pwc

Executive Directors

Practices and remuneration trends report

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Editor’s note

Capitalism is evolving to incentivise businesses to create better outcomes for more stakeholders – Alan Jope, former CEO of Unilever[1]

In a highly complex world that is ever-changing, companies have to evolve to survive. There is a focus shift away from the investor-centric approach, to one that also promotes diversity, inclusivity and employee well-being, and considers the impact of business decisions on the wider community and the environment. The question is, how should these new priorities be incorporated into executive and employee remuneration models to ensure just outcomes for all stakeholders?

There are divergent views on how to achieve fairness for various stakeholders. As part of our research on this topic, we asked several remuneration committee members and other remuneration professionals to rate the relative importance of certain pay principles when considering pay fairness. It was interesting to note that alignment of executive pay to shareholder interests and paying a living wage were rated the highest, with the alignment of executive pay to wider stakeholders, and in particular ESG-linked pay for purpose, trailing behind the first two.

This year, we centre the report around ‘fairness’ and present the myriad views and developments relating to reward and the impact of fairness on wider stakeholders in a new, concise format. The report consists of two parts: part one (chapters 1– 4) deals with fairness and pay as the concepts relate to each stakeholder in the value chain, and part two (chapters 5-6) focuses on the profile of an executive director and presents an overview of remuneration paid to executive directors of the Johannesburg Stock Exchange (JSE) Top 200 companies.

Taking a closer look at the contents covered in the individual chapters:

In **chapter 1** we consider a set of principles, which, when applied, could provide a sensible approach to executive pay at a time of increased investor and societal focus.

In **chapter 2** we analyse voting trends over the last four years and unpack the key reasons why shareholders do not support certain remuneration policies and outcomes – both locally and globally. We also discuss what shareholders are likely to focus on in the year ahead and briefly touch on the potential implications of the revised draft of the Companies Amendment Bill.

In **chapter 3** we consider the expanded definition of performance. Stakeholders are expecting sustained performance through thoughtful environmental (E), social (S) and governance (G) programmes and policies.We are building on research included in our 2022 report to evaluate whether there has been real progress in linking ESG to pay. We also consider practical questions remuneration committees should be asking when setting ESG targets for performance-related pay incentives.

[1] Barford, A., et al. 2022. “The case for living wages: How paying living wages improves business performance and tackles poverty.” Business Fights Poverty, University of Cambridge Institute for Sustainability Leadership & Shift, https://www.cisl.cam.ac.uk/files/the_case_for_living_wages_report_2022.pdf

Chapter 4 focuses on wider workforce attitudes and expectations in the post COVID-19 environment, and how these factor into pay and other reward incentives. Employees are becoming more critical of their workplace experience and are increasingly asking whether their jobs add value to their lives. This is an indication that reward has moved beyond pay to also address purpose.

We focus on the profile of an executive director and consider average tenure, representation (race and gender) and pay differentials (race and gender) in **chapter 5**.

Chapter 6 concludes the report with an overview of remuneration paid to executive directors of the JSE Top 200 companies. We analyse the total guaranteed pay (TGP), short-term incentive (STI) outcomes and, for the first time, we provide an overview of long-term incentive (LTI) vesting outcomes. For simpler navigation, results for the JSE Top 200 companies are segmented by size, while data per industry can be found on our website. Our analysis indicates that STI payouts for the period were on average close to on-target levels while LTI vested below expected levels.

The remuneration landscape in South Africa will no doubt change. In addition to the matters discussed above, the revised draft of the Companies Amendment Bill has far-reaching implications for the remuneration report and the manner in which companies have approached and reported on remuneration up to now.

The 2023 report aims to provide valuable insights into these complex topics. We look forward to continued discussions with our clients and wider stakeholders around these important issues.

Karen Crous
Editor

Information used in this report

Data presented is drawn from information publicly available as at 28 February 2023 (the cut-off date) and is valid for the period from 1 March 2022 to 28 February 2023 (the 2023 reporting period).

This analysis is based on active directors as at 28 February 2023. In instances where executive directors have resigned from their roles on or before the cut-off date, we have excluded them. Executive directors appointed after the company's financial year end, have also been excluded from the analysis as they would not have been included in the latest integrated report. Where executive directors are remunerated in a foreign currency, their total guaranteed pay (TGP) is converted into South African rand using the one-year average exchange rates as at the cut-off date (28 February 2023).

Rand exchange rate against major currencies

Currency	February 2023
Australian dollar	11.52
Euro	17.44
Swiss franc	17.51
UK pound	20.26
US dollar	16.73

Source: PwC analysis

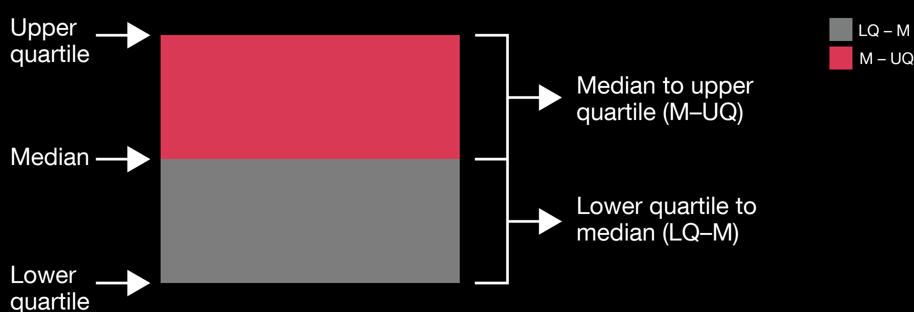
The information has been extracted from the Top 200 JSE listed companies in PwC's internal database. Please note that the analysis presented in this report shows high-level indicative ranges of remuneration at a point in time, and is not appropriate to be used as a direct reference point for benchmarking purposes. The analysis is also not appropriate to determine increased trends for the executive group, as the constituents of the group used to determine the analysis do not remain consistent year-on-year due to market movements. Accordingly, a percentage movement from 2022 to 2023 has not been provided.

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

Presentation of the data

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

Guide to data presentation



Source: PwC analysis

Quartile/percentile ranges used in our analysis:

- LQ – Lower quartile (25th percentile): 75% of the sample earn more and 25% earn less than this fee level.
- M – Median (50th percentile): 50% of the sample earn more and 50% earn less than this fee level.
- UQ – Upper quartile (75th percentile): 25% of the sample earn more and 75% earn less than this fee level.
- Average: Calculated by dividing the sum of the values in the set by the number of data points in the set. Averages are presented where sufficient data points are not available to draw meaningful quartile analysis.

The average is influenced by the number of data points and the distribution of the data set. If a number of data points are at the higher end of the data set, the average will be impacted accordingly.

Analysis

Company size

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

- Super cap: The Top 10 JSE listed companies, valued by market capitalisation.
- Large cap: 11 to 40 of the JSE listed companies, valued by market capitalisation.
- Medium cap: 41 to 100 of the JSE listed companies, valued by market capitalisation.
- Small cap: 101 to 200 of the JSE listed companies, valued by market capitalisation.

Chapter
1

Executive pay – aligning interests

In the context of South Africa's socio-economic situation, shareholders and society at large are increasingly asking tough questions about the fairness of executive pay.

Paying for performance and aligning the interests of executives with those of shareholders are universal design objectives in executive pay arrangements, and have been in place for several years. The appeal of using these objectives is that they are persuasive methods to ensure fairness. There are, however, differences between these two objectives and they may at times be in conflict with each other. In an evolving landscape where the measurement of performance and success is expanding beyond shareholder returns to include other priorities placing new and greater demands on companies and executives, boards are grappling with the question of how executive pay can continue to be competitive but also meet evolving stakeholder expectations.

Paying for performance

Pay for performance is based on the principle that executives are measured against a set of performance measures that they can control, as opposed to factors that are outside of their control. Pay for performance most commonly features in the design of short-term incentives. The achievement of targets set over a one-year period is generally seen as effective, as executives have the ability to influence the outcomes. However, this approach does not come without its challenges and remuneration committees must find ways to identify performance measures that are within the control of executives, but are stretching and strategic enough to still support long-term value creation.

Additionally, if pay for performance measures are meant to fall within the control of executives, how should factors that are outside their scope of control be managed? Can performance targets be adjusted to mitigate the impact of external factors that were not anticipated at the time the performance conditions were set? The general criticism against making this type of adjustment is that shareholders are also exposed to the impact of external factors. However, this view places the focus on the alignment of management's interests with those of shareholders, rather than pay for performance. This results in tension between the principles of shareholder alignment and pay for performance, and boards should consider a balanced approach to solving it.

Alignment with shareholder interests

One of the challenges for listed companies is that the executives who steer the company are generally not the owners of the company and, instead, act as managers of the company on behalf of the shareholders. This is called the principal-agent problem and refers to a situation where there is a conflict of interest relating to the management of an asset, between the owner and the person to whom control of the asset has been delegated.

Shareholders of a company may decide to encourage its executives to act in the shareholders' best interests, by requiring them to become shareholders in the company. Alignment with shareholder interests is therefore often addressed through long-term incentives or by the inclusion of ownership requirements for executives. Once executives have achieved meaningful ownership, by way of the acquisition of company shares, a portion of their wealth is tied directly to shareholder outcomes. This entails that executives' interests are linked to share price performance, and that is why the outcomes of long-term incentives have traditionally been uncapped. Long-term incentives are commonly subject to performance measures that are relative, or based on market fluctuation, or share price movements that are not in the executive's direct 'line of sight', again resulting in tension between pay for performance (paying for what is within the control of executives) and shareholder alignment features.

Below, we consider whether a common set of principles can be applied to navigate these complexities.

Key principles for fair and sensible executive pay considerations

A remuneration structure that aims to create value for all stakeholders and balance good performance with fair remuneration outcomes, should be based on an understanding of the following key principles:

Define long-term success and value creation: A common criticism levelled against the way in which executive pay is structured, is that it encourages short-sighted decisions at the expense of long-term economic performance – commonly referred to as 'short-termism'. As a starting point, it is necessary to define long-term success factors that will lead to value creation, define the timeframe within which value will be created, and link these factors to pay outcomes. Without this basis, there is the risk that executives are incentivised for the wrong outcomes within the wrong timeframes.

Balance incentivisation and alignment: Next, choose performance measures that balance pay for performance and shareholder interests. Executive pay arrangements rarely focus solely on either one of these objectives. Performance measures should strike a balance between internal (organisation) and external (market) measures. A balanced approach entails that short-term performance, including the accompanying incentives for achieving this, is not at the expense of long-term value creation.

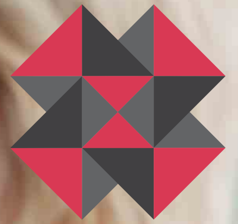
Consider symmetry: Performance should ideally be defined by a balance of financial and non-financial (strategic or qualitative) measures. An over-reliance on financial targets risks prioritising short-term success ahead of long-term sustainable performance. Conversely, an over-reliance on non-financial measures will not deliver immediate results for shareholders.

Avoid duplication of measures: Once it has been established that there is room for the use of internal and external performance measures, consider how to apply these measures. Measures should not be duplicated, to avoid incentivising executives more than once for the same performance.

Link pay opportunities to performance conditions: The setting and calibration of performance targets are crucial to ensuring both retention and incentivisation. A balance should be struck between targets that are considered truly exceptional, resulting in superior shareholder returns, and targets that are within the reach of executives but still deliver solid performance.

Take time to scrutinise before approving: The board and remuneration committee take ultimate responsibility for the setting of executive incentive targets. These decisions cannot be taken without having the necessary time and information available before and during a meeting to interrogate the principles that are to be approved. Management should therefore provide the remuneration committee with a robust analysis of the targets and adequate information relating to the achievement thereof. This would typically include an overview of the effectiveness of incentives (for example, a 5-year pay-out history to provide an overview of how robust targets were set historically), 'what-if' scenarios, stress-testing of performance conditions under different performance scenarios, and analyst expectations of future performance.

Monitor decisions on an ongoing basis: Responsible management of executive pay does not end with the approval process. Incentives should be continuously monitored to ensure that they function as intended, which, when applied sensibly and responsibly, should result in fair outcomes for all stakeholders.



Chapter 2

Shareholders – remuneration voting trends

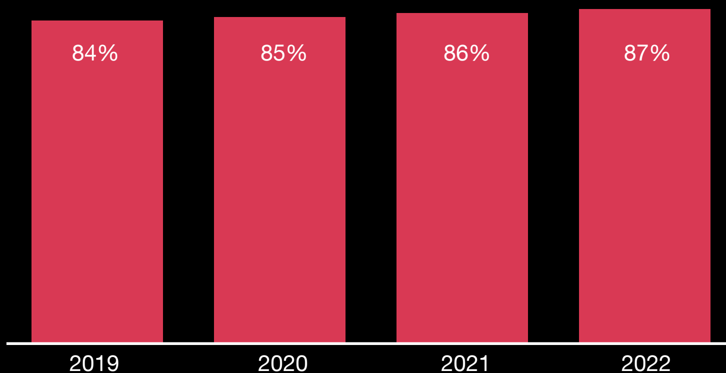
The governance of executive pay is a complex and controversial topic. Despite the fact that the world has embraced ‘stakeholder capitalism’ — the idea that a company’s purpose should be to deliver value not just to shareholders, but to all stakeholders — shareholders’ participation in ‘say-on-pay' votes remains a powerful tool by which views on executive pay are expressed. The revised draft of the Companies Amendment Bill seeks to enforce this principle in South Africa.

Remuneration voting in South Africa: How outcomes reflect shareholder sentiment

King IV™ encourages boards to actively engage with shareholders regarding shareholder-aligned issues and corporate citizenship. Shareholders are questioning the fairness of executive pay in light of South Africa's dire economic climate and the worrying pay gap between executives and the average employee. They further seek to increase shareholder value and ask hard questions about pay for performance (or the lack thereof), pay structures, and the levels of shareholding in a company by its executives. Voting outcomes on companies' remuneration policies and implementation reports are a good barometer of current shareholder sentiment around executive pay.

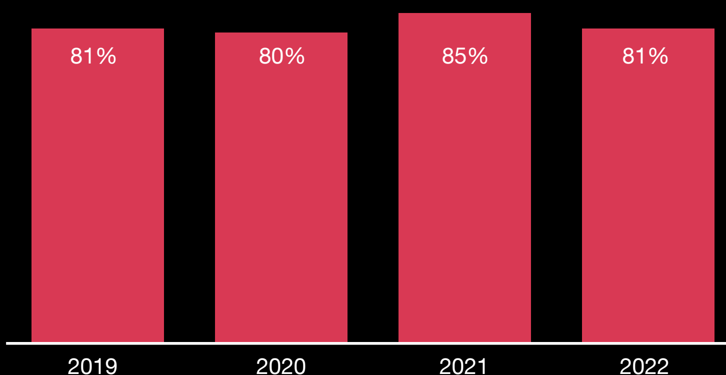
Voting outcomes for JSE Top 200 companies (from 2019 to 2022)

Figure 2.1: Votes in favour of companies' remuneration policy



The percentage of companies that obtained a 'yes' vote in favour of their remuneration policy (2019–2022)

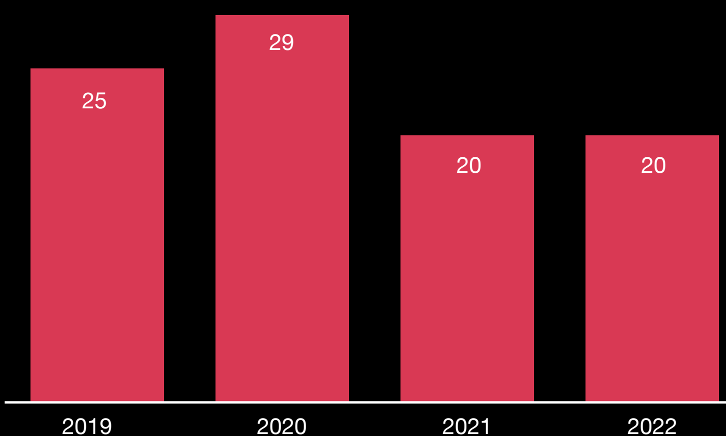
Figure 2.2: Votes in favour of companies' implementation policy



The percentage of companies that obtained a 'yes' vote in favour of their implementation report (2019–2022)

Overall, it can be seen that voting outcomes have been reasonably consistent over the four-year period, with remuneration policies receiving slightly more support compared to implementation reports.

Figure 2.3: Votes against both remuneration policy and implementation policy



The number of companies that obtained a 'no' vote on both their remuneration policy and implementation report.

As can be seen from the figure to the left, about 10–15% of companies in the Top 200 (depending on the year) received a 'no' vote on both policy and implementation.

Main issues raised by shareholders

1 *Lack of performance-related long-term incentives at executive level*

Based on our observations, shareholders are particularly critical of long-term incentive arrangements without prospective performance conditions at the executive level where performance is not measured over a long-term period (typically three years). These types of long-term incentives include any incentive arrangements that are not subject to prospective performance conditions, including pure retention awards, matching awards and awards that are granted based on performance measured over a one-year period.

2 *Special payments*

These types of payments include exit, sign-on, and restraint of trade payments made to executives. Shareholders had a negative view of these payments, irrespective of quantum, the prevalence of these types of payments, as well as the lack of disclosure relating to the payments made. The generous retirement payments, in particular, were questioned in many instances. Shareholders also expected adequate disclosure of the reasons for payouts and how payments were calculated.

3 *Lack of pay for performance alignment and disclosure*

Pay should follow performance, and companies' failure to clearly demonstrate the link between pay and performance showed in negative shareholder voting and feedback. Institutional investors and proxy advisors also expect performance conditions, weightings and targets to be disclosed as part of the remuneration report, to demonstrate the pay-for-performance link. Furthermore, companies are expected to disclose how performance incentives were calculated against the applicable performance measures that were set.

4 *Low or no minimum shareholding requirements for executives*

Shareholders expect that executives, specifically the CEO, hold a certain number or percentage of shares in the company to show they have 'skin in the game'. The absence of a minimum shareholding requirement (MSR) and policy has raised many objections from shareholders who insist on executives maintaining a reasonable level of shareholding in the company. Executives should be given a specific timeframe (generally five years) to obtain the required share percentage, and the vesting of any deferred incentives may be subject to a holding period until the MSR has been reached.

5 *Above-inflation increases in total guaranteed pay and the pay gap*

Shareholders are increasingly focusing on the wider stakeholder environment. It is against this backdrop that big payouts without disclosure of the necessary context and reasons continue to draw shareholder criticism.

6 *Application of board discretion*

Most companies that apply discretion to variable pay targets or incentive outcomes receive backlash from shareholders. Examples of such arrangements include overriding formulaic bonus outcomes with discretionary payments, adjustment of incentive targets part-way through a performance period, disregarding performance periods (this trend was particularly prevalent during the pandemic) and the replacement of under-water long-term incentives with new awards.

Revised draft of the Companies Amendment Bill

The revised draft of the Companies Amendment Bill[1] has far-reaching implications for the remuneration report, mainly pertaining to an ordinary resolution (binding) on the remuneration policy and implementation report. If votes on these resolutions fail, it may have ramifications for the implementation of the remuneration policy and the remuneration committee members. The Bill also calls for certain mandatory wage gap disclosures to be made.There are a number of aspects that require clarification, but in summary:

Voting on the remuneration policy: The remuneration policy must be submitted for approval by way of an ordinary resolution at the annual general meeting (AGM). Thereafter it must be presented for approval by ordinary resolution every three years, or whenever material changes are made to the policy. Where approval is not obtained, it must be presented at the next AGM or shareholders meeting until approval is obtained. The contents of the policy cannot be effected until approval has been obtained.

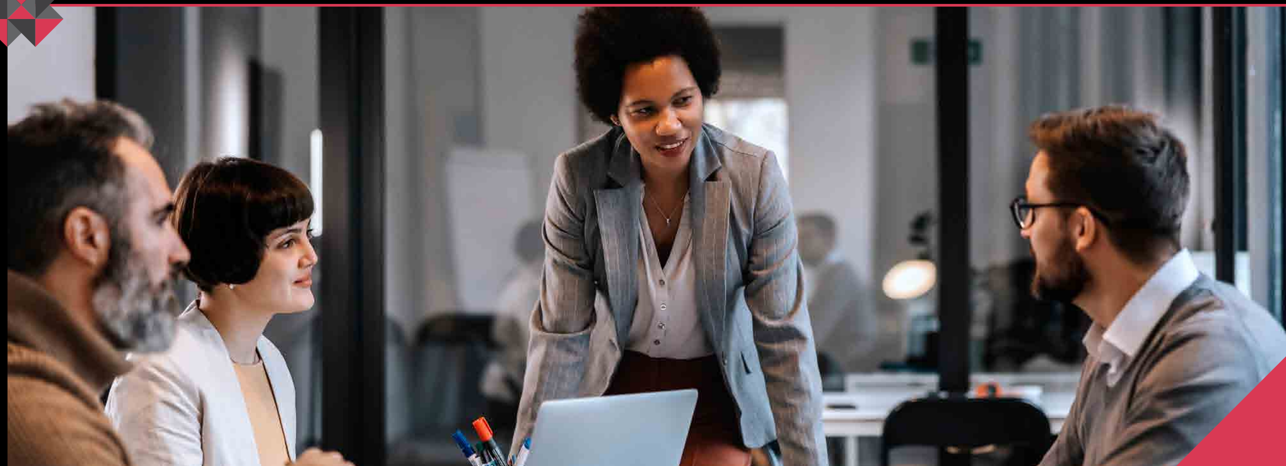
Voting on the implementation report: The implementation report must be submitted for approval by way of an ordinary resolution at the AGM or a shareholders meeting every year. Where approval is not obtained, the remuneration committee shall, at the following AGM provide an explanation of the manner in which shareholder concerns were addressed and the remuneration committee members must stand down from the remuneration committee and, while they may remain on the board, may not serve on the remuneration committee for 3 years after such non-approval.

Global shareholder voting and trends

Overall, FTSE 100 remuneration report voting outcomes at 2022 AGMs were similar to 2021, with a median voting outcome of 95% (2021: 96%). Only one company lost the vote on their remuneration report in the 2022 AGM season (2021: two companies).

PwC UK has identified four key areas across FTSE 100 companies, that will face increased shareholder scrutiny in 2023[2]:

- **Salary increases:** although shareholders and proxy voters have not set a limit, any increase above 5% will start to attract scrutiny (according to historical voting outcomes and policies).
- **Bonus outcomes:** there is expected to be an increased focus on outcomes in the context of business performance, the current cost of living crisis, and the perceived level of stretch in the performance targets set at the beginning of the financial year.
- **Windfall gains:** in instances where companies experienced a significant increase in their share price since the awarding of long-term incentives in 2020, boards will be expected to ascertain if windfall gains occurred. They will also be expected to provide reasons for why these awards should vest (or not).
- **ESG:** continued adoption of ESG measures, especially in long-term incentive plans, and increased scrutiny of the performance measures/targets used. There is also an expectation of external assessment of whether these targets are suitable for inclusion.



[1] As introduced in the National Assembly; explanatory summary of Bill and prior notice of its introduction published in Government Gazette No. 49116 of 14 August 2023.
[2] PwC, 2022. AGM end of seasons update FTSE 100: November 2022, https://www.pwc.co.uk/human-resource-services/pdf/executive-pay-ftse-100-agm-season-round-up-2022.pdf

PwC Australia[3] reports that there was only a 6.5% average 'no' vote against ASX200 companies' remuneration reports in 2022 — the lowest since 2017. However, there are still issues that cause shareholder concern, such as excessive remuneration, board discretion, key performance indicators not being challenging, pay and performance misalignment, poor disclosure, retention awards, framework deficiencies, and general governance issues. In this context, PwC has identified three issues that Australian companies will have to pay special attention to in 2023:

- non-financial measures, longer performance/deferral periods;
- addressing the rise of pay transparency and the banning of pay secrecy clauses; and
- rising pay pressures with record-high inflation.

Hot topics for 2023 and beyond

What do the global expectations signal to South African companies? We expect shareholders to continue to raise the following issues regarding pay decisions:

1 *Pay for performance*

Shareholders are increasingly challenging gratuitous executive payments that seem excessive and do not have specific performance criteria attached to them, or fail to provide adequate pay for performance. Shareholders will continue to pressure boards to limit these payments (in relation to sign-on, retention, severance, exit, retirement, and non-compete clauses).

2 *Increased transparency*

Transparent and simple pay structures will allow shareholders to engage with and ask pertinent questions about pay decisions, leading to higher levels of shareholder satisfaction and perceived corporate responsibility.

3 *Non-financial metrics*

There is a consensus between investors and senior leaders on linking ESG to pay, even though they differ in their views on ESG priorities. Most executives (78%) and even more investors (86%) believe that incorporating ESG factors into a company's strategy increases shareholder value. ESG goals have been included in executive remuneration plans (including short- and long-term incentives) for a few years now, but will continue to expand rapidly in terms of the types of metrics included (beyond climate change, diversity and inclusion).

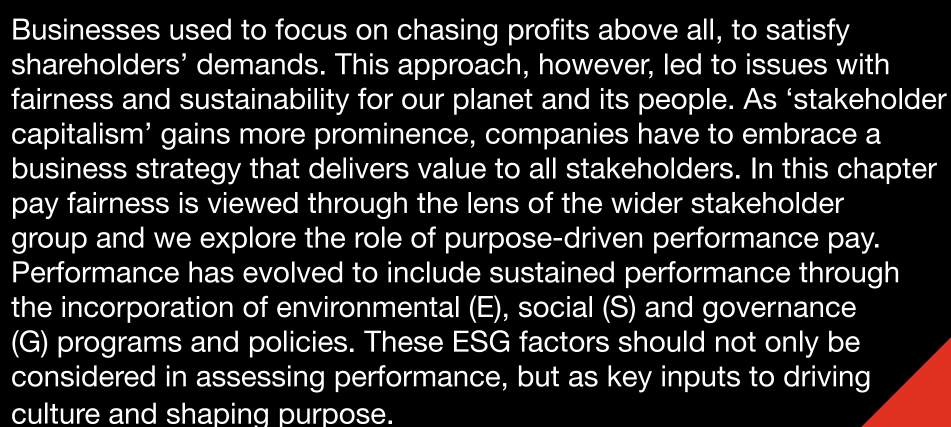
4 *Wider workforce fairness*

Shareholders (and society as a whole) are focusing on the executive-workforce pay disparity and how it should be addressed. Increasingly, we are observing companies investigate the need to introduce a living wage.

[3] PwC, 2023. 10 minutes on… Ebbs and flows: a low tide, but for how long? 2022 AGM Season, https://www.pwc.com.au/about-us/insights/non-executive-director/2023-many-hats-collaboration-series-remuneration-reporting-season.pdf
[4] PwC, 2022. Paying for good for all, https://www.pwc.com/gx/en/services/paying-for-good-for-all/Paying-for-good-for-all.pdf

Chapter 3

Stakeholder capitalism – rethinking reward



Businesses used to focus on chasing profits above all, to satisfy shareholders' demands. This approach, however, led to issues with fairness and sustainability for our planet and its people. As 'stakeholder capitalism' gains more prominence, companies have to embrace a business strategy that delivers value to all stakeholders. In this chapter pay fairness is viewed through the lens of the wider stakeholder group and we explore the role of purpose-driven performance pay. Performance has evolved to include sustained performance through the incorporation of environmental (E), social (S) and governance (G) programs and policies. These ESG factors should not only be considered in assessing performance, but as key inputs to driving culture and shaping purpose.

Purpose-driven pay for performance

In a post COVID-19 world where more and more companies are expected to contribute to, rather than extract from their environment, stakeholders demand visible resource investment and incentives to drive social and environmental change in the world. Companies' primary purpose used to be the creation of shareholder value, often at the expense of other stakeholders and the environment, but shareholders are realising that investment in ESG activities is necessary for sustainable growth.

A company's purpose must align with the interests of all its stakeholders, whether they are employees, suppliers, investors, customers or the society in which it operates. To further their purpose of being responsible corporate citizens and positively contributing to their environment, companies incorporate ESG measurements into their pay strategy. These ESG targets highlight companies' values and aspirations. More than ever, employees want to feel that their personal purpose aligns with that of their employer, and that there is no dissonance. Change and leadership start from the top and this requires companies to link the desired executive performance and targets to their stated purpose.

Social responsibility includes fair and purpose-driven performance pay. There is a global push for the definition of performance to be expanded to align executive pay with the experience of the broader workforce and hold executives accountable for non-financial performance, such as ESG factors. To encourage a certain type of behaviour or outcome, rewards are often given against set targets. By nature, this is better reflected in long-term pay incentives, especially since environmental changes are only seen after five to ten years. The question naturally arises: what does purpose-driven performance pay look like and what kind of metrics should such executive pay and incentives entail?

The missing ESG link to performance

Global trends related to ESG factors and targets in executive pay have emerged over the last three years. ESG targets are increasingly prevalent in company pay structures but the most common category in short-term incentives (STIs) is social targets (diversity, employee engagement, health, safety). Environmental targets (climate change, sustainability) remain the most common category in long-term incentive plans (LTIPs).

However, ESG targets are slowly changing, reflecting an increased use of environmental and social targets. This is where 'old' versus 'new' ESG measures come into play. The prevalent, well-established 'old' ESG measures (including health, safety, risk, employee engagement, and regulatory requirements) still feature strongly and are easier to implement due to companies' ability to exercise close control over these measures and their direct line of sight to shareholder value. However, the 'new' ESG measures (including climate change, sustainability, diversity, communities, decarbonisation and plastic reduction) are gaining traction and relate to companies' obligations towards a wider range of stakeholders — to support wider sustainability and social responsibility ambitions.

In the UK[1] context, a slight majority of ESG measures function as output (55%) rather than input (31%) measures and only a minority operate as underpinning to company purposes. Half of current ESG metrics have not been linked to material ESG factors (based on ESG dimensions categorised as material to the company) and many incorporated ESG measures deal with employee engagement, diversity and inclusion.

Introducing ESG targets to executive pay can prove difficult – ESG targets are difficult to measure reliably; often the true purpose of the ESG target is missed although the target was met; it may distort management's priorities if they are only focusing on certain targets; and executive pay packages are already complex to manage.

[1] PwC, 2021.Paying well by paying for good, https://www.pwc.co.uk/human-resource-services/assets/pdfs/environmental-social-governance-exec-pay-report.pdf

ESG and executive pay globally and in the JSE Top 100

The table below reflects the percentage of companies who have incorporated ESG into their incentive plans:

	STI	LTI	Either
Germany[2]	43%	63%	87%
UK[3]	63%	73%	93%
US[4]	55%	7%	55%
South Africa	72%	38%	81%

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

Based on insights gathered from a recent PwC UK report[5], a framework was developed to help companies consider ESG targets in their executive reward plans.

Boards should ask the following three questions:

1 What is the reason for considering the inclusion of ESG targets in executive reward?

What objective are we seeking to support?

- Shareholder value
- Shareholder preference
- Societal expectations
- Purpose litmus test

Have the alternatives to including ESG targets in the reward been considered and rejected?

- Rely on long-term shareholding requirements to create alignment with ESG?
- Publicly announce and report on targets to create incentive and accountability?

Are existing incentives incomplete or insufficient?

- Is there a potential trade-off between measures and ESG?
- Are existing incentives too short-term to capture the ESG priority?
- Is intrinsic motivation to pursue the priority insufficient?

What other benefits to including ESG in the reward need to be taken into account?

- Do we need to demonstrate commitment and priorities to stakeholders?
- Are we trying to create a more effective incentive for wider management to mobilise the organisation?
- Is there an ESG tail risk we are addressing that may not be reflected in existing measures?

[2] PwC UK research

[3] PwC UK research

[4] PwC UK research

[5] PwC, 2021. Paying well by paying for good, https://www.pwc.co.uk/human-resource-services/assets/pdfs/environmental-social-governance-exec-pay-report.pdf

2 Are the chosen ESG measures aligned with the company's strategy and focused on the big issues?

Are the ESG measures aligned to a strategic priority?

- Do we already use and report on the measure?
- Is the measure clearly aligned to business strategy?
- Do we have clear data on shareholder preferences or societal expectations, if these are our motivation?
- Is the ESG objective a critical aspect of our purpose?

Can we set appropriate stretch?

- Do we have data to enable us to set minimum expectations and a stretch target?
- Can we ensure that the target will not be seen as a 'soft option'?

Do the ESG measures reflect material issues that require a step change in performance?

- For shareholder value: is it material? (e.g. SASB Materiality Map)?
- For other motivations: does it satisfy the principles of materiality, multiplication, and comparative advantage?
- Is the measure one of a small number of ESG measures that are clearly first amongst equals, requiring a step change in performance?

Are there clear and assured measurement criteria?

- Is the measure simple and understandable for all parties?
- Will shareholders and other stakeholders accept that meeting the measure means the ESG objective is met?
- Can the measure be subject to independent assurance?

3 Have the risks of including ESG targets in the reward been considered and mitigated?

Can we measure the ESG priority we want to support?

- Are there quantitative measures that can be used?
- Is there reasonable consensus about these measures?
- Is the data readily available and of high quality?

Can we avoid distorting incentives?

- Do we risk undermining intrinsic motivation?
- How do we feel if this target was hit at the expense of other priorities that are not included in incentives?
- How might the target encourage behaviour that is inconsistent with the ESG goal?

Do the measures capture the ESG priority completely enough?

- What risk is there that we hit the target while failing to meet the intent of the measure?
- Are we capturing important qualitative as well as quantitative aspects?
- Could outcomes be perceived as unfair by executives?

Can we keep our pay plan simple enough?

- Can we measure the ESG objectives in a sufficiently simple way?
- Will we have to include multiple ESG metrics or will one or two be sufficient?

The hypothetical case study below illustrates the principles in a more practical manner[6].

Ubuntu Build is a building company focused on high-density residential units in the lower-to-mid-income segment. Ubuntu Build's purpose is 'safe and affordable housing for everyone'. The company has suffered from recent reputational challenges relating to regulations promoting cross-subsidised housing and association with safety issues relating to certain building materials. The company's health and safety record is also behind the industry average. The board has recently established a sustainability committee to oversee an extensive project to identify the various dimensions of the company's environmental footprint including materials sourcing, construction methods and environmental efficiency of built homes. Following recent board changes, one third of Ubuntu Build's directors are women. The board is facing pressure from stakeholders to include ESG metrics in pay and is determining whether and how to introduce such metrics. The company has a traditional pay package with short-term incentives (STI or bonus) and long-term incentive (LTI), predominantly based on profit, earnings per share, and cash flow metrics.

In deciding whether and how ESG targets should be implemented in executive pay, the board needs to consider the following framework.

Question 1: Why are we considering including ESG targets in pay?

Ubuntu Build has received a number of representations from various stakeholders, motivating for the inclusion of stakeholder metrics:

- Investors want to understand how Ubuntu Build is taking climate change into account in its strategy and some investors have directly asked that Ubuntu Build include climate goals in executive pay.
- The industry has attracted attention from various stakeholders, and an influential shareholder recently addressed Ubuntu Build with concerns about their health and safety record, treatment of workers (including issues related to wages), executive compensation levels, and gender diversity within the company. The shareholder suggested a linkage between pay and health and safety, as well as diversity targets, citing these as aligned with contemporary societal expectations.
- Ubuntu Build's purpose statement includes references to sustainability and using the company's position as leading industry employer to make a difference in the area of diversity.

Therefore, there are potential motivations for including ESG targets in pay. Taking this feedback into account, and following an ESG strategy review by the company to identify key priorities, the board is considering incorporating the following targets into pay:

- Environment and sustainability
- Health and safety
- Diversity
- Pay fairness

Ubuntu Build has a conventional pay scheme based on traditional financial targets. Its incentives are financially driven, and do not reflect the ESG dimensions in the short term. Therefore the board believes that balanced incentives may be required.

ESG issues relating to the environment and sustainability tend to have very long timescales — far beyond incentive timescales and, in many cases, executive tenure. For example, emissions and the impact of climate considerations on land (availability and location), housing quality issues (e.g. foundations, materials), ecological performance issues and ownership structures may take ten years or more to emerge. Even LTIs may fail to incorporate these ESG issues into executive pay, as the reasonable timeframes for these plans could be too short to reflect the outcomes in the share price.

The board considers further benefits of including ESG targets in executive pay plans. Health and safety issues can lead to reputational, recruitment and regulatory issues. Considering the company's current reputation, the board recognises the importance of demonstrating the company's commitment to ESG issues both internally and externally. The newly appointed CEO is actively working to foster a culture change related to safety and sustainability and emphasises the significance of aligning incentives throughout the organisation to drive this transformation. The company anticipates that meeting these new sustainability standards may impact short-term profitability. The CEO aims to strike a balance in managerial pay incentives to address any concerns about potential reductions in payouts due to strategic changes. After thorough deliberation, the board concludes that there is a strong rationale for incorporating ESG metrics into their incentive plans.

[6] The case study in this article was adapted from the case study featured in the 2021 PwC report, Paying well by paying for good, https://www.pwc.co.uk/human-resource-services/assets/pdfs/environmental-social-governance-exec-pay-report.pdf

Question 2: Are the chosen ESG measures aligned with the company's strategy and focused on the big issues?

Ubuntu Build has received various representations from key shareholders relating to the company's alignment of its strategy with the Paris climate change agreement. Climate change and sustainability are key to the company's future commercial strategy and the associated goals reflect important strategic, investor and societal dimensions. Health and safety, diversity, and fair pay issues affect important stakeholders and the company's current situation necessitates alignment with societal expectations. These issues also align with the company's purpose of providing safe and affordable housing. The Ubuntu Build board tests its thinking by assessing material ESG issues for the building sector, using the Sustainability Accounting Standards Board (SASB) Materiality Map®. According to this framework, the following metrics are potentially material in this sector:

- Ecological: green vs brown developments; impact of sites on biodiversity and water stress; environmental litigation; integration of environmental considerations into site selection, design, development and construction.
- Product design: sustainable homes - environmental scores and standards, covering materials and usage.
- Employee health and safety: fatal and non-fatal injuries; reporting regulations.
- Business Model Resilience: flood zone exposure; climate risks, exposure, resilience and adaptation

The board has to consider which ESG measurement areas are material to its strategy and purpose. Environment and sustainability, and employee health and safety measures are material because they support societal expectations, investor preference and company purpose. Diversity and fair pay are not deemed material under the SASB Materiality Map® and the company already has a diverse workforce accompanied by good pay and working conditions. Female representation is ahead of the industry curve and there is a risk of 'narrow-framing' if only one metric (such as the % of women in senior management) is chosen. Health and safety measures are well established. However, environment and sustainability goals are new and evolving. To address this, the board has chosen a scorecard approach with qualitative overlay, which adds complexity but allows the scorecard to remain manageable.

In the end, the board decided that climate and sustainability, and health and safety are the two most important material measures and also suitable to include in its pay incentives. Diversity and fairness would rather be subject to five-year targets (announced publicly and progress disclosed and reported on).

Question 3: Have the risks of including ESG targets in the reward been considered and mitigated?

The board has decided that the chosen measures – climate change and sustainability, and health and safety – are suitable as they can be reliably measured. The health and safety metrics are strong indicators of a robust safety culture and will support the company's objectives, without overcomplicating its incentive structure. Some concerns were raised about the implementation of the climate change and sustainability measures, and these will be carefully monitored.

Outcome:

In the end, the Ubuntu Build board decided to incorporate the ESG measures as key performance indicators (KPIs) in the following manner:

Selected KPIs	How KPI was incorporated	Reasoning
Health and safety	Included as a modifier that reduces annual bonus by max. 20% based on performance against targeted improvement.	Material KPI for shareholder value; helps reduce tail risks for the company and is aligned with purpose.
Environment and sustainability	Scorecard of key environment and sustainability KPIs weighted 15% in the LTI.	Material KPI for shareholder value; aligned with shareholder welfare, societal expectations and purpose.
Diversity/inclusion and pay fairness	Not included in pay but retained in the company's sustainability plan; subject to regular reporting.	Important KPIs but complex to include in pay due to their multi-dimensional nature.

Drawing insights from a large number of surveys and interviews conducted by PwC and the London Business School Leadership Institute[7], involving companies from across the globe, the following five key recommendations for implementation were identified:

Tell the story and link it to the strategy

It is important to create a narrative that explains to all stakeholders how the chosen pay incentives align with the company's strategy and underlying values. Understanding how the ESG goals connect and interact with your business strategy, will build credibility from within (among your employees) and outside of the company (with other stakeholders, such as investors).

Lead with culture and then support with pay

Culture always takes precedence over pay. Pay becomes a tool in fostering a culture that supports sustained efforts to drive ESG initiatives in the company. Other tools to reinforce a supportive ESG culture include training, performance management, recruitment, and promotion. The research emphasised that companies have to tailor their reward strategy in support of ESG targets to align with their specific business and environment. ESG pay metrics might not be the best tool for achieving a company's goal of fostering employees who behave responsibly and 'do the right thing'. Having effective sponsorship and an involved board will ensure that companies stay true to their main business strategy and not give in to trends or unreasonable stakeholder demands.

Engage, communicate and empower your employees

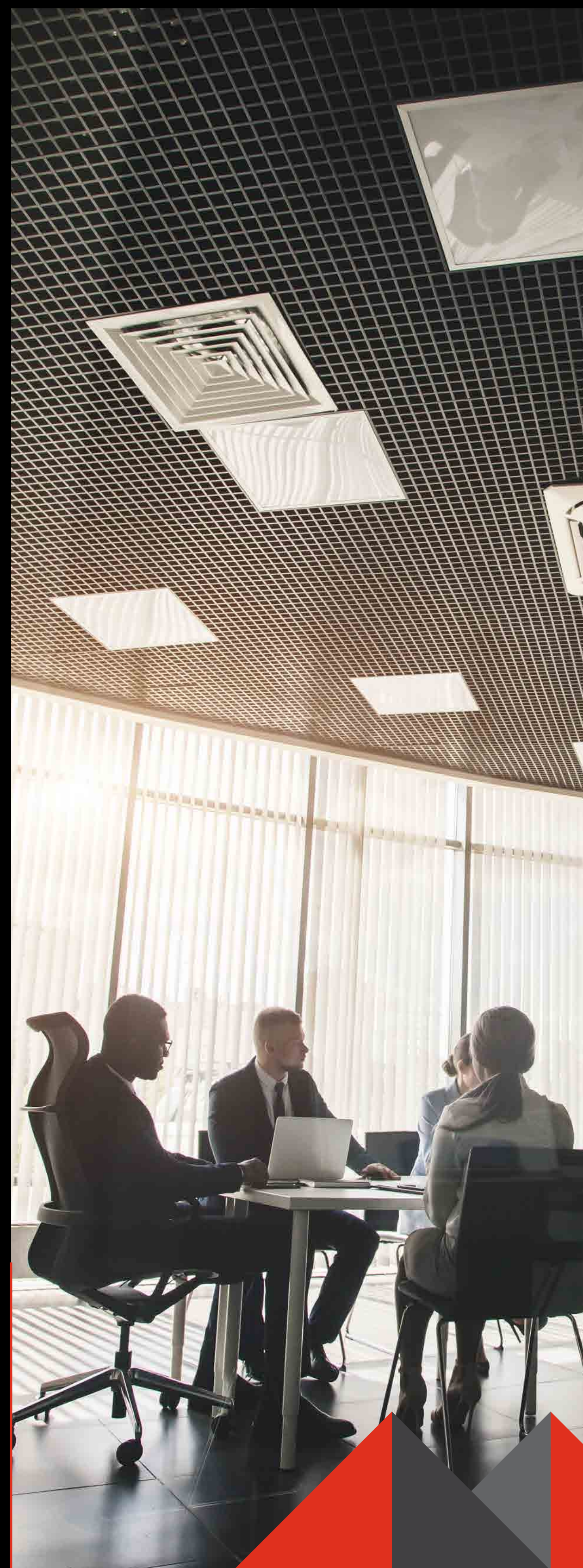
Engagement and communication are key to building a sustained ESG strategy with clear goals and buy-in from all levels of the company. The research revealed that many of the companies interviewed indicated that they regret not engaging more with their employees. You need to know which ESG issues matter most to them and get their input on the development and design of the incentive plan.

Build capacity and collaboration

Executive pay incentives with ESG performance integration may require that Human Resources (HR) collaborate with other functions or departments within the company. For instance, if the company has a sustainability team, they would be valuable in advising on the appropriate ESG targets to incorporate into the pay incentive. Overall, a multidisciplinary advisory group (across departments) would be able to give useful feedback to the board about new ESG proposals.

Maintain a focus on value

Sustained ESG performance can certainly create value but there is still a tension between being a responsible corporate citizen, by supporting environmental and social issues, and driving financial performance. As a result, many companies may hesitate to compensate for non-financial aspects, such as the achieving of ESG targets, in weaker economic times. However, companies who execute their ESG strategy by linking it to their executive pay outcomes in a meaningful manner, will be the winners in the long run.



[7] PwC, 2022. Paying for good for all, https://www.pwc.com/gx/en/services/paying-for-good-for-all/Paying-for-good-for-all.pdf

Chapter

4

Wider workforce – redefining reward

Globally, employers and employees alike are facing rising inflation, fear of a global recession, geopolitical uncertainty, and in South Africa, a lack of service delivery and high levels of unemployment. The combined effect of all these factors further widens the economic gap, and puts the working population under immense pressure to deal with competing priorities in the short- and long-term.

In the midst of these pressures, our Global Workforce Hopes and Fears Survey[1] reveals that the workforce is becoming more critical of their environment. Employers are still dealing with the ripple effects of the great resignation with 37% of Africa's workforce likely to change employers in the next year (compared to 16% last year). The workforce are seeking opportunities that align with their personal purpose, and are looking to entrepreneurship and opportunities that directly support social responsibility. They are also seeking job opportunities that offer higher salaries and support their individuality by providing a more holistic work experience.

In this chapter we look at the things companies should consider — or reconsider — to advance fairness, which will lead to enhanced employee value propositions in a context where new challenges have emerged in the post-pandemic workplace, such as the weak future job growth, the rising cost of living, elevated interest rates, and the decline in buying power over the past year.

Pay and employee satisfaction

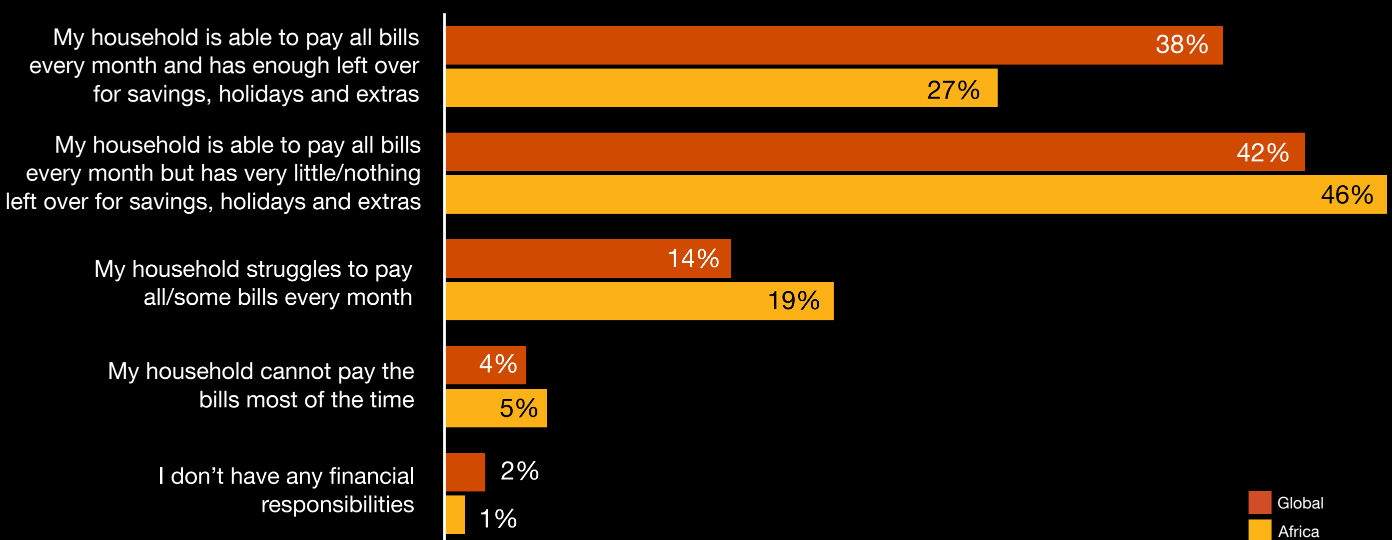
A myopic lens may render the economic climate in South Africa bleak, but in reality, employees around the globe are feeling the squeeze. The proportion of workers who say they have money left over at the end of the month declined from 47% (2022) to 38% this year[2]. And the share of respondents who struggle to pay their bills each month, or can't pay them most of the time, increased to 17%, from 12% last year[3].

Of the respondents from African countries surveyed, only 27% could pay their bills and still have money left for savings and luxuries. 25% of respondents have two jobs, which is in stark contrast to the 16% of global respondents[4].

Financial security – Global vs Africa[5]

The level of financial security in the workforce has decreased since 2022

Which of the following best describes your current financial situation?



(Source: PwC's Global Workforce Hopes and Fears Survey 2023 – African Perspectives)

[1] PwC, 2023. Global Workforce Hopes and Fears Survey 2023, https://www.pwc.com/gx/en/issues/workforce/hopes-and-fears.html?WT.mc_id=CT2-PL200-DM3-TR2-LS4-ND30-TTA1-CN_GX-FY23-XLOS-hopes-fears-email-staff
[2] See reference above.
[3] See reference above.
[4] PwC, 2023. Global Workforce Hopes and Fears Survey 2023 (African perspectives), https://www.pwc.co.za/en/publications/global-workforce-hopes-and-fears-survey.html

"Fair remuneration acknowledges that all workers should receive a minimum level of remuneration that enables them to participate in the economy." A guide and application of King IV®: Governance of remuneration.

When considering the outcomes of the survey, the question around fairness from the perspective of the wider workforce is one of the first that comes to mind. It is evident that cost of living should be the top priority on companies' agendas when discussing and deciding on employee rewards and pay.

The reasons are obvious: Financial stress is debilitating for employees and companies alike. In PwC US's 2023 Employee Financial Wellness Survey[6], it was found that in addition to harming people's emotional and physical well-being, the economic stress experienced by employees negatively impacts their productivity and engagement. Financially stressed employees were nearly five times as likely to say that personal finance issues have been a distraction at work.

Companies have to consider meaningful interventions to address cost of living concerns.

PwC UK's 2022 survey findings suggest certain focused interventions[7]:

Greater segmentation by awarding pay increases to targeted groups, with a focus on essential workers, critical roles, 'hot' skills and retention risks.

Redistributing pay budgets by shifting companies' spending from higher-paid workers (such as executives) to lower-paid employees and those lowest in their applicable pay band.

Increasing the pay review frequency by moving away from the (traditional) annual review cycle to more regular reviews (across the entire workforce or job specific).

Maintaining fairness guardrails by striking a balance between good governance and fair decision-making with flexibility and devolved decisions for critical roles.

Offering alternatives to money by investigating non-cash support for employees. These could be staff discounts and travel vouchers. Specifically in South Africa, companies can consider contributing to home internet solutions for a flexible working environment or offering additional support to minimise the impact of loadshedding (in work-from-home situations).

Time to rethink fair pay – it's about more than just money

However, fair pay goes further than just addressing increasing living costs.

We have identified three key actions employers should be thinking about when considering wider workforce pay fairness:

- foster talent and skills;
- rethink reward models; and
- look at the total deal and not just at the money.

Foster talent and skills

Survey results[8] show that 39% of respondents who live in Africa, think that employers focus too much on job history and not enough on skills. Furthermore, 43% (vs 35% globally) state that they possess skills that are not being utilised in their roles or reflected on their resumes. The respondents are also actively seeking ways to upskill themselves and 84% believe that adaptability and flexibility are critical skills for the next five years.

Delving further, 55% of these employees' work satisfaction has remained similar to previous years, but the likelihood of them making changes to their working situation has increased. The survey shows that:

51% (vs 21% in 2022) of employees are more likely to ask for a pay increase.

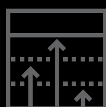
52% (vs 19% in 2022) of employees are more likely to ask for a promotion.

37% (vs 16% in 2022) of employees are more likely to change employers.

[8] PwC, 2023. Global Workforce Hopes and Fears Survey 2023 (African perspectives), https://www.pwc.co.za/en/publications/global-workforce-hopes-and-fears-survey.html

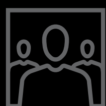
In South Africa an even greater specialisation gap exists, due to the 'brain drain' the country has experienced over the last decade. It has become evident that reward, including fair pay, is now about more than just rands and cents. It is also about job satisfaction. Reward can effectively be leveraged to retain key talent, and should also be used to identify and cultivate existing, hidden talent within organisations.

In a survey conducted by PwC UK[9] 78% of reward specialists say that their approach to dealing with talent scarcity and a high attrition rate involves reward and pay budgets. However, this is used in combination with other interventions as part of the overall offering. They are addressing skills shortages by introducing greater flexibility, supporting overall employee wellbeing, introducing remote working, and offering more avenues for career growth.



Greater flexibility – working days, hourly patterns, etc.

Introduction of international working policies – including remote working or setting up international talent pools.



Wellbeing – additional support for financial and personal. wellbeing.

Training and career pathways.

PwC, The great rethink survey 2022

Rethink total reward models

Employees want to know that they matter to the company and are appreciated. Insights from the survey reveal that half of employees find their jobs fulfilling and say they can truly be themselves at work. These findings are comparable to those recorded in the previous year's survey. Notably, those who said that they were likely to change jobs in the next 12 months are also less likely to say that they find their work fulfilling, or that they can be themselves at work. Obviously these factors play a key role in employees' decision to switch companies. Consequently, turning your reward focus towards enhancing your Employee Value Propositions (EVP) is becoming increasingly important.

Companies can enhance their EVP through strategic and innovative reward programmes, which help them manage pay progression and contribution. Possible strategies include[10]:

- targeted, mid-year increases;
- employee recognition programmes;
- alternative bonus awards granted outside of the pay cycle;
- enable wealth creation opportunities through equity and profit share schemes; and
- frequent full pay reviews (structural reviews and pay segmentation models).

[9] PwC, 2022. The great rethink survey, https://www.pwc.co.uk/human-resource-services/pdf/great-rethink-employer-survey.pdf

[10] See reference above.

Consider the complete package

EVPs tie in with your people strategy that sets the tone for who your people are, what experience you want to offer them, and what the overall business culture and environment is. The people strategy serves as your blueprint for addressing all reward and human capital issues in a coherent way and to guide you on how to deliver on the promises made to your people. From here it is a clear path to developing your reward framework to address pay and the new priorities of flexibility, wellbeing, talent recognition and career development.

Purpose / vision

Values

People strategy

EVP

Reward and talent strategy

PwC, The great rethink survey 2022

- The people strategy incorporates who your people are, the experience you want to provide them and the overall culture of the business.
- The overall EVP brings to life how the organisation will deliver on its promise to its people, encompassing all the elements above.
- From this you can develop the reward framework – decisions on pay but also the new priorities around flexibility, wellbeing, career development.
- From here – proof points and investments can be built that connect to the strategy. Career path frameworks and recognition programmes are common examples.

Why change is good

Workplace reward, including fair pay, has become more complex and nuanced, with money representing just one element of the offering. Base pay is still important but existing and potential employees increasingly require robust employee value propositions of a more strategic nature. It pays to reward well. Companies who reward their workforce fairly and in line with their personal goals, will reap the benefits in terms of enhanced innovation, higher employee engagement, and continued value creation.

Chapter 5

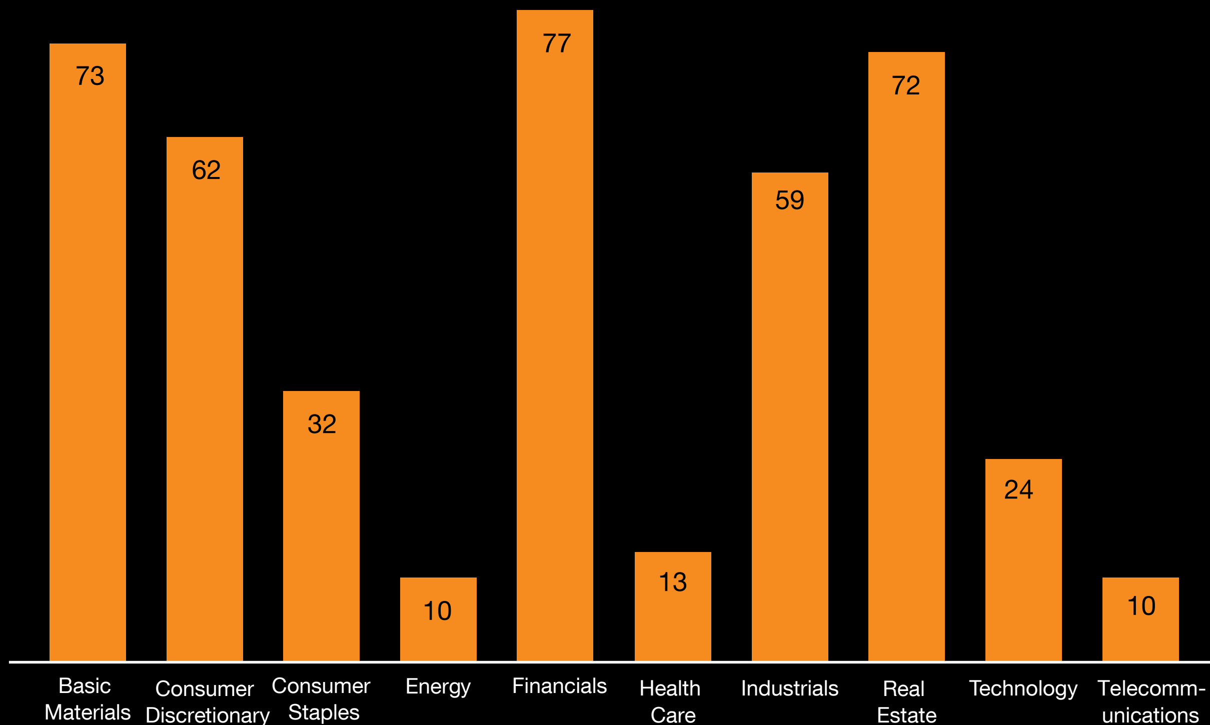
Profile of an executive director

In this chapter we look at the profile of an executive director (ED) and consider average tenure, representation (race and gender) and pay differentials (race and gender).

This year, rather than providing insights for various sample groups, we refined our approach to focus exclusively and consistently on data for the Johannesburg Stock Exchange (JSE) Top 200 companies. Our analysis is based on information that is publicly available from 1 March 2022 to the cut-off date (28 February 2023) and is focused on EDs that have been in role for a period of at least 12 months (excluding incoming and/or outgoing EDs). We have excluded preference shares, special-purpose listings and companies that were suspended as at the cut-off date.

As at 28 February 2023, the JSE Top 200 consisted of 432 EDs, comprising 163 CEOs, 153 CFOs and 116 other EDs who were in role. This analysis is based on active directors as at 28 February 2023. In instances where EDs have resigned from their roles as at the cut-off date, we have excluded them. EDs appointed after the company's financial year end, have also been excluded from the analysis as they would not have been included in the latest integrated report.

Figure 5.1: Number of EDs per industry (JSE Top 200 companies)

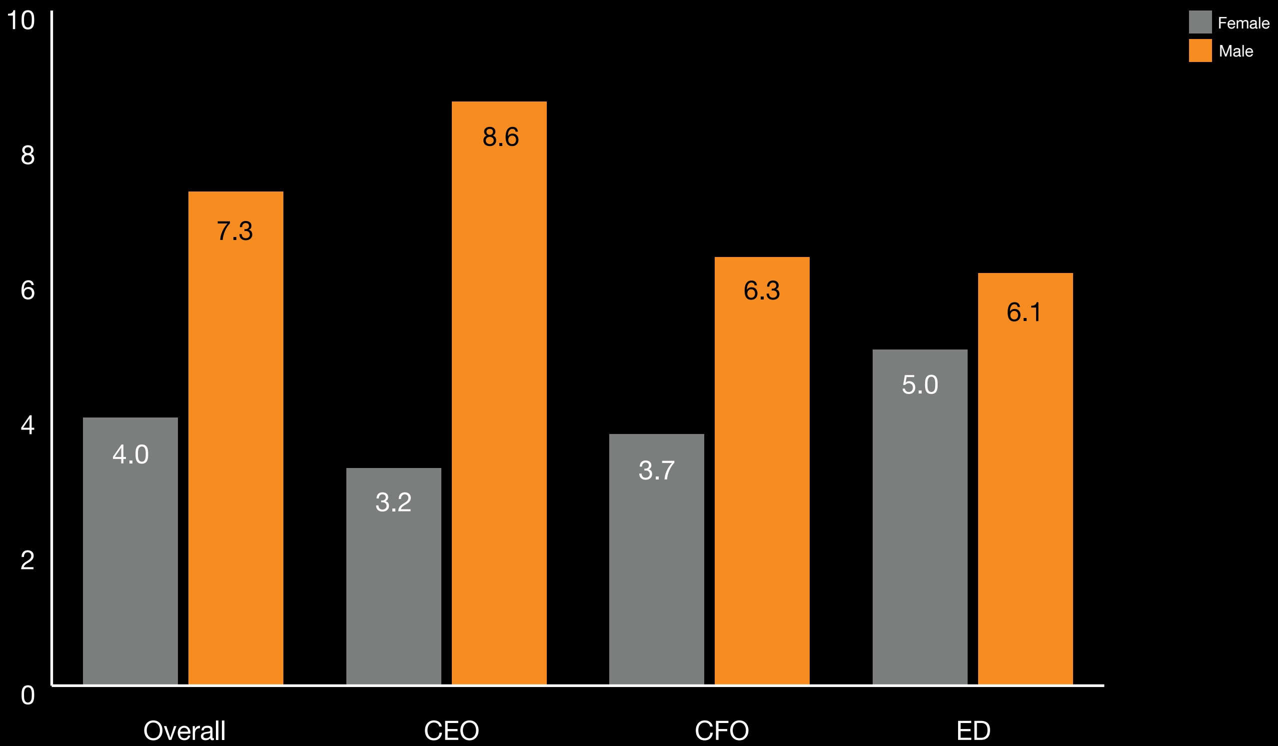


Source: PwC analysis

Tenure

The analysis shows that females have been in roles for a shorter duration than their male counterparts, with overall male EDs averaging a tenure of 7.3 years and overall female EDs averaging 4 years. Male CEOs are averaging a tenure of 8.6 years, with female CEOs averaging 3.2 years.

Figure 5.2: Average tenure (years) of EDs per gender (JSE Top 200 companies)



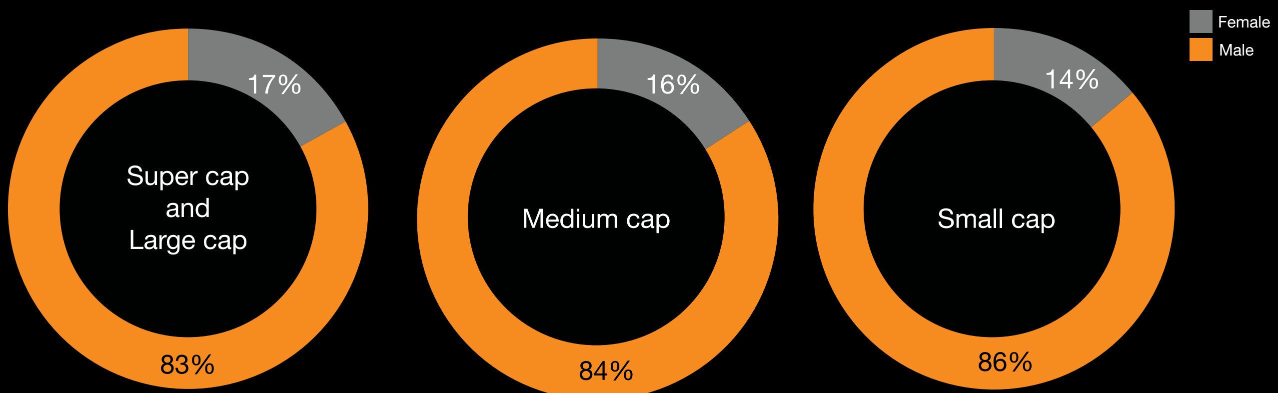
Source: PwC analysis

Gender

Gender representation

Only 15.6% (67 women) of the ED population among the JSE Top 200 companies as at the cut off date is female (including CEOs and CFOs). The overall level of female representation is similar across companies of different sizes (i.e. Large, Medium and Small cap), ranging from 14%–17%.

Figure 5.3: Gender representation by company size (JSE Top 200 companies)



Source: PwC analysis

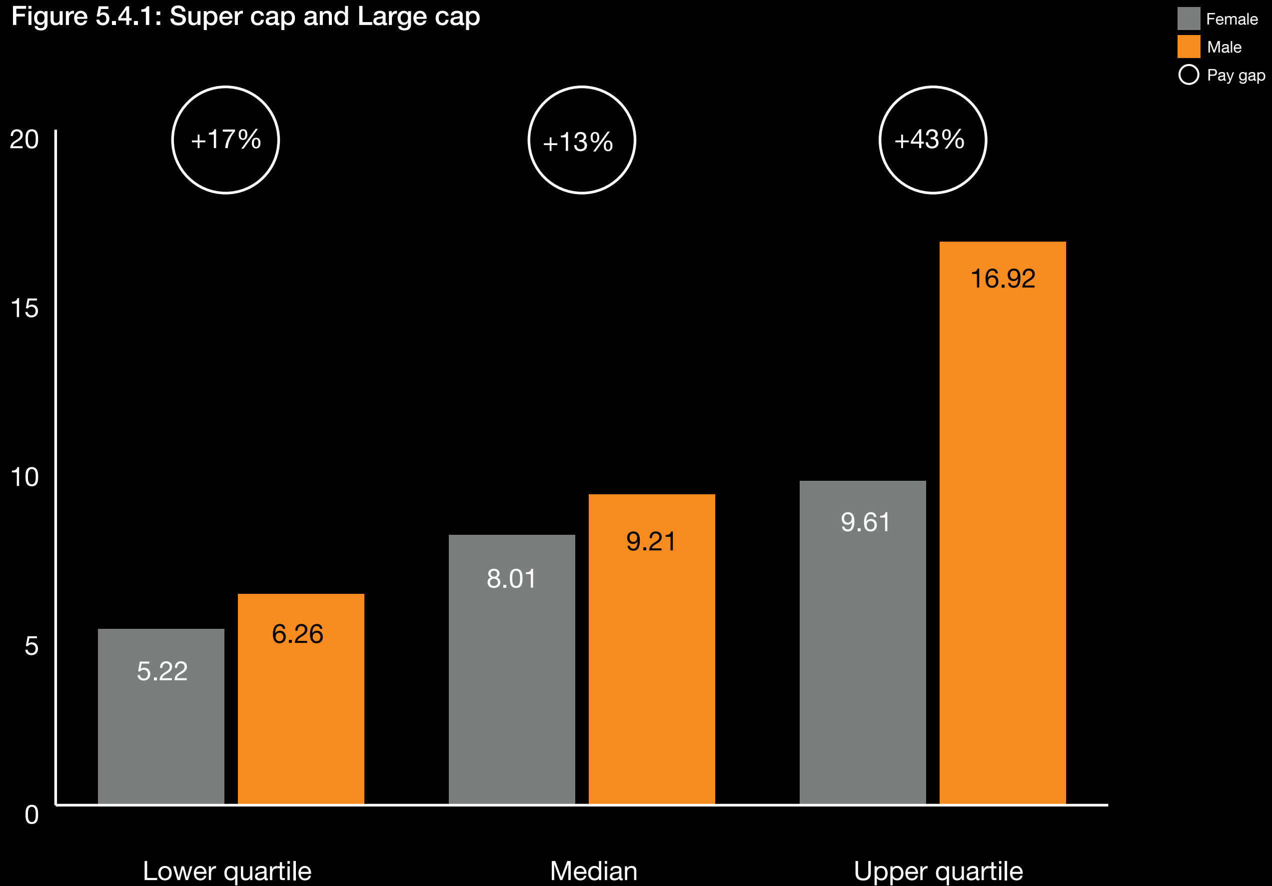
Wage gap

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

Super cap and Large cap companies had pay gaps of 13% at the median and 43% at the upper quartile. The wage gap has improved from last year (2022: 32% at the median and 49% at the upper quartile pay gap). Medium-cap companies had pay gaps of 19% at the median and 12% at the upper quartile (2022: 16% at the median and 30% at the upper quartile). Small cap companies had pay gaps of 22% at the median and 31% at the upper quartile (2022: 34% at the median and 29% at the upper quartile). (Note last year's analysis was performed for the Top 100 companies only).

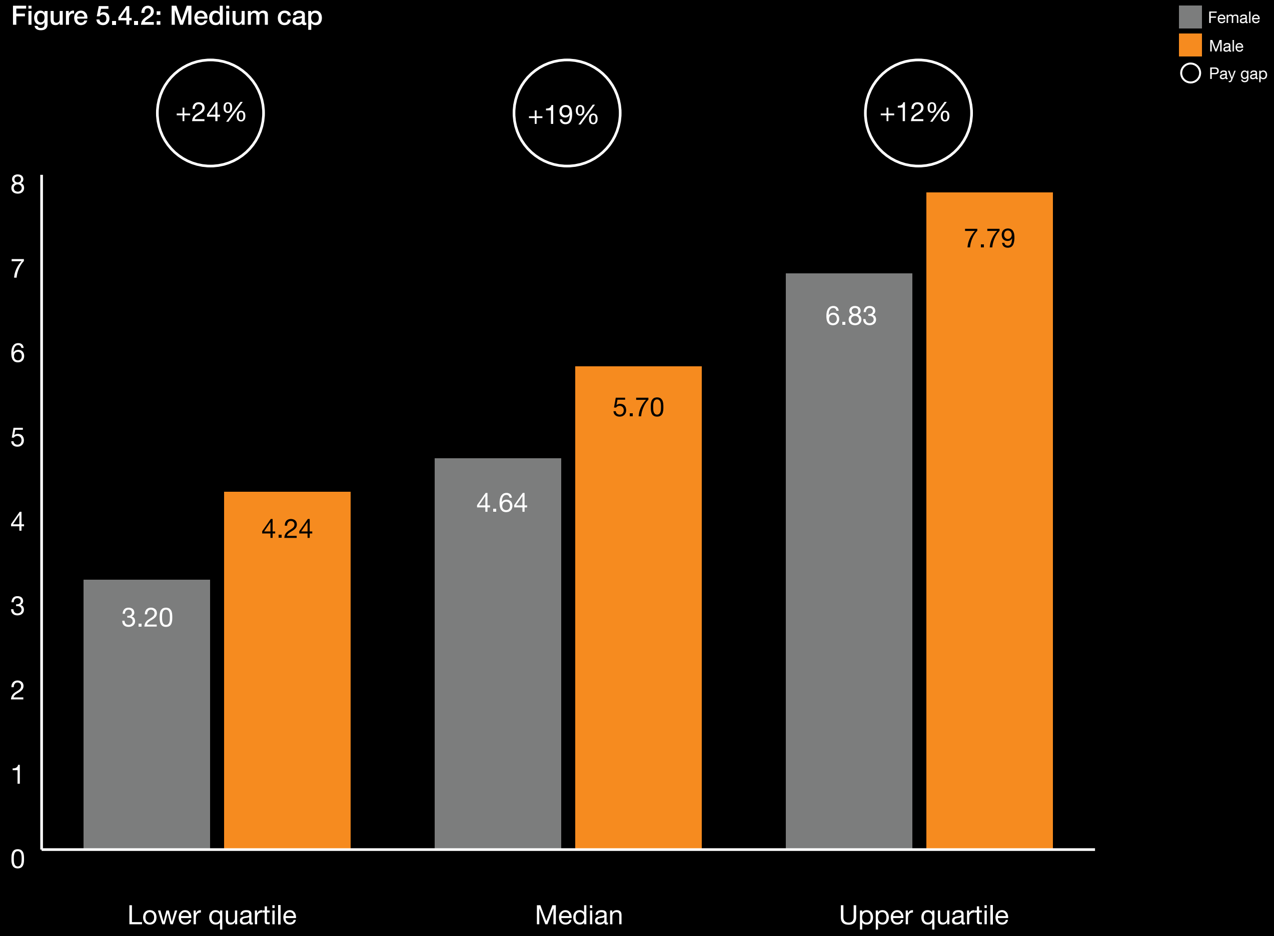
Gender TGP (R'm) quartiles and pay gap by company size (JSE Top 200 companies)

Figure 5.4.1: Super cap and Large cap



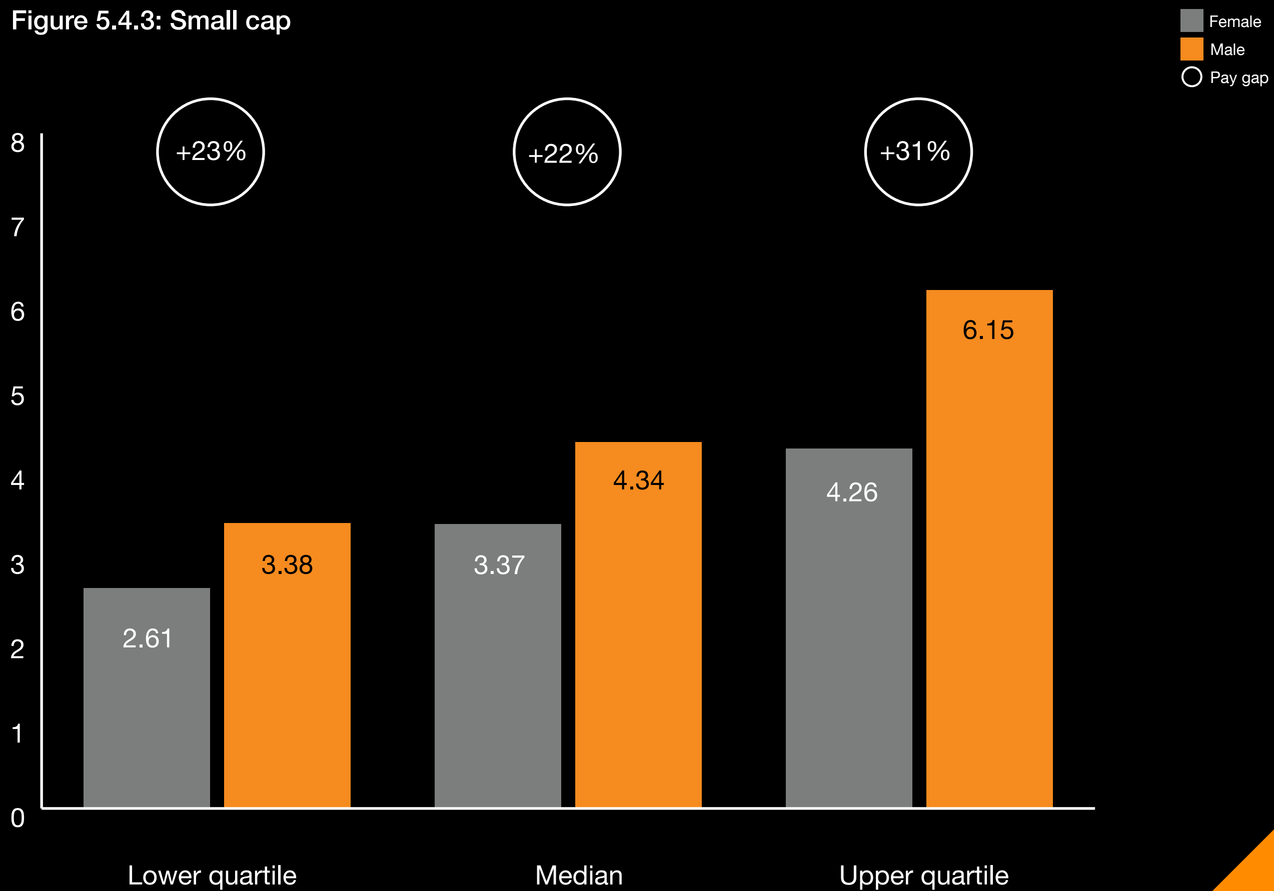
Source: PwC analysis

Figure 5.4.2: Medium cap



Source: PwC analysis

Figure 5.4.3: Small cap



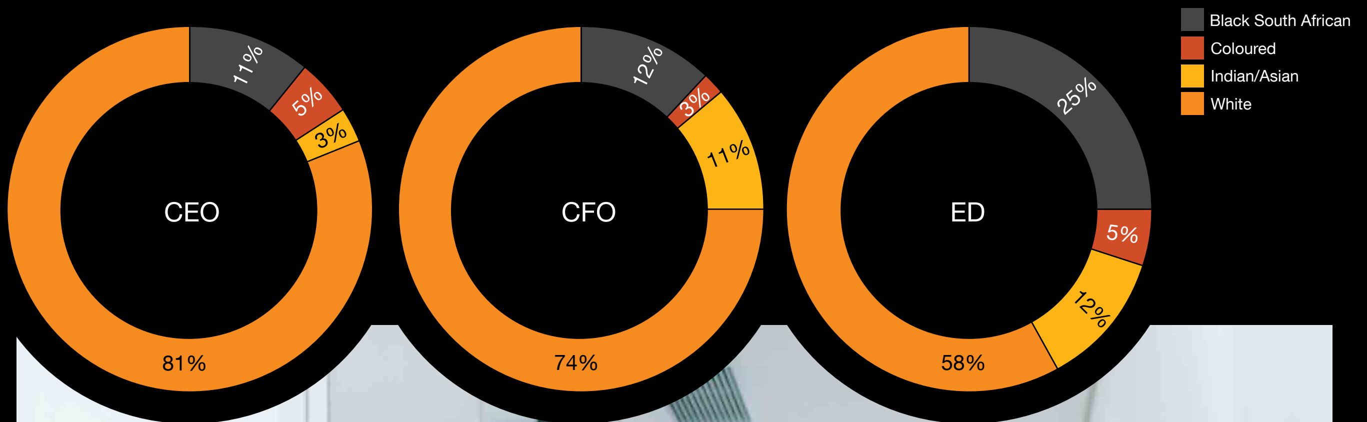
Source: PwC analysis

Race representation

We have analysed the racial diversity among the JSE Top 200 companies by focusing on the ED roles rather than company size. As non-South African citizens do not classify themselves according to the South African race categories, non-South African EDs could not be included in this analysis.

Black South African, Coloured and Indian/Asian representation at CEO level for the Top 200 companies remain low with a combined representation of 19%. Similarly to the CEO representation, the Black South African, Coloured and Indian/Asian representation for CFOs of the Top 200 companies is a combined 26%. Representation of other EDs is far better than CEOs and CFOs with 42% of other EDs (excluding CEOs and CFOs) being Black South African, Coloured and Indian/Asian. These numbers should not be compared to 2022's analysis which was based on the Top 100 companies.

Figure 5.5: CEO, CFO and ED representation by race (JSE Top 200 companies)



Source: PwC analysis

Race pay gap by role

Figure 5.6: TGP (R'm) race pay gap per role (JSE Top 200 companies)

Figure 5.6.1: CEO

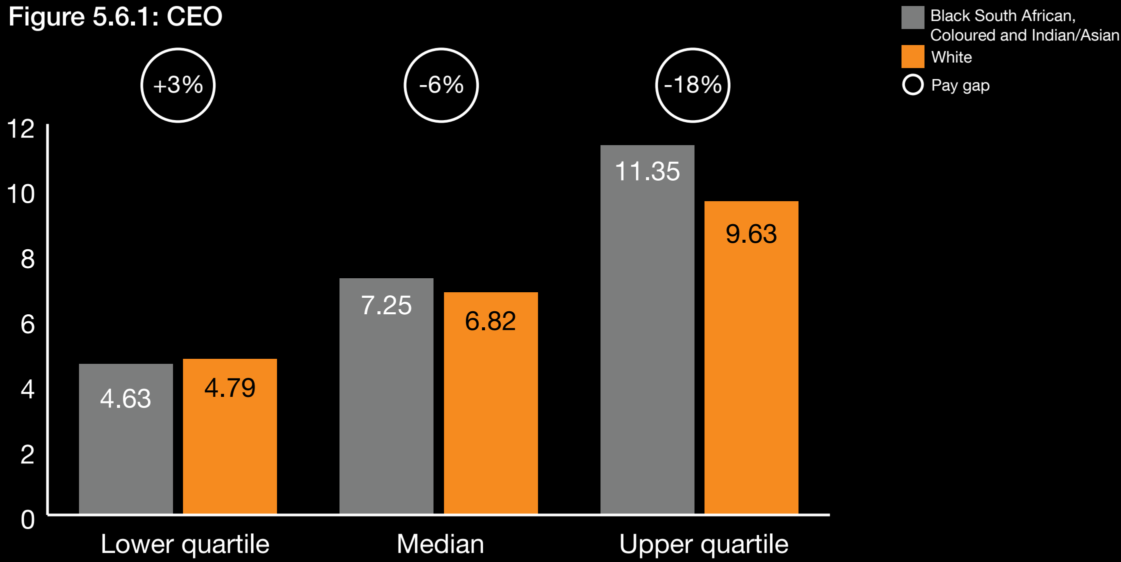


Figure 5.6.2: CFO

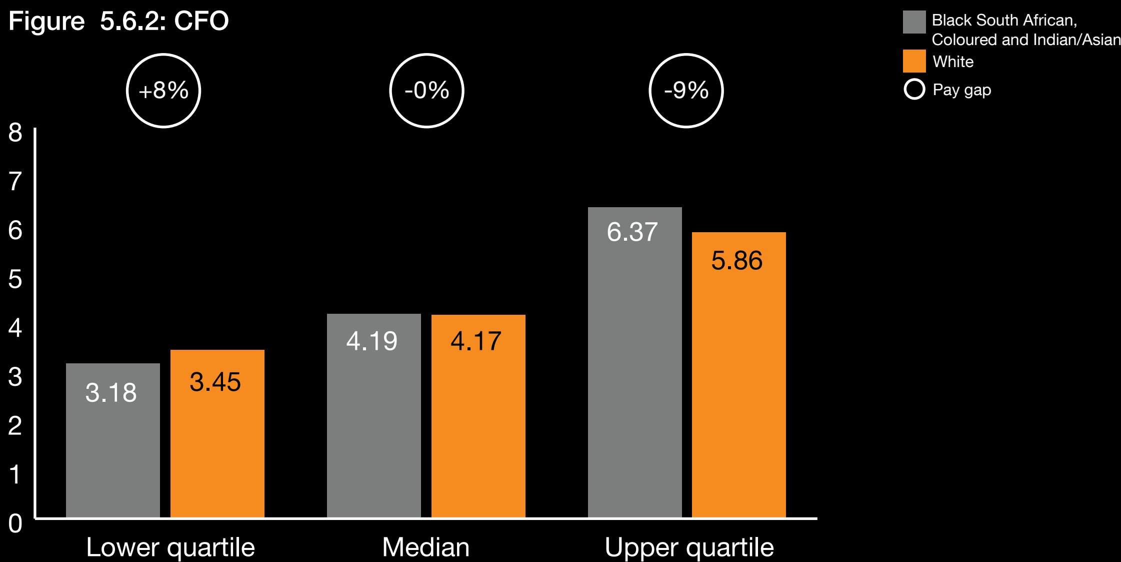
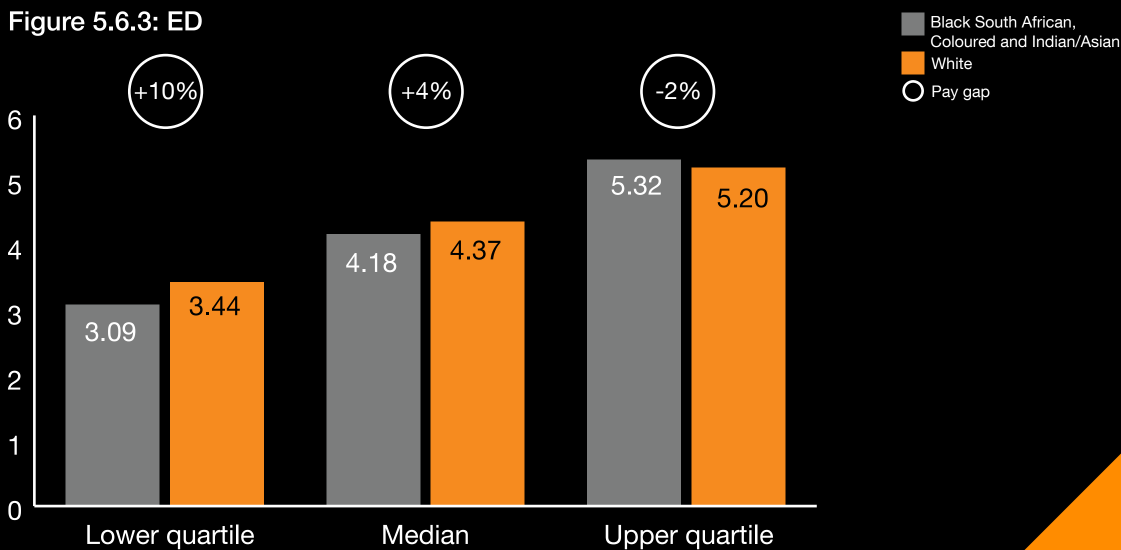
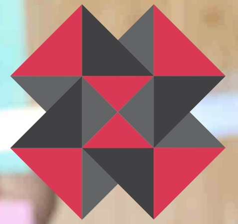


Figure 5.6.3: ED



Source: PwC analysis



Chapter

6

Executive director remuneration analysis

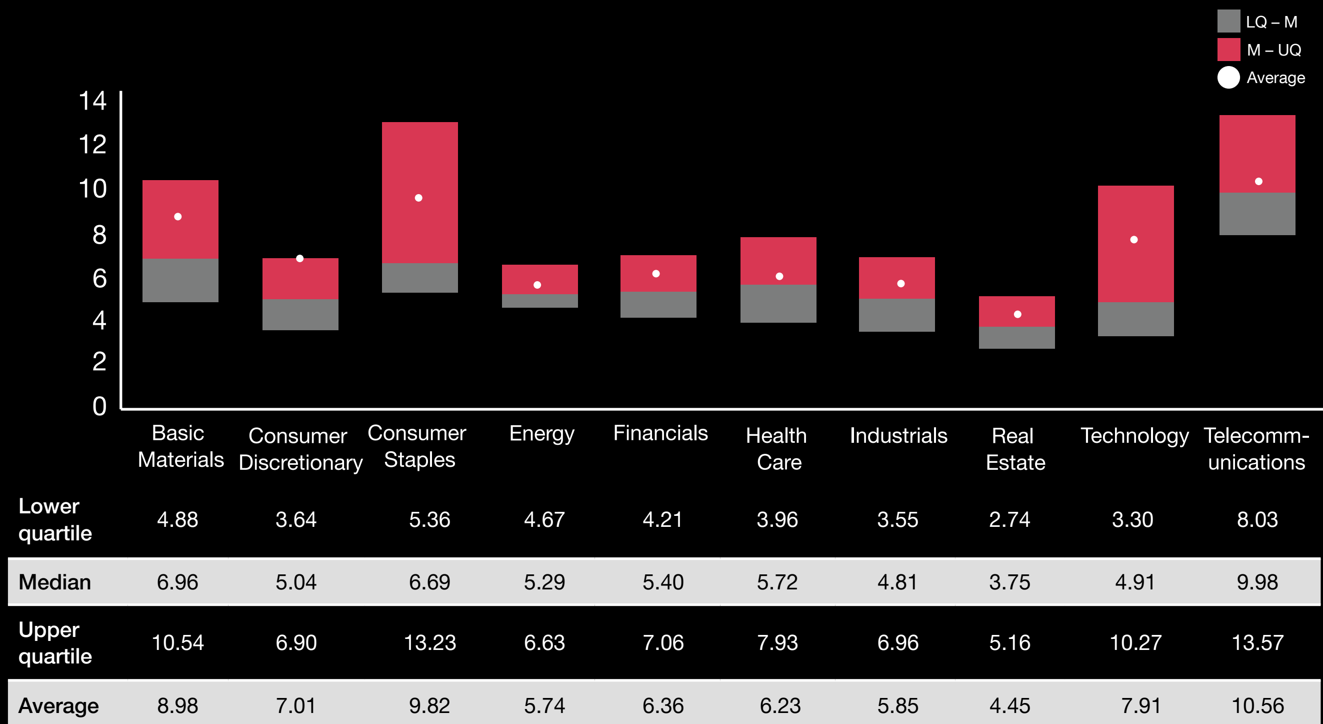
This chapter analyses remuneration paid to executive directors of the Top 200 companies listed on the Johannesburg Stock Exchange (JSE). We analyse the total guaranteed pay (TGP) and short-term incentive (STI) outcomes. For the first time, we also provide an overview of long-term incentive (LTI) vesting outcomes outcomes for Super and Large cap companies.

For simpler report navigation, data for the JSE Top 200 companies across all industries, segmented by size, is provided in this report. Industry-specific data is available online and can be navigated in the report.

Total guaranteed package

TGP represents the fixed component of total remuneration, which includes the base salary plus any cash value attributable to benefits.

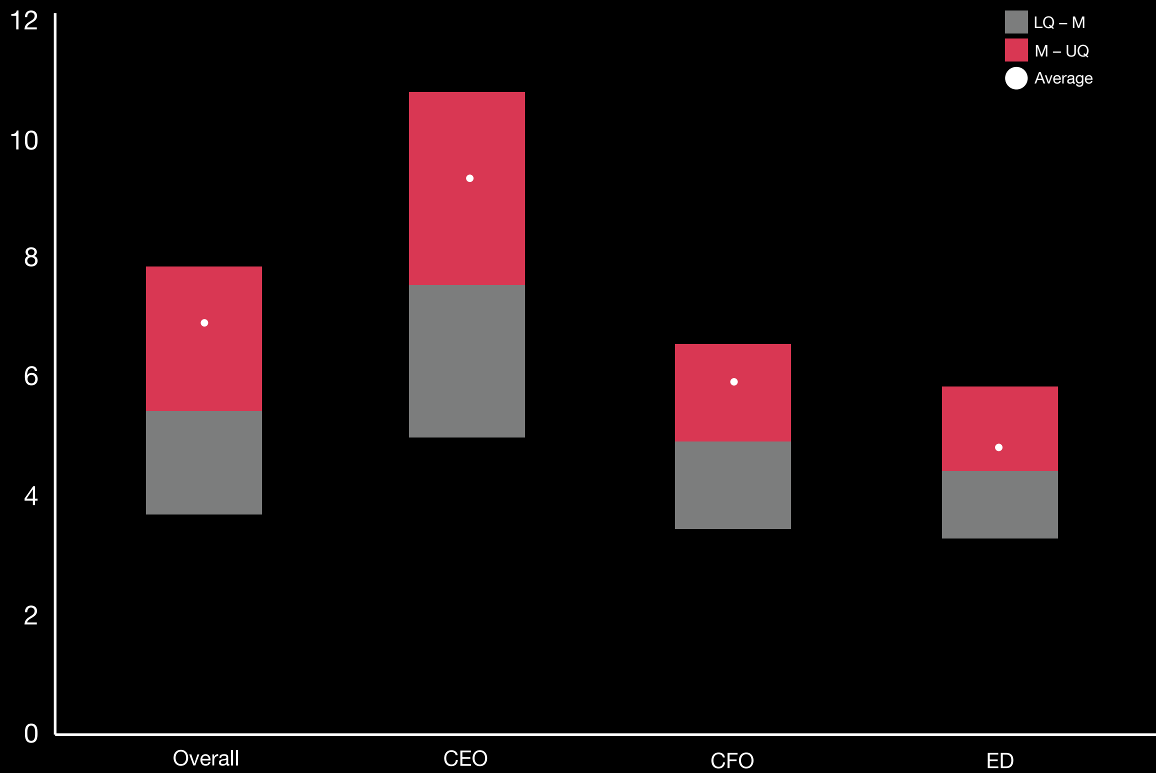
Figure 6.1.1: TGP (R'm) per industry (JSE Top 200 companies)



	Basic Materials	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Real Estate	Technology	Telecomm-unications
Lower quartile	4.88	3.64	5.36	4.67	4.21	3.96	3.55	2.74	3.30	8.03
Median	6.96	5.04	6.69	5.29	5.40	5.72	4.81	3.75	4.91	9.98
Upper quartile	10.54	6.90	13.23	6.63	7.06	7.93	6.96	5.16	10.27	13.57
Average	8.98	7.01	9.82	5.74	6.36	6.23	5.85	4.45	7.91	10.56

Source: PwC analysis

Figure 6.1.2: TGP (R'm) per role (JSE Top 200 companies)



	Overall	CEO	CFO	ED
Lower quartile	3.71	5.00	3.46	3.32
Median	5.43	7.55	4.94	4.43
Upper quartile	7.84	10.79	6.55	5.85
Average	6.93	9.36	5.93	4.84

Source: PwC analysis

Super cap (Top 10)

Super cap represents the Top 10 companies on the JSE. The Top 10 JSE companies are shown in the table below, and the figures that follow illustrate the remuneration averages as calculated for these companies.

Table 6.2: JSE Super cap companies

JSE Super cap companies		
Rank	2023	2022
1	BHP Group Ltd	BHP Group Ltd
2	Prosus N.V	British American Tobacco plc
3	Anheuser-Busch Inbev SA	Anheuser-Busch Inbev SA
4	British American Tobacco plc	Prosus N.V
5	Glencore plc	Glencore plc
6	Compagnie Financiere Richemont SA	Compagnie Financiere Richemont SA
7	Naspers Ltd	Anglo American plc
8	Anglo American plc	Naspers Ltd
9	Firstrand Ltd	Anglo American Platinum Ltd
10	Standard Bank Group Ltd	Firstrand Ltd

Source: PwC analysis

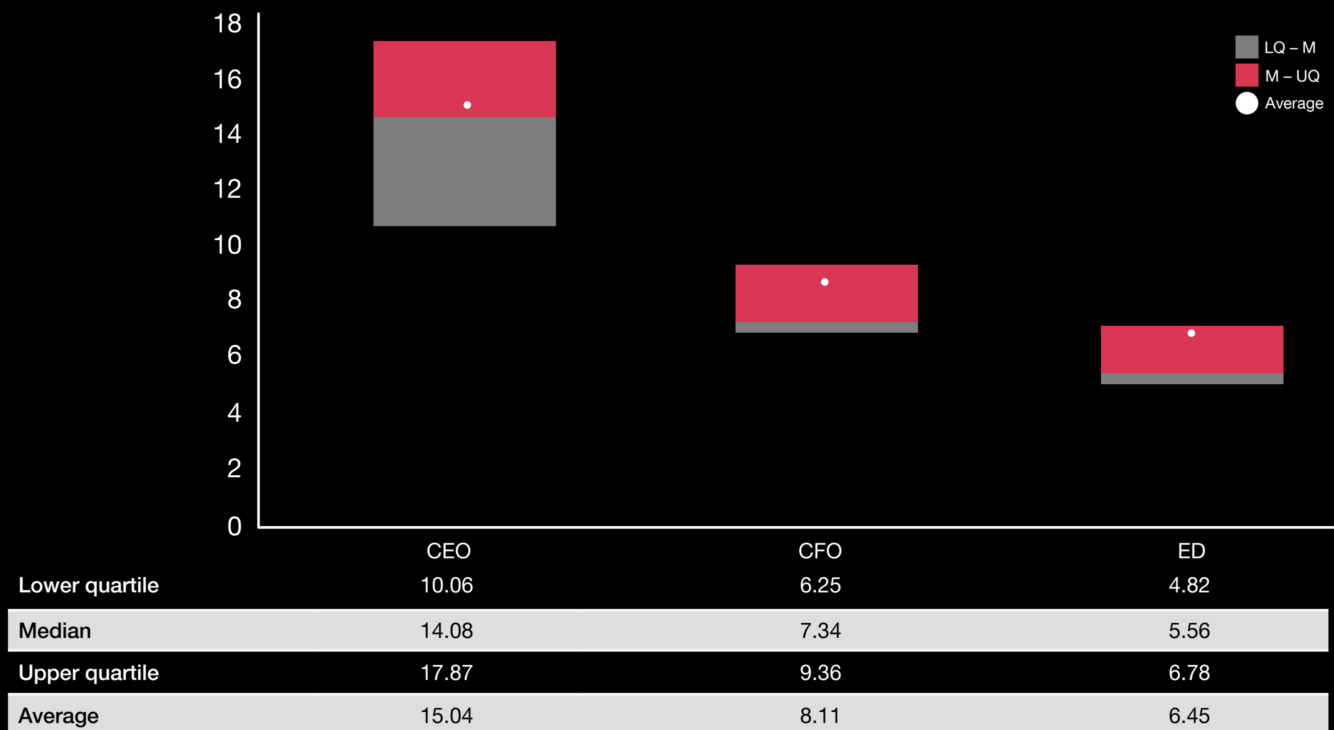
Figure 6.3: Super cap TGP (R'm) per role

Source: PwC analysis

Large cap – All Industries

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

Figure 6.4: Large cap TGP (R'm) per role



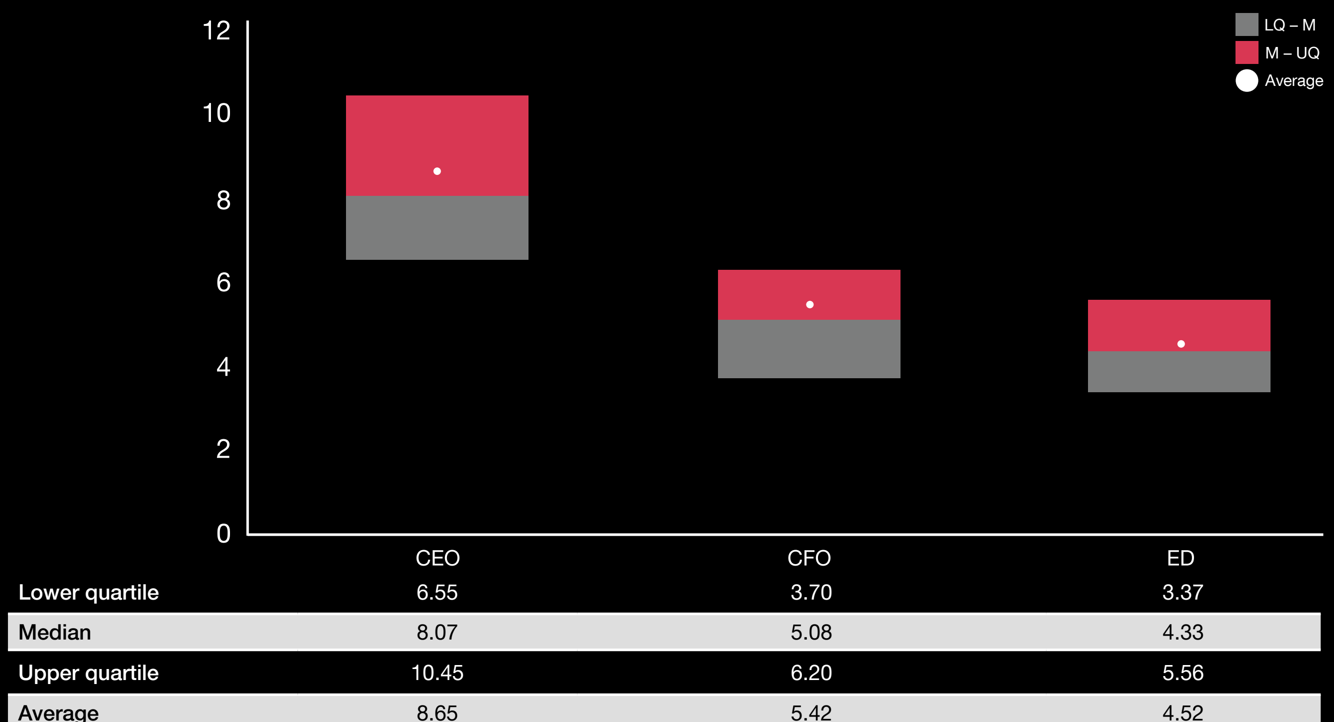
	CEO	CFO	ED
Lower quartile	10.06	6.25	4.82
Median	14.08	7.34	5.56
Upper quartile	17.87	9.36	6.78
Average	15.04	8.11	6.45

Source: PwC analysis

Medium cap – All Industries

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

Figure 6.5: Medium cap TGP (R'm) per role



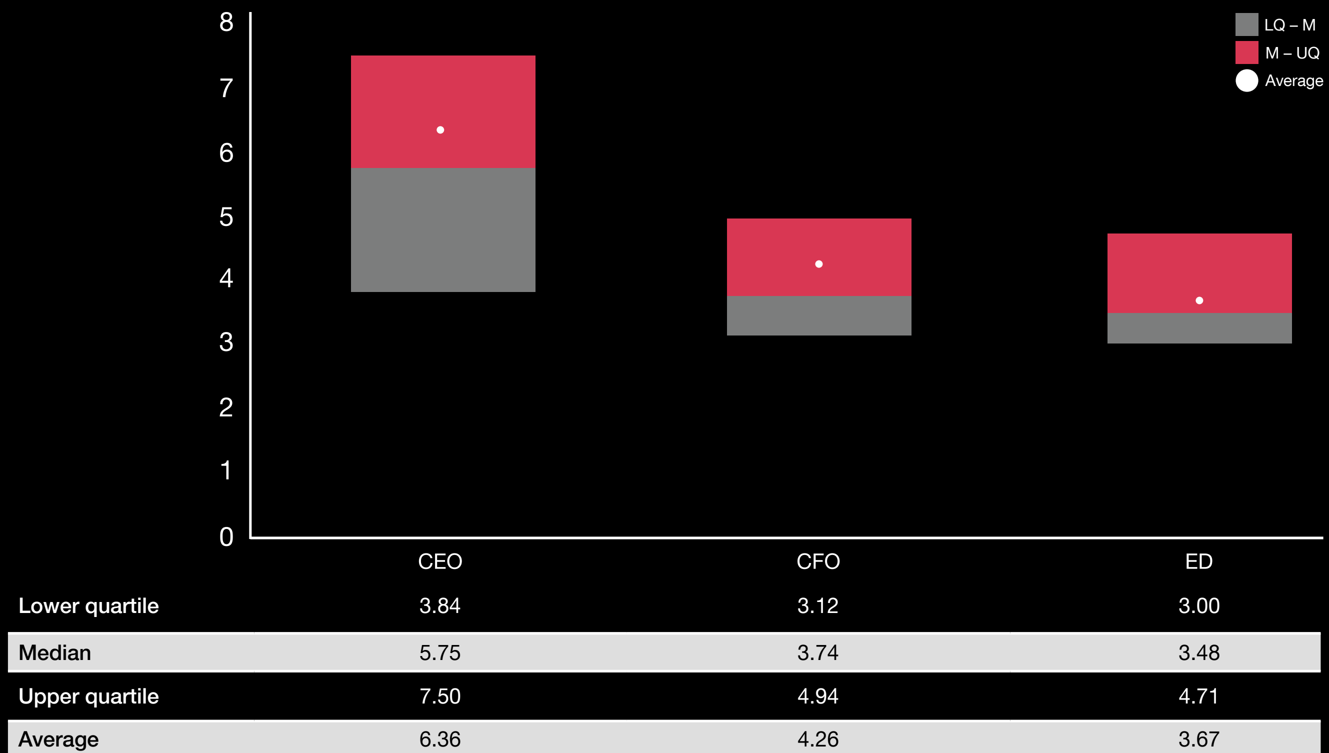
	CEO	CFO	ED
Lower quartile	6.55	3.70	3.37
Median	8.07	5.08	4.33
Upper quartile	10.45	6.20	5.56
Average	8.65	5.42	4.52

Source: PwC analysis

Small cap – All industries (up to JSE Top 200)

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

Figure 6.6: Small cap TGP (R'm) per role



	CEO	CFO	ED
Lower quartile	3.84	3.12	3.00
Median	5.75	3.74	3.48
Upper quartile	7.50	4.94	4.71
Average	6.36	4.26	3.67

Source: PwC analysis

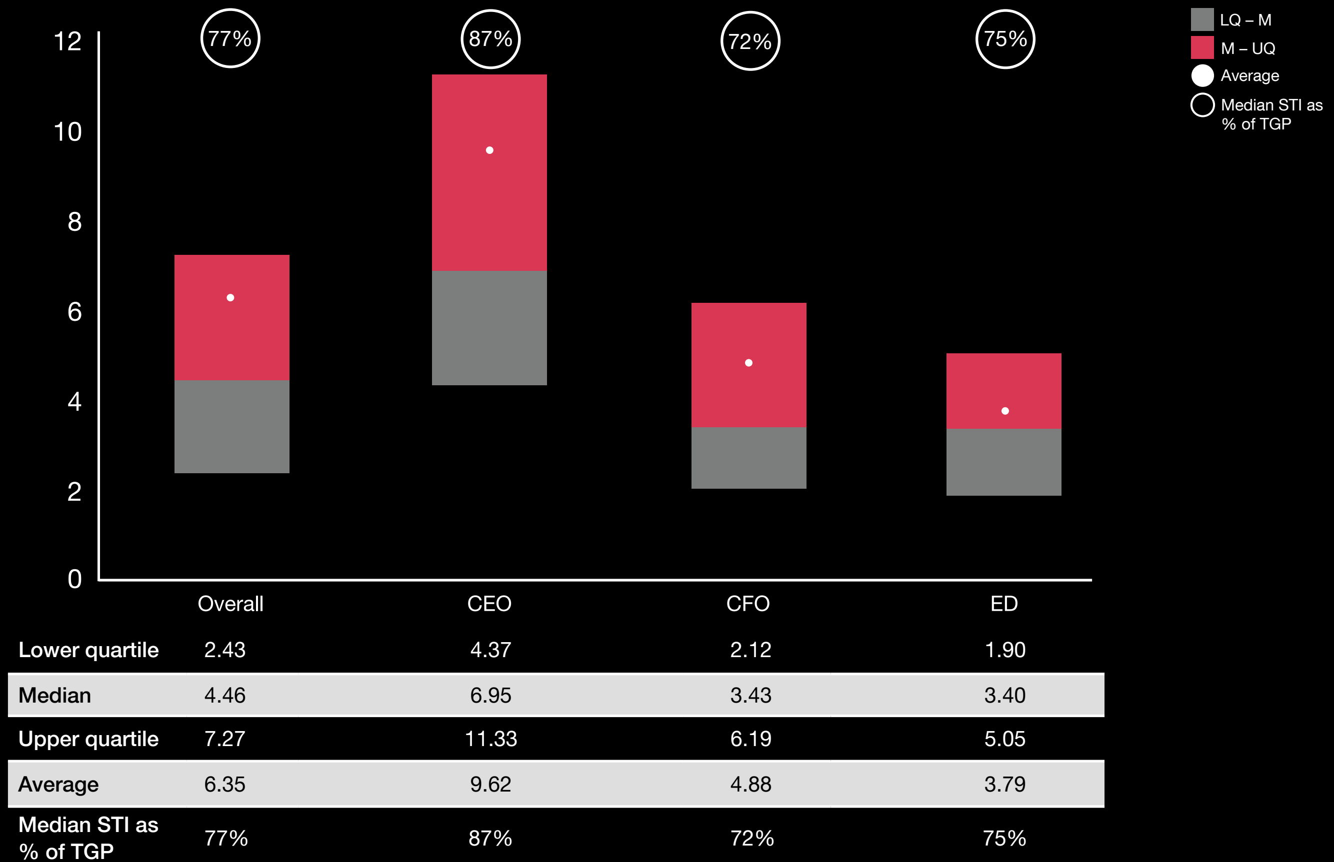
Industry analysis

TGP data is also segmented by industry and presented in the web version of the report. Information can be accessed by clicking on the links below.

Short–term incentives

Short–term incentives (STIs), also known as annual incentives, are paid to compensate executives for achieving the short-term business strategy and refer to payments made within a 12-month period. When analysing the median STIs paid as a percentage of TGP, the TGPs of the incumbents who were actually paid STIs were used (and not the median TGPs disclosed above).

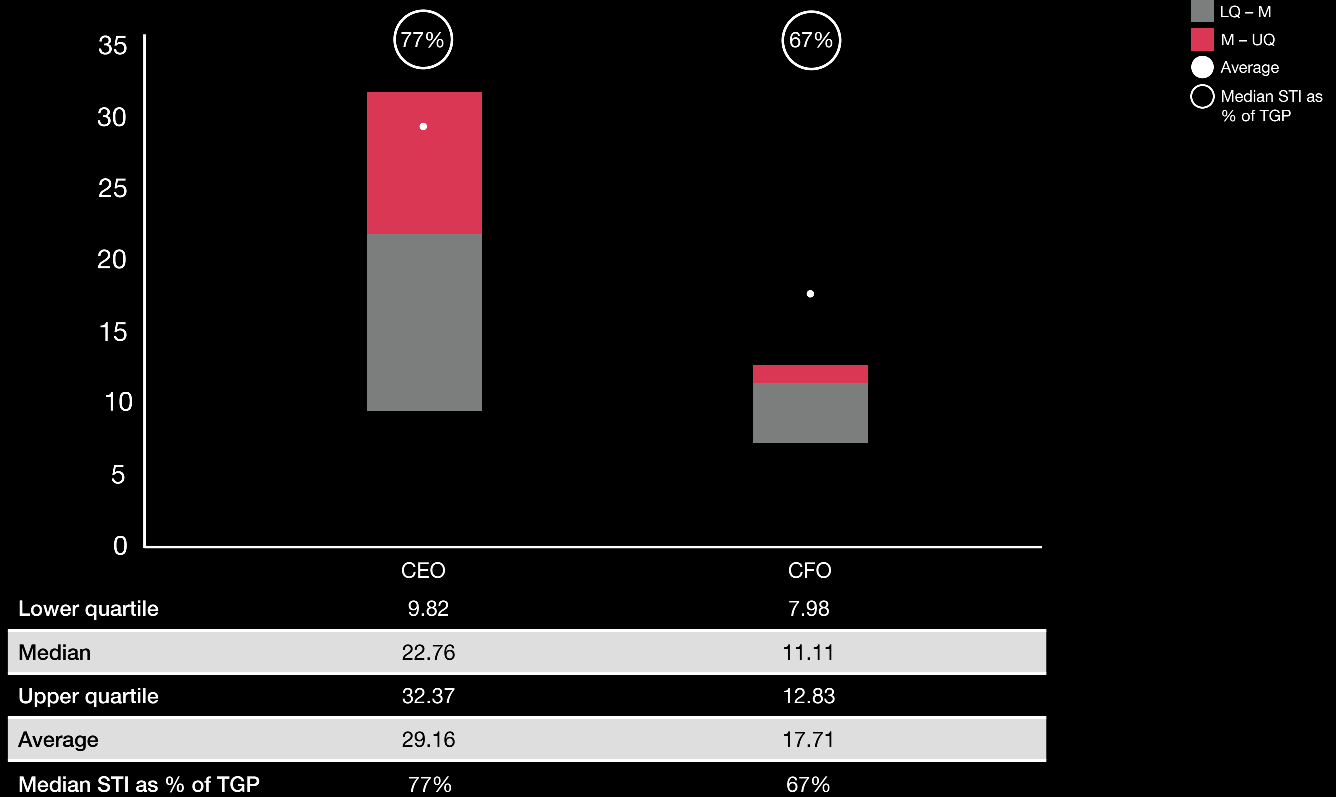
Figure 6.7: JSE Top 200 actual STI (R'm) per role



	Overall	CEO	CFO	ED
Lower quartile	2.43	4.37	2.12	1.90
Median	4.46	6.95	3.43	3.40
Upper quartile	7.27	11.33	6.19	5.05
Average	6.35	9.62	4.88	3.79
Median STI as % of TGP	77%	87%	72%	75%

Source: PwC analysis

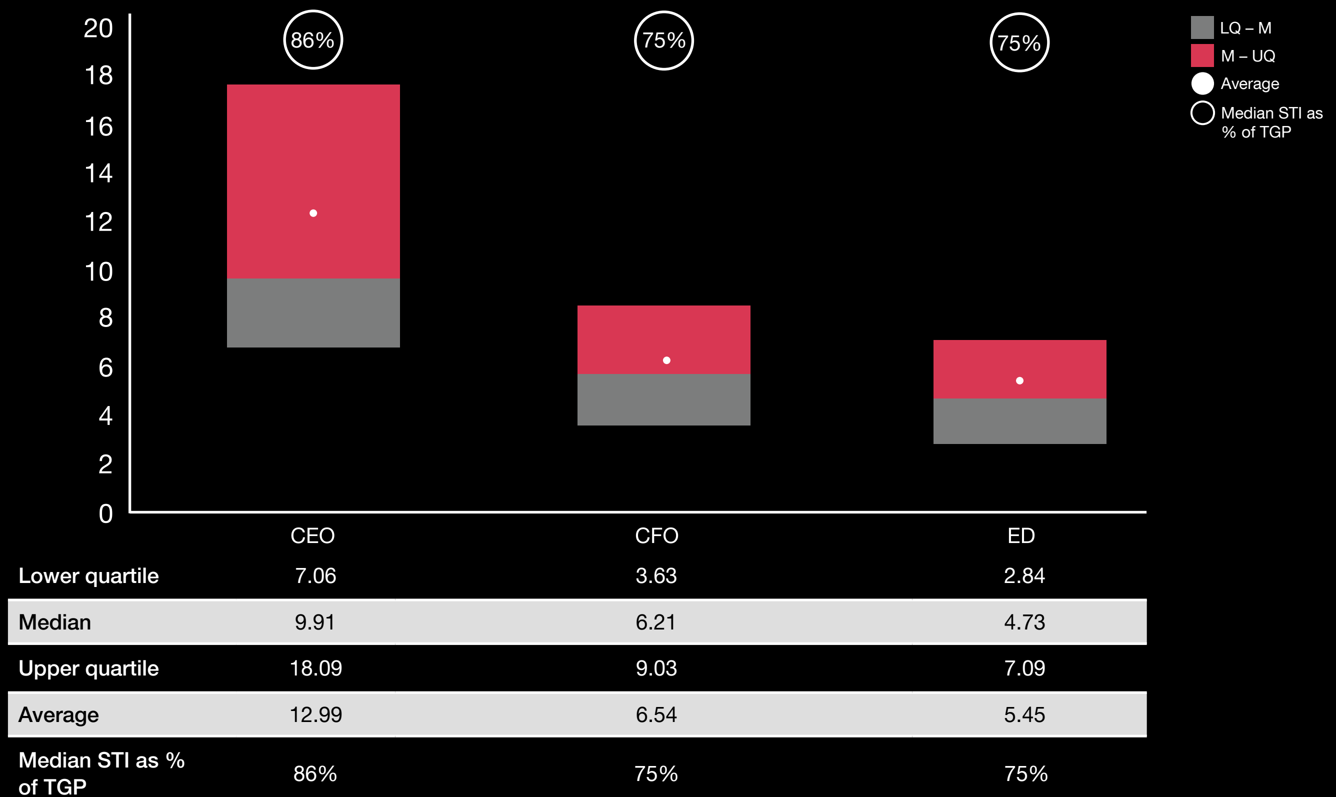
Figure 6.8: Super cap actual STI (R'm) per role



	CEO	CFO
Lower quartile	9.82	7.98
Median	22.76	11.11
Upper quartile	32.37	12.83
Average	29.16	17.71
Median STI as % of TGP	77%	67%

Source: PwC analysis

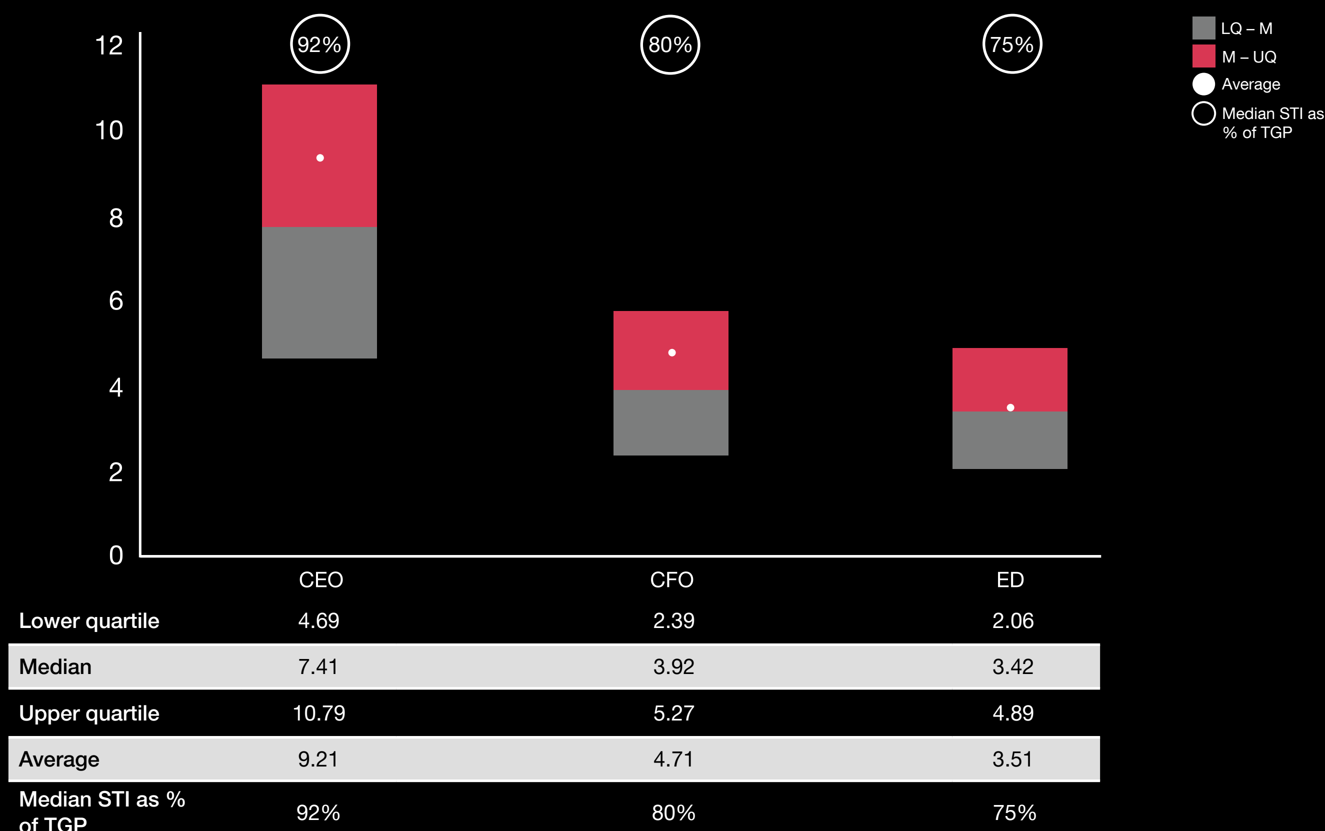
Figure 6.9: Large cap actual STI (R'm) per role



	CEO	CFO	ED
Lower quartile	7.06	3.63	2.84
Median	9.91	6.21	4.73
Upper quartile	18.09	9.03	7.09
Average	12.99	6.54	5.45
Median STI as % of TGP	86%	75%	75%

Source: PwC analysis

Figure 6.10: Medium cap actual STI (R'm) per role



	CEO	CFO	ED
Lower quartile	4.69	2.39	2.06
Median	7.41	3.92	3.42
Upper quartile	10.79	5.27	4.89
Average	9.21	4.71	3.51
Median STI as % of TGP	92%	80%	75%

Source: PwC analysis

Figure 6.11: Small cap actual STI (R'm) per role

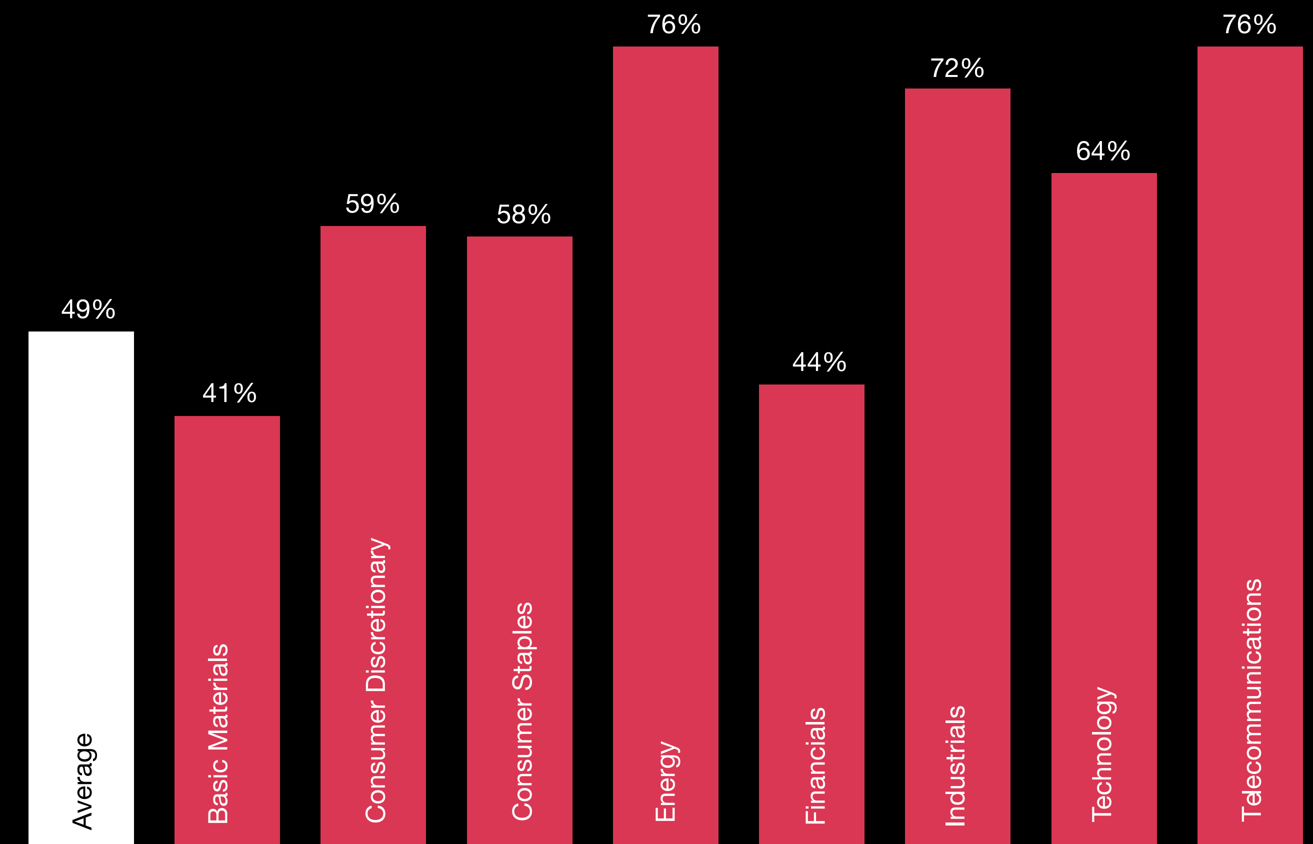
	CEO	CFO	ED
Lower quartile	2.47	1.31	1.00
Median	5.50	2.47	2.29
Upper quartile	7.33	4.01	4.44
Average	6.34	3.02	2.91
Median STI as % of TGP	88%	65%	50%

Source: PwC analysis

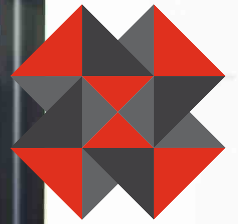
Long–term incentives

Long–term incentives (LTIs) are measured over a period longer than 12 months, typically between three and five years. We performed an analysis of the vesting percentages of long-term incentive (LTI) plans for the Super and Large cap companies, vesting during the reporting period. The vesting percentages per industry and on average are illustrated below.

Figure 6.12: LTI actual vesting outcomes per industry (Super cap and Large cap)



Source: PwC analysis



Appendix – South African marketplace

This appendix shows the Top 200 companies listed on the Johannesburg Stock Exchange (JSE) per industry, further segmented into the number companies in each sector per industry.

Basic materials	31
Chemicals	4
Industrial Metals and Mining	2
Precious Metals and Mining	12
Industrial Materials	13

Consumer Discretionary	29
Automobiles and Parts	1
Consumer Services	4
Media	2
Personal Goods	1
Retailers	14
Travel and Leisure	7

Consumer Staples	16
Beverages	1
Food Producers	8
Personal Care Drug and Grocery Stores	6
Tobacco	1

Energy	6
Alternative Energy	2
Oil Gas and Coal	4

Financials	35
Banks	6
Closed End Investments	2
Finance and Credit Services	1
Investment Banking and Brokerage Service	17
Life Insurance	5
Non-life Insurance	2
Open End and Miscellaneous Investment Ventures	2

Health Care	5
Health Care Providers	3
Pharmaceuticals and Biotechnology	2

Industrials	27
Construction and Materials	6
Electronic and Electrical Equipment	1
General Industrials	6
Industrial Engineering	1
Industrial Support Services	6
Industrial Transportation	7

Real Estate	37
Real Estate Investment and Services	9
Real Estate Investment Trusts	28

Technology	9
Software and Computer Services	9

Telecommunications	5
Telecommunications Service Providers	5

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. In an increasingly complex world, we help intricate systems function, adapt and evolve to benefit communities and society.

We achieve the aforementioned by being human-led and tech-powered – combining the best of people and technology to identify innovative solutions and opportunities for our clients.

About People and Organisation: Reward

With a global practice stretching over 75 global territories our expert teams have access to global market data and research. This allows us to provide proactive and reactive solutions and updates across people related issues, including but not limited to remuneration and reward, people analytics, employment tax and benefits, workforce capability, HR strategy and change management.

Our South African team (who drafted this report) consists of dynamic, agile and diverse problem solvers. With our broad range of capabilities and the utilisation of our global data and research, we are able to deliver multifaceted, relevant and bespoke reward solutions. These solutions are based on strong governance principles which speaks to each client's organisational strategy and provides for value to be added to the future. Through tech-empowerment, we can transform these solutions into digital products empowering our clients to operate with greater efficiency and versatility.

While our solutions are aligned with international trends and best practice, we remain locally focused. We believe that for South Africa to achieve inclusive growth, remuneration structures should reward innovation and growth delivered by executive teams, while remaining rooted in fairness and transparency for all employees. To this end our team regularly engages with key industry players to ensure our knowledge on current market sentiments and developing trends remain up to date, allowing for proactive application to our client engagements, the addition of value and winning stakeholder approval.

The following page illustrates how our expertise can provide you with multifaceted, relevant and bespoke reward solutions.

Our expertise | your solutions

Your requirements	Total Reward (total guaranteed pay, short-term and long-term incentive)	Variable remuneration (short- and long-term incentives (STIs and LTIs)	Fair pay analysis, implementation & performance condition review and recommendation	Remuneration reporting and Remuneration Committee involvement	Governance (policy and rules setting) and consultation	Additional consulting and advice
Our services	Executive and non-executive director benchmarking	Design and implementation of short- and long-term incentives	Equal pay and gender equality statistical analysis	Technical reporting on share-based payments and employee benefits	Initial public offering and corporate governance reporting assistance	Legal and regulatory compliance matters
	Pay progression models	Performance condition setting, calibration and testing	Calculation and analysis of wage gap ratios including Gini and Palma ratios	Remuneration policy and report drafting or review	Drafting / review of incentive plan rules and award letters	Tax opinions and cross-border incentive plans
	Executive and key talent lock-in analysis	Detailed incentive cost financial modelling and economic impact assessment	Strategic key performance indicators consulting and design	Single figure table (disclosure) review for inclusion in remuneration reports	Malus and clawback policy design and implementation	Stakeholder engagement on variable pay structures and remuneration reporting
		Market practice research and recommendation papers	Fair and responsible policy drafting	Remuneration and other committee meeting attendances	Minimum shareholding requirement policy design and implementation	Assistance with design of carried incentive schemes
				Trends presentations and training		

Acknowledgements

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