





SA COMPANIES IGNORE VOTES AGAINST EXECUTIVE REMUNERATION AT THEIR PERIL

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ABOUT THE AUTHOR

Robert is responsible for proxy voting and engagement, representing Old Mutual Investment Group on various industry bodies and championing responsible investment for the Old Mutual group. He has 10 years of work experience in the legal profession and asset management industry.

Salaries across the pay band, from CEO through to blue-collar workers, are increasingly under the spotlight. If the interests of shareholders are to be properly aligned with those of company management in terms of setting and implementing company strategy effectively, then we must rein in the issue of unchecked executive remuneration or face the prospect of poor or misaligned implementation of company strategy. Inaction by shareholders in this area will exacerbate the income inequality that continues to blight South Africa.

A SHAREHOLDER-INCLUSIVE APPROACH

The King IV Report has set out the requirement that should a company have more than 25% of shareholders vote against its remuneration policy, then the company is required to engage with dissenting shareholders. At the very least, such steps should include an engagement process to ascertain the reasons for the dissenting votes, appropriately address legitimate and reasonable objections and concerns raised (which may include amending the remuneration policy), or clarify remuneration governance and/or processes.

The challenge is that the shareholder vote itself is non-binding, and as a consequence, many companies falsely assume that paying, lip service to King IV, requirements is enough. By continuing to do so, the risk for participants in the financial ecosystem is that alignment between investors, asset managers and investee companies is eroded.

As a shareholder, Old Mutual Investment Group is highly active when it comes to holding management teams accountable for executive remuneration. Our published letter to the CEOs of the top 100 South African companies in August 2018 reiterated our expectations for companies to practise ethical leadership, lead on transformation and to integrate environmental, social and governance (ESG) considerations into company strategy. Fair and responsible remuneration, as required by King IV, is an important indication of ethical leadership at board level. We take the matter very seriously in line with our responsible ownership activities.

KEY TAKEOUTS

- SA FACES GROSS INCOME INEQUALITY
- KING IV MARKS FAIR AND RESPONSIBLE REMUNERATION AS A KEY INDICATOR OF ETHICAL LEADERSHIP
- SOLVING INAPPROPRIATE PAY PRACTICES REQUIRES COLLABORATION BETWEEN COMPANIES AND INVESTORS
- ASSET MANAGERS MUST ENGAGE COMPANIES TO ADDRESS UNCHECKED EXECUTIVE REMUNERATION

MIND THE PAY GAP

Solving inappropriate pay practices requires collaboration between companies and investors to create the right alignment that works for all stakeholders in financial markets. We believe in engaging regularly with company management on operational and company-specific issues, as well as on issues related to governance performance, such as executive remuneration. Where we believe it to be in the best interests of our clients, and where we have exhausted our engagement with management, we will seek out opportunities to collaborate with co-investors as a means to drive change regarding the company's pay practices. Where such collaborative efforts are undertaken, we will ensure that conflicts of interest and issues relating to "acting in concert" are appropriately addressed.

In a recent report on remuneration by a well-regarded remuneration consultant, we were acknowledged as having one of the highest number of votes against company remuneration at 37% of our total proxy votes by number during the reporting period. A major step forward would be to adopt our request that all votes on remuneration become binding and that a simple majority against a remuneration proposal should force a rethink.

In isolation, voting against remuneration is still not enough to bring about meaningful change, and more must be done. It is critical that we focus on developing common practices that address legitimate and reasonable objections and concerns raised by investors regarding executive remuneration practices.

COMMITTED TO ROBUST ENGAGEMENT

The obligation is on both the company and material asset managers (with 3-5% holdings) to engage regarding their concerns prior to the annual general meeting (AGM). Should a company still receive a 25% vote against their remuneration then a private meeting (online or otherwise) between the company and material shareholders should take place as soon as possible to close out remaining concerns, including a timeline to rectify issues. If a company refuses to institute this process, collaborative engagement between material shareholders should be initiated with possible media exposure, should it be deemed necessary. The company then runs the reputational and governance risk of a large vote against members of the Remuneration Committee at the next AGM.

We cannot ignore the importance of ensuring that South African companies engage in fair and responsible remuneration practices and, as an asset manager committed to serving our clients' best interests, we will continue to drive positive change both at an investee company level and collectively across the industry. ■

