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An exploration of possible KING-IV implementation challenges relating to remuneration disclosures

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University of the Witwatersrand In partial fulfilment of the requirements for the degree Master of Commerce

Table of Contents

I. DECLARATION ---- 6

II. ACKNOWLEDGMENT ---- 7

III. ABSTRACT ---- 8

IV. ABBREVIATIONS AND ACRONYM ---- 9

CHAPTER 1: INTRODUCTION ---- 10

1.1: Background ---- 10

1.2: Research Question ---- 14

1.3: Significance of the study ---- 14

1.4: Limitations ---- 15

1.5: Delimitations ---- 15

CHAPTER 2: LITERATURE REVIEW ---- 16

2.1: Remuneration policy in South Africa ---- 17

2.1.1: Short-term Incentives ---- 19

2.1.2: Long-term incentives ---- 19

2.2: Regulatory pressures on remuneration reporting ---- 21

2.2.1: Companies Act ---- 21

2.2.2: JSE listing requirements ---- 22

2.3: Comparison of remuneration practices adopted globally: regulatory pressures, and disclosure trends - 24

2.3.1: Regulation: United Kingdom ---- 24

2.3.2: Disclosure patterns adopted globally ---- 25

2.4: Why is remuneration reporting and disclosure important? ---- 26

2.5: Prior literature ---- 29

2.6: The emergence of remuneration governance through the King Codes ---- 31

2.7: King IV and Remuneration ---- 34

2.7.1: Main features of King IV ---- 34

2.7.2: King IV in the context of remuneration ---- 35

2.7.3: Summary of King IV remuneration principles: the main differences --------- Error! Bookmark not defined.

2.8: Implementation challenges ---------- **40**
2.8.1: Risk of Misinterpretation ---------- 40
2.8.2: Tick-Box Approach ---------- 41
2.8.3: Impression Management ---------- 41
2.8.4: Lack of systems ---------- 42
2.8.4: Resistance ---------- 42
2.8.5: Stakeholder engagement ---------- 43
2.8.6: Competency and skill ---------- 44
2.8.7: Compliance cost ---------- 44
2.8.8: Implementation challenges tabulated ---------- 45

CHAPTER 3: METHODOLOGY ---------- 46

3.1: Interpretive research method ---------- **46**

3.2: Semi-structured interviews ---------- **47**

3.3: Sample selection ---------- **47**

3.4: Data Collection ---------- **49**

3.5: Data analysis ---------- **50**

3.6: Validity ---------- **51**

CHAPTER 4: FINDINGS ---------- 53

4.1: Interviewees' understanding of King-IV ---------- **53**

4.2: Drivers of remuneration-related principles and practices in King IV ---------- **58**

4.3: Implementation challenges ---------- **61**
4.3.1: Tick-box ---------- 61
4.3.2: Impression management ---------- 62
4.3.3: Stakeholder engagement ---------- 63
4.3.4: Misapplication of principles ---------- 65
4.3.5: Single figure ---------- 65
4.3.6: First time application and lack of definitive and clear guidelines ---------- 67
4.3.7: Wage gap ---------- 68
4.3.8: Cost vs benefit ---------- 70
4.3.9: Resistance ---------- 71
4.3.10: Lack of structures ---------- 72
4.3.11: Skills vs competence ---------- 73

4.4: Recommendations ---------- **73**

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS ---------- 76

5.1: Conclusion ---------- **76**

5.2: Contributions of the study ---------- **77**

5.3: Limitations and areas for future research ---------- **78**

CHAPTER 6: REFERENCES ---------- **80**

APENDIX A: INTERVIEW AGENDA ---------- **90**

APPENDIX B: TABLE OF INTERVIEWS ---------- **91**

I. DECLARATION

I, Dianne Anyango, declare that this research report is my own work except as indicated in the references and acknowledgments. It is submitted in partial fulfillment of the requirements for the degree of Master of Commerce in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

D.A

Dianne Anyango

On the 01st day of August, 2018

II. Acknowledgment

To my mother, thank you for understanding and supporting me during the course of my studies.

III. Abstract

With the high income disparity that South Africa faces coupled with the major corporate scandals that have recently occurred, regulators and institutional investors are paying increased attention to both the disclosure and 'shareholder say' on remuneration. Therefore this has resulted in remuneration being one of the major governance developments that King-IV code addresses. It has, therefore, become imperative for companies to start looking at remuneration as an important corporate governance tool that aids in fostering increased accountability amongst management.

Some of the concerns that are raised regarding the new disclosure requirements include; how some of the requirements will be defined and to what extent disclosure is required by companies, how will the disclosure then be assessed and analyzed and finally what the norm will be in comparison to competitor disclosures. Therefore, the aim of this thesis is to examine what some of the implementation challenges that corporations will face when applying the disclosure requirements of King-IV. Using detailed interviews, this will be one of the few papers that uses the views of respondents as a primary source of data. By assessing the views of both technical experts and preparers regarding their perceptions of the various challenges that will be encountered when applying the principles of the code.

As the King-IV code recently became effective this research will be amongst the first few papers on King-IV and adding to the existing body of corporate governance research. Furthermore, this thesis aims at providing a practical contribution by providing preparers of annual reports the first set of challenges expected when practically applying the disclosure requirements the King-IV.

IV. Abbreviations and Acronym

Abbreviations	Acronym
IOD	Institute of Directors in Southern Africa
STI	Short-term Incentives
LTI	Long-term Incentives
PWC	PricewaterhouseCoopers
JSE	Johannesburg stock exchange
IASB	International accounting standards board
OECD	The Organisation for Economic Cooperation and Development
UKCGC	UK corporate governance code 2013
CEO	Chief executive officer
ESG	Environmental, social and governance
NPO	Non-profit organization
SME	Small-to-medium entities
SOE	State-owned entity
SIC 12	Standing interpretations committee 12: special purpose Entities
AS4	The Prince of Wales Accounting for Sustainability Project
IFRS 12	International Financial Reporting Standard 12: Disclosure of Interests in Other Entities
IFRS10	International Financial Reporting Standard 10: Consolidated Financial Statements
UK	United Kingdom
USA	United States of America

Chapter 1: Introduction

1.1: Background

The major corporate collapses of companies such as Enron, Tyco, Parmalat and WorldCom, followed by the global financial crisis, have led to many stakeholders questioning the ability of the existing financial reporting system to provide relevant information for decision-making (Agrawal & Chadha, 2005; Farvaque, Refait-Alexandre, & Saïdane, 2011). These malpractices have often been considered as proof of failure in corporate governance structures and the dangers of a lack of disclosure (Farvaque et al., 2011). Because of this, there have been criticisms of the financial reporting systems in place, *(refer to footnote below)*[1] (Bussin, 2015; Clarkson, Van Bueren, & Walker, 2006).

Since then, regulation mostly in Europe and the United States has responded by attempting to impose more onerous governance mechanisms and subjecting companies to more information reporting (Aguilera, Williams, Conley, & Rupp, 2006; Farvaque et al., 2011). New systems have been identified to provide more relevant information on companies' performance and condition, largely because of inefficiencies identified with the current corporate reporting system (Chobpichien, Ibrahim, & Haron, 2008). The most recent example is the emergence of integrated reporting which is designed in an effort to integrate both financial and non-financial measures in primary communications with stakeholders (Larner & Mason, 2014). In particular, the framework emphasizes the importance of a cohesive reporting framework that communicates the factors which influence organizational value over time (Atkins & Maroun, 2015; R. Cassim & Madlela, 2017; Maroun & Atkins, 2015).

Disclosure of information has become an important phenomenon both in South Africa and globally because it is seen as a measure of increasing transparency and a way to reduce information asymmetry (Healy & Palepu, 2001; PWC, 2017). Information

[1] The first criticism is that when estimates and judgements are given, there is usually a risk that there is a lack of precision, especially when it is based on information which is not objective and verifiable. The second is that standard financial metrics may not be the most suitable way of assessing the value of a company, especially now, as companies are seen more as having moral obligations towards areas such as social and environmental impacts. Lastly is the fact that there are usually incentives, such as performance based bonuses and other pressures, for management to manipulate the financial statements.

asymmetry becomes important because Investors have all the required information to make use of the information disclosed, allowing them to make informed decisions (Akerlof, 1970; Farvaque et al., 2011). When management discloses more information, required by regulation, the effect is that useful information is provided for investment purposes (Balachandran & Bliss, 2004).

Increased transparency is also important because it is often seen as the main element of possibly improving financial regulation (Farvaque et al., 2011). During the financial crises, it was also viewed as a way of possibly fighting some of the causes which resulted in the crisis and avoiding a repeat by ensuring accountability amongst corporations (Blundell-Wignall, Atkinson, & Lee, 2008; De Jongh, De Jongh, De Jongh, & Van Vuuren, 2013). This is particularly important within the South African context because of the increased calls for corporations to be held accountable (PWC, 2016).

The King Report on Corporate Governance (King-IV) is one such regulation introduced into South Africa to help improve corporate governance practices amongst South African firms whilst ensuring that we are aligned with international best practices (IOD, 2016). Hence King-IV emphasizes that companies must not only report on financial implications but also on non-financial aspects (Chobpichien et al., 2008; Clarkson et al., 2006; IOD, 2016). This is seen through an emphasis on integrated reporting, triple bottom line reporting and reporting on the six capitals, as new forms of reporting systems (Balachandran & Bliss, 2004). This is because companies are now seen as moral agents which impact the environment in which they operate and so companies must also start reporting on non-financial aspects as well (Wanyama, Burton, & Helliar, 2013).

King-IV is ultimately aimed at achieving increased transparency and accountability amongst companies with the ultimate goal of fostering good governance in South Africa, as well as keeping up with the international best practices relating to governance (KPMG, 2016; Maroun, Coldwell, & Segal, 2014). Most of the underlying philosophies in King-III have remained the same and are also included in King-IV (KPMG, 2016). However, there are some notable differences between the two King Codes. The following was stated in a King-IV press release:

> *Among the primary differences between King-III and King-IV is the requirement to 'apply* and *explain', as opposed to 'apply* or *explain'. Essentially, this means that application of the 16 principles is assumed and companies will be required to provide a high-level overview of the practices that have been implemented, and the progress made in the journey towards giving effect to each principle (Moneyweb, 2016).*

Remuneration has often been seen as an important corporate governance topic because it has been viewed as a monitoring tool in ensuring the accountability of management (Ablen, 2003; Bussin, 2015). Hence, it comes as no surprise that it is seen as a tool for tackling the agency problem and King-IV has placed an increased focus on remuneration and is addressed in significant detail in the code (PWC, 2017). Due to the focus on remuneration, various developments such as: ethics on pay; 'fair and responsible' remuneration; 'malus' and 'clawback' provisions and the single figure to remuneration, have all been placed under the spotlight and have shaped many of the current remuneration trends (PWC, 2017).

There has also been increased attention on remuneration by significant stakeholders. For example, Institutional investors are now focusing on the remuneration report of companies as a monitoring tool to ensure accountability on the part of executives (Massie, Collier Massie, Ann, Collier, & Crotty, 2014). Companies are also taking note that shareholders are placing more focus on the remuneration report and, because of this, they have identified it as a significant component of the integrated report with King-IV taking these developments into account in the principles administered (PWC, 2017).

The aim of King-IV, focusing specifically on remuneration, is to achieve increased accountability and provide more guidance and direction when it comes to the principles and requirements (Moneyweb, 2016). This is aimed at correcting some of the flaws identified in King-III[2] (Moneyweb, 2016; PWC, 2017), as the previous Code provided little-detailed guidance with regard to the practical implementation of these principles

[2] Some of the Respondents of this study identified certain deficiencies of the previous code, including:

- It promoted a tick-box approach to governance- mindless application
- It had many practices that were more prescriptive
- There was a lack of clear and definitive guidance with certain principles

and practices (IOD, 2016; Maseko & Marx, 2016). King-IV, therefore, tries to address these issues by providing more definitive disclosure requirements (IOD, 2016).

In South Africa, King-IV was issued on 1 November 2016 and only became effective from 1 April 2017 (IOD, 2016). This means that companies will only be practically applying the principles of King-IV for the first time for the financial years commencing 1 April 2017 (KPMG, 2016).

Implementation challenges are to be expected when it is eventually applied on a practical level (BDO, 2017). For example, when the first set of integrated reports was introduced in South Africa, the International Integrated Reporting Council (IIRC) acknowledged that integrated reporting was not an immediate success and that time was needed for organizations to adjust to the change (Atkins & Maroun, 2015). Similarly, BDO and PwC acknowledged the challenges of applying King-IV, especially when it comes to disclosure. This is because a new “narrative approach” is being followed to reporting, which emphasizes integrated reporting, rather than applying a tick-box approach to reporting (BDO, 2017; PWC, 2016).

It is for these reasons that this paper looks at the possible challenges faced when companies start applying the remuneration disclosure principles in King-IV.

1.2: Research Question

What challenges are expected to arise when applying the remuneration disclosure requirements of King-IV?

1.3: Significance of the study

This thesis makes a number of important contributions:

- It will be one of the first papers on King-IV, as this is a newly issued code and provides empirical data on remuneration disclosures and practices that have not been addressed in prior research, as most research on this topic primarily focus on the extent of reporting (Atkins & Maroun, 2015; Clarkson et al., 2006).
- There has been limited research using the views and engagement of respondents as the primary source of data (Atkins & Maroun, 2015). Considering that companies will need to start applying the newly issued code with limited experience prior, this paper, therefore, examines the views of both the technical experts and the respondents in practice regarding what they feel the challenges will be when applying the principles of the code.
- It focuses on practical issues and it is for this reason that this thesis does not rely on detailed development and application of theory (Atkins & Maroun, 2015; Maroun & Jonker, 2014). Rather, the views of both technical experts and prepares are used to identify some of the emerging themes and challenges when applying the newly issued King-IV code on a practical level. This is useful as it may assist and inform preparers, technical experts and the users of the financial statements of the possible implementation challenges that may come with remuneration disclosure requirements of King-IV (Atkins & Maroun, 2015).

1.4: Limitations

- The research is qualitative. Due to this, there is a level of bias that is involved because it uses the opinions of individuals resulting in the data analysis being inherently subjective (Leedy & Ormrod, 2013). This factor is considered and the way the validity is obtained becomes important (see section 3.6), specifically when looking at how the interviews are conducted to reduce this limitation (Creswell, Fetters, Plano Clark, & Morales, 2009; Leedy & Ormrod, 2005).
- A purposive sample selection is used to identify the respondents and the respondents selected is limited to both preparers and technical experts. The risk in this is that the views of the study could be skewed to focus only on the views of a particular group (Creswell et al., 2009).
- There is always the risk of interviewees providing rehearsed responses because of social pressures, with this affecting the validity of the responses presented (Creswell et al., 2009).
- As the researcher becomes a part of the data collection process through the interviews, the results may not be conducive to reproduction as is the case with more positivist-type studies (Creswell et al., 2009).

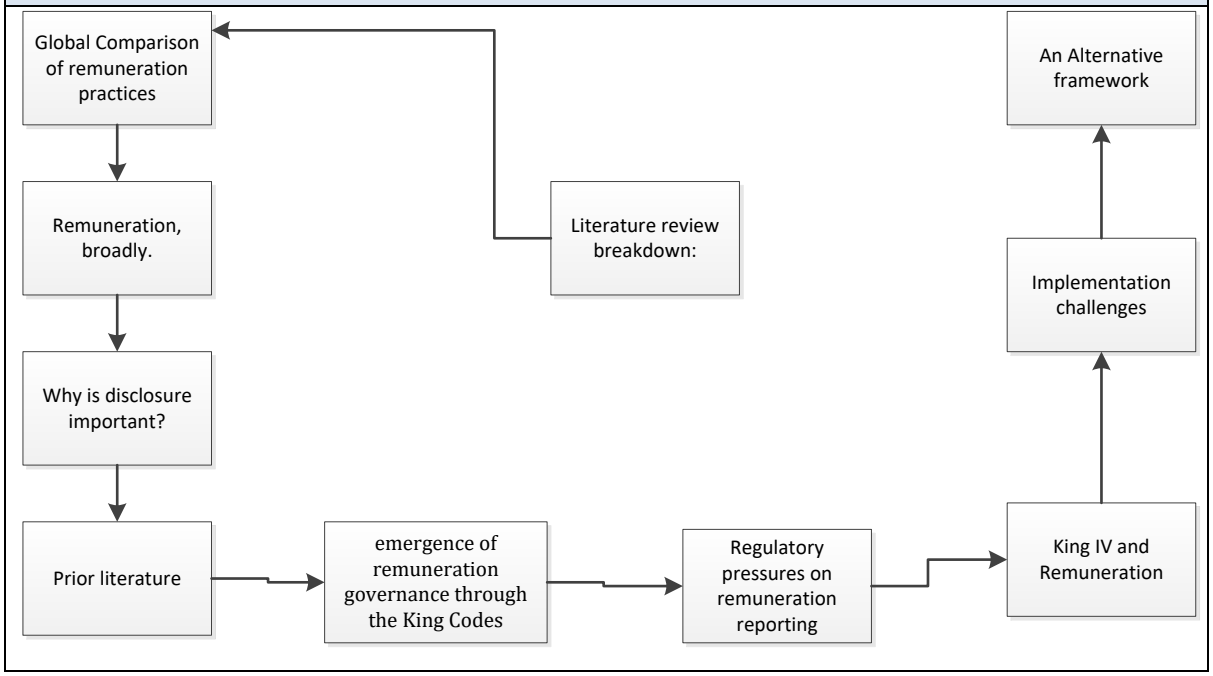
1.5: Delimitations

Firstly, this research will only focus on South African listed companies, because it is a mandatory listing requirement according to the Johannesburg stock exchange rules that require compliance of the requirements of King IV (Barac & Moloi, 2010). Secondly, no effort is made to try to develop and quantify a scale to measure the implementation challenges of King IV (Leedy & Ormrod, 2013).

These restrictions are necessary to ensure focus on the subject matter (Hopper & Macintosh, 1993). To ensure that only the emerging themes are identified regarding the implementation challenges arising from the application of the King IV code.

Chapter 2: Literature Review

Figure 1: A breakdown of the literature review



The aim of this chapter is to solidify this thesis in the prior academic literature. Section 2.1 examines the types of remuneration policy's that can be observed by South African company's remuneration structures, it also reflects how regulation has played a major role in shaping the remuneration policy's that are currently being set in South Africa. Section 2.2 then assesses how these regulatory pressures, identified in section 2.1, has affected the remuneration disclosure and reporting trends in South Africa in more detail, by looking at JSE and Companies act requirements regarding remuneration disclosure. Section 2 provides a brief overview of the global remuneration trends and the regulatory pressures that help shape the remuneration policies and disclosure requirements set.

The aim of this section is not to provide a detailed account of the regulatory reporting and disclosure requirements set, but to provide a brief account of the significant influence that regulatory frameworks have on shaping the remuneration disclosure trends that are currently being followed. With, section 2. Examining why remuneration reporting has become important in the context of this thesis. What is interesting is that we find that remuneration reporting has become an important governance tool and this

explains the reason for the increased focus on the governance codes and increased regulatory intervention. Followed with section 2.5 looking at prior literature that focuses on remuneration as a governance topic and various papers that address it. As we have examined remuneration and noted that it is seen as an important governance topic, we then look at the emergence of remuneration throughout the King codes. Finally, we observe the remuneration principles that are set out in the newly issued King-IV code.

Section 2.6 provides an account of the emergence of remuneration through the King codes. Followed with section 2.7 expanding on the remuneration requirements in King IV. As this thesis examines the implementation challenges faced and section 2.8 will finally be addressing the implementation challenges that are to be expected based on the assessment of prior literature and provide a brief account of the rationale behind the selection of the research question of this thesis.

2.1: Remuneration policy in South Africa

In South Africa, regulation and legislation such as the Companies Act No. 71 (2008) and the JSE listing requirements (JSE, 2016) have set out what must be included in remuneration packages set by companies and also goes on to define what constitutes 'remuneration' (Frydman & Jenter, 2010). Remuneration packages usually comprise of bonuses, an annual salary, short-term performance incentives, pension contributions, share options, financial assistance, soft loans and long-term performance incentives.

Section 30(6) of the Companies Act No. 71 (2008) defines remuneration as:

- *fees paid for services rendered*
- *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*
- *financial assistance to a director and*
- *with respect to any loan or other financial assistance to a Director, 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 at fair market rates in an arm's length transaction; and
  The interest actually charged to the borrower.

Remuneration can be either fixed or variable (Naidoo, 2002). The fixed component of the executive's remuneration is paid out irrespective of performance and the variable component of the remuneration is directly linked to performance (Naidoo, 2002). Performance-based remuneration can also be further divided into short-term incentives (STI) and long-term incentives (LTI) (Bussin, 2015). A performance incentive usually ensures that directors formulate and plan the strategy of the company, as well as the long-term achievements so it is recommended that this type of incentive should comprise a substantial element in the total remuneration package (Naidoo, 2002).

The guaranteed package of the remuneration is the portion of an executive's remuneration guaranteed every year, irrespective of the executive's or company's performance (Massie et al., 2014). It usually forms part of a short-term Incentive (Massie et al., 2014). This means that it is not in any way linked to the executive's or the company's performance and it may even be subject to annual increases (Massie et al., 2014). Guaranteed packages include annual basic salaries, company pension contributions, medical benefits and allowances which an executive may be entitled due to his/her job (Bussin, 2015).

A study conducted by KPMG found that the remuneration of executives has been on the rise, with larger listed companies on average paying more than small firms (Ajayi, 2017). The performance is usually around 50% and 75% of the total package. It typically comprises of base pay, short-term incentives, long-term incentives, benefit and prerequisites (Ajayi, 2017). Stock Awards usually range between 35% and 40% of the total package. Guaranteed salary and stock options show the trend and have been on a decline in relation to the other package options presented above. In addition, companies are beginning to adopt a combination of long-term incentive plans, rather than a single model, for incentivizing their executives (Ajayi, 2017).

2.1.1: Short-term Incentives

Short-term incentives (STI) comprise of bonuses, paid yearly and are in place to ensure that short-term performance targets are achieved (Bussin, 2015; PWC, 2016). Examples of performance indicators can include individual, business unit or corporate performance and may include thresholds or ceilings limiting the amount of payment (Bussin, 2015; PWC, 2016). Previously performance measures were mostly comprised of short-term incentives and the challenge with that is directors were incentivized to achieve short-term profits to the detriment of long-term sustainable growth. However what is currently being experienced is a mix of both long-term incentives coming through and this will be discussed below (Bussin, 2015; Massie et al., 2014).

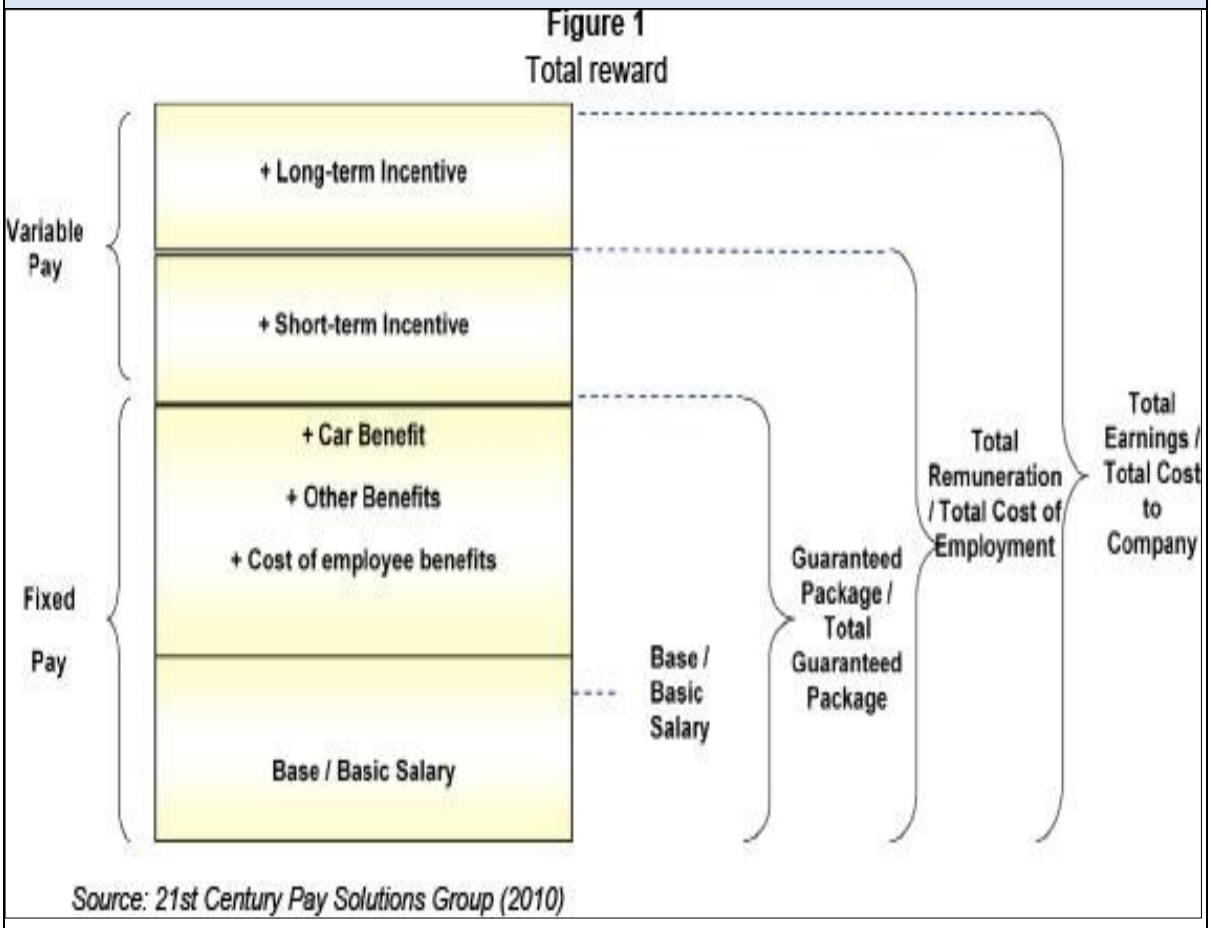
2.1.2: Long-term incentives

Long-term incentives (LTI) usually include share-based payments (Bussin, 2015; Massie et al., 2014). The executive will benefit from this incentive scheme as the share value increases. The reason such an option is used is that this gives the executive an incentive to contribute to the rise in the share value, which is mostly influenced by the company performance in the long run (Massie et al., 2014). The purpose of this scheme is usually to tackle the agency problem by ensuring that shareholder and director's interests are aligned and to motivate directors to create shareholder value. It is regarded as one of the most complex and contentious issues in corporate governance, which is discussed later on in this paper (see section 2.5) (Ajayi, 2017).

In addition, companies are starting to adopt a combination of LTI plans rather than a single model for incentivizing their executives, mostly because of the accountability aspect that it brings about. A study conducted by one of the Big Four Auditing firms PWC found that the most used LTI schemes include: options, share appreciation rights, conditional shares, forfeitable shares, deferred bonus award, voluntary acquisition of shares with match and credit purchase share ownership (PWC, 2016).

Based on the remuneration schemes addressed above what can be observed is that companies are now increasingly using managerial incentives such as performance bonuses, share appreciation rights, short-term incentives, and long-term incentives. This is because these types of schemes help align shareholders' interests with management interests. Prior literature has also concluded that the use of these incentives can help to minimize the agency problem (Ajayi, 2017). The reason why remuneration is now being seen as an important governance component is that in the absence of good governance practices there is a risk of these performance incentives being manipulated as management stands to gain significantly from these schemes (Bussin, 2015; Massie et al., 2014).

Figure 2: A summary of the different components of remuneration



Source: (Bussin, 2015)

2.2: Regulatory pressures on remuneration reporting

Section 2.1 defined what remuneration is and outlined the different remuneration packages and how they are structured. The objective of this chapter is to discuss the different regulatory frameworks within South Africa and how they regulate director remuneration. Therefore this chapter will look at how the remuneration is regulated in South Africa with particular reference to the Companies Act 2008 and the JSE Listing Requirements

2.2.1: Companies Act

Some aspects of executive remuneration are regulated by legislation. Certain provisions on remuneration disclosure have been codified in the Companies Act No. 71 (2008) to keep up with international best practice and aid in shareholder protection through the disclosure of more information (Companies Act No. 71, 2008). Amongst others, require the annual financial statements of every listed company to be audited in terms of the Act and a disclosure of the remuneration received by each director of the company; or that of each individual holding any prescribed office in the company (Companies Act No. 71, 2008).

The Companies Act (2008) has several provisions relevant to the issue of executive remuneration (Companies Act No. 71, 2008). The term 'remuneration' is defined in terms of the Act and is broad; provisions regarding loans and financial assistance to directors can be found in Section 45. Section 30(4) states that the annual financial statements of a company must contain details regarding the remuneration and benefits of each director or person holding a prescribed office in the company. The relevant information disclosed must meet the minimum prescribed standards. A special resolution must be passed to authorize the basis for compensation to directors in terms of Section 66 (8) and (9). Remuneration may only be paid to directors if it is provided for in the Memorandum of Incorporation or in accordance with a special resolution approved by the shareholders every two years. This section must be read with Section 65 which deals with shareholders' resolution, in particular, and S 65 (11) which set out instances when a special resolution will be required. The aim of this level of

stakeholder engagement is to try and curtail excessive remuneration (F. Cassim, 2011).

These requirements extend to those companies required by the Regulations to have their annual financial statements audited (Companies Act No. 71, 2008). Companies which choose to be audited voluntarily and companies subject to an independent review are not required to provide disclosure of directors' remuneration (Companies Act No. 71, 2008).

2.2.2: JSE listing requirements

Schedule 22 of the Johannesburg Stock Exchange (JSE) Listing Requirements, states that companies must adhere to the report's code of corporate practice and conduct should they wish to remain listed (JSE, 2016). As a result, the listings requirements are applicable to all entities listed on the JSE and failure to comply with the requirements can result in either a fine/penalty or companies might possibly face the risk of becoming delisted from the exchange (JSE,2016). The requirements aim at ensuring that listed companies are in compliance because they have a higher public interest (Steyn, 2014).

The JSE has separate requirements relating to remuneration. Recently the requirements have been incorporated into the King IV requirements and now require full disclosure of a remuneration policy and an implementation report in the annual report. According to King IV, this would require at least the following (JSE,2016). That the JSE listing requirements dictate what listed companies are required to disclose annual financial statements, as well as the information required to be disclosed including the following: the individual director's remuneration and benefits including those of any director who has resigned during the reporting period (JSE, 2016). The JSE disclosure requirements regarding remuneration include: fees for services as a director, basic salary, bonuses, performance-related payments, sums paid by way of expense allowance, any other material benefits received (with an explanation as to what this includes), contributions paid under any pension scheme, any commission, gain or profit-sharing arrangements and share options or any other right given (JSE, 2016). The listings requirements also state that there must be an appointment of a

remuneration committee for listed companies whose membership and a number of meetings held must be disclosed in the annual report (JSE, 2016).

The JSE listing requirements also include certain requirements that are included in King IV that listed companies must comply with (JSE, 2016). One of the requirements state that a narrative statement must be included of how the company has applied the principles by providing an explanation which enables the shareholders and potential investors to evaluate how the principles have been applied, as well as a statement addressing the extent of the company's compliance with King IV and reasoning in the instance of non-compliance (JSE,2016).

Van Wyk (2009) states that the JSE listing requirements in South Africa have always incorporated the recommendations of the King Reports to give the King code a legislative or mandatory backing. There is a trend that can be identified. Many other countries which follow a voluntary code of governance, such as the United Kingdom, usually also adopt the recommendations into their listing requirements, as in South Africa, which also follows a similar legislative backing discussed previously (Ulrich, 2010).

In summary, what is observed is that regulation is playing an increased role in shaping the remuneration disclosure requirements. In South African particularly remuneration disclosure patterns seem to be shaped by law and regulatory provisions as noted above. Particularly the companies act, the JSE listing requirements as well as the King codes. This is the trend due to the financial scandals and corporate collapses noted that led to there being an increase in regulatory intervention. Remuneration is also increasingly being viewed as an important governance topic and is therefore increasingly being addressed by regulation. Section 2.3 will then look at global trends when it comes to disclosure trends and regulatory pressures.

2.3: Comparison of remuneration practices adopted globally: regulatory pressures, and disclosure trends

2.3.1: Regulation: United Kingdom

Regulation regarding remuneration in the United Kingdom can be traced back to the last two decades in the 1980s (Suárez, 2012). At that time, there were major expansions and contractions. The collapse of major corporations led to devastating effects on employees and communities but executives continued to benefit from large pay increases, in companies like Polly Peck International, Maxwell and the Bank of Credit. As a result, there were increased concerns about misalignments between executive compensation and performance (Suárez, 2012).

These developments placed an increased focus not only on remuneration practices of companies but also on corporate governance practices in the United Kingdom (Conyon & Murphy, 2000). The Greenbury Report was published in 1995: this proposed best practices on remuneration for listed UK companies (Remuneration & Greenbury, 1995). It recommended the establishment, role, and function of the remuneration committee. Additionally, it made recommendations regarding the disclosure of executive remuneration and the remuneration policy to be adopted by listed companies (Remuneration & Greenbury, 1995).

The UK has long been a leader in the regulation of executive compensation. Pioneering on issues such as “say on pay” (Koornhof, 2012; PWC, 2014). However, numerous other jurisdictions such as the United States have also introduced “say on pay”, while certain European jurisdictions already have binding shareholder votes on executive pay and have introduced or attempted to introduce salary caps and executive employee pay ratios (Koornhof, 2012). The Greenbury report provided for the adoption of a voluntary form of ‘say on pay’, where a shareholder’s resolution on the remuneration policy needed to be passed (Koornhof, 2012; Remuneration & Greenbury, 1995). The remuneration committee was invited to present long-term incentive schemes to their shareholders for an advisory vote to be passed (Remuneration & Greenbury, 1995).

Since the recession, subsequent reports were released and now the UK Corporate Governance Code 2013 ('UKCGC') is applicable for listed companies (Koornhof, 2012).

From a statutory perspective, there is not much on regulation regarding this (Koornhof, 2012). However, the provisions that are coming through and The 2006 Companies Act. No. 92 the requirement states that members of a listed company must vote to approve the directors' remuneration report for a given financial year. Failure to do so would constitute an offense (Aguilera et al., 2006).

2.3.2: Disclosure patterns adopted globally

The trend in the past on disclosure focusing on European countries is to disclose very little information (Hill, 2006b). However, with the adoption of the new United Kingdom combined code of governance, there has been a recent shift towards a comprehensive disclosure (Conyon, Gregg, & Machin, 1995; Hill, 2006b).

A study conducted by Ferrarini and Moloney (2005) found that European Union countries followed two different types of disclosure systems. The first requires maximum disclosure and transparency and follows a governance framework of "comply or explain" in countries such as the United Kingdom (Ferrarini & Moloney, 2005). The other is a system which requires very little disclosure, often as a result of privacy and cultural preferences, mostly Germany, Austria, Spain, Belgium, Luxembourg, follow this regime (Ferrarini & Moloney, 2005).

These two distinct systems are also evident throughout the world. For example, the United Kingdom and South Africa follow a voluntary code with self-regulation, whilst the United States, New Zealand and Australia apply a mandatory code with direct regulation (Ulrich, 2010).

In the United States, the majority of the disclosure rules relate to revisions of the Securities and exchange commission rules set in 1992 (Blair & Ramsay, 1992). The rules require a compensation table detailing all components of remuneration to be presented, amongst other requirements (Blair & Ramsay, 1992). However, a closer

look at European countries shows that they have opted for prescribing minimum standards for disclosure. This is to allow for greater flexibility in the application of the requirements (Ferrarini & Moloney, 2005; Ulrich, 2010).

After the financial crises and major collapses, there is increased demand for more detailed disclosure not only in the United States but also in European countries (Ulrich, 2010). Institutional investors are now demanding more comprehensive information be included in remuneration reports (Ulrich, 2010).

An example of this is in the United Kingdom where companies are now disclosing on individual executive packages and on policy information, whilst countries such as Finland and Spain are disclosing on the aggregate compensation instead (Hoskisson, Castleton, & Withers, 2009; Ulrich, 2010). Some European countries are now starting to require disclosure not only on the policies set but also on the levels and composition on directors' packages (Hoskisson et al., 2009; Larraza-Kintana, Wiseman, Gomez-Mejia, & Welbourne, 2007).

In terms of remuneration trends globally, it can be observed that both South Africa and the United Kingdom have certain similarities. In that remuneration disclosure requirements are shaped by regulation and don't have that much of a legislative backing. However in terms of the United States, after the financial crises, there has been more legislative intervention shaping the disclosure requirements. These legislative requirements that are coming through are now included in the Sarbanes Oxley act of 2002. In summary with regulation shaping the remuneration disclosure requirements both internationally and in South Africa and stressing the importance of remuneration reporting of companies, section 2.4 then assesses the importance of reporting and disclosure of remuneration.

2.4: Why is remuneration reporting and disclosure important?

Remuneration has received increased attention and this has led to increased regulatory intervention as seen in the above discussions (see section 2.2), not only in

South Africa but globally as well, all in an effort to try and reduce the excessive pay levels of executives (Bussin, 2015; PWC, 2017).

Recently after the financial crisis, remuneration was highlighted as an important governance topic which required reform (De Jongh et al., 2013). There were findings which suggested that the way certain remuneration packages of executives in the banking sector were set resulted in incentivized risk-taking behavior (Farvaque et al., 2011; Scholtz & Smit, 2012). The result was in the manipulation of information via complex products resold in the markets. A good example of this is The American International Group (AIG) case where controversy about the structure of certain executives bonus payments resulted in them creating and marketing complex financial instruments in an effort to achieve short-term profits (Chen, Zhang, Xiao, & Li, 2011).

The Organisation for Economic Cooperation and Development (OECD) also identified specific failures in corporate governance which have contributed to the financial crises (Organisation for Economic Cooperation and Development (OECD), 2009). The findings show that practices of director remuneration and inadequate regulation and control have been identified as possible causes of the 2008 crisis (Blundell-Wignall et al., 2008).

In South Africa, remuneration, as a corporate governance issue has received attention from the public, the media, as well as from policymakers (PWC, 2016, 2017). Accordingly, there has been a slow increase in regulatory interventions such as King IV, which have increased the disclosure requirements made to companies regarding their director remuneration packages (BDO, 2017; IOD, 2016). This is in an effort to increase transparency regarding the remuneration practices followed by companies (PWC, 2017). The benefits of transparency are discussed in the introduction section of this thesis.

Conyon et al. (1995) stated that the current extent of corporate disclosures is not adequate as the disclosure of relevant information is often discretionary. For example, in South Africa, the King Code is a voluntary standard. Because of this, there seems to be a lack of disclosure consistency and this makes comparisons on remuneration disclosures between different companies very difficult (Conyon, 1997; Conyon et al., 1995).

The purpose of disclosure is to allow the users to understand the remuneration policies set by companies and aids the relevant users in making decisions in this regard (Ablen, 2003). Therefore, disclosing information on remuneration is useful because it is often seen as an “agency problem” monitoring tool because it allows shareholders to criticize whether the policies set to link with performance (Ablen, 2003). Ultimately leading to increased transparency and enabling users of the financial statements, specifically shareholders, to monitor the board of directors to ensure accountability (Ablen, 2003).

Some benefits to disclosure include the higher share price enjoyed by shareholders over time and there have been studies showing companies enjoying a higher price to book ratio due to the firms’ disclosure. This is because increased disclosure may result in an increase in investor confidence. It also results in a reduced cost of capital in some instances (Farvaque et al., 2011). Also, corporations tend to benefit from additional investments leading to firm growth financed externally (Farvaque et al., 2011).

Another benefit identified is the reduction in information asymmetry prevailing amongst investors (Akerlof, 1970; Farvaque et al., 2011). When information asymmetry exists the result is that informed agents can make profits and sell ‘bad lemons/goods’ to the detriment of uninformed agents (known as the market for lemon’s theory) (Akerlof, 1970; Farvaque et al., 2011). Enhanced disclosure, therefore, can increase the quality of ‘investors’ expectations and so more market agents have access to information specific to that share (Akerlof, 1970; Farvaque et al., 2011).

The result of this is that it might lead to managers making better decisions as it becomes easier to hold them accountable through increased disclosure (Healy & Palepu, 2001). Due to the increased disclosure leading to greater scrutiny by investors and ultimately leading to deterring the self-serving interests of directors (Healy & Palepu, 2001). In addition, there are effects it has on the cost of capital and the ability to possibly reduce the private profits extracted by managers (Healy & Palepu, 2001).

This is important as companies often disclose remuneration in complex ways to hide the true nature of the policies set and self-serving interests (Hill, 2006a). Disclosure of information can help with a meaningful engagement because it allows shareholders

to determine whether remuneration packages of companies link to performance and strategy (Ulrich, 2010).

The information above indicates that there are gaps identified in both the quality and extent of disclosure relating to remuneration. That is why there is now a strong movement pushing for listed companies to adopt better remuneration reporting and shareholder engagement practices through implementing fair and responsible remuneration policies', and these have inspired the provisions of King IV (IOD, 2016).

2.5: Prior literature

South Africa has a long history of corporate governance (IOD, 2016) but there is little prior research on how South Africa's codes of corporate governance are interpreted and applied by organisations (Wanyama et al., 2013). Maroun et al. (2014) identified that South Africas' past experience with Apartheid, as well as the international corporate failures in the United States, have shaped many of the corporate governance practices and developments to date. The study found that in an effort to keep up with international developments, South Africa developed an economy with a highly sophisticated system of corporate governance, ranking first in a series of global competitiveness reports (Maroun et al., 2014).

Currently, the majority of the prior research has been focused on developed economies like the U.S.A, the U.K and Australia (Braendle & Rahdari, 2016; Maroun et al., 2014). Poor disclosure and the non-availability of remuneration data are also reasons for limited research on corporate governance practices in general and, more specifically, on remuneration reporting in developing countries such as South Africa (Kang & Nanda, 2017).

At the theoretical level, most corporate governance research has focused on the agency problem which arises when remunerating directors based on the companies' performances (Bender, 2007; Jensen & Meckling, 1976; Jensen & Murphy, 1990). The Principle-agency theory suggests that ownership and control are two distinct things. The principal (owner) hires the agent (management) to represent his or her interests in the company (Jensen & Meckling, 1976). The theory proposes that the principal and

the agent are driven by self-interest (Jensen & Meckling, 1976). As a result, agents may not always make decisions in the best interests of the principal because the separation between ownership and control of corporations can inherently lead to a conflict of interest where executives prefer to pursue their own interests above those of shareholders (Bussin, 2015; Jensen & Meckling, 1976).

There have been various factors identified to help solve the agency problem and one of them includes governance frameworks, to try and de-centivise executives from dealing in self-serving activities (Kakabadse, Kakabadse, & Kouzmin, 2004; Ulrich, 2010). Disclosing information on remuneration is useful because it is often seen as an "agency problem" monitoring tool as it allows shareholders to criticize when the policies set do not link to performance (Ablen, 2003).

On the topic of performance-based pay, Kang and Nanda (2017) found that in terms of performance-based indicators companies have mostly focused on financial performance: this leads companies to take short-term risks for compensation. For example, a research study conducted by Conyon and Sadler (2010) examined the effect on "say on pay" legislation on CEO pay performance and the research findings reflected no evidence of change in the pay of CEO's after an adoption on pay regulation.

Other studies have focused on the level of disclosure on executive remuneration in the annual reports of companies. For example, Liu and Taylor (2008) assessed how specific executives share rights, options and termination entitlement affects the extent of disclosure in companies' annual reports.

The findings reflected that certain factors such as firm size, corporate governance, and firm culture had an effect on the extent of information presented and disclosed.

A similar study conducted by Clarkson et al. (2006) found that factors such as audit quality, public scrutiny, cross-listing status are significant explanations of the relative increase in disclosure in addition to those factors mentioned above. Furthermore, Ben-Amar and Zeghal (2011) assessed how the independence of the board of directors can affect the level of transparency and ultimately lead to increased disclosure, with the results found a positive correlation between the two.

However, there has been a body of research assessing the weaknesses relating to the disclosure in the remuneration reports. An example of this is Nelson and Percy (2008) whose findings reflected that companies were not disclosing certain requirement components because management found that they did not want to disclose certain sensitive information as this meant that by providing this information the organization would lose some of its' competitive advantage. But the question raised here was whether a lack of transparency in some of the remuneration disclosure of companies was directly correlated with the likelihood of losing the organizations competitive advantage (Nelson and Percy (2008).

Conyon et al. (1995) stated that the current extent of corporate disclosures is not adequate and that there lacks consistency in remuneration reporting. This ultimately makes adequate comparisons relating to remuneration disclosures very difficult (Conyon, 1997; Conyon et al., 1995).

However, with the flaws in the extent of disclosure identified, not much research has been conducted on the implementation challenges of adopting new governance standards. Prior research include a paper by Atkins & Maroun, 2015 that focuses on the implementation challenges faced when the first set of integrated reports was being introduced in South Africa.

Therefore taking into account the assessment of the relevant shortcomings in the prior literature regarding the gap in research of remuneration disclosure, this shows the relevance of this study. This study will, therefore, bridges this gap identified in literature and aims to examine the implementation challenges regarding the disclosure requirements faced when King-IV code is eventually applied.

2.6: The emergence of remuneration governance through the King Codes

There have been growing concerns regarding remuneration, particularly relating to executive directors, since the early 1990s (Barac & Moloi, 2010). In South Africa, before 1994, South African corporations faced political and economic isolation (Barac & Moloi, 2010). Many corporations were shielded from foreign competition and this resulted in many institutions falling behind international norms, laws, and regulations

(Koornhof, 2012). Post-apartheid, there was growing interest in improving corporate governance standards and aligning them with international best practices (Barac & Moloi, 2010). The King Committee on Corporate Governance was established in 1992 to promote good corporate governance as a result and this was followed by the introduction of the King Report on Governance (1994) (Barac & Moloi, 2010; Ulrich, 2010).

Under the King-I Code, remuneration was not addressed in detail and the recommendations only provided for the establishment of a remuneration committee comprising of non-executive directors and for full and clear disclosure of the total of executive's earnings (Ulrich, 2010).

The major international corporate scandals which occurred around the early 2000s, an example being the collapse of Enron, followed by the 2007-2009 global financial crises placed increased attention on executive remuneration (OECD,2009). The financial crisis also accelerated the debate about executive remuneration (Chen et al., 2011). The Organisation for Economic Cooperation and Development (OECD) identified specific failures in corporate governance and found the practices of director remuneration, inadequate regulation, and control to be possible causes of the 2008 financial crisis (Braendle & Rahdari, 2016; Chen et al., 2011).

With this increased attention on remuneration, it is no surprise that both King-II and King-III took further steps in introducing new concepts like recommending that levels of remuneration be sufficient to attract, retain and motivate executives of quality (Van Wyk, 2009). It was intended that the King III Code would, to an extent, mitigate the proclamation of the new South African Companies Act (Barac & Moloi, 2010; Naidoo, 2002). It also introduced the concept of linking remuneration to the company's performance measures and aligning it with the strategy of the company (Scholtz & Smit, 2012). The key difference between the two codes of governance was that, whilst King-II laid the foundations for governance of executive remuneration, King-III built on those foundations by considering the direction in which the global market is moving and the demands of institutional investors (Scholtz & Smit, 2012; Ulrich, 2010).

The 2008 global financial crises placed more focus on executive compensation (De Jongh et al., 2013). A key issue raised was the fact that incentive structures rewarded

short-term risk (Chen et al., 2011). The contention was that directors of failed companies were still receiving excessive bonuses and it seemed that they were rewarded for failure and poor company performance (Chen et al., 2011). With this increased pay-performance sensitivity, it is no surprise that King III addressed remuneration and performance measures (Bussin, 2015).

The topic of “say on pay” became a topical debate around 2009 because this became an effective tool for shareholders to voice their discontent on remuneration policies set by companies (PWC, 2016).
. Many other countries at the time already required this “say on pay” vote to be passed, including the UK, Sweden, Australia and the Netherlands and the US just released a “Say on Pay” bill passed in June 2009 (Koornhof, 2012; Ulrich, 2010). King-III also required shareholder approval of the proposed remuneration policies at the annual general meeting (Scholtz & Smit, 2012).

The first part of this section addresses the emergence of remuneration through the first three king codes. Lastly, a look at the practical and theoretical issues that arose in King III that lead to King IV will be assessed. King III was necessary due to the new companies act no.71 of 2008 and international trend changes. However, the code was issued before the act became effective therefore this resulted in the code lacking insights regarding subsequent developments (IOD, 2009). King III also followed a rule-based approach to compliance and a ‘comply or explain approach’ (IOD, 2009).

Since the issue of the King III code, there have been various developments that have taken place. The release of the United Nations sustainable development goals emphasizing value creating in a sustainable manner by governing bodies (IOD,2016). The shifts towards integrated thinking, inclusive capitalism and long-term thinking for value creation (IOD,2016). Issues such as technological disruptions and the notion that we are in the brink of the fourth industrial revolution, climate change and an increase in expectation from stakeholders have all led to the need of a new code that addresses these issues identified (IOD,2016). Therefore the King IV code aims at addressing these gaps and expand on the successes of King III, as well as to bring it in line with the global developments currently faced (IOD,2016).

2.7: King IV and Remuneration

King IV was released on 1 November 2016 and becomes effective for financial years commencing 1 April 2017 (IOD, 2016). King IV builds on King III. It has been revised to bring it up-to-date with international governance codes and best practice (IOD, 2016) and align governance practices in South Africa with three main shifts in the corporate world, including: inclusive capitalism, a shift from financial reporting to integrated reporting and to long-term sustainable capital markets (IOD,2016). It also accounts for specific corporate governance developments in relation to effective governing bodies, increased compliance requirements, new governance structures (e.g. Social and Ethics Committee), emerging risks and opportunities from new technologies (IOD,2016). The key philosophies include integrated thinking, stakeholder inclusivity and corporate citizenship, the organization as an integral part of society (IOD,2016).

Globally, companies are making a move to adopt the Sustainable Development Goals (SDGs) (KPMG, 2016). Although the requirements of the SDGs might not be common knowledge across the business world, awareness among South African companies is already strong (KPMG, 2016). Significant investment will be required to tackle a number of sustainability issues, and business will be a critical player (KPMG, 2016). Businesses have the ability to influence sustainable development by supporting the SDGs and it makes sense that, in order to drive this successfully, such goals should find their way into the executives' performance scorecard (KPMG, 2016).

2.7.1: Main features of King IV

One of the main objectives of King IV is to broaden acceptance of corporate governance by making it accessible and fit for application (KPMG, 2016). Therefore, it is now applicable to other sectors, including separate sector supplements for SME's, NPO's, State-Owned Entities, Municipalities and Retirement Funds (IOD,2016).

King IV follows an outcome-based approach (IOD,2016). The governing body is a new concept introduced, and King IV has placed sole responsibility on this governing body (KPMG, 2016). It proposes that by achieving the principles the result will be that good governance outcomes are achieved (IOD,2016). The governance outcomes include ethical culture, good performance, effective control and legitimacy (IOD, 2016).

It contains sixteen principles applicable to all organizations and a seventeenth principle applicable to institutional investors (KPMG, 2016). It follows an "Apply and Explain" approach to disclosure, as opposed to King III which was 'Apply or Explain' (IOD,2016). This means that it now assumed that the principles have been applied and an explanation of the application, must be disclosed in the integrated report (KPMG, 2016).

2.7.2: King IV in the context of remuneration

Fair and responsible pay:

One of the new amendments addressed requires companies to disclose and justify how the remuneration packages of top executives are fair and responsible in relation to the overall context of the employee (PWC, 2017). Therefore, the policy set should find a balance between setting pay which will attract, retain and motivate executives but also consider the "pay equity" aspect (PWC,2017). This is to ensure that lower level employees also earn enough to live dignified lives (PWC,2017).

Voting:

King IV provides shareholders with more "say on pay" power and increases the engagement between investors on the remuneration policies of companies set (PWC, 2017). King III only required for a vote on the remuneration policy but with King IV there are two separate votes granted, one on the remuneration policy and another on the implementation report (IOD, 2016). The vote is a non-binding advisory vote passed every two years on the policy but every year on the implementation report (IOD, 2016).

There is also a requirement for the remuneration committee to consider the 25% or more opposing votes (IOD, 2016).

The Structure of report and disclosure:

The new code prescribes for a three-part remuneration report which includes a background statement, an overview of the provisions of the policy and an implementation report (IOD, 2016). The background statement requires an explanation of the considerations and decisions relating to key focus areas, internal and external factors if consultants have been used and recent results on voting (IOD, 2016).

The section on the overview of the policy includes the main provisions of the policy, as well as how the objectives will be achieved, including: benchmarks used, performance measures used, bases for non-executive directors' fees (IOD, 2016).

The implementation report includes the main disclosure provisions in terms of the Companies Act (2016). A new requirement that is very topical at the moment includes the disclosure of the "single figure". This is an effort to apply the single figure adopted in the United Kingdom, all done in an effort to increase comparability (PWC, 2016). Another requirement is that companies disclose variable remuneration incentive schemes for both current and prior periods not yet vested and all disclosed at fair value (IOD, 2016). Performance measures used and weightings relating to variable remuneration must be disclosed (IOD, 2016).

Having briefly looked at the highlights of remuneration addressed in King IV, the following section will summarize the major changes.

2.7.3: Summary of King IV remuneration principles: the main differences	
Governance Elements	**King IV Draft:**
Fair and responsible remuneration:	• Remuneration should be fair and responsible in the context of overall employee remuneration. (Recommended practice 29 (a)) • The governing body should oversee the social and ethics committee and they should review the remuneration practices. (Recommended practice 70)
Voting:	• A shareholders' resolution which is a non-binding advisory vote, every two years, or • when there is: 1: a change to the policy is approved by the board 2: not adopted by at least 75% of the voting shares the year before. (Recommended Practice 36) • In addition, a vote on the implementation report, every year. (Recommended Practice 37) • If either the remuneration policy or the implementation report is voted against by at least 75% of the voting shares, the remuneration committee should be proactive in taking steps to address shareholders' concerns. (Recommended Practice 38)

2.7.3: Summary of King IV remuneration principles: the main differences	
Governance Elements	**King IV Draft:**
Remuneration report structure:	The governing body should ensure that remuneration is reported in three parts: i. Background statement; ii. An overview of the main provisions of the organization-wide policy on remuneration and iii. An implementation report. (Recommended Practice 36)
Disclosure:	Remuneration disclosures are more specific, and include Companies Act disclosure requirements: 1. The total remuneration paid and accrued to each executive member of the governing body and each prescribed officer, including: • basic salary, • short-term incentives (including those deferred), • loss- of office payments, • other allowances and long-term incentives, 2. All reflected at fair value. 3. Details of deferred short-term incentives and long-term incentives awarded but not yet paid or vested at the end of the financial year for

2.7.3: Summary of King IV remuneration principles: the main differences	
Governance Elements	**King IV Draft:**
	each executive member of the governing body and each prescribed officer. 4. Awards realized and paid to each executive member of the governing body and prescribed officer from deferred short-term incentives and long-term incentives. (Recommended Practice 35(a) – (d))

2.8: Implementation challenges

The prior research on remuneration reporting stops short of considering how codes of corporate governance are interpreted and applied by companies when preparing their remuneration disclosures and, in particular, the challenges with which they encounter (Balachandran & Bliss, 2004; Clarkson et al., 2006). For example Maroun, Cerbone, & McNally, 2017 stated that there has been limited research examining the extent that integrated reports affect the way companies conduct business, particularly relating to impediments regarding effective integrated reporting. More specifically there has been limited research relating to remuneration reporting in developing countries such as South Africa (Kang & Nanda, 2017). Therefore this thesis asks:

> ***What challenges are expected to arise when applying the remuneration disclosure requirements of King-IV?***

As a result, this chapter looks at possible implementation challenges identified in prior literature to help form a framework for the research question identified above by identifying themes which will later be expanded on in the methodology section (Chapter 3). As stated above, as there is limited research on implementation challenges regarding remuneration, it is necessary to consider the broader corporate reporting research to identify possible implementation challenges which may be applicable when King IV is first applied. Therefore this is assessed in detail below.

2.8.1: Risk of Misinterpretation

King IV is principles-driven and, with the greater flexibility in how the principles are applied, there is a risk of misinterpreting the requirements (Rossouw et al. ,2010). For example, Atkins and Maroun (2015) found that with the first set of integrated reports there was a lack of connection between ESG issues and strategic objectives. Recently, executive remuneration has been criticised for not sufficiently linking to the strategic objectives and non-financial information of companies and only focusing on financial/performance based indicators (PWC, 2016). This information shows how companies are not effectively applying the principles of the King Code. In this context,

the first challenge identified is the risk of misinterpretation of the requirements of King IV. For example, Maroun and van Zijl (2016) found that there were important concerns raised by regulators and the IASB. The findings reflected that the consolidation accounting requirements had been misapplied, certain principles in IAS 27 and SIC 12, by preparers of financial statements to the detriment of transparency in financial reporting. As a result, it is expected that when new standards are applied and, in this case, a new code of governance is applied there is the risk of general misapplication.

2.8.2: Tick-Box Approach

A “Tick-Box” approach to governance might be followed because companies listed on the Johannesburg Stock Exchange (JSE) face compliance pressures as a result management might only apply the principles to comply with the listing requirements, rather than applying and integrating good governance principles as part of the company’s culture (BDO, 2017; Healy & Palepu, 2001; PWC, 2017). This is because a tick-box approach provides an easier opportunity to comply with all the recommended practices (Haji & Anifowose, 2016).

2.8.3: Impression Management

There is a possibility of companies involving themselves in legitimacy-seeking behavior when applying the principles of King IV in an effort to please stakeholders and maintain legitimacy by following a “form” rather than a “substance” approach, (Haji & Anifowose, 2016). The problem is that actions like these have no material form. Although short-term legitimacy will be achieved, it will become difficult to achieve long-term organizational legitimacy (Liu & Taylor, 2008; Urdari, Farcas, & Tiron-Tudor, 2017).

2.8.4: Lack of systems

King IV introduces new reporting and management requirements (IOD, 2016)[3]. This results in data collection and reporting on factors not previously included and can become costly because there will need to be adjustments made to management information systems (Steyn, 2014).This is a process which often takes time to develop (Hampton, 2012). For example, the Prince's Accounting for Sustainability Project (in 2012) found that the gathering, determining and measuring of data is one of the challenges faced when trying to implement integrated decision-making and reporting systems. The lack of systems in place is often a challenge faced, especially for smaller firms because they might not have the financial capital to have formal governance structures and systems in place, to ensure compliance with the governance requirements because they tend to be costly to adopt (A4S, Alrazi, de Villiers, & Van Staden, 2015; 2017).

2.8.4: Resistance

Another key issue relating to remuneration disclosure is resistance to disclosing information on executive pay (Jensen & Murphy, 1990; Solomon & Lewis, 2002). This is because directors feel that providing this information leads to leaking confidential information and if competitors can access this information, the company could lose its competitive advantage because information about the strategy of the company, sustainability and profitability will be in the hands of its competitor (Cairns, 2016). An example of a research study conducted is a research paper by Maroun and van Zijl (2016) which adopted an isomorphism model to demonstrate how coercive, normative

[3] *Summary of King IV changes:*

- *An outcomes based approach.*
- *Caters to a wide range of sectors.*
- *Has been reduced from 75 principles to 16 + 1.*
- *Is less prescriptive and more transparent.*
- *Follows an "Apply and Explain" approach.*
- *New disclosure requirements under each principle.*

and mimetic pressures drive compliance with IFRS 10 and IFRS 12. The study demonstrates the relevance of legitimacy and resistance for financial reporting practice. The findings reflect that there are examples of resistance to additional prescriptions imposed by the IASB. This is due to complexities of the international financial reporting standards, self-serving interests and the need for professional judgment.

2.8.5: Stakeholder engagement

Shareholders are now placing an increased focus on remuneration disclosure of companies (IOD,2016). Atkins and Maroun (2015) found that higher levels of public scrutiny and active monitoring by regulatory agencies can have an effect on the information presented to the public. As investors often argue that there is a communication gap with the remuneration process, specifically relating to the remuneration policies set there have been increased calls for a binding vote to be applied rather than the non-binding advisory vote currently being followed. This is because investors argue that a lack of disclosure prevents them from assessing and voting on remuneration policies (Cairns, 2016). Therefore, to deal with this challenge, King IV has presented the non-binding advisory vote which must be passed by shareholders on both the remuneration policy and on the implementation report (IOD, 2016).

Further, if 75% of shareholders do not approve the policy, there needs to be some type of engagement with the companies and those shareholders to address their concerns (IOD, 2016). Some argue that this might result in robust discussions with management however sometimes the information being discussed is sensitive and by communicating this, the company might lose its competitive advantage. However, a study conducted focusing on the shortcomings of the auditing profession argued that the communication gap in audit or the audit ‘black box’, should be opened up if the real value of audit work were to be appreciated by shareholders; and that is not an unreasonable demand, as they have invested capital in the company (The Association of Chartered Accountants, 2010). This can then be applied within the context of governance disclosure, as there have been concerns raised by shareholders over non-

disclosure. Therefore management needs to leverage this to ensure that shareholders have all the information they need in order to pass the vote (IOD, 2016).

2.8.6: Competency and skill

There has been research on the effectiveness of board composition and the effect on the level of compliance with the governance principles (Clarkson et al., 2006; Wanyama et al., 2013). For example, Wanyama et al. (2013) looked at board effectiveness and how size, diversity, competence, and skill can affect the level of compliance with governance. As King IV is a new development in South Africa, it comes with a level of uncertainty regarding the application of the requirements. Preparers will not be completely familiar with the requirements of King IV. Due to this, it becomes difficult for companies to apply King IV effectively. As a result, there arises a short-term lack of skills and competence and it is an important issue that must be considered.

2.8.7: Compliance cost

The cost which comes with implementing King IV is high because companies will seek the help of technical experts and consultants to become better informed about the requirements of King IV (Albu & Girbina, 2015). Training of staff for the application of the requirements of King IV and obtaining resources to be able to apply King IV effectively will also have to be undertaken (Albu & Girbina, 2015). This results in high compliance costs being incurred to comply with the King IV requirements. For example, Alrazi et al. (2015) found that larger companies often are more involved in environmental reporting and performance initiatives because these initiatives tend to be costly. It is, therefore, often applied by companies which have the financial capital and infrastructure to adopt such projects. The same may apply to an integrated remuneration strategy and reporting system.

2.8.8: Implementation challenges tabulated

Figure 3: A summary of the implementation challenges discussed in Section 2.8



Chapter 3: Methodology

This chapter explains the research method followed. Section 3.1 illustrates what an interpretive research method is and the reasons why it is an appropriate method for this study. Section 3.2 explains why detailed interviews have been used. Section 3.3 then defines the sample unit used for this study. Finally, Section 3.4-3.5 discuss the data analysis and collection process, validity and a summary of the research approach.

3.1: Interpretive research method

This study is an interpretive study because it attempts to explore the views of the respondents regarding the possible challenges faced when applying King IV (Creswell et al., 2009; Leedy & Ormrod, 2013). An interpretive research approach is a qualitative method so there may be a high degree of subjectivity because there are important social and cultural variables impacting on the subject matter (Creswell et al., 2009; Maroun, 2012). With subjectivity being an inherent characteristic of qualitative research, validity can still be achieved, based on how the findings are documented, and through the data collection and analysis processes (Creswell, Hanson, Clark Plano, & Morales, 2007; Maroun, 2012).

This study is inspired by a grounded theory approach because it gathers data about the possible challenges, using interviews, and integrates this with an existing theory to develop a framework for explaining the King IV implementation challenges relating to remuneration reporting (Leedy & Ormrod, 2013; Maroun, 2012). A grounded theory approach is appropriate when the current theory of a phenomenon is inadequate or non-existent (Leedy & Ormrod, 2013). This is relevant, given that the King IV is newly published and there is limited research on it.

3.2: Semi-structured interviews

Semi-structured interviews can be a useful tool for gathering information on little-studied phenomena such as King IV (Atkins & Maroun, 2015; Creswell et al., 2009; Rowley, 2012). As this is a little-studied research topic, interviews can prove to be useful and have the potential to provide meaningful insights to enable further understanding of the subject matter.

There have been prior qualitative research studies similar to this topic which have used semi-structured interviews for data collection. For example, a similar study specifically focused on the implementation challenges faced when the integrated report was first introduced into South Africa, used semi-structured interviews to gather data (Larner & Mason, 2014; Stent & Dowler, 2015). It is for this reason that the use of semi-structured interviews is appropriate for the purpose of this study, as this study also focuses on the implementation challenges faced when applying the newly issued code, but with a focus on remuneration. Although qualitative research has an element of subjectivity, there are ways in which the researcher can ensure validity (see section 3.5 below).

The use of detailed interviews means that the study will be subjective and the researcher will be involved in the data collection and analysis processes of the research (Creswell et al., 2009; Leedy & Ormrod, 2013; Maroun, 2012). However, this is an inherent characteristic of qualitative research and not a threat to validity (Maroun, 2012) as the use of detailed interviews should allow the research question to be examined more thoroughly, resulting in more meaningful insights (Maroun, 2012). Interviews can also help explore areas might not have been apparent to the researcher (Maroun, 2012).

3.3: Sample selection

A purposive sample selection was used to identify respondents (Barac & Moloi, 2010; Bhorat, 2017). Although the use of such a method ran the risk of importing bias into the study, it enabled the researcher to ensure that participants were able to provide

detailed and informed accounts on the subject matter. The respondents selected for this study were limited to preparers and corporate governance experts because:

1. The preparers identified would be responsible for applying King IV. They also have experience in applying the previous King Codes in their annual reports. So they are able to provide valuable first-hand accounts of possible implementation challenges associated with remuneration reporting under King IV (Larner & Mason, 2014).

2. Technical experts (regulators, auditors, and consultants) were also selected as they possess extensive knowledge about King IV (and its predecessors). They were able to provide additional perspectives to complement the points raised by preparers. Adding them to the sample selection also enabled the risk of bias to be addressed (Maroun & Atkins, 2015).

As recommended by Rowley (2012) a total of 12 interviews averaging between 30 and 60 minutes were conducted (see Appendix 2, for details of the interviews). This thesis selected 12 respondents for interviews. This smaller sample size enabled detailed accounts of the subject matter to be achieved. In addition, the reason for a fewer number of respondents being interviewed is that the data collected was more extensive to allow the subject matter to be assessed rigorously and a detailed account provided. The sample selection was also consistent with the sample size selection from prior research using a similar qualitative method (Barac & Moloi, 2010; Larner & Mason, 2014). For example, Jensen and Meckling (1976) recommend that at least 12 interviews be conducted for a qualitative study

A similar study conducted by Atkins and Maroun (2015) used institutional investors in their sample selection as they were identified as the primary users of integrated reports, with the application challenges on the integrated report being the subject matter. Another study focused on obtaining the views of the prepares (comprising both financial managers and CEO's) of integrated reports because they had extensive knowledge and experience, the challenges faced when meeting disclosure requirements in their annual reports (Larner & Mason, 2014).

3.4: Data Collection

The challenges tabulated in the literature review (Section 2.8.2) formed the basis of the interview agenda (Appendix 1) used to manage the semi-structured interviews. This is because the analysis of this research uses a grounded theory approach with continuous links between the literature review and the interviews conducted (O'Dwyer, Owen, & Unerman, 2011).

A pilot interview was conducted to ensure that the interview agenda[i] (see Appendix 1) was appropriate (Jensen & Meckling, 1976). This is how the validity and reliability of the questions were ensured. The appropriate length for the interviews for this study was determined to be between 30-60 minutes to allow for the research question and challenges to be explored in detail (Atkins & Maroun, 2015; Larner & Mason, 2014; Steyn, 2014). After the pilot interview, additional questions were added to ensure that the theme is explored thoroughly. What was noted in the pilot interview is that the questions were too broad and had to be narrowed down to ensure that the interview did not stray away from the topic being discussed. The final interview agenda has been attached in appendix 1.

The interviews were held at a location suitable for the respondents (Leedy & Ormrod, 2013). An alternative was conducting the interviews via telephone or Skype if the respondents could not be present physically (Rowley, 2012). If there were any follow-up questions, this was conveyed via email (Creswell et al., 2007; O'Dwyer et al., 2011). At the beginning of the interview, a written agenda was given to the respondents (see appendix 1). This explained the structure, purpose of the study, the research question and why they had been selected (Leedy & Ormrod, 2013). Respondents were also assured of confidentiality and an indemnity form was signed. The interview was recorded after permission was obtained from the interviewees and notes were taken if the interviewee did not agree to the interview being recorded.

Leedy & Ormrod, 2013 describes reliability as the accuracy with which a data instrument is measured. In the context of this research the following steps were taken to ensure reliability. Firstly, the interviews were all recorded and this allowed for the interviews to be accurately reviewed and Rowley (2012) argues that such a procedural

method helps to improve the quality and reliability of the findings. Respondents were then allowed an opportunity to review the transcript upon request to verify the accuracy of the transcribed interviews. In addition notes were taken during these interviews to serve as a backup during the recording procedure. Lastly assistance from an experienced researcher (supervisor) involving the decoding of the interviews and coding of the themes was received during this process and discussions and adjustments were made according to suggestions and recommendations.

The questions (see Appendix 1) were provided to the respondents before the interview. This was to ensure that participants were fully informed of the purpose of the interview and this helped to ensure that detailed responses were provided. The questions included broader concepts to allow for the themes of the study to be explored in great detail (Rowley, 2012). As the questions were broad, the risk of rehearsed responses or yes/no answers being provided by the respondents was significantly reduced ensuring validity and reliability of the study.

3.5: Data analysis

There was a thorough review of the prior literature focusing specifically on remuneration disclosure challenges and also from a broader corporate governance perspective. This was done to identify the major themes or concepts summarised in figure 3 (see section 2.8.2). This helped shape the literature review and the interview agenda. Although some of the respondents might not have used the exact terms, in terms of the themes identified in the literature review, the challenges were identified and grouped into the different themes during the open and axial coding of transcripts.

After each interview (see appendix 2), the audio recordings were transcribed. Transcripts were then reviewed several times and analyzed and the responses were broken down into similar responses and grouped together to identify emerging themes. This was the open coding process of the data analysis as it involved coding and recoding of the interviews several times which took into account the main issues highlighted in the recordings (Leedy & Ormrod, 2013; Maroun, 2017) for example, the technical challenges in the calculation of the ‘single figure to remuneration’ and eventual disclosure.

Once the open coding was complete and the interview process was complete, the open codes were reviewed again and grouped, based on the emerging themes identified in the literature review, these themes are summarised in figure 3 (Section 2.8.2). These served as axial codes (Bebchuk & Fried, 2005).

The open coding process started at the initial phase of the interview process. So there was recoding of the transcripts when additional interviews were conducted. Furthermore, any additional challenges identified during the open coding process, resulted in the axial codes being revised and updated to include the additional challenges not previously identified. The recoding process seemed to reduce as more interviews were conducted and after 80% of the interviews were conducted, the point of saturation was achieved. If any contradictions arose during the open and axial coding process, the matter was reviewed and verified with the respondents with follow up sessions.

Once this process was complete, the coded transcripts were organized in table format to summarise the key implementation challenges identified by the respondents (see section 2.8.2).

3.6: Validity

Qualitative research involves a certain level of subjectivity because the interpretation of data differs from one researcher to another (Leedy & Ormrod, 2013). It should be noted that this does not compromise the validity of the research. Furthermore, the use of a purposive sample selection does not compromise the validity of the research (Atkins & Maroun, 2015) because this will be obtained based on how the interview is conducted.

To ensure validity, the questions were checked for jargon to ensure that the respondents did not misunderstand points and simpler words were used if a need arose. The questions were provided in written format and the interviewees were asked if the questions given to them were correct (Leedy & Ormrod, 2013). The questions

were pre-set and were the same for each interviewee, confidentiality for each respondent was ensured (Leedy & Ormrod, 2013).

Secondly, the notes taken during the interviews were reviewed and re-analyzed to ensure that all possible themes were identified correctly.

Thirdly, a pilot interview (forming part of the 12 interviews) was conducted to ensure that the interview agenda questions were appropriate; the interviews were conducted in such a way that the open and axial codes could be identified properly and that the questions made sense (Jensen & Meckling, 1976). Notes were taken during the interviews on how to structure the rest of the interviews and to identify any possible changes to make. This was to ensure that any corrective action was taken early. The questions were also checked to ensure that they:

- Did not have leading or have implicit assumptions.
- Did not include two questions in one.
- Did not invite “yes/no” answers.
- Were not invasive (Jensen & Meckling, 1976).

Chapter 4: Findings

4.1: Interviewees' understanding of King-IV

Several respondents highlighted that King IV fosters good governance as a consequence of effective ethical leadership (R1, R2, R3, and R5). These views are consistent with the recent reports and research conducted on King IV, which discuss what the King IV entails and the importance of corporate governance and ethical leadership (KPMG, 2016; PWC, 2016).

> "There is a larger focus on ethical leadership. Meaning that your board and leadership of your organization, their role in ethical behavior and ethical practices need to improve and there is more accountability on them to do that" [R2]

Respondents viewed King IV as following a stakeholder inclusive approach (R1), with one respondent explaining in detail that King IV is aimed at fostering improved accountability, with increased focus on transparency, regarding the new disclosure requirements presented.

> "The King IV code focuses more on stakeholder-centric governance, rather than pure shareholder-centric governance" [R1]

Similarly,

> "…more transparency… with regards to disclosure, with the aim of greater accountability being advocated for with the new disclosure requirements which are coming forward with each principle in the code". [R3] "

Most respondents explained King IV in the context of King III, with some elaborating that King IV is not much different from King III and that it builds on King III, with only a few distinguishing features (R5, R2, R10, and R8).

> "I have gone through King IV quite extensively and, to be honest, for as much as King IV has changed the landscape. Fundamentally, the philosophies underlying King III are still present." [R5]

Several respondents highlighted and explained the major developments which had emerged in King IV from broader governance perspective and also with a focus on

remuneration. The first major development identified includes the fact that King IV now follows a 'principles and outcomes based approach'.

> "There is definitely more detail in the code itself. Although they try to go for a principle-based approach that is what they call it." [R2]

> "There is actually more detail in the recommended practices. Of course, there is the whole application of there are 'recommended practices', it is assumed that you apply the principle then the practice is recommended." [R2]

One respondent (R1) went on to highlight the fact that a stakeholder-centric governance approach is followed;

> "…It is more principle-based, with less statements intended to be more principles-based. It focuses more on stakeholder-centric governance than purely shareholder-centric governance. These are the more profound differences than specific tactical differences". [R1]

Respondents went on to mention that proportionality is achieved because King IV now applies to a wider range of sectors, for example; SME'S, NGO'S and SOE'S (R5, R6, R1, R2, R8, and R9). The wider application to various sectors might also aid in fostering increasing accountability and help boost governance through a wider application by companies such as the small-owned entities which is not a mandatory requirement to comply with the King code as per the JSE listing rules:

> "Other highlights would be proportionality, again coming with the wider application." [R5]

Furthermore,

> "…there is a wider application. Previously when you consulted with clients quite often the viewpoint would be if you are a closely held company…if you were not in the listed environment…then King III simply would not apply to you. Whereas King IV is quite specific in that it applies to closely held companies, trusts, and state-owned entities to name a few." [R2]

Respondents also highlighted that there are fewer principles in King IV than there were in King III (R5, R2, R11, and R12). The concern that arose with the previous King code is that it had 75 principles and with so many principles to adhere to, the application of King III resulted in the process of compliance becoming more

onerous than it should have been, leading to a tick-box exercise (R5, R2, and R1). Therefore with King IV, the positive outcome from this is that it makes it easier to navigate the code, by maintaining the codes simplicity.

> Okay, so if you look just on the outset immediately what comes out is that there are fewer principles….reduced from 75 principles to 17 principles, with the seventeenth obviously being applicable to institutional investors. [R4]

There is also more responsibility placed on the "governing body". With the wider sector application of King IV, it no longer refers to the "board of directors" which would only be applicable to the private sector (R2 and R1). King IV now uses the term the "governing body", with the aim of application to other sectors as well.

Remuneration and performance were viewed as key issues addressed by King IV (R5, R6, and R7). The interviewees stressed that there was greater emphasis on the triple bottom line context in relation to key performance measures (IOD, 2016). This means that companies must now show a link between strategic and non-financial measures to the performance conditions (R2).

Respondents highlighted that more detail is now required relating to the disclosure of these key performance indicators:

> "There is a lot more focus on performance measures. There is a lot more detail required and I am hesitant to say 'required' because it is not really 'required'. But there is a lot more focus on performance conditions, their targets, and weightings." [R2]

Similarly,

> There is also the new triple bottom context, with that, there is a focus on bringing in the strategic measures and non-financial through to your performance conditions. [R8]

Therefore, the aim of King IV is to ensure that executives and management are held accountable and that value is created over time (R2 and R7). These new requirements regarding disclosure try and ensure that it is not only financial performance indicators which are implemented and disclosed but also non-financial measures are accounted for in the remuneration structures of companies (R2). There was a general consensus, amongst the interviewees, that the disclosure of remuneration policy and packages would not be sufficient to address some of the

problems regarding executive pay practices and levels (R5, R10, and R11). However, disclosure is still a vital tool which enables further action specifically regarding shareholder activism by enabling informed oversight over executives (Kakabadse et al., 2004; Ulrich, 2010). This is consistent with the results obtained from the qualitative interviews in this research.

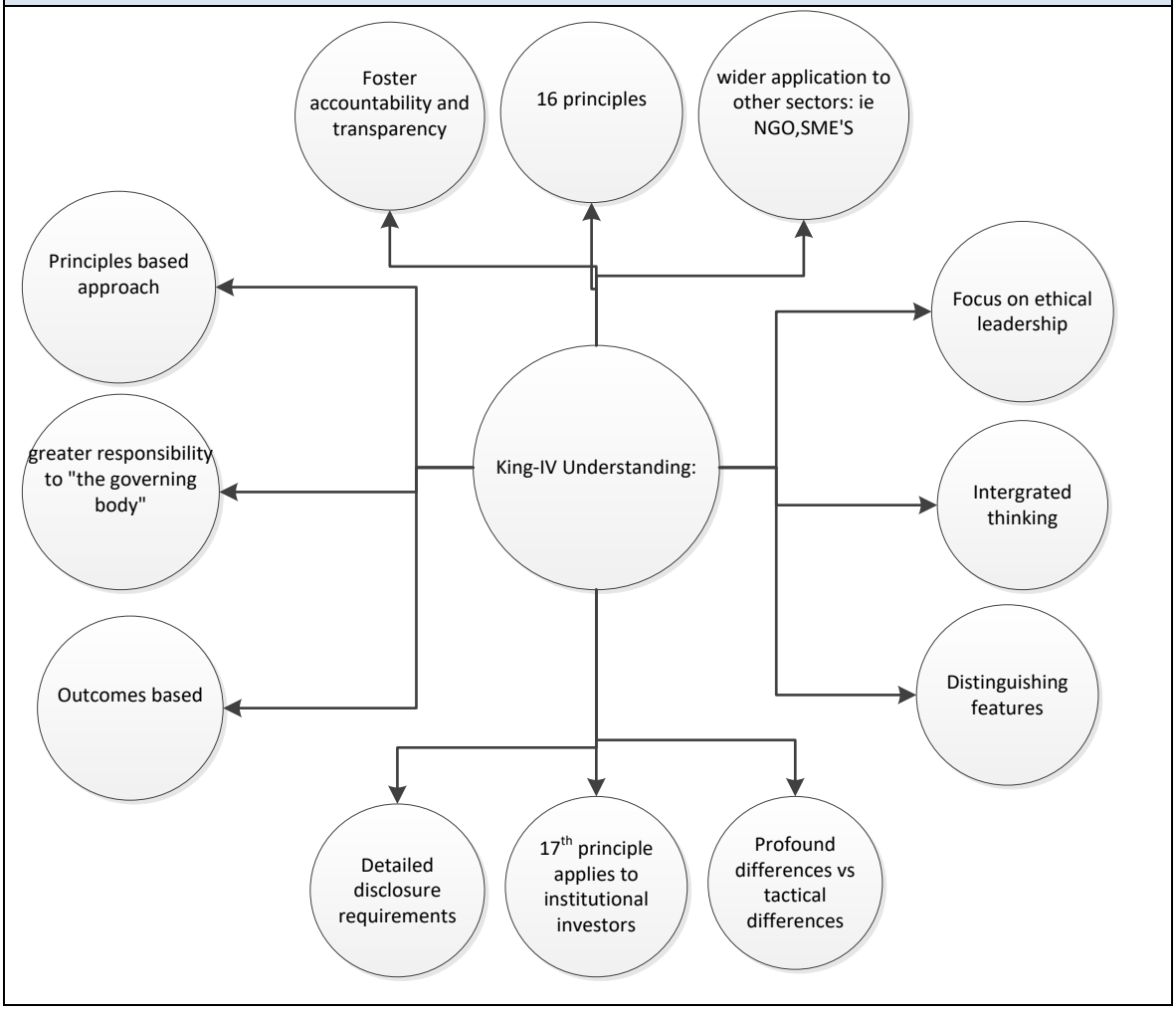
Other developments highlighted by the respondents include the single figure to remuneration[4] and the current debate on 'ethics on pay'. The concerns raised were regarding the complexities in the calculation of the 'single figure' and also in the uncertainty with what components will have to be disclosed (R1, R2, R3, R4, R5, R8, R9, and R11). Similarly, with regards to ethics on pay, respondents mentioned that the new voting regime makes it more onerous in terms of engagement with shareholders and that one issue would be defining what fair and responsible pay constitutes:

> "The single of remuneration and it is a big thing. Pay fairness and pay gap not talked about in King III. The new three-part remuneration report is coming out now. Two votes on pay: pay policy and implementation (compulsory consultation)". [R1]

[4] The Single Total Figure of Remuneration table is aimed at increasing transparency of executive remuneration through the consolidation of all relevant information relating to current performance into a single table. Disclosure should be consistent to enable meaningful comparisons. Therefore for each director/prescribed officer the following must be disclosed in a tabular format:

- All salary and fees received or receivable;
- Benefits received or receivable;
- Short-term and Long-term incentive payments and awards;
- Other elements of remuneration such as leave pay, once-off payments and pension related benefits; and
- The total amount summing up the elements above.

Figure 4: A Summary of the interviewees' understanding and perception of King IV



4.2: Drivers of remuneration-related principles and practices in King IV

When the respondents were asked about their understanding of the code, they provided two standpoints: the first is the fact that King IV aids in fostering enhanced accountability and the second is that the code is seen as keeping up with international best practice. One respondent said the following:

> "I think in terms of reporting and a lot of my research on King IV is that we seem to be aligning more with the international standards. So we have to know when they are talking about the single figure to remuneration or pay gap and things like that… at least we are aligning to…you know… what the world is doing. Especially if you are looking at countries such as the United States and the United Kingdom…" [R4]

Most respondents stated that most of the principles of King IV have been shaped by some of the practices currently being followed in the United Kingdom specifically (R2, R6, R7, R8, R11, and R10). Some respondents stressed that some of the practices coming through in King IV have already been in place in the United Kingdom, Australia, and the United States.

> "So globally, some of the principles of King IV, if we look at the United Kingdom have already been in place." [R10]

In the United Kingdom, the requirement for the three-part report has always been prescribed by regulations however this only seems to have come through in the King IV report recently (R1, R7, R8, R11). The census was that this three-part requirement should increase transparency by ensuring that the remuneration report is easy to understand (R1, R7, R8, and R11). Another example is the single figure to remuneration is already being disclosed in the implementation reports of companies in Europe, the United Kingdom as well as the United States (R2, R1, R6, R5, and R6). This is consistent with the study conducted by PWC (2016) which assessed the remuneration reporting trends in areas such as the United States, Australia, and the United Kingdom.

Another development driving some of the practices in King IV includes the reports of increased shareholder activism amongst large listed companies, specifically from institutional investors in both the United Kingdom and the United States post the

financial crisis (PWC, 2014, 2016). This increasing influence by shareholder advisory groups in the United Kingdom has also been cited as one of the reasons why companies have begun to engage with their shareholders more proactively regarding their remuneration policies (R2, R3, R5, R9 AND R10; PWC, 2014; PWC, 2016). With the pay on ethics debate that is currently a topical issue. This could possibly explain the non-binding vote that is coming through as a major development in King IV and which must now be passed on both the implementation reports, as well as on the remuneration policy (PWC, 2017).

> "What we have seen lately is that the institutional investors are a lot more active. The questions that they ask and the queries that they pose, we take very seriously. So we try and make sure that all their questions are answered." [R4]

The 'malus and clawback' regulatory provisions coming through in relation to variable remuneration were also highlighted by the majority of the technical experts (R2, R1, R6, R7, and R11). The 'malus and clawback' rule relates to the practice whereby firms' recruiting staff buy out the deferred bonus awards which were canceled by their previous employer (PWC, 2016). The proposed rule aims to align risk and reward and discourage short-term horizons (PWC, 2016). This provision can be seen as a way of trying to hold management accountable in the long-term (PWC, 2016).

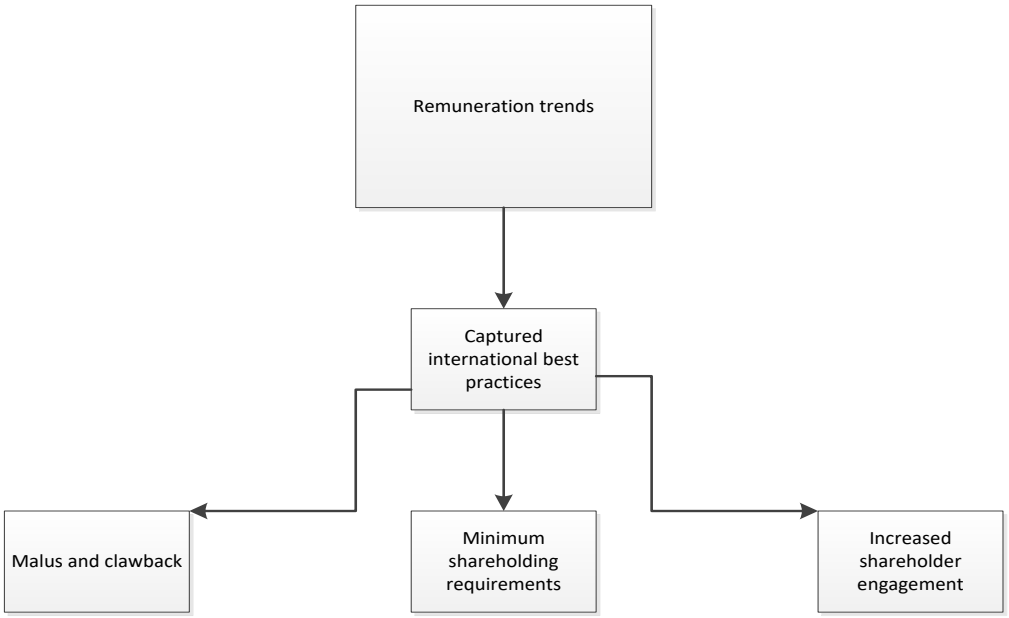
> "So 'malus and clawback' is a big theme and it is coming from the United Kingdom where there have been all these governance scandals and so on. The shareholders are then saying, well we have paid all these massive amounts, is there any way we can get it back now that we have figured out that they were actually fraudulent or that they did something wrong?" [R2]

The minimum shareholding requirement is another development some of the interviewees identified (R2, R1, R5, and R10). Respondents expressed their views that there is a trend for executives to 'cash out' immediately when shares vest (R2, R3, and R1). Therefore, there is a minimum shareholding requirement imposed on executives to ensure that executives focus on long-term profitability and this can also be seen as an accountability mechanism (PWC, 2016).

> "So there has been a trend for executives to cash out if they get paid in long-term incentives. As soon as the shares vest and become theirs to trade with then it is immediately cashed out. Shareholders don't like that because they say that we are

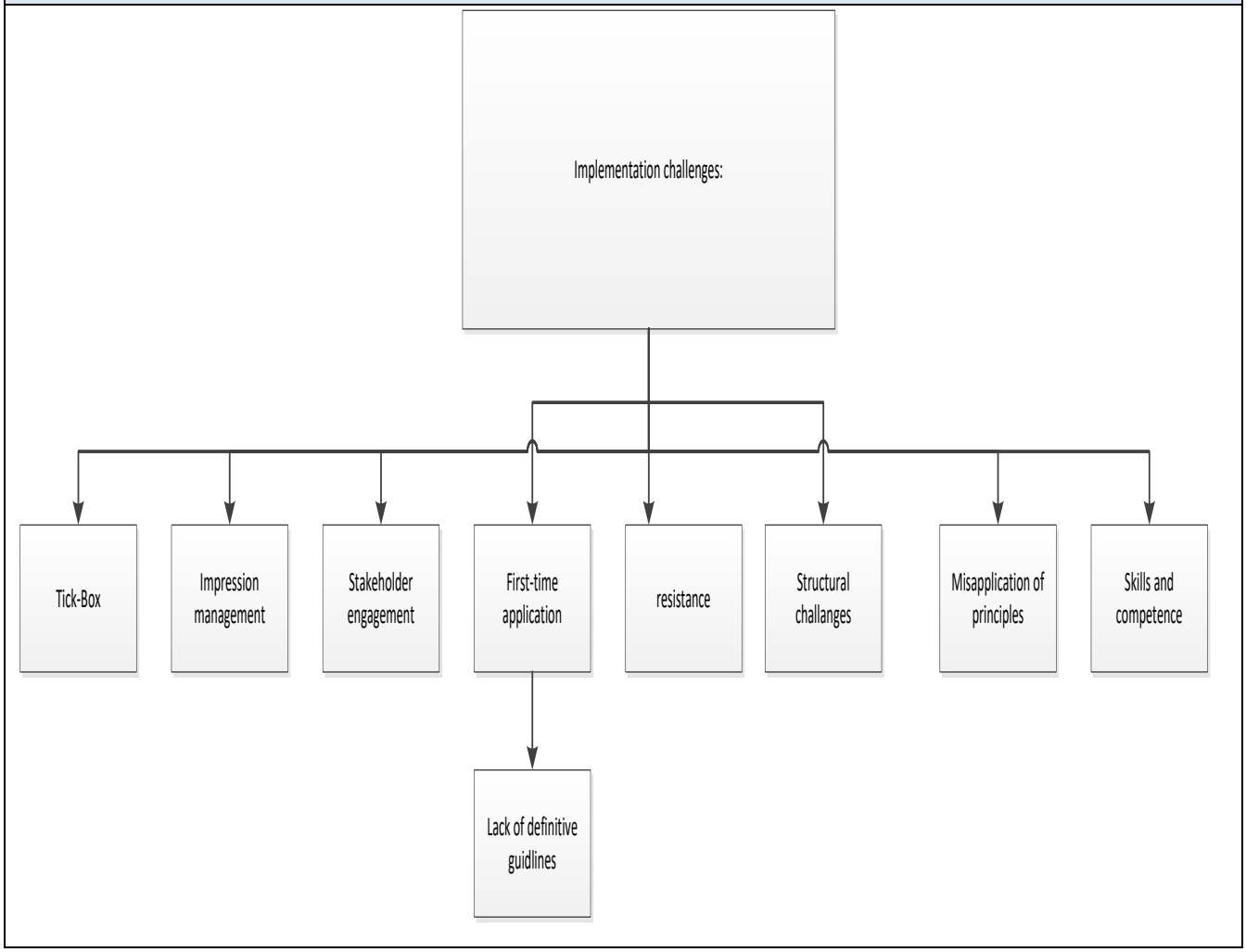
holding shares, we want to hold shares so that you are on the same boat as us. So the minimum shareholding requirement means that there is a requirement for the executives must have a minimum shareholding. That's been a trend that a lot of remuneration committees are talking about and trying to introduce". [R2]

Figure 5: A summary on the drivers of remuneration-related principles and practices.



4.3: Implementation challenges

Figure 6: Breakdown of emerging themes identified



4.3.1: Tick-box

The majority of the respondents expressed their concerns that companies might want to follow a tick-box approach in order comply with King IV (R1, R2, R3, R4, R5, R6, R7, R8, R9, and R10). This is because it was the unintended effects of an approach followed by King III (R2, R5, R7, and R8). This is consistent with prior research which identified a tick-box approach as an easy method which companies followed to ensure compliance, especially those complying with the JSE listing rules (JSE, 2016), and therefore just view the whole process as a compliance exercise (R5, R2, and R1). For example, a respondent stated that:

"Firstly, what was happening was that, especially in the listed environment, companies in terms of the principles and practices of King III were just ticking the box to ensure compliance." [R5]

However, respondents also stated that the new principles and outcomes-based approach in King IV (R2, R5, R6, and R11), should reduce the likelihood of following a tick-box approach by ensuring that there is substance in compliance and that those organizations are in the spirit of good governance (R6, and R2). Another respondent stated that:

> "You now have to think about what you are achieving… as opposed to blindly ticking and bashing. Yes, you are still implementing things too, but you are implementing it to achieve an outcome. You are not implementing it for the sake of implementing it. It is very easy to red-tape governance without necessarily thinking about what you are doing. So you are presented with a list and the list tells you to do X, Y, Z and you go through the motions and so you tick X, Y, and Z. But the values which underlie X, Y and Z are not there and that is what I hope the outcomes-based approach provision in King IV will achieve. It is that you are you are actually thinking about what you are applying and not just tick-boxing and that you are achieving the outcome." [R6]

It can then be seen that King III ultimately led to a tick-box exercise because of it is prescriptive nature. This was a recurring issue identified by the majority of the respondents. However, the fact that King IV follows a 'principle-based approach' most respondents acknowledged that this should deter corporations from looking at King IV as merely a tick-box exercise.

4.3.2: Impression management

Impression management is another challenge picked up through discussions with the preparers interviewed (R3, R4, R8, and R9). Specifically around shareholder engagement, as most preparers identified that to achieve the 75% vote proposed by King IV, they were willing to prepare their reports and present their remuneration policies in a way which met the needs of shareholders. Therefore creating a certain perception of their remuneration policies just to achieve the vote required (R8).

However, Atkins and Maroun (2015) distinguished between two types of impression management: deliberate or misrepresentation and harmless impression management. Through the discussions with the respondents (R3, R4, R8, and R7), particularly those in practice, they went on to express that in terms of disclosure some information was disclosed because it was required by shareholders and could lead indirectly to increased transparency:

> "What we are experiencing currently is that shareholders are requiring more transparency and if we want our shareholders to vote for us in terms of remuneration then we will be more transparent. For example, in the construction industry, with [Company X] as an example, where [Institutional Investor Y] had a completely new Board bought in, we also look at that and say right, we don't want to get into that situation. So for us, we will disclose everything that the shareholders require." [R4]

Creating a particular image may not always be a deliberate attempt at something dangerous, rather it can be a tool for increasing transparency in the company (R7). The problem with this is that it can impair objectivity and indirectly result in the use of a type of disclosure checklist (tick-box approach mentioned earlier), rather than mindfully applying the principles to ensure substantive compliance (R1, R2, and R5).

4.3.3: Stakeholder engagement

The new voting requirements (see section 2.7.3) have been split into two parts and are now required on both the policy and the implementation report (R1, R2, R3, R4, R5, R7, R10, and R11). The respondents stated that the requirements seem to be onerous (R1, R2, R3) because a 75% vote is required and if it is not obtained then there needs to be engagement with the shareholders; also with a census that must be held, which makes stakeholder engagement another challenge, specifically when applied to practice (R5, R4, and R7).

With 'say on pay' being a topical issue currently, together with the increased shareholder activism currently being experienced, most respondents said that with King IV aligning itself with international best practices, it is no surprise that 'say on pay' has been addressed by King IV (R2, R3, R4, R5 and R7; PWC, 2017). The

challenge comes with getting the shareholders' vote and the respondents felt that the new requirements can make the engagement process more complex than it needs to be (R5, R2, and R6). The result of this would be that companies would then be disclosing information only to serve as an impression management tool in order to obtain the votes from shareholders (R3, R4, and R7). One respondent stated:

> "Well, I can say yes very broadly, that the new voting requirements will increase transparency. However, it could lead to some unwanted challenges and discussions with our shareholders…" [R12]

However, most respondents expected that King IV would have advocated for a 'binding vote requirement' which is what is being followed in both the United States and the United Kingdom. With a binding vote one respondent stated that: "with a binding vote, it becomes a bit of… who is running the company and I think that, that is dangerous…so we don't want a situation where our shareholders are running the company…" [R4] However, most respondents felt that with a binding vote being implemented, there follow complex legal sanctions which will have to be applied and that is why it is too early to adopt it, within the South African context and that a non-binding vote is more appropriate (R2, R3, R4, R11, and R8).

> "I think that the binding vote was a step in the right direction and is a transition. It might evolve to become a binding vote in the future. With a binding vote, it then becomes complicated because then what are the sanctions and so on? I think for people to adopt it is important that it is non-binding because you cannot apply sanctions because of the newness of the code. I think it would be harsh for them to say it is binding and that these are the sanctions." [R3]

Therefore as most respondents expressed a concern that the non-binding vote is merely an advisory vote, they noted that the census will, therefore, become an important part of the stakeholder engagement process (R2, R3, R4, R11, and R8). As a census must be obtained if the resolutions for the adoption of the remuneration policy or the remuneration implementation report have been voted against by 25 percent or more of the voting rights exercised (R1, R2, and R3). In such case, it is recommended that steps should be taken towards an engagement process to ascertain the reasons for the dissenting votes, and appropriately addressing such concerns raised (R1, R2,

and R3). This is then recommended to be disclosed in the background statement of the remuneration policy, the manner and form of the engagement to ascertain the reasons for the dissenting votes, as well as the steps that are taken to address the concerns raised (R1, R2, and R3).

However, some respondents conveyed that the new voting requirements could have a positive impact and possibly aid in fostering increased accountability and transparency and should not only be viewed in a negative light (R2, R3, R4, R7 and R12). One respondent stated that:

> "Yes, the requirements are more onerous but I do feel that it brings along with it a level of increased transparency." [R12]

This is important because shareholders are now focusing on the performance targets companies use (R7). The main criticism is the lack of use of non-financial matrices (R7). Therefore, through engagement the result might be that companies will start focusing on performance other than financial, ensuring accountability in those areas (R7).

4.3.4: Misapplication of principles

The literature review identified the general misapplication of the King IV principles as a challenge (see section 2.8). However, as this challenge has many elements to it, it has been subdivided into various subsection which will go on to discuss the many aspects of the general challenge.

4.3.5: Single figure

Most respondents iterated the idea of how applying certain principles would pose some level of difficulty in terms of the remuneration policy as well as on the disclosure aspect (R1, R2, R3, R8, R11, and R12). One of the major challenges identified was in the calculation as well as disclosure of the single figure to remuneration (R2). This

challenge seems to be amplified because of a lack of clear and specific application guidelines.

> "I think that the single figure is going to be a major challenge because of things like... short-term incentives and then there is deferred short-term incentives and then there are short-term incentives deferred for more than 12 months and then there are short-term incentives deferred into share instruments…now do they go in the short term incentives column, do they go into the LTI column or do they go to the cash column? So where do they go? There are all those kinds of debates". [R2].

Several respondents felt that clear guidelines were not provided, with regards to calculating and disclosing items such as the 'single figure' to remuneration (R2, R5, R6, and R7) the result might lead to incomparability amongst the remuneration reports of companies because this results in companies developing different calculation methodologies. Ultimately resulting in the disclosure which may vary and lead to incomparability between two different companies.

> "I always find that if you do not have specific guidelines, whilst they are prescriptive, you sit around the table and everyone has a different opinion. So what I did is that I had a look at European companies, especially, on the reporting on long-term incentives". [R2]

However, the technical experts felt that, although it is difficult to comply with (R1, R2, and R5), once the practice notes have been issued later in the year more clarity will be provided. This might help resolve some of the problems mentioned by the respondents by providing direction on what components to disclose as part of the single figure to remuneration and, possibly, how to calculate certain items like fair and responsible pay:

> "There is another angle to it is that it is quite complex to comply with. A lot of people understand it incorrectly; they think it is just one figure. No… it is a number of figures totaled but it means that the figure is comparative to another company because everyone is putting the same thing in each column. But I think when the practice notes are out, more clarity will be provided". [R2].

As most respondents, particularly the preparers, seem to be waiting for the practice notes to be issued before they started applying the code, this should raise the alarm

to a number of issues (R3, R4, R8, and R9). The first is the fact that there might be a general lack of understanding of the principles. However, the majority of the prior research identified that there are bound to be issues faced, particularly with the misapplication of principles because of this challenge faced (Atkins & Maroun, 2015; Maroun & van Zijl, 2016).

Another issue is the fact that this indicates that the application of King IV is slow, which is usually a result of preparers not being familiar with the requirements of King IV. This can maybe be tied to the initial resistance.

Lastly, as respondents go on to mention that King IV is not prescriptive enough, and this is the reason for the waiting for the practice notes to be released (R5 and R7). This could be an indicator that companies might be falling back into the old habits of following a tick-box exercise. As there comes comfort with the practice notes due to the prescriptive rules being given.

4.3.6: First time application and lack of definitive and clear guidelines

Another challenge identified by respondents is that due to the lack of experience and unfamiliarity with the King IV principles there will be a challenge with first time application especially when it is eventually applied in practice (R4, R5, R6 and R7). One respondent stated: "I think the first year it is going to be a challenge because it is something new and unknown" [R5]. Other respondents stated that as the code is gradually applied, only then can the challenges be identified in the first year of application.

> "But I think as companies start reporting, hopefully, some of the issues or challenges will come out. But I think for me the first year, the challenge is going to be a lack of definitions around the pay gap and the single figure. So, I think that that will be a clear challenge." [R4]

Another concern raised was that some of the principles lacked clear and definitive guidelines (R5). For example, one respondent stated that the reason one of the challenges would be to disclose the single figure is that there were no practice notes issued with clear directions on how to disclose it.

> "It is rather difficult to get to the single figure; it is a lot of work. Obviously, because there have been no practice notes developed yet, we have to be very careful not to over-disclose to get to the single figure. So I am glad we only have to comply with the single figure disclosure next year." [R9]

The general view is that King IV should be more focused and provide clearer, definitive guidance. One of the respondents said: "Because we hope that by then, the IOD would have published a lot more guidance and practice notes, especially on what to include in the single figure." [R3] There should also be a focus on 'substance' rather than 'form' approach to ensure mindful application rather than it resulting in a tick-box exercise. The aim of this is to ensure comparability, especially in the remuneration reports published because there will now be a unified application from various levels leading to the same thing being disclosed.

> "I always find that if you don't have specific guidelines, whilst they are very prescriptive, you sit around the table and everyone has got a different opinion. And what I found is that I had a look at a lot of the annual reports of European companies, especially on the reporting of the LTI'S and I found vast differences." [R3]

Similarly,

> "As we see companies adopting King IV, a lot of companies are saying in terms of their remuneration report, let wait until the practice notes are out. So that we know exactly to do with the single figure, cause that's also another major thing. So companies want to adopt but will not do so until they have got clear and detailed guidance. But that is going to be included in the practice notes." [R9]

This can be identified as a challenge identified by respondents. However, with the practice notes, most respondents hope that this will address the challenge will be addressed.

4.3.7: Wage gap

Fair and responsible pay is another challenge identified by the respondents (R4, R5, R6, and R7). They stated that there would be great difficulty in the calculation and interpretation of how to define what fair and responsible pay means. This challenge is exacerbated because of the 'ethics on pay' debate; the minimum wage being set at

R3500; the huge pay gap in the South African context and the socio-economic factors affecting South Africa such as the high unemployment rates (PWC, 2017):

> "Yes, I think defining fair and responsible pay will definitely be a challenge. I think to me it is that we have prescribed sectoral determination minimum wages and those are defined. If we were to compare to executive pay then the gap is huge. Even with the minimum that has being proposed, that is a challenge. I think for me, the challenge is that information can be risky. Where someone has this information… how do they deal with it? Without the context, it can become a big challenge…" [R5]

Most respondents said that the calculation might be difficult (R1, R2, R3, R4, R5, R6, and R7). For example, King IV asks that the executive pay be compared to the overall employee pay. The difficulty is defining what employee base to use as part of the assessment (R4) and this is a challenge specifically amongst different sectors such as the mining sectors where you have different employee bases/classes and the wage gap is as a result, exacerbated depending on who you include in the calculation (R4 and R5). For example, a respondent stated that:

> "The ethics on pay debate all depends on your organization, the mining sector for example, where you have got huge pay disparities because of the type of junior level employees. We have professional level employees or skilled employees. We don't have unskilled workers working for the organization. So in some ways, yes we might have a pay differential but it may not be exacerbated as you would find in other sectors where you would have unskilled-semi labour." [R4]

Furthermore,

> "Where I find it challenging is that we have a variety of workers in the construction environment. You have employees on hourly pay, weekly pay… so then when you say, well what is the wage gap from the CEO to the bottom earner… which bottom earner are you talking about? Are you talking about the guy who is standing on the road waving the flag telling motorists that there is construction happening? Or is the gap between CEO pay and the lowest paid permanent employee?" [R3]

Defining fair and responsible pay in the context of the organization is definitely a huge challenge many preparers will encounter (R4). However, some respondents stated that if an organization has been remunerating responsibly, then this should not be a major challenge.

> "I think that if there is a huge wage gap then this is going to become difficult to address but, then again, if you were able to previously be reasonable in terms of remuneration, then you should have reasons to justify the wage gap. To say well… it is a value creation… or it is a skill set or a retention strategy. Again, that is on the assumption that you have remunerated responsibly and that is what king IV is trying to achieve." [R4]

Linking back to the discussion above, respondents stated that in regards to the calculation, how the assessment is made will be a major challenge for companies (R4, R5, R6 and R7), specifically relating to which employee base to include as part of the assessment of the "overall employee" of the organisation.

> "I think something really prominent which will come out now is the wage gap and we are also experiencing it internationally. Where especially in the European Union, there are now requiring the CEO remuneration to be disclosed against the whole company. It is not only at the senior level which is what King-III previously advocated. So again now you have to disclose prescribed officers, executive directors and you have to analyze it and compare it to the whole organization." [R3]

4.3.8: Cost vs benefit

Most respondents stated that the cost of implementing the disclosure requirements must be taken into consideration when implementing King IV (R3, R4, R5, R6, and R7). One major cost, especially for larger companies, is the auditing/technical experts' costs incurred as most of the organizations will rely on a technical expert to ensure compliance with the governance requirements (R4 and R9).

This challenge was identified by the respondents to be more costly to comply with especially amongst the smaller/closely held companies because of the lack of structures put in place to ensure compliance with the governance principles.

> The first question that I would get, with consultation with clients, not in the listed environment, is… well, what is the benefit of complying with King versus the cost because it is expensive and it does not come cheap? [R5]

4.3.9: Resistance

Another challenge expressed by the respondents is the commercial concern over disclosing certain information regarding executive earnings and running the risk of losing sensitive information: this could result in losing some of the executives to poaching.

> "Is the level of remuneration disclosure adequate? In my opinion, it depends on whom you are asking. You know there is a level of commercial sensitivity with a lot of the data which is expected to be reported on the remuneration reports. So you can understand that companies do not want to put everything on the table because it makes them vulnerable. Also executive pay it is all laid there on the table, so you make yourself a little bit vulnerable to poaching for companies who want to poach your executives." [R2]

Therefore, this resistance may lead to companies leveraging against the costs of providing certain information i.e. possible poaching of executives due to over-disclosure, versus the benefits of disclosure which is compliance with the code and the impression management or legitimacy that is achieved through compliance (R2 and R1).

Often the position organizations take is to 'wait and see' what other organizations are disclosing before disclosing certain information (R4). This often serves as a benchmark to help prevent over disclosure if this is an area of concern.

> We adopt a sort of 'wait and see approach' rather than lead. So we see what other companies are doing then follow, because I think we have a specific advantage in that a lot of reports will be published prior to ours and we will get the practice notes because I know that those are underway. But you do run the risk of poaching due to over disclosure. But I think that that keeps remuneration specialists on top of their game and making sure that we have a compelling proposition. [R4]

This "wait and see" approach which is what most preparers stated they follow should highlight the fact that this could possibly be an indicator of an initial resistance to the code and ultimately lead to the slow application of the code by corporations. This discussion can be linked back to the discussion on the challenge raised by respondents regarding both the 'single figure' to remuneration and 'fair and

responsible' pay. What is being experienced here is that the lack of familiarity with the principles and practices leads to corporations being generally resistant towards application.

4.3.10: Lack of structures

Lack of structures is a common challenge amongst smaller companies because they are not required to comply with King IV as per the JSE listing requirements. As a result, they often do not have the proper structures in place such as training, research programmes, and technical experts at their disposal to ensure compliance.

"…I think from a compliance perspective, on that side, we mostly rely on our experts to ensure that we have complied with all the regulation." [R8]

Due to this, companies that are not mandatorily required to comply with the King code because they are not listed, end up not taking up and applying the code. This seems to be consistent with prior research findings that show that various determinants or company features such as company size, firm culture, managerial attitude and motivations, strategic attitude and corporate governance have an impact on the remuneration reporting of companies (Clarkson et al., 2006; Glennie & Lodhia, 2013; Maseko & Marx, 2016). The findings show that there is a higher degree of involvement in governance initiatives amongst companies which are larger in size, multinational, closer to end consumers, receiving top management support and more proactive to market stimuli (Alrazi et al., 2015; Clarkson et al., 2006). This is because larger companies have the resources and structures in place to develop and maintain reporting and management systems, if we are focusing on remuneration, to support high quality the remuneration reports included in the integrated reports of companies (Alrazi et al., 2015).

Another issue looked at is that it can also become costly in terms of compliance and only firms with proper reporting infrastructures can support such remuneration reporting initiatives (Alrazi et al., 2015). Some respondents went on to express their concerns that companies must then perform a cost-benefit analysis to see if they want

to comply with the principles and this could be part of the reason compliance amongst smaller firms is low.

> "I think the principle of proportionality is especially important so that smaller businesses can go and have a look and say… well, these are the principles but what are the practices that would be appropriate for me, from a cost and resource point of view." [R5]

4.3.11: Skills vs competence

As the King IV code is a new code, most respondents in the listed environment said that they were currently in their research phase of the requirements of the newly issued code (R4 and R3). Management systems often include training, monitoring, and reporting processes (Alrazi et al., 2015; Melnyk, Sroufe, & Calantone, 2003). Such training is important to ensure that the necessary remuneration disclosure requirement is effectively communicated in the remuneration reports (Alrazi et al., 2015).

Most respondents were not 100% comfortable with all of the principles and practices because they were still at the beginning of learning about the requirements of the code (R4). "Right now, we are in the research phase, so we are still training our guys regarding the requirements, and obviously this is important because once they are familiar with the code and have a better understanding then the application should not be such a problem" [R4]. This is a major challenge organization will face and this can lead to misapplication of the principles due to a lack of competence or understanding about the new King IV code requirements because the application can become complex (R6, R7, and R8).

4.4: Recommendations

The respondents commended the Institute of Directors (IOD) for reducing the length of King IV and felt that it was more focused and concise (R2, R3, R5, and R6) but that it still maintained most of the underlying philosophies in King-III. Respondents felt that it made the code easier to navigate through and understand (R5). Generally, it seems as if the newly issued King IV has been well received by the respondents. Most respondents perceived it as an improvement and a bold move from King III.

> "So it is my understanding and I have gone through both King III and King IV quite extensively…it was quite a bold move and quite a big stride for the King Committee to implement it. However, I am not sure how it will look in practice." [R4]

> "To be honest as much as the code has changed the landscape, fundamentally the philosophies underlying King III are still present… Then again one of the highlights obviously would be that the principles are much fewer and I think they are more concise and more to the point." [R5]

However, with all the positive response that King IV received, there have been various concerns raised by the respondents and possible recommendations which will be discussed in detail in this section (R5 and R6). One of the concerns raised was that some of the principles lacked clear and definitive guidelines (R5).

One respondent went on to mention the fact that King IV lacked simplicity and recommended that, before the King code is published, there should be engagement/collaborative efforts with various stakeholders mainly preparers, researchers, technical experts and institutional investors (R7). This is to ensure that the code released is reflective of the current reality of business practice and that it becomes less complex and can be implemented more quickly (R7).

It should be noted that this problem of incorporating corporate reality into the governance codes by integrating legislation, reporting guidelines and codes of best practices has been a persistent issue for corporate governance researchers (R4, R5, and R8).

Several respondents stressed the importance of an integrated approach to governance, especially because companies are now expected to be accountable for their environmental, social and economic impacts. King IV also stresses the importance of being a good corporate citizen: this is important to ensure the preparation of higher quality remuneration reports.

> "I would say that if you look at companies, a lot of CEO'S had not previously had a bigger focus on the environment or society. It was mainly business focused. So, deliver to the shareholders to increase share price or on headline earnings per share. …However, now that there is a focus on society at large and the environment. They are going to have to become more balanced I would guess." [R5]

This emphasizes how applying the integrated approach will affect corporate behavior to ensure that companies behave in a holistic manner and this will drive how remuneration policies are set (R8). However, one respondent went on to stress the role of the shareholder in such an approach: "Shareholders also need to be pushing this…Because shareholders themselves probably do not even worry about the environment or society. All they want is that: I have invested so much in your company, all I want is my dividends." [R6] This is because companies focus on the bottom line and meeting the demands of shareholders. So perhaps this can serve as a tool for aligning the company's interest with the triple bottom line.

One of the interviewees also highlighted that to ensure wider application especially with the closely held companies, then possibly the Business Judgment Rule could be passed to aid in increasing compliance amongst smaller companies that might not need to comply with King IV because they are not listed (R5). As King IV is a voluntary code.

> "If the Business Judgement Rule is passed, they actually make the application of the principles law. Then it will have to be applied. In my opinion, you want to invoke the business judgment rule to hit all the aspects you need to prove in terms of the rule…" [R5]

This is especially important because King IV is now applicable to a wider range of sectors so having something which becomes mandatory because of the enactment by legislation might help foster wider application (R5).

Another recommendation is that the information needs of shareholders and other stakeholders must be known to the board when the extent of disclosure is decided and that the interests of executives should be balanced with it. Such a balance will not only succeed in satisfying shareholders in readily determining the sustainable long-term value of their investments but also in attracting, motivating and retaining business executives of the highest caliber (R9, R10, and R11)

Chapter 5: Conclusions and recommendations

5.1: Conclusion

This research provides evidence in support of prior literature regarding emerging challenges encountered when interpreting and applying new regulations/practices/codes of best practice (Steyn, 2014). A number of issues have been identified by respondents including a lack of clear guidance on the application of certain principles, which was a reoccurring theme identified. This has resulted in confusion, especially amongst the preparers. Specifically on how to apply certain practices in the code and this was a reoccurring theme identified by the respondents.

There is also a greater need for engagement with the primary stakeholders, (see section 4.3). Most respondents stated that this can also serve as a way of ensuring companies are held accountable because of shareholder intervention. Since shareholders are now focusing on performance targets, the companies will start paying attention to key financial and non-financial metrics affecting an organizations' performance and sustainability.

This research also provides evidence to support of other issues identified and consistent with prior literature, such as the risk of applying a tick-box approach, because the King III was prescriptive. Another issue raised includes the debate regarding the 'wage gap' as the King IV requires companies to start explaining how they are remunerating fairly and responsibly. Impression management is also a theme identified, with companies expressing their concerns about how applying the principles can turn into an impression management tool. Another issue identified includes the fact that with the first time application of the code and an element of uncertainty there might be resistance amongst companies mostly because there comes a cost with over disclosure and so this is a commercial sensitivity raised by most respondents. The trend experienced is that companies would then apply a 'wait-and-see' approach when it comes to applying the code.

Lastly, what was experienced is that in smaller firms there was a cost-benefit analysis being performed and this was due to the fact that companies didn't have the proper

structures in place. This made compliance with the code costly, especially when such firms do not have the proper structures such as training in place.

Overall, the results confirmed that challenges are to be expected when it comes to the implementation of disclosure requirements regarding remuneration. Ultimately, these findings represent the first step in engaging organizations with the process of application of the newly issued King IV code. It is aimed at highlighting some of the challenges which might be faced when the principles are eventually applied.

5.2: Contributions of the study

This thesis provides a number of contributions, the first being that it explores some of the challenges South African corporations might experience when applying King IV for the first time. The focus is specifically on remuneration policies/practices and disclosure. This is achieved by reviewing and engaging with the South African business community and creating awareness around some of the practical challenges that they may be faced with, to aid in the better application of the code.

Secondly, this thesis complements the research done by Atkins and Maroun (2015) and Maxi (2014), by exploring the views of both preparers and technical experts on the implementation challenges of King IV. The papers mentioned above focus more on the broader corporate governance aspects. However, this thesis specifically focuses on remuneration and provides an initial interpretive analysis of possible practical King IV disclosure application challenges by examining the developments and challenges in King IV.

Although executive remuneration has been extensively researched, there seems to be little research done on the disclosure of remuneration as a governance topic. This is because much of the prior research on remuneration has been dominated by the agency theory and with a clear focus on pay and performance (Bussin, 2015; Ulrich, 2010). For example, Crotty and Bonorchis (2006) found that there has been limited research and focus on remuneration disclosure. This thesis is important because it confirms that disclosure is an effective monitoring tool and that the role as an effective

corporate governance tool should not be ignored (Crotty & Bonorchis, 2006; Ulrich, 2010).

Lastly, this thesis will possibly be amongst the first to provide a detailed interpretive/critical account of the King IV code. It also adds to the limited body of research on the disclosure of remuneration which has been mostly focused on the United States (Braendle & Rahdari, 2016).

5.3: Limitations and areas for future research

Firstly, this research is focused on the views of preparers and technical experts only. The aim is to limit the focus of the study by obtaining the views from the 'prepares' as they have first-hand practical experience in applying the earlier versions of the code. So they should have the practical knowledge of the challenges faced when applying King IV. Technical experts were also interviewed as it proved beneficial to obtain further knowledge from them that might not be obtained from prepares, with the aim of ultimately ensuring that the topic is examined rigorously (Atkins & Maroun, 2015). As the focus of this thesis is limited by obtaining the views from both preparers and technical experts, this may provide an opportunity for future research to examine the perceptions from a broader group of stakeholders such as institutional investors or even possibly regulators. This line of research can particularly focus on obtaining and engaging with various competing points of view from different stakeholders to help shape and structure the future codes of governance that will be released.

Secondly, this thesis is focused only on exploring the emerging disclosure challenges which might arise regarding remuneration as one of a number of different corporate governance control measures. This research does not deal with every measure found in a corporate governance system. So this can serve as an opportunity for areas of future research to broaden the scope to examine the implementation challenges from a broader corporate governance aspect of the King IV.

This study was conducted during the first year in which King IV became effective. As a result, further research is required to gather results on the implementation challenges faced and how these will affect the quality of disclosures as the Code is applied over time. This can help identify the tensions between the theoretical requirements of the King IV and the actual application by preparers ('see' Maroun & van Zijl, 2016). The findings could help with the issues raised from existing research that argues that additional regulations often have unintended consequences which undermine their expected benefits (Maroun, 2012).

Lastly, as this study is an interpretive qualitative research and no effort is made to quantify or measure the quality of disclosures (Atkins & Maroun, 2015) Healy and Palepu (2001) acknowledged that research regarding disclosure is limited by the very difficult nature of measuring the full extent and impact of disclosure. As the code will only be applied in the 2018 year, this can serve as an opportunity for future research to try and quantify the quality of application of the remuneration disclosure requirements post-implementation.

Chapter 6: References

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Apendix A: interview Agenda

Interview Questions:

1. What do you understand about the new King IV and how is it different to King III?

2. Can you briefly summarise the main highlights of King-IV?

3. Will the new disclosure and voting requirements on remuneration in chapter 4 of the Code lead to increased transparency and more meaningful engagement with stakeholders?

4. What are some of the trends you that have seen relating to remuneration practices and disclosure, in South Africa but also globally?

5. In your opinion, is the current level of remuneration disclosure presented by companies adequate?

6. Do you think that the new three part remuneration disclosure report will help increase the disclosure levels of companies regarding remuneration in the annual reports?

7. What problems will companies are faced with when they first start practically applying the King-IV principles (broadly) in their annual reports?

8. What challenges do you think might arise when applying the remuneration disclosure requirements of King-IV? (With a specific focus on the remuneration requirements).

Appendix B: Table of interviews

Respondent number:	Background:	Length of interview:
Respondent 1:	Audit partner (technical/assurance):	49 min
Respondent 2:	Technical expert (Rewards):	30 min
Respondent 3:	Preparer (multinational):	28 min
Respondent 4:	Preparer (multinational) :	56 min
Respondent 5:	Technical expert (rewards specialist/institutional investor proxy):	31 min
Respondent 6:	Technical expert (compliance):	30 min
Respondent 7:	Technical expert (audit and rewards):	
Respondent 8:	Preparer (multinational):	40 min
Respondent 9:	Preparer (small to medium enterprise):	39 min
Respondent 10:	Preparer (multinational):	27 min
Respondent 11:	Technical expert (assurance/rewards specialist):	35 min
Respondent 12:	Technical expert: (rewards specialist):	26 min