

Prof Brian Figaji
Chairperson
Wesgro Board
SA Reserve Bank Building
Cape Town

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David Maynier
Minister of Finance and Economic Opportunities
Western Cape Government
140 – 142 Long Street
Cape Town
8001

CC Mr Mike Spicer, Vice Chairperson, Wesgro Board

Dear Minister

RESPONSE THREE TO WESGRO'S CEO REAPPOINTMENT AND SALARY INCREASE

Responses are referenced and provided to your correspondence dated 07 April 2020

In response to paragraph 2, with regard to the CEO's involvement in the benchmarking process:

The CEO by virtue of his position is responsible for the organisation and therefore the benchmarking exercise as it related to the staff and the accompanying levels within the organisation. However, with regard to the CEO's remuneration grading, both the Vice-Chairperson and I dealt with the matter ourselves. Therefore the determination of the CEO's remuneration was not influenced by the CEO under any circumstances.

In response to paragraph 2, with regard to the CEO's salary and engagement with the Board:

The decision to renew the CEO's contract was made by the Board at its August 2018 meeting, but due to HR personnel issues had not been implemented. As previously stated, the Board's decision to increase the CEO's salary was taken at the closed session of the Board meeting held on 21 February 2020. At the meeting of 20 March 2020, board members were given an opportunity to get clarity on some of the detail of the Consultant's calculations used to arrive at the recommendation. At this meeting, as you would have seen in the minutes previously submitted, two board members accepted that they had originally agreed to the decision made on 21 February 2020 and now that the decision had been implemented indicated belated concerns.

At the meeting of 21 February 2020, after the verbal presentation had been made, no member of the Board raised any concern about having inadequate information or not having the information timeously. It was still, however, agreed that the Consultant's recommendation would be sent to board members. Therefore, the board members were provided with the benchmarking exercise.

We wish to restate that the Board has been legislatively compliant in terms of the CEO's reappointment in terms of the Wesgro Act and that best practice has been followed in terms of the appointment of a CEO in a public entity, which is governed by the Labour Relations Act and the Basic Conditions of Employment Act.

The following information was provided to the MEC in the correspondence dated 18 March 2020:

"Section 10(1) of the Western Cape Tourism, Trade and Investment Agency, Act 3 of 1996 (the "Act"), states that "The Board, in consultation with the Minister and executive Mayor and after following a public advertising process, must appoint a fit and proper person with knowledge of and experience in tourism, trade or investment promotion as the chief executive officer of the Board."

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Section 10(2) of the Western Cape Tourism, Trade and Investment Agency, Act 3 of 1996, states that “The chief executive officer must be appointed in terms of a fixed-term, performance-linked contract for a period not exceeding five years, and may be reappointed once after expiry of that period.”

The Act provides for the first appointment of the CEO and it specifies that it should be in consultation with the Minister and Executive Mayor. The legislation correctly does not provide the detailed process for the first appointment and the reappointment of the CEO, as recruitment processes would not be outlined in the legislation. Therefore, in terms of best practice for the appointment of a CEO in a public entity, which is governed by the Labour Relations Act and the Basic Conditions of Employment Act, the Board exercised due process. The Board provided for the first appointment of the current CEO in consultation with the Minister and Executive Mayor, and after a public participation process. The current CEO’s first term of appointment was in direct compliance with the legislation.

The Act provides for the once-off reappointment of the Chief Executive Officer as per Section 10(2) of the Act. The term “reappointed” presupposes that it would not be a new appointment, rather it is a reappointment on a previous process. Following its legislative mandate, the Board utilised the provisions of Section 10(2) of the Act to give effect to the CEO’s reappointment.”

In response to paragraph 2, with regard to the Board Member’s resignation:

The board member concerned did not raise any issue during the discussion held in the meeting of 21 February 2020. In the meeting of 20 March 2020, the board member stated that she now had concerns, and when pressed to be more specific she stated that she did not accept the Consultant’s report without indicating which part of the report she was not accepting.

It therefore appears that between the assertions contained in the board member’s emailed resignation and my account of what transpired, there are two versions of the truth.

In response to “3. To aid in the further assessment of this matter, please provide me with the following information:

3.1 In respect of the benchmarking exercise that was undertaken, the medium-funded NGO/NPO sector benchmarks were relied on to benchmark the CEO’s salary. In this regard, please indicate:

- 3.1.1 Which medium-funded NGOs and NPOs were taken into account during the benchmarking process***
- 3.1.2 What the salary of each of their CEOs is;***
- 3.1.3 How each of these entities compare to Wesgro in relation to their size, mandate, importance and impact of the entity; what the obligations and responsibilities of their CEO’s are; the budgets for which they are responsible, staff complements, and the number of people reporting to the CEOs; and***
- 3.1.4 How the proposed revised salary for 2020/21 and the phased increases over the new few years were arrived at.”***

3.1.1 – Response received from the Consultant:

“The main NGO/ NPO survey in SA is the Averile Ryder survey.

The survey used was the July 2018 survey as the July 2019 survey had not yet been published at the time of conducting the benchmarking exercise. Note that the “July 2018” date refers to the date for which the data was valid; the actual surveys take several months to produce after that date; the July 2019 survey has only recently been published.

The list of participants is shown in the separate PDF file attached entitled AR Survey Participants – see Annexure A. There are 76 organisations in total.

Note that all participants in that survey fall into the medium-funded category: the well-funded NGOs/NPOs use a different set of benchmarks and the poorly-funded NGOs/NPOs typically do not participate in surveys due to a shortage of financial resources.”



3.1.2 – Response received from the Consultant:

“The way surveys work is to preserve the anonymity of individual participants. In simple terms, all participants’ data is sliced up into roles (e.g. CEOs in this case) and each role is then analysed and summarised separately. Unless annual reports showing CEOs’ packages specifically are available for each of these organisations, it is not possible to identify specific cases. Further, if individual cases were identified, they could comprise a very limited sample. It is therefore much more accurate to use larger samples of data such as those contained in an appropriate survey to prevent the possibility of outliers skewing the findings.”

3.1.3 – Response received from the Consultant

“Size

The term “size” is a generic one, and is usually indicated by size of budget and number of employees; these are covered under those specific headings below.

Their mandate

There is a broad spread of fields in which survey participants operate, and their mandates vary accordingly:

- Community/ Social Services
- Training/ Development & Education
- Global/ African Continent NPO
- Grant Making
- Medical/ Healthcare Programmes
- Independent NGOs/ NPCs
- Legal
- Small Enterprise Development
- Social Housing
- Sub-Sahara Africa/ Holding Company

The common factor in all of these organisations is that they do not generate a profit and are dependent on funding from various outside sources. Because of this, it is necessary to “cut the suit to fit the cloth”, and pay in NGOs/ NPOs (including that of their CEOs) is therefore universally lower than that in the private sector.

The actual sources of funding are not of relevance. Various major consultancies (e.g. Deloitte Human Capital, P-E Corporate Services) have over the years analysed the drivers of pay at the senior (Paterson E and F levels) and the main driver is organisation size, one key element of which is operating budget. All CEOs have a duty of care to apply their operating budgets prudently and responsibly, and the larger the budget, the higher the level of responsibility concerned.

Their importance and impact

To answer this particular question requires one or several value judgements, which are not particularly helpful for market benchmarking purposes. Every NGO/ NPO is important in its own way.

The obligations and responsibilities of their CEOs

All CEOs have similar obligations and responsibilities; the survey used describes the CEO position as “This would be the most senior full-time executive with total responsibility for the overall direction, policy implementation and organisational performance for the organisation, country or African Continent operations and support services”.

Their budgets

Annual operating budgets in survey participants vary between small (up to R5 million) and large (more than R300 million). Wesgro with its total annual operating budget of R200 million falls towards the top of this group (around position number 68 of 76).

Their staff complements

These vary from small (1-15 employees) to large (more than 1,000 employees). Wesgro with its 83 employees falls into the category 51-100, which is slightly towards the higher end of the organisations’ headcounts concerned (between 48 and 60 of the 76 total). Note also that Wesgro’s current salary bill of some R41.6 million is towards the higher end of the survey participants. It falls into the tranche of R30.1 – 50 million (8 survey participants), and the organisations in the tranches below it number 60 in total while there are only 8 above it, out of the total of 76.

The number of people reporting to their CEOs

These are not shown in the survey. However from my experience of consulting to NGOs/ NPOs (to date, a total of 38) this figure depends on the size and complexity of the NGO. Structures are generally flat to improve efficiency and communication as well as avoiding the costs of extra reporting layers, and the number of people reporting



directly to the CEO (as opposed to total complements) varies from 5 to 11. In Wesgro’s case this figure is 9 which is slightly above the middle of this range.”

Response received from the Consultant – additional information

“Establishing the CEO’s package using the Averile Ryder survey data

While the Averile Ryder survey is the main NGO/NPO survey, it is not perfect. Specifically, it contains pay information up to and including Paterson E5 and shows nothing on the F level. As you are aware, you, Mike Spicer and I graded this job on the most accurate grading tool currently available in the world, namely Decision Tree (currently owned by KornFerry Hay), and the outcome of that exercise was that this job is at the F2 level. It was therefore necessary to extend the trend line found from E1 through to E5 up to the F2 level. My calculations of the appropriate F2 benchmark for the CEO position based on the Averile Ryder survey as a starting point are shown below (note that because survey data is always in arrears, it is necessary to age the data to the midpoint of the organisation’s pay year).

Subgrade	Element	TGP	Gradient	Average Gradient	TGP aged to 01.10.2019
D5	Survey	841 955			905 102
E1	Survey	931 968	11%	16%	1 001 866
E2	Survey	1 065 106	14%	16%	1 144 989
E3	Survey	1 198 244	12%	16%	1 288 112
E4	Survey	1 574 985	31%	16%	1 693 109
E5	Survey	1 784 983	13%	16%	1 918 857
F1	Survey extended to F1	2 070 580			2 225 874
F2	Survey extended to F2	2 401 873			2 582 014

Based on the above, the appropriate midpoint (which has a spread on either side) is R 2 582 014 pa.

Establishing the CEO’s package using PECS data

Analysis of market data, specifically the Averile Ryder survey against private sector benchmarks, has shown that pay in NGOs/ NPOs is quite consistently 30% below the private sector benchmarks PECS (P-E Corporate Services, one of the main survey providers).

The final PECS benchmark (for the private sector) is R 3 335 667. When this is reduced by 30% we arrive at R 2 334 967. Note that this is still a midpoint, which requires a spread on either side.

Once 25% is used for this spread (to cover the 10th to the 90th percentiles of the market), the appropriate package range for this position is:

Minimum: R 1 751 225

Midpoint: R 2 334 967

Maximum: R 2 918 709

Note that it is possible to extract the NGOs subset from the PECS database. However, these benchmarks are only some 4% below those of the survey overall (which focuses primarily on the private sector). This data has been ignored, since the PECS survey is expensive, and only well-funded NGOs can afford to participate, meaning that the NGOs in the PECS surveys are not representative of the “medium-funded” NGOs (the vast majority of NGOs) but only the “cream”.

Establishing the CEO’s package using Deloitte data

For the private sector, the appropriate midpoint is R 3 118 149.

Once this is reduced by the 30% figure for NGOs/ NPOs, this becomes R 2 182 704.

However, Wesgro is a high company size B (close to company size C), not a middle of the road B. It was therefore necessary to adjust the benchmark by 8% in order to provide a more accurate figure.

Once this was done, the midpoint became R 2 356 058.

Final benchmark for the CEO’s package



Normally, when different benchmarks are obtained via different approaches, these are averaged. However, it is wise to be extra conservative in the case of NGOs/ NPOs, so the lowest of the three benchmarks was used for the Wesgro exercise.”

Response to 3.1.4:

You will recall that we briefed you on this matter, both verbally and in writing. The Board had decided on a salary increase and a bonus in the closed session part of the Board meeting held on 21 February 2020.

Furthermore, the CEO offered to the Board in the Special Board meeting held on 20 March 2020, an Addendum to his Contract which introduced a staggered implementation for both the remuneration and the bonus.

This effectively means that the CEO’s total cost to company for the 2020 year is R2,559,751.95, and not the R2,736,581.00 stated in the main Contract. This is also inaccurately reflected in the parliamentary question for written response, as the CEO’s remuneration is reduced based on the Addendum. We also wish to note that the remuneration increase was in line with the available budget to Wesgro in the 2019/20 financial year, and hence we are compliant with the PFMA.

We confirm that the staggered implementation resulted from an unsolicited offer from the CEO in response to the current health crisis, and economic and financial climate. It means an effective R400k to R500k reduction in remuneration over the five year contract period.”

“3.2 You placed on record, in e-mail correspondence of 01 March 2020, that you did not believe that the mid-level NGO peer group was the correct comparison to Wesgro for benchmarking purposes. Please indicate why reliance was nonetheless placed on the benchmarking report in determining the CEO’s salary increase.”

Response to 3.2:

We asked expert advice in the form of Rob Oakley. Oakley had in fact stated that the closest approximation to a peer group for Wesgro would be the mid-level NGO sector. We expressed concern that Wesgro operates more like a private sector organisation and we asked the question then whether the mid-level NGO sector is the correct sector. Oakley’s response was that while he would agree that Wesgro is more of a hybrid organisation, he preferred to err on the conservative side by using the mid-level NGO sector. Based on this advice and the consistent and responsible manner in which we approached the benchmarking exercise, we agreed to accept this guidance from the professional.

“3.3 Insofar as the Board considered the salaries of CEO’s of other Provincial Public Entities in the Western Cape Province and in other Provinces when it considered the increase in the CEO’s salary, please indicate:

3.3.1 Which Provincial Public Entities were considered;

3.3.2 What the salary of each of their CEOs is; and

3.3.3 How each of these entities compare to Wesgro in relation to their size, mandate, importance and impact of the entity; what the obligations and responsibilities of their CEOs are; the budgets for which they are responsible, staff complements, and the number of people reporting to the CEOs.”

Response to 3.3.1 and 3.3.2:

The Wesgro CEO’s package for 2020/21 is substantially lower than the packages paid to the CEOs’ of the equivalent Gauteng, KZN and Eastern Cape agencies three years ago. In the 2017/18 financial year, the package of the CEO of Gauteng Growth and Development Agency (GGDA) was R3,5m; the package of the CEO of Trade and Invest Kwa-Zulu/Natal (TIKZN) was R3,2m; and the Eastern Cape Development Corporation (ECDC) was R2,9m. One can reasonably assume that these amounts are higher today, given three years of adjustments for inflation and any other increases.

GGDA: R3,5m (17/18)

TIKZN: R3,2m (17/18)

ECDC: R2,9m (17/18)

As I indicated to you before, I have it on reliable authority that the Saldanha Bay Industrial Development Zone CEO’s cost to company is approximately R2,5m, and that the currently advertised Atlantis Special Economic Zone



CEO's cost to company will be in the region of R2m. But I am sure that you would have access to the exact numbers.

Response to 3.3.3:

In many cases they are smaller than Wesgro, with fewer mandates and much less impact. Some of these organisations have bigger budgets, but under-perform significantly when compared to Wesgro.

“3.4 In respect of the enquiries that were made to establish the average bonus for CEOs, please indicate which entities were considered for comparison purposes, how these entities compare to Wesgro, and what the obligations and responsibilities of their CEOs are.”

Response to 3.4:

The Chairperson, Vice Chairperson and Board Members have extensive experience either as board members or chairpersons of private sector Boards and are therefore well-versed with the current levels of remuneration in the private sector. Also, during this process two board members were specifically consulted on this matter and in fact the bonus awarded was adjusted to the mid-point of the NGO sector (as previously stated in the correspondence to you dated 23 March 2020, “the average bonus for CEOs ranged between 28% to 38%”), and very significantly below private sector bonus levels.

In closing please note that we have provided you with all the information at our disposal, both verbally and in correspondence and on more than one occasion. Our actions and the decision-making exercised on this matter are both legislatively compliant in terms of the Wesgro Act, and PFMA compliant in terms of our fiduciary responsibilities. We must state again that we remain convinced that our actions and decisions are rational and defensible, and that the Board has acted with fidelity, honesty and integrity.

Regards

Prof Brian Figaji
Wesgro Chairperson