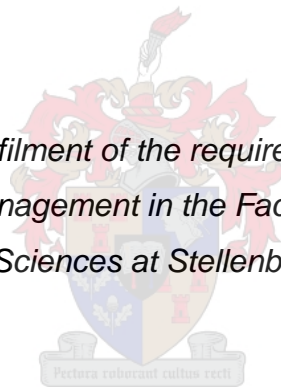


Reflecting on the King IV director remuneration recommendations: A financial services perspective

by
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DECLARATION REGARDING PLAGARISM

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ABSTRACT

Director remuneration is a contentious topic worldwide. South African companies increasingly receive immense stakeholder scrutiny due to perceivably excessive executive remuneration packages, insufficient disclosure and severe pay inequality. The King III Report was replaced by the King IV Report on 1 April 2017 in response to global and local developments. King IV provides more definite disclosure requirements on director remuneration than its predecessor and gives pertinent attention to South Africa's wage gap. This study was hence conducted to reflect on the application of the King IV director remuneration guidelines. Focus was placed on the financial services sector given its prominence in the local economy.

The researcher firstly assessed whether selected locally listed financial services organisations' director remuneration reporting is in line with the King IV guidelines. Content analysis was used to assess the content of their remuneration reports. Attention was given to the transition from King III to King IV by comparing the selected banks' reporting on specific remuneration considerations for the periods 2015-2016 and 2017-2018, respectively. It was found that the three-part remuneration report suggested in King IV considerably standardised the banks' remuneration disclosure. Most of the considered banks improved their disclosure on shareholders' non-binding advisory votes on remuneration policies over the study period.

Secondly, the views of three stakeholder groups who play important roles in the determination of director remuneration, namely institutional investors, directors serving on remuneration committees (REMCOs), and chief executive officers and chief financial officers were considered. Semi-structured interviews were conducted with 12 representatives from 10 institutional investors and 11 representatives from five listed financial services organisations to gauge their views on the King IV director remuneration guidelines. By applying thematic analysis on the transcribed data, three main themes were identified, namely the application and disclosure requirements of King IV remuneration recommendations, REMCOs acting as governance change mechanisms, and shareholder activism on director remuneration.

The interviewees highlighted several positive aspects regarding King IV's director remuneration recommendations. The institutional investors welcomed the more definite disclosure requirements, specifically the three-part remuneration report and single total executive remuneration figure. The REMCO representatives commended

the refreshed non-binding advisory vote on the remuneration policy and implementation report. The executives stated that fair, responsible and transparent remuneration practices enhance alignment between management's and shareholders' interests. They also applauded the heightened focus on transparency and reporting quality evident in King IV.

The majority of the institutional investors were of the opinion that the non-binding advisory vote on director remuneration should be revised. They also remarked that the consequences should be clearer if organisations receive 25 per cent votes against their remuneration policies and/or implementation reports. It is accordingly suggested that the Australian 'two-strikes' rule could be considered by regulators to ensure that action is taken in response to shareholder voting. The REMCO representatives were not convinced that the King IV's guidelines will address wage inequality. It is hence recommended that companies should provide more development opportunities for all employees to subsequently narrow the wage gap. The executive representatives suggested that the future King V Report should offer more guidance on the incorporation of sustainability considerations when determining executive pay. They cautioned against the severe regulatory burden that South African companies are experiencing.

Sound remuneration governance is an extremely important consideration that is often overlooked in South Africa. The establishment of a corporate culture which promotes fair and responsible remuneration that focusses on equal pay for work of equal value is encouraged.

KEY WORDS

Director remuneration; executive pay; King III Report; King IV Report; shareholder activism; South Africa

OPSOMMING

Direkteursvergoeding is wêreldwyd 'n omstrede onderwerp. Suid-Afrikaanse maatskappye ervaar toenemend geweldige druk vanaf belanghebbendes weens waarneembaar oormatige uitvoerende vergoedingspakkette, onvoldoende openbaarmaking en ernstige loonongelykheid. Die King III Verslag is op 1 April 2017 deur die King IV Verslag vervang, in reaksie op globale en plaaslike ontwikkelings. King IV bied meer besliste openbaarmakingsvereistes ten opsigte van direkteursvergoeding as sy voorganger, en gee toepaslike aandag aan Suid-Afrika se loongaping. Hierdie studie is dus gedoen om te besin oor die toepassing van die King IV-direkteur vergoedingsriglyne. Fokus is op die finansiële dienste-sektor geplaas, gegewe sy prominensie in die plaaslike ekonomie.

Die navorser het eerstens bepaal of geselekteerde plaaslik genoteerde finansiële dienste organisasies se direkteursvergoeding-verslaggewing in ooreenstemming is met die King IV-riglyne. Inhoud-analise is gebruik om die inhoud van hul vergoedingsverslae te evalueer. Aandag is geskenk aan die oorgang vanaf King III na King IV deur die geselekteerde banke se verslaggewing oor spesifieke vergoedingsoorwegings, vir die tydperke 2015-2016 en 2017-2018 onderskeidelik, te vergelyk. Daar is bevind dat die drieledige vergoedingsverslag wat in King IV voorgestel is, die banke se vergoedingsopenbaarmaking aansienlik gestandaardiseer het. Die meeste van die oorweegde banke het hul openbaarmaking oor aandeelhouers se nie-bindende advies stemme oor vergoedingsbeleide gedurende die studietydperk verbeter.

Tweedens, is die sienings van drie belanghebbende groepe wat belangrike rolle in die bepaling van direkteursvergoeding speel, naamlik institusionele beleggers, direkteure wat op vergoedingskomitees (REMCOs) dien, en hoof-uitvoerende beamptes (uitvoerende hoofde en hoof finansiële beamptes) oorweeg. Semi-gestruktureerde onderhoude is gevoer met 12 verteenwoordigers van 10 institusionele beleggers, en 11 verteenwoordigers van vyf genoteerde finansiële dienste organisasies om hulle siening rakende die King IV direkteursvergoeding riglyne te bepaal. Deur tematiese analise op die getranskribeerde data toe te pas, is drie hooftemas geïdentifiseer, naamlik die toepassings- en openbaarmakingsvereistes van King IV se vergoedingsaanbevelings, REMCOs wat as bestuursveranderingsmeganismes optree, en aandeelhouersaktivisme met betrekking tot direkteursvergoeding.

Die persone waarmee onderhoude gevoer is het verskeie positiewe aspekte van King IV se direkteursvergoeding aanbevelings uitgelig. Die institusionele beleggers het die meer besliste openbaarmakingsvereistes verwelkom, spesifiek die drieledige vergoedingsverslag en enkele totale uitvoerende vergoedingsyfer. Die REMCO verteenwoordigers het die bygewerkte nie-bindende adviesstem oor die vergoedingsbeleid en implementeringsverslag geprys. Die bestuurders het gesê dat regverdig, verantwoordelike en deursigtige vergoeding belyning tussen bestuur en aandeelhouders se belange verhoog. Hulle het ook die verhoogde fokus op deursigtigheid en verslagdoening, wat duidelik in King IV na vore kom, op prys gestel.

Die meerderheid institusionele beleggers was van mening dat die nie-bindende adviesstem hersien moet word. Hulle het ook opgemerk dat die gevolge duideliker moet wees indien organisasies 25 persent stemme teen hul vergoedingsbeleide en/of implementeringsverslae ontvang. Daar word gevolglik voorgestel dat Australië se 'two-strikes' reël deur reguleerders oorweeg kan word om te verseker dat aksie geneem word in reaksie op aandeelhouerstemming. Die REMCO-verteenwoordigers was nie oortuig dat King IV se aanbevelings loonongelykheid sal aanspreek nie. Daar word dus aanbeveel dat maatskappye meer ontwikkelingsgeleenthede vir alle werknemers behoort te bied om sodoende die loongaping te vernou. Die uitvoerende verteenwoordigers het voorgestel dat die toekomstige King V Verslag meer leiding moet verskaf rakende die inlywing van volhoubaarheidsoorwegings wanneer uitvoerende betaling bepaal word. Hulle het kommer uitgespreek oor die erge regulatoriese las wat Suid-Afrikaanse maatskappye ervaar.

Goeie bestuur van vergoeding is 'n uiters belangrike oorweging wat dikwels in Suid-Afrika oor die hoof gesien word. Die vestiging van 'n korporatiewe kultuur wat billike en verantwoordelike vergoeding bevorder en wat fokus plaas op gelyke betaling vir werk van gelyke waarde, word aangemoedig.

SLEUTELWOORDE

Direkteur vergoeding; uitvoerende betaling; King III Verslag; King IV Verslag; aandeelhoudersaktiwisme; Suid-Afrika

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LIST OF ABBREVIATIONS AND ACRONYMS

AGM – annual general meeting

ASX – Australian Securities Exchange

CEO – chief executive officer

CFO – chief financial officer

CIO – chief investment officer

COO – chief operating officer

CRISA – Code for Responsible Investing in South Africa

CSR – corporate social responsibility

ESG – environmental, social and governance

EY – Ernst & Young

FRC – Financial Reporting Council

ICGN – International Corporate Governance Network

IIRC – International Integrated Reporting Council

ILO – International Labour Organisation

IoDSA – Institute of Directors in South Africa

JSE – Johannesburg Stock Exchange

KPI – key performance indicator

LSE – London Stock Exchange

LTI – long-term incentive

NASDAQ – National Association of Securities Dealers Automated Quotations

NED – non-executive director

NYSE – New York Stock Exchange

OECD – Organisation for Economic Co-operation and Development

PIC – Public Investment Corporation

PwC – PricewaterhouseCoopers

REMCO – remuneration committee

SAICA – South African Institute of Chartered Accountants

SEC – Securities Exchange Commission

SOX – Sarbanes-Oxley Act of 2002

STI – short-term incentive

TGP – total guaranteed package

UK – United Kingdom

UN PRI – United Nations Principles for Responsible Investment

US – United States

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CHAPTER 1

INTRODUCTION TO THE STUDY

1.1 INTRODUCTION

Director remuneration came under immense scrutiny worldwide over the last two decades (Bhagat & Romano, 2009; Lamprecht, 2018). The media and researchers have criticised excessive remuneration packages for incentivising executives to act in self-interest (Bhagat & Romano, 2009; Mans-Kemp & Viviers, 2018). The criticism was predominantly aimed at the size of executives' remuneration packages, insufficient disclosure, and the allocation of incentives following periods of poor financial performance and weak corporate governance (Viviers, 2015). Policymakers, furthermore, highlighted the importance of transparent reporting on directors' remuneration, as stakeholders increasingly seek assurance that remuneration policies and practices support sustainable value creation over the long-term (Bhagat & Romano, 2009; PricewaterhouseCoopers (PwC), 2017a).

It is essential that organisations apply sound corporate governance principles when making decisions pertaining to and reporting on director remuneration (Kohn & Cooper, 2017). Given stakeholders' concerns regarding director remuneration packages in South Africa, considerable attention was given to this topic in the King IV Report that was published in November 2016. Recommendations regarding director remuneration were noticeably expanded in comparison to the guidelines offered in King III (Institute of Directors in South Africa (IoDSA), 2016). King IV provides more definite disclosure requirements than King III and pertinent reference is made to the pay gap (IoDSA, 2016). A research gap was identified to investigate whether reporting on and practices pertaining to director remuneration are in line with the King IV Report's recommendations.

This chapter is structured as follows: The background to the study is followed by the problem statement and research objectives. Thereafter, the research design and methodology are discussed. The contribution of the study is then highlighted. The chapter is concluded with an orientation to the study.

1.2 BACKGROUND TO THE STUDY

In this section, several corporate governance theories that influence director remuneration are discussed. Reference is made to the importance of reporting on

director remuneration. An overview is also provided on director remuneration disclosure in the South African context by referring to the King Reports. Pertinent attention is given to key stakeholders in the director remuneration process.

1.2.1 Corporate governance theories related to director remuneration

Executives are often self-serving and prioritise their personal wealth creation instead of serving the best interests of shareholders (Jensen & Meckling, 1976; Thomas & Hill, 2012). The agency theory explains the complexity of the relationship between principals (shareholders) and agents (directors) (Abdullah & Valentine, 2009). Several corporate governance guidelines and codes were released globally and locally to address the misalignment of interests between principals and agents, as discussed in Sections 1.2.3, 2.4 and 2.5.

Jensen and Meckling (1976) stated that incentive remuneration can assist in aligning shareholders' and executives' interests. This executive remuneration arrangement could be linked to the optimal contracting theory (Bebchuk & Fried, 2003). This theory suggests the use of incentives to motivate executives to maximise shareholders' wealth. The managerial power theory alternatively postulates that powerful executives can influence the composition of their remuneration packages to enhance their wealth without, per se, being incentivised to create sustainable value (ibid).

The resource dependence theory could be connected to the managerial power theory. The former theory emphasises organisations' reliance on restricted resources that are crucial for their survival and success (Pfeffer & Salancik, 1978). Organisational success is, to a large extent, dependent on executives' ability to attain, maintain and allocate vital resources, such as information and skills (Abdullah & Valentine, 2009; Yusoff & Alhaji, 2012). In accordance with the managerial power theory, high-powered executives might allocate essential resources to the benefit personally. The resource dependence theory is, furthermore, linked to board performance evaluations, as poor executive performance can lead to dismissal. Remuneration arrangements can be structured to motivate executives to perform, as the threat of dismissal is prevalent (Lee, 2016; Mans-Kemp & Viviers, 2018).

The social comparison theory states that executives often evaluate their performance and accomplishments relative to individuals in similar positions and/or industries (Singh, 2012). Remuneration committees (REMCOs) accordingly often benchmark director emolument by using market data of similar organisations (Singh, 2012;

Boubaker & Nguyen, 2015). Typically, a director's pay is set at a comparable or higher level than competitors' director remuneration. As such, pay-benchmarking might lead to above-average emolument levels (PwC, 2010; Mans-Kemp & Viviers, 2018).

In contrast to the resource dependence and social comparison theories, the tournament theory pays little attention to executive performance, unless executives are competing for a top position, e.g. chief executive officer (CEO). The tournament theory states that executive remuneration should be regarded as a contest. In this context, an employee's capabilities, skills and knowledge are not regarded as the key aspects of remuneration, but rather his/her current and possible future positions (Lazear & Rosen, 1981; Pepper, 2016). Emolument is, hence, not seen as an incentive link to a director's current position, but rather as a 'prize' related to possible future promotion (Lee, 2016).

In contrast to the self-serving nature of directors prevalent in the agency theory, the stewardship theory claims that directors will deliberately aim to advance shareholders' interests (Geeta Rani & Mishra, 2008). Executives who align their interests with shareholders' (and other stakeholders') interests are, accordingly, driven by the prospect of being a good steward (ibid). Theoretically, stewards who have a strong psychological attachment to the organisation would accept less remuneration than their counterparts who are driven by self-interest (Davis, Schoorman & Donaldson, 1997).

The stakeholder theory implies that a company is accountable to a diverse range of stakeholders (Abdullah & Valentine, 2009; Borlea & Achim, 2013). Freeman (1984) defined stakeholders as individuals who can influence, or are influenced by, the targets that an organisation aims to achieve. In addition to shareholder wealth creation, clientele demand, environmental considerations, and employees' interests should be taken into account (Borlea & Achim, 2013). Executive remuneration arrangements should, hence, reflect various stakeholders' interests.

The relationship between sound executive behaviour, corporate governance practices, and executives' pay levels increasingly receive attention in literature (Armstrong, Jagolinzer & Larcker, 2010). The importance of sound remuneration governance is further explored in the following section.

1.2.2 The importance of remuneration governance

A growing number of responsible investors are taking environmental, social and governance (ESG) aspects into account when making investment decisions (Nelson,

2017). They are, inter alia, paying closer attention to the impact of technology, climate change, and director remuneration on their investments and investment opportunities (IoDSA, 2016; Nelson, 2017).

Remuneration governance is an important aspect of sound corporate governance that is increasingly placed in the spotlight, given directors' impact on wealth creation (Deloitte, 2017a). Improvements in remuneration governance are likely to result in REMCOs making better pay-related decisions and enabling them to properly implement those decisions (Ernst & Young (EY), 2012). Effective REMCOs are supposed to guarantee transparent remuneration disclosure (Kanapathippillai, Johl & Wines, 2016). In turn, transparent disclosure enables shareholders and other stakeholders to make informed investment and voting decisions (Bower & Paine, 2017; Mans-Kemp & Viviers, 2018).

Although an integrated report is supposed to be a valuable corporate communication tool (International Integrated Reporting Council (IIRC), 2013), Melis, Gaia and Carta (2015) found that information disclosed on director remuneration typically do not provide stakeholders with adequate insight. Specific aspects of directors' emolument, notably bonuses and other incentives, are often poorly disclosed. The King Reports offer specific guidance on these director remuneration aspects, as explained next.

1.2.3 Director remuneration guidelines provided by the King Reports

The heightened focus on director pay in South Africa can be attributed to a range of factors, including the country's severe income inequality (Lee, 2016) and lack of an apparent link between pay and performance (Kirsten & Du Toit, 2018; Marais & Strydom, 2018). Four King Reports were published between 1994 and 2016 to improve corporate governance of local entities (Lee, 2016). The King guidelines were amended in response to global and local developments. Table 1.1 offers a summary of director remuneration guidelines that were set out in the four King Reports.

Table 1.1: Director remuneration guidelines included in the King Reports

| Director remuneration guideline | King I | King II | King III | King IV |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|--------|---------|----------|---------|
| REMCOs are responsible for determining senior management's pay | ✓ | ✓ | ✓ | ✓ |
| Majority of the REMCO should be non-executive directors (NEDs) | ✓ | ✓ | ✓ | ✓ |
| Executives' and NEDs' salaries, benefits, share options and bonus figures should be disclosed separately | ✓ | ✓ | ✓ | ✓ |
| Organisations should have a formal remuneration policy | - | ✓ | ✓ | ✓ |
| The majority of the REMCO should be independent NEDs | - | ✓ | ✓ | ✓ |
| REMCO membership should be disclosed | - | ✓ | ✓ | ✓ |
| Individual director pay should be disclosed in annual reports | - | ✓ | ✓ | ✓ |
| Shareholders should approve share options granted to NEDs | - | ✓ | ✓ | ✓ |
| Shareholders could pass a non-binding advisory vote on the remuneration policy at the annual general meeting (AGM) | - | - | ✓ | ✓ |
| NED fees and executive emolument should be fair and responsible | - | - | ✓ | ✓ |
| Remuneration should be aligned to the company's business strategy | - | - | ✓ | ✓ |
| Remuneration should be linked to individual performance | - | - | ✓ | ✓ |
| Base pay, bonuses, employee contracts, severance, retirement benefits, and long-term incentives (LTIs) should be addressed in the remuneration policy | - | - | ✓ | ✓ |
| NED fees should include a base fee in addition to a fee per meeting | - | - | ✓ | ✓ |
| The remuneration report should, inter alia, include the base pay policy and application of benchmarking | - | - | ✓ | ✓ |
| The remuneration report should consist of a background statement, an overview of the remuneration policy, and an implementation report | - | - | - | ✓ |
| Shareholders could pass a non-binding advisory vote on the implementation report | - | - | - | ✓ |
| Disclose measures that the governing body commit to if the remuneration policy and/or implementation report receive 25 per cent or more dissenting votes | - | - | - | ✓ |
| Executive remuneration should be fair and responsible relative to overall employee remuneration | - | - | - | ✓ |

Source: Compiled by the researcher based on IoDSA (1994; 2002; 2009; 2016)

It is evident from Table 1.1 that the King Reports increasingly focused on enhanced transparency and shareholder engagement. In-depth discussions are provided on these guidelines in Sections 2.5.1 and 2.5.2.

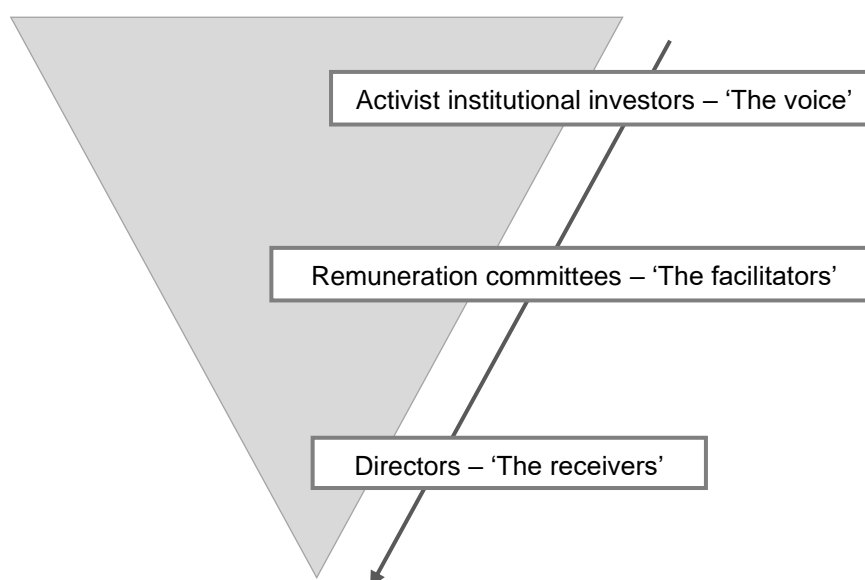
1.2.4 Key stakeholders in the director remuneration process

As King IV is based on a stakeholder-inclusive model, directors are expected to balance the needs and interests of diverse stakeholders (Deloitte, 2017a). Active stakeholder participation is critical to ensure that organisations act as responsible

corporate citizens. To increase transparency, King IV hence advises frequent and continuous dialogue with key stakeholders (IoDSA, 2016).

Institutional investors are a particularly powerful stakeholder group given the considerable size of their investments and dominant position in the financial market (Sandberg, 2013; Deloitte, 2019a). They have the ability, and responsibility, to influence director remuneration (Deloitte, 2017a). Institutional investors execute their voting power and raise their voice on corporate concerns more frequently than minority shareholders (IoDSA, 2016). As such, activist institutional investors are regarded as ‘the voice’ of stakeholders in the determination of director remuneration, as shown in Figure 1.1.

Figure 1.1: Key stakeholders in the director remuneration process



Source: Researcher’s own compilation

Instances of perceived excessive executive pay, complex emolument arrangements, and insufficient disclosure on director remuneration are frequently highlighted by local shareholder activists (PwC, 2018a; Deloitte, 2019a; Viviers, Mans-Kemp, Kallis & McKenzie, 2019). PwC (2017a) stated that, although some institutional investors publicly show their concerns by voting against remuneration policies, they often do not disclose the particular reasons for their voting decisions. The majority of them, however, prefer to engage directly with investee companies’ REMCOs.

The primary roles of REMCOs are to assist boards with remuneration arrangements and to oversee director remuneration processes (IoDSA, 2014). As such, they are regarded as ‘the facilitators’ of director remuneration in Figure 1.1. A major challenge

that REMCOs face is how to design emolument strategies that align corporate governance principles, shareholder interests, and inspire directors (the so-called 'receivers' in Figure 1.1) to act in the best interest of the organisation (PwC, 2018a). REMCOs are, hence, encouraged to carefully apply their minds and proactively engage with stakeholders in this regard. Through questioning and improving remuneration approaches, institutional investors and REMCOs can do their part to prevent corporate scandals and align director remuneration to facilitate sustainable value creation (PwC, 2018a).

1.3 PROBLEM STATEMENT

Director remuneration receives immense stakeholder scrutiny in South Africa (Mans-Kemp & Viviers, 2018). The country has the highest wage inequality in the world, with a Gini coefficient of 0.639 (International Labour Organisation (ILO), 2018). A large wage gap can partially be attributed to the self-interested behaviour of senior management (Bebchuck & Fried, 2003). To address managerial self-interest and other corporate governance concerns, four King Reports were introduced between 1994 and 2016.

Director remuneration proves to be a particularly complex corporate governance concern. Key stakeholders have differing views on what constitutes fair and responsible remuneration, as prescribed in King III and IV. Institutional investors, REMCOs, and CEOs and chief financial officers (CFOs) are deemed key stakeholders in determining director remuneration (IoDSA, 2016). These stakeholders, respectively, own the majority of shares, monitor the remuneration policy and practices and manage the organisation.

Owing to heightened shareholder activism and criticism related to executive remuneration, the latest King Report placed considerable focus on remuneration issues. King IV provides more definite remuneration disclosure requirements than its predecessor (IoDSA, 2016). Concerns such as insufficient remuneration disclosure, the growing pay gap, and perceived excessive remuneration packages are, however, still regularly raised by stakeholders.

This study was therefore conducted to reflect on the application of the King IV director remuneration guidelines. Focus was placed on the financial services sector given its prominence in the local economy. This sector is one of South Africa's principal sectors

which accounted for 21 per cent and 15.71 per cent of the JSE's total market capitalisation in 2018 and 2019, respectively (PwC, 2018a; 2019a).

Selected banks' integrated reports were firstly evaluated and compared over the periods 2015-2016 and 2017-2018 to determine whether their remuneration-related reporting was in line with the King III and IV recommendations, respectively. Secondly, the views of key stakeholders (including institutional investors, directors serving on the REMCOs of selected listed South African financial services companies, and CEOs/CFOs) were determined on the application of the King IV director remuneration recommendations.

1.4 RESEARCH OBJECTIVES

In line with the problem statement, the following primary and secondary research objectives were formulated.

1.4.1 Primary research objective

The primary objective was to reflect on the application of the King IV director remuneration recommendations.

1.4.2 Secondary research objectives

Eight secondary objectives were formulated, namely:

- to examine to what extent selected organisations in the financial services industry complied with the director remuneration principles as set out in the King III Report over the period 2015-2016.
- to investigate to what extent selected organisations in the financial services industry complied with the director remuneration practices recommended in the King IV Report over the period 2017-2018.
- to determine the views of selected institutional investors on the director remuneration recommendations as set out in the King IV Report.
- to examine the opinions of selected institutional investors on possible amendments to the director remuneration recommendations as set out in the King IV Report.
- to investigate the views of selected financial institutions' REMCOs on the director remuneration recommendations as set out in the King IV Report.

- to evaluate the opinions of selected financial institutions' REMCOs on possible amendments to the director remuneration recommendations as set out in the King IV Report.
- to observe the views of selected financial institutions' CEOs/CFOs on the director remuneration recommendations as set out in the King IV Report.
- to determine the opinions of selected financial institutions' CEOs/CFOs on possible amendments to the director remuneration recommendations as set out in the King IV Report.

1.5 RESEARCH DESIGN AND METHODOLOGY

The research design refers to the framework used for collecting and analysing data to address the research problem and objectives (Mertens, 2005; Clough & Nutbrown, 2007; Ríos & Del Campo, 2013). In this section, the research strategy and mixed methods approach to collect primary and secondary data are discussed. Attention is also given to the trustworthiness of the data and ethical considerations.

1.5.1 Research strategy

Zikmund, Babin, Carr and Griffin (2013) referred to three main research strategies, namely causal, exploratory, and descriptive research. A descriptive research strategy provides a researcher with a broad overview of a situation through investigation(s) to obtain information to address a business-related problem (Kothari, 2004; Zikmund *et al.*, 2013). For the study at hand, a descriptive research strategy was used to investigate possible shortcomings, as well as positive aspects pertaining to reporting on and application of the King guidelines.

1.5.2 Mixed methods approach

Social science researchers typically distinguish between positivistic and phenomenological research paradigms. The positivistic paradigm is linked to quantitative research to test relationships between variables (Swanson & Holton, 2005). Quantitative research involves numerical measurement and analysis to address research objectives (Zikmund *et al.*, 2013).

In contrast, phenomenological research focuses on opinions or experiences related to a particular research phenomenon (Lukenchuk, 2013). This paradigm is linked to qualitative research. Qualitative data are researcher-dependent, as the researcher is

responsible for interpreting and extracting sensible information from the data (Zikmund *et al.*, 2013).

A mixed methods approach was adopted in this study. The researcher employed qualitative (refer to Sections 1.5.3 and 3.3.1) and quantitative approaches (refer to Sections 1.5.4 and 3.3.2) to collect and analyse primary and secondary data.

1.5.3 Primary data collection and analysis

Primary research is conducted to collect data for a specific study (Zikmund *et al.*, 2013). The researcher is hence able to collect information that accurately addresses his/her specific research problem (Silver, Stevens, Wrenn & Loudon, 2013). For the purpose of this study, semi-structured interviews were conducted with selected individuals, as explained next.

1.5.3.1 Details on the population and sample

A population refers to the group of entities with similar characteristics that the researcher aims to investigate (Rajendra Kumar, 2008; Tavakoli, 2012). Three target populations were identified, namely institutional investors, directors serving on REMCOs, and CEOs and CFOs employed at companies listed in the financial services industry of the Johannesburg Stock Exchange (JSE). These stakeholders play important roles in the determination of director remuneration.

The Code for Responsible Investing in South Africa (CRISA) defines institutional investors as “any legal person or institution referred to in the definition of financial institution in Section 1 of the Financial Services Board Act (No. 97 of 1990), to the extent that these legal persons or institutions own and invest in the equity of a company and have obligations in respect of investment analysis, activities and returns to ultimate beneficiaries” (IoDSA, 2011). For the purpose of this study, institutional investors were defined as asset managers who directly invest in equities or bonds listed on the JSE.

King IV defines the board of directors as “the structure that has primary accountability for the governance and performance of a company” (IoDSA, 2016). The REMCO is a sub-committee of the board of directors that typically comprises independent NEDs. The last stakeholder population group included CEOs and CFOs. These executive directors were included as they are top-ranking, highly paid employees in an organisation (IoDSA, 2016). Regarding the selection of directors serving on REMCOs and CEOs and CFOs, the researcher focused on organisations in the financial services

sector with a primary listing on the JSE. This sector is a leading sector in South Africa that accounted for 21 per cent and 15.71 per cent of the JSE's total market capitalisation in 2018 and 2019, respectively (PwC, 2018a; 2019a). Focus was specifically placed on banks and life insurance companies due to their high representivity within the financial services sector.

Probability or non-probability sampling techniques could be used to select the units of analysis for a study. Non-probability sampling suggests that the probability of each population unit to be selected is unknown (Rubin & Babbie, 2010). The researcher combined two non-probability methods, namely judgement and snowball sampling. Judgement sampling entails purposively selecting units based on the researcher's or an expert's judgement (Arulmozhi & Muthulakshmi, 2009). A co-CEO of a locally listed financial services company assisted the researcher in selecting and contacting the first sample units from the discussed three stakeholder groups. This individual facilitated access to a wide corporate network, including institutional investors and directors serving on the boards and REMCOs of listed financial services companies, specifically banks and life insurers. Some interviewees, thereafter, provided the researcher with information to contact other potential participants, defined as snowball sampling (Zikmund *et al.*, 2013).

Semi-structured interviews were conducted with 12 representatives from ten institutional investors. Interviews were also conducted with two individuals from five financial services companies (three banks and two life insurers), namely a director serving on the REMCO and either the organisation's CEO or CFO. One executive requested that the organisation's head of remuneration should also participate in the interview. The financial services representatives, hence, consisted of 11 participants from five listed financial services companies.

1.5.3.2 Semi-structured interviews

Semi-structured interviews were conducted to obtain the required primary qualitative data. A predetermined set of open-ended questions, based on applicable literature and the King III and IV Reports, were formulated in an interview guide (see Appendix B). Follow-up questions were used to obtain deeper understanding pertaining to interviewees' views.

1.5.3.3 Thematic analysis

Thematic analysis is commonly used to code qualitative information (Boyatzis, 1998; Bryman & Bell, 2015). After the interviews were transcribed, the researcher conducted thematic analysis by applying the six steps provided by Braun and Clarke (2012), including familiarisation with the obtained material, initial coding of the data, searching for themes, reviewing and modifying the preliminary themes, defining the themes, and providing conclusions based on the findings. Refer to Section 3.4.2 for more details in this regard. The results are reported in Chapter 5.

1.5.4 Secondary data collection and analysis

Secondary research entails the collection of existing data (Zikmund *et al.*, 2013). The research problem was formulated based on an overview of secondary sources related to the existing body of knowledge on director remuneration. Various secondary sources were consulted to compile the background section and literature review (Chapter 2). Content analysis was, furthermore, conducted to investigate the extent to which selected locally listed banks complied with the director remuneration recommendations, as set out in King III and IV.

1.5.4.1 Details on the population and sample

The population for the content analysis included all South African banks that were listed on the JSE during the period 2015 to 2018. The population included banks that were not listed for the entire period. Given that comparable data had to be selected for the periods 2015-2016 and 2017-2018, the researcher employed judgement sampling to compile a sample of banks that was listed on the JSE for the entire study period. Absa Group Limited (henceforth Absa), Capitec Bank Holdings Limited (henceforth Capitec), FirstRand Bank Group Limited (henceforth FirstRand), Nedbank Group Limited (henceforth Nedbank), and Standard Bank Group (henceforth Standard Bank) were included in the study's sample.

The required integrated reports were obtained from the sample banks' websites. Pertinent attention was given to director remuneration disclosure recommendations during the transition from King III to IV by comparing reporting on remuneration for the periods 2015-2016 and 2017-2018, as explained next.

1.5.4.2 Content analysis

Conceptual content analysis was used to quantify the content of the integrated reports of the sample organisations. Content analysis enables researchers to systematically evaluate large volumes of data (Krippendorff, 2004). Babbie and Mouton's (2003) eight step content analysis approach was employed (refer to Section 3.3.2.2 for more details in this regard).

The King III and IV Reports were consulted to derive applicable considerations regarding the disclosure of directors' remuneration. These considerations were linked to recommended practices mentioned in the latest two King Reports. This information was used to formulate key words to conduct the coding. A summary of the specific remuneration aspects that the researcher investigated and coded, based on King III and IV, is provided in Table 3.2.

Dichotomous coding was employed to allocate disclosure scores for the respective remuneration considerations based on each bank's reporting. A disclosure score of 1 was awarded if a considered organisation reported on a specific remuneration recommendation. Alternatively, if the specific remuneration consideration was not mentioned in the sample company's integrated report, a disclosure score of 0 was allocated. To account for the extent to which each considered bank reported on a specific director remuneration consideration, a so-called extent of disclosure score was furthermore awarded. Note that an extent of disclosure score was only awarded if a disclosure score of 1 was allocated for a specific remuneration consideration.

Extent of disclosure scores were allocated to some remuneration considerations (see Table 3.2) by following this coding approach: An extent of disclosure score of 1 was given if an aspect was only mentioned, a value of 3 was awarded if the organisation provided some detail, and a score of 5 was allocated if the aspect was extensively discussed. A total of 20 remuneration reports were considered to investigate the extent to which the considered banks reported on their application of the King III and IV director remuneration recommendations.

Descriptive analysis was conducted to analyse the secondary quantitative data and identify reporting trends. The results are reported in Chapter 4.

1.6 TRUSTWORTHINESS OF THE DATA AND ETHICAL CONSIDERATIONS

To ensure the trustworthiness of the qualitative data, the researcher focused on the transferability and confirmability of the data. Pertaining to the quantitative data, attention was given to the reliability and validity considerations.

Transferability is defined as the extent to which qualitative findings can be generalised to other contexts (Liang, 2013). The researcher aimed to enhance transferability by offering a thorough description of the research context and details on the investigated individuals. Confirmability relates to whether the findings of a study reflect the true opinions of the participants (Liang, 2013; Bryman & Bell, 2015). The researcher clarified some findings with the applicable participants after the interviews were transcribed and coded. The thematic analysis results were also discussed with an industry expert to limit researcher bias pertaining to the interpretation thereof. A corporate governance professional and an expert on the King Reports were furthermore consulted on the content of the interview guide. The researcher, moreover, discussed the thematic analysis results with an experienced director who has served as a CEO and REMCO member of both a financial services institution and an asset management firm to reflect on the practical significance of the identified themes.

Reliability refers to the extent to which the quantitative results of a study are repeatable (Carmines & Zeller, 1979). A researcher can use different reliability tests including test-retest, inter-coder and internal consistency reliability (Hassan & Marston, 2019). Refer to Section 3.5.2 for a detailed discussion on these reliability tests. To ensure reliability in this study, the researcher used measurements that were based on the remuneration principles set out in King III and IV when analysing the remuneration reports. Test-retest reliability was hence applied as the same content was coded more than once by the researcher (Weber, 1990).

Reliability is a precondition for validity (Guba, 1981). The extent to which a metric truly measures the concept(s) it is intended to measure, is referred to as validity (Bryman & Cramer, 1996). Different validity tests can be applied by a researcher, including criterion, construct and content validity (Hassan & Marston, 2019). Validity was enhanced by applying content validity in this study. The input of a research methodology expert was obtained while conducting the content analysis.

The researcher obtained ethical clearance from the Departmental Ethics Screening Committee (DESC) before commencing with data collection (project number 9776).

The participants received the interview guide (Appendix B), as well as the consent form (Appendix A), no less than five days prior to the interview. It was made clear that their participation is voluntary and anonymous. Participants could withdraw from the study at any time during the research process. Consent to record the interviews were obtained. One interviewee declined recording the interview, in which case the researcher made substantial notes. The data are stored in a secure location on a password protected computer to ensure confidentiality.

1.7 CONTRIBUTION OF THE STUDY

A growing number of shareholders are criticising excessive remuneration packages received by South African executives (Viviers, 2015). The media also highlights the extreme income inequality in the country (Brown, 2018; Tshwane, 2018). Recent research on executive remuneration in the local context revolved around pay and performance linkages (Bussin & Ncube, 2017; Bezuidenhout, Bussin & Coetzee, 2018; Kirsten & Du Toit, 2018), compliance and financial performance relationships (Tshipa, 2017; Madlela & Cassim, 2017) and shareholder activism (Viviers, 2015; Viviers & Smit, 2015). Share-based incentive trends were also investigated (Steenkamp & Wesson, 2018a; Steenkamp, Dippenaar, Fourie & Franken, 2019) as well as financial performance indicators that affect executive remuneration (Bussin & Blair, 2015).

The King IV Report provides clearer guidance on remuneration governance than its predecessor. A research gap, hence, existed to investigate the extent to which local organisations apply the King remuneration governance guidelines, as well as the role of key stakeholders within this context.

Focus was placed on local financial services organisations, as executives in this industry regularly come under severe scrutiny regarding their director remuneration packages (Malope & Brown, 2018). This study aimed to assist institutional investors, REMCOs, executives, and ultimately the King Committee to better understand the views of various stakeholder groups on director remuneration governance in South Africa.

1.8 ORIENTATION OF THE STUDY

The study encompasses six chapters.

Chapter 1: Introduction to the study

The first chapter provides an overview of the study. A background discussion is followed by the problem statement and research objectives. The research design and methodology are briefly outlined. Attention is also given to trustworthiness and ethical considerations. The contribution of the study is explained. Lastly, an orientation of the study is provided.

Chapter 2: Director remuneration: Applicable theories and guidelines

Corporate governance theories applicable to director remuneration are elaborated. The components of director emolument packages are then outlined. In-depth discussions on director remuneration guidance internationally and in South Africa are provided. Shareholder activism pertaining to director remuneration is then explained. Lastly, an overview of previous studies on the topic is provided.

Chapter 3: Research design and methodology

Following an explanation of the research design, the primary and secondary data collection and analysis methods are outlined. Attention is given to transferability, confirmability, reliability, and validity. Ethical considerations are also addressed.

Chapter 4: Results of the content analysis

The extent to which the considered banks reported on the director remuneration guidelines as set out in the King III and IV Reports over the periods 2015-2016 and 2017-2018, is discussed.

Chapter 5: Results of the semi-structured interviews

The chapter commences with a discussion of the demographic characteristics of the participants. Three main themes are then discussed, namely application and disclosure requirements of King IV remuneration recommendations, REMCOs acting as remuneration governance change mechanisms, and shareholder activism on director remuneration.

Chapter 6: Conclusions and recommendations

Conclusions are drawn from the literature and results. Recommendations are then offered for a range of stakeholders. Suggestions for future research are also given based on the identified limitations. A reconciliation of the research objectives is outlined, followed by a reflection by the researcher.

CHAPTER 2

DIRECTOR REMUNERATION: THEORIES AND GUIDELINES

2.1 INTRODUCTION

Remuneration is a contentious topic worldwide (Madlela & Cassim, 2017). The discussions regarding director remuneration often focus on exorbitant emolument packages that are not adequately disclosed in organisations' reports (Madlela & Cassim, 2017; Thomson, Carpenter, Harber & Graham, 2018). As shareholders and other stakeholders rely on annual reports to make informed decisions, it is of critical importance that these reports contain adequate details (Thomson *et al.*, 2018). Shareholders, in particular institutional investors, can be described as the ultimate compliance officers. They could hold boards of directors accountable and serve as proxies for wider stakeholder interests (IoDSA, 2016).

Activist investors and academics increasingly raise concerns regarding corporate governance concerns, in particular remuneration considerations (Viviers, 2015; Viviers & Smit, 2015; Mans-Kemp & Viviers, 2018). They question whether directors should be entitled to high emolument packages, which include performance-based bonuses, if they fail to generate wealth for shareholders (Scholtz & Smit, 2012). The growing gap between the pay received by lower-level employees and directors is another major concern in South Africa (Luiz, 2013; Tshwane, 2018).

Various fundamental corporate governance theories, including the agency theory and tournament theory, focus on the relationship between sound corporate governance practices and director remuneration (Braendle & Hossein Rahdari, 2016). Several jurisdictions are introducing and amending director remuneration guidelines and regulations. In light of this global trend (Kohn & Cooper, 2017; Financial Reporting Council (FRC), 2018) and the large wage gap in South Africa (Viviers *et al.*, 2019), the King IV Report includes more definitive disclosure requirements on director remuneration and the role of the REMCO, in comparison to its predecessors (IoDSA, 2016).

In this chapter, fundamental remuneration governance-related theories will be discussed, and various components of director emolument packages will be explored. Attention will then be given to corporate governance guidelines on director remuneration globally and locally. The relationship between director remuneration and performance will also be examined. The role of shareholder activists in the

determination of director remuneration will then be discussed. Lastly, an overview of previous studies will be provided.

2.2 CORPORATE GOVERNANCE AND DIRECTOR REMUNERATION: FUNDAMENTAL THEORIES

The success and sustainability of an organisation, as well as gaining stakeholders' trust, essentially depend on the company's corporate governance practices (Gottschalk, 2011; Natesan & Du Plessis, 2017). Sound corporate governance is, hence, regarded as a relationship management strategy amongst corporate stakeholders in developed and developing countries (Sonmez & Yildirim, 2015).

Corporate governance is defined in King IV as "the exercise of ethical and effective leadership by the governing body towards the achievement of the following governance outcomes: Ethical culture, good performance, effective control, and legitimacy" (IoDSA, 2016). When considering this definition of corporate governance, it is evident that governance ultimately relies on the board of directors' management style when overseeing senior management.

As mentioned in this chapter's introduction, director remuneration is an important corporate governance consideration that is increasingly receiving attention globally and in South Africa. Directors are defined as the top-ranking individuals within an organisation (IoDSA, 2016). Their emolument packages could include fees, salaries and/or incentives. According to Abdullah and Valentine (2009), several fundamental corporate governance theories aim to describe the relationship between directors and managers. These theories highlight the significance of sound corporate governance principles and practices. Braendle and Hossein Rahdari (2016) stated that following theories are not only used to conceptualise organisational relationships, but can also be used to understand why remuneration matters.

2.2.1 Agency theory

The majority of corporate governance-related studies are based on the agency theory (Yusoff & Alhaji, 2012). This theory describes the nature and complexity of the relationship between agents and principals (Jensen & Meckling, 1976; Abdullah & Vallentine, 2009). Jensen and Meckling (1976) defined an agency relationship as a contractual agreement where the principal(s) engage with the agent(s) to perform a service on the principal's behalf. This agreement gives managers, and by implication executives, decision-making authority. The separation of ownership and control could

result in the agency problem (Aggarwal & Samwick, 1999). This problem centres on the self-serving nature of certain executives. Rather than serving the best interests of shareholders, some executives make decisions to enhance their personal wealth (Thomas & Hill, 2012).

Garen (1994) discussed the usage of incentives as a manner to curb the self-interested nature of managers and, particularly, executive directors. Emolument packages are, hence, structured to entice executives to act in the best interest of shareholders and the overall organisation, as well as minimise agency costs (Schneider, 1989). The costs associated with implementing incentive-based remuneration, is referred to as monitoring costs (Jensen & Meckling, 1976). Bonding costs relate to the implementation costs of corporate governance structures and policies which stipulate the consequences if executive directors do not act in the best interest of the organisation and by implication its shareholders. If executive directors diverge from maximising shareholder value, as stipulated by the agency theory, shareholders will experience another cost, namely a residual loss. Agency costs are the sum of monitoring expenditures by the principal, bonding expenditures by the agent and residual losses. These costs can substantially impact the size and compilation of director emolument packages (ibid).

Several jurisdictions introduced corporate governance codes and guidelines to limit the consequences of the agency problem (Abid, Khan, Rafiq & Ahmed, 2014). An example of such codes includes the South African King Reports on corporate governance, which is discussed in-depth in Sections 2.5.1 and 2.5.2.

The optimal contracting and managerial power theories are linked to the agency problem, as explained in the next two sections.

2.2.2 Optimal contracting theory

Bebchuk and Fried (2003) supported Garen's (1994) view that remuneration packages should be structured to motivate senior managers to create long-term sustainable shareholder wealth. This is known as the optimal contracting theory. Although no remuneration contract will 'perfectly align' the interests of directors and shareholders, an optimal contract will minimise agency costs (Bebchuk, Fried & Walker, 2001). The optimal contracting theory hence states that, to maximise shareholder wealth, the board of directors must minimise agency costs and establish optimal incentives for executives (Holmström, 1982).

Bebchuk *et al.* (2001) mentioned three concerns that the board of directors, in particular REMCO members, should consider when attempting to structure an optimal director remuneration contract. Firstly, the emolument package must attract and retain competent, skilled executives. Secondly, the incentives must entice executives to consider shareholders' best interests when making decisions. Thirdly, agency costs should be minimised. Although it might sound ideal to use emolument packages as a way to alleviate the agency problem, Bechuk and Fried (2003) were of the opinion that it might contribute to the agency problem, as explained next.

2.2.3 Managerial power theory

The managerial power theory is often cited when discussing the link between the agency problem and director remuneration (Bebchuk & Fried, 2003). According to this theory, selected content of emolument packages is based on the notions of self-interest and personal wealth gain, rather than being used as a means to incentivise executives to create sustainable value for the broader stakeholder community (*ibid*). In this context, executive remuneration structures might support the agency problem rather than being an instrument to solve it (Mans-Kemp & Viviers, 2018).

In line with the optimal contracting approach described in Section 2.2.2, the REMCO is responsible for structuring directors' remuneration contracts. This approach aims to structure executive compensation in a manner that will maximise shareholder wealth (Bebchuk, Fried & Walker, 2002). Bebhuk *et al.* (2001) stated that, under the managerial power approach, executives have considerable influence over the board. Powerful managers might have an information advantage and could influence the setting of their remuneration packages (Soppe, 2017). As such, they could abuse their power to extract rents.

Bonuses and other incentives can be seen as a form of rent-seeking that regularly occur in organisations where executives have considerable power (Ederhof, Radjan & Reichelstein, 2011). Rent-seeking refers to the unproductive usage of an organisation's resources for personal wealth creation, rather than creating value for stakeholders (Hillman, 2015). Powerful rent-seeking executives could receive more pay than what shareholders deem optimal (Bebchuk *et al.*, 2001). The misrepresentation of incentives or insufficient disclosure to camouflage the extraction of rents might negatively impact shareholder wealth creation (Bebchuk *et al.*, 2002).

REMCOs typically attempt to justify large bonuses to reduce outrage from stakeholders (ibid).

2.2.4 Resource dependence theory

Pfeffer and Salancik (1978) stated that the resource dependence theory centres on the board's ability to obtain and allocate restricted resources. Directors' ability to acquire and maintain resources is a critical requirement for the survival and success of an organisation. Resources include information and skills (Abeysekera, 2012; Yusoff & Alhaji, 2012).

Organisations ultimately do not control all the resources that they require. It is, thus, the governing body's responsibility to facilitate the necessary interactions to diminish interdependencies in the operating environment (Miller-Millesen, 2003). The resource dependence theory views the entire board of directors (including executives and independent directors), as an instrument to address changing environmental conditions, such as resource shortages and changing consumer expectations (Singh, House & Tucker, 1986; Abeysekera, 2012). The theory hence argues that by adjusting the internal power distribution within an organisation's board to suit changes in critical contingencies over a certain period, is essential to ensure the organisation remains aligned with the changing environment (Pfeffer & Salancik, 1977; Singh *et al.*, 1986).

Board performance evaluations are an important consideration of the resource dependence theory. Emolument packages should accordingly be structured to motivate the board of directors to perform (Lee, 2016; Mans-Kemp & Viviers, 2018). Hillman and Dalziel (2003) investigated the relationship between the governing body, as a resource provider, and the organisation's overall performance. They indicated that equity compensation can positively influence the functioning of the board and overall company performance. Equity compensation can, furthermore, align the interests of shareholders and the board (ibid).

2.2.5 Social comparison theory

The social comparison theory is also linked to board performance evaluations. Festinger (1954) formulated this theory by stating that individuals have an innate drive to self-evaluate their abilities. Directors often assess their performance against individuals in similar positions and/or industries (Singh, 2012). This theory has been linked to benchmarking executive remuneration (Fredrickson, Davis-Blake & Sanders, 2010).

REMCOs regularly make use of pay-benchmarking by basing director remuneration on a comparable basis through the use of market data of similar organisations (Singh, 2012; Boubaker & Nguyen, 2015). Pay-benchmarking could possibly result in above-average remuneration levels, as director compensation might be set at a higher level than their competitors' remuneration levels (PwC, 2010; Mans-Kemp & Viviers, 2018). O'Reilly, Main and Crystal (1988), furthermore, stated that the members serving on the REMCO are generally independent directors who might hold CEO or other executive positions in other organisations. They might use a comparison process, based on the remuneration practices of the companies where they serve, when determining CEO compensation (ibid).

Emolument is arguably used as a means to facilitate team performance since well-functioning executive teams increase the likelihood that an organisation's strategy is successfully implemented (Hambrick, 1995; Carpenter & Sanders, 2002). The top management of an organisation is regarded as achievement-orientated individuals who have a mutual goal and, ultimately, operate on the same hierarchal level within the organisation (Fredrickson *et al.*, 2010). These individuals might, hence, regard themselves as being equal and expect to receive comparative pay. If large pay differences are prevalent, certain directors might feel deprived and retaliate by undermining others (Lazear, 1989; Cowherd & Levine, 1992). Such behaviour will have a negative impact on the executive team's cohesion, which could ultimately lead to poor company performance (Fredrickson *et al.*, 2010).

The tournament theory, alternatively, argues that different levels of pay between executives have positive effects, as it promotes intra-team competition (Fredrickson *et al.*, 2010), as explained next.

2.2.6 Tournament theory

In contrast to the resource dependence and social comparison theories, the tournament theory pays little attention to executive performance, unless executives are competing for top positions such as the role of CFO or CEO (Lee, 2016). Lazear and Rosen (1981) stated that executive compensation structures can be equated to a sequence of tournaments amongst contenders. Metaphorically speaking, the salary of a senior executive could be regarded as the 'prize in the employment lottery' (Lee, 2016).

Employees who win the 'tournament' at one employment level, enters the next 'tournament' to compete for promotion. An employee's capabilities, skills and knowledge are accordingly not regarded as the key determinants of remuneration, but rather his/her current and possible future positions (Lazear & Rosen, 1981; Pepper, 2016). Executives might, therefore, strive to maximise their compensation by being appointed to higher positions, rather than focusing on maximising their performance (Lee, 2016; Mans-Kemp & Viviers, 2018). The tournament theory, hence, implies that emolument packages are not, per se, an incentive for current executives, but rather regarded as a 'prize' that could be received by possibly obtaining a future promotion (Lee, 2016).

Conyon, Peck and Sadler (2001) stated that the value of winning 'the tournament at one level' is not the only prize, as there is a possibility to compete for more 'valuable prizes' in higher organisational levels. However, there are typically fewer positions available at the top levels of the corporate hierarchy. A consolation to the 'loss of possible future promotions' is the current remuneration that an employee receives due to being promoted to a higher level (Conyon *et al.*, 2001). In this context, executive pay is regarded as the 'prize' for reaching one of the highest corporate ranks (Lazear & Rosen, 1981; Mans-Kemp & Viviers, 2018).

Ackerman, Goodwin, Dougherty and Gallagher (2000) suggested that there should be substantial differences in pay for various positions across the organisational hierarchy to make the tournament more attractive. The prize should increase as more participants enter the tournament (Lazear & Rosen, 1981; Conyon *et al.*, 2001). Conyon *et al.* (2001) found a significant positive relationship between the number of executives within an organisation and the pay gap between executives and the CEO. O'Reilly *et al.* (1988), however, did not agree with the claim of Conyon *et al.* (2001). According to their research, the gap between the CEO's and the vice-presidents' pay was smaller if more vice-presidents were operating within the organisational team.

Baker, Jensen and Murphy (1988) stated that promotion-based models, such as the tournament model, have inherent disadvantages. Although an employee might be the best performer in his/her current hierarchical level, he/she might not sustain their performance once they reach the next level. Promotion-based reward systems require that an organisation must grow to be able to sustain possible future promotions and rewards (Baker *et al.*, 1988). Organisations that do not experience sustainable growth

are likely to experience difficulty to effectively implement promotion-based pay systems.

2.2.7 Stewardship theory

According to the stewardship theory, top managers (including executives) take on the role of stewards who aim to advance shareholders' interests (Geeta Rani & Mishra, 2008). In contrast to the agency theory, the stewardship theory focuses on aligning the interests of executives (stewards) and an organisation's shareholders (principals) (Donaldson & Davis, 1991; Baeten, Balkin & Van den Berghe, 2011).

To ensure mutual trust and cooperation between stewards and principals, executives are motivated to use their efforts to advance shareholders' interests. In this context, reliable executives, who align their interests with the interests of shareholders, are primarily driven by the prospects of being a good steward, rather than personal monetary gains (Geeta Rani & Mishra, 2008). Furthermore, Baeten *et al.* (2011) stated that the stewardship theory does not revolve around executives' roles, but rather concentrates on the underlying assumptions regarding their behaviour. These assumptions impact the structure of executive remuneration.

Remuneration is not seen as a means to motivate executives in the context of the stewardship theory (Donaldson & Davis, 1991). Remuneration is, rather, considered as a form of recognition of executives' roles as good stewards in the organisation (Baeten *et al.*, 2011). The stewardship theory does not assume a definite link between executive emolument and shareholder wealth or other measures of the organisation's financial performance (Davis *et al.*, 1997; Otten, 2008; Baeten *et al.*, 2011). As good stewards inherently aim to pursue their organisations' objectives, it is deemed unnecessary to develop additional instruments to align shareholders' and executives' interests (Otten, 2008). This theory, however, assumes a link between organisational success and shareholder satisfaction.

Executives theoretically have a strong psychological attachment and sense of ownership towards an organisation. This so-called 'ownership attachment' could result in executives being willing to accept less remuneration to continue serving the company, especially during challenging financial circumstances (Davis *et al.*, 1997). However, Wasserman (2012) was of the opinion that this only pertains to the founders, and in particular founder-CEOs, of an organisation. The stewardship theory could also be applied in family business set-ups (Baeten *et al.*, 2011). The CEOs of family

businesses are highly motivated to conserve the business for following generations and will, hence, act as good stewards. Nevertheless, Mans-Kemp and Viviers (2018) stated that, in practice, not all executives are inherently inclined to be good stewards irrespective of the size of their emolument packages.

2.2.8 Stakeholder theory

The stakeholder theory implies that an organisation is accountable to all stakeholders, in addition to shareholders (Abdullah & Valentine, 2009; Borlea & Achim, 2013). Freeman (1984) defined stakeholders as the individuals who can influence, or are influenced by, the targets that an organisation sets out to achieve.

Stakeholders could be classified as 'primary' or 'secondary' stakeholders (Baumfield, 2016). Primary stakeholders are directly involved in the organisation's transactions, such as customers, suppliers, employees, communities, and financiers. Environmentalists, the media, government, and competitors are examples of secondary stakeholders who can cause substantial harm to an organisation when their interests are ignored (Baumfield, 2016).

Based on the stakeholder theory, directors should continuously focus on balancing stakeholders' competing interests (Freeman, 1984; Abdullah & Valentine, 2009; Yusoff & Alhaji, 2012). It is, therefore, essential that their remuneration arrangement should reflect the interests of a variety of principals and agents (Baeten *et al.*, 2011; Gomez-Mejia, Wiseman & Dykes, 2005). However, Mans-Kemp and Viviers (2018) warned that excessive executive remuneration could have negative implications for a broad group of stakeholders.

Aras and Crowther (2009) argued that the stakeholder theory is related to the concept of corporate social responsibility (CSR). This concept signifies the integration of economic and social aspects in an organisation's activities. Organisations should thus, inter alia, pay attention to shareholder wealth creation, but also meet clientele demand, take the environment into account, and respect the opinions of employees (Borlea & Achim, 2013). The stakeholder theory suggests that executive performance measures used in bonus systems should be linked to customer satisfaction, environmental aspects, and employee satisfaction (Charreaux & Desbrières, 2001; Baeten *et al.*, 2011). Long-term performance might be enhanced if these sustainability performance measures are considered, in addition to financial performance considerations.

The King III and IV Reports suggest that incentive-linked compensation should be aimed at executives, while NEDs should preferably only receive fixed fees (IoDSA, 2009; 2016). The structure and determinants of executive pay is often debated in practice and several of the discussed theories are challenged (Otten, 2008). The following section will elaborate on the components of emolument packages of executives and NEDs.

2.3 COMPONENTS OF DIRECTOR EMOLUMENT PACKAGES

NEDs and executive directors receive different forms of compensation for their efforts. Executive directors and organisations generally agree upon a 'suitable' emolument package and enter into an employment contract (Deloitte, 2014a). Whilst executive directors are full-time employees, NEDs only have service agreements and receive fees for attending board and board committee meetings (ibid). In the following section, the common structure of executive remuneration packages will be discussed, followed by an overview of NED emolument.

2.3.1 Executive director remuneration

The International Corporate Governance Network (ICGN, 2016) guidelines on director remuneration state that a remuneration arrangement is well-structured when it enables the creation of sustainable long-term shareholder value, is in alignment with the organisation's strategic objectives, and supports the company's values. Shareholders should be informed and understand how management is compensated and incentivised. The size and composition of executive remuneration packages must be adequate to attract skilled and qualified individuals, but it should not be excessive (PwC, 2016). Executive remuneration plans typically include a base salary, short-term incentives (STIs), and LTIs (Bohlander & Snell, 2010).

The base salary refers to the fixed amount that an executive receives in return for the work that he/she has performed for the organisation (Sirkin & Cagney, 2006). Executives' base salaries are mostly influenced by market-related competitive salary levels. Graham (2013) argued that CEOs' base salaries are often not performance-based, but are, rather, related to the average market 'going rate' for a CEO within the organisation's industry. REMCOs often use market data of comparable companies to set their executives' base salaries at a similar or higher level (Bohlander & Snell, 2010; Graham, 2013). It can be argued that this approach is inappropriate, as it is not directly tied to the performance of the organisation. According to Thomas and Hill (2012),

CEOs have a strong influence on an organisation's success. As such, remuneration packages should be linked to organisational and executive performance.

In addition to base salaries, STIs are used to motivate executive behaviour and performance through once-off variable rewards, such as cash bonuses (Phillips & Gully, 2014). It is common for large organisations to use a formula linked to revenue, gross profit and/or earnings before income and tax when calculating executives' bonuses (Sirkin & Cagney, 2006). If STIs are properly structured to align executives' performance with their organisation's business strategy, STIs could be very influential (Graham, 2013). These incentives are, furthermore, regarded as excellent motivators, as executives are rewarded for their efforts soon after the effect of their performance became evident (Bohlander & Snell, 2010).

In contrast, the purpose of LTIs should be to motivate 'good behaviour' that will contribute to creating sustainable shareholder value over the long term (Phillips & Gully, 2014). Historically, share options were the most frequently used LTI. These LTIs give executives the right to purchase shares of the organisation at a pre-determined price after a specified period (Bohlander & Snell, 2010). This incentive could arguably contribute to motivating good behaviour, as the executive will most likely act in the best interests of shareholders, as they will also gain financially when the share price increases (Schermerhorn, Osborn, Hunt & Uhl-Bien, 2011; Phillips & Gully, 2014).

LTIs are, however, a highly contested type of incentive. Proponents argue that share incentive schemes are directly linked to an organisation's performance over the long-term and are, hence, deemed an excellent motivator for executives (Du Plessis, Großfeld, Luttermann, Saenger, Sandrock & Casper, 2017; North & Kumta, 2018). However, share incentive schemes (and other LTIs) are also criticised for compensating executives on aspects unrelated to their individual performance (Phillips & Gully, 2014; Kostyuk, Stiglbauer & Govorun, 2016).

After the second International Reporting Framework Standards came into effect in 2005, share options usage decreased and the majority of local organisations opted to grant share-appreciation rights and performance shares (Steenkamp & Wesson, 2018b). Share-appreciation rights entitle the holder thereof to a cash settlement equal to the increase (Massie, Collier & Crotty, 2014), whereas performance shares have performance vesting conditions (Steenkamp & Wesson, 2018b).

Considerable focus is placed on the metrics used to measure executives' performance when determining their pay (Thomas & Hill, 2012; Koornhof, 2018). Some performance metrics are criticised for incentivising 'careless behaviour' that can lead to value destruction (Koornhof, 2018; Mans-Kemp & Viviers, 2018). The REMCO must ensure that under-performance of executives is not rewarded. In such instances, executives should merely receive the contractual basic compensation (ICGN, 2016).

According to Martin, Petty and Wallace (2009), organisations must carefully choose the measurements on which they base performance-related incentives, as employees will concentrate on these aspects. Mans-Kemp and Viviers (2018) stated that most South African REMCOs do not focus on performance-based incentives, but rather on fixed pay. This practice could contribute to the perceived disconnect between performance and executive remuneration. The ICGN (2016) guidelines stipulate that elements beyond financial rewards should also be included when structuring executive remuneration.

2.3.2 Non-executive director compensation

NED compensation is fundamentally different from executive emolument packages. The ICGN (2010) offered detailed guidance pertaining to NED remuneration. The principles of transparency, accountability and alignment of interests underpin these guidelines. The ICGN (2010) also suggested goals that NED remuneration policies should accomplish, including attracting and retaining qualified individuals, aligning the interests of directors and shareholders, and ensuring transparent disclosure of all remuneration components.

NEDs typically receive a fixed fee or a fixed retainer (an advanced payment for future services) in addition to board and board committee meeting attendance fees (Morris & Dunne, 2008; Deloitte, 2014a). The ICGN (2010) focused on meeting attendance fees, as they deem the attendance of, and participation at, meetings the primary duty of a NED. Such fees should be clearly disclosed in an organisation's annual report. Several aspects, such as the expected time commitment, serving on board committee(s) or serving as the chairperson of a board committee, should also be reflected in NEDs' fees (ICGN, 2010).

As NEDs serve a very different role on the board compared to executive directors, it is important that any compensation that they receive should not undermine their independence (Morris & Dunne, 2008). Although NEDs generally receive a cash

payment for their services, there are exceptions where their organisations compensate them with shares (Mallin, 2013). The reasoning behind providing NEDs with shares of the company on which board they serve, is to ensure that their interests are aligned with those of shareholders. Mallin (2013), however, stated that the use of share options is considered problematic as NEDs might wrongfully focus on the short-term success of the organisation. This view is shared by the ICGN (2010). South African corporate governance guidelines, specifically Principle 154 of the King III Report, highlighted the potential impact that share-incentive schemes might have on impairing NEDs' independence (IoDSA, 2009).

The relationship between directors' behaviour, corporate governance practices and directors' pay levels increasingly receives attention in literature (Conyon, 1997; Armstrong *et al.*, 2010; Kostyuk, Stiglbauer & Govorun, 2016; Ferri & Göx, 2018). An important aspect of remuneration governance is transparent disclosure of remuneration components, since effective governance depends on effective disclosure (Ferrarini & Moloney, 2005). Disclosure practices and remuneration governance guidelines differ substantially in various countries (Mallin, 2013). The remuneration guidelines used in selected developed countries will be discussed in Section 2.4, followed by an overview of executive remuneration guidelines in South Africa in Section 2.5.

2.4 DIRECTOR REMUNERATION GUIDELINES: AN INTERNATIONAL OVERVIEW

As explained in Section 2.2.1, the misalignment of executives' and stakeholders' interests contributes to problems related to executive remuneration. Other concerns include a lack of transparency and accountability when determining emolument packages and inadequate disclosure thereof (Madlela & Lehloeny, 2016; PwC, 2017a). Stakeholders should receive clear communication regarding remuneration policies and practices to make informed decisions (PwC, 2016).

To address remuneration-related and other corporate governance issues experienced by various stakeholders, several developed countries are prescribing corporate governance policies and remuneration requirements. Some of the guidelines are legally binding, while others are incorporated in voluntary corporate governance codes (PwC, 2016). Some remuneration guidelines that are included in corporate governance guidelines are hence mandatory, given the inclusion thereof in certain countries'

legislation. The United Kingdom (UK) and United States (US) have introduced and recently amended regulations related to executive pay (PwC, 2016; 2017a).

2.4.1 Guidelines offered in selected developed countries

The UK, US and Australia are frontrunners amongst their developed counterparts when it comes to offering director remuneration-related guidelines to listed companies (Walker, 2013; PwC, 2016; 2017a). Several committees have influenced corporate governance and executive remuneration in the UK over the past couple of decades, including the Cadbury, Greenbury, Hampel, and Higgs Committees (Bruce, Buck & Main, 2005). The latest corporate governance reform in the UK gave pertinent attention to executive remuneration and the ethical responsibilities of directors (Department for Business, Energy & Industrial Strategy, 2017). This reform follows calls from investors and shareholders that companies should explain how they align directorates' remuneration with overall employee pay (Gov.UK, 2019).

The remuneration reform in the UK also entails that the pay gap between the CEO and employees should be disclosed (FRC, 2018). The new corporate governance reporting requirement in the UK Companies (Miscellaneous Reporting) Regulations (No. 860 of 2018) also set out the methods for reporting on the pay ratio (PwC, 2019a). This requirement came into force in January 2019 and entails that listed companies in the UK, with more than 250 employees, should include the pay ratio in their annual report from 2020 onwards. They should also disclose the effect of share price increases on executives' LTIs and explain other efforts to align the interests of directors and stakeholders. The FRC administers the voluntary compliance with the UK Corporate Governance Code (also known as the Combined Code). The London Stock Exchange (LSE) requires listed companies to apply the main principles of the code as part of their listing requirements (FRC, 2018).

The US also enforces remuneration governance guidelines through the listing requirements of the New York Stock Exchange (NYSE) and the NASDAQ (National Association of Securities Dealers Automated Quotations) Stock Market. The Sarbanes-Oxley Act of 2002 (shortly known as SOX) administers remuneration governance through legislation (Natarajan & Zheng, 2019). In Section 304 of SOX, the clawback provision permits the Securities Exchange Commission (SEC) to sue the CEO and CFO of a US-listed company in an effort to retrieve their incentive

remuneration based on non-compliance to financial reporting requirements (Deloitte, 2016a; Natarajan & Zheng, 2019).

A clawback remuneration policy is also recommended by the ICGN Guidance on Executive Remuneration (Deloitte, 2016a). The US Securities Exchange Act of 1934 was amended in August 2015 (SEC, 2015). Listed companies in the US are subsequently required to disclose the median of the annual total remuneration of all their employees, as well as the pay ratio between the compensation of all employees and the CEO for fiscal years beginning on or after 1 January 2017. This disclosure requirement is not applicable to growing, small companies or foreign private issuers (SEC, 2015).

Australia is regarded as a forerunner in addressing excessive executive remuneration since the introduction of the 'two-strikes' rule in 2009 in the Productivity Commission's Report on Executive Remuneration (Walker, 2013; Kohn & Cooper, 2017). This rule was introduced in the Australian Corporations Amendment Act in 2011 (also referred to as the Remuneration Amendment Act) (Monem & Ng, 2013) and is explained in Table 2.1. The Australian Securities Exchange (ASX) Corporate Governance Council published a revised set of guidelines pertaining to, inter alia, remuneration recommendations in 2019. These recommendations came into force for financial years commencing on or after 1 January 2020 (ASX Corporate Governance Council, 2019). The ASX subsequently amended its listing rules which took effect on 1 July 2019 (Friedlander & Isouard, 2018).

Table 2.1 provides a summary of remuneration disclosure requirements pertaining to listed companies in the UK, US and Australia.

Table 2.1: Director remuneration requirements in selected developed countries

| Regulation and disclosure | Applicable requirements |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| UK | |
| <p>Companies trading on the main market of the LSE are legally obliged to adhere to the European Union Market Abuse Regulation which requires them to notify the Financial Conduct Authority of all transactions on their own account regarding the company's securities or financial instruments.</p> <p>Listed companies are required to disclose the comparison between the CEO's pay and the average employee's salary, specifically the ratio between the CEO's pay and the median of the company's employees, as well as the 25 percent and 75 per cent interquartile threshold overall pay of the company's UK employees over the same period.</p> <p>The effect that substantial increases in the share price might have over a determined period on the realised value of executives' LTIs must be disclosed.</p> | <p>Statutory controls: Listed companies are required by law to disclose details of executive remuneration in their annual reports; termination payments should be filed for shareholder approval, and shareholder approval should be obtained for service contracts lasting longer than two years.</p> <p>Regulatory controls: Although the code published by the Financial Conduct Authority is not enforceable, all listed companies are required to report on the extent to which these guidelines have been followed. The code requires executive remuneration to be issued in such a way that it supports the long-term success of the company.</p> <p>Listing rules: Employee share schemes and LTI plans for directors should be approved by shareholders before it can be implemented.</p> <p>NEDs: The pay level must reflect the time commitment and responsibilities of their specific duties. NED emolument should not include performance-based elements or share options. If options are granted, shareholder approval is necessary. If share options are exercised, the shares should be held for at least one year after the NED leaves the governing body.</p> <p>REMCO: Independent NEDs should be appointed to a REMCO with a minimum of three members in large organisations. Amongst other things, the committee is responsible for reviewing workforce remuneration and aligning incentives and rewards with corporate culture when setting executive director remuneration.</p> |
| US | |
| <p>Public organisations are required to extensively disclose remuneration packages offered to the governing body. Typically, these companies have to disclose the remuneration of its top five highest earning executives, providing information regarding salary, bonus, equity awards, and pension for the last three years.</p> <p>Companies have to disclose the median salary of all employees, excluding the CEO. The ratio between the median salary of all employees and the CEO's salary should be disclosed. Companies have to disclose the relationship between the compensation of top executives and total shareholder return. New agreements regarding executive remuneration must also be disclosed at the time that the new agreement is made.</p> | <p>Independent directors: Public companies are required to ask the board of directors, who is supposed to be independent of management, to determine the compensation of senior executives.</p> <p>Say-on-pay vote and proxy advisory firms: Public companies are required to submit their remuneration agreements to their shareholders, who cast a non-binding vote on the agreement. Proxy advisory firms could assist institutional investors to analyse and vote on the annual proxy statements.</p> <p>REMCO: A REMCO should be appointed to assist the board on remuneration-related aspects. At least one REMCO meeting must be scheduled before filing the company's annual report and proxy statement to discuss remuneration-related disclosures. The NYSE and NASDAQ require that the majority of the members should be independent directors.</p> |

Table 2.1: Director remuneration requirements in selected developed countries (continued)

| Australia | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Annual reports: Listed companies must disclose the details pertaining to the company's remuneration arrangements within a remuneration report. This includes, inter alia, disclosing information on directors' and executives' short- and long-term benefits, as well as share-based payment arrangements. Various stakeholders closely monitor the remuneration policy settings and quality of disclosure. Listed entities must prepare annual financial and directors' reports that specify their remuneration policies.</p> <p>The 'two-strikes' rule: If a remuneration policy receives 25 per cent or more votes against the report for two consecutive years, the entire board of directors (excluding the CEO), may be considered for re-election or removal by the shareholders.</p> | <p>Approval requirements of the ASX listing rules: Shareholder approval is required for various remuneration actions taken by ASX-listed companies, including:</p> <ul style="list-style-type: none"> i) Issuing of equity securities; ii) Increasing the fees payable to its NEDs; iii) Issuing termination benefits in excess of 5 per cent of the total value of the equity of the entity. |
| | <p>Corporate governance principles: These recommendations are non-binding, and include:</p> <ul style="list-style-type: none"> i) Operating procedures and composition of REMCOs; ii) Separate reporting on the remuneration arrangements of NEDs, executive directors, and other senior executives. <p>Companies are required to have written policies regarding circumventing the risk of equity-based remuneration policies for its directors.</p> |
| | <p>REMCO: The main purpose of the committee is to assist the board on CEO and employee remuneration oversight, bonuses, and incentives. The committee must consist of at least three members with the majority being independent.</p> |

Sources: Adapted from Segal, Karp, O'Brien, Wahlquist, Shapiro & Kahan (2015); PwC (2017a; 2017b); Kohn and Cooper (2017); FRC (2018); ASX Corporate Governance Council (2019)

It is evident that considerable focus is placed on the roles of an independent REMCO and shareholder voting on director remuneration in the considered developed markets. Several of the remuneration governance guidelines set out in Table 2.1 are mirrored in the South African context, as explained next.

2.5 A SOUTH AFRICAN PERSPECTIVE ON DIRECTOR REMUNERATION

South Africa has been criticised by some stakeholders as offering ‘disappointing’ disclosure requirements on executive remuneration in contrast to developed countries, such as the US, UK and Australia (Davies, 2018). Remuneration received by South African directors receives heightened attention from shareholders and researchers, inter alia, due to the country’s severe income inequality (Viviers, 2015; Lee, 2016). The lack of an apparent link between executive pay and performance is also highlighted (Kirsten & Du Toit, 2018; Marais & Strydom, 2018).

According to Mans-Kemp and Viviers (2018), there is a growing misalignment between executive remuneration and performance when analysing JSE-listed companies’ annual and integrated reports. As mentioned in Sections 1.2.2 and 1.2.3, the implementation of corporate governance guidelines and director remuneration requirements could improve transparency on director emolument. According to Lee (2016), it can also be used to resolve tension pertaining to director remuneration and improve the link between executive pay and performance.

Bussin and Satram (2012) found that remuneration governance is gaining more importance in South Africa since the publication of two King Reports in the 2000s. The updated King Reports and pressure from activist institutional investors for enhanced transparency on director compensation ensure that South African organisations remain vigilant of remuneration concerns (Bussin & Satram, 2012; Viviers, 2015; Lee, 2016).

The link between enhanced transparency on director remuneration and targeted crime should also be taken into account. Targeted crime is gaining momentum in South Africa (BusinessTech, 2018). The victims of targeted crime include executives, whether visiting or local directors. The kidnapping of wealthy businessmen and women, or their family members, by crime syndicates are increasing (Etheridge, 2018; Slabbert, 2018). The criminals do extensive research on their victims (BusinessTech, 2018), which is a concern for South African directorates given considerable pressure to enhance public disclosure of their remuneration.

The following section provides an overview of the first three King Reports. The latest developments regarding director remuneration guidelines are then discussed in Section 2.5.2. Attention is also given to applicable legislation (Section 2.5.3), value creation and director remuneration (Section 2.5.4) and the roles of the REMCO (Section 2.5.5).

2.5.1 An overview of the former King director remuneration guidelines

Corporate governance guidelines were initially published in 1994 to guide the practices of listed South African companies. The first King Report was subsequently amended in 2002 (King II), 2009 (King III) and 2016 (King IV) (IoDSA, 1994; 2002; 2009; 2016). The initial report briefly mentioned directors' remuneration and indicated that the REMCO should accept responsibility for determining senior managers' remuneration (IoDSA, 1994). The REMCO, furthermore, had to consist predominantly of NEDs. The disclosure requirements entailed separate reporting of NED fees and executive emolument including salaries, benefits, share options, and bonus figures (IoDSA, 1994).

King II expanded the remuneration guidelines offered to listed companies, including that they should have formal and transparent remuneration policies. A so-called Statement of Remuneration Philosophy had to be published in listed companies' annual reports (IoDSA, 2002). King II, furthermore, provided more definite guidelines regarding the composition and roles of the REMCO. The majority of the committee's members had to be independent NEDs. The REMCO's primary function was to provide the board with recommendations regarding executive directors' remuneration (Cliffe Dekker Attorneys, 2002). The REMCO's membership, as well as individual director compensation, had to be disclosed in annual reports. Shareholders had to approve share options granted to NEDs, in line with legislative provisions (IoDSA, 2002).

In line with an emerging global trend, the King III Report included a non-binding advisory shareholder vote on the remuneration policy at the AGM. King III also specified that NED fees and executive remuneration should be fair and responsible (IoDSA, 2009). The remuneration policy should, accordingly, be aligned with the business strategy and linked to individual performance. The remuneration policy had to address base pay, bonuses, employee contracts, severance, retirement benefits, share-based schemes, and LTI's (IoDSA, 2009). King III also recommended that NED fees should not only include a base fee, but also a fee per meeting. The remuneration

report (included in the integrated report) had to include all benefits paid to directors and prescribed officers, the base pay policy, share incentive schemes, application of benchmarking, incentive schemes that encouraged retention, ex-gratia material payments, and the maximum expected dilution resulting from incentive awards (IoDSA, 2009).

King II and King III gave rise to greater transparency regarding remuneration reporting (IoDSA, 2009). Mans-Kemp and Viviers (2018), however, argued that these reports might have resulted in the wider adoption of remuneration benchmarking. South African REMCOs often align executive remuneration with the median or upper quartile of their European and US counterparts (Bussin, 2017; Malope & Brown, 2018). This form of pay-benchmarking might contribute to excessive remuneration and enhanced inequality, which highlighted the need to amend the King III remuneration guidelines.

2.5.2 King IV director remuneration guidelines

The King IV Report aims to address stakeholders' growing concerns regarding director remuneration by enhancing accountability and transparency (IoDSA, 2016). To achieve this, King IV requires more definite disclosure requirements than its predecessors. The latest King Report recommends that organisations should report on remuneration in three parts, namely a background statement on remuneration, an overview of the remuneration policy, and an implementation report (ibid).

In September 2018, the Department of Trade and Industry published the Companies Amendment Bill for public comment (Davies, 2018). In line with King IV, it is proposed that Section 30 of the Companies Act (No. 71 of 2008) should be amended to instruct listed organisations to present a three-part director remuneration report each financial year (Department of Trade and Industry, 2018).

Context regarding the remuneration considerations and decisions must be described in the background statement of a listed company. Reference must also be made to internal and external factors that influence compensation, the most recent remuneration voting results, and remuneration considerations that will be focused on in future (IoDSA, 2016). The overview of the remuneration policy should address the formulation and accomplishment of objectives. The implementation report must include the remuneration disclosure in terms of the Companies Act (No. 71 of 2008) (IoDSA, 2016). Deloitte (2017a) stated that the implementation of King IV seemed to result in more transparent remuneration disclosure by some locally listed companies.

Given the attention that 'say on pay' has received from regulators and institutional investors globally, King IV provides more in-depth disclosure recommendations regarding voting on remuneration (IoDSA, 2016). Sheehan (2012) argued that 'say on pay' primarily aims to address executive greed and poor remuneration practices through mandatory remuneration reporting and advisory votes.

The King IV Report (IoDSA, 2016) includes a recommendation stating that shareholders could pass non-binding advisory votes on the remuneration and implementation reports of investee companies. Organisations should accordingly disclose information on the measures that the governing bodies will commit to in the event that their remuneration policy and/or implementation report receive 25 per cent or more dissenting votes (ibid). This recommendation implies that if more than a quarter of the shareholders vote against the remuneration policy, it is the governing body's duty to engage with the shareholders on the matter. Details on the engagements and the results thereof must also be disclosed in the background statement of the organisation's remuneration report (IoDSA, 2018). The JSE (2017) incorporated this recommendation into its listing requirements.

There is enhanced pressure on the King Committee to revise the non-binding vote on remuneration (Viviers, 2015). The IoDSA (2018) explained that in jurisdictions where a binding vote is present, such as Australia, it is mandated by law. The guidelines provided by the King Reports are applied on a voluntary basis. The King Committee explained that the reasoning behind a non-binding vote on remuneration is to use it as an instrument to raise shareholder concerns and initiate engagements between shareholders and REMCOs (IoDSA, 2018). The JSE listings requirements state that it is mandatory for listed organisations to vote on remuneration. As such, the vote is by implication compulsory, although it is a non-binding vote according to the King IV guidelines (IoDSA, 2018). PwC (2019a), however, reported that after the amendments to the JSE listings requirements became effective in October 2017, they have noted a widespread adoption of these requirements in JSE-listed companies' 2018 integrated reports.

According to Wells (2015), there are two main 'flaws' related to a binding vote on executive remuneration, namely that it is difficult to actually enforce a binding vote and that it is challenging for shareholders to act in accord. Wagner and Wenk (2017), however, stated that a positive aspect of a binding vote is that shareholders are more capable of ensuring that their interests are taken into account. Negative voting

outcomes often result in adjustment(s) of organisations' remuneration practices and policies (Thomas, Palmiter & Cotter, 2012). Njobeni (2016) and Deloitte (2017a) are of the opinion that the non-binding vote will result in more organisations taking shareholders' concerns into account as they are forced to engage with them.

King IV, furthermore, aims to address the pay gap between employees at the lower end of the pay scale and executives (IoDSA, 2016). It was not mandatory in South Africa to disclose the pay ratio when King IV was published (PwC, 2019a). The National Economic Development and Labour Council (Nedlac) stated in October 2018 that South African organisations agreed to disclose any pay disparities in their future annual reports (Nedlac, 2018). While the disclosure of pay ratios was still voluntary at the time that this study was conducted, mandatory disclosure of defined pay ratios is expected in future. The purpose of this initiative, as explained by Nedlac (2018), is to better understand the nature and extent of pay inequality in South Africa, and thereby develop an action plan to address prevalent income disparities.

Pay inequality is highlighted in the King IV Report by suggesting that executive remuneration must be fair and responsible in the context of overall employee remuneration (IoDSA, 2016). Tshwane (2018) remarked that this recommendation might not result in lower executive remuneration, as organisations tend to compensate South African executives in relation to their counterparts in other jurisdictions. Lee (2016) further expanded on this notion by stating that high salaries might be necessary to attract and retain skilled and competent individuals locally who operate in the global managerial market.

2.5.3 Regulation to address wage inequality and the gender pay gap

South Africa has the highest level of wage inequality in the world. In a recent Global Wage Report, conducted by the ILO (2018), it was reported that South Africa has a Gini coefficient of 0.639. This coefficient measures the income and/or wealth distribution between a nation's residents (Brown, 2018). A score of zero indicates perfect equality, while a score of one express total inequality (Yitzhaki & Schechtman, 2013). Given the country's severe income inequality, it is not surprising that executive remuneration is increasingly placed under the spotlight (Viviers, 2015).

As executives only comprise a small percentage of the South African population, it is questionable whether their income should be used as the upper end of the equality measures (Lee, 2016). Furthermore, South Africa has a high unemployment rate of

approximately 29 per cent based on the latest StatsSA (2019) results. The inclusion of unemployed and discouraged work-seekers in the Global Wage Report could substantially impact the Gini coefficient, as they do not earn an income at all (PwC, 2019a). PwC (2019a) published a refined methodology to calculate the South African so-called all employed Gini coefficient and reported a score of 0.436 in 2019 (as opposed to 0.425 in 2018). Although the refined calculation is far less than the ILO's (2018) reported score of 0.639, it still shows severe inequality and a growing pay gap.

In addition to the wage inequality experienced in South Africa, a gender pay gap is also present. On average, it is reported that women serving on the boards of JSE-listed organisations earn 74.5 per cent of what their male colleagues are paid (PwC, 2019a). South Africa also experiences a lack of female inclusion on boards of listed companies (PwC, 2018a). Although King IV recommends that the governing body should set targets regarding the gender and race composition of boards, there are no recommendations regarding the disclosure of gender pay ratios (IoDSA, 2016). It is debatable whether gender disparity can be addressed by simply placing more females on organisations' governing bodies. Organisations must acknowledge the difficulties that women face to progress in their careers and address key areas where women are underrepresented (PwC, 2018a).

Organisations worldwide are experiencing heightened pressure to disclose wage and gender pay ratios (PwC, 2019a). Remuneration disclosure is generally viewed in a positive light as it increases governance and transparency within organisations (IoDSA, 2017). However, there are also a few concerns pertaining to director remuneration disclosure. Since April 2017, reporting on the gender wage gap is mandatory for organisations with a primary listing in the UK. Within two years, it already had an impact on narrowing the gender wage gap in UK organisations (Meakin, 2019). However, the impact was minimal, as male representatives still dominate executive positions (ibid). Although the King IV Report does not directly address the gender wage gap, it is suggested that listed entities should determine board gender targets to enhance board gender diversity in the country (IoDSA, 2016).

As mentioned in Section 2.5.2, King IV attempted to address the discussed wage inequalities by stating that remuneration must be fair and responsible across the organisation (IoDSA, 2016). Unfair or irresponsible remuneration is considered to be a form of social injustice (IoDSA, 2017). An analysis conducted by PwC (2019a) on the Top 40 JSE-listed companies' integrated reports found that 65 per cent of the

organisations mentioned fair and responsible remuneration in their most recent 2018/2019 remuneration reports.

The Employment Equity Act (No. 55 of 1998) states that an organisation's income differential statement must be completed by filing an EEA4 Form (Van Heerden & Roux, 2019). The EEA4 Form aims to obtain information for the assessment of wage inequalities. Organisations should provide information regarding the earnings of each employee level and indicate the key reasons for the differentiation in pay in each occupational level (Department of Labour, 2016). The Department of Employment and Labour updated the EEA4 Form in 2019 (BusinessTech, 2019a). The aim of the updated form is to reflect income disparities or unfair discrimination and subsequently give organisations the opportunity to address pay and gender gaps (Van Heerden & Roux, 2019).

2.5.4 Value creation and director remuneration

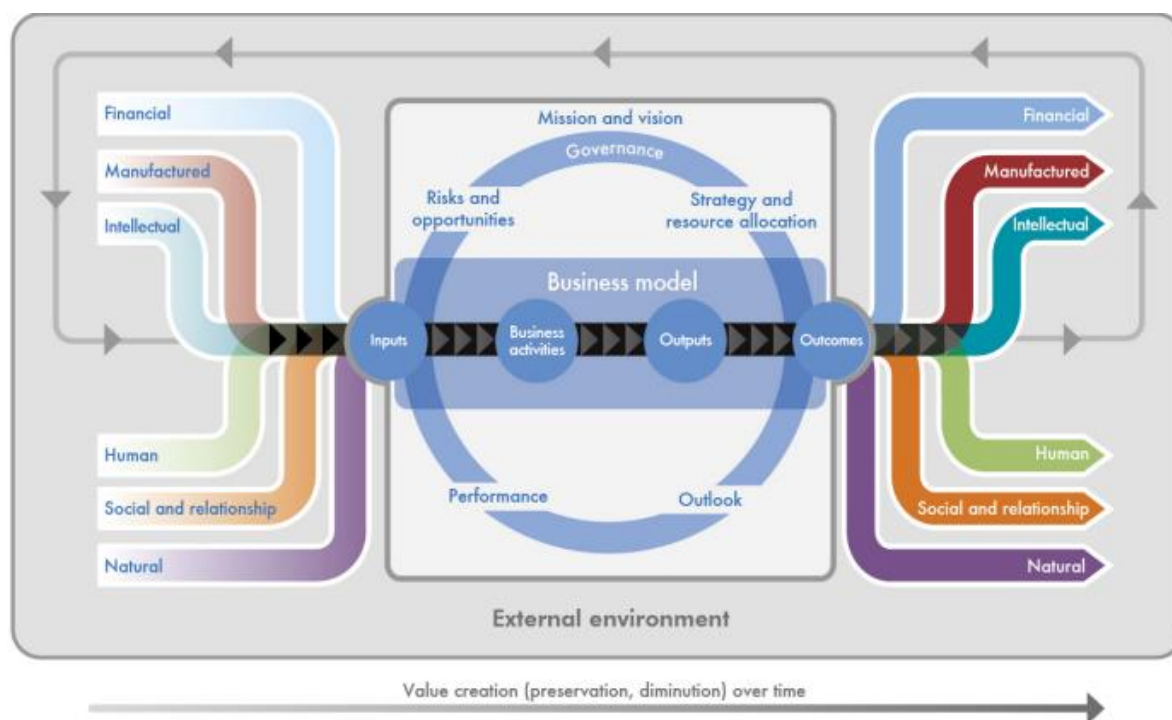
Between 2010 and 2017, South African CEOs and CFOs received substantial annual cash incentives in relation to their guaranteed pay, although the linkages to executive performance were unclear in several instances (Deloitte, 2017b). Malope and Brown (2018) stated that there is often limited correlation between executive pay and performance. Key performance indicators (KPIs) can be used to monitor the performance of an organisation and progress pertaining to reaching long-term strategies (Thomson *et al.*, 2018). A clear link between KPIs and executive remuneration assure stakeholders that care is taken to align their interests (*ibid.*).

The IIRC (2013) published the International Integrated Reporting Framework in 2013. This framework aims to assist organisations in producing integrated reports and enhancing communication with key stakeholders. Although the framework does not recommend specific KPIs, it offers guidance relating to the objectives that KPIs should aim to achieve (IIRC, 2013; Thomson *et al.*, 2018).

The IIRC (2013) encourages organisations to consider how executive remuneration is linked to short, medium and long-term value creation objectives. Organisations should, furthermore, account for the connection between director remuneration and the six capitals. The latter includes financial, manufactured, intellectual, human, social and relationship, and natural capital (IIRC, 2013). 'Capitals' refer to aspects that are valuable in an organisation as they can be influenced or transformed by the organisation's activities (Thomson *et al.*, 2018). The value that an organisation creates

(or destroys) is assessed by the degree to which the organisation exhausts the six capitals, as illustrated in Figure 2.1.

Figure 2.1: The value creation process



Source: IIRC (2013)

Reporting on value creation in terms of the six capitals is referred to as 'integrated reporting', which provides a better understanding of organisational activities in comparison to silo financial reporting. Although the International Integrated Reporting Framework was a shift in the right direction for South Africa, the framework is principle-based and does not prescribe standards for achieving integrated reporting (South African Institute of Chartered Accountants (SAICA), 2015). Clearer guidelines are, hence, essential to assist organisations on reporting in terms of the six capitals, specifically as it pertains to the pay-performance link.

2.5.5 The roles of the remuneration committee

In an attempt to address the agency problem linked to the agency theory (refer to Section 2.2.1) and managerial power theory (see Section 2.2.3), policy makers introduced REMCOs into corporate governance codes (Murphy, 2002; Marais & Strydom, 2018). According to PwC (2019b), REMCOs play an imperative role in organisations. Conyon (1997), however, expressed concern that the mere existence of REMCOs would not, per se, strengthen remuneration governance practices. Several researchers found that the committee's existence resulted in higher director

emolument packages (Main & Johnston, 1993; Conyon & Peck, 1998; Zhu, Tian & Ma, 2009; Kuo & Yu, 2014). Jensen and Murphy (2004) provided a possible explanation for this phenomenon by stating that, although REMCO members aim to set fair remuneration packages, they might lack the necessary skills to do so. If REMCO members lack expertise and experience, remuneration contracts might favour directors at shareholders' expense (ibid).

REMCOs often justify large executive bonuses by offering one of four reasons (Bohlander & Snell, 2010). Firstly, they state that it is standard practice to sufficiently reward top-quality performance. Secondly, competent executives are scarce and proper incentives are necessary to entice available talent. Thirdly, excessive bonuses reflect current market-related compensation trends. Lastly, effective executives create shareholder wealth and should be remunerated accordingly (Bohlander & Snell, 2010).

Pertaining to the REMCO's composition, the King IV Report specifies that the majority of the committee members should be independent NEDs (IoDSA, 2016). It is essential that the REMCO is completely independent from the organisation's management team to effectively fulfil their duties (PwC, 2019b). In practice, all committee members might not have the required knowledge regarding remuneration matters. In such instances, the assistance of independent advisors or consultants could be obtained. Luiz (2006) warns that REMCOs must be cautious when obtaining external assistance regarding remuneration, as the usage of advisors has been criticised for contributing to excessive director remuneration.

A governing body generally approves a Charter or Terms of Reference that sets out the REMCO's responsibilities within the organisation (IoDSA, 2019a). This committee is responsible for integrating all remuneration components into a unified structure that is in line with the company's strategic objectives (ICGN, 2012). Scholtz and Engelbrecht (2015) emphasised the REMCO's essential contribution pertaining to sound director remuneration decision-making and disclosure.

Three primary roles of the REMCO are explained in the King IV Report (IoDSA, 2016; 2019b), namely:

- 1) Ensuring that NEDs and executives receive fair and responsible remuneration that is aligned with the long-term objectives of the organisation.
- 2) Facilitating the publication of a remuneration report that discloses director remuneration in an understandable, transparent, complete, and accurate manner.

- 3) Ensuring that the remuneration policy is effective, in line with the organisation's objectives, and applied throughout all employee levels in a consistent manner.

In Table 2.2, key roles of the REMCO are linked to several focus areas. It is evident from perusal of Table 2.2, that the roles of REMCOs are complex. Shareholder activists increasingly place pressure on this committee to provide transparent and reliable remuneration policies and implementation reports (IoDSA, 2019b; PwC, 2019b), as explained in Section 2.6.

Table 2.2: Key roles of the remuneration committee

| Focus area | Key role(s) |
|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Strategy | Understand how to link the organisation's ability to create value to applicable targets and incentives without creating accidental consequences. |
| Performance | Link directors' remuneration to outcome(s) of directors' individual performance targets, as well as to the company's performance targets. |
| | Evaluate whether performance measures, targets and outcomes are appropriate and legitimate. |
| | Evaluate the remuneration policy to ensure that it is efficient in attracting and retaining talented individuals. |
| | Evaluate whether the remuneration policy adequately aligns director remuneration with shareholders' interests. |
| | Determine the committee's level of comfort with the entire emolument package directors receive and the wage gap between employees on all levels in the organisation. |
| Remuneration | Determine what constitutes fair and responsible compensation within the particular organisation – not only for directors, but pertaining to overall employee remuneration. |
| | Ensure that there is an appropriate mixture of short- and long-term pay that is aligned with the company's objectives. |
| | Consider whether the remuneration is comparable relative to market practices. |
| | Authorise responsible increases in pay throughout the organisation. |
| Governance | Ensure that there is appropriate compliance with legislation and regulations. |
| | Disclose executive and NED remuneration in the integrated annual report or in the annual financial statement. |
| | Evaluate the committee's effectiveness by reviewing past decisions and whether it correctly anticipated future remuneration trends. |
| | Understand how other employees at lower levels in the organisation might perceive director remuneration. |
| Stakeholders | Communicate with stakeholders on a regular and effective basis to accommodate conflict resolution. |
| | Engage with stakeholders when there are concerns pertaining to the remuneration policy and anticipate when significant changes to the policy are required. |

Source: Adapted from IoDSA (2019b)

2.6 SHAREHOLDER ACTIVISM ON DIRECTOR REMUNERATION

Director remuneration governance is an important aspect of corporate governance and is of significance to a wide range of stakeholders (ICGN, 2016). Institutional investors are taking a more active role with regard to 'say on pay'. This term refers to shareholders' advisory votes on organisations' remuneration policies and practices (Gordon, 2009). Voting is an example of a voice mechanism that institutional and retail shareholders can use to show their discontent with a company's actions. More details are provided in Section 2.6.1 on this activism mechanism and other measures that dissident shareholders can use. Pertinent focus is placed on the activism endeavours of institutional investors in Section 2.6.2. Shareholder activism in the local context is explored in Section 2.6.3.

2.6.1 Exit and voice mechanisms

Hirschman's (1970) 'exit' and 'voice' framework is commonly applied to the context of shareholder activism (Ying, 2014). The traditional 'exit' activism mechanism is used if shareholders 'vote with their feet' by selling their stake in investee companies if they are unsatisfied with the companies' performance and/or practices. This mechanism is also referred to as the 'Wall Street Walk' (Admati & Pfleiderer, 2009). It is likely that an exit strategy will have minimal impact if a minority shareholder sells his/her stake in a company. Large institutional investors with considerable shareholdings in listed entities might have more success on focusing attention on ESG-related concerns, including exorbitant executive remuneration packages, by selling their shares. Othman, Ho and Latiff (2019) confirmed that 'exit' mechanisms are less effective when the size of the activist's shareholding is small.

Large institutional investors, however, prefer 'voice' mechanisms above exit mechanisms. Since they are generally long-term orientated, an active ownership role is important to them (Hsu & Koh, 2005). Shareholder activists can use a range of private and public voice mechanisms to focus attention on ESG considerations (Schueth, 2003). Shareholders could 'voice' their concerns to investee companies' managements through interactive, or even confrontational, private engagements (Ying, 2014). Director remuneration is increasingly becoming a topical engagement subject between institutional investors and organisations (ICGN, 2016).

Engagements can also be raised on a public platform, such as voicing concerns and voting at AGMs (Viviers, 2015). Previous researchers found that a growing number of

shareholders use their votes to show dissatisfaction regarding investee companies' remuneration policies (Conyon & Sadler, 2010) and practices (Alissa, 2015). Corporate accountability is arguably ensured by voting on the remuneration policy of an investee organisation. However, it should be kept in mind that advisory votes do not oblige organisations to amend their remuneration policies and/or director remuneration practises (Luiz, 2006).

Shareholder engagement practices should receive more attention as it could benefit investors and the investee company. Strong stakeholder engagement processes could result in institutional investors perceiving a company as being more open to address concerns or suggestions. Furthermore, through robust engagements, investee companies could potentially better understand how key stakeholders operate (PwC, 2019b).

Shareholders require detailed, transparent disclosure of director remuneration to better understand, rationalise and justify directors' remuneration levels and methods and make voting decisions (Ferrarini & Moloney, 2005; Mallin, 2013; Deloitte, 2014a; PwC, 2018a). Aggregate director remuneration disclosure allows shareholders to assess their organisation's pay policy in a more effective manner (Kenneth, 2015). Disclosure requirements also enhance the accountability of the REMCO (Ferrarini & Moloney, 2005). Enhanced disclosure on remuneration policies and practices could, furthermore, lead to heightened shareholder monitoring, as institutional investors are encouraged to play a more activist role (Viviers, 2015), as explained in the next section.

2.6.2 The role of institutional investors

Institutional investors are important stakeholders to ensure sound corporate governance compliance (Sandberg, 2013). Given their dominant market position due to their considerable share-ownership (Sandberg, 2013), institutional investors could persuade investee organisations to comply with corporate governance guidelines (IoDSA, 2011; Scholtz & Engelbrecht, 2015). There is a higher chance for market failure as a result of poor governance if there is a lack of institutional investors who actively monitor corporate actions (IoDSA, 2011).

According to Viviers (2015), institutional shareholder activism gained momentum when the United Nations' Principles for Responsible Investment (UN PRI) were published in 2006. Although compliance to the UN PRI principles is voluntary, they are effective in assisting signatories to incorporate ESG aspects into their investment decisions and

ownership practices (PRI, 2019). Director remuneration oversight forms part of the suggested governance considerations (ibid).

McCahery, Sautner and Starks (2015) found that 88 per cent of their respondents (which consisted of institutional investors in the US and the Netherlands), regarded excessive remuneration and poor governance as very important 'triggers' that would lead to intervention and engagements. Pertaining to institutional investors' influence on director remuneration, international authors found that institutional share ownership positively impacted the link between executive pay and performance (Hartzell & Starks, 2003; Dharwadkar, Goranova, Brandes & Khan, 2008) and restricted the size of total director remuneration packages (Khan, Dharwadkar & Brandes, 2005; Dong & Ozkan, 2008; Ozkan, 2011). These results provide evidence that institutional investors could be an effective remuneration governance monitoring mechanism.

South Africa is one of the few countries globally that officially encourages institutional investors to incorporate ESG-aspects into their investment decision-making process (Deloitte, 2014b). CRISA was published in 2011 to guide local institutional investors in their investment decisions, to ensure that sound governance practices are prevalent in their activities, as well as in investee companies' activities (IoDSA, 2011; Sanlam, 2018). Despite CRISA receiving public support, a survey conducted by the CRISA Committee and EY (2013) found that only a few institutional investors truly take the principles into account. This finding is supported by Viviers and Smit (2015) who mentioned that only a few local institutional investors are 'seriously passionate' about proxy voting and other means of stewardship.

Furthermore, Regulation 28 of the Pension Funds Act (No. 24 of 1956) was revised in 2011. The intention of this revision was to ensure that institutional investors take ESG factors into account (Deloitte, 2014b). Principle 17 in the King IV Report expanded on the principles set out in Regulation 28. Principle 17 suggests that the governing body of an institutional investor organisation should ensure that responsible investment is practised by the organisation to promote sound governance and value creation (IoDSA, 2016).

In the following section, recent examples of shareholder activism on director remuneration in South Africa are discussed.

2.6.3 Recent instances of director remuneration activism in South Africa

In September 2018, the JSE (2018) published a consultation paper for public commentary to address recent corporate concerns in South Africa, including exorbitant director remuneration packages. Challenges pertaining to engagements following non-binding votes were also mentioned in the consultation paper. The non-profit shareholder activism and responsible investment organisation, Just Share (2018), responded to the consultation paper by recommending that remuneration policies must be made publicly available. To address the pay gap and inequality more effectively, they suggested that organisations should also disclose pay information for lower paid employees.

Shareholder activists Just Share and Old Mutual are, furthermore, of the opinion that a binding vote on executive remuneration will assist in closing the pay gap and subsequently reduce income inequality in South Africa (Buthelezi, 2019). According to Old Mutual's head of responsible investing, the non-binding advisory vote on remuneration "has no teeth to help tackle inequities" (ibid). Representatives of these shareholder activist organisations stated that institutional investors should be more active in raising concerns and pressuring organisations to adjust their remuneration policies in order to reduce the pay disparity in South Africa (Buthelezi, 2019).

Just Share (2018), furthermore, recommended that the JSE should consider implementing the Australian 'two-strikes' rule. It should be noted that South African legislation does not prescribe any penalties for non-disclosure to remuneration disclosure requirements (Madlela & Cassim, 2017). Dissenting votes against organisations' remuneration policies and implementation reports are rapidly increasing (Morton & Blair, 2019). Several local companies were recently forced to review their remuneration policy and make amendments following stakeholder engagements (ibid).

An example of a local entity that recently received considerable media attention based on its director remuneration policy and practices is Shoprite Holdings. In 2017, 65 per cent of the company's shareholders voted against its remuneration policy (Crotty, 2017). At the 2018 AGM, 73 per cent of the ordinary shareholders voted against the remuneration policy, and 69 per cent voted against the implementation thereof (Tarrant, 2019c). The group received criticism for high salaries and the performance criteria to allocate STIs and LTIs. The company's largest shareholder, namely the Public Investment Corporation (PIC), voted against their remuneration policy and

implementation report in 2019, as the PIC was of the view that it did not reflect best practice (Tarrant, 2019c). This severe scrutiny obliged Shoprite to revise their performance criteria and adequately link it to relevant incentives in future (Tarrant, 2019c).

Shoprite was the first JSE Top 40 company whose shareholders rejected its remuneration policy. The second instance was the rejection of Old Mutual's remuneration policy by 46 per cent of its shareholders at the 2019 AGM (Tarrant, 2019a). Furthermore, 69 per cent of Old Mutual's shareholders voted against the resolution on the application of its remuneration implementation report (West, 2019). After Old Mutual requested shareholders to submit written concerns regarding the remuneration policy, the company has received requests to disclose incentives (West, 2019).

Another JSE Top 40 company whose shareholders pushed back against excessive executive remuneration, is MultiChoice. Almost half of MultiChoice's shareholders voted against the remuneration policy and 55.27 per cent voted against the implementation thereof at the 2019 AGM (Tarrant, 2019b). Shareholders warranted the dissenting votes since MultiChoice's LTIs were not deemed adequately linked to executive's performance (Tarrant, 2019b).

The former parent company of MultiChoice, namely Naspers, has received similar scrutiny regarding excessive remuneration in the past. At the 2017 AGM, Naspers received 75.9 per cent dissenting votes pertaining to its remuneration policy, and 57 per cent of shareholders voted against the policy in 2018 (Crotty, 2019). Shareholders subsequently acknowledged Naspers' attempts to enhance linkages between strategy and performance, and transparency on the allocation of incentives (Planting, 2019).

Several large institutional investors, including Old Mutual Investment Group, Sanlam Investment Managers, Abax Investments, Coronation, AEON Investment Management, and Mergence Investment Managers filed a joint shareholder resolution to Sasol ahead of the company's 2019 AGM (Steyn, 2019). This resolution requested Sasol to provide transparent disclosure on their emission-reduction strategy and the alignment of executive rewards with climate change considerations (ibid). Sasol rejected the resolution (Maeko, 2019) but stated that executive remuneration will be linked to its climate-change targets by including it in future STIs and LTIs (Steyn, 2019).

Furthermore, Sasol indicated that it aims to improve relationships with shareholders through robust and proactive engagements (Cairns, 2019).

These instances encouraged the researcher to investigate director remuneration in South Africa by accounting for the impact of institutional shareholder activists.

2.7 AN OVERVIEW OF PREVIOUS STUDIES

Director remuneration is a contentious topic that is widely discussed in literature. Numerous researchers investigated the link between executive remuneration and company performance (Abdullah, 2006; Kato, Kim & Lee, 2007; Duffhues & Kabir, 2008; Bussin & Ncube, 2017; Bezuidenhout *et al.*, 2018; Kirsten & Du Toit, 2018; Zoghلامي; 2020). The majority of them found a positive association between company performance, in terms of financial metrics, and executive pay. Although Kirsten and Du Toit (2018) reported an insignificant link between executive pay and accounting-based performance in South Africa, they noted a significant positive relationship with share price performance (*ibid.*).

A number of researchers showed that REMCOs play essential roles in setting director remuneration. Harymawan, Agustia, Nasih, Inayati and Nowland (2020) found that higher director pay in Indonesia is only linked to higher company performance if an organisation has an established REMCO. Furthermore, female REMCO members in Spain are deemed valuable resources in designing remuneration packages, as they moderate growth in executive remuneration (García-Izquierdo, Fernández-Méndez & Arrondo-García, 2018). In the local context, Scholtz and Engelbrecht (2015) found that the number of NEDs on the REMCOs of the JSE Top 100 companies, the number of REMCO meetings, and shareholder voting on remuneration policies are effective remuneration governance mechanisms.

Remuneration disclosure and compliance with remuneration governance recommendations were, furthermore, assessed by researchers in various countries, including South Africa (Tshipa, 2017; Gupta, Chu & Ge, 2016; Madlela & Cassim, 2017; Mans-Kemp & Viviers, 2018; Steenkamp *et al.*, 2019). Gupta *et al.* (2016) investigated the enhanced remuneration disclosure regulations implemented in the UK in 2013. Their results showed that the new disclosure regime neither enhanced the link between CEO emolument and company performance, nor addressed wage inequality (*ibid.*). Madlela and Cassim (2017) reported similar results in the South African context. As such, they deemed the minimum standards set by the Companies Act (No.71 of

2008) on remuneration disclosure inadequate to enhance transparency. Steenkamp *et al.* (2019) reported that several JSE-listed companies fail to comply with the share-based remuneration disclosure requirements included in the JSE listings requirements, the Companies Act (No. 71 of 2008), and the King III Report.

Shareholders require enhanced transparency on remuneration policies and practices to make informed voting decisions (Viviers, 2015). It is, therefore, not surprising that various researchers have focused on the importance of shareholder activism and ‘say-on-pay’ (Filatotchev & Dotsenko, 2015; Stathopoulos & Voulgaris, 2015; Viviers, 2015; Viviers & Smit, 2015; Zhao & Li, 2019). Researchers disagree whether a non-binding or a binding vote on remuneration is more effective (Stathopoulos & Voulgaris, 2015; Viviers, 2015).

The preceding literature review highlights a gap in the current body of knowledge to investigate the extent to which listed South African organisations comply with the King IV director remuneration recommendations. Institutional investors, REMCOs and executives were identified as important stakeholders in the remuneration decision-making process. These stakeholder groups could provide valuable input pertaining to the application of local director remuneration recommendations and the disclosure thereof.

2.8 SUMMARY

Remuneration governance is an important corporate governance consideration. Several fundamental theories shed light on the importance of remuneration within an organisation and the influence thereof on principal-agent relationships, including the agency theory and stakeholder theory.

The US, UK and Australia published corporate governance codes that incorporate detailed remuneration requirements. In South Africa, the IoDSA published four King Reports between 1994 and 2016 to offer corporate governance guidance to JSE-listed companies. The King IV Report provides more definite remuneration governance guidelines than its predecessor. REMCOs are deemed an essential remuneration governance mechanism. Institutional investors could also considerably influence corporate behaviour given their substantial market presence. A surge in shareholder activism on director remuneration is noted globally and locally.

The director remuneration recommendations offered in King IV, as well as relevant literature, were used to compile the semi-structured interview guide, as explained in the methodology chapter.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

Corporate managers have the task of making informed decisions under uncertain circumstances within a constantly changing environment (Botha, Kourie & Snyman, 2008). According to Bryman and Bell (2015), business research is often conducted in response to managerial concerns and business-related challenges. Business research can be defined as the process of methodically collecting, interpreting, and analysing data to obtain information to guide decision-making and solve problems (Cooper, 2018).

As stated in Section 1.4.1, the primary objective of this study was to reflect on the application of the King IV director remuneration recommendations. The views of key stakeholders were obtained, including institutional investors, REMCOs and executive directors (specifically CEOs and CFOs). The roles of these key players in remuneration governance were discussed in Chapters 1 and 2. Globally, enhanced emphasis is placed on remuneration governance and, in the light thereof, the King IV Report gave more attention to the topic than the King III Report. The reporting of selected financial services organisations on the remuneration governance guidelines of King III and IV were compared by the researcher.

Various research strategies and paradigms are discussed in the following section. Thereafter, the collection and analysis of primary and secondary data are explored. Attention is then given to the trustworthiness of the data, as well as ethical considerations.

3.2 RESEARCH STRATEGIES AND PARADIGMS

The selection of (a) suitable technique(s) to conduct business research is an essential consideration to ensure that the research problem and objectives can be addressed (Zikmund *et al.*, 2013). A research design provides a framework that assists a researcher in collecting, interpreting, and analysing data (Mertens, 2005; Clough & Nutbrown, 2007; Ríos & Del Campo, 2013). This framework includes selecting a suitable research strategy and paradigm, as explained next.

3.2.1 Research strategies

The nature of the research problem plays a major role in the selection of an appropriate research strategy (Saunders, Lewis & Thornhill, 2012; Zikmund *et al.*, 2013). Three main research strategies, namely causal, exploratory, and descriptive research will be discussed.

3.2.1.1 Causal research

A causal research strategy can be adopted to discover cause-and-effect relationships (Murthy & Bhojanna, 2008). A typical causal research method is hypothesis testing through conducting experiments (Zikmund *et al.*, 2013). When conducting causal research, a change in one variable is expected to cause a predictable effect in another variable (Wrenn, Stevens & Loudon, 2007). The cause must, hence, occur before the effect (Ríos & Del Campo, 2013). Three possible relationships can exist: Two variables can fluctuate together (symmetrical relationship), the variables can reciprocally influence and reinforce each other (reciprocal relationship), and a change in one variable could lead to a change in another variable (asymmetrical relationship) (Sreejesh, Mohapatra & Anusree, 2014).

A researcher should have a very thorough understanding of the research area when choosing a causal strategy (Sreejesh *et al.*, 2014), as it typically requires a very structured, elaborate research design (Neelankavil, 2015). As such, a causal strategy is often very time-consuming and expensive to implement (Zikmund & Babin, 2007). An important requirement when implementing a causal research strategy is that the subjects or variables should be randomly assigned to all of the test groups to ensure that researcher bias does not influence the outcome of the study (McNabb, 2010).

3.2.1.2 Exploratory research

In contrast to causal research, where the researcher should already have a clear understanding of the field being researched, exploratory research assists the researcher in becoming more acquainted with the research area (Murthy & Bhojanna, 2008). An exploratory strategy could be followed due to existing issues gaining more acknowledgement or new developments arising within a specific field (Hall, 2008). According to Wilson (2010), an exploratory research strategy is an appropriate design when there is a lack of knowledge pertaining to a given field. Exploratory research is, hence, used as a means to further define the identified research problem (Sreejesh *et*

al., 2014) and to provide the researcher with guidance for future research (Hall, 2008; Wilson, 2010).

Zikmund *et al.* (2013), therefore, suggests that a researcher should initially follow an exploratory approach, with the expectation that further investigation(s) could lead to more conclusive outcomes. Given that research is conducted to obtain specific information pertaining to a certain field, an exploratory strategy is generally associated with primary data collection (Neelankavil, 2015).

3.2.1.3 Descriptive research

Descriptive research is the most common strategy adopted by researchers (Hall, 2008) to provide them with a broad overview of a particular phenomenon of interest (McNabb, 2010; Zikmund *et al.*, 2013). The aim of this strategy is to provide a researcher with a better description of current and past situations (McNabb, 2010; Wilson, 2010). Although descriptive research could result in the detection of relationships between two variables (Murthy & Bhojanna, 2008; Sreejesh *et al.*, 2014), it should be noted that it can neither determine cause-and-effect relationships (Wilson, 2010), nor can it be used to examine the impact(s) of an occurrence (Thyer, 2010).

There are two types of descriptive research, namely longitudinal and cross-sectional studies (Murthy & Bhojanna, 2008). Longitudinal research is repeated over two or more time intervals for the same sample (McNabb, 2010). Cross-sectional research is conducted at a single point in time (Sreejesh *et al.*, 2014). When employing a descriptive strategy, the potential impact of researcher bias on the validity of the collected data should be taken into account (Zikmund & Babin, 2007). Sharma (2014), *inter alia*, suggested the usage of random sampling techniques or a larger sample size to limit researcher bias in descriptive studies. Refer to Section 3.3.1.1 for a discussion on sampling.

For the purpose of this study, a descriptive research strategy was used. The researcher investigated the views of various stakeholders pertaining to the King IV director remuneration guidelines. Reporting on remuneration governance of selected locally listed banks was also taken into account. The selected strategy enabled the researcher to explore perceived shortcomings, in addition to positive aspects, regarding the guidelines that King IV offers on remuneration reporting and disclosure.

3.2.2 Research paradigms

Research paradigms reflect a “community of researchers’ opinions” that is based on shared aspects, including assumptions, concepts, values and practices (Johnson & Christensen, 2012). The selected paradigm influences interactions with research participants (Lin, Oxford & Culham, 2016). Researchers typically adopt a positivistic or phenomenological research paradigm. The main difference between these paradigms is the manner in which the researcher collects and analyses data (Beech, 2015).

3.2.2.1 Phenomenological paradigm

A phenomenological research paradigm uses introspective descriptions of human participants to investigate their experiences and understanding of a specific occurrence (Cooper, 2018). A researcher might experience difficulty to measure human behaviour due to unobservable factors that could influence participants’ actions (Hale & Napier, 2013). Furthermore, generalisation is challenging as the researcher interprets the participants’ subjective frames of reference (Diggs-Brown, 2012; Hale & Napier, 2013). Phenomenological researchers, therefore, typically assume that there is commonality in human experience (Johnson & Christensen, 2012). Since such researchers aim to understand and interpret consistency across the participants’ experiences, the selected research method(s) should enable them to describe and analyse a phenomenon from the research participants’ diverse viewpoints (Hale & Napier, 2013; Cooper, 2018).

A phenomenological paradigm is generally associated with qualitative research (Coldwell & Herbst, 2004) that entails interaction with the research participants to obtain their perspective (Killam, 2013). Qualitative data are, thus, researcher-dependent since the researcher interprets and extracts reliable information from the collected data (Zikmund *et al.*, 2013). Qualitative data could be obtained in an oral, visual or textual form (Maxwell, 2005; Zikmund *et al.*, 2013;).

Qualitative research has the advantage of being flexible and versatile (Maxwell, 2005). Typically, qualitative researchers do not collect data from large samples (Zikmund *et al.*, 2013). Although the researcher could obtain a clear understanding of how the views of a limited number of participants are shaped by their unique situations (Maxwell, 2005), the results cannot be generalised to a larger population (Neelankavil, 2015). Qualitative researchers should, therefore, aim to ensure that the results are objective

and unbiased instead of drawing conclusions based on their own perceptions (Zikmund *et al.*, 2013).

3.2.2.2 Positivistic paradigm

Positivistic researchers aim to objectively and systematically detect causes of a particular phenomenon (Wilson, 2010; Hale & Napier, 2013). In contrast to the researcher-dependent nature of the phenomenological approach, positivistic research is characterised by employing a “detached approach” where the researcher is independent from his/her research (Wilson, 2010; Hale & Napier, 2013). This paradigm is adopted if a researcher aims to measure, predict and/or clarify relationships between variables through scientific methods (Swanson & Holton, 2005).

The positivistic paradigm is associated with quantitative research (Killam, 2013; Mukherji & Albon, 2015). As quantitative research entails quantifying concepts, it is focused on numerical data collection and analysis methods (Hale & Napier, 2013; Killam, 2013). When adopting a positivistic paradigm, meaning is often removed from context in an attempt to quantify occurrences (Swanson & Holton, 2005). The results might, hence, lack depth (Wilson, 2010). Quantitative research is characterised by considering a large sample that enables a researcher to make generalisations to a population (Myers, 2013). Another advantage is the statistical reliability of the results that enables a researcher to make predictions (Nykiel, 2007; Allen, 2017).

3.2.2.3 Mixed methods approach

Regarding to the study at hand, the researcher used a mixed methods approach, as both qualitative and quantitative research methods were employed (Johnson & Christensen, 2012). There are two reasons for using a mixed methods approach. The researcher could, firstly, use both data sets to form a better understanding of a phenomenon (Tashakkori & Teddlie, 2008; Creswell, 2015). Secondly, the approach could be used for confirmation purposes by applying one research design to validate the credibility of the inferences obtained from another research design (Tashakkori & Teddlie, 2008).

When employing a mixed methods approach, the research questions addressed by the qualitative and quantitative approaches, stem from the same research problem (Tashakkori & Teddlie, 2008). Table 3.1 depicts the secondary research objectives of this study, as well as the research paradigm and design used to obtain the required data to address these objectives.

Table 3.1: Research design used to address the secondary objectives

| Secondary research objective | Research paradigm | Research design |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-----------------------|
| To examine to what extent selected organisations in the financial services industry complied with the director remuneration principles as set out in the King III Report over the period 2015-2016. | Positivistic | Quantitative research |
| To investigate to what extent selected organisations in the financial services industry complied with the director remuneration practices recommended in the King IV Report over the period 2017-2018. | Positivistic | Quantitative research |
| To determine the views of selected institutional investors on the director remuneration recommendations as set out in the King IV Report. | Phenomenological | Qualitative research |
| To examine the opinions of selected institutional investors on possible amendments to the director remuneration recommendations as set out in the King IV Report. | Phenomenological | Qualitative research |
| To investigate the views of selected financial institutions' REMCOs on the director remuneration recommendations as set out in the King IV Report. | Phenomenological | Qualitative research |
| To evaluate the opinions of selected financial institutions' REMCOs on possible amendments to the director remuneration recommendations as set out in the King IV Report. | Phenomenological | Qualitative research |
| To observe the views of selected financial institutions' CEOs/CFOs on the director remuneration recommendations as set out in the King IV Report. | Phenomenological | Qualitative research |
| To determine the opinions of selected financial institutions' CEOs/CFOs on the possible amendments to the director remuneration recommendations as set out in the King IV Report. | Phenomenological | Qualitative research |

Source: Compiled by the researcher

The collection of primary and secondary data to address the research objectives indicated in Table 3.1 is discussed next.

3.3 DATA COLLECTION

After determining the research problem and objective(s), the required quantitative and/or qualitative data should be collected (Sayre, 2001). Data collection refers to the method(s) used to gather information in a systemised manner (Tashakkori & Teddlie, 2003). There are two main types of data, namely primary or secondary data. In the following two subsections, the differences between these types of data collection will be explored.

3.3.1 Primary data collection

Primary data are collected first-hand by a researcher to address a specific research problem (Payne, 2005; Wrenn *et al.*, 2007). There are various techniques that can be

used to gather primary data, including interviews, questionnaires, focus groups and observations (Singh & Mangat, 1996; Zikmund *et al.*, 2013).

By obtaining primary information, a researcher could gain direct insight into participants' habits, views and opinions (Payne, 2005). Other advantages include that the information is up to date (Mooi & Sarstedt, 2011) and researchers have a greater sense of control (Srivastava & Rego, 2011). Disadvantages include that it is generally time consuming and expensive to collect primary data (Mooi & Sarstedt, 2011; Srivastava & Rego, 2011).

For the purpose of this study, semi-structured interviews were conducted to investigate key stakeholders' views on the King IV director remuneration recommendations. The details of the population and sample, as well as the primary data collection method, are discussed next.

3.3.1.1 Details on the population and sample

A population is the group of entities that a researcher aims to investigate (Zikmund *et al.*, 2013). The results of a study might be generalisable to the population, depending on the sampling technique (Levy & Lemeshow, 2008). The individual entities, also known as population elements, share characteristics that are of importance to a researcher. The target population is, thus, defined as the number of population elements that are significant to the study at hand (Neelankavil, 2015).

Institutional investors, directors serving on REMCOs, and CEOs and CFOs employed at JSE-listed companies in the financial services industry were identified as the three target populations for this study. These stakeholder groups play vital remuneration governance roles, as explained in Section 1.2.4. Before a researcher can commence with sampling, a clear definition of the target population must be formulated (Salkind, 2010).

As defined in Section 1.5.3.1, CRISA describes institutional investors as "any legal person or institution referred to in the definition of financial institution in Section 1 of the Financial Services Board Act (No. 97 of 1990), to the extent that these legal persons or institutions own and invest in the equity of a company and have obligations in respect of investment analysis, activities and returns to ultimate beneficiaries" (IoDSA, 2011). Asset managers who directly invest in equities or bonds listed on the JSE were included in the institutional investor sample frame.

The King IV Report defines a board of directors as a “structure that has primary accountability for the governance and performance of a company” (IoDSA, 2016). Several sub-committees assist the board of directors in fulfilling their duties. The REMCO was of specific importance to this study. King IV defines CEOs and CFOs as the top-ranking employees in an organisation (IoDSA, 2016). Regarding the inclusion of directors serving on REMCOs and CEOs and CFOs, the researcher focused on organisations in the financial services sector with a primary listing on the JSE.

The financial services sector is regarded as a prominent and influential sector in South Africa (PwC, 2018a; 2019a). In PwC’s (2018a) remuneration trends report, it was reported that the average total guaranteed package (TGP) of executive directors of large market capitalisation organisations in the financial services sector increased by 15.5 per cent (R5 million) from 2016 to 2017. The financial services sector is receiving intense scrutiny on its executive remuneration policies and practices (Malope & Brown, 2018).

Banks and life insurance companies have the largest presence within the financial services sector (PwC, 2018a; 2019a). BusinessTech (2019b) reported that CEOs employed by South African banks are amongst the highest earning executives in the country. The researcher specifically paid attention to the CEOs, CFOs and REMCOs of selected listed banks and life insurance companies given their large representation within the local financial services sector. A further selection requirement regarding the executives was that they should have served as the organisation’s CEO or CFO during the period 2015 to 2018. This ensured that the researcher could investigate their opinions regarding the transition from King III to King IV.

After defining the sample, a researcher can employ probability or non-probability sampling techniques to select the relevant population elements that will be analysed (Rubin & Babbie, 2010). Probability sampling entails that every element within the population has a non-zero probability of being selected (Dhivyadeepa, 2015). As the elements are chosen at random, possible selection bias is removed (Zikmund *et al.*, 2013). When using non-probability sampling, the probability of each population element to be selected is unknown (Daniel, 2012). Non-probability sampling techniques often entail a selection process based on the researcher’s judgement and convenience (Dhivyadeepa, 2015). There is, thus, no component of randomness in non-probability sampling (Zikmund *et al.*, 2013). Although a researcher is able to

include the elements he/she wishes to study, care should be taken to minimise selection bias (Daniel, 2012).

Selection bias implies that the elements selected to be included in the sample are not truly representative of the population (Dhivyadeepa, 2015). Jugenheimer, Bradley, Kelley and Hudson (2010) stated that factors that either increase or decrease the chance of a population element being selected could create bias. The validity of the data is compromised if a researcher does not mitigate bias during the sample selection process (Dhivyadeepa, 2015).

For the purpose of this study, the researcher used a combination of two non-probability sampling techniques, namely judgement and snowball sampling. An expert's opinion and judgement form the basis of judgement sampling (Zikmund *et al.*, 2013). Experts who are familiar with the population can assist a researcher in selecting population elements that meet the sample requirements (Bhattacharyya, 2006). Judgement sampling is often used in qualitative studies when the researcher does not intend to make generalisations to a large population (Kothari, 2004). Judgement error is mitigated when a small sample is selected (Beri, 2008). Given his access to a wide corporate network and expertise within the local financial services sector, a co-CEO of a locally listed financial services company assisted the researcher in selecting and making initial contact with individuals that conformed to the sample definitions.

Snowball sampling entails that initial sample units provide information on other individuals that could possibly be included in the sample (Beri, 2008). This technique is often used when the researcher has difficulty in reaching possible sample units (Rubin & Babbie, 2009). As direct access to possible participants was limited, snowball sampling was a suitable technique for this study. Some potential participants who were approached stated that another individual might be more knowledgeable and provided the researcher with their referral's contact details. In other cases, participants asked the researcher's permission to invite another participant to the interview who could provide valuable insights pertaining to the study. Some participants also referred the researcher to other potential participants.

Semi-structured interviews were conducted with 12 representatives from 10 institutional investors. In addition, representatives from five organisations within the financial services sector were approached, namely three banks and two life insurance companies. Semi-structured interviews were conducted with two individuals from each

organisation, namely a director serving on the REMCO and either the CEO or CFO of each organisation. One respondent requested that the financial institution's head of remuneration co-participate in the interview. In addition, another respondent consulted the organisation's company secretary, prior to the interview, in order to provide detailed answers to certain questions.

3.3.1.2 Semi-structured interviews

Semi-structured interviews were conducted with the stakeholder groups described in Section 3.3.1.1 to obtain the required qualitative primary data. A combination of pre-defined and open-ended questions was used. This data collection method enables a researcher to gain a broad view of the research participants' beliefs and opinions pertaining to a specific topic (Smith, 1995; Zikmund, D'Alessandro, Winzar, Lowe & Babin, 2017). In the case of this study, focus was placed on director remuneration governance.

When conducting a semi-structured interview, an interviewer generally uses a document containing several topics and/or predetermined questions (Wilson, 2014). This data collection instrument is referred to as an interview guide. The interviewer has the flexibility to deviate from the interview guide to investigate areas that might emerge during discussions and probing questions can be employed, if necessary (Edwards & Holland, 2013). In contrast to quantitative data collection, qualitative techniques allow the interviewer to have more control over the quality of the information obtained and more meaningful data can be gathered (Galletta, 2013). It might, however, be challenging to analyse data that were obtained by asking probing questions, since not all participants are asked the same questions (Mitchell & Jolley, 2010).

The semi-structured interview guide (see Appendix B) commenced with biographical details of each interviewee and questions pertaining to the interviewee's employer. The remainder of the questions in the interview guide were based on remuneration-related literature and recommendations provided in the King III and IV Reports. The researcher categorised the questions based on the following topics: King IV application and disclosure, the functioning of the REMCO, non-binding advisory votes on remuneration, applicable legislation and the JSE listings requirements, shareholder activism and stakeholder engagements, and the future of remuneration governance.

Pertaining to reliability and validity of the instrument, it should be noted that certain questions were only applicable to a specific stakeholder group, as indicated in the

interview guide. The researcher consulted two industry experts who provided advice and recommendations pertaining to a draft version of the interview guide. After considering their feedback, the interview guide was finalised. Refer to Section 3.5.1 for more details on transferability and confirmability considerations.

The participants were contacted via e-mail to determine their ability and willingness to partake in the study. A brief overview of the research study and process was also provided to them. Once a participant responded that he/she was willing to participate in the study, a suitable date and time slot for a telephonic or personal interview was scheduled. Within five days before the interview, the researcher sent the consent form and semi-structured interview guide to each interviewee. The participants, hence, had sufficient time to prepare for their interview and familiarise themselves with the process. The duration of the interviews varied between 30 and 60 minutes.

3.3.2 Secondary data collection

Secondary research entails the collection of existing data to address the research problem at hand (McQuarrie, 2012; Zikmund *et al.*, 2013). Books, academic articles and accredited journals are examples of sources that are generally used to retrieve secondary data (Zikmund *et al.*, 2013). Advantages of secondary data collection include that the data are generally readily available and easily accessible (McQuarrie, 2012). Secondary data are, thus, typically less costly and time consuming to obtain and analyse than primary data (Wrenn *et al.*, 2007; Vartanian, 2011). However, researchers should consider that there might be a misalignment of purpose if the data were originally obtained to address an unrelated research problem (Hair, Celsi, Money, Samouel & Page, 2011). Another consideration is the datedness of secondary data (Wrenn *et al.*, 2007). The researcher is responsible to assess the quality, applicability and trustworthiness of secondary data (Wrenn *et al.*, 2007; Hair *et al.*, 2011; Boone & Kurtz, 2013).

A study's research problem and objectives are typically formulated by reviewing secondary data to establish a gap in the literature (Zikmund *et al.*, 2017). Pertaining to this study, the researcher commenced by formulating the research problem and objectives based on secondary sources on director remuneration. These sources were also consulted to compile the literature review (see Chapter 2). The employed secondary sources included academic journal articles, news articles, textbooks, relevant websites, and the King Reports.

Furthermore, the researcher obtained secondary data to investigate the extent to which selected locally listed banks complied with the director remuneration recommendations, as set out in King III and IV. Focus was placed on the organisations' remuneration reports that were included in their integrated reports. The integrated reports were obtained from the sample banks' websites.

3.3.2.1 Details on the population and sample

The population comprised all South African banks that were listed for one or more years on the JSE's banking sub-sector over the period 2015 to 2018. Absa, Finbond Group Limited (henceforth Finbond), Capitec, FirstRand, Nedbank, RMB Holdings Limited (henceforth RMB), and Standard Bank formed the population.

Judgement sampling (see Sections 1.5.3.1 and 3.3.1.1 for an explanation on this technique) was employed to compile a sample of the banks that were listed on the JSE for the entire study period. Five of the seven banks were included in the sample. Finbond was excluded due to the nature of the company's major banking subsidiary, Finbond Mutual Bank. While Absa, Capitec, Nedbank, RMB, and Standard Bank operate as commercial banks, Finbond Mutual Bank is licensed as a mutual bank by the Prudential Authority in South Africa (Finbond Mutual Bank, 2012). As Finbond Mutual Bank's operating rules, regulations and procedures are substantially different from those of the commercial banks, Finbond was thus excluded from this study's sample. RMB was also excluded as it is part of the control structure of certain components of FirstRand's portfolio (RMB Holdings, 2019). FirstRand was included in the sample, since the company operates a portfolio which includes several commercial banks.

The researcher focused on the transition from the King III Report to the King IV Report by comparing the banks' reporting on specific remuneration considerations (see Section 3.3.2.2) for the periods 2015-2016 and 2017-2018, respectively. This comparison allowed reflection on the extent to which the organisations reported on their application of the director remuneration recommendations in their remuneration reports. Conceptual content analysis was used for this purpose, as explained next.

3.3.2.2 Content analysis

Content analysis is commonly used by social scientists to obtain information from text or extracts in a consistent manner that allows exact reproduction (Drisko & Maschi, 2016). This specialised technique enabled the researcher to gain insight and broaden

her understanding regarding the phenomena under consideration (Krippendorff, 2004). A major disadvantage is the time-consuming and labour-intensive nature of this type of analysis (ibid).

A deductive content analysis approach entails that predetermined categories are used to systematically quantify the concepts, which are indicated by words or phrases (Bryman & Bell, 2015; Pandey, 2019). The systematic approach must be adequately described to allow other researchers to replicate it (Drisko & Maschi, 2016). Pandey (2019) described the approach as 'top-down' since it utilises existing, theoretically-based categories to guide the analysis. In contrast, an inductive approach commences by developing theories, which could potentially be linked to literature during a later phase. If inductive coding is used when conducting content analysis, the approach can be described as bottom-up (Pandey, 2019).

Pertaining to this study, deductive coding was employed to conduct conceptual content analysis. Babbie and Mouton's (2003) eight steps to conduct conceptual content analysis were employed. Step one entails that the researcher should establish the level of analysis by consulting existing literature and identifying applicable phrases and key words. Step two focuses on the number of concepts that should be coded. The third step revolves around the researcher's decision to code the mere occurrence of a key word or the frequency of its occurrence. During the fourth step, the researcher should decide how he/she will differentiate between concepts. In step five, the researcher should formulate rules that will be applied when coding the text. Step six entails the researcher's decision on how to handle irrelevant data. Step seven entails the actual coding of the data. During the final step, the researcher analyses the coded data (Babbie & Mouton, 2003).

The researcher consulted the King III and IV Reports to derive relevant considerations/aspects pertaining to the disclosure of director remuneration. Each aspect/consideration is linked to recommended practices mentioned in the latest two King Reports. Based on this material, the researcher then formulated and identified key words to conduct the coding. Table 3.2 provides a summary of the specific remuneration aspects that the researcher investigated and coded based on the King III and IV Reports (IoDSA, 2009; 2016).

The key words that are indicated in Table 3.2 were used individually and in conjunction, where applicable, to conduct word searches in the sample banks' remuneration

reports. The researcher accounted for the context in which each remuneration-related aspect was reported. Since several key words were used in various contexts, some of the key words were allocated to more than one aspect indicated in Table 3.2.

Dichotomous coding was employed by categorising the data into two units (Miller & Whicker, 1998) to allocate a disclosure score for each remuneration-related consideration. A disclosure score of 0 was allocated if a specific remuneration consideration was not mentioned within a particular bank's remuneration report. Alternatively, a disclosure score of 1 was awarded if the organisation reported on the specific remuneration consideration.

If a disclosure score of 1 was allocated for a specific remuneration consideration, the researcher accounted for the extent to which the bank reported on the specific consideration. A so-called extent of disclosure score of 1 was given if the remuneration aspect was only mentioned, an extent of disclosure score of 3 was awarded if the organisation provided some detail, and an extent of disclosure score of 5 was allocated if the specific aspect was extensively discussed. By employing these steps, the researcher could investigate the disclosure and extent of disclosure of the sampled banks pertaining to the King III and IV director remuneration recommendations over the periods 2015-2016 and 2017-2018, respectively.

It should be noted that certain remuneration considerations only obtained a disclosure score, as indicated in Table 3.2. It was in some instances not practical to allocate an extent of disclosure score if the reporting merely reflected whether or not a specific King aspect was met, for example whether the REMCO consists of majority NEDs. The footnote to Table 3.2 explains the allocation of only a disclosure score (indicated by *) and the allocation of both a disclosure and extent of disclosure score (denoted by #) to the respective remuneration considerations.

Table 3.2: King III and IV remuneration aspects and key words

| Consideration/Aspect | Recommended practice | Key words |
|-----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| King III Report | | |
| Fair and responsible remuneration for directors | <ul style="list-style-type: none"> • Remuneration policy should be in line with a company's strategy[#] • Remuneration policy should be linked to executive performance[#] | Director remuneration Executive remuneration Emolument Fair Responsible Remuneration policy Strategy Performance |
| The role and composition of REMCOs | <ul style="list-style-type: none"> • The role of the REMCO should be to assist the board on remuneration aspects* • The majority of the REMCO's members should be NEDs* | Remuneration committee Non-executive(s)/(NEDs) |
| Remuneration disclosure of each individual director and prescribed officer | <ul style="list-style-type: none"> • The remuneration report (included in the integrated report) should disclose the following: <ul style="list-style-type: none"> - NED fees (including base[#] and meeting attendance*) - Directors' paid benefits[#] - Prescribed officers' paid benefits[#] - Inclusion of bonuses[#] - Base pay policy[#] - Share incentive schemes[#] - STIs[#] - LTIs[#] - Usage of benchmarks[#] - Justification of above-average salaries^{1#} - Executive employment policies[#] - Retirement benefits[#] - Severance pay[#] | Non-executive(s)/(NEDs) Fee(s) Attendance Directors' benefit(s) Officers' benefit(s) Bonus(es) Base pay Guaranteed pay Fixed salary Share incentive scheme(s) Share-based scheme(s) Share award(s) Short-term incentives/(STIs) Long-term incentives/(LTIs) Incentive scheme(s) Incentive award(s) Benchmark(s)/benchmarking Market-related Retention Justification ¹ Employment policy/policies Employment contract(s) Service contract(s) Dilution Retirement benefit(s) Severance |

Table 3.2: King III and IV remuneration aspects and key words (continued)

| Consideration/Aspect | Recommended practice | Key words |
|----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| King III Report | | |
| Shareholder approval of remuneration policy | <ul style="list-style-type: none"> • Shareholders should cast a non-binding advisory vote on remuneration policy[#] • Executive directors' remuneration should be conformed in response to shareholders' vote[#] | Non-binding vote Advisory vote Shareholder approval Remuneration policy Shareholder(s) Voting/vote |
| King IV Report | | |
| Delegation within the governing body should promote independent judgement: Application to the REMCO | <ul style="list-style-type: none"> • The chairperson of the governing body should not be the chair of the REMCO* • Remuneration oversight should be allocated to a dedicated committee (or added to the responsibilities of another committee)* • Members of the REMCO should be non-executive members of the governing body* • The majority of the REMCO members should be independent NEDs* • The REMCO's chairperson should be an independent non-executive member* • The CEO should not be a member of the REMCO* • Disclosure related to the REMCO should include: <ul style="list-style-type: none"> - Overall role/responsibilities/functions of the committee[#] - External advisers/invitees who attended the meetings* - Key focus areas during the reporting period[#] | Chair(person) Governing body Remuneration oversight Committee Non-executive(s)/(NEDs) Independent Chair(person) Chief executive officer (CEO) Role Responsibility/responsibilities Function(s) Committee member(s) External adviser(s) Invitee(s) Meeting Attendance/attend Focus area(s) |
| Remuneration must be fair, responsible, and transparent to promote the achievement of the organisational objectives | <ul style="list-style-type: none"> • Remuneration report should include: <ul style="list-style-type: none"> - Background statement[#] - Remuneration policy overview[#] - Implementation report[#] • The remuneration policy should include provision for the following: <ul style="list-style-type: none"> - Fair executive remuneration in the context of overall employee remuneration[#] - Performance measures should support positive outcomes across the triple context in which the organisation operates and/or the capitals that the organisation uses/affects[#] | Background statement Overview Implementation report Remuneration policy Fair/fairly Employee remuneration Employee emolument Performance Outcome(s) Capital(s) |

Table 3.2: King III and IV remuneration aspects and key words (continued)

| Consideration/Aspect | Recommended practice | Key words |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>King IV Report</p> <p>Remuneration must be fair, responsible, and transparent to promote the achievement of the organisational objectives</p> | <ul style="list-style-type: none"> • Remuneration elements that should be set out in the remuneration policy include: <ul style="list-style-type: none"> - Base salary[#] - Financial benefits[#] - STIs[#] - LTIs[#] - Deferrals[#] - Payments on termination of employment[#] - Sign-on payments[#] - Retention payments[#] - <i>Malus</i> provision(s)[#] - Clawback provision(s)[#] - Fees of NEDs[#] | <p>Base salary/salaries Fixed remuneration Fixed emolument Total guaranteed pay (TGP) Benefits Award(s) Short-term incentives/(STIs) Long-term incentives/(LTIs) Deferral(s)/deferred Payment(s) Termination Retention Severance <i>Malus</i> Clawback Non-executive directors/(NEDs) Fee(s)</p> |
| <p>Shareholder approval of remuneration policy and/or implementation report</p> | <ul style="list-style-type: none"> • Voting on remuneration should include: <ul style="list-style-type: none"> - Non-binding advisory votes by shareholders on the remuneration policy[#] - Non-binding advisory votes by shareholders on the implementation report[#] • Measures that the board commits to in the event that the remuneration policy and/or the implementation report receives 25 per cent or more dissenting votes[#] • The following should be disclosed if the remuneration policy and/or implementation report received 25 per cent or more dissenting votes: <ul style="list-style-type: none"> - With whom the organisation engaged[*] - Manner/form of engagement[*] • Steps taken to address objection(s)/concern(s)[#] | <p>Remuneration policy Implementation report Non-binding Advisory Measure(s) Dissenting vote(s) Engage Voting/vote Engagement(s) Objection(s) Concern(s)</p> |

¹The justification of above-average remuneration was not determined by specific key words. The researcher applied her own discretion as to whether the organisation provided any detail on or explanation for above-average remuneration.

^{*} Only a disclosure score was allocated to each of these remuneration elements.

[#] An extent of disclosure score was allocated if a disclosure score of 1 was awarded. The allocated extent of disclosure scores of 1, 3 and 5 reflect the detail that a particular bank disclosed within their remuneration report and/or integrated report.

Source: Key words compiled by the researcher based on the IoDSA (2009; 2016)

As indicated in Table 3.2, three King III director remuneration considerations only received a disclosure score, while extent of disclosure scores were allocated to 17 King III considerations. Furthermore, pertaining to King IV, nine aspects only received a disclosure score while 22 extent of disclosure scores were applicable to the latest King Report.

After the scores were allocated for each of the respective remuneration considerations, the results were grouped together in themes for discussion purposes, for example REMCOs and voting. These themes were based on the remuneration aspects prevalent in King III and IV. Refer to Chapter 4 for a detailed discussion on the results.

In addition to the remuneration considerations set out in Table 3.2, the researcher made descriptive observations whilst conducting content analysis on the selected banks' integrated and remuneration reports. These observations were not scored, but were included in the discussion of the scored remuneration elements in Chapter 4.

3.4 DATA ANALYSIS

Data analysis entails the steps that researchers take to assess and understand raw data (Zikmund *et al.*, 2013). Descriptive analysis was employed to analyse the collected qualitative primary data and quantitative secondary data that were coded by means of content analysis. Thematic analysis was also conducted to detect themes in the primary data.

3.4.1 Descriptive analysis

Descriptive analysis could be conducted to describe the nature and characteristics of the collected data (Zikmund *et al.*, 2013; Kemp, Ng, Hollowood & Hort, 2018). Regarding the qualitative data, the researcher employed descriptive analysis to offer an overview of the interviewees' job description and industry experience.

The biographical details of the interviewees' employers were also summarised. Pertaining to the institutional investors, the size of each organisation's assets under management was considered, as well as whether the employer has been a signatory to the UN PRI and/or subscribed to CRISA at the time when the interview was conducted. With regard to the financial institutions, focus was placed on each organisation's approximate market capitalisation and whether the company adhered to the Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance at the time when the interview was conducted.

Descriptive analysis was also employed to analyse the scores of the content analysis (refer to Section 3.3.2.2). The disclosure and extent of disclosure scores are discussed in Chapter 4.

3.4.2 Thematic analysis

Thematic analysis is commonly used to detect themes in qualitative data (Boyatzis, 1998; Guest, MacQueen & Namey, 2012). Boyatzis (1998) defined a theme as a pattern that can be found in the collected information. A theme should, at least, define observation(s) and, at most, clarify aspects of the investigated phenomenon (ibid).

Inductive coding was employed to conduct the thematic analysis. This process entails that a researcher examines raw textual data to identify concepts that could be included in themes (Chandra & Shang, 2019). An inductive approach provides a rich description of the collected data (Braun & Clarke, 2006).

Inductive thematic analysis can entail open coding and line-by-line coding. Open coding is designed to convey the data in the form of concepts (Klenke, 2008). When conducting open coding, the data are segmented, and codes are attached to single words or short phrases. The codes are then grouped according to concepts and phenomena that are relevant to the research problem (Klenke, 2008). Instead of using pre-determined codes, the codes are developed and modified during the coding process (Maguire & Delahunt, 2017). Line-by-line coding entails that every line of the written data is coded (Charmaz, 2006). This coding method assists a researcher in recognising implicit concerns and explicit statements. The process of line-by-line coding is simplified by breaking the data up into components (Charmaz, 2006).

For the purpose of the study at hand, the researcher transcribed the semi-structured interviews, and followed the six steps thematic analysis approach stipulated by Braun and Clarke (2006). Table 3.3 provides an overview of the six steps, as well as how each step was executed in the context of this study.

Table 3.3: Explanation and application of the thematic analysis approach

| Step | Explanation | Application |
|-------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Becoming familiar with the data | The researcher must be acquainted with the data to comprehend the depth thereof. 'Active' and 'repeated' reading of the entire dataset assists the researcher to identify possible initial patterns. | The researcher transcribed the recorded interviews. She then re-read the transcriptions several times and made notes of possible patterns. |
| 2. Generating initial codes | This step entails the preliminary coding of 'interesting' (applicable) features within the raw data that can, at a later stage, be described in a meaningful way within the context of the research phenomenon. It is advisable to work systematically through the data and include as many codes as possible to ensure thorough analysis. | The researcher used the notes of possible patterns to generate initial codes. An open coding technique was employed based on the research problem and objectives. The researcher then coded segments of the transcribed text that seemed relevant and, specifically, addressed the research problem and objectives. |
| 3. Searching for themes | Once all the potential codes have been detected, the researcher must categorise the codes to investigate possible themes and/or sub-themes that emerge. It should be noted that no coded data should be discarded at this stage. | By using various highlighters and sticky notes, the researcher categorised the initial codes into broad themes. Several codes formed a clear connection, which resulted in an overarching theme. The researcher used various colours to identify codes that were linked to one another. The themes were still quite descriptive to show patterns between the codes. |
| 4. Reviewing themes | The list of possible themes is revised to form clear distinctions between the themes, whilst ensuring meaningful cohesion. There are, thus, two levels of reviewing and refinement. The first level entails revising the coded data extracts by reading all the collated extracts for each theme to confirm that there is a coherent pattern. The second level considers the entire dataset and focuses on the validity of the individual themes. Themes could be eliminated or combined into more than one theme to ensure that at the end of this phase, there are clear themes to describe the collected data. | The previous step's preliminary themes were re-analysed. The researcher re-considered whether the themes were supported by the data. She also considered whether there were coherent patterns prevalent between the themes, and if they made sense in the context of the overall research study. The researcher also considered overlaps in themes to decide whether there are underlying sub-themes or if certain themes should be combined. |
| 5. Defining and naming themes | During this phase, the researcher identifies the 'essence' of each theme. This is achieved through a detailed analysis of the themes and by determining the particular sets of data that capture each theme. | The researcher provided descriptive titles for each theme and sub-theme. The researcher also wrote a short overview and explanation of each theme. Furthermore, several direct quotes of the participants were identified that could be included per theme. |
| 6. Producing the report | The final stage of analysis consists of writing the research report. The information provided, as well as the conclusions formed, should address the research problems and objectives. The researcher is encouraged to include extracts of the data and refer to existing literature to ensure that a compelling argument is made. | The researcher used direct quotes from the interviews to complement the themes in the results and conclusions chapters. In some cases, the researcher also referred to relevant literature to strengthen the participants' views on certain topics or provide an alternative view. |

Source: Adapted from Braun & Clarke (2006)

3.5 TRUSTWORTHINESS OF THE DATA

Trustworthiness refers to the accuracy of the collected data (Wallace, 2013). In the following two sub-sections, details are provided on the measures to ensure the trustworthiness of the qualitative and quantitative data, respectively.

3.5.1 Transferability and confirmability of the qualitative data

The extent to which the qualitative findings can be generalised to other contexts or instances, is known as transferability (Liang, 2013). A researcher can enhance transferability by adequately describing the research context and providing sufficient details of the individuals that were investigated (Bryman & Bell, 2015). It should be noted that a researcher cannot specify the context(s) to which the data can be applied, but can only provide details related to the time and circumstance when the data were collected (Lincoln & Guba, 1985; Schwandt, 2014). It is the responsibility of the individual interested to transfer the data to another context to contemplate whether it could possibly hold true in his/her investigated situation (Lincoln & Guba, 1986; Coghlan & Brydon-Miller, 2014).

Pertaining to transferability in this study, the researcher aimed to clearly describe the research context. Pertinent details on the stakeholders that were included in the study, as well as those that were excluded, were provided in Sections 1.2.4, 1.5.3.1, and 3.3.1.1. Precise definitions for each sample group were also stipulated.

Confirmability revolves around the researcher's objectivity and whether the opinions of the research participants have been accurately reflected (Liang, 2013). Guba (1981) and Schwandt (2014) recommend triangulation as a technique to enhance confirmability. Triangulation entails the use of a mixed methods approach to cross-check the trustworthiness of the data (Wallace, 2013). With regard to the study at hand, qualitative and quantitative data were collected and analysed (refer to Sections 1.5.2, 3.2.2.1, 3.2.2.2 and 3.2.2.3).

The researcher used a form of peer debriefing. This process entails that (an) external individual(s) reviews the data and/or research process (Creswell & Miller, 2000). It is recommended that the debriefer should be experienced in, and knowledgeable of, the phenomena under investigation (Lincoln & Guba, 1985; Creswell & Miller, 2000; Forister & Blessing, 2019). The researcher consulted several experts. Firstly, a corporate governance expert was consulted to gain insight into the research process. Specific focus was placed on the sample descriptions. An expert on the King Reports

thereafter assisted the researcher in formulating the questions included in the interview guide to ensure their relevance. Lastly, the researcher discussed the results with an individual with prior experience as a CEO and REMCO member of both a financial services institution and an asset management firm in an attempt to enhance the practical significance of the reported findings.

3.5.2 Reliability and validity of the quantitative data

The extent to which the results of a study can be repeated, is referred to as reliability (Carmines & Zeller, 1979; Andres, 2012). A main concern is the consistency of allocated scores if the research instrument is applied by other researchers (Thyer, 2010; Bryman & Bell, 2015).

The test-retest approach can be used to enhance the reliability of the results. This approach entails testing the similarity of the results if the instrument is administered twice (Thyer, 2010). If the scores remain stable, the researcher can regard the instrument as reliable. Inter-coder reliability is another reliability test. This form of reliability refers to whether the same results are obtained when identical text is coded by various coders (Weber, 1990; Hassan & Marston, 2019). A measurement instrument is regarded as reliable if there is a high correlation coefficient (ibid). A third form of reliability that is frequently employed, is internal consistency (Carmines and Zeller, 1979). Litwin (1995) describes internal consistency as an indicator of how well the divergent items measure the same matter. Cronbach's alpha, which measures inter-item correlation, is the most popular test for internal consistency (Hassan & Marston, 2019).

Pertaining to this study, the content analysis and dichotomous coding were based on the remuneration principles and guidelines set out in the King III and IV Reports (refer to Table 3.2). The researcher accounted for the context in which the key words were used in each remuneration report. To further enhance reliability, the researcher employed the discussed test-retest approach. Once all the scores were allocated per remuneration report, the researcher reviewed the scores to ensure consistency in the coding process.

Guba (1981) stated that reliability is a precondition for validity. The extent to which the researcher is truly measuring what he/she intended to measure, is known as validity (Bryman & Cramer, 1996; Thyer, 2010). There are three common types of validity, namely criterion validity, construct validity, and content validity (Hassan & Marston,

2019). Criterion validity refers to the association between a measure and an alternative, independent measure of the same construct (Farmer, McGuffin & Williams, 2002). An instrument hence is considered to have criterion validity if scores on a scale correlate highly with external criterion scores (Schneider, Whitehead, LoBiondo-Wood & Haber, 2016). Construct validity alternatively focuses on whether a measure performs in line with theoretical expectations (Carmines & Zeller, 1979). If the performance of the measure is in accordance and consistent with theoretically derived expectations, it is deduced that the measure is construct 'valid' (Carmines & Zeller, 1979; Hassan & Marston, 2019). Lastly, content validity is also known as face validity since it relies on subjective judgements from professionals to determine whether the instrument measures what it is intended to measure (Hassan & Marston, 2019).

Relating to the study at hand, focus was placed on content validity. The researcher consulted a research methodology expert to ensure the validity of the steps taken to conduct the content analysis.

3.6 ETHICAL CONSIDERATIONS

Since human participants' views were obtained by conducting semi-structured interviews, attention to ethical considerations was imperative. The researcher lodged an application with DESC to receive ethical clearance before the data collection commenced. Ethical clearance was obtained (project number 9776).

When arranging an interview with each participant, the researcher provided sufficient information on the study. The participants were informed that participation was entirely voluntary and anonymous. Furthermore, participants were notified that withdrawal could take place at any time throughout the research process, without any consequences for them.

Interviewees received the interview guide (Appendix B), as well as the consent form (Appendix A), at least five working days before the interview took place. By signing the consent form, the interviewees gave the researcher permission to use the obtained data. These documents were emailed to the participants prior to each interview to give them sufficient time to prepare for the interview and acquaint themselves with the process that was followed. Before the interview commenced, each interviewee had the opportunity to ask the researcher questions pertaining to the consent form.

Consent to record the interview was also obtained before commencing with the interview. One interviewee preferred that the interview should not be recorded. The

researcher made substantial notes during the interview. Confidentiality was ensured by storing the data on a password protected computer to which only the researcher has access.

3.7 SUMMARY

There is limited information available on the extent to which reporting on director remuneration has improved since the King IV Report was published. A descriptive research strategy enabled the researcher to explore and determine perceived shortcomings, in addition to positive aspects regarding the application of the King IV guidelines by selected locally listed financial services institutions. A mixed methods approach was used since the strengths of both qualitative and quantitative data collection enhanced the researcher's understanding of the investigated phenomenon.

A combination of snowball and judgement sampling was used to compile the sample for the qualitative data collection. Semi-structured interviews were conducted with key stakeholders, namely institutional investors, REMCOs and CEOs/CFOs of financial services companies. The semi-structured interview guide gauged their views regarding the King IV director remuneration recommendations.

The interviews were transcribed and analysed by means of descriptive and thematic analysis. Furthermore, conceptual content analysis was used to quantify the content of the remuneration reports of selected listed banks over the periods 2015-2016 and 2017-2018, to account for their reporting on the King III and IV director recommendations. The results of the descriptive and thematic analyses are discussed in Chapters 4 and 5, respectively.

CHAPTER 4

RESULTS OF THE CONTENT ANALYSIS

4.1 INTRODUCTION

Remuneration governance is an important facet of corporate governance (Kostyuk *et al.*, 2016). To regulate remuneration governance, several jurisdictions are introducing director remuneration guidelines in their corporate governance codes, including South Africa. As discussed in Sections 2.5.1 and 2.5.2, King IV expanded on recommendations regarding director emolument and provided more definite disclosure requirements than King III (IoDSA, 2016).

Two secondary objectives were formulated to examine to what extent selected listed organisations in the local financial services industry complied with the director remuneration guidelines, as set out in the King III and IV Reports, over the periods 2015-2016 and 2017-2018, respectively. As explained in Sections 3.3.2.1 and 3.3.2.2, content analysis was used to compile disclosure and extent of disclosure scores for the respective financial services organisations. These scores are discussed in the following section.

4.2 EXTENT OF REPORTING ON DIRECTOR REMUNERATION

As explained in Section 3.3.2.2, the researcher identified director remuneration considerations in the King III and IV Reports, as well as the related recommended practices that were considered during the content analysis. Table 3.2 provides a summary of the remuneration aspects that the researcher investigated, as well as the key words that were used to conduct word searches in the remuneration reports of the considered financial services institutions, namely Absa, Capitec, FirstRand, Nedbank and Standard Bank.

As discussed in Section 3.3.2.2, the researcher, firstly, employed dichotomous coding to compile disclosure scores. A disclosure score of 1 was allocated if the considered bank mentioned a specific remuneration consideration in their remuneration report. Alternatively, a disclosure score of 0 was allocated if a specific remuneration consideration was not mentioned in the bank's remuneration report. Secondly, the researcher accounted for the extent to which the considered bank reported on a specific emolument consideration, permitting that a disclosure score of 1 was awarded. An extent of disclosure score of 1 was assigned if the remuneration aspect was only

mentioned, an extent of disclosure score of 3 was allocated if some detail was provided, and an extent of disclosure score of 5 was awarded if the remuneration aspect was extensively discussed.

The following sections will provide details pertaining to the disclosure and extent of disclosure scores applicable to the respective King III and IV remuneration considerations indicated in Table 3.2.

4.2.1 Information regarding remuneration policies and reports

The connection between the various banks' remuneration policies and their strategies and performance measures will now be explained. Information will also be provided on their three-part remuneration reports.

4.2.1.1 The link between the remuneration policy and company strategy

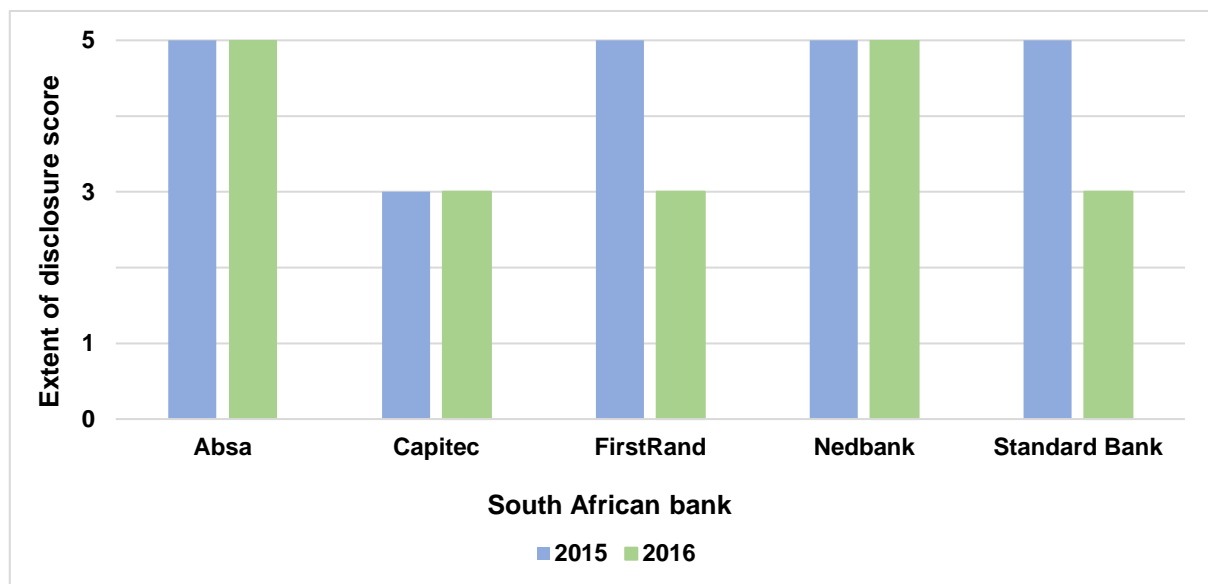
King III stated that a remuneration policy should be in line with the company's strategy. Furthermore, organisations should link their remuneration policies to executive performance (IoDSA, 2009). These two recommendations fall under the remuneration principle of fair and responsible director remuneration. All five banks received a disclosure score of 1 pertaining to these two recommendations in 2015 and 2016.

Furthermore, all banks received an extent of disclosure score of 1 based on the detail provided on whether the remuneration policy has been in line with their strategy. In some cases, the banks did not specifically mention a link between the remuneration policy and the company's strategy, but implied that there is a connection. For example, Nedbank reported that its remuneration policy aimed to attract, motivate and retain employees that can achieve its strategy (Nedbank, 2015; 2016). It is of critical importance how a remuneration policy supports the achievement of the company's strategy (Deloitte, 2016b). Organisations, however, find it difficult to effectively disclose how their remuneration policy is in line with their strategy (Deloitte, 2019b). This notion is supported by the low extent of disclosure scores that were allocated to this consideration for all sample companies. If an organisation's strategy and remuneration policy is not clearly aligned, it could lead to unmotivated employees and self-interested executive behaviour (Werner, Tosi & Gomez-Mejia, 2005).

4.2.1.2 The link between executive performance and the remuneration policy

Figure 4.1 indicates the scores that were allocated to reflect the extent to which the sample banks disclosed a link between their remuneration policy and executive performance in 2015 and 2016.

Figure 4.1: Extent of disclosure scores on linkage between remuneration policies and executive performance

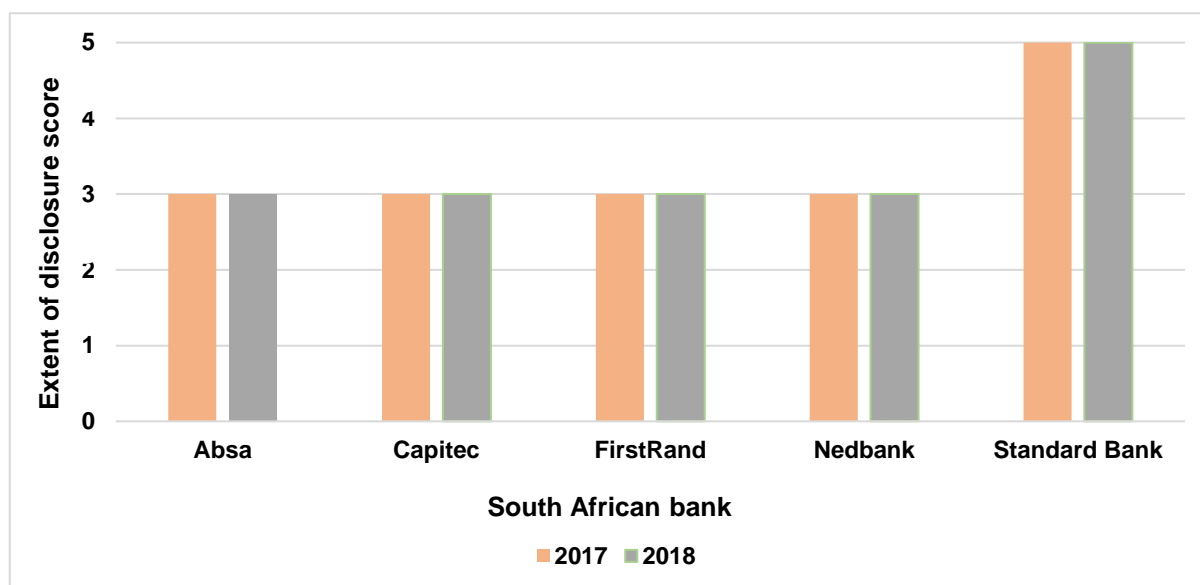


Source: Compiled by the researcher

Perusal of Figure 4.1 shows that Capitec was the only bank that did not obtain an extent of disclosure score of 5 in 2015. While FirstRand and Standard Bank received an extent of disclosure score of 5 in 2015, they only received an extent of disclosure score of 3 in 2016. They, hence, disclosed less detail on this consideration over time. These two organisations mostly used variable remuneration (such as incentives) and restrictive rewards to link executive performance to their remuneration policy.

The King IV Report suggested that executive remuneration should be fair and responsible in the context of overall employee remuneration (IoDSA, 2016). Figure 4.2 indicates the scores that were allocated to reflect the extent to which the sample banks disclosed information on this consideration in 2017 and 2018.

Figure 4.2: Extent of disclosure scores on fair and responsible remuneration in the context of overall employee remuneration



Source: Compiled by the researcher

As seen in Figure 4.2, the majority of the banks received an extent of disclosure score of 3 pertaining to the fair remuneration recommendation in 2017 and 2018. The sample banks hence gave due consideration to this King IV recommendation that is of critical importance given the country's high and growing wage gap (ILO, 2018).

Details are provided in Table 4.1 on the scores allocated to the sample companies based on the King IV recommendation that performance measures should support positive outcomes across the organisation's triple bottom line and/or six capitals (IoDSA, 2016).

Table 4.1: Scores based on performance measures linked to the triple bottom line and/or capital sources

| Score | Disclosure score | | Extent of disclosure score | |
|---------------|------------------|------|----------------------------|------|
| | 2017 | 2018 | 2017 | 2018 |
| Bank | | | | |
| Absa | 1 | 1 | 3 | 1 |
| Capitec | 0 | 1 | 0 | 1 |
| FirstRand | 1 | 1 | 1 | 1 |
| Nedbank | 1 | 1 | 3 | 3 |
| Standard Bank | 1 | 1 | 3 | 5 |

Source: Compiled by the researcher

Perusal of Table 4.1 shows that Capitec did not disclose any information on this consideration in 2017. The other banks mentioned the IIRC's (2013) six capitals (financial, manufacturing, intellectual, human, social and relationship and natural

capital). The majority of them provided more information on this recommendation in 2017 than in 2018.

As discussed in Section 2.5.4, the value that an organisation creates (or destroys) is measured by assessing to what extent the organisation exhausts the six capitals (IIRC, 2013; Thomson *et al.*, 2018). By disclosing details on the link between remuneration and the six capitals, stakeholders' understanding of the organisation's activities can improve. More attention should, thus, be given to disclosure on this King IV recommendation, since it encourages governing bodies to focus on a broader spectrum of considerations beyond the mere link between remuneration and financial performance (Deloitte, 2017a). The IIRC's (2013) framework is principle-based, which could provide some insight into the low extent of disclosure scores evident in Table 4.1. Since the principle-based framework does not prescribe standards for achieving integrated reporting, organisations require clearer guidelines on how to report in terms of the six capitals, specifically the pay-performance link (SAICA, 2015).

4.2.1.3 Three-part remuneration report

Prior to the publication of King IV, organisations disclosed remuneration information in several parts of their integrated reports. The King III Report recommended that a remuneration report should be included in the annual integrated report (IoDSA, 2009). The researcher, however, observed that several of the considered banks did not follow a structured process when disclosing King III's remuneration items (see Table 4.3 for the extent of disclosure scores based on King III). Stakeholders likewise complained that it was challenging to review organisations' remuneration policies and emolument levels given the lack of a standardised approach prior to the publication of King IV (PwC, 2018a). The considered five banks complied with the three-part remuneration recommendation by presenting a three-part remuneration report in 2017 and 2018, resulting in the allocation of disclosure scores of 1. Table 4.2 provides details on the extent of disclosure scores allocated for the three-part remuneration report recommendation.

Table 4.2: Extent of disclosure scores on the three-part remuneration report

| Three-part remuneration report element | Background statement | | Overview of remuneration policy | | Implementation report | |
|----------------------------------------|----------------------|------|---------------------------------|------|-----------------------|------|
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Bank | | | | | | |
| Absa | 5 | 5 | 3 | 5 | 3 | 5 |
| Capitec | 3 | 3 | 3 | 5 | 3 | 5 |
| FirstRand | 5 | 5 | 5 | 5 | 3 | 5 |
| Nedbank | 5 | 5 | 5 | 5 | 5 | 5 |
| Standard Bank | 5 | 5 | 5 | 5 | 5 | 5 |

Source: Compiled by the researcher

In the first reporting year after King IV was published, the considered South African banks disclosed adequate (extent of disclosure score of 3) to considerable (extent of disclosure score of 5) details pertaining to their three-part remuneration reports (refer to Table 4.2). The majority of the banks received an extent of disclosure score of 5 pertaining to all three parts of their remuneration reports in 2018.

The researcher noted that the publication of the standardised three-part remuneration report (2017-2018) was more user-friendly than the spreading of remuneration information across the integrated reports during 2015 and 2016. Hooghiemstra, Flora and Qin (2017) found that remuneration reports that are more transparent and user-friendly result in more shareholders supporting the organisation's remuneration report. Therefore, these standardised, user-friendly reports ease shareholders' decision-making processes when considering whether to vote for or against investee companies' remuneration policies.

4.2.2 Remuneration elements disclosed in remuneration policies and reports

King III recommended that listed companies should disclose whether or not benchmarking was used in their remuneration processes (IoDSA, 2009). All five banks mentioned the usage of benchmarking in their 2015 and 2016 reports. Some of the banks disclosed that they used several independent salary surveys to benchmark their directors' emolument against the market. These surveys included those published by PwC Remchannel, Mercer, and Global Remuneration Solutions.

Furthermore, King III stated that organisations should provide justifications for above-average salaries (IoDSA, 2009). Absa and Nedbank ascribed the high emolument of certain directors to them being appointed to new positions within the reporting year. The reported emolument, hence, represents their remuneration for the full year (covering more than one position). Nedbank explained that one of their director's board

fee was relatively high due to the inclusion of his Nedbank Private Wealth fees of £38 000 in 2015 (Nedbank, 2015) and £39 000 in 2016 (Nedbank, 2016). FirstRand disclosed that two board members had comparatively higher fees since they are foreign-domiciled directors paid in US dollars (FirstRand Bank Group Limited, 2015). In 2016, FirstRand justified a director's considerable fee by stating that the disclosure of fees paid to the individual for services rendered to the group's Indian operations, were inadvertently omitted for the periods 2009-2015 (FirstRand Bank Group Limited, 2016). The 2016 fee included these omitted fees to adhere to reporting guidelines.

As explained in Section 2.3, the basic components of executive emolument packages include base pay, STIs, and LTIs. NEDs, however, typically only receive a fixed fee for their services and/or meeting attendance fees. The King III and IV Reports recommend that these components should be separately disclosed in companies' remuneration reports (IoDSA, 2009; 2016). King III and IV also suggested that organisations should disclose other important remuneration elements, for example, severance and retention payments (*ibid*). A summary of the disclosure of selected remuneration elements are provided in Tables 4.3 (based on King III) and 4.4 (based on King IV).

Tables 4.3 and 4.4 indicate that the considered banks disclosed adequate (extent of disclosure score of 3) to sufficient (extent of disclosure score of 5) details regarding their base pay policies for the entire period under investigation (2015-2018). However, when comparing the King III and King IV reporting periods, it is evident that the banks did not noticeably improve their disclosure on benefits allocated to directors. The content analysis revealed that all the banks disclosed adequate (extent of disclosure score of 3) to detailed information (extent of disclosure score of 5) on incentive awards (STI's, LTI's, share incentive schemes, and deferrals). The only exception was Absa that obtained an extent of disclosure score of 1 in 2016 (refer to Table 4.3). Shareholders are likely to cautiously monitor the allocation of incentives, since the aim thereof is to motivate executives to create long-term sustainable value (Phillips & Gully, 2014).

Pertaining to NED fees, Absa did not provide any information in 2016 and disclosed only limited information in 2017. All other banks disclosed moderate to extensive information pertaining to their NED fees in 2016 (refer to Table 4.3) and 2017 (refer to Table 4.4). In 2018, all the banks were awarded an extent of disclosure score of 5, reflecting that they offered extensive information on their NED fees (refer to Table 4.4).

Table 4.3: Extent of disclosure scores based on King III's remuneration elements

| King III | Absa | | Capitec | | FirstRand | | Nedbank | | Standard Bank | |
|------------------------------------|------|------|---------|------|-----------|------|---------|------|---------------|------|
| | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 |
| Remuneration element | | | | | | | | | | |
| Directors' paid benefits | 3 | 5 | 1 | 1 | 3 | 3 | 3 | 3 | 3 | 3 |
| Prescribed officers' paid benefits | 3 | 5 | 1 | 1 | 3 | 3 | 3 | 3 | 3 | 3 |
| Inclusion of bonuses | 5 | 5 | 3 | 3 | 5 | 5 | 5 | 5 | 5 | 5 |
| Base pay policy | 5 | 5 | 1 | 5 | 3 | 5 | 5 | 5 | 5 | 5 |
| Share incentive schemes | 5 | 5 | 3 | 3 | 5 | 3 | 5 | 5 | 5 | 5 |
| STIs | 5 | 5 | 3 | 5 | 3 | 3 | 5 | 5 | 5 | 5 |
| LTIs | 3 | 1 | 3 | 3 | 5 | 3 | 5 | 5 | 5 | 3 |
| Executive employment policies | - | 5 | 1 | 3 | - | - | 3 | 3 | 3 | 3 |
| Retirement benefits | 5 | 5 | 3 | 1 | 5 | 5 | 5 | 5 | 5 | 5 |
| Severance pay | - | 1 | 1 | 1 | 3 | 3 | 5 | 5 | 5 | 5 |
| NED fees | 5 | - | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |

Source: Compiled by the researcher

Table 4.4: Extent of disclosure scores based on King IV's remuneration elements

| King IV | Absa | | Capitec | | FirstRand | | Nedbank | | Standard Bank | |
|------------------------------------|------|------|---------|------|-----------|------|---------|------|---------------|------|
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Remuneration element | | | | | | | | | | |
| Base salary | 3 | 5 | 3 | 3 | 3 | 5 | 3 | 5 | 3 | 5 |
| Financial benefits | 3 | 3 | 3 | 1 | 3 | 5 | 3 | 3 | 3 | 5 |
| STIs | 3 | 5 | 3 | 5 | 3 | 5 | 5 | 5 | 5 | 5 |
| LTIs | 3 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Deferrals | 5 | 5 | 3 | 3 | 5 | 5 | 5 | 5 | 5 | 5 |
| Payments on employment termination | 3 | 5 | 3 | 3 | 1 | 1 | 3 | 3 | 3 | 3 |
| Sign-on payments | - | - | - | - | 1 | 1 | 3 | 3 | 3 | 5 |
| Retention payments | 3 | 5 | - | - | 3 | 5 | 1 | 3 | 3 | 3 |
| Fees of NEDs | 1 | 5 | 5 | 5 | 3 | 5 | 5 | 5 | 3 | 5 |
| <i>Malus</i> provisions | 1 | 5 | - | 1 | 1 | 5 | 1 | 3 | - | - |
| Clawback provisions | 1 | 5 | - | 5 | 3 | 5 | 3 | 5 | - | 5 |

Source: Compiled by the researcher

King IV suggested that organisations should disclose any provisions for pre-vesting forfeiture (*malus*) and post-vesting forfeiture (clawback) of emolument (IoDSA, 2016). According to Chiu (2015), *malus* and clawback provisions could encourage behavioural and cultural changes in the financial services industry. The majority of banks disclosed some information on these provisions in 2017 and 2018, as indicated by their extent of disclosure scores shown in Table 4.4.

The banks gave attention to *malus* by listing several events that would lead to incentives being forfeited, for instance, when there was reasonable evidence of misbehaviour or material error by the employee in question. Table 4.4, however, illustrates that Capitec and Standard Bank received a disclosure score of 0 pertaining to *malus* and clawback provisions in 2017. Standard Bank also did not mention any provision for *malus* in 2018. According to PwC (2018a), properly drafted *malus* and clawback provisions are essential to deter executives from taking questionable risks that are not in the best interest of the organisation. Furthermore, these provisions are a punitive measure that obliges executives to reimburse organisations where the individual's wrongdoing is uncovered (*ibid*). If these provisions are poorly formulated or not included in the remuneration policy, it could possibly be more difficult to hold executives accountable.

4.2.3 Disclosure considerations regarding remuneration committees

The King III Report suggested that the role of REMCOs should be to assist the board on remuneration aspects (IoDSA, 2009). All of the banks stated that the duty of their REMCO was to assist the governing body on remuneration-related considerations in 2015 and 2016. King III did not require further disclosure on the REMCO's function and hence the researcher only employed dichotomous coding in this regard.

The King IV Report recommends that organisations should disclose the roles and responsibilities of the REMCO, as well as the committee's key focus areas during the reporting period (IoDSA, 2016). All five banks received disclosure scores of 1 for these two recommendations in 2017 and 2018. Table 4.5 summarises the extent of disclosure scores pertaining to these requirements.

Table 4.5: Extent of disclosure scores for remuneration committees

| Recommended practice | Roles of the committee | | Key focus areas | |
|----------------------|------------------------|------|-----------------|------|
| | 2017 | 2018 | 2017 | 2018 |
| Bank | | | | |
| Absa | 3 | 3 | 3 | 5 |
| Capitec | 3 | 3 | 5 | 5 |
| FirstRand | 3 | 5 | 3 | 3 |
| Nedbank | 3 | 3 | 5 | 5 |
| Standard Bank | 3 | 3 | 5 | 5 |

Source: Compiled by the researcher

As shown in Table 4.5, the banks provided moderate (extent of disclosure score of 3) to extensive (extent of disclosure score of 5) details regarding the roles of their REMCOs. Furthermore, in most cases, the banks provided more details regarding their REMCO's focus areas during the reporting periods than the actual roles of the committee. In conjunction, disclosure pertaining to these two recommendations seems to have provided readers of the remuneration reports with sufficient insight into the functions of the considered REMCOs.

4.2.3.1 Committee composition

In line with a King III (IoDSA, 2009) recommendation, all five banks reported that the majority of their REMCO members were NEDs. Literature, furthermore, indicates that board members are generally assigned to a number of committees that are related to one another to facilitate information sharing (Chen & Wu, 2016). The researcher, therefore, recorded the other board committees on which the considered REMCO members served during the King III period under review (2015-2016). The most common committees on which they served were the audit and compliance committee, social and ethics committee, information technology committee, and risk and capital management committee. This information confirms regular interaction between various board committees in line with corporate governance literature. The REMCO could potentially be associated with the abovementioned committees due to their monitoring nature, which is similar to that of the REMCO (Chen & Wu, 2016). The IoDSA (2020) confirmed that management and several board committees, such as the audit committee and risk committee, provide input into the REMCO's deliberations. It is hence a logical decision to appoint members from these committees on the REMCO.

The oversight of remuneration of all the considered banks was also allocated to a dedicated REMCO during 2017 and 2018, as suggested by King IV (IoDSA, 2016). Other board committees on which the banks' REMCO members served during 2017 and 2018 included the audit and compliance committee, information technology

committee, social and ethics committee, risk and capital management committee, credit concentration risk committee, and transformation monitoring committee. Board members often serve on more than one committee due to them being knowledgeable in more than one field. Furthermore, governing bodies avoid the costs associated with information asymmetry between committees by assigning directors with expertise in more than one field to multiple committees (Chen & Wu, 2016). It is, hence, important that individuals with diverse skills and knowledge should serve on the REMCO, since a lack of expertise could lead to remuneration contracts that favour directors at the expense of shareholders (Jensen & Murphy, 2004).

The King IV Report, furthermore, recommends that all the members of the REMCO should be NEDs, with the majority being classified as independent (IoDSA, 2016). All five banks complied with these two King IV recommendations in 2017 and 2018. King IV, also, suggested that the chairperson of the governing body should not chair the REMCO (IoDSA, 2016). All banks complied and appointed independent chairpersons to lead their REMCOs. The CEOs of the banks were not members of the considered organisations' REMCOs. The chairperson of three banks' boards, however, was a member of the REMCO in both periods. The chairpersons of Absa's and Nedbank's boards were not members of the REMCOs, but were invited to the committees' meetings in 2017 and 2018, as discussed next.

4.2.3.2 Meeting attendance

The REMCO meeting attendance records were not coded during the content analysis, but the researcher made several descriptive observations. Committees are allowed to invite individuals, such as members of the executive management, to attend committee meetings as they could provide valuable information and insights regarding their areas of expertise and responsibilities (IoDSA, 2016). These invitees do not form part of the decision-making process through voting or resolutions. They merely contribute to deliberations before decisions are finalised (Financial Management Services Foundation, 2013).

The sample banks disclosed details pertaining to the individuals who were not REMCO members, but attended REMCO meetings by invitation during 2017 and 2018, as indicated in Table 4.6.

Table 4.6: Invited attendees of remuneration committee meetings

| Reporting year | Absa | Capitec | FirstRand | Nedbank | Standard Bank |
|----------------|-------------------------------------------------------------------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|-------------------------|
| 2015 | CEO, Chief: Human Resources. Executive Head of Reward | CEO, Executive for human resources | Executives attending committee meetings do so in an <i>ex officio</i> capacity | Group Chairman, CEO, COO, Group Executive: Human resources, Executive Head of Reward and Performance | Group CEOs |
| 2016 | CEO, Chief: Human Resources. Executive Head of Reward | CEO, Executive for human resources | Executives attending committee meetings do so in an <i>ex officio</i> capacity | Group Chairman, CEO, COO, Group Executive: Human resources | Group CEOs |
| 2017 | Board chairperson, CEO, Financial director, Head of reward, Chief executive: Human resources | CEO, Executive for human resources | CEO, Deputy CEO, Financial director, Group head of human resources and sustainability, Franchise CEOs | Board chairperson, CEO, COO, Executive for human resources | CEO, Executive director |
| 2018 | Board chairperson, CEO, Financial director, Head of reward, Chief executive: Strategic services | CEO, Executive for human resources, NED | CEO, Deputy CEO, Financial director, Organisational development executive, CEOs of operating businesses | Board chairperson, CEO, COO, Executive for human resources | CEO, Executive director |

Source: Compiled by the researcher

Although King III and IV suggest that the CEO should not be a member of the REMCO (IoDSA, 2009; 2016), all the banks invited the CEO to the REMCO meetings over the period under investigation as shown in Table 4.6. Other executives who were invited to the REMCO meetings include the chief executive of human resources, chief executive of strategic services, CFO, COO, and organisational development executive. Although these executive invitees might not vote on remuneration decisions, they could still influence discussions by sharing their views. The managerial power theory (discussed in Section 2.2.3) postulates that executives have considerable power over the governing body (Bebchuk *et al.*, 2001). Their presence might hence indirectly influence remuneration outcomes. It should be noted that FirstRand did not provide details pertaining to attendees invited to meetings held in 2015 and 2016 (FirstRand Bank Group Limited, 2015; 2016).

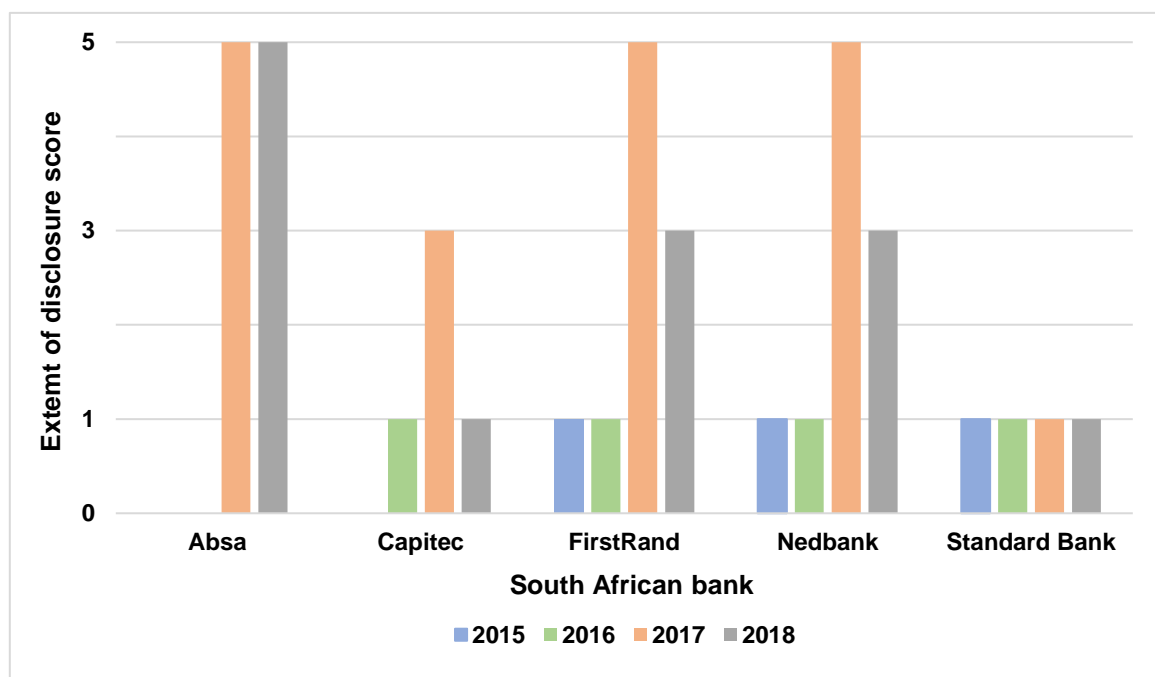
Other invited attendees included individuals from human resources who represent a wider stakeholder community. Based on the stakeholder theory (see Section 2.2.8), directors should continuously balance the competing interests of various stakeholders (Freeman, 1984; Abdullah & Valentine, 2009; Yusoff & Alhaji, 2012). Remuneration

arrangement negotiations should hence include discussions about the different interests of a variety of stakeholders (Baeten *et al.*, 2011; Gomez-Mejia *et al.*, 2005). These invitees could have provided valuable insights pertaining to, inter alia, fair and responsible director remuneration and rewarding performance linked to the six capitals.

4.2.4 Shareholder approval of remuneration policies

Non-binding advisory shareholder votes on director remuneration were suggested by King III, but listed organisations did not face any consequence if shareholders did not support the policy (IoDSA, 2009). King IV took this recommendation a step further by stating that organisations should provide measures that the governing body commits to if the company's remuneration and/or implementation report receives 25 per cent or more dissenting votes (IoDSA, 2016). The researcher observed a considerable improvement in disclosure on shareholder approval of remuneration policies over the duration of the study period (2015-2018). Figure 4.3 provides details on the disclosure of this consideration for the considered four years.

Figure 4.3: Disclosure on non-binding advisory votes on remuneration policies



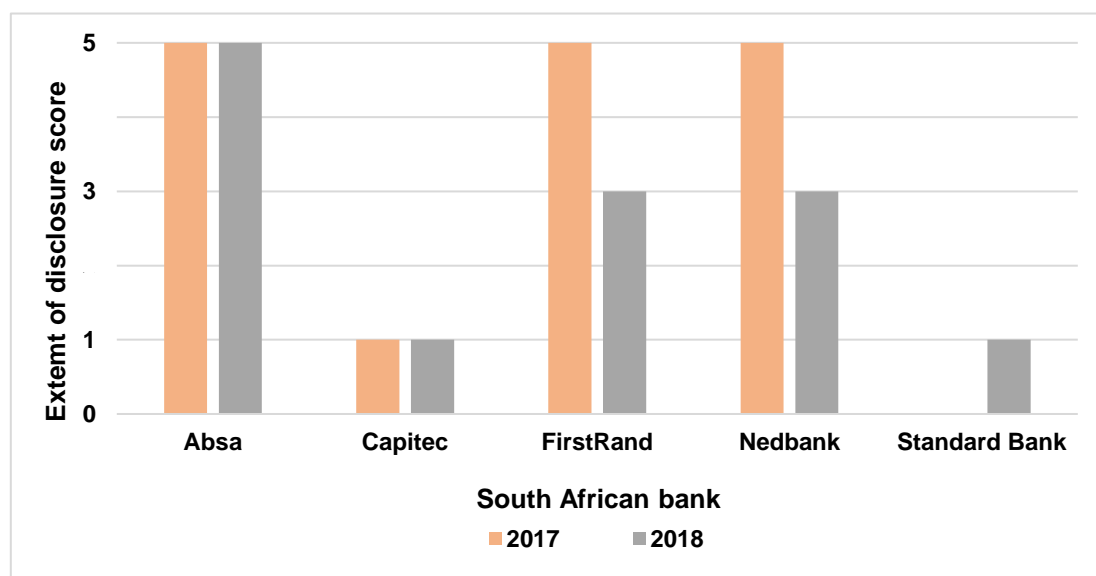
Source: Compiled by the researcher

The lack of extent of disclosure scores for Absa in both 2015 and 2016, and Capitec in 2015 (refer to Figure 4.3), show that they did not disclose whether their shareholders casted non-binding advisory votes on the companies' remuneration policies in the respective years. These two banks, however, stated that their NED fees structure was

subjected to shareholder approval. The other banks only briefly mentioned that their shareholders had the opportunity to cast a non-binding advisory vote on the organisation's remuneration policy during 2015 and 2016 (King III regime). No other information, such as the percentage of the shareholders that supported the remuneration policy, was provided. Figure 4.3, furthermore, indicates that Capitec, FirstRand, and Nedbank provided more details on non-binding advisory votes pertaining to the remuneration policies in 2017 (the first reporting period that King IV was applicable) than in 2018.

In 2015, only Standard Bank stated that they would give attention to the compilation of their executive director remuneration packages in response to shareholders' votes (Standard Bank, 2015). Although Absa received a disclosure score of 0 pertaining to reporting on votes casted by shareholders on their remuneration policy in 2015 and 2016, the organisation disclosed information in response to remuneration concerns raised by shareholders. In 2016, Capitec also provided information on how they intended to amend their emolument structures after reviewing their remuneration policy and taking shareholders' feedback into account. Capitec did not mention how they received the feedback from shareholders, but stated that the goal was to present a more 'progressive' remuneration policy to shareholders (Capitec Holding Limited, 2016). Figure 4.4 provides an overview regarding the extent of disclosure scores pertaining to non-binding advisory votes on the banks' implementation reports over the considered King IV reporting periods.

Figure 4.4: Disclosure on non-binding advisory votes on implementation reports



Source: Compiled by the researcher

As shown in Figure 4.4, Standard Bank was the only bank that was not awarded a disclosure score of 1 in 2017, as shareholder approval on the implementation report was not mentioned in its remuneration report. All the banks, however, received a disclosure score of 1 in 2018. Moderate to extensive details were reported by the majority of the banks.

Only one of the considered banks reported that they received more than 25% dissenting votes on their three-part remuneration report during the period under investigation. At Absa's 2017 AGM, 75.70 per cent of the company's shareholders supported the remuneration policy (Absa Group Limited, 2018). However, only 52.60 per cent of this bank's shareholders supported the implementation report at the 2017 AGM (ibid). Following these votes, Absa was the only organisation under investigation that was required to disclose the following: With whom the company engaged, the manner of engagement and the steps that the company took to address concerns. Absa provided detailed information on these aspects. Although the other banks did not receive 25 per cent or more dissenting votes, King IV recommends that remuneration policies should disclose the measures that the board commits to if such an event would occur. Table 4.7 shows the allocated extent of disclosure scores pertaining to this recommendation.

Table 4.7: Extent of disclosures scores on measures in the event of dissenting votes

| Year | Absa | Capitec | FirstRand | Nedbank | Standard Bank |
|------|------|---------|-----------|---------|---------------|
| 2017 | 3 | - | 1 | 1 | - |
| 2018 | 1 | 3 | 1 | 1 | - |

Source: Compiled by the researcher

As seen in Table 4.7, Standard Bank did not disclose any information pertaining to measures in response to 25 per cent or more dissenting votes in 2017 or 2018. Capitec, also, reported no information in this regard in 2017. The majority of the banks provided limited information on the measures that their respective boards committed to, in the event of obtaining less than 75 per cent votes in support of the remuneration policy and/or implementation report.

If organisations do not provide detailed plans to address dissenting votes, it could potentially result in shareholders not having an adequate platform to raise their concerns pertaining to remuneration. According to PwC (2018b), South African

organisations typically invite shareholders to participate in a conference call following dissenting votes on the remuneration policy. The usage of conference calling was, however, described as “cursory” and not necessarily resulting in meaningful engagements (ibid). If companies provided more detailed plans of the measures that their board commit to when obtaining votes against the remuneration policy and/or implementation report, shareholders would be more aware of the engagement process. This could, moreover, result in meaningful engagements between the REMCO and shareholders.

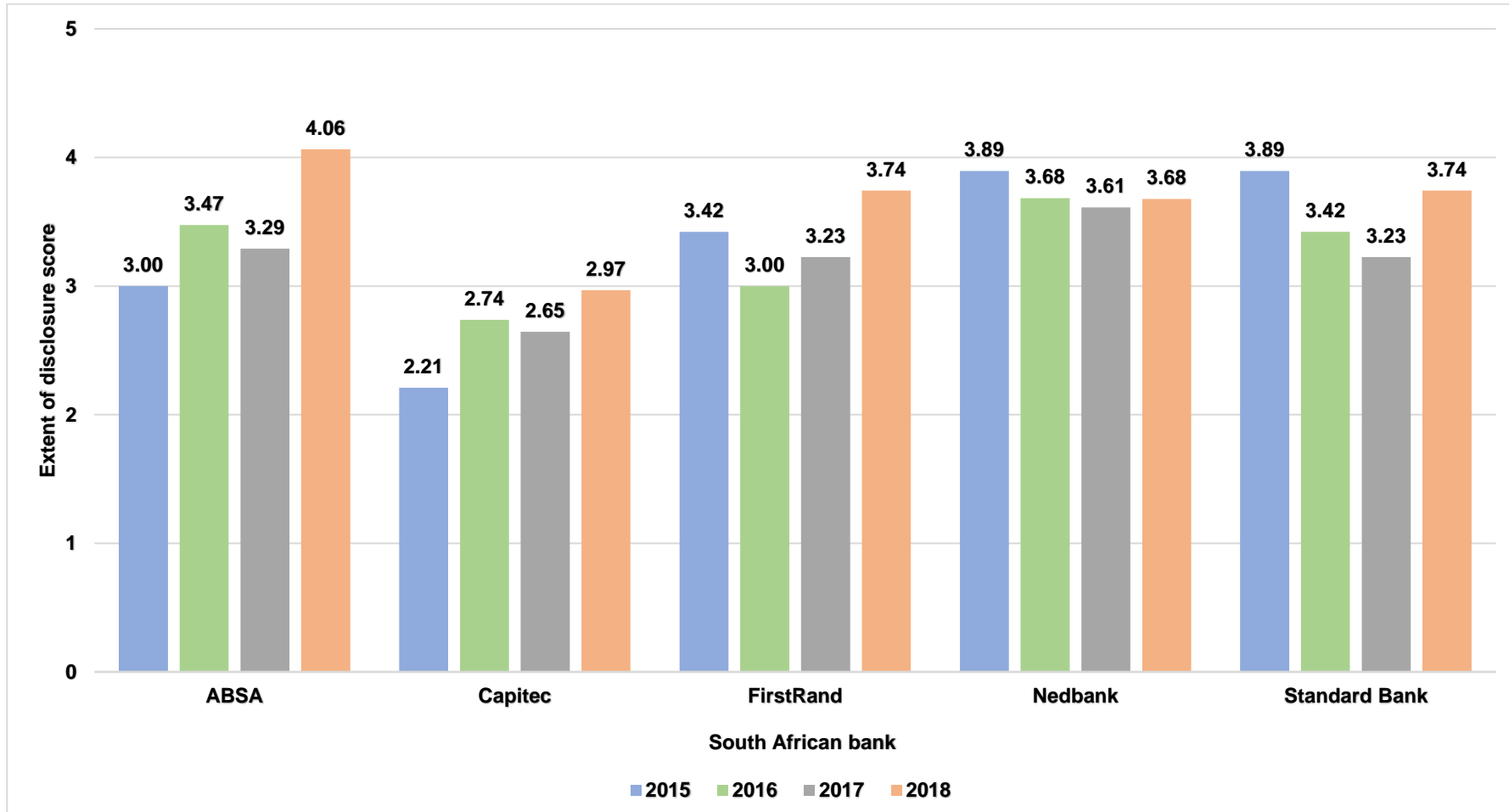
4.2.5 Overall compliance with the director remuneration guidelines

An overall average extent of disclosure score was calculated for each of the considered banks for each of the reporting years under investigation. The sample companies’ average scores were calculated based on the extent of disclosure scores allocated to the remuneration aspects set out in Table 3.2. The overall average extent of disclosure scores are presented in Figure 4.5 per bank for the years under consideration.

In the first reporting year after King IV was published, the considered South African banks’ average extent of disclosure scores (with the exception of FirstRand) were lower than the average scores of the respective companies for the final reporting year of King III (2016). This observation might be partly attributed to the sample companies still becoming accustomed to the more definitive King IV remuneration guidelines during 2017.

When analysing the average extent of disclosure scores in Figure 4.5, it is evident that the implementation of the King IV’s remuneration requirements resulted in more transparent remuneration disclosure than during the observed King III period. The majority of the banks improved their remuneration disclosure over the duration of the study period. Absa showed the largest improvement.

Figure 4.5: Average annual extent of disclosure scores per sample bank



Source: Compiled by the researcher

4.3 SUMMARY

To offer insight into the extent to which the considered banks reported on their application of the King III and IV director remuneration recommendations, the remuneration reports of five South African banks were analysed and compared over the periods 2015-2016 and 2017-2018. Attention was given to reporting on remuneration policies and reports, disclosure of individual remuneration elements, REMCOs and shareholder approval of remuneration policies.

The researcher noted that before King IV introduced the three-part remuneration report, organisations disclosed remuneration information in several parts of their integrated reports. It was, thus, challenging to review the organisations' remuneration policies and emolument levels. The three-part remuneration report considerably standardised remuneration disclosure. All five banks provided background statements, remuneration policies, and implementation reports in 2017 and 2018.

The largest improvement on remuneration disclosure pertained to the approval of remuneration policies by shareholders. Most of the banks considerably improved their disclosure on shareholders' non-binding advisory votes on the remuneration policies over the study period. One bank under investigation received more than 25 per cent dissenting votes on their implementation report in 2017 and provided the steps that they took to address shareholders' concerns.

The qualitative primary data, obtained through semi-structured interviews, were analysed by means of thematic analyses. The results thereof are discussed in the following chapter.

CHAPTER 5

RESULTS OF THE SEMI-STRUCTURED INTERVIEWS

5.1 INTRODUCTION

The primary objective of this study was to reflect on the application of the King IV director remuneration recommendations. As mentioned in Sections 3.3.1.1 and 3.3.1.2, semi-structured interviews were conducted to obtain the opinions of selected institutional investors, REMCO members, and CEOs/CFOs of selected JSE-listed financial services companies on a range of director emolument considerations. These stakeholder groups play a critical role pertaining to remuneration governance (IoDSA, 2016; Deloitte, 2017a). The interviews were transcribed, whereafter thematic analysis was conducted.

This chapter highlights the qualitative findings. An overview of the interviewees' biographic details and particulars pertaining to their employers are provided, followed by the results of the thematic analysis.

5.2 OVERVIEW OF PARTICIPANTS AND THEIR EMPLOYERS

In this section, the biographic details of the representatives of the institutional investor organisations and the participants serving as REMCO members and CEOs/CFOs in the local financial services sector will be provided, followed by details regarding the sample organisations.

5.2.1 Biographic details of the interviewees

Biographic details will firstly be provided on the representatives of institutional investors, followed by details on the CEOs/CFOs and REMCO members.

5.2.1.1 Representatives of institutional investors

The sample included 12 representatives of 10 local institutional investor organisations. These individuals were diverse regarding their industry experience and job descriptions, as shown in Table 5.1.

Table 5.1: Biographic details of representatives of institutional investors

| Participant | Industry experience (years) | Job description |
|---------------|-----------------------------|---------------------------------|
| Participant A | 20 | Portfolio manager |
| Participant B | 7 | Investment analyst |
| Participant C | 28 | CEO |
| Participant D | 12 | Risk assurance manager |
| Participant E | 13 | Portfolio manager |
| Participant F | 25 | Portfolio manager |
| Participant G | 15 | Chief Investment Officer (CIO) |
| Participant H | 28 | Head of responsible investment |
| Participant I | 14 | CEO |
| Participant J | 33 | Corporate governance consultant |
| Participant K | 27 | Chief Operating Officer (COO) |
| Participant L | 14 | Company secretary |

Source: Compiled by the researcher

The participants' industry experience ranged from seven to 33 years. On average, participants were involved within the industry for approximately 20 years. They had various job descriptions, ranging from portfolio manager, investment analyst to risk assurance manager. The institutional investor representatives were experts in the field of corporate governance. As such, they were well-informed on the King III and IV Reports and, particularly, the guidelines pertaining to director remuneration.

5.2.1.2 Representatives of financial services institutions

As discussed in Section 3.3.1.2, representatives from financial services institutions listed on the JSE were approached to participate in the study. Semi-structured interviews were conducted with two representatives from five organisations, namely a NED serving on the REMCO, and either the CEO or CFO. One executive, furthermore, requested that the organisation's head of remuneration should also participate in the interview. There were, thus, 11 representatives from five financial services organisations that participated in the study. The biographic details of these participants are provided in Table 5.2.

Table 5.2: Biographic details of representatives of financial services institutions

| Participant | Industry experience (years) | Job description |
|---------------|-----------------------------|-------------------------------------|
| Participant M | 21 | Head of remuneration |
| Participant N | 35 | CFO |
| Participant O | 47 | NED |
| Participant P | 23 | CEO |
| Participant Q | 26 | Independent NED (REMCO chairperson) |
| Participant R | 28 | CEO |
| Participant S | 30 | Independent NED |
| Participant T | 26 | CFO |
| Participant U | 30 | Independent NED (REMCO chairperson) |
| Participant V | 34 | CEO |
| Participant W | 40 | Independent NED (REMCO chairperson) |

Source: Compiled by the researcher

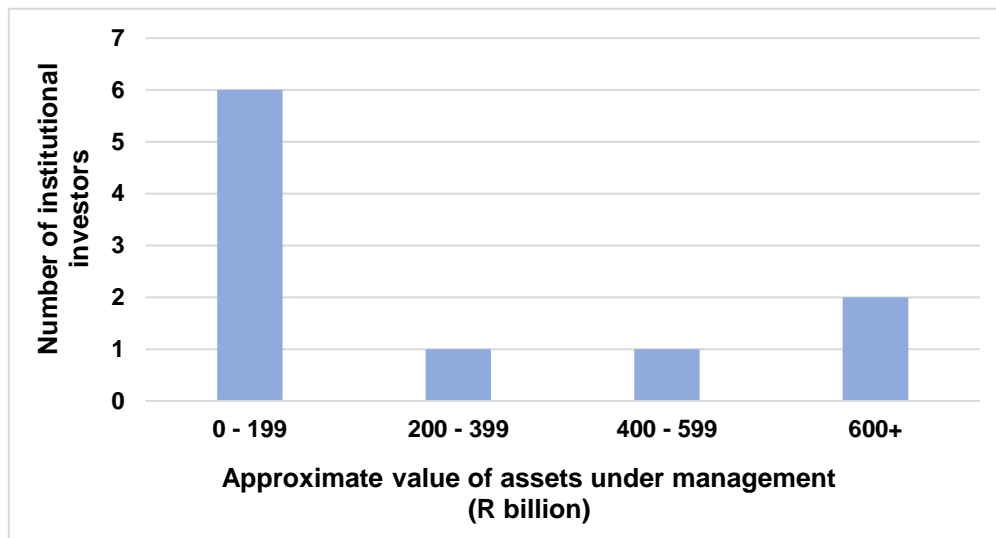
Perusal of Table 5.2 reveals that the interviewees' industry experience ranged from 21 to 47 years. The NEDs had an average of 35 years of industry experience. The CEOs and CFOs had, on average, had approximately 29 years of industry experience. Two CFOs and three CEOs were interviewed. Only one of the five NEDs was not classified as independent. This individual was the chairperson of the REMCO and was regarded as independent until 2017. This participant served on the REMCO as a NED at the time when the interview was conducted. Furthermore, three of the interviewees were the chairperson of their financial institution's REMCO. Based on their considerable experience as board and committee members, these individuals offered valuable insights on remuneration governance.

5.2.2 Details pertaining to the sample organisations

Details pertaining to the local institutional investors and financial services institutions that were included in the study's sample for the qualitative data collection will be provided in this section.

5.2.2.1 Institutional investor organisations

All of the institutional investor organisations conformed to the sample definition, set out in Section 1.5.3.1. They all invested directly in equities and bonds listed on the JSE. The size of their assets under management is shown in Figure 5.1.

Figure 5.1: Value of assets under management

Source: Compiled by the researcher

Perusal of Figure 5.1 confirms that the institutional investors that were included in this study consisted of small, medium and large entities according to the approximate size of their assets under management. The institutional investor organisations' approximate size of assets under management ranged between R500 million and R900 billion. The average size of assets under management was R268 billion.

The participants were requested to state whether the institutional investor organisation where they were employed, was a signatory to the UN PRI and/or subscribed to CRISA. As stated in Section 2.6.2, the UN PRI assists signatories to take ESG aspects, such as director remuneration oversight, into account when making investment decisions (PRI, 2019). CRISA aims to ensure that South African institutional investors incorporate sound corporate governance practices in their investment activities (IoDSA, 2011). Seven of the institutional investors were signatories to the UN PRI, and eight of the organisations subscribed to CRISA.

Two of the representatives stated that it is on their employers' agendas to become a signatory to the UN PRI and subscribe to CRISA in the near future. One of the participants explained that, although his employer was not formally a signatory at the time when the interview took place, ESG-considerations are "automatically ingrained" in their organisational processes given that their organisation is an asset manager. The participant, furthermore, mentioned that CRISA's reporting obligation is quite extensive which "necessitates significant time spent on reporting". Another participant indicated that his employer originated from an organisation that is a signatory to the UN PRI. The participant's employer conformed to the UN PRI, but is not yet a signatory. The

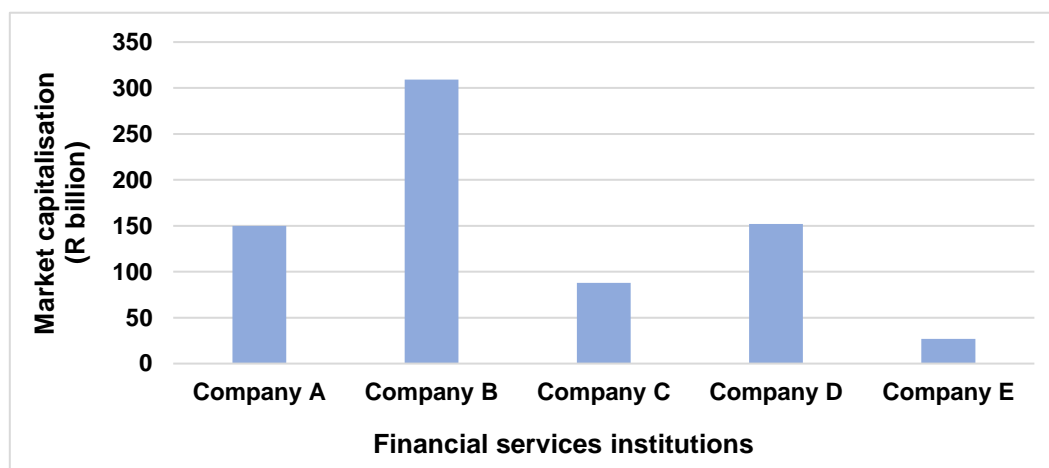
participant, however, stated that his employer is in the process of becoming a signatory, since the company had the capacity to do so at the stage when the interview was conducted.

One interviewee suggested that being a signatory to the UN PRI should not be a strategy to increase assets under management, but rather a manner to obtain “best practice ESG research, case studies, as well as the latest trends”. Two participants were, furthermore, of the opinion that being a signatory to the UN PRI and subscribing to CRISA spark a sense of investor confidence and “comfort” regarding responsible investment. It was mentioned that the “principles are critical drivers of long-term share prices” and it is, thus, of utmost importance to actively integrate the principles in investment decision-making processes.

5.2.2.2 Financial services institutions

The financial services sector is one of South Africa’s most influential sectors (PwC, 2018a; 2019a). All of the financial services institutions included in this study had a primary listing on the JSE, as set out in Section 3.3.1.1. Three banks and two life insurance companies were included in the sample. Figure 5.2 illustrates these organisations’ market capitalisation.

Figure 5.2: Market capitalisation of the financial services institutions



Source: Compiled by the researcher

The considered financial services institutions’ market capitalisation ranged between approximately R27 billion and R309 billion, as shown in Figure 5.2. Their average market capitalisation was approximately R268 billion. Financial services institutions of various sizes (and by implication financial resources) formed part of the study’s sample.

The researcher, furthermore, requested that the representatives of the financial services institutions should indicate whether their employers adhere to the OECD Principles of Corporate Governance. These principles provide organisations with a framework for sound corporate governance with the aim of achieving economic objectives and enhancing investor confidence (OECD, 2015). All of the financial services institutions adhered to these principles. Two participants mentioned the importance of the OECD's (2015) 'disclosure and transparency' principle, particularly relating to director remuneration.

5.3 RESULTS OF THE THEMATIC ANALYSIS

The semi-structured interviews were transcribed, whereafter Braun and Clarke's (2012) six steps thematic analysis approach was adopted to analyse the qualitative data, as described in Section 3.4.2. Details on the main themes and sub-themes that emerged are outlined in this section.

5.3.1 Application, disclosure and enforcement of the King IV director remuneration recommendations

King IV offers more definite disclosure requirements than King III to enhance remuneration governance in South Africa (IoDSA, 2016). Several sub-themes emerged on the application of the latest King guidelines, including views on the quality of director remuneration reports, opinions regarding the assistance of remuneration consultants and advisors, remarks on fair, responsible and transparent remuneration, and views on overall employee remuneration in comparison to director emolument.

5.3.1.1 Views on the quality of director remuneration reports

The three-part director remuneration report was introduced in King IV to improve accountability on board remuneration (IoDSA, 2016). The interviewees welcomed this addition to corporate reporting. It was mentioned that the prescribed format "standardises reporting frameworks across all companies" and "provides a robust, logical, and consistent blueprint for transparent disclosure of remuneration". The remuneration report was, furthermore, deemed an excellent platform for the chair of the REMCO to discuss the current remuneration practices of the company, and indicate how the organisation will incorporate broader societal issues into its remuneration policy in future.

Most of the institutional investor representatives perceived the three-part remuneration report as being more user-friendly than the format suggested in King III. However, the King IV format was described as quite “time-consuming” and “onerous” given the requested detail. A participant suggested that the future King V Report should provide more specific guidelines pertaining to key remuneration information that should be provided. This suggestion could possibly condense the remuneration report and assist analysts with limited time to make better verdicts regarding their voting decisions. More details on voting outcomes are provided in Section 5.3.3.2.

One of the financial institution representatives was of the opinion that the three-part remuneration report is “too technical”. Another financial institution representative stated that “there is a lot of mistrust if it [the three-part remuneration report] is too complicated and the average reader cannot understand it”. This comment is supported by Hooghiemstra *et al.* (2017) who referred to the strategy of ‘obfuscation’, where organisations attempt to disguise excessive emolument through ‘obscurely’ written remuneration reports that are less readable and vague. Hooghiemstra *et al.* (2017) found that UK director remuneration reports that are ‘obscurely’ written received higher voting dissent by ‘sophisticated’ investors. Sophisticated investors were identified as investors who tend to rely on analytical measures to process information and, hence, do not use any form of heuristics (*ibid*). The study at hand’s participants cautioned that a condensed version of the King Report should not have a negative impact on transparency in future.

An institutional investor representative commended the introduction of the single-figure remuneration disclosure requirement. King IV recommends that organisations should disclose a single, total remuneration figure for executives that includes all compensation received and receivable for the reporting period (IoDSA, 2016). The view was expressed that, prior to this implementation, “trying to work out the quantum, especially on LTIs, was nearly impossible...and you probably did not get to anywhere close to the right answer”. The interviewee suggested that it was near impossible to calculate the total amount (the so-called quantum) that executives earned. Anyango (2017), however, stated that the calculation of the single-figure remuneration holds major challenges for REMCOs due to the lack of clear and specific application guidelines. Deferred incentives and the complexity of calculating the specific amount at a certain stage, were highlighted.

The participants mentioned that there is still room for improvement to enhance the quality of director remuneration reporting. Two institutional investor interviewees specified that organisations should provide more details regarding the performance targets that are set for management. It was recommended that companies should not only explicitly publish the targets, but also the quantum if those targets are not achieved, roughly achieved or if the targets are significantly exceeded. Performance targets ensures that managements' interests are aligned to the objectives of the organisation, shareholders' interests are taken into consideration, and long-term shareholder wealth is maximised (Danthine & Donaldson, 2015; Bennett, Bettis, Gopalan & Milbourn, 2017). It is, therefore, of utmost importance that appropriate performance targets are incorporated into executive remuneration.

Two other participants suggested that the accuracy and completeness of remuneration reporting require attention. One of them, however, mentioned that this problem is not, per se, related to the King IV content. According to this participant, the problem rather lies with regulators, such as the JSE, who should enforce the reporting requirements more strictly. This view is elaborated upon in the next section.

5.3.1.2 Views on remuneration-related regulation

The Companies Act (No. 71 of 2008) and the JSE listings requirements largely regulate director remuneration in South Africa (Steenkamp *et al.*, 2019). The JSE amended its listings requirements in 2017 to include several King IV emolument recommendations (JSE, 2017). The Companies Amendment Bill of 2018, furthermore, states that organisations should provide a three-part director remuneration report in accordance with a King IV recommendation (Davies, 2018).

The majority of interviewees supported the inclusion of King IV's remuneration recommendations as part of local regulation. One participant stated that "if any company does not oblige" to the so-called three levels of remuneration governance guidance (the King IV Report, the Companies Act and JSE listings requirements), "they are putting their shareholders at risk". Two interviewees, moreover, stated that too many regulations on remuneration governance become onerous to adhere to and could potentially result in organisations only complying to the minimum reporting requirements. Madlela and Cassim (2017), however, remarked that the minimum standards of remuneration disclosure set out by the Companies Act (No. 71 of 2008) are unlikely to result in enhanced transparency on remuneration governance. An

interviewee likewise emphasised that organisations should strive to “enhance the accuracy, completeness, and consistency of what companies need to report on”, instead of merely aiming to meet the minimum regulatory requirements.

Several interviewees were of the opinion that remuneration governance should be enforced through legislation and other regulations (such as the JSE listings requirements), provided that it remains practical and relevant. A participant, furthermore, recommended that compliance with remuneration-related legislation should be limited to listed organisations and state-owned entities. This participant explained that other organisations might struggle to adhere to the regulatory burden and potentially do not have the resources to adequately implement compulsory remuneration requirements. Nieuwenhuizen (2019) agreed and identified the regulatory environment, legislation, and compliance as primary inhibitors of business growth for small and medium-sized enterprises in South Africa.

Other participants warned that listed organisations are also experiencing a large regulatory burden. One interviewee was of the opinion that regulators in South Africa are attempting to implement “first world practices into a third world country”. This participant explained that, although regulators should take international remuneration trends into consideration, they should not overlook the issues particular to the country, such as the large and growing pay gap. The comment was made that “the more legislation you put into it, the more administrative the task gets”. Madlela and Lehloenya (2016) emphasised that regulators should be mindful to balance regulation and flexibility to account for various organisations’ needs.

A participant argued that more legislation on remuneration will result in organisations applying less of their own “imprint onto their remuneration policy” in future. This interviewee stressed that an organisation’s culture should be evident within its remuneration policy. Klemash and Dettmann (2019), likewise, suggested that executive emolument and performance metrics should be linked to the cultural and behavioural considerations of an organisation to achieve long-term value creation.

5.3.1.3 Assistance offered by remuneration consultants

Consultants could play an important remuneration governance role by providing market-related information and guiding REMCOs when designing remuneration packages (Baker *et al.*, 1988). Some financial service representatives mentioned that specific circumstances warrant the use of consultants. They suggested that

organisations should regularly obtain insight pertaining to international emolument best practices and remuneration trends, to adequately prepare themselves for the eventual implementation thereof in South Africa. Other participants recommended the use of consultants when an organisation wants to introduce a new LTI and to assist in “translating strategy into metrics and targets”.

Other participants, however, ascribed generic remuneration reports to an over-reliance on advice offered by consultants. Three participants specifically referred to remuneration reports becoming less company-specific and more generic. A financial institution representative said that “the challenge is explaining more complex remuneration instruments... to capture a little bit more the complex business realities or where you specifically differ from similar companies in the market”. An institutional investor representative cautioned against the “cookie-cutter approach” whereby consultants do not take company-specific considerations into account, but rather provide all organisations with the same advice. Another representative of this stakeholder group stated that, “at some point as a shareholder you pay some of these committee members’ fees”. It was implied that REMCOs have essential duties to fulfil and should, hence, not outsource their responsibilities or over-rely on consultants.

The participants concurred that consultants are typically used to assist with pay benchmarking and to obtain information on international emolument best practices. One of the institutional investors explained that, although consultants provide a sense of “comfort” by assisting with benchmarking practices, their services “lead to inflation”. Inflation in this context was defined as above-average remuneration. Researchers concur that the usage of consultants and pay-benchmarking often lead to above-average executive emolument packages (Conyon, Peck & Sadler, 2009; Murphy & Sandino, 2010; Armstrong, Ittner & Larcker, 2012; Conyon, Hass, Peck, Sadler & Zhang, 2019).

Some organisations justify high emolument packages by stating that it is essential to ensure that top talent is attracted and retained (PwC, 2010; Mans-Kemp & Viviers, 2018). Given that South Africa has a limited pool of eligible governing body candidates, competent and diverse directors are in high demand (Viviers & Mans-Kemp, 2019). A participant remarked that it is often necessary to pay diverse individuals “higher to what is ultimately fair in relation to what others are being paid in the organisation”. More details on the notion of fair remuneration are provided next.

5.3.1.4 Remarks on fair, responsible and transparent remuneration

Principle 14 of the King IV Report states that it is the duty of the governing body to ensure fair, responsible and transparent remuneration practices that will achieve strategic objectives and positive outcomes over the short-, medium-, and long-term (IoDSA, 2016). In the context of the agency problem, several interviewees commended this principle for encouraging and enhancing alignment between stakeholders' and management's interests.

An institutional investor representative was of the opinion that responsible remuneration practices will drive three critical aspects which investors deem important: Firstly, governing bodies will be able to improve alignment between the interests of shareholders and management; secondly, "ensuring that management teams think long-term" and thirdly, prevent "egregious or excessive pay". Another institutional investor representative, likewise, indicated that his employer focuses on "long-term pay alignment, performance, and [that] the quantum is not excessive". This view is shared by Harber (2017), who reported that institutional investors have the duty to ensure that shareholders' and management's interests are aligned through incorporating appropriate incentives in executive pay structures.

An interviewee stated that fair and responsible remuneration is, per definition, "linked to the value that the executives have created for the company and that they effectively share in a part of the value". It is, therefore, important that measures such as extended vesting periods are implemented to guarantee that executives create long-term sustainable value, for themselves and shareholders. Researchers also suggest that clawback provisions and extended vesting periods for share options could be implemented to ensure that executives are long-term orientated (Chen, Greene & Owers, 2015). The potential threat that clawback provisions hold, discourages executive behaviour that leads to long-term negative consequences (Jebb & Henchoz, 2019). Hirsch, Reichert and Sohn (2017), however, warned against the unintended effects of clawback provisions, such as restraining executives from taking risk.

Participants mentioned that it is challenging to know where to draw the line when it comes to linking remuneration to value creation. Reference was made to the tenure of the CEO of Naspers, Mr Koos Bekker. During his tenure, Bekker decided not to accept a salary, bonus or pension, but was rather compensated through share options that vested over time (Fin24, 2015). Bekker's options eventually resulted in a gain of

approximately R15 billion. Bekker claimed that the options aligned his and the organisation's interests (ibid). According to a participant, shareholders were initially in favour of this arrangement. This participant, however, stated that, in hindsight, the quantum that Bekker received could have been perceived as excessive even though he created considerable value for Naspers.

The King IV Report, furthermore, suggests that executive pay should be fair relative to overall employee remuneration. The interviewees supported the notion that executive remuneration should be fair throughout the entire organisation. They were, however, sceptical as to whether the King IV recommendation will succeed in addressing wage inequality in South Africa, seeing that it is the country with the highest wage gap globally (ILO, 2018). PwC (2020a) confirmed that, although multiple South African REMCOs have indicated their commitment towards fair, transparent, and responsible remuneration, the income disparity in South Africa continues to increase.

Interviewees offered several suggestions to narrow the wage gap. Companies could, for instance, offer financial education to employees to equip them to optimally manage their finances. Companies could also assist employees to study further. The view was expressed that the investor community could, furthermore, contribute to narrowing the wage gap by investing in "education programmes and high social impact company start-ups that have the potential to generate significant new jobs".

Pertaining to pay equality and equity, two participants referred to "equal pay for work of equal value" and to evaluate roles within an organisation based on their "complexity and accountability". McGregor and Dekker (2017), likewise, recommended that employers should ensure that employees are not compensated differently for work of equal value on the basis of their disability, race, and/or gender. In similar vein, another interviewee referred to equality versus equitability. This participant was of the opinion that remuneration arrangements should not, per se, be equal, but should rather be equitable. This notion was explained by stating that "equitable is a much better representation of the term fair than equal". All individuals within a company do not provide equal efforts or contributions to create value – as such, they cannot expect equal pay.

5.3.1.5 Linking executive emolument to sustainability considerations

All of the interviewees were of the opinion that executive remuneration should be linked to positive outcomes across the triple bottom line context in which the organisation

operates and/or the six capitals which affect a company's activities. A participant suggested that the King IV Report is forcing organisations to consider prominent issues, in particular inequality, within South Africa through recommendations relating to the triple context and the six capitals. Focus is, thus, not only placed on financial incentives in King IV, but on a broader stakeholder base (IoDSA, 2016). In this context, a participant remarked that organisations should “maximise shareholder value, but not to the detriment of the society”.

Another participant suggested that the social and ethics committees should assist the REMCO to ensure that remuneration is linked to the triple context and the six capitals. Abdelmotaal and Abdel-Kader (2016) found that organisations that introduced a social and ethics committee or sustainability committee, are more likely to incorporate sustainability incentives in executive emolument contracts. In turn, executives are more likely to effectively implement sustainability practices if their remuneration packages are tied to sustainability incentives.

A participant added that “the effectiveness of the board as a collective should be assessed and evaluated based on the company's positive contribution towards the 3 Ps approach [profit, planet and people]”. It was, hence, suggested that a balance should be created between remuneration and performance evaluation criteria linked to the ‘3 Ps’ approach. Maas (2016) and Coombs and Gilley (2005) reported that the inclusion of the ‘3 Ps’ in the executive evaluation and reward processes will enable organisations to improve their CSR.

Another interviewee was of the opinion that poor financial results can be attributed to a lack of focus on social considerations. As discussed in Section 2.2.8, CSR signifies the integration of economic and social considerations in companies' activities. Several researchers reported a positive relationship between CSR and financial performance (Surroca, Tribo & Waddock, 2010; Platonova, Asutay, Dixon & Mohammad, 2016).

An institutional investor representative stated that, from a long-term investor perspective, they are very interested in “the extent to which companies can generate profit in a way that builds resilience into society and the environment”. Accounting for ESG aspects has become an important consideration amongst a growing number of responsible institutional and retail investors, globally and locally (Berry & Junkus, 2013; Schueth, 2003; Viviers, 2014). The heightened interest in responsible investment, and

by implication CSR considerations, could be attributed to more informed and educated investors (Schueth, 2003).

Four participants stated that, although they support the notion of linking remuneration to sustainability considerations, it is extremely difficult from a practical point of view. One of them remarked that the King Reports “should have given more guidance on how to do it”. Another participant mentioned that it is difficult to measure whether value has actually been added to the triple context and/or the six capitals. REMCOs are, hence, more likely to focus on financial measures since it is “much more objective” and “much easier to use” (in comparison to linking executive pay to sustainability measures). Kortelainen (2008) confirmed that additional information, which is not as readily available as financial performance information, is typically required to monitor sustainability-linked performance.

5.3.2 Remuneration committees acting as governance change mechanisms

REMCOs were introduced in corporate governance codes around the globe as a mechanism to address the agency problem and managerial power concern (Murphy, 2002; Marais & Strydom, 2018), as explained in Sections 2.2.1 and 2.2.3. The REMCO’s roles and responsibilities, composition, as well as their role in determining NED fees were identified as sub-themes.

5.3.2.1 Roles and responsibilities of committee members

In line with literature (Conyon & Peck, 1998; Appiah & Chizema, 2015; PwC, 2020b), most of the participants were of the opinion that the duties of REMCOs are complex. The REMCO’s main responsibility is to integrate remuneration components into a unified structure and ensure alignment with the organisation’s strategic objective (ICGN, 2012). Several committees that could possibly assist the REMCO were mentioned by participants, including the audit and risk committee, the social and ethics committee, and the nominations committee. The IoDSA (2020) confirmed that these committees can provide the REMCO with valuable input during deliberations.

A participant mentioned that, although King IV did not explicitly state what the REMCO should focus on, its overarching principles provide some guidance. The view was raised that the REMCO should focus on deliverables and understand “their specific industry’s issues”. PwC (2020b) reported that it is the responsibility of the REMCO to deliberate whether executives’ LTIs are in line with the organisation’s ESG strategy, and incorporate KPIs in line with the business strategy. One financial institution

representative stated that the REMCO should provide the governing body with a “level of comfort that the company’s overarching approach attract, retain and motivate talent” in a manner that is in the best interest of stakeholders. Several participants were, however, of the opinion that this committee is often unsuccessful in explaining executives’ KPIs in a manner that will reassure stakeholders that long-term value is created.

The institutional investor representatives suggested that REMCOs should “formulate a framework that encourages the correct behaviour by management”. An interviewee from this stakeholder group also mentioned that it is the duty of the REMCO to actively engage with shareholders “to get their buy-in and inputs before actually finalising and formulating the remuneration policy”. Another participant stated that it is this committee’s task to ensure that organisations comply with the significant legislative and regulatory burden of the JSE listings requirements, the Companies Act and the King IV Report’s remuneration requirements.

As discussed in Section 5.3.1.4, the governing body should ensure fair, transparent and responsible remuneration practices. An institutional representative mentioned that, for the REMCO to adequately fulfil this responsibility, it is of utmost importance that the committee should have an acceptable representation of independent directors. The following sub-theme elaborates on this notion.

5.3.2.2 Reflecting on committee members’ independence and tenure

King IV suggests that all REMCO members should be NEDs of whom the majority should be independent directors (IoDSA, 2016). The representatives of all the financial institutions included in the study disclosed that their REMCOs were chaired by an independent NED and the majority of their REMCO members were independent NEDs at the stage when the interviews were conducted. The interviewees had differing opinions regarding whether it is truly important for the committee members to be independent. Several institutional investors indicated that they have engaged with investee companies to discuss the composition of their REMCOs.

One institutional investor representative indicated that “the reality that we live in is that management teams are very influential and often very powerful”. This participant was of the opinion that director independence gives investors and shareholders a sense of comfort that their objectives “will be considered in certain remuneration [practices] to incentivise management, without any bias, or any influence from management teams”.

Several interviewees referred to the possibility of conflict of interest that could exist if there is a lack of independence within the REMCO. A financial services institution representative commended the King IV independence recommendation pertaining to the REMCO's composition, as it will potentially "minimise conflict of interest". Another interviewee agreed and suggested that organisations should have individuals with "independence of mind to challenge the information that [executives] are giving [NEDs] on which their [remuneration] is based". These comments of the interviewees are in accordance with the findings of Kanapathippillai *et al.* (2016) who reported that a REMCOs' functioning is enhanced through the independence of its members.

Some of the representatives of the considered financial institutions were not convinced that independent director representation on REMCOs is important. One individual stated that "it is far more important that [directors] have the right skills and background", since REMCOs require a variety of skills to address the complexity and technicality of the committee. It was also suggested that such recommendations could result in "tick box compliance" and individuals with valuable skills could be overlooked when nominating directors for the REMCO, because they are not regarded as independent.

Based on the experience of an institutional investor representative, the quantum of executive remuneration is higher if there are fewer independent directors serving on the REMCO. This view is supported by Kuo and Yu (2014) who found that board independence is critical in determining the compensation packages of CEOs. On the other hand, a South African study that investigated the relationship between the pay-level of CEOs and the independence of REMCO members did not find a relationship between committee member independence and the level of CEO pay (Marais & Strydom, 2018).

All of the interviewees agreed that NEDs should not participate in performance-based schemes, as it could compromise their independence. A participant stated that caution should be taken "to continuously ensure the independence, objectivity, and impartiality [of NEDs]". As NEDs' roles were deemed more "strategic in nature", they should not be evaluated or treated the same as executive management. Adithipyangkul and Leung (2018) found that corporate financial performance tends to improve when organisations do not offer incentives to NEDs.

Some interviewees stated that they do not completely oppose NEDs owning some shares within their employers' businesses. For example, shares could have been

allocated to a NED who previously served in an executive capacity. An institutional investor representative explained that King IV does not require all NEDs to be entirely independent. The representative further argued that a small amount of shareholding could “comfort” investors, since the director will “have skin in the game that aligns them with... long-term shareholders [like institutional investors]”. A representative of a financial services organisation further stated that, to a certain extent, shareholding could be beneficial to align managerial and shareholders’ interests, but “the shareholding should be limited”.

Some institutional investor representatives, furthermore, suggested that the tenure of REMCO members is an important consideration when reflecting on the composition of the committee. One of these representatives suggested that “tenure goes hand-in-hand with the assessment of independence”. The opinion was raised that the longer an individual serves on the governing body, the less independent the member will become. Reguera-Alvarado and Bravo (2017) found that there is a positive link between board independence and firm performance. In contrast to the view raised by the participants of this study, Reguera-Alvarado and Bravo (2017) noted a stronger independence-performance link when the independent directors had a longer tenure.

Independent directors who serve longer on the board could possibly be more knowledgeable pertaining to the firm’s activities than their shorter tenured counterparts (Reguera-Alvarado & Bravo, 2017). Likewise, a representative of a financial institution was of the opinion that a long tenure could be beneficial as it “ensures knowledge and makes sure there is not an over-reliance on advisors”. The presence of independent REMCO members might, hence, (partly) address the concerns related to the usage of consultants, as discussed in Section 5.3.1.3.

Another institutional investor stated that, instead of focusing on the tenure of each individual committee member, the committee’s composition should be reviewed in a holistic manner. The REMCO, as a whole, should be “independent of mind” and should have the required skills. There should be a balance of members with a shorter tenure, that could potentially challenge executives and committee members with longer tenures, that could contribute invaluable insights. One interviewee even suggested a “forced rotation policy” where “indispensable” REMCO members could be nominated to serve on the committee for an additional term.

5.3.2.3 Setting non-executive director fees

As described in Section 2.3.2, NEDs typically receive a fixed fee in addition to board and committee meeting attendance fees (Morris & Dunne, 2008; Deloitte, 2014a). The interviewees discussed several aspects that REMCOs should consider when determining NED fees.

Several participants mentioned that the size and complexity of a company, and the industry in which it operates, should be considered when setting NED fees. Bugeja, Fohn and Matolcsy (2016) agreed that firm size and complexity are important considerations when determining NED fees, but also mentioned growth, risk, and liquidity. One interviewee specifically referred to the complexity of banks and life insurance organisations. Due to the complexity of these organisations, their NEDs need to spend a significant amount of time on “appraising [himself/herself] of how the business works and what is happening”. The implication is that such directors should then earn higher fees than their counterparts serving on boards in less complex environments.

The time commitment to fulfil NED duties was brought up during several interviews. Participants referred to preparation time, as well as time spent by individuals to further educate themselves in the fields of the committees on which they serve. It should be noted that certain committees require more preparation time than others and could potentially meet more frequently. Director fees are likely to increase accordingly. Bugeja *et al.* (2016) agreed by reporting that NEDs are remunerated for the time commitment and duties associated with the membership of various board committees. One participant who serves on a REMCO was, however, of the opinion that NEDs are “completely overpaid for their contributions”.

An institutional investor representative remarked that some shareholder unhappiness that he has experienced, revolved around directors having to work extra hours when a crisis arises. He explained that some shareholders argued that it is fair to remunerate directors for their additional workload. Other shareholders, however, argued that, if directors have sufficiently managed risks, the crisis would not have been an issue. They, hence, opposed additional compensation in such instances.

The level of NED fees was, furthermore, linked to the employment of NEDs from outside the country. These individuals need to be compensated relative to what they could earn as a board member in their homeland. The foreign directors could possibly

receive a higher fee if the currency depreciates to ensure that they continue to serve on the governing body. PwC (2020b) attributed non-resident NEDs' comparatively higher fees to several aspects, including the differences in the cost-of-living between countries, and the travel cost and time commitment to attend meetings outside of the country where the NED resides (ibid).

A participant stated that, if NEDs perform poorly, they will generally not be re-elected. In extreme cases, a NED might be sued for misconduct, and a court case could last several months or even years. The participant was of the opinion that re-elections and legal action are both ineffective and, therefore, suggested that NED compensation arrangements should allow for *malus* and clawback provisions. These provisions were mentioned in the context of executive emolument in Section 4.2.2. Madlela (2018) reported that, by incorporating these provisions in directors' fees, organisations will be able to promote responsible management, long-term sustainability, transparency, and accountability for mismanagement. It is, however, not commonly applied in the context of NED emolument, as they are only supposed to receive fixed fees for their contributions during board and board committee meetings.

5.3.3 Shareholder activism on director remuneration

The interviewees were probed on their application of a range of public and private shareholder activism mechanisms to influence compliance pertaining to the King IV director remuneration guidelines. In line with Viviers and Smit (2015), the majority of them deemed private shareholder activism mechanisms, specifically engagements, more effective than public activism endeavours. A participant warned that, since public mechanisms might seem hostile, companies could react negatively towards shareholders' concerns raised at public forums, such as the AGM. Some interviewees suggested that public activism mechanisms should only be considered if extensive private proactive engagements are deemed unsuccessful.

All of the institutional investor representatives mentioned regular engagements with investee companies' management regarding executive director remuneration. The interviewees serving on the boards and REMCOs of financial services institutions confirmed that their companies are frequently approached by institutional investors to discuss remuneration policies and practices, in particular executive packages. The majority of the institutional investor representatives stated that they rarely approach investee companies regarding NED fees, as such fees are generally regarded as being

fairly structured. Exceptional instances were mentioned when they approached investee companies on this matter, specifically when NED fees were perceived as excessive and “impeding their independence”. Mentioning was also made of private discussions with investee companies to raise their NED fees to attract “better directors” (defined as individuals who possess specific skills).

More details pertaining to interviewees’ views on proactive engagement are shared in Section 5.3.3.1, followed by shareholder voting considerations in Section 5.3.3.2. Reactive engagement in response to shareholder voting is explained in Section 5.3.3.3. The implications of shareholder activism for a range of stakeholders are explained in Section 5.3.3.4.

5.3.3.1 Proactive engagement on director remuneration

An institutional investor representative remarked that “in South Africa there is pressure on asset managers to take a more proactive role [on remuneration governance]”. All of the interviewees deemed proactive private engagements the most effective shareholder activism mechanism. A participant urged governing bodies to engage with shareholders before finalising emolument practices. Deloitte (2015) reported that proactive engagement is likely to improve relations between organisations and shareholders, since trust and credibility could be enhanced during the engagement process.

Several interviewees were of the opinion that proactive engagements will provide REMCOs with valuable information regarding shareholders’ concerns pertaining to the remuneration policy and/or implementation report. Based on a round table discussion with South African institutional investors, PwC (2018b) reported that investors with a large ownership stake prefer to engage with organisations before AGMs to explain their reasoning behind voting against remuneration-related considerations.

One institutional investor representative stated that, in his experience, a “governance roadshow or even a remuneration roadshow” is very effective to address concerns prior to the AGM. This interviewee explained that such events provide organisations with the opportunity to engage individually with key shareholders and obtain feedback and input in a proactive manner. Wessels (2020) reported on a governance roadshow undertaken by Alexander Forbes five months prior to their 2019 AGM. In response, 99.12 per cent votes were in favour of the company’s remuneration policy in 2019, compared to 59.33 per cent approval in 2018. Pertaining to the entity’s implementation

report, 99.69 per cent of shareholders supported the report in 2019, compared to 60.59 per cent in 2018 (ibid).

According to several participants, proactive engagements could possibly resolve uncertainties that might otherwise have resulted in negative voting outcomes. The IoDSA (2012) stated that misunderstandings surrounding director remuneration, as well as reputational damage, could be circumvented through proactive engagements. An interviewee added that, if companies adequately engage before the AGM, they will have the assurance that shareholders will not vote against their policy. Lewenson (2019) agreed that robust engagements with institutional investors, prior to the AGM, could favourably influence voting outcomes. More details on shareholder voting are provided in the next section.

5.3.3.2 Non-binding versus binding advisory votes

Institutional investors in several jurisdictions are adopting a more active role pertaining to 'say on pay', through casting advisory votes on companies' remuneration policies and practices (Gordon, 2009). Heightened shareholder activism on this topic is also prevalent in South Africa. Local organisations are increasingly receiving public criticism and dissenting votes against their remuneration policies and implementation reports (Morton & Blair, 2019).

The King IV Report recommends that shareholders pass non-binding advisory votes on an investee organisation's remuneration policy and implementation report (IoDSA, 2016). The view was raised during an interview that "King's refreshed non-binding vote [recommendation] comes at a time when there is a lot of mistrust". As such, a growing number of shareholders show considerable interest in board governance, specifically pertaining to remuneration policies and practices. Two participants mentioned that governing bodies are accountable to shareholders to ensure that the remuneration policy that was approved, is actually implemented without changes.

Viviers (2015) recommended that non-binding voting on director remuneration in South Africa should be revised. This view has been supported by the majority of the institutional investor representatives in this study. They argued that shareholders should have more voting power pertaining to director remuneration. A participant indicated that a binding vote is likely to have more onerous consequences than a non-binding vote. According to Skovoroda, Bruce, Buck and Gregory-Smith (2018),

shareholders should, however, keep in mind that the ‘threat’ of negative binding votes could weaken over time if shareholders do not exercise their voting power.

Three institutional investor representatives favoured the current non-binding advisory vote. One of them argued that shareholders already have significant power by having a say on the election of board members. Shareholders should, hence, focus on appointing “appropriate people to set the remuneration structure”. Another interviewee suggested that there is a “fine balance” between the governing body’s responsibility and shareholders’ monitoring power.

One institutional investor representative admitted that his views shifted from previously supporting a binding vote, to preferring a non-binding vote at the time when the interview was conducted. This interviewee explained that “a lot of [local] asset managers are quite immature in the way they approach [the remuneration]”. The argument was raised that shareholders do not apply their minds to the remuneration policy and rather focus on the quantum. This respondent added that, even when investee companies have created considerable wealth, the shareholders (or asset managers) might still vote against the remuneration policy, since the emolument might seem excessive from an isolated perspective.

All of the financial institution representatives supported non-binding advisory shareholder voting. The comment was made that a non-binding vote “keeps you aligned to what your shareholders want, and it keeps you informed of how your shareholders feel [pertaining to the remuneration policy]”. One of these interviewees commended the non-binding vote recommendation in King IV, as it allows the “full shareholder base, not just the major shareholders” to voice their consent or dissent. An institutional investor representative agreed and mentioned that, if organisations adopt a binding vote on remuneration, the minority shareholders might “become insignificant in the equation”.

One financial institution representative remarked that there should be more significant consequences tied to the casting of non-binding votes. The Australian ‘two-strikes’ rule (see Table 2.1) was suggested by some interviewees as an effective measure to ensure that action is taken in response to shareholder voting. Two interviewees argued that binding votes would be difficult to implement in South Africa, due to the local institutional investors’ over-reliance on proxy advisors to provide them with voting recommendations. A participant felt that proxy advisors follow a “formulaic tick box type

approach without necessarily understanding the complexity and nuances of an organisation”.

This interviewee, furthermore, suggested that the use of proxy advisors could result in conflict of interest. This view was explained by stating that proxy advisor firms often offer advisory services to organisations after recommending shareholders to vote against the organisation’s remuneration policy. Tingle (2016) agreed that there is an element of conflict of interest evident within the proxy industry regarding their consulting services. There is, however, little evidence that the quality of the proxy advice is impaired due to this conflict of interest (ibid).

Some participants referred to a potential legal dilemma linked to a binding vote on executive pay. They explained that the contractual agreement with executives stipulating their remuneration packages could be enforced in terms of South African law. One interviewee mentioned that, if an executive’s employment is terminated “to please shareholders”, it can cause instability within the organisation. If the company is sued to fulfil its contractual agreement with the dismissed executive, it could have costly implications.

The following section outlines the interviewees’ views on the reactive measures that the board can commit to when an organisation receives dissenting votes on the remuneration policy and/or implementation report.

5.3.3.3 Reactive responses to dissenting votes on director remuneration

King IV stipulates that a governing body should record the measures that they commit to if 25 per cent or more shareholders vote against the remuneration policy and/or implementation report (IoDSA, 2016). Organisations are, accordingly, encouraged to engage with shareholders following dissenting votes (ibid). The view was expressed that the shift from King III to IV has “brought shareholders and investee companies into greater dialogue”. Several institutional investors were, however, of the opinion that there are still not adequate consequences following disapproval of remuneration. One participant warned that, without clear consequences, the outcome will be a “tick box exercise”.

The participants explained that companies often invite dissenting shareholders to a “public call” to address concerns relating to their remuneration policy. Bodenstein and De Lange (2019) confirmed the usage of teleconferences and e-conferences to address such concerns. They, furthermore, reported on instances where South African

organisations have invited dissenting shareholders to submit written suggestions regarding their concerns on the remuneration policy and/or implementation report.

Most of the institutional investor representatives found teleconferences “thoroughly useless”. PwC (2018b), likewise, reported that the use of teleconferences to engage on remuneration has led to unintended consequences and is, hence, not supported by the investor community. An institutional investor representative recommended that organisations should engage individually (in private) with shareholders that hold more than three per cent of the company’s shares, and arrange a teleconference with shareholders with less than three per cent shareholding.

The financial services institution representatives also deemed teleconference engagements ineffective. One of them stated that ineffective consultations result in investee companies relying on their proxy advisor to provide information, rather than gaining insight from their shareholders pertaining to concerns. It was, hence, suggested that shareholders should rather write a letter to the REMCO to indicate their concerns prior to engagements.

All the institutional investor representatives stated that proactive engagements, before companies release their remuneration policies, are far more valuable and beneficial than reactive responses. A participant mentioned that reactive measures “[introduce] a lot of unnecessary tension with the relationship that a board should have with shareholders”. A financial services institution representative, moreover, stated that shareholders often vote against the remuneration policy and/or implementation report due to “ignorance”. The following statement sheds light on this view: “[Shareholders] either did not understand it completely or they did not have all the information or the background”. Reactive discussions might (partly) address concerns and clarify uncertainties.

A REMCO chairman gave an example where his company received more than 25 per cent votes against their remuneration policy. This interviewee stated that, after personal engagements with shareholders, he realised that the “communication in the policy and implementation reports [was] not clear enough”. This resulted in shareholders misinterpreting the information. This participant was of the opinion that it is the duty of REMCOs to ensure “transparent and uncomplicated” explanations. Scholtz (2009) confirmed that REMCOs should ensure that the information provided to shareholders is reported in uncomplicated and understandable language. The

disclosure of director remuneration should, moreover, be transparent and the rationale for the compensation plan should be detailed to all stakeholders and not only shareholders (ibid). This will enable them to make informed decisions. Shareholders' duty towards the wider stakeholder community is explained next.

5.3.3.4 Shareholders' duty towards the wider stakeholder community

Some interviewees mentioned that several institutional investor organisations have significant shareholding in listed companies in South Africa. In line with Hawas and Tse (2016), a participant stated that large shareholding could enforce compliance with corporate governance regulation. In turn, sound compliance is likely to have positive implications for shareholders and other stakeholders. As such, shareholder activism can have a considerable impact on the wider stakeholder community if prominent institutional shareholders influence REMCOs to incorporate sustainability aspects, such as the six capitals, into remuneration policies.

Given that institutional investors have a responsibility to oversee the board, who in turn oversees management, an institutional investor representative argued that the investor community plays an indirect role in influencing remuneration governance. A counterpart argued that the investor community plays a direct role in ensuring that director remuneration is aligned with performance. This participant, furthermore, mentioned that performance does not only refer to the investee company's share price, but also refers to non-financial measures that influence other stakeholders.

The importance of aligning shareholders' and stakeholders' interests was highlighted by several interviewees. The view was raised that shareholders should be (better) educated to ensure that they understand that "if the company looks after the other stakeholders as well, it would mean that shareholders actually would generate a higher return". The company might then be regarded as being more responsible and, in effect, become more sustainable in the long-term. This view is supported by researchers who found that responsible corporate practices could result in long-term value creation, instead of merely having a short-term impact on the organisation's financial performance (Gregory, Tharyan & Christidis, 2013; Tarigan, Hatane, Stacia & Widjaja, 2019).

An institutional investor representative suggested that LTIs should comprise the largest portion of executive emolument. It was, furthermore, suggested that certain LTIs should only vest after five years (instead of the current trend of three years). These

remuneration arrangements could potentially ensure that management focusses on the broader stakeholder community and not only on short-term wealth creation for shareholders. An interviewee was of the opinion that “company stakeholder engagement sits at the heart of understanding societal and environmental concerns”.

Several mechanisms to enhance alignment between the interests of shareholders and other stakeholders were mentioned. Communication was deemed the best tool to align stakeholders’ divergent interests. A participant suggested that organisations should use a balance scorecard and implement a weighted criterion to take various stakeholders’ needs into account. The composition of boards, and by implication board committees, should, furthermore, be taken into account when reflecting on improved alignment between shareholders’ and stakeholders’ interests. PwC (2020b) reported that South African organisations are in need of strong and effective REMCOs, with diverse insights and experiences, to reflect on notions of fairness and responsibility when setting emolument packages.

An interviewee, furthermore, stated that a diverse governing body that base decisions on multiple perspectives, are likely to benefit various stakeholders. Examples were given, such as appointing international board representatives, women, or individuals with a background in trade unions that could enhance the quality of decision-making at board and committee level. Cheng, Groysberg and Healy (2020) agreed with this participant and highlighted numerous benefits of a diverse governing body, including improving creativity, accounting for various viewpoints, and enhancing access to information. Institutional investors should hence give due attention to voting decisions related to board composition, as it could have implications for a range of stakeholders.

The majority of the interviewees were of the opinion that stakeholder engagement platforms in South Africa are inadequate. A financial services institution representative stated that the most common platform is AGMs, but, unfortunately, these meetings are typically not well attended. Another participant agreed that AGMs are becoming less effective and urged companies to proactively reach out to stakeholders, including smaller shareholders. The use of technology was recommended by an interviewee to improve stakeholder engagement. Globally, more organisations are adopting virtual AGMs. In South Africa, Alexander Forbes was the first company to utilise an online platform. An executive of this company remarked that virtual meetings are where the future of doing business is heading (Jooste, 2020). In light of the COVID-19 pandemic,

it is likely that companies will increasingly utilise technology to facilitate virtual meetings and stakeholder engagements.

5.4 SUMMARY

In this chapter, details on the individuals who participated in the semi-structured interviews, as well as their respective employers, were discussed. Interviews were conducted with 12 representatives from 10 local institutional investors, and 11 representatives from five financial services organisations listed on the JSE.

The researcher identified three main themes from the thematic analysis, namely the application and disclosure requirements of King IV remuneration recommendations, REMCOs acting as governance change mechanisms, and shareholder activism on director remuneration. In the following chapter, conclusions are made based on the reported findings and the literature review. Recommendations are also offered to various stakeholders.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

The size and composition of director emolument packages received heightened attention over the past two decades (Bhagat & Romano, 2009; Lamprecht, 2018). The media, researchers and shareholder activists criticised executive remuneration packages for being excessive, insufficiently disclosed, and lacking a clear performance link (Bhagat & Romano, 2009; Viviers, 2015; Mans-Kemp & Viviers, 2018).

The King IV Report paid extensive attention to director remuneration considerations, given stakeholders' concerns. More definite disclosure requirements were offered in King IV, in comparison to King III, and reference is made to wage inequality in South Africa (IoDSA, 2016). As in the case of its predecessor, King IV is based on a stakeholder-inclusive model and directors are, therefore, expected to balance various stakeholders' interests when reflecting on several governance considerations, including remuneration (Deloitte, 2017a).

Institutional investors, REMCO members, and CEOs and CFOs play important roles in determining director remuneration. These stakeholders respectively have considerable shareholding, monitor remuneration policies and practices, and manage organisations. The researcher set out to determine the views of representatives of these stakeholder groups on remuneration governance by conducting semi-structured interviews. In addition, the reporting of selected JSE-listed banks on director remuneration was evaluated and compared over the periods 2015-2016 and 2017-2018 to determine the extent to which they applied the King III and IV recommendations, respectively.

In the following sections, conclusions are drawn and recommendations are offered to several stakeholders. Limitations pertaining to this study are then stipulated and suggestions for future research are discussed. The reconciliation of the secondary research objectives is followed by a final remark from the researcher.

6.2 CONCLUSIONS

This section provides an overview of the conclusions pertaining to the literature review (Chapter 2), the results of the content analysis (Chapter 4), as well as the main findings of the semi-structured interviews (Chapter 5).

6.2.1 Conclusions drawn from the literature review

An organisation should exhibit sound corporate governance practices in order to be successful, sustainable and gain stakeholders' trust (Gottschalk, 2011; Natesan & Du Plessis, 2017). Director remuneration is an important corporate governance consideration that is increasingly receiving attention internationally and in South Africa. Several fundamental corporate governance theories aim to describe the relationship between directors and managers (Abdullah & Valentine, 2009) and explain the importance of remuneration matters in this context (Braendle & Hossein Rahdari, 2016). The theories include, inter alia, the agency, resource dependence and stakeholder theories.

NEDs and executive directors receive different forms of compensation for their services. According to the ICGN (2016) guidelines on directors' pay, a remuneration package is well-structured when it enables the creation of sustainable long-term shareholder value, is aligned with the organisation's strategic objectives, and supports the company's values. The objective of director remuneration policies should be to attract and retain qualified individuals, align the interests of directors and shareholders and provide transparent disclosure of all remuneration components to shareholders (ICGN, 2010). Executives, furthermore, generally receive a base salary, STIs and LTIs (Bohlander & Snell, 2010), whereas NEDs receive fees for attending board and committee meetings (Morris & Dunne, 2008).

Stakeholders should receive clear communication regarding remuneration policies and practices to make informed decisions (PwC, 2016). Corporate governance policies and remuneration requirements have been implemented in several developed and developing countries in an attempt to enhance transparency. In line with global developments, the King III Report included a non-binding shareholder vote on the remuneration policies of JSE-listed companies (IoDSA, 2009). The report, furthermore, stipulated that NED fees and executive remuneration should be fair and responsible.

King III gave rise to more transparent remuneration reporting, as it prescribed specific remuneration aspects that should be addressed in companies' remuneration policies and disclosed within their remuneration reports (IoDSA, 2009). Mans-Kemp and Viviers (2018), however, argued that these guidelines could have contributed to the wider adoption of pay benchmarking. Malope and Brown (2018) and Bussin (2017) confirmed that South African REMCOs often align executive remuneration with the

median or upper quartile of their European and US counterparts. The King III remuneration guidelines were subsequently amended in 2016.

King IV aims to address concerns pertaining to director emolument by standardising remuneration reporting in three parts (IoDSA, 2016). Remuneration reports should, accordingly, include a background statement on remuneration, an overview of the remuneration report, and an implementation report (*ibid*). King IV also offers more in-depth disclosure requirements related to voting on director remuneration given the recent attention that 'say on pay' has received from regulators and institutional investors (Sheehan, 2012; IoDSA, 2016). Shareholders can pass non-binding advisory votes on the remuneration and implementation reports of JSE-listed companies. The board should disclose information on measures that they will commit to in the event that the aforementioned reports obtain more than 25 per cent dissenting votes (IoDSA, 2016). This King IV recommendation has been included in the Companies Act (No. 71 of 2008) and the JSE (2017) listings requirements.

There is enhanced pressure on the King Committee to revise the non-binding vote on director remuneration (Viviers, 2015). The King Committee, however, defended their decision by explaining that a non-binding vote is used as an instrument to raise shareholder concerns and initiate engagements between shareholders and REMCOs (IoDSA, 2018). Researchers have differing views on the matter. While Wells (2015) argued that binding votes are flawed, since it is difficult to enforce and it is challenging for shareholders to act in accord, Wagner and Wenk (2017) remarked that a binding vote will ensure that shareholders' concerns are taken into account by corporate leaders. King IV also makes pertinent reference to the pay gap by recommending that executive remuneration should be fair and responsible in the context of overall employee remuneration (IoDSA, 2016). The inclusion of this recommendation is not unwarranted as South Africa has the highest level of wage inequality in the world (ILO, 2018). Nedlac (2018) stated that firms will initially disclose pay ratios in their annual reports on a voluntary basis, with the prospect of moving to a mandatory disclosure requirement in future.

Research shows that shareholders are increasingly using their votes to show their dissatisfaction regarding remuneration policies (Conyon & Sadler, 2010) and practices (Alissa, 2015). Activist institutional investors are of particular importance and could use their large share-ownership to initiate changes in corporate behaviour (Sandberg, 2013). Shareholders require detailed, transparent disclosure of director remuneration

to better understand, rationalise and justify directors' remuneration levels and methods (Ferrarini & Moloney, 2005; Mallin, 2013; Deloitte, 2014a; PwC, 2018a).

McCahery *et al.* (2015) found that 88 per cent of their institutional investor respondents regarded seemingly excessive director pay and poor governance as important considerations that would result in intervention. Several international studies found that institutional investors positively impacted pay-for-performance (Hartzell & Starks, 2003; Goranova *et al.*, 2008) and restricted total director remuneration (Khan *et al.*, 2005; Dong & Ozkan, 2008; Ozkan, 2011). It is, hence, evident that institutional investors can be considered as effective remuneration governance monitors. As shareholder activism in South Africa is increasing, future improvements in remuneration governance is expected (Morton & Blair, 2019).

Recent research on executive remuneration in South Africa revolved around performance considerations (Bussin & Blair, 2015; Tshipa, 2017; Bussin & Ncube, 2017; Bezuidenhout *et al.*, 2018; Kirsten & Du Toit, 2018), and shareholder activism (Viviers, 2015; Viviers & Smit, 2015). Limited information is available on the extent to which local organisations comply with the King IV remuneration practices, and the role that key stakeholders play in this regard. This study was, hence, conducted to evaluate the extent of reporting on director remuneration recommendations, as set out in King III and IV, as well as the opinions of key stakeholders pertaining to remuneration governance. The conclusions based on the study's findings are explained in the next two sections.

6.2.2 Conclusions based on the extent of reporting on director remuneration

The extent of selected JSE-listed banks' reporting on the King III and IV director remuneration recommendations was assessed over the periods 2015-2016 and 2017-2018 by means of content analysis. The results revealed that, while the considered financial services organisations disclosed remuneration information in several parts of their remuneration reports during 2015 and 2016, they complied with the King IV three-part remuneration report suggestions in 2017 and 2018. The three-part remuneration reporting was perceived as being more user friendly than the King III format.

King III recommended that a company's remuneration policy should be linked to executive performance (IoDSA, 2009). The majority of the banks, however, provided fewer details regarding this link in 2016 than in 2015. King IV added that executive remuneration should be fair and responsible in the context of overall employee

remuneration (IoDSA, 2016). Furthermore, performance measures should support positive outcomes across the triple bottom line context in which the organisation operates and/or the applicable capital sources (ibid). On average, the banks disclosed moderate (as reflected by extent of disclosure scores of 3) information regarding fair remuneration in 2017 and 2018. The majority of the banks did not mention the triple bottom line context, but referred to the six capitals. Local banks should hence give more attention to the link between pay and financial as well as ESG considerations. Companies that give insufficient attention to ESG considerations are likely to receive even more stakeholder scrutiny in future (Nelson, 2017).

The sample banks did not noticeably improve their disclosure on directors' pay-related benefits over the four years under review. Detailed information was, however, disclosed on the allocation of incentive awards (STIs, LTIs, share incentive schemes, and deferrals). This observation is reassuring, since these incentives are implemented to encourage executives to create long-term sustainable value (Phillips & Gully, 2014). Shareholders are, furthermore, enabled to make informed voting decisions if they receive transparent information on the allocation of incentives and other forms of director emolument.

The considered banks provided moderate (extent of disclosure score of 3) to extensive (extent of disclosure score of 5) details regarding the roles of their REMCOs, in line with a King IV recommendation. The majority of the considered REMCO members were NEDs for all considered years. None of the chairpersons of the banks' governing bodies chaired their REMCO in 2017 or 2018, as suggested by King IV. However, a number of executives attended REMCO meetings by invitation. Literature suggests that board independence is critical in determining fair and responsible executive emolument packages (Kuo & Yu, 2014). An independent REMCO should lead to lower executive pay, as well as a stronger relationship between executive remuneration and firm performance (Murphy, 2002; Marais & Strydom, 2018). The absence of a truly independent REMCO would in effect mean that executive directors would have the power to determine their own emolument packages unopposed (Williamson, 1985).

Most of the considered banks improved their disclosure on shareholders' non-binding advisory votes on remuneration policies over the study period. One considered bank received more than 25 per cent dissenting votes pertaining to their implementation report at their 2017 AGM. The bank accordingly disclosed the steps that they took to

address shareholders' concerns and adjust their remuneration policy and implementation report.

It should be noted that the investigated 2017 and 2018 remuneration reports reflected the first two reporting years pertaining to King IV. The banks were, possibly, still adjusting to the new format and could further improve their disclosure in the coming financial reporting periods. Furthermore, the researcher coded the banks reporting on selected remuneration recommendations. It is possible that some companies implemented selected King IV recommendations without disclosing such information in their annual reports.

6.2.3 Conclusions based on the semi-structured interviews

The theme-specific conclusions, based on the semi-structured interviews, were divided into positive observations (Table 6.1) and scope for improvement (Table 6.2). Thereafter, conclusions will be offered based on the participants' opinions on shareholder activism in South Africa.

Table 6.1: Positive observations

| Theme | Positive remarks |
|---------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Quality of director remuneration reports | The introduction of the three-part director remuneration report was welcomed and deemed more user-friendly than the King III format. The new format standardises remuneration reporting across organisations. |
| | The single-figure remuneration disclosure requirement was deemed an immense improvement on King III. |
| Remuneration-related regulation | The inclusion of King IV's remuneration recommendations into local regulation provides organisations with three levels of governance (the King Report, legislation, and JSE listings requirements). |
| Fair, responsible and transparent remuneration | King IV's recommendation pertaining to fair, responsible and transparent remuneration practices improves the alignment between stakeholders' and management's interests. |
| | Emphasis was placed on fair remuneration across all levels of employment. |
| Linking executive emolument to sustainability considerations | King IV's recommendation to link executive pay to positive outcomes across the triple context and/or the six capitals, enforces transparency and ensures that boards adhere to their corporate citizenship responsibilities. |
| | When executive pay is linked to sustainability considerations, focus is placed on the broader stakeholder base which, in effect, encourages responsible behaviour at board level and results in positive financial results. |
| Composition and tenure of REMCOs | The King IV recommendation that the majority of the members of the REMCO should be independent NEDs, minimises potential conflict of interest. |
| | Director independence reassures investors and shareholders that their objectives will be considered when determining remuneration packages. |
| Non-binding versus binding advisory votes | King IV's refreshed non-binding advisory vote recommendation was welcomed, especially in light of growing mistrust pertaining to remuneration policies and practices. |
| | Financial institution representatives stated that a non-binding vote ensures that they are more informed regarding shareholders' views on an investee company's remuneration policy. |
| | A non-binding vote provides minority shareholders the opportunity to voice their consent or dissent. |

Source: Compiled by the researcher

Table 6.2: Scope for improvement

| Theme | Concerns |
|---------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Quality of director remuneration reports | The three-part director remuneration report is time-consuming and onerous for investors and other stakeholders to read. |
| | Financial institutions found the three-part director remuneration report too technical in nature, which could arguably lead to mistrust if shareholders do not properly understand the context. |
| | A lack of detail was noted pertaining to reporting on the performance targets set for management. |
| Remuneration-related regulation | As organisations have to comply with various forms of regulation on remuneration governance including the King IV Report, legislation and the JSE listings requirements, they might only attempt to comply with the minimum reporting requirements, instead of making substantial changes. |
| | South African organisations are experiencing a large regulatory burden. |
| Usage of remuneration advisors | An over-reliance on advisors could result in generic remuneration reports. |
| | The use of remuneration advisors could lead to above-average remuneration due to benchmarking. |
| Fair, responsible and transparent remuneration | It is unlikely that the King IV recommendation on fair, responsible and transparent remuneration would succeed in addressing wage inequality in South Africa. |
| Linking executive emolument to sustainability considerations | It is very challenging to link remuneration considerations to the triple bottom line context and/or the six capitals. |
| | Guidance on how to practically link executive emolument to sustainability considerations is lacking. |
| Roles and responsibilities of REMCOs | REMCOs often experience difficulty in explaining executives' KPIs in a manner that will reassure stakeholders that long-term value is created. |
| Composition and tenure of REMCOs | Individuals with valuable skills could be overlooked when nominating directors for REMCOs if they are not regarded as independent. |
| Non-binding versus binding advisory votes | The institutional investors would prefer that the non-binding advisory votes should be revised to provide shareholders with more power pertaining to director remuneration. |
| | According to the institutional investors, the consequences following disapproval of remuneration policies are still inadequate. |
| | Reactive measures, after receiving 25 per cent or more dissenting votes, could lead to considerable tension between the governing body and shareholders. |

Source: Compiled by the researcher

In addition to the comments linked to voting in Table 6.2, the interviewees deemed local stakeholder engagement platforms inadequate. They suggested that organisations should focus on improving alignment between shareholders' and stakeholders' interests. The usage of a balanced scorecard and the appointment of diverse board members were suggested to achieve this objective. The interviewees stated that, as remuneration is a sensitive topic, shareholder engagements on director remuneration matters, therefore, mostly occur in a pro-active manner behind closed doors. Public shareholder activism measures could be considered if private engagements were unsuccessful.

An institutional representative highlighted a major concern regarding the King Code, namely that its secretariat is the IoDSA. As the IoDSA represents directors, this body's interests centre on directors and not shareholders. This interviewee suggested that the King Code should move "out from underneath the IoDSA into its own holding space that is more multi-stakeholder in nature".

6.3 RECOMMENDATIONS

Recommendations are offered for selected stakeholders in Table 6.3 to address the concerns reported in Table 6.2.

Table 6.3: Recommendations based on remuneration-related concerns

| Concerns | Recommendations |
|-----------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The three-part remuneration report is time-consuming and too detailed. | The King V Report should provide more specific guidelines pertaining to key information that should be provided in remuneration reports. |
| | Organisations should condense their remuneration reports to provide concise information that would help analysts to make better verdicts regarding their voting decisions and recommendations. |
| | Companies should focus on enhancing transparent remuneration disclosure of individuals who receive the largest pay packages by applying the principle of proportionality. |
| There is a lack of detail regarding reporting on the performance targets set for management. | Companies should not only explicitly publish their performance targets, but also report on the quantum if those targets are not achieved, roughly achieved or if the targets are significantly exceeded. |
| There is a large regulatory burden on local entities. | Legislation and regulation pertaining to director remuneration should be limited to listed organisations and state-owned entities. |
| | Remuneration governance should preferably not be enforced by introducing more legislation. Regulators should take into account that companies differ considerably, inter alia in terms of their size, industry requirements and nature of their operations. Regulators should, hence, strive to offer adequate regulation while allowing scope for flexibility based on companies' unique circumstances. |
| | Regulators should be mindful of South Africa's specific socio-economic challenges when attempting to implement international remuneration trends in the country. |
| There is an over-reliance on consultants during the process of setting executive pay. | REMCOs could consult advisors when they wish to introduce a new LTI, but should reconsider the usage of advisors when determining other forms of emolument. |
| | Consultants could assist REMCOs to translate strategy into metrics and targets, but committee members should caution against excessive benchmarking practices. |
| | REMCOs should account for their company-specific considerations when reflecting on the advice of consultants. |
| | REMCOs should regularly get insight into international best practices and trends to adequately prepare for the eventual implementation thereof in South Africa. |
| It is unlikely that King IV would be able to address wage inequality in South Africa. | Companies could consider providing financial education or facilitate access to education opportunities to employees across the corporate spectrum. |
| | Institutional investors could invest in education programmes and social impact start-ups that have considerable potential to generate jobs. |

Table 6.3: Recommendations based on remuneration-related concerns (continued)

| Concerns | Recommendations |
|------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| It is difficult to link executive pay to sustainability considerations. | The King V Report should provide more guidance on how to incorporate ESG considerations into executive emolument in future. |
| | The social and ethics committees could assist the REMCO to ensure that remuneration is linked to the triple context and the six capitals. |
| Competent NEDs could be overlooked when nominating directors for the REMCO, if they are not deemed independent. | Institutional investors should holistically reflect on the REMCO's composition instead of excessively focusing on independence concerns. |
| | The REMCO could consider formulating a rotation policy to allow the nomination of indispensable, but non-independent REMCO members for an additional term. |
| NEDs are overpaid for their contributions. | Companies could disclose more details on the criteria to allocate NED fees in their remuneration report. |
| | Shareholders should vote against the appointment of NEDs who perform poorly. |
| Concerns related to non-binding votes and the measures taken in response to dissenting votes. | Representatives of investee companies should proactively engage with shareholders before the remuneration policy is finalised. |
| | The 'two-strikes' rule could be considered by regulators to ensure that action is taken in response to shareholder voting. |
| | Management and REMCOs should arrange private engagements with large shareholders. A teleconference could, thereafter, be arranged to engage with all interested shareholders (including minority ones). |
| | REMCOs should ensure that remuneration reports offer understandable information in an uncomplicated format to ensure informed engagements and voting practices. |
| | Institutional investors should caution against over-reliance on proxy advisors when casting their votes. |
| Stakeholder engagement processes are inadequate. | Institutional investors should use their voting power to ensure that director remuneration is aligned with performance, including measures that affect a variety of stakeholders. |
| | Shareholders should be made aware in corporate reports and on companies' websites that a more responsible organisation is likely to be more sustainable and, hence, profitable in the long-term. |
| | REMCOs should consider recommending LTIs as the largest component of executive pay packages. Such incentives should only vest after at least five years to ensure that management focusses on the best interests of the broader stakeholder community. |
| | Shareholders should use their voting power to elect a diverse REMCO that would reflect on stakeholders' diverse needs when setting director remuneration packages. |
| | Companies could consider various electronic platforms to ease the access of stakeholders to participate in discussions. |

Source: Compiled by the researcher

It should be noted that it is very challenging to practically address various stakeholders' concerns pertaining to director remuneration, as stakeholders typically have conflicting interests. For example, while certain individuals demand more detail in remuneration reports, other parties would request a more condensed version.

Based on a discussion of the results with a governance expert (see 3.5.1), it is suggested that companies should differentiate between inputs, outputs and outcomes that need to be achieved by their executives. While generalised approaches might be appealing as it eases comparisons across corporate scenarios, such comparisons are typically based on inputs and, to a lesser extent, on outputs. The consulted expert suggested that the 'best' emolument schemes are focused on outcomes which are prioritised by the board depending on the company's current situation. It should be taken into account that the nature of companies differs considerably, and that their issues are often unique. It is, hence, suggested that the manner in which executive management addresses company-specific issues and create sustainable outcomes for stakeholder groups should form the basis of their remuneration.

6.4 POSSIBLE LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

The results of the study at hand are applicable to the JSE's financial services sector. Given King IV's scope that covers unlisted entities, future authors could focus on the application of the remuneration governance guidelines by large, unlisted organisations and municipalities. A quantitative study could, furthermore, be conducted to investigate the impact of remuneration governance on small and medium enterprises, as recommended in the sector supplements of the King IV Report.

Interviewees disagreed on whether a binding or a non-binding vote on the remuneration policy and implementation report of investee companies is more appropriate in South Africa. In future, researchers could focus on the effect of a non-binding vote on directors' remuneration by collecting quantitative data. A survey on the topic could, for example, be distributed to activist institutional investors and proxy advisors. Comparisons could, furthermore, be drawn between the impact of dissenting votes on director remuneration practices in South Africa and other jurisdictions with stricter voting requirements, such as Australia.

Several organisations are arguably still attempting to improve their understanding, and hence implementation, of the King IV recommendations. As the King IV Report only came into effect in April 2017, the researcher only considered comparative data for two

King IV reporting periods. A future reflection on the outcomes of this report, as perceived by a range of stakeholders, could be conducted over a longer time period. Three stakeholder groups were interviewed to obtain the qualitative primary data for this study, including directors serving on the REMCOs, CEOs/CFOs and institutional investors. It could be valuable to obtain insights from companies' governance departments, company secretaries, compliance officers, human resources departments and proxy advisors when reflecting on remuneration governance in future.

Given the impact of the COVID-19 pandemic on financial markets around the globe, future researchers can account for the effect thereof on director emolument packages and practices. The impact thereof on South Africa's pay gap should also be taken into account.

6.5 RECONCILIATION OF THE SECONDARY RESEARCH OBJECTIVES

Table 6.4 provides a reconciliation of the secondary research objectives.

Table 6.4: Reconciliation of the secondary research objectives

| Secondary objective | How the objective was addressed | Reference in the study |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| To examine to what extent selected organisations in the financial services industry complied with the director remuneration principles as set out in the King III Report over the period 2015-2016. | Organisations disclosed remuneration information in several parts of their integrated reports, which made reviewing of remuneration policies and practices challenging. The considered organisations only briefly mentioned that their shareholders had the opportunity to cast a non-binding advisory vote on their remuneration policy during 2015-2016. | Section 4.2 Section 6.2.2 |
| To investigate to what extent selected organisations in the financial services industry complied with the director remuneration practices recommended in the King IV Report over the period 2017-2018. | The three-part remuneration report standardised remuneration disclosure. Most of the banks improved their disclosure on shareholders' non-binding advisory votes on remuneration policies. | Section 4.2 Section 6.2.2 |
| To determine the views of selected institutional investors on the director remuneration recommendations as set out in the King IV Report. | The more definite disclosure requirements were welcomed, such as the three-part remuneration report and the single-figure disclosure requirement. Director independence was also highly valued. | Section 5.3 Section 6.2.3 |
| To examine the opinions of selected institutional investors on possible amendments to the director remuneration recommendations as set out in the King IV Report. | The non-binding vote on remuneration should be revised. The consequences following dissenting votes were deemed inadequate. The following aspects require pertinent attention: Disclosure of performance targets, the use of consultants and mechanisms to address wage inequality. | Section 5.3 Section 6.2.3 |
| To investigate the views of selected financial institutions' REMCOs on the director remuneration recommendations as set out in the King IV Report. | King IV's standardised format and non-binding vote on remuneration were commended. | Section 5.3 Section 6.2.3 |
| To evaluate the opinions of selected financial institutions' REMCOs on possible amendments to the director remuneration recommendations as set out in the King IV Report. | Concerns were expressed on whether fair and responsible remuneration practices will address wage inequality in South Africa. When compiling a REMCO, a balanced perspective on independence and skills is essential. | Section 5.3 Section 6.2.3 |
| To observe the views of selected financial institutions' CEOs/CFOs on the director remuneration recommendations as set out in the King IV Report. | Responsible, fair and transparent remuneration creates an alignment between management's and shareholders' interests. The heightened focus on transparency and reporting quality were applauded. | Section 5.3 Section 6.2.3 |
| To determine the opinions of selected financial institutions' CEOs/CFOs on possible amendments to the director remuneration recommendations as set out in the King IV Report. | More guidance could be offered on how sustainability considerations could be linked to executive pay. The severe regulatory burden of South African companies was highlighted. | Section 5.3 Section 6.2.3 |

Source: Compiled by the researcher

6.6 CONCLUDING REMARK

The researcher would like to conclude this study with a quote from the Former Associate Justice of the Supreme Court of the US, Sandra Day O' Connor who stated that: "Society as a whole benefits immeasurably from a climate in which all persons, regardless of race or gender, may have the opportunity to earn respect, responsibility, advancement and remuneration based on ability" (US Department of State, 2008). The importance of fair, responsible and transparent remuneration is evident, given enhanced focus being placed on directors' pay globally. The researcher is of the opinion that sound remuneration governance is an extremely important consideration that is often overlooked in South Africa.

In a society such as South Africa, with economic volatility, growing wage inequality and seemingly excessive director remuneration packages, it would be extremely beneficial to create a corporate culture of fair and responsible remuneration. The researcher agrees with the interviewees that organisations should strive to focus on equal pay for work of equal value. In addition, companies should attempt to narrow the wage gap by providing employees with opportunities to further their education in various fields. The researcher expresses the hope that by highlighting the positive outcomes of, and room for improvement pertaining to King IV's director remuneration recommendations, remuneration governance in South Africa will gain even more recognition in future.

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APPENDIX A: CONSENT FORM



UNIVERSITEIT•STELLENBOSCH•UNIVERSITY
jou kennisvenoot • your knowledge partner

STELLENBOSCH UNIVERSITY

CONSENT TO PARTICIPATE IN RESEARCH

Dear Sir/Madam

My name is Marilee van Zyl and I am a master's student in the Department of Business Management at Stellenbosch University. I would like to invite you to participate in a research project entitled reflecting on King IV director remuneration recommendations: A financial services perspective.

Please take some time to read the information presented here, which will explain the details of this project. Your participation is **entirely voluntary** and you are free to decline to participate. You are also free to withdraw from the study at any point, even if you do agree to take part initially. If you decline to participate or withdraw from the study, this will not affect you negatively in any way whatsoever.

The interview guide's questions are based on the King IV and III Reports on corporate governance, as well as literature related to directors' remuneration. With your permission, the interviews will be voice recorded and transcribed. The data will be stored in a secure location. My supervisor and I will be the only individuals who will have access to the recordings and transcribed data. The anonymity of all participants will be respected through the entire research process, in the final report, and in any further publications. You are allowed to decline answering a specific question and still be included in the research study, unless requested otherwise. If you withdraw at any stage during the research process, I will destroy all data provided by you (including the recording and transcribed data).

If you have any questions or concerns about the research, or if you require further explanation or clarification of any aspect of the study, please feel free to contact me on 076 501 3503 or marileevanzyl@gmail.com or my supervisor, Dr Mans-Kemp, on 021 808 2212 or nadiamans@sun.ac.za

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|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>RIGHTS OF RESEARCH PARTICIPANTS: You may withdraw your consent at any time and discontinue participation without penalty. You are not waiving any legal claims, rights or remedies because of your participation in this research study. If you have questions regarding your rights as a research participant, contact Ms Maléne Fouché [mfouche@sun.ac.za; 021 808 4622] at the Division for Research Development. You have the right to receive a copy of the Information and Consent form.</p> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

If you are willing to participate in this study, please sign the attached declaration of consent and hand it to the investigator.

DECLARATION BY PARTICIPANT

By signing below, Iagree to take part in a research study entitled reflecting on King IV executive remuneration recommendations: A financial services perspective conducted by Marilee van Zyl.

I declare that:

- I have read the attached information leaflet and it is written in a language with which I am fluent and comfortable.
- I have had a chance to ask questions and all my questions have been adequately answered.
- I understand that taking part in this study is **voluntary** and I have not been pressurised to take part.
- I may choose to leave the study at any time and will not be penalised or prejudiced in any way.
- I may be asked to leave the study before it has finished, if the researcher feels it is in my best interests, or if I do not follow the study plan, as agreed to.
- All issues related to privacy and the confidentiality and use of the information I provide have been explained to my satisfaction.

Signature of participant

Date

SIGNATURE OF INVESTIGATOR

I declare that I explained the information given in this document to
[He/she] was encouraged and given ample time to ask me any questions. This conversation was conducted in English and no translator was used.

Signature of investigator

Date

APPENDIX B: SEMI-STRUCTURED INTERVIEW GUIDE

| SECTION 1: Biographic details of the interviewee | |
|------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.1 Interviewee's job description | |
| 1.2 Interviewee's industry experience | |
| SECTION 2: Biographic details of the interviewee's employer | |
| FINANCIAL INSTITUTION | |
| Main questions | Additional questions |
| 2.1 What is the approximate market capitalisation of your organisation? | n/a |
| 2.2 Does your employer adhere to the Organisation for Economic Co-Operation and Development (OECD) Principles of Corporate Governance? | <ul style="list-style-type: none"> - If not, why not? - If yes, which corporate governance aspect(s) showed the largest improvement? |
| INSTITUTIONAL INVESTOR | |
| Main questions | Additional questions |
| 2.1 If you are at liberty to disclose the information, what is currently the approximate size of your company's assets under management? | n/a |
| 2.2 Is your employer a signatory of the United Nations Principles for Responsible Investment (UN PRI)? | <ul style="list-style-type: none"> - If not, why not? - If not, does your employer plan to become a signatory in the future? - If yes, what has this meant for your employer, i.e. has it led to an increase in assets under management? |
| 2.3 Does your employer subscribe to the Code for Responsible Investing in South Africa (CRISA)? | <ul style="list-style-type: none"> - If not, why not? - If not, does your employer plan to subscribe in the future? - If yes, what has this meant for your employer, i.e. has it led to an increase in assets under management? |

| SECTION 3: Financial institution's / Institutional investor's views on King IV director remuneration recommendations | | | |
|----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| Relevant theme | Main questions | Additional questions | Clarifying questions |
| King IV application and disclosure | 3.1. According to Principle 14, it is the duty of the governing body to ensure fair, responsible and transparent remuneration practices. Are you of the opinion that such practices will assist organisations to achieve the objectives over the short-, medium-, and long-term? | <ul style="list-style-type: none"> - If yes, why? - If no, why not? - In your opinion what does it mean for an organisation to remunerate fairly, responsibly and transparently? | Can you expand on this discussion, explain your answers and/or provide any examples? |
| | 3.2. King IV suggests that executive remuneration should be fair and responsible relative to overall employee remuneration. Do you think that this recommendation will contribute to addressing the inequality in pay between executives and other employees? | <ul style="list-style-type: none"> - If not, how do you think companies can address the pay gap? - If yes, how do you think the recommendation will contribute to addressing the pay gap? - In your opinion, what is the role of the investor community to address pay inequality? | |
| | 3.3. What is your opinion regarding the three-part director remuneration report, namely the background statement, remuneration policy overview and implementation report? | <ul style="list-style-type: none"> - How can the quality of reporting on remuneration be enhanced? | |
| | 3.4. King IV suggests that remuneration should be linked to positive outcomes across the triple context (economy, society and operating environment) in which it operates and/or the six capitals (financial, manufacturing, intellectual, human, social and relationship, and natural capital) which affect the organisation's activities. Do you agree with these suggestions? | <ul style="list-style-type: none"> - If yes, how? - If not, why not? | |
| Remuneration committee | 3.5. King IV does not provide specific guidelines regarding the remuneration committee's roles and responsibilities. In your opinion, what are the roles and responsibilities of the remuneration committee? | <p><u>Financial institution:</u></p> <ul style="list-style-type: none"> - What are the key areas that the committee focuses on during a financial year? <p><u>Institutional investor:</u></p> <ul style="list-style-type: none"> - Can the remuneration committee's duties be combined with another committee's responsibilities? | Can you expand on this discussion, explain your answers and/or provide any examples? |

| Relevant theme | Main questions | Additional questions | Clarifying questions |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| <p>Remuneration committee</p> | <p>3.6. King IV recommends that all members of the remuneration committee should be non-executive directors of whom the majority should be independent. In your opinion, why is it important that the majority members of this committee should be independent non-executives?</p> | <p><u>Financial institution:</u></p> <ul style="list-style-type: none"> - Is your remuneration committee chaired by an independent non-executive member? If not, why not? - Is the majority of your remuneration committee members independent directors? If not, why not? <p><u>Institutional investor:</u></p> <ul style="list-style-type: none"> - Do you engage with investee companies regarding the composition of the remuneration committee? - Is the tenure of the committee members an important consideration? | <p>Can you expand on this discussion, explain your answers and/or provide any examples?</p> |
| | <p>3.7. Which role can advisors or consultants play in guiding the decision-making process of the remuneration committee?</p> | <p><u>Financial institution:</u></p> <ul style="list-style-type: none"> - Does your company use the assistance of advisors or consultants on director remuneration? What is the reason for this decision? - If consultants or advisors have been used, what were the advantages/disadvantages? <p><u>Institutional investor:</u></p> <ul style="list-style-type: none"> - To which extent should companies rely on the assistance of consultants or advisors in this regard? | |
| | <p>3.8. Which aspects do you think should the remuneration committee take into account when determining non-executive directors' fees?</p> | <p><u>Financial institution:</u></p> <ul style="list-style-type: none"> - How do you ensure that your non-executive directors are fairly remunerated? - Do you think non-executive directors should participate in performance-based schemes? Please explain. <p><u>Institutional investor:</u></p> <ul style="list-style-type: none"> - Are you of the opinion that non-executive directors' fees are fairly structured? - Have you ever approached an investee company regarding their non-executive directors' fee practices and what was your reasoning behind it? - Do you think non-executive directors should participate in performance-based schemes? Please explain. | |

| Relevant theme | Main questions | Additional questions | Clarifying questions |
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| <p>Non-binding advisory votes on remuneration</p> | <p>3.9. King IV recommends that shareholders can pass non-binding advisory votes on the remuneration policy and the implementation report. What is your opinion on this recommendation?</p> | <p><u>Financial institution:</u></p> <ul style="list-style-type: none"> - Do you support a non-binding or binding vote on executive remuneration? Please explain your answer. - Have you ever obtained 25% or more dissenting votes regarding your remuneration policy and/or implementation report? <ul style="list-style-type: none"> o If yes, what reasons did shareholders provide for their decision? o If yes, how did your company respond to or address the concerns raised? <p><u>Institutional investor:</u></p> <ul style="list-style-type: none"> - How often have you witnessed investee companies receive 25% or more dissenting votes? - Do you think this will happen more frequently in the future? - Which concerns have resulted in you voting against a remuneration policy and/or implementation report? - Do you support a non-binding or binding vote on executive remuneration? Please explain your answer. | <p>Can you expand on this discussion, explain your answers and/or provide any examples?</p> |
| | <p>3.10. The board should record the measures that they commit to in the event that 25% or more shareholders vote against the remuneration policy and/or implementation report. Which measures would you suggest?</p> | <p><u>Financial institution:</u></p> <ul style="list-style-type: none"> - Which steps do you take to address shareholders' objections in this regard? <p><u>Institutional investor:</u></p> <ul style="list-style-type: none"> - In your experience, do investee companies adequately engage with shareholders following such a vote? | |
| | <p>3.11. King III also mentioned a non-binding advisory shareholder vote on director remuneration, but did not foresee any consequence if the shareholders did not support the policy. Do you think the change in King IV has had a considerable effect on executive remuneration policies and practices?</p> | <ul style="list-style-type: none"> - If yes, how? - If not, why not? | |

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| Legislation and the JSE listing requirements | 3.12. The Companies Amendment Bill of 2018 states that a three-part director remuneration report should be provided in line with King IV. Do you think this will enhance transparency regarding remuneration governance? | <ul style="list-style-type: none"> - To what extent do you think remuneration governance should be enforced by legislation? | Can you expand on this discussion, explain your answers and/or provide any examples? |
| | 3.13. The JSE listings requirements include several prescriptions regarding director remuneration, such as the three-part director remuneration report and recording measures in response to 25% or more dissenting votes. Do you agree with the inclusion of these King IV recommendations? | <ul style="list-style-type: none"> - If yes, why? - If no, why not? - What do you think are the possible implications thereof? | |
| Shareholder activism and stakeholder engagements | 3.14. <u>Financial institution:</u> Have you experienced shareholder activism pertaining to director remuneration at annual general meetings (AGMs)? <u>Institutional investor:</u> Do you engage with investee companies on behalf of your clients regarding investee companies' director/executive remuneration? | <u>Financial institution:</u> <ul style="list-style-type: none"> - If yes, to which extent was the topic discussed during the past five years? - Which type of shareholder activism was predominantly used (private or public)? - Did these engagements result in any change(s) regarding director remuneration practices and/or policies? <u>Institutional investor:</u> <ul style="list-style-type: none"> - If no, do you have plans to do so in the future? - If yes, to what extent have you engaged with investee companies in this regard in the past five years? - If yes, what were the objectives to engage and what were the outcomes? - If yes, which type of engagement do you most frequently use to raise concerns on director remuneration to investee companies (i.e. public, private or both)? - Which type of shareholder activism do you find the most efficient to promote change regarding director remuneration? Please motivate your answer. | Can you expand on this discussion, explain your answers and/or provide any examples? |

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| Shareholder activism and stakeholder engagements | 3.15. The King IV Report regards stakeholders as the ultimate compliance officers. Ultimately, shareholders have considerable power as they often serve as proxies for wider stakeholder interests. In your opinion, could South African shareholder activists influence efficient compliance pertaining to the King IV director remuneration guidelines? | <ul style="list-style-type: none"> - How can stakeholder inclusion in director remuneration decision-making be enhanced? - How should organisations better align shareholders' and stakeholders' interests? | Can you expand on this discussion, explain your answers and/or provide any examples? |
| | 3.16. Do you think that stakeholder engagement processes create an efficient platform for stakeholders to raise their concerns? | <ul style="list-style-type: none"> - How can stakeholder engagement be enhanced (in general and specifically regarding director remuneration)? | |
| The future of remuneration governance | 3.17. Do you have any positive remarks on the director remuneration-related recommendations set out in the King IV Report that were not yet mentioned? | <ul style="list-style-type: none"> - If yes, please provide details. | Can you provide specific suggestions for the King V Report relating to remuneration? |
| | 3.18. Do you have any other concerns related to King IV's director remuneration-related recommendations? | <ul style="list-style-type: none"> - If yes, please provide details. | |

APPENDIX C: PLAGIARISM REPORT

