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Disclosure on the linkages between executive pay and sustainability in a highly unequal country

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Orientation: The allocation of incentives based on corporate financial performance is a longstanding phenomenon aimed at aligning the interests of executives and shareholders. Yet, given rising social and environmental concerns, shareholders are increasingly pressuring companies to link sustainability matters to executive compensation.

Research purpose: Disclosures on the linkages between executive remuneration and sustainability considerations were explored in South Africa, a country that is notorious for income inequality.

Motivation for the study: Despite offering a well-developed corporate governance framework, South Africa experiences several social ills. If pay-performance linkages are expanded to include sustainability considerations, directors will by implication be encouraged to focus on sustainable value creation.

Research design, approach and method: Content analysis was conducted on the 2019 and 2022 integrated and remuneration reports of selected banks and telecommunications companies operating in South Africa. Focus was placed on how these companies have linked sustainability aspects to incentives over the short and long term.

Main findings: Improvements were noted in terms of linking sustainability considerations to executive pay. Most companies related social aspects to short-term incentives. Yet, environmental pay-performance linkages warrant more attention.

Practical and/or managerial implications: Remuneration and social and ethics committee members should reflect on how executive pay can be optimally linked to material sustainability considerations. The sustainable development goals (SDGs) could be used to develop fairer and more responsible director pay policies.

Contribution and/or value-add: The considered companies progressively accounted for sustainability aspects when determining executive pay in a highly unequal country. Directors are thus increasingly rewarded for ensuring a more sustainable future.

Keywords: sustainability; ESG; SDGs; social issues; environmental matters; incentives; executive remuneration; South Africa.

Introduction

South Africa has substantial income inequality (The World Bank 2022). Historically, executive directors were incentivised to focus on corporate financial performance globally and locally (Appiah & Chizema 2015; Deysel & Kruger 2019). Yet, shareholders increasingly caution against seemingly exorbitant pay packages and raise concerns about pay policies that are not linked to sustainable value creation (Viviers 2015). The chief executive officers (CEOs) of the largest 200 companies listed on the Johannesburg Stock Exchange received total guaranteed pay of R9.36 million, on average, according to PricewaterhouseCoopers' (PwC 2023) latest executive pay statistics. Yet, the CEOs of the top 10 listed companies received total guaranteed pay of more than R25 million (PwC 2023).

Given rising awareness of inequality and related social ills (Masikane, Hewitt & Toendepi 2020), shareholders and other stakeholders aptly enquire how executive remuneration can be better aligned with sustainability aspects to ensure fairer pay policies and practices. They also increasingly engage with companies to discuss how directors should ideally be incentivised to give due attention to stakeholders' divergent interests linked to relevant sustainable development goals (SDGs) (George 2019).

Various sustainability terms have emerged since the sustainable development concept was introduced in the Brundtland Report. Sustainable development should meet 'the needs of the present without compromising the ability of future generations to meet their own needs' (Brundtland 1987). Almost three decades after this concept was officially defined, the 17 SDGs were accepted in 2015 by the United Nations (UN 2023) member states. These goals relate to 169 targets and 232 measurable indicators that can be used to develop future-oriented policies (Jimenez, Franco & Smith 2021).

Another primary sustainability term, namely corporate social responsibility (CSR), was introduced in the middle of the previous century by Bowen (1953). This term is defined as:

> [*T*]he obligation of businessmen to pursue those policies, to make those decisions, or to follow those lines of action that are desirable in terms of the objectives and values of our society. (p6)

The values and objectives of society change in line with context-specific environmental, social, economic and political changes. The CSR ideology received considerable attention because of the civil rights and environmental movements globally (Carroll 2016) and apartheid in South Africa (Patel & Mushonga 2014).

Another well-known sustainability term gained traction in the 2000s, namely environmental, social and governance (ESG) considerations (Byrne 2024). Regulation 28 of the local *Pension Funds Act (No 24 of 1956)* has been updated twice since 2011 to obligate pension funds to consider ESG criteria when making investment decisions (South African Government 2022). Furthermore, the International Financial Reporting Standards (IFRS 2023) recently issued two new sustainability standards. Standard 1 outlines that companies should disclose information regarding sustainability-related risks and opportunities that might impact their resource provision, while Standard 2 centres on climate disclosures (IFRS 2023).

Although the principles behind these sustainability terms are age-old, scholars and practitioners still disagree on which sustainability aspects warrant the most urgent attention. They also disagree on the optimal terminology and metrics to account for sustainable corporate practices and by implication sustainable value creation (Daugaard & Ding 2022; Eccles, Lee & Stroehle 2020). The industry in which a company operates also impacts the perceived materiality of sustainability matters (Khan, Serafeim & Yoon 2016).

Remuneration and sustainability committees could thus account for the intricate nexus between sustainable development and executive pay. These committees should ideally join forces in deciding on the SDGs that should be prioritised by linking specific ESG considerations to their executives' pay (Yang, Na & Dong 2024). Board committee members should accordingly apply their minds to reflect on the optimal linkages between goals, outcomes across the triple bottom line and the time frame of executive incentives (Hussain, Rigoni & Orij 2018).

The renowned King IV Report on corporate governance in South Africa urges directors to consider the triple bottom line context, namely people, planet and profit, and account for diverse stakeholders' interests when making decisions. Executive pay should accordingly be linked to sustainability in addition to financial performance to encourage sustainable value creation (Institute of Directors South Africa [IoDSA] 2016).

Given the country's well-developed corporate governance framework (IoDSA 2016) and substantial income inequality (The World Bank 2022), this study was conducted to determine which sustainability metrics were used by selected banks and telecommunications companies to determine executive compensation based on disclosures in their pre-(2019) and post-coronavirus disease 2019 (COVID-19) (2022) integrated and remuneration reports. Key remuneration and sustainability terms are outlined next, followed by an overview of corporate disclosure. The methodology is then outlined, followed by the discussion of the findings. Thereafter, conclusions and recommendations are provided for several stakeholders, including directors, remuneration committees, social and ethics committees and shareholders.

Literature review

Director pay considerations, key sustainability terminology and corporate disclosure will be covered in this section.

Director emolument considerations

Executive directors are involved in the day-to-day running of their companies (IoDSA 2016). The agency problem postulates that they should be incentivised to align their interests with those of shareholders (Qu et al. 2022; Jensen & Meckling 1976). Executive pay packages can thus comprise fixed pay (such as the salary) and incentives allocated over different time frames (Bussin 2015). Fees paid to non-executive directors are not performance based but allocated for attending board and board committee meetings (IoDSA 2016).

Long-term incentives (LTIs) and short-term incentives (STIs) that are awarded to executives are usually determined using predefined performance targets. Variable pay can include a cash award or a deferred bonus (Enguix 2021; Lee 2016). The allocation of cash bonuses arguably played a pertinent role in the 2008 global financial crisis. Such bonuses might have encouraged excessive risk-taking and cost-cutting behaviour that jeopardised sustainable value creation (Kolk & Perego 2014).

Variable pay is mainly based on corporate financial performance (Adu, Flynn & Grey 2022). Yet, research shows that the positive impact of executive pay on sustainable corporate practices is higher for companies with sustainability-linked pay policies. As such, remuneration committees should reflect on how they can optimally reward performance across the triple bottom line (Adu et al. 2022; Hussain et al. 2018).

Share options are commonly issued as LTIs. Option holders accordingly have the right to buy shares in their company at a specific exercise price on a predetermined date. Yet, they are not obliged to buy shares should the share price be unfavourable (Brisley 2006). In the local context, share options were the most popular incentive until the 2008 global financial crisis. Thereafter, they were replaced by share appreciation rights and subsequently by full quantum schemes (Steenkamp & Wesson 2018).

Share appreciation rights entail a cash-settled version of share options, whereby the share price appreciation is paid in cash, depending on the executive director still being employed at the issuing company (Massie, Collier & Crotty 2014). In turn, full quantum schemes include restricted and performance shares. Restricted shares will vest at the end of an executive's employment period. In turn, performance shares accrue after a specific period if performance targets were met and the executive is still employed at the company (Steenkamp & Wesson 2018; Steyn 2015).

King IV recommends that South African companies should provide details on the different types of pay paid to executives and the fees allocated to non-executive directors in their remuneration reports. Furthermore, context should be provided on the remuneration policy in a background statement. This policy should outline the base salary of directors and variable pay. The implementation report should then indicate the compensation received by directors and the pay gap (IoDSA 2016).

Shareholders can cast non-binding votes on remuneration. The say on pay voting results should be disclosed, key decisions that were made by the remuneration committee should be outlined, and the use of remuneration consultants should be declared. The remuneration committee should also indicate whether they are of the view that policy objectives have been met. However, very few local investors vote against executive remuneration (IoDSA 2016; Viviers 2015).

Should the proposed changes to the *South African Companies Act* (No. 71 of 2008) be promulgated, it could have substantial implications for this trend going forward. The proposed amendments focus on enhancing transparency, by requiring listed companies to disclose their performance criteria and benchmarks used to determine director pay. The current non-binding say on pay is furthermore proposed to become binding, thereby forcing companies to give more attention to pay issues and shareholders' recommendations (Merchantec Capital 2024).

In contrast to the agency theory that centres on shareholders' interests (Jensen & Meckling 1976), the stakeholder theory places focus on divergent stakeholders' interests when making decisions and establishing director pay (Montiel & Delgado-Ceballos 2014). King IV likewise encourages a stakeholder-centric approach (IoDSA 2016). In the next section, key sustainability considerations are outlined, which could be considered to link executive pay to broader societal interests.

Outlining key sustainability terminology

Popular sustainability frameworks include ESG (Hartikainen, Järvenpää & Rautiainen 2021) and CSR, which centre on stakeholders' needs (Enguix 2021). The SDGs furthermore outline how prosperity can be enhanced, by defining goals linked to global social and environmental issues, such as education and climate change (UN 2023). The public increasingly expects companies to restore the physical, social and ethical environments that they have impacted (Dyduch & Krasodomska 2017).

When defining CSR, Carroll (2016) referred to the economic, legal, ethical and discretionary expectations that society has of companies. Economic responsibilities require companies to be profitable and continue with operations in the future. Legal responsibilities refer to the need to obey laws and regulations. Ethical responsibilities include fair and objective decisions while philanthropic responsibilities are linked to charitable donations (Carroll 2016).

Furthermore, the triple bottom line context encompasses economic, social and environmental dimensions (Hartikainen et al. 2021). In addition to the triple bottom line, King IV recommends that companies should ensure that they reduce their adverse effects on the six capitals, namely financial, human, manufactured, intellectual, natural and social and relationship capital (IoDSA 2016). The use of these divergent capitals might negatively affect the environment in which companies operate. Board committee members should hence reflect on how they can connect divergent sustainability considerations to executive pay (Hartikainen et al. 2021).

Another prominent abbreviation that has been used since the beginning of the millennium when reflecting on sustainability is ESG (Byrne 2024). Although CSR and ESG are interlinked, a key difference entails that CSR initiatives are usually planned and carried out by a specific corporate department. In turn, ESG initiatives are supposed to be integrated in a company's strategic goals and mission (Mack 2022).

A company's impact on the environment and its management of related risks encompasses the environmental component of the composite ESG term. The social component refers to how a company manages human capital and impacts the surrounding community. The governance aspect relates to the leadership and management of the company, including rewarding directors for fulfilling their roles and responsibilities in a fair and transparent manner (Eccles et al. 2020).

Globally, environmental considerations take centre stage, but in the South African context, social issues receive substantial attention given the country's history of apartheid (PwC 2022). Fair pay is essentially a social justice issue (South African Reward Association 2017). As such, remuneration committees should account for alignment between executive pay, financial and sustainability performance considerations. They should also reflect on the related implications for shareholders and other key stakeholders (PwC 2023).

Remuneration committees are thus left with a conundrum. They need to prioritise applicable sustainability aspects and determine suitable indicators to establish links with director pay. They should simultaneously account for social justice considerations. However, it is particularly challenging to measure outcomes related to the social pillar of ESG (Waas 2021). Several data providers assist investors, directors and board committees to make pay-related decisions by providing ESG scores based on companies' sustainability disclosures (Halbritter & Dorfleitner 2015).

Corporate disclosure

South Africa is an integrated reporting pioneer. Locally listed companies are expected to report on financial and sustainability outcomes in an integrated manner. Yet, few companies provided substantive sustainability disclosures in the 2010s (Malola & Maroun 2019). Sustainability reports are furthermore often viewed as persuasive and manipulative tools to promote the company rather than provide sustainability-related facts to stakeholders to enable them to make informed decisions (Bernard 2021).

Various bodies provide guidance on sustainability disclosure, including the Sustainability Accounting Standards Board and the Global Reporting Initiative (Eng, Fikru & Vichitsarawong 2022). Researchers often use ESG scores computed by various databases to investigate sustainability matters. Such scores indicate which sustainability aspects are deemed crucial by the analysed companies. There is thus an evident need for companies to provide transparent information on sustainability matters (Eng et al. 2022).

To enhance disclosure on sustainability, IFRS (2023) published two standards that have been effective since January 2024. Standard 1 outlines that companies should disclose information regarding sustainability-related risks and opportunities. Disclosures should also cover corporate governance procedures to monitor risks and utilise opportunities, outline the company's strategy to manage such aspects and the related performance implications. Standard 2 focuses on climate change considerations (IFRS 2023).

Prior researchers in developed contexts accounted for corporate disclosures on director pay and sustainability. Hartikainen et al. (2021) conducted content analysis and found a largely non-existent link between most of the considered ESG aspects and executive pay in Finland. Yet, a moderate link was noted between safety targets (a social consideration) and remuneration. Executive directors accordingly received a bonus if the related targets were reached (Hartikainen et al. 2021).

Kolk and Perego (2014) likewise analysed how companies in the Netherlands benchmarked sustainability-based bonuses. They found that only some companies used company-specific benchmarks comprising multiple factors. Furthermore, Hong, Li and Minor (2016) noted increases in social performance indicators when linking executive pay of selected Standard and Poor's 500 companies to CSR. They explained that companies that were more stakeholder oriented were more likely to link their executive pay to social performance outcomes.

The legitimacy theory is commonly used by researchers who analyse corporate disclosures. This theory refers to the existence of a social contract between a company and the society in which it operates (Archel et al. 2009). Companies should accordingly voluntarily disclose details on their sustainability-related activities to uphold this contract. Based on the discussed multi-theoretical perspectives, the question hence arises: To which extent is the pay of executives in a highly unequal society, namely South Africa tied to sustainability considerations, thereby accounting for divergent stakeholders' interests in a legitimate manner?

Methodology

Content analysis was conducted on the integrated and publicly available remuneration reports of selected local banks and telecommunications companies to gain insights into how they have linked sustainability considerations to executive pay. Judgement sampling was used to select large and well-known banks and telecommunications companies.

During the 2008 global financial crisis, several financial services companies in the United States came under the spotlight, thereby emphasising the relevance of conversations on substantial executive remuneration packages and performance criteria (Beecher-Monas 2011). A prominent determinant of the level of risk prevalent in banks is ESG. Furthermore, financial institutions play a key societal role in ensuring sustainable financing for companies and individuals (Citterio & King 2023).

In 2021, the CEO of a local telecommunications company was among the highest paid executives in the country, raking in R80 million (De Wet 2022). The rise in the use of the Internet and mobile communications fuelled by the telecommunications industry causes increased energy usage and substantial greenhouse gas (GHG) emissions. As such, telecommunications companies can substantially impact sustainable development by reflecting on energy efficiency (Radonjič & Tompa 2018). The linkages between executive pay and sustainability outcomes hence warrant investigation in this industry.

The 2019 and 2022 integrated reports and remuneration reports that were publicly available were analysed for four selected banks and four telecommunications companies. The researchers thereby accounted for pre- and post-2020 disclosures to account for the potential impact of the COVID-19 pandemic on sustainable pay practices. The required integrated reports were downloaded from the Bloomberg database. Remuneration reports were collected from the websites of the selected companies where available. Table 1 provides an overview of the compensation received by the considered companies' CEOs. In the case of a transition, the information for the CEO who served for the longest part of the financial year was recorded.

The content analysis focused on how director pay was linked to sustainability considerations, based on Krippendorff's (1989) approach. The first step (design) entailed defining the study context. Executive remuneration is a controversial issue in South Africa given the country's substantial pay inequality (The World Bank 2022). The King IV Report offers detailed recommendations on setting director pay (IoDSA 2016). During the second step (unitising), suitable sustainability terms were identified based on the literature review to explore disclosures on the linkages between sustainability considerations and executive pay. The third step entailed sampling while the fourth step involved coding. Disclosures on sustainability-pay linkages were recorded and coded. Focus was placed on how sustainability considerations were incorporated to establish various director pay components rather than comparing the size of the allocated pay packages. The fifth step (drawing inferences) entailed describing the connections between the coded data in a thematic manner. The sixth step entailed validation. The researchers ensured that suitable search terms were defined and that the coding was consistently applied.

Given the popularity of the ESG framework (Mack 2022), selected environmental and social considerations (see Table 2) were used to conduct word searches in the reports. Disclosed linkages between the sustainability considerations and director pay were then recorded.

The researchers furthermore reflected on the extent to which other sustainability terminologies were utilised in the analysed reports, including CSR (Hartikainen et al. 2021), the triple bottom line (IoDSA 2016), the six capitals (IoDSA 2016) and the SDGs (UN 2023). Attention was also given to disclosures on specific sustainability targets, related time frames and progress made in this regard. Plans to link pay to sustainability aspects in the future were also recorded.

Deductive and inductive codings were thus conducted to derive the reported themes. Detailed notes were made regarding the coding process for each company. Coding was rechecked before reporting the findings. Pseudonyms are used to refer to the selected banks and telecommunications companies in the following discussion. Qualitative excerpts from the analysed reports are included where applicable to elucidate the thematic findings.

Ethical considerations

An application for ethical approval was made to the Stellenbosch University Research Ethics Committee: Social, Behavioural and Education Research (REC: SBE) and the project was exempted from ethics review and clearance on 05 July 2023 with reference number ONB-2023-27898.

Discussion of the findings

Details will firstly be provided on the usage of composite ESG scores to determine executive compensation, accompanied by discussions on the specific environmental and social considerations that the considered companies used to determine executive incentives. A discussion will then be offered on the relevant time frames of sustainability-linked incentives. Plans to link sustainability considerations to executive pay in future will also be outlined.

Composite environmental, social and governance metrics linked to executive pay

Not all the considered banks disclosed details on the use of composite ESG metrics to establish executive pay. Bank A provided the most detailed disclosures on such linkages. Information was provided on how each executive director contributed to financial and sustainability performance. Financial metrics included headline earnings and return on equity. This bank also outlined how various ESG-related short- and long-term awards were related to the respective executives' roles and responsibilities.

TABLE 1: Outline of chief executive officer compensation.

Company CEO	Year	Guaranteed remuneration	STIs	LTIs	Notes
Bank A	2019	R8 994 000	R11 500 000	R15 500 000	Served for both years
	2022	R9 656 000	R17 000 000	R17 000 000	
Bank B	2019	R9 166 667	R6 000 000	Not applicable	Fixed-term contract (10 months)
	2022	R9 275 084	R18 500 000	R17 000 000	Served as CEO for 9 months
Bank C	2019	R8 865 000	R22 400 000	R18 500 000	Same CEO for both years
	2022	R9 622 000	R13 824 000	R24 840 000	
Bank D	2019	R11 676 000	R4 651 000	R78 669 000	Same CEO for both years
	2022	R14 766 000	R8 313 000	R69 690 000	
Telecommunications A	2019	R20 245 000	R27 584 000	R10 405 000	CEO stepped down in March 2020
	2022	R9 332 000	R10 839 000	R29 075 000	Served for the entire year
Telecommunications B	2019	R11 500 000	R9 786 500	R12 203 533	Same CEO for both years
	2022	R13 310 325	R16 744 389	R29 474 569	
Telecommunications C	2019	R8 291 500	R7 006 091	R5 301 396	Served for the entire year
	2022	R9 400 000	R5 265 974	R9 521 358	Retired 3 months before financial year-end
Telecommunications D	2019	R6 843 000	R3 780 000	R2 479 000	Same CEO for both years
	2022[a]	R14 510 920	R8 229 640	R14 758 100	

CEO, chief executive officer; LTI, long-term incentive; STI, short-term incentive.

[a]Converted CEO pay components from US dollar to Rand by using the exchange rate on 31 March 2022; the company disclosed that STIs were reported along with medium-term incentives.

TABLE 2: Environmental and social considerations used for the content analysis.

Environmental considerations	Social considerations
Climate change (Mack 2022)	Access to finance (Morgan Stanley Capital International [MSCI] 2023)
GHG emissions (Zhang, Tang & Huang 2021)	Community relations (Escrig-Olmedo et al. 2019; MSCI 2023)
Composting (Trahan & Jantz 2023)	Compliance with the international labour standards (Waas 2021)
Disposal of hazardous waste (Escrig-Olmedo et al. 2019)	Employee well-being (Hong et al. 2016)
Handling chemical waste (Zhang et al. 2021)	Gender equality (Dyduch & Krasodomska 2017)
Land conservation (Trahan & Jantz 2023)	Health and safety of workers (Dyduch & Kradomska 2017)
Pollution and resource management (Escrig-Olmedo et al. 2019)	Human capital development and training (Escrig-Olmedo et al. 2019)
Recycling (Trahan & Jantz 2023)	Labour practices (Mack 2022)
Reduce products' harmful impact (Montiel & Delgado-Ceballos 2014)	Managing stakeholder interests (Montiel & Delgado-Ceballos 2014)
Sourcing raw materials (Escrig-Olmedo et al. 2019)	Talent management (Mack 2022)
Use of renewable energy (Dyduch & Krasodomska 2017; Escrig-Olmedo et al. 2019)	Quality of working conditions (Escrig-Olmedo et al. 2019)
Water conservation (Trahan & Jantz 2023)	Product safety (Mack 2022)
Water management (Zhang et al. 2021)	Product quality and impact (Escrig-Olmedo et al. 2019)
	Supply chain management (Escrig-Olmedo et al. 2019)

During both years under review, Bank A applied a similar approach to allocate STIs. Financial indicators were used first, focusing on an increase in profit and headline earnings per share. After determining whether the financial targets were met or exceeded, ESG indicators were used to finalise the STIs. The ESG performance outcomes of executives' individual scorecards were then used to adjust the size of their STIs in 2019 and in 2022. This bank explained in its 2019 remuneration report that 'the financially determined pools (top-down and bottom-up) are adjusted by a maximum of approximately 15% based on the non-financial elements of the Group's Exco members' scorecards'. However, Bank A did not specify the contribution of each ESG pillar. In 2022, this bank also linked ESG metrics to LTIs. The bank aimed to ensure that the various departments were purpose driven, and the sustainability agenda was evidently brought forward.

Bank B used its own ESG metric called 'organisational health' to determine STIs and LTIs. This metric comprised three factors, namely 'customer and digital, colleague and sustainability'. Customer and digital included customer primacy targets, accounting for customer experiences and client acquisitions. The colleague dimension included employee surveys covering sentiment while sustainability centred on sustainable financing outcomes. Details were disclosed on the contributions of individual executive directors in its 2022 remuneration report. Yet, Bank B made relatively vague references to ESG matters in their executive scorecard, for example, 'the relationship banking ESG agenda is firmly entrenched into the daily business activity'.

Bank C disclosed different key performance indicators (KPIs) for each executive director, which were then linked to ESG in 2022. Examples included understanding the drivers of organisational culture, frequency and quality of stakeholder engagements and incorporation of climate risk in credit risk models. The accomplishment of these KPIs determined the size of their STIs. Different ESG factors were incorporated for the respective executives. For example, the climate-related category, which consisted of six KPIs, weighed between 10% and 25% of the total ESG metric. Bank D did not report on the usage of composite ESG metrics.

Pertaining to the telecommunications companies, Telecommunications Company A used an industry sustainability assessment called the Brand and Retailer Module in 2019. This instrument was used to allocate executive pay. In 2022, this company accounted for three composite ESG ratings, namely those provided by Sustainalytics, S&P Global and MSCI. They evaluated their 2022 ESG performance based on these ratings. These ratings were included as part of their KPIs, which were in turn linked with STIs and LTIs.

In 2022, Telecommunications Company A stated that each objective was measured and validated by the group president and CEO, whereafter it was externally audited. The individual objectives were based on a balanced scorecard, with shared KPIs 'as cascaded from the Company strategic objectives'. The ESG KPIs included to achieve net zero carbon emissions by 2040 and have 50% women in the overall workforce by 2030. Each executive director's performance on the KPIs was measured based on predetermined targets. The targets were, however, not disclosed. Composite ESG metrics were used to determine some of their LTIs in 2022. Focus was placed on climate change. They disclosed that targets were set in this regard but did not specify what those targets were.

Although Telecommunications Company B did not include ESG considerations to reward executives in 2019, the company linked ESG targets to long-term compensation in 2022. Three main ESG targets contributed 10% to establishing such incentives. Yet, the specific targets were not disclosed. Companies C and D did not report on the usage of composite ESG metrics to allocate incentives.

Incorporating environmental considerations to establish executive pay

Bank A linked environmental aspects to director remuneration in 2019. This bank incorporated the following environmental aspects: climate change, electricity consumption, green rating of buildings, and funding for solar power generation. These environmental aspects were then linked to STIs. Table 3 provides details on the environmental-pay linkages that were disclosed by the considered banks and telecommunications companies in 2022. Adams and Abhayawansa (2022) noted that more pertinent attention is given to ESG concerns by stakeholders because of the COVID-19 pandemic. Likewise, the considered companies evidently placed more focus on environmental issues post-2020.

TABLE 3: Environmental considerations disclosed in 2022.

Aspect	Banks	Telecommunications companies
Biodiversity awareness	Bank A	Not applicable
Climate change (including reporting and emissions)	Bank A, B and C	Company A and Company B
Energy consumption	Bank A and Bank B	Not applicable
Financing of sustainable and renewable energy projects	Bank A and Bank B	Not applicable
Water management	Bank A and Bank B	Company A
Waste management	Bank B	Company A

As shown in Table 3, more environmental aspects were linked to executive incentives by the considered banks than by the telecommunications companies. Three banks had at least one environmental aspect tied to executive pay while only two of the telecommunications companies reported that they have linked limited environmental aspects to executive pay.

The telecommunications companies primarily referred to climate matters. As climate change mitigation and the reduction of GHG emissions are important societal challenges, companies increasingly focus on corporate environmental initiatives to curb climate change globally (Cadez, Czerny & Letmathe 2019). Only two banks and a telecommunications company accounted for water-related matters.

Two of the considered banks included energy consumption measures as part of their individual scorecards to compute executive incentives. These banks also focused on financing renewable energy projects. Mack (2022) likewise highlighted that companies in the United States prioritise the efficient use of scarce energy resources. Progress on energy policy commitments and targets related to sustainable financing were considered as part of Bank A's reward criteria. This bank mainly focused on the outcomes of renewable energy projects in 2022 to allocate STIs. The following information was disclosed in this regard: 'Recorded R27bn in renewable-energy finance drawn exposures and maintained our status as lead arranger on independent power producer projects'.

As discussed, Bank B used a so-called organisational health scorecard. The following was disclosed on an executive's scorecard: 'Sustainable financing outcomes were delivered at target despite significant delays experienced in renewables financing in 2022'. Furthermore, the following disclosure was made on sustainability-related progress in 2022: 'Reduced water, carbon emission, energy consumption and waste environmental impacts have far exceeded targets. Commendable sustainability and climate change reporting ratings were delivered'. These sustainability considerations were used to allocate LTIs. Yet, details were not provided on how the individual components of the scorecard were used to allocate such incentives.

Bank C likewise described climate change as a critical environmental performance consideration. Their climate category contributed to their executive scorecards to determine STIs. Climate-related KPIs included 'incorporation of climate risk into credit risk models and/or underwriting criteria'.

Telecommunications Company A linked three sustainability aspects to director pay in 2022, namely reducing emissions, waste and water management. Progress made in terms of GHG emissions target was then linked to STIs and LTIs. Water and waste management initiatives were tied to STIs. Telecommunications Company B likewise linked LTIs with reducing GHG emissions during 2022. Scholars concur that this is a key environmental consideration to ensure a more sustainable future (Zhang et al. 2021). Environmental considerations are particularly difficult to measure, and it was evident that some of the companies found it challenging to link environmental considerations to executive emolument.

Linking social considerations to incentives

The considered companies have disclosed linkages between several social considerations and executive pay during both years under review. They mainly tied their executive directors' remuneration to customer-related considerations, as shown in Table 4. All the banks reported on this social aspect in 2019 and in 2022. The telecommunications companies likewise referred to customer experiences and coverage. Telecommunications Company B explained in their 2022 integrated report that coverage is related to customers and focuses on making services affordable to a wide range of individuals, thereby increasing the coverage of their services.

Several of the telecommunications companies used performance measurement scores to account for customer satisfaction, including the Net Promoter Score. Telecommunications Company B explained that this score measures 'the extent to which our customers would recommend us' in their 2022 integrated report. They also accounted for employee engagement. Employee-related variables were the second most reported social measure that was linked to executive pay. However, a decrease was noted in terms of the number of companies that reported on this link in 2022 in comparison to 2019.

Several companies placed focus on transformation by linking director pay to Broad-Based Black Economic Empowerment (B-BBEE). Prior injustices against black individuals during the apartheid regime might motivate companies to focus on empowerment initiatives (Patel & Mushonga 2014). Furthermore, King IV encourages companies to adopt a stakeholder-inclusive approach (IoDSA 2016). By linking stakeholder relationships with executive pay, a company might indicate that it values such associations and reward executives that prioritise material relationships.

In addition to accounting for customers' and employees' interests, Bank A included youth employment as part of ESG criteria. Consideration of such criteria could be linked to South Africa's severe unemployment crisis

TABLE 4: Disclosures on social considerations linked to executive pay.

Social aspects	2019		2022	
	Banks	Telecommunications companies	Banks	Telecommunications companies
Coverage	Not applicable	Company A Company D	Bank B	Company A Company B Company D
Customer	Bank A Bank B Bank C Bank D	Company A Company B Company C	Bank A Bank B Bank C Bank D	Company A Company B Company C
Employees	Bank A Bank B Bank C Bank D	Company A Company C	Bank A Bank B Bank D	Company C
Stakeholder relationships	Bank C	Not applicable	Bank A Bank C	Not applicable
Transformation and diversity	Bank A Bank C	Company A	Bank A Bank B	Company A Company C

(Ferreira & Rossouw 2016). The country's unemployment rate was 32.70% in the last quarter of 2022 (Statistics South Africa 2023). Bank A linked social considerations to STIs in both years. Furthermore, progress in terms of the utilised employee and client satisfaction scores, and the company's B-BBEE status was used to determine the vesting conditions of LTIs.

In 2019, Bank B used its non-financial metric called organisation health to determine STIs and LTIs linked to social matters. Customer franchise health, customer numbers and customer primacy comprised the customer component of their metric. To assess the colleague component, Bank B considered restructuring initiatives, employee surveys, employment equity and employee retention.

Social considerations were also included as part of Bank B's organisational health discussion in 2022. This bank used their employee score to assess the individual performance of executive directors, which was then linked to STIs and LTIs. The following extract from their 2022 executive scorecard shows how this bank accounted for coverage: 'Everyday Banking has set the foundation for accelerated entry-level and inclusive banking segment acquisition through on-the-ground community-based marketing efforts and customer-centric pricing enhancements'.

Bank C disclosed that individual performance measures affected the size of the STIs allocated in 2019. Social performance measures included employee engagement, transformation and diversity. In 2022, this bank also included stakeholder relationships to determine STIs. They have used a 'qualitative assessment of the health of client relationships – factors considered include brand health, customer loyalty, customer satisfaction/complaints and net promoter scores'. Their executive directors received scores according to the outlined KPI-linked criteria that were then used to determine STIs. In contrast to its counterparts, Bank D included limited social considerations as part of their KPIs to allocate STIs during both years under review.

Telecommunications Company A provided details on social KPIs that were used to allocate STIs in 2019 and in 2022, including customers and employees. They reported on three performance metrics related to employees, including their employee score, group culture survey and sustainable engagement score. This company was ranked as one of the best 500 global employees, and this achievement was also tied to STIs. Their LTIs were related to B-BBEE progress. Furthermore, their LTIs were linked to achieving specific social goals, namely having 95% broadband coverage by 2025 and having 50% women in their workforce by 2030. The latter goals disclosed in their 2022 integrated report.

Likewise, Telecommunications Company B tied customer appreciation to STIs awarded in 2019. They disclosed the extent to which customer appreciation targets were met. Yet, neither the specific targets nor details on progress in this regard were disclosed. This company also included customer appreciation as part of their STI criteria in 2022. In turn, Company B tied their LTIs to coverage in 2022.

The group CEO of Telecommunications Company C was 'rewarded based on the delivery of the strategic and operational objectives in line with shareholder expectations and business strategy' in 2019. While this statement alludes that these aspects were used to reward this individual, it was unclear how remuneration was tied to these indicators. Furthermore, the company used customer retention and the Orange Index to measure customer experience. This index measures service excellence and experience in different industries and helps companies gain insight into consumer desires (Ask Africa 2023). Regarding the allocation of STIs in 2022, Company C accounted for targets related to customer experience and people management.

Telecommunications Company D included subscribers as part of determining their STIs in both years. Executive targets were formulated based on subscriber growth, but the specific targets were not disclosed in 2019. Reference was made to subscriber growth in South Africa and on the African continent as well as growth in the online user base. In contrast, the weightings used for each performance measure were disclosed in 2022, and progress was mentioned in terms of achieving these targets. As such, there was an evident increase in the level of disclosure on the sustainability-pay linkages of the considered companies during the second year under review.

Types of sustainability-linked incentives

Most of the considered companies linked environmental and social considerations to STIs. Some of them used the same ESG measures to determine STIs and LTIs. Certain banks allocated cash bonuses and deferred shares. Deferred incentives could enhance managers' willingness to make investments that would benefit their company in the long run despite potential detrimental implications for their STIs (Cheng et al. 2018).

Bank A made use of a restricted share plan, and Bank B also used a share incentive plan for group executives. Likewise, Bank C used a cash award and a deferred bonus linked to the share price. In turn, Bank D also allocated cash bonuses. Telecommunications Companies A, B and C allocated bonuses. Pertaining to LTIs, Telecommunications Company A allocated share options while Telecommunications Company B allocated forfeitable shares.

In some of the analysed reports, detailed explanations were given regarding directors' actions in relation to sustainability considerations. Yet, they did not indicate whether each director has met specific targets over the short- and long-term.

Use of other sustainability frameworks to determine pay

While most of the considered companies incorporated specific environmental and social aspects to establish executive incentives, certain companies also referred to other sustainability frameworks. For example, Bank A referred to various SDGs in their 2019 integrated report where they outlined how ESG criteria were used to analyse the performance of each executive: 'Activated support for the YES [*Youth Employment Service*] initiative by providing first-time job opportunities for more than 3300 youth (SDG 8)'.

Furthermore, Telecommunications Company C mentioned in their 2022 integrated report that they will 'expand on and enhance previous commitments on SDGs undertaken by the Group as per the integrated report'. Bank A referred to SDG 10 in their 2019 remuneration report: 'Private Wealth SA won the ESG/Social Impact Investing category in the Euromoney Private Banking and Wealth Management Survey for the fourth consecutive year (SDG 10)'. The manager of their wealth division was accordingly rewarded for the achievement to reduce inequalities.

The banks also reported on linkages between corporate social investment (CSI) and executive pay. Bank C outlined how they have used four KPIs linked to CSI to determine STIs in 2022. Telecommunications Company A likewise reported on beneficiaries that received STIs related to their CSI initiatives in 2019.

Future plans to link director pay to sustainability

Some of the considered companies referred to plans to link their directors' pay to sustainability considerations in the future. In their 2022 integrated report, Bank D indicated that they intend to base some of their STIs on ESG metrics going forward.

Telecommunications Company C vowed to link STIs to all three ESG pillars in 2023. They envisioned including targets related to, inter alia, climate change, organisational culture, talent management, succession planning, transformation and shared value creation. This company planned to engage with shareholders about further development of ESG parameters in the context of director pay. They also pledged to include ESG metrics linked to long-term compensation in the form of share awards.

Telecommunications Company D disclosed that shareholders spoke out against the lack of ESG targets tied to executive remuneration prior to 2022. Shareholders of Telecommunications Company C raised similar concerns. They hence indicated that they plan to incorporate ESG metrics in their future pay policies. Practitioners and researchers confirm that shareholder activism is increasing in South Africa. Activism largely stems from pay-performance issues (Deloitte 2019; Viviers 2015).

Furthermore, Telecommunications Company D indicated in the 2022 integrated report that ESG metrics will be 'based on a blend of external agency ratings and company-specific measures' in the future. They intended to use ratings compiled by MSCI and Sustainalytics to account for ESG performance when establishing director compensation going forward. They also mentioned that they plan to account for sustainable development and how applicable metrics in this regard can be tied to thresholds, targets and pay-linked performance goals in the future.

Conclusions and recommendations

Although South Africa offers a well-developed corporate governance framework to companies (IoDSA 2016), the country is highly inequal (The World Bank 2022). Prior scholars largely focused on the associations between corporate financial performance metrics and director emolument by conducting quantitative analysis. There was thus an evident gap in the literature to account for sustainability-pay linkages, by exploring disclosures in this regard in South Africa.

Content analysis was conducted on the integrated and remuneration reports that were published by selected banks and telecommunications companies in 2019 and 2022, respectively. Several improvements were noticed pertaining to their disclosures on how composite ESG metrics are used. By 2022, several banks and telecommunications companies used ESG composite metrics to determine executive pay.

The considered banks and telecommunications companies primarily focused on linking social considerations to STIs, in particular the interests of customers and employees. Several of the companies used externally generated social scores to set remuneration-linked targets. Pertaining to environmental matters, they concentrated on climate change by referring to reducing GHG emissions, decreasing energy consumption and financing renewable energy projects and linking related targets to executive incentives. Water management and waste management were also linked to executive pay.

Some of the sampled companies have set specific, measurable goals related to climate change, while others briefly mentioned that they aimed to increase awareness of climate-related matters. As not all sampled companies linked the environmental pillar with director pay, remuneration and social and ethics committee are encouraged to jointly discuss how sustainability targets can be optimally linked to incentives over the short- and long-term.

The sampled companies primarily linked STIs to specific sustainability outcomes. This finding might indicate that they still largely had a short-term outlook instead of focusing on long-term sustainable value creation in the spirit of King IV (IoDSA 2016) and envisioned by the United Nations (2023) when outlining the SDGs. Some companies mentioned plans to enhance the linkages between sustainability considerations and director pay over the short- and long-term going forward.

In line with the discussed stakeholder theory, several of the investigated companies mentioned that they have relied on shareholders' input on how to optimally link ESG metrics to executive pay. Directors, remuneration committee members, social and ethics committee members, shareholders and other key stakeholders are hence encouraged to engage on sustainability matters and reflect on how performance across the triple bottom line and six capitals can be linked to executive pay.

It is recommended that institutional investors should be more specific in terms of their sustainability requirements, given the focus on ESG in the local pension fund legislation. Such investors have substantial voting and negotiation powers to change corporate policies and practices. Should the proposed Bill to mandate say on pay voting outcomes become effective, shareholder voting will become an even more powerful activism mechanism going forward.

Remuneration and social and ethics committees should have regular internal discussions on fair and responsible pay. They are urged to account for the implications of the wage gap, given the country's substantial Gini coefficient (The World Bank 2022). Banks could furthermore play an important indirect role in reducing environmental damage through their influence on the companies to which they provide financing. Executive pay could then be linked to the outcomes of renewable energy projects.

Directors and institutional investors must ensure that they are well versed on sustainability terminology to enable them to meaningfully contribute to discussions on pay-performance linkages in the triple bottom-line context. Experts on sustainability matters, including consultants, academics and industry bodies, could be invited to offer training and facilitate seminars on pay-performance concerns and related opportunities. Several of the sampled companies focused on customer-related considerations. In the future, remuneration committees are hence encouraged to account for customers' viewpoints and incorporate customer satisfaction when establishing executive incentives.

Not all the sampled companies reported in a transparent manner on the associations between director pay and sustainability considerations. It is hence recommended that companies should disclose their sustainability-linked targets and report on progress in this regard. Given the recent publication of IFRS Standards 1 and 2, report preparers should reflect on how they can enhance reporting on material sustainability and climate change considerations going forward.

Future scholars could conduct comparative pay-performance studies in emerging markets, such as South Africa, Brazil and India. Mixed methods can be employed by utilising surveys and conducting interviews with various stakeholders to gauge their views on fair and sustainable pay policies and practices. Focus could be placed on sustainability aspects that are deemed material in divergent industries and countries. The views of remuneration and social and ethics committee members might be particularly valuable to reflect on how the linkages between director pay and sustainability considerations could be improved. Future researchers could also evaluate the impact of the new IFRS Standards 1 and 2 on sustainability disclosures and the linkages with executive incentives over the short- and long-term. The related implications for stakeholders could also be explored.

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Authors' contributions

N.M.-K. conceptualised and wrote the article. A.S. collected and analysed the data and contributed to writing the draft version of the article.

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Data availability

The authors confirm that the data supporting the findings of this study are available within the article.

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