Executive summary

It gives us great pleasure to share our eighth edition of the *Non-executive directors: Practices and fees trends report* with all our clients, particularly the boardroom members. As in past editions, we continue our discussion of the issue regarding the necessity of aligning a company’s purpose and sustainable capital with its executive remuneration. In this edition, we consider why, globally, institutional investment policies have placed environmental, social and governance issues (ESG) firmly on their agendas.

Institutional investors call the tune on where they place their funds, but boardroom decisions and the executive directors are duty bound to ensure that when the shareholder invests their money in the company, they know that their investment is ESG friendly.

As boards face a number of new business challenges, together with increased shareholder expectations, they are under pressure to transform and ensure that they have the right expertise, experience and diversity on their boards. We share some of the key findings from PwC US’ 2014 *Annual Corporate Directors Survey* in this regard.

As the debate on the level of executive remuneration continues, it still remains at the top of the regulatory and legislative agenda. We look at the most recent global developments to establish some key trends for Africa.

For the first time in this edition, we examine listed companies in seven other African countries and look at the level of non-executive fees paid in these countries. In South Africa, we consider the expanding role of the company secretary and the greater responsibility being placed on this function.

The responsibility of directing good corporate citizens in today’s environment is a daunting task with ever-increasing risk and responsibility being placed on the shoulders of directors. We continue with our review of fees paid to non-executive directors and, although they are under severe scrutiny, we believe they should be measured against their will to make a better world from where they stand and to make brave decisions.

We trust that you will find this publication of interest and will gain a better understanding of the issues, challenges and trends discussed. We look to all directors to continue to play their role in ensuring South African corporates continue to take the initiative and move to becoming global purpose-driven corporate citizens.
Data set out in this publication is drawn from information publically available on 30 November 2014 – the ‘cut-off date’ – and represents data valid for the period from 1 December 2013 to 30 November 2014 (‘the 2014 reporting period’).
Information has been extracted from global resources, PwC’s internal resource base and the 350 active companies listed on the Main Board of the Johannesburg Securities Exchange (JSE). The total market capitalisation of these companies on the cut-off date was R10.97 trillion (2013: R9.68 trillion).

Fees rarely follow a normal distribution curve. For this reason, we have used a quartile/percentile range in preference to averages and standard deviations that assume normality.

These quartiles/percentiles are defined as:

• **Lower quartile (25th percentile)**
  75% of the sample earns more and 25% earn less than this fee level;

• **Median (50th percentile)**
  50% of the sample earns more and 50% of the sample earns less than this fee level; and

• **Upper quartile (75th percentile)**
  25% of the sample earns more and 75% earn less than this fee level.

Since the introduction of this annual publication in 2007, our belief remains that there is no definitive correlation between market capitalisation calculated by reference to the number of shares in issue and the prevailing share price, and the remuneration of directors.

However, we are of the view that market capitalisation is a good proxy for size and complexity, and is an appropriate metric by which to set peer groups and for benchmarking purposes. It is against this backdrop that data is analysed in terms of:

• **Large-cap**
  The top 40 JSE-listed companies, valued by market capitalisation;

• **Medium-cap**
  41 to 100 of the JSE-listed companies, valued by market capitalisation; and

• **Small-cap**
  101 to 350 of the JSE listed companies, valued by market capitalisation.

Those companies that are listed on the JSE AltX have been aggregated into the above valuations. Where the AltX is evaluated as a standalone group, it refers to 49 (2013: 59) companies with a market capital value of R14.483 billion (2013: R17.179 billion). The reduction in the number of companies is due to 14 suspended listings and four reinstated on the AltX board. Suspended companies are not included in our analysis. The total market capitalisation at suspension date for these companies amounts to R1.711 billion.

In addition to analysing the fees paid to chairpersons and non-executive directors across the JSE as a whole, we have also analysed fees paid by reference to the four main sectors (in addition to the AltX) namely, financial services, basic resources, services and industrial.
Companies have a major role to play in the preservation of our planet. By default, directors are inextricably responsible for their companies’ and the earth’s sustainability. Non-executive directors are tasked as gatekeepers to keep their companies on the right side of everything.
Governments, corporations and individuals face a future where stakeholders beyond the confines of the boardroom will measure every action, every decision and every ultimate outcome.

While it may seem that the emphasis in boardrooms is more about expanding economic opportunities than mitigating impending ecological disasters, progress is being made. Global expenditure confirms that in 2013 there was greater worldwide investment in renewable energy than in fossil fuels. The worldwide market in low-carbon goods and services exceeds £3.4 trillion a year and often outperforms the rest of the global economy by a wide margin. The question arises whether this is because of concern for natural capital sustainability or economic sustainability?

Globally, institutional investment policy has placed environmental, social and corporate governance (ESG) issues firmly on the investment agenda. Nearly every investment fund is seriously considering disinvestment in companies where ESG, or ‘impact investing’, is not clearly defined in their strategy. Impact investing is defined as the placement of capital (into social enterprises and other structures) with the intent to create benefits beyond financial return. There is a significant overlap between social enterprise and impact investing, although they are not synonymous.

Social enterprises, for example, need more than just investment capital to be successful, while impact investments can be made into non-enterprise structures like loan or equity funds or infrastructure projects.

As companies progress toward the third decade of the 21st century, investors are scrutinising boardroom decisions for any cracks in the way companies view the environment and society. They are measuring how business strategies mirror the framework of acceptable ESG practice.

Stanford University’s endowment, worth US$21.9 billion in June 2013, is a good example. Embodied in the trustees’ Statement of Investment is the right to disinvest in companies displaying hostile acts toward the interests of stakeholders. The primary fiduciary responsibility of trustees in investing and managing the university’s endowment assets is to maximise the financial return on those assets.

When the trustees adjudge that company policies or practices cause substantial social injury, they, as responsible and ethical investors, give independent weight to this factor. This decision was made in 1971. The trustees have now raised the bar by disinvesting in coal mining under the auspices of a new student initiative, the Fossil Free Stanford campaign. These Generation Y students are millennium stakeholders and want their opinions to be taken into account.

Some companies like coal mining have no choice. They are, by default, in a particular business sector, which is by its very nature ESG unfriendly. But the barrier stretches way beyond the coal mine and would include coal-fired electricity generating utilities. There are more than 2 300 coal-fired power stations worldwide. Coal-to-gas and gas-to-liquid fuel is another industry directly connected to coal mining. This sector touches every inhabitant on earth by creating energy for the common good.

Stanford and coal are one example. Across the world, institutional investors are evolving into an anonymous oversight force on the ESG practices of companies in whose shares they invest.

Adding to the growing momentum of greater consideration of ESG issues, the United Nations-supported Principles for Responsible Investment (PRI) initiative has established an international network of investors working together to put the six PRI principles into practice.

Institutional investors have a duty to act in the best long-term interests of their beneficiaries. In this fiduciary role, PRI signatories believe that ESG issues can affect the performance of investment portfolios and recognise that applying the Principles may better align investors with the broader objectives of society.

The PRI initiative’s goal is to understand the implications of sustainability for investors and support signatories in incorporating these considerations into their investment decision-making and ownership practices. Signatories are committed to:

- **Principle 1**: We will incorporate ESG issues into investment analysis and decision-making processes;
- **Principle 2**: We will be active owners and incorporate ESG issues into our ownership policies and practices;
- **Principle 3**: We will seek appropriate disclosure on ESG issues by the entities in which we invest;
- **Principle 4**: We will promote acceptance and implementation of the Principles within the investment industry;
- **Principle 5**: We will work together to enhance our effectiveness in implementing the Principles; and
- **Principle 6**: We will report on our activities and progress towards implementing the Principles.
The environmental criteria look at a company’s energy use, pollution, waste, natural resource conservation and treatment of animals. Environmental risks that might affect a company’s sustainability and income stream and how related risk will be managed are also considered. This covers a very broad field of activity such as:

- Ownership of contaminated land;
- Rehabilitation of damage to the environment – especially in the basic resources sector;
- Environmental contamination in the oil sector;
- Disposal of hazardous waste in various industries, including the medical sector;
- Toxic emissions from manufacturing and compliance with a government’s environmental regulations.

The social criteria look at the company’s business relationships:

- Do the upstream suppliers hold the same values that the company itself subscribes to?
- What is the quality of the company’s ethical standards?
- Is the company involved in donating profits to the community for volunteer work?
- What standards are applied to the health and safety of employees?
- Does the company add value to stakeholder interests?

With regard to governance, investors want to know that:

- A company uses an accurate and transparent accounting methodology;
- Shareholders are able to vote on important issues;
- Emphasis is placed on conflict of interest in selecting board members – including non-executive directors;
- Subjective issues such as seeking favouritism by supporting illicit political contributions or any other illegal actions by the company or its board are tantamount to disqualification from investment in the company.

Looking at compensation plans overall, the PRI Initiative researched 84 companies and found that approximately 25% allow for board discretion in the determination of remuneration awards.

There remains work to be done to develop and maintain long-term environmental key performance indicators (eKPIs) as well as well-tailored financial key performance indicators (KPIs) that will ensure that a rigorous regime is developed to provide incentives to directors for ESG performance – and that these are in line with the Principles for Responsible Investment.

The board, and especially the majority of the non-executive directors and the committees they serve, are duty bound to broaden their perspective to include natural capital. They need to demonstrate their moral and legal responsibility to discharge their fiduciary responsibility to the shareholders. They have equal responsibility in the eyes of the law to discharge their responsibility to the company. They do not, however, share equally in the rewards meted out in their remuneration. In South Africa, the UK and many other jurisdictions, equity rewards are not available to them.

The building of a sustainable future requires accountability from both executive and non-executive directors. Company directors should thus not only be measured against historic financial metrics but also by the employment of future natural capital.

Remuneration committees will be tasked with the responsibility to consider the most appropriate measures to apply when contextualising an appropriate mixture of KPIs and eKPIs that will satisfy both shareholders as well as all the other stakeholders.
Boards of companies around the world are facing a number of new business challenges and with increased stakeholder expectations, they are under greater pressure to ensure that they have the right expertise and experience on the board to be effective. In this chapter, we share some of the key findings of PwC in the US’ 2014 Annual Corporate Directors Survey. Findings on board tenure and diversity are covered under separate chapters in this publication.

1 PwC USA, 2014 Annual Corporate Directors Survey: Trends shaping governance and the board of the future.
At the heart of any discussion is the need to agree fundamentally on the role of shareholders in governance. Institutional investors have become more prominent than individuals as shareholders. Ideas about shareholders’ rights have also evolved. While many shareholders, directors and executives hold the view that a corporation’s responsibility is to its shareholders, new voices challenge this perspective and argue that the purpose of the company must be broader in scope. They believe juristic persons (companies) must develop their own long-term viability and add value to the broader society.

Many, if not all, boards of listed companies have adopted the ‘best-practices’ approach and are trying to live up to their legal obligation to be potentates of regulation. Will corporate boards act as the powerful rulers that shareholders and regulators require them to be, or will they remain the pawns of CEOs, as is often the case? Many boards still struggle to meet legal expectations.

Listed companies in particular are under scrutiny: from how they structure their boards and how the board is diversified to what level of reporting is mandatory.

### The US perspective

#### Board composition and performance

**Figure 1: Most important attributes of a director**

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Not very important</th>
<th>Somewhat important</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial expertise</td>
<td>93%</td>
<td>6%</td>
<td>1%</td>
</tr>
<tr>
<td>Industry expertise</td>
<td>72%</td>
<td>20%</td>
<td>8%</td>
</tr>
<tr>
<td>Operational expertise</td>
<td>68%</td>
<td>23%</td>
<td>9%</td>
</tr>
<tr>
<td>Risk management expertise</td>
<td>65%</td>
<td>30%</td>
<td>5%</td>
</tr>
<tr>
<td>Technology/digital media expertise</td>
<td>41%</td>
<td>49%</td>
<td>10%</td>
</tr>
<tr>
<td>Marketing expertise</td>
<td>26%</td>
<td>28%</td>
<td>46%</td>
</tr>
<tr>
<td>Gender diversity</td>
<td>37%</td>
<td>31%</td>
<td>32%</td>
</tr>
<tr>
<td>Racial diversity</td>
<td>21%</td>
<td>23%</td>
<td>56%</td>
</tr>
<tr>
<td>Gender diversity</td>
<td>35%</td>
<td>35%</td>
<td>30%</td>
</tr>
<tr>
<td>Marketing expertise</td>
<td>26%</td>
<td>28%</td>
<td>46%</td>
</tr>
<tr>
<td>Legal expertise</td>
<td>21%</td>
<td>23%</td>
<td>56%</td>
</tr>
<tr>
<td>International expertise</td>
<td>49%</td>
<td>27%</td>
<td>24%</td>
</tr>
<tr>
<td>Human resources expertise</td>
<td>22%</td>
<td>29%</td>
<td>49%</td>
</tr>
</tbody>
</table>

*Source: PwC USA, 2014 Annual Corporate Directors Survey: Trends shaping governance and the board of the future*

#### Board priorities and practices

The average time commitment of public company directors continues to increase. It was 219 hours in 2013, compared to 205 hours in 2010. Strategic planning and IT risks (including cybersecurity) that are closely linked to strategy are the top areas in which directors want to spend more time.

### Strategy

As a whole, directors are pleased with the strategic information they receive from management. More than 90% of directors are at least somewhat satisfied with the information they are provided on the underlying assumptions supporting company strategy and details of proposed investment strategies.

However, in other areas, there is room for improvement. For example, more than 25% of directors are either dissatisfied with or do not receive information on competitor strategy and customer satisfaction research.

As the risk oversight landscape becomes increasingly more complex, directors are less comfortable with their understanding of their company’s risk appetite. Only 51% say their board understands the company’s risk appetite ‘very well’. This may be due to any number of factors, including...
uncertainty about the impact of new technologies and risks on the business, an increasingly dynamic global economy, political uncertainty and an active mergers & acquisitions environment.

Directors continue to take action to reduce fraud risk. More than 70% say they made changes to their approach to fraud risk over the last 12 months. The most common actions taken were holding board discussions about the ‘tone at the top’, having board members interact with members of management below the executive level and increasing the amount of time spent on board discussions of risks embedded in compensation plans. Particularly noteworthy is that over the last three years, there has been a significant increase in the percentage of directors who say they have had interactions with members of management below the executive level.

**IT risks**

The influence of emerging technologies and increasing cybersecurity concerns are two major IT trends impacting boards. It’s clear that employees’ use of their personal mobile devices, computers and social media at work, together with the increased use of cloud computing services, are changing the relationship between ‘old-line’ IT organisations and the business as a whole.

A lot of back office IT infrastructure has been displaced. More and more companies and directors see IT as inextricably wedded to corporate strategy and the company’s business. IT is now a business issue, not just a technology issue.

Cybersecurity breaches are at an all-time high.

However, nearly 50% of directors have not discussed the company’s crisis response plan in the event of a breach and 67% have not discussed the company’s cybersecurity insurance coverage. Directors may want to consider adding these topics to their board agendas.

**Executive compensation**

Boards are devoting more time and attention to the critical issue of appropriate compensation of executives. Topping the list are new disclosures on the CEO/median employee pay ratio and shareholder proposals for proxy access.

Compensation consultants continue to have the strongest influence on directors’ decisions about executive compensation, with only 17% of directors saying that institutional investors are very influential. Shareholders continued to support compensation plans at high levels, while the ‘say-on-pay’ voting has caused boards to look at compensation disclosure in a different way.

**Director communication**

Directors’ communications with stakeholders increased across all the constituencies. Particularly noteworthy, was the enhanced communications with company employees, followed by institutional shareholders, external auditors, analysts and regulators.

Many directors have been reluctant to participate in direct communication with shareholders for a variety of reasons, including concerns about having too many voices speaking on behalf of the company. In fact, 94% of directors are at least ‘somewhat’ concerned about the potential for mixed messages and nearly 90% are concerned about investors having special agendas.

**CEO succession plan**

Sixty-two percent of directors strongly believe that their board is spending sufficient time on their CEO succession plan and 92% say their company would be at least somewhat prepared in the case of an unplanned CEO succession emergency. While there was a strong preference for internal CEO candidates, only 27% were very confident that their company’s CEO talent pipeline had adequate ‘bench strength’.

**Company tax matters**

When directors were questioned about their boardroom discussions of public perceptions regarding their company’s income tax rate and related tax issues, 60% said their board had not discussed public perception of their company’s effective tax rate or its use of low tax rate jurisdictions. About two-thirds have not discussed public perception of their company’s repatriation of offshore profits or the taxation of permanently reinvested foreign earnings.

**Corporate social responsibility**

While a number of organisations have identified issues like sustainability and climate change as societal imperatives, the majority of directors say they are not having substantial discussions about corporate social responsibility issues in their boardrooms. During the last 12 months, about 75% say they have discussed issues like human rights, climate change, carbon emissions, or resource scarcity ‘not very much’ or ‘not at all’. These topics may not be as high on the list of board priorities as other items.
Many of these corporate social responsibility issues could present risks to companies. For example, potential new regulations around carbon emissions could significantly affect plant operations. Resource scarcity could make it expensive, difficult, or even impossible to produce certain products. In addition, a growing number of stakeholders particularly investors and customers are demanding companies operate in more socially responsible ways.

**Board leadership**

The chair or lead director’s responsibilities include setting the agenda, presiding over meetings and serving as a sounding board for the CEO. The majority of directors are pleased with the quality of their board’s leadership. More than 75% describe their board leadership as very effective in gaining and maintaining the respect of other directors. At least two-thirds say the same about their board leadership's effectiveness in conducting meetings, considering individual director views and providing counsel to the CEO. But when it comes to anticipating emerging trends, less than one-third indicate their board leadership is very effective.

**The Swiss perspective**

**Challenges for the board and its remuneration committee**

The design and governance of executive remuneration are inherently linked. The board of directors still has a significant responsibility in setting and governing an appropriate pay-setting process within the limits of good corporate governance and by shareholders in their annual non-binding votes on the remuneration policy.

**Who should serve on the remuneration committee?**

In Switzerland, the adoption of the Abzocker-Initiative has created a practical challenge for companies in that it requires the individual, separate election of remuneration committee members. While the original motivation for this new rule is understandable, there are problematic side effects. In particular, as shareholders elect remuneration committee members, they may begin thinking in terms of committee assignments of individual board members. In other words, a compartmentalisation tendency can arise, with specialists being favoured by shareholders. We believe that this is ultimately not in the best interest of companies (and not in the interests of shareholders themselves). To counter this tendency, companies should think about their remuneration committee as a portfolio of individuals and explain to shareholders (in the invitation to the annual general meeting) why the proposed group of individuals is best suited for this task.

With the rising power of proxy advisors and ever-increasing demands for disclosure of quantitative information, there is a push towards formulaic compensation systems where discretion of the board is minimised.

We believe that boards of directors would do well to resist this. A certain, well-governed degree of discretion, which is used to adjust compensation (upwards and downwards) in the light of extraordinary circumstances is an essential element of an effective compensation system. What this requires, however, is a credible board and a clear process for how discretion is used. Shareholders rightly worry about situations where executive management is too deeply involved in the setting of compensation.

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3 PwC Switzerland, Executive Compensation & Corporate Governance: Insights 2014.
Diversity in the boardroom

Stakeholders are more interested in board diversity than ever before with a number of organisations making concerted efforts to increase diverse representation on public company boards. Over the last several years we have seen gender diversity quotas being instituted in many European Union countries such as Belgium, Italy, The Netherlands, Norway and France.
Gender

Male and female directors have differing views about the importance of having gender and racial diversity on their boards. PwC US’ 2014 Annual Corporate Directors Survey found that female directors are far more likely to consider board diversity important. For example, 61% of female directors describe gender diversity as very important, compared to only 32% of male directors. Similarly, 42% of female directors describe racial diversity as very important compared to only 24% of their male counterparts.

In November 2013, the European Parliament voted to back the European Commission’s proposed law to improve the gender balance in Europe’s company boardrooms. EU Member States now need to reach agreement on the draft law, among them and with the European Parliament, in order for it to become law.

The following provisions are among the main elements of the draft proposed law:

• If a publicly-listed company in Europe does not have 40% of women among its non-executive board members, the new law will require it to introduce a new selection procedure for board members, which gives priority to qualified female candidates.

• The proposed law places the emphasis firmly on qualification. Nobody will get a job on the board just because she is a woman. But no woman will be denied a job because of her gender either.

• The legislation will apply only to non-executive directors of publicly-listed companies due to their economic importance and high visibility. Small and medium enterprises are excluded.

• As a complementary measure, a ‘flexi quota’ will be included, where companies listed on a stock exchange may set individual, self-regulatory targets regarding the representation of both sexes among executive directors, to be met by 2020 (or 2018 in case of public undertakings). Companies will have to report annually on the progress made.

Despite the growing focus on the importance of board diversity, the number of women serving on public company boards has remained relatively unchanged over the past five years in the US.

In Europe, 80% of directors are male down from 83% last year. Italy has the highest proportion of female directors with 88%. This is still a significant improvement on the 95% seen before 2012.

In the top non-executive positions (either chairperson or lead independent director), some improvement has been made with 4% across Europe being held by women, up from 2% in 2013.

This year at a country level, reasons behind this regional trend differ. Scandinavia leads the way in gender diversity with the highest proportion of female directors on boards. Legislation was introduced in Norway in 2003 that requires listed companies to meet a 40% quota for female directors within five years. Today, 36% of Norwegian directors are women. In Finland and Sweden the proportion of female directors is 27% and 26% respectively. This has come about as a result of public pressure and companies recognising the advantages of diversity.

The proportion of positions held by female non-executive directors on boards of JSE-listed companies is shown in the accompanying table.

Percentage of non-executive females on JSE board, by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Increase since 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>AltX</td>
<td>7.0%</td>
<td>6.0%</td>
<td>11.0%</td>
<td>15.0%</td>
<td>15.0%</td>
<td>17.2%</td>
<td>145.7%</td>
</tr>
<tr>
<td>Basic resources</td>
<td>8.0%</td>
<td>9.0%</td>
<td>11.0%</td>
<td>14.0%</td>
<td>16.0%</td>
<td>20.0%</td>
<td>150.0%</td>
</tr>
<tr>
<td>Financial services</td>
<td>13.0%</td>
<td>14.0%</td>
<td>17.0%</td>
<td>18.0%</td>
<td>20.0%</td>
<td>22.0%</td>
<td>69.2%</td>
</tr>
<tr>
<td>Industrial</td>
<td>12.0%</td>
<td>12.0%</td>
<td>13.0%</td>
<td>15.0%</td>
<td>20.0%</td>
<td>23.0%</td>
<td>91.7%</td>
</tr>
<tr>
<td>Services</td>
<td>8.0%</td>
<td>10.0%</td>
<td>11.0%</td>
<td>17.0%</td>
<td>19.0%</td>
<td>22.0%</td>
<td>175.0%</td>
</tr>
<tr>
<td>Delisted companies</td>
<td>3.0%</td>
<td>7.0%</td>
<td>5.0%</td>
<td>6.0%</td>
<td>8.0%</td>
<td>4.0%</td>
<td>33.3</td>
</tr>
</tbody>
</table>

Source: PwC analysis

All sectors have taken note of the need to reflect gender diversity in the boardroom. These changes, it should be noted, were initiated in the challenging aftermath of the global economic crisis.
On average women are better educated than their male counterparts and the population balance is equal. Our US firm’s 2014 Annual Corporate Directors Survey found that the majority of directors believe there are no impediments to increasing gender diversity on their boards. Of those directors who do believe there are impediments, a lack of awareness of qualified suitable candidates and little appetite for changing current board composition were the top two factors cited.

**Figure 2: Racial diversity**

**Q: How would you describe the importance of having the following attributes on your board? (Racial diversity)**

<table>
<thead>
<tr>
<th>Source: PwC USA, 2014 Annual Corporate Directors Survey: Trends shaping governance and the board of the future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per female directors</td>
</tr>
<tr>
<td>Per male directors</td>
</tr>
<tr>
<td>Somewhat important</td>
</tr>
</tbody>
</table>

It is noteworthy that almost 33% of male participants in this PwC survey have been on their board for more than 10 years, compared to only 10% of female participants.

**Gender pay gap**

Many European companies are harbouring a distinct gender pay gap at board level resulting mainly from an underrepresentation of women on strategically important board committees, translating into women board members being paid significantly less than men. In addition, low representation in the nominations and remuneration committees can easily swing decisions on pay in favour of the men.

**Figure 3: Gender diversity**

**Q: How would you describe the importance of having the following attributes on your board? (Gender diversity)**

<table>
<thead>
<tr>
<th>Source: PwC USA, 2014 Annual Corporate Directors Survey: Trends shaping governance and the board of the future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per female directors</td>
</tr>
<tr>
<td>Per male directors</td>
</tr>
<tr>
<td>Somewhat important</td>
</tr>
</tbody>
</table>

The pay gap varies from country to country, but we have found that male non-executive directors in certain European countries, on average, receive 14% more in total fees than their female counterparts.

Spain and Norway have a 0% gender pay gap in the boardrooms of listed companies. This is not the case in unlisted entities, where the gender pay gap continues to prevail.

In German and Italian listed companies, the wage gap broadens to as much as 25% and 22% respectively.

Notwithstanding governance rules, the number of companies that do not have any female representation at all on their board committees is significant. It is disturbing that 50% of remuneration committees have no female representation, but this in an improvement on the previous year when the figure was 58%.

Similarly, the proportion of audit committees in Europe with no female presence remains high, although it has improved to 44%, down from 48% in the previous year.

In South Africa, since 2009, the gender pay gap at median level has shrunk for non-executive directors.

### Gender pay gap on boards of South African companies

<table>
<thead>
<tr>
<th>Gender pay gap</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>AltX</td>
<td>19%</td>
<td>32%</td>
<td>25%</td>
<td>39%</td>
<td>11%</td>
<td>7%</td>
</tr>
<tr>
<td>Basic resources</td>
<td>37%</td>
<td>36%</td>
<td>37%</td>
<td>33%</td>
<td>33%</td>
<td>20%</td>
</tr>
<tr>
<td>Financial services</td>
<td>15%</td>
<td>14%</td>
<td>17%</td>
<td>16%</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Industrial</td>
<td>14%</td>
<td>14%</td>
<td>11%</td>
<td>12%</td>
<td>13%</td>
<td>17%</td>
</tr>
<tr>
<td>Services</td>
<td>14%</td>
<td>15%</td>
<td>13%</td>
<td>12%</td>
<td>13%</td>
<td>17%</td>
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<tr>
<td>All sectors</td>
<td>17%</td>
<td>14%</td>
<td>14%</td>
<td>22%</td>
<td>13%</td>
<td>17%</td>
</tr>
</tbody>
</table>
The debate on the level of executive pay continues as it is still at the top of the regulatory, legislative and shareholder agenda and frequently at the top of the news headlines. Listed companies must still be able to clearly demonstrate how their remuneration policy supports the company’s strategic plan and justify the link between pay and company performance. Given this continued focus on executive pay, we look at some of the recent global developments to establish some key trends for Africa. Like South Africa, most countries in Africa have adopted a best-practice approach rather than a regulatory approach.
European Union

The European Union (EU) ushered in the Capital Requirements Directive IV (CRD IV), which has caused quite a stir among financial services companies. The directive came into effect on 1 January 2014. All banks with operations in EU Member States’ territories (whether established within the EU or elsewhere) must adhere to the sections relating to remuneration – it even covers branches and subsidiaries established in offshore financial centres. The term ‘offshore financial centres’ is undefined in CRD IV, but we take it to refer to institutions incorporated in third-party countries. Member States themselves are obliged to enforce the regulations (introducing a more interventionist stance from the EU) and may not allow deviation therefrom.

CRD IV

The most radical features of CRD IV as it relates to remuneration are laid out below. Perhaps the most striking measure introduced is that it has imposed a limit on the ratio of variable to guaranteed remuneration of 1:1 without shareholder approval and 2:1 with shareholder approval. This would mean that the sum total of variable pay, 50% of which must be in the form of a long-term incentive, must not exceed the sum total of the guaranteed component. This measure has been highly controversial, with some reports claiming that the ratio was introduced without any investigation into its potential impact on the banking sector. Some banks are reportedly using the higher fixed remuneration (flowing from the ratio) as a drawcard to attract executives from other sectors. Reports suggest that some banks have already attempted to circumvent this requirement by including large bonuses under guaranteed remuneration as cash allowances. It is increasingly clear that the European Union will look at the substance, not the form, of the particular emolument when assessing compliance with the ratio. The graphic below provides a summary of the challenges that have arisen in light of CRD IV.

Summary of challenges arising from CRD IV

Banks dodge CRD IV
- Fixed remuneration increased, perhaps recklessly so
- Bonuses are being awarded as ‘allowances’
- Financial institutions may take greater risks to circumvent CRD IV

Potential impact of CRD IV
- Impact of ratio of fixed to variable pay was not investigated
- May hurt banking sector still recovering from 2008 economic crisis
- Unknown if South Africa will follow suit in light of collapse of African Bank

United Kingdom takes on CRD IV in European Court of Justice
- UK already taken significant steps to control UK financial institutions
- Not all other Member States have done so to the extent that the UK has
- May impact stability in financial services sector

Member States and CRD IV
- All Member States must enforce it
- Remuneration component must be observed by institutions operating in but based outside of EU
- Member States have limited control over implementation of CRD IV regulations

8 Note 1 Article 94(1)(g).
9 Ibid.
Variable elements of remuneration (Article 94)

Ratio of fixed to variable pay (Article 94(1)(g))

This subarticle is the most controversial of the provisions relating to remuneration in CRD IV. The variable component of remuneration shall not exceed 100% of the fixed component of the total remuneration for each individual. The subarticle goes on to say that individual Member States may set a lower maximum percentage, giving Member States leeway to legislate an even lower ratio. Shareholders may approve a higher ratio of up to 200% of variable to fixed pay, but this is subject to the following caveats:

- Member States may allow shareholders to approve a higher ratio of up to 200% of variable pay compared to fixed pay – thus, if a particular Member State decides that it would be prudent to allow the approval of a higher ratio, the Member State may have to specifically allow it.
- In the event that Member States allowed shareholders to approve a higher ratio, a specific procedure that the banks need to follow when seeking shareholder approval is set. This procedure is illustrated in the accompanying diagram.

Summary of steps to be taken by companies that seek a higher ratio of fixed to variable pay

Payments for early termination of contract (Article 94(1)(h))

Payments for early termination of a contract reflect performance achieved over time and do not reward failure or misconduct. This would preclude ‘golden handshakes’ or balloon payments made to underperformers to facilitate an amicable termination, disguised as ‘other payments’. A mirror principle is contained in South Africa’s 2009 King III Report on Corporate Governance.\(^\text{14}\) It is to be borne in mind that the EU will look at substance, not form and therefore golden handshakes disguised as restraints of trade will not past the “substance over form” test.\(^\text{15}\)

It is a reality that some executives or key employees may not want to terminate services amicably, and no institution wants to have to face litigation resulting from the early termination of an underperforming executive’s contract of employment. Therefore, it would be better for financial services institutions to negotiate real restraint of trade provisions with their executives and key employees whose professional activities have an impact on their business, and subject any restraint of trade payments to clawbacks in the event of a breach of contract.

Remuneration payable under deferral arrangements shall vest no earlier than on a pro-rata basis. In the case of a variable remuneration component of a particularly high amount (and this particularly high amount is not defined in the subarticle), so we would venture that Member States would be bound to determine what exactly ‘particularly high’ is), at least 60% of the amount shall be deferred.

The variable remuneration, including the deferred portion, is paid or vests only if it is sustainable according to the financial situation of the institution as a whole, and justified on the basis of the performance of the institution, the business unit and the individual concerned. The variable component of remuneration must be curtailed when the institution experiences subdued or negative financial performance, which must be assisted through malus or clawback arrangements.

These new conditions mean that vesting or payment of the variable element of remuneration might not even happen if the institution’s overall financial...
performance was tepid or negative (one assumes in comparison to a peer group’s performance or in comparison to absolute performance targets set and communicated to shareholders).

Institutions shall set specific criteria for the application of malus or clawback, which will specifically cover situations where the staff member participated in or was responsible for conduct that resulted in significant losses to the institution, or failed to meet appropriate standards of fitness and propriety. King III includes under the conditions of clawback a financial misstatement of reported results and subsequent under-performance. This subarticle does not preclude the possibility of including more conditions that would trigger clawback, but the emphasis on causing significant losses to the company or failing to meet the appropriate standards of fitness and propriety is telling.

**United Kingdom**

**The UK Corporate Governance Code**

The United Kingdom’s Financial Reporting Council (FRC) released the UK Corporate Governance Code in September 2014, which contains best practice governance recommendations for companies. The FRC has introduced a number of new rules dealing with risk management, remuneration policy and shareholder engagement. The FRC’s chief executive has said that the changes to the Code are designed to strengthen the focus of companies and investors on the longer term and the sustainability of value creation. In relation to remuneration, companies should implement clawback schemes for variable pay, and place greater emphasis on designing pay plans that place the long-term sustainability of the company at the forefront; and firms should also indicate how they intend on engaging with shareholders when a significant number disapprove of remuneration-based resolutions.

**Governance and the Code**

Overall, the UK Corporate Governance Code is based on the underlying principles of good governance: accountability, transparency, probity and focus on the sustainable success of an entity over the longer term. It applies to accounting periods beginning on or after 1 October 2014 and applies to all companies with a premium listing of equity shares regardless of whether they are incorporated in the UK or elsewhere.

**Section D of the UK Code: Remuneration**

**The Level and Components of Remuneration**

The main principle in relation to remuneration is that executive directors’ remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied. There are a number of supporting principles that buttress this principle.

The notable provisions under the first principle are:

- When designing performance-related schemes, the remuneration committee should include clawback and malus schemes for all elements of variable remuneration. A similar provision is contained in CRD IV, except the remuneration committee is given leeway to decide under what circumstances clawback would be appropriate.
- The pay package of non-executive directors should not include share options or other performance-related elements, as they may compromise the independence of the non-executive director. This is mirrored in South Africa’s King III Code.

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16 Note 20: principle 151 practice note 151.4.
19 Ibid.
20 Ibid.
Clawback

Clawback arrangements give the company concerned a chance to correct unjustified payouts to executives. Circumstances under which payouts may be deemed unjustified are outlined in an accompanying illustration.

Circumstances under which claw back could be effected

- **Profit**
  - Significant downturn in profits in the company (i.e. unintended outcomes of the incentive plan)

- **Performance**
  - Subsequent under-performance by the executive concerned

- **Misstatement**
  - Misstatement (deliberate or not) of financial results

- **Harm to company**
  - Significant adverse legal and/or findings by a court or regulator against the company in which the executive is found to have culpability

A PwC UK paper on the Code\(^{22}\) as well as similar provisions in King III, was used to give content to the possible circumstances. This is not a closed list and is ultimately subject to the requirements of the company, although for financial services companies affected by CRD IV, the specific circumstances outlined for clawback must be taken into account.

Companies seeking to enforce clawback could include a specific clause in the rules of the scheme that embeds the requirement for clawback in short- or long-term incentive schemes and obtain contractual consent to clawback as a condition for participation in the incentive scheme. The time period for enforcing clawback could be two or three years.

To ensure that clawback remains practically enforceable, companies could introduce deferred bonuses as well as making sure that vested long-term incentives are held in escrow for the duration of the clawback period. For South African companies seeking to observe the Code, the clawback, if triggered, would be on a pre-tax basis and the responsibility for claiming a deduction on assessment would lie with the executive concerned.

**South Africa**

**Minimum shareholding guidelines**

With increasing pressure from investors to encourage executives to take a longer-term view, most FTSE 350 companies now have shareholding requirements for executive directors and many companies have introduced a post-vesting holding period on equity incentive awards.

Minimum shareholding guidelines are also on the rise among South African companies and many of the Top 40 JSE-listed companies increased their minimum shareholding guidelines for executives between 2012 and 2014, and so minimum shareholdings (expressed as a percentage of total guaranteed pay or annual base salary) now range from 50% to 500% for CEOs, and 50% to 300% for other executives.

Many of the companies with minimum shareholding guidelines indicated that the requirement was waived for those executives who already had a sufficient shareholding in the company.

King III is silent on executive shareholding guidelines, although it does encourage the alignment of executive and shareholder interests\(^{23}\), which is the stated purpose of the shareholding guidelines. The value of the shares held for the purposes of the minimum shareholding can be

\(^{22}\) PwC UK, 2014 Corporate Governance Code: what does it mean in practice?

\(^{23}\) Note 20: principle 168.
determined as the higher value between the closing price of the shares at the end of the financial year, or the original cost, whichever is higher.

Some companies have even introduced minimum shareholding guidelines for their non-executive directors for further alignment of interests with shareholders. King III does not specifically disapprove of non-executive directors holding shares, as long as they are not performance-based.24

In our observations, the shareholdings for non-executive directors required by the companies that do impose them are not performance-based, and are paid for by the non-executive directors by using their annual fees or given to them in lieu of directors' fees. This is different to the minimum shareholding guidelines for executive directors, who are often expected to meet their minimum shareholdings through the retention (post vesting) of vested performance share awards or an outright acquisition of shares.

We have also observed that non-executive director shareholding requirements are predominantly present in the mining sector, which may be a means of retention and shareholder alignment in a sector with recent labour unrest, where recruitment and retention of directors may be challenging.

Draft Code of Good Practice on Equal Pay for Work of Equal Value

The South African Department of Labour published the Employment Equity Act (Act 55 of 1998 as amended, the Act) draft Code of Good Practice on Equal Pay for Work of Equal Value for comment in the Government Gazette on 29 September 2014.25 In the first footnote in the draft Code, work of equal value is defined as follows:

In this Code, “work of equal value” is used to include work that is the same or substantially the same or work of equal value as referred to in section 6(4) of the Act.

Scope

The Code must be read in conjunction with the Act, its regulations and other codes issued in terms of the Act. It seeks to erase unfair discrimination in relation to remuneration by making employers pay the same remuneration for the same work, irrespective of race. The term remuneration includes:

...any payment in money or in kind, or both, made or owing to any person in return for working for another person, including the State.

This includes deferred remuneration, commission and other forms of variable compensation.

It adds that the Code itself does not impose additional legal obligations on an employer, but provides guidance when interpreting the Act and the regulations. We believe that compliance with the Code will go a long way towards satisfying the duties of employers in terms of the Employment Equity Act as amended.

Financial Services Board proposed governance and risk management framework for insurers

The Financial Services Board published a proposed governance and risk management framework for long-term and short-term insurers in the Government Gazette in September 2014.26 Should it be approved, it will come into effect on 1 April 2015. The framework applies to all insurers, not just listed companies.

In terms of the draft framework, it is compulsory for an insurer to establish a remuneration committee, which must consist of at least three members of the board of directors, of which the majority must be non-executive. The chairperson of the remuneration committee must be an independent director of the board of directors.

Non-compliance must be reported and motivated to the Registrar of long-term and short-term insurers, and the functions of a remuneration committee would then have to be performed by the audit committee. On receiving this notification, the Registrar has the discretion to order the establishment of a remuneration committee anyway, or order that its composition be changed. This gives wide powers to the Registrar to order compliance with the framework, and goes beyond the ‘apply or explain’ model typical of corporate governance codes, as compliance with a directive from the Registrar would be compulsory.

A remuneration committee must develop an appropriate remuneration policy and implement, monitor and review it regularly.

A remuneration policy must form one of the risk management policy components of the insurer, and the risk management function of the organisation must...
consider risks arising from remuneration arrangements and incentive structures. The internal audit function of the organisation must ensure that all material areas of risk and obligation of the insurer are reviewed regularly, including adherence by the insurer to the insurer’s remuneration policy.

Significant additions to best practice include guidelines on fixed and variable remuneration (where present). The fixed portion must be a sufficiently high proportion of the total remuneration to avoid over reliance on the variable components, and the variable component is based on a combination of an assessment of individual and collective performance, i.e. the performance of the business area and the overall results of the insurer. Payment of a major part of the bonus must be flexible and deferred and consider the nature and time horizon of the insurer’s business.

In defining an individual’s performance, financial and non-financial performance must be considered. This is not as specific as CRD IV, but the inclusion of non-financial performance criteria introduces the possibility of strategic and/or natural capital key performance indicators being introduced by insurers. Natural capital key performance indicators are non-financial performance measures based on progress and innovation by the executive in decreasing the carbon footprint of their company. Natural capital KPIs are expanded on in the PwC South Africa’s Executive Directors’ Remuneration: Practices and Trends Report, released in July 2014.

The proposed framework shows that the Financial Services Board is sensitive to the fact that remuneration and risk are intertwined, and risk management in an organisation must permeate though a remuneration policy and the implementation thereof.

**Internal equity**

The CEO-to-median-worker pay ratio proposed by the US SEC has been heavily criticised in the US and still the EU proposal includes a slightly different, but essentially similar pay ratio.

**EU say-on-pay**

In its aim to encourage long-term engagement of shareholders and enhance transparency, the EU seeks to publish a Directive on the ’say-on-pay’ principle. In terms of this principle, it seeks the introduction of:

- A binding vote on remuneration policy proposals, i.e. remuneration policy proposals will have to be submitted to the general meeting of shareholders for their approval (binding vote);
- An advisory vote on remuneration reports, i.e. the remuneration reports will have to be submitted to the general meeting for their advice (non-binding vote);
- A detailed list of data and topics for the remuneration report, with specific emphasis on the link between pay and performance of directors;
- An internal pay ratio; and
- An obligation for the statutory auditor to include the remuneration report in the corporate governance statement and check that the information has been provided in accordance with the Directive/national legislation once enacted.

**Internal pay ratio**

The EU internal pay ratio should be disclosed and explained in the remuneration policy. The ratio is not primarily meant to be an indicator for external benchmarking purposes. The rationale for disclosing the ratio is, in fact, the remit of the supervisory board to take into account the employment conditions and remuneration of other employees when developing remuneration proposals for management board members. The proposal expresses this as follows:

**The policy shall explain how the pay and employment conditions of employees of the company were taken into account when setting the policy or directors’ remuneration by explaining the ratio ....**

We are not convinced that the obligation to disclose the company’s internal pay ratio as proposed by the European Commission will enhance transparency and facilitate a meaningful discussion with shareholders and other stakeholders.

Let’s compare the two proposed CEO pay ratio disclosures:

| EU pay ratio | Average remuneration of management board members and executive directors | Average remuneration of all other full-time employees |
| US pay ratio | Total remuneration of the CEO | Median of total remuneration of all other employees |
Both ratios are different and it is not surprising that there have been much criticism of them in both the US and the EU. It is doubtful whether these rules will actually narrow the gap between employee remuneration and executive remuneration for a number of reasons:

- The ratio will not provide investors with useful or accurate information as it is largely dependent on the type of industry and location of operations;

- It requires data, estimates, assumptions and judgment calls to produce the ratio, which may be misleading/give a distorted view;

- Mandatory publication of an internal ratio will give rise to external benchmarking, which is likely to be meaningless; and

- The ratio distracts from the real issue, which is whether the company can justify the differential between the amounts it pays its executives and employees.
Profile of a non-executive director
Number of non-executive directors on boards of JSE-listed companies

<table>
<thead>
<tr>
<th>Role</th>
<th>Total NEDs</th>
<th>(2013)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairpersons</td>
<td>278 (285)</td>
<td></td>
</tr>
<tr>
<td>Deputy chairpersons</td>
<td>61 (63)</td>
<td></td>
</tr>
<tr>
<td>Lead directors</td>
<td>147 (116)</td>
<td></td>
</tr>
<tr>
<td>NED</td>
<td>1 731 (1 740)</td>
<td></td>
</tr>
<tr>
<td><strong>Total NEDs</strong></td>
<td><strong>2 217 (2 204)</strong></td>
<td></td>
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</tbody>
</table>

**Board tenure**

At least one-third of non-executive directors should retire by rotation at the company’s annual general meeting (AGM) or other general meetings or as dictated in the memorandum of incorporation (MoI). The retiring board members may be re-elected, provided they are eligible.

King III promotes staggered rotation of non-executive directors as best practice. The purpose of this is to retain valuable skills, maintain continuity of knowledge and experience while also introducing individuals with fresh ideas and expertise.

Companies with large boards tend to reflect longer average tenure than those with small boards because of the one-third-retirement rule.

The impact of this practice is highlighted in our review of the past 10 years, which reflects the average tenure for non-executive directors has shifted dramatically.

PwC US’ 2014 Annual Corporate Directors Survey, found an increased level of dissatisfaction expressed by directors with their fellow directors, with 36% suggesting someone on their board should be replaced. Less-tenured directors are more likely to believe someone on their board should be replaced when compared to those serving 10 or more years. This could be because less tenured directors bring more scepticism and different perspectives about existing board performance than veterans of the board.

Directors continue to cite diminished performance due to aging, lack of expertise and not being prepared for meetings as the top reasons for their dissatisfaction with peers’ performance.

More than 33% of directors in the survey say the biggest impediment to replacing an underperforming director is that board leadership is uncomfortable addressing the issue. Lack of director assessments and ineffective board assessment processes are also considered impediments, with 9% of directors citing a close personal relationship between the underperforming director and the CEO as an impediment.
Independence

The US survey found that investors are looking more closely at whether they will consider long-serving directors independent. Some boards are considering a mandatory retirement age and/or term limits. A mandatory retirement age is a more common practice with 51% of directors saying their board has adopted such a policy. An additional 10% are having discussions about doing so. Term limits are much less common, as only 13% of directors say their boards have them.

In South Africa, King III recommends that independent non-executive directors should be in the majority on the board of directors of a listed company. Except for AltX companies, all other sectors have now crossed the threshold and reflect a majority of independent non-executives on their boards.

Figure 4: Independence status: Non-executive directors

Source: PwC analysis

Age

Globally, there is less variation in the age of directors across countries than with other aspects of diversity. The European average board age is 61. The youngest country average non-executive director age is 56 in Austria and 57 in Finland. The Netherlands has the oldest average age at 62.

In Europe, a marked gender age gap was observed. The largest gap is in The Netherlands, where female directors have an average age of 51 while for male directors it is 65. Conversely, the smallest gaps were in Finland, with a two-year age gap between women and men.

In the Fortune 50, female directors tend to be younger, with an average age of 60 compared to 63 for males27.

Among listed European companies, only 1% of companies have non-executive directors under the age of 50 and just 10% have non-executive directors under the age of 55. In the UK, 5% of companies have an average age for directors below 55, while none do so in Germany.

The age trend reveals the fact that younger incumbents with modern technological experience on the one hand and appointed members entrenched in what appears to be a closed loop of available candidates on the other, is keeping the age level static from year to year.

Different companies have different rules regarding retirement age for board members. Invariably, this age differs between the executive and the non-executive directors—the former usually younger than the latter.

In South Africa, older chairpersons are slowly making way for younger chairpersons than were historically employed.

27 Per PwC review of most recent proxy statements as of 31 August 2014.
Non-executives follow a similar trend with younger directors filling the positions. In both cases, the aging process does not appear to affect the appointments.

Source: PwC analysis
**Directorships**

Generally speaking, companies encourage non-executive directors to serve on other boards, as this gives them broader experience and exposure to businesses outside of the company.

**Figure 7: Membership of multiple boards: Non-executive directors**

![Graph showing membership of multiple boards](source: PwC analysis)

**Qualifications**

Overall, non-executive directors of JSE-listed companies show high levels of education and, based on their age profiles, much if not vast experience. Depending on the sector, levels of tertiary education among non-executive directors range between 58% (basic resources) and 77% (financial).

**Figure 8: University degree or similar tertiary education: Non-executive directors**

![Graph showing tertiary education levels](source: PwC analysis)

**Non-executive directors’ domicile**

Foreign director representation on JSE listed companies is still in the minority and many incumbents are resident in South Africa. Although there is no requirement that shareholders, directors or managers be South African citizens or residents, a return must be filed in respect of each director stating his/her nationality and place of residence.

**Domicile of non-executive directors**

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<th>Country</th>
<th>2013 % of total</th>
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<td>China</td>
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<td>Spain</td>
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**Source:** PwC analysis

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28 Companies and Intellectual Property Commission
Meetings

The size of committees varies substantially between different companies due to the varying nature of their business activities and the challenges they face. Although other ad-hoc committees may be formed, meetings held are classified into these categories:

- Board meeting;
- Audit committee;
- Corporate governance;
- Nominations;
- Remuneration;
- Risk;
- Sustainability; and
- Social and ethics committee.
Some committee meetings are held in combined session. These have been isolated from the combination and reflected as a tabled meeting.

**Meetings held during the year**

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JSE non-executive directors’ total fees

A non-executive director may briefly be defined as a director of the company’s board of directors who is not a current employee of the company or any parent or subsidiary.
Non-executive board members fall into three categories:

- Chairperson of the board;
- Lead independent director; or
- Non-executive director.

King III recommends that the chairperson of the board be an independent non-executive director and free of conflicts of interest at appointment, failing which the board should appoint a lead independent director. The chairperson should also not be the CEO of the company.

**Chairpersons**

Compared to non-executive directors, board chairpersons are paid a premium for their services. This position should be awarded to the person considered to be the most capable member serving on the board of directors. The chairperson should be independent and have the following special duties:

- Be responsible for the effectiveness of the board;
- Chair the nominations committee so as to influence the selection of an appropriately balanced board; and
- Develop a relationship of trust with the CEO, recognising that their leading roles on the board are dissimilar, yet have common goals with equal statutory responsibilities.

An overall view of total fees paid for fulfilling this role is presented in Figure 10.

**Deputy chairpersons**

Where the need arises, deputy chairpersons can be appointed to the board to support the chairperson. Deputy chairpersons support the chairperson in the event of his or her absence from board or committee meetings. This role is pari passu (equal) to that of the chairperson when acting as proxy for the chairperson. This role is usually delegated to a senior non-executive. A lead independent non-executive director often fills the position. In the event of either case, fees paid to the assignee are not included in Figure 11, as amounts are indeterminable.

**Figure 9: Remuneration of chairpersons: All sectors (R’000s)**

<table>
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<th>Year</th>
<th>Lower quartile</th>
<th>Median</th>
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<td>2013</td>
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<td>2014</td>
<td>941</td>
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**Figure 10: Remuneration of deputy chairpersons: All sectors (R’000s)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower quartile</th>
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<td>2014</td>
<td>488</td>
<td>795</td>
<td>1,223</td>
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</tbody>
</table>

Source: PwC analysis

Median increase 6.4%

Source: PwC analysis

Median increase 4.2%

Most deputy chairpersons are appointed in large dual-listed companies where the chairperson is not available to attend local meetings due to distance constraints. These occurrences are usually noted in the meeting minutes, as required, to attest to the board or committee attendance.
**Lead independent directors**

Globally, corporate governance guidelines recommend that the same individual should not occupy the role of chairperson and CEO. The chairperson should be an independent director. However, this recommendation is not always possible or appropriate to follow. Many chairpersons are non-executive, but not independent as they have an historical or present connection with the company and conflicts of interest could arise.

Best practice suggests the appointment of a lead independent director to provide leadership to the independent directors, liaise with the CEO on behalf of the independent directors and advise the board on matters where there may be an actual or perceived conflict of interests.

For practical reasons, the chairperson or the CEO should not elect the lead independent director. Rather, the independent directors should elect a suitable candidate. As with other leadership positions in the company, succession planning is advised for this role, which will necessarily be a person independent to the company.

In the United States, the position of lead independent director has become institutionalised in public companies in the wake of the Sarbanes-Oxley Act 2002 and subsequent Securities and Exchange Commission (SEC) and New York Stock Exchange (NYSE) regulations.28

There is evidence that appointing a lead independent director where there is an executive chair, in combination with other factors such as the number of meetings, is associated with improved company performance.29 The benefits of a lead independent director will be contingent upon factors such as the director’s competence and company’s governance maturity. It is encouraging to note that the larger listed companies have taken the initiative to appoint a lead director, even when the chairperson is independent.

In many global jurisdictions, the lead director has replaced the role of deputy chairperson. This could be a sensible approach since the very nature of the lead director is focused on independence, whereas a deputy may not necessarily have this credential.

Collaboration between the chairperson, the CEO and the lead director is of the utmost importance, therefore the incumbent should be chosen wisely to ensure he or she can offer well-qualified and experienced advice for the benefit of the board as a whole. The board should not need to second-guess the roles and responsibilities of someone in this position. Defining the scope of the lead independent director’s duties and responsibilities should be a priority included in the board’s charter, and be publicised widely to shareholders.

**Figure 11: Remuneration of lead independent directors: All sectors (R’000s)**

Source: PwC analysis

<table>
<thead>
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<th>Year</th>
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<td>2014</td>
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**Non-executive directors**

The increase at median level for all non-executive directors serving on the boards of all companies on the JSE was 5.6% (2013: 4.3%) This saw overall fees increase at the median level from R288 000 to R304 000.

**Figure 12: Remuneration of non-executive directors: All sectors (R’000s)**

Source: PwC analysis

<table>
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<td>161</td>
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<td>511</td>
</tr>
<tr>
<td>2013</td>
<td>148</td>
<td>288</td>
<td>540</td>
</tr>
<tr>
<td>2014</td>
<td>157</td>
<td>304</td>
<td>539</td>
</tr>
</tbody>
</table>

**Median increase**

5.6%

**2.4%**
Remuneration by sector

Increases awarded to non-executive directors for total fees vary between sectors, as well as company size within sectors. With current CPI at 5.8%, with few exceptions, most increases were above that level.
Breakdown of JSE market capitalisation by sector

On the JSE the industrial sector makes up the largest portion in terms of market capitalisation. This sector has edged out the resources sector that traditionally has been widely regarded as pacesetters.

Financial services

Listed financial services companies provide financial services to all sectors of the economy. Financial services includes banks, investment funds, insurance companies and real estate. These companies can be found in large-cap, medium-cap and small-cap sections on the JSE.

Directors in this sector face a heavy compliance burden and remuneration levels are uppermost in the minds of regulators, shareholders and other stakeholders. Globally, the banking sector in particular is reviewing finance risk transformation practices. The economic crisis of 2008/2009 has highlighted the need to be vigilant in the credit space and the task of non-executives is risk-driven. This highlights the need for experience in the field of financial management.

Chairpersons

Figure 13: Remuneration of chairpersons: Large-cap financial services (R’000s)

Figure 14: Remuneration of chairpersons: Medium-cap financial services (R’000s)

Figure 15: Remuneration of chairpersons: Small-cap financial services (R’000s)

Median increase

15.2%

14.3%

7.2%
Non-executive directors

Figure 16: Remuneration of non-executive directors: Large-cap financial services (R’000s)

Source: PwC analysis

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>483</td>
<td>728</td>
<td>1,027</td>
</tr>
<tr>
<td>2013</td>
<td>541</td>
<td>795</td>
<td>1,030</td>
</tr>
<tr>
<td>2014</td>
<td>545</td>
<td>820</td>
<td>1,224</td>
</tr>
</tbody>
</table>

Median increase: 3.1%

Figure 17: Remuneration of non-executive directors: Medium-cap financial services (R’000s)

Source: PwC analysis

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>167</td>
<td>291</td>
<td>567</td>
</tr>
<tr>
<td>2013</td>
<td>175</td>
<td>397</td>
<td>514</td>
</tr>
<tr>
<td>2014</td>
<td>252</td>
<td>356</td>
<td>611</td>
</tr>
</tbody>
</table>

Median increase: 16.0%

Figure 18: Remuneration of non-executive directors: Small-cap financial services (R’000s)

Source: PwC analysis

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>120</td>
<td>190</td>
<td>283</td>
</tr>
<tr>
<td>2013</td>
<td>130</td>
<td>210</td>
<td>393</td>
</tr>
<tr>
<td>2014</td>
<td>137</td>
<td>224</td>
<td>365</td>
</tr>
</tbody>
</table>

Median increase: 6.7%
Basic resources

Mining companies operate in some of the most politically and socially challenging parts of the world, where the industry remains an important driver of economic growth. Threats to the sector’s profitability and viability, such as social and environmental concerns, may have significant consequences for development in host countries.

Categories of basic resource companies on the JSE

Basic resources account for 21% of the JSE measured by market capitalisation, with primary listings shown in the accompanying diagram.

Basic resources: Domicile of primary listing

Because of limited beneficiation of metals and minerals, South African basic resources are driven by global demand, which limits the contribution from this sector to the country’s GDP, particularly in a volatile commodity price environment. While mining was historically the main driver in the economy, it now accounts for just 10% of South Africa’s GDP, but more than 50% of the country’s foreign exchange earnings.

Chairpersons

Figure 19: Remuneration of chairpersons: Large-cap basic resources (R’000s).

Source: PwC analysis

Median increase

13.5%

Figure 20: Remuneration of chairpersons: Medium-cap basic resources (R’000s)

Source: PwC analysis

Median increase

5.7%
Figure 21: Remuneration of chairpersons: Small-cap basic resources (R’000s)

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>304</td>
<td>346</td>
<td>674</td>
</tr>
<tr>
<td>2013</td>
<td>346</td>
<td>544</td>
<td>684</td>
</tr>
<tr>
<td>2014</td>
<td>329</td>
<td>585</td>
<td>877</td>
</tr>
</tbody>
</table>

Source: PwC analysis

Median increase 7.5%

Non-executive directors

Figure 22: Remuneration of non-executive directors: Large-cap basic resources (R’000s)

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>347</td>
<td>737</td>
<td>1 064</td>
</tr>
<tr>
<td>2013</td>
<td>359</td>
<td>804</td>
<td>1 125</td>
</tr>
<tr>
<td>2014</td>
<td>444</td>
<td>898</td>
<td>1 226</td>
</tr>
</tbody>
</table>

Source: PwC analysis

Median increase 6.9%

Figure 23: Remuneration of non-executive directors: Medium-cap basic resources (R’000s)

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>309</td>
<td>489</td>
<td>857</td>
</tr>
<tr>
<td>2013</td>
<td>311</td>
<td>475</td>
<td>896</td>
</tr>
<tr>
<td>2014</td>
<td>344</td>
<td>508</td>
<td>967</td>
</tr>
</tbody>
</table>

Source: PwC analysis

Median increase 7.3%

Figure 24: Remuneration of non-executive directors: Small-cap basic resources (R’000s)

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>174</td>
<td>249</td>
<td>255</td>
</tr>
<tr>
<td>2013</td>
<td>255</td>
<td>368</td>
<td>253</td>
</tr>
<tr>
<td>2014</td>
<td>253</td>
<td>395</td>
<td>693</td>
</tr>
</tbody>
</table>

Source: PwC analysis

Median increase 11.7%
Services

All companies involved in providing services to business and the public are included in five main categories in this sector:

- Health care;
- Media;
- Retail;
- Support services; and
- Travel & leisure.

Chairpersons

Figure 25: Remuneration of chairpersons: Large-cap services (R’000s)

Source: PwC analysis

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>722</td>
<td>1 624</td>
<td>4 019</td>
</tr>
<tr>
<td>2013</td>
<td>390</td>
<td>1 967</td>
<td>2 140</td>
</tr>
<tr>
<td>2014</td>
<td>690</td>
<td>2 412</td>
<td>4 019</td>
</tr>
</tbody>
</table>

Median increase 17.8%

Figure 26: Remuneration of chairpersons: Medium-cap services (R’000s)

Source: PwC analysis

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>205</td>
<td>249</td>
<td>266</td>
</tr>
<tr>
<td>2013</td>
<td>390</td>
<td>439</td>
<td>783</td>
</tr>
<tr>
<td>2014</td>
<td>687</td>
<td>745</td>
<td>783</td>
</tr>
</tbody>
</table>

Median increase 10.6%

Figure 27: Remuneration of chairpersons: Small-cap services (R’000s)

Source: PwC analysis

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>205</td>
<td>390</td>
<td>687</td>
</tr>
<tr>
<td>2013</td>
<td>249</td>
<td>439</td>
<td>783</td>
</tr>
<tr>
<td>2014</td>
<td>266</td>
<td>745</td>
<td>783</td>
</tr>
</tbody>
</table>

Median increase 8.4%

Non-executive directors: Practices and remuneration trends report
Non-executive directors

Figure 28: Remuneration of non-executive directors: Large-cap services (R’000s)

Source: PwC analysis

Median increase 9.5%

Figure 29: Remuneration of non-executive directors: Medium-cap services (R’000s)

Source: PwC analysis

Median increase 4.4%

Figure 30: Remuneration of non-executive directors: Small-cap services (R’000s)

Source: PwC analysis

Median increase 4.6%
Industrial

South Africa’s National Development Plan – Vision 2030 lays great emphasis on the development of industrial companies, especially in the engineering sector, where unskilled labourers can be trained and become effective workers in building a stronger country and increasing our productive output.

With renewable energy receiving much attention, opportunities will arise for original engineering manufacturers to expand their operations into the local manufacture of component parts and accessories for wind turbines and solar installations under license.

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

Chairpersons

Figure 31: Remuneration of chairpersons: Large-cap industrials (R’000s)

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>942</td>
<td>2 155</td>
<td>4 113</td>
</tr>
<tr>
<td>2013</td>
<td>817</td>
<td>2 625</td>
<td>4 019</td>
</tr>
<tr>
<td>2014</td>
<td>876</td>
<td>2 652</td>
<td>4 052</td>
</tr>
</tbody>
</table>

Source: PwC analysis

Median increase 5.1%

Figure 32: Remuneration of chairpersons: Medium-cap industrials (R’000s)

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>842</td>
<td>1 210</td>
<td>1 854</td>
</tr>
<tr>
<td>2013</td>
<td>656</td>
<td>1 523</td>
<td>1 502</td>
</tr>
<tr>
<td>2014</td>
<td>637</td>
<td>1 265</td>
<td>1 499</td>
</tr>
</tbody>
</table>

Source: PwC analysis

Median increase 8.4%

Figure 33: Remuneration of chairpersons: Small-cap industrials (R’000s)

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>242</td>
<td>356</td>
<td>684</td>
</tr>
<tr>
<td>2013</td>
<td>266</td>
<td>394</td>
<td>683</td>
</tr>
<tr>
<td>2014</td>
<td>274</td>
<td>428</td>
<td>741</td>
</tr>
</tbody>
</table>

Source: PwC analysis

Median increase 8.6%
Non-executive directors

Figure 34: Remuneration of non-executive directors: Large-cap industrials (R'000s)

Source: PwC analysis

Figure 35: Remuneration of non-executive directors: Medium-cap industrials (R'000s)

Source: PwC analysis

Figure 36: Remuneration of non-executive directors: small-cap industrials (R'000s)

Source: PwC analysis

Median increase

6.0%

2.8%

4.2%
**AltX companies**

AltX is the Johannesburg Security Exchange board for small and medium-sized companies with potential to grow. AltX provides smaller companies with access to capital, while offering investors the opportunity to invest in potentially high-growth companies that demonstrate entrepreneurial flair.

Companies listed on the AltX need to comply with the rules and regulations of the JSE and uphold high standards of corporate governance, including adherence to King III principles.

Since the AltX board’s establishment in 2003, more than 106 companies have listed as new entrants. Twenty companies have migrated to the main JSE board and capital in excess of R20 billion has been raised.

Non-executive directors can play a vital role in bringing in-depth knowledge and business wisdom to these companies.
Non-executive directors’ practices

Committees

Type
Non-executive directors are appointed by shareholders as their supervisory gatekeepers and as their representatives on the board of a company.

There is clear evidence of the benefits of having a diverse board together with dedicated audit, remuneration and nominations committees.

Most large corporations have mandated the formation of an audit committee. We have found that 100% of large-cap companies across Europe and the US have a formal committee to cover audit. In addition, in Italy, for example, most companies have a ‘statutory audit board’. This is in addition to the internal audit committee. This is significant since it cuts across what is considered the definition of a ‘unitary board’.
Unlike the audit committee, we find that not all companies have mandated the creation of a remuneration committee. However, more than the 75% of companies in regulated bourse environments do have a remuneration committee.

The presence of nomination committees varies widely from country to country. All FTSE 350 companies in the UK and most German large-cap companies employ a committee to conduct nominations. In Swedish and Norwegian companies, it is common practice to have an external nominations committee that is not linked to the board.

Risk committees are not very common in Europe, unless the corporation carries a high level of business risk, especially in financial services and personal products such as pharmaceuticals. This is confirmed by a larger occurrence of risk committees in the United Kingdom and Switzerland. Both countries lean heavily toward these types of businesses and risk is an issue.

A review of financial statements shows that companies tend to delegate risk to the executive committee where the executives running the company are included by default. In such instances, there is a specific agenda for the executive to give risk high priority. This approach appears to be gaining traction as non-executive board members may not be able to contribute as effectively as the executive.

Our analysis also shows that the combined committees of the past (remuneration and nomination/audit and risk) are no longer in vogue.

In South Africa, a similar pattern is followed to that of Europe with an emphasis on audit, remuneration and nomination committees.

As is the case for risk, sustainability has moved into the executive realm with this responsibility being placed on the shoulders of executive directors at the helm of the business.

**Frequency**

A frequency distribution was calculated to show the number of meetings held by each of the main committees.

**Meeting frequency: Europe and the United States**

<table>
<thead>
<tr>
<th>Committee</th>
<th>75th percentile</th>
<th>Median</th>
<th>25th percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>8</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Audit committee</td>
<td>5</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Remuneration committee</td>
<td>5</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

**Meeting frequency: South Africa**

<table>
<thead>
<tr>
<th>Committee</th>
<th>75th percentile</th>
<th>Median</th>
<th>25th percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>7</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Audit committee</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Remuneration committee</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

**Board and committee fees**

Board and committee fees are usually included in the annual general meeting (AGM) agenda as a special resolution for shareholder approval for the ensuing year. This is in accordance with Section 66(B) (read in conjunction with section 66(9)) of the Companies Act (the Act) which provides that, to the extent permitted in companies memorandum of incorporation (MoI), a company may pay remuneration to its directors for their services as directors provided that such remuneration may only be paid in accordance with a special resolution approved by shareholders within the previous two years.

So although the law is clear on the modus operandi, the MoI needs to be read in conjunction with the Act to determine the course of action. It is usual for the remuneration committee to set remuneration for approval by the board of directors. These decisions are then presented to the shareholders for approval at the AGM.
Board and committee fees for non-executive directors are usually categorised as follows:

- Chairpersons of the board;
- Non-executive directors on the board, differentiating between resident and non-resident directors (fees may be presented for approval in foreign currency for non-resident members);
- Chairperson of designated committee, differentiating between resident and non-resident directors (fees may be presented for approval in foreign currency for non-resident members); and
- Members of designated committee, differentiating between resident and non-resident directors (fees may be presented for approval in foreign currency for non-resident members).

The fees presented for approval are set for a calendar year or until the special resolution expires, or as determined.

Our research shows that fees paid to alternate directors are not presented to shareholders for approval.

**European comparative data**

Most companies across Europe pay their fees wholly in the form of cash, but equity awards are made in a few cases. Similar to our findings in last year’s report, 7% of companies in our sample part-pay their NEDs in equity and this is particularly prevalent in countries such as Finland and Switzerland. German director pay differs in that many German companies partly pay their directors in the form of variable cash.

Fees paid to non-executive directors across Europe vary widely. Board fee policies typically include fixed and variable pay components. A fixed board fee as well as meeting fees, together with a variable component, constitute total fees paid.

**Figure 39: Total median board and committee fees**

Source: PwC analysis

A closer look at Figure 40 shows that fees paid to chairpersons of large-cap companies with a foreign primary listing and a secondary listing on the JSE are in line with European companies at the median level. The same is not the case for non-executive directors.

Large-cap companies with a primary listing on the JSE are paid total fees at median level well below that paid to their European peers.

**United States comparative data**

Non-executive directors in the US are classed as ‘non-employee directors’. This refers to a director of the company’s board of directors who is not a current employee of the company or any parent or subsidiary company. Although there are vast dissimilarities in total remuneration, for purposes of this publication the term ‘non-employee directors’ and ‘non-executive director’ will, where applicable, be synonymous.

Similar to JSE rules, the NYSE and NASDAQ require that the majority of directors be non-employee directors, and be independently so. It is not uncommon to find three-quarters of a board being comprised of non-employee directors.

In terms of board composition, non-employee directors serve one-year terms.

A compensation paradigm shift among US-listed companies has taken place to replace director-meeting fees for non-employee directors with straightforward value retainers at both the board and committee level. Better control and ease of reporting is the aim, which will avoid arguments when SEC proxies are circulated to shareholders. The amounts voted for will appear on later SEC filings without variance, except for new appointments and resignations, which are easy to explain.

This results in a simplified compensation structure and eliminates the need to define what constitutes an official meeting for fee payment purposes. The move is to compensate directors for board and committee work conducted outside of formal meetings.
Another shift in non-executive director remuneration in the US is that director compensation programmes are beginning to focus on full-valued awards such as restricted shares or common stock.30 This delivers equity-based pay with the use of stock options becoming less prevalent. Currently, the vesting schedule of equity awards remains at one-year or less to be coterminous with the non-employee directors’ service term.

Other changes in remuneration programmes, which apply to both employee and non-employee directors, is that companies continue to adopt formalised director share ownership policies that require directors to accumulate and hold a fixed level of equity throughout their tenure. These ownership policies are often expressed as a multiple of annual cash retainer and meaningful levels typically range from three times to five times.

Regulatory reforms in the US over the past decade have expanded the duties, accountability and responsibilities for non-employee directors at publicly traded companies. These additional fiduciary duties have resulted in increased time commitments and potential exposure to liability, resulting in a reduced pool of candidates who are prepared accept such appointments.

The largest US-listed companies’ definitive proxy statements show that the median annual cash retainer for non-employee directors was R780 000. When meeting fees and equity remuneration are added to this, the median moves to around R2.4 million. Typically included in this amount, the non-employee director would receive about 50% in equity.

There appears to be a strong link between company size and the size of compensation earned. The larger companies award higher cash retainers and total compensation. For non-employee directors the income basket is made up of the following components:

- Annual cash retainer;
- Board meeting fees;
- Committee chairperson cash retainers;
- Committee member cash retainers; and
- Equity compensation.31

The lead independent non-employee director and chairperson of the board receive substantial premiums in remuneration and other stated benefits such as supplemental insurance as well as matching benevolent gifts that are considered befitting to the office they hold.32 An incomplete review of large listed corporations in the US reflects that most award matching charitable donations are on behalf of the upper echelon of directors.

Companies are also permitting directors to elect to receive additional equity awards in lieu of cash retainers or fees, often through long-term cash deferrals that help directors achieve their stock ownership guidelines. This further strengthens the alignment between director and shareholder interests.

**Board meeting fees**

In the US, listed companies meeting fees range from US$1 500 to US$2 000 at median level across all market capitalisation sizes. It is noted that meeting fees are less prevalent in large-cap companies since the greater majority have revisited their remuneration policies and are opting for a meeting retainer policy and have scrapped their fee for meeting policy.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Prevalence</th>
<th>25th Percentile</th>
<th>Median</th>
<th>75th Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial services</td>
<td>50%</td>
<td>$1 311</td>
<td>$1 550</td>
<td>$2 010</td>
</tr>
<tr>
<td>Basic resources</td>
<td>42%</td>
<td>$1 750</td>
<td>$1 875</td>
<td>$2 500</td>
</tr>
<tr>
<td>Services</td>
<td>35%</td>
<td>$1 525</td>
<td>$2 000</td>
<td>$3 010</td>
</tr>
<tr>
<td>Industrials</td>
<td>37%</td>
<td>$1 514</td>
<td>$2 015</td>
<td>$2 625</td>
</tr>
</tbody>
</table>

* The table reflects meeting fees for proxies filed in 2013/2014 by corporations that still pay meeting fees. Source: PwC analysis

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30 Synonymous with equity shares

31 As mentioned elsewhere, equity payments to non-executive directors are not permitted in South Africa.

32 Gifts to a 501(c) organization, also known colloquially as a 501(c), are a tax-exempt nonprofit organisation in the United States.
Boards of directors typically meet seven times a year.

Boards are usually structured so that each director holds one committee membership and attends six committee meetings per year. The board members are therefore carefully considered to ensure that their competence fits company requirements to serve on the committees and provide this direct reporting link to the board.

Additional compensation is paid to chairpersons to the board and chairs to committees. Lead directors are also paid a premium above compensation paid to members.

Committee meetings

The prevalence of committee meeting fees has decreased in favour of retainer fees. This is especially the case on large-cap companies.

### Shift from meeting fees to retainers by selected board committees

<table>
<thead>
<tr>
<th>Industry</th>
<th>Retainers</th>
<th>Meeting fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit</td>
<td>60%</td>
<td>43%</td>
</tr>
<tr>
<td>Remuneration</td>
<td>57%</td>
<td>51%</td>
</tr>
<tr>
<td>Nomination &amp; Governance</td>
<td>49%</td>
<td>40%</td>
</tr>
<tr>
<td>Audit</td>
<td>35%</td>
<td>46%</td>
</tr>
<tr>
<td>Remuneration</td>
<td>34%</td>
<td>49%</td>
</tr>
<tr>
<td>Nomination &amp; Governance</td>
<td>55%</td>
<td>56%</td>
</tr>
<tr>
<td>Prevalence (all companies)</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>Industry</td>
<td>65%</td>
<td>43%</td>
</tr>
<tr>
<td>Financial services</td>
<td>66%</td>
<td>52%</td>
</tr>
<tr>
<td>Basic resources</td>
<td>64%</td>
<td>53%</td>
</tr>
<tr>
<td>Services</td>
<td>66%</td>
<td>53%</td>
</tr>
<tr>
<td>Industrials</td>
<td>43%</td>
<td>53%</td>
</tr>
<tr>
<td>Median pay level</td>
<td>US$10 050</td>
<td>US$8 445</td>
</tr>
<tr>
<td>Industry</td>
<td>60%</td>
<td>43%</td>
</tr>
<tr>
<td>Financial services</td>
<td>60%</td>
<td>45%</td>
</tr>
<tr>
<td>Basic resources</td>
<td>60%</td>
<td>45%</td>
</tr>
<tr>
<td>Services</td>
<td>54%</td>
<td>46%</td>
</tr>
<tr>
<td>Industrials</td>
<td>48%</td>
<td>52%</td>
</tr>
<tr>
<td>Median pay level</td>
<td>US$6 443</td>
<td>US$1 500</td>
</tr>
<tr>
<td>Industry</td>
<td>60%</td>
<td>43%</td>
</tr>
<tr>
<td>Financial services</td>
<td>54%</td>
<td>53%</td>
</tr>
<tr>
<td>Basic resources</td>
<td>55%</td>
<td>36%</td>
</tr>
<tr>
<td>Services</td>
<td>38%</td>
<td>46%</td>
</tr>
<tr>
<td>Industrials</td>
<td>47%</td>
<td>57%</td>
</tr>
<tr>
<td>Median pay level</td>
<td>US$6 443</td>
<td>US$1 500</td>
</tr>
<tr>
<td>Industry</td>
<td>60%</td>
<td>43%</td>
</tr>
<tr>
<td>Financial services</td>
<td>54%</td>
<td>53%</td>
</tr>
<tr>
<td>Basic resources</td>
<td>55%</td>
<td>36%</td>
</tr>
<tr>
<td>Services</td>
<td>38%</td>
<td>46%</td>
</tr>
<tr>
<td>Industrials</td>
<td>47%</td>
<td>57%</td>
</tr>
<tr>
<td>Median pay level</td>
<td>US$6 443</td>
<td>US$1 500</td>
</tr>
<tr>
<td>Industry</td>
<td>60%</td>
<td>43%</td>
</tr>
<tr>
<td>Financial services</td>
<td>54%</td>
<td>53%</td>
</tr>
<tr>
<td>Basic resources</td>
<td>55%</td>
<td>36%</td>
</tr>
<tr>
<td>Services</td>
<td>38%</td>
<td>46%</td>
</tr>
<tr>
<td>Industrials</td>
<td>47%</td>
<td>57%</td>
</tr>
<tr>
<td>Median pay level</td>
<td>US$6 443</td>
<td>US$1 500</td>
</tr>
</tbody>
</table>

Source: PwC analysis

In general, fees paid for committee service do not vary significantly by size or industry in the US. The shift to committee retainer fees appears to be higher than the aggregate of fees per meeting.

Since non-employee directors in the US are rewarded with a pay structure that is a combination of cash and equity, for practical reasons the total packages paid are not disclosed in this publication. Figure 41 does, however, reflect the overall average breakdown for total compensation.

Source: PwC analysis
Evolving role of the company secretary

The role of the company secretary is expanding and greater responsibility than ever is being placed on this function. The role has become multifaceted and global, with company secretaries adding value through commercial solutions designed to protect boards and maximise shareholder engagement. This includes liaising with global subsidiaries to ensure that group policies are being implemented. Perhaps a more befitting title for the role is now ‘governance director’.
In today’s regulatory environment, company secretaries play a more strategic and enabling role, making sure directors are protected and proactively ensuring legal and regulatory governance compliance, throughout the group. The role is focused around anticipating business needs and being proactive in terms of managing those needs. Today’s company secretaries need to embed themselves within the business so they can pre-empt risks before they happen.

A subsidiary governance framework, for example, can assist them in managing the compliance burden, but also provides an opportunity for them to add value to the business by creating efficiencies, minimising risk and reducing costs. The priority is to protect shareholder value first and foremost. But company secretaries also need to consider the practical issues that cause either reputational damage or financial penalties that undermine shareholder value. When one looks at corporate governance failings, they have quite often occurred at subsidiary level.

In terms of the King III recommended practice notes 2.21.3 and 2.21.4, the company secretary should have an arms-length relationship with the board and not be a director of the company.

Non-executives directors are not appointed as company secretaries and it is rare to find incidences where a director is also the company secretary. Where a director fills this role, it is usually combined with another position.

We plan to give attention to the payment of company secretaries in our next Executive directors publication, to be released in the middle of 2015.
State-owned companies

State-owned companies (SOCs) have become global players. More than one in ten of the world’s largest businesses are state-owned enterprises. The world’s ten biggest oil & gas companies, measured by reserves, are all state owned. State-backed companies account for 80% of the value of China’s stock market. Similarly, by market capitalisation, 62% of Russia’s listed companies are owned by the state.
State ownership structures vary across developed and developing countries. South African SOCs typically follow a structure in which one department serves the ownership function, another serves the policy function and the National Treasury plays a financial oversight role.

South African SOCs are subject to the Companies Act and are required to adhere to the King III rules.

**South African state owned companies analysed**

<table>
<thead>
<tr>
<th>Alexcor</th>
<th>Denel</th>
<th>Eskom</th>
<th>Broadband Infraco</th>
<th>SA Express</th>
<th>SA Airways</th>
<th>Safcol</th>
<th>Transnet</th>
</tr>
</thead>
</table>

**Figure 41: Non-executive remuneration in SOCs: Total fees paid (R’000)**

The split between male and female non-executive directors in the sample examined is remarkably in balance with a mere 10.25% difference. The country’s female population exceeds males by 7%, yet this balance in the boardroom is in line with the best thought-out planning in King III. No other sector on the JSE comes close to reaching gender equity.

A pay gap between males and females is evident when it comes to comparing total fees paid to chairpersons. The variance is 6%. At median level, non-executive director females earn 7% more than their colleagues.

**Figure 42: Non-executive remuneration in SOCs: Total fees paid to females (R’000)**

Source: Department of Public Enterprise, PwC analysis

Source: PwC analysis
Remuneration in other African countries
Background

Of Africa’s 54 independent states, 29 have stock exchanges, including the JSE. These bourses represent the capital and commodities markets of 38 countries. The majority of African stock exchanges are fledgling markets, some with as few as 4 companies listed. Others, are regional exchanges and do not represent any particular market. For the first time in this edition, we analyse the trend in non-executive directors’ remuneration in sub-Saharan Africa beyond South Africa. Seven sub-Saharan Africa stock exchanges are included in our research.

Sub-Saharan stock exchanges analysed

Seven African Stock Exchanges examined
The seven markets analysed have an aggregate of 385 listed companies with 1 958 non-executive directors serving on their boards. Not all companies publish a breakdown of individual non-executive remuneration and available data was limited.

Many African operations are listed on the London AIM market, where the directors cover many African positions. Their NED fees refer mainly to their parent company responsibilities and are silent with regard to their African responsibilities or fees.

Fees paid to non-executive directors are mostly reported as a single line item on the Africa operations income statement. This aggregate includes expense payments, benefits as well as share issues. In many cases, tribal and community leaders are appointed as non-employee directors with added benefits that cannot be construed as fees.

Where information is available, all values have been converted from local currencies into US dollars at the interbank closing rate at midnight on 29 November 2014 so as to be coterminous in currency timing with the rest of the publication.

Where companies reported in US dollars, these values were used. All African bourses have published regulations with minimum requirements for listing a company as well as regulatory rules pertaining to listed companies on their stock exchange. Not all rules are the same and it is suspected that the lack of IFRS plays a role in precluding commonality.

For example, the Nigerian Stock Exchange publishes the “Green Book” that details regulations for companies listed on that exchange. Requirements include:

- All listed companies shall advertise the Notice of their AGM in at least two widely read newspapers at least 21 days before the AGM and such advertisement must be conspicuously placed to cover a reasonable portion of a page;
- To send out proxy forms to all shareholders entitled to attend and vote at general meetings and to provide that such proxy forms are so worded that a shareholder or debenture holder may vote either for or against each resolution;
- To send to The Exchange certified copies of all resolutions passed by the company at general meetings; and
- Publication of accounts, notices of AGMs, closure of register, dividend payment dates, changes in directorate, changes in capital structure, alteration to memorandums and articles of association, changes in general character of the company, all corporate information/development with potential to impact on the company’s performance etc. without prior written approval of The Exchange shall attract a fine of 50% of the annual listing fee.

**Listed company profile**

<table>
<thead>
<tr>
<th>Bourse</th>
<th>Companies</th>
<th>Total NEDS</th>
<th>Chairpersons</th>
<th>NEDs</th>
<th>% available usable data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>33</td>
<td>162</td>
<td>31</td>
<td>131</td>
<td>72%</td>
</tr>
<tr>
<td>Ghana</td>
<td>35</td>
<td>194</td>
<td>35</td>
<td>159</td>
<td>68%</td>
</tr>
<tr>
<td>Kenya</td>
<td>63</td>
<td>312</td>
<td>60</td>
<td>252</td>
<td>76%</td>
</tr>
<tr>
<td>Namibia</td>
<td>32</td>
<td>168</td>
<td>30</td>
<td>138</td>
<td>54%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>189</td>
<td>966</td>
<td>176</td>
<td>790</td>
<td>62%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>17</td>
<td>80</td>
<td>17</td>
<td>63</td>
<td>63%</td>
</tr>
<tr>
<td>Uganda</td>
<td>16</td>
<td>76</td>
<td>15</td>
<td>61</td>
<td>47%</td>
</tr>
<tr>
<td>Total</td>
<td>385</td>
<td>1958</td>
<td>364</td>
<td>1594</td>
<td>47%</td>
</tr>
</tbody>
</table>

Source: PwC analysis
Overall

Non-executive directors’ fees (limited to non-executive chairpersons and non-employee board members), analysed and consolidated from available published information for the seven stock exchanges is reflected in Figure 44.

Figure 43: Remuneration of non-executive directors for seven selected sub-Saharan African exchanges

Source: Published information, PwC analysis

Each bourse has also been examined separately. In all the figures that follow, non-executive directors’ fees are shown for non-executive chairpersons as well as for non-employee board members.
Figure 48: Remuneration of non-executive directors: Nigeria

Source: Published information, PwC analysis

Figure 49: Remuneration of non-executive directors: Tanzania

Source: Published information, PwC analysis

Figure 50: Remuneration of non-executive directors: Uganda

Source: Published information, PwC analysis
Appendices

The South African market place
About PwC

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

The strength of this value proposition is based on the breadth and depth of the firm’s client relationships. Networks are built around clients to provide them with our collective knowledge and resources. Our international network, experience, industry knowledge and business understanding are used to build trust and create value for clients.

We are committed to making PwC distinctive through consistent behaviours that enable the success of our clients and people. We call this the PwC Experience and it shapes the way in which we interact with clients, with one another and with the communities in which we operate. This, along with our core values of Teamwork, Leadership and Excellence – and our strong Code of Conduct – guides us in all that we do.

We would like to thank the following people for their valuable contribution to this report:

- Martin Hopkins, Director, PwC
- Julia Fourie, Senior Manager, PwC
- Anelisa Keke, Consultant, PwC
- David Yzelle, independent project researcher

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- David Yzelle, independent project researcher

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