The Effect of the Public Investment Corporation's Shareholder Activism on Firm Performance in South Africa

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A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

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ABSTRACT

The purpose of this study is to evaluate and analyse the effect of Public Investment Corporation's (PIC) shareholder activism on firm performance in South Africa. This includes evaluating and assessing the effect of PIC's corporate governance recommendations on firm performance and thus evaluating the effect of their shareholder activism.

The desktop study of annual reports for the period 2004 and 2007 of the top 36 listed companies in which PIC has shareholding was undertaken. The five point scale was used to score the performance of each company on the following five key elements of good corporate governance: Board Commitment, Good Board Practices, Effective Controls, Transparent Disclosure and Protection of minority shareholder rights. The corporate governance scorecards and Tobin's Q were developed for these 36 companies.

The questionnaires were also developed for the leadership of Institute of Directors of Southern Africa (IoD) and PIC. The results were statistically analysed using Descriptive Statistics, Categorical Regression Analysis, Factor Analysis and Reliability Analysis.

The study has revealed that good corporate governance does not necessarily translate to good firm performance. This is demonstrated by negative correlation between Tobin's Q and the corporate governance scorecards based on PIC recommendations.

There is insufficient information in South Africa to demonstrate the effect of shareholder activism on firm performance. The role of shareholder activism gets clouded with that of transformation activism.

DECLARATION

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

Simon Molefi Xaba

Signed at ……………………………………………………

On the …………………………….. day of ………………………… 2009

DEDICATION

I dedicate this work to my family:

- My wife, Nthabiseng
- The boys, Xolani (aged 8) and Sechaba (aged 4)

I appreciate the support and the sacrifices they made to accord me time to pursue my studies. The challenge is to you, the Boys, to take leaf and achieve more than I could. Mine was just to lay a foundation for you to take over.

ACKNOWLEDGEMENTS

My greatest gratitude to my supervisor, Professor Ncube. He has been a pillar of strength.

My employer, Rand Water, has awarded me a full bursary including study leave days. This has been an enormous gesture from the company and I will be able to contribute towards the realisation of business objectives.

I appreciate the excellent support I received from the Institute of Directors of Southern Africa and the Public Investment Corporation. These organisations widen my understanding of corporate governance and firm performance. I am now the member of Institute of Directors of Southern Africa

Last but not least, to my fellow students for their tireless efforts to meet deadlines, my family, relatives and friends for giving me all necessary support during my studies.

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CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

The purpose of the study is to assess and evaluate the effect of Public Investment Corporation's (PIC) shareholder activism through their shareholding and corporate governance and proxy voting principles, policies and practical applications on firm performance in South Africa.

1.2 Context of the study

Adherence to good corporate governance has come to the fore as result of the desire to maximise stakeholder value. In South Africa, the Institute of Directors (IoD) issued a King II report on Corporate Governance which is just a guideline, not an enforceable legislation, for companies to abide by. The Companies Act, Act 54 of 2000 is the cornerstone regulating the conduct of the companies (IoD 2002).

The Public Investment Corporation (PIC) is an investment management company wholly owned by the South African government founded in 1911 and established as a corporate entity in terms of the Public Investment Corporation Act, 2004 (Act 23 of 2004). They invest funds on behalf of public sector entities and their largest client is the Government Employees Pension Fund, which accounts for more than 90% of assets under management. PIC holds shareholding in various companies as its business imperative is to invest funds on behalf of public sector entities. In August 2007, PIC published its corporate governance and proxy voting policy to manage relationships with stakeholders of the companies in which they invest (PIC 2007).

The role of shareholder activism is to influence the company's strategic direction through dialogue or proposal. This, consequently, addresses corporate governance issues in a company. Hence, PIC has developed its own set of corporate governance principles to reinforce shareholder activism. PIC as the shareholder activist in South Africa closely mimics the California Public Employee Retirement System (CalPERS) in the United States.

In this study, the context of a firm's performance is reflected in their valuation. However, it is recognised that the holistic firm performance is measured by the triple bottom line of financial, social and environmental performance. The study focuses on the companies that trade on the stock exchanges with the primary objective of raising capital to become sustainable. In South Africa, The Johannesburg Stock Exchange Ltd ("JSE") is licensed as an exchange under the Securities Services Act 36 of 2004. The recommendations by the King II report have been adopted by the JSE as the listing requirements.

1.3 Problem statement

1.3.1 *Main problem*

The purpose of the research is to evaluate and analyse the effect of Public Investment Corporation's shareholder activism on firm performance in South Africa. This includes evaluating and assessing the effect of PIC's corporate governance and proxy voting principles, policies and practical applications on firm performance and evaluating the effect of their shareholder activism.

1.3.2 *Sub-problems*

The first sub-problem is to assess the effect of PIC's corporate governance and proxy voting principles, policies and practical applications on firm performance.

The second sub-problem is to evaluate the effect of PIC's shareholder activism on firm performance.

1.4 Significance of the study

The study fills a gap in that it will add value in demonstrating the effect of shareholder activism on firm performance from a South African perspective. There is no comprehensive study available on shareholder activism in South Africa. Hence, this study will bridge this gap. The study will bring to light the merit or demerit of implementing the PIC's corporate governance and proxy voting principles, policies and practical applications to companies in which it has shareholding.

The study will provide guidance on the critical factors that must be considered in evaluating the effect of corporate governance on firm performance.

1.5 Delimitations of the study

- The evaluation of the effect of PIC's shareholding and the effect of PIC's corporate governance and proxy voting principles, policies and practical applications on firm performance will be for JSE's public listed companies in which PIC has vested interests.
- The quantitative and qualitative factors will be considered in evaluating the effect.
- The analysis will be for the top 36 companies in which PIC has shareholding as reflected in PIC's annual report of 2007. These are JSE listed companies covering various industrial sectors.
- There will be no attempt to define the role of Government Employees Pension Fund (GEPF) in the business affairs of PIC.
- Shareholder activism in South Africa will only be focusing on PIC. The annual reports of the companies to be evaluated will be for their financial year ended 2004 and 2007. These are companies in which PIC has shareholding.
- The delisted companies from JSE in which PIC has shareholding will be excluded.
- The study will not evaluate factors that PIC considers in acquiring the shareholding in various firms.

1.6 Definition of terms

Terms and abbreviations used in this report are explained in Table 1 below.

Table 1: Terms and Abbreviations used in the report

Term	**Definition**
AGM	Annual General Meeting
ANOVA	Analysis of Variance
BEE	Black Economic Empowerment
CalPERS	The California Public Employee Retirement System in the United States.
CEO	Chief Executive Officer
Corporate Governance	Lander and Reinstein (2005) define corporate governance as the laws, policies and procedures that ensure that firms run in the interest of owners and to ensure scarce resources are allocated, managed and redeployed to maximise productivity and value
Corporate Governance Score	This relates to total percentage score rating of all the identified corporate governance indicators.

Desktop study	The research method of collating data from the reliable data sources and analysing these data to evaluate the relationships of different variables
Firm performance	Measure of the triple bottom line of financial, social and environmental performance. Financial performance is mostly measured through valuation techniques
GRI	Global Reporting Initiative
IFRS	International Financial Reporting Standards
IoD	Institute of Directors in Southern Africa
JSE	Johannesburg Stock Exchange
King II	Report on Corporate Governance for South Africa issued by Institute of Directors in Southern Africa
OECD	Organisation for Economic Development Co-operation and Development
PIC	Public Investment Corporation
Proxy voting rights	Power of attorney by which the holder of stock transfers the voting rights to another party
SENS	Stock Exchange News

Stakeholders	Parties that have vested interest in the affairs of the company
Shareholders	Parties that have shareholding in a company with voting rights to the company
Shareholder activism	Smith (1996) defines shareholder activism to include monitoring and attempting to bring about changes in the organisational control structure of firms not perceived to be pursuing shareholder-wealth-maximising goals
SPSS	Statistical Product and Service Solutions
Tobin's Q	Chung and Pruitt (1994) define Tobin's Q as the ratio of the market value of a firm to the replacement cost of its assets

1.7 Assumptions

The following assumptions are made regarding the research:

a. The methods used for data collection are relevant for this research.
b. The methods used for data analysis are relevant for this research.
c. The sample used is highly representative of the population.
d. The conclusions from the research results are not intended in any way to be biased.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

The King II report was issued by the Institute of Directors of Southern Africa in 2002, to address corporate governance issues in South Africa. The report states that there is a growing weight of expectation on organisations to operate as good corporate citizens, mainly because of the influence they exercise on the lives of so many individuals. Furthermore, each organisation is the sum of its stakeholders, such as its shareowners, customers, employees, suppliers, and the communities within which it operates. It depends on them, individually and collectively for the goodwill required to sustain its operations (IoD 2002).

In addition to King II, which views governance as ethical issue, Public Investment Corporation (PIC) has in 2007 developed a corporate governance and proxy voting policy to manage relationships with stakeholders of the companies in which they invests.

The literature review is not intending to contrast King II and PIC's policy document but to evaluate whether PIC's corporate governance and proxy voting principles, policies and practical applications impact on firm performance of the companies in which they invest.

The topics to be reviewed from the literature are as follows:

- Principles and perspectives of corporate governance covering the King II Code of Corporate Governance and PIC's Corporate Governance and Proxy Voting Principles, Policies and Practical Applications and Firm Performance
- Shareholder Activism and Firm Performance

2.2. Principles of Corporate Governance

2.2.1. King II Code of Corporate Governance and PIC's Corporate Governance and Proxy Voting Principles, Policies and Practical Applications

The King II report reiterates the seven characteristics of good corporate governance as:

- Corporate Discipline, which is a commitment by the company's senior management to adhere to behaviour that is universally recognised and accepted to be correct and proper.
- Transparency, which is the ease with which an outsider is able to make meaningful analysis of a company's actions, its economic fundamentals and the non-financial aspects pertinent to that business.
- Independence, which is the degree to which mechanisms have been put in place to minimise or avoid potential conflicts of interest that may exist.
- Accountability emphasises that all be accountable for their decisions and actions.
- Responsibility pertains to management's behaviour that allows for corrective action and for penalising mismanagement.
- Fairness, which relates to respecting and acknowledging the rights of various stakeholders, for example, minority shareholder interests must receive equal consideration to those of the dominant shareholders.
- Social responsibility, which relates to an good corporate citizen being one that is non-discriminatory, non-exploitative, and responsible with regard to environmental and human rights issues.

The fundamental guidelines are provided on Board and Directors roles and committees, risk management, internal audit, integrated sustainability reporting, accounting and auditing as well as compliance and enforcement (IoD 2002).

The King II report makes reference to the recommendations of the Global Reporting Initiative (GRI). The GRI's reporting principles and practices cover underlying principles, qualitative characteristics, classification of performance reporting elements, absolute figures and ratios and the disclosure of reporting policies. These principles and practices guide the content of the annual reports. The GRI's suggested format is to include the following in the annual report; CEO Statement, Profile of Reporting Organisation, Executive Summary and Key Indicators, Vision and Strategy, Policies, Organisation, and Management Systems, Performance covering the reporting on triple bottom line, qualitatively and quantitatively.

The Public Investment Corporation (PIC) has developed a corporate governance and proxy voting policy to manage relationships with stakeholders of the companies they invest in. These stakeholders include directors, BEE partners, fund managers, auditors, and others.

The PIC's policy, namely Corporate Governance and Proxy Voting Principles, Policies and Practical Applications, aims to ensure consistency of purpose and practice between itself and stakeholders. It recommends ways of entrenching these principles in operational structures. The policy document specifies principles that should shape the PIC's relationships with various classes of stakeholder, including auditors, directors, shareholders, fund managers exercising proxy votes on the PIC's behalf, and BEE partners. The policy emphasises that sound corporate governance balancing the interests of individuals, the corporation and society must be accompanied by financial performance (PIC 2007).

PIC (2007) regards its Corporate Governance and Proxy Voting Principles, Policies and Practical Applications as an extension to King II. Their policy document outlines the following governance principles:

- Discipline – senior management's commitment to correct and proper behaviour;
- Transparency – ensuring that outsiders have the power to view and thus assess corporate philosophies and actions;

- Independence – the entrenchment of checks and balances of power in a corporate structure;
- Accountability – the mechanisms to expose policies, decisions and actions to investor scrutiny;
- Behaviour – the ability to correct actions where necessary;
- Fairness – the operation of systems that balance diverse interests within a corporate milieu that shape a company's present and future;
- Social responsibility – to ensure good corporate citizenship involving non-discriminatory, non exploitative and responsible action in relation to environmental and human rights issues; and
- Good stakeholder relations – the ultimate aim of conserving that repository of value represented by stakeholders.

PIC's policy document states that economic and social goals as drivers of corporate governance are interdependent. Hence, PIC views its document as stating its expectations as custodian of pension funds and recommends actions and structures to embed the best economic and social practice in organisational structure and implementation (PIC 2007).

Dixon (2008) states that the surveys showed an overwhelming majority of investors are prepared to pay a premium for companies exercising high governance standards. He emphasises the benefits of corporate governance as increasing the value of the entity, giving confidence to the market, enhancing the reputation of the business, enhancing empowerment of all stakeholders, improving efficiency, enhancing competitive advantage, meeting financial, legal and statutory obligations.

2.2.2. *Perspectives of corporate governance*

From the perspective of a company, corporate governance means: independent and efficient supervising body, transparent and accurate books, strong shareholders' rights and equal treatment of all owners group (Gruszcznski 2006). Chang et al. (2005) states that corporate governance is concerned with creating a system of checks and balances regarding decision-making rights within a company, and he further emphasises that the separation of ownership (the shareholder) and control (the management) in modern enterprises brings about agency problems in which management may take actions that compromise the interests of shareholders.

Lander and Reinstein (2005) define corporate governance as the laws, policies and procedures that ensure that firms run in the interest of owners and to ensure scarce resources are allocated, managed and redeployed to maximise productivity and value. They elaborate that at the board level, governance involves board composition and incentives, transparency and disclosure, proxy contests, hostile takeovers and the glare of media attention and criminal penalties.

Lander and Reinstein (2005) mention that management level governance is also important and that questions management need to answer are the following:

- What are the best practices in getting managers and employees to think and act like owners?
- Which management processes, organisational structures and incentive plans produce superior financial returns?
- How can top executive leadership and attitudes help create or destroy shareholder value?

There are those who define corporate governance as the systems by which companies are directed and controlled and their primary concern is with those who supply finance to companies, and more narrowly with shareholders (Mongalo 2003). Mongalo (2003) further states that the Cadbury Report was a major breakthrough in corporate governance circles and the King II report was developed from this. He points out that corporate governance in South Africa will not only follow world trends but will take into account the country's circumstances, such as affirmative action and Black Economic Empowerment.

Bhasha (2004) describes the biggest challenges to global corporate governance as convergence of corporate best practices as well as convergence of global corporate legal systems, achieving uniformity in board architecture across nations, split in the role of chairman and the chief executive officer, achieving complete compliance with the disclosure mandates as well as the nation's culture. She concludes by reiterating that the challenges that confront the corporate governance process differ from country to country and that the nations that have rationalised their corporate laws in accordance with international norms still have to search for better systems, given the uncertainty in global governance advancements.

The OECD (2004) outlines the following key principles of effective corporate governance:

- Ensuring the basis for an Effective Corporate Governance Framework
- The Rights of Shareholders and Key Ownership Functions
- The Equitable Treatment of Shareholders
- The Role of Shareholders in Corporate Governance
- Disclosure and Transparency
- The Responsibilities of the Board

Dixon (2008) presents the five elements of Corporate Governance as shown on figure 1 below:

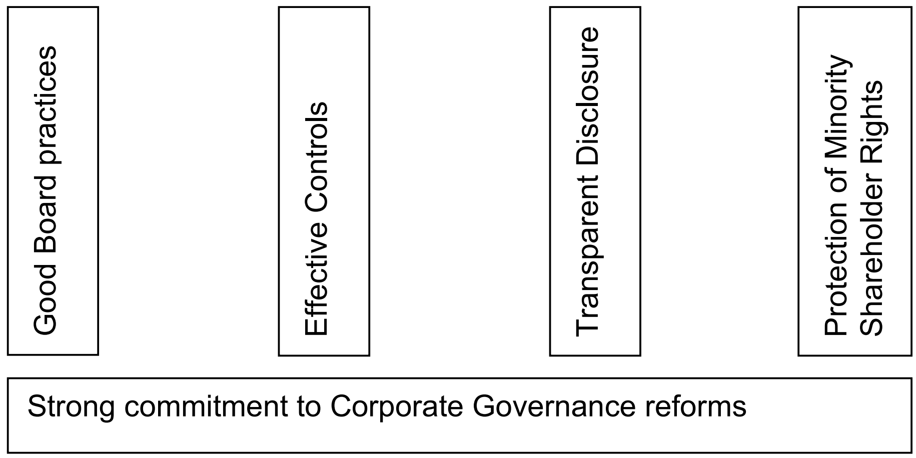

Figure 1: Five Elements of OECD principles of effective corporate governance (Dixon 2008)

Dixon (2008) outlines the following key considerations under each of the five elements of OECD principles of effective corporate governance as follows:

a. Board Commitment

- Declaration about commitment to corporate governance

b. Good Board Practices

- Board is well structured and balanced (taking into account demographics of South Africa)
- Appropriate mix of skills and expertise
- Clearly defined roles and authorities (taking into account membership of various committees)

c. Effective Controls

- Independent audit committee
- Risk Management framework
- Internal control procedures

- Internal audit function
- Independent external audit
- Appropriate and secure Information systems
- Compliance officer / Company Secretary

d. Transparent Disclosure

- Full disclosure of financial information
- Non-financial information disclosed (Separate Sustainability Report issued)
- Compliance with IFRS
- Quality Annual Reporting (based on report covering all GRI requirements)
- Detailed Web based information

e. Protection of minority shareholder rights

- Minority shareholder rights formalised
- Notices about Annual General Meetings
- Statement / Policy about extraordinary transactions
- Dividend policy

The PIC (2004) outlines the following key principles in their corporate governance and proxy voting principles, policies and practical applications:

- Board issues covering committee structure and risk management
- Shareholder treatment covering voting rights, dealing with shares and BEE
- Audit issues covering audit committee requirements
- Remuneration issues covering approval of director's compensation and remuneration levels
- Reporting, transformation and other issues covering sustainability reporting and triple bottom line

2.3. Corporate Governance and Firm Performance

2.3.1 Corporate Governance measures on firm performance

Drobertz (2007) mentions that companies have long known that good governance generates investor goodwill and confidence and that this provides even more reason for them to improve their governance practices. He highlights numerous recent studies emanating from academic circles showing that good corporate governance increases valuations and boosts the bottom line. He reiterates that more democratic firms also enjoyed higher valuations, higher profits, higher sales growth, and lower capital expenditures.

Gruszcznski (2006) states that relationship between the level of corporate governance and the financial performance of the listed companies in Poland was established by evaluating the following indicator variables:

- Composition and competence of board,
- Supervision over party related transactions,
- General shareholders meeting accessibility,
- Functioning of management board,
- Auditor’s independence,
- Lack of anti-takeover defences,
- Regulations on trading in own shares,
- Companies’ declared goals and intentions,
- Transparency arrangements.

Gruszcznski (2006) concludes that there is a strong correlation between governance and financial performance as expressed by operating profit margin, and debt leverage ratio. He, however, notes that some financial indicators show no correlation with governance.

Brown and Caylor (2006) have identified seven corporate governance measures that are significantly and positively linked to firm valuation as the following:

- Board members are elected annually;

- Company either has no poison pill or one approved by shareholders;
- Option re-pricing did not occur within the last three years;
- Average options granted in the past three years as a percentage of basic shares outstanding did not exceed 3%;
- All directors attended at least 75% of board meetings or had a valid excuse for non-attendance;
- Board guidelines are in each proxy statement; and
- Directors are subject to stock ownership guidelines.

The OECD (2004) stress that the presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy. As a result, the cost of capital is lower and firms are encouraged to use resources more efficiently, thereby underpinning growth.

Reibeiz and Salameh (2006) have studied the relationship between the board's structure and the financial performance of the construction service industry and established that a critical mass of outside independent directors and the dissociation of the roles of CEO and Chairman of the board translate into superior financial market returns for the firm. They also revealed that the size of the board, the number of meetings held by the board and the number of independent committees do not significantly impact on the market returns.

Haniffa and Hudaib (2006) have established the relationship between corporate governance structure and performance of 347 companies listed on the Kaula Lumpur Stock Exchange between 1996 and 2000. They found that board size and top five substantial shareholdings to be significantly associated with both market and accounting performance measures.

Millson and Ward (2005) state that ineffective governance has often formed a backdrop to corporate failure with the resultant negative impact on stakeholders. They highlight that in the field of private equity, investors have consistently received financial returns that outperform those of listed equities. They determine that private equity investments are characterised by, *inter alia*, proactive agent-principal relationships; a relatively high level of shareholder activism; insistence on transparency; non-executive influence; and active performance management.

Brown and Caylor (2006) used Tobin's Q, Gov-Score and control variables to demonstrate the impact of corporate governance on firm value whereby:

- Tobin's Q is defined as: (Total Assets +Market Value of Equity (Stock Price Fiscal Year Close) * Common Shares Outstanding) _ Total Common Equity _ Deferred Taxes)/ Total Assets.
- Gov-Score is the summation of governance provisions that are considered minimally acceptable.
- The control variables are natural logarithm of total assets, natural logarithm of firm age as measured in fiscal quarters, and a dummy variable indicating whether a firm is incorporated in Delaware or not (coded 1 and 0, respectively).

Chung and Pruitt (1994) concur that Tobin's Q plays a significant role in many financial interactions. They have argued that computational method of determining Tobin's Q is tedious and costly both in terms of its data requirements and computational effort. They developed a widely used, simple approximation of Tobin's Q which is defined as the ratio of the market value of a firm to the replacement cost of its assets.

Thus, the approximate Tobin's Q = (MVE + PS + DEBT)/TA, where:

- MVE is the product of a firm's share price and the number of common stock shares outstanding,
- PS is the liquidating value of the firm's outstanding preferred stock,
- DEBT is the value of the firm's short-term liabilities net of its short-term assets, plus the book value of the firm's long-term debt,
- TA is the book value of the total assets of the firm.

Lander and Reinstein (2005) have analysed Economic Value Alignment as a form of corporate governance, a concept similar to but more encompassing than economic value added (EVA) and value based management. Their results show that the companies that use economic value alignment increase their value significantly over those that do not.

Gompers et al. (2003) have shown impact of governance and firm value by using 24 distinct corporate-governance provisions, by building a Governance Index as a proxy for the balance of power between managers and shareholders in each firm. They found that corporate governance is strongly correlated with stock returns. They established that each one-point increase in the Governance Index is associated with a decrease in Tobin's Q percentage points.

2.3.2 Proposition 1

The listed companies in which PIC has shareholding comply with PIC recommendations on corporate governance, thus translating to good firm performance.

2.4. Shareholder Activism and Firm Performance

Smith (1996) on his analysis of shareholder activism of CalPERS, defines shareholder activism as including monitoring and attempting to bring about changes in the organizational control structure of firms (targets) not perceived to be pursuing shareholder-wealth-maximizing goals. He argues that the questions regarding the effects of shareholder activism on targeted firms include the following:

- What types of firms are subject to shareholder activism?
- Is shareholder activism effective in changing target firm governance structures?
- Does shareholder activism increase shareholder wealth for targeted firms?

- Are the positive expectations of the market "confirmed by subsequent improvements in performance of targeted firms?
- Is there a spillover effect of activism for other firms that also are likely targets for shareholder activism?

The results of Smith (1996) on the effects of activism on target firm governance structure, shareholder wealth, and operating performance for the 51 firms targeted by CalPERS over the 1987-1993 period revealed the target selection factors, effect of shareholder activism on corporate governance structure, effect of shareholder activism on stock price and effect of shareholder activism on operating performance. He therefore concluded that shareholder activism is largely successful in changing governance structure and, when successful, results in a statistically significant increase in shareholder wealth. However, if the source of the wealth increase is improved operating performance, it is not statistically significant. On net, activism appears to be beneficial to CalPERS, as the value increase of its holdings from activism.

Cremers and Nair (2005) show that both internal (shareholder activism) and external governance (corporate control) are linked to firm value. Their findings are that internal and external governance mechanisms are complements in being associated with long-term abnormal returns. They find that public pension fund (blockholder) ownership is important only in the presence of takeover vulnerability. Similarly, they find that the market for corporate control is important only in the presence of an active shareholder, thus in firms with the highest quartile of blockholder (public pension fund) ownership.

Activism creates significant value for the shareholders (Nelson 2005). This stresses the significant role of shareholder activism in the affairs of the companies to influence in value creation.

English II et al. (2002) analyse the relationship between CalPERS' public targeting and both short- and long-term stock returns to address what has been dubbed the ''CalPERS effect.'' They describe the CalPERS effect as the purported performance improvements associated with CalPERS targeting. They focus on the general effectiveness of CalPERS activism.

English II et al. (2002) argue that several studies have found evidence that the value effects of CalPERS activism are more pronounced than that of other activist public pension funds, and that the overall empirical evidence concerning short-term and long-term abnormal returns associated with CalPERS activism has been mixed. They attribute the inconclusive results to a variety of factors such as differences in the type of targeting considered, reduced statistical power due to the ambiguity of precise event dates, differences in statistical methods, and the inclusion of firms with contaminating events. In their study of the general effectiveness of CalPERS activism, they examine firms appearing on a CalPERS annual target list as announced in the Wall Street Journal from 1992 to 1997.

Briggs (2007) concludes his work on New Hedge Fund Activism by stating that hedge fund activists are not normal institutional investors. They threaten and even actually launch proxy fights for corporate control. They attack in wolf packs. If this causes managements to re-examine their businesses and review basic strategy accordingly, corporate governance has unquestionably been improved.

Gillain and Starks (2003) argue that the effectiveness of shareholder activism is problematic. Firstly, it is difficult to determine the outcome of activism and whether it has had positive consequences for the firm. Secondly, much of the activism is conducted behind the scenes through private negotiations where there is no external observation of the event. They emphasise that institutional investors are the predominant players in the financial markets and in corporate governance. They stress that ownership structures and other governance characteristics differ across markets, attributable in part to the legal and regulator systems and in part to the manner in which the markets have evolved.

Song and Szewczyk (2003) have assessed the impact of Focus Listing by the Council of Institutional Investors (a US company of over 120 public and private pension funds) on targeting poorly performing firms. In October every year, the

Council of Institutional Investors releases its Focus Listing of underperforming firms. Their findings are that:

- Post-listing stock returns for the targeted firms differ insignificantly from those of a suitable benchmark group.
- Institutional investors increase their holdings of targeted firms, but not by more than those of the benchmark firms.
- Though analysts revise earnings forecasts up for Focus Listed firms, they do so well after the listing event and positive revisions are no greater than the benchmark group.
- There appears to be little difference between Focus List and benchmark firms in the incidence of post-listing events such as mergers and stock repurchases.
- Overall, there is very little evidence of the efficacy of shareholder activism.

Caton and Donaldson (2001) examine earnings-forecast revisions and stock returns after release of the Focus List of poorly performing companies by the Council of Institutional Investors. Using Tobin's Q as a measure of a company's ability to improve performance, they found significant and positive abnormal forecast revisions and post-release stock returns for companies with Q greater than 1. For companies with Q less than 1, neither forecast revisions nor post-release stock returns were significantly different from zero. For the full sample of companies on the Focus List, regression analysis showed a significant positive relationship between forecast revisions and post-release stock returns. Their key finding is that institutional activism is effective for underperforming companies but only for those companies with the ability to respond to the challenge to improve performance.

Koehn and Ueng (2005) state that companies are under increasing pressure to have their corporate governance rated by an independent corporate governance metrics firm, such as Institutional Shareholder Services (ISS) or Governance Metrics International (GMI). These rating firms claim to be able to determine how effective and responsive a company's board is. Institutional investors have begun using these board governance ratings when deciding which firms to include in their stock portfolios. Their findings suggest that investors should not rely too heavily upon the governance scores being awarded by independent corporate governance metrics firms since there is no strong positive correlation between a high performance score and high quality earnings.

Furthermore, Koehn and Ueng (2005) ascertain that a high governance score does not necessarily mean the company is highly ethical. Governance and ethics scores seem to be inversely related, since a high ethics score may be an indication that the company is engaged in a public relations whitewash, trying to distract attention from governance or earnings issues.

Schmolke (2006) states that noticeable growth in institutional ownership gave rise to demands for more institutional shareholder activism, as the institutional investors were deemed able to overcome notorious collective action problems and other impediments that had prevented significant shareholder activism so far. He states that European Commission proposed a medium-term measure (2006-2008) that institutional investors should be obliged:

- to disclose their policy with respect to the exercise of voting rights in companies in which they invest;
- to disclose to their beneficial holders at their request how these rights have been used in a particular case.

Schmolke (2006) stresses that the rule's objectives are to prevent institutions deviating from their fiduciary duties towards their clients while facing conflicts of interest.

Wahal (1996) examined all firms targeted by the nine most active pension funds from 1987 to 1993 and finds that pension funds employ a variety of monitoring mechanisms in the activism process and are reasonably successful in changing the governance structure of the targeted firms. Also, the long-term abnormal stock price performance of targeted firms is negative prior to targeting and is still negative after targeting. The accounting measures of performance do not suggest improvements in operating or net income. Despite weak performance by targeted firms, the pension funds do not reduce their shareholdings in contrast to other institutions which reduce their stakes. Hence, results cast doubt on the efficacy of pension fund activism in improving firm performance.

Romano (1993) argues that recent proposals to enhance the role of public pension funds in corporate governance implicitly assume that such funds are free of the conflicts of interest that plague private fund managers. He suggests that enthusiasm for such proposals ought to be more muted: political pressure to support local firms and engage in other forms of social investing places important limits on the effectiveness of public fund activism in corporate governance. Such pressure creates conflicts of interest for public fund managers analogous to the business conflicts of private fund managers, although these conflicts are likely to be more geographically constrained than those of their private counterparts.

The findings of Romano (1993) are that funds with more politicised board structures perform significantly more poorly than those with more independent boards. Policies favoring social investments also appear to affect performance negatively, although the relationship is statistically significant only at ten percent. A fund's activism in corporate governance does not appear to affect its performance. There is little evidence that public and private fund managers differentially support corporate management in proxy voting. In the vast majority of cases, especially matters touching upon corporate control, both groups of investors appear to follow the same voting strategy.

Public funds which become increasingly active in corporate governance will experience increased political pressure on both voting and investment decisions. This pressure will produce non-value-maximizing decisions at odds with the interest of other investors. This tendency suggests that shareholder activism by public pension funds will not be able to replace an active market in corporate control as the most potent disciplining force for aligning managers' incentives with shareholders' interests (Romano, 1993).

Cumming and Johan (2007) state that the institutional investors have various motivations in their investment strategies when deciding to allocate capital to equities, bonds, derivatives, and alternative investments such as private equity. Their data indicated that socially responsible investment is more common among larger institutional investors and those investors expected greater risk-adjusted returns from such investments. They did not find pronounced differences across factors that lead to socially responsible investing in private equity versus other asset classes.

Bedo˝ and A´cs (2007) have assessed the relationship between ownership structure and company performance of public companies. The central tenet of their analysis is that separation of ownership and control has an adverse effect on the value of the firm, as information asymmetry between owners and managers is exploited by management. Their results for the US firms also show that dominant blockholders "create their own space", in other words when the ownership stake of the largest blockholder exceeds 10 percent, the contribution of smaller owners to the monitoring and control of management is negative.

If the largest blockholder is not dominant, the coalition of blockholders is able to create value by efficient monitoring. Institutional investors as dominant blockholders further enhance the efficiency of control, which decreases when the coalition consists solely of institutional investors (Bedo˝ and A´cs 2007).

Karpoff (2001) stresses that researchers and investors disagree over the extent to which shareholder activism facilitates improvements in target firms' values, earnings, operations, and governance structures. He surveyed the recent empirical research on shareholder activism, and concluded that the disagreement among researchers is more apparent than real. Most evidence indicates that shareholder activism can prompt small changes in target firms' governance structures, but has negligible impacts on share values and earnings. He states that much of the disagreement among researchers reflects differences in the metrics emphasised.

Karpoff (2001) emphasises that researchers emphasising changes in target firms' governance structures tend to characterize shareholder activism as a "successful" tool to improve firm performance. Furthermore, most of those emphasising changes in share values, earnings, or operations, in contrast, characterize shareholder activism as having negligible effects on target companies. His findings, based on the evidence from 20 empirical studies on the two predominate forms of such activism: shareholder proxy resolutions and informal negotiations with target firm managers, are the following:

- Firms attracting activist efforts tend to be large and have high levels of institutional ownership. There is some evidence that these firms also have poor prior stock returns and earnings performance.
- Activists have been successful at prompting some firms to adopt limited changes in their governance structures. The rate of activists' success in prompting some change in target companies has increased over time.
- When averaged over all time periods, sponsor types, and proposal types, shareholder proposals have negligible and statistically insignificant short-run effects on share values.
- Announcements of non-proposal targetings and negotiated settlements between activist shareholders and target companies are associated with an average increase in share values. In some tests, the increase is statistically significant.
- The average abnormal stock return is non-zero for some subsets of proposal and non-proposal targetings. For example, 1990-91 proposals sponsored by public pension funds at firms that previously had not received proposals, and 1990-93 proposals that were publicized in the financial press before proxy materials were distributed, are associated with share value increases. Proposals by CalPERS in its early period of activism (e.g., 1987-88), in contrast, are associated with share value decreases. These sub-sample results, however, may reflect data-snooping biases.
- Shareholder activism is not associated with subsequent changes in earnings, capital expenditures, earnings payout, CEO turnover, CEO compensation, or likelihood of a control change, although it appears to be

followed by an unusually high rate of asset divestitures and/or company restructurings.

The empirical literature provides little evidence that shareholder proposals create value, although some negotiation efforts may have. Both proposals and private negotiations have prompted some firms to make small changes in their governance rules. But there is little evidence that either has increased target firms' earnings or had much effect on operations (Karpoff 2001).

Bassen (2005) finds that the implementation of good corporate governance by institutional investors is mainly driven by market mechanisms and by personal contact. He therefore, argues that it is important for institutional investors and financial analysts to reduce the cost of personal contact, which can otherwise easily dominate the positive effect of good corporate governance. He stresses that the corporate governance scorecard is the best approach for permitting a standardised, comprehensive and comparative evaluation of corporate governance.

Piotroski and Roulstone (2004) evaluates the extent to which the trading and trade-generating activities of three informed market participants, financial analysts, institutional investors, and insiders, influence the relative amount of firm-specific, industry-level and market-level information impounded into stock prices, as measured by stock return synchronicity. Their findings are that stock return synchronicity is positively associated with analyst forecasting activities, consistent with analysts increasing the amount of industry-level information in prices through intra-industry information transfers. In contrast, stock return synchronicity is inversely related to insider trades, consistent with these transactions conveying firm-specific information.

The supplemental tests of Piotroski and Roulstone (2004) show that insider and institutional trading accelerate the incorporation of the firm-specific component of future earnings news into prices alone, while analyst-forecasting activity accelerates both the industry and firm-specific components of future earnings news. They suggest that all three parties influence the firm's information environment, but the type of price-relevant information conveyed by their activities depends on each party's relative information advantage. They find that insider transactions improve the flow of firm specific information into individual stock prices, while analyst activities lead to greater price synchronization.

Karathanassis et al. (2004) have analysed the influence of institutional investors on share prices using data from companies quoted on the Athens Stock Exchange. They state that for finance theorists the value of an investment, real or financial, is a function of its expected benefits and the riskiness of these benefits. They suggest that managerial and agency theorists argue that the particular ownership structure may have an effect on share value or returns. Their arguments are based on the consequences of the separation of ownership from control.

The institutional investors appear to be investing for short periods of time, moving in and out of shares according to short-term results. Thus, this speculative behaviour may compel management to cancel long-term financial policies thus causing lower prices in future (Karathanassis et al. 2004).

The OECD (2004) emphasise that institutional investors acting in a fiduciary capacity should disclose their overall corporate governance and voting policies with respect to their investments, including the procedures that they have in place for deciding on the use of their voting rights.

2.4.1. Proposition 2

Shareholder Activism by PIC in the companies it has shareholding has an effect on firm performance.

2.5. Conclusion of Literature Review

The principles of corporate governance provide sound ethical roles and responsibilities of various stakeholders for financial, social and environmental sustainability of the firms. The challenges facing corporate governance in every country are to be addressed by enhancing the country's laws and norms in accordance with international norms and striving to be on the leading edge of developments in governance advancements.

The studies have shown a correlation between corporate governance and firm performance. Thus, the firms that abide and practice good corporate governance have the competitive edge of the improved firm valuation for the benefit of all stakeholders.

There are mixed views about the effect of shareholder activism on firm performance. The benefit of shareholder activism has been documented for CalPERS. Furthermore, factors that lead to variation in the impact of activism are ownership structures and other governance characteristics which differ across markets, attributable in part to the legal and regulator systems and, in part, to the manner in which the markets have evolved. It is warned that investors should not rely too heavily upon the corporate governance scores being awarded by independent corporate governance metrics firms since there is no strong positive correlation between a high performance score and high quality earnings.

2.5.1 Proposition 1:

The listed companies in which PIC has shareholding comply with PIC recommendations on corporate governance, thus translating to good firm performance. Mongalo (2003) states that corporate governance in South Africa will not only follow world trends but will take into account the country's circumstances such as affirmative action and Black Economic Empowerment. Drobertz (2007) mentions that companies have long known that good governance generates investor goodwill and confidence. Dixon (2008) lists the five key principles of effective corporate governance based on OECD (2004). These five key principles are integrated in the PIC corporate governance and proxy voting principles, policies and practical applications.

Brown and Caylor (2006) use Tobin's Q, Gov-Score and control variables to assess effect of corporate governance of firm performance. Chung and Pruitt (1994) have developed a simple approximation of Tobin's Q which is defined as the ratio of the market value of a firm to the replacement cost of its assets.

Lander and Reinstein (2005) use Economic Value Alignment (EVA) as a form of corporate governance. Gompers et al. (2003) have shown the impact of governance and firm value by using 24 distinct corporate-governance provisions, by building a Governance Index as a proxy for the balance of power between managers and shareholders in each firm.

2.5.2 Proposition 2:

Shareholder Activism by PIC in the companies it has shareholding has effect on firm performance.

Nelson (2005) elaborates that activism creates significant value for the shareholders.

Smith (1996) established that activism has benefited CalPERS, as the value increase of its holdings from activism. He stresses that activism is largely successful in changing governance structure and, when successful, results in a statistically significant increase in shareholder wealth. However, if the source of the wealth increase is improved operating performance, it is not statistically significant.

Song and Szewczyk (2003) argue that there is very little evidence of the efficacy of shareholder activism.

Wahal (1996) gives results that cast doubt on the efficacy of pension fund activism in improving firm performance.

Karpoff (2001) points out that shareholder activism is not associated with subsequent changes in earnings, capital expenditures, earnings payout, CEO turnover, CEO compensation, or likelihood of a control change, although it appears to be followed by an unusually high rate of asset divestitures and/or company restructurings. In short, the empirical literature provides little evidence that shareholder proposals create value, although some negotiation efforts may have. There is little evidence that activism either has increased target firms' earnings or had much effect on operations.

CHAPTER 3: RESEARCH METHODOLOGY

The requirement to evaluate the effect of shareholder activism has led to using both qualitative and quantitative methods. The exploratory research has focused on literature reviews and interviews with the Institute of Directors of Southern Africa (IoD) and the Public Investment Corporation (PIC). The quantitative approach has focused on a desktop study of corporate governance scorecard and financial data using Tobin's Q. The corporate governance key principles were identified and performance scorecards performed basing the observations on the annual reports and the firm performance was determined by using Tobin's Q. This has meant the nature of the research focused on research propositions instead of hypotheses.

The structure of this chapter follows research methodology/paradigm, research design, population and sampling, data collection, data analysis and interpretation and validity and reliability.

3.1 Research methodology /paradigm

The exploratory research has focused on an interpretive paradigm since a literature review and interviews were used. The assumption is that in order to assess the effect of PIC's shareholder activism, the opinions and perceptions must be gathered from the key stakeholders in the form of interviews and a desktop study of the annual reports.

Furthermore, quantitative research was appropriate to demonstrate the effect of PIC's corporate governance on firm performance using corporate governance scorecards and Tobin's Q. The statistical analysis was used.

3.2 Research Design

The qualitative approach was based on literature reviews, interviews and a desktop study of the annual reports to evaluate the effect of PIC's shareholder activism on firm performance. The advantage of this method is that the key stakeholders would provide their opinion about PIC's shareholder activism on firm performance. The disadvantage is that the desktop study could be seen as perceptions which could lead to different interpretations.

The quantitative approach was based on translating the desktop study of the annual reports into corporate governance scorecards and financial analysis using Tobin's Q. This would then demonstrate the effect of PIC's shareholder activism on firm performance. Its advantage is that it will provide measurement. The disadvantage will be validity of the assumptions used in the Desktop study for corporate governance scorecards and calculations of Tobin's Q. There might be insufficient data available to enable the quantitative approach to provide effective measurement.

3.3 Population and sample

3.3.1 Population

The population would be all listed companies in which PIC has shareholding as well as IoD and PIC respondents. This excludes delisted companies in which PIC has shareholding as reported in their annual report of 2007. The 2004 and 2007 annual reports were used to assess each company. This translates to annual reports of the last three years and two assessments per single company.

3.3.2 Sample and sampling method

The sample size was the top 36 listed companies in which PIC has shareholding as reported in PIC's annual report of 2007. The use of 2004 and 2007 annual reports translates to two assessments per company. These companies represent various industry sectors. **Appendix A** shows a list of the top 36 listed companies in which PIC has shareholding.

The interviews were conducted with the respondents shown in Table 2 below. The different interview questions for both respondents are shown in **Appendix B**.

Table 2: List of respondents

Company
Institute of Directors of Southern Africa – South Africa
Public Investment Corporation – South Africa

The Desktop study was used to determine corporate governance scorecards for each of the 36 companies. The 2004 and 2007 annual reports were selected to determine the corporate governance scorecard. These two sets of annual reports for each company were sourced from the companies' Websites. The objective of choosing these two sets was to compare after two year implementation of the King II report and the most common recent annual report.

The questionnaire was developed based on Dixon's (2008) five elements of OECD principles of effective corporate governance, namely:

- Board Commitment
- Good Board Practices
- Effective Controls
- Transparent Disclosure
- Protection of minority shareholder rights

These five key principles of effective corporate governance are also integrated in the PIC's corporate governance and proxy voting principles, policies and practical applications. The desktop study questionnaire is shown in **Appendix C**.

3.4 The research instrument

Contact was established with the leadership of both IoD and PIC. The objectives of the research together with the research questions were emailed to the leadership IoD and PIC as shown in **Appendix B**.

The desktop study was used to determine corporate governance scorecard and Tobin's Q for each of the 36 top listed companies in which PIC has shareholding. The 2004 and 2007 annual reports of these companies served as data source. It was decided to undertake desktop study since the objective was to use public information (annual reports) to do assessment rather than requesting companies to complete these questionnaires.

3.5 Procedure for data collection

The process for data collection is depicted in **Figure 2** below. This involved the identification of the 36 top listed companies in which PIC has shareholding, collating 2004 and 2007 annual reports for desktop study, and identifying the 5 key elements of effective corporate governance which are also integrated in the PIC's corporate governance and proxy voting principles, policies and practical applications. The rating scale of 1 to 5 was used for each of the question to determine corporate governance scorecard for 2004 and 2007 for each company.

The rating scale was defined as follows:

1: Extremely unsatisfactory
2: Not satisfactory
3: Satisfactory
4: Highly satisfactory
5: Extremely satisfactory

On the other hand, Tobin's Q was calculated for 2004 and 2007 for each company.

The Statistical Product and Service Solutions (SPSS) was used to analyse the data.

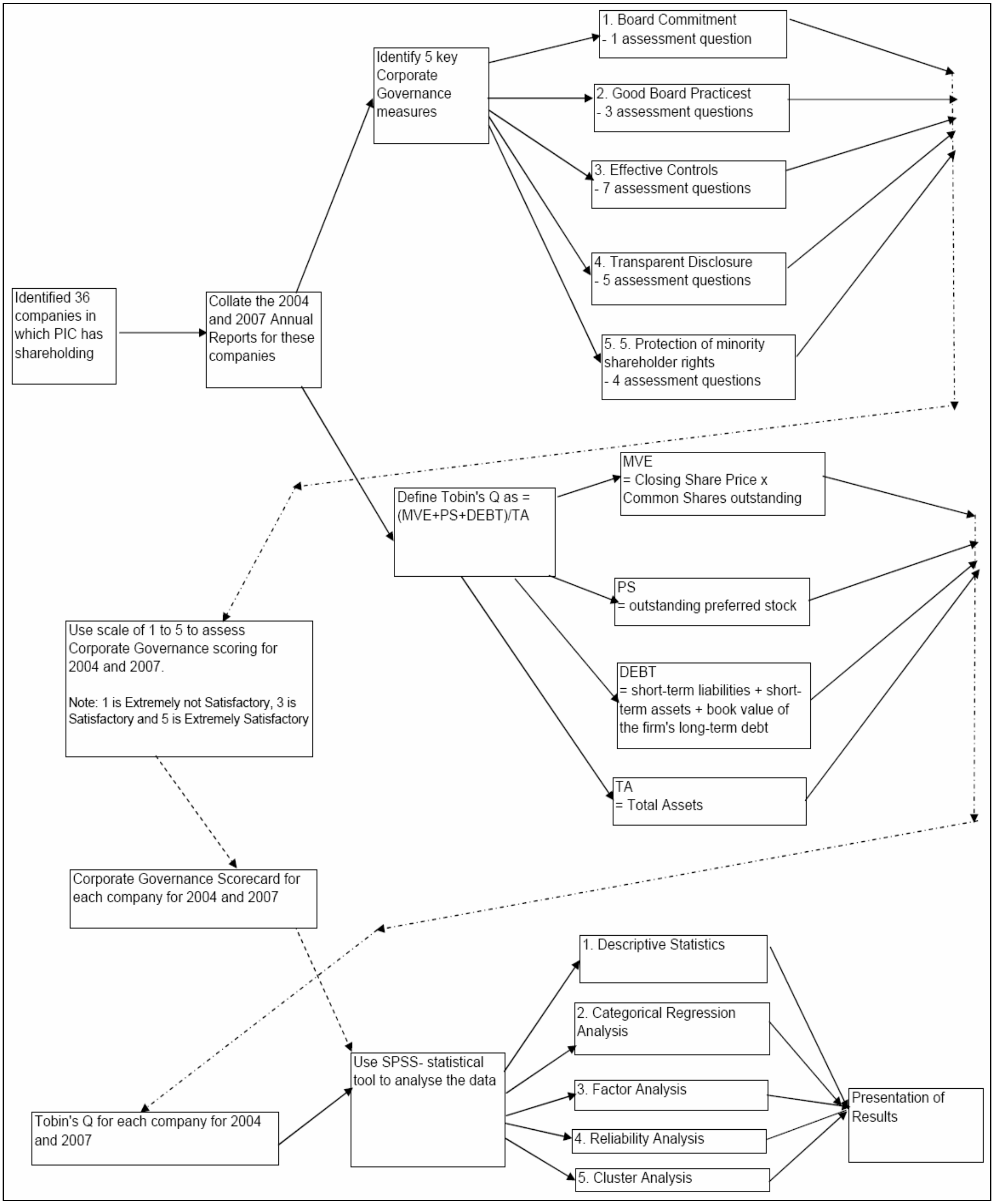

Figure 2: Process flow for the desktop study for corporate governance scorecards and Tobin's Q for 36 companies in which PIC has shareholding

3.6 Data analysis and interpretation

The quantitative data sourced from 2004 and 2007 annual reports of the top 36 listed companies in which PIC has shareholding were analysed and interpreted using Statistical tools, namely scatter plots and The Statistical Product and Service Solutions (SPSS) tool. SPSS was used to perform the following statistical analysis:

- Descriptive Statistics provides the responses to the corporate governance scorecard variables.
- Categorical Regression Analysis which allows nominal, ordinal and interval-level independent variables. The procedure makes use of optimal scaling to quantify categorical variables which are then treated as numerical variables. This procedure in SPSS outputs regression coefficients, an ANOVA table, category quantifications from optimal scaling, correlations between untransformed predictors and correlations between transformed predictors, residual plots, and transformation plots. A categorical regression model with Tobin's Q as the dependent variable and the corporate governance scorecard variables as independent predictors was fitted.
- Factor Analysis was carried out on the quantified corporate governance scorecard variables. Factor analysis helps to discover clusters or groups of questions that measure a single concept by investigating the correlations and covariance among the questions. The factors that are obtained enable the formulation of scales that measure different concepts using groups of questions or verify if such constructs genuinely exist when the corporate governance scorecard was designed. This can also test the reliability of the factors obtained from the analysis.
- Reliability Analysis which is used to obtain additional evidence to support the validity of the corporate governance scorecard components discovered using factor analysis. Reliability is assessed using a statistic called Cronbach's alpha. Alpha ranges from 0 to 1. The rule of thumb is that alpha

has to be greater than 0.7 to come to the conclusion that the scale is reliable.

The qualitative data sourced through interviews and questionnaires were analysed and interpreted using content analysis.

The consistency matrix for this research is shown in Table 3 in **Appendix D.**

3.7 Limitations of the study

- Desktop study could be interpreted as biased since it reflects the individual's assessment; hence the ratings could differ from one individual to another person undertaking this study. This could be seen as a subjective assessment but rather better than the company assessing itself. It would be better to simultaneously undertake desktop study and to have each company assessing itself to compare the results.

- The choice of 2004 and 2007 annual reports could give different results for other years. This signifies that corporate governance and firm performance are dynamic.

- The study did not attempt to assess whether the companies in which PIC has shareholding are satisfied with the requirement that they comply with PIC's corporate governance and proxy voting principles, policies and practical applications.

3.8 Validity and reliability

It is crucial to analyse data to ensure the results of measurements can be extrapolated to other scenarios. The data sourced through literature, interviews, Desktop study was subjected to validity and reliability.

3.8.1 External validity

Leedy and Ormrod (2001) define external validity as the extend to which the results from a study apply to situations beyond the study. In this study, the population is defined as various companies that PIC has shareholding and the leadership of IoD and PIC. The external validity is impacted since only the top 36 listed companies in which PIC has shareholding were selected. Also, only IoD and PIC were respondents. It was assessed whether the top 36 companies were a representative sample of various industry sectors. The use of desktop study to assess corporate governance scorecards and Tobin's Q has enhanced the external validity of this study.

3.8.2 Internal validity

Leedy and Ormrod (2001) define internal validity as the extent to which the design of, and the data produced by, an instrument allows the researcher to draw accurate conclusions about the cause and effect and other relationships between the data.

Content and face validity was enhanced by an extensive literature review and the interview questions with the leadership of IoD and PIC. The questionnaire developed for desktop study enabled the measures to provide answers to specific items only once, this makes sure that criterion validity is not established whereby one variable or set of variables predicts an outcome based on information from other variables.

The use of 2004 and 2007 annual reports of the top 36 companies in which PIC has shareholding has established the construct validity whereby a measure changes in a logical way when other conditions change.

3.8.3 Reliability

Bell (2005) defines reliability as the extend to which a test or procedure produces similar results under constant conditions on all occasions.

The use of an extensive literature review, interview questions to the leadership of IoD and PIC as well as Desktop study using 2004 and 2007 annual reports of the top 36 listed companies in which PIC has shareholding has enhanced internal consistency.

CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

The results obtained from the Desktop study of 2004 and 2007 annual reports of top 36 listed companies in which PIC has shareholding are presented. These results cover the Corporate Governance Scorecard and Tobin's Q for these companies. The summarised responses from the leadership of IoD and PIC are also presented.

Results obtained using the SPSS (Statistical Product and Service Solutions) software are presented. The following analyses were carried out:

- Descriptive Statistics;
- Categorical Regression Analysis;
- Factor Analysis;
- Reliability Analysis; and

The results presented attempt to address the following research propositions:

Proposition 1: The listed companies in which PIC has shareholding comply with PIC's corporate governance and proxy voting principles, policies and practical applications, thus translating to good firm performance.

Proposition 2: Shareholder Activism by PIC in the companies it has shareholding has effect on firm performance.

4.2 Demographic profile of respondents

The sample is comprised of the top 36 listed companies in which the PIC has shareholding, which excludes de-listed companies. The PIC does not have a database to show the effect of shareholder activism on firm performance; hence the Desktop study based on annual reports of 2004 and 2007 for these 36 companies was undertaken. These companies represent various industry sectors as shown in **Appendix A**.

Subject area experts from IoD and PIC provided information on the research questions. These experts have extensive knowledge in the field of corporate governance and shareholder activism.

4.3 Results of Statistical Techniques

4.3.1 Descriptive Statistics

Appendix C1.3 show average corporate governance scorecard for all 36 companies as 84% and 87% for 2004 and 2007 respectively.

The following corporate governance scorecard variables had similar responses across all respondents. They could not add value to any explanation of variation between the respondents and were thus excluded from all further analysis as a result.

- Is there an independent external auditor?
- Are the information systems appropriate and secure?
- Is there a full disclosure of financial information?
- How detailed is the web based information of the company?
- Does the company formalise minority shareholder rights?

- Is a notice about the Annual General Meeting sent out?
- Is the Dividend Policy mentioned?

The tables and charts below summarise the responses to the remaining corporate governance scorecard variables:

4.3.1.1 Declaration of Commitment to Corporate Governance

Table 4 and Figure 3 below show a summary of the responses to the Declaration of Commitment to Corporate Governance scorecard variable. A 4.2% of the responses fell into the "Unsatisfactory" performance category on this corporate governance scorecard variable.

Table 4: Percentage response of the companies to the rating

	Frequency	**%**
Unsatisfactory	3	4.2
Satisfactory	27	37.5
Highly Satisfactory	20	27.8
Extremely Satisfactory	22	30.6
Total	**72**	**100.0**

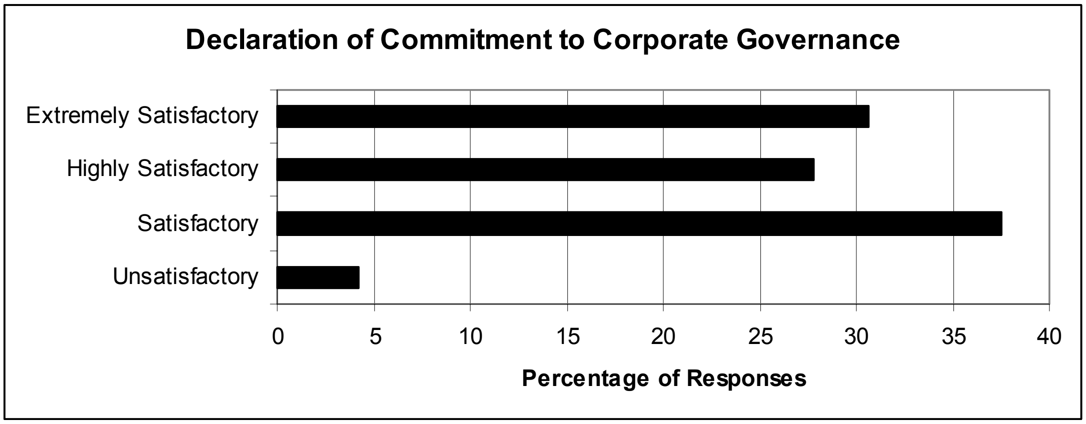

Figure 3: Percentage response of the companies to the rating

"Is the Board Well Structured and Balanced"

Table 5 and Figure 4 below show a summary of the responses to the "Is the Board Well Structured and Balanced" scorecard variable. A 25% of the responses fell into the "Extremely Unsatisfactory" performance on this corporate governance scorecard variable.

Table 5: Percentage response of the companies to the rating

	Frequency	**%**
Extremely Unsatisfactory	18	25.0
Unsatisfactory	29	40.3
Satisfactory	24	33.3
Highly Satisfactory	1	1.4
Total	**72**	**100.0**

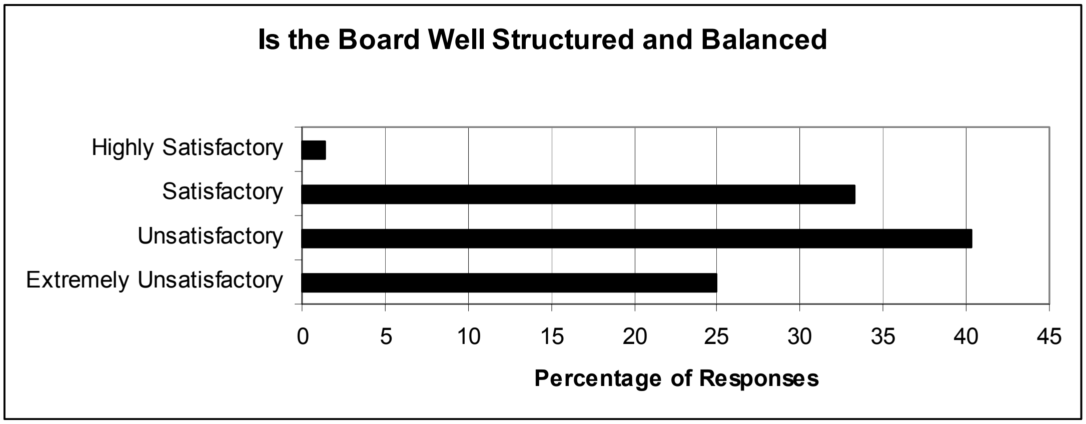

Figure 4: Percentage response of the companies to the rating

Mix of Skills and Expertise on Board

Table 6 and Figure 5 below show a summary of the responses to the "Mix of Skills and Expertise on Board" scorecard variable. A 29.2% of the responses fell into the "Unsatisfactory" performance category on this corporate governance scorecard variable.

Table 6: Percentage response of the companies to the rating

	Frequency	**%**
Unsatisfactory	21	29.2
Satisfactory	27	37.5
Highly Satisfactory	16	22.2
Extremely Satisfactory	8	11.1
Total	**72**	**100.0**

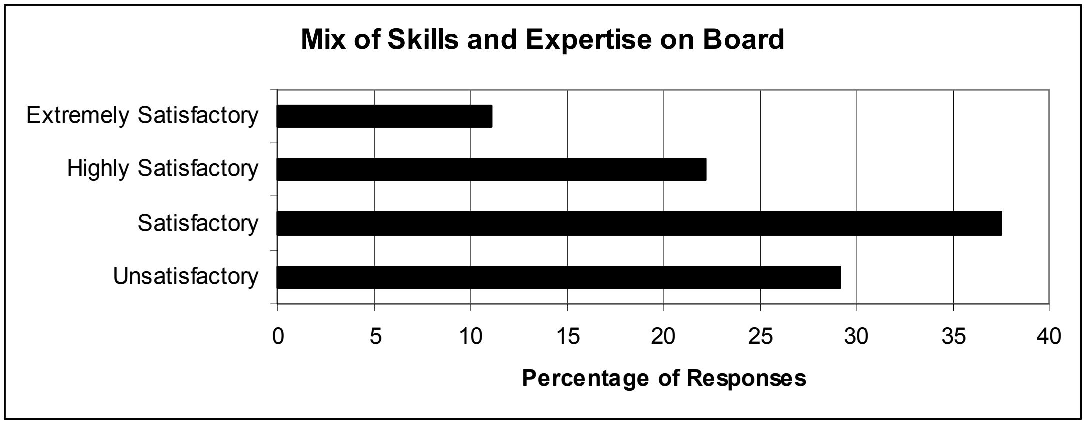

Figure 5: Percentage response of the companies to the rating

Disclosure of Non-Financial Information

Table 7 and Figure 6 below show a summary of the responses to the "Disclosure of Non-Financial Information" scorecard variable. A 23.6% of the responses fell into the "Unsatisfactory" performance category on this corporate governance scorecard variable.

Table 7: Percentage response of the companies to the rating

	Frequency	%
Unsatisfactory	17	23.6
Satisfactory	23	31.9
Highly Satisfactory	18	25.0
Extremely Satisfactory	14	19.4
Total	**72**	**100.0**

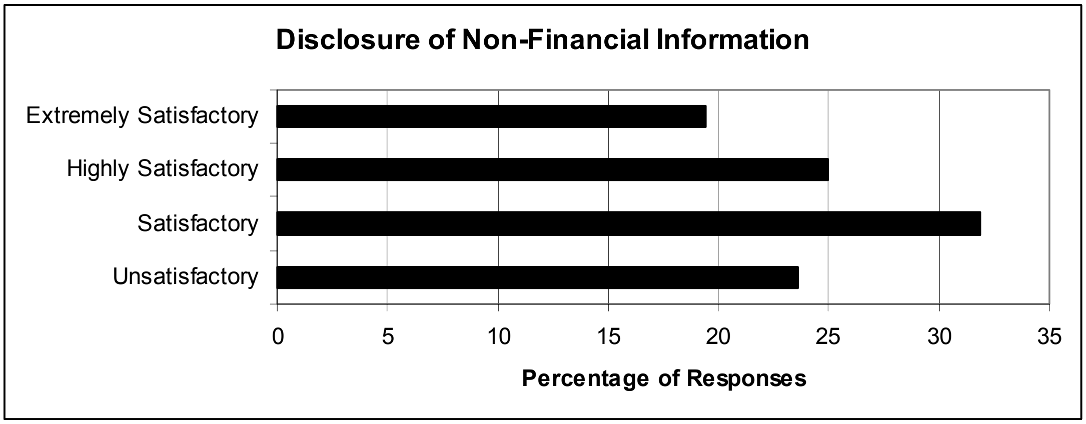

Figure 6: Percentage response of the companies to the rating

4.3.2 Categorical Regression Analysis

Categorical regression, called CATREG in SPSS, is a type of regression analysis which allows nominal, ordinal and interval-level independent variables to be used in a regression analysis. The CATREG procedure makes use of optimal scaling to quantify categorical variables which are then treated as numerical variables. This enables us to perform a predictive analysis using the categorical scorecard variables.

A categorical regression model with Tobin's Q as the dependent variable and the scorecard variables as independent predictors was fitted. The output analysed includes regression coefficients, an Analysis of Variance (ANOVA) table, category quantifications from optimal scaling, correlations between untransformed predictors and correlations between transformed predictors, residual plots, and transformation plots.

4.3.2.1 Model Description

Dependent Variable: Tobin's Q

Predictors

- Declaration of Commitment to Corporate Governance
- "Is the Board Well Structured with a Balanced Mix of Skills and Expertise on Board"
- Are roles clearly defined
- "Is the Audit Committee Independent"
- Risk Management Framework
- Internal Control Procedures
- Internal Audit Function
- Compliance Officer/Secretary
- Disclosure of Non-Financial Information
- Compliance with IFRS
- Quality of Annual Reporting
- Policy on Extraordinary Transactions.

Table 8 below shows regression output for regression coefficients and ANOVA table. The coefficient of determination shows the proportion of variation in the dependent variable explained by the independent predictors fitted. Although the Multiple R is 0.738, the adjusted R square (which adjusts for the number of predictors in the model) suggests 21.2% of the variability in Tobin's Q among the sample companies is explained by the corporate governance scorecard variables.

Table 8: Regression coefficients and Analysis of Variance (ANOVA) table

Coefficient of Categorical Regression Analysis					
Multiple R		**R Squared**	**Adjusted R Square**		
0.738		0.545	0.212		
ANOVA Table					
	Sum of Squares	**Degrees of freedom**	**Mean Squares**	**F-Ratio**	**p-value**
Regression	39.231	30	1.308	1.636	0.071
Residual	32.769	41	0.799		
Total	72.000	71			

ANOVA analysis has a p-value of 0.071, which shows that the model is significant at the 10% level.

Table 9 below shows the coefficient estimates for the quantified scorecard variables (Beta) and the p-values of the estimates. The variables with a p-value less than 0.1 were statistically significant determinants of Tobin's Q at the 10% significance level. The significant variables are highlighted below. These variables also have the widest range of responses obtained, as shown in the Descriptive Statistics.

Table 9: Coefficient estimates for the quantified scorecard variables (Beta) and the p-values of the estimate

	Standardised Coefficients		**t-value**	**Degrees of freedom**	**F-Ratio**	**p-value**
	Beta	Std. Error				
Declaration of Commitment to Corporate Governance	-0.312	0.176	-1.773	2	3.157	0.053
"Is the Board Well Structured and Balanced"	-0.446	0.273	-1.634	1	2.672	0.110
Mix of Skills and Expertise on Board	0.963	0.307	3.137	4	9.820	0.000
"Are roles clearly defined"	-0.684	0.170	-4.024	2	16.141	0.000
"Is the Audit Committee Independent"	-0.030	0.118	-0.254	1	0.063	0.802
Risk Management Framework	0.145	0.133	1.090	2	1.173	0.320
Internal Control Procedures(a)	0.080			2		
Internal Audit Function(a)	0.235			2		
Compliance Officer/Secretary	-0.125	0.122	-1.025	2	1.042	0.362
Disclosure of Non-Financial Information	0.317	0.184	1.723	4	2.984	.030

Compliance with IFRS	0.107	0.110	0.973	2	0.949	0.396
Quality of Annual Reporting	-0.488	0.177	-2.757	2	7.650	0.002
Policy on Extraordinary Transactions	-0.130	0.127	-1.024	4	1.054	0.391

Note (a): The tolerance for this variable is lower than 0.0001.

4.3.3 Factor Analysis

A factor analysis was carried out on the quantified corporate governance scorecard variables. Factor analysis helps to discover clusters or groups of questions that measure a single concept by investigating the correlations and covariance among the questions. The factors that are obtained enable the formulation of scales that measure different concepts using groups of questions or to verify whether such constructs genuinely exist when the scorecard was designed. This also helps to test the reliability of the factors obtained from the analysis.

The correlation analysis shows that there is a strong correlation between the following scorecard variables

- "Declaration of Commitment to Corporate Governance"
- "Is the Board Well Structured and Balanced"
- "Mix of Skills and Expertise on Board"
- "Are Roles Clearly Defined"

This suggests that these variables possibly measure a single underlying concept that could, for instance, be named "Board Efficiency" and be effectively measured using these scorecard variables. The possibility of such relationships is investigated further using factor analysis and reliability analysis

Table 10 below shows that 12 factors or principal components were extracted from the scorecard. The factors are actually combinations of responses to the variables that measure a single underlying concept such as the example of “Board Efficiency” mentioned above. If these factors or variable combinations are found to be reliable this shows that the scorecard measures valid concepts and can continue to be used to measure these concepts on an ongoing basis. Reliability analysis has to be carried out on the factors derived to determine if they valid measures of a single underlying concept. The first 5 principal components are highlighted as they account for 79 % of the variability in the responses (as shown in the Cumulative % column below). These first 5 components are investigated further to determine the variable combinations that define them and to determine if they valid measures of an underlying concept.

Table 10: Results of Factor Analysis

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance Explained	Cumulative %	Total	% of Variance	Cumulative %
1	3.706	30.887	30.887	3.706	30.887	30.887
2	2.158	17.984	48.871	2.158	17.984	48.871
3	1.478	12.314	61.185	1.478	12.314	61.185
4	1.143	9.528	70.713	1.143	9.528	70.713
5	1.004	8.367	79.081	1.004	8.367	79.081
6	0.764	6.369	85.450			
7	0.571	4.759	90.209			
8	0.488	4.068	94.276			
9	0.367	3.059	97.335			
10	0.249	2.076	99.411			
11	0.071	0.589	100.000			
12	1.79E-018	1.49E-017	100.000			

The first principal component or factor explains 30% of the variation in the scorecard measures. The first 5 components between them explain 79% of the variation in the data.

Table 11 below shows the rotated component matrix which defines the 5 principal components by showing the variables they are most related to. This allows determining intuitively what concepts are possibly measured by these principal components, enabling to give names such as the “Board Efficiency” example above.

Table 11: Rotated Component Matrix

	Component				
	1	2	3	4	5
Declaration of Commitment to Corporate Governance	0.841	0.065	-0.106	-0.023	0.160
"Is the Board Well Structured and Balanced"	0.875	0.055	0.067	0.097	-0.028
Mix of Skills and Expertise on Board	0.925	0.039	0.050	0.156	-0.057
"Are roles clearly defined"	0.651	0.486	0.081	-0.023	0.082
"Is the Audit Committee Independent"	-0.052	0.226	0.650	-0.154	0.325
Risk Management Framework	0.174	0.437	0.597	0.208	-0.057
Compliance Officer/Secretary	0.010	0.156	-0.853	-0.058	0.098
Internal Control Procedures	0.089	**0.971**	0.053	-0.014	-0.002
Internal Audit Function	0.089	**0.971**	0.053	-0.014	-0.002
Disclosure of Non-Financial Information	0.508	-0.007	0.036	**0.667**	0.222
Policy on Extraordinary Transactions	-0.024	-0.002	0.024	**0.929**	-0.037
Compliance with IFRS	0.086	-0.024	0.030	0.067	**0.927**

The variables contributing to each factor have been boxed together in the table above. The factor analysis shows that the first principal component consists of the following variables:

- "Declaration of Commitment to Corporate Governance"
- "Is the Board Well Structured and Balanced"
- "Mix of Skills and Expertise on Board"
- "Are Roles Clearly Defined"

The factor analysis shows that the second and third principal components consist of the “Effective Controls” and the fourth and fifth principal components consist of “Transparent Disclosure”.

The results of factor analysis confirm the results of the correlation analysis.

4.3.4 Reliability Analysis

Reliability analysis is used to obtain additional evidence to support the validity of the scorecard components discovered using factor analysis. Reliability is assessed using a statistic called Cronbach’s alpha. Alpha ranges from 0 to 1. The rule of thumb is that alpha has to be greater than 0.7 to come to the conclusion that the scale is reliable.

The first principal component has an alpha value of 0.868 which confirms that it is reliable as a scale. The second principal component has an alpha of 0.393 which is not high enough to conclude that it is a reliable scale measure. The third principal component has alpha equal to 1 implying that it is a perfect scale – this is apparent from the descriptive as well, similar responses are given for the internal control and internal audit questions. The fourth principal component has alpha 0.63 which although it is not higher than 0.7 is still high enough to warrant serious consideration, especially if the two variables are coherent in terms of the propositions.

The last principal component is not considered further as it is most correlated to a single variable.

4.4 Results pertaining to Proposition 1

4.4.1 Description of Proposition 1

The listed companies in which PIC has shareholding comply with PIC's corporate governance and proxy voting principles, policies and practical applications, thus translating to good firm performance.

4.4.1.1 Descriptive Statistics

There is a marginal increase in corporate governance scorecard for all 36 companies. The average corporate governance scorecard was 84% and 87% for 2004 and 2007 respectively.

The following are areas of concern with respect to the corporate governance scorecards of the companies:

- 25% of the responses show "Extremely Unsatisfactory" performance on "Is the Board Well Structured and Balanced"
- 29.2% of the responses show "Unsatisfactory" performance on "Mix of Skills and Expertise on Board"
- 23.6% of the responses show "Unsatisfactory" performance on "Disclosure of Non-Financial Information"

4.4.1.2 Categorical Regression Analysis

The following variables with a p-value less than 0.1 were statistically significant determinants of Tobin's Q at the 10% significance level:

- Declaration of Commitment to Corporate Governance
- Mix of Skills and Expertise on Board
- "Are roles clearly defined"
- Quality of Annual Reporting

Firm performance is measured using Tobin's Q therefore proposition 1 is found to be untrue to the extent that companies have performed poorly on the scorecard variables that were found to be significant predictors of Tobin's Q. As shown by the descriptive statistics highlighted above, 29.2% of the responses show "Unsatisfactory" performance on "Mix of Skills and Expertise on Board".

4.4.1.3 Factor Analysis and Reliability Analysis

The factor analysis shows that the first principal component consists of the "Declaration of Commitment to Corporate Governance", "Is the Board Well Structured and Balanced", "Mix of Skills and Expertise on Board" and "Are Roles Clearly Defined" variables. The reliability analysis showed that these components are valid, confirming that the scorecard results in a valid measure of the following intuitive concepts that relate to corporate governance:

- "Board Efficiency" –Factor 1
- "Effective Controls" - Factors 2 and 3
- "Transparent Disclosure" – Factors 4 and 5

The categorical regression analysis showed that the first factor "Board Efficiency" is a significant determinant of firm performance as measured by Tobin's Q.

4.4.2 Conclusion regarding Proposition 1

There are still companies that are not performing well on the corporate governance measures and the Tobin's Q. This signifies that some companies are still not complying with PIC's corporate governance and proxy voting principles, policies and practical applications. However, despite this non-compliance, the companies are showing good financial performance in terms of Tobin's Q. The "Board Efficiency" factor is a significant determinant of firm performance as measured by Tobin's Q.

4.5 Results pertaining to Proposition 2

4.5.1 Description of Proposition 2

Shareholder Activism by PIC in the companies it has a shareholding in has an effect on firm performance.

4.5.1.1 Linear regression of Tobin's Q and corporate governance scorecards

Figure 7 and Table 12 below shows a relationship between Tobin's Q and corporate governance scorecards for 2004.

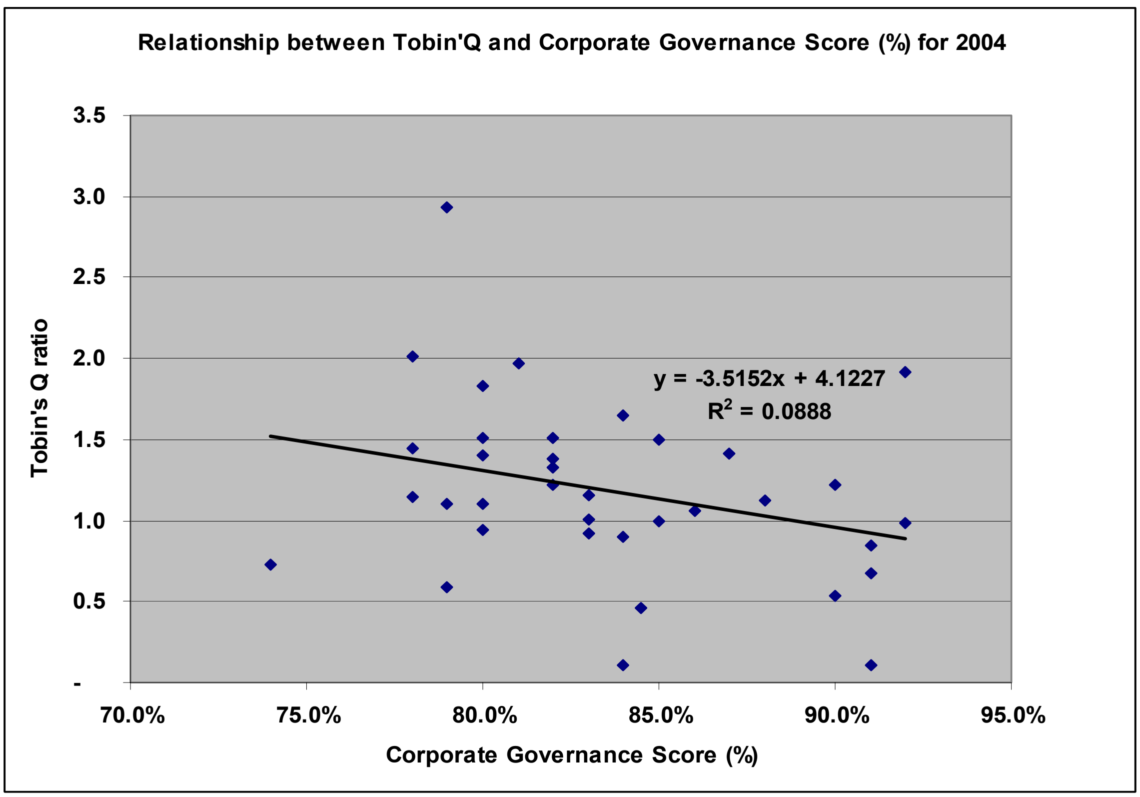

Figure 7: Relationship between Tobin's Q and corporate governance scorecards for 2004

Table 12: Linear regression results of Tobin's Q versus corporate governance scorecards for 2004

Root mean square	0.53301	**R-Square**	0.0888	
Dependent Mean	1.18604	**Adjusted R-Square**	0.0620	
Parameter Estimates				
Variable	**Parameter Estimate**	**Standard Error**	**t - value**	**p-value**
Tobin's Q	4.12273	1.61588	2.55	0.0154
Corporate Governance Scorecards	-3.51524	1.93129	-1.82	0.0051

There is a negative correlation between Tobin's Q and corporate governance scorecards for 2004. A *t*-value of -1.82 indicates high reliability of the negative relationship between Tobin's Q and corporate governance scorecards. An adjusted R-Square indicates corporate governance scorecard only explains 6.2% variation in Tobin's Q. The results demonstrate that a company can have extremely unsatisfactory corporate governance scorecards and still enjoy higher financial performance. Conversely, a company can have extremely satisfactory corporate governance scorecards and experience poor financial performance.

Figure 8 and Table 13 below show a relationship between Tobin's Q and corporate governance scorecards for 2007.

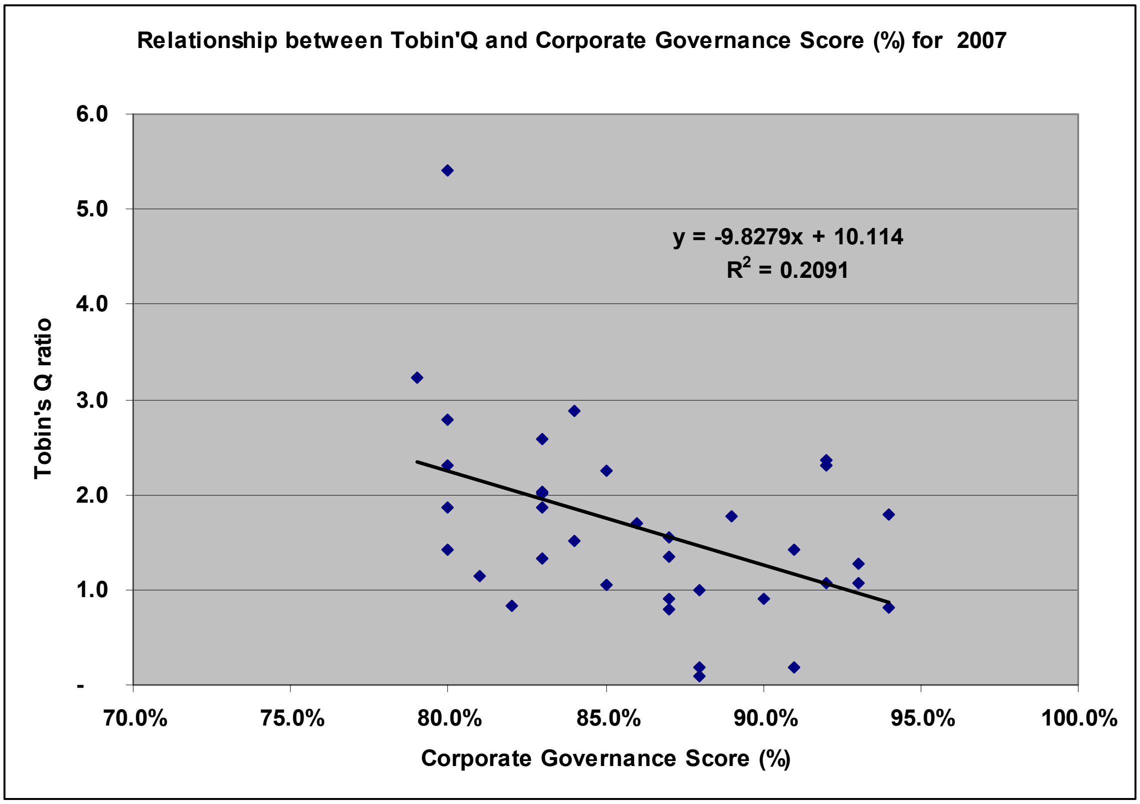

Figure 8: Relationship between Tobin's Q and corporate governance scorecards for 2007

Table 13: Linear Regression results of Tobin's Q versus corporate governance scorecards for 2007

Root mean square	0.89676	R-Square	0.2091	
Dependent Mean	1.64034	Adjusted R-Square	0.1858	
Parameter Estimates				
Variable	Parameter Estimate	Standard Error	t - value	p-value
Tobin's Q	10.11416	2.83065	3.57	0.0011
Corporate Governance Scorecards	-9.82788	3.27839	-3.00	0.0051

There is still a negative correlation between Tobin's Q and corporate governance scorecards for 2007. A low *t*-value of -3 indicates low reliability of the relationship between Tobin's Q and corporate governance scorecards. An adjusted R-Square indicates corporate governance scorecard only explains 18.58% variation in Tobin's Q. The results demonstrate that a company can have extremely unsatisfactory corporate governance scorecards and still enjoy higher financial performance. Conversely, a company can have extremely satisfactory corporate governance scorecards and experience poor financial performance.

A comparison between the relationship between Tobin's Q and corporate governance scorecards in 2004 and 2007 shows a decline.

4.5.1.2 Shareholder Activism by PIC

In the interview with Mr Smith, Corporate Governance Specialist at PIC, he mentioned that PIC has a shareholding in most companies which translates to owning approximately 10% of JSE. He elaborated that it is difficult to measure the effect of corporate governance on firm performance. He mentioned that PIC and the University of Stellenbosch are in the process of developing the detailed corporate governance scorecards with all the various measures as enshrined in PIC's corporate governance and proxy voting principles, policies and practical applications.

He emphasised that he attends annual general meetings and ad hoc meetings with companies in which PIC has shareholding to ensure compliance with their policy. He stressed that PIC has the service of Asset Managers, such as Old Mutual, Standard Bank, Sanlam, and Future Growth. The proxy votings of these Asset Managers are mandated in favour of PIC. He noted that South Africa is still battling with the legacy of apartheid due to the major focus being on transformation whereas in the developed countries, there is a holistic focus on firm performance characterised by the triple bottom line.

4.5.2 Conclusion regarding Proposition 2

The results as described above have shown that corporate governance, in particular the "Board Efficiency" measure, have a significant effect on firm performance. However, there is a negative relationship between Tobin's Q and corporate governance scorecards in 2004 and 2007. As attested to by Mr Smith, Corporate Governance Specialist at PIC, they have found it difficult to measure the effect of corporate governance on firm performance.

4.6 Summary of the results

The results show that some of the companies in which PIC has shareholding do not comply with PIC's corporate governance and proxy voting principles, policies and practical applications. Despite this non compliance, these companies have good financial performance.

The results show that the "Board Efficiency" factor is a significant determinant of firm performance as measured by Tobin's Q.

The results show that there is negative correlation between Tobin's Q and corporate governance scorecards. Thus, shareholder activism by PIC in the companies it has shareholding does not show a conclusive effect on firm performance.

CHAPTER 5: DISCUSSION OF THE RESULTS

5.1 Introduction

This chapter focuses on discussing the results presented in Chapter 4. These results are interpreted and assessed against the two research propositions that were formulated in the literature review and outlined in Chapter 2.

5.2 Demographic profile of respondents

The top 36 listed companies in which PIC has the shareholding, which excludes the delisted companies, have demonstrated corporate governance scorecards and Tobin's Q.

These companies were obtained from the 2007 annual report of PIC. The approach did not seek to identify all listed companies in which PIC has shareholding. Therefore, it is known what percentage is the 36 companies to the total number of companies listed on the JSE.

The respondents from PIC and IoD have given information which supports a need for developing corporate governance scorecards.

5.3 Results pertaining to Proposition 1

5.3.1 Proposition 1

The listed companies in which PIC has shareholding comply with PIC's corporate governance and proxy voting principles, policies and practical applications, thus translating to good firm performance.

The results have shown an average corporate governance scorecard of 84% and 87% for 2004 and 2007 respectively. There are many companies that performed worse in 2007 compared to 2004, thus reflecting a decline in corporate governance.

5.3.1.1 Descriptive Statistics

The companies did not perform well in the following variables of the corporate governance scorecard:

- 25% of the responses show Extremely Unsatisfactory performance on "Is the Board Well Structured and Balanced"

- 29.2% of the responses show Unsatisfactory performance on "Mix of Skills and Expertise on Board"

- 23.6% of the responses show Unsatisfactory performance on "Disclosure of Non-Financial Information"

The first two variables are components of Good Board Practices and the third variable is the component of Transparent Disclosure. However, the results demonstrate that the companies are performing well in the following five elements of corporate governance:

- Board commitment
- Effective controls
- Protection of minority shareholder rights

5.3.1.2 Categorical Regression Analysis

The following variables with a p-value less than 0.1 were statistically significant determinants of Tobin's Q at the 10% significance level:

- Declaration of Commitment to Corporate Governance
- Mix of Skills and Expertise on Board
- "Are roles clearly defined"
- Quality of Annual Reporting

5.3.1.3 Factor Analysis

The factor analysis shows that the first principal component consists of the Declaration of Commitment to Corporate Governance, "Is the Board Well Structured and Balanced", Mix of Skills and Expertise on Board and "Are Roles Clearly Defined" as suggested by the correlation analysis.

5.3.1.4 Reliability Analysis

With respect to the variables identified in Factor Analysis above, namely Declaration of Commitment to Corporate Governance, "Is the Board Well Structured and Balanced", Mix of Skills and Expertise on Board and "Are Roles Clearly Defined", the reliability analysis showed that these components are valid.

5.3.1.5 Linear regression of Tobin's Q

The results show average Tobin's Q of 0.9148 and 1.1614 for 2004 and 2007 respectively. The *t*-values of -1.8 and -3 in 2004 and 2007 respectively indicate varying reliability of the relationship between Tobin's Q and corporate governance scorecards. The results demonstrate that a company can have extremely unsatisfactory corporate governance scorecards and still enjoy higher financial performance. Conversely, a company can have extremely satisfactory corporate governance scorecards and experience poor financial performance.

5.3.2 Conclusion regarding Proposition 1

There are still companies that are not performing well in the corporate governance measures and the Tobin's Q. This signifies that some companies are still not complying with PIC's corporate governance and proxy voting principles, policies and practical applications. However, despite this non-compliance, the companies are showing good financial performance in terms of Tobin's Q.

5.4 Results pertaining to Proposition 2

5.4.1 Proposition 2

Shareholder activism by PIC in the companies in which it has shareholding has an effect on firm performance.

5.4.1.1 Linear regression of Tobin's Q and Corporate Governance Scorecard

There is a negative correlation between Tobin's Q and corporate governance scorecards. Thus, a company can have extremely unsatisfactory corporate governance scorecards and still enjoy high financial performance. Conversely, a company can have an extremely satisfactory corporate governance scorecards and experience poor financial performance.

5.4.1.2 Shareholder activism by PIC

In the interview with PIC, Mr Smith mentioned that PIC has shareholding in most companies which translates to owning approximately 10% of JSE. He elaborated that it is difficult to measure effect of corporate governance on firm performance. He mentioned that PIC and the University of Stellenbosch are in the process of developing the detailed corporate governance scorecard with all various measures as enshrined in PIC’s corporate governance and proxy voting principles, policies and practical applications.

He emphasised that he attends annual general meetings and ad hoc meeting with companies in which PIC has shareholding to ensure compliance with their policy. He stressed that PIC has service of Asset Managers, such as Old Mutual, Standard Bank, Sanlam, and Future Growth. The proxy votings of these Asset Managers are mandated in favour of PIC. He noted that South Africa is still battling with the legacy of Apartheid due to major focus being on transformation whereas in the developed countries, there is a holistic focus on firm performance characterised by the triple bottom line.

5.4.2 Conclusion regarding Proposition 2

The results show a negative correlation between Tobin’s Q and corporate governance scorecards. This is attested to by the Mr Smith, Corporate Governance Specialist at PIC, when he stated that it is difficult to measure the effect of corporate governance on firm performance.

5.5 Conclusion

The results show that some of the companies in which PIC has shareholding do not comply with PIC’s corporate governance and proxy voting principles, policies and practical applications. Despite this non-compliance, these companies have good financial performance.

The results show that there is negative correlation between Tobin’s Q and corporate governance scorecards. Thus, shareholder activism by PIC in the companies in which it has shareholding does not show a conclusive effect on firm performance.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

The summary of the main findings of this research is given in the section of conclusions of the study in this chapter. The study aimed at evaluating the effect of PIC's shareholder activism on firm performance in South Africa. This is in view of PIC having issued its own corporate governance and proxy voting principles, policies and practical applications.

The desktop study was designed to collect information from the annual reports of the top 36 listed companies in which PIC has shareholding. The respondents from PIC and IoD were critical in assessing the effectiveness of PIC's shareholder activism.

The research aimed to evaluate the compliance of companies in which PIC has shareholding to PIC's corporate governance and proxy voting principles, policies and practical applications and to evaluate whether shareholder activism has an effect on firm performance.

This research would be important in providing the level of shareholder activism in the South African context.

6.2 Conclusions of the study

The main findings of this research are summarised as follows:

- There is no significant improvement in the corporate governance as reflected by the marginal improvement of the average corporate governance from 84% to 87% in 2004 and 2007 respectively.

- Some of the companies have shown a decline in corporate governance from 2004 to 2007 without any major consequences imposed on them.

- The study has supported findings by various authors in the literature review that good corporate governance does not necessarily translate to good firm performance. This is demonstrated by negative correlation between Tobin's Q and corporate governance scorecard.

- There is insufficient information in South Africa to demonstrate the effect of shareholder activism on firm performance. The role of shareholder activism gets clouded with that of transformation activism. South Africa is still trying to recover from the legacy of apartheid. However, there is a strong focus on good corporate governance in South Africa due to existence of the King II report and the growing shareholder activism.

6.3 Recommendations

The following recommendations are made based on the findings of this research:

(i) The corporate governance scorecard should be developed for all the listed companies. These companies must be benchmarked on their performance on the corporate governance scorecards on an annual basis. Any decline in the performance must come with a penalty or some kind of punitive measure.

(ii) A database must be created to demonstrate all the factors that have an effect on the firm's performance. These factors could range from corporate governance measures, market forces, and executive leadership. A weighting scale must be developed for these factors.

(iii) The role of shareholder activism must be properly communicated to all stakeholders in order to have a better understanding of its significance.

6.4 Suggestions for further research

The following areas are recommended for future study to enhance the significance of the imperatives that are aimed at assessing and evaluating the effect of shareholder activism on firm performance in South Africa:

- Research on all JSE listed companies on the effect of corporate governance on firm performance in South Africa with the objective of expanding the research to a broader population and sample size.
- Research to establish a reputable database for shareholder activism in South Africa. There is currently no readily available source of data for corporate governance and shareholder activism. Establishment of a reputable data source to also include SENS relating to corporate governance.
- Research to evaluate the role of various institutional investors in shareholder activism.
- Research, in the context of South Africa, to validate the suitability of Tobin's Q in assessing any correlation between corporate governance and firm performance. This to expand on firm performance to reflect triple bottom line.

- Research to evaluate all factors that have an effect on the firm's performance. These factors could range from corporate governance measures, market forces, and executive leadership. A weighting scale must be developed for these factors.

- Research to validate the use of desktop study by subjecting it to more than one researcher. A questionnaire must be sent to the companies to evaluate themselves in order to assess the validity of the desktop study.

- Research to evaluate the viability of the establishment of a shareholder activism institute on corporate governance and firm performance.

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Actual Research Instrument

APPENDIX A: TOP 36 LISTED EQUITY HOLDINGS OF PIC AS AT 31 MARCH 2007

Company	Number of shares	% holding	Industry Sector	Number
Imperial Holdings Limited	45 762 438	21,83	Industrial Goods & Services - Industrial Transportation	1
Aveng Limited	80 847 874	20,41	Construction & Materials - Construction & Materials	2
Super Group Limited	73 553 057	18,17	Industrial Goods & Services - Industrial Transportation	3
Telkom SA Limited	93 874 993	17,61	Telecommunications - Fixed Line Telecommunications	4
Sasol Limited	108 761 608	17,39	Oil & Gas - Oil & Gas Producers	5
Barloworld Limited	35 064 998	17,30	Industrial Goods & Services - General Industrials	6
Lewis Group Limited	16 228 561	16,23	Retail - General Retailers	7
JD Group Limited	27 899 164	15,63	Retail - General Retailers	8
Woolworths Holdings Limited	139 693 988	15,62	Retail - General Retailers	9
Steinhoff International Holdings Ltd	189 458 407	15,47	Personal & Household Goods - Household Goods	10
Remgro Limited	69 030 165	15,38	Industrial Goods & Services - General Industrials	11
Sanlam Limited	336 720 798	14,62	Insurance - Life Insurance	12
Tiger Brands Limited	24 965 372	14,58	Food & Beverage - Food Producers	13
The Bidvest Group Limited	46 220 379	14,02	Industrial Goods & Services - Support Services	14

Standard Bank Group Limited	189 598 591	13,89	Banks - Banks	15
Business Connexion Group Limited	36 016 194	13,71	Technology - Software & Computer Services	16
Network Healthcare Holdings Ltd	248 574 309	13,56	Health Care - Health Care Equipment & Services	17
Truworths International Limited	60 273 667	13,45	Retail - General Retailers	18
Reunert Limited	26 065 476	13,36	Industrial Goods & Services - Electronic & Electrical Equipment	19
MTN Group Limited	248 268 798	13,35	Telecommunications - Mobile Telecommunications	20
AVI Limited	44 410 816	12,96	Food & Beverage - Food Producers	21
Sappi Limited	27 626 374	11,56	Basic Resources - Forestry & Paper	22
Murray & Roberts Holdings Limited	38 298 005	11,54	Construction & Materials - Construction & Materials	23
Iliad Africa Limited	16 991 891	11,01	Industrial Goods & Services - Support Services	24
AECI Limited	13 259 935	10,98	Chemicals - Chemicals	25
Allied Technologies Limited	11 504 229	10,87	Telecommunications - Mobile Telecommunications	26
Investec Limited	24 710 061	10,85	Debt - Preference Shares	27
Metropolitan Holdings Limited	63 502 514	10,83	Insurance - Life Insurance	28
Brait SA Limited	11 354 267	10,28	Financial Services - General Financial	29
Astral Foods Limited	4 023 690	9,28	Food & Beverage - Food Producers	30
The Spar Group Limited	15 752 128	9,27	Retail - Food & Drug Retailers	31
Datatec Limited	14 370 150	9,25	Technology - Software & Computer Services	32
FirstRand Limited	505 297 269	8,97	Banks - Banks	33
Liberty Holdings Limited	4 390 901	8,94	Insurance - Life Insurance	34
Mr Price Group Limited	20 826 592	8,87	Retail - General Retailers	35
Naspers Limited	31 447 646	8,58	Media - Media	36

APPENDIX B: INTERVIEW SCHEDULES AND QUESTIONS

E-mail that was sent to the Institute of Director (IoD) and Public Investment Corporation (PIC)

To:
Subject: MBA Research – Request for an interview

My MBA research project is titled: **The Effect of Public Investment Corporation's Shareholder Activism on Firm Performance in South Africa**. The purpose of the research is to assess and evaluate the effect of Public Investment Corporation's (PIC) shareholder activism through their Corporate Governance and Proxy Voting Principles, Policies and Practical Applications.

The approach was to identify the JSE listed companies that PIC has shareholding and assess the effect that its Corporate Governance and Proxy Voting Principles, Policies and Practical Applications might have on firm performance.

It will be greatly appreciated if you could afford me an interview. The questions for the interview are herewith attached.

The information that you supply will be treated with the strictest confidentiality.

Thank you in anticipation.

Yours sincerely

Simon Xaba
Tel: 011 682 0627, Mobile: 082 389 2721, Email: sxaba@randwater.co.za.

Interview No. 1:

Respondent: Public Investment Corporation

Representative: Mr Theo Botha, Corporate Governance Specialist at PIC

Schedule: Wednesday, 28 August 2008, Time: 09H00 – 10H00, PIC Head Office, Pretoria

Questions:

1. What has prompted PIC to adopt its own Corporate Governance and Proxy Voting Principles, Policies and Practical Applications?
2. Why did PIC issue its own recommendations on corporate governance in view of existence of King II Code?
3. What are challenges facing companies to comply with PIC's recommendations on corporate governance?
4. How does PIC ensure that its shareholding companies comply with Corporate Governance and Proxy Voting Principles, Policies and Practical Applications?
5. How is South Africa's shareholder activism compare to the developing and the developed countries?
6. How does PIC make decision to acquire shareholding in the listed companies?

Notes from the Interview with Mr Deon Smith, Corporate Governance Specialist at PIC

General Remarks by Mr Smith:

- Difficult to measure effect of corporate governance on firm performance but improvement yes.
- PIC and the University of Stellenbosch are in the process of developing the detailed Corporate Governance Scorecard with all various measures as enshrined in PIC's recommendations on corporate governance and proxy

voting principles. This scorecard will be based on the international best practices on corporate governance.

- PIC has significant % shareholding in various Boards. These companies go on workshop to understand PIC policy. They fix loopholes as they go along.

On QUESTIONS 1 and 2: Impact of King 3 on PIC policy – PIC has good proxy voting policy not corporate governance in general. Policy to be reviewed to align to international best practices. To also take Companies Act (Corporate Law) into account. King II has limitations on proxy voting . PIC adopted its policy to improve proxy voting since this was not taken seriously in the past.

On QUESTION 3: Issue of transformation. Black Directors are not available. One director serves on many boards. This result in absence from some board meetings, 75% attendance is required to make any decision on the board. There is a challenge of lack of pool of talent. There is skills gap on BEE directors.
He raised the following concerns:

- The impact of BEE since the Board directors finds themselves on both sides of the BEE transactions. Maybe a need for retention strategy with a locking period.
- The impact of new Companies Act since there is stringent demands from the directors.
- Disparity on remuneration levels between the executives and the workers.

He elaborated that there is a need for synergy / competition amongst Institutional Investors. PIC working on establishing a Corporate Governance network whereby Institutional Investors and the Fund Managers can share commonalities and synergistic issues. They can also debate issues in their environment and this could change the voting approach to some decisions.

On QUESTION 4: PIC's Corporate Governance Specialist attends annual general meetings and ad hoc meeting with companies in which it has shareholding to try to ensure compliance with their policy. PIC's CEO is also very passionate about Corporate Governance.

PIC has service of Asset Managers, such as Old Mutual, Standard Bank, Sanlam, Future Growth. Their proxy votings are mandated in favour of PIC. Thus % shareholding impacts on these companies given role of other institutional investors. These asset managers embrace PIC principles.

Example of Altech and Altron. PIC didn't like preferential shares. All voting shares must have one voting right (12% in Altech). Asset Managers lobbied other clients, voting failed at 74% but another one passed the blocking.

On QUESTION 5: PIC has a strong communication channel with the Fund Managers in the UK. In the UK, the Cadbury Report of 1992 dictates corporate governance. In the US, corporate governance is legislated through Sarbanes-Oxley Act of 2002. There is also CAlPERS in the US. In the US focus is extending to environmental issues whereas in South Africa focus tends to lean towards social issues due to the ills of Apartheid. There is a strong perception out there that PIC focuses on transformation.

On QUESTION 6: PIC already has shareholding in most companies which translates to owning approximately 10% of JSE.

Questions to Institute of Directors of Southern Africa:

Respondent: Institute of Directors of Southern Africa
Sent: Wednesday, 16 March 2008, to Tony Dixon, Executive Director of IoD, had opted to reply to these questions by email since the author attended their corporate governance courses on which informal feedback was given.

1. What are challenges facing companies in relation to corporate governance?
2. In your opinion, what do you consider justifiable or not justifiable for PIC to have introduced its Corporate Governance and Proxy Voting Principles, Policies and Practical Applications?
3. What is your opinion about PIC's Corporate Governance and Proxy Voting Principles, Policies and Practical Applications in view of existence of King II Code?
4. How is South African shareholder activism compare to the developing and the developed countries?
5. JSE has made it mandatory for the listed companies to comply with King II Code of Corporate Governance, do you believe sufficient efforts are made by the listed companies to fully comply with these requirements?
6. What still needs to be improved upon by the companies to ensure good corporate governance?

Response from IoD

1 KPMG has recently conducted a survey on the impact of King II on corporate governance in SA. The research for the survey addressed challenges that companies face in relation to corporate governance. The results of the survey will be made public in the second week of July and you will be able to access through their website www.kpmg.co.za.

2 At the IoD we are in favour of shareholders being more active in exercising their rights. The mere fact that there is corporate governance standard in place in the form of the King II Code does not absolve shareholders from their own responsibility when they are placing investments. It also has to be kept in mind that the King II Code is very clear that it does not advocate a "one-size-fits-all" approach and it is understandable that the PIC may have unique requirements. When an institutional investor such as the PIC imposes certain conditions for its investment in a company and the company in which the shares are being held is not happy with those, it is an issue between the PIC and the company that has to be discussed and resolved.

3 See 2 above.

4 We have not done an official comparison and are thus not able to express a view on this.

5 We again refer you to the KPMG survey in this regard.

6 Refer to KPMG survey.

APPENDIX C: DESKTOP STUDY

Desktop study of companies, in which PIC has shareholding. This was based on the annual reports of these companies. A choice of 2004 and 2007 annual reports was made. This implies that comparison is made between two sets of annual reports for each of the 36 companies in which PIC has shareholding.

Appendix C.1 shows Corporate Governance Scorecards for 2004 and 2007
Appendix C.2 shows Tobin's Q for 2004 and 2007

APPENDIX C.1: CORPORATE GOVERNANCE SCORECARD FOR 2004 AND 2007

C1.1 CORPORATE GOVERNANCE SCORECARD FOR 2004

C1.2 CORPORATE GOVERNANCE SCORECARD FOR 2007

C1.3 TRENDING OF CORPORATE GOVERNANCE SCORECARD FOR 2004 AND 2007

APPENDIX C1.1: CORPORATE GOVERNANCE SCORECARD 2004

Corporate Governance Desktop Study of the companies in which PIC has shareholding, based on their annual reports.
A choice of 2004 and the recent Annual Reports has been arbitrarily made.
This implies that comparison is made between two sets of Annual Reports for 36 companies in which PIC has shareholding.
The following assessment criteria are used for the evaluation of good corporate governance based on the Annual Reports of the companies in which PIC has shareholding:

Scale of 1 to 5
1: Extremely Unsatisfactory
2: Unsatisfactory
3: Satisfactory
4: Highly satisfactory
5: Extremely satisfactory

		AECI Limited	Allied Technologies Limited	Astral Foods Limited	Aveng Limited	AVI Limited	Barloworld Limited	The Bidvest Group Limited	Brait SA Limited	Business Connexion Group Limited, 2005	Datatec Limited	FirstRand Limited	Iliad Africa Limited	Imperial Holdings Limited	Investec Limited	JD Group Limited	Lewis Group Limited	Liberty Holdings Limited	Metropolitan Holdings Limited	MTN Group Limited	Murray & Roberts Holdings Limited	Mr Price Group Limited	Naspers Limited	Network Healthcare Holdings Ltd	Remgro Limited	Reunert Limited	Sanlam Limited	Sappi Limited	Sasol Limited	The Spar Group Limited	Standard Bank Group Limited	Steinhoff International Holdings Ltd	Super Group Limited	Telkom SA Limited
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33
No	**1. Board Commitment**																																	
1	Is there declaration about commitment to corporate governance?	4	5	4	5	3	4	5	3	3	3	5	3	5	5	2	3	4	5	5	3	3	5	4	3	3	5	3	4	3	4	4	4	3
	2. Good Board Practices																																	
2	Is the Board well structured & balanced (taking into account demographics of SA)?	2	2	1	3	2	1	2	1	1	1	2	2	3	2	1	1	3	3	3	1	1	3	2	1	2	3	1	3	2	2	1	1	3
3	Is there appropriate mix of skills & expertise on the Board?	3	3	2	3	3	2	3	2	2	2	3	3	4	3	2	2	4	5	5	2	2	4	3	2	3	5	2	4	3	3	2	2	4
4	Are there clearly defined roles & authorities (taking into membership to various committees)?	3	4	3	4	4	4	4	4	2	3	4	3	4	4	3	3	5	4	5	3	3	5	4	3	3	5	4	4	4	4	3	3	4
	3. Effective Controls																																	
5	Is the audit committee independent?	5	3	3	5	4	4	2	4	1	4	5	3	3	5	5	5	5	4	3	5	5	5	3	2	3	3	4	5	4	4	4	5	2
6	Is there Risk Management framework?	5	5	4	5	5	5	5	5	4	4	5	4	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
7	Are there Internal control procedures?	5	5	5	5	5	5	5	5	4	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
8	Is there Internal audit function?	5	5	5	5	5	5	5	5	4	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
9	Is there an Independent external auditor?	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
10	Is the Information systems appropriate & secure?	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
11	Does the company have a Compliance officer / Company Secretary?	5	5	4	5	5	5	5	4	5	5	5	5	4	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
	4. Transparent Disclosure																																	
12	Is there a full disclosure of financial information?	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
13	Is the Non-financial information disclosed (Separate Sustainability Report issued)?	2	2	3	2	4	4	5	3	3	2	5	2	4	5	3	3	4	5	5	2	2	3	4	3	2	4	4	3	2	3	3	2	2
14	How effective does the company comply with IFRS?	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
15	How is the Quality Annual Reporting (based on report covering all GRI requirements)?	4	4	4	4	4	5	4	4	4	4	5	3	4	5	3	3	5	5	5	3	2	4	4	4	3	5	4	4	3	3	4	2	3
16	How detailed is the Web based information of the company?	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
	5. Protection of minority shareholder rights																																	
17	Does the company formalise the minority Shareholder rights?	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
18	Is a Notice about Annual General Meeting?	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
19	Is there any statement / policy about extraordinary transactions?	3	3	3	2	3	4	4	3	4	4	5	3	4	4	4	4	4	4	4	4	3	4	4	4	4	4	4	4	4	4	4	4	4
20	Is the Dividend policy mentioned?	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
	% Scoring = Normalised to %	**83.0%**	**83.0%**	**78.0%**	**84.5%**	**84.0%**	**85.0%**	**86.0%**	**80.0%**	**74.0%**	**79.0%**	**91.0%**	**78.0%**	**87.0%**	**90.0%**	**80.0%**	**81.0%**	**91.0%**	**92.0%**	**92.0%**	**80.0%**	**78.0%**	**90.0%**	**85.0%**	**79.0%**	**80.0%**	**91.0%**	**83.0%**	**88.0%**	**82.0%**	**84.0%**	**82.0%**	**80.0%**	**82.0%**

APPENDIX C1.2: CORPORATE GOVERNANCE SCORECARDS 2007

Corporate Governance Desktop Study of the companies in which PIC has shareholding, based on their annual reports.
A choice of 2004 and the recent Annual Reports has been arbitrarily made.
This implies that comparison is made between two sets of Annual Reports for 36 companies in which PIC has shareholding.
The following assessment criteria are used for the evaluation of good corporate governance based on the Annual Reports of the companies in which PIC has shareholding:

Scale of 1 to 5
1: Extremely Unsatisfactory
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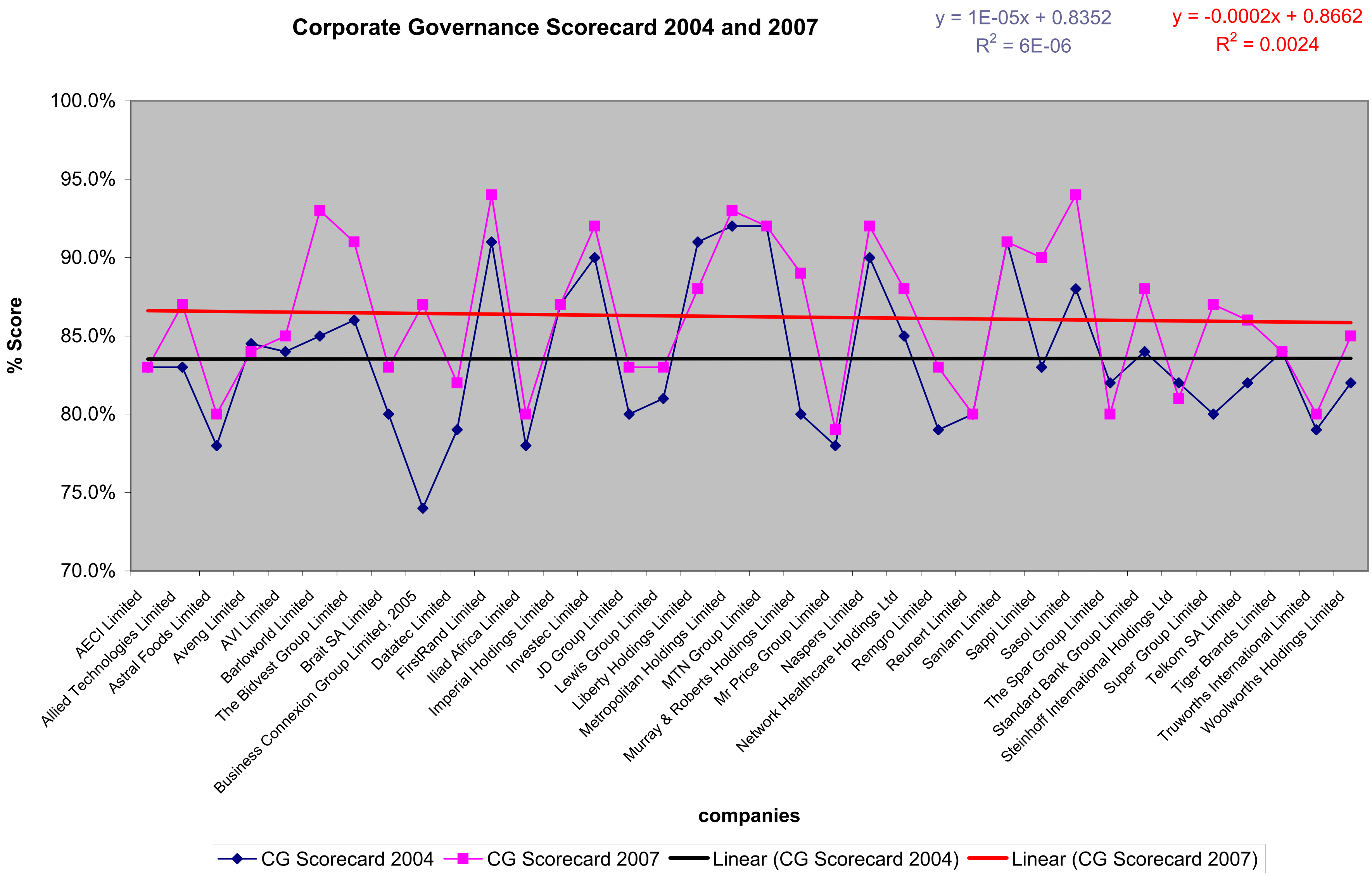
3: Satisfactory
4: Highly satisfactory
5: Extremely satisfactory

		AECI Limited	Allied Technologies Limited	Astral Foods Limited	Aveng Limited	AVI Limited	Barloworld Limited	The Bidvest Group Limited	Brait SA Limited	Business Connexion Group Limited	Datatec Limited	FirstRand Limited	Iliad Africa Limited	Imperial Holdings Limited	Investec Limited	JD Group Limited	Lewis Group Limited	Liberty Holdings Limited	Metropolitan Holdings Limited	MTN Group Limited	Murray & Roberts Holdings Limited	Mr Price Group Limited	Naspers Limited	Network Healthcare Holdings Ltd	Remgro Limited	Reunert Limited	Sanlam Limited	Sappi Limited	Sasol Limited	The Spar Group Limited	Standard Bank Group Limited	Steinhoff International Holdings Ltd	Super Group Limited	Telkom SA Limited	Tiger Brands Limited	Truworths International Limited	Woolworths Holdings Limited
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36
	1. Board Commitment																																				
1	Is there declaration about commitment to corporate governance?	4	5	4	5	3	5	5	3	3	3	5	4	5	5	3	3	4	5	5	4	3	5	4	4	3	5	4	5	3	4	3	4	4	3	2	3
	2. Good Board Practices																																				
2	Is the Board well structured & balanced (taking into account demographics of SA)?	2	2	2	2	2	3	3	1	3	1	3	2	3	3	2	2	2	3	3	3	1	3	3	2	2	3	3	3	1	2	1	3	4	2	2	2
3	Is there appropriate mix of skills & expertise on the Board?	3	3	3	3	3	4	4	2	4	2	4	3	4	4	3	3	3	5	5	4	2	5	4	3	3	5	4	5	2	3	2	4	4	3	2	3
4	Are there clearly defined roles & authorities (taking into membership to various committees)?	3	4	3	4	4	4	4	4	4	4	5	3	4	4	3	3	4	4	5	4	3	5	4	4	3	5	4	5	3	4	3	4	4	3	2	3
	3. Effective Controls																																				
5	Is the audit committee independent?	5	5	3	5	5	5	5	5	5	5	5	4	3	5	5	5	5	4	3	5	5	5	4	2	3	3	4	5	4	4	4	5	3	4	4	5
6	Is there Risk Management framework?	5	5	4	5	5	5	5	5	5	5	5	4	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
7	Are there Internal control procedures?	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
8	Is there Internal audit function?	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
9	Is there an Independent external auditor?	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
10	Is the Information systems appropriate & secure?	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
11	Does the company have a Compliance officer / Company Secretary?	5	5	4	5	5	5	5	5	5	5	5	5	4	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
	4. Transparent Disclosure																																				
12	Is there a full disclosure of financial information?	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
13	Is the Non-financial information disclosed (Separate Sustainability Report issued)?	2	3	3	2	4	5	5	3	3	2	5	2	4	5	3	3	4	5	5	4	2	4	4	3	2	4	5	5	3	5	3	3	3	4	3	4
14	How effective does the company comply with IFRS?	4	4	4	4	4	5	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
15	How is the Quality Annual Reporting (based on report covering all GRI requirements)?	4	4	4	4	4	5	4	4	4	4	5	3	4	5	3	3	5	5	5	4	3	4	4	4	3	5	5	5	3	5	4	3	3	4	4	4
16	How detailed is the Web based information of the company?	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
	5. Protection of minority shareholder rights																																				
17	Does the company formalise the minority Shareholder rights?	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
18	Is a Notice about Annual General Meeting?	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
19	Is there any statement / policy about extraordinary transactions?	3	4	3	2	3	4	4	4	4	4	5	3	4	4	4	4	4	5	4	4	3	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
20	Is the Dividend policy mentioned?	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
	% Scoring = Normalised to %	83.0%	87.0%	80.0%	84.0%	85.0%	93.0%	91.0%	83.0%	87.0%	82.0%	94.0%	80.0%	87.0%	92.0%	83.0%	83.0%	88.0%	93.0%	92.0%	89.0%	79.0%	92.0%	88.0%	83.0%	80.0%	91.0%	90.0%	94.0%	80.0%	88.0%	81.0%	87.0%	86.0%	84.0%	80.0%	85.0%



Corporate Governance Scorecard 2004 and 2007
y = 1E-05x + 0.8352
R2 = 6E-06
y = -0.0002x + 0.8662
R2 = 0.0024
100.0%
95.0%
90.0%
85.0%
80.0%
75.0%
70.0%
% Score
AECI Limited
Allied Technologies Limited
Astral Foods Limited
Aveng Limited
AVI Limited
Barloworld Limited
The Bidvest Group Limited
Brait SA Limited
Business Connexion Group Limited, 2005
Datatec Limited
FirstRand Limited
Iliad Africa Limited
Imperial Holdings Limited
Investec Limited
JD Group Limited
Lewis Group Limited
Liberty Holdings Limited
Metropolitan Holdings Limited
MTN Group Limited
Murray & Roberts Holdings Limited
Mr Price Group Limited
Naspers Limited
Network Healthcare Holdings Ltd
Remgro Limited
Reunert Limited
Sanlam Limited
Sappi Limited
Sasol Limited
The Spar Group Limited
Standard Bank Group Limited
Steinhoff International Holdings Ltd
Super Group Limited
Telkom SA Limited
Tiger Brands Limited
Truworths International Limited
Woolworths Holdings Limited
companies
CG Scorecard 2004
CG Scorecard 2007
Linear (CG Scorecard 2004)
Linear (CG Scorecard 2007)

APPENDIX C.2: CALCULATIONS OF TOBIN'S Q FOR 2004 AND 2007

Tobin's Q Calculations for 2004

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
	Units	AECI Limited	Allied Technologies Limited	Astral Foods Limited	Aveng Limited	AVI Limited	Barloworld Limited	The Bidvest Group Limited	Brait SA Limited	Business Connexion Group Limited	Datatec Limited	FirstRand Limited	Iliad Africa Limited	Imperial Holdings Limited	Investec Limited	JD Group Limited	Lewis Group Limited	Liberty Holdings Limited	Metropolitan Holdings Limited
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Stock Price end period	R	39	32.25	40.71	7.4	18.1	78	52.5	7.3	3.6	14.8	11.25	10.2	67.12	130.9	45.5	33.51	176.2	10.9
Common Shares Outstanding	million	109	25.6	43	396	186.7	204	316	102	128	138	385	151	219	119.0	172	100	49	739
MVE	**Rm**	**4251**	**826**	**1751**	**2930**	**3379**	**15912**	**16590**	**745**	**460.8**	**2042.4**	**4331.25**	**1540**	**14699.3**	**15576.8**	**7826**	**3351**	**8633.8**	**8055.1**
outstanding preferred stock (PS)	**Rm**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0.0**	**0**	**0**	**0**	**0**
short-term liabilities	Rm	1805	663	866	4255	1687	9078	10280	268	744	4012.8	250000	457	7575	83962.7	2244	521	2268	2638
short-term assets	Rm	2942	2123	1014	4260	2940	13896	11542	796	1431	5682.6	390000	836	19100	151211.6	7094	2300	4615	1956
book value of the firm's long-term debt	Rm	1426	5	207	671.2	661	6889	1243	8	357	50.16	140000	2.2	6544	16713.8	1487	50	796	35917
DEBT	**Rm**	**2563**	**1465**	**355**	**676.2**	**1914**	**11707**	**2505**	**536**	**1044**	**1720**	**280000**	**381.2**	**18069**	**83962.7**	**6337**	**1829**	**3143**	**35235**
Total Asset (TA)	Rm	5877	2273	1838	7881	5904	27842	17949	912	2067	6375.6	424821	956	23225	184,639.22	7739	2631	110154	44134
Tobin's Q = (MVE+PS+DEBT)/TA	**Ratio**	**1.2**	**1.0**	**1.1**	**0.5**	**0.9**	**1.0**	**1.1**	**1.4**	**0.7**	**0.6**	**0.7**	**2.0**	**1.4**	**0.54**	**1.8**	**2.0**	**0.11**	**1.0**

	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	
	MTN Group Limited	Murray & Roberts Holdings Limited	Mr Price Group Limited	Naspers Limited	Network Healthcare Holdings Ltd	Remgro Limited	Reunert Limited	Sanlam Limited	Sappi Limited	Sasol Limited	The Spar Group Limited	Standard Bank Group Limited	Steinhoff International Holdings Ltd	Super Group Limited	Telkom SA Limited	Tiger Brands Limited	Truworths International Limited	Woolworths Holdings Limited	
	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	
Stock Price end period	32.96	13	7.95	44	4.95	72	27.9	12	90.4	96.1	20	61	8.35	10.7	78.8	98.01	10.11	7.1	
Common Shares Outstanding	1659	331	222	297	1426	480	172	2720	227	611	169	60	1123	317	557	169	483	868	
MVE	**54680.64**	**4303**	**1764.9**	**13068**	**7058.7**	**34560**	**4798.8**	**32640**	**20520.8**	**58717.1**	**3380**	**3660**	**9377.05**	**3391.9**	**43891.6**	**16612**	**4883.13**	**6162.8**	
outstanding preferred stock (PS)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	
short-term liabilities	6358	2816	612	6802	1552	1350	2067	34000	10180.32	17885	1732	353827	3598	1875	12765	5888	493	2539	
short-term assets	8643	3666	1208	6778	1665	5208	1872	33000	10554.4	21878	1635	380000	8778	2154	10997	7257	1636	3992	
book value of the firm's long-term debt	4376	580	318	2873	1040	713	44	162000	16452.84	20201	39	13173	3387	1234	25586	2185	94	334	
DEBT	**6661**	**1430**	**914**	**2849**	**1153**	**4571**	**-151**	**161000**	**16826.92**	**24194**	**-58**	**39346**	**8567**	**1513**	**23818**	**3554**	**1237**	**1787**	
Total Asset (TA)	32000	6057	1855	13093	5496	35529	3085	228024	40788.08	73846	2208	384913	13545	4467	55316	12257	2087	5750	
Tobin's Q = (MVE+PS+DEBT)/TA	**1.9**	**0.9**	**1.4**	**1.2**	**1.5**	**1.1**	**1.5**	**0.8**	**0.92**	**1.1**	**1.5**	**0.1**	**1.3**	**1.1**	**1.2**	**1.6**	**2.9**	**1.4**	**1.2**

Tobin's Q Calculations for 2007

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
		AECI Limited	Allied Technologies Limited	Astral Foods Limited	Aveng Limited	AVI Limited	Barloworld Limited	The Bidvest Group Limited	Brait SA Limited	Business Connexion Group Limited	Datatec Limited	FirstRand Limited	Iliad Africa Limited	Imperial Holdings Limited	Investec Limited	JD Group Limited	Lewis Group Limited	Liberty Holdings Limited	Metropolitan Holdings Limited
Stock Price end period	R	78.99	50.75	121	49.95	19.71	129.6	141.23	29.2	7.6	33.6	18.9	14.79	141.5	88.0404	69.7	68.5	226	15.09
Common Shares Outstanding	million	110	30	42.7	396	196	204	303	106	263	155	5634	146	243	609	180	100	49	679
MVE	**Rm**	**8689**	**1523**	**5167**	**19780**	**3863**	**26438.4**	**42792.7**	**3084**	**1998.8**	**5208**	**106483**	**2159**	**34384.5**	**53616.6036**	**12546**	**6850**	**11074**	**10246.11**
outstanding preferred stock (PS)	**Rm**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
short-term liabilities	Rm	3373	1561	327	7101	1539	12796	18905	398	693	5565.6	416507	861	16834	160,020.02	2529	780	4543	5200
short-term assets	Rm	4699	2892	1450	15546	2167	18636	19806	1220	1633	8272.8	662589	1302	37447	288,186.09	8442	2653	9244	39000
book value of the firm's long-term debt	Rm	954	100	327	1420	627	6638	3114	617	156	475.2	231393	68	15233	191,873.98	1518	93	3484	36000
DEBT	**Rm**	**2280**	**1431**	**1450**	**9865**	**1255**	**12478**	**4015**	**1439**	**1096**	**3182.4**	**477474**	**509**	**35846.2**	**320040.0447**	**7431**	**1966**	**8185.2**	**69800**
Total Asset (TA)	Rm	8256	3688	2867	19509	4828	30655	32844	2253	2310	10015	721559	1865	45534	351,894.00	9845	3400	220647	75358
Tobin's Q = (MVE+PS+DEBT)/TA	**Ratio**	**1.3**	**0.8**	**2.3**	**1.5**	**1.1**	**1.3**	**1.4**	**2.0**	**1.3**	**0.8**	**0.8**	**1.4**	**1.5**	**1.06**	**2.0**	**2.6**	**0.09**	**1.1**
Change		0.17	-0.21	1.16	1.06	0.16	0.28	0.36	0.60	0.61	0.25	0.14	-0.58	0.13	0.52	0.20	0.62	-0.02	0.08

	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	
	MTN Group Limited	Murray & Roberts Holdings Limited	Mr Price Group Limited	Naspers Limited	Network Healthcare Holdings Ltd	Remgro Limited	Reunert Limited	Sanlam Limited	Sappi Limited	Sasol Limited	The Spar Group Limited	Standard Bank Group Limited	Steinhoff International Holdings Ltd	Super Group Limited	Telkom SA Limited	Tiger Brands Limited	Truworths International Limited	Woolworths Holdings Limited	
Stock Price end period	128.06	64	29.8	175	11.93	181	67	22.75	104.5	266	55.11	100	24.21	15.19	161	182	36	21.4	
Common Shares Outstanding	1865	331	235	367	1245	472	178	2304	229	628	167	1257	1168	405	533	172	451	809	
MVE	**238831.9**	**21184**	**7003**	**64225**	**14852.9**	**85432**	**11926**	**52416**	**23930.5**	**167048**	**9203**	**125700**	**28277.28**	**6151.95**	**85813**	**31290**	**16236**	**17312.6**	
outstanding preferred stock (PS)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	
short-term liabilities	34970	8093	945	7528	5606	1854	1967	57000	13737.72	23866	3778	1126761	11506	4488	17366	3590	836	4247	
short-term assets	33501	8836	1781	16169	5211	7466	3127	43000	12447.12	38382	3815	1238734	15365	4257	15045	5767	2582	7491	
book value of the firm's long-term debt	29114	1103	231	3086	36351	1580	395	25000	18728.04	31930	170		8671	2497	13870	1041	97	2907	
DEBT	**27645**	**1846**	**1067**	**11727**	**35956**	**7192**	**1555**	**11000**	**17437.44**	**46446**	**207**	**111974**	**12530**	**2266**	**11549**	**3218**	**1843**	**6151**	
Total Asset (TA)	115586	13011	2494	32184	50539	49861	4844	340265	45486.48	119065	5058	1254750	35534	9256	57597	12020	3337	10443	
Tobin's Q = (MVE+PS+DEBT)/TA	**2.3**	**1.8**	**3.2**	**2.4**	**1.0**	**1.9**	**2.8**	**0.2**	**0.91**	**1.8**	**1.9**	**0.2**	**1.1**	**0.9**	**1.7**	**2.9**	**5.4**	**2.2**	**1.6**
Change	0.39	0.82	1.79	1.14	-0.49	0.76	1.28	-0.66	-0.01	0.67	0.36	0.08	-0.18	-0.19	0.47	1.23	2.49	0.86	

APPENDIX D: CONSISTENCY MATRIX

Table 3: Consistency matrix

Research problem: Evaluate and analyse the effect of Public Investment Corporation's shareholder activism on firm performance in South Africa.

Sub-problem	Proposition	Source of theory	Source of data	Type of data	Analysis
Assess the effect of PIC's corporate governance recommendations on firm performance.	The listed companies in which PIC has shareholding comply with PIC recommendations on corporate governance, thus translating to good firm performance.	Brown and Caylor (2006), Gompers et al. (2003), Lander and Reinstein (2005), Drobertz (2007), King II (2002), Mongalo (2003), Nelson (2005), PIC (2007), Dixon (2008), OECD (2004)	Interviews with IoD and PIC. Desktop study of 2004 and 2007 annual reports of top 36 listed companies in which PIC has shareholding.	Qualitative	Content analysis
Evaluate the effect of PIC's shareholder activism on firm performance.	Shareholder Activism by PIC in the companies it has shareholding has effect on firm performance.	Nelson (2005), Smith (1996), Song and Scewczyk (2003), Wahal (1996), Karpoff (2001), Brown and Caylor (2006), Gompers et al. (2003), Lander and Reinstein (2005), Drobertz (2007),	Interviews with IoD and PIC. Desktop study of 2004 and 2007 annual reports of top 36 listed companies in which PIC has shareholding.	Quantitative	Corporate Governance Scorecard, Tobin's Q, Descriptive Analysis, Categorical Regression Analysis, Factor Analysis, and Reliability Analysis