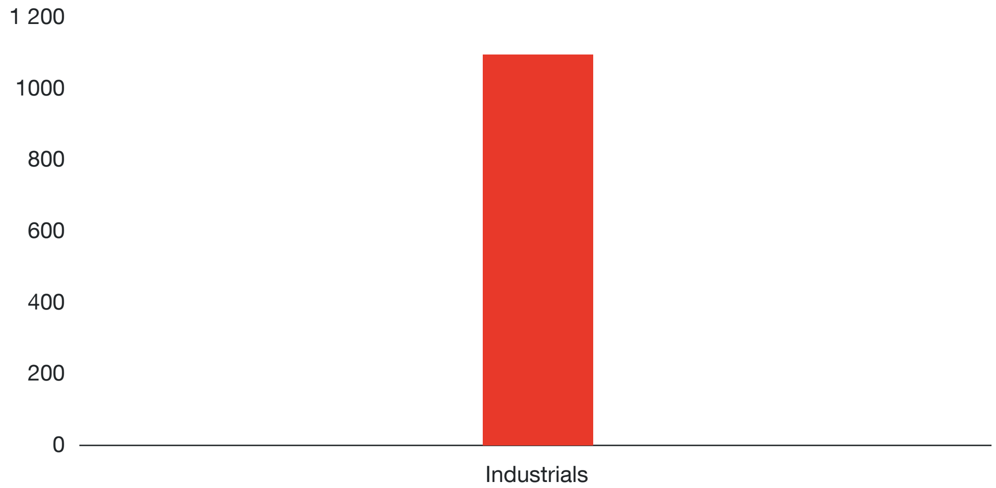


Industry	Lower quartile	Median	Upper quartile
Technology	4,589	5,370	7,896
Consumer Goods	1,391	3,813	5,211
Basic Materials	848	1,657	3,028
Telecommunications	709	1,037	1,829
Financials	659	1,193	1,819
Consumer Services	635	890	1,781
Health Care	454	685	872

Source: PwC analysis

The average fee analysis for Industrials non-executive directors is shown below.

Figure 8.15: Large cap non-executive director, averages (R'000)



Industry	Average
Industrials	1,095

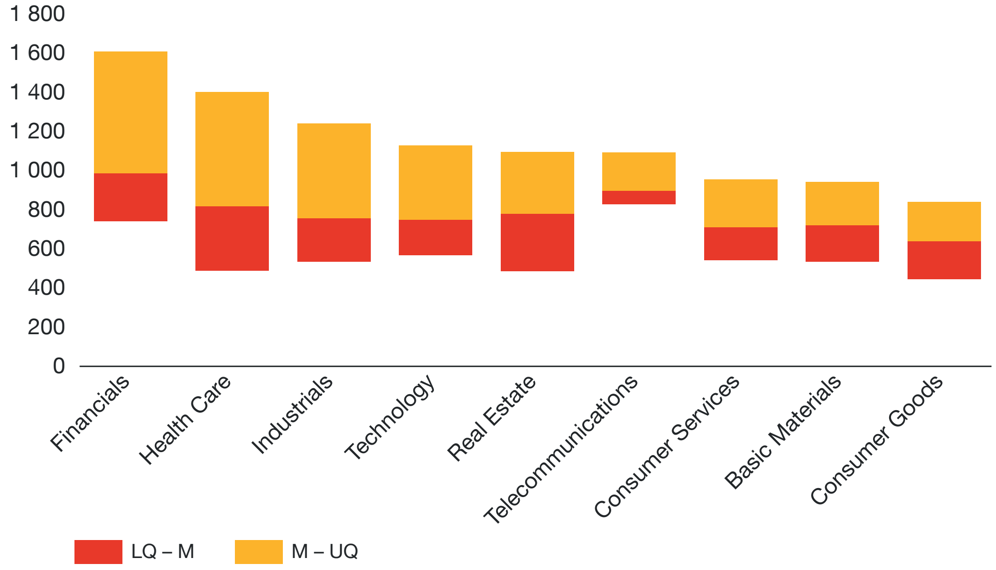
Source: PwC analysis

There are no companies from the Energy and Real Estate industry in the large cap category.

Medium cap

The quartile analysis of all industries, excluding Energy non-executive directors for the medium cap category is shown below.

Figure 8.16: Medium cap non-executive director, quartiles (R'000)



Industry	Lower quartile	Median	Upper quartile
Financials	743	986	1,610
Health Care	490	818	1,402
Industrials	534	756	1,241
Technology	569	749	1,128
Real Estate	487	779	1,097
Telecommunications	829	895	1,093
Consumer Services	542	710	956
Basic Materials	534	720	942
Consumer Goods	447	639	840

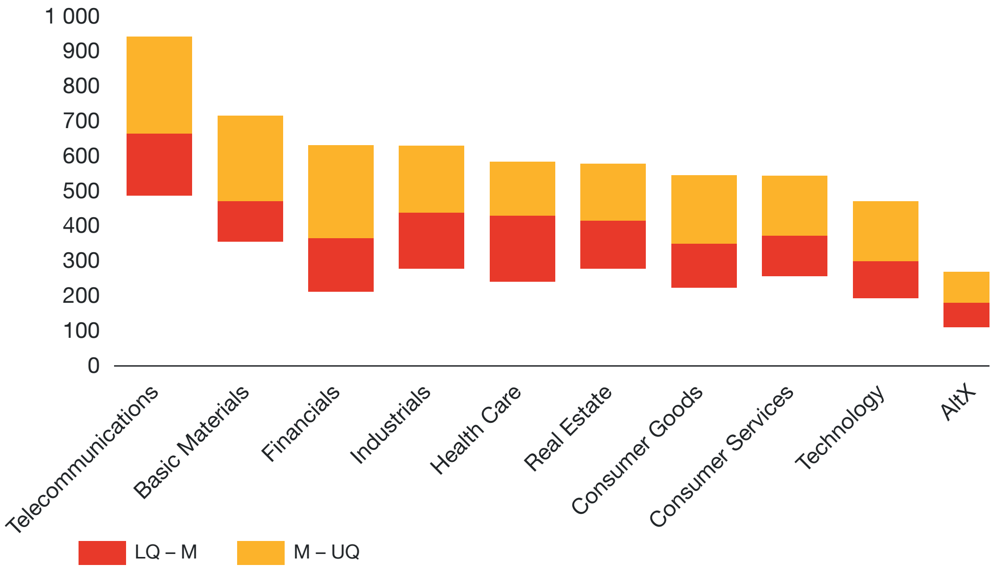
Source: PwC analysis

There are no companies from the Energy industry in the medium cap category.

Small cap, including AltX

The quartile analysis for all industries, including AltX but excluding the Energy industry for the small cap category is shown below.

Figure 8.17: Small cap non-executive director, quartiles (R'000)

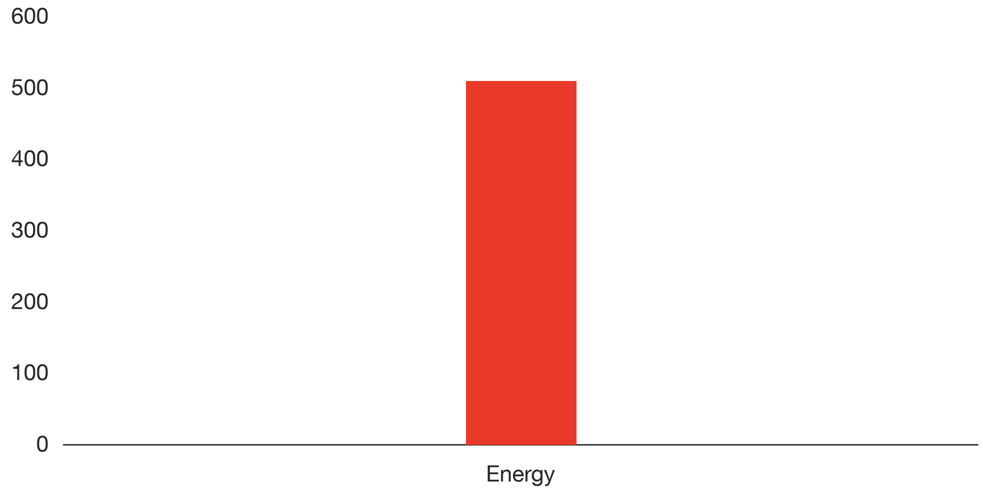


Industry	Lower quartile	Median	Upper quartile
Telecommunications	487	664	941
Basic Materials	356	472	716
Financials	212	365	632
Industrials	279	439	630
Health Care	242	429	583
Real Estate	279	416	578
Consumer Goods	225	350	545
Consumer Services	257	372	545
Technology	194	299	471
AltX	110	180	270

Source: PwC analysis

The average fee analysis for the Energy non-executive directors for the small cap category is shown below.

Figure 8.18: Small cap non-executive director, average (R'000)



Industry	Average
Energy	510

Source: PwC analysis

Other sub-Saharan countries

9

We have analysed non-executive director fee trends among 377 companies (2020: 413) listed on seven sub-Saharan stock exchanges (excluding South Africa).

The 377 companies analysed have 1,897 (2019: 1,975) active non-executive directors, of which 377 are chairpersons and 1,520 are other non-executive directors.

Reporting data for sub-Saharan stock exchanges that is available in the public domain is limited, and in many cases, fees paid to non-executive directors are not disclosed in line with corporate governance best practices. Accordingly, the trend analysis for fees paid to non-executive directors should be used for informative purposes only, and not as a direct reference point, as it may not provide an accurate benchmark.

It should be noted that in some cases, the aggregate fee analysed may include shares issued to non-executive directors by the company, which is not common in South Africa.

Values have been converted from local sub-Saharan and other currencies into US dollars using the exchange rate as at the cut-off date (31 October 2020). Due to exchange rate fluctuations and the impact of the COVID-19 pandemic, a percentage movement from 2019 to 2020 is not provided.

The table below provides an outline of the number of companies and non-executive directors analysed in each of the seven sub-Saharan African stock exchanges.

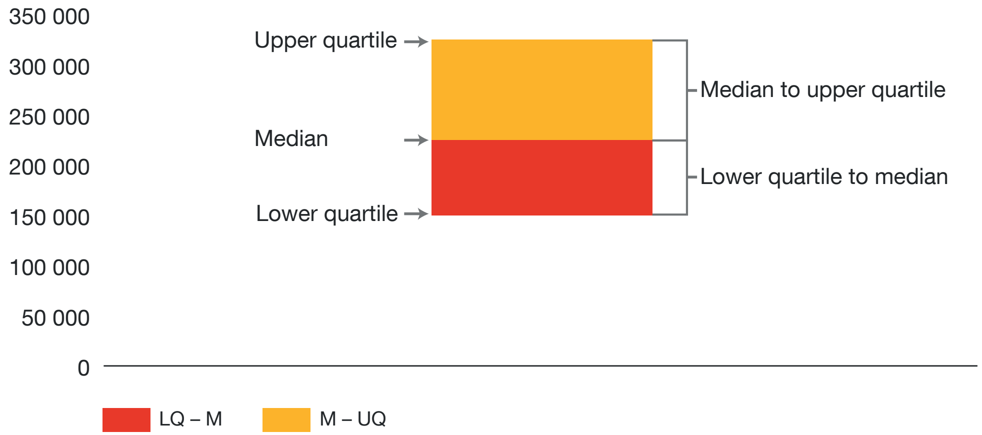
Listed company profile of selected African stock exchanges

Stock exchanges	Companies	Total non-executive directors	Chairpersons	Non-executive directors
Botswana	33	156	32	124
Ghana	38	193	38	155
Kenya	61	342	62	280
Namibia	41	161	41	120
Nigeria	162	823	162	661
Tanzania	26	129	26	103
Uganda	16	93	16	77
Total	**377**	**1,897**	**377**	**1,520**

Source: PwC analysis

As with other sections of this report, we have presented the non-executive director trends for the seven sub-Saharan countries as described in the graphical representation below.

Figure 9.1 Guide to data presentation

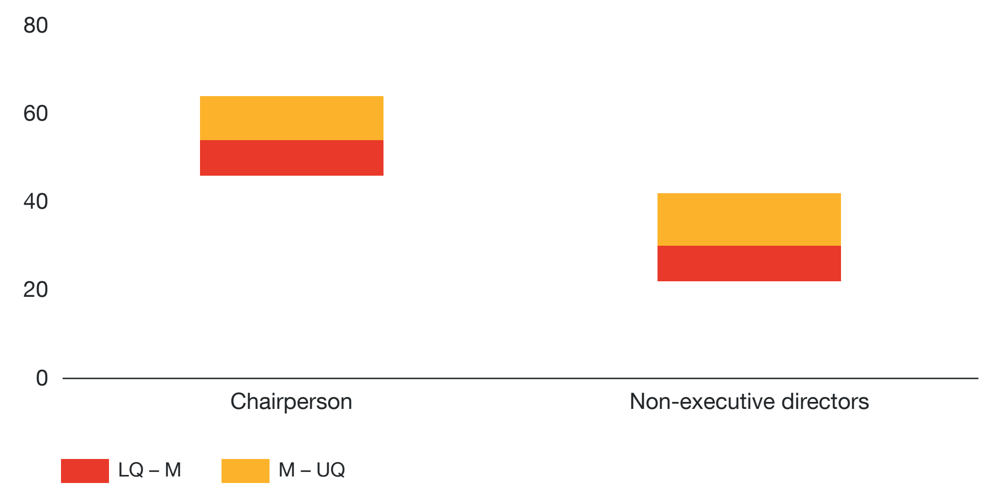


Source: PwC analysis

Chairperson and non-executive director fees

The graph below shows the total fee trends for chairpersons and non-executive directors of the seven stock exchanges analysed.

Figure 9.2: Total chairperson and non-executive director fees (USD'000)



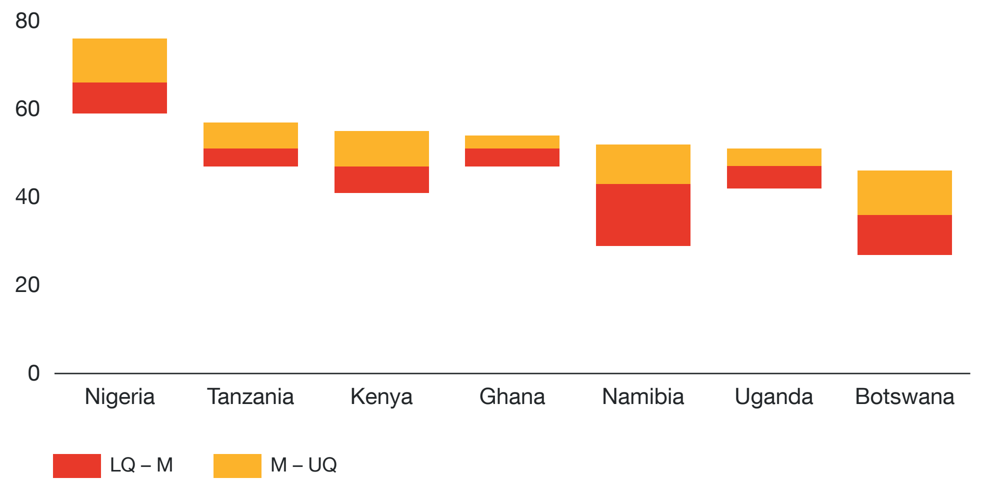
	Lower quartile	Median	Upper quartile
Chairperson	46	54	64
Non-executive directors	22	30	42

Source: PwC analysis

Non-executive director fees by country

Each stock exchange has been analysed separately. The trends for fees paid to chairpersons and non-executive directors of each country are shown in the graphs that follow.

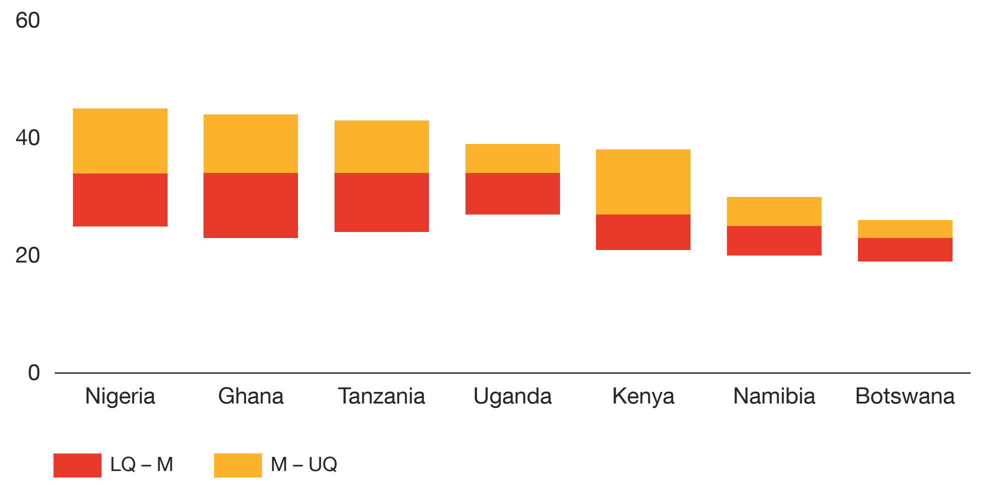
Figure 9.3 Chairperson fees (USD'000)



	Lower quartile	Median	Upper quartile
Nigeria	59	66	75
Tanzania	47	51	57
Kenya	41	46	54
Ghana	47	51	54
Namibia	29	43	52
Uganda	42	47	51
Botswana	27	36	46

Source: PwC analysis

Figure 9.4 Non-executive director fees (USD’000)



	Lower quartile	Median	Upper quartile
Nigeria	25	34	45
Ghana	23	34	44
Tanzania	24	34	43
Uganda	27	34	39
Kenya	21	27	38
Namibia	20	25	30
Botswana	19	23	26

Source: PwC analysis

Appendix

The South African marketplace (302)

AltX (24)

Basic Materials (46)
- Chemicals (5)
- Forestry and Paper (3)
- Industrial Metals and Mining (6)
- Mining (32)

Consumer Goods (18)
- Automobiles and Parts (1)
- Beverages (2)
- Food Producers (12)
- Leisure Goods (1)
- Personal Goods (1)
- Tobacco (1)

Consumer Services (41)
- Food and Drug Retailers (6)
- General Retailers (22)
- Media (4)
- Travel and Leisure (9)

Energy (3)
- Alternative Energy (1)
- Oil and Gas Producers (2)

Financials (48)
- Banks (8)
- Equity Investment Instruments (7)
- General Financial (22)
- Life Insurance (6)
- Non-equity Investment Instruments (2)
- Non-life Insurance (3)

Health Care (7)
- Health Care Equipment and Services (4)
- Pharmaceuticals and Biotechnology (3)

Industrials (50)
- Construction and Materials (12)
- General Industrials (9)
- Electronic and Electrical Equipment (5)
- Industrial Engineering (2)
- Industrial Transportation (10)
- Support Services (12)

Real Estate (46)
- Real Estate Investment and Services (11)
- Real Estate Investment Trusts (35)

Technology (14)
- Software and Computer Services (12)
- Technology Hardware and Equipment (2)

Telecommunications (5)
- Fixed Line Telecommunications (1)
- Mobile Telecommunications (4)

About PwC

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

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

Our core values are:

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

About People and Organisation: Reward

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

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

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

Acknowledgements

- Mariangela Venturi, Manager, PwC
- Makhosazana Mabaso, Senior Manager, PwC
- Marike Jacobs, Manager, PwC
- David Seale-Brews, Senior Associate, PwC
- Lizl Loubser, Senior Associate, PwC
- Christopher Sawyer, Senior Associate, PwC
- David Yzelle, independent project researcher

Contacts

Leila Ebrahimi
Editor, and Co-lead, People and Organisation (Reward)
+27 (0) 72 702 4232
+27 (0) 11 287 0887
leila.ebrahimi@pwc.com

Andreas Horak
Co-lead, People and Organisation (Reward)
+27 (0) 82 863 4724
+27 (0) 11 797 5683
horak.andreas@pwc.com

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 155 countries with over 284,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.co.za.