TOWARDS ENHANCED INDEPENDENCE: INVESTIGATING SHAREHOLDER VOTING ON DIRECTOR ELECTION PROPOSALS

By

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ABSTRACT

Several high-profile corporate scandals, globally and in South Africa, highlight the importance of corporate governance monitoring mechanisms in constraining managerial self-serving behaviour. Corporate governance frameworks, many of which are based on the agency theory, advocate for appointing a majority independent non-executive directors, an independent chairperson and a lead independent director to monitor managerial behaviour. Furthermore, there are various external monitoring mechanisms available to ensure that companies act as good corporate citizens. These include the market for corporate control, the legal system, cross-listings and external auditors. Ordinary shareholders occupy the important middle ground between internal and external monitoring mechanisms. Ordinary shareholders can monitor managerial behaviour by electing or re-electing directors to a company's board of directors by casting their votes on such resolutions at shareholder meetings. This type of shareholder monitoring has largely been unexplored in South Africa.

This study was hence conducted to contribute to the body of knowledge. A comprehensive and unique dataset comprising of shareholder votes cast on director re/election resolutions at selected companies listed on the Johannesburg Stock Exchange was compiled over the period 2014 to 2020. Voting data were gathered from Proxy Insight, with additional board- and financial-related data collected from Bloomberg. Trends regarding the dependent, seven independent and three control variables were investigated over time. Given the nature of the period under investigation and the data, a mixed-model analysis of variance was conducted to test the hypothesised relationships.

Shareholder opposition to director re/election resolutions (the dependent variable) increased significantly over the research period. Yet, on average, less than four percent of shareholders opposed director re/election resolutions. This result confirms a previously identified preference among shareholders of locally listed companies to privately engage with representatives of investee companies. The low percentage against-votes cast on director re/election resolutions at the sampled companies may also indicate that shareholders place a great deal of trust in the nominated directors, or that shareholders are simply apathetic as far as monitoring is concerned. The percentage of INED representation on the sampled companies' boards increased significantly, which may be a result of the shift from factual to perceptual independence proposed by King IV. Significant positive relationships were discovered

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between shareholder opposition and two independent variables, namely, board size and average directorate tenure. These relationships suggest that shareholders tend to vote against the re/election of directors when the board is quite large, and the average directorate tenure has been relatively long.

Based on the results, ordinary shareholders are encouraged to vote more actively on director re/elections as they have the power to enhance the independence of investee companies' boards. Nomination committees should furthermore ensure that their director selection criteria are robust enough to nominate suitable candidates to ordinary shareholders. Recommendations are also made to the Institute of Directors South Africa and other private sector role players in the country.

KEYWORDS

Shareholder voting, shareholder opposition, director elections, independent directors, tenure, board size, South Africa

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OPSOMMING

Hoëprofiel korporatiewe skandale wêreldwyd en in Suid-Afrika beklemtoon die belangrikheid van korporatiewe bestuursmeganismes om selfverrykende gedrag van bestuurders te bekamp. Korporatiewe bestuursraamwerke wat meestal op die agentskapsteorie gebaseer is, bepleit die aanstelling van ’n meerderheid onafhanklike nie-uitvoerende direkteure, ’n onafhanklike voorsitter en ’n onafhanklike leierdirekteur om bestuursgedrag te monitor. Daar is verskeie moniteringsmeganismes wat daartoe kan bydrae dat maatskappye as goeie korporatiewe entiteite funksioneer. Hierdie meganismes sluit die volgende in: die mark vir korporatiewe beheer, die regstelsel, meervoudige noterings en die aanstelling van eksterne ouditeure. Gewone aandeelhouers dien as tussengangers tussen interne en eksterne moniteringsmeganismes. Gewone aandeelhouers kan bestuursgedrag monitor deur direkteure tot ’n maatskappy se direksie te verkies of te herverkies deur hulle stemme ten opsigte van sulke resolusies uit te bring tydens aandeelhoursvergaderings. Hierdie tipe aandeelhoumonitering is nog nie baie in Suid-Afrika nagevors nie.

Hierdie studie is dus uitgevoer om ’n bydrae tot die kennispoel te maak. Die tydperk, 2014 tot 2020, is dus benut om ’n omvattende en eiesoortige datastel saam te stel. Hierdie datastel reflekteer aandeelhouerstemme ten opsigte van her/verkiesingsbesluite by uitgesoekte maatskappye wat op die Johannesburgse Aandelebeurs genoteer is. Stemdata is verkry vanaf Proxy Insight met addisionele direksie en finansiële data vanaf Bloomberg. Verskillende tendense ten opsigte van die afhanklike, sewe onafhanklike en drie beheerveranderlikes is oor tyd ondersoek. Gegewe die aard van die tydperk wat ondersoek is, is gemengde-model variansie analise gedoen om die gestelde verwantskappe te toets.

Tydens die navorsingstydperk het aandeelhouerteenkanting teen her/verkiesingsbesluite van direkteure (die afhanklike veranderlike) beduidend gestyg. Gemiddeld het minder as vier persent van die aandeelhouers egter her/verkiesingsbesluite teengestaan. Hierdie bevinding bevestig, soos voorheen vasgestel, dat aandeelhouers verkies om in privaat gesprekke te tree met verteenwoordigers van genoteerde maatskappye waarin hulle aandele besit. Die lae persentasie stemme teen her/verkiesingsbesluite by die steekproefmaatskappye kan ook aandui dat aandeelhouers ’n groot mate van vertroue in die genomineerde direkteure stel, of dat aandeelhouers eenvoudig apaties is met betrekking tot monitering. Die vlak van verteenwoordiging van onafhanklike nie-uitvoerende direkteure op die steekproefmaatskappye

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se direksies het beduidend verhoog. Hierdie toename kan moontlik die gevolg wees van die skuif van werklike na perseptuele onafhanklikheid soos deur King IV voorgestel. Beduidende positiewe verwantskappe tussen aandeelhouer teenkanting en twee onafhanklike veranderlikes is bevind, naamlik die grootte van die direksie en die gemiddelde ampstermyn van direkteure. Hierdie verwantskappe dui daarop dat aandeelhouers teen die her/verkiesing van direkteure stem wanneer die direksie redelik groot is en die gemiddelde ampstermyn van direkteure relatief lank is.

Gegrond op die resultate word gewone aandeelhouers aangemoedig om aktief te stem op direkteur her/verkiesings, aangesien hulle die mag het om die onafhanklikheid van maatskappye waarin hulle belê se direksies te versterk. Nominasiekomitees behoort verder te verseker dat hulle kriteria vir direkteurseleksie sterk daarop gerig is om gepaste kandidate te nomineer vir aandeelhouers se oorweging. Aanbevelings word ook aan die Suid-Afrikaanse Instituut van Direkteure gemaak asook aan ander rolspelers in die private sektor.

SLEUTELWOORDE

Aandeelhouerstemming, aandeelhoueropposisie, direkteurverkiesings, onafhanklike direkteure, ampstermyn, raadgrootte, Suid-Afrika

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LIST OF ACRONYMS AND ABBREVIATIONS

AGM	-	annual general meeting
ANOVA	-	analysis of variance
CEO	-	chief executive officer
COVID-19	-	coronavirus disease of 2019
CRISA	-	Code for Responsible Investing South Africa
ESG	-	environmental, social, and governance
FRC	-	Financial Reporting Council
INED	-	independent non-executive director
IoDSA	-	Institute of Directors South Africa
JSE	-	Johannesburg Stock Exchange
LS	-	least-squares
LSD	-	least significant difference
NED	-	non-executive director
NYSE	-	New York Stock Exchange
OECD	-	Organisation for Economic Co-operation and Development
PIC	-	Public Investment Corporation
TSR	-	total share return
UK	-	United Kingdom
UN PRI	-	United Nations Principles for Responsible Investment
US	-	United States
VIF	-	variance inflation factor

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CHAPTER ONE
INTRODUCTION TO THE STUDY

1.1 INTRODUCTION

"But who will monitor the monitor?"

This question, posed by Alchian and Demsetz (1972:782), highlights the inherent difficulty in monitoring managerial behaviour in publicly listed companies. If managers are known for maximising their self-interest, how can their interests be effectively aligned with those of shareholders? The agency theory asserts that through effective contracting, incentives, and monitoring, managers' interests will be better aligned with those of shareholders (Bonazzi & Islam, 2007; Fama & Jensen, 1983; Jensen & Meckling, 1976). However, the occurrence of numerous corporate scandals globally and in South Africa emphasises that, although several companies adhere to the necessary corporate governance codes, interventions are often insufficient.

To set the scene of this study, the following section of this chapter introduces the notion of corporate governance from an agency perspective. The background discussion will also include an overview of independent directors as corporate monitors and shareholders, irrespective of their shareholding size, as watchdogs of the elected monitors. These corporate monitors' roles and responsibilities will be briefly explained in an agency context. Thereafter, the problem statement, research objectives and research hypotheses will be provided. The research design and methodology are then outlined and the contribution of the study presented. Lastly, the orientation of the study will be provided.

1.2 BACKGROUND TO THE STUDY

In this section, corporate governance will first be defined. Thereafter, the basic tenets of the agency theory will be described. This exposition will be followed by a discussion on the role that independent directors and shareholders play in monitoring managers' decisions and self-interest. Research conducted on these monitors will thereafter be outlined followed by a statement of the knowledge gap.

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1.2.1 Defining corporate governance

Definitions of the term ‘corporate governance’ vary widely and generally fall into two categories (Claessens & Yurtoglu, 2013). The first group of definitions, which describes a set of behavioural patterns observed among companies, typically contains terms such as ‘performance’, ‘growth’, ‘financial structure’, ‘efficiency’, and ‘the treatment of stakeholders’. The Organisation for Economic Co-operation and Development (OECD, 2004) defines corporate governance as a set of relationships among shareholders, creditors, management, government, employees, and other external and internal stakeholders in accordance with their rights and responsibilities. The second group of definitions explains the normative framework under which companies function. This framework consists of the rules defined by the legal system, factor and financial markets, and the judicial system (ibid).

Claessens and Yurtoglu (2013) propose that for studies concerning a single country, the first set of definitions is the logical choice. The second group of definitions is more suited to comparative studies, for example, contrasting different countries’ corporate governance codes. This study aimed to investigate corporate governance in South Africa. Previous studies on corporate governance in the country have indicated that a large proportion of companies listed on the Johannesburg Stock Exchange (JSE) have listings on other stock exchanges, known as cross-listing (Tshipa, 2017; Omarjee, Joosub & Coldwell, 2016). Accordingly, it is difficult to define corporate governance from the perspective of the first set of definitions.

Although the King reports on corporate governance in South Africa hold no force of law, the listing requirements of the JSE stipulate that listed companies must disclose the extent of their compliance with the King guidelines (Malherbe & Segal, 2001). The definition of corporate governance provided in the latest King IV report (henceforth King IV) describes the behavioural patterns of companies operating in South Africa (Institute of Directors South Africa (IoDSA, 2016).

King IV defines corporate governance 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, 2016:11). This definition follows the characteristics of the first category of definitions. However, because this definition has been adopted by the JSE, it can also be considered in line with the second group

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of definitions. This conflict highlights the difficulty in defining corporate governance within a country-specific context.

Based on the discussed definitions, it can be concluded that good corporate governance aims to improve company performance through careful monitoring of management's performance. In cases where managers do not perform appropriately, corporate governance monitors should ensure that management is held accountable for their actions.

Research on corporate governance has largely centred on the agency theory (Misangyi & Acharya, 2014; Demsetz, 1983; Fama & Jensen, 1983; Jensen & Meckling, 1976). According to Eisenhardt (1989:59), corporate governance research in the 1980s has been 'most concerned with describing the governance mechanisms that solve the agency problem'. This concern has been echoed in more recent corporate governance research (see Vitolla, Raimo & Rubino, 2020; Panda & Leepsa, 2017; Shi, Connelly & Hoskisson, 2017). Therefore, the basic tenets of this theory are outlined in the following section.

1.2.2 Linking agency theory to corporate monitoring mechanisms

The agency problem forms a crucial aspect of the contractual view of a company. This view was pioneered by Coase (1937) and was refined several years later by Jensen and Meckling (1976). In their seminal paper on the theory of the firm, Jensen and Meckling (1976) define an agency relationship as a contract through which principals (such as shareholders) engage with agents (such as directors and managers) to execute a service on their behalf. The agents are thus contractually entrusted to make suitable decisions on behalf of the principals. The agency problem arises when there is a separation between the ownership of principals and the control exercised by agents (ibid).

The agency theory describes various mechanisms to align the agents' interests with those of principals. These mechanisms also ensure that shareholders' funds are optimally allocated. Shleifer and Vishny (1997) propose that principals (capital providers such as shareholders) and agents (capital allocators) should sign contracts that specify how funds will be used and how pecuniary returns will be split between all eligible parties. An idealistic view would be to have capital providers and allocators sign detailed contracts, which would specify exactly what should be done in any proposed scenario. However, as a 'complete contract' is idealistic, but often not possible in practice, monitoring is required.

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Jensen and Meckling (1976) posit that if both contract participants (principals and agents) focus on maximising their own utilities, there is reason to believe that the agents' interests will differ from those of the principals. To effectively use incentive contracts, monitoring is then required to evaluate each agent's performance. If agents perform in accordance with the agreed upon contract, they will receive appropriate incentives (Denis, 2001). Therefore, to induce management to work in the best interests of principals, an effective monitoring system is needed (Shleifer & Vishny, 1997). Principals who establish appropriate incentives and controls for agents will incur monitoring costs to ensure that agents' act with the principals' best interests in mind (ibid).

1.2.3 The need for corporate monitoring mechanisms

Researchers have proposed several corporate governance mechanisms to mitigate the agency problem that arises from the separation of ownership and control in a public company. These governance mechanisms can be internal and external to a company. Research on internal monitoring mechanisms include aligning executives' interests with those of shareholders through performance-based compensation (Ntim, Lindop, Osei & Thomas, 2015; Murphy, 1986) and executive ownership (Bebchuk & Fried, 2003; Jensen & Meckling, 1976; Alchian & Demsetz, 1972). The composition of the board of directors can furthermore be used as an internal monitoring mechanism (Fama & Jensen, 1983). Non-executive directors (NEDs) play a particularly important role in internal monitoring (Fama, 1980).

Research on external monitoring mechanisms centred on the influence of large controlling shareholders (Yeh, 2005) and institutional investors as external monitors (Gillan & Starks, 2003a). Following the discussion on the responsibilities of independent directors in Section 1.2.3.1, the monitoring function of ordinary shareholders will be introduced in Section 1.2.3.2.

1.2.3.1 Independent directors as corporate monitors

The board of directors fulfils the dual roles of advising and monitoring top management (Adams & Ferreira, 2007). All directors can contribute towards the advisory function of the board; however, the monitoring duty primarily resides with independent non-executive directors (INEDs) (Wang, Xie & Zhu, 2015). These directors are required to monitor and advise executive directors on behalf of shareholders (Fama & Jensen, 1983) and other key stakeholders (Ayuso & Argandona, 2007).

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In the context of South African boards, the term 'independence' refers to the INEDs' unfettered, objective judgement (IoDSA, 2016). According to King IV, independence means holding no interest, association, position, or relationship which may cause bias or influence the decision-making of the director under consideration (ibid). The practice of classifying a director as an INED has evolved from a list of disqualifying criteria, as suggested in King III, to a more practical approach that focuses more on the perception of independence, than the practice thereof (Deloitte, 2017).

King IV suggests that a director is independent if an informed third party perceives him/her as independent (IoDSA, 2016). By comparing King IV to influential corporate governance codes such as the New York Stock Exchange's (NYSE) Listed Company Manual, the United Kingdom's (UK) Corporate Governance Code, and the OECD Principles of Corporate Governance, it is evident that King IV follows international best practices (Deloitte, 2017).

Similar to King IV, these international codes recommend that the majority of a listed company's board members, including the chairperson, should be INEDs. This recommendation concurs with the agency theory, which asserts that independent directors should be appointed to monitor the managers' decisions (Bonazzi & Islam, 2007). An independent chairperson is important to facilitate the dissemination of information between all categories of directors.

Duru, Iyengar and Zampelli (2016) found that company performance is significantly negatively affected when the board chairperson is not an INED. The majority of corporate governance codes, including King IV, propose that a directorate should determine whether a director is independent in their judgement and character and whether there are circumstances or relationships which might affect, or appear to affect, the said director's objectivity (Deloitte, 2017).

It is further recommended in King IV that the role of the chairperson and the chief executive officer (CEO) should be separated. A retired CEO should preferably also not become the chairperson of the board (IoDSA, 2016). By separating these two roles, a board may improve its oversight function and avoid potential conflicts of interest (Mandato & Devine, 2020).

When there is CEO role duality, a board sacrifices the expertise, capacity, and skills that two different people can bring to the table (Mandato & Devine, 2020). Aktas, Andreou, Karasamani

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and Philip (2019) found that when the CEO was also the chairperson of the board, diversified companies, which operate in more than three sector classifications, invested inefficiently. This inefficiency was pronounced in companies that have boards with a small percentage of INEDs (ibid).

A key feature of international corporate governance codes is the importance of transparency, particularly when classifying a director as independent. Corporate governance codes thus typically provide a list of criteria to be considered by a board when classifying a director as independent (IoDSA, 2016). These criteria are important, as independence is not only a matter of fact, but also a matter of perception.

Although disclosure requirements in South Africa are equal to or exceed several of the requirements in developed countries (Claessens & Yurtoglu, 2013), there are notable cases where companies have met all regulatory requirements, yet still failed to practise good corporate governance. The Steinhoff scandal is an example in this regard. In December 2017, the global furniture retailer's share price collapsed following allegations of fraud. It should be noted that until 2002, no INEDs were appointed to Steinhoff's board (Naudé, Hamilton, Ungerer, Malan & De Klerk, 2018). Furthermore, the criteria and processes that Steinhoff used to classify its directors as independent remain unclear. The company's directors often had lengthy tenures and significant crossholdings (ibid).

Board tenure captures the trade-off between knowledge accumulation and independence (Huang & Hilary, 2018). Boards with a shorter average tenure may face significantly fewer corporate governance problems than boards with longer tenured directors (Pozen & Hamacher, 2015). These authors highlight that Institutional Shareholder Services penalises companies that have long-serving directors by reducing their 'quick score'. However, shorter average tenure may result in a board that has limited understanding of the company's business and history (ibid). In contrast, a longer tenured board might demonstrate an entrenchment effect whereby board decision-making is undermined by this effect (Huang & Hilary, 2018).

Corporate governance codes in the UK and South Africa state that an independent director may serve on a board for longer than nine years, as long as the governing body assesses this director's independence every year after the nine-year term limit has been exceeded (IoDSA, 2016). Similar to the window-dressed explanations provided at Steinhoff (Naudé et al., 2018),

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evidence from the UK also suggests that listed companies followed suit with their INED explanations after the nine-year term limit (Whee, 2018).

When investigating the role of INEDs, it should be acknowledged that a directorate performs both decision-making control and decision-making management functions (Petra, 2005). Mixed results are reported on the effects that these directors have on various decision-making management functions. Some studies have found that company performance increases as more INEDs are appointed to a board (Fuzi, Halim & Julizaerma, 2016; Liu, Miletkov, Wei &Yang, 2015; Barnhart, Marr & Rosenstein, 1994; Daily & Dalton, 1992), whereas others noted no such association (Nguyen, Evans & Lu, 2017; Terjesen, Cuoto & Francisco, 2015; Petra, 2005; Hermalin & Weisbach, 1991).

Despite the mixed results reported on the relationships between INEDs and various company performance metrics, research shows that such outside (INEDs) directors offer several benefits to companies. Given that the terms inside and outside directors are commonly used in international corporate governance literature (Nili, 2016; Petra, 2005; Peng, 2004; Vafeas, 2003; Fama & Jensen, 1983), these terms were used to alternate the wording executive directors and NEDs in the thesis. Armstrong, Core and Guay (2014) contend that companies that experience regulatory changes concerning the number of independent board members show improved corporate transparency. Similarly, boards with more INEDs are more effective in reducing information asymmetries (Bonazzi & Islam, 2007) and in improving returns for acquirers (Wang et al., 2015). These authors also posit that increased independence of compensation and audit committees reduces CEO compensation and significantly reduces companies' earnings management. Earnings management could increase CEO compensation as some components of their pay packages are tied to company performance (Jiang, Petroni & Wang, 2010; Cornett, McNutt & Tehranian, 2009).

1.2.3.2 Ordinary shareholder monitoring of directors

By virtue of their shareholding, ordinary shareholders have several mechanisms at their disposal to monitor managers. These mechanisms include loyalty (holding shares), exit (selling shares), and voice (engaging in a range of public and private shareholder activism endeavours) (Goranova & Ryan, 2014).

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Shareholders who are satisfied with a company's financial and corporate governance performance may show loyalty. However, disgruntled shareholders may choose to divest (exit) or to raise their concerns privately or publicly. In South Africa, divestment strategies are rarely used as the largest local stock exchange, the JSE, is relatively small (Viviers & Smit, 2015). Voice mechanisms refer to shareholders' initiating dialogue, privately and/or publicly, to bring their views under management's attention (Bootsma, 2013).

Most institutional investors in South Africa prefer to engage with investee companies behind closed doors (Yamahaki & Frynas, 2016; Viviers & Smit, 2015). As private negotiations are typically confidential, it is difficult for outsiders to determine the effectiveness of this voice mechanism (Viviers & Mans-Kemp, 2020). As a result, this study focused on a public voice mechanism used by shareholders of selected JSE-listed companies.

Public voice mechanisms include asking questions at annual general meetings (AGMs), filing shareholder resolutions, stimulating discussions in the media on areas of concern, and voting against management resolutions (Viviers & Smit, 2015). Shareholders of JSE-listed companies have traditionally been apathetic about corporate policies and practices (Viviers & Els, 2017). However, since 2016, there has been a notable rise in the use of public voice mechanisms (Viviers, Mans-Kemp, Kallis & Mckenzie, 2019).

From the literature review on shareholder activism in Chapter Three Section 3.3, it was seen that the majority of global studies on shareholder activism focus on the filing of non-binding shareholder resolutions and voting by institutional investors. Although South African shareholders are legally permitted to file shareholder resolutions, few do so (Silverman & Duncan, 2014). Therefore, this study investigated shareholder voting on the election and/or re-election of directors (henceforth referred to as re/elections) at selected JSE-listed companies.

At the end of 2016, South African domiciled institutional investors controlled 48.4 per cent of all JSE-listed shares (National Treasury, 2017). The term 'institutional investor' is used to describe institutions that invest and manage funds on behalf of their clients including pension funds, insurance companies, and investment managers. These investors use their substantial voting power, assigned by proxy, to vote on resolutions tabled at shareholder meetings, typically the AGM (Viviers & Smit, 2015).

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The South African Companies Act (Act No. 71 of 2008) (hereafter known as the Companies Act) states that any two shareholders may propose an ordinary resolution on any matter that they may exercise their voting rights (Government Gazette, 2009). For example, two shareholders could propose a resolution that nominates an individual to be appointed to a board. This proposed resolution would then be submitted to all shareholders for consideration at the next shareholders' meeting. An ordinary resolution requires support from more than 50 per cent of the voting rights exercised on the resolution. Shareholder support is crucial to pass a shareholder resolution, as this type of resolution is typically opposed by management (Gillan & Starks, 2007).

The Companies Act further stipulates that director re/elections in South Africa require a majority vote for the resolution to pass (Government Gazette, 2009). Director re/elections refers to the re/election of all three types of directors, namely executive directors, NEDs, and INEDs, at shareholder meetings. In this voting system, 'no-votes' and abstained votes can affect the outcome of the vote. By voting on director re/election proposals, shareholders can influence which directors are elected and/or re-elected. Shareholders are therefore able to 'monitor the monitors' by removing the individuals which they deem ineffective from the boards of their investee companies.

Previous research on shareholder voting has predominantly focused on executive remuneration, commonly referred to as 'say-on-pay' voting (Ertimur, Ferri & Oesch, 2015; Ferri & Maber, 2013; Conyon & Sadler, 2010) and uncontested director elections (Aggarwal, Dahiya & Prabhala, 2019; Ertimur, Ferri & Oesch, 2018; Choi, Fisch & Kahan, 2013). To the best of the researcher's knowledge, the only academic study that exists on voting outcomes in South Africa was conducted by Viviers and Smit (2015). Their study investigated the extent to which institutional investors used proxy voting as a public shareholder activism mechanism (ibid). These authors determined that the considered companies' remuneration policies, director re/elections, and the issuance of ordinary shares elicited the most opposition at JSE-listed companies in 2013.

A precursory analysis of the existing literature suggests that shareholder opposition is more prevalent in companies with fewer INEDs (Gutiérrez & Saéz, 2013; Hillman et al., 2010; Ertimur, Ferri & Stubben, 2010) and where the chairperson is not an independent director (Aggarwal et al., 2019; Hillman et al., 2010). Furthermore, shareholder opposition was found

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to be more prevalent in companies where the CEO is also the chairperson of the board (Judge, Gaur & Muller-Kahle, 2010) and where directors have long tenures (Katz & McIntosh, 2014; Hillman et al., 2010).

Against this background of board independence characteristics that elicit increasing shareholder dissent and the lack of knowledge on these characteristics, this research examined these characteristics in the South African context. The following problem statement was formulated based on the knowledge gap presented in the preceding background discussion.

1.3 PROBLEM STATEMENT

There has been a rise in the number and frequency of corporate scandals in recent years, both globally and in South Africa. These scandals have led to large financial losses for shareholders. Monitoring mechanisms are thus essential to ensure that shareholders' interests are protected and promoted. The agency theory suggests that through adequate contracting, appropriate incentives, and monitoring mechanisms, agents' interests can be better aligned with those of principals (Jensen & Meckling, 1976). Various corporate scandals, however, serve as evidence that the use of these mechanisms is not always effective.

Previous researchers have investigated corporate governance monitoring mechanisms such as performance-based incentives (Ntim et al., 2015), executive share ownership schemes (Bebchuk & Fried, 2003; Jensen & Meckling, 1976), board independence (Petra, 2005; Fama & Jensen, 1983), controlling shareholders' actions (Yeh, 2005), and proxy voting (Viviers & Smit, 2015; Gillan & Starks, 2003a). Independent directors have been shown to reduce information asymmetry (Bonazzi & Islam, 2007), to increase returns (Wang et al., 2015) and to enhance corporate transparency (Armstrong et al., 2014). However, if these directors do not perform their monitoring duties effectively, shareholders may vote against their re/elections at shareholder meetings.

The discussed monitoring mechanisms have been largely unexplored in South Africa. Therefore, the purpose of this study was to investigate the extent of shareholders' voting opposition on director re/election resolutions being informed by selected board independence characteristics. These characteristics include the percentage INEDs, board size, CEO role duality, the presence of an independent chairperson and lead independent director, directorate

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tenure, and multiboardedness. Prior corporate governance authors and King IV place specific focus on these directorate considerations.

1.4 RESEARCH OBJECTIVES

The following section will outline the primary and secondary research objectives of the study.

1.4.1 Primary research objective

The primary research objective was to investigate shareholder voting opposition on director re/elections of selected JSE-listed companies over the period 2014 to 2020.

1.4.2 Secondary research objectives

To achieve the primary research objective, the following secondary research objectives were formulated:

- to investigate board independence and size as internal monitoring mechanisms in the context of the agency theory.
- to examine shareholder voting as a corporate governance monitoring mechanism in the context of the agency theory.
- to empirically examine trends in board characteristics and shareholder voting at selected JSE-listed companies over the period 2014 to 2020.
- to empirically investigate the relationships between shareholder voting and selected directorate independence characteristics among a sample of JSE-listed companies over the period 2014 to 2020.
- to offer recommendations to key stakeholder groups on mitigating monitoring challenges in the South African context.

The research design and methodology will be presented next.

1.5 RESEARCH DESIGN AND METHODOLGY

Business research can be defined as applying a scientific method to find solutions to business problems (Zikmund, Babin, Carr & Griffen, 2013). As the philosophy of positivistic research is rooted in the scientific method (Saunders, Lewis & Thornhill, 2019), positivistic researchers develop theory through deductive reasoning (ibid). Owing to the adopted research philosophy,

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quantitative secondary data were collected (Babbie, 2012). More details in this regard are provided in the sections that follow.

1.5.1 Research design

Creswell (2014) describes a research design as the methods and procedures that are used to collect and analyse data for the variables related to a specified research problem. To develop the theoretical case for a study, business research must be conducted. There are three main types of business research, namely exploratory, causal, and descriptive research (Zikmund et al., 2013).

Exploratory research suggests that a researcher discovers a novel idea or new area for research (Zikmund et al., 2013). Causal research aims to investigate cause-and-effect relationships between variables (ibid). In descriptive research, the researcher contributes to an existing body of knowledge by defining new developments pertaining to certain phenomena (ibid). The current research is hence descriptive in nature. The relationship between shareholder monitoring and board independence characteristics has been investigated by previous researchers in an international context; however, as far as could be ascertained, no research in this regard has been conducted in South Africa.

1.5.2 Collection of secondary data

Primary and secondary data are two types of data available to business researchers (Zikmund et al., 2013; Babbie, 2012). Primary data were gathered by a researcher for the purpose of a specific study, typically through self-administered questionnaires or interviews. Secondary data are readily available from public sources and have previously served another purpose (Zikmund et al., 2013).

Secondary data sources used in this study included Proxy Insight's online database and the Bloomberg database. The voting data were gathered from Proxy Insight whereas the board-related and other data were gathered from Bloomberg. In cases where the financial- or board-related data were missing from Bloomberg, the individual companies' integrated reports were consulted. Seven independent and three control variables were identified based on the comprehensive overview of previous studies. The operationalisation of these variables is discussed in Chapter Four Section 4.4.4.

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1.5.3 Population and sample

This study focused on shareholder voting at JSE-listed companies, therefore, the population comprised all companies listed on the stock exchange over the research period. The sample consisted of all the JSE-listed companies that were included in the Proxy Insight database from 2014 to 2020. Due to the lack of information on certain variables for companies, these companies were removed from the final sample to ensure consistency, which was highlighted by the difference in the Proxy insight sample and the final sample. Details on the number of companies included in the population and sample are indicated in Table 1.1.

Table 1.1 Details of the population and sample

Year	Population[a]	Proxy Insight sample	Final sample
2014	380	79	59
2015	382	183	180
2016	376	189	160
2017	366	199	169
2018	360	206	171
2019	343	197	164
2020	331	170	149
[a] Data sourced form the World Federation of Exchanges (2021)			

As from 2015, a considerable number of JSE-listed companies were included in sample. As far as could be ascertained, this study was the first to use such a comprehensive and unique dataset covering the board composition and re/election shareholder voting outcomes of listed companies in South Africa.

1.5.4 Data analysis

Descriptive statistics were used to describe the collected data. To determine changes in the considered variables over time, one-way analysis of variance (ANOVA) tests were conducted. Fisher's least significance difference (LSD) tests were furthermore used to determine the significance of the observed changes over the research period and between years. Mixed-model ANOVAs were also conducted to investigate the nature of the relationships between the dependent, independent, and control variables.

1.6 CONTRIBUTION OF THE STUDY

The researcher analysed a unique database comprising votes cast on director re/election resolutions at JSE-listed companies from 2014 to 2020. As far as could be ascertained, no other study has used such a comprehensive database of shareholder voting outcomes in South Africa.

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This study contributes to the identified knowledge gap on public shareholder activism towards directors of selected JSE-listed companies.

It is envisaged that the findings of this study will enhance various stakeholders' understanding of selected board independence characteristics. These characteristics are salient to shareholder voting dissent pertaining to director re/election resolutions of JSE-listed companies. More specifically, the findings can be of value to ordinary shareholders of JSE-listed companies, proxy advisors, nomination committees, directors of JSE-listed companies, the IoDSA, the JSE, the media, and commerce educators.

1.7 ORIENTATION TO THE STUDY

This study consists of six chapters.

Chapter One: Introduction to the study

The purpose of this chapter is to provide an overview of the study, including a brief discussion of previous literature on the research topic. The problem statement and research objectives are presented along with the adopted research design and methodology. The contribution of the study is also outlined.

Chapter Two: Corporate governance theories and board characteristics

The focus of Chapter Two is on the independence of the board of directors to mitigate the agency problem. The agency theory will be explored in the context of the management of public companies. This theory will be compared with and contrasted to the stewardship, resource dependence, and stakeholder theories. A discussion on various board independence considerations and board size acting as corporate monitors will follow. The director re/election process will be outlined, and the role of the nomination committee will be discussed.

Chapter Three: Linking internal and external monitoring mechanisms

Chapter Three will provide a discussion on various corporate governance monitoring mechanisms that are outside the domain of the board of directors. Attention will be given to various aspects of private and public shareholder activism mechanisms and the effectiveness thereof to mitigate agency conflicts between shareholders and agents. The spotlight will then shift to the regulations pertaining to institutional investors and minority shareholders in South

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Africa. The seven research hypotheses, which were formulated based on a review of previous literature, will then be offered.

Chapter Four: Research design and methodology

Chapter Four provides details on the adopted research design and methodology. Information on the population and sample will be outlined. The databases that were used to gather the data will be discussed. The considered variables will then be presented followed by an explanation of the methods that were used to analyse the panel data. The reliability, validity and ethical considerations that were addressed in this study will also be delineated.

Chapter Five: Empirical results

The results of the descriptive and trend analyses will be presented and discussed for each of the considered variables. Next, the results of the mixed-model ANOVA that was conducted to investigate the relationships between the dependent, independent and control variables are presented and discussed.

Chapter Six: Summary, conclusions and recommendations

Chapter Six comprises a summary of the study. Conclusions will be drawn and recommendations will be made based on the results of the literature review and empirical analyses. Recommendations will be offered to ordinary shareholders of JSE-listed companies, proxy advisors, nomination committees of JSE-listed companies, directors, the IoDSA and JSE, the South African media, and commerce educators. The limitations of the research will be mentioned and recommendations for future research will be offered. Lastly, the chapter will close with some concluding remarks.

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CHAPTER TWO
CORPORATE GOVERNANCE THEORIES AND BOARD CHARACTERISTICS

2.1 INTRODUCTION

Chapter One provided a brief overview of the study. Reference was, inter alia, made to the roles of INEDs in the context of the agency problem. This chapter will provide a summary of other corporate governance theories which also aim to explain managerial behaviour. Five board characteristics with specific relevance to the topic under consideration will then be discussed, namely director independence, CEO role duality, director tenure, director multiboardedness, and board size. The relevant corporate governance regulations pertaining to each of these directorate characteristics will be presented along with previous research covering these topics. Tenets of the four selected corporate governance theories will be used to explain differing perspectives of the five investigated internal monitoring characteristics. In the final section, an overview of the process of nominating directors will be outlined.

2.2 SELECTED CORPORATE GOVERNANCE THEORIES

Numerous corporate governance theories have been formulated to assist researchers and practitioners in describing the roles and responsibilities of directors in the companies that they govern (Nicholson & Kiel, 2007). Four prominent theories that are often employed in corporate governance studies will be discussed, namely the agency, stewardship, stakeholder, and resource dependence theories. The relations of these theories to various board characteristics discussed in this chapter are outlined in Figure 2.1.

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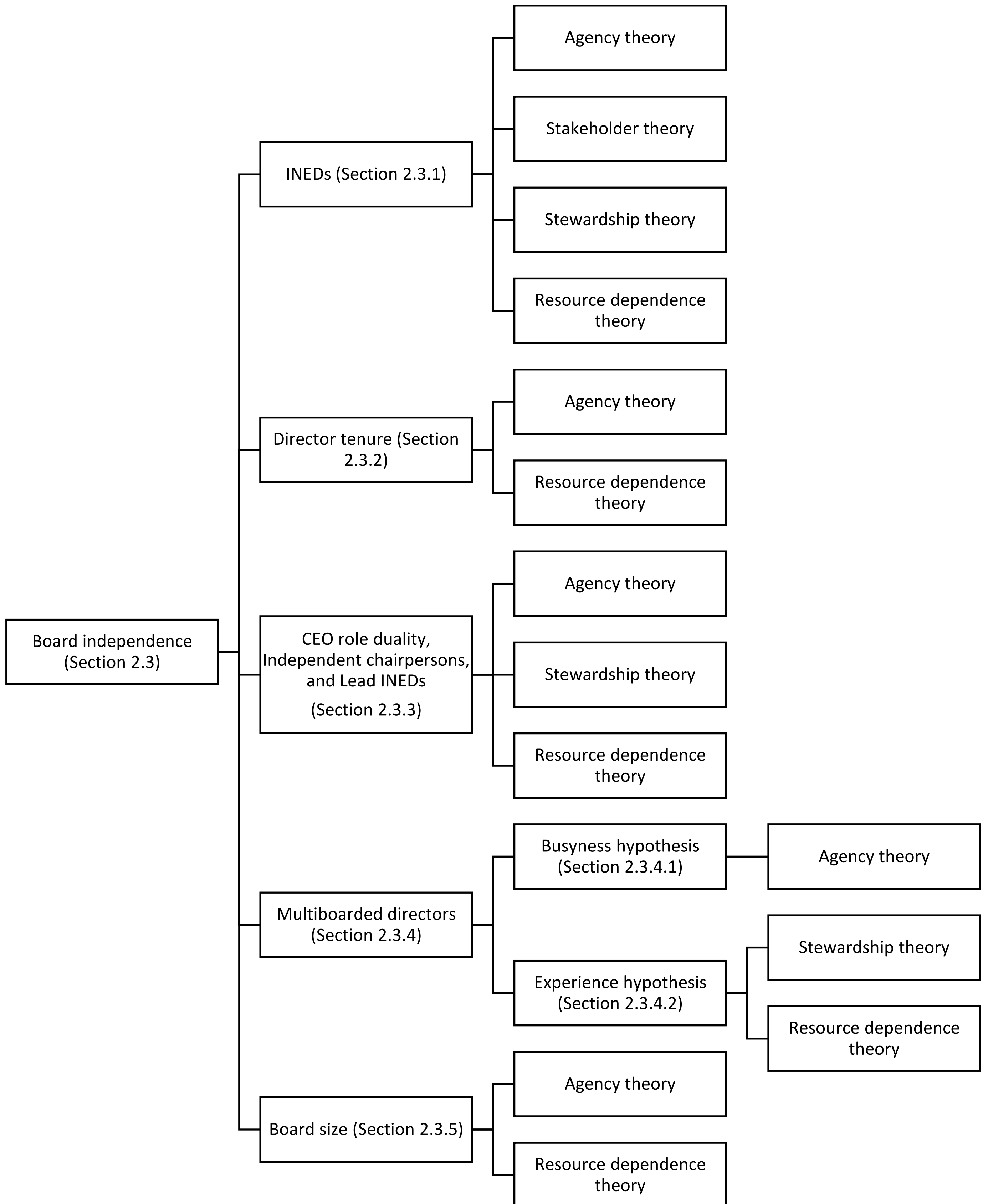
Figure 2.1: Linking selected corporate governance theories to board considerations



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2.2.1 Agency theory

As indicated in the previous chapter, the agency problem forms a crucial aspect of the contractual view of a company. This contractual view is underpinned by principals delegating their decision-making power to corporate agents. For the purpose of this study, agents are the employed managers of investee companies, whereas principals are the shareholders of these companies. Various traditional governance mechanisms were mentioned in Chapter One to align managerial interests to that of their shareholders. Several scholars, however, have suggested the most important monitoring mechanism is that of board composition (Bertrand & Schoar, 2006; Bathala & Rao, 1995). Corporate governance frameworks suggest that the monitoring duty of a board is primarily the responsibility of INEDs. This notion is explored in more detail in Section 2.3.

Although the agency theory is popular and pragmatic, it suffers from various limitations (Panda & Leepsa, 2017; Daily, Dalton & Canella, 2003; Shleifer & Vishny, 1997; Eisenhardt, 1989). This theory suggests that the agency problem can be eliminated through contracting. Practically, however, hinderances such as rationality, fraud, information asymmetry, and transaction costs prevent effectual contracting (Panda & Leepsa, 2017). Furthermore, according to agency logic, shareholders' interests in a company are typically purely to maximise the return on their investment (Eisenhardt, 1989) which limits their role in the company. Daily et al. (2003) argued that agency logic limits an NED's role to managerial monitoring and stated that anything additional to this role is not clearly defined.

Agency theorists have also weathered criticism from Perrow (1986). This scholar argues that positivist agency theory only concentrates on the agent's side of the principal–agent conundrum but does not consider that it may occur from the side of the principal. Perrow (1986) observes further that those principals who exploit, shirk, and deceive agents are not recognised as an issue in agency logic. Through the belief that humans are ethical workers and noble members of a company, this belief was theorised to become known as the stewardship theory (Donaldson, 1990).

2.2.2 Stewardship theory

The stewardship theory takes an opposing view to that of the agency theory. The latter theory describes the role of management in developing and maintaining shareholder value. In contrast, the stewardship theory views managers as faithful, responsive, and effective individuals who

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are good administrators of the resources at their disposal (Davis, Schoorman & Donaldson, 1997). These authors proposed the stewardship theory as a criticism of the ‘selfishness and shirking’ of agents that is described in the agency theory. This perspective differs largely from that of the agency theory’s view that managers aim to only maximise their self-interest unless appropriate contracts are put in place (ibid).

The stewardship theory regards the agent as a trustee, who is more focused on shared goals than individual goals (Schillemans & Bjurstrøm, 2020; Davis et al., 1997). If the agent shares the goals of the principal there is no need for opportunistic behaviour, which leads the principal to trust the agent without too much drift between their goals. According to Schillemans and Bjurstrøm (2020), the fundamental distinction between the agency and stewardship theories is their descriptions of human motivation. The steward chooses to serve as opposed to acting on direct self-interest and is driven by higher needs of self-realisation, achievement, recognition, and respect (Davis et al., 1997). Through their internal motivation, stewards are driven to do their duty. This motivation leads to the foundational conflict between agents and principals (as per the agency theory) to diminish or disappear (Caers et al., 2006).

According to the stewardship theory, a board should comprise mainly of internal members (executive directors) as these individuals understand the company and can efficiently react to changes accordingly (Clarke, 2004). In this context, if a board consists of only INEDs (outside directors), the directorate will arguably not be able to react rapidly to daily issues that may arise in the company. Brennan and Solomon (2008) posit that INEDs will only be in a situation to monitor the maximising of shareholder wealth over the short term, as they have a limited understanding of the company’s business operations. According to these authors, executive directors, on the other hand, have a better understanding of the day-to-day running of their respective companies.

2.2.3 Stakeholder theory

Following the rise and prominence of the agency theory in the financial and economics literature (Eisenhardt, 1989; Fama & Jensen, 1983; Jensen & Meckling, 1976), several researchers began exploring implications of this theory for strategic management and organisational studies (Coleman et al., 2008; Hill & Jones, 1992).

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Scholars started to expand their scope to include other stakeholders, and not only shareholders as postulated by the agency theory (Friedman, 1970). According to Coleman et al. (2008), the stakeholder theory is better at describing the role of corporate governance than the agency theory, as the former theory emphasises multiple constituents to the company. Freeman (1984) highlights that stakeholders include all persons, parties, and organisations that have a legitimate claim on a company. The existence of 'exchange relationships' between these groups and the company arguably instils legitimacy to this theory (Hill & Jones, 1992).

The stakeholder theory confirms the importance of corporate social responsibility in the transition from an industrial to a post-industrial society (Freeman & Dmytriyev, 2017). Companies, and their stakeholders, are increasingly concerned with social and environmental considerations. In turn, companies' environmental, social and governance (ESG) policies and practices affect how stakeholders perceive companies (Moyo, Duffet & Knott, 2020; Russo & Perrini, 2010; Freeman, 1984). In this context, the perceptions of stakeholders are therefore salient to those of managers.

Freeman (1984) posits that corporate decision-making is affected by the network of relationships formed between stakeholders and managers. The stakeholder theory is concerned with the nature of these stakeholder relationships and how these relationships impact the processes and outcomes for a company and its stakeholders. The European Commission (2005) reported that the stakeholder theory is the most effective corporate governance theory, as it concentrates on maximising all relevant stakeholders' interests. This effectiveness is due to the stakeholder theory focusing dually on the economic success of the company and gaining a competitive advantage through cultivating trust and the formation of relationships with key stakeholders (ibid).

2.2.4 Resource dependence theory

The resource dependence theory suggests that a board is an essential link between a company and the resources required to maximise the company's performance (Nicholson & Kiel, 2007). This theory centres on the roles that directors play in sourcing key resources for a company through their external linkages with the business environment (Hillman, Canella & Paetzold, 2000).

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Such external linkages are typified through the characterisation of a company as an 'open system' that is contingent on its external environment (Hillman, Withers & Collins, 2009; Salancik & Pfeffer, 1978). Resource dependence theorists focus on the appointment of directors who represent outside, independent organisations and networks to gain access to critical resources (Johnson, Daily & Ellstrand, 1996).

Hillman et al. (2000) argue that directors offer several resources to a company, including knowledge and skills. In addition, these individuals also provide access to key constituents, such as buyers, suppliers, social groups, and policymakers, while also enhancing legitimacy (ibid). Through each director's provision of and access to resources, a company can enhance its organisational functioning, increase its likelihood for survival, and enhance its performance (Daily et al., 2003).

Corporate governance studies underpinned by these four theories yield different perspectives on the role that managers play in creating and maintaining shareholder wealth. Corporate governance frameworks are mostly concerned with controlling agency conflicts by recommending INEDs to serve as corporate monitors on the boards of public companies (IoDSA, 2016; Aguilera, Desender, Bednar & Lee, 2015; Goranova & Ryan, 2014; Bonazzi & Islam, 2007). The following section, therefore, comprises a discussion on various board-related monitoring mechanisms. These monitoring mechanisms will be presented mainly from the perspective of the agency theory (as this study is predominantly based on this theory), while the stewardship, stakeholder, and resource dependence theories will be used to offer alternative perspectives.

2.3 CORPORATE MONITORING: AN OVERVIEW OF KEY BOARD CHARACTERISTICS

As outlined in Section 1.2.3, a board of directors performs the dual roles of advising and monitoring top management (Adams & Ferreira, 2007). This focal corporate body typically consists of inside and outside directors (Bathala & Rao, 1995). An inside director (executive) is an officer of the company (Peng, 2004), whereas an outside director is not involved in the company's daily management (Johnson et al., 1996).

Outside directors should monitor the actions of inside directors on behalf of their company's shareholders (Fama & Jensen, 1983) and other key stakeholders (Ayuso & Argandona, 2007).

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Hermanson (2003) explains that a largely independent board is a fundamental governance proposition, a notion which is reflected in various corporate governance frameworks globally. The following section outlines previous research and the stance of international and local corporate governance frameworks on independent directors.

2.3.1 Director independence

All directors should contribute towards the advisory function of their board, but the monitoring duty resides primarily with the INEDs (Wang et al., 2015). Corporate governance frameworks around the globe either require or encourage companies to appoint INEDs (Bebchuk & Hamdani, 2017). Furthermore, corporate governance frameworks typically incorporate either an agency or a stakeholder theory perspective on the key roles of these essential monitors in the corporate environment (Naciti, 2019).

Based on the agency theory, most board seats should be held by INEDs (Fama & Jensen, 1983; Fama, 1980). As a result, agency costs can be reduced. INEDs are therefore required to oversee potential agentic behaviour by executive directors that may deviate too far from shareholders' interests and is more aligned with agents' personal objectives (Brown, Peekes, & Verhoeven, 2011). According to Akpan and Amran (2014), INEDs are less likely to have real or perceived conflicts of interest. As such, they are a useful mechanism to link shareholders', and other stakeholders' interests with those of companies (ibid).

The stakeholder theory suggests that managers should also account for the perspectives of key stakeholders to reduce potential conflicts of interest (Haniffa & Cooke, 2002). Therefore, a board that consists of mostly independent members should be able to monitor managerial decisions more effectively than boards that largely consist of executives. Managers at companies with mostly independent boards are likely to be more inclusive of stakeholders' interests (Ayuso & Argandona, 2009). Compilers of corporate governance frameworks in South Africa and globally hence often incorporate the stakeholder theory in the formulation of these frameworks (IoDSA, 2016; Ntim et al., 2015). More detail will be provided next on the stance of corporate governance frameworks on INEDs.

2.3.1.1 The stance of global corporate governance frameworks on independent directors

Various countries offer different regulations and recommendations on director independence. In the United States (US), the two predominant exchanges, namely the NSYE and NASDAQ,

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both suggest in their listing rules that a US company's board should comprise a majority of independent directors (NYSE, 2021; NASDAQ, 2021). These exchanges provide a list of disqualifying criteria to assess director independence (Thomson Reuters, 2021). These exchanges furthermore recommended that independent directors should serve on the audit, compensation, and nomination committees. All directors should also stand for re-election every three years of their term according to these US stock exchanges' listing rules (NYSE, 2021; NASDAQ, 2021).

The United Kingdom's (UK) corporate governance code stipulates that at least half of the board, excluding the chairperson, should be INEDs (Financial Reporting Council (FRC), 2018). This code specifies that it is the board's responsibility to determine which directors are classified as independent. In addition, one of the independent directors should be appointed as the senior (lead) independent director. This individual should serve as an intermediary to the board, the chairperson of the board, and the shareholders (ibid). The senior independent director and the NEDs should furthermore meet with and appraise the performance of the chairperson at least once a year. The UK corporate governance code requires that all board members stand for re-election each year (FRC, 2018).

Directors of public companies in Australia are classified based on two independence categories. The Australian Stock Exchange Corporate Governance Committee sets disqualifying criteria for the independence of directors by classifying them either as independent directors or as 'grey' directors. According to these regulations, independent directors have no links to management or substantial shareholders (that is, shareholders with over five per cent shareholding) (Luan & Tang, 2007). A director who is classified as grey, however, has been considered to have such connections (ibid). By classifying directors as either independent or grey, shareholders can quickly determine the exact level of objectivity that each independent director can offer.

2.3.1.2 The local stance on independent directors

In the context of South African boards, the term independence refers to NEDs practising unfettered and objective judgements (IoDSA, 2016). According to King IV, director independence means that an individual holds no interest, association, position, or relationship which may cause bias or influence their decision-making abilities (ibid). The classification of a director as an INED evolved from a list of disqualifying criteria in King III to a more practical

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approach in King IV focusing on the perception of independence (Deloitte, 2017). This evolution can be typified by the transition from factual to perceptual independence. The latter relies on the board to classify directors as independent. In addition, King IV suggests that a director is independent if an informed third party perceives him/her as independent (IoDSA, 2016).

By comparing King IV to influential corporate governance codes such as the NYSE Listed Company Manual, the UK Corporate Governance Code, and the OECD Principles of Corporate Governance, it is evident that King IV follows international best practices by drawing on the agency and stakeholder theories (Deloitte, 2017). Previous research on board independence will be presented in the next section.

2.3.1.3 Previous empirical evidence regarding board independence

Although board independence is increasingly deemed a key corporate monitoring consideration to mitigate agency conflicts in corporate governance regulations worldwide, mixed empirical evidence has been reported on the effectiveness thereof (Guo & Masulis, 2015). Some scholars have noted that independent non-executive board representation promotes shareholders' interests (Brickley, Smith, & Zimmerman, 2015; Conyon & Peck, 1998) and reduces cases of fraud (Naudé et al., 2018; Beasley, 1996).

Several financial performance measures have furthermore been proven to have positive relationships with the proportion of independent directors (Ho, 2005; Daily & Dalton, 1992). For example, Tobin's Q was higher in selected Korean companies that had mainly independent directors than those of their peer companies with less independent boards (Black, Jang & Kim, 2006). Offering a different perspective, Kiel and Nicholson (2003) found a significant decrease in Tobin's Q in Australian listed companies that were governed by mostly executive directors. While some scholars found that company profitability tends to increase as the proportion of outside directors increases (Liu et al., 2015; Ramdani & Witteloostuijn, 2010; Daily & Dalton, 1992, Schellenger, Wood & Tashakori, 1989), others found negative or insignificant outcomes in this regard (Subrahmanyam, Rangan & Rosenstein, 1997; Yermack, 1996). Bhagat and Black (2001) reported negative links between director independence and two financial variables, namely Tobin's Q and operating income to assets in large, listed US companies.

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These conflicting empirical results can be largely ascribed to the various definitions of director independence used, especially under different corporate governance regulations (Luan & Tang, 2007; Dalton et al., 1998). The divergent definitions make it challenging to define what constitutes 'true independence'. It should be noted that 'true' director independence is largely subjective, as independence could mean different things to different regulatory bodies, companies, and investors.

Daily and Dalton (1994) provide a unique perspective on these divergent views. They classify directors into three categories, namely independent, interdependent, and affiliated. Directors who are categorised as independent fit the traditional definition of outside directors who were appointed prior to the appointment of a current CEO. The interdependent category concerns outside directors who were appointed during the current CEO's tenure. Daily and Dalton (1994) found that these interdependent directors were more prevalent at bankrupt companies. The term 'affiliated' refers to inside directors. The interdependent and affiliated directors' interests may be more aligned with those of inside directors, rather than with those of shareholders (Luan & Tang, 2007; Daily & Dalton, 1994). This alignment with insiders may allow these directors to offer more advising capabilities at the expense of their monitoring capabilities. The link between director tenure and independence is outlined next.

2.3.2 Director tenure

Director tenure is particularly relevant to institutional investors and proxy advisory companies, as tenure can be used as a proxy for director independence (Natesan & Du Plessis, 2018; Katz & Mcintosh, 2014). Institutional investors use proxy advisory companies for research, data, and recommendations on shareholder and management resolutions that are voted on at shareholder meetings (Alexander, 2022). Tenure and the need for board refreshment are important considerations when composing a board of directors. Directors with a longer tenure are known to have more experience, commitment, and improved decision-making abilities, which are important considerations when appointing non-executive and executive directors (Golden & Zajac, 2001). However, when considering independent directors, there seems to be a trade-off between the abovementioned characteristics and these directors' monitoring role (Vafeas, 2003).

According to Huang and Hilary (2018), director tenure captures the trade-off between director independence and knowledge accumulation in a company or industry. Such 'corporate

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familiarity' can improve the advisory role of directors by providing assurance and expertise in investment decision-making (Kim, Mauldin & Patro, 2014). This familiarity, however, may come at the cost of the board having fewer independent directors who can monitor managerial decision-making (Dou, Sahgal & Zhang, 2015).

2.3.2.1 Overview of corporate governance regulations on director tenure

Although several corporate governance frameworks globally suggest that the tenure of INEDs should be limited (Veltrop, Molleman, Hooghiemstra & Van Ees, 2018), few stipulate clear guidelines on how long a director may in fact serve on a board. Certain global regulations specify a term limit on the number of years that a director may serve in an independent capacity (Sun & Bhuiyan, 2020). Furthermore, directors are typically subject to re-election by shareholders after each term, or annually, as suggested by the UK Corporate Governance Code (FRC, 2018).

A different perspective is offered by Hong Kong's Main Board Listing Rules (2019). These listing rules require shareholders to approve an independent director's appointment if the director has served for more than nine years. This perspective, therefore, gives the power to shareholders to determine if an INED is sufficiently independent on an annual basis. Furthermore, the European Commission recommends that director tenure should be limited to three terms or 12 years in total (European Commission, 2005).

King IV encourages South African companies to adopt a principles-based governance framework (Natesan & Du Plessis, 2018; IoDSA, 2016). Boards are accordingly encouraged to 'establish arrangements for periodic, staggered rotation of its members so as to invigorate its capabilities by introducing members with new expertise and perspectives while retaining valuable knowledge, skills and experience and maintaining continuity' (IoDSA, 2016:50).

In line with the UK Corporate Governance Code, King IV recommends that a director should not be classified as independent when he/she has served on a board for longer than nine years following his/her first election (IoDSA, 2016). If this director is to continue serving on the board in an independent capacity after this term limit has been reached, the company is required to provide a reason for classifying the director as independent. Such INEDs are also required to be re-elected each year after their nine-year term (FRC, 2018). Previous studies have

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highlighted the costs and benefits associated with varying director tenures. Prominent studies are discussed next.

2.3.2.2 Overview of previous research on director tenure

Researchers reported several benefits and concerns related to director tenure. In support of directors with longer tenure, Perez-Calero, Villegas and Barroso (2016) determined that individuals with extensive board contacts and experience (tenure), improved business performance in Spanish companies. Kim et al. (2014) added that long-tenured directors are more knowledgeable than their less experienced counterparts. They reported that companies where long-tenured board members fulfilled advisory roles, share returns and accounting performance improved (ibid). These results are in line with the discussed resource dependence theory, which suggests that directors can gather company-specific knowledge and develop unique capabilities by serving for long periods on a board.

Mishra and Nielsen (2000) posit that board independence (measured as the average director tenure divided by CEO tenure) could enhance accounting performance. Furthermore, Jia (2017) found that long-serving directors mitigate the positive impact of innovation on company performance and value, which suggests boards with long serving directors innovate less than their counterparts. As mentioned previously in Chapter One Section 1.2.3.1, boards with a longer average tenure may face repercussions form proxy advisors (Pozen & Hamacher, 2015).

Yet, boards with many long-serving members may suffer from groupthink (Coles, Daniel, & Naveen, 2015). Groupthink could lead to a decline in company value, especially in companies with smaller boards that are conducting business in dynamic industries and whose boards have limited access to external connections (ibid). Groupthink may also lead to diminishing independence, as directors' thoughts are aligned with one another due to the related need for group consensus. From an agency theory perspective, the INEDs seated on aboard should monitor executive management on behalf of shareholders (Jensen & Meckling, 1976; Fama & Jensen, 1983). The need for group consensus, however, may lead independent directors to align their thinking with that of executives and NEDs, which might prevent them from properly monitoring inside directors.

Shorter average board tenure, however, may result in a directorate that has a weaker understanding of the company's business and history (Pozen & Hamacher, 2015; Canavan,

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Jones & Potter, 2004). In contrast, a board with longer average tenure might exhibit an entrenchment effect whereby board decision-making could be undermined by the entrenchment of directors (Huang & Hilary, 2018). Entrenchment could lead to independent directors' thoughts aligning more with those of executives and NEDs, which weakens their monitoring ability. From an agency theory perspective, this weakening of their monitoring ability presents a concern for shareholders.

The link between company performance and director tenure is not static (Sun & Bhuiyan, 2020), but is rather typified by an inverted U-shape relationship between company performance and director tenure (Huang & Hillary, 2018; McIntyre, Murphy & Mitchell, 2007). This relationship suggests that company performance increases to a maximum point as a result of the learning effects of long-tenured directors. Thereafter, company performance starts to decrease owing to the adverse effects of entrenchment. Stated differently, longer tenured directors are seen to accumulate more knowledge about a company's business operations, which may lead to more informed advice to recently appointed executive directors (McIntyre et al., 2007). This entrenchment, however, may result in a lack of external knowledge on the business environment and certain technologies, which diminishes longer tenured directors' input value to the executive committee (Jia, 2017). Furthermore, a long-tenured directors might befriend managers over time, which might significantly diminish their ability to effectively monitor these individuals.

McIntyre et al. (2007) accounted for tenure diversity by determining the standard deviation of director tenure. They concluded that moderate levels of tenure diversity are advantageous to a board, as it could have a positive impact on company performance, as measured by Tobin's Q (ibid). Li and Wahid (2018) likewise found that tenure-diverse boards display higher CEO performance turnover sensitivity. Higher CEO performance sensitivity means that a tenure-diverse board are more likely to replace a poorly performing CEO than boards with lower CEO performance sensitivity.

Li and Wahid (2018) further suggest that tenure-diverse compensation committees are less likely to award excessive compensation to CEOs when compared to compensation committees that are not tenure-diverse. More tenure-diverse boards have also been found to improve a company's corporate social responsibility (Harjoto, Laksama, & Lee, 2015). By virtue of their

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increased independence, tenure-diverse boards may monitor management more diligently (Li & Wahid, 2018), which, from an agency theory perspective, is good for shareholders.

2.3.3 Separation of the roles of the CEO and board chairperson

If a CEO also fulfils the role of the board chairperson, reference is made to CEO role duality. CEO role duality is a contentious topic, as various scholars and practitioners have argued for and against the joint role (Duru et al., 2016; IoDSA, 2016; Dalton, Hitt, Certo & Dalton, 2007). Arguments stemming from the agency theory and empirical evidence on the negative impact of CEO role duality on a company's performance have led to corporate governance regulations calling for the separation of these roles at public companies (FRC, 2018; IoDSA, 2016; Jensen, 1993; Fama & Jensen, 1983).

In South Africa, King IV also recommends that the roles of the board chairperson and CEO should not be fulfilled by the same person (IoDSA, 2016). Furthermore, a retired CEO should preferably not become chairperson of the board. However, should this happen, a cooling-off period of three years is recommended for such an appointment (IoDSA, 2016). This recommendation concurs with agency logic, which asserts that independent directors should be appointed to monitor agents' decisions (Bonazzi & Islam, 2007; Fama & Jensen, 1983; Fama, 1980).

The presence of a chairperson is important to facilitate the dissemination of information among directors. Duru et al. (2016) found that company performance is significantly negatively affected when the chairperson is not an INED. Aktas et al. (2019) reported that when the CEO is also the board chairperson, large companies with diversified business operations invest their capital inefficiently. This inefficiency was pronounced in companies whose boards represent low levels of independence (ibid.).

In instances where a board's chairperson is not an INED, King IV suggests that the board should appoint a lead independent director (IoDSA, 2016). This person should lead in the absence of the chairperson and act as a mediator between the board and the chair. Furthermore, this director should deal with shareholders' concerns and act as chair if the chair is found to have conflict of interest. According to King IV, the presence of a lead independent director strengthens the independence of a board (ibid).

Plouhinec (2018) remarked that a lead independent director typically contributes to the effective functioning of a board and promoting sound relationships amongst board members and key stakeholders. In difficult periods, such a leading director should assist finding resolutions for challenges. In the same manner that the chairperson is useful to the CEO, the lead independent director is useful to assist the chairperson (ibid).

The agency, stewardship and resource dependence theories are dominant theoretical perspectives that researchers have used to investigate joint leadership in companies (Duru et al., 2016). The agency theory contends that CEO role duality increases the control that a CEO can exercise over the board (Goergen, Limbach, Scholz-Daneshgari, 2020). As a result, the independence of the board, which is crucial to monitor executive entrenchment, can be impaired (Goergen et al., 2020; Jensen, 1993; Fama & Jensen, 1983; Jensen & Meckling, 1976). By separating these roles, a board may improve its oversight function and avoid conflicts of interest (Mandato & Devine, 2020). When there is joint leadership, the board sacrifices the expertise, capacity, and skills that two different people can bring to the table (ibid). CEO role duality further increases the power that a single person can hold over the board (Mandato & Devine, 2020; Duru et al., 2016). The agency theory also predicts a positive relationship between the separation of the roles of the CEO and chairperson, and board independence (Alves, 2021; Fama & Jensen, 1983).

Research on CEO role duality has further been underpinned by the stewardship and resource dependence theories. In contrast to the agency theory perspective, scholars have argued that such role duality can lead to improvements in company performance and organisational effectiveness (Krause, Semadeni & Cannella, 2014; Boyd, 1995; Donaldson & Davis, 1991). The stewardship theory describes factors such as recognition, reputation, and respect that will encourage CEOs to act as good stewards (Donaldson & Davis, 1991). In line with the resource dependence theory, CEOs should effectively manage company resources on behalf of shareholders to unlock and increase shareholder value (Mandato & Devine, 2020; Salancik & Pfeffer, 1978).

The view that managers are motivated by non-financial measures is furthermore consistent with the resource dependence theory (Duru et al., 2016). According to seminal authors of this theory, namely Salancik and Pfeffer (1978), the increased discretion attributed to joint leadership strengthens the position of the CEO to react and respond more quickly to changes

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in a dynamic business environment. This position allows the CEO to secure resources that are critical to a company's survival and success (ibid).

When viewing board independence and CEO role duality through the lenses of the stewardship and resource dependence theories, a negative relationship is expected between a joint CEO-chair and the percentage of independent board members. This expectation can be ascribed to the CEO holding more power over the board, which, in turn, can lead to more directors supporting this person's views (Duru et al., 2016). Yet, inconclusive results have been reported on the link between CEO role duality and company performance underpinned by these theories. This lack of conclusive empirical evidence and alternative schools of thought have fuelled speculation on the benefits of CEO role duality (Lublin, 2009; MacAvoy & Millstein, 2004; Coles & Hesterley, 2000) and may be the reasons that corporate governance frameworks generally call for the separation of these roles.

2.3.4 Multiboarded directors

Interlocked directors, otherwise known as multiboarded directors, refer to the practice of directors who hold directorships at multiple companies at the same time (Bohman, 2010). The term 'overboarding' describes directors who serve on too many boards concurrently, including those at public, for-profit, non-profit, and private companies (Harris & Shimizu, 2004).

There are divergent views on the outcomes of this phenomenon. According to the busyness hypothesis, overboardedness is related to several negative outcomes. In contrast, the experience hypothesis suggests that director interlocking could offer several benefits (Mans-Kemp, Viviers & Collins, 2018; Clements, Neill & Wertheim, 2015). The following two sections deal with these opposing theories, beginning with the experience hypothesis.

2.3.4.1 The experience hypothesis

The experience hypothesis proposes that by holding multiple board seats concurrently, a director may gain considerable experience and obtain invaluable access to social capital and resources (Clements et al., 2015). This hypothesis is underpinned by the resource dependence theory, which postulates that the board is an essential link to the outside resources that a company requires (Nicholson & Kiel, 2007). Sarkar and Sarkar (2009) further suggest that interlocked directors have a larger social network than their counterparts who serve on a single

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board. Therefore, interlocked directors can arguably leverage their experience and social networks to improve negotiation in resource-related transactions (Hillman et al., 2000).

Interlocked directors can offer several benefits to the boards on which they serve. These are mainly related to their advisory and monitoring roles (Chen, 2008; Fama & Jensen, 1983). Directors who hold multiple board seats are excellent advisors, because of their contacts and experience (Mans-Kemp et al., 2018). Fama and Jensen (1983) contend that a director's abilities are 'certified' through multiple directorships. This certification refers to the ability of a director to perform their monitoring duty, which is then rewarded by additional board appointments at other companies (Clements et al., 2015).

Ferris, Jagannathan and Pritchard (2003) found that directors at better performing companies are more likely to be appointed to other boards than their counterparts at underperforming companies. Similarly, a positive association exists between an ex-CEO serving on a board and the performance of that company while they were CEO, thereby exhibiting pass-through effects (Brickley, Linck, & Coles, 1999). This association ties in with the resource dependence theory, as an ex-CEO can provide the expertise and knowledge learnt from their previous tenure as the manager of a company (ibid).

Sarkar and Sarkar (2009) suggest that, when investigating the consequences of overboardedness, the categorisation of directors is important. This topic was highlighted earlier in this chapter. These scholars report that interlocked executive directors were negatively associated to company performance, while the presence of their independent NED counterparts was positively related to company performance (ibid).

Mans-Kemp et al. (2018) assert that NEDs who hold multiple board seats tend to be better advisors than monitors. Therefore, interlocked directorates are likely to be less independent than their counterparts whose members largely serve on one board at a time, as independent boards are better corporate monitors. However, in companies where monitoring is more challenging, such as large companies and those with considerable intangible assets, a positive relationship was observed between company value and multiple directorships (Lee & Lee, 2014). This observation may be indicative of the improved advisory role these multiboarded directors can play in large companies. An opposing view will be discussed next.

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2.3.4.2 The busyness hypothesis

The busyness hypothesis suggests that as directors become more committed to more companies, they become less effective monitors (Clements et al., 2015). This hypothesis is rooted in the agency theory. Some researchers contend that directors will overcommit themselves to multiple directorships, thereby reducing their ability to act as monitors and advisors to each board where they serve. These individuals are likely to collect substantial director-related fees and could receive prestige from their multiple directorships. Yet directors who serve on multiple boards at the same time could be unable to discharge their monitoring duties effectively due to considerable time constraints (Jiraporn et al., 2009).

Overboarded directors also tend to miss more board meetings than their less busy counterparts (Jiraporn et al., 2009). Fich and Shivdasani (2006) add that at companies where the majority of the NEDs held many external board positions, these NEDs tend to perform inadequately. They were also less likely to remove a poorly performing CEO (Fich & Shivdasani, 2006). Similarly, Core, Holthausen and Larker (1999) posit that CEO emolument is higher in companies where outside directors serve on multiple boards. These authors reason that better compensation is related to ineffective governance structures, which are prevalent in companies with greater agency problems. Regarding merger and acquisition activity, boards with directors who are viewed as 'busy', tend to experience lower acquisition announcement returns (Ahn, Jiraporn & Kim, 2010) and larger discounts when pursuing a diversifying transaction (Jiraporn, Kim & Davidson, 2008).

During the 2019 US proxy season, the spotlight fell on overboarding (Papadopoulos, 2019). Companies and investors expressed their concerns by questioning selected directors' abilities to satisfy their obligations given the significant time constraints associated with each external directorship (ibid). Despite these concerns, the number of board seats that a director can hold simultaneously is not legally regulated in various countries, including South Africa. The UK Corporate Governance Code sets out the importance of directors managing the number of board seats that they can occupy at the same time. This corporate governance code also specifies that a CEO should not accept more than one NED position on another board of the 100 largest companies in the UK (FRC, 2018). King IV suggests that directors should devote sufficient effort and time to prepare for all meetings Furthermore, a JSE-listed company director should preferably not hold more than five non-executive positions simultaneously (Natesan & Du Plessis, 2018; IoDSA, 2016).

2.3.5 Board size

Board size captures the number of directors who serve on a company's board. The agency and resource dependence theories are the predominant theories when researchers attempt to find the optimal board size (Wang et al., 2018). According to agency logic, small boards are preferred as large boards are costly, based on both monitoring and incentivising considerations (Natesan & Du Plessis, 2018). Corporate governance researchers who have adopted the resource dependence lens often argue that larger boards are beneficial to companies, as each additional director brings both access to resources and expertise (Hillman et al., 2009).

2.3.5.1 Theoretical and legal perspectives on optimal board size

From an agency theory perspective, small boards are associated with easier communication and interaction between members. Fewer board members further lead to lower board-related expenses and directorates that are more easily managed. Directors of smaller boards also tend to provide more effective oversight of other board members (Natesan & Du Plessis, 2018; Dalton et al., 1998). In turn, such boards can make decisions and respond to changes more quickly than their larger counterparts (Natesan & Du Plessis, 2018). Yet, disadvantages of a small board include difficulties in raising a quorum, and the board having fewer collective skills and experience compared to large boards. Fewer board members also increase the individual workload and small boards might lack diversity in thought (Dalton et al., 1998).

Large boards exhibit various advantages, particularly when adopting a resource dependence view. These advantages include enhanced board diversity, in terms of skills, experience, nationality, and gender (Dalton & Dalton, 2005). Large boards ensure that a sufficient number of directors are present to share the workload and serve on the various board committees (Natesan & Du Plessis, 2018; Kiel & Nicholson, 2003; Dalton et al., 1999). Large boards also find it easier to raise a quorum when voting on decisions in comparison to small boards. However, large boards may also allow the shirking of responsibility and may have difficulty in scheduling meetings. Furthermore, large boards have substantial pay-related expenses and could be difficult to manage because of increased personnel (Natesan & Du Plessis, 2018; Hillman et al., 2010; Dalton et al., 1998).

The Companies Act requires that at least three board members should be appointed by JSE-listed companies to ensure that voting decisions can be resolved (Government Gazette, 2009). Both, the Companies Act and King IV do not set a maximum limit on the number of directors

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who may serve on a board at once (IoDSA, 2016; Government Gazette, 2009). Therefore, previous empirical literature on each of these perspectives will follow to assess the optimal board size.

2.3.5.2 Previous empirical evidence on optimal board size

Empirical evidence on the relationship between board size and company performance is mixed. Based on an analysis of 35 publicly traded bank holding companies over a 34-year period, Adams and Mehran (2012) found that bank performance was positively related to board size. De Andrés and Vallelado (2008) also report that bank performance increased up to a point as board size increased, but thereafter decreased as board size increased for a sample of 69 commercial banks of six OECD companies from 1996 to 2006. From an emerging market context, Wang et al. (2018) highlighted an inverted U-shape between the board size of selected publicly traded companies and their financial performance, as measured by profitability, and Tobin's Q. The inverted U-shape entails that financial performance increased up to a point whereafter adding directors to a board would lead to observing declining financial performance.

Optimal board size is a subjective topic that is unique to each company. This notion is echoed in King IV, where it is stated that a company's board size should be determined by the company and its board members (IoDSA, 2016). To increase the size of their board, a nomination committee must nominate a director for consideration by shareholders. Therefore, the next section will include a discussion on the role of nomination committees in composing boards.

2.4 THE ROLES OF NOMINATION COMMITTEES IN COMPOSING BOARDS

Board committees form part of the upper echelons of power and decision-making in the corporate environment (Bilimoria & Piderit, 1994). Directors are appointed to serve on several committees that, amongst others, focus on accounting and audit functions, remuneration and nomination of directors, and other company matters concerning governance, technology, risk, and sustainability (Mans-Kemp & Viviers, 2019). Nomination committees assist in achieving the strategic goals of the board, which is critical for a company's survival (Tarry, 2009; Vafeas, 1999). The nomination committee is of particular relevance to this study, given its substantial impact on board composition.

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2.4.1 Director nomination process and trends in South Africa

According to Clune, Hermanson, Tompkins and Ye (2014), the characteristics of a board are established through the director nomination process. The nomination committee typically oversees this process. A research report on the nomination process of NEDs in South Africa revealed that if a skills gap is identified at board level, the nomination process will be triggered (IoDSA, 2020a). This report cites the importance of the rotation and retirement of directors. The need to improve board diversity, specifically race and gender diversity, was furthermore stressed as important in initiating the board nomination process (ibid).

The King III and King IV reports recommend that nomination committees should frequently review the composition and size of their boards. They should then nominate suitable candidates for re/election (IoDSA, 2016; IoDSA, 2009). This committee is also responsible for the nomination of the board chairperson and the CEO (Tarry, 2009).

King IV's Principle 7 emphasises that nomination processes should be formal and transparent (IoDSA, 2016). This principle covers the composition of boards by mentioning skills, knowledge, experience, diversity, and independence (ibid). Although these recommendations have been offered to South African companies in several iterations of the King report, stakeholder sentiment towards the effectiveness of the director selection and nomination process is largely viewed as neutral in the country (IoDSA, 2020b). Nomination committees in South Africa seemingly follow a simple director selection process. Coupling this simple process with a limited pool of eligible diverse board candidates (Mans-Kemp & Viviers, 2019) considerably challenge these committees in finding independent candidates (Souther, 2018).

Research from the UK indicates that nomination committees may act symbolically to justify the conclusions reached by key board participants (Agyemang-Mintah, 2015), especially in largely homogenous boards (Souther, 2018; Gregoric, Oxelheim, Randoy & Thomsen, 2017; Murphy & McIntyre, 2007). These symbolic justifications can be linked to and summarised by a survey participant in the sentiment study conducted by the IoDSA (2020b:8) who stated that '[f]ormal processes are seldom followed. It seems to be more ad hoc engagements and relationships and fit'.

By recruiting board nominees from a closed network of directors, companies run the risk of hiring overcommitted NEDs (Souther, 2018). The difficulties associated with overcommitted NEDs were discussed under the busyness hypothesis in Section 2.3.4. Recruitment from similar

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circles may further lead to an inward-looking and stagnant board (IoDSA, 2020a). From an agency theory perspective, this type of recruitment may result in a lack of good corporate monitors (Bonazzi & Islam, 2007; Jensen & Meckling, 1976).

2.4.2 Overview of research on nomination committees' roles

According to the similarity–attraction theory, members of internal social networks are likely to hold similar values and opinions on matters (Byrne, 1971). Westphal and Zajac (1995) used this theory to explain that board candidates with similar characteristics than appointed directors have a higher tendency to be nominated. Similarity is believed to raise trust and improve communication, which may lead to directors nominating homogenous individuals to their boards (Reeves, 2010). However, from an agency theory perspective, homogeneity may be detrimental to the monitoring role of directors. Like-minded NEDs, therefore, might be less likely to challenge executives and managers.

A nomination committee should profile the candidates required by the board and recommend specific directorial candidates (Eminet & Guedri, 2010). It is crucial to reduce the influence of the CEO when nominating board candidates (ibid), as CEO involvement has been shown to decrease the tendency to hire outside directors (Shivdasani & Yermack, 1997; Daily & Dalton, 1994). Likewise, Carcello, Neal, Palmrose and Scholz (2011) report that CEO involvement in the director selection process may lead to the election of directors who are independent on paper, but who are not factually independent.

Furthermore, powerful CEOs have been found to be characteristically similar to new directorial nominees (Westphal & Zajac, 1995). In a similar vein, powerful boards are likely to nominate candidates who share characteristics with the existing directorship (Kaczmarek, Kimino & Pye, 2012; Westphal & Zajac, 1995). This notion can also be related to Byrne's (1971) similarity–attraction theory alluded to earlier in this section.

By proposing relevant, proficient, and ethical board candidates for election, nomination committees play a critical role in determining a company's success or failure (Agyemang-Mintah, 2015). Therefore, the nomination process should be continually improved and updated to nominate effective and faithful candidates (IoDSA, 2020a). Walther and Morner (2014) posit that nomination committees must formalise and adhere to their nomination processes and mandates. These processes of nominating candidates should be transparent and free from

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unjustified interference from the CEO (Shivdasani & Yermack, 1997), the chairperson of the board (Main, 1994), and other executives (IoDSA, 2020a).

Main (1994) contends that nomination committees should pursue candidates from different circles instead of relying on recommendations and personal connections to internal sources. By setting and adhering to clear selection criteria, nomination committees will not be inclined to nominate from their own social network, which may result in nominating individuals who have similar characteristics than existing board members (Ruigrok et al., 2006; Westphal & Zajac, 1995). Instead, nomination committees could cast their nets wider to include academics, representatives from the public and NGO-sectors to nominate these individuals to their shareholders (Mans-Kemp & Viviers, 2019).

2.5 SUMMARY

Various corporate governance theories were presented in this chapter. Corporate governance regulations are mostly underpinned by the agency theory and its basic tenet of aligning managerial and shareholders' interests. However, corporate governance frameworks, such as King IV, include the lens of the stakeholder theory to be more inclusive by not only focusing on shareholders' interests, but include that of broader stakeholders to the business.

Corporate governance frameworks globally and in South Africa stress the important monitoring role of INEDs. Public companies in South Africa are required to adopt the King IV guidelines on an 'apply and explain' basis. These guidelines emphasise the significance of separating the roles of the CEO and the board chairperson. In addition, the chairperson should be an INED. In the case of role duality, a governing body should appoint a lead independent director to ensure a good flow of information between executives and NEDs, and who can act as a mediator at the board level.

The discussed board monitoring mechanisms were formulated to ensure that shareholders' best interests are considered when corporate leaders make strategic decisions. However, several corporate scandals have shown that these mechanisms do not always operate effectively, thereby destroying shareholder and stakeholder wealth. Nomination committees should thus effectively screen and nominate suitable and trustworthy directorial candidates. Ordinary shareholders can then vote on the nominated candidates' re/election at shareholder meetings, which will be discussed in more detail in the following chapter.

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CHAPTER THREE
LINKING INTERNAL AND EXTERNAL MONITORING MECHANISMS

3.1 INTRODUCTION

Corporate governance scholars distinguish between internal and external control mechanisms to mitigate agency problems (Aguilera et al., 2015; Bonazzi & Islam, 2007; Walsh & Seward, 1990). Chapter Two outlined the most important internal board-related mechanisms suggested by prior scholars and corporate governance frameworks. These internal control mechanisms arise from agency problems due to the separation of ownership and control in public corporations (Shleifer & Vishny, 1997).

Walsh and Seward (1990) suggest that when internal control mechanisms fail, external control mechanisms are likely to be activated. This chapter, therefore, will include discussions on selected external monitoring mechanisms and linkages to relevant theoretical views. Related recommendations from corporate governance frameworks, and previous empirical evidence will also be covered. Lastly, incorporating the discussions on internal corporate governance monitoring mechanisms in Chapter Two Section 2.3 and the succeeding discussion on external mechanisms, seven null hypotheses will be formulated.

3.2 EXTERNAL CORPORATE GOVERNANCE MONITORING MECHANISMS

External corporate governance monitoring mechanisms function outside the nucleus of the company (Aguilera et al., 2015). Previous authors suggested various external corporate governance mechanisms, the most prominent being the market for corporate control, legal systems, cross-listings, and external auditors, as outlined in this section.

3.2.1 Market for corporate control

Underperforming companies face a higher risk of becoming takeover targets through the external governance mechanism that is known as the market for corporate control (Aguilera et al., 2015). This mechanism is based on the agency theory, which states that self-serving managers and boards are partly disciplined by financial markets (Dalton, Hitt, Certo & Dalton, 2007; Fama & Jensen, 1983).

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Underperforming managers and boards typically destroy the value of equity, which may present an opportunity for a takeover (Hawley & Williams, 2000). Various researchers contend that when internal mechanisms that attempt to control managerial self-serving fail, the market for corporate control will serve as an external governance mechanism to avoid corporate failure (Bonazzi & Islam, 2007; Daily et al., 2003; Walsh & Seward, 1990).

It has been shown that the incentives offered to managers play a key role in the effectiveness of the market for corporate control (Aguilera et al., 2015; Fama & Jensen, 1983). Jensen (1984) theorises that the market for corporate control allows a company's assets to be allocated more efficiently. This improved efficiency can be attributed to the threat of a takeover acting as a strong incentive for managers (Bednar, Love & Kraatz, 2015). Acquisitions often result in management and board turnover, which leads to substantial knowledge losses (Harford, 2003; Krug & Hegarty, 2001).

Furthermore, a takeover reflects poorly on incumbent management, which can damage managers' reputations. Self-interest thus motivates agents to allocate funds more effectively and efficiently (Bednar et al., 2015). This reputational risk is more pronounced in companies with dispersed ownership than in companies with controlling shareholders (Aguilera et al., 2015). Dispersed owners may be more diversified in their opinions of directors than their controlling counterparts, which may have knock-on effects for these directors' reputations.

There are several other reasons why companies might consider business combinations. Larcker and Tayan (2011) suggest that an acquirer can improve a target company's profitability, which can lead to gains for the acquirer. Strategies to improve profitability include diversification, revenue improvement, vertical integration, and cost reduction. Furthermore, the sharing of tangible and intangible resources, and the combination of product lines between companies can lead to improved profitability (Kamasak, 2017; Larcker & Tayan, 2011; Bakar & Ahmad, 2010). Additionally, Dalton et al. (2007) assert that the market for corporate control can prompt other actions such as mergers, shareholder buyouts, leveraged buyouts, divestitures, spin-offs, asset sales, split-ups, and liquidations.

Although there seems to be a theoretical argument in favour of the market for corporate control, empirical evidence suggests otherwise. Takeovers show little to no effect on shareholder value creation in the short term, and mostly negative returns in the long term for the acquiring

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company (Tuch & O'Sullivan, 2007; King, Dalton, Daily & Covin, 2004). On the one hand, this effect can be attributed to the information asymmetry that exists between insiders and outsiders when determining the target's value (Aguilera et al., 2015). On the other hand, it can be due to managers adopting anti-takeover measures, such as poison pills, greenmail, or making defensive changes to the structure of the company (Gompers, Ishii & Maverick, 2010; Davis & Greve, 1997; Kosnik, 1990).

Takeovers are expensive to undertake (Milosevic, Andrei & Vishny, 2015; Williamson, 1970), thereby reducing the effectiveness of this external governance mechanism (Aguilera et al., 2015). Dalton et al. (2007) argue that when the market for corporate control becomes activated, it is clear that other governance mechanisms have failed. However, this mechanism may not necessarily improve performance as managerial free-riding problems may be based on estimates by outsiders, rather than an actual occurrence.

3.2.2 Legal system

A legal system refers to the set of regulations and processes that are used to interpret and enforce existing law (Aguilera et al., 2015). According to the agency theory, shareholder interests are of fundamental concern to companies (Bonazzi & Islam, 2007; Jensen & Meckling, 1976). The legal system should thus reduce agency costs by controlling and prohibiting managerial and directorial self-serving behaviour (Hansmann & Kraakman, 2002). The legal system can employ the use of law and courts to monitor stakeholders by setting and enforcing the incentive and contractual expectations appropriate in the legal boundaries for all parties (Aguilera et al., 2015).

South African financial law most closely resembles that of common law (Yermack, 2018). La Porta, Lopez-de Silanes and Shleifer (2008) indicate that common law in its strongest form supports dispute resolution with little involvement necessary from the state or regulations. This system is also known to hold the highest level of investor protection (La Porta, Lopez-de-Silanes, Shleifer & Vishny, 1998). Investor protection and the rights of shareholders will be discussed further under the South African Companies Act in Section 3.2.2.1.

South African shareholder rights and institutional structures have been considered as some of the strongest amongst emerging markets (Andreasson, 2011). However, although South Africa has been deemed a top emerging market performer in corporate governance (IoDSA, 2009),

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recent cases of fraud and governance failures in South African companies have led to investigations into their institutional structures. Steinhoff is an excellent example in this regard.

The legal system is a broad external corporate governance mechanism, which contains many intricate layers that mould most aspects of how a company is governed. Through careful evaluation and enforcement of the law, this system can promote sound corporate governance practices to all companies under its jurisdiction. According to Aguilera et al. (2015), the legal system includes so-called 'hard laws' and 'soft laws'. In the South African financial context, hard laws refer to those contained in the Companies Act, whereas 'soft laws' refer to the JSE listings requirements and the various versions of the King report. More details on these rules and regulations will be provided in the following two sections.

3.2.2.1 The Companies Act

Several iterations of the Companies Act were introduced over the years to define the rules and responsibilities that govern listed companies in South Africa (Strydom, 2020). The current form of this Act provides amendments to previous Acts to ensure a harmonious and consistent regime among companies operating in South Africa. These amendments include guidelines through which fair and equitable disputes are dealt with and through which financial reporting and record-keeping rules should be managed (ibid).

This Act furthermore defines the relationships between companies, their boards of directors, and shareholders (Strydom, 2020). Hansmann and Kraakman (2004) note that researchers usually focus on how corporate regulation defines the practice of corporate governance. In this study, particular attention was given to shareholder rights, as shareholders capture the important middle ground between the internal and external control mechanisms of the company (Gantchev, 2013).

According to the Companies Act, any two shareholders can request a shareholders' meeting through signed demands specifying the purpose of the requested meeting (Government Gazette, 2009). If these demands are supported by more than 10 per cent of available and entitled voting rights, the board must call a meeting (ibid). A prominent example in this regard occurred at PPC Limited in 2014, when a group of shareholders requested an extraordinary shareholders' meeting to replace the entire board of directors with the shareholders' own

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nominees (Davids & Ntamane, 2017). The targeted company or other shareholders, however, may follow legal action to set aside such demands (Davids & Kitcat, 2020).

The Companies Act further stipulates that any two shareholders of a company may propose a shareholder resolution on any matter on which they can exercise their voting rights. In addition, when two shareholders propose a resolution, it may be required that this resolution should be submitted to shareholders for consideration (Government Gazette, 2009). The board can determine whether a resolution will be considered at a shareholders' meeting, either by vote or by written consent (ibid).

Recently, shareholder activists requested that the chemical and energy company, Sasol Limited, table their resolutions at a shareholders' meeting to align the company's climate goals with those of the Paris Agreement (Sguazzin, 2020). Sasol's board rejected their request. In contrast, Standard Bank Limited was the first South African company to table a shareholder resolution related to climate risk in 2019 (Just Share, 2019).

Requests for shareholder meetings and the filing of shareholder resolutions present instances where shareholders can intervene to question or change the *status quo*. An ordinary resolution requires more than 50 per cent support to pass, whereas a special resolution require 75 per cent support to pass. Shareholders exercising their voting rights are crucial for shareholder resolutions to pass, as these resolutions are typically opposed by management (Gillan & Starks, 2007). According to agency logic, these rights empower principals (shareholders) with the capacity to monitor agentic behaviour in investee companies.

3.2.2.2 The listings requirements of the Johannesburg Stock Exchange and King IV

So-called 'soft laws' are also included in the local legal system (Aguilera et al., 2015). These soft laws are norms and principles that are enforced by local stock exchanges, stakeholders, or the broader society to exert influence on public companies. The listings requirements of the JSE is an example in this regard.

Listings requirements apply to all JSE-listed companies and are enforced by the JSE, whereas the Companies Act concerns all companies registered in South Africa. The JSE listings requirements regulate, among other things, access to company and financial information, pre-

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emptive rights, related party transactions, the fair and equal treatment of shareholders, and certain voting thresholds (Davids & Kitcat, 2020).

King IV represents another form of soft law in South Africa. The 17 principles and related guidelines contained in this report intend to promote good corporate governance, of which many are concerned with shareholder rights and engagements (Davids & Kitcat, 2020; IoDSA, 2016). Certain King IV principles are included in the JSE listings requirements, which ensure that locally listed companies comply with these principles. These companies otherwise risk losing their listing status. Furthermore, companies should explain how they have applied the King IV principles (IoDSA, 2016).

The above-mentioned regulations, enforced by regulatory bodies and exchanges, are important to define the rights and responsibilities of various stakeholders in and around the company (Fligstein & Choo, 2005; Aguilera & Cuervo-Cazurra, 2004). The legal system in which a company functions outlines practically all aspects of its governance structure, such as its owners, how resources and power are distributed around the company, and its purpose as an organisation (Aguilera et al., 2015). Another interesting area of research includes compliance with multiple legal systems and regulatory bodies by companies that are cross-listed on international stock exchanges. Therefore, this mechanism will be explored in more detail in the following section.

3.2.3 Cross-listing

Cross-listing, also known as ‘dual-listing’, ‘multiple-listing’, or ‘international listing’, is a strategic choice made by a company to list its shares for trading on another country’s exchange (Karolyi, 2012). Listing on a foreign stock exchange can often impose different governance, disclosure, and transparency requirements on a company. Previous researchers have highlighted that companies generally list internationally to access larger and deeper capital markets, to increase the liquidity of their shares, and to improve the diversification of their ownership structure (Bancel & Mittoo, 2008; Fanto & Karmel, 1997).

The market segmentation hypothesis states that companies in underdeveloped markets with several entry barriers are more prone to secondary listings in developed markets (Miller, 1999). By obtaining a cross-listing, these companies are thus able to reduce their capital costs (ibid). Kim (2003) verified the market segmentation hypothesis for Korean companies with cross-

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listing on the NYSE. These authors, however, did not find the same positive effects for listings on the London Stock Exchange or the Luxembourg Stock Exchange. Other researchers, however, have expressed doubt that the reduction in the cost of capital experienced by cross-listed companies can be ascribed to the market segmentation hypothesis (Foerster & Karolyi, 1998; Karolyi, 1998).

According to the investor recognition hypothesis (Merton, 1987), through cross-listing a company can increase its presence to international investors, whilst also diversifying its corporate ownership structure (Kim, Yeo & Zhang, 2021). The required return is then lower due to a reduction in shadow costs. Such costs are reduced due to increased price discovery from the market (Kim et al., 2021). Furthermore, increasing investor recognition can diversify investment risk (Foerster & Kaorlyi, 1998), which bode well with companies and investors.

International listing further exhibits a signalling effect. Owing to information asymmetry between corporate insiders and various stakeholders, investment risks can increase. As investment risk increases, the expected return should also increase, and ultimately the cost of financing may rise due to the information asymmetry (Kim et al., 2021). By cross-listing in a market with stricter disclosure requirements, the information asymmetry problem can be somewhat ameliorated. Furthermore, a positive signal is sent to a domestic market when a company based in a country with low disclosure requirements and low investor protection cross-lists on a developed country's exchange (Temouri, Driffield & Bhaumik, 2016; Moel, 1999; Fuerst, 1998).

Liquidity is another important determinant to equity investment risk (Kim et al., 2021). Companies that are listed in overseas markets often show improved liquidity as they have more diverse investors. Highly liquid markets have lower transaction costs, which decreases the share price impact risk due to greater levels of price discovery in the liquid market (Amihud & Mendelson, 1986). Brogaard, Li and Xia (2017) likewise contend that trading liquidity reduces default risk through price efficiency and improved corporate governance from large, controlling shareholders. By dual listing on a foreign exchange, companies can improve their liquidity and reduce their pricing and investment risk. These improvements can lead to better price discovery, which can lead to potential share price gains in the future (ibid).

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Despite these drivers, managers have also expressed concern about the increased costs that come with the need to conform to additional regulatory and disclosure requirements (Karolyi, 2012). Furthermore, because of a more diverse shareholder base, cross-listed companies are expected to receive more scrutiny from shareholders. These foreign listed companies may face stricter corporate governance regulations than in their home country. More strict corporate governance regulations may lead to an improvement in disclosure quality (Iatridis, 2013). External auditors can also enhance disclosure quality among public companies. This mechanism will thus be explored in the following section.

3.2.4 External auditors

External auditors play an important role as external corporate governance monitors (Desender, Aguilera, Lópezpuertas-Lamy & Crespi, 2016). External auditors' express their opinions on whether a company's financial statements are presented according to the relevant accounting standards and whether they are free from material misstatement (Aguilera et al., 2015). Auditors' opinions enhance the confidence that users of these statements have regarding the factuality thereof. Thus, from an agency theory perspective, external auditors limit managers' ability to extract undue wealth and to manipulate information. This limitation is imposed through enhancing the quality of financial reports and reducing information asymmetries between stakeholders and insiders (Desender et al., 2016).

Research on external auditing as an external corporate governance mechanism has generally been underpinned by either the agency or the resource dependence theories. The basic tenets of these theories were discussed in Chapter Two Sections 2.2.1 and 2.2.3, respectively. The resource dependence angle emphasises the external auditors' reliance on the provision of company and director information. Therefore, it is crucial for the board to interact regularly with a company's external auditors, as this may lead to improved audit planning (Cohen, Krishnamoorthy & Wright, 2007).

The growing number of corporate scandals globally and locally highlights the importance of a board having an independent audit committee. An independent audit committee can uphold or restore shareholder confidence in a company's financial information. King IV further recommends that an audit committee should only contain INEDs (IoDSA, 2016). As discussed in Chapter Two Section 2.3.1, INEDs are crucial to the monitoring function of a board of

directors. By only including INEDs on the audit committee, company insiders will have less influence on a financial audit.

Companies that voluntarily submit themselves for external audits may accrue benefits such as greater access to debt (Allee & Yohn, 2009), lower interest rates (Blackwell, Noland & Winters, 1998), and improved prospects for a credit-rating upgrade (Lennox & Pittman, 2011). Therefore, the conduction of an external audit can send a strong positive signal to shareholders and external stakeholders.

External auditing affects governance policies and practices as listed and large unlisted companies are required to be externally audited (Aguilera et al., 2015). Research on external auditors focuses mainly on the largest auditing companies globally. Therefore, the research presented next will focus on the so-called 'Big 4' auditing companies, namely Deloitte, Ernst and Young, KPMG, and PricewaterhouseCoopers (Jones, Temouri & Cobham, 2018).

3.2.4.1 Research on the Big 4 auditors

Previous literature on external audits suggests that the Big 4 auditing companies deliver higher audit quality than their smaller counterparts, as measured by several proxies (DeFond & Zhang, 2014). Large auditors are less reliant on individual customers because of the diversity of their client base, thereby enhancing their independence and trustworthiness (Aguilera et al., 2015).

From the agency perspective, increased independence and competence are assumed from the Big 4, as these auditors have more reputational capital to uphold (Aguilera et al., 2015). The destruction of an auditor's reputation can have severe knock-on effects on clients. These effects were seen at KPMG South Africa in 2017. This auditing company was reported to be involved in several highly publicised audit engagements and scandals with the Gupta family businesses (Holtzblatt, Foltin & Tschakert, 2020; Shoaib, 2017). As KPMG South Africa's involvement in these scandals became known, many public and corporate entities severed their business relations with this auditing company (ibid).

3.2.4.2 Linking auditor independence to board monitoring

Audit fees have been used as a proxy for auditor independence by some scholars. Carcello et al. (2002) and O'Sullivan (2000) reported a positive relationship between board independence and audit fees. Furthermore, decreased board independence, as measured by greater levels of

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NED and executive ownership, exhibit a negative relationship with audit fees (Zhang & Yu, 2016; O'Sullivan, 2000). More independent boards, therefore, tend to pay higher fees to external auditors. Higher audit fees may be indicative of a company placing more importance on the quality of their financial statements, which could have a positive signalling effect to investors.

Desender et al. (2016) suggest that an external auditor's influence on board monitoring is crucial in cases where a company's level of board independence is low. However, in instances where ownership concentration is high, as measured by the existence of large shareholders, there is less demand for a large auditor and auditors provide less efforts due to the increased monitoring role by large shareholders (Hope, Langli & Thomas, 2012). Desender, Aguilera, Crespi and Garcia-Cestona (2013) added that when the level of board independence is low, large controlling shareholders tend to monitor the external auditor's performance more meticulously.

External auditors play an essential role in portraying accurate and transparent financial information to shareholders, especially when the board independence level is low, and ownership is dispersed. This information can help investors to make more informed decisions. Active shareholders may use this information when formulating engagement and voting strategies at individual investee companies.

Evidence from South Africa shows that private shareholder engagement on the disclosure of audit fees and audit quality has increased in recent years (Viviers & Mans-Kemp, 2020). The previously discussed KPMG South Africa scandal and Deloitte South Africa's reported involvement with the Steinhoff debacle confirm the rise in shareholder engagement on external auditors (Plender, 2018). More recently, Deloitte agreed to pay R1.3 billion in compensation to Steinhoff claimants (Cronje, 2021). This payment, however, is well below the R136 billion in litigation claims against the company (Faku, 2021).

The monitoring mechanisms discussed so far in this chapter represent mechanisms that attempt to govern from outside the nucleus of a company. Ordinary shareholders, however, capture the important middle ground between the internal and external monitoring mechanism (Gantchev, 2013). By voting on company resolutions, these shareholders can monitor both the internal and

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certain external mechanisms at shareholder meetings. Therefore, the key role that ordinary shareholders play in monitoring the appointed monitors will be explained next.

3.3 ORDINARY SHAREHOLDERS AS CORPORATE MONITORS

Shareholders are driven to engage in activism by two key motivations: financial gain and social improvement (Judge et al., 2010). Activist shareholders are viewed as investors who attempt to change certain aspects of a company without changing its control structure (Gillan & Starks, 2007). Options that are available to dissident shareholders can be described through Hirschman's (1970) model of choices. In this model, the choices available to shareholders include to exit (selling their shares), to show loyalty (maintaining their shareholding), or to use their voice (communicating with investee company management) (ibid).

The option to exit an investment is available to all shareholders if they see no reproach to company issues. However, investment funds that have large holdings in underperforming companies may not be able to sell their holdings without further driving the price down and thereby increasing their losses. The size of the stock market, therefore, is an important factor that must be considered when assessing the viability of divestment as a shareholder activism mechanism (Flickinger & Zschoche, 2018).

A small stock exchange may not have the required liquidity to sell a large block of shares immediately without dramatically influencing the price negatively (Gillan & Starks, 2003b). Opposing this argument, Admati and Pfleiderer (2009) posit that liquidity, or the lack thereof, may enhance corporate governance practices. These authors contend that the 'threat of exit' is more important than the actual exit in affecting change. A caveat of their study was that it investigated divestments in the US where the stock market is the largest in the world. In contrast, South Africa's JSE is relatively small and, as a result, divestment is used sparingly as an activist mechanism (Viviers & Smit, 2015). Furthermore, the total number of companies listed on the JSE has decreased consistently over the past few years (Gilmour, 2022; Green & Moodley, 2021).

Shareholder activists are shareholders who 'voice' their ESG and financial concerns with investee companies' boards and management (Viviers, Bosch, Smit & Buijs, 2009; Schueth, 2003). Research on shareholder activism mostly concentrates on the financial activism stream (Goranova & Ryan, 2014). This stream of research is primarily concerned with shareholder

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value and governance, and views any other motivation for activism that differs from these two concerns as irrelevant (Goranova & Ryan, 2014; Gillan & Starks, 2007). Furthermore, Goranova and Ryan (2014) show that the agency theory is the prime theoretical lens in financial activism literature. Conversely, the social and environmental activism research is guided by a stakeholder-centred approach (Goranova & Ryan, 2014; Sjostrom, 2008). The social activism stream, in particular, focuses on shareholder activists voicing their ESG concerns rather than divesting (Vogel, 2004).

Institutional investors typically have holdings in many large companies on a long-term basis (Harber, 2017). Although these investors buy and sell shares regularly, or sometimes lend their shares for a fee, they tend to be long-term shareholders (ibid). Similarly, shareholder activism is seen as a long-term process (EuroSIF, 2014). Long-term investors typically engage in this long-term process of voice-motivated forms of shareholder activism (Hadani, Goranova & Khan, 2011).

The origins and evolution of shareholder activism globally and in South Africa will be explained in the following sections. The global context will focus mostly on listed companies in the US and the UK. Following the discussion on the evolution of shareholder activism, the voting activism mechanism will be discussed in more detail. Thereafter, previous research on the outcomes of financial and governance activism will be presented. Next, the various financial and governance antecedents to shareholder activism will be delineated.

3.3.1 The origins and evolution of shareholder activism

Shareholder activism has evolved over many years, manifesting in multiple forms. Although each country has its own unique history of shareholders voicing their concerns, the spotlight in this section will first fall on activism in the US. The US has more empirical and observable developments in the shareholder activism literature than any other country globally (Beebeejaun & Koobloll, 2017).

3.3.1.1 The global context

The shareholder activism landscape has changed and evolved considerably over the last 80 years in the US (Goranova & Ryan, 2014). In 1942, shareholders were first granted the opportunity by the Securities and Exchange Commission to submit their shareholder resolutions (Reid & Toffel, 2009). From that time and throughout the 1970s, individual

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investors were at the forefront of shareholder activism in the US (Gillan & Starks, 2007). These investors were labelled 'corporate gadflies' by the media at the time (ibid). While these shareholder activists were deemed successful during the early stages of the movement, more recent evidence revealed that only three per cent of corporate gadfly proposals were accepted (Gantchev & Giannetti, 2020).

Social activism was spawned from a successful lawsuit in 1970 which challenged companies omitting shareholder proposals on social issues from their proxy statements (Proffitt & Spicer, 2006). Proxy statements are required from companies when they seek shareholder votes (Securities and Exchanges Commission, 2012). These proposals were deemed improper for shareholder consideration prior to this lawsuit (Sjostrom, 2008; Proffitt & Spicer, 2006).

The social activist movement among shareholders has since paved the way for more activism regarding political, environmental, and social concerns, with the movement largely aspiring to change investee companies' impact on society (Sjostrom, 2008; Tkac, 2006; Rehbein, Waddock & Graves, 2004). According to Proffitt and Spicer (2006), the founding of various organisations that focused on investor and corporate responsibility led to an increase in the submission of socially-related shareholder proposals. Following this increase, socially responsible investment funds started to sponsor or promote more socially-related proposals in investee companies (Rehbein et al., 2004).

Social activists were very concerned about US domiciled companies' involvement in South Africa during the anti-apartheid movement of the 1980s (Beebeejaun & Koobloll, 2017). The first shareholder resolution related to apartheid South Africa was filed by the Episcopal Church against General Motors, requesting them to cease their business operations in the country (Hull, 1990). This resolution was met with muted response, as only one per cent of shareholders voted in favour of the resolution.

The rise of institutional ownership propelled the importance of financial activism (Goranova & Ryan, 2014). Regarding US equities, institutional ownership rose from around 10 per cent in 1953, to 60 per cent in 2005 (Gillan & Starks, 2007). Financial activism was first the area of public pension funds (ibid), however, the focus on this type of activism became more diverse (Goranova & Ryan, 2014). Labour union funds replaced public pension funds as the most prolific shareholder activists on governance-related proposals in the 1990s (Agrawal, 2012).

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Following labour union funds, traditionally cautious mutual funds joined the financial activism movement (Brandes, Goranova & Hall, 2008). Financial activists directed their efforts mainly towards governance-related issues, aiming to enhance managerial accountability to company shareholders and to improve governance structures such as the board (Gillan & Starks, 2007).

Later benefactors from the financial activism movement were hedge funds, as they earned public notoriety by increasing their activism efforts (Greenwood & Schoor, 2009). Hedge fund activists benefitted from the rise of corporate raiders in the 1980s and the 'newer agenda' of shareholder wealth maximisation to use the so-called 'market for corporate influence' to their advantage (Goranova & Ryan, 2014; Cheffins & Armour, 2011). Opposed to the more reactive approach of previous governance activists, hedge fund activists operate on an *ex-ante* basis, as targeted companies are identified before a shareholder position is established (Cheffins & Armour, 2011).

3.3.1.2 The South African context

Prior to the introduction of the second King Report on corporate governance in South Africa in 2009 (henceforth King II), little was known about the role that institutional investors play in enacting corporate change in local investee companies (Viviers & Smit, 2015). This report highlighted the importance of shareholder activism as a governance enforcement mechanism (Rademeyer & Holthauzen, 2004). King II indicated that it is crucial for these investors to become involved in shareholder activism, as they owned (and still do) a large proportion of the local market. They also have the resources and knowledge to properly scrutinise investee companies (Rademeyer & Holthauzen, 2004; IoDSA, 2002).

Following the promotion of shareholder activism in King II, the Association of Savings and Investment SA created the Code for Responsible Investing in South Africa (CRISA) in 2011 (Viviers & Smit, 2015). This code was the result of collaborative efforts between the IoDSA and the Principal Officers Association. Incorporated in this code are the corporate governance recommendations suggested in King III and the United Nations' Principles for Responsible Investment (UN PRI) (Deloitte & Touche, 2014; CRISA, 2011).

Recommendations offered in Principle Two of CRISA state that institutional investors should develop a policy dealing with ownership responsibilities, which include voting criteria, and intervention and engagement mechanisms when concerns are identified (CRISA, 2011). This

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code furthermore highlighted the importance of creating sustainable value in companies that show good corporate governance practices (Mans-Kemp & Van Zyl, 2021). Sustainable value creation should not only concern financial gain, but also gains for the broader environment and society (CRISA, 2011). The code is currently under revision (Mans-Kemp & Van Zyl, 2021).

Another 'injection' for the growing activism phenomenon in South Africa occurred in 2011 with the revision of Regulation 28 of the Pension Funds Act (Act No. 24 of 1956). This revision required pension funds to consider any aspect, including ESG aspects, which may affect the long-term sustainable performance of their investments (Government Gazette, 2011). Yamahaki and Frynas (2016) report that the amendments made to Regulation 28 greatly increased the level of awareness with regard to responsible investment among pension funds.

The inclusion of ESG aspects in Regulation 28 also led to an indirect increase in asset manager engagement with local investee companies (Yamahaki & Frynas, 2016). The introduction of King IV in 2016 furthermore emphasised the importance of the role of institutional investors in ensuring good corporate governance at investee companies (IoDSA, 2016). Shareholders' ability to hold managers accountable was heightened by a recommendation for increased transparency in the latest King report (Gossel, 2017).

Although private engagements are favoured by shareholder activists in South Africa (Mans-Kemp & Van Zyl, 2021; Yamahaki & Frynas, 2016), they are increasingly engaging with JSE-listed companies in public (Viviers et al., 2019). These public engagements, however, have mostly centred on executive remuneration in South Africa (Viviers et al., 2019). More recently, shareholder activists have targeted JSE-listed companies on environmental resolutions (Sguazzin, 2020; Just Share, 2019). Activism on board composition has mostly focused on investor consortiums promoting their own nominees to replace certain directors (Davids & Ntamane, 2017). More details will now be provided on the mechanisms that shareholder activists can use to voice their concerns.

3.3.2 Private and public shareholder activism mechanisms

Private engagements with investee companies usually include negotiating with managers and directors behind closed doors or writing letters and emails to them (Yamahaki & Frynas, 2016; Goranova & Ryan, 2014). If these two mechanisms prove unrewarding, investors may choose to initiate private legal proceedings to enforce their rights (Viviers & Smit, 2015).

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The choice of mechanism(s) depends on the shareholder's ability to access an investee company's management (Mans-Kemp & Van Zyl, 2021). Investors who have large holdings, such as block holders, founding families, or institutional investors, may be able to approach managers and directors more easily than their retail counterparts. Therefore, these investors typically prefer to engage privately, which has the added benefit of protecting the reputations of those involved (Yamahaki & Frynas, 2016). Given that the information on private engagement by investors is, as the name indicates, private, most of the research on shareholder activism concerns shareholder voting and resolutions (ibid).

In cases where researchers were able to gather private data on shareholder engagements, interesting results have surfaced. In the UK, private engagement data were made available to researchers by the UK fund Hermes. Using this data, Becht, Franks, Mayer and Rossi (2009) showed that changes to corporate strategies can be achieved through private activism. They reported that replacing the chairperson or the CEO, returning cash to shareholders, and refocusing on core business had the biggest impact on the investigated companies' strategic improvements (Becht et al., 2009). Furthermore, these authors found that financial institutions can increase their value offering by providing monitoring services (ibid).

Public voice mechanisms include filing shareholder resolutions, raising concerns and asking questions at AGMs, and stimulating public debate (Viviers, Mans-Kemp & Fawcett, 2017). A shareholder activist may also use the social and traditional media to engage with or criticise a company (Paxton, 2020). Ordinary shareholders may furthermore vote on management and shareholder resolutions tabled at shareholder meetings (Viviers et al., 2017). The following discussion will pertain to voting systems, the regulations that surround shareholder voting, and global research on this public activism mechanism.

3.3.3 Voting as a public shareholder activism mechanism

There are two voting systems that shareholders may use to re/elect directors, namely a plurality vote and a majority vote system. The plurality voting system is mainly used in the US (Ertimur, Ferri & Muslu, 2011). Under this voting method, in an uncontested director election, a nominee will always be elected if they receive at least one 'for' vote (Securities and Exchange Commission, 2012). Therefore, votes 'against' or 'withheld' do not matter if the nominee receives one 'for' vote. In contrast, a majority vote system requires a majority vote to re-elect directors (ibid).

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The Companies Act stipulates that director re/elections in South Africa require a majority vote for the resolution to pass (Government Gazette, 2009). In a majority voting system, 'no-votes' and abstained votes can affect the outcome of the vote. However, research conducted on companies that switched from a plurality voting to a majority voting system indicates that there is no relation between votes withheld and director turnover (Ertimur et al., 2015). This result suggests that changing from one voting system would not impact director re/elections significantly for board members to be replaced. Shareholders, however, can still influence the re/elections of directors if a majority vote is reached (ibid).

As indicated earlier, any two shareholders of South African companies may propose an ordinary resolution regarding any matter on which they may exercise their voting rights (Government Gazette, 2009). For example, two shareholders may propose a resolution to nominate one or more individuals to the board. This proposed resolution must be submitted to all shareholders for consideration at the following shareholders' meeting. An example of this kind of activism occurred at the cement company, PPC Limited, which was explained in Section 3.2.2.1 of this chapter. An ordinary resolution requires support from 50 per cent plus one vote of the voting rights exercised on the resolution.

Institutional support for shareholder proposals is crucial as it increases the likelihood of resolutions being resolved when compared to proposals sponsored by individual shareholders (Gillan & Starks, 2007). More recently there has been increased support for the use of shareholder resolutions calling for the reform of pollution management policies globally (Lee & Lounsbury, 2011) and certain anti-takeover defences (Thomas & Cotter, 2007). However, research in the US indicates that institutional shareholder proposals are more likely to be withdrawn than those of private investors (Bauer, Moers & Viehs, 2015). This withdrawal suggests that shareholder requests were dealt with in private (ibid). The withdrawal of shareholder resolutions before a shareholder's meeting can therefore be seen as successful shareholder activism.

Although all ordinary shareholders may vote on tabled resolutions, asset owners tend to delegate voting to asset managers. This delegation of voting power is commonly referred to as 'proxy' voting (Viviers & Smit, 2015). According to Aggarwal, Saffi and Sturgess (2015), institutional investors use proxy voting as one of their key mechanisms to bring forth change in corporate decision-making among investee companies. The term 'institutional investor'

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loosely refers to asset managers and asset owners. These investors hold significant stakes in publicly listed companies and stock exchanges. For example, in South Africa, the Public Investment Corporation (PIC) owns approximately 10 per cent of the JSE on behalf of their clients (PIC, 2021). At the end of 2016, South African domiciled institutional investors held around 48 per cent of the local bourse (National Treasury, 2017).

Previous research on voting outcomes has predominantly centred on executive remuneration in developed countries (Ertimur et al., 2013; Ferri & Maber, 2013; Conyon & Sadler, 2010) and uncontested director elections (Aggarwal et al., 2019; Ertimur et al., 2018; Choi et al., 2013). To the best of the researcher's knowledge, the only study that could be sourced on voting outcomes in South Africa was that of Viviers and Smit (2015). These authors reported that proxy voting was a 'last resort measure' used by institutional investors who own shares in JSE-listed companies. Out of the votes recorded, less than seven per cent were against resolutions. The resolutions that garnered the highest level of opposition were centered around remuneration (ibid).

Sjostrom (2018) contends that shareholder activists may benefit by forming coalitions with other shareholders or stakeholders when voting. However, as Mans-Kemp and Van Zyl (2021) point out, South African institutional investors are concerned about the 'acting in concert provision' in the Companies Act. As set out in this Act, acting in concert refers to '[a]ny action pursuant to an agreement between or among two or more persons, in terms of which any of them co-operate for the purpose of entering into or proposing an affected transaction or offer' (Government Gazette, 2009). Local institutional investors state that this provision makes it difficult to coordinate votes to initiate change (Mans-Kemp & Van Zyl, 2021). This provision in the Companies Act also creates difficulty to initiate proxy contests. The following section will summarise research on the company-level outcomes of attempts by shareholder activists to improve financial and governance performance at investee companies.

3.3.4 Research on company–level outcomes to shareholder activism endeavours

Shareholder activism research indicates equivocal market reactions to shareholder engagement. Researchers report negative (Cai & Walkling, 2011; Bizjak & Marquette, 1998), positive (Cunat, Gine & Guadalupe, 2012; Greenwood & Schoor, 2009; Brav, Jiang, Partnoy & Thomas, 2008), and insignificant market reactions to shareholder activism endeavours (Agrawal, 2012; Becht et al., 2009; Gillan & Starks, 2007).

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These diverse reactions could be largely attributed to two possible reasons. Public shareholder activism may only be necessary when private engagements fail to bear fruit (Hoch, 2020). These private engagements may result in negotiations between shareholders and management. A resolution might consequently be withdrawn before it is communicated with other shareholders (Chowdury & Wang, 2009). No market reaction will then occur.

Another explanation could be the advisory nature of shareholder proposals. Cai and Walkling (2011) claim that the implementation of a shareholder-introduced policy is positively related to the market's reaction. Therefore, acceptance of a shareholder submitted proposal has a positive signalling effect in the market. It should be noted that shareholder and management submitted resolutions regarding director re/elections in South Africa are binding if a majority vote is reached (Government Gazette, 2009).

The extant literature on shareholder activists' responses to a decline in a company's operating performance is mixed. Some researchers report that targeted companies underperform (Prevost & Rao, 2000), improve their operating performance (Del Guercio, Seery & Woidtke, 2008), or show no performance improvement (Song & Szewczyk, 2003; Del Guercio & Hawkins, 1999). Some scholars are thus of the opinion that shareholder activism and company performance are unrelated (Yermack, 2010; Gillan & Starks, 2007). According to Daily et al. (2003), this result could be ascribed to the contrasting results portrayed between governance structures and company performance of researchers. Accordingly, empirical research on governance-related shareholder activism may exhibit similar results.

A governance-related topic that has garnered considerable attention in shareholder activism research is that of executive remuneration or the so-called 'say-on-pay' movement. Ertimur et al. (2011) show that shareholder activism, which includes 'just vote no' campaigns and shareholder resolutions on executive pay, led to a reduction in executive emolument in the UK over the period 1997 to 2007. Kimbro and Zu (2016) similarly show that remuneration committees in the UK reduced excessive CEO pay after engaging with shareholder activists.

According to Ferri and Sandino (2009), when shareholder proposals on executive pay received a majority vote, CEO pay increases became constrained (Ferri & Sandino, 2009). In contrast, an investigation into 'just vote no' campaigns in the UK from 2002 to 2007 revealed that CEO

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pay did not decrease in previously targeted companies (Conyon & Sadler, 2010). In the local context, Viviers et al. (2019) investigated the impact public criticism had on certain companies' executive remuneration practices. Total pay, performance-based incentives and other bonuses were seen to decrease significantly in the year following the criticism (ibid).

Shareholder activists have also been successful in influencing other corporate governance practices (Ertimur et al., 2010; Thomas & Cotter, 2007). Early studies by Del Guercio and Hawkins (1999) and Smith (1996) revealed an insignificant relationship between CEO turnover and shareholder activism. Later studies, however, demonstrated that shareholder engagements compel discipline from executives, which raises the likelihood of targeted CEOs losing their positions (Brav et al., 2008; Del Guercio et al., 2008). Directors in management positions received more dissent from shareholders than from their non-executive counterparts; however, they were also less likely to vacate their positions by choice when receiving considerable dissent (Aggarwal et al., 2019).

Researchers furthermore investigated director turnover through uncontested director elections and proxy proposals, mostly in the US. Cai, Garner and Walkling (2009) discovered a positive relationship between shareholder votes and director turnover from 2003 to 2005. Similar results were found for S&P 500 companies over a longer period (Ertimur et al., 2018). Aggarwal et al. (2019) examined shareholder votes cast on 83 496 director election proposals and report that increased dissent is linked to increased director turnover.

Aggarwal et al. (2019) also note that dissent votes cast on a director's re/election resolution can have significant knock-on effects on the nominee's reputation. These knock-on effects include a decline in invitations from other companies to serve on their boards, which may lead to a loss of future income for the director. Aggarwal et al. (2019) complemented Fos and Tsoutsoura's (2014) research, which analysed proxy contests aimed at replacing entire directorates with shareholders' nominated candidates. These authors clearly determined that the proxy contests led to an increase in director turnover and reputational damage to the involved directors.

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3.3.5 Previous studies on company–level antecedents to shareholder activism

The preceding discussion outlined various outcomes of shareholder activism endeavours observed by prior scholars. This section deals with empirical evidence on various financial and governance characteristics of companies that were targeted by shareholder activists globally.
The agency theory states that smaller companies are more attractive targets for financially motivated shareholder activists as it is less expensive to engage with smaller companies (Pozen, 1994). Supporting this contention, Boyson and Mooradian (2007) report that smaller companies are targeted more by hedge fund activists than their larger counterparts in the US. Woidtke (2002) found similar results for pension fund activists. According to Hibbard (2005), a possible explanation for the targeting of smaller companies is that larger companies often have substantial political connections and resources to oppose shareholder activists. Another potential reason is that financially motivated activism is expected to cost less to enact change in smaller companies (Judge et al., 2010).

Yet several researchers have provided support for an alternative view that shareholder activists tend to target large companies (Cai & Walkling, 2011; Norden & Strand, 2011; Poulsen, Strand & Thomsen, 2010; Ertimur et al., 2011). Del Guercio and Hawkins (1999) assert that financially motivated shareholder activists could unlock more value by targeting such companies. Large companies are more prone to agency problems as it is inherently more difficult to monitor large groups of managers (Jensen & Meckling, 1976).

Ownership concentration may also influence targeted shareholder activism. The agency theory suggests that the more concentrated the ownership structure of a company, the more likely the owners are to closely monitor the managers of their capital (Fama & Jensen, 1983), thereby decreasing the need for shareholder activism. Yet empirical research on the impact of ownership concentration on financial activism is somewhat ambiguous (Gillan & Starks, 2003b). Croci (2007) highlighted that financially driven shareholder activists were more likely to target UK companies compared to other European countries, as UK companies have more dispersed ownership.

Activist shareholders may furthermore focus on companies that provide muted investment and operating performance. Shareholder activists view companies with good operating performance as less likely targets (Ertimur et al., 2011; Renneboog & Szilagyi, 2011; Karpoff Malatesta & Walkling, 1996). Some scholars noted a significant likelihood that companies that

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have exhibited suboptimal stock market performance are likely to be targeted by shareholder activists (Ertimur et al., 2011; Renneboog & Szilagyi, 2011; Brav et al., 2008). Other studies have reported that this relationship is insignificant (Ferri & Sandino, 2009; Klein & Zur, 2009).

Other company-specific considerations include leverage and cash holdings. Klein and Zur (2009) report that companies with lower levels of leverage are more likely to be engaged by hedge fund activists. A possible reason would be that greater use of leverage has tax benefits for the investee company, which has pass-through effects to investors. High cash holdings may also be a signal to shareholder activists to investigate their investee company's financial information and prospects (Klein & Zur, 2009; Brav et al., 2008). Pertaining to the distribution of free cash flows, the agency theory postulates that, managers will pursue value-destroying investments rather than returning cash to shareholders (Jensen, 1986). This theory also suggests that managers must be appropriately incentivised to act in the best interests of shareholders (Fama & Jensen, 1983; Jensen & Meckling, 1976).

Historically, share options have been commonly used as part of managerial pay packages. In line with agency logic, shared ownership should align managerial interests to those of the shareholders and curb opportunism. A decrease in agentic opportunistic behaviour is likely to reduce shareholder dissent. Various researchers contend that shareholder activism, witnessed through proxy resolutions, is negatively related to managerial ownership (Renneboog & Szilagyi, 2011; Faleye, 2004). Ertimur et al. (2011), however, found that companies that compensate their executives generously are more likely to attract shareholder activists targeting these executives, as measured by submitted shareholder resolutions.

Mixed results have been observed regarding the corporate monitoring role of large shareholders, such as institutional owners. Consistent with the notion that large shareholders are more motivated and able to monitor corporate managers than smaller shareholders (Shleifer & Vishny, 1997), companies with large shareholders are less likely to be targeted by shareholder activists (Judge et al., 2010; Bizjak & Marquette, 1998). In contrast, other scholars noted that shareholder activists tend to target companies that have high institutional ownership (Cai & Walking, 2011; Brav et al., 2008). However, common expectations of institutional owners are that these shareholders are in favourable positions, due to their large shareholdings, to constrain and monitor managers effectively (Goranova et al., 2017; Schnatterly, Shaw & Jennings, 2008). Although larger shareholders may have more resources available to monitor

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managers, all ordinary shareholders should actively voice their concern to mitigate agency problems.

3.4 HYPOTHESIS DEVELOPMENT

The preceding section highlighted previous research on company-level antecedents to public and private voice shareholder activism. The reported outcomes were largely inconclusive, with researchers finding insignificant, negative, and positive relationships between shareholder dissent and various company-level antecedents. In this section, several null hypotheses will be formulated covering shareholder opposition on director re/election and the board-level characteristics that were discussed in Chapter Two, namely the percentage INEDs, CEO role duality, presence of an independent chairperson, presence of a lead independent director, average directorate tenure, board size, and the presence of multiboarded directors.

Agency problems can be constrained through effective monitoring (Bonazzi & Islam, 2007; Hayward & Hambrick, 1997). Theoretically, monitoring should decrease the need for shareholder activism in a target company. Fama and Jensen (1983) argue that independent directors should monitor and discipline corporate managers. Companies with more INEDs on their boards should consequently attract less shareholder dissent. Empirical literature on this topic, however, presents mixed results. Although some researchers report a positive relationship between board independence and shareholder activism (Ertimur et al., 2011; Judge et al., 2010), others found a negative association, which suggests that boards with a lower level of independence are more likely to attract shareholder dissent (Renneboog & Szilagyi, 2011; Bates & Hennessey, 2010). These mixed results led to the formulation of the following null hypothesis:

H_{01}: There is no relationship between shareholder opposition to the re/election of directors and the percentage INEDs on a board.

As highlighted in Chapter Two Section 2.3.3, a CEO who also serves as the board chairperson decreases the independence of the board from an agency perspective. In similar vein, Tuggle et al. (2010) found that such joint leadership positions could bypass board monitoring attempts and incur higher agency costs for the company and its shareholders than in counterparts where the roles of the CEO and chairperson are fulfilled by two individuals. It is, therefore, expected that shareholders would voice their dissent to CEO role duality at the ballot box. However,

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research by Renneboog and Scilagyi (2011) contend that less proxy-based activism is evident at companies that have CEO role duality. When viewed through the theoretical lenses of the resource dependence and stewardship theories, CEO role duality can lead to improvements in shareholder value, company financial performance and organisational effectiveness (Mandato & Devine, 2020; Krause et al., 2014; Boyd, 1995; Donaldson & Davis, 1991). The alternative views of these theories and the position of corporate governance frameworks on CEO role duality led to the formulation of the second null hypothesis:

H_{02}: There is no relationship between shareholder opposition to the re/election of directors and CEO role duality.

Additionally, in the absence of CEO role duality, King IV recommends that the chairperson of the board should be an INED (IoDSA, 2016). According to agency logic, the chairperson's key role is to counterbalance the CEO (Krause et al., 2014; Jensen, 1993). Absence of this independent watchdog may lead to decreased monitoring capacity by INEDs and increased CEO and executive director power over the board. To assess how shareholders view chairperson classification through their director re/election votes the following hypothesis was formulated:

H_{03}: There is no relationship between shareholder opposition to the re/election of directors and the presence of an independent chairperson.

King IV furthermore recommends the presence of a lead independent director on a company's board (IoDSA, 2016). The need for this role is pronounced where the board's chairperson is not an independent director. The lead independent director acts as a mediator between the board and the chair. Additionally, the lead independent director serves as a voice for shareholders at board meetings (IoDSA, 2016). Therefore, the following hypothesis was formulated to investigate if shareholders hold boards accountable in this regard:

H_{04} : There is no relationship between shareholder opposition to the re/election of directors and the presence of a lead INED.

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Agency logic proposes that director independence is compromised when directors serve on the same board for several years. As discussed in Chapter Two Section 2.3.2, long tenure may result in independent directors becoming more aligned or affiliated with executives, which may reduce their ability to monitor effectively (Coles et al., 2015; Hermalin & Weisbach, 1998). According to Miller (1991:34), directors who serve on a board for an extended period may become 'stale in the saddle'. Therefore, tenure may be used by shareholders as a proxy for director independence, which led to the formulation of the fifth null hypothesis:

H_{05}: There is no relationship between shareholder opposition to the re/election of directors and average board tenure.

Directors often sit on more than one board concurrently. In such instances, reference is made to multiboarded directors (Bohman, 2010). As discussed in Chapter Two Section 2.3.4, there are two opposing views on this practice. Critics of multiboarded directors align with the busyness hypothesis. This hypothesis highlights a decline in monitoring effectiveness as directors serve on more boards concurrently (Clements et al., 2015; Daily & Dalton, 2005; Lublin, 2001). This view aligns with the agency theory that emphasises the importance of appointing effective monitors (Clements et al., 2015).

The second view is underpinned by the experience hypothesis, which proposes that multiboarded directors are better positioned to gain external experience and have access to resources and social capital (Clements et al., 2015). The experience hypothesis hence relates to the resource dependence theory. King IV recommends that a director should not hold more than five non-executive positions concurrently (IoDSA, 2016). This recommendation is enforced by its inclusion in the listings requirement of the JSE (Natesan & Du Plessis, 2018). Therefore, to assess the varying perspectives of South African shareholders on director multiboardedness, the following null hypothesis was formulated:

H_{06}: There is no relationship between shareholder opposition to the re/election of directors and the presence of multiboarded directors.

Shareholders may also be concerned with the size of the board when electing directors. Local (e.g. Steinhoff) and international (such as Enron) scandals raised awareness on a board's ability

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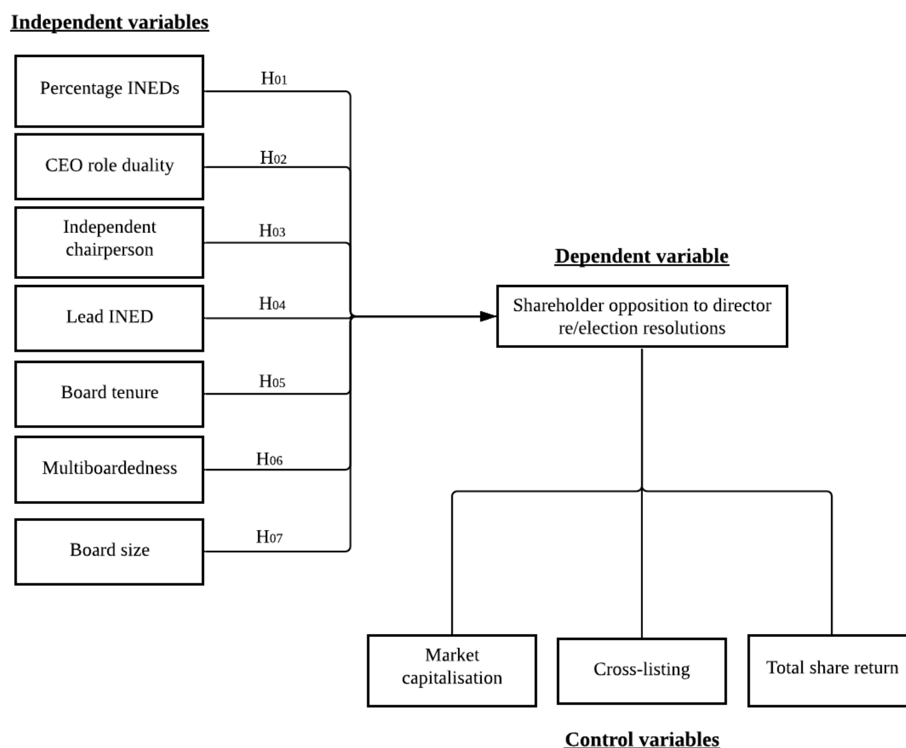
to effectively monitor management (Naudé et al., 2018; Healy & Palepu, 2003). To test the situation in South Africa, the following null hypothesis was formulated:

H_{07}: There is no relationship between shareholder opposition to the re/election of directors and board size.

These seven null hypotheses are illustrated in Figure 3.1. They were empirically tested and the results are summarised in Table 5.11 in Chapter Five.

Figure 3.1: Conceptual framework



3.5 SUMMARY

This chapter sheds light on several external corporate governance mechanisms that attempt to constrain managerial self-serving behaviour. Mechanisms such as the market for corporate control and the application of hard and soft laws can be activated through internal monitoring failure. The market for corporate control functions on the premise that underperforming managers and boards will be disciplined in part by financial markets. However, taking control

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of a company is expensive and may not lead to the mitigation of agency and performance problems.

South Africa's legal system is underpinned by the common law system, which offers high levels of protection to capital providers, in particular shareholders. Furthermore, the soft laws in South Africa are of the highest standard when compared to other emerging markets. Therefore, South Africa poses an interesting emerging market context to investigate corporate governance. Despite of the country's highly developed governance and legal frameworks, and fairly efficient stock market, corporate fraud and scandals still occur.

Other monitoring mechanisms include cross-listing and external auditing. Cross-listing may reduce information asymmetry, improve liquidity, and diversify investment risks. Furthermore, an international listing can have a positive signalling effect. The international nature of many companies listed on the largest local bourse suggests that international listing is an important monitoring mechanism that companies can use to their advantage.

From an agency perspective, external auditors are crucial to reduce the information gap between corporate insiders and outsiders. External audits express opinions that the financial information presented in a company's statements are free from material misstatement and are prepared in line with the relevant accounting standards. Effective monitoring by external auditors is crucial when the level of board independence is low. Thus, external auditors play an important monitoring role in the corporate governance sphere.

Shareholders could also monitor the internal monitors, especially if internal control mechanisms fail. As presented in Chapter Two Section 2.2.1, INEDs are assigned the function of monitoring corporate managers internally. Shareholders have the right to nominate, through shareholder resolutions. These investors furthermore elect these directors and management proposed nominees, through voting. Shareholders may also oppose management resolutions, especially when candidates are not deemed suitable for their roles. However, previous research on this mechanism is mainly concerned with uncontested director elections in the US. Furthermore, literature attempting to link various financial and governance antecedents to shareholder activism has offered more consistent findings with incentive alignment than with monitoring by outside directors.

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Seven null hypotheses were hence formulated by incorporating selected directorate characteristics identified based on the comprehensive literature review. The following chapter will present the research design and methodology used to describe the variables and investigate the seven hypotheses.

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CHAPTER FOUR

RESEARCH DESIGN AND METHODOLOGY

4.1 INTRODUCTION

"Research is creating new knowledge."

This quote by the first man to walk on the moon, Neil Armstrong, highlights the creation of 'new knowledge' as one of the overarching goals of research (Levine, 2005). This notion can be extended to define research as the creation of new knowledge and the usage of existing knowledge in a novel and original way to generate new concepts, methodologies, and understandings (Higher Education Research, 2017).

To achieve this goal of knowledge creation, a fundamental problem must be identified to derive a research topic (Zikmund et al., 2013). The occurrences of fraud and scandals at several companies is an evident problem in corporate South Africa, despite the well-developed corporate governance framework. The various monitoring mechanisms hence do not seem to function optimally. Based on the literature review presented in the previous two chapters, several internal and external mechanism were identified. The identified gap in the knowledge base resulted in this research focusing on shareholder voting as a means of changing the size and composition of investee company boards.

In this chapter, the research design and methodology that were used to investigate the identified phenomena in the South African emerging market context will be explained. Saunders et al.'s (2019) 'research onion', presented in Figure 4.1, will be used to provide details on each step of the adopted business research process.

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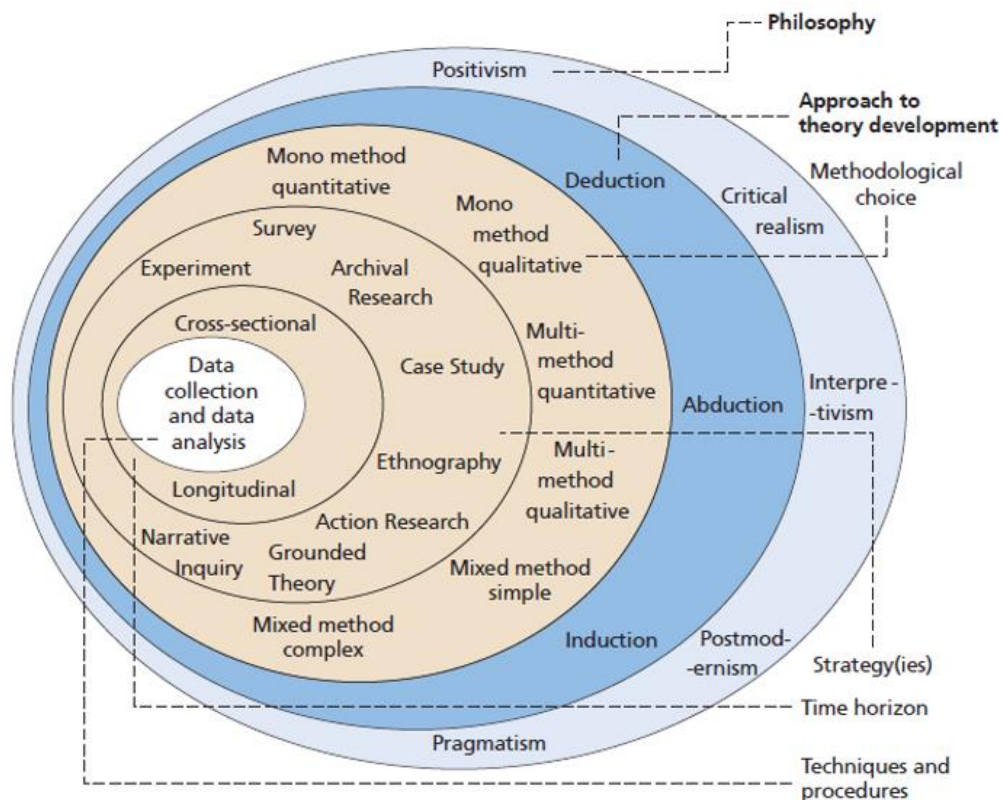
Figure 4.1: The research onion



Source: Saunders et al. (2019)

In line with Figure 4.1, the following section deals with various research philosophies. These philosophies are then compared based on their corresponding ontological, epistemological, and axiological assumptions. Thereafter, various types of business research will be outlined, followed by a discussion on the respective elements of the research design. The population, sample, and operationalisation of the variables will then be explained. Information on the applicable descriptive and inferential statistical analyses will be provided in the data analysis section, followed by an overview of reliability, validity, and ethical considerations of the undertaken study.

4.2 RESEARCH PHILOSOPHY AND APPROACH TO THEORY DEVELOPMENT

A research philosophy refers to the assumptions and beliefs about a system of knowledge that researchers use to formulate their research approach (Saunders et al., 2019). The main research philosophies can be categorised as positivism, critical realism, interpretivism, postmodernism, and pragmatism. Research philosophies can be differentiated through their various philosophical assumptions. These assumptions guide a researcher during every stage of the

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research process (Burrell & Morgan, 2017; Mingers, 2003). The following section will define the various philosophical assumptions.

4.2.1 Philosophical assumptions and the study's selected research philosophy

Ontological assumptions are concerned with the nature of reality (Scotland, 2012; Crotty, 2021). These assumptions influence the formulation of research objectives. Epistemology encompasses assumptions about knowledge. More specifically, epistemology describes the assumptions involved in creating, acquiring, and communicating knowledge (Burrell & Morgan, 2017; Scotland, 2012). Epistemological assumptions are generally clearer than abstract ontological assumptions. Axiological assumptions are concerned with the role of ethics and values in the research process (Saunders et al., 2019). Table 4.1 provides an overview of five research philosophies along with their main ontological, epistemological, and axiological assumptions.

Based on the respective assumptions of the five research philosophies listed in Table 4.1, the assumptions of the positivistic research philosophy were most aligned to those of the researcher pertaining to this study. Furthermore, previous researchers who investigated corporate governance mechanisms using the agency theory mainly had a positivistic philosophy (Panda & Leepsa, 2017; Misangyi & Acharya, 2014; Eisenhardt, 1989). As the agency theory is the predominant theory that was used in the current study, a philosophy rooted in positivism was adopted.

A key axiological assumption of a positivist researcher is to conduct so-called 'value-free' research (Hudson & Ozanne, 1988). The researcher acknowledges that, owing to the nature of this study, some normative judgements were made in deriving the research topic. Because of these normative judgements, the researcher was not entirely 'value-free'; however, efforts were made to remain neutral, independent, and objective whilst conducting the research. Although the axiological assumption of the researcher was more aligned with the philosophy of critical realism, the use of the scientific method was aligned with the epistemological assumptions of a positivistic research philosophy. This scientific method will be discussed in more detail in the succeeding section.

Table 4.1: Philosophical assumptions of research philosophies

Philosophical assumptions	Research philosophies				
	Positivism	**Critical realism**	**Interpretivism**	**Postmodernism**	**Pragmatism**
Ontological (nature of being or reality)	· Real, external, and independent · One true reality · Granular and ordered · Reactive	· Stratified and layered between the empirical, the actual, and what is real · Independent and external · Objective and causal	· Rich and complex · Socially constructed through expression · Multiple meanings, realities, and interpretations · Flux of processes, experiences, and practices	· Rich, complex, and nominal · Constructed through power relations · Meanings, interpretations, and realities can be silenced or dominated by others · Flux of processes, experiences, and practices	· Rich, complex, and external · Reality is the practical consequences of ideas · Flux of processes, experiences, and practices
Epistemological (what constitutes acceptable knowledge)	· Scientific method · Observable and measurable facts · Law-like generalisations · Causal explanation and predictions as contribution · Time-free research	· Epistemological relativism · Knowledge is based on past events and is transient · Facts are social constructs · Historical causal explanations and predictions as contribution	· Theories and concepts are too simplistic · Focus is on narratives, stories, perceptions, and interpretations · World views and new understandings as contributions	· Dominant ideologies determine what counts as 'truth' and 'knowledge' · Focus is on absences, silences, repressed meanings, and interpretations · Power relations and challenging dominant views are viewed as contribution	· Context-specific practical meaning of knowledge · Theories that are considered 'true' are those that enable successful action · Focus is placed on problems, practices, and relevance · Contribution is informing future practice and problem- solving
Axiological (role of values)	· Value-free research · Researcher is detached, independent, neutral, and objective to the topic being researched	· Value-laden research · Researcher acknowledges bias introduced by world views, cultural experience, and upbringing · Researcher minimises bias, error, and remains as objective as possible	· Value-bound research · Researcher is included in what is being researched and is subjective · Interpretations are a key contribution · Researcher is reflexive	· Value-constituted research · Embedded in power relations · Certain research narratives are repressed and silenced at the cost of others · Researcher is radically reflexive	· Value-driven research · Researcher's doubts and beliefs initiate and sustain the research · Researcher is reflexive

Source: Adapted from Saunders et al. (2019); Hudson & Ozanne (1988)

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The research that is reported in this thesis was furthermore deemed reactive in nature, which is in line with the ontological assumptions shown in Table 4.1. The researcher observed several corporate scandals in South African listed companies that resulted in this investigation. The considered real causes for the scandals included concerns being raised in the media by shareholders that directorates contain too few independent corporate monitors, which may lead to unchecked managerial opportunism (Crotty, 2020; Claasen, 2020). Agency theory logic suggests that unchecked managerial opportunism leads to the destruction of shareholder wealth (Eisenhardt, 1989; Jensen, 1984; Jensen & Meckling, 1976).

The adoption of a positivistic research philosophy ultimately determines a semi-set research route, as shown in the research onion presented in Figure 4.1. Positivism is based on deductive reasoning to develop theory (Park, Konge & Artino, 2020; Saunders et al. 2019), as will be explained next.

4.2.2 Deductive reasoning

Theory can be developed through three main forms of scientific reasoning, namely deductive, inductive, or abductive reasoning. According to Ketokivi and Mantere (2010), deduction begins with a general set of premises or hypotheses and examines possibilities to reach a logical conclusion. Deductive reasoning is accordingly used to test hypotheses and theories.

In contrast, inductive reasoning entails that specific observations are used to make broad generalisations (Herr, 2007). The conclusions are therefore supported by the reported observations. This reasoning style results in a gap in the logic argument between the premises observed and the reported conclusions. This gap is subjectively filled by the researcher's reasoning (ibid).

The abductive approach can partly address weaknesses associated with deductive and inductive reasoning. Abduction usually begins with incomplete observations and proceeds to use the most likely explanation for the set of observations (Ketokivi & Mantere, 2010). Abductive reasoning thus enables a researcher to make an educated guess to determine a set of assumptions or premises that either explain or partly explain the conclusion(s) (ibid).

According to Saunders et al. (2019), a researcher who has adopted a positivistic paradigm usually follows a deductive approach to theory development. Deduction aligns with the

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epistemological assumption of this paradigm. Blaikie and Priest (2019) contend that such a deductive approach to theory development will progress in six sequential steps. The steps that are outlined in Table 4.2 were followed in the current study.

Table 4.2 Outline of the adopted six-step theory deduction approach

Step	Key activities undertaken during this step	Corresponding chapters and sections
1	Suggest a testable proposition on the relationship between two or more variables or concepts or formulate a set of hypotheses to form a theory.	Chapter One Section 1.3 outlined the knowledge gap; Section 3.4 summarised the hypotheses formulated based on the literature review.
2	Use existing literature to describe a testable proposition or several testable propositions.	Chapters Two and Three covered corporate governance literature related to internal and external corporate monitors, respectively. The considered variables were selected from key aspects included in board monitoring literature.
3	Examine the logic and premises of the arguments from which they are developed. Compare these arguments with existing theories to determine if it advances understanding.	Various corporate governance theories were explained in Chapter Two. The logic and arguments proposed by these theories were used to describe the benefits and disadvantages of the dependent and independent variables.
4	Describe the methods to test and analyse the premises, variables, and concepts and collect the required data.	Chapter Four describes the research design and methodology used to collect and analyse the data.
5	Compare the results of the analyses to the premises and empirically test the formulated hypotheses to assess if the theory is consistent with the findings.	In Chapter Five, trends in the variables are discussed and the inferential results are presented and interpreted.
6	Discuss and compare the applicability and consequence of the results to the premises and theory. Make suggestions based on the results to accept, modify, or reject current theory.	In Chapter Five, the reported results are compared with previous research to assess the applicability to the selected theories. In Chapter Six, several recommendations are made to stakeholders based on the results presented in Chapter Five. Reference is also made to the discussed theoretical underpinnings.

Source: Adapted from Blaikie & Priest (2019)

Prior to commencing with the deductive reasoning process depicted in Table 4.2, the type of business research used in this study had to be determined. In the following section, various types of business research and the suitability of the chosen type are discussed.

4.2.3 Identifying the type of business research undertaken in this study

Business research involves the application of a scientific method to search for the ‘truth’ pertaining to specific corporate phenomena (Zikmund et al., 2013). For example, business research activities include defining business opportunities and problems, monitoring performance, generating and evaluating ideas, and understanding business processes. Various types of research exist to investigate such activities, including exploratory, causal, and descriptive research.

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Exploratory research is conducted to clarify ambiguous situations or to uncover new ideas that may present potential opportunities (Zikmund et al., 2013). Babbie (2012) argues that exploratory research is usually conducted during the initial phase of a research project and may not provide the solution(s) to the specific research question. This type of research allows the researcher to explore the focal areas of previous literature to identify potential novel research opportunities (ibid).

Causal research involves investigating cause-and-effect relationships among the considered variables (Göttfert, 2015). For causal inferences to be made, there must be evidence of temporal sequence, concomitant variation, or nonspurious association. Temporal sequence deals with the time order of events: the cause must occur before the effect (Wilson, 2014; Zikmund et al. 2013). Concomitant variation entails that a change in the cause should result in an observed change in the effect (Zikmund et al., 2013). Nonspurious association entails that any covariation observed between two variables is not due to a third unobserved variable (ibid).

Descriptive research builds on exploratory research as it can be used to 'paint a picture' of a given situation and to describe the characteristics of a sample (Zikmund et al., 2013; Tripodi & Bender, 2010). Descriptive research is therefore typically conducted after the researcher has grasped an understanding of the situation under investigation (Zikmund et al., 2013).

Descriptive research was conducted in the current study to clarify the theoretical importance of independent directors in monitoring managerial behaviour in the context of the discussed agency problem. Furthermore, potential external control mechanisms that could complement internal monitoring were identified. Descriptive research was furthermore conducted to define the variables investigated in this study. The researcher then reflected on the observed trends and relationships between the identified variables, as presented in the conceptual framework (see Figure 3.1) derived from the literature review in Chapters Two and Three. Following the identification of the applicable business research type, the adopted research design will be outlined next.

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4.3 RESEARCH DESIGN

A research design consists of the procedures and methods used to collect and analyse data for the variables specified in the conceptual framework (Creswell, 2014). The selected design thus provides the structure of the research process and includes defining the appropriate methodological choice of a quantitative, qualitative, or a mixed-method research approach.

4.3.1 Methodological choice

Quantitative research can be differentiated from qualitative research by distinguishing between numeric data and non-numeric data collection and analysis (Saunders et al., 2019). The term quantitative research is usually associated with any data collection and analysis techniques that produce or use numeric data. In contrast, qualitative research is typically associated with the collection and analysis of non-numeric data (Nkwi, Nyamongo & Ryan, 2001).

Quantitative and qualitative methods can also be described based on their associations with the philosophical assumptions presented in Section 4.2.1. Quantitative research is typically associated with a positivistic research paradigm (Saunders et al., 2019). Therefore, quantitative research is often related to a deductive reasoning approach by using numbers to quantify and measure variables to test theories (Zikmund et al., 2013; Greener, 2008). The relationships between variables are usually examined by conducting quantitative research. Quantitative data collection methods mostly make use of probability sampling techniques (Saunders et al., 2019). In contrast, qualitative research does not use data that indicate ordinal values (Nkwi et al., 2001). A mixed-method approach involves using qualitative and quantitative methods (Tashakkori & Creswell, 2007).

A quantitative methodology was adopted for this study. Various hypothetical relationships were formulated and empirically tested by analysing numerical data. Furthermore, significant trends over time were investigated for each variable over the research period. The design of the panel dataset will be discussed in the following section.

4.3.2 Panel design

The envisioned time horizon for a study is an important consideration, as a researcher can investigate a phenomenon during a snapshot in time or as a series of snapshots over time. The former would be considered a cross-sectional study and the latter a longitudinal (time-series) study (Zikmund et al., 2013). If time-series and cross-sectional data are combined, for example,

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when several companies are investigated over a certain number of years, the data are known as panel data (Gujarati, 2004).

A panel dataset can be balanced or unbalanced. A balanced panel dataset is one where the required data are available for all the subjects under consideration for the entire study period. In contrast, an unbalanced panel dataset is one where data are not available for all the sample companies for all the years under review (Gujarati, 2004). For this study, the voting data for some sample companies were not available for some years, resulting in an unbalanced panel dataset. The following section will provide details on the collection of the quantitative data.

4.4 DATA COLLECTION

When conducting business research, primary and secondary data can be collected (Zikmund et al., 2013). Primary data are typically gathered by a researcher for the purpose of a specific study. Secondary data are already in existence (Mouton, 2001). The researcher collected secondary data to address the research objectives formulated in Chapter One Section 1.5.2.

4.4.1 Secondary research

Before researchers can commence with their studies, they first require an understanding of the existing body of knowledge in their research fields (Boote & Beile, 2005). Secondary research was conducted to gain insight into the nature of internal and external monitoring mechanisms. To address the knowledge gap identified from the literature review regarding internal monitoring mechanisms, the presence of INEDs, CEO role duality, independent chairpersons, lead INEDS, board tenure, multiboardedness, and board size were classified as the independent variables. The dependent variable, shareholder opposition to director re/election resolutions, were selected from a review of external monitoring mechanisms, conducted in Chapter Three.

Secondary research has several benefits and limitations. A key benefit of secondary data collection is that the data can be collected relatively unobtrusively through indirect measures such as content or secondary data analysis (Allen, 2017). Further benefits include that the data are relatively easy and affordable to obtain, and that new discoveries can be made by identifying patterns in previously collected data (Saunders et al., 2019; Johnston, 2017).

The limitations of secondary data include that the data have typically been collected to address objectives that differ from the objectives of the study at hand. Zikmund et al. (2013)

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recommend that researchers should ensure that secondary data are relevant to address the research objectives of their projects. A researcher should ensure that the gathered data are reliable, suitable, and not outdated before commencing with their data analysis (Kothari, 2004).

Secondary data are typically obtained from sources that are easily available in the public domain (Greener, 2008). These sources include newspapers, bulletins, relevant websites, academic journals, libraries, dictionaries, and books (Saunders et al., 2019; Zikmund et al., 2013; Walliman, 2011). The literature review presented in Chapters Two and Three were based on such sources. The literature was gathered using secondary search engines such as Stellenbosch University Library's webpage, search engines that are affiliated with Stellenbosch University, and Google Scholar. When using search engines, it is important to make use of concise terms and phrases that will guide the researcher towards the appropriate literature on the topic at hand. The researcher thus used key words and phrases such as 'board independence', 'agency theory', 'shareholder voting' and phrases such as 'advantages of an independent board of directors', 'disadvantages of a long-tenured board', and 'shareholder activism in South Africa' to detect appropriate secondary sources.

Secondary data are commonly cited as the basis of scholarly investigations, as was the case for this study. Based on the literature review, a knowledge gap was identified, which was explained in Chapter One Section 1.3. The researcher then formulated primary and secondary research objectives, developed research questions, and derived hypotheses based on this knowledge gap.

The secondary quantitative data used in this study were gathered from the Proxy Insight and Bloomberg databases, as well as integrated reports of selected sample companies. Access to these databases was arranged by the Department of Business Management at Stellenbosch University. Integrated reports are publicly available on corporate websites. Based on the data collected from these secondary sources, the researcher constructed a unique dataset covering specific corporate governance variables and details on shareholder voting outcomes on director re/elections at selected JSE-listed companies. Data on the selected control variables were also gathered. More details will now be provided on the population and sample.

4.4.2 Population and sample

Zikmund et al. (2013) define a population as the total group of individuals or components that are of interest to the researcher. This study focused on all companies that were listed on the

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JSE over the period 2014 to 2020. This time frame was selected as Proxy Insight has only collated voting outcome data for selected JSE-listed listed companies since 2014. The number of companies listed on the JSE declined from 380 to 331 over the period under investigation (World Federation of Exchanges, 2021). As data on voting outcomes were not available for the entire population, only a selection of the population, called the sample, was investigated.

Two main sampling approaches can be used, namely probability or non-probability sampling (Zikmund et al., 2013). Probability sampling involves the random selection of subjects, which ultimately represents an unbiased subset of the population (Collis & Hussey, 2009). Probability sampling includes techniques such as simple random, systematic, and stratified sampling (Zikmund et al., 2013; Collis & Hussey, 2009). Non-probability sampling involves the non-random selection of pre-determined subjects from the sampling frame (Zikmund et al., 2013). Therefore, the probability of a subset being selected is unknown. This type of sampling consists of convenience, quota, and judgement sampling. The researcher used convenience sampling. This sampling technique entails that companies are selected because their required data are conveniently available (De Vaus, 2002).

Proxy Insight is based in the UK and collates shareholder voting data for companies worldwide (Proxy Insight, 2021). The sample consisted of all JSE-listed companies in the Proxy Insight database over the period 2014 to 2020. To reduce survivorship bias, companies that delisted or were suspended during this period were included in the sample for as long as they remained in the Proxy Insight database. Table 4.3 provides details on the number of companies that were included in the population and sample on an annual basis.

Table 4.3: Number of companies included in the population and sample (2014–2020)

Year	Number of JSE-listed companies	Number of sample companies	Percentage of population
2014	380	59	16%
2015	382	180	47%
2016	376	160	43%
2017	366	169	46%
2018	360	171	48%
2019	343	164	48%
2020	331	149	45%

Source: World Federation of Exchanges (2021)

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The relatively low percentage of the sampled companies in 2014 can be ascribed to Proxy Insight only coming into existence in that year. As far as could be ascertained, this study used the largest dataset comprising shareholder voting data of JSE-listed companies to date. The considered companies represented all 11 sectors as prescribed by the globally utilised Industry Classification Benchmark. The JSE also applies this benchmark.

As can be seen in Table 4.3, the number of companies listed on the JSE per annum fluctuated as companies were suspended, delisted, or listed on the bourse. Companies often delist or become suspended due to declining financial performance or bankruptcy (Deloitte & Touche, 2014). Perusal of the sampled companies revealed that they were typically large companies which formed part of the JSE Top 100 companies (based on market capitalisation). It is likely that Proxy Insight include voting data for these companies because analysts are more likely to pay attention to large companies (Jegadeesh, Kim, Krische & Lee, 2004).

4.4.3 Measurement scales

Various measurement scales can be used to classify collected data including nominal, ordinal, interval, and ratio scales (Zikmund et al., 2013). It is important to classify each variable's measurement scale, as the selected scale determines which statistical test(s) can be used to analyse it (Pagano, 2012).

The nominal scale entails systematically assigning labels to events to categorise them (Cooper & Schindler, 2014; Kothari, 2004). Although the data are categorised, no sequence or rank is implied. Saunders et al. (2019) remark that nominal scales are useful in categorising descriptive data whereby the number of occurrences is simply counted for each variable. An example of the categorisation of nominal data would be to code dichotomous data comprising 'yes' and 'no' responses as a '1' or a '0', respectively (Babbie, 2012). A nominal scale is the simplest form of measurement as it only describes the difference between data but does not indicate order or distance between the datapoints (Pagano, 2012; Kothari, 2004).

Ordinal scales are classified as the second level of measurement, as they build on the characteristics of nominal data. Ordinal scales extend the usefulness of nominal data by assigning a rank order to the collected data, based on their representation of a characteristic (Cooper & Schindler, 2014; Zikmund et al., 2013). Although order is assigned, the interval scale between the data items is unknown (Cooper & Schindler, 2014; Kothari, 2004). For

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example, ordinal data can be used to measure academic performance by using the letters 'A' to 'F' to rank–order performance, where 'A' represents the highest level of achievement and 'F' the lowest.

Interval scales include the characteristics of nominal and ordinal scales, with the added attribute of assigning an equal distance between intervals (Cooper & Schindler, 2014; Zikmund et al., 2013). Therefore, interval scales allow the researcher to discern relative distances between observations (Zikmund et al., 2013). However, as interval data have no maximum or minimum value, it can be infinitely positive or negative. This lack of a zero point poses an issue when attempting to determine the absence of a characteristic in a dataset (Kothari, 2004). Celsius temperature is an example of an interval scale, as the difference between each degree of temperature is the same.

The ratio scale can measure absolute values (Pagano, 2012; Zikmund et al., 2013). Furthermore, a ratio scale allows a researcher to express values in fractional parts (Walliman, 2011). The nature of the investigated variables is indicated in Table 4.4. The use of these measurement scales for each variable's classification for the purpose of this study will be described in the following table.

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Table 4.4: Description of the company-level variables

Variable	Variable name	Measurement scale	Description	Data Source
Shareholder opposition (D)*	Avg % against votes	Continuous: Ratio	This variable indicates the average level of shareholder opposition directed at directors who were proposed for re/election each year.	Proxy Insight
Percentage INEDs (I)	% INEDs	Continuous: Ratio	This variable indicates the proportion of directors who were classified as INEDs per annum.	Integrated reports
Board size (I)	Board size	Continuous: Ratio	This variable indicates the total number of directors serving on a board per annum as per the integrated reports of the sampled companies.	Bloomberg; Integrated reports
Independent chairperson (I)	INDCHAIR	Categorical: Nominal	This variable indicates whether the chairperson was classified as an INED in the integrated reports of the sampled companies per annum. If the chairperson was an INED a value of '1' was recorded and, if not, a value of '0' was recorded.	Integrated reports
Lead INED (I)	LEAD INED	Categorical: Nominal	This variable indicates whether a lead INED served on the board each year. If a lead INED was present, a value of '1' was recorded in the dataset; otherwise, a '0' was recorded.	Integrated reports
CEO role duality (I)	CEO duality	Categorical: Nominal	This variable indicates if the CEO was also the chairperson of the board. If the chairperson was also the CEO a '1' was recorded and, if not, a zero.	Integrated reports
Directorate tenure (I)	Tenure	Continuous: Ratio	This variable indicates the average number of years the directors (including executive, independent and non-executive directors) have served on each sampled company's board as reported in their integrated reports at their respective financial year-ends.	Integrated reports
Multiboardedness (I)	Total external seats	Continuous: Ratio	This variable indicates the average number of external board seats held by a company's board of directors collectively per annum.	Bloomberg
Cross-listed (C)	Cross-listed	Categorical: Nominal	This control variable indicates if a company was listed on more than one stock exchange globally. If the company had more than one listing a '1' was recorded; otherwise, a '0' was assigned.	Integrated reports
Market capitalisation (C)	Market cap	Continuous: Ratio	This variable indicates the Rand value of the company on the last trading day of each year. Market capitalisation was calculated using the closing share price for the last trading day of each year multiplied by the number of outstanding ordinary shares of the company on the same date.	Bloomberg
Total share return (C)	TSR	Continuous: Interval	This variable indicates the percentage return received per share over a one-year (365 day) holding period. This value was calculated using the adjusted share price which accounts for corporate actions that influence the share price, such as dividend payments.	Bloomberg

*D, I, and C represent the classification of dependent, independent, and control variables, respectively.

Source: Researcher's own compilation

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4.4.4 Defining and operationalising the variables

The definitions of variables determine how they are operationalised in a study (Babbie, 2012). A variable is a measurable and observable construct (Hair et al., 2007). Three main types of variables exist, namely dependent, independent, and control variables. The variation in an independent variable does not depend on the other variables under consideration (Cramer & Howitt, 2004). A dependent variable depends on other measured variables, while a control variable could indirectly influence the dependent variable (Zikmund et al., 2013; Cramer & Howitt, 2004).

One of the secondary objectives of this study was to investigate voting opposition to director re/election proposals of selected JSE-listed companies. In line with previous research (Hillman et al., 2010), voting opposition to director re/election proposals was thus deemed to be the dependent variable as shown in Table 4.4 The independent variables consisted of the percentage INEDs serving on a board, the classification of the board chairperson as being independent or not, the presence of a lead independent director, CEO role duality, the tenure of directorates, multiboardedness, and board size. Market capitalisation and cross-listing were selected as control variables, in line with Aggarwal et al. (2019) and Hillman et al. (2010). Market capitalisation was included as a control variable to control for differences in market capitalisation between companies listed on the JSE. As explained in Chapter Three Section 3.2.3 cross-listed companies may face greater scrutiny from a larger pool of investors. This variable was therefore selected as a control variable to account for this increases scrutiny. Total share return was also included to control for one-year share price performance.

4.5 DATA ANALYSIS

Data analysis enables a researcher to interpret results and draw conclusions based on the collected data (Lamb et al., 2015). Descriptive and inferential statistical analyses were used to address the formulated objectives and to test the seven research hypotheses.

4.5.1 Descriptive statistics

Descriptive analysis is conducted to describe the collected data in an easily comprehensible manner (Zikmund et al., 2013). Descriptive statistics can be used to describe the central tendency (mean) and the spread of the data (variance) (Fisher & Marshall, 2009). To describe the location of the data, the mean and median of the selected variables were determined. Frequency distributions were used to describe the nominal data. The maximum and minimum

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values were computed to consider the range. The spread of the data were described using the standard deviation. Trends over time are graphically illustrated in Chapter Five and the significance thereof was tested using one-way ANOVAs and Fisher's LSD tests. More details on these tests are provided next.

4.5.2 Inferential statistics

Inferential analysis allows a researcher to make informed inferences and/or draw conclusions about the considered population based on the sample (Levine, Stephan, Krehbiel & Berenson, 2008). Regression analyses were conducted to investigate the hypothesised relationships between the variables.

An ANOVA can be conducted to investigate the effects of one treatment variable on an interval-scale dependent variable (Zikmund et al., 2013). Mixed-model ANOVA analyses enabled the researcher to make inferences on whether statistically significant changes occurred in the described variables over the research period. This type of ANOVA is a combination of a within-unit ANOVA and a between-unit ANOVA (Murrar & Brauer, 2018). Within-units ANOVAs are characterised by subjects that are interdependent with one or more categorical independent variables and are performed using Equation 4.1 (ibid).

$$(Y_1 - Y_2) = b_0 + e \qquad \text{Equation 4.1}$$

Where:

Y_1 = dependent variable (1st group)

Y_2 = dependent variable (2nd group)

b_0 = intercept

e = error term

The within-units ANOVA depicted by Equation 4.1 is more flexible than a paired samples *t*-test, as it allows for multiple independent variables (Murrar & Brauer, 2018). A between-unit ANOVA is depicted by Equation 4.2 (ibid).

$$y = b_0 + b_1x + e \qquad \text{Equation 4.2}$$

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Where:

y = dependent variable

b_0 = intercept

b_1 = regression coefficient

x = independent variable

e = error term

Equation 4.2 is evidently similar to the mathematical equation for a straight line ($y = mx + c$). Equation 4.2 is more useful than an independent samples *t*-test, as it allows for independent variables that may have two or more levels or sets of observations (Murrar & Brauer, 2018).

When a linear mixed-model ANOVA is conducted, as was the case in this study, Equations 4.1 and 4.2 are combined to form Equation 4.3 (Demidenko, 2013).

$$y_i = x_i\beta + z_iY_i + e_i$$ Equation 4.3

Where:

y_i = dependent variable

x_i = matrix gathering all fixed effects

β = vector of parameters associated with the fixed factors

z_i = matrix gathering all the random effects

Y_i = vector of parameters associated with the random effects

e_i = error term

An ANOVA with a significant *F*-test allows a researcher to reject a null hypothesis of equal averages. For the purpose of this study, the significance of the *F*-test was assessed at the five per cent level. The calculation for the *F*-test is presented in Equation 4.4 (Kissell & Poserina, 2017).

$$F = \frac{MSR}{MSE}$$ Equation 4.4

Where:

MSR = mean square due to regression = $\frac{SSR}{k}$

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SSR = sum of squares due to regression

k = corresponding degrees of freedom

MSE = mean square due to error = $\frac{SSE}{n-k-1}$

SSE = sum of squares due to error

$n-k-1$ = corresponding degrees of freedom

Following a significant result from the *F*-test, a post-hoc Fisher's LSD test was conducted to determine between which years statistically significant changes occurred. A Fisher's LSD test can determine where these statistically significant changes occurred using the pair-wise correlations between two sampled averages (Tavakoli, 2012). Equation 4.5 depicts the Fisher's LSD test statistic (*t*) for comparing two sample means (Anderson, Sweeney & Williams, 2011).

$$t = \frac{\bar{x}_i - \bar{x}_j}{\sqrt{MSE(\frac{1}{n_i} + \frac{1}{n_j})}} \qquad \text{Equation 4.5}$$

Where:

$\bar{x}_i$ = historic mean of sample *i*

$\bar{x}_j$ = historic mean of sample *j*

MSE = mean square error obtained from the mixed-model ANOVA test

n_i = sample size of group *i*

n_j = sample size of group *j*

In the context of this study, group *i* concerns the sample size of one year's observations, whereas group *j* concerns the sample size of the comparison year's observations. If the *p*-value is smaller than or equal to the level of significance, the null hypothesis should be rejected (Blackwelder, 1982). In any study, specification errors can undermine the outcomes of the statistical analyses. Three specification errors were considered in this study, namely heteroscedasticity, autocorrelation, and multicollinearity.

4.5.3 Specification errors considered in this study

Heteroscedasticity can be defined as the variance of observations having unequal spread (Asteriou & Hall, 2011)Heteroscedasticity determines whether an independent variable can accurately predict the dependent variable (Pedace, 2013; Stanley & Jarrell, 2005). The

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Breusch–Pagan test can be conducted to test for heteroscedasticity (Gujarati, 2004). According to Pedace (2013) and Stanley and Jarrell (2005), the test statistic for the Breusch–Pagan Lagrange multiplier has a chi-square (X^2) distribution with one degree of freedom. This test is outlined in Equation 4.6 and is called the Breusch–Pagan Lagrange multiplier (ibid).

$$Lagrange\ multiplier = \frac{NT}{2(T-1)}\left[\frac{\sum_{i=1}^{N}\left(\sum_{t=1}^{T}\epsilon_{it}\right)^2}{\sum_{i=1}^{N}\sum_{t=1}^{T}\epsilon^2{}_{it}} - 1\right]^2 \sim X_1^2 \quad \text{Equation 4.6}$$

where:

N = number of cross-sectional units (JSE-listed companies for this study)

T = number of time periods

ϵ_{it} = ordinary least squares residuals of the model

Given that panel data were analysed, attention was given to possible autocorrelation. If the values of one period are correlated with those of a previous period, autocorrelation occurs (Menard, 2008). In the current study, autocorrelation was addressed by using the selected repeated measures ANOVA model. This model compares means based on repeated observations across one or more variables. For this study, repeated measures were included in both the one-way and mixed-model ANOVAs.

Multicollinearity can arise when independent variables are strongly correlated (Stanley & Jarrell, 2005). Multicollinearity was assessed in this study by calculating the variance inflation factors (VIF). All VIFs were found to be smaller than five, in line with the parameter suggested by Hair et al. (2007), thereby suggesting that multicollinearity was not a problem.

4.6 VALIDITY, RELIABILITY AND ETHICAL CONSIDERATIONS

Validity is the extent to which the measures employed in a study correctly represent the reported outcome(s) (Hair et al., 2007). Validity in this study implied that the board-related, voting and other data were accurate as per the integrated reports of the sampled companies, and the Proxy Insight and Bloomberg databases.

The board and other company-specific data that were sourced from the Bloomberg database were validated by comparing it with the actual integrated reports and corporate websites in some cases. After comparing extreme outlier values against the original data source, these values were winsorised. According to Vinzi, Chin, Henseler and Wang (2010), the process of

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winsorisation involves replacing outlier values with ones that are closer to the mean. Winter (2000) suggests that validity can be enhanced by using the most appropriate measures for the variables under consideration. The considered variables were based on a comprehensive literature review, which further adds to the replicability of the study.

Reliability refers to the replicability of a study (Winter, 2000). To enhance reliability, the researcher ensured that the reporting currency was set at South African Rand (ZAR) when the financial data were sourced from Bloomberg. Furthermore, the researcher made sure that the data were collected for the last day of trading for each year. The research process that was followed was explained in detail in this chapter, thereby enabling future scholars to replicate this study.

Ethics can be defined as the study of moral foundation which can be linked to 'good and bad behaviour' (Parmer, Kelly & Stevens, 2016). This study was classified by the Departmental Ethics Screening Committee of Stellenbosch University as having minimal ethical risks. The researcher did not intend to cause any harm through this study. No names of individual directors, shareholders or companies are reported in the results section. Permission was granted by Proxy Insight to use their data and their name in this thesis and possible future publications.

4.7 SUMMARY

In this chapter, attention was given to various research philosophies and the related approaches. Based on the adopted positivistic philosophy, an appropriate research design was formulated. Thereafter, the description and operationalisation of the variables and the methods used to collect and analyse panel data were presented.

The population of this study consisted of all companies listed on the JSE over the period 2014 to 2020. As Proxy Insight has only been collecting voting data for specific JSE-listed companies since 2014, a non-probability convenience sample was used. In line with previous studies, shareholder opposition (which is the percentage against-votes cast on director re/election proposals) was deemed the dependent variable. Seven independent and three control variables were considered for the sampled companies for the period under investigation.

Descriptive and inferential statistics were used to analyse the panel data. The descriptive statistics were conducted to shed light on the secondary research objectives presented in

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Chapter One Section 1.4.3. The inferential statistical tests were used to test the seven research hypotheses formulated in Chapter Three Section 3.4. The empirical results will now be discussed in Chapter Five.

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CHAPTER FIVE
EMPIRICAL RESULTS

5.1 INTRODUCTION

The previous chapter covered the research design and methodology that were adopted in this study. The fifth step of the chosen deductive theory development approach, as set out in Chapter Four Table 4.2, is to report and compare the results and test the formulated hypotheses (Blaikie & Priest, 2019). This step of deductive theory development was addressed by the third and fourth secondary research objectives stated in Chapter One Section 1.4.2. The former secondary objective was focused on with the results presented in Sections 5.2 to 5.3. Section 5.5 addresses the latter secondary objective.

The descriptive findings and significant trends are reported in this chapter for the respective dependent, independent, and control variables that were outlined in Table 4.3. To ascertain whether the change in shareholder opposition (the dependent variable) over time was significant, LSD tests were performed. The results of the mixed-model ANOVA that was conducted to assess the hypothesised associations between the average percentage against-votes and the various independent and control variables are then reported. To comply with ethics requirements from DESC, no references will be provided where closer investigation was required to protect the identities of companies.

5.2 DESCRIPTIVE STATISTICS FOR SHAREHOLDER OPPOSITION

Details on the extent to which against-votes were cast on director re/elections are presented in Section 5.2.1. Thereafter, the change in this variable which reflects shareholder opposition will be assessed over time. Lastly, details will be provided on differences in shareholder opposition across industries.

5.2.1 Shareholder opposition per year

Descriptive statistics for the dependent variable over the research period are provided in Table 5.1.

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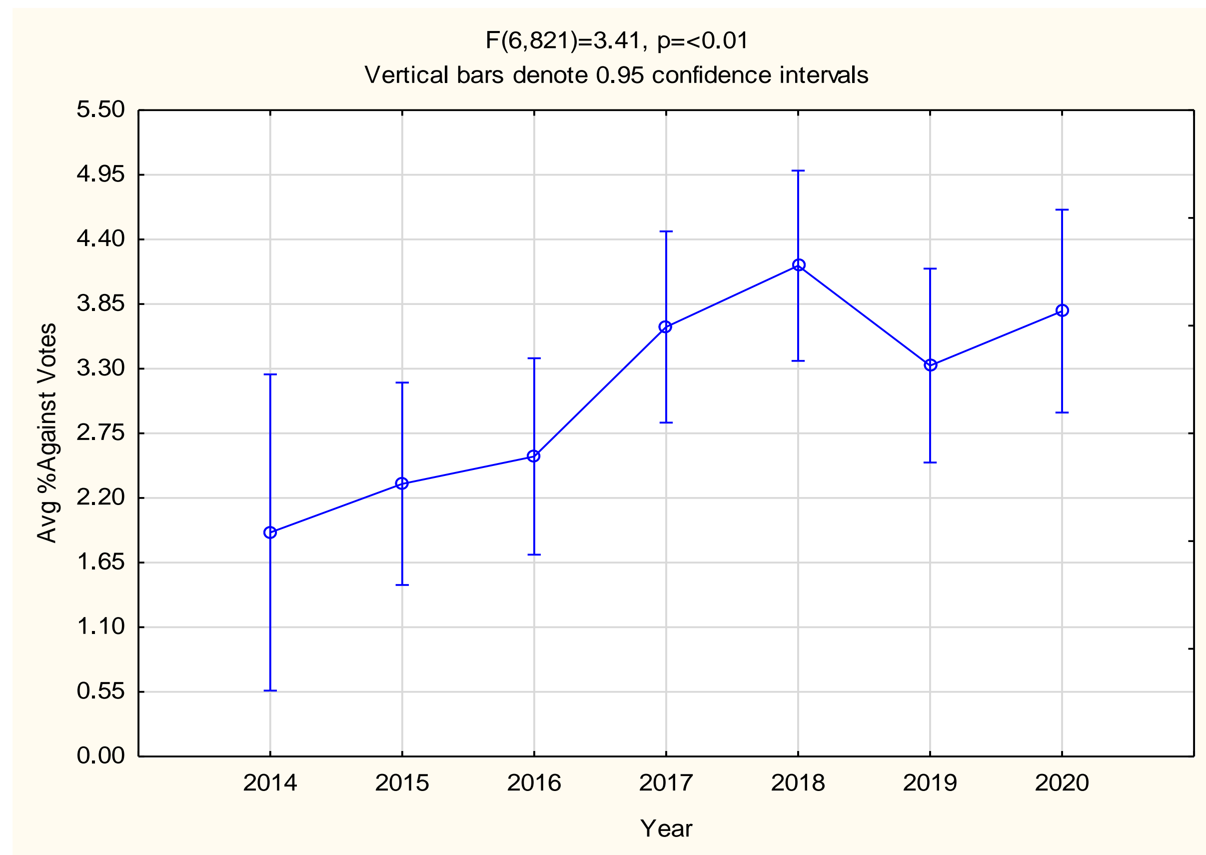
Table 5.1: Descriptive statistics for percentage against votes to director re/elections

Year	N	Mean	Median	Maximum value	Minimum value	Standard deviation
2014	59	2.24	0.90	27.15	0	4.06
2015	150	2.42	0.72	42.05	0	5.35
2016	160	2.57	1.04	26.60	0	4.31
2017	169	3.70	1.20	41.30	0	6.01
2018	171	4.15	1.80	52.80	0	7.32
2019	164	3.27	1.89	31.37	0	4.50
2020	149	3.72	2.62	27.12	0	4.29
Overall period	**1 022**	**3.26**	**1.42**	**52.80**	**0**	**5.41**

The mean percentage against-votes rose from 2.24 per cent in 2014 to 3.72 per cent in 2020. As shown in Figure 5.1 (presented on the following page), the observed increase of 1.48 per cent between 2014 and 2020 was statistically significant ($F(6,821)=3.41$, $p=<0.01$). This increase suggests that shareholders' opposition with regard to director re/elections gradually intensified over the considered period. This gradual increase may be indicative of certain investors of South African public companies becoming more vocal at the ballot box.

For the overall period, shareholders opposed director re/elections by 3.26 per cent. Although previous research on director re/elections in South Africa is limited, Viviers and Smit (2015) investigated institutional proxy voting data from 17 local institutional investors during 2013. The authors found that these investors opposed director re/election resolutions, on average, by 11.7 per cent in 2013, a value that is much higher than the averages reported in this study. The variance of results between Viviers and Smit's research (2015) and this study's results are likely due to the difference in the sample sizes between the studies.

Figure 5.1: Mean shareholder opposition per year



Closer inspection of Figure 5.1 reveals that there was a significant increase (F(6,821)=3.41, p=<0.01) in the average percentage against-votes cast from 2016 to 2018. This increase may be attributed to the inclusion of Principle 17 in King IV, which was released in 2016, and became effective since 1 April 2017. The increase being noted from 2016 may be attributed to the changes expected by companies and investors between King III and IV. Principle 17 is directly related to the role that institutional investors ought to play in governing investee companies (IoDSA, 2016). This principle outlines that institutional investors should follow responsible investment practices to ensure good governance and value creation at investee companies (ibid). Responsible investment principles are stipulated in CRISA, which are aligned with the International Corporate Governance Network Global Stewardship Code and the UN PRI (CRISA, 2011). Refer to Chapter Three Section 3.3.1.2 for a detailed discussion on CRISA.

One of the foundational concepts of King IV is that of shareholder activism (IoDSA, 2016). Ordinary shareholders are accordingly encouraged to vote on resolutions tabled at shareholder meetings. The increased shareholder opposition illustrated in Figure 5.1 indicates that

shareholders were using this public voice mechanism more frequently over the duration of the research period.

It was mentioned in Chapter Three Section 3.4.2 that shareholders of JSE-listed companies traditionally engaged with investee companies in private and continues to favour this approach. The results shown in Figure 5.1, however, suggest that shareholders publicly opposed management resolutions more frequently over the research period. It should be noted that although shareholders were, on average, opposing more director re/election resolutions at the sampled companies over the research period, the increase was less than two per cent. Such a small change has limited practical significance, as it would be unlikely to amount to considerable changes in the board sizes or composition of the targeted companies.

The extent of shareholder opposition (measured by the average percentage against-votes) ranged from zero to 52.80 per cent. Certain sampled companies thus received no objection to their director re/election resolutions in certain years. The standard deviation was 5.41 for the overall period. Figure 5.2 presents the frequency distribution of shareholder opposition.

Figure 5.2: Frequency distribution of the average percentage against-votes

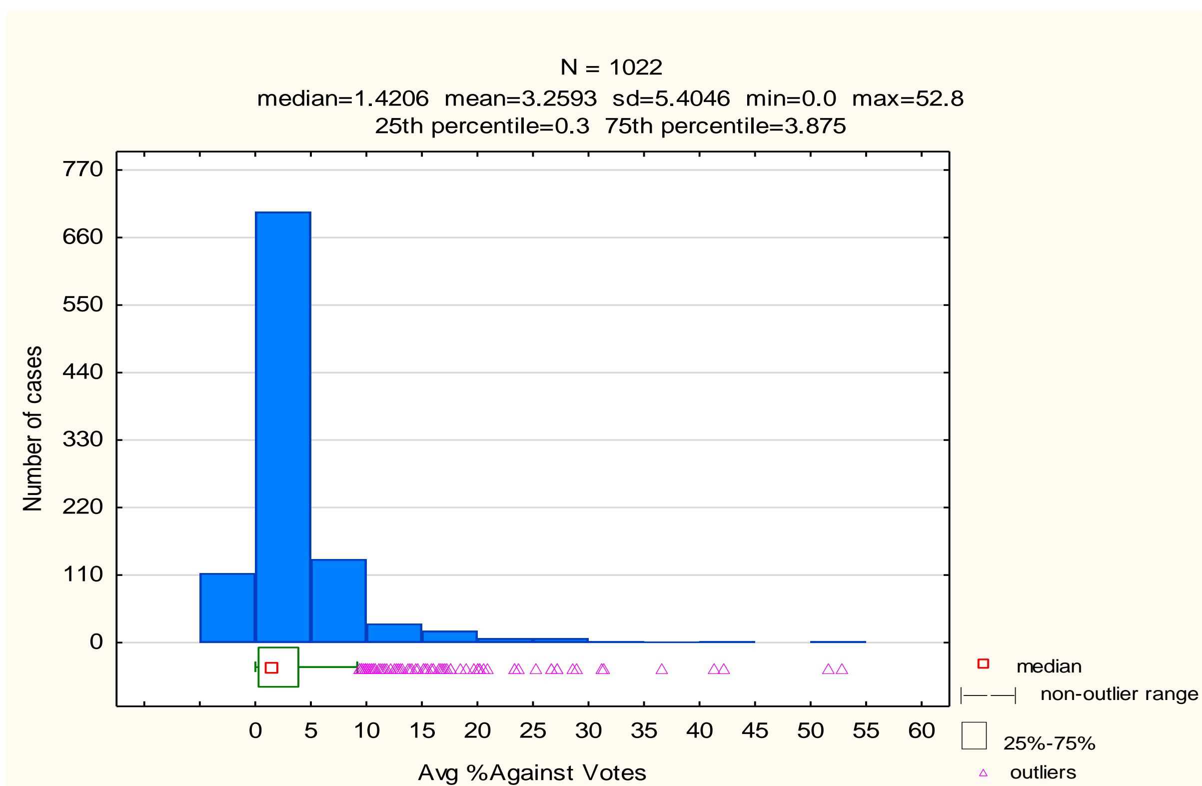


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Figure 5.2 paints an interesting picture about the distribution of shareholder opposition to director re/elections. The average percentage against-votes cast on director re/elections was largely dispersed below 10 per cent. This dispersion presents challenges for the statistical analysis, as the opposition percentages were largely dispersed around 0 to 10 per cent. In light of this distribution, the dependent variable (shareholder opposition on director re/elections) was log-transformed in the second-round of mixed-model analysis presented in Chapter Five Section 5.5.2.

In line with previous studies, shareholders show their opposition to director re/election resolutions at the sampled companies when they disagree with the individuals being nominated for board positions (Aggarwal et al., 2019; Hillman et al., 2010; Bebchuk, 2007). Therefore, in this study, higher voting dissent was also expected when more shareholders disagreed about whether the nominated board candidates should be re/appointed. In 2018, one of the sampled companies experienced considerable dissent towards their director re/election resolutions. The company received an average of 52.80 per cent against-votes. According to the Companies Act, an ordinary resolution, such as a director re/election resolution tabled by management, requires 50 per cent support plus one vote for the resolution to pass (Government Gazette, 2009).

The relevant integrated report of this sampled company (the 2018 report) and various media reports on shareholder activism in the country at the time were considered to shed light on the high percentage against-votes at the particular company. Regarding the director re/election resolutions tabled at the sampled company's 2018 AGM, shareholders voted against the appointment of the CEO, the board chairperson, and two other INEDs. Their votes resulted in the CEO's election not being approved. Several shareholders were concerned about the classification of a specific executive director as the CEO based on a minor inscription in the company's memorandum of understanding. Despite substantial opposition against the other nominees, they were all still appointed.

Another company, operating in the consumer discretionary sector, also received substantial voting opposition with 51.53 per cent of the shareholders voting against their director re/election resolutions in 2018. A disgruntled consortium of shareholders formally requested an extraordinary general meeting to appoint four of their own NED nominees to the board. This consortium gained sufficient shareholder support to appoint two of their preferred candidates

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to the board. Several days prior to the meeting the company's CEO, who was standing for re-election, resigned.

As indicated earlier, such instances of public shareholder activism are quite rare in South Africa (Mans-Kemp & Van Zyl, 2021; Yamahaki & Frynas, 2016; Viviers & Smit, 2015). Shareholders such as those of the two highlighted sampled companies are nonetheless in a position to effect important changes to board composition.

5.2.2 Shareholder opposition per industry

Table 5.2 depicts the descriptive statistics for the average percentage against-votes cast per industry over the research period.

Table 5.2: Descriptive statistics for shareholder opposition (%) across industries

Industry	N*	Mean	Median	Maximum value	Minimum value	Standard deviation
Information technology	50	6.12	2.08	52.80	0	9.42
Communication services	30	4.47	2.44	16.42	0	4.79
Consumer discretionary	125	4.33	1.88	51.53	0	7.62
Real estate	118	3.65	1.49	36.50	0	6.01
Financials	152	3.53	2.27	31.10	0	4.25
Industrials	179	3.01	1.20	28.83	0	5.04
Energy	11	2.49	1.72	10.70	0	3.33
Materials	198	2.36	1.01	28.55	0	4.07
Consumer staples	119	2.24	0.97	15.85	0	3.35
Healthcare	34	2.19	0.91	17.24	0	3.65
Utilities	6	1.38	1.07	3.50	0.20	1.13

*1 022 observations for the seven-year research period

Of the 11 industries considered in this study, the information technology industry received the highest average percentage against-votes (mean of 6.12%). The company that received 52.80 per cent votes against their director re/election process in 2018, as reported on in Section 5.2.1, formed part of this industry. The relatively low minimum values exhibited for the respective sectors suggest that shareholders of the sampled companies were mostly apathetic when it came to scrutinising and approving board appointments over the duration of the research period. This observation resonates with the recent call from Davids and Kitcat (2021) for shareholders to become more active in their pursuit of value creation and their approach to keep management accountable for their decisions. Although certain sampled companies received increased

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opposition against board nominees in certain years, most of these resolutions still passed with a large margin of support.

5.3 DESCRIPTIVE STATISTICS FOR THE INDEPENDENT VARIABLES

The various board-level characteristics discussed in Chapter Two were deemed the independent variables, namely the percentage INEDs, board size, classification of chairperson and lead independent director, CEO role duality, director tenure, and the number of external directorships held by incumbent board members. Details pertaining to these independent variables and significant trends will be discussed in the succeeding four sections.

5.3.1 Presence of independent non-executive directors

The distribution of the percentage of INEDs who were present on the boards of the sampled companies per year is presented in Table 5.3.

Table 5.3: Descriptive statistics on the percentage INEDs (%)

Year	Mean	Median	Maximum value	Minimum value	Standard deviation
2014	52.50	50.00	81.82	16.67	14.03
2015	55.11	56.13	85.71	18.18	13.01
2016	55.40	55.56	85.71	13.33	14.52
2017	57.08	57.14	86.67	22.22	13.40
2018	56.96	55.56	90.00	18.18	13.50
2019	58.61	58.58	85.71	0.00	14.02
2020	64.62	66.67	89.00	0.00	15.68
Overall period	**57.59**	**57.14**	**90.00**	**0.00**	**14.36**

The mean values shown in Table 5.3 portray a rising trend in the percentage INEDs serving on the boards of the considered companies over the research period. The mean value increased from 52.50 per cent in 2014 to 64.62 per cent in 2020. As indicated in Chapter Two Section 2.3.1, King IV recommends that the majority of a board's members should be NEDs, of whom most should be classified as independent (IoDSA, 2016). The total mean value of 57.59 indicates that, on average, the sampled companies complied with these recommendations set out in King IV.

However, the low minimum values reported per annum show that certain companies did not comply with the board composition recommendations of King IV for this variable. For

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instance, a utilities company did not have any INEDs on their board in 2019 or 2020. This company had a secondary listing on the JSE with their primary listing being on the US-based NASDAQ. Figure 5.3 illustrates the trend for the mean percentage INEDs from 2014 to 2020.

Figure 5.3: Trend analysis for the mean percentage INEDs

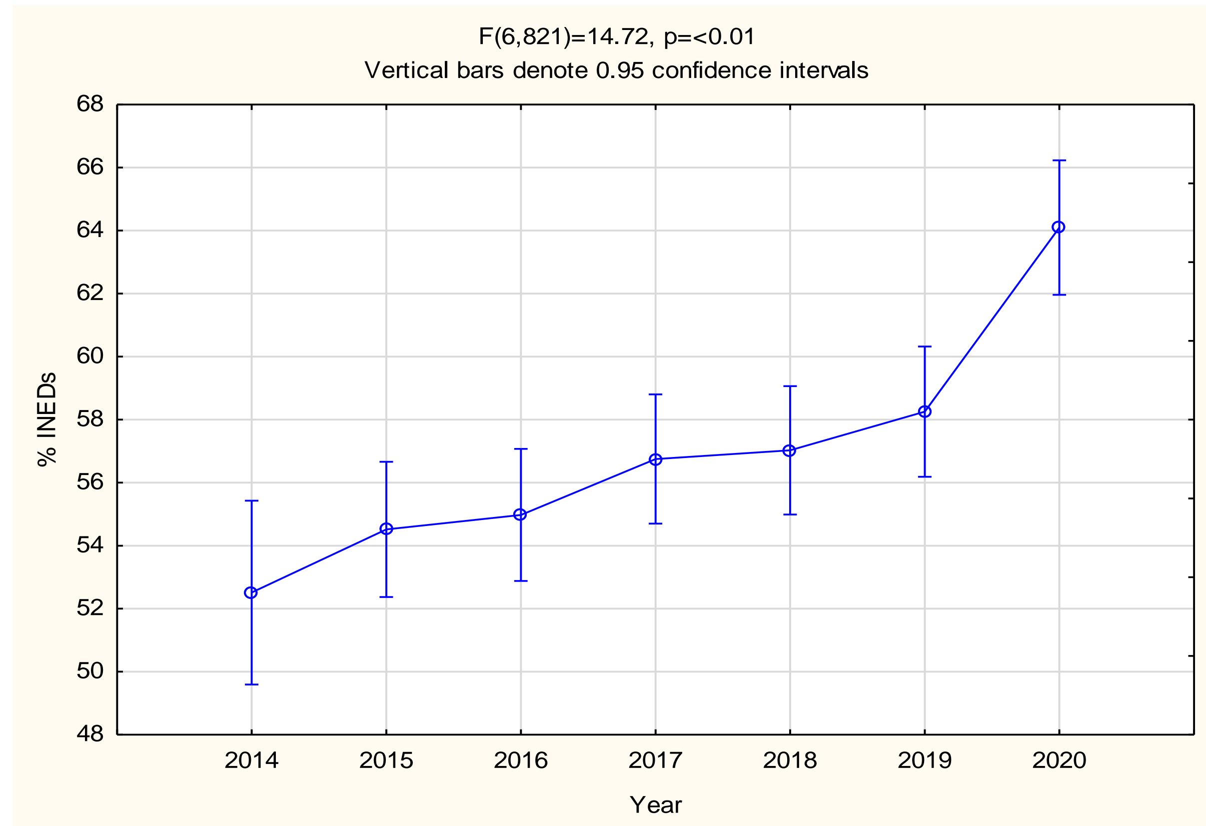

Figure 5.3 portrays that the observed increase in the percentage INEDs over the research period was significant (F(6,821)=14.72, p=<0.01). As mentioned in Chapter Two Section 2.3.1, King IV progressed from the notion of factual independence, as referred to in King III, to perceptual independence. Factual independence classifies directors as independent according to a set of disqualifying criteria, whereas perceptual independence aims to classify independence perceptually. The independence criteria set out in King III largely remained the same in King IV. King IV's criteria, however, are phrased as 'factors' that should be considered when determining independence (Green & Moodley, 2021). This amendment, which came into effect on 1 November 2016, might partly explain the noteworthy increase in the proportion of INEDs serving on the considered boards from 2017 onwards.

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5.3.2 Independent chairperson and lead independent director classifications

The majority of the sampled companies (64 per cent) had an independent board chairperson. However, it is disconcerting that more than a third of the observed companies did not show compliance with the King III and IV requirement to appoint an independent board chairperson. As discussed in Chapter Three Section 2.3.3, a key role of a chairperson is to counterbalance the CEO and other inside directors (FRC, 2018; IoDSA, 2016; Krause et al., 2014; Jensen, 1993). According to agency logic, the chairperson should be an independent director to perform this role effectively (Bonazzi & Islam, 2007; Fama & Jensen, 1983).

King III introduced the requirement that a board must appoint a lead independent director if the chairperson is not an INED (IoDSA, 2009). King IV extended this requirement by obligating the appointment of a lead independent director regardless of the chairperson's classification (IoDSA, 2016). Yet more than half (52%) of the sampled companies did not have a lead independent director on their boards over the research period. This result indicates that the majority of sampled companies did not follow the discussed King III and King IV recommendations in this regard. Given the categorical nature of the lead independent director variable, the least-squares means (LS means) were used to test for a significant trend over the research period. The results are reported in Figure 5.4.

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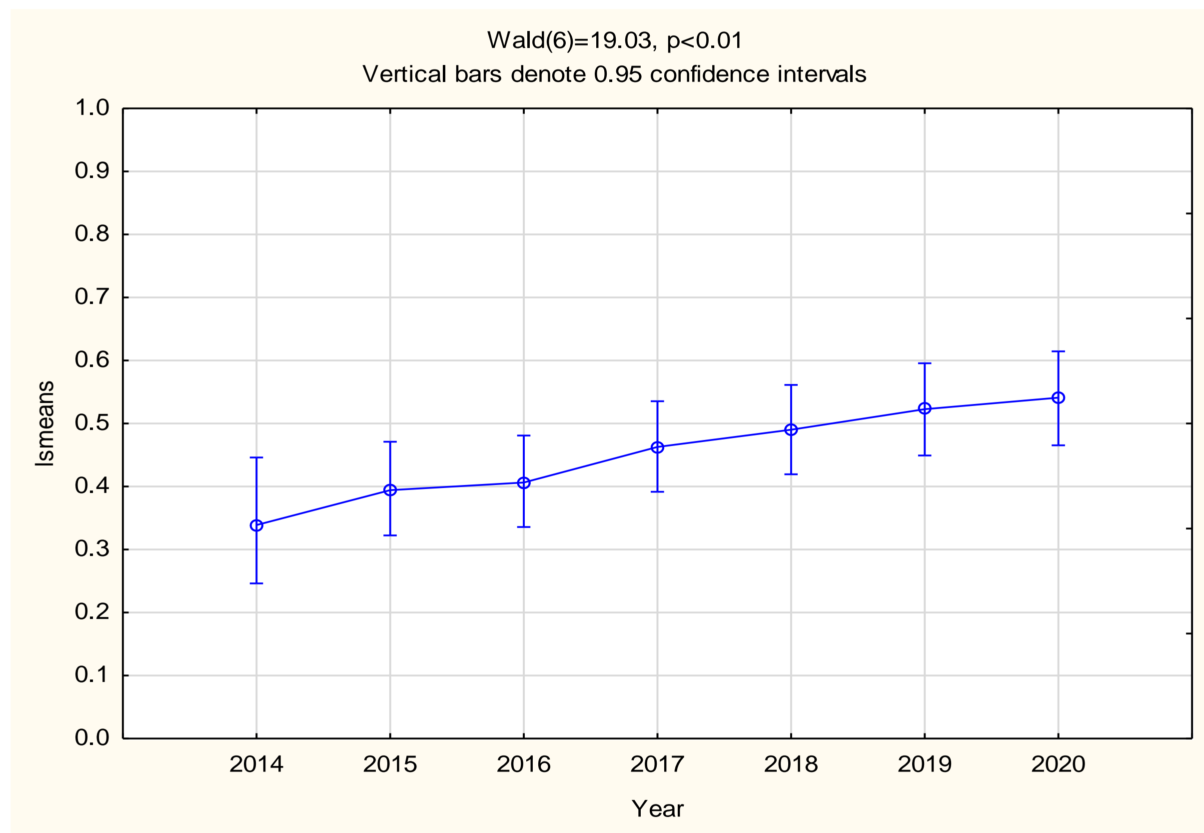
Figure 5.4: Trend analysis for lead independent director classification



As can be seen in Figure 5.4, the observed increase in the presence of a lead independent director is significant over the study period (Wald(6)=19.03, $p<0.01$). The LS means increased notably from 2017 to 2020, which suggests that the revisions made to King III influenced a number of sampled companies in as far as their classification of a director as a lead independent was concerned.

5.3.3 CEO role duality

Both King III and IV furthermore recommend that the chairperson and CEO positions should not be held by the same person (IoDSA, 2016). As explained in Chapter Four Section 4.5.3, CEO role duality was determined by comparing the names of the CEO and chairperson as reported in each sampled company's integrated report per annum to determine whether the positions were held by the same person. A zero ('0') was recorded if the positions were held by two individuals, otherwise a '1' was recorded if CEO role duality was observed.

Only one per cent of the sampled companies had CEOs who also fulfilled the chairperson role. This limited observance of CEO role duality is not surprising, as this recommendation has been included in all four versions of the King report, the first of which was published in 1994.

Evidence from the financial reports of the 40 largest JSE-listed companies in 2007 (by market capitalisation) indicated that all the CEO and chairperson roles were separated (Ohlhoff, 2008). Therefore, the finding that only one per cent of the observed companies in this study combined these roles was anticipated. Owing to a detected linear dependence (highlighted by the employed statistical software) between CEO role duality and shareholder opposition over the research period, the CEO role duality variable was excluded from the mixed-model ANOVA analysis presented in Section 5.5.

As mentioned in Chapter Two Section 2.2.1, hard and soft corporate governance regulations and recommendations are largely based on the agency theory. Agency logic suggests that combining the roles of CEO and chairperson increases the CEO's power and influence over the board, which in turn increases agency costs (Goergen et al., 2020; Jensen & Meckling, 1976). This increase is more likely to occur in larger companies. As alluded to earlier, larger companies have more complex organisational structures that are more difficult to monitor, but they also have more resources that can possibly be wasted (Jensen & Meckling, 1976). Company size is therefore considered in Section 5.4.

5.3.4 Board tenure

Table 5.4 contains the descriptive statistics for average board tenure over the research period. The values depicted in Table 5.4 contain all the directors who had served on the sampled companies' boards per annum, including executive directors, NEDs, and INEDs.

Table 5.4: Descriptive statistics on directorate tenure (years)

Year	Mean	Median	Maximum value	Minimum value	Standard deviation
2014	7.90	7.63	14.25	3.92	2.59
2015	7.37	6.82	13.90	3.00	2.66
2016	7.83	7.40	14.35	2.75	2.69
2017	8.00	7.51	15.29	1.88	2.94
2018	8.27	7.68	14.39	4.08	2.79
2019	7.95	7.00	15.58	1.00	3.05
2020	9.44	9.25	13.83	4.93	3.19
Overall period	**8.11**	**7.61**	**14.51**	**3.08**	**2.84**

Table 5.4 shows that the mean directorate tenure increased notably between 2014 (7.90 years) and 2020 (9.44 years). This increase witnessed over the research period was statistically

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significant (F(6,255)=3.44, p=<0.01) The maximum directorate tenure (15.58 years) was observed at a company in 2019. Although this board's tenure was higher than the mean reported during this year, this characteristic was not mentioned as a concern in the specific sampled company's 2019 integrated report.

Huang and Hilary (2018) claim that director tenure captures the trade-off between knowledge accumulation and independence. King IV's recommendation strays from a rules-based approach to assessing director entrenchment similar to the practice suggested in the UK Corporate Governance Code (FRC, 2018; IoDSA, 2016).

King IV's Principle 12 suggests that a board should establish arrangements for the staggered, periodic rotation of its directors (IoDSA, 2016). Through refreshment, a board can invigorate its capabilities by introducing directors with new perspectives and expertise while retaining important skills, knowledge, and experience and maintaining continuity (IoDSA, 2016). Institutional investors have used tenure as a proxy for both independence and effectiveness (Natesan & Du Plessis, 2018).

Previous researchers have expressed an inverted U-shape relation between outside director tenure and company performance (as measured by Tobin's Q) (Huang & Hilary, 2018). These authors found that the optimal tenure for NEDs is between eight and 11 years. They note that boards with a shorter average tenure tend to make better investment decisions, have better financial reporting quality, and remunerate the CEOs less than boards with a longer average tenure. The average directorate tenure reported in Table 5.4 is therefore in line with the optimal range proposed by Huang and Hilary (2018).

5.3.5 The presence of multiboarded directors

The descriptive statistics on external board seats held by the sampled companies' directors are presented in Table 5.5. This variable was constructed by taking the total number of external board positions into account, namely the positions that each sampled company's directors held at other JSE-listed companies per annum.

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Table 5.5: Descriptive statistics on multiboardedness (number of external positions)

Year	Mean	Median	Maximum value	Minimum value	Standard deviation
2014	3	3	6	1	1
2015	2	2	5	1	1
2016	2	2	4	1	1
2017	3	3	4	1	1
2018	3	3	5	1	1
2019	3	3	8	2	1
2020	3	3	7	1	2
Overall period	**3**	**3**	**8**	**1**	**1**

At an aggregate level, the mean number of external board positions held by the sampled companies' directors largely remained the same over the research period at approximately three positions. In 2019, the directorate of one sampled company had members who held on average eight external board positions, the maximum value for the period under consideration. Upon closer inspection, the majority of these positions were held at companies operating in the same industry as the sampled company.

From a resource-dependence view, such a high number of external board seats may be beneficial for accessing external resources through connections with other companies (Hillman et al., 2000). Furthermore, by holding external board positions in the same industry, directors gain industry-specific knowledge. Multiple board positions at similar companies may, however, lead to potential conflict of interest (Cossin & Lu, 2017).

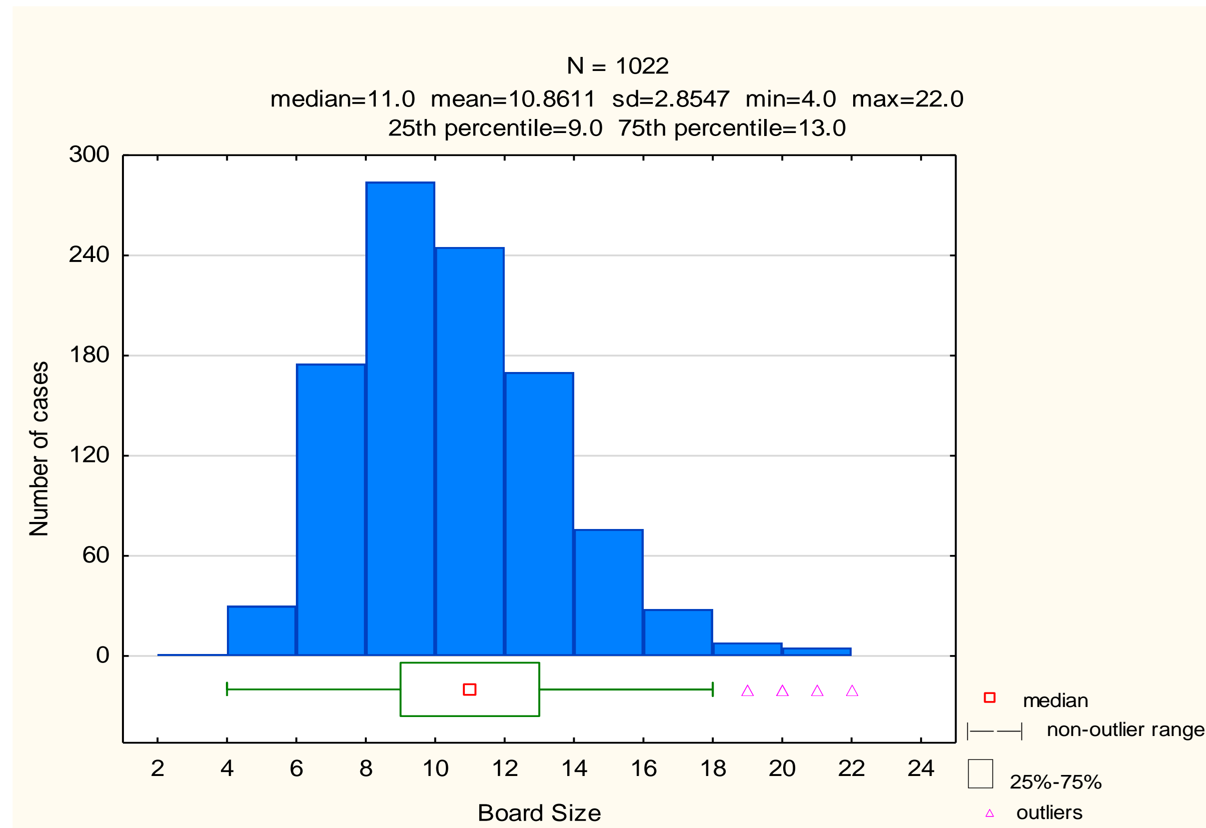
The relatively high maximum values presented in Table 5.5 during 2014, 2019, and 2020 point to potential problems with overboardedness (Fich & Shivdasani, 2006; Ferris et al., 2003). Section 2.3.4 in Chapter Two contained a discussion on two prominent hypotheses about director interlocking. The experience hypothesis suggests that a director can gain invaluable experience and access to resources by serving on multiple boards concurrently (Clements et al., 2015). In contrast, the busyness hypothesis posits that directors can become less effective monitors when they serve on multiple boards at the same time (ibid). The busyness hypothesis is embedded in the agency theory (Mans-Kemp et al., 2018). As this theory is the dominant theory used in the current study, the relatively high average number of external seats held by specific sampled companies' directorates in certain years might be a concern for these companies' investors and their nomination committees. Recommendations are offered in

Chapter Six Section 6.5.3 for nomination committees and overboarded directors to avoid potentially damaging instances of shareholder activism.

5.3.6 Board size

The distribution of the sampled companies' board sizes is graphically presented in Figure 5.5.

Figure 5.5: Distribution of board size



It is evident from Figure 5.5 that the board size variable is slightly skewed to the left, as the mean value is smaller than the median value. Half of the board size observations fell between nine and 13 directors. The Companies Act stipulates that the board of a public company must consist of a least three directors (Government Gazette, 2009). The minimum value indicated in Figure 5.5 shows that none of the sampled company had fewer than four directors serving on their boards in any of the considered years. For the purposes of the inferential analysis, boards with more than 18 directors were classified as outliers. Seven companies had boards exceeding 18 members over the research period. Although these companies were considered outliers through the statistical analyses, large boards are prevalent in companies. Therefore, these companies were included in the sample.

As mentioned in Chapter Two Section 2.5, there is a distinct trade-off between having either a large or a small board, with each option having distinct advantages and disadvantages. However, instead of prescribing a maximum board size for JSE-listed companies, the IoDSA (2018) recommends that each company should consider its own optimum board size to ensure efficient functioning.

According to Ning, Davidson and Wang (2010), board sizes of listed companies in the US range between eight and 11 directors. Evidence from the UK suggests that boards, on average, have 10 members (Spencer Stuart, 2020). The considered South African companies therefore seemed to align their board sizes with the upper bounds of their international counterparts, as the reported mean board size was approximately 11 (see Figure 5.5). Ning et al. (2010) furthermore found that boards exhibit a significant mean 'reverting trend' over time. Accordingly, small boards (with fewer than eight directors) tend to increase their size, whereas larger boards (with more than 12 directors) tend to shrink their size (ibid).

5.4 DESCRIPTIVE STATISTICS FOR THE CONTROL VARIABLES

Three control variables were used in this study, namely cross-listings, market capitalisation, and TSR. Table 5.6 highlights the proportion of the sampled companies that were listed on more than one stock exchange over the duration of the research period.

Table 5.6: Percentage of cross-listed sampled companies

Year	% cross-listed companies
2014	27.12%[(a)]
2015	10.67%
2016	10.00%
2017	9.47%
2018	9.36%
2019	9.76%
2020	10.74%
Overall period	**7.88%**

[(a)] This percentage is higher than the other years owing to fewer companies being included in the sample in 2014. These companies were larger, by market capitalisation, which typically receive more coverage by analysts and therefore were included in the Proxy Insight database.

Perusal of Table 5.6 shows that, over the research period, a very small percentage of the sampled companies were listed on two or more stock exchanges. From 2014 to 2018, there was a gradual decrease in the percentage of cross-listed companies. In 2019 and 2020, there was a

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slight increase in the percentage of sampled companies that also had stock exchange listings in other African countries and further afield.

Throughout the study period, there has been a steady increase in the number of companies that delisted from the JSE. Mahlangu (2021) confirms this trend. From 2015 to 2020, a total of 137 companies delisted from the local bourse (ibid). According to Van der Merwe and Bernard (2021), the current trend can mainly be ascribed to small businesses falling outside the liquidity and size ranges required by ‘average’ institutional investors.

Over the study period, only 83 new companies listed on the local stock exchange (Mahlangu, 2021). The coronavirus disease of 2019 (COVID-19) pandemic has contributed to the exit trend, as many companies’ share prices declined, making them attractive takeover targets (Mahlangu, 2021). Table 5.7 presents the descriptive statistics on the market capitalisation of the sampled companies per year.

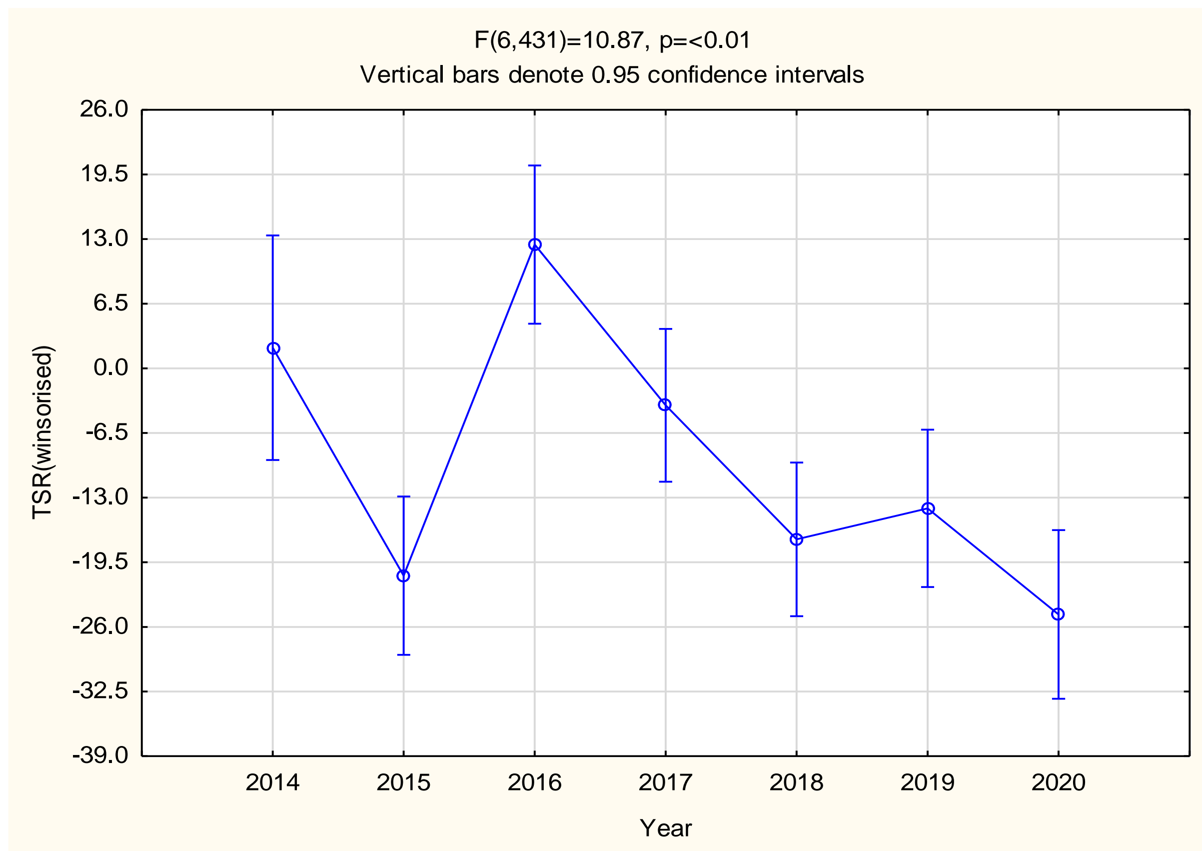
Table 5.7: Descriptive statistics for market capitalisation (R’ million)

Year	Mean	Median	Maximum value	Minimum value	Standard deviation
2014	82 054 001 436	23 717 468 600	976 971 686 600	574 119 100	161 502 181 916
2015	49 562 411 729	10 654 088 200	1 520 497 604 000	70 370 500	151 467 461 635
2016	42 816 120 504	12 296 492 500	8 841 292 14 600	71 934 200	99 727 516 596
2017	59 796 821 886	11 094 566 900	1 516 932 558 000	43 786 100	182 221 308 200
2018	53 708 455 556	8 614 050 700	1 660 755 151 000	111 628 500	175 640 739 554
2019	56 468 850 015	9 246 545 200	1 821 173 224 000	24 450 500	177 166 157 814
2020	37 306 073 697	7 332 807 000	1 317 862 491 000	125 000 100	117 877 516 518
Overall period	**52 089 464 097**	**10 254 898 600**	**1 821 173 224 000**	**24 450 500**	**155 745 425 497**

The median values depicted in Table 5.7 indicate a decreasing trend in the average size (as measured by market capitalisation) of the evaluated companies. This decreasing trend was statistically significant ($F(6,821)=21.95$, $p=<0.01$). The South African economy entered a technical recession in 2019, with the gross domestic product increasing by the smallest percentage since 2009 (Stats SA, 2020). The economy contracted by 1.9 per cent in 2009 as a result of the global financial crisis (Stats SA, 2020).

Furthermore, the COVID-19 pandemic resulted in a 35 per cent decline in the JSE Top 40 companies' share prices in comparison with their pre-COVID-19 levels (PwC, 2020). This decline may partially explain the substantial decrease in the mean and median market capitalisation values from 2019 to 2020, as reported in Table 5.7. In addition, Figure 5.6 portrays details on the significance of the observed downward trend in the mean TSR values over time. As mentioned in Chapter Four Section 4.7.2, the computation of the TSR is similar to the holding period return calculation, except for using adjusted closing prices as inputs to calculate return over a one-year period. Adjusted closing prices were calculated by Bloomberg (2021). This data provider adjusts share prices for corporate actions that have a share price implication, such as dividends and share splits (ibid).

Figure 5.6: Trend analysis for the winsorised mean TSR values



From 2017 onwards, there was a marked decline in the TSR values reported for the sampled companies, as shown in Figure 5.6. For the entire period under investigation, the mean TSR was -19.13 per cent and the median value was -3.91 per cent. These negative values therefore suggest that shareholder wealth declined. The mixed-model ANOVA confirmed that the mean winsorised TSR values decreased significantly (F=10.87, p=<0.01) between 2014 and 2020.

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Several outlier TSR values were reported by Bloomberg. For example, one of the sampled companies experienced a substantial decline of 1 900 per cent in their share price in 2018. This decrease could be largely ascribed to hefty fines that were paid for various collusion charges and a weakened balance sheet from the considerable debt that the company had accumulated to expand their operations. As such, the TSR values were winsorised where applicable. Having gained some insight into the nature and changes of the dependent, independent, and control variables, attention now shifts to the associations reported between these variables.

5.5 RESULTS OF THE HYPOTHESIS TESTING

A mixed-model ANOVA was performed to investigate the relationships between the dependent variable (shareholder opposition to director re/election resolutions) and the discussed independent and control variables. Owing to the panel nature of the dataset, attention was given to potential multicollinearity, which will be discussed in the succeeding section. Through the use of the lmer package in R, adjustments were made for potential heteroscedasticity between observations in the robust mixed-model ANOVA.

5.5.1 Accounting for multicollinearity

Multicollinearity occurs when investigated constructs are highly correlated (Mason & Perreault, 1991). Such correlations may lead to inaccurate hypothesis testing (Temme, Kreis & Hildebrandt, 2010; Belsley, Kuh & Welsch, 2005). For this study, multicollinearity was evaluated by considering the VIF scores for the independent and control variables (see Table 5.8). As explained in Chapter Four Section 4.8, the VIF measures the level at which the variance of the estimated regression coefficients is inflated by the presence of high correlations between the independent variables in the model (Götz, Liehr-Gobbers & Krafft, 2010). In this study, VIF scores exceeding five were regarded as indicators of multicollinearity (Hair et al., 2007). Due to a linear dependence detected by the statistical software, R, the variable CEO duality could not be included in the mixed-model ANOVA. Therefore this variable does not feature in the subsequent discussion.

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Table 5.8: VIF scores for the independent and control variables (first and second round of analysis)

Variable	VIF score (first round)	VIF score (second round)
% INEDs	1.33	1.33
INDCHAIR	1.85	1.83
Lead INED	1.75	1.74
Board tenure	1.13	1.13
Multiboardedness	1.30	1.29
Board size	1.52	1.50
Cross-listed	1.49	1.48
TSR (winsorised)	1.41	1.42
Market cap (log10)	1.71	1.70

As shown in Table 5.8, all VIF scores were well below the threshold of five. Therefore, multicollinearity was not deemed a concern. In line with Aggarwal et al. (2019) and Hillman et al. (2010), who log-transformed their shareholder voting data, the dependent variable in the current study was log transformed and the mixed-model ANOVA analysis was repeated. This decision was made as the dataset contained many variables of which the values were grouped around the zero point, thereby not holding a normal distribution. As indicated in the last column of Table 5.8, the recomputed VIF values ranged between 1.13 and 1.83. These values were thus also well below the threshold of five as proposed by Hair et al. (2007), thereby confirming that multicollinearity was not a concern when testing the seven hypothesised relationships.

5.5.2 Results of the second round of mixed-model analysis of variance

Table 5.9 indicates the mixed-model ANOVA (with random effects) results by using the natural logarithm of shareholder opposition as the dependent variable.

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Table 5.9: Mixed-model ANOVA results (log transformed dependent variable)

Variable	Standard error	Coefficient	*F*-value	Significance
Intercept	0.52	0.32	**280.70***	<0.01
%INEDs	0.01	<0.01	0.20	0.65
INDCHAIR	0.08	-0.08	1.08	0.30
Lead INED	0.07	-0.02	0.34	0.56
Board tenure	0.01	0.03	**9.96***	<0.01
Multiboardedness	0.03	0.03	1.29	0.26
Board size	0.01	0.02	**7.23***	<0.01
Cross-listed	0.07	-0.03	0.09	0.77
TSR (winsorised)	<0.01	1.00	1.17	0.28
Market cap (log10)	0.05	0.02	0.01	0.91

*** Significant at the 1% level
** Significant at the 5% level
*Significant at the 10% level
R-squared = 0.20

As seen in Table 5.9, significant positive relationships were noted between shareholder voting opposition against director re/elections and two independent variables, namely board size and tenure. The significant positive association between shareholder opposition and board size suggests that larger boards attracted more shareholder dissent at the ballot box. This result is in line with previous literature (Hillman et al. 2010; Bebchuk, 2007). Bebchuk (2007) suggested that shareholder voting dissent may be ascribed to dissatisfaction with an entire board or individual directors. Hillman et al. (2010) furthermore found that board size was positively related to the withholding of shareholder votes on director re/elections.

As highlighted in Chapter Three Section 3.5.2, the withholding of votes is a tactic that investors can use to voice their displeasure towards management resolutions under the plurality voting system. In the context of this study, JSE-listed companies used the majority voting system. Substantial shareholder voting against a resolution would therefore signal dissent. As such, at company level, shareholders who were dissatisfied with the director nominees voted against the sampled companies with larger boards.

In line with the results reported in Table 5.9, a significant positive relationship was also noted between the log-transformed shareholder voting data and directorate tenure. This positive relationship suggests that shareholders increasingly showed voting dissent towards the sampled companies that had, on average, directorates with long tenure. Hillman et al. (2010) also found that long-tenured directors attracted more shareholder discontent. According to Miller

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(1991:34), long-tenured directors may become ‘stale in the saddle’, thereby reducing their capacity to effectively monitor managerial decision-making on behalf of shareholders.

Furthermore, the significant positive relationship reported between shareholder voting opposition and tenure suggests that the sampled companies whose directorates had longer tenure on average, received more against-votes than those companies with boards that had lower tenure on average. This finding indicates that shareholders’ concerns (as reflected by voting dissent on director re/elections) pertaining to the possible impairment of director independence increase as a directorate’s tenure increases. According to the agency theory, as director independence decreases, their monitoring ability also decreases (Eisenhardt, 1989). From this perspective, increased shareholder dissent is expected to exhibit a positive relationship with long tenured directorates (Hillman et al., 2010).

In contrast to this perspective, other scholars argued that long board tenure could lead to increases in company specific knowledge and improves the advisory capacity of the directorate (Kim et al., 2014; Vafeas, 2003). Huang and Hilary (2018) balance these two differing perspectives by suggesting that board tenure and company performance exhibits an inverted U-shape. These authors’ finding indicates that increased tenure increases company performance up to a point, after which it declines.

King IV recommends that independent directors who have concurrently served for longer than nine years on a specific board should be annually assessed to confirm their independence status (IoDSA, 2016). Some shareholders of the sampled companies might have voted against directors that were factually classified as independent but whom the shareholders no longer perceived as independent. Longer tenure may further present an opportunity for executive directors to co-opt outside directors, which may lead to outside directors thinking being more aligned with that of insiders (Hillman et al., 2010; Hermalin & Weisbach, 1998). Shareholders are likely to vote against director re/appointments if they are concerned about outside directors’ ability to effectively monitor executives and other managers.

Based on the reported results, a reconciliation of the null hypothesis tests is presented in Table 5.10.

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Table 5.10: Reconciliation of the hypotheses

Hypotheses	Outcome
H_{01}: There is no relationship between shareholder opposition to the re/election of directors and the **percentage INEDs** on a board.	Could not be rejected.
H_{02}: There is no relationship between shareholder opposition to the re/election of directors and **CEO role duality**.	Could not be tested.*
H_{03}: There is no relationship between shareholder opposition to the re/election of directors and the **presence of an independent chairperson**.	Could not be rejected.
H_{04} : There is no relationship between shareholder opposition to the re/election of directors and the **presence of a lead INED**.	Could not be rejected.
H_{05}: There is no relationship between shareholder opposition to the re/election of directors and **average board tenure**.	Could be rejected as there was a significant positive relationship between shareholder opposition and directorate tenure.
H_{06}: There is no relationship between shareholder opposition to the re/election of directors and the presence of **multiboarded directors**.	Could not be rejected.
H_{07}: There is no relationship between shareholder opposition to the re/election of directors and **board size**.	Could be rejected as there was a significant positive relationship between shareholder opposition and board size.
*Due to a linear dependence between the CEO duality variable and the shareholder opposition variable being detected, this variable could not be included in the mixed-model ANOVA in Section 5.5.2.	

As shown in Table 5.10, only two of the formulated null hypotheses could be rejected. Owing to the significant positive relationship that was observed between shareholder opposition and tenure, null Hypothesis 5 could be rejected. A significant positive relationship was also found between shareholder opposition and board size, which resulted in the rejection of null Hypothesis 7. With these above presented null hypotheses test results, the second last secondary objective was addressed.

5.6 SUMMARY

In this chapter, the dependent, independent, and control variables were described by using descriptive statistics and conducting trend analyses. Thereafter, the results of the inferential results were presented. There was a statistically significant increase in shareholder opposition to director re/election proposals between 2014 and 2020. However, it should be taken into account that the average opposition was relatively low (less than four per cent for the overall period) suggesting limited practical significance. Of the considered industries, the sampled companies in the information technology industry experienced the highest level of shareholder opposition.

Two independent variables, namely the percentage INEDs and directorate tenure, demonstrated significant increasing trends between 2014 and 2020. The significant increase in the former

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may be partly ascribed to the revisions in King IV pertaining to the classification of director independence in comparison to King III. The significant increase in directorate tenure is in line with global trends and might be ascribed to the growing complexity of steering companies in the 'global village'.

The market capitalisation and the TSR control variables showed significant decreasing trends over the study period. The declining economic growth, negative outlook for South Africa and the COVID-19 pandemic had negative effects on share prices and company cash flow that could have contributed to these decreasing trends. The proportion of sampled companies that held multiple stock exchange listings declined over the period under review.

Statistically significant positive relationships were found between shareholder opposition to director re/elections resolutions and two independent variables, namely board size and directorate tenure. These positive relationships indicate that shareholders were more likely to vote against board nominees at the sampled companies that had larger boards and against those whose average board tenure was higher. Both of these findings concur with previous research.

Based on the empirical results, two of the seven research hypotheses could be rejected. In the following chapter, pertinent conclusions will be drawn. Recommendations will also be made to a range of stakeholders including future researchers.

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CHAPTER SIX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

In the preceding chapter, the results of the descriptive and inferential analyses were reported. This chapter reiterates the primary research objective of the study and the main elements of the adopted research design and methodology. Next, the key findings from the literature review and the empirical investigation will be discussed. Thereafter, recommendations will be made for several stakeholder groups, including shareholders of JSE-listed companies, proxy advisors, nomination committees of JSE-listed companies, directors, the IoDSA and JSE, the South African media, and commerce educators. Thereafter, several limitations of the study will be outlined along with suggestions for future research. Lastly, the chapter will close with a few concluding remarks.

6.2 RESTATING THE PRIMARY RESEARCH OBJECTIVE AND DESIGN

This study was conducted to address a clearly identified knowledge gap as explained in Chapter One Section 1.3. This gap was identified based on several observations of fraud and corporate scandals and an examination of scholarly work on managerial monitoring by shareholders and outside directors. The agency theory suggests that agents' interests can be aligned with those of principals through carefully structured employment contracts, financial incentives, and other monitoring mechanisms (Eisenhardt, 1989; Jensen & Meckling, 1976). These monitoring mechanisms include composing largely independent boards to ensure that shareholders' interests are served by the board and company management. A review of recent corporate scandals highlighted that ordinary shareholders bear most of the agency costs when internal monitoring mechanisms fail to curb managers' self-serving behaviour.

However, ordinary shareholders of South African listed companies are largely apathetic in exercising their voting rights to bring about change in investee companies (Davids & Kitcat, 2020; Viviers & Smit, 2015). The primary objective of this study was therefore to investigate shareholder voting opposition on director re/election resolutions of selected JSE-listed companies over the period 2014 to 2020.

This research objective was addressed by adopting a similar approach to that of Hillman et al. (2010). These authors focused on one particular shareholder voice mechanism to bring about

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change in investee companies, namely that of shareholder voting. This mechanism accounts for whether shareholders withhold votes or vote against management proposals in as far as director elections are concerned (ibid).

For the purpose of this study, a positivistic research paradigm was adopted resulting in a descriptive research design. The approach to theory development involved the use of deduction. Table 4.4 in Section 4.3.3 provides a detailed presentation of the measurement and data sources pertaining to each variable. Quantitative data on the dependent variable (the percentage against-votes cast on director re/elections) were gathered from the Proxy Insight database, whereas data on the independent and control variables were collected from Bloomberg and integrated reports of the sampled companies (2021).

The independent variables included the percentage INEDs serving on each sampled company's board, the chairperson's classification (INED or not), the lead independent director's classification (Lead INED present or not), directorate tenure, the extent to which directors were multiboarded, and board size. The control variables centred on whether a company was cross-listed, its size (in terms of market capitalisation), and the returns generated for ordinary shareholders in a specific year as measured by the TSR.

Given data availability constraints, an unbalanced panel dataset was constructed. Attention was given to potential survivorship bias in the dataset. Over the research period, 195 unique companies and 1 022 firm-year observations were analysed. Attention was given to validity, reliability and ethical considerations. The data that were gathered from Bloomberg were validated by using the integrated reports of selected sampled companies. Whilst gathering the data, the researcher ensured that all currency values were presented in ZAR and were collected on the last trading day of each year, which added to the reliability of the study. This study was classified as posing minimal ethical risk, as no data were collected from or involved human participants.

The collected secondary data were analysed by conducting descriptive and inferential statistics. Key attributes of the sample were discussed, and significant trends identified. The inferential analyses comprised a mixed-model ANOVA to test the seven hypotheses. This analysis was repeated, with the first round using shareholder opposition as the dependent variable and the second round using the log-transformed dependent variable to ensure robustness. The results

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of the refined analysis were reported in Table 5.10. The discussions in the following two sections will provide prominent observations from the literature review and incorporate key findings from the empirical results.

6.3 MAIN FINDINGS ON BOARD-RELATED VARIABLES

This section will include a discussion on the key findings from the literature review (Chapter Two) and the empirical analysis (Chapter Five) on the board-related variables included in the conceptual framework, namely director independence, board tenure, CEO role duality, chairperson independence, the presence of a lead independent director, multiboardedness, and board size. The findings are accompanied by a summary of applicable theoretical lenses used in this study.

Corporate governance mechanisms are largely rooted in the agency theory (Desender et al., 2015; Raelin & Bondy, 2013; Eisenhardt, 1989). This theory asserts that the principals of a profit-seeking entity (namely the ordinary shareholders) attempt to ensure that agents make optimal decisions through offering appropriate incentives and engaging in a range of monitoring activities (Eisenhardt, 1989; Jensen & Meckling, 1976). The board of directors is deemed as a key corporate governance mechanism given its dual monitoring and advising roles (Masulis & Zhang, 2019; Fama & Jensen, 1983).

In line with the agency theory, INEDs should be appointed to optimise a board's monitoring role (Kapoor & Goel, 2019; Daily, 1995; Weisbach, 1988; Fama & Jensen, 1983). The importance of board independence is also highlighted in King IV, which states that boards should consist mostly of NEDs, of whom the majority should be classified as independent (IoDSA, 2016). The factual independence discussion in King III evolved to a more perceptual view of independence in King IV (Erasmus & Le Riche, 2017). The perceptual approach allows nomination committees to reflect on each director's independence classification, without stringently applying the nine-year rule. This approach consequently allows companies to classify some NEDs with lengthy tenures as independent directors.

The stewardship and resource dependence theories provide opposing arguments to that of the agency theory. The stewardship theory describes people as intrinsically motivated to work on behalf of others (Menyah, 2013). These stewards are entrusted to accomplish the responsibilities and tasks assigned to them. The monitoring role of directors is less pronounced

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in the context of this theory, as managers are supposedly good stewards of the company's resources. As power is an essential concept to this theory, emphasis is placed on the importance of CEO role duality and directors with longer tenure. Having a single director serve as both the CEO and chairperson would increase the power that this person has over the board. As a good steward, this individual should arguably be equipped to manage both the company and the board successfully (ibid).

The resource dependence theory asserts that interorganisational relations are essential to securing and controlling the necessary external resources to enhance resource supply (Hillman et al., 2009; Pfeffer & Salancik, 2003). This theory views directors' external connections as important factors for a company's success. Multiboarded directors are therefore important members of a directorate. Longer tenured directors may also offer more experience and industry-specific knowledge on external resources available to a company.

6.3.1 Board independence, tenure and multiboardedness

Although research on the business case for board independence has been popular, the empirical evidence is seemingly inconclusive (Fan et al., 2020; Naciti, 2019; Dalton et al., 1999). Whereas some scholars reported that a higher number of independent directors increased financial performance (Liu et al., 2015; Ramdani & Witteloostuijn, 2010; Daily & Dalton, 1992, Schellenger et al., 1989), others noted a negative relationship with financial performance (Bhagat & Black, 2001; Subrahmanyam et al., 1997; Yermack, 1996).

The empirical results reported in this thesis show that the percentage of INEDs serving on the boards of the sampled companies increased significantly over the research period. Furthermore, there was a notable increase in the year following the release of King IV (2017). This increase may suggest that the progress from factual to perceptual independence has resulted in certain companies classifying a larger proportion of their NEDs as independent than they did under the King III's factual independence regime. On the surface this increase may seem to be a positive development, but from the mixed-model ANOVA analysis, it was found that shareholder opposition was not significantly related to the percentage of INEDs. Instead, the average directorate tenure was significantly positively related to shareholder opposition. Shareholders may use this variable as a proxy for director independence (Natesan & Du Plessis, 2018). The shift from factual independence to perceptual independence could therefore be viewed in a negative light by some shareholders.

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Research on board independence has not exclusively focused on financial performance of companies. Outside directors have shown a higher tendency to replace poorly performing CEOs (Faleye, Hoitash & Hoitash, 2011; Huson, Parrino & Starks, 2001; Weisbach, 1988) and to further promote shareholders' interests when more INEDs serve on a board (Brickley et al., 2015; Conyon & Peck, 1998). Shareholders and nomination committees consequently account for director tenure and multiboardedness when evaluating the directors' independence (Natesan & Du Plessis, 2018).

Tenure concerns the length of time that a director has served on a board. This variable might partly capture differences between knowledge accumulation and board independence (Huang & Hilary, 2018). According to Pozen and Hamacher (2015), shorter tenured boards may face less governance complications when compared to longer tenured boards, but this may come at the cost of the boards' monitoring and advising capabilities (Hwang & Kim, 2009).

What constitutes optimal tenure among INEDs has remained a largely unresolved issue among practitioners and scholars alike (see Chapter Two Section 2.3.3). Guidance from local and international corporate governance codes suggests that a director's independence diminishes after approximately nine years (FRC, 2018; IoDSA, 2016).

Although previous researchers have largely investigated the tenure of INEDs by focusing on individual directors, this study used the average tenure of each sampled company's board due to data availability. The trend analysis, presented in Chapter Five Section 5.2.4, revealed that the average board tenure rose from approximately seven to nine years over the duration of the research period.

Evidence from the US shows that the increasing trend of director tenure, specifically pertaining to INEDs, reflects a corporate attempt to push back against regulatory requirements that resulted in companies having to remove longer tenured members from their boards (Nili, 2016). Following the Enron scandal, the regulations resulted in the emergence of the so-called 'new insider'. Such a director typically complies with regulatory independence requirements, but retains the corporate experience and knowledge normally held by inside directors through serving for longer periods (ibid). By using Dalton and Daily's (1994) distinction between independent and interdependent directors as discussed in Chapter Two, the above-mentioned directors could be classified as interdependent.

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6.3.2 Role duality of the CEO and chairperson

The presence of an independent chairperson is another important aspect of board independence. Agency theorists posit that combining the position of CEO and chairperson strengthens the CEO's entrenchment and power over the board (Jensen, 1993; Fama & Jensen, 1983; Jensen & Meckling, 1976). Empirical evidence, underpinned by the agency theory, indicates that such role duality strengthens CEO hubris and risk-taking (Li & Tang, 2010), thereby decreasing operational performance at companies with lower levels of board independence (Duru et al., 2016) and increasing the likelihood of fraudulent financial reporting (O'Connor et al., 2006).

In line with the agency theory, King IV recommends that the role of the CEO and the chairperson of the board should be split (IoDSA, 2016). In addition, the chairperson should also be an independent director. King IV furthermore proposes that boards should have a lead independent director. This recommendation is of particular relevance to companies with CEO role duality (ibid).

From the descriptive statistics presented in Chapter Five Section 5.2.3, only one per cent of the sampled companies had one board member who performed both roles. Therefore, CEO role duality was not a concerning governance issue for most of the sampled companies. Furthermore, 64 per cent of the considered companies had an independent board chairperson. However, only approximately half of the sampled companies followed the King IV recommendation to appoint a lead independent director. This finding may imply that certain companies did not value the role of such a board appointee. This role ensures that there is a balance of power between inside and outside board members (FRC, 2018; IoDSA, 2016), especially when the chairperson is not classified as an independent director. In separating these roles, companies do not only improve monitoring, but they also enhance access to resources.

6.4 MAIN FINDINGS REGARDING SHAREHOLDER VOTING

It is clear from the extant literature that failure of internal corporate governance monitoring mechanisms generally leads to heightened external monitoring among shareholders (Aguilera et al., 2015; Healy, 2002; Walsh & Seward, 1990). In line with Hirschman's (1970) voice or exit typology, shareholders can vote on shareholder resolutions (such as those in which shareholders propose their own board candidates) and management resolutions (such as those in which the nomination committee proposes individuals for re/election). Dissident

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shareholders can also abstain from voting or sell their shares in the investee company, the latter being called an exit strategy (Hadani et al., 2011).

Previous researchers investigated the outcomes of shareholder voting on director re/elections in several developed markets. They largely focused on the plurality voting system, under which 'withheld'-votes are similar to the 'against'-votes cast under the majority voting system (Securities and Exchange Commission, 2012). South African company law also stipulates that a majority vote system is required. Under this legal dispensation, director re/election resolutions are classified as ordinary resolutions requiring 50 per cent support plus one vote to be approved (Government Gazette, 2009).

From the results presented in Chapter Five Section 5.2.1, only two of the sampled companies failed to receive more than the 50 per cent approval threshold for the considered re/election resolutions. The low level of shareholder opposition to director re/election resolutions observed in this study confirms the notion that shareholders are relatively apathetic when it comes to enhancing the board independence of JSE-listed companies (Kana, 2020; Viviers & Smit, 2015).

This low level of public dissent may further indicate that shareholders place their trust in nomination committees to ensure that boards meet the relevant King IV requirements. Another reason for shareholders' apathy could be that shareholders prefer to engage with investee companies in private, which confirms previous research in this regard (Mans-Kemp & Van Zyl, 2021; Yamahaki & Frynas, 2016; Viviers & Smit, 2015). The results of the current study therefore corroborate the preference for private shareholder engagement in South Africa.

Directorate tenure had a significant positive relationship with shareholder opposition to director re/election proposals amongst the sampled companies over the research period. Ertimur et al. (2018) and Hillman et al. (2010) reported similar results. In contrast, Cai et al. (2009) documented a negative relationship between directors' tenure and votes in favour of the nominated independent directors.

Larger boards are more likely to be viewed in a negative light by shareholders due to rising agency costs when directors do not discharge their duties effectively (Yermack, 2004). In the current study, it was found that board size had a statistically significant positive relationship

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with shareholder voting discontent. This finding is similar to the results reported by Hillman et al. (2010) who investigated voting outcomes of over 2 000 director nominee elections at Fortune 500 companies. In addition, Ertimur et al. (2018) noted a positive relationship between board size and shareholder votes (support) being withheld when considering the recommendations of proxy advisors.

From an agency perspective, the difficulties associated with large boards and directorates with many long tenured members offer suggestions as to why shareholders of South African companies show dissent to specific board nominees. The outcomes of previous studies on successful shareholder activism in replacing dissident board members (see Chapter Three Section 3.3 and Chapter Five Section 5.2.1) highlighted that shareholders are able to enact certain changes at investee companies. When attempting to change a board's composition, more than 50 per cent against-votes are required. In the current study, it was found that only two of the sampled companies received more than 50 per cent against-votes at their shareholder meetings. In these cases of considerable shareholder dissent, consortiums of institutional shareholders were necessary to affect the boards' composition. The monitoring role of shareholders of South African listed companies therefore appears to be largely fulfilled by asset managers who can 'pool their votes together' (Viviers et al., 2019).

The results presented in Chapter Five coincide with the difficulties in constructing an optimal board as discussed in Chapters Two and Three. An optimal board would reflect an appropriate balance of outside directors on the one hand, and experienced, inside directors on the other hand. The outside directors should perform the monitoring role on behalf of shareholders and other stakeholders, whereas the inside directors should provide the necessary experience and access to a company's external resources.

Arguments stemming from the stewardship and resource dependence theories highlight the importance of a board consisting of experienced, knowledgeable, and longer tenured directors. The agency theory, however, describes independent directors as crucial monitors for managerial interests to be sufficiently aligned with those of shareholders. The sampled companies' shareholders who voted against director re/elections seemingly placed more emphasis on mitigating agency costs rather than valuing the resources and external networks that outside directors could bring to the table. This approach was also observed in the

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significantly positive relationships found between shareholder opposition and directorate tenure and between shareholder opposition and board size.

6.5 RECOMMENDATIONS

Based on the reported results, recommendations are offered to ordinary shareholders of JSE-listed companies, proxy advisors, nomination committees of JSE-listed companies, directors, the IoDSA and JSE, the South African media, and commerce educators.

6.5.1 Ordinary shareholders of JSE-listed companies

Although an increase was observed in shareholders opposing director election resolutions over the research period (2.24 per cent in 2014 compared to 3.72 per cent in 2020; $p<0.01$), this increase had limited practical significance. The low percentage of public shareholder activism suggests that activist investors prefer to engage with companies in private on issues related to nominated directors. However, as previously mentioned, the finding may also indicate that shareholders were mostly satisfied with the nominees. It is hence recommended that all shareholders who can engage in private owing to the size of their shareholding should increasingly demand private engagements with investee companies. If these private requests are not fruitful, it is recommended that shareholders voice their dissent by voting against nominated directors more actively at companies where board composition issues are identified. Given the size of these shareholders' ownership, companies are likely to take notice.

Smaller shareholders, however, are not without mechanisms to bring about change in investee companies. These shareholders can publicly oppose management and resolutions at shareholder meetings. According to the Companies Act, any two shareholders may nominate their own candidate for consideration by the board and the ordinary shareholders at a shareholder meeting (Government Gazette, 2009). In some instances where the shareholders of the sampled companies cast against-votes in excess of 50 per cent, they had nominated their own board candidates. This finding suggests that some shareholders use their right to nominate candidates to represent their interests on the board. More shareholders are implored to do so in the future should they be concerned about the composition of their investee companies' boards. Shareholders, whether they are big or small, are furthermore encouraged to support these proxy contests.

As institutional investors are prominent investors of JSE-listed companies (National Treasury, 2017), it is suggested that they and their appointed asset managers follow the example set by

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BlackRock. This asset manager, one of the largest in the world based on assets under management (Hamlin, 2021), has permitted certain clients in 2020 to participate in proxy voting decisions. If more asset managers could follow suit, their clients and other company shareholders might be more empowered to influence investee companies through this activism mechanism.

6.5.2 Proxy advisors

Proxy advisory companies are often used by asset owners and managers to guide their voting decision (Rose, 2021). Cai et al. (2009) point out that shareholder votes are significantly related to the recommendations provided by Institutional Shareholder Services. The results of the current study suggest that tenure and board size are salient to re/election voting decisions made by shareholders of the sampled companies.

Proxy advisors should thus place more emphasis on communicating their voting recommendations and the rationale behind their advice when advising clients. Furthermore, as this study focused on JSE-listed companies, these recommendations are extended to South African proxy voters and shareholder activist groups. Proxy View and Just Share are two notable proxy voting services that conduct research and provide shareholders with advice on matters of concern in the local context.

6.5.3 Nomination committees of JSE-listed companies

Nomination committees screen and propose board candidates who stand for election at shareholder meetings (IoDSA, 2020a; Liu et al., 2020). Nomination committees are hence responsible for proposing trustworthy nominees for re/election. As per King IV, board candidates should have business experience, act with independence of mind, and have sufficient board experience to fulfil their governance role and responsibilities effectively and objectively (IoDSA, 2016). Nomination committee members should therefore ensure that their review criteria are sufficiently robust to nominate suitable candidates.

The concept of board refreshment is important to ensure that directors do not become ‘stale in the saddle’ (Miller, 1991:31). Directors with longer tenure offer benefits such as knowledge continuity and boardroom collegiality (Li & Wahid, 2018), but may lack adaptability and agility, and may also lose their independence over time (Canavan et al., 2004). When reflecting on board refreshment versus the nomination of long-serving directors for re-election,

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nomination committees should consider that shareholders tend to show higher voting opposition to longer tenured board members. This recommendation is particularly apt when accounting for the reputation of a company and board nominees. According to Aggarwal et al. (2019), increased shareholder opposition has a negative effect on directors' reputations. Particular attention should therefore be paid to the reputational implications of long tenured and multiboarded directors.

Approximately half of the sampled companies in the current study did not appoint a lead independent director to assist their chairpersons. Nomination committees are therefore urged to ensure that they meet this key King IV recommendation in the future, given the important monitoring role of this individual.

6.5.4 Directors

Shareholder opposition to director re/election resolutions have been shown to have negative consequences for directors (Aggarwal et al., 2019). These authors found that opposition votes were related to an increased director turnover at other companies where the director also served as a board member (ibid). Directors should consider that their reputation plays an important role in the managerial labour market (Lel & Miller, 2015). It follows that directors should account for the reputational risk associated with substantial shareholder dissent against directors being re/appointed.

The current study revealed that some directors were highly opposed in instances where shareholder concerns with directors were not sufficiently dealt with by the board. Furthermore, larger boards and boards with long average tenure received more shareholder dissent. As mentioned previously, external control mechanisms are activated when internal control mechanisms are deemed to be inadequate (Aguilera et al., 2015). If a board accordingly fails to ensure the appropriate balance of power that is expected by shareholders, it may result in public dissent which may in turn affect additional board appointments.

Directors, particularly Investor Relations Executives, should thus carefully consider shareholder apprehensions and the number of external board positions that they as directors serve on concurrently. These Investor Relations Executives can furthermore engage with their peers through the Investor Relations Society of South Africa to stay informed of current developments and trends in shareholder concerns. Directors should thus attempt to address

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these concerns prior to possible public dissent to avoid reputational risk. Director-level dissent may have pass-through effects for a company. Increased dissent from shareholders at the ballot box may lead to increases in the cost of raising new debt and equity, as these capital providers may have less trust in the current directorate.

Although the responsibility of classifying a director as independent falls on a board and its nomination committee, it is ultimately the individual director's responsibility to practise independence of mind. It is thus suggested that independent directors should ensure that they remain objective and unbiased throughout their tenure periods, regardless of their classifications.

6.5.5 The Institute of Directors South Africa and the Johannesburg Stock Exchange

The IoDSA aims to 'influence, develop, and advance corporate governance and directorship by pursuing ethical and effective leadership in South Africa' (IoDSA, 2020a). The JSE has incorporated certain aspects of the previous King reports in its listings requirements. To achieve ethical and effective leadership, a board should keep abreast of new developments and knowledge necessary to conduct business.

Companies with longer tenured INEDs face more corporate governance problems (Huang & Hillary, 2018; Coles et al., 2015; Pozen & Hamacher, 2015). Long-tenured directors, however, can be beneficial to companies from a stewardship and resource theory perspective. Future versions of the King report could thus recommend that a certain percentage of INEDs should be 'recently' appointed (that is, these directors' tenure since appointment should be shorter than three years) to ensure tenure diversity.

As mentioned in Section 6.5.3, a large proportion of sampled companies did not appoint lead independent directors. These board appointees are important role players to address shareholder concerns (FRC, 2018; IoDSA, 2016). The IoDSA should thus urge all JSE-listed companies to appoint a lead independent director, regardless of their chairperson's classification as being independent or not. A further recommendation is that future King Reports should provide more guidance on directors holding multiple directorships and should set a reasonable limit on external board seats.

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6.5.6 The media

The media can influence the views of the public on specific topics, including shareholder activism (Hooghiemstra, Kuang & Qin, 2015; Viviers & Smit, 2015; Ferri & Sandino, 2009). The empirical evidence of this study suggests that the shareholders of the sampled companies were largely apathetic about the re/election of directors. The media can play an active role in discussing the value of shareholder activism to retail investors prior to forthcoming AGMs.

The media should present a balanced perspective on the continuous need to empower shareholders, minority shareholders in particular. Furthermore, retail investors may not be aware of relatively complex terms used in company announcements. The media can therefore play an instrumental role to communicate information to investors and other stakeholders in a user-friendly format.

6.5.7 Commerce educators

Tertiary commerce educators are responsible for educating and informing their students on a range of contemporary topics including corporate governance and shareholder activism. These students represent the next generation of shareholders and corporate leaders. Although some tertiary institutions in South Africa include corporate governance topics in their business management and auditing modules, the focus is mostly on financial considerations. Research shows considerable linkages between corporate governance considerations and shareholder value creation.

It is therefore recommended that the roles and responsibilities of agents and principals are more closely examined at tertiary institutions. Furthermore, key aspects of the Companies Act and King IV Report should be included in the learning material. If the benefits of shareholder activism are deliberated with commerce students, they will be more aware of mechanisms at their disposal when fulfilling their future role as corporate monitors. The increased awareness will, in turn, highlight the responsibility on their shoulders to monitor the monitors.

6.6 LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

This study made use of secondary voting data obtained from Proxy Insight for selected listed companies in South Africa. The quantitative data were furthermore aggregated at a company level per annum. Board tenure was computed by averaging the tenure of all directors seated on each sampled board per year under consideration, a decision driven by data availability. Future

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scholars can calculate separate values for tenure for the three different types of directors (executives, NEDs, and INEDs). Data on individual director re/election resolutions could furthermore be used in the future to investigate shareholder opposition at director level.

As mentioned in Chapter Four Section 4.5.3, the voting data on JSE-listed companies were only available from 2014 onwards in the Proxy Insight database. A comparative study can thus be conducted in future over a longer time frame. In addition to South Africa, the sample can include listed companies from various other emerging countries, such as, Brazil, Russia, India, and China. Furthermore, fixed or random effects panel regression analysis could have been conducted.

Future scholars can furthermore take into consideration corporate reporting on voting outcomes in addition to data sourced from databases such as Proxy Insight. A content analysis can provide insights into the nature and extent of voting data that are communicated to shareholders in the integrated reports of companies. Current and potential shareholders might use this information to guide their investment and voting decision-making in the future.

While this study adopted a quantitative approach, prospective investigators can conduct a qualitative study on shareholder monitoring. They can probe the views of institutional investors, directors, and proxy advisors by focusing on their lived experiences. Semi-structured interviews may provide insight into the motivations and methods that institutional investors prefer when engaging with representatives of investee companies. These interviews with targeted directors and nomination committees may furthermore illuminate how they have responded to shareholder opposition and valuable lessons that were learned. Interviews with board members of listed companies can furthermore shed light on the different development paths of, and the challenges experienced, by executive, NEDs, and independent directors.

6.7 RECONCILIATION OF THE RESEARCH OBJECTIVES

Table 6.1 restates the secondary research objectives and provides references to the relevant section(s) in the thesis where the objectives have been addressed.

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Table 6.1: Reconciliation of the secondary research objectives

Secondary objectives	How the objective was addressed	Reference in study
To investigate board independence and size as internal monitoring mechanisms in the context of the agency theory.	Board independence and board size were explored as monitoring mechanisms through a comprehensive literature review. The views offered by the agency, stewardship, stakeholder and resource dependence theories were used as lenses to view board composition elements, including independent directors, CEO role duality, the presence of independent chairpersons and lead independent directors, board tenure, multiboardedness, and board size. The agency theory was selected as the theoretical lens for this study.	Chapter Two Section 2.2.1; 2.3.1-2.3.5; Chapter Six Section 6.3
To examine shareholder voting as a corporate governance monitoring mechanism in the context of the agency theory.	Shareholder voting as a public shareholder activism mechanism was examined through a comprehensive literature review. By exercising their voting rights, ordinary shareholders can enact change in investee companies.	Chapter Three ;Chapter Six Section 6.4
To empirically examine trends in board characteristics and shareholder voting at selected JSE-listed companies over the period 2014 to 2020.	Board independence and shareholder voting opposition showed statistically significant increases over the research period. Yet, as the latter only increased by less than two per cent over the research period, the change has limited practical significance.	Chapter Five Section 5.5.2; Chapter Six Section 6.3
To empirically investigate the relationships between shareholder voting and selected directorate characteristics among a sample of JSE-listed companies over the period 2014 to 2020.	Positive significant relationships were observed between board size and shareholder opposition, and between board tenure and shareholder opposition, respectively.	Chapter 5; Chapter Six Section 6.4
To offer recommendations to key stakeholder groups on mitigating monitoring challenges in the South African context.	Key stakeholders were identified and recommendations were offered to these stakeholder groups based on the literature review and the empirical results of the study.	Chapter Six Section 6.5; 6.7

Of the seven formulated research hypotheses, only two could be rejected (H_5 and H_7), which were both linked to the last research objective. The outcomes of the hypothesis testing were discussed in Chapter Five Section 5.5.

6.8 CONCLUDING REMARKS

Independent directors play a vital monitoring role on behalf of principals in companies where ownership and management are separated. However, shareholders can monitor these elected monitors by voting in favour or against their re/elections. They can also abstain from voting on resolutions, however, this option is not often utilised when a majority voting system is employed. The results of this study indicate that few shareholders at the sampled companies chose this monitoring option. This observation implies that shareholders, institutional

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shareowners in particular, prefer to communicate with boards of local investee companies behind closed doors.

Yet, when private communication does not seem to bear fruit, shareholders can form coalitions or consortiums to enact change in investee companies within legal bounds. Although retail shareholders form a small portion of local investors, they are encouraged to engage with companies publicly, either through social media, voting, or voicing their concerns at shareholder meetings. In addition, asset owners are encouraged to engage with asset managers to ensure that their views are reflected in capital allocation and voting decisions.

Companies and their boards have a responsibility to their shareholders to protect and create shareholder wealth and should tend to shareholder concerns. By nominating the best individuals and refreshing boards frequently, nomination committees can ensure the appropriate balance of power, knowledge accumulation, and enhanced independence that is needed to be a good corporate citizen. Ultimately, the onus rests on shareholders to vote in favour of appropriate director candidates to ensure that suitable monitors are appointed. Since shareholders operate in the important middle ground between internal and external monitoring mechanisms, they should take their responsibility to monitor the monitors more seriously.

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ADDENDUM A: DECLARATION OF LANGUAGE EDITING

36 Brandwacht Street
Stellenbosch, 7602

10 February 2022

Department of Business Management
University of Stellenbosch
Private Bag X1
Matieland
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Dear Sir/Madam,

Declaration of language editing

I, Michèle Boshoff, hereby declare that I have personally proofread and edited Chapters 1–6 of **Michael Ross Janse van Vuuren's** thesis entitled *Towards enhanced independence: Investigating shareholder voting on director election proposals.*

Yours sincerely

____

BA (Hons) UPE
Accredited Text Editor (ATE) – English
Associate Member: Professional Editors' Guild (PEG)

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ADDENDUM B: ORIGINALITY REPORT

Michael Janse van Vuuren

ORIGINALITY REPORT

16%	11%	6%	7%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

#	Source	%
1	Submitted to University of Stellenbosch, South Africa Student Paper	3%
2	hdl.handle.net Internet Source	3%
3	etd.uum.edu.my Internet Source	<1%
4	Ruth V. Aguilera, Kurt Desender, Michael K. Bednar, Jun Ho Lee. "Connecting the Dots: Bringing External Corporate Governance into the Corporate Governance Puzzle", Academy of Management Annals, 2015 Publication	<1%
5	Submitted to University of the Free State Student Paper	<1%
6	S. Viviers, E. VdM. Smit. "Institutional proxy voting in South Africa: Process, outcomes and impact", South African Journal of Business Management, 2015 Publication	<1%