The Influence of Corporate Governance and Firm Performance in determining Financial Services Executive Remuneration in South Africa between 2002 to 2008

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ABSTRACT

Executive remuneration around the world is a contentious issue in light of, major corporate failures, the global finance crisis, the large disparity between the highest and lowest pay-scales within organisations, executive excesses, and the perceived lack of fairness of pay in relation to firm performance and shareholder value creation. The debate around executive remuneration continues to focus on the quantum of executive earnings with regards to firm performance, economic performance and ethical considerations.

Economic theory on executive remuneration focuses on compensation design to align the interests of shareholders and agents. Agency theory provides for mechanism of control to manage the behaviour of the agent and information asymmetry. The objective of corporate governance is to manage these relationships with the objective of creating value.

This research examines the relationship between firm performance and corporate governance compliance in relation to executive remuneration of financial service firms listed on the JSE between 2002 and 2008. This research uses the King II governance framework to judge the firm's corporate governance compliance.

This research predicted a positive relationship between executive remuneration and firm performance, and a negative relationship between corporate governance compliance and executive remuneration. However, the overall finding is that there is no correlation between firm performance and executive remuneration taken as a whole. There are however indications of a weak correlation between the bonus component of executive remuneration and firm performance.

DECLARATION

I, Avinash Naidoo, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Avinash Naidoo

Signed at WITS Business School

On the …………………………….. day of ………………………… 2012

DEDICATION

This research is dedicated to my wife, Kameshnee Naidoo, and our three children Shrian, Thiya and Kamran, whose support, understanding, patience and encouragement allowed me to complete this research. This journey would not have seen the light of day were it not for their encouragement.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

ABL	African Bank Investments Limited
AFS	Annual Financial Statements
ASA	ABSA Group Limited
CA(SA)	Chartered Accountant (South Africa)
CEO	Chief Executive Officer
CGC	Corporate Governance Compliance
CPI	Capitec Bank Holdings Limited
EBITDA	Earnings before interest, taxation, depreciation and amortisation
EPS	Earnings per share
ER	Executive Remuneration
EVA	Economic Value Added
FP	Firm Performance
FIBSA	Fellow of the Institute of Bankers of South Africa
FSR	FirstRand Limited
FRC	Financial Reporting Council
IAS	International Accounting Statements
IFRS	International Financial Reporting Standards
LSE	London Stock Exchange
INL	Investec Limited
JSE	JSE Securities Exchange
MTL	Mercantile Bank Holdings Limited
NED	Nedbank Group Limited
OECD	Organisation for Economic Co-operation and Development
OECD~PCG	OECD Principles of Corporate Governance
RMH	RMB Holdings Limited

ROA	Return on assets
ROE	Return on equity
SA GAAP	South African Generally Accepted Accounting Practice
SBK	Standard Bank Group Limited
SEC	Securities Exchange Commission
UK	United Kingdom
US	United Stated of America

CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

The purpose of this research is to assess the influence of corporate governance and firm performance in determining the chief executive officers' (CEO) remuneration in South Africa, between 2002 and 2008. This research focuses on companies listed on the financial services sector of the JSE Securities Exchange (JSE), with a banking (retail or private) division or operation within its corporate structure. The period of this research is limited to the period between 2002 and 2008, during which the King Code on Corporate Governance for South Africa – 2002 (King II), was the recommended governance framework in South Africa.

1.2 Context of the study

Executive remuneration around the world is a contentious issue in light of, major corporate failures, the global finance crisis, the large disparity between the highest and lowest pay-scales within organisations, and the perceived lack of fairness of pay in relation to firm performance. The governance debate revolve around matters such as the effectiveness of executive remuneration disclosure and determination, board and sub-committee composition, the balance between executive and non-executive directors, the balance between independent and non-independent directors, and the scope and extent of a director's fiduciary duties to the corporation.

There have been various attempts to provide regulatory guidance such as the Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance (OECD~PCG) for its members, the Sarbanes-Oxley Act (SOX) in the USA, the Combined Code on Corporate Governance

(Combined Code) in the UK and locally the Institute of Directors King Code on Corporate Governance (King). In light of these developments, this study will look at current debates in executive remuneration within theories of corporate governance and principal-agent relationships.

Trevor Manuel, in the foreword of the book, "*Executive Pay in South Africa: Who gets what and why*", (Crotty and Bonchorchis 2007), said, "… the links between pay and performance are not straightforward, and the costs of extravagance in executive remuneration are not just pecuniary. Social justice, industrial relations and the cohesion of our transformation project are all put at risk if the rewards of high station and corporate responsibility are unreasonable or undeserved. …. Executive pay is an issue on which there is room for disagreement and different approaches. But for too long, there has been secrecy and obfuscation, and too many examples of careless governance and fiduciary irresponsibility." This highlights the importance and complexity of executive remuneration within the South African context.

At South Africa's current point in this economic development there is an urgent need for economic growth and job creation. Therefore, businesses need to retain skills which can create this growth; however there must be clearly links to firm performance and executive remuneration. Further, there must be a balance between fair equitable remuneration and performance. Executive remuneration is also a key business risk which affects, for example:

- The ability of management to control input cost during wage negotiations;
- Management outputs which are aligned to shareholder objectives rather than to executive remuneration; and
- Signalling to the broader stakeholder community an equitable, transparent and effective remuneration framework that is not susceptible to manipulation, collusion, accounting schemes and conflicts of interests.

The researcher could find no academic research on the correlation between corporate governance, firm performance and the setting of executive remuneration within the South African context. It is therefore anticipated that this research will provide a critical analysis of executive remuneration within South Africa.

1.3 Problem statement

The purpose of this research is to determine whether there is correlation between corporate governance compliance and firm performance in determining the remuneration of the CEO of firms listed on the financial services sector of the JSE in South Africa between 2002 and 2008.

Sub-problem 1

The first sub-problem is to determine whether there is correlation between firm performance and remuneration of the CEO of JSE listed financial services firms between 2002 and 2008.

Sub-problem 2

The second sub-problem is to determine whether there is correlation between corporate governance compliance and remuneration of the CEO of JSE listed financial services firms between 2002 and 2008.

1.4 Significance of the study

There is a large body of research on executive remuneration and corporate governance in developed western countries (Jensen and Meckling 1976; Freeman and Reed 1983; Donaldson and Davis 1991; Sloan 1992; Kang and Shivdasani 1995; Conyon 1997; Garratt 1997; Short, Keasey et al. 1998; Core, Holthausen et al. 1999; Bebchuk and Fried 2004; Hopt and Leyens 2004; Buffini 2005; Clarkson, Nichols et al. 2006; Donohue 2006), however there is relatively much less on emerging economies particularly for African countries, such as South Africa. This research is meant to address the state of corporate governance as it pertains to setting executive remuneration in South Africa. It is hoped that this research would provide a basis for setting executive remuneration in other emerging economies.

Further, the JSE has also focused on governance compliance, and "Companies that fail to comply with the new Johannesburg Stock Exchange listings requirements will face censure and possible fines of up to R1 million" (Shevel 2003, p. 22). Compliance to governance principles is no longer optional and companies are being scrutinised by regulatory authorities, shareholders and various stakeholders groups. Consequently, remuneration policies and equity distributions across all organisations and sectors are now being questioned more often.

As a result of failures in corporate governance, non-executive directors on remuneration committee are playing an increasingly important role in the remuneration setting process. This research has attempted to assess the influence of these corporate governance recommendations on the remuneration process.

Attracting and retaining the right talent, particularly in an emerging market, is often one of the most important factors in determining the success or failure of a corporation. Successful organisations will be those which are able to design systems that link individual skills and experiences, remuneration frameworks and firm performance, to meet long term sustainable firm objectives.

It is not fully understood what the exact determinates are in setting the levels of pay received by executives. Each organisation is unique and requires different executive skills at various stages in its evolution. It is therefore up to the shareholders to understand the organisation strategy and unique skills which an executive is able to bring to deliver on the strategy. Once a match is found, then remuneration should be determined for the basket of skills being acquired.

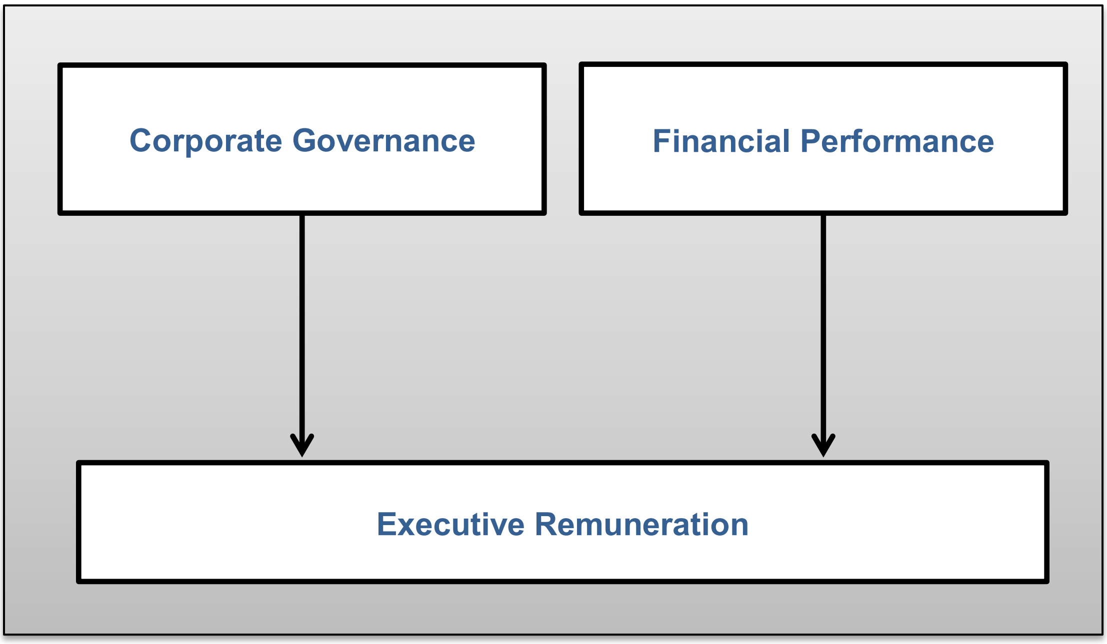
Return on investment is one of several indicators that investors review in determining the success or failure of their investment. In a report by McKinsey Consulting it was stated that; "… [McKinsey] found that investors in certain emerging market countries would pay a premium of between 23% and 28% for shares in a company with "good" corporate governance," (Rose 2003, p. 17). As a result, the influence of "good" corporate governance will affect both a country's economic stability as well as its growth prospects. It is hoped that this study will show that a "good" governance environment can create a strong performance environment, with the consequential effect of delivering higher returns on investment for the investor.

This study will attempt to establish whether firm performance and corporate governance compliance have a correlation, if any, with how executives are remunerated in South Africa. Consequently, this study will be of interest to regulators, executive remuneration practitioners and academics, providing guidance to remuneration committees, shareholders, stakeholder groups and regulators in attempting to define and determine executive remuneration.

1.5 Delimitations of the study

For the sake of convenience, timing, an understanding of the local equity market and access to data, this study will only focus on South Africa companies listed on the financial services board of the JSE. The diversity of JSE listed companies, has made the focus of this research only on those companies listed within the financial services sector over a seven year period (2002 – 2008) will be reviewed.

Figure 1: Thesis Framework



1.6 Structure of this report

Chapter One of this research report sets out the context of the study, statement of the goals, scope and significance of the study, as well as its assumptions and limitations.

Chapter Two presents the literature review and consists of five broad sections: the first outlining the theoretical background for the study, including the an overview of corporate governance and it's development in South Africa and other major economies, thereafter agency theory, executive pay and its components, firm performance and risk are discussed.

Chapter Three outlines the research methodology and techniques to be employed in performing the study. In addition, the research timeframes and consistency matrix are presented.

Chapter Four sets out and describes the results of the research. Chapter Five sets out and explains the results of the research. Chapter Six presents the conclusions and recommendations of the research.

1.7 Definition of terms

Cadbury Report

A committee chaired by Adrian Cadbury that set out recommendations on company boards composition and accounting systems to mitigate risk and corporate failures. The committee issued the Cadbury Report, titled Financial Aspects of Corporate Governance report in 1992. The report's recommendations have been adopted in varying degree by the European Union, the United States as well as the World Bank.

Combined Code on Corporate Governance (Combined Code)

The Combined Code on Corporate Governance is a set of principles of good corporate governance with a Code of Best Practice aimed at companies listed on the London Stock Exchange.

Greenbury Committee

Chaired by Sir Richard Greenburg, this committee was set up by British Prime Minister John Major to look into executive remuneration. The Greenbury Report was released in 1995.

King Code on Corporate Governance (King I)

Commissioned by the South African Institute of Directors (SA – IOD), King I was the first codification of corporate governance principles to be introduced into the South African corporate landscape. This report was issued in November 1994. (King 1994)

King Code on Corporate Governance for South Africa – 2002 (King II)

Issued in March 2002, King II was commissioned by the SA - IOD to “update” King I to include global changes in governance principles and to address the political and economic factors facing the country at the time.

King Code and Report on Governance for South Africa – 2010 (King III)

Issued on 01 September 2009, with an effective date of 01 March 2010, the Code and Report on Governance for South Africa was commissioned by the SA-IOD. This report was deemed necessary to ensure the consistency between the Companies Act 2008, Act Number 71 of 2008 and the King Codes of Governance, and to address changes in global governance trends.

Sarbanes-Oxley Act (SOX)

The Public Company Accounting Reform and Investor Protection Act of 2002 also referred to as The Sarbanes-Oxley Act of 2002, is commonly referred to as Sarbanes-Oxley, Sarbox or SOX. It is a United States federal law enacted on 30 July 2002 to regulate corporate governance.

1.8 Assumptions

The following assumptions were made in researching this subject:

- The remuneration models developed in first world economies can be applied to emerging economies such as South Africa; and
- Information contained within audited Annual Financial Statements of companies are complete, accurate, valid and reliable.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This study is grounded within agency theory, corporate governance, executive remuneration and firm performance. This section provides an overview of the key theoretical frameworks on the above, together with an examination of key international regulatory and legislative frameworks currently in place. A discussion of the key South African studies undertaking within the sphere of corporate governance is also provided. Finally, this section will bring together the various strands of the theoretical frameworks as they apply to this research, as well as draw on international best practice, in order to inform the analysis.

2.2 Agency theory

Agency theory attempts to explain the relationship between the principal (e.g. a shareholder or owner) and an agent (e.g. company executive directors). Within this relationship, for example, the principal delegates control of a company, to the agent. The theory deals with aligning the objectives of the principal and the agent, around two specific problems being:

1. Goal alignment; and
2. Risk tolerance.

With regards to goal alignment, when the principal appoints an agent, incomplete and asymmetric information between parties create the potential for moral hazard and conflict of interest. To align the interest of the agent to that of the principal several mechanisms are available. These include:

1. Rewarding appropriate, agreed-upon behaviour by way of performance measurements, profit share, bonus payment, commission payments etc.

2. Implementation of information systems, which may for example include financial reporting systems, budgeting process, various levels of management oversight and an independent assurance mechanism;
3. Frequent sharing of information between the agent and principal to improve information symmetry; and
4. Strengthening of shareholder and/or stakeholder right to encourage greater involvement in and oversight over the company's activities.

According to Eisenhardt (1989, p. 57) "Agency theory has been used by scholars in accounting, economics, finance, marketing, political science, organizational behavior, and sociology". This literature review highlights that agency theory has developed along two lines being the "positivist theory of agency" and the "principal-agent" theory (Jensen 1983). Jensen (1983) continues to explain that both sub-theories address the "contracting problem" experienced between the parties, each of whom attempt to maximise their own benefit.

Jensen (1983) points out that the importance of these two theories lies in the fact that they are complementary in that:

- Positivist theory identifies various contract alternatives, while
- Principal-agent theory indicates which contract is the most efficient under varying levels of outcome uncertainty, risk aversion, information and other variables described below. The focus of the principal-agent theory is on determining the optimal contract, i.e. behaviour versus outcome, between the principal and the agent.

The following sections provides a brief overview of explain each of these theories as it relates to this research.

2.2.1 Positive theory of agency

Positivist researchers have focused almost exclusively on the special case of the principal-agent relationship between owners and managers of large, public corporations (Berle and Means 1932). Positivist researchers have focused on identifying situations in which the principal and agent have conflicting goals and then describing the governance mechanisms that limit the agent's self-serving behaviour (Eisenhardt 1989). The following literature has been particularly influential in this regard.

1. Jensen and Meckling (1976) explored the ownership structure of the corporation, including how equity ownership by managers aligns managers' interests with those of owners. This research viewed the firm as a "nexus of contracts". Jensen and Meckling (1976) also began the discussion of agency costs, and explain how once the principal gives up some of their rights, the agent may then attempt to extract extra benefits from the firm. As a result, the shareholders and debt holders will pay a little extra to monitor the agent to minimise these costs.

2. Fama (1980) continued the discussion of the firm being a nexus of contracts, and dispels the idea of the firm being "owned" by a single individual or other types of homogenous groups. Fama (1980) also discusses the role of efficient capital and labour markets as information mechanisms which may also be used to control the "self-serving behaviour" of senior executives.

3. Fama and Jensen (1983) discuss the separation of ownership and control. This paper elaborates on the role of the board of directors as an information system. The paper encourages shareholders of particularly large companies to use the board of directors to monitor the "opportunism" of senior executives. This paper provides the case for large widely held companies to have a board with a greater number of independent non-executive directors on it.

4. Jensen (1983) highlights the failures of internal control systems which were set-up to monitor executive performance. These systems were

manipulated by management to prevent effective monitoring of their performance. Jensen's suggestion to prevent these situations from occurring include the separation of the CEO and Chairman role, a greater number of independent non-executive directors on the board as well as smaller boards. Many of these recommendations have been included in several corporate governance codes.

The research into positivist theory has been mainly concerned with describing the governance mechanisms that solve the agency problem. The following two situations describe when the goals between the agent and owner are in conflict, and how these conflicts may be resolved.

Situation 1: *Outcome-based contracts are effective in curbing agent opportunism*.

The argument is that such contracts align the preferences of agents with those of the principal because the rewards for both depend on the same actions and, therefore, the conflicts of self-interest between principal and agent are reduced. Jensen and Meckling (1976) described how increasing the firm ownership of the managers decreases managerial opportunism.

According to the positive theory, when the contract between the principal and agent is outcome based, the agent is more likely to behave in the interests of the principal.

Situation 2: Information systems also curb agent opportunism.

The argument put forward is that, information systems inform the principal about what the agent is actually doing, they are likely to curb agent opportunism because the agent will realise that the principal cannot be easily deceived.

The positive theory puts forward that, when the principal has information to verify agent behaviour, the agent is more likely to behave in the interests of the principal.

Jensen (1983) suggestions that, positivist agency theory can be regarded as "enriching" the debate, however, it has been criticised several theorists as being "minimalist" (Hirsch, Michaels et al. 1987); (Perrow 1986).

2.2.2 Principal-Agent Theory

Harris and Raviv (1978) indicate that principal-agent theory scholars are concerned with finding a unifying theory of explaining the relationship between the principal and agent which can be applied to any "agency relationships". This endeavour would seem futile as each business arrangement is influenced by many different factors.

To begin with, the principal-agent theory according to Demski and Feltham (1978), assumes goal conflict between principal and agent this conflict revolves around the risk appetite of the agent and that of the principal. Clarkson (2006) explains the conflict as, the principal is buying the agent's behaviour to ensure the behaviour is in line with expectations, a behavioural based contract would be most efficient. An outcome-based contract would transfer risk to the agent who would be prepared to take on greater risk. The agent being more risk averse than the principal. The second case is when the principal does not know the agent's skill sets or ability to deliver on the principal's goals. Given the self-interest of the agent, the agent may or may not have behaved as agreed. Essentially the agent is happy to share in profit but not in any downside risk which falls to the principal.

According to Eisenhardt (1989, p 61), "two aspects of the agency problem are cited as being moral hazard and adverse selection"

- Moral hazard:

  This refers to the effort or lack thereof on the part of the agent. The agent once appointed may simply not put the required, necessary or agreed-up effort to achieve the objectives of the principal. The agent therefore shirks his duty to the principal. This is therefore a moral hazard for the principal.

- Adverse selection:

  This refers to the representations made by the agent to the principal in being appointed. The principal does not have insight into the skills and abilities of the agent other that those represented to the principal prior to the appointment. If the agent misrepresents his/her skills and ability to the principal and the principal appoints the agent this is adverse selection.

Eisenhardt (1989) continues to explain that to mitigate against these potential "unobservable behaviour, the principal has two options." The first of these is for the principal to invest in information systems, and the second option is to contract with the agent to delivery on specific outcomes.

The information systems which the principal could potentially invest in may include financial reporting systems and procedures, performance management systems, management supervision layers and boards of directors. These systems would allow the principal to monitor the behaviour of the agent and detect the "unobservable behaviour" referred to by Eisenhardt (1989).

When an agency relationship occurs it also tends to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship (e.g., offering management performance bonuses to encourage managers to act in the shareholders' interests). Accordingly, agency theory has emerged as a dominant model in the financial economics literature, and is widely discussed in business ethics texts.

Jensen and Murphy (1990, p 255) found that "although the incentives generated by stock ownership are large relative to pay and dismissal incentives, most CEO's hold trivial fractions of their firm's stock" to make any significant changes.

According to Eisenhardt (1989) an outcomes based contract would motive the agent to act in line with the principals objectives, at the cost of transferring the risk to the agent. Risk is influenced by a myriad of factors ranging from global economic sentiment, technical advancements, competitor actions and government regulation and policies. These risks influences may positively or negatively impact on the objectives of the principal, hence the agent may not want to accept this level risk in a contract.

2.2.3 Alignment of interests / Share options

It is commonly understood that, agency theory suggests that the firm can be viewed as a nexus of contracts between various stakeholders in the firm. An agency relationship arises when the owner or provider of capital (the principal), hire one or more other individuals, (the agents), to perform some service and then delegates decision-making authority to the agents (Jensen and Meckling 1976). The agency theory is therefore concerned with the conflict in interests between the principal and the agent (Jensen and Meckling 1976). This conflict between the principal and agent has implications for the business as a whole and impacts corporate governance, corporate culture and business ethics.

Jensen and Meckling (1976) and Fama and Jensen (1983) showed that the principal-agent problem arises as a consequence of an “incomplete contract”. Were it possible to write a “complete contract” setting out how the agent would behave in every situation there would no misalignment of interests and objectives of the two parties. The contract would therefore perfectly align the actions of agent with the goals of the principal. Each time a situation arose, the agent would merely need to refer back to the contract to determine how to act according to the principal’s instruction.

A complete contract is unfeasible for the following reasons, it is not possible to envisage every possible situation and for the principal to determine the best course of action in advance. Secondly, the principal hires the agent because of their specific skills and experiences which they bring to bear on the specific situation. Consequently, the principal will need to allow the agent discretion to make decisions within specific limits. A large lot of corporate governance deals with the oversight of these limits on the agents' discretion and accountability.

Hill and Yablon (2002, p 4) argue that the "virtue of performance-based pay was that it operated as a self-executing governance technique, without the need for shareholder supervision or judicial enforcement. And performance-based pay held out the promise of remuneration according to 'just deserts.'" Thus, executives are left to their own discretion as to which projects to choose, investments to consider and costs to incur on the basis that advancing the best interests of the firm will also benefit them. This this is not necessarily the case as seen in corporate failures like Enron, Fidentia, etc.

Share options have been widely criticised both in South Africa and abroad as "opportunistic, driving stock volatility, not truly aligning executive and shareholder reward, and even at times fraudulent" (PricewaterhouseCoopers 2002). There is also scepticism about the existence of a causal connection between pay and performance and whether increased corporate profits are actually attributable to exceptional performance by executives. In light of the global financial crisis, share performance is aligned to market, economic and political environment. Thus, financial results must be viewed within this context. Further, managers inherently possess more information as a result of their jobs and hence provide managers with enough incentive to advance their own interests instead of shareholders.

Hill and Yablon (2002), outlined that US corporate law has employed three lagel techniques in attempting to regulate the conflicts of interest which exist in relation to executive remuneration.

1. Self-restraint via fiduciary duties and regulatory disclosure;

2. Eliminating conflicts of interest via enhanced corporate governance mechanisms, such as the appointment of independent directors, remuneration committees and increased shareholder oversight; and

3. Managerial self-interest. Corporations have attempted to manage the risk of executive self-interest by aligning shareholder interests with

management interests via the use of share options and bonuses based on performance.

2.2.4 Conclusion

This section highlights that an effective governance system is necessary to manage the agency relationships. With the dilution of ownership in publicly traded companies, the power and influence of the individual owner is diluted, with the result that the agents increasingly have access to more in-depth information and influence over the business objectives, thus giving them more power. This conflict between the dilution of the owners control and the increased power and influence of the agent is managed through a transparent and effective corporate governance policy.

2.3 Corporate Governance

While corporate governance has risen to prominence recently, its origins go back many years to when ownership and management of businesses first became separated (Peter 2003). With the separation of ownership and executive decision-making, it became necessary for the principal to implement mechanisms to monitor the performance of their agent. Corporate governance is therefore an umbrella term referring to a broad framework of rules, regulations, practices, policies and laws by which organisations are operated, managed and controlled. The framework adopted focuses, to varying degrees, on both internal and external groups in an attempt to regulate the various aspects of these relationships. These frameworks have over time evolved to encourage, amongst others, increased accountability, improved reporting, greater corporate transparency and increased independence of governance structures with the objective of addressing the needs of all the stakeholders. However, a common widely accepted definition of corporate governance is illusive due to there being at least two categories of corporate governance.

Mueller (2003) states that the concept of the “publicly owned or listed company” is a relatively new one, which began at the start of the industrial age largely. The industry age brought the introduction of large manufacturing companies which demanded massive amounts of capital. “Due to the growth and importance of corporations, markets for the exchange of shares opened in New York and some European capital cities at this time” (Pistor and Xu 2002). As a result, legislators began to take corporations more seriously (Hopt and Leyens 2004), allowing them to undertake wider business objectives. The doctrine of limited liability, allowing corporate owners and managers to avoid responsibility for losses and risk taking, had the consequence of making the pursuit of profit the primary business object.

West (2006) noted that corporate governance theory, is described in one of two opposing models, being either the Shareholder or the Stakeholder model. Corporate governance when defined, in its narrowest sense, as a formal system of accountability of management (agents) to shareholders (principals) refers to the shareholder model. When defined, in its widest sense, as a “network of formal and informal relationships involving the corporate" (Maher and Andersson 1999, p. 6) this refers to the stakeholder model.

Eisenhardt (1989) noted that, corporate governance is often described as being either Anglo-American or European (and Japanese). These geographical descriptions of the corporate governance models typically refer to the Anglo-American approach being a shareholder model whereas the European approach is a stakeholder model. Reed (2002, p. 230) notes that, "developing countries by and large adopt corporate governance reforms in line with the Anglo-American approach".

The following table, adapted from the International Chamber of Commerce website lists the key differences between each model:

Table 1: Shareholder vs. Stakeholder governance model

	Shareholder	**Stakeholder**
Corporate objective	Maximise shareholder value	Consider broader stakeholder interests, especial public
	Profit maximisation and improved efficiency	Long-term growth and sustainability
Ownership	Concentrated in a few strong groupings	Scattered across many small groups and individuals
	Strong power over management often by way of an executive chairman	Management given great freedom to run the business subject to market forces.
	Minority shareholders have poor protection	All shareholders protected with increased attention to

	Shareholder	Stakeholder
		management actions
Board structure	Executives and non-executive directors sit on a single tier board	Use of a two tier board, with Supervisory Board consisting of non-executive directors only. A lower level management board consists of full-time managing directors.
	Chairman works closely with the CEO and the board have several sub-committees for Audit, Remuneration, Risk etc.	Supervisory board is total independent of the management board

The stakeholder approach tends to be a principle-based model, rather than rule-based model, and is open to interpretation by individual companies within their specific situation. These models are reflective of the different theories of the purpose of the firm, each of these two models is further explained below.

2.3.1 The Shareholder Model

The shareholder model, proposed by Milton Friedman, holds out that the purpose of a business is profit maximisation for its shareholders. West (2006) also noted that, this model has predominantly been used in the USA and English speaking countries. The business is able to make a profit by providing goods and services to customers. Under this model, the agent has an obligation to run the firm to maximise shareholder value and is therefore accountable and responsible to the shareholders only. Firm performance is measured by the market value of the firm.

The problem with corporate governance under this model is the divergent interests and objectives of the principal and agent. The agent is not the owner of the firm and therefore does not bear the full costs or gain the full benefits of their actions. So while the principal requires profit maximisation, the agent may be interest in other self-serving objectives such as salary or bonus maximisation. As discussed above, it is also not feasible for the principal to govern a business through the agent via a “compete contract”.

The shareholder model, maintains certain assumptions:

- The right to individual private ownership; and
- The belief that market forces will achieve economic efficiency.

The right to individual private ownership lends itself to behaviour motivated by self-interest, which then leads to the main problem in this model, being the conflicting interests of owners and managers. This conflict in the principal–agent relationship has led to the development of reforms and strategies that are aimed at harmonising the goals of the owners as principal and management as the agent. The solution to the problem is seen to lie in a combination of efficient contracting (Jensen and Meckling 1976) and the application of market forces in the managerial labour market (Fama 1980). In line with these assumptions, (Letza, Sun et al. 2004, p. 244) note that within the shareholder model, corporate governance is ‘‘best addressed by removing restrictions on factor markets and the market in corporate control, together with strengthening the incentive system,... introducing a voluntary code and appointing non-executive directors.’’

The shareholder model of corporate governance views the business as an extension of the owners and therefore the owner merely needs to contract the agent to deliver on the objective of profit maximisation.

2.3.2 The Stakeholder Model

The stakeholder model, according to Freeman and Reed (1983), views the company as a social entity responsible for and accountable to a large variety of stakeholders. The objective of the company is therefore to "create as much value as possible to the stakeholders, without resorting to trade-offs". Hence this model takes a wider view of the firm, being responsible to several constituencies such as, contractual partners, government and regulatory bodies and society at large. The stakeholder model holds the company out to be "socially responsible" and to be managed in the public interest.

Donaldson and Preston (1995) identify three aspects of the stakeholder theory, being descriptive; instrumental; and normative. "Descriptive theory presents the observation that organisations have stakeholders, where instrumental theory refers to the acknowledgement of responsibility towards stakeholders as a means to achieving greater economic efficiency, and where normative theory draws on moral and community values that require stakeholders be considered as an end in themselves." (Donaldson and Preston 1995, p 71)

The main criticism of this model of governance, is that it is difficult, if not impossible, to be all things to every constituency, and therefore there would need to be trade-offs for the greater good. Blair (1995, p. 203) arguments that the stakeholder model "failed to give clear guidance to help managers and directors set priorities and decide among competing socially beneficial uses of corporate resources, and provided no obvious enforcement mechanisms to ensure that corporations live up to their social obligations." Blair (1995, p. 203) continues to argue that the traditional stakeholder model is no longer relevant and due to the lack of guidance on balancing the various stakeholder rights and consequently "few academics, policymakers, or other proponents of corporate governance reforms still espouse this model."

However, given the current global political, economic and environmental morass the notion of companies having responsibilities to a wider constituency is appealing. According to Blair (1995) the impact of the various stakeholders on the firm's performance is what matters. Consequently the stakeholder model has been redefined to “narrow” what constitutes a stakeholder. Therefore a “new” stakeholder model has evolved which defines a stakeholder as those who contribute firm specific assets (Blair 1995). This redefinition of the stakeholder model is consistent with the view that the firm is a “nexus of contracts” and the theories of “transaction costs” and “incomplete contract” as discussed above Coase (1937), Williamson (1985), Jensen and Meckling (1976), and Aoki, Gustafsson and Williamson (1990).

Blair (1995) defines corporate governance in this broader context and argues that corporate governance should be regarded as a set of institutional arrangements for governing the relationships among all of the stakeholders that contribute firm specific assets.

2.3.3 Shareholder Corporate Governance Developments

As noted by Reed (2002), the Anglo-American system of corporate governance has been widely adopted in developing countries such as South Africa. This section will look at key developments and regulatory frameworks resulting in these two countries followed by a review of the South African framework.

2.3.3.1 American Governance Model

In the United States of America (US), the Sarbanes-Oxley Act (SOX), also known as the Public Company Accounting Reform and Investor Protection Act (in the Senate) and the Corporate and Auditing Accountability and Responsibility Act (in the House), is a federal law which has set the standard for corporate governance for all US public company boards, management as well as public accounting firms. A timeline of the evolution of corporate governance in the US provided in the table below:

Table 2: Chronology of Corporate Governance - US

Year	Event
1912	Congress holds the Pujo hearings, looking into J. Pierpont Morgan and his bank's stranglehold over American industry through board representation and financing deals.
1933	The Securities Act of 1933 imposes civil liabilities on directors for improper behaviour.
1940	The Securities Exchange Commission (SEC) calls for audit committees.
1942	The SEC enacts the Shareholder Proposal Rule, requiring companies to vote on shareholder resolutions.
1970	The SEC takes a closer look at the conduct and responsibilities of corporate boards after the bankruptcy of the Penn Central railroad.
1974	The SEC requires disclosure as to whether or not a corporation has an independent audit committee, encouraging creating these committees.
1974	The Employee Retirement Security Act of 1974 sets strict liability standards for managers of pension plans.
1979	The first golden parachute is used for Reliance Electric before its acquisition by Kohlberg Kravis Roberts.
1985	The Delaware Supreme Court supports a company's right to adopt shareholder rights plans, or poison pills, in the case of Moran v. Household International Inc.

Year	Event
1999	The SEC calls for audit committee reforms.
2002	Enron files for bankruptcy following mismanagement and accounting scandal. This sparked Congressional hearings and a heightened public awareness about the importance of transparent financial dealings.
2002	The Sarbanes-Oxley Act is enacted. This act covers issues such as auditor independence, corporate governance, internal control assessment and enhanced financial disclosure.

Source: (Friedman 2002)

The SOX Act effectively sought to strengthen governance through regulation in the US by imposing restrictions on auditors and requiring management and directors to take greater responsibility for financial reporting.

According to Ojo (2006), the key objectives of SOX have been to:

- Improve the quality and accuracy of financial reporting;
- Reduce fraud and false accounting;
- Raise awareness of internal controls;
- Increase executive responsibility for reported numbers; and
- Strengthen the independence of audit firms.

Enron background

In December 2001 when Enron filed for bankruptcy, it was the largest bankruptcy in US history (Terry 2007). At the time, Enron employed approximately 22,000 people, operated in over 40 countries (McLean and

Elkind 2003) and was one of the world's leading electricity, natural gas, pulp and paper, and communications companies, with claimed revenues of nearly $101 billion in 2000 (Naidoo 2002). Fortune Magazine named Enron "America's Most Innovative Company" for six consecutive years (Downes and Russ 2005) from 1996 to 2001. Terry (2007) stated that Enron’s demise has subsequently created a massive change in governance and regulatory practices in the USA and globally.

Enron was formed in 1985 by its first CEO and Chairman, Kenneth Lay as a result of a merger between Houston Natural Gas and Internorth. As Chairman, Lay hired Jeffrey Skilling as CEO and Andrew Fastow as CFO. Under their leadership, Enron adopted an aggressive growth strategy through a complex labyrinth of financial structures and transactions (Terry 2007).

Several researchers (Naidoo 2002; McLean and Elkind 2003; Terry 2007) have agreed that, the cause of Enron's collapse was a combination of several factors including:

- shortage of cash;
- accounting schemes aimed at enhancing earnings fraudulently and thereby improving the balance sheet position;
- conflicts of interest by management, directors and members of the audit committee;
- the SEC for failing to examine submissions made to it;
- the Board of Directors failed in their fiduciary duty by approving, and even encouraging, the dubious practices created by management; and
- obstruction of justice by the auditors, Arthur Andersen, for shredding audit-related Enron documents.

The Enron collapse was as a result of a massive failure in corporate governance. Terry (2007, p. 35) noted that, “Enron’s executive directors were the key managers, architects and strategists, who had more information than their shareholders” their relationships were very close and beyond that of normal business relationships, this provided them with the opportunity to collude to manipulate this information for their own advantage. Terry (2007) points to the following gaps in governance for the collapse of Enron:

- collusion between directors;
- Lack of independence of auditors; and
- Ineffective oversight structures such as the
    - Boards of Management,
    - External auditors; and
    - The SEC

The Enron case highlighted that directors had a significant vested interest in the company, in addition they had more information than other shareholders, thus creating the incentive to manipulate the results of the company in their favour. This was not unique to Enron, and these elements were also found in the Tyco International, Peregrine Systems, WorldCom and other corporate financial scandals.

2.3.3.2 United Kingdom Governance Model

In the United Kingdom (UK), the Combined Code on Corporate Governance is the key reference for governance regulation. The Combined Code is essentially a consolidation and refinement of several reports on corporate governance within the UK. The following table provides a chronology of the different reports on corporate governance and its key focus areas issued within the UK:

Table 3: Chronology of corporate governance - UK

Report	Year	Focus Area(s)
Cadbury Report	1992	General corporate governance principles
Greenbury Report	1995	Executive Remuneration
Hampel Report	1998	Review of Corporate governance
Turnbull Report	1999	Internal Control: Guidance for Directors on the Combined Code
Myners Report	2001	Role of Institutional investor
Higgs Report	2003	Role of non-executive directors
Smith Report	2003	Auditors duties and responsibilities
Combined Code	2003	Consolidation of Governance principles
Combined Code	2006	Consolidation of Governance principles
Combined Code	2008	Consolidation of Governance principles

Source: (ICAEW 2010)

The first concerted approach at corporate governance regulation in the UK was the establishment of the Committee on the Financial Aspects of Corporate Governance under the chairmanship of Sir Adrian Cadbury (Cadbury Committee) in 1991, under the auspices of the Financial Reporting Council, the London Stock Exchange (LSE) and the accountancy profession. The committee was established because of concerns about the reliability of company reports and accounts, in the wake of certain corporate collapses such as Coloroll, Polly Peck, the failure of the Bank of Credit and Commerce International and the issues around Robert Maxwell's business dealings (Jones, Pollitt et al. 2004). The Cadbury Committee's Report and the Code of Best Practice included in it covered a wider scope than was originally intended for the report. The Code of Best Practice was addressed to all listed companies registered in the United Kingdom, but as many other companies as possible were encouraged comply (Cadbury 1992). Listed companies were recommended to state whether they complied with the Code of Best Practice and to give reasons for any areas of non-compliance. (Peter 2003; Jones, Pollitt et al. 2004)

After that adoption of the initial report on corporate governance, the next aspect of governance to receive attention was directors' remuneration. A Study Group on Directors' Remuneration was set up in 1995 under the chairmanship of Sir Richard Greenbury (Greenbury Committee) at a time when there was concern among shareholders and the public over executive pay and benefits, particularly in the privatised utilities, and payments to departing directors. The result of the Greenbury report which was issued in July 1995 was another Code of Best Practice.

The recommendation to listed companies was slightly stronger. Areas of non-compliance should not only be explained but also justified. The report recommended to the LSE to include in the continuing obligations for listed companies, a requirement for companies to make a statement in their remuneration reports about their compliance with the recommendations on audit committees, to include remuneration and benefits information for each director. (Greenbury 1995; Peter 2003)

Soon after the publication of the Greenbury Committee recommendations, a Committee on Corporate Governance chaired by Sir Ronnie Hampel (Hampel Committee) was asked by the Financial Reporting Council (FRC) to review existing governance recommendations, establish any new ones it felt relevant and to produce a single code of practice. (Peter 2003)

Hampel Committee published its report in January 1994, the key recommendation was a proposal to create a combined code on corporate governance (Hampel 1998). The LSE in June 1998 along with a new edition of the Listing Rules, the Principles of Good Governance and Code of Best Practice (Combined Code) was published. (Peter 2003)

Before the Combined Code had been published in March 1998, a steering group was established to undertake a fundamental review of company law within the UK, which culminated in the Final Report of the Company Law Review in June 2001. (Peter 2003)

In 1998, Nigel Turnbull was appointed by the LSE to chair a committee to provide guidance for directors on their duties in terms of the Combined Code. In 1999, the Internal Control: Guidance for Directors on the Combined Code (Turnbull Report) was issued. This report informed directors of the duties and obligations under the Combined Code, which included, maintaining good internal controls, having audits to ensure the quality of financial reporting and to detect any frauds. The Turnbull report was revised in 2005.

In 2000, Paul Myners (Myners 2001) was then asked by the UK Treasury to look at whether the objectives of institutional investors in the market contributed to improved governance. Myners report was published in June 2001 and made a number of recommendations mainly aimed at pension fund trustees.

Subsequently, Derek Higgs was requested by the UK's Department of Trade and Industrial (DTI) and the UK Treasury to review of the role and effectiveness of non-executive directors (Higgs 2003). Published in June 2002, the Higgs report sought to answer an array of governance questions with regards to the board structure, processes and relationships. (Higgs 2003)

The FRC set up a group under the chairmanship of Sir Robert Smith to begin the development of the Combined Code's Guidance on Audit Committees. Sir Robert Smith's group was instructed to liaise with Derek Higgs. This liaison took place right through to the publication of the two final reports, being The review of the role and effectiveness of non-executive directors i.e. the Higgs

Report and of Audit Committees Combined Code Guidance, i.e. the Smith Report, (Peter 2003; Jones, Pollitt et al. 2004).

However, this review of the various reports issued in the UK, highlights the need for constant vigilance and updating of the governance mechanisms in order to ensure that the regulatory frameworks in place are necessary and relevant.

One of the strengths of a rule based system of corporate governance is its ability to evolve with the changing requirements and expectations of business and markets without the need for much legislative intervention.

2.3.3.3 South African Governance Model

In keeping with international best practice, South Africa has instituted its own regulations on corporate governance. Following the 1994 elections, a number of changes were underway to ensure reform in all the country's industries. Around this time, the dual classes of shares and pyramid group companies were banned on the primary market. Legislation was also passed with regards to director liability and insider trading. The Stock Exchange Control Act of 1995, allowed for improved equity trading and encouraged equity listings. In 1999, the JSE shifted to electronic settlement and trading, and by 2005 the entire trading system was transferred to the London Securities Exchange Trading System. This enabled South African equities to be traded around the world and encouraged South African companies to adopt the best corporate governance standards to attract foreign investment.

Part of the reform process included examining corporate governance in South Africa. As such, retired judge Mervyn King was appointed by the Institute of Directors South Africa, to establish a code of corporate governance. For the purpose of this research, South Africa's history in dealing with corporate governance has been limited to the period subsequent to the 1994 elections.

Since 1994, the King Codes on corporate governance have been the primary standard of corporate governance in South Africa's and is widely regarded as the most progressive standards worldwide with regards to governance and sustainability. These codes are as follows:

- The King Report on Corporate Governance (King I) issued in November 1994 (This code drew heavily in the UK'S Cadbury Code and consequently aligned the South African governance standards to that of the UK);
- The King Report on Corporate Governance for South Africa - 2002 (King II), issued in March 2002; and
- The King Report on Corporate Governance for South Africa – 2009 (King III) issued in February 2009.

King II was largely a response to the political and economic short-comings that were identified in King I (West 2006).

According to Engelbrecht (2008), King III has been drafted for two key reasons. Firstly, to provide a regulatory framework in anticipation of the Companies Act 71 of 2008, and secondly to update the existing governance regulations to take into account changes in the global governance arena. King III was also drafted with the intention of ensuring that the South African governance regulations remain at the forefront of global governance. King III continues, in the spirit of its predecessors, to promote the principle-based approach of governance. But with some of the King III "principles enacted into law, the new regime will be a "hybrid," containing elements of both "comply or else" and "comply and explain" (Engelbrecht 2008). To this end, King III compliance became a listing requirement for the JSE in 2010. In early 2010, the Companies Act of 1973, as amended, was replaced by the Companies Act 71 of 2008, changing the corporate landscape and legislating several of the King III recommendations.

2.3.4 Summary of Governance

As described above, corporate governance is an umbrella term referring to a broad framework of rules, regulations, practices, policies and laws by which organisations are operated, managed and controlled. However, depending on the countries views on the purpose of the organisation, two different governance models emerge, being the shareholder model adopted in Anglo-Saxon countries or the stakeholder model adopted in Continental Europe and Asian counties.

The stakeholder model has evolved from a view that society as a whole is the beneficiary of organisation, to the view that only those that contribute to the organisation are the stakeholders. The organisation is therefore run for the benefit of those stakeholders.

The shareholder governance system has further evolved into two divergent implementation methods. The US follows a legislative based system of compliance where corporations are required to comply with a set of rules. Non-compliance results in fines, suspensions and/or imprisonment of executives. Whereas, the regulation principle-based governance regime adopted by the UK and South Africa requires companies to comply with the spirit of the code. Each of the codes of governance provides a set of principles that companies are encouraged to comply with.

The shareholder model of corporate governance recognises that shareholders are the primary recipients of benefits. Ultimately shareholders are the most important and hence their interests must be protected. The stakeholder model of governance recognises a wider range of interests. These models are not mutually exclusive. Given South Africa’s history, it has adopted a stakeholder approach. Thus, for the purposes of this study, the stakeholder approach will inform the basis of this analysis.

2.4 Executive Remuneration

Remuneration is the total compensation which an employee receives in exchange for rendering a service to their employer. Within the context of the principal-agent relationship, the principals hire an agent to generate a return on their investment. The agent, using his/her specialised human capital generates a return for the principal in exchange for compensation. This compensation would typically take the form of monetary rewards, but complementary benefits are increasingly popular.

The nature and transparency of corporate decision-making is by its nature not for public consumption. Company strategies are closely guarded secrets for obvious competitive reasons and hence cannot be used to measure Boards performance. Two key indicators of the quality and equity of a Board's decision-making ability are thus executive remuneration and firm performance, which are publicly disclosed. Hence, for this research executive remuneration is used as a gauge of the Board's commitment to governance compliance.

2.4.1 Remuneration Disclosure Requirements

Under the agent theory section above, the need for the principal to introduce information systems was explained. One such information system is the executive remuneration disclosures. In addition, it was explained that the agent is compensated for meeting the objectives set-out by the principal. By using the information system the principal is able to measure performance by reviewing the financial statements and is able to consider the appropriateness of the executive remuneration against the performance.

Crotty and Bonchorchis (2007) highlight that improvements in disclosure have made it the possible to appreciate that South African executive's packages are market related for executives, however the increased disclosure falls short of providing a mechanism to determine whether or not these remuneration packages are based on executive's performance or their contribution to stakeholder value.

Executive remuneration provides the average person with a look into the pay packets of some of the country's highest earners[1]. The public disclosure of this very personal and private indicator of a person's worth also creates a greater awareness of executive remuneration and corporate governance compliance, within the broader society. However, Buffini (2005) noted that executive remuneration is increasingly becoming a sensitive issue for all stakeholders.

Chaudhri (2005) summaries the remuneration issue as, the challenge to appropriately rewarding and retain key senior management, whilst mitigating the risks of dissipating shareholder funds through unjustifiable contracts. It is this dilemma that remuneration committees have to balance.

One can only imagine that the executive contracts would use a wide range of incentives and rewards, aimed at aligning the manager's interests with those of the shareholders.

The overriding principle in the governance of directors' remuneration is that of openness and transparency. Shareholders are therefore entitled to a complete and clear statement of rewards received by directors in the execution of their duties.

Problems with performance-based pay is not merely structural as even carefully structured remuneration packages will frequently provide corporate managers with incentives to use their strategic inside, in-depth knowledge within the company to advance their own interests over shareholders. Examples of typical remuneration packages based on performance indicators include share options, bonuses based on company performance such as profit, headline earnings and share price.

Agency theory suggests that internal corporate governance arrangements are important in shaping executive pay in contracts. "The company board is uniquely bound up with the issue of director pay-setting and the absence of a remuneration committee implies that executives can award themselves pay

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[1] See the coverage given to the publication of "The Rich List", Sunday Times 30 November 2008.

raises which are not congruent with shareholder interest" (Healy 1985, p 87), consequently increasing the agency cost. "Managerial actions and investment opportunities are not, however, perfectly observable by shareholders; indeed, shareholders don't often know what actions the CEO can take or which of these actions will increase shareholder wealth. In these situations, agency theory predicts that compensation policy will be designed to give the manager incentives to select and implement actions that increase shareholder wealth." (Jensen and Murphy 1990)

Amidst growing public cynicism, union disgruntlement and shareholder concern around escalating executive pay packages and perks, it is becoming increasing important to justify the link between executive pay, their performance and how this is determined and governed. Crotty and Bonchorchis (2007) highlight that there are two inherent risks in not explaining these links, "both of which threaten to undermine the foundations of a free-market economy. The first is that the public will become increasing angry about the widening gap between executives and everyone else and judge it to be a whimsical as a lottery. The second is the inefficiency implicit in not accurately pricing one of the most important resources in an economy. If companies are not efficiently measuring executive performance, how can they price this resource accurately?"

2.4.1.1 Accounting Requirements

The increased disclosure of executive remuneration, required by the International Accounting Standards (IAS), the International Financial Reporting Standards (IFRS), and United States Generally Accepted Accounting Principles US GAAP, has allowed greater transparency in the remuneration quantum for individual directors and thus allows for better analysis. Prior to the disclosure reforms required by IFRS and IAS, this research would not have been possible in South Africa, due to the low disclosure standards required by South African Generally Accepted Accounting Principles (SA GAAP).

2.4.1.2 Legislative Requirements

In addition, the South African Companies Act of 1973, as amended, required greater disclosure of executive remuneration. The Companies Act of 2008, extended the remuneration disclosure of executives to include prescribed officers. The Companies Act requirements, as it has been summarised below, requires that the audited AFS of the company disclosures, for both directors and prescribed officers:

- The remuneration and benefits received;
- Amounts of any pensions paid by the company on their behalf to any scheme;
- Compensation for loss of office;
- The total number of, class and consideration received of any securities issued; and
- Details of service contracts.

(*The above summarised from S297(1) of Companies Act 1973 and S30(6) of Companies Act 2008*)

Further, in terms of S30(6) of Companies Act 2008, the definition of remuneration has been summarised below to include:

- Fees paid to directors for services rendered by them to or on behalf of the company, including any amount paid to a person in respect of the person's accepting the office of director;
- Salary, bonuses and performance-related payments;
- Expense allowances, to the extent that the director is not required to account for the allowance;
- Contributions paid under any pension scheme;
- The value of any option or right given directly or indirectly to a director, or person related to any of them;
- financial assistance to a director, or person related to any of them, for the subscription of shares; and

- Any loan or other financial assistance by the company to a director, or a person related to any of them, or any loan made by a third party to any such person, if the company is a guarantor of that loan, the value of:
    - any interest deferred, waived or forgiven; or
    - the difference in value between:
        - the interest that would reasonably be charged in comparable circumstances at fair market rates in an arm's length transaction; and
        - the interest actually charged to the borrower, if less.

2.4.1.3 Governance Recommendations

A vigorous governance processes around executive remuneration combined with transparency will allay the suspicions of shareholders. King II therefore provided this foundation for an open and transparent discussion on executive remuneration. With the issuing of King III, the wording of the code around remuneration became more prescriptive than King II, and the discussion was allowed to progress further. The recommendations in respect of executive remuneration (in terms of King III) are now centred on the following key principles:

- Directors (executive and non-executives) should be remunerated fairly and responsibly;
- Remuneration disclosure must be done on an individual basis; and
- Shareholders should approve the company's remuneration policy.

Share based payments are increasing becoming an important element of executive remuneration both locally and internationally. King III has provided some important guidelines on this issue and addresses the governance challenges which these incentives created historically.

Essentially, good corporate governance over executive remuneration must strive to be a transparent process which aligns the executive remuneration ethos of the organisation with the company's long term sustainably strategy.

2.5 Firm Performance

There is no clear or best measure of executive performance, and consequently an outsider looking in will only have the company's performance to judge the executives performance. The firm's performance is therefore used as a proxy for the chief executive's performance.

Crotty and Bonchorchis (2007) provide insights into the performances measures of executives used in South Africa as provided by 21st Century Pay Solutions. The following measures are cited as being used by companies to measure firm performance:

52% : Total Shareholders Return

23% : Earnings Per Share

25% : Return on Capital Employed

Other performance measures used in South Africa are, Economic Value Added (EVA) and the Porter's Five Forces model. EVA is defined as the residual value (profit) after charging for cost of capital. EVA as a basis of basing pay on, forces executives to recognise the cost of capital therefore leading to better decisions and a more efficient use of capital. Porters Five Forces model measures performance against the critical success factors of the company emanating from the five forces facing each company. The five forces are the, power of the clients; power of suppliers; barriers to entry; threat of substitute products and industry's competitiveness.

Firm performance can be measured along many different matrixes, for example, operational factors, market penetration, employee factors etc. The most common measure of firm performance however is financial hence companies are generally judge on its profitability for the period and against its previous years.

The following financial indicators are commonly used as a measure of firm performance:

- Gross income;

- Earnings before interest, taxation, depreciation & amortisation (EBITDA);
- Profit attributable to ordinary shareholders;
- Headline earnings per share;
- Return on assets (ROA);
- Earnings per share (EPS); or
- Return on equity (ROE).

The ambit of the executives influence and control of the business encompasses every aspect of the organisation, and therefore the appropriate measure of the firm's performance must be an indicator reflective of the business as a whole as well one which indicates long term decision making.

2.5.1 Return on Equity

The selection of, return on average equity as the key firm performance indicator, was selected for the following reasons:

1. This ratio provides a useful measurement of profitability of companies of different sizes within the same industry;
2. Covers key aspects of firm performance being, net margin, asset turnover and financial leverage;
3. It is an easy ratio to use and understand; and
4. Commonly used within the financial services sector to measure firm performance.

The ROE ratio is calculated as follows:

$$\textbf{ROE} = \frac{\textbf{Profit attributable to ordinary shareholders}}{\textbf{Average Shareholders' Equity}}$$

Return on equity, for this research, has been calculated by dividing profit attributable to ordinary shareholders by average shareholders' equity. Average shareholders' equity was calculated by adding the shareholders' equity at the beginning and the end of the of a period, and dividing the result by two.

2.6 Definition of the key elements of research

The problem which this research sought to address was to determine whether there is correlation between corporate governance compliance and firm performance in setting executive remuneration in South African JSE listed financial services companies.

The main elements of the research are:

1. Corporate Governance Compliance;
2. Firm Performance; and
3. Executive remuneration.

The sample was drawn from JSE listed companies within the financial services sector largely because the level of disclosure in this sector is greater than most other sectors due to financial services regulation and also to ensure that the analysis was comparable amongst companies in the sample.

As a consequence of this research, it is hoped that inferences may be drawn on whether the current South African corporate governance mechanisms over executive remuneration could be improved. It is also believed that the researcher may be able to provide a theoretical framework for providing a qualitative basis for compensation that is fair to both shareholders and managers.

2.7 Relationship between research variables

The modern corporation, by definition, suffers from the agency problem given the natural separation of management (agent) from shareholders/owners (principal). There are two ways in which this agency problem can be mitigated, by:

- Performance-based remuneration packages designed to align the interests of managers with that of owners, and

- Effective monitoring, defined as encompassing corporate governance compliance, the independent external audit report and complete remuneration disclosure.

Agency theory therefore predicts that optimal compensation policy will be designed to give the manager incentives to select and implement actions that increase shareholder wealth (Jensen and Murphy 1990). While perfect monitoring may be impossible or too expensive, imperfect information can be used to alleviate 'moral hazard' by penalising the agents' dysfunctional behaviour (Hölmstrom 1979). The punishment of this 'dysfunctional behaviour' (Hölmstrom 1979), may be the most severe when the remuneration of the CEO is dependent upon the performance of the firm. TosiJr and Gomez-Mejia (1989) suggests that agency costs are minimised when CEO remuneration is linked to firm performance.

The role of effective corporate governance is significant because managerial actions are not totally observable by all shareholders. Moreover, holders of lower quantities of shares are often not aware of the actions the CEO could take, how these actions could affect their wealth, or what the consequences of the actions would have on the CEO's remuneration. Hence, effective corporate governance structures, combined with external monitoring, have the potential to mitigate the agency costs borne by shareholders.

The recent global evolution in the levels of remuneration disclosure legislation, in conjunction with increased public scrutiny, provides an ideal setting in which to examine the impact on, and the changing nature of, the pay-for-performance relationship as well as the effectiveness of the shareholders oversight.

2.7.1 Corporate Governance Indexing:

In order to assess corporate governance compliance, a corporate governance ranking index was constructed, rather than isolating specific governance aspects. This index, is then used as a proxy for measuring the level of corporate governance compliance at the firm. Gompers et al (2003) used a similar approach in a previous study to index governance compliance.

Alternative methods of measuring corporate governance compliance and quality which could have been used are those employed by (Brown and Caylor 2004) Brown and Caylor (2004) "Gov-Score". These indexing methods were not employed due to the following reasons:

- Data quality from emerging markets is not consistent or specific;
- Time constraints; and
- Indices may not have reflected the level of governance compliance within the South African context.

The literature review indicated alternative methodologies to assess governance compliance which include Brown and Caylor's (2004) cross-sectional regression or Gompers et al (2003) four factor Model used by Carhart (1997), Kaplan and Zingales (1997) and Fama and French (1997). These approaches however looked at a single governance mechanism in isolation. The complexity of finding a single governance indicator would have made this study potentially meaningless.

The broad ambit of corporate governance cannot be accessed by a single governance factor. By using a list of 20 factors across five categories a more balanced assessment of governance can be made. It is believed that this approach of indexing a range of governance factors provides a broader framework and an approach that is reflective of the efforts of the South African governance bodies in providing governance guidance by way of the various King reports. Within the South African context, the King codes on corporate governance provided the principle qualitative benchmark with regards to the level of Corporate Governance compliance.

This study was limited to the period that King II was recommended for use within South Africa. The objective for this limitation was to have a clearly defined governance framework assess its impact.

A matrix (Appendix A) of 20 factors, across 5 broad categories of corporate governance was developed, by the researcher, for this study. This is similar to the approach employed by Drobetz et al (2003) which used this as an indicator of the firm's governance quality. Factors such as board size and composition, sub-committee structure, the number of sub-committees, number of and frequency of board meeting and attendants was considered. For this study the following categories of governance compliance were:

- Board Composition;
- CEO;
- Remuneration and Audit Committee;
- Policy disclosure; and
- Statement on King II compliance.

The following rating scale used was used:

0 - Non Compliance

1 - Partial Compliance – Without explanations

2 - Partial Compliance – With explanations

3 - Full Compliance

2.7.2 Executive Remuneration and Firm Performance

In early research relating to the pay-to-performance relation, Jensen and Murphy (1990) document a relatively low sensitivity during the 1970's and 1980's. For example, they find that during this period, CEOs receive only $3.25 for every $1,000 increase in shareholders' wealth.

Hall and Liebman (1998) using data from the period 1980 – 1994, "documented a strong relationship between firm performance and CEO compensation" and they go on to suggest "that the sensitivity of compensation to firm performance has risen dramatically since 1980 largely because of increases in stock option grants" (Hall and Liebman 1998).

Perry and Zenner (2001) examine three measures of company-related CEO wealth changes, being, "EPS, sales and stock returns" and found that the sensitivity of CEO wealth to shareholder wealth is higher than the one reported by Jensen and Murphy (1990) for the data from the 1970s and 1980s. Zhou

(2000) also found a positive relationships between CEO pay and performance for Canadian firms between 1991-1995.

Core, Holthausen et al. (1999, p 375) hypothesise that “shareholders choose a CEO compensation contract, which specifies the level of compensation as a function of performance, in order to maximise firm value, finding the level of total CEO compensation to be cross-sectionally related to prior performance (stock returns).” Deckop (1988) found that CEO compensation tends to vary directly with the firm’s profit as a percentage of sales. Core, Holthausen et al. (1999) failed to find a difference in the results for total compensation, cash compensation and salary, however Zhou (2000) provided evidence of the importance of the salary and bonus elements.

While there is some level of consistency in the international findings, no research into executive remuneration and firm performance of South African companies was found.

At this point, it should be noted that, testing for a relationship will be complicated by the selection of the appropriate measure of company performance.

In general, we would expect CEO remuneration to fluctuate with either historical or current performance since compensation agreement are typically negotiated at the beginning of the year and designed to motive and reward on the basis of accomplishments. There are in essence, three basic components to remuneration, being:

- Fixed salary component (guaranteed total cost to company inclusive of other benefits e.g. medical aid contributions);
- Bonus component; and
- Share options.

It is likely that the performance basis for each executive will be different given the different performance measures and objectives of the organisation. It is envisaged that the degree of variability will be reduced by focusing only on the financial services sector.

At the outset, it was hoped that this research will show that South African financial services firms paid their CEO an incentive payment in addition to a fixed salary and this incentive payment is the larger portion if the total remuneration. In addition, these incentive payments may take the form of a cash bonus, and or equity based long term incentive. It was also hoped, that the research will show that the bonus element of remuneration is tied to some measure of firm performance such as growth in Gross Income, EBITDA, EPS or ROE.

Hypothesis 1:

H_0: There is no significant relationship between Firm Performance (FP) and Executive Remuneration (ER)

H_A: There is significant relationship between Firm Performance (FP) and Executive Remuneration (ER)

H_0:	FP	≠	ER
H_A:	FP	=	ER

2.7.3 Executive Remuneration and Corporate Governance Compliance

The selection and implementation of an effective corporate governance mechanism also has the potential to mitigate agency problems. In their analysis of corporate governance, CEO compensation and firm performance, Core, Holthausen et al. (1999) observe that "CEOs earn excess compensation when governance structures are less effective and, that the predicted component of compensation arising from board and ownership characteristics has a significant negative relation with subsequent firm operating and stock returns". Core, Holthausen et al. (1999) also suggest that "several internal firm characteristics are coupled with the level of CEO remuneration."

Core, Holthausen et al. (1999), results indicate that firms with weaker corporate governance structures and processes have greater agency problems. This situation extends to CEO's extracting greater compensation and also performing worse in terms of firm results and shareholder returns. As such, the presence of effective corporate governance structures (both internal and external) ensure that CEOs are paid more appropriately, thus excess compensation is less likely when governance is strong.

Conyon (1997), concluded that "director compensation and current shareholder returns are positively correlated", for UK Companies between 1988 and 1993. Conyon (1997) went on to confirm "little evidence of a link between directors' pay (salary and bonus) and shareholder return."

Hypothesis 2:

H_0: There is no significant relationship between Corporate Governance Compliance (CGC) and Executive Remuneration (ER)

H_A: There is significant relationship between Corporate Governance Compliance (CGC) and Executive Remuneration (ER)

H_0:	CGC	≠	ER
H_A:	CGC	=	ER

2.8 Conclusion of Literature Review

This literature review has sought to highlight the key studies on executive remuneration, agency theory and corporate governance. It has also provided a working understanding of the key corporate governance regulatory frameworks in South Africa as well as the UK and the US.

Corporate governance is essential for the effective functioning of any organisation. Current regulatory frameworks, while adequate, need constant vigilance and updating to keep up for market development and to protect shareholder interests. This research highlights the integral link between corporate governance and the agency and the need to manage this relationship to ensure the balance of power. Finally, executive remuneration is the key to maintaining the balance and ensuring that shareholder interests and company performance are aligned.

Hypotheses 1 and 2 above respectively, predict a positive association between executive remuneration and firm performance (*H1*) and a negative association between executive remuneration and corporate governance compliance (*H2*).

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

The previous chapter provided a review of the literature around the theories of agency theory, corporate governance, executive remuneration and firm performance. In this chapter, the research methodology is discussed with regards to the population, sampling technique and the measuring instrument, data gathering methods, the research procedure and statistical analysis techniques used. The chapter is closed with a summary of the research objectives.

3.2 Quantitative Study

Burns (1997) described research "as a systematic investigation or inquiry whereby data are collected, analysed and interpreted", in an effort to "understand, describe, predict or control an educational or psychological phenomenon or to empower individuals in such contexts" (Mertens 2005). O'Leary (2004) puts forward the argument that, "what was relatively simple to define thirty or forty years ago has become far more complex in recent times with the number of research methods increasing dramatically".

The quantitative study forms the primary part of this research. The research focused on a small homogenous sample of companies actively listed on the JSE between 2002 and 2008 to assess whether there is correlation between firm performance and corporate governance compliance on executive remuneration. The results from this analysis were then used to provide a governance and remuneration framework. This data was then utilised to make recommendations on possible improvements to governance processes in setting executive remuneration in South Africa.

A quantitative research methodology was undertaken to investigate whether there is any correlation between:

1. Firm Performance and Executive Remuneration; and

2. Corporate Governance Compliance and Executive Remuneration

The research extracted key financial ratios from the selected companies for analysis against executive remuneration as disclosed in their annual reports.

3.3 Research Design

Key financial ratios and performance data was extracted from the annual financial statements of the selected companies. The related executive remuneration and corporate governance compliance information was also extracted from the same source. The data extracted from the financial statements was then analysed using correlation analysis. This analysis sought to identify correlation (positive or negative) between:

1. Executive remuneration and firm performance; and
2. Executive remuneration and corporate governance compliance.

Advantages:

- All data is available as it forms part of the statutory reporting requirements of listed companies;
- Accounting standards require consistent disclosure of executive remuneration;
- A single governance framework, King II, was in place during the period of review, removing the need for different benchmarking; and
- Data is easy to extract and compare.

Disadvantage:

- Changes in the executive director of the company will have a consequential effects on executive remuneration disclosed and may affect the results of the test;
- The disclosure of corporate governance compliance is not standardised and therefore the depth and extent of this information may not be consistent across the different corporations selected; and
- Changes in IFRS and IAS disclosure requirements over the period of review could affect the data as different reporting requirements were in place which could affect the completeness of the information.

3.4 Population and sample

3.4.1 Population

The population size comprises the universe of all publicly traded companies. This includes companies listed on the main board of the JSE, within the financial services sector, with financial year ends between 01 January 2002 and 31 December 2008.

3.4.2 Sample

The sample for this study consists of financial services companies with retail banking, listed on the main board of the JSE, with financial year-ends between 01 January 2002 and 31 December 2008, excluding cross holdings and holding companies. As the JSE listing requirements and Companies Act required that all companies present their annual financial statements (AFS) to the shareholders within three months of its financial year end, the sample will be extended to annual financial statements released up to and including 31 March 2009.

3.4.2.1 Sample Size

This research report deliberately focuses on the South African financial services sector companies for two reasons.

Firstly, empirical research across several different sectors is troubled with the lack of heterogeneity in the sample and consequently, drawing statistical inferences becomes difficult. While individual firms contribute vital data in explaining heterogeneity, analysing firms from different industries contributes to the level of spurious data making the research difficult.

Secondly, the financial services sector is under a great deal of scrutiny from regulators, investors and the general public in South Africa and internationally.

Several of the larger financial institutions listed on the JSE have foreign ownership and consequently receive the attention of foreign investors. The South African investment community also see these financial services companies as an important part of diversified portfolios. These firms therefore are an integral part of the functioning of the South African economy, consequently, if a governance-performance-pay link exists within South African corporations, it would be in the financial services sector.

To obtain a reasonably accurate correlation of the various facts being tested a convenient sample of nine (9) companies across the Banks and Financial Service (FS) sub-sectors. The key criteria being that the listed entity needed to have a retail banking element within the group. The total sample of the population is listed below:

Table 4: List of sample

No	Sector	Company	Code	Status
1	Banks	Absa Group Ltd	ASA	Sample
2	Banks	Capitec Bank Holdings Ltd	CPI	Sample
3	Banks	FirstRand Ltd	FSR	Sample
4	Banks	Mercantile Bank Holdings Ltd	MTL	Sample
5	Banks	Nedbank Group Ltd	NED	Sample
6	Banks	RMB Holdings Ltd	RMH	Sample
7	Banks	Saambou Holdings Ltd	SBO	Suspended

No	Sector	Company	Code	Status
8	Banks	Standard Bank Group Ltd	SBK	Sample
9	FS	African Bank Investments Ltd	ABL	Sample
10	FS	Barnard Jacobs Mellet Holdings Ltd	BJM	Excluded
11	FS	Brait S.A.	BAT	Excluded
12	FS	Cadiz Holdings Ltd	CDZ	Excluded
13	FS	Conduit Capital Ltd	CND	Excluded
14	FS	Coronation Fund Managers Ltd	CML	Excluded
15	FS	Decillion Ltd	DEC	Suspended
16	FS	Efficient Financial Holdings Ltd	EFF	Excluded
17	FS	Grand Parade Investments Ltd	GPL	Excluded
18	FS	Investec Ltd	INL	Sample
19	FS	Investec PLC	INP	Excluded
20	FS	JSE Ltd	JSE	Excluded
21	FS	London Finance & Investment Group PLC	LNF	Excluded
22	FS	m Cubed Holdings Ltd	MCU	Suspended
23	FS	New Corpcapital Ltd	NCA	Excluded
24	FS	Peregrine Holdings Ltd	PGR	Excluded
25	FS	PSG Group Ltd	PSG	Excluded
26	FS	Purple Capital Ltd	PPE	Excluded
27	FS	Sasfin Holdings Ltd	SFN	Excluded
28	FS	Sekunjalo Investments Ltd	SKJ	Excluded
29	FS	Wooltru Ltd	WLO	Excluded
30	FS	Zeder Investments Ltd	ZED	Excluded

As detailed in the table above, the population consist of 30 companies within the following sectors, being:

8 banking sector; and

22 financial services sector

Three (3) companies (Saambou Limited, Decillion Limited and mCube Holdings Limited) were suspended during the period under review and consequentially have been excluded from the research.

Eighteen (18) companies listed on the financial services sector were excluded due to these companies not having a South Africa retailing banking operation within the group. This includes Investec PLC, which does not have retailing banking in South Africa, however it includes Investec Limited. The data of remaining nine (9) companies has been used in this research.

Where the executive changed during the course of the financial year, the remuneration cost of each executive has been analysed separately against the firm performance for the period. It should be noted that "Golden Handshake" payments are not explicitly disclosed and therefore could not be excluded from the analysis, even though these costs are not strictly related to performance.

A golden handshake is a clause in an executive employment contract which provides for significant severance payment in the event of an executive losing his or her position through dismissal, restructuring or other terminations. These payments can be in the form of cash, equity and other benefits.

3.4.2.1 Filtering of sample

The sample selected for testing comprises corporations having the following characteristics, consistently over the 7 year period:

- JSE listed company;
- Net Profit (for a minimum of 4 financial periods);
- Companies within the financial services sector with a banking component;
- Acknowledgement of compliance to a code of corporate governance; and
- Disclosure of executive remuneration.

3.5 Research instrument

The research instrument used for this research is a correlation model based on data captured from the AFSs of selected companies. The correlation model:

$$r_{xy} = \frac{\sum_{i=1}^{n}(x_i - \bar{x})(y_i - \bar{y})}{(n-1)s_x s_y} = \frac{\sum_{i=1}^{n}(x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum_{i=1}^{n}(x_i - \bar{x})^2 \sum_{i=1}^{n}(y_i - \bar{y})^2}},$$

Where:

X = Firm Performance

Y= Executive remuneration

$$t = \frac{r\sqrt{(n - 1)}}{\sqrt{(1 - r^2)}}$$

Where:

t = test statistic for the Students T test

r = coefficient of correlation r measures the linear association between two variables

n = number of pairs of data

3.6 Data collection procedures

All executive remuneration, firm performance and corporate governance compliance data was extracted from the selected company's published annual financial statements and company specific electronic data sources. The financial data capture was then checked and cross checked to the McGregor BFA and I-Net Bridge data sources.

A spreadsheet was designed to capture all the data points required for the analysis, as listed below. The data was captured for each year under review being 2002 to 2008. The analysis was then performed on Executive Remuneration, Corporate Governance Compliance and Firm Performance.

Data was collected under the following three categories:

i. Executive Remuneration:

- Basic salary;
- Bonus;
- Benefits (e.g. Pension fund, UIF, Medical Aid contributions); and
- Share options (cashed in the financial year)

The executive remuneration for each executive was captured onto a spreadsheet annually (A). The remuneration for each executive was captured into the following categories for each year:

- Performance bonus (A_1)
- Share gains (A_2)
- Other benefits (A_3)
- Guaranteed total cost to company (A_4)
- Total remuneration earned for the period (A_5)

Where executives changed during the period this was noted and an additional analysis was performed for the new executive. The separation of each executive's remuneration was to attempt to avoid the effect of any golden handshake payments on the correlation analysis.

ii. Firm Performance:

- Return on equity (ROE)

The income statement and balance sheet data for each company over the period of was captured onto a spreadsheet. The firm performance indicator was calculated on an annual basis, by dividing the net income by the average shareholders' equity – ROE (B). In general this ratio was provided in the AFS, where the ROE was not published in the company's AFS, this ratio was calculated from the data available in the published annual reports, in the manner explained above 2.5.

iii. Corporate Governance Compliance:

- Board Composition;
- CEO;
- Remuneration and Audit Committees;
- Policy disclosure; and
- Statement on King II compliance

The data capturing and rating process is detailed in section 2.7.1 above. See Appendix A, the Corporate Governance Matrix.

Once all the data points were captured and verified, the correlation analysis was performed using the formula detailed above in section 3.5.

3.7 Data analysis and interpretation

The data was analysed using a test of correlation. This analysis was then interpreted and conclusions were drawn from the analysis.

Data of firm performance (B) for a specific period was tested for correlation to the total remuneration (A_5) of the executive for the same period. However, additional tests of correlation were performed on firm performance (B) and each of the three components of executive remuneration, being performance bonus (A_1), Share gains (A_2) and the sum of Other benefits (A_3) and Guaranteed total cost to company (A_4), on an individual basis.

First test of correlation:	firm performance (B), total remuneration (A_5)
Second test of correlation:	firm performance (B), performance bonus (A_1)
Third test of correlation:	firm performance (B), Share gains (A_2)
Fourth test of correlation:	firm performance (B), sum of other benefits (A_3) and Guaranteed total cost to company (A_4)

3.8 Limitation of the study

- The analysis encompass JSE listed companies consequently it may not reflect the reality of situations within unlisted and other smaller corporations;
- This period of review was limited to King II;

- The analysis focuses on financial services companies and as such it may not reflect the reality of situations within other sectors on the JSE board;
- Executive perks, such as the use of corporate assets, meals, soft loans etc., may be material; however these benefits are not disclosed in AFS and therefore will be excluded;
- Share options are generally used to align the interests of the agent with that of the principal, this research has not considered the effect of this but rather accounted for options when these were exercised by the executive; and
- The research is limited to companies that have continued to operate throughout the period of this review.

3.9 Validity and reliability of the study

In order for a study to have value, it must have high levels of validity and reliability (Leedy and Ormrod 2001:103). In general terms, validity of research refers to the research design, while reliability of research refers to the precision and accuracy of the design and data collection. The sub-sections below detail the methods used to increase the level of validity and reliability.

The validity of research is determined by the internal and external validity of the research. Internal validity is "the extent to which its design and the data that it yields allow the researcher to draw accurate conclusions about cause-and effect and other relationships within the data" (Leedy and Omrod 2001), and external validity is "the extent to which its results apply to situations beyond the study itself" (Leedy and Omrod 2001). In order for the study to have value, it must have a high level of validity and reliability. Validity of the research refers to the accuracy, meaningfulness and credibility of the study as a whole (Leedy and Ormrod 2001).

3.9.1 External validity

External validity refers to the extent to which findings may be generalised (Leedy and Omrod 2001). This implies that the sample is representative of the population (Leedy and Omrod 2001). However, the intent for qualitative research is not to be able to infer the findings onto the population, rather, it is an attempt to interpret the experiences from a unique perspective (Creswell 1994). The validity criterion to be used in this research is that it is cogent and plausible. In addition, the external validity of this research is enhanced in that it takes place in "A real-life setting" (Leedy and Omrod 2001).

3.9.2 Internal validity

"Internal validity refers to the extent to which the researcher is able to draw accurate conclusions from the study. In order to ensure content validity adequate coverage of the topic being researched must be achieved by the use of the measuring instrument with high levels of validity, coupled with statistical techniques" (Leedy and Ormrod 2001). Further, internal validity is important as it attempts to, "minimise alternative explanations for the results obtained" (Leedy and Ormrod 2001).

Essentially, internal validity is a check to ensure that the study will bear the same results if the same methodology was used on the same sector but in a different time.

The internal validity of this research was improved by:

- Using generally accepted industry benchmark indicators;
- Using both South African Generally Accepted Accounting Practice (SA GAAP) and International Financial Reporting Standards (IFRS) to ensure comparability of accounting information.
- Using the JSE listing requirements;
- Using publically available data for:
  - Remuneration;
  - Firm performance; and

    - Governance considerations
- Checking disclosed information against several different sources.

3.9.3 Reliability

Reliability examines how consistent results are within a study (Leedy and Ormrod 2001). Several reliability checks will be put in place, in particular on the various data used. Reliability deals with the research procedures accuracy and precision.

This study is limited in the extent to which it might be reliable, given that it is unlikely that the same study conducted in a different context would reach exactly the same conclusions. However, the researcher attempted to improve the chance of replication by operating in a systematic manner.

Several checks will be performed to verify the validity and reliability of the data collected.

Firstly, a random sample will be drawn from the unfiltered sample and checked against the AFS issued by the company.

Secondly, the various sets of financial data provided by BFA-McGregors will be checked against data from I-Net Bridge and will also be subjected to random checks and the accuracy of the data measured against other data source from the Standard Bank Online Share Trading Platform. Data discrepancies were re-checked against AFS. If no certainty can be found, the data from the audited and approved AFS will be accepted as valid.

Several internal checks will also be made. For example, the market capitalisation of a company will be matched against its shares in issue multiplied by its share price to check whether these are the same.

CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

In the previous chapter the research design and methodology were presented, in this chapter the results of the data analysis are described and presented. The primary objective of this study is to determine whether there is correlation between:

- Firm performance and executive remuneration; and
- Corporate governance compliance and executive remuneration.

4.2 Demographic profile of sample

The sample data consists of 9 companies selected from the McGregor BFA JSE listed company's database, which met the following requirements:

- company was listed on the JSE for each year between 2002 and 2008;
- company's published annual financial statements are available;
- company was listed in the financial services industry sector; and
- company had a South African retailing banking component within its operations.

Table 5: List of companies selected

No	Company	CEO	Fin. Yr. End
1	African Bank Investments Limited	L Kirkinis	30 September
2	ABSA Group Limited	NR Bosman SF Booysen	31 March (until 2005) then changed to 31 December
3	Capitec Bank Holdings Limited	MS du Pré le Roux R Stassen	28 February
4	FirstRand Limited	LL Dippenaar PK Harris	30 June
5	Investec Limited	S Koseff	31 March
6	Mercantile Bank Holdings Limited	RJ Symmonds R Ribas (Acting CEO) DJ Brown	31 December
7	Nedbank Group Limited	RCM Laubscher TA Boardman	31 December
8	RMB Holdings Limited	P Cooper	30 June
9	Standard Bank Group Limited	J Maree	31 December

4.3 Company history and CEO remuneration

This subsection details the remuneration of each CEO over the period of review for each company selected. In addition, a brief summary of the company's history and nature of operations will also be provided. To present insight into the individual's skill and experience, summarised curriculum vitae of each CEO is provided. The analysis has been performed on an individual basis for each CEO's tenure at respective organisation.

4.3.1 African Bank Investments Limited - ABL

African Bank Investments Limited (ABL) is a holding company of a banking business which operates within the Republic of South Africa, Zambia, Botswana, Lesotho, Namibia and Swaziland. ABL offers long and short term loans and credit card products to a predominantly formally employed and banked mass market.

The ABL operates through two primary businesses being, the retailing of furniture and appliances for cash and credit via Ellerines Holdings, and the underwriting of unsecured credit, through the provision of personal loans via African Bank. ABL has three segments being: The banking unit, which provides credit and insurance through African Bank Limited and Standard General Insurance Company Limited; Ellerines retail, which retails furniture, appliances and related services through Ellerine Furnishers (Proprietary) Limited, and Ellerines financial services, which provides credit and insurance through Ellerine Furnishers (Proprietary) Limited, Relyant Life Assurance Company Limited and Relyant Insurance Company Limited.

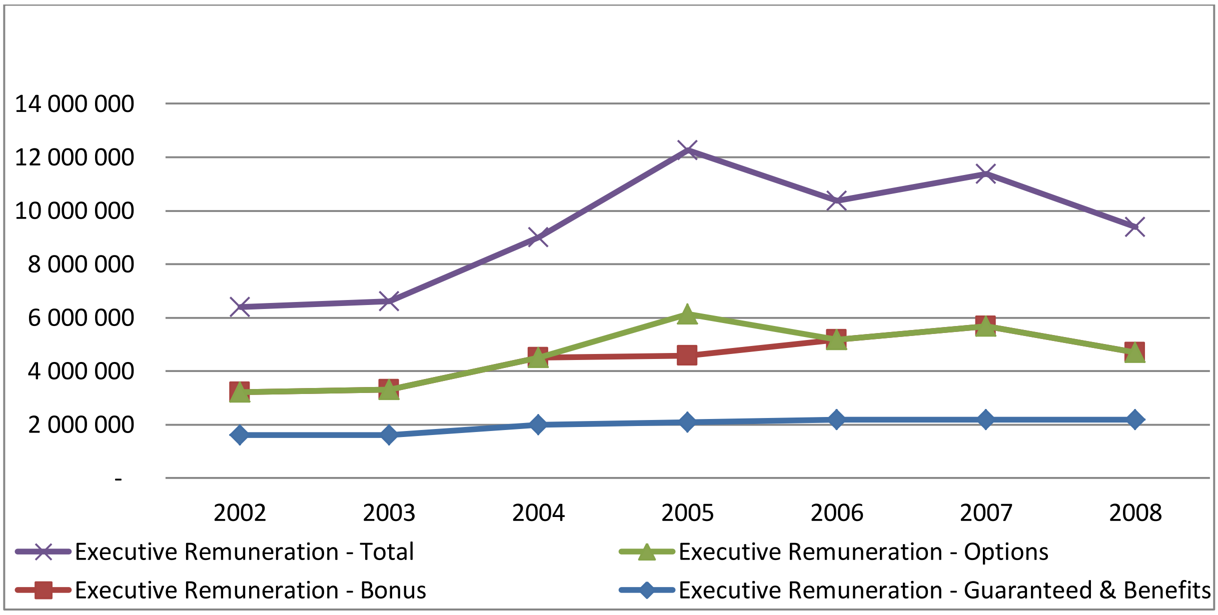
Leonidas Kirkinis (Kirkinis) is the Chief Executive Officer of the ABL group, however Gordon Schachat was appointed as Executive Deputy Chairman as from 2008. For this study, only Kirkinis's remuneration was used in the analysis of executive remuneration.

Kirkinis holds a BComm, BAcc and CA(SA). Kirkinis began his career in merchant banking where he became a specialist in mechanisms to channel finance from formal capital markets to the development sector. In 1993 he founded Theta Securities, a specialist finance house, and was MD of the company. In 1997 Theta became African Bank Investments Limited and two years after that (1999) Kirkinis was appointed to his present position. African Bank Limited provides unsecured term finance to the formally employed mass market.

Table 6: Kirkinis - Executive Remuneration - ABL

Kirkinis: African Bank Investment Limited - ABL	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Performance Bonus	1 600	1 700	2 500	2 500	3 000	3 500	2 500
Share Gains	-	-	-	-	-	-	-
Other Benefits	-	-	-	-	-	-	5
Guaranteed Total CTC	1 600	1 600	2 000	2 080	2 185	2 184	2 184
TOTAL REMUNERATION	**3 200**	**3 300**	**4 500**	**4 580**	**5 185**	**5 684**	**4 689**
% Change (Excluding Share Gains)		**3.1%**	**36.4%**	**1.8%**	**13.2%**	**9.6%**	**-17.5%**
% Change (Guaranteed Total CTC)		**0.0%**	**20.0%**	**3.8%**	**4.8%**	**0.0%**	**0.0%**
Remuneration components							
Performance Bonus	50.0%	51.5%	55.6%	54.6%	57.9%	61.6%	53.3%
Share Gains	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Benefits	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Guaranteed Total CTC	50.0%	48.5%	44.4%	45.4%	42.1%	38.4%	46.6%
TOTAL REMUNERATION	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Figure 2: Kirkinis - Executive Remuneration - ABL



4.3.2 ABSA Group Limited - ASA

Established in 1991 as a result of the amalgamation of several small banks (United Building Society, Allied Bank, Trust Bank and Volkskas Bank), ABSA Group Limited (Absa) has grown to become a leading South Africa-based financial services organization offering a range of banking, insurance and wealth management products and services. Absa's business is conducted primarily in South Africa. Absa also has equity holdings in banks in Mozambique and Tanzania and representative offices in Namibia and Nigeria. Absa is a subsidiary of Barclays Bank PLC (Barclays) owning 58,62% in May 2005. Barclays is a global financial service provider engaged in retail banking, credit cards, corporate and investment banking, and wealth management with an international presence. Absa operates in four segments being retail banking, commercial banking, investment banking and wealth management, through two wholly-owned subsidiaries being, ABSA Bank Limited and ABSA Financial Services Limited.

For the period under review, the Absa Group had two CEO's as listed below:

2002 - 2004 NR Bosman

2004 – 2008 SF Booysen

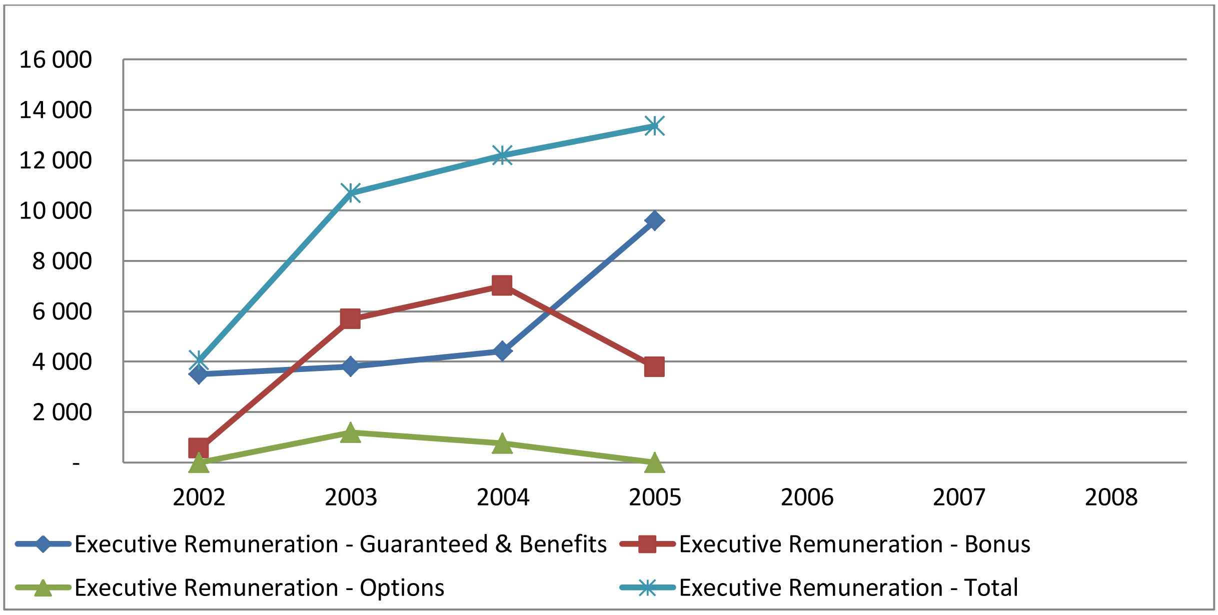
During the period under review, the Absa Group changed its financial year from 31 March to 31 December. This change occurred in during the 2004 and 2005 reporting periods.

ER "Nallie" Bosman (Bosman) holds a BCom (Hons), MBL and Diploma in Banking, (Fellow of the Institute of Bankers of South Africa) FIBSA. Bosman joined Volkskas in 1963 and held various positions in Volkskas Bank. He was appointed managing director of United Bank in 1987, Group managing director of Absa in 1997 and Group Chief Executive of Absa in 2000. Bosman retired on 1 August 2004.

Table 7: Bosman: Executive Remuneration - ASA

Bosman: ABSA Group Limited - ASA	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Performance Bonus	558	5693	7007	3775			
Share Gains	-	1 191	756	-			
Other Benefits	705	706	0	0			
Guaranteed Total CTC	2798	3097	4423	9601			
TOTAL REMUNERATION	**4 061**	**10 687**	**12 186**	**13 376**			
% Change (Excluding Share Gains)		**133.8%**	**20.4%**	**17.0%**			
% Change (Guaranteed Total CTC)		**9.7%**	**30.0%**	**53.9%**			
Percentage of components	4 061	10 687	12 186	13 376			
Performance Bonus	13.7%	53.3%	57.5%	28.2%			
Share Gains	0.0%	11.1%	6.2%	0.0%			
Other Benefits	17.4%	6.6%	0.0%	0.0%			
Guaranteed Total CTC	68.9%	29.0%	36.3%	71.8%			
TOTAL REMUNERATION	**100.0%**	**100.0%**	**100.0%**	**100.0%**			

Figure 3: Bosman: Executive Remuneration - ASA



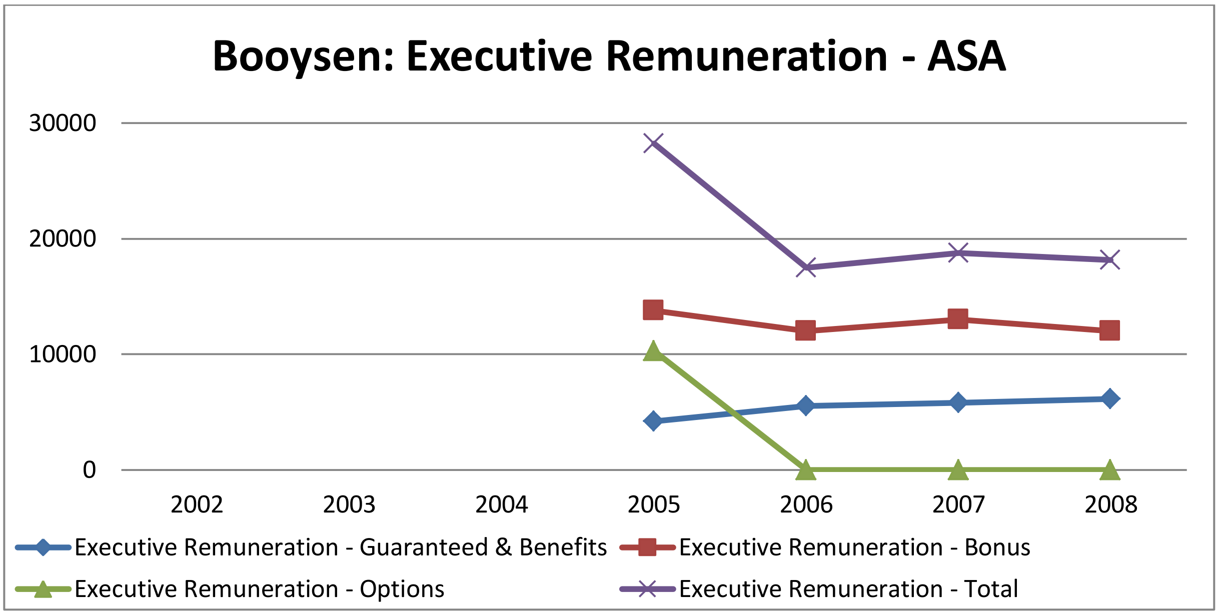
SF “Steve” Booysen holds a DCom (Acc) and CA(SA). Booysen completed his articles with Ernst & Young in 1983, before becoming a senior lecturer in accounting at the University of South Africa (1983 - 1988). He joined the Absa Group (Trust Bank) in 1988 and held various positions in the Group until he was appointed as Group Chief Executive of Absa in August 2004. He is an honorary professor in the School of Accounting at the University of Pretoria. Dr Booysen resigned from the Absa Group Board on 28 February 2009.

Table 8: Booysen: Executive Remuneration - ASA

Booysen: ABSA Group Limited - ASA	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Executive Remuneration							
Performance Bonus				13 782	12 000	13 000	12 000
Share Gains				10 295	-	-	-
Other Benefits				-	379	-	-
Guaranteed Total Cost To Company				4 162	5 121	5 774	6 153
TOTAL REMUNERATION				**28 239**	**17 500**	**18 774**	**18 153**
% Change (Excluding Share Gains)					**-2.5%**	**7.3%**	**-3.3%**
% Change (Guaranteed Total CTC)					**18.7%**	**11.3%**	**6.2%**

Booysen: ABSA Group Limited - ASA	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Percentage of components							
Performance Bonus				48.8%	68.6%	69.2%	66.1%
Share Gains				36.5%	0.0%	0.0%	0.0%
Other Benefits				0.0%	2.2%	0.0%	0.0%
Guaranteed Total Cost To Company				14.7%	29.3%	30.8%	33.9%
TOTAL REMUNERATION				**100.0%**	**100.0%**	**100.0%**	**100.0%**

Figure 4: Booysen: Executive Remuneration - ASA



4.3.3 Capitec Bank Holdings Limited - CPI

Established on 1 March 2001, Capitec Bank Holdings Limited (CPI) is a bank controlling company, which was listed on the JSE on 18 February 2002. The bank focuses on providing accessible and affordable banking service. CPI's subsidiaries are involved in retail banking and the wholesale distribution of consumer goods. The Company operates in two business segments being banking, which is engaged in providing retail banking services, including savings, deposits, debit cards and consumer loans to individuals, and wholesale distribution which consists of the wholesale distribution of fast moving consumer goods.

For the period under review, Capitec Bank Holdings Limited had two CEO's as listed below:

2002 - 2004 MS Le Roux

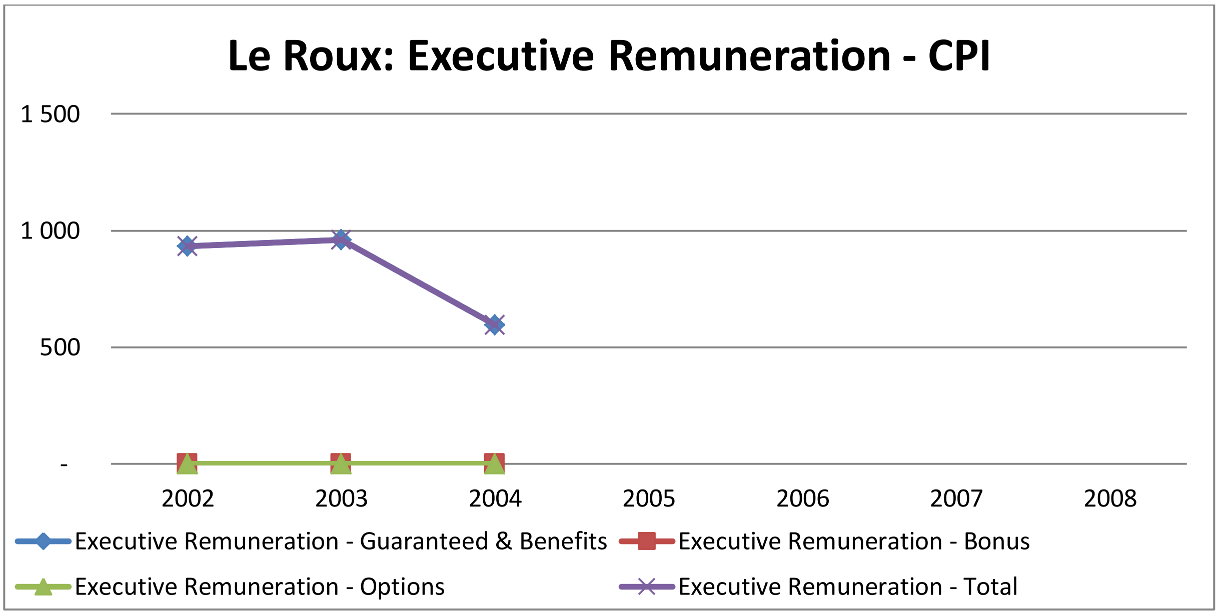
2004 – 2008 R Stassen

Michiel Scholtz du Pré le Roux (Le Roux) founded Capitec and Capitec Bank Limited and served as Chief Executive Officer of Capitec Bank Limited from March 2001 to 31 March 2004. Le Roux has been the Chairman of Capitec and Capitec Bank Holding Limited from April 2004 and also serves as a Non-executive Director of Capitec Bank. Le Roux served as Managing Director of Distillers Corporation (SA) Limited from 1979 to 1993. From 1995 to 1998, he served as Managing Director of Boland Bank Limited, NBS Boland Limited and BoE Bank Limited. Le Roux received B Com and LLB from Stellenbosch University in 1972.

Table 9: Le Roux: Executive Remuneration - CPI

Le Roux: Capitec Bank Holdings Limited - CPI	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Performance Bonus	-	-	-				
Share Gains	-	-	-				
Other Benefits	6	196	7				
Guaranteed Total CTC	928	764	587				
TOTAL REMUNERATION	**934**	**960**	**594**				
% Change (Excluding Share Gains)		**2.8%**	**-38.1%**				
% Change (Guaranteed Total CTC)		**-21.5%**	**-30.2%**				
Percentage of components							
performance Bonus	0.0%	0.0%	0.0%				
Share Gains	0.0%	0.0%	0.0%				
Other Benefits	0.6%	20.4%	1.2%				
Guaranteed Total CTC	99.4%	79.6%	98.8%				
TOTAL REMUNERATION	**100.0%**	**100.0%**	**100.0%**				

Figure 5: Le Roux: Executive Remuneration - CPI



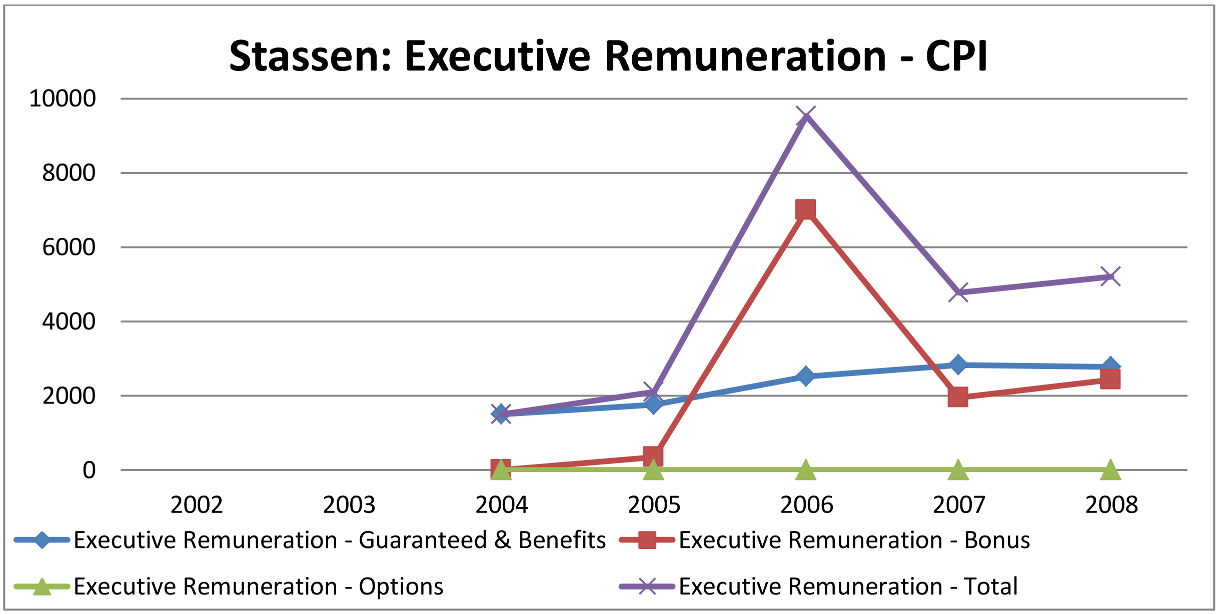
Riaan Stassen (Stassen) joined Capitec Bank as the Managing Director in 2000. In 2001 Stassen was appointed Deputy Chief Executive Officer of Capitec Bank Holdings Limited. He was appointed Chief Executive Office Capitec Bank Holdings Limited effective March 2004. Stassen holds a BCom (Hons) and CA(SA). Prior to joining Capitec, Stassen worked at Boland and BOE banks.

Table 10: Stassen: Executive Remuneration - CPI

Stassen: Capitec Bank Holdings Limited - CPI	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Performance Bonus			-	337	7 000	1 950	2 431
Share Gains			-	-	-	-	-
Other Benefits			9	270	278	248	249
Guaranteed Total CTC			1 494	1 489	2 243	2 576	2 529
TOTAL REMUNERATION			**1 503**	**2 096**	**9 521**	**4 774**	**5 209**
% Change (Excluding Share Gains)				**39.5%**	**354.2%**	**-49.9%**	**9.1%**
% Change (Guaranteed Total CTC)				**-0.3%**	**33.6%**	**12.9%**	**-1.9%**

Stassen: Capitec Bank Holdings Limited - CPI	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Percentage of components							
Performance Bonus			0.0%	16.1%	73.5%	40.8%	46.7%
Share Gains			0.0%	0.0%	0.0%	0.0%	0.0%
Other Benefits			0.6%	12.9%	2.9%	5.2%	4.8%
Guaranteed Total CTC			99.4%	71.0%	23.6%	54.0%	48.6%
TOTAL REMUNERATION			**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Figure 6: Stassen: Executive Remuneration - CPI



4.3.4 FirstRand Limited - FSR

These investments are in First National Bank, Rand Merchant Bank, Wesbank and Momentum.

FirstRand Limited (FirstRand) is an integrated financial services company consisting of a portfolio of investments in financial services companies across banking, insurance, asset management and health operations. FirstRand investments are in First National Bank (FNB), Rand Merchant Bank (RMB), Wesbank, Momentum and Discovery Health.

FNB offers a diverse set of financial products and services to the retail and corporate market segments. FNB's products include mortgage loans, credit and debit cards, personal loans and investment products. RMB provides diversified financial services and products, encompassing investment banking, fund management, private wealth management and advisory services. WesBank provides full service instalment credit finance to both the retail and corporate market, including asset based finance, fleet management solutions, personal loans, vehicle recovery, car care products and the financing of capital equipment.

For the period under review, FirstRand Limited had two CEO's as listed below:

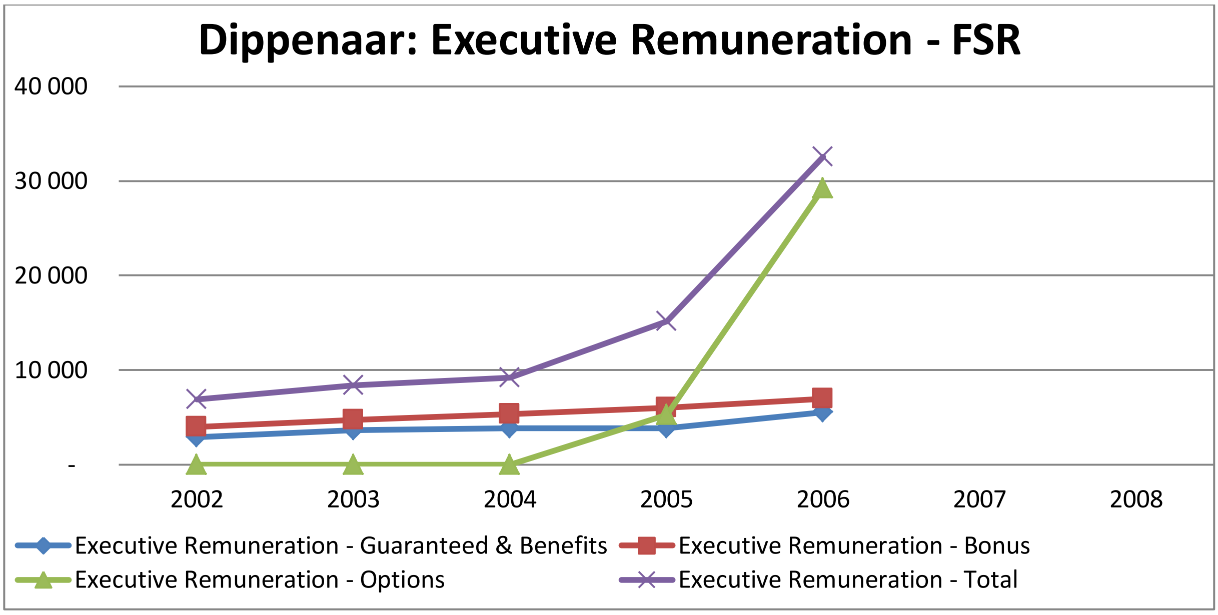
2002 - 2006	LL Diepenaar
2006 – 2008	PK Harris

Lauritz "Laurie" Lanser Dippenaar (Dippenaar) was appointed CEO of the FirstRand group in 1998. Dippenaar graduated from Pretoria University and qualified as a chartered accountant with Aiken & Cater (now KPMG). Dippenaar worked at the Industrial Development Corporation before co-founding Rand Consolidated Investments (RCI) in 1977. In 1985 when RCI acquired control of Rand Merchant Bank (RMB) Dippenaar became an Executive Director. He was appointed Managing Director of RMB in 1988, a position he held until 1992 when he was appointed CEO of RMB Holdings (RMBH). This was after RMB acquired a controlling interest in Momentum Life Assurers. In 1998, Dippenaar was appointed CEO of FirstRand Limited until the end of 2005 when he assumed a non-executive role.

Table 11: Dippenaar: Executive Remuneration - FSR

Dippenaar - Executive Remuneration - FSR	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Performance Bonus	4 000	4 750	5 350	6 000	-		
Share Gains	-	-	-	5 286	29 264		
Other Benefits	-	-	-	685	1 090		
Guaranteed Total CTC	2 933	3 640	3 821	3 165	2 196		
TOTAL REMUNERATION	**6 933**	**8 390**	**9 171**	**15 136**	**32 550**		
% Change (Excluding Share Gains)		**21.0%**	**9.3%**	**7.4%**	**-66.6%**		
% Change (Guaranteed Total CTC)		**19.4%**	**4.7%**	**-20.7%**	**-44.1%**		
Percentage of components							
Performance Bonus	57.7%	56.6%	58.3%	39.6%	0.0%		
Share Gains	0.0%	0.0%	0.0%	34.9%	89.9%		
Other Benefits	0.0%	0.0%	0.0%	4.5%	3.3%		
Guaranteed Total CTC	42.3%	43.4%	41.7%	20.9%	6.7%		
TOTAL REMUNERATION	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**		

Figure 7: Dippenaar: Executive Remuneration - FSR



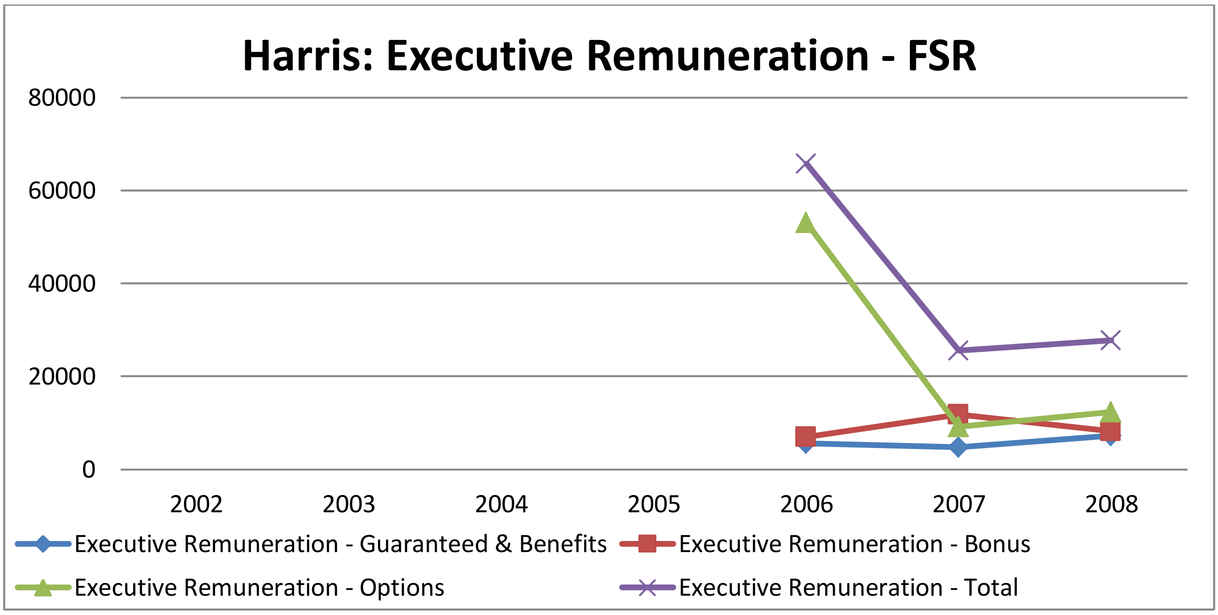
Paul Kenneth Harris (Harris) was the Chief Executive Office of the FirstRand over the period of this review. Harris has holds a MCom, and was appointed to the RMB Board in 1991 and then Chief Executive Office in 1992. Harris co-founded Rand Consolidated Investments (RCI) in 1977. In 1985 when RCI acquitted control of Rand Merchant Bank (RMB) Harris became an Executive

Director. He spent four years in Australia where he founded Australian Gilt Securities (later to become RMB Australia) and returned to South Africa in 1991 as deputy managing director of RMB. In 1992, he took over as chief executive officer. Subsequent to the formation of FirstRand, he was appointed chief executive officer of FirstRand Bank Holdings in 1999, a position he held until December 2005 when he was appointed chief executive officer of FirstRand Limited.

Table 12: Harris: Executive Remuneration - FSR

Harris - Executive Remuneration - FSR	2002	2003	2004	2005	2006	2007	2008
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Performance Bonus					7 000	11 750	8 200
Share Gains					82 431	9 129	12 353
Other Benefits					2 220	-	2 000
Guaranteed Total CTC					6 642	4 703	5 200
TOTAL REMUNERATION					**98 293**	**25 582**	**7 753**
% Change (Excluding Share Gains)					**61.0%**	**3.7%**	**-6.4%**
% Change (Guaranteed Total CTC)					**52.3%**	**-41.2%**	**9.6%**
Percentage of components							
Performance Bonus					7.1%	45.9%	29.5%
Share Gains					83.9%	35.7%	44.5%
Other Benefits					2.3%	0.0%	7.2%
Guaranteed Total CTC					6.8%	18.4%	18.7%
TOTAL REMUNERATION					**100.0%**	**100.0%**	**100.0%**

Figure 8: Harris: Executive Remuneration – FSR



4.3.5 Investec Group Limited - INL

Investec Group Limited is an International specialised banking group which provides a range of financial products and services to a select customer base. Investec Group Limited consists of Investec PLC and Investec Limited. The group operates six business divisions being: Private Client Activities, Capital Markets, Investment Banking, Wealth and Investment, Asset Management and Property Activities. The Investec Group is a dual listed entity with the primary listing on the JSE with a secondary listing on the London Stock Exchange. The Company provides a range of financial products and services to a niche client base in three principal markets, the United Kingdom, South Africa and Australia.

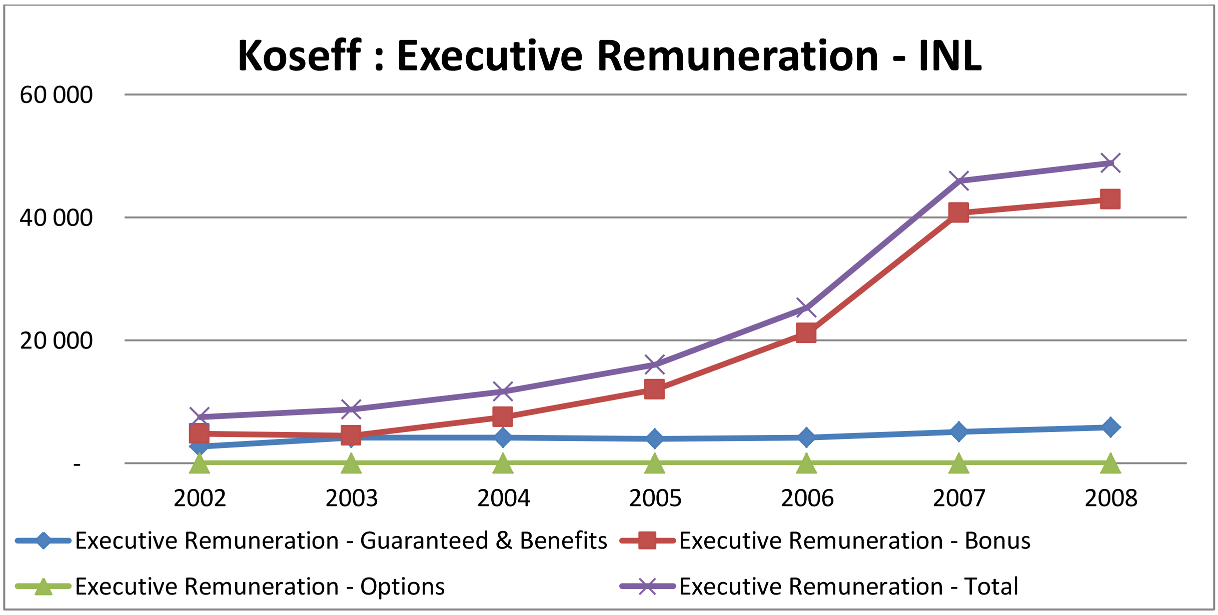
The group CEO since 1997 has been Stephen Koseff (Koseff). Koseff holds a BCom (Accounting), MBA and CA(SA). He joined Investec in 1980 and his experience within the group includes Chief Accounting Officer & General Manager of Banking, Treasury & Merchant Banking. He is also a non-executive Director of Bidvest Group Limited.

For this analysis Koseff's total remuneration as CEO of Investec Group Limited (including Investec PLC) has been used. Further, as from 2003, Koseff has been paid in Pounds, consequently his remuneration has been converted at the average R/£ exchange rate as per the Investec Group AFS.

Table 13: Koseff: Executive Remuneration - INL

Koseff: Executive Remuneration - INL	2002	2003	2004	2005	2006	2007	2008
	R'000	£'000	£'000	£'000	£'000	£'000	£'000
Performance Bonus	4 800	300	625	1 050	1 850	3 050	2 900
Share Gains	-	-	-	-	-	-	-
Other Benefits	481	32	38	83	77	69	74
Guaranteed Total Cost To Company	2 269	248	312	267	288	316	324
TOTAL REMUNERATION	**7 550**	**580**	**975**	**1 400**	**2 215**	**3 435**	**3 298**
Average R/£ Exchange Rate per AFS	**1**	**15.04**	**12.02**	**11.47**	**11.43**	**13.38**	**14.83**
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Performance Bonus	**4 800**	**4 512**	**7 513**	**12 044**	**21 146**	**40 809**	**43 007**
Share Gains	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other Benefits	**481**	**477**	**461**	**948**	**884**	**928**	**1 094**
Guaranteed Total Cost To Company	**2 269**	**3 734**	**3 746**	**3 067**	**3 288**	**4 223**	**4 801**
TOTAL REMUNERATION	**7 550**	**8 723**	**11 720**	**16 058**	**25 317**	**45 960**	**48 902**
% Change (Excluding Share Gains)		**13.4%**	**25.6%**	**27.0%**	**36.6%**	**44.9%**	**6.0%**
% Change (Guaranteed Total CTC)							
Percentage of remuneration components							
Performance Bonus	63.6%	51.7%	64.1%	75.0%	83.5%	88.8%	87.9%
Share Gains	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Benefits	6.4%	5.5%	3.9%	5.9%	3.5%	2.0%	2.2%
Guaranteed Total Cost To Company	30.1%	42.8%	32.0%	19.1%	13.0%	9.2%	9.8%
TOTAL REMUNERATION	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Figure 9: Koseff: Executive Remuneration - INL



4.3.6 Mercantile Bank Holdings Limited - MTL

Mercantile Bank Holdings Limited is a registered bank and investment holding company, controlled by CGD (Caixa Geral de Depositos S.A), a company registered in Portugal. The South African holding company has two wholly-owned subsidiaries being:

Mercantile Bank Limited which provides a full range of banking services within selected retail, commercial and corporate niche markets; and

Mercantile Insurance Brokers (Pty) Limited offers life and short-term broking services to the Mercantile group of companies and external parties, through third-party agreements.

For the period under review, Mercantile Bank Holdings Limited had three CEO's as listed below:

2002 - 2003 RJ Symmonds (up to August 2003)

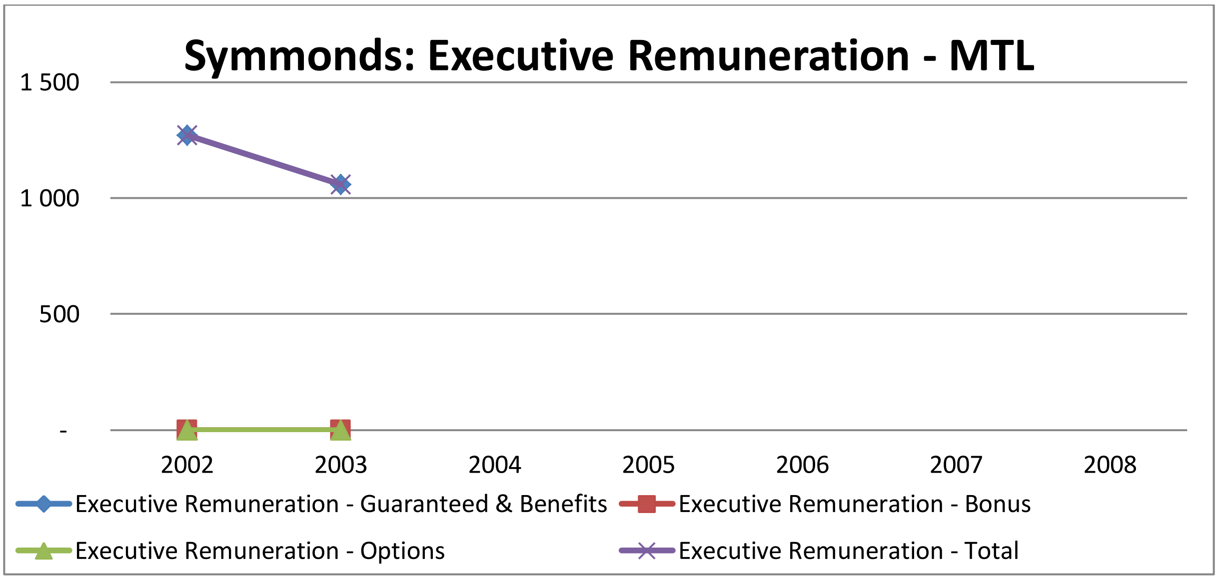
2003-2004	RML de FN Ribas (Acting CEO – August 2003 – March 2004)
2004 – 2008	DJ Brown (from 31 March 2004)

Robert John Symmonds (Symmonds) was appointed Managing Director of Mercantile Bank Limited on 28 June 2001. Symmonds resigned at the end of August 2003.

Table 14: Symmonds: Executive Remuneration - MTL

Symmonds: Mercantile Bank Holdings Limited - MTL	2002	2003	2004	2005	2006	2007	2008
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Executive Remuneration							
Performance Bonus							
Share Gains							
Other Benefits							
Guaranteed Total Cost To Company	1 271	1 060					
TOTAL REMUNERATION	**1 271**	**1 060**					
% Change (Excluding Share Gains)		**-16.6%**					
% Change (Guaranteed Total CTC)		**-19.9%**					
Percentage of components							
Performance Bonus	0.0%	0.0%					
Share Gains	0.0%	0.0%					
Other Benefits	0.0%	0.0%					
Guaranteed Total Cost To Company	100.0%	100.0%					
TOTAL REMUNERATION	**100.0%**	**100.0%**					

Figure 10: Symmonds: Executive Remuneration - MTL

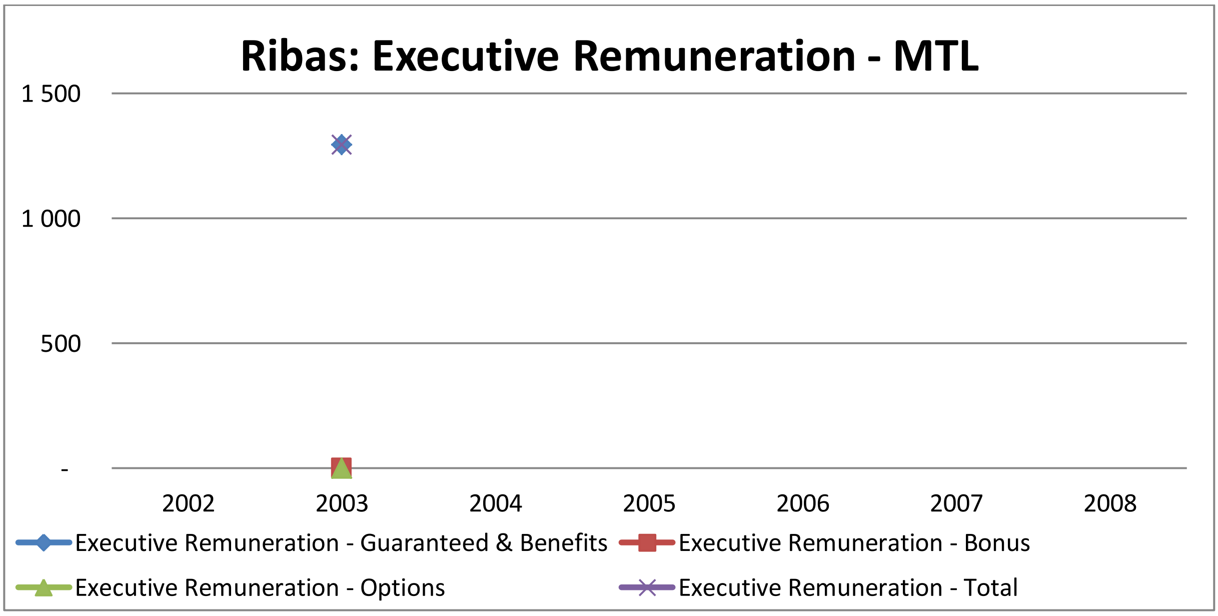


Dr. RML de FN Ribas was appointed to the board on 22 June 2002 and was appointed as Acting CEO between August 2003 and March 2004. No other information is disclosed about Dr. Ribas in the Annual Financial Statement of Mercantile Bank Holdings Limited.

Table 15: Ribas: Executive Remuneration - MTL

RIBAS: Mercantile Bank Holdings Limited - MTL	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Executive Remuneration							
Performance Bonus							
Share Gains							
Other Benefits							
Guaranteed Total Cost To Company		1 296					
TOTAL REMUNERATION		**1 296**					
% Change (Excluding Share Gains)							
% Change (Guaranteed Total CTC)							
Percentage of components							
Performance Bonus		0.0%					
Share Gains		0.0%					
Other Benefits		0.0%					
Guaranteed Total Cost To Company		100.0%					
TOTAL REMUNERATION		**100.0%**					

Figure 11: Ribas: Executive Remuneration - MTL

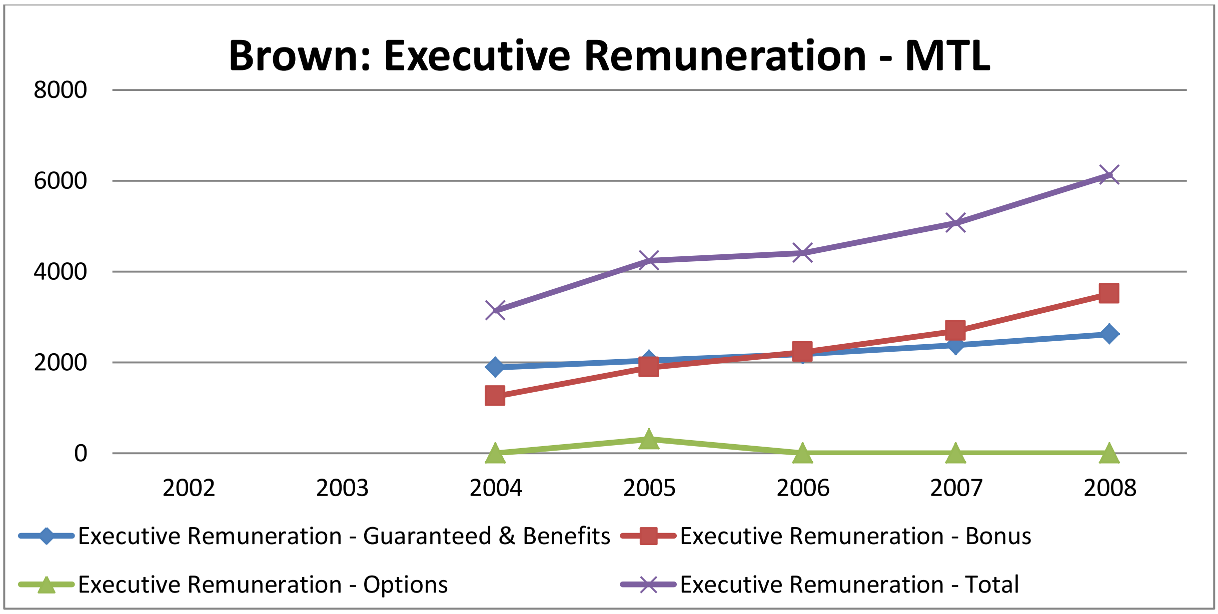


DJ Brown (Brown) was appointed CEO of the holding company on 31 March 2004 taking over from the acting CEO Ribas. Brown holds a B.Com, MBA and CA(SA). Brown attended the Management Development Programme at the School of Business Leadership and the Advance Management Program at Harvard Business School. Prior to joining Mercantile, Brown spent 30 years within Standard Bank Group where he held various positions including Managing Director positions of Stanbic Bank Botswana, Stanbic Bank Zambia, Stannic Asset Finance and Standard Bank Commercial Banking Division.

Table 16: Brown: Executive Remuneration - MTL

Brown: Mercantile Bank Holdings Limited - MTL	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Executive Remuneration							
Performance Bonus			1 250	1 881	2 215	2 681	3 500
Share Gains			-	311	-	-	-
Other Benefits			-	-	-	-	-
Guaranteed Total CTC			1 889	2 042	2 184	2 382	2 619
TOTAL REMUNERATION			**3 139**	**4 234**	**4 399**	**5 063**	**6 119**
% Change (Excluding Share Gains)				**25.0%**	**12.1%**	**15.1%**	**20.9%**
% Change (Guaranteed Total CTC)				**7.5%**	**6.5%**	**8.3%**	**9.0%**
Percentage of components							
Performance Bonus			39.8%	44.4%	50.4%	53.0%	57.2%
Share Gains			0.0%	7.3%	0.0%	0.0%	0.0%
Other Benefits			0.0%	0.0%	0.0%	0.0%	0.0%
Guaranteed Total CTC			60.2%	48.2%	49.6%	47.0%	42.8%
TOTAL REMUNERATION			**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Figure 12: Brown: Executive Remuneration - MTL



4.3.7 Nedbank Group Limited - NED

Nedbank Group Limited (Nedbank) is a bank holding company that operates through its principal banking subsidiary, Nedbank Limited and a significant holding of 50,1% in Imperial Bank. Old Mutual PLC owns a controlling interest in Nedbank. Nedbank offers a range of wholesale and retail banking services through five main business units being; Nedbank Capital, Nedbank Corporate, Nedbank Business Banking, Nedbank Retail and Nedbank Wealth. The principal banking services offered by Nedbank Group comprise business, corporate and retail banking, property finance, investment banking, private banking, foreign exchange and securities trading. It also generates income from private equity, credit card issuing and processing services, custodial services, unit trust administration and asset management services. Nedbank Group also includes investment banking, global markets, treasury, transactional banking, property finance, Nedbank investor services, corporate shared services and Nedbank investor services.

For the period under review, the Nedbank Group Limited had two CEO's as listed below:

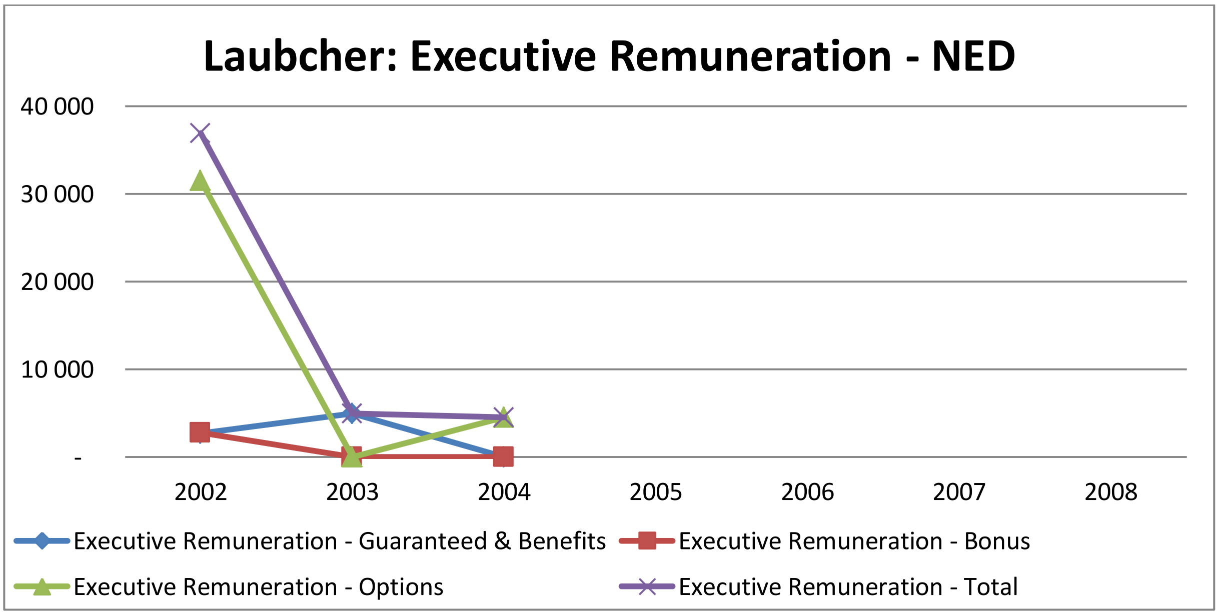
2002 - 2003	RCM Laubscher
2003 – 2008	TA Boardman

Richard Charles Montague Laubscher (Laubscher) spent his entire career at Nedcor and was a director of Nedcor Limited between 1992 and 2003. He was appointed Chief Executive Officer in 1994. Laubscher is a past President of the Institute of Bankers, South Africa and past Chairman of The Banking Council. Laubscher holds a BCom (Wits) and AMP (Harvard).

Table 17: Labuscher: Executive Remuneration - NED

Labuscher: Executive Remuneration - NED	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Performance Bonus	2 750	-	-				
Share Gains	31 493	-	4 535				
Other Benefits	38	1 929	-				
Guaranteed Total Cost To Company	2 654	3 009	-				
TOTAL REMUNERATION	**36 935**	**4 938**	**4 535**	**-**	**-**	**-**	**-**
% Change (Excluding Share Gains)		**-9.3%**					
% Change (Guaranteed Total CTC)		**11.8%**					
Percentage of components							
Performance Bonus	7.4%	0.0%	0.0%				
Share Gains	85.3%	0.0%	100.0%				
Other Benefits	0.1%	39.1%	0.0%				
Guaranteed Total Cost To Company	7.2%	60.9%	0.0%				
TOTAL REMUNERATION	**100.0%**	**100.0%**	**100.0%**				

Figure 13: Laubcher: Executive Remuneration - NED



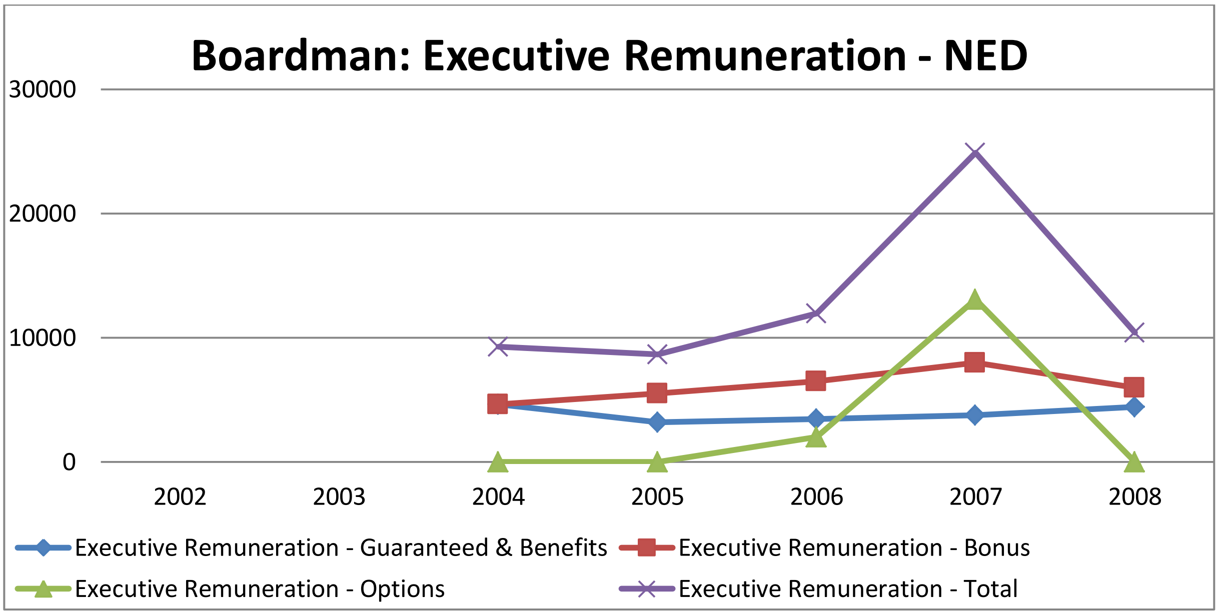
Thomas (Tom) Andrew Boardman (Boardman) was appointed the Chief Executive of Nedbank Group and Nedbank Limited in December 2003. Boardman holds a B.Com and CA(SA). He was appointed as a director at

Nedbank Limited in November 2002 and Chief Executive in December 2003. He was the former chief executive of BOE Limited and was a Director of the Banking Council in South Africa. Boardman spent four years with Anglo American Corporation and was appointed Financial Manager of Anglo American Properties. Boardman was also a Non-Executive Director of Mutual and Federal Insurance.

Table 18: Brown: Executive Remuneration - NED

Boardman : Executive Remuneration - NED	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Performance Bonus			4 650	5 500	6 500	8 000	6 000
Share Gains			-	-	1 999	13 103	-
Other Benefits			-	-	-	-	-
Guaranteed Total CTC			4 632	3 169	3 431	3 762	4 413
TOTAL REMUNERATION			**9 282**	**8 669**	**11 930**	**24 865**	**10 413**
% Change (Excluding Share Gains)				**-6.6%**	**37.6%**	**108.4%**	**-58.1%**
% Change (Guaranteed Total CTC)				**-46.2%**	**7.6%**	**8.8%**	**14.8%**
Percentage of components							
Performance Bonus			50.1%	63.4%	54.5%	32.2%	57.6%
Share Gains			0.0%	0.0%	16.8%	52.7%	0.0%
Other Benefits			0.0%	0.0%	0.0%	0.0%	0.0%
Guaranteed Total CTC			49.9%	36.6%	28.8%	15.1%	42.4%
TOTAL REMUNERATION			**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Figure 14: Brown: Executive Remuneration - NED



4.3.8 RMB Holdings Limited - RMH

RMB Holdings Limited (RMH) is a diversified financial services holding company with interests in banking and insurance assets. The banking assets are housed within the FirstRand Bank Holdings Limited, while the assurance assets are housed in the Momentum Group. The banking group consist of First National Bank, Rand Merchant Bank and WesBank. The holding company also has significant holdings in Discovery Holdings Limited, FirstRand STI Holdings Limited (OUTsurance) and RMB SI Investments (Pty) Ltd (RMB Structured Insurance).

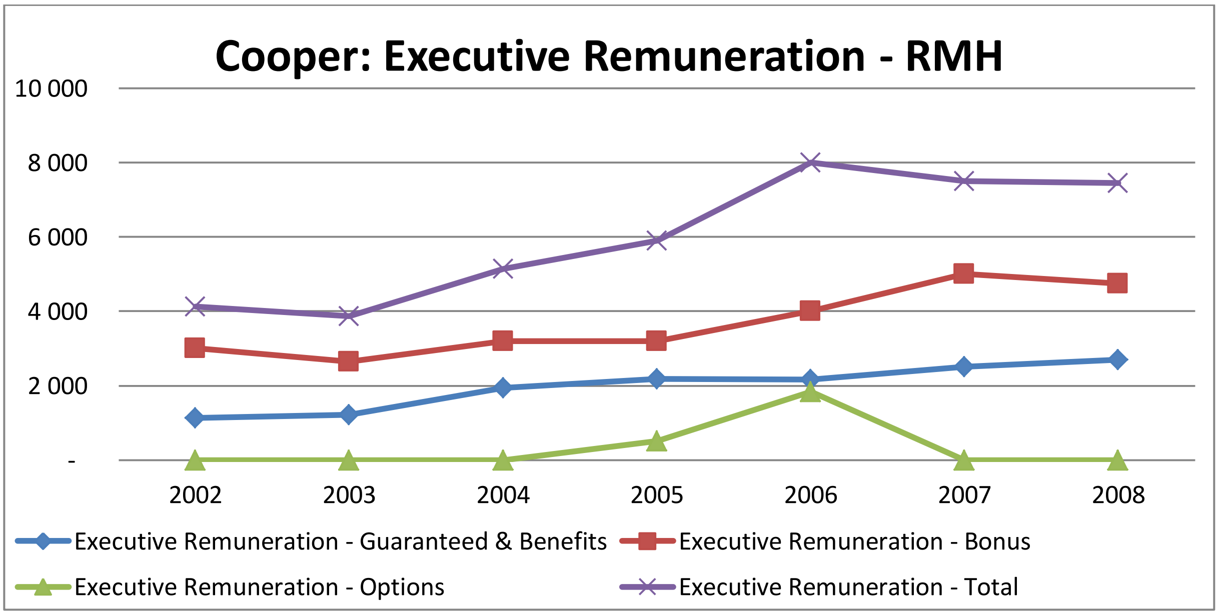
The Chief Operating Officer (COO) of the holding company over the period of this review was Peter Cooper (Cooper). Cooper is also the holding company's Financial Director. Cooper is the only executive director in the company and as such was deemed to be the chief executive for this study.

Cooper holds a B.Com (Hons), HDipTax and CA(SA). Cooper was appointed to the RMB Holdings Limited board in 1999. He joined the group in 1992.

Table 19: Cooper: Executive Remuneration - RMH

Cooper Executive Remuneration: RMH	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Performance Bonus	3 000	2 650	3 200	3 200	4 000	5 000	4 750
Share Gains	-	-	-	514	1 831	-	-
Other Benefits	196	216	407	398	426	456	493
Guaranteed Total CTC	926	1 001	1 528	1 786	1 742	2 050	2 211
TOTAL REMUNERATION	**4 122**	**3 867**	**5 135**	**5 898**	**7 999**	**7 506**	**7 454**
% Change (Excluding Share Gains)		**-6.2%**	**32.8%**	**4.8%**	**14.6%**	**21.7%**	**-0.7%**
% Change (Guaranteed Total CTC)		**7.5%**	**34.5%**	**14.4%**	**-2.5%**	**15.0%**	**7.3%**
Percentage of components							
Performance Bonus	72.8%	68.5%	62.3%	54.3%	50.0%	66.6%	63.7%
Share Gains	0.0%	0.0%	0.0%	8.7%	22.9%	0.0%	0.0%
Other Benefits	4.8%	5.6%	7.9%	6.7%	5.3%	6.1%	6.6%
Guaranteed Total Cost To Company	22.5%	25.9%	29.8%	30.3%	21.8%	27.3%	29.7%
TOTAL REMUNERATION	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Figure 15: Cooper: Executive Remuneration – RMH



4.3.9 Standard Bank Group Limited - SBK

Standard Bank Group Limited is the holding company for Standard Bank South Africa Limited, one of South Africa's big 4 retail banks. The Standard Bank Group is a dual listed entity with its primary listing is on the JSE and a secondary listing on the Namibian Stock Exchange.

Standard Bank offers a range of banking and related financial services within 30 countries across the globe, (17 in Africa and 13 offshore). Standard Bank has three core business units, being: personal and business banking; corporate and investment banking; as well as insurance and wealth management, through its investment in Liberty Holdings Limited.

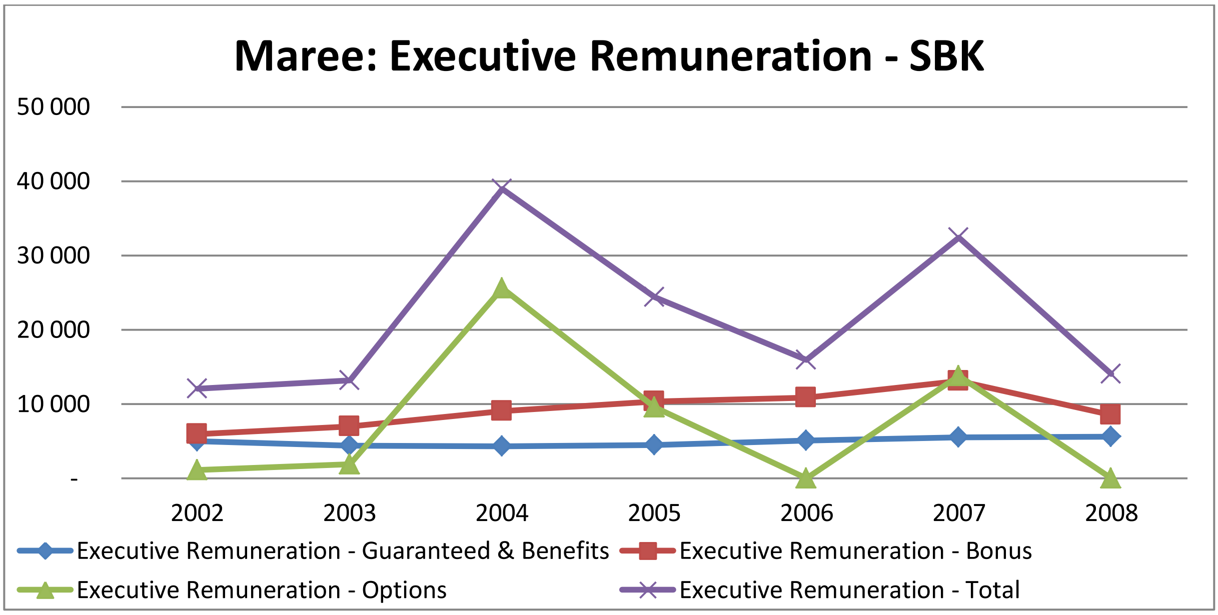
Jacko Maree (Maree) is Chief Executive of Standard Bank Group Limited, director of The Standard Bank of South Africa, Standard Bank PLC, Liberty Group, Liberty Holdings, Stanbic Africa, Stanbic IBTC Bank, SBIC Investments and chairman of Standard International Holdings. His career began in the corporate finance department of Standard Merchant Bank in 1980. He was appointed Managing Director of Standard Merchant Bank in 1991 and then Managing Director of the then newly formed Standard Corporate and Merchant Bank in 1995. In 1999, he was appointed Chief Executive of the Standard Bank Group. He is Chairman of The Banking Association (S.A.) and a former Director of the International Monetary Conference. Maree holds a B.Com (Stellenbosch), MA (Oxford) and PMD (Harvard).

Table 20: Maree: Executive Remuneration - SBK

Maree : Executive Remuneration - SBK	2002	2003	2004	2005	2006	2007	2008
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Performance Bonus	5 981	6 948	9 065	10 326	10 811	13 098	8 516
Share Gains	1 120	1 911	25 612	9 588	-	13 760	-
Other Benefits	158	152	168	175	-	335	273
Guaranteed Total CTC	4 813	4 197	4 106	4 331	5 118	5 197	5 292
TOTAL REMUNERATION	**12 072**	**13 208**	**38 951**	**24 420**	**15 929**	**32 390**	**14 081**
% Change (Excluding Share Gains)		**3.2%**	**18.1%**	**11.2%**	**7.4%**	**17.0%**	**-24.4%**
% Change (Guaranteed Total CTC)		**-14.7%**	**-2.2%**	**5.2%**	**15.4%**	**1.5%**	**1.8%**

Maree : Executive Remuneration - SBK	2002	2003	2004	2005	2006	2007	2008
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Percentage of components							
Performance Bonus	49.5%	52.6%	23.3%	42.3%	67.9%	40.4%	60.5%
Share Gains	9.3%	14.5%	65.8%	39.3%	0.0%	42.5%	0.0%
Other Benefits	1.3%	1.2%	0.4%	0.7%	0.0%	1.0%	1.9%
Guaranteed Total CTC	39.9%	31.8%	10.5%	17.7%	32.1%	16.0%	37.6%
TOTAL REMUNERATION	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Figure 16: Maree: Executive Remuneration - SBK



4.4 Results pertaining to Corporate Governance Compliance

As discussed above in Chapter 3, a corporate governance ranking index was constructed by the researcher. This index was used to rate each corporation's level of corporate governance compliance (Appendix A). The ranking index consists of 20 corporate governance factors, across 5 broad categories, being:

- Board composition;
- CEO;
- Remuneration and audit;
- Policy; and
- King II compliance statement

The rating scale that has been used to rate company compliance is as follows:

0 = Non-compliance

1 = Partial compliance – without explanations

2 = Partial compliance – with explanations

3 = Full compliance

This subsection provides the results of the ranking index for each company. Each category was assessed for each year of review using the above rating scale.

8 of the 9 companies in the sample achieve the maximum rating for compliance. The only exception was Mercantile Bank Holdings Limited. This research showed that the corporate governance compliance was therefore hygiene factor. The sample showed that corporate governance compliance was not optional and therefore all selected companies were fully compliant. This is attributable to the financial and bank sectors being highly regulated and these companies are often early adopters of regulations.

4.5 Results pertaining to Firm Performance

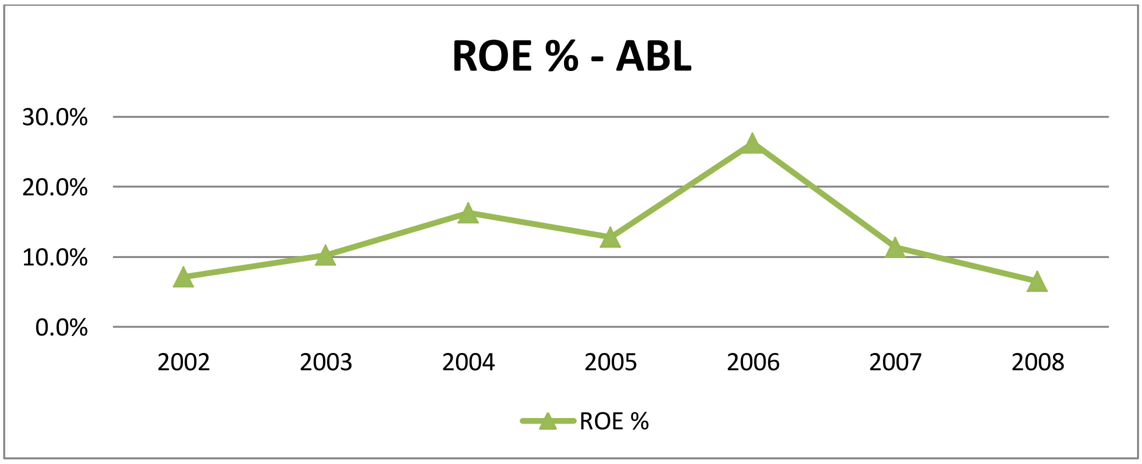
This section presents the results of the firm performance for each firm between 2002 and 2008. Firm performance is reflected by return on equity, calculated as profit attributable to ordinary shareholders divided by total shareholders' interest. The ROE is then graphed to show the year of year change.

4.5.1 African Bank Investments Limited - ABL

Table 21: Return on equity - ABL

Return on equity – ROE – ABL	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Profit attributable to ordinary shareholders	499	660	1 190	933	2 141	1 333	1 508
Total shareholders' interest	7 011	6 458	7 321	7 262	8 163	11 750	23 123
ROE %	7.1%	10.2%	16.3%	12.9%	26.2%	11.3%	6.5%

Figure 17: Return on equity – ABL

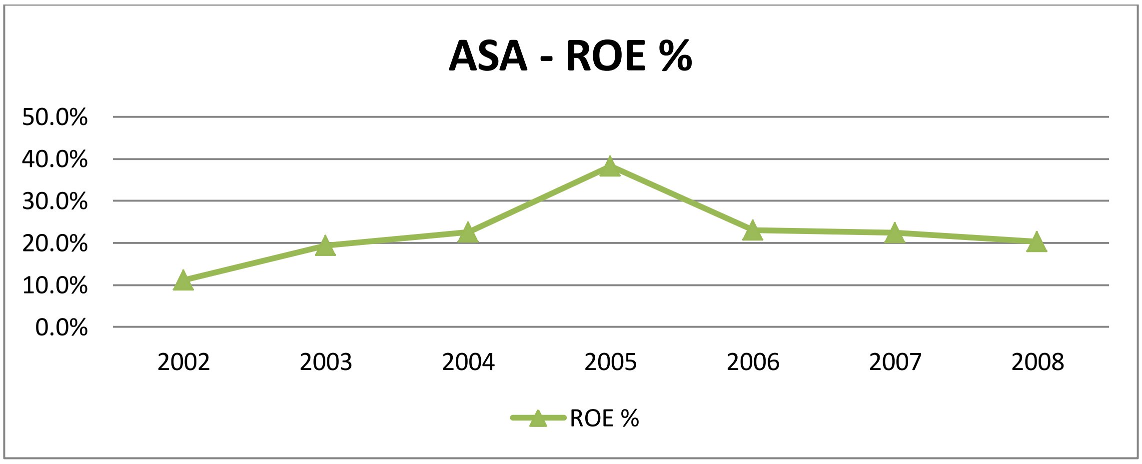


4.5.2 ABSA Group Limited - ASA

Table 22: Return on equity – ASA

Return on equity – ROE – ASA	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Profit attributable to ordinary shareholders	1 686	3 391	4 505	9 982	8 062	9 597	10 748
Total shareholders' interest	15 110	17 454	19 909	26 100	34 935	42 687	52 989
ROE %	**11.2%**	**19.4%**	**22.6%**	**38.2%**	**23.1%**	**22.5%**	**20.3%**

Figure 18: Return on equity – ASA

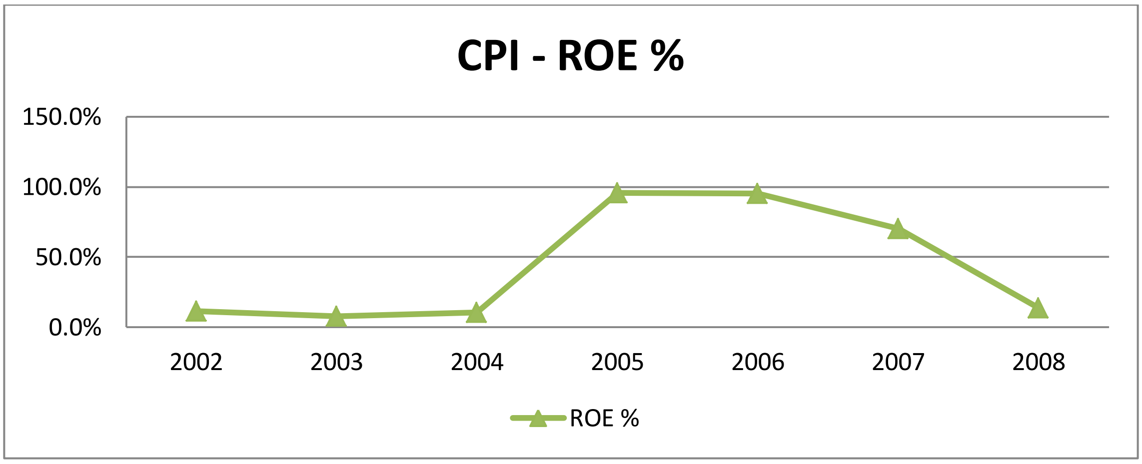


4.5.3 Capitec Bank Holdings Limited -CPI

Table 23: Return on equity – CPI

Return on equity – ROE –	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Profit attributable to ordinary shareholders	45	30	45	457	537	786	170
Total shareholders' interest	391	386	428	476	564	1 117	1 217
ROE %	**11.5%**	**7.8%**	**10.6%**	**95.9%**	**95.3%**	**70.3%**	**13.9%**

Figure 19: Return on equity – CPI

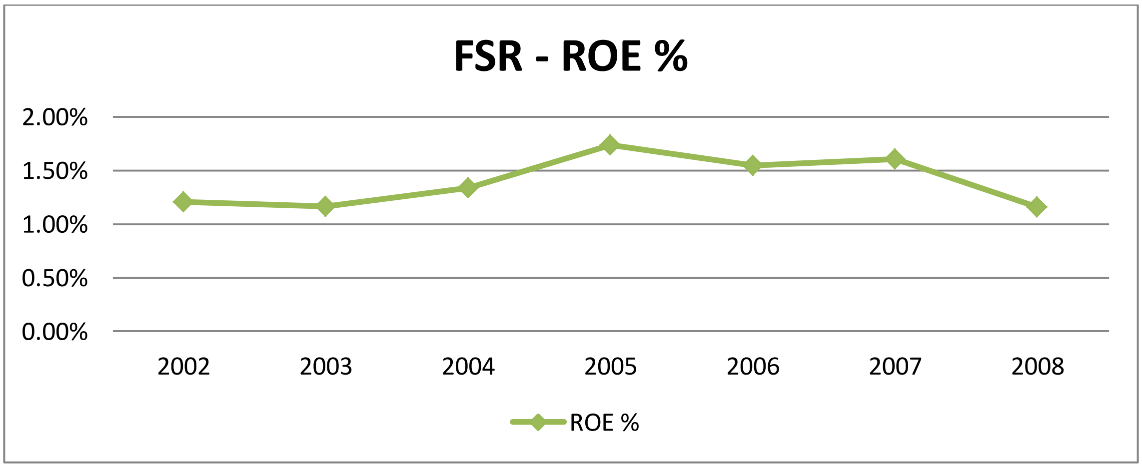


4.5.4 FirstRand Limited - FSR

Table 24: Return on equity – FSR

Return on equity – ROE – FSR	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Profit attributable to ordinary shareholders	4 509	4 594	5 676	8 019	8 890	11 511	9 428
Total shareholders' interest	373 858	395 221	424 161	461 086	575 711	717 257	815 561
ROE %	**1.21%**	**1.16%**	**1.34%**	**1.74%**	**1.54%**	**1.60%**	**1.16%**

Figure 20: Return on equity – FSR

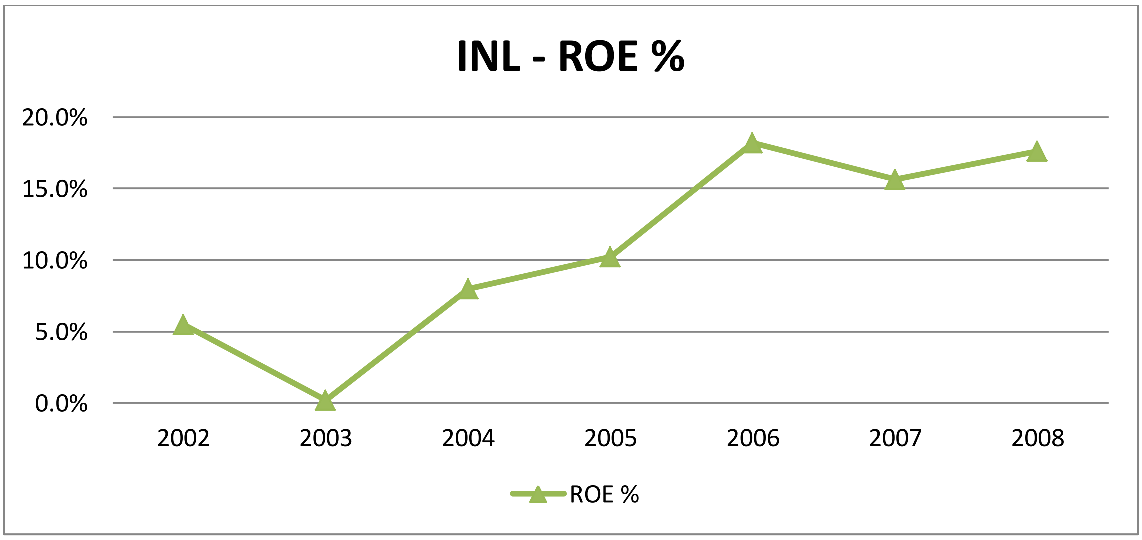


4.5.5 Investec Limited - INL

Table 25: Return on equity – INL

Return on equity – ROE – INL	2002	2003	2004	2005	2006	2007	2008
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Profit attributable to ordinary shareholders	626	21	69	101	296	306	397
Total shareholders' interest	11 454	10 006	859	981	1 627	1 956	2 251
ROE %	**5.5%**	**0.2%**	**8.0%**	**10.3%**	**18.2%**	**15.6%**	**17.6%**

Figure 21: Return on equity – INL

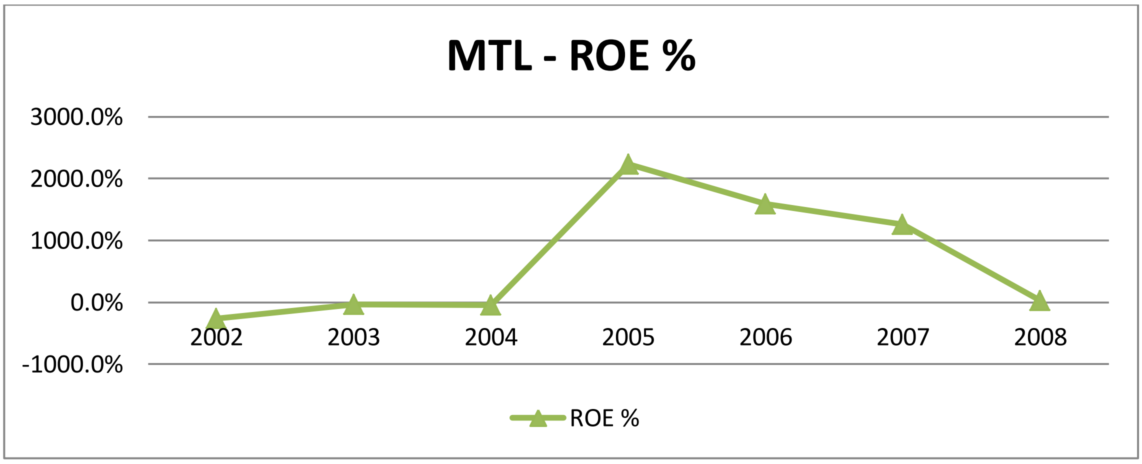


4.5.6 Mercantile Bank Holdings Limited - MTL

Table 26: Return on equity – MTL

Return on equity – ROE – MTL	2002	2003	2004	2005	2006	2007	2008
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Profit attributable to ordinary shareholders	-479	-59	-213	12 273	10 610	10 608	424
Total shareholders' interest	184	164	501	550	667	840	1 269
ROE %	**-261.0%**	**-35.9%**	**-42.5%**	**2230.7%**	**1589.7%**	**1263.0%**	**33.4%**

Figure 22: Return on equity – MTL

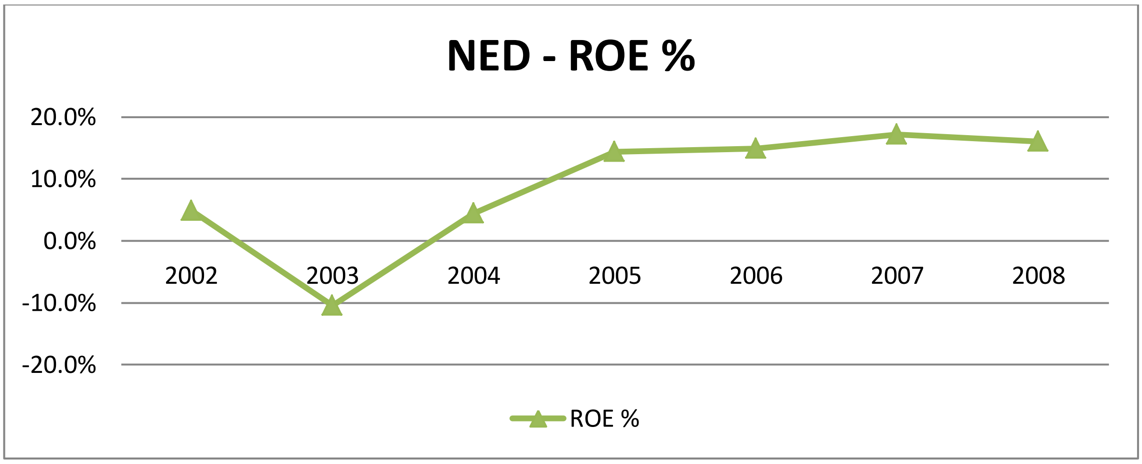


4.5.7 Nedbank Group Limited - NED

Table 27: Return on equity – MTL

Return on equity – ROE – NED	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Profit attributable to ordinary shareholders	984	1 626	974	3 836	4 533	6 025	6 410
Total shareholders' interest	20 286	15 556	21 899	26 669	30 467	35 106	39 987
ROE %	**4.9%**	**-10.5%**	**4.4%**	**14.4%**	**14.9%**	**17.2%**	**16.0%**

Figure 23: Return on equity – NED

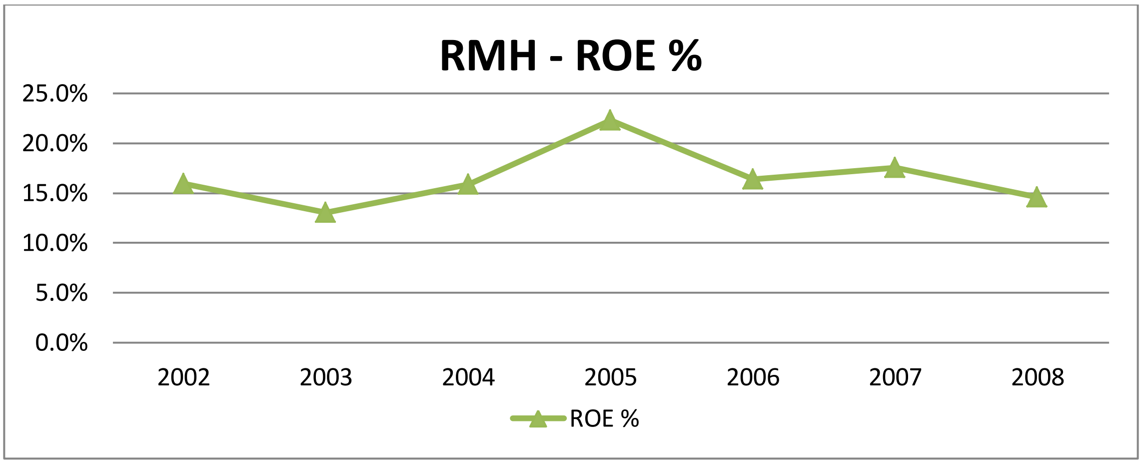


4.5.8 RMB Holdings Limited - RMH

Table 28: Return on equity – RMH

Return on equity – ROE – RMH	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Profit attributable to ordinary shareholders	1 481	1 426	2 059	3 516	3 145	4 109	4 122
Total shareholders' interest	9 315	10 931	12 995	15 760	19 164	23 396	28 272
ROE %	**15.9%**	**13.0%**	**15.8%**	**22.3%**	**16.4%**	**17.6%**	**14.6%**

Figure 24: Return on equity – RMH

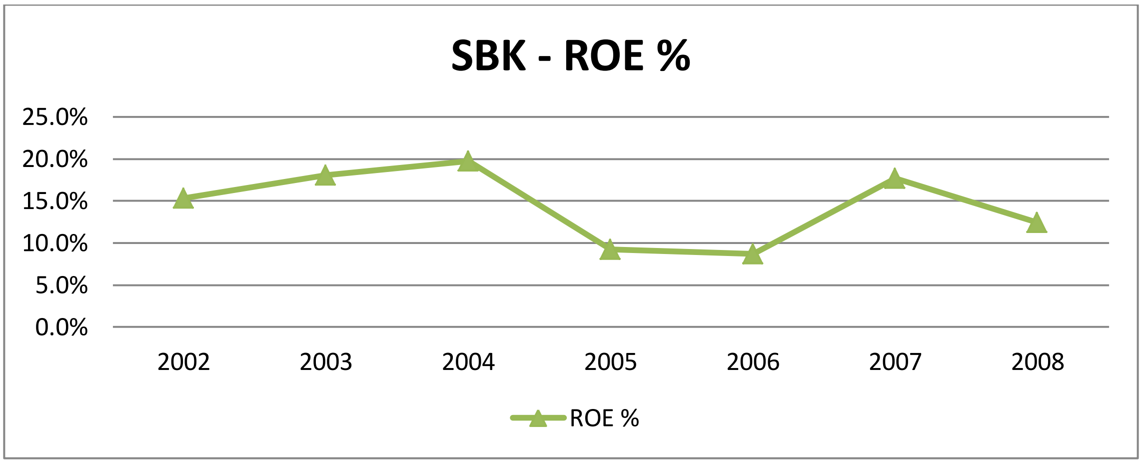


4.5.9 Standard Bank Group Limited - SBK

Table 29: Return on equity – SBK

Return on equity – ROE – SBK	2002 R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000	2007 R'000	2008 R'000
Profit attributable to ordinary shareholders	4 997	6 346	7 684	3 711	4 814	12 114	12 378
Total shareholders' interest	32 535	35 105	38 921	40 236	55 244	68 502	99 606
ROE %	**15.4%**	**18.1%**	**19.7%**	**9.2%**	**8.7%**	**17.7%**	**12.4%**

Figure 25: Return on equity – SBK



4.6 Results pertaining to correlation test

This section presents the results of the correlations tests of firm performance and executive remuneration for each executive at each firm between 2002 and 2008.

There were two tests performed. The first test is the Pearson Distribution test, whose objective is to test for correlation. The second is the T-Distribution test. This test is aimed to determine whether the correlation result is within a normal distribution.

4.6.1 African Bank Investments Limited - ABL

This subsection shows the correlation analysis of Kirkinis's remuneration to the firm performance of African Bank Investment Limited between 2002 and 2008.

Table 30: Pearson Distribution – ABL - Kirkinis

Executive Remuneration Category	Pearson Distribution							
	a	t	r	n	Lower bound	Upper bound	Reject if t	
	alpha	TO	RO				> Lower bound	< Upper bound
Guaranteed & Benefits	0.05	0.988	0.404	7	-2.365	2.365	FALSE	FALSE
Bonus	0.05	1.157	0.460	7	-2.365	2.365	FALSE	FALSE
Options	0.05	0.013	-0.006	7	-2.365	2.365	FALSE	FALSE
Total CTC	0.05	0.886	0.369	7	-2.365	2.365	FALSE	FALSE

Table 31: T – Distribution - ABL - Kirkinis

Executive Remuneration Category	T - Distribution		
	p value	Lower Bound	Reject if p < lower bound
Guaranteed & Benefits	0.356	0.05	FALSE
Bonus	0.285	0.05	FALSE
Options	0.990	0.05	FALSE
Total CTC	0.405	0.05	FALSE

4.6.2 ABSA Group Limited - ASA

Bosman

This subsection shows the correlation analysis of Bosman's remuneration to the firm performance of ABSA Group Limited between 2002 and 2005.

Table 32: Pearson Distribution – ASA - Bosman

Executive Remuneration Category	Pearson Distribution							
	a	t	r	n	Lower bound	Upper bound	Reject if t	
	alpha	TO	RO				> Lower bound	< Upper bound
Guaranteed & Benefits	0.05	0.242	0.168	4	-2.776	2.776	FALSE	FALSE
Bonus	0.05	7.815	0.984	4	-2.776	2.776	TRUE	FALSE
Options	0.05	1.193	0.645	4	-2.776	2.776	FALSE	FALSE
Total CTC	0.05	2.500	0.870	4	-2.776	2.776	FALSE	FALSE

Table 33: T – Distribution - ASA - Bosman

Executive Remuneration Category	T - Distribution		
	p value	Lower Bound	Reject if p < lower bound
Guaranteed & Benefits	0.821	0.05	FALSE
Bonus	0.001	0.05	TRUE
Options	0.299	0.05	FALSE
Total CTC	0.067	0.05	FALSE

Booysen

This subsection shows the correlation analysis of Booysen's remuneration to the firm performance of ABSA Group Limited between 2005 and 2008.

Table 34: Pearson Distribution - ASA - Booysen

Executive Remuneration Category	Pearson Distribution							
	a	t	r	n	Lower bound	Upper bound	Reject if t	
	alpha	TO	RO				> Lower bound	< Upper bound
Guaranteed & Benefits	0.05	1.235	0.658	4	-2.776	2.776	FALSE	FALSE
Bonus	0.05	1.553	-0.739	4	-2.776	2.776	FALSE	FALSE
Options	0.05	2.350	-0.857	4	-2.776	2.776	FALSE	FALSE
Total CTC	0.05	2.657	-0.883	4	-2.776	2.776	FALSE	FALSE

Table 35: T – Distribution - ASA - Booysen

Executive Remuneration Category	t - Distribution		
	p value	Lower Bound	Reject if p < lower bound
Guaranteed & Benefits	0.285	0.05	FALSE
Bonus	0.195	0.05	FALSE
Options	0.078	0.05	FALSE
Total CTC	0.057	0.05	FALSE

4.6.3 Capitec Bank Holdings Limited - CPI

Le Roux

This subsection shows the correlation analysis of LeRoux's remuneration to the firm performance of Capitec Bank Holdings Limited between 2002 and 2004.

Table 36: Pearson Distribution – CPI – Le Roux

Executive Remuneration Category	Pearson Distribution							
	a	t	r	n	Lower bound	Upper bound	Reject if t	
	alpha	TO	RO				> Lower bound	< Upper bound
Guaranteed & Benefits	0.05	0.041	-0.041	3	-3.182	3.182	FALSE	FALSE
Bonus	0.05	-	-	3	-3.182	3.182	-	-
Options	0.05	-	-	3	-3.182	3.182	-	-
Total CTC	0.05	0.041	-0.041	3	-3.182	3.182	FALSE	FALSE

Table 37: T – Distribution - CPI – Le Roux

Executive Remuneration Category	t - Distribution		
	p value	Lower Bound	Reject if p < lower bound
Guaranteed & Benefits	0.970	0.05	FALSE
Bonus	-	0.05	-
Options	-	0.05	-
Total CTC	0.970	0.05	FALSE

Stassen

This subsection shows the correlation analysis of Stassen's remuneration to the firm performance of Capitec Bank Holdings Limited between 2004 and 2008.

Table 38: Pearson Distribution – CPI - Stassen

Executive Remuneration Category	Pearson Distribution							
	a	t	r	n	Lower bound	Upper bound	Reject if t	
	alpha	TO	RO				> Lower bound	< Upper bound
Guaranteed & Benefits	0.05	0.080	-0.046	5	-2.571	2.571	FALSE	FALSE
Bonus	0.05	0.420	0.236	5	-2.571	2.571	FALSE	FALSE
Options	0.05	-	-	5	-2.571	2.571	-	-
Total CTC	0.05	0.351	0.199	5	-2.571	2.571	FALSE	FALSE

Table 39: T – Distribution - CPI – Stassen

Executive Remuneration Category	t - Distribution		
	p value	Lower Bound	Reject if p < lower bound
Guaranteed & Benefits	0.940	0.05	FALSE
Bonus	0.692	0.05	FALSE
Options	-	0.05	-
Total CTC	0.740	0.05	FALSE

4.6.4 *FirstRand Limited - FSR*

Dippenaar

This subsection shows the correlation analysis of Dippenaar's remuneration to the firm performance of FirstRand Limited between 2002 and 2006.

Table 40: Pearson Distribution – FSR - Dippenaar

Executive Remuneration Category	Pearson Distribution							
	a	t	r	n	Lower bound	Upper bound	Reject if t	
	alpha	TO	RO				> Lower bound	< Upper bound
Guaranteed & Benefits	0.05	1.024	0.509	5	-2.571	2.571	FALSE	FALSE
Bonus	0.05	2.129	0.776	5	-2.571	2.571	FALSE	FALSE
Options	0.05	0.987	0.495	5	-2.571	2.571	FALSE	FALSE
Total CTC	0.05	1.273	0.592	5	-2.571	2.571	FALSE	FALSE

Table 41: T – Distribution - FSR - Dippenaar

Executive Remuneration Category	t - Distribution		
	p value	Lower Bound	Reject if p < lower bound
Guaranteed & Benefits	0.353	0.05	FALSE
Bonus	0.087	0.05	FALSE
Options	0.369	0.05	FALSE
Total CTC	0.259	0.05	FALSE

Harris

This subsection shows the correlation analysis of Harris's remuneration to the firm performance of FirstRand Limited between 2006 and 2008.

Table 42: Pearson Distribution – FSR - Harris

Executive Remuneration Category	Pearson Distribution							
	a	t	r	n	Lower bound	Upper bound	Reject if t	
	alpha	TO	RO				> Lower bound	< Upper bound
Guaranteed & Benefits	0.05	4.334	-0.974	3	-3.182	3.182	TRUE	FALSE
Bonus	0.05	0.427	0.392	3	-3.182	3.182	FALSE	FALSE
Options	0.05	0.346	0.327	3	-3.182	3.182	FALSE	FALSE
Total CTC	0.05	0.366	0.343	3	-3.182	3.182	FALSE	FALSE

Table 43: T – Distribution - FSR - Harris

Executive Remuneration Category	t - Distribution		
	p value	Lower Bound	Reject if p < lower bound
Guaranteed & Benefits	0.023	0.05	TRUE
Bonus	0.698	0.05	FALSE
Options	0.752	0.05	FALSE
Total CTC	0.739	0.05	FALSE

4.6.5 Investec Limited - INL

This subsection shows the correlation analysis of Koseff's remuneration to the firm performance of Investec Limited between 2002 and 2008.

Table 44: Pearson Distribution – INL - Koseff

Executive Remuneration Category	Pearson Distribution							
	a	t	r	n	Lower bound	Upper bound	Reject if t	
	alpha	TO	RO				> Lower bound	< Upper bound
Guaranteed & Benefits	0.05	1.968	0.661	7	-2.365	2.365	FALSE	FALSE
Bonus	0.05	3.832	0.864	7	-2.365	2.365	TRUE	FALSE
Options	0.05	-	-	7	-2.365	2.365	-	-
Total CTC	0.05	3.755	0.859	7	-2.365	2.365	TRUE	FALSE

Table 45: T – Distribution - INL - Koseff

Executive Remuneration Category	t - Distribution		
	p value	Lower Bound	Reject if p < lower bound
Guaranteed & Benefits	0.090	0.05	FALSE
Bonus	0.006	0.05	TRUE
Options	-	0.05	-
Total CTC	0.007	0.05	TRUE

4.6.6 *Mercantile Bank Holdings Limited - MTL*

Symonds

This subsection shows the correlation analysis of Symonds's remuneration to the firm performance of Mercantile Bank Holdings Limited between 2002 and 2003.

Table 46: Pearson Distribution – MTL - Symonds

Executive Remuneration Category	Pearson Distribution							
	a	t	r	n	Lower bound	Upper bound	Reject if t	
	alpha	TO	RO				> Lower bound	< Upper bound
Guaranteed & Benefits	0.05	-	-1.000	2	-4.303	4.303	-	-
Bonus	0.05	-	-	2	-4.303	4.303	-	-
Options	0.05	-	-	2	-4.303	4.303	-	-
Total CTC	0.05	-	-1.000	2	-4.303	4.303	-	-

Table 47: T – Distribution - MTL - Symonds

Executive Remuneration Category	t - Distribution		
	p value	Lower Bound	Reject if p < lower bound
Guaranteed & Benefits	-	0.05	-
Bonus	-	0.05	-
Options	-	0.05	-
Total CTC	-	0.05	-

Ribas

This subsection shows the correlation analysis of Ribas's remuneration to the firm performance of Merchantile Bank Holdings Limited for the 2003 year.

Table 48: Pearson Distribution - MTL - Ribas

Executive Remuneration Category	Pearson Distribution							
	a	t	r	n	Lower bound	Upper bound	Reject if t	
	alpha	TO	RO				> Lower bound	< Upper bound
Guaranteed & Benefits	0.05	-	-	1	-12.706	12.706	-	-
Bonus	0.05	-	-	1	-12.706	12.706	-	-
Options	0.05	-	-	1	-12.706	12.706	-	-
Total CTC	0.05	-	-	1	-12.706	12.706	-	-

Table 49: T – Distribution - MTL - Ribas

Executive Remuneration Category	t - Distribution		
	p value	Lower Bound	Reject if p < lower bound
Guaranteed & Benefits	-	0.05	-
Bonus	-	0.05	-
Options	-	0.05	-
Total CTC	-	0.05	-

Brown

This subsection shows the correlation analysis of Brown's remuneration to the firm performance of Merchantile Bank Holdings Limited between 2004 and 2008.

Table 50: Pearson Distribution – MTL - Brown

Executive Remuneration Category	Pearson Distribution							
	a	t	r	n	Lower bound	Upper bound	Reject if t	
	alpha	TO	RO				> Lower bound	< Upper bound
Guaranteed & Benefits	0.05	0.320	-0.182	5	-2.571	2.571	FALSE	FALSE
Bonus	0.05	0.235	-0.134	5	-2.571	2.571	FALSE	FALSE
Options	0.05	1.624	0.684	5	-2.571	2.571	FALSE	FALSE
Total CTC	0.05	0.144	-0.064	7	-2.365	2.365	FALSE	FALSE

Table 51: T – Distribution - MTL - Brown

Executive Remuneration Category	t - Distribution		
	p value	Lower Bound	Reject if p < lower bound
Guaranteed & Benefits	0.762	0.05	FALSE
Bonus	0.824	0.05	FALSE
Options	0.165	0.05	FALSE
Total CTC	0.890	0.05	FALSE

4.6.7 Nedbank Group Limited - NED

Laubcher

This subsection shows the correlation analysis of Laubcher's remuneration to the firm performance of Nedbank Group Limited between 2002 and 2004.

Table 52: Pearson Distribution – NED - Laubcher

Executive Remuneration Category	Pearson Distribution							
	a	t	r	n	Lower bound	Upper bound	Reject if t	
	alpha	TO	RO				> Lower bound	< Upper bound
Guaranteed & Benefits	0.05	1.350	-0.804	3	-3.182	3.182	FALSE	FALSE
Bonus	0.05	0.663	0.552	3	-3.182	3.182	FALSE	FALSE
Options	0.05	0.875	0.659	3	-3.182	3.182	FALSE	FALSE
Total CTC	0.05	0.647	0.543	3	-3.182	3.182	FALSE	FALSE

Table 53: T – Distribution - NED - Laubcher

Executive Remuneration Category	t - Distribution		
	p value	Lower Bound	Reject if p < lower bound
Guaranteed & Benefits	0.270	0.05	FALSE
Bonus	0.555	0.05	FALSE
Options	0.446	0.05	FALSE
Total CTC	0.564	0.05	FALSE

Boardman

This subsection shows the correlation analysis of Boardman's remuneration to the firm performance of Nedbank Group Limited between 2004 and 2008.

Table 54: Pearson Distribution - NED – Boardman

Executive Remuneration Category	Pearson Distribution							
	a	t	r	n	Lower bound	Upper bound	REJECT IF t	
	alpha	TO	RO				> Lower bound	< Upper bound
Guaranteed & Benefits	0.05	1.353	-0.616	5	-2.571	2.571	FALSE	FALSE
Bonus	0.05	1.993	0.755	5	-2.571	2.571	FALSE	FALSE
Options	0.05	0.831	0.433	5	-2.571	2.571	FALSE	FALSE
Total CTC	0.05	0.871	0.449	5	-2.571	2.571	FALSE	FALSE

Table 55: T – Distribution - NED - Boardman

Executive Remuneration Category	t - Distribution		
	p value	Lower Bound	Reject if p < lower bound
Guaranteed & Benefits	0.234	0.05	FALSE
Bonus	0.103	0.05	FALSE
Options	0.444	0.05	FALSE
Total CTC	0.424	0.05	FALSE

4.6.8 RMB Holdings Limited - RMH

This subsection shows the correlation analysis of Cooper's remuneration to the firm performance of RMB Holdings Limited between 2002 and 2008.

Table 56: Pearson Distribution – RMH - Cooper

Executive Remuneration Category	Pearson Distribution							
	a	t	r	n	Lower Bound	Upper Bound	Reject if t	
	alpha	TO	RO				> Lower bound	< Upper bound
Guaranteed & Benefits	0.05	0.783	0.331	7	-2.365	2.365	FALSE	FALSE
Bonus	0.05	0.113	0.050	7	-2.365	2.365	FALSE	FALSE
Options	0.05	0.528	0.230	7	-2.365	2.365	FALSE	FALSE
Total CTC	0.05	0.549	0.238	7	-2.365	2.365	FALSE	FALSE

Table 57: T – Distribution - RMH – Cooper

Executive Remuneration Category	t - Distribution		
	p value	Lower Bound	Reject if p < lower bound
Guaranteed & Benefits	0.459	0.05	FALSE
Bonus	0.914	0.05	FALSE
Options	0.614	0.05	FALSE
Total CTC	0.600	0.05	FALSE

4.6.9 Standard Bank Group Limited - SBK

This subsection shows the correlation analysis of Maree's remuneration to the firm performance of Standard Bank Group Limited between 2002 and 2008.

Table 58: Pearson Distribution – SBK - Maree

Executive Remuneration Category	Pearson Distribution							
	a	t	r	n	Lower bound	Upper bound	Reject if t	
	alpha	TO	RO				> Lower bound	< Upper bound
Guaranteed & Benefits	0.05	0.324	0.143	7	-2.365	2.365	FALSE	FALSE
Bonus	0.05	4.098	0.878	7	-2.365	2.365	TRUE	FALSE
Options	0.05	2.011	0.669	7	-2.365	2.365	FALSE	FALSE
Total CTC	0.05	3.131	0.814	7	-2.365	2.365	TRUE	FALSE

Table 59: T – Distribution - SBK - Maree

Executive Remuneration Category	t - Distribution		
	p value	Lower Bound	Reject if p < lower bound
Guaranteed & Benefits	0.756	0.05	FALSE
Bonus	0.005	0.05	TRUE
Options	0.084	0.05	FALSE
Total CTC	0.017	0.05	TRUE

4.7 Summary of the results

This chapter presented the research findings. The next chapter will discuss and interpret these findings with reference to the literature review and research hypothesis from chapter 2.

Table 60: Summary of correlation results

Summary of t-Distribution correlation results					
Co.	**Executive**	**Guaranteed & Benefits**	**Bonus**	**Options**	**Total CTC**
ABL	Kirkinis	False	False	False	False
ASA	Bosman	False	True	False	False
	Booysen	False	False	False	False
CPI	Le Roux	False	n/a	n/a	False
	Stassen	False	False	n/a	False
FSR	Dippenaar	False	False	False	False
	Harris	True	False	False	False
INL	Koseff	False	True	n/a	True
MTL	Symmonds	n/a	n/a	n/a	n/a
	Ribas	n/a	n/a	n/a	n/a
	Brown	False	False	False	False
NED	Laubscher	False	False	False	False
	Boardman	False	False	False	False
RMH	Cooper	False	False	False	False
SBK	Maree	False	True	False	True

CHAPTER 5: DISCUSSION OF THE RESULTS

5.1 Introduction

In this chapter, the research finding results presented in chapter 4 are discussed and interpreted with reference to the literature review (Chapter 2) and research methodology (chapter 3). This research sought to identify if there was correlation between executive remuneration, firm performance and corporate governance compliance with the financial services sector.

5.2 Demographic profile of respondents

5.2.1 CEO Tenure and qualification

A total of 15 CEO remuneration packages were evaluated for the 9 companies included in the sample between 2002 and 2008. The following shows the number of CEO's per company in the sample, over the period.

- 4 Companies had 1 CEO;
- 4 Companies had 2 CEOs; and
- 1 Company had 3 CEOs over the period.

Table 61: CEO Tenure

Period in office	< 1 yr.	1-2 yrs.	2-3 yrs.	3-4 yrs.	4-5 yrs.	5+ yrs.	Total
no of CEOs	1	1	4	0	1	8	15
% of sample	6.7%	6.7%	26.7%	0.0%	6.7%	53.3%	

More than half the sample indicated that the CEO's tenure is 5 years or longer, with a further 33% of CEO's serving a period of between 2-4 years.

The qualifications of the chief executive officers of the sampled firms have been presented in the table below:

Table 62: CEO Qualification

Qualification	No.	%
CA(SA)	4	27%
CA(SA) MBA	2	13%
CA(SA) Phd	1	7%
CA(SA) H.Dip. Tax	1	7%
M.Com	1	7%
B.Com, LLB	1	7%
B.Com, MBL	1	7%
B.Com, AMP	1	7%
B.Com, MA, PMD	1	7%
Unknown qualifications *	2	13%
Total	**15**	

* - Both unknown qualification relate to Mercantile Bank Holdings Limited CEO.

87% Of financial services CEO's, from the sample, have a commercial degree with 54% being CA(SA). This was to be expected as financial services companies attract CA(SA). If a different sector was selected, for instances, Construction and Engineering, it would be expected that CEO would most probably be engineers.

Further, it was noted that during the sample period all CEO's were white male.

5.3 Discussion of correlation analysis

5.3.1 Firm Performance and Executive Remuneration

In early research relating to the pay-to-performance relation, Jensen and Murphy (1990) documented a relatively low sensitivity during the 1970's and 1980's, for example, they found that during this period, CEOs receive only $3.25 for every $1,000 increase in shareholders' wealth.

Hall and Liebman (1998) using data from the period 1980 – 1994, found "a strong relationship between firm performance and CEO compensation" and they went on to suggest "that the sensitivity of compensation to firm performance has risen dramatically since 1980 largely because of increases in stock option grants" (Hall and Liebman 1998).

Perry and Zenner (2001) examine three measures of company-related CEO wealth changes, being, "EPS, sales and stock returns" and found that the sensitivity of CEO wealth to shareholder wealth is higher than the one reported by Jensen and Murphy (1990) for the data from the 1970s and 1980s. Zhou (2000) also found a positive relationships between CEO pay and performance for Canadian firms between 1991-1995.

Deckop (1988) found that CEO compensation tends to vary directly with the firm's profit as a percentage of sales. Core, Holthausen et al. (1999) failed to find a difference in the results for total compensation, cash compensation and salary, however Zhou (2000) provided evidence of the importance of the salary and bonus elements.

While there is some level of consistency in the international findings, no research into executive remuneration and firm performance of South African companies was found.

This research expected to find that CEO total remuneration would fluctuate with concurrent performance since compensation agreement are typically negotiated at the beginning of the year and designed to motive and reward on the basis of accomplishments.

It was anticipated that the performance basis for each executive will be different given the different performance measures and objectives of the organisation. It was envisaged that the degree of variability will be reduced by focusing only on the financial services sector.

At the outset, it was hoped that this research will show that South African financial services firms paid their CEO an incentive payment in addition to a fixed salary and this incentive payment is the larger portion if the total remuneration. In addition, these incentive payments may take the form of a cash bonus, and or equity based long term incentive. It was also hoped, that the research will show that the bonus element of remuneration is tied to some measure of firm performance such as growth in Gross Income, EBITDA, EPS or ROE.

Table 6 above, shows two instances where there were a positive correlation between firm performance and total executive remuneration. These two instances where for Koseff at Investec and Maree at Standard Bank. In addition, both Maree and Koseff's bonus payments were also positively correlated to firm performance. A closer look into the remuneration components of both Maree and Koseff showed that the largest part of their total remuneration originates from their bonus payments. Consequently, both these individuals are largely remunerated on their performance.

5.3.2 Corporate Governance Compliance and Executive Remuneration

Conyon (1997), conducted research on UK firms between 1988 and 1993, and concluded that "director compensation and current shareholder returns are positively correlated". Core, Holthausen et al. (1999), indicate that firms with weaker corporate governance structures and processes have greater agency problems and potentially great agency costs. Their research suggested that with weaker governance, the chief executive was able to greater compensation and also performing worse in terms of firm results and shareholder returns. As such, the presence of effective corporate governance structures (both internal and external) ensure that CEOs are paid more appropriately, thus excess compensation is less likely when governance is strong.

At the outset, this research sough to demonstrate that improved corporate governance, will result in improved oversight over executive remuneration. This improved oversight, would consequently allow for greater alignment of principal and agent interests over pay and firm performance or shareholder return. Greater governance would therefore provide less opportunity for the executive to extract undue benefits.

Each company forming part of the sample was measured against the corporate governance matrix. The results of this assessment are provided in sub-section 4.4 above. From this matrix, the research showed that corporate governance compliance was at the maximum level recommended by King II, with only one exception (Mercantile Bank). The matrix highlighted that the governance processes adopted and implemented as early as possible and this industry often lead other industries.

The reasons for these levels of compliances were:

- Financial service industry is highly regulated;
- Banks attract a highly degree of public scrutiny;
- Banks have a great fiduciary duties to their clients as well as broader stakeholder greats;
- Large and diverse range of shareholders; and
- Large corporates, such as financial services firms, tend to dedicate more resources towards compliance matters.

With regards to the one instance of below maximum corporate governance compliance, Mercantile Bank, a reading of the financial statements seems to indicate that the majority shareholder was aware of the governance shortcomings. These governance shortcomings related mainly to inadequate disclosures in the AFS rather procedural shortcomings.

The results indicate that effective corporate governance compliance is a non-negotiable for executive directors, non-executive directors and shareholders. This indicates that corporate governance compliance was a hygiene factor and therefore there is no discernable influence on executive remuneration between the firms within this study.

According to Hertzberg's two factor theory of motivation, a hygiene factor is a factor which if absent may lead to dissatisfaction however its presence does not necessarily lead to improved motivation.

This research concludes that there is therefore no correlation between executive remuneration and corporate governance compliance in South African financial services firms.

5.4 Conclusion

This research finds that there is no correlation between firm performance and executive remuneration taken as a whole. However, there are indications of a weak correlation between executive bonus and firm performance. This would seem to imply that some executives are being remunerated, by way of their bonus, in relation to firm performance.

There is no direct correlation between corporate governance compliance and executive remuneration. However, it must be noted that the overall corporate governance compliance was extremely high within these firms. As Conyon (1997) pointed out, the stronger the corporate governance structures within an organisation there are less agency problems. Therefore while there is no direct correlation between corporate governance and executive remuneration, these firms have very strong corporate governance structures. Consequently, the executive is less able to undue compensation.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This research examined the relationship between executive remuneration (salary, bonus, and options), firm performance and corporate governance compliance (using King II as the benchmark), within the context of contemporary academic debates.

This empirical investigation into firm performance and executive remuneration was based on data published within the AFS and BFA McGregor, of JSE listed financial services companies between 2002 and 2008. The corporate governance compliance was undertaken by analysing the AFS of the companies selected for the periods under review and completing the compliance matrix (Appendix A). All data was cross referenced to the individual company's published annual financial statement.

6.2 Conclusions of the study

This research predicted a positive relationship between executive remuneration and firm performance, and a negative relationship between corporate governance compliance and executive remuneration. However, the overall finding is that there is no correlation between firm performance and executive remuneration taken as a whole. There are indications of a weak correlation between bonus component of executive remuneration and firm performance.

There is no correlation between corporate governance compliance in relation to remuneration and executive remuneration.

This research therefore indicates that firm performance and corporate governance compliance are smaller components in determining executive remuneration.

6.3 Recommendations

6.3.1 General

The debate around executive remuneration continues to focus on the quantum of executive earnings with regards to firm performance, economic performance and ethical considerations. This research has highlighted that there is a very weak correlation, at best, between executive remuneration and firm performance.

This research confirms that the lack of transparency, during the research period, in the executive pay setting process has drawn public outcry over some executive pay. In the absence of a sustainable and transparent remuneration framework for executives, high remuneration for executives will continue draw criticism.

Boards of directors, by means of their remuneration committees, must apply themselves to the key issues around executive remuneration. Remuneration committees can no longer simply rely on pay research firms to suggest remuneration for executives. These committees must apply themselves to the key issue of fair and equitable pay for sustainable long term performance, failing which committee members may find themselves foul of the law.

Both King III and the Companies Act, 2008 have provided improved guidance on executive remuneration. The increased disclosure requirements around executive remuneration and that of prescribed officers will go a long way in preventing agents from extracting undue benefits from the company at the expense of the shareholders.

While outside of the scope of this research, it is important to highlight that during 2010 there are only three female CEOs of South African (main board) listed companies, being:

- Maria Ramos, ABSA Group;
- Cynthia Carol, Anglo American; and
- NonkululekoNyembezi-Heita, ArcelorMittal South Africa

The lack for gender diversity was evident and there needs to be a move towards improving this situation.

6.3.2 Legislative and Statutory Recommendations

Whilst the level of legislative and statutory compliance over executive remuneration has increased tremendously over the last decade, it continues to draw criticism from all quarters. Recently, the South African Government announced its New Growth Path in which it identified excessive executive remuneration as a contributing factor to the income inequality within the South African society.

Without criticising King II or King III corporate governance requirements, it is recommended that corporate governance regulators, accounting standard setting committees and the JSE consider the need for increased transparency and disclosure of executive remuneration within the published annual financial statements of companies. The following recommendations should be consideration:

1. Corporations should be required to adopt the requirement for a Directors Remuneration Report to be included as part of the published annual financial statements of JSE listed companies within the South Africa context.
2. An alternative approach to increasing transparency and shareholder involvement in corporate decisions could include adopting the “Say on Pay” principle currently being adopted within certain US corporations.

This decision would require a higher number of votes to be approved, ensure that all owners in the organisation are engaged in the remuneration decision, and not only a select few as is the case in South Africa currently.

3. Finally, while it is appreciated there is a skills shortage in South Africa, executives should have mandatory maximum number of executive positions which they may accept on listed entities. This would require the companies to be forced to develop talent internally or source talent from diverse backgrounds.

Finally, remuneration committee must be forced to disclose any remuneration advisor firm used in determining the executive remuneration in the annual financial statement or annual integrated report.

6.3.3 Sustainability, Transparency and Accountability Recommendations

Without exception, executive remuneration and the perks of high office will continue to draw the outcry from all quarters. This is an untenable position for executives, boards of directors and members of remuneration committees. To address public and stakeholder concerns it would be imperative that greater transparency and accountability to stakeholders is required.

It is recommended that remuneration committees develop an "Internal Compensation Coefficient" based on the Gini Coefficient measure for the organisation. This coefficient would calculate the disparity in earning of the higher paid employees of a company to that of the lower paid earners. This would therefore indicate the disparity in earnings within an organisation, the greater the coefficient the greater the disparity in earnings. This should also be disclosed in the annual financial statements of the company.

Executives should have their share options exercisable at a fixed future point in time which should be set at the point of awarding the options. This measure would once again align the interests of the owner and the agent, by ensuring the executive will manage the future share price and long term sustainability of the business rather than only having a short term business focus.

6.4 Suggestions for further research

Further research should be conducted into the nature of executive pay setting in South Africa across all sectors. Further, qualitative research should be conducted into the activities and considerations of the remuneration committee in determining executive pay.

Within a South African context, it is often mentioned that there is a skills shortage hence there is a high degree of executive overlap on boards of directors. Research should be conducted into the influence of these various directors on executive pay setting as well as director's fees.

Research should be conducted into the extent and influence of executive pay consultants in setting executive pay and whether this influence fuels high executive pay.

Research should be performed into creating a tool to measure intrinsic value created by the executive and a mechanism to set executive remuneration basis on the tool – example EVA.

Research should be performed into the effect, if any, of shareholder activism on executive pay setting. In addition, an investor association should be developed within South Africa to educate and empower shareholders as to their new roles and responsibilities.

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APPENDIX A - CORPORATE GOVERNANCE MATRIX

Corporate Governance Factors - Company name	Rating of Compliance per year						
	2002	2003	2004	2005	2006	2007	2008
Board Composition							
Board is controlled by more than 50% independent directors							
No former CEO serves on board							
The CEO and chairman duties are separated or a lead director is specified							
All directors attended at least 75% of board meetings or had a valid excuse for non-attendance							
Size of board of directors is at least six but not more than 15 members							
A board-approved CEO succession plan is in place							
Minimum number of meetings held and attended by Directors							
CEO							
CEO serves on no more than two additional boards of other public Companies							
Performance related elements constitute the largest portion of executives package							
Executives contract is not for more than 3 years, without shareholder approval							
Remuneration & Audit							
Nominating committee is comprised solely of independent outside directors							
Remuneration committee is comprised solely of independent outside directors							
Audit committee consists solely of independent non-executive director							
Policy							
Company has a formal policy on director remuneration							
Company publishes "Statement on Remuneration Philosophy" / Remuneration Report in AFS							
Company has a formal policy on auditor rotation							
Mandatory retirement age for directors exist							
Share option scheme explained within financials							

Corporate Governance Factors - Company name	Rating of Compliance per year						
	2002	2003	2004	2005	2006	2007	2008
Share option scheme for directors is fully disclosed							
King II							
Statement on corporate governance compliance is published in AFS							
CG Score	0	0	0	0	0	0	0
Rating Scale							
Non Compliance -	0						
Partial Compliance - without explanations -	1						
Partial Compliance - with explanations -	2						
Full Compliance -	3						