Comparative Analysis of CEO Remuneration Packages

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Overview

This report aims to provide valuable insights into the remuneration packages of CEOs, offering a foundation for effectively measuring compensation for highly skilled workers. In today's competitive landscape, executive-level employees are a scarce and sought-after resource, making a thorough understanding of CEO remuneration crucial, particularly considering the growing emigration of skilled workers from South Africa. Between 2015 and 2020, the number of South Africans choosing to emigrate tripled compared to the period of 2010 to 2015.

The increasing emigration of skilled workers has raised concerns and underscored the significance of comprehending salary benchmarks for the most highly skilled individuals. By gaining a deeper understanding of CEO remuneration, organizations can better align their compensation structures for non-executive skilled workers, thereby enhancing their ability to attract and retain top talent.

Furthermore, a recent study reveals that South Africa has experienced the departure or abrupt resignation of 41 executive-level employees between 2022 and mid-2023. The departure of these individuals, known for their expertise and leadership, poses significant challenges in finding suitable replacements. For instance, ArcelorMittal SA took two years to find a replacement for their CFO. This extreme case highlights the critical importance of employee retention, particularly in C-suite roles. Reasons for resignation varied, ranging from health issues and new opportunities abroad, to career breaks. Adequate compensation plays a pivotal role in retaining such valuable employees as well as reducing turnover of non-executive employees.

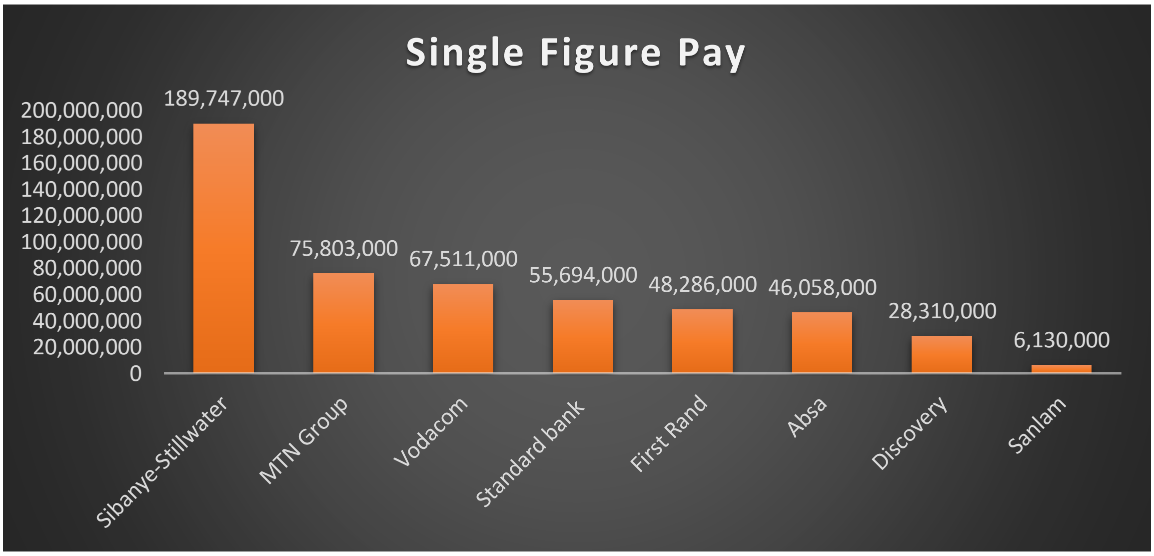
Comparing CEO Compensation within top companies in South Africa

Company Name	Market Cap ZAR(B)	Revenue ZAR(B)	Net Income ZAR(B)	Net Profit Margin	Guaranteed Pay
Sibanye-Stillwater	78	138	18	13%	13 824 000
Vodacom	79	119	17	14%	13 151 000
Standard bank	297	144	35	24%	10 586 000
First Rand	380	107	34	32%	9 622 000
Absa	139	85	21	25%	9 275 000
MTN Group	258	207	19	9%	8 716 000
Discovery	97	68	5	7%	8 716 000
Sanlam	128	93	13	14%	6 130 000

Analysis of the data reveals that a direct correlation between CEO guaranteed pay and company market capitalization is not evident upon initial examination. This suggests that additional factors play a significant role in determining CEO base pay.

Notably, the CEO of Sibanye, despite leading a company with the lowest market capitalization of R78 billion, reported the highest guaranteed pay of R13.8 million. In contrast, the CEO of Firstrand, whose company boasts a market capitalization nearly 7 times that of Sibanye, reported a guaranteed pay of R9.6 million, representing a 30% decrease compared to Sibanye's CEO.

Guaranteed Pay & Single Figure Pay



Similarly, when examining the single figure pay of CEOs, an interesting observation emerges. The CEO of Sibanye reported a staggering R189 million in single figure pay, despite the company's revenue being only 15% higher than the average revenue of the companies in the study.

These findings suggests that there are additional factors at play in determining the CEO's single figure pay beyond just the company's revenue and market cap. Other considerations, such as performance metrics, industry benchmarks, and individual negotiation factors, may influence the level of compensation awarded to CEOs.

These results emphasize the need for a comprehensive analysis of CEO remuneration packages, considering various factors that contribute to their overall compensation. By delving deeper into these factors, organizations can gain a better understanding of how CEO pay is determined and ensure a fair and competitive compensation structure.

Comparing CEO compensation metrics against UK, USA and Australia

Region	Relative Guaranteed Pay*	Relative Bonuses*	Relative Single Figure Pay*
USA (S&P 500)	14 135 922	146 796 117	160 932 039
United Kingdom (FTSE 100)	12 643 437	42 153 699	54 797 136
Australia (ASX 50)	15 238 095	47 507 810	62 745 905
South Africa (Top 40)	5 700 000	3 500 000	9 200 000
South Africa (Study)	9 448 500	42 541 500	51 990 000

To facilitate data comparison across regions, the Big Mac index was employed as a simple yet effective metric for normalizing the data. Normalization is a valuable technique when attempting to analyse data from a theoretical standpoint. However, it is essential to acknowledge that in practice, normalization can encounter challenges due to various factors such as differing tax laws, inflation rates, and interest rates among countries. Despite these complexities, the underlying objective of normalization remains consistent: to establish a comparable representation of data.

To ensure accurate normalization of the data, exchange rates as of December 31, 2022, were utilized along with the corresponding Big Mac index values. The Big Mac index provides a useful benchmark for assessing relative purchasing power across different countries. Specifically, the Big Mac prices in USD, GBP, AUD, and South Africa were recorded as $5.15, £4.19, AU$7.35, and R56, respectively. And the exchange rates recorded were: USD/ZAR: R16.95, GPB/ZAR: R21.05 and AUD/ZAR R11.6

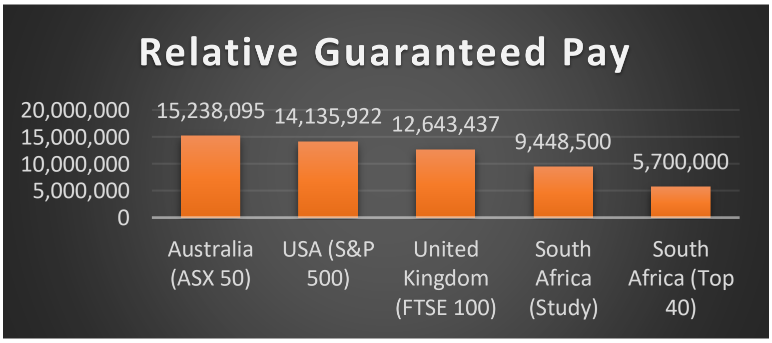
By applying these figures, the relative purchasing power coefficients for each country was calculated. These coefficients serve as a normalization factor, enabling us to compare and standardize CEO pay values across different regions. The aim is to obtain a more accurate representation of the relative purchasing power and compensation levels for CEOs in South Africa, the United States, the United Kingdom, and Australia.

This normalization approach allows for a more robust and meaningful comparison of CEO remuneration, accounting for the variations in currency exchange rates and cost-of-living factors across the different countries included in the study.

The selection of companies globally for comparison was based on market capitalization, ensuring that the best-performing companies were included in the study. While it is true that the sample size for the United States is larger compared to the other countries, CEO pay in the USA consistently surpasses that of the other countries in the study. To address this discrepancy and align the values more effectively, the larger sample size in the USA was considered.

It is worth noting that some of the largest companies in the United States report market capitalizations in the trillions of dollars, with CEO pay reaching billions. By incorporating a larger sample size from the US, the aim is to capture the broader range of CEO compensation within this context and provide a more comprehensive comparison with the other countries in the study. This approach allows for a more nuanced understanding of the remuneration landscape and enables meaningful insights into the variations in CEO pay across different regions.

Relative Pay



Region	Relative Market Cap ZAR (B)
USA (S&P 500)	315
United Kingdom (FTSE 100)	147
Australia (ASX 50)	147
South Africa (Top 40)	64
South Africa (Study)	134

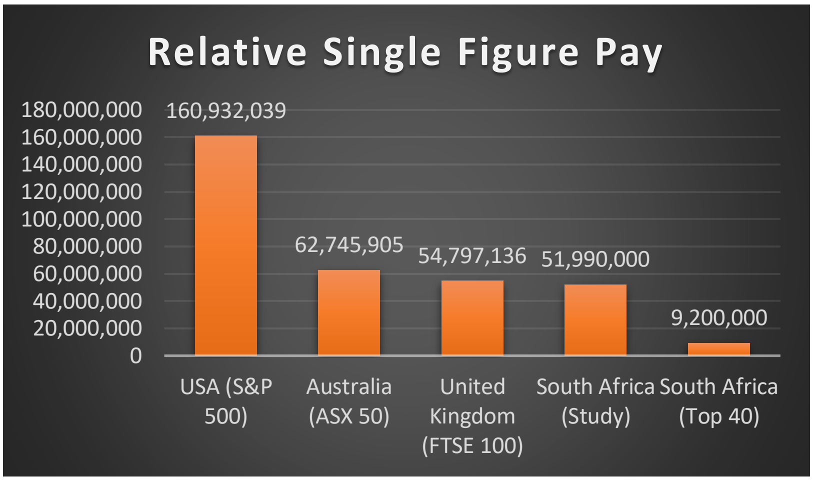
Upon examining CEO guaranteed pay across regions, we observe a relatively narrow variance in the values. Australia stands out with the highest relative guaranteed pay, with CEOs earning approximately R15.2 million, which is 60% higher than the pay for South African

CEOs in the sample. However, when we expand the study to include the top 40 companies on the JSE (Johannesburg Stock Exchange), we observe a significant drop in guaranteed pay of South African CEOs to approximately R5.7 million. This figure is nearly three times lower than the guaranteed pay of Australian ASX 50 CEOs.

Furthermore, it is worth noting that the guaranteed pay for the nine South African CEOs in the sample is nearly twice the amount earned by CEOs in the top 40 companies on the JSE. This significant disparity underscores the difference in CEO remuneration between the selected sample and the broader context of the JSE.

Although we have established that market capitalization does not solely determine CEO guaranteed pay, the size of the corporation does play a role in its ability to afford substantial compensation packages. Examining the median relative market capitalization for each region, we find that the United States, despite having a larger sample size, nearly doubles the market capitalization of the UK, Australia, and the nine South African companies included in the study. Notably, the top 40 companies on the JSE have a collective median market capitalization of R64 billion. This broader view of the top companies in South Africa highlights that unless CEOs are leading the largest corporations, their compensation drops off significantly.

These findings emphasize the impact of company size and market capitalization on CEO remuneration. CEOs at larger corporations often have access to greater resources and more valuable stock options, which can support the provision of substantial compensation packages.



When analysing the single figure pay, we observe the greatest variance in total CEO remuneration. While the single figure pay is relatively similar for Australia, the UK, and the nine South African companies in the study, the United States stands out with a significantly higher relative single figure pay of approximately R160 million. This figure is 156% higher than that of Australia, which reports a relative single figure pay of R62 million. Additionally, Australia's relative single figure pay is 20% higher than that of the top companies in South Africa.

Of particular significance is the substantial difference in single figure pay between the United States and South Africa. The United States' single figure pay is 16 times higher than that of the median JSE top 40 companies in South Africa. This discrepancy can largely be attributed to a significant portion of the single figure pay being linked to the company's market capitalization, often in the form of stock options and incentives.

To address this disparity and align South African CEOs' remuneration more closely with their counterparts, it is essential to implement measures aimed at increasing the market capitalization of South African companies. This endeavour requires skilled and talented CEOs who can drive significant growth and enhance the overall value of the company. This is exemplified by the case of the Sibanye CEO, who consistently reports the highest earnings among South African CEOs, his leadership, and strategic initiatives propelled Sibanye's share price from R14 to R55 within three years, effectively tripling the value of his Long-Term Incentive (LTI) awards granted in 2019 when vested in 2022.

This emphasizes the critical role played by talented CEOs in driving the success and market capitalization of companies, which ultimately impacts their remuneration. However, it is essential to acknowledge that achieving significant growth in share price, as demonstrated by Sibanye's CEO, is not always guaranteed. While a skilled CEO may possess the ability to enhance share prices, meet targets, and drive company growth within the local context, it is important to recognize that globally, a share price of R55 is only a fraction of the values seen in top mining shares in the United States, which can reach upwards of R1000 per share.

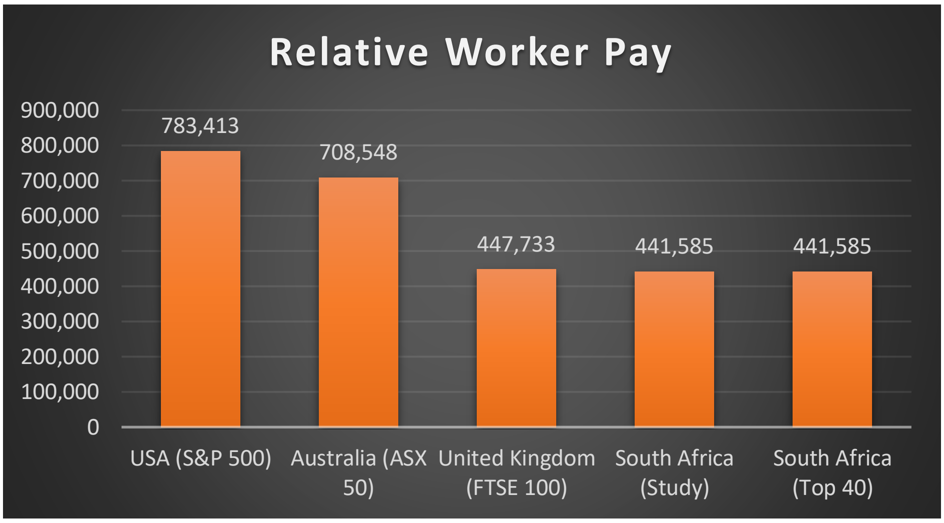
While the solution to this disparity may seem evident, with the South African economy needing to grow to enhance competitiveness, it is worth noting that we currently have a limited number of corporations and companies that can be directly compared in terms of compensation and market capitalization. Achieving overall growth requires expanding the list of comparable companies to encompass a larger pool of multi-billion-rand market cap companies.

Therefore, to address the disparities in CEO remuneration and market capitalization, it is imperative to cultivate an environment that nurtures the growth and competitiveness of a broader range of South African companies. This necessitates the implementation of strategic measures aimed at creating favourable investment conditions, fostering innovation and entrepreneurship, and providing the necessary infrastructure and resources.

Additionally, it is crucial for South Africa to proactively address the issue of skilled worker migration by creating conducive environments that attract and retain highly skilled individuals who may one day become the leaders of companies. By bolstering the growth of more companies capable of competing on a global scale, South Africa can strengthen its economy, unlock new opportunities for CEOs to drive success, enhance market capitalization, and ultimately attain more competitive remuneration packages for executive and non-executive employees.

In summary, achieving a more balanced and competitive landscape for CEO remuneration and market capitalization in South Africa requires concerted efforts to support the growth of diverse companies, foster an innovative and entrepreneurial ecosystem, and address the challenges associated with skilled worker migration. Through these actions, South Africa can pave the way for sustainable economic growth and create an environment where CEOs can thrive and contribute to the overall success of the country's business landscape.

Relative Worker Pay



By utilizing relative purchasing power coefficients, we can compare median worker pay across different countries and gain insights into the disparities between employee and CEO compensation. The analysis reveals that employees from S&P 500 companies earn around 10% more than their counterparts in Australia and a significant 75% more than those in the United Kingdom and South Africa.

Examining the CEO-to-worker pay ratio further highlights the variations in pay gaps. The United States has the highest ratio at 205:1, followed by the United Kingdom at 122:1, Australia at 88:1, and the nine companies in the South African study at 117:1. Interestingly, the top 40 South African companies exhibit a lower pay disparity between CEOs and typical workers, with a ratio of 20:1.

While the figures underscore the significant pay gap, it is crucial to consider the composition of CEO compensation. A substantial portion of CEO earnings comes from long-term incentive (LTI) packages, primarily in the form of stocks, while typical employees receive short-term incentives and bonuses. Thus, global measures should be implemented to address and reduce this disparity while maintaining competitive CEO compensation.

Striking a balance between CEO and employee compensation requires a focus on fairness and recognizing the contributions of each group. One potential mechanism to address the pay gap could be the awarding of more stock options to long-serving employees, recognizing their loyalty and significant contributions to the company's success. Such initiatives not only validate employees' value but also foster a sense of accomplishment within the organization.

It is essential to create a business environment that values and rewards all employees, acknowledging their role in the company's success or failure. By implementing measures that address pay disparities while promoting a culture of fairness and performance-based rewards, organizations can strive towards a more sustainable and equitable compensation structure that will not only retain skilled employees but also attract new talent.

Cost of living

Family of Four

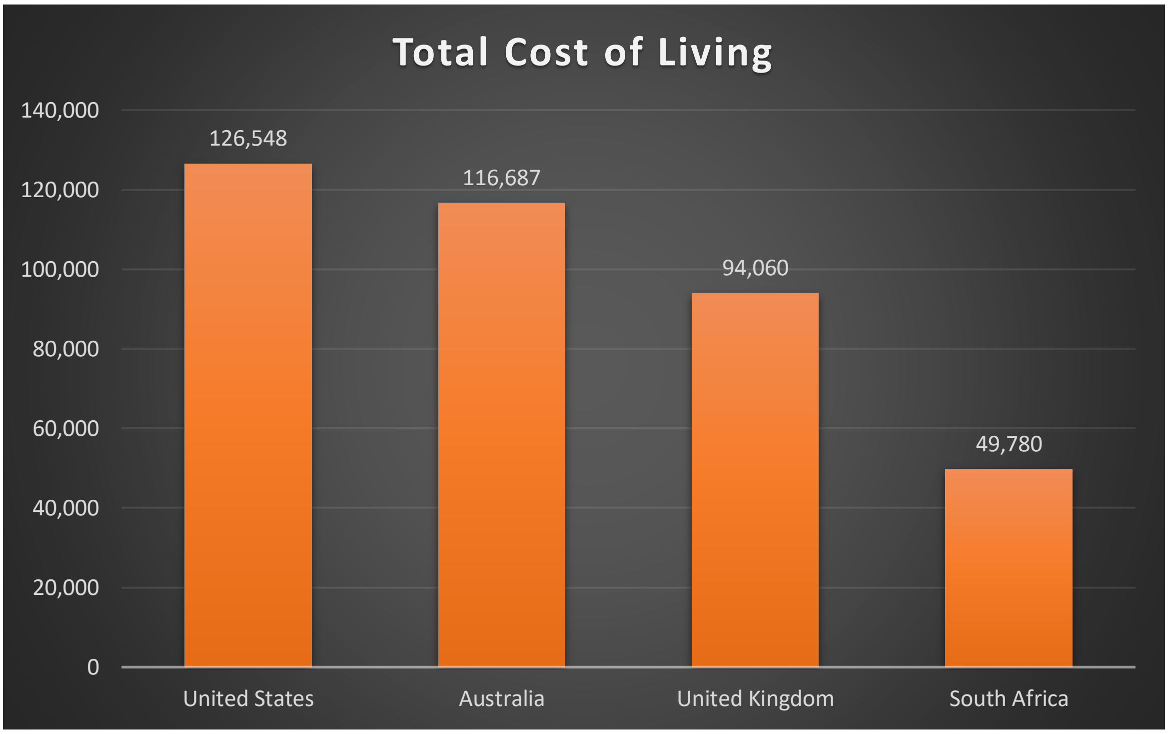
Country	Monthly Expenses	Rent *3 Bedrooms*	Total cost of living	Total Cost of Living % Difference	Median Worker Pay 2 Parents	Total cost of living/2 Parent median pay
South Africa	35 192	14 588	49 780	100%	883 171	68%
United States	74 901	51 647	126 548	254%	2 442 359	62%
United Kingdom	60 612	33 448	94 060	189%	1 410 350	80%
Australia	72 874	43 813	116 687	234%	2 157 530	65%

When comparing the cost of living among the countries included in the study, it becomes evident that South African salaries are approximately 50% of their counterparts in other countries. However, this comparison alone does not provide a complete picture. Considering the average cost of living for a family of four, we find that the United States has a cost of living that is 2.5 times higher than that of a South African family. Similarly, Australia's cost of living is about 2.3 times higher.

Considering the ratio of pre-tax earnings to cost of living, all countries in the study have a ratio of approximately 65%, except for the United Kingdom, where 80% of pre-tax earnings are consumed by the cost of living. If we consider the taxed versions of income, the average salary earned by employees at the top companies falls short of the average cost of living, assuming both parents make the average salary.

These findings shed light on the wealth distribution discrepancy, as the average cost of living surpasses the average earnings for employees working at reputable companies. It is important to note that these figures would be further skewed if the average earnings were taken for all employed individuals.

The implications of these disparities underscore the need for measures that address income inequality and ensure a more equitable distribution of wealth. Creating policies that promote fair wages, affordable housing, and access to essential services can contribute to reducing the burden of the cost of living and improving the financial well-being of employees.



Conclusion

In conclusion, this study sheds light on the comparison of CEO remuneration in South Africa to that of their counterparts in other countries. It highlights the significant role of long-term incentive packages (LTIs) in CEO compensation and the challenges in replacing highly skilled CEOs. Adequate CEO compensation is justified to ensure their retention and drive organizational success.

However, it is crucial to address the issue of fair compensation for non-executive employees as well. Failing to do so may perpetuate the trend of skilled workers emigrating from South Africa in search of better opportunities. Creating a balanced compensation structure that values and rewards all employees can contribute to a more equitable and sustainable business environment.

To foster a competitive economy and retain talent, measures should be taken to enhance the market capitalization and performance of South African companies. This includes creating favorable investment conditions, supporting innovation and entrepreneurship, and addressing skilled worker migration. Additionally, implementing mechanisms to reduce the pay disparity between CEOs and workers, while maintaining competitive CEO compensation, can contribute to a more harmonious and prosperous business landscape.

Overall, by addressing these factors and striving for fair and equitable compensation practices, South Africa can nurture a thriving business ecosystem that rewards both CEOs and employees, encourages talent retention, and drives sustainable economic growth.