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Advances in the corporate governance practices of Johannesburg Stock Exchange companies

N. Mans-Kemp, P. Erasmus & S. Viviers

ABSTRACT

Since the 20th century, corporate governance mechanisms have been developed globally to curb the negative effects of the agency problem. South Africa was a pioneer with the publication of the first King Report on corporate governance in 1994. Given the paucity of research on corporate governance in the country, the researchers set out to investigate the corporate governance practices of 230 companies listed on the Johannesburg Stock Exchange over the period 2002 to 2010. Annual corporate governance scores were compiled by means of content analysis of the sample companies' annual reports. The empirical findings revealed an increasing compliance trend towards 2010. Although the sample companies tended to improve the disclosure of their corporate governance practices over time, their practices were not per se acceptable (where acceptability implies meeting the King II recommendations). Inexperienced directors and managers might benefit from more training to enhance their understanding of the application of corporate governance principles.

Key words: corporate governance, King II Report, South Africa, compliance, disclosure

The Roman philosopher Plautus (in Stone 2005) warned that "it is a risky venture for a poor man to enter into a partnership with a rich man". Since partners can be held personally liable for claims against the partnership, they tend to closely monitor the entity's activities. Adam Smith (in Dowd 2009) argued that it cannot be expected of a company's executives to monitor invested money with the same attentiveness as partners in a private business. During and after the Industrial Revolution (1760–1840), the optimal size and production capacity of corporations increased (Jensen 1993). As these growing corporations required more funding, sole

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proprietorships and partnerships were increasingly replaced by public firms. As a result, the owner and manager of a corporate entity was not necessarily the same person (Holderness 2003).

The separation between ownership and control gave rise to the so-called agency problem (Van den Berghe & De Ridder 1999). This problem occurs when shareholders shift their responsibility to control the day-to-day and strategic decision-making activities of a firm to appointed managers. Executives can possibly abuse their position for their own benefit rather than focusing on the wealth maximisation of the shareholders (Martin, Petty & Wallace 2009; Jensen & Meckling 1976). Due to more dispersed and changing ownership structures, the agency problem became even more prominent during the 20th century compared to previous centuries (Rossouw, Van der Watt & Malan 2002).

The concept of corporate governance originated from the agency problem (Daily, Dalton & Cannella 2003). To curb agency conflict and limit agency costs, an array of control mechanisms, such as an internal audit function and independent board members, has been suggested in corporate governance literature (Haniffa & Hudaib 2006). Formalised corporate governance principles were introduced in South Africa in 1994 with the publication of the first King Report. Two subsequent reports were published in 2002 and in 2009. These reports provide corporate governance guidelines to companies listed on the Johannesburg Stock Exchange (JSE). Although the King Reports are not legally binding, the JSE Listing Requirements (JSE 2005) oblige listed companies to disclose the extent of their compliance with the King II guidelines in their annual reports. In the case of non-compliance, reasons should be provided (Mangena & Chamisa 2008).

Van den Berghe and De Ridder (1999) noted that corporate governance compliance includes two dimensions, namely 'doing the right things' and 'doing things right'. In the light of this distinction, researchers should give attention to both the disclosure ('doing the right things') and acceptability ('doing things right') dimensions of corporate governance. Previous researchers (such as Abdo & Fisher 2007; Moloi 2008; Ntim, Opong, & Danbolt 2012; Opperman 2009) focused on the disclosure dimension of corporate governance, whilst examining the corporate governance practices of selected JSE-listed companies. The majority of these researchers only included large listed companies (such as the FTSE/JSE Top 40 companies) in their samples. Furthermore, they generally considered a relatively short time frame (five or less years). In contrast, attention was given to both the disclosure and acceptability dimensions of corporate governance in this study. The current researchers also considered a more representative sample (including companies from the Top 40, Mid Cap and Small Cap JSE indexes) over a longer time frame (nine years).

The research period ranged from 2002, the year that the King II Report became effective, until 2010. The recommendations of the King II Report were applicable to JSE-listed companies for almost a decade. The King III Report came into effect on 1 March 2010. Integrated reporting (as prescribed by the King III Report), however, only became mandatory for all JSE-listed companies in 2011 (Global Sustainable Investment Alliance 2012; Pretorius 2011). Depending on their financial year end (before or after 1 March 2010), some JSE-listed companies only started to comply with the guidelines of the King III Report after their 2010 financial year end. In addition, many companies with a financial year end after 1 March 2010 aimed to comply with the guidelines of the King II Report for the largest part of their 2010 financial year. For the sake of consistency, the recommendations of the King II Report were applied for the entire study period.

The main purpose of this article was to present a comprehensive longitudinal overview of the corporate governance practices of listed companies in South Africa. The objectives were twofold. The first objective was to conduct an empirical analysis of the corporate governance practices of selected JSE-listed companies over the period 2002 to 2010. This was done by means of content analysis of the selected companies' annual reports. The second objective was to determine whether the corporate governance practices of listed companies differed from those of companies that delisted during the research period.

The remainder of the paper is structured as follows: the following section presents the theoretical background of the paper. Subsequently, the research methodology is described, followed by a discussion of the research findings. Based on the study's findings, conclusions and recommendations are then presented. In the last section, limitations of the study and suggestions for future research are provided.

Theoretical background

As mentioned previously, the concept of corporate governance developed as a result of the agency problem (Daily et al. 2003). Various corporate governance mechanisms have been developed globally in an attempt to curb the negative consequences associated with this problem (Haniffa & Hudaib 2006). In the following section, the phenomenon will be defined in more detail. Examples of corporate governance mechanisms in the South African context will also be provided.

Defining corporate governance

There is no consensus amongst academics and practitioners regarding the most appropriate definition of corporate governance. Mallin (2011) states that two

different, though related, definitions of corporate governance have been advanced in academic literature. Corporate governance is defined in the Cadbury Report as 'the system by which firms are directed and controlled' (Committee on the Financial Aspects of Corporate Governance 1992). This definition implies that the main responsibility for the corporate governance practices of listed companies lies with their boards of directors. The South African King Reports also use this definition (Rossouw et al. 2002). The Organisation for Economic Co-operation and Development (OECD 2004:11) defines corporate governance as a set of relationships between a company's management, board, shareholders and other stakeholders. According to this definition, the focus should be placed on the interests of a company's relevant stakeholders and not just on the shareholders' best interests. The OECD's definition is thus an extension of the traditional finance paradigm that shareholders' wealth maximisation should be the primary goal of a company's managers.

From the early 1990s onwards, an increasing number of corporate governance guidelines and codes were published globally to safeguard the interests of stakeholders, and particularly those of shareholders (Bjuggren & Mueller 2009; Fombrun 2006). Most corporate governance codes are based on two main principles, namely disclosure and appropriate checks and balances. These codes are generally not statutory, although listed companies tend to adopt at least some of the recommendations. The reason for companies' voluntary compliance is that in several countries, the stock exchange's listing requirements oblige listed companies to comply with the code's recommendations or justify non-compliance (Grandori 2004). In South Africa, the JSE listing requirements oblige public companies to report on their compliance with the King guidelines.

King Reports on corporate governance

After the 1994 democratic election, extensive regulatory reform led to both social and political transformation in South Africa. As such, the country started to draw more attention from foreign investors (Abdo & Fisher 2007; UNECA 2007). Pre-1994, foreign institutional investors heavily criticised JSE-listed companies' inefficient corporate structures and systems (Malherbe & Segal 2001). This critique and the withholding of capital as a result thereof led to the development of corporate governance guidelines for listed companies operating in South Africa.

The first King Report on corporate governance was published in 1994. The focus of this report was on issues relating to the board of directors and shareholder protection (IoDSA 1994). Between 1994 and 2002, extensive regulatory changes occurred in

the country, including the promulgation of the Labour Relations Act (No. 66 of 1995) and Employment Equity Act (No. 55 of 1998). The first King Report was subsequently adapted to take these developments into account. The King II Report became active in 2002 (Mallin 2007). According to Naidoo (2002) and Mallin (2007), this report was ground-breaking in terms of its recommendations and outlook. The King II Report provided information concerning, inter alia, the composition of the board, risk management, remuneration and sustainability (IoDSA 2009).

The revision of South Africa's corporate governance guidelines is an on-going concern (Rossouw et al. 2002). The publication of the King III Report in 2009 became necessary due to the promulgation of the new Companies Act (No. 71 of 2008) as well as changes in international corporate governance trends (IoDSA 2009). The focus of this report is on integrated reporting. The JSE once again adapted its listing requirements according to the King Report's recommendations.

Whereas the first two King Reports followed a 'comply or explain' approach, the King III Report follows an 'apply or explain' approach. The focus is now placed on how the principles of the King III Report are applied in practice (Malan 2010). This 'apply or explain' approach might, however, lead to the perception that if managers and directors cannot adhere to the King guidelines, they can alter the interpretation thereof (Carte 2009). This state of affairs could understandably lead to non-compliance with the King recommendations.

One of the main differences between the King II and III Reports is the enhanced focus on integrated reporting (PwC 2009). The King II Report included a chapter on sustainability reporting, paving the way for the concept of triple bottom line reporting (focusing on economic, social and environmental considerations). Due to growing attention to sustainability issues, the King III Report requires that companies should publish their financial and non-financial information in a so-called integrated report (PwC 2009). The Integrated Reporting Committee of South Africa (2011) was formed in May 2010 to develop guidelines for the integrated reporting practices of JSE-listed companies. In 2011, this committee developed a framework for integrated reporting. As a result, the first mandatory integrated reporting period for JSE-listed companies was 2011 (Eccles, Krzus & Ribot 2015; Pretorius 2011).

Companies gradually started to report on environmental, social and corporate governance aspects over the past few years (Epstein & Buhovac 2014). Corporate role players are also starting to realise that corporate governance compliance should be regarded as a business imperative rather than a mere obligation. Advantages associated with sound corporate governance compliance include the enhancement of a company's reputation (being a responsible corporate citizen), sustainable growth and possible long-term value creation (Madhani 2007).

Measuring the corporate governance practices of listed companies

Since corporate governance is an abstract concept, the measurement of a company's corporate governance practices can be challenging. In line with the Cadbury Report's definition of corporate governance (which is also employed by the King Reports), the board of directors is regarded as the focal point of the corporate governance system. It is hence not surprising that the composition of the board of directors is one of the most widely studied corporate governance aspects globally (Denis & McConnell 2003). As an increasing number of corporate governance guidelines were introduced globally, attention was also given to, inter alia, director emolument (Dalton & Daily 2001) and sustainability reporting (Kolk 2004).

Corporate governance research instruments were subsequently developed by a number of researchers in developed markets. Gompers, Ishii and Metrick (2003) developed a Governance Index for United States of America (USA) listed companies, based on 24 corporate governance rules, including voting rights and directors' compensation. Brown and Caylor (2004: 3) designed the Gov-Score measure based on the US corporate governance framework. The Gov-Score consists of 51 factors encompassing eight corporate governance categories including the directorate, emolument and ownership structure. Since these two metrics were designed for usage in a developed country, they were not applicable in the emerging market context.

The corporate governance research instruments and approaches of previous South African researchers were examined and compared in order to find the most appropriate research instrument for the purpose of this study. Two requirements had to be met, namely the instrument should be applicable to listed and delisted South African companies as well as over the entire research period.

Abdo and Fisher (2007) considered the impact of corporate governance disclosure on the financial performance of 97 companies listed on the JSE during 2003 and 2005. Their corporate governance measure consisted of 29 corporate governance considerations, based on the King II Report and the Standard and Poor's International Corporate Governance Score Index. In the current study, a more extensive corporate governance research instrument, consisting of nine categories (comprising 39 recommendations) was used. While Abdo and Fisher (2007) excluded delisted companies from their sample, the current researchers analysed the corporate governance practices of both JSE-listed and delisted companies over a nine-year period.

Moloi (2008) assessed the corporate governance reporting of the Top 40 JSE-listed companies in 2006. He used a corporate governance checklist based on specific King II recommendations. Two limitations of his study were that only the 40 largest listed companies were examined for only one year. Ntim et al. (2012) also examined the

corporate governance disclosure practices of JSE-listed companies (based on 50 King II provisions) for the period 2002 to 2006.

These authors focused on corporate governance disclosure and did not assign an acceptability score to the considered companies. In the current study, both the disclosure and acceptability dimensions of selected JSE-listed companies' corporate governance practices were analysed.

The Centre for Corporate Governance in Africa (2010) designed the Public Investment Corporation (PIC) corporate governance rating matrix to measure the corporate governance compliance practices of JSE-listed companies. In contrast to the other measuring instruments that were discussed in this section, the PIC matrix contained a disclosure and an acceptability dimension. The PIC matrix was identified as the most comprehensive and well-tested corporate governance research instrument to employ in the local context. After permission was obtained from the Centre, the researchers refined the matrix for the purpose of this study. The adapted matrix is based on selected King II recommendations and existing corporate governance literature.

Research methodology

This study is deemed to be descriptive in nature as it provided a description of the corporate governance practices of selected JSE-listed companies. Table 1 provides details on the population and sample.

Table 1: Compilation of the population and sample

	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Population	451	411	389	373	389	411	411	398	397	3 630
Sample	191	192	166	161	146	141	150	151	141	1 439[(a)]

(a) 1439 corporate governance scores were compiled for 230 JSE-listed firms over the research period.

Source: Based on data from the World Federation of Exchanges (2014)

The population consisted of all JSE-listed companies for the period 2002 to 2010. In line with previous corporate governance researchers (Lamport, Latona, Seetanah & Sannassee 2011; Saravanan 2012; Uadiale 2012), the non-probability judgement sampling technique was employed. The researchers used their judgement to include companies from six of the ten JSE industries, namely the health care, consumer goods, consumer services, industrials, telecommunications and technology industries

(hereafter referred to as considered industries). The population companies did not all have an equal chance of being selected, since certain industries were excluded.

The reason for the exclusion of the basic materials, oil and gas and financials industries was that the nature of these companies' activities and the financial reporting thereof differ from that of the considered industries. Since the corporate governance data were originally collected to consider the relationship between the corporate governance practices and financial performance of JSE-listed companies as part of a larger corporate governance study, the differing nature of the companies' financial reports had to be taken into account. Financial companies' activities also tend to be more regulated than those of companies operating in the considered industries. No companies were listed in the utilities industry during the study period.

Companies were included in the sample based on their compliance with four criteria, namely:

- The company formed part of the considered industries.
- The company's annual reports were available in the McGregor BFA (2013) database (now called INET BFA).
- The company was listed for the entire calendar year under consideration.
- Company-specific data were available for at least two consecutive years during the study period. This was done to ensure enough data points for the purposes of statistical analysis.

The corporate governance practices of companies that were listed for the entire research period were hence examined over a period of nine years. Newly listed companies were included in the sample if they complied with the above-mentioned criteria. Furthermore, if delisted companies complied with the criteria, their corporate governance practices were examined for the years that they were listed on the JSE.

An attempt was thus made to reduce survivorship bias. The total exclusion of companies that delisted from the stock exchange during the considered research period could skew the results. Companies that remain listed are often financially more successful than those that delisted (Brown, Goetzmann, Ibbotson & Ross 1992). Sampling bias could result from the exclusion of small companies (in terms of market capitalisation) from a study's sample. To limit sampling bias, no companies were excluded from the sample based on their market capitalisation.

Data collection and analysis

While secondary corporate governance data sources are often used by developed market researchers, such data are typically not readily available to emerging market

researchers. The required data on JSE-listed companies' corporate governance practices were indeed not publicly available in a usable format when this study commenced. The PIC matrix was therefore refined and used to compile a comprehensive corporate governance score for each of the sample companies.

The refined instrument consisted of nine categories. The respective labels and approximate percentage of each category (based on disclosure and acceptability dimensions) in relation to the total score (out of 74) were as follows: board composition (18.9%), board committees (8.1%), individual directors (8.1%), director remuneration (9.5%), shareholding (4.1%), accounting and auditing (8.1%), risk disclosure and reporting (5.4%), corporate culture and behaviour (27.0%) and sustainability reporting (10.8%). The categories, comprising of 39 recommendations, were mainly based on selected King II recommendations. The specific recommendations cannot be indicated due to a confidentiality agreement between the researchers and the Centre for Corporate Governance in Africa.

Conceptual content analysis was employed to compile annual corporate governance scores for each of the sample companies for each year that the company was listed on the JSE over the research period. Previous researchers (such as Al-Moataz & Hussainey 2012; Bhasin 2012; Gupta, Nair & Gogula 2003; Moloi 2008; Murthy 2008) also used content analysis to compile corporate governance scores for individual companies. Attention was given to disclosure and acceptability dimensions whilst constructing annual corporate governance scores, as indicated by equation 1.

$$\text{Corporate governance score} = \sum_{n=0}^{39} \text{Disclosure}_n + \sum_{n=0}^{35} \text{Acceptability}_n \qquad (1)$$

The focus of the disclosure dimension was on whether information regarding the recommendation under consideration was indicated/not indicated in the annual report of a company. With regard to the acceptability dimension, the researchers aimed to determine whether a company correctly applied the specific King II recommendation. Key words, based on the King II Report and existing literature, were used to conduct word searches in the sample companies' annual reports in order to allocate disclosure and acceptability scores. For example, if the roles of both the chairperson and chief executive officer (CEO) were indicated in a company's annual report, the disclosure criterion was met. According to the King II Report, the roles of the chairperson and CEO should be separated (IoDSA 2002). If the CEO also acted as the chairperson of the board, the acceptability criterion was therefore not met by the specific company.

The dichotomous variables 0 and 1 were used to code the observed corporate governance information. If the disclosure criterion was met for a specific recommendation, it was coded 1. If no information could be found on the specific

recommendation in a company's annual report, it was coded 0. Attention was only given to the acceptability criterion if a code of 1 was allocated for the disclosure criterion. If the acceptability criterion was also met, it was coded 1; if not, it was coded 0. The maximum score that a selected company could receive was 74. The overall score consisted of a maximum total score of 39 for disclosure and 35 for acceptability. Acceptability criteria were not set for four of the corporate governance recommendations (gender and race of board members, individual executive director remuneration and the disclosure of shareholding), since no clear acceptability guidelines could be determined.

The research instrument was applied over the complete study period by one data coder. After the data had been collected, the coding of the disclosure and acceptability dimensions was double-checked by the data coder. The allocated scores per category were compared with the disclosure and acceptability guidelines per variable to ensure that the allocated codes were in line with the stated criteria.

The collected quantitative data were processed using Microsoft Excel and Statistica. Descriptive statistics were used to summarise the collected data. Furthermore, a mixed-model analysis of variance (ANOVA) was used to determine whether the mean corporate governance scores of the listed companies differed significantly from the mean scores of the delisted companies, as well as over the research period. This model includes both fixed effects and random effects factors (Reinard 2006). For the purpose of the current study, the considered fixed effects factors were 'year', 'listed/delisted' and 'year listed/delisted interaction' (denoted as 'year' listed/delisted'). The random effects factor was 'company'.

A restricted maximum likelihood solution with type III decomposition was performed to estimate the variance components of the random effects in the mixed-model ANOVA. The ANOVA's overall F-test indicated a significant difference between the considered factors. The Fisher's least significant difference (LSD) test was therefore used to make pair-wise comparisons amongst the sample means to determine where the differences occurred.

Research findings

This section presents details on the corporate governance practices of the sample companies.

Trends in the annual corporate governance scores

The results of the descriptive analysis that were conducted on the 1 439 annual corporate governance scores are provided in Table 2.

Table 2: Corporate governance scores of the sample companies [(a)]

	Valid n	Mean	Median	Minimum value	Maximum value	Standard deviation
2002	191	39	39	9	67	12
2003	192	45	47	10	69	12
2004	166	49	51	9	72	12
2005	161	51	53	13	71	12
2006	146	52	54	16	71	12
2007	141	52	56	16	70	12
2008	150	55	57	14	72	11
2009	151	57	59	21	72	10
2010	141	59	62	27	74	10
Overall period	1 439	50	53	9	74	13

(a) The lowest potential score was 0 and the highest potential score was 74; values were rounded to the closest integer.

As indicated in Table 2, the mean and median scores exhibited a similar consistently increasing trend over the research period. A possible explanation for this development is that, over time, directors became more accustomed to the King recommendations. In addition, based on the content analysis, it was evident that companies gradually introduced compliance mechanisms (e.g. a compliance officer). Such mechanisms might assist directors and managers to establish more efficient corporate governance practices. Despite the overall increasing compliance trend, the sample companies only complied with approximately 68% of the corporate governance criteria for the overall period. It was thus evident that some companies did not pay adequate attention to sound corporate governance practices.

The minimum corporate governance score increased from approximately 12% in 2002 to 36% in 2010. The two companies that obtained a score of 12% (in 2002 and 2004) subsequently delisted from the JSE. Frost, Racca and Stanford (2012) indicated that weak corporate governance compliance could be symptomatic of larger corporate feasibility problems. It should, however, be noted that not all companies that exhibited low compliance necessarily delisted from the JSE in subsequent years. Some companies with very low corporate governance scores in 2002 (equal to or below 25% compliance) improved their corporate governance practices over time. As a result, the minimum score tripled from 2002 to 2010. The corporate governance scores of the companies with the highest compliance in 2002 (equal to or greater than 75% compliance) also improved over time, albeit with a smaller increase (from approximately 91% to 100%) than their counterparts that had very low levels of

compliance. Based on the content analysis, the researchers observed that companies that considerably improved their compliance practices often stated that it takes time to create an efficient corporate governance structure and compliance mechanisms.

The standard deviation for the overall period was 18%, indicating some variation in the dataset. Given the fact that the sample contained companies that formed part of the FTSE/JSE Top 40 Index as well as companies that delisted within a few years from their listing date, the results were not surprising. Companies that formed part of the FTSE/JSE Top 40 Index would be expected to deliver good corporate governance compliance results, because they are more 'in the public eye' and thus subject to greater stakeholder scrutiny. The delisted companies were anticipated to have poorer corporate governance compliance practices. Some delisted companies' directors and managers possibly lacked intent and skills to properly comply with the King guidelines. In addition, some companies that delisted could have experienced a lack of resources to fund costly corporate governance initiatives.

Disclosure and acceptability dimensions

The mean disclosure and acceptability scores were divided by the total score of 74. This was done to determine the contribution of both dimensions to the mean annual scores that were reported in Table 2. The sample included 71 delisted firms that contributed 260 of the 1439 annual corporate governance observations. No delisted firms formed part of the sample for the year 2010. Figure 1 provides a visual representation of the disclosure and acceptability dimensions for all the sample companies and separately for the listed and delisted companies.

Figure 1 reveals that in 2002, the mean corporate governance score for all firms was approximately 52%. Disclosure contributed 32% and acceptability 20% to this score. At that stage (2002), the sample companies seemed to have below average (less than 50%) compliance with the acceptability guidelines. The listed and delisted companies gradually improved their compliance with both the disclosure and acceptability dimensions over the research period.

Three delisted companies formed part of the sample in 2009. As seen in Figure 1, these companies had higher corporate governance compliance than their listed counterparts in the given year. A possible reason for the subsequent delisting of these highly compliant companies is that their sound corporate governance practices made them attractive targets for a merger or acquisition attempt. Alternatively, their boards and managers could have regarded corporate governance initiatives as unnecessary red tape that slows down decision-making processes. As a result, companies with high levels of corporate governance compliance might decide to delist to avoid time-

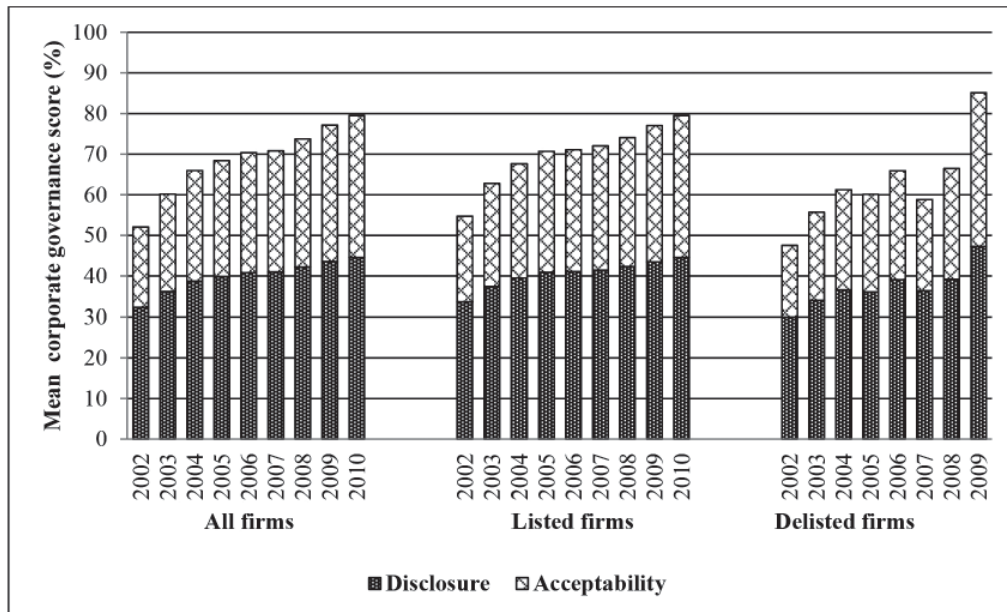

Figure 1: Disclosure and acceptability dimensions of the mean annual corporate governance scores

consuming compliance activities in future (Solomon 2007). The actual reasons that were provided for the delisting of the three observed companies included a takeover (Wessels 2010), a merger (Prinsloo 2011) and unfavourable market sentiment towards small JSE-listed companies in the aftermath of the 2007/2008 global financial crisis (I-Net Bridge 2010).

In 2010, the mean corporate governance score for all firms was almost 80%. This score hence increased substantially (by 27%) over the research period. Furthermore, the acceptability dimension contributed about 35% to the mean score for the complete sample in 2010, an increase of almost 15% since 2002. The sample companies hence not only improved their disclosure of corporate governance considerations, but they also revealed more acceptable compliance practices over time. This is a promising result for investors who consider the corporate governance compliance practices of JSE-listed companies when making investment decisions.

As previously mentioned, acceptability guidelines were not set for four corporate governance recommendations, since no clear guidelines were available. A company could receive a maximum score of 39 for disclosure and 35 for acceptability. The two dimensions thus did not contribute equally to the total corporate governance score of 74. To examine the development of the disclosure and acceptability dimensions over

time, the annual mean scores were considered as a percentage out of the maximum total scores (39 and 35 respectively), as shown in Table 3.

Table 3: Annual mean disclosure and acceptability scores (%)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Mean disclosure score [(a)]	23.895	26.771	28.669	29.503	30.212	30.340	31.227	32.232	32.979
Percentage (out of 39)	61.270	68.643	73.509	75.649	77.468	77.796	80.068	82.646	84.561
Mean acceptability score [(a)]	14.654	17.766	20.145	21.099	21.870	22.078	23.340	24.887	25.872
Percentage (out of 35)	41.870	50.759	57.556	60.284	62.485	63.080	66.686	71.107	73.921

(a) Unrounded mean scores were used for calculations.

As seen in Table 3, although the mean disclosure score was above 50% in 2002, the mean acceptability score was less than 50% in the given year. It hence appears that the sample companies struggled to correctly apply the corporate governance guidelines during that year. In line with this observation, it was evident from the content analysis of the 2002 annual reports that some sample companies tended to explain their non-compliance with selected King II guidelines. Such companies hence complied with the 'comply or explain' guideline, but their compliance per se was not acceptable.

Both the disclosure and acceptability scores increased rapidly between 2002 and 2010. Improvements of approximately 23% and 32% can be seen in Table 3 for disclosure and acceptability respectively over the study period. This is a positive development, since the sample companies not only improved their corporate governance disclosure, but also had more acceptable corporate governance compliance practices at the end of the research period.

Corporate governance categories

A firm's total corporate governance score was based on nine categories. Details on the annual mean scores per category are provided in Table 4.

An increasing trend can be observed for all nine categories between 2002 and 2010. The board composition, board committees and individual directors' categories showed large improvements between 2002 and 2005. The mean scores for the corporate culture and behaviour, and sustainability reporting categories improved considerably during the second half of the research period (2007 to 2010). It hence seems as if the sample companies initially focused their compliance efforts on board-

Table 4: Mean scores per category (% out of 74)

Category	2002	2003	2004	2005	2006	2007	2008	2009	2010
1: Board composition	9.374	11.311	12.480	13.027	13.236	13.523	14.415	15.330	15.785
2: Board committees	3.149	3.780	4.208	4.457	4.822	4.850	5.027	5.423	5.770
3: Individual directors	3.984	5.272	5.959	6.245	6.470	6.478	6.766	7.034	7.150
4: Director remuneration	6.530	6.792	7.204	7.436	7.507	7.628	7.865	8.170	8.281
5: Shareholding	1.931	2.808	2.891	2.988	3.027	3.124	3.207	3.311	3.258
6: Accounting and auditing	6.919	7.024	7.131	7.303	7.341	7.322	7.405	7.634	7.754
7: Risk disclosure and reporting	5.016	5.208	5.308	5.304	5.369	5.368	5.405	5.405	5.405
8: Corporate culture and behaviour	13.223	15.372	17.405	17.777	18.539	18.315	19.081	19.993	20.539
9: Sustainability reporting	1.966	2.619	3.378	3.845	4.073	4.227	4.568	4.886	5.588
Total annual score	52.092	60.186	65.964	68.382	70.384	70.835	73.739	77.186	79.530

related categories that were 'easier to comply with', whereas enhanced attention was given to the corporate culture and behaviour and sustainability reporting categories during and after the 2007/2008 global financial crisis. Given local social challenges, such as unemployment, corruption and HIV/AIDS, aspects related to corporate culture and sustainability deserve more attention in future.

The reported descriptive statistics indicate that the mean corporate governance scores of the sample companies increased steadily over the study period. The mean scores of the listed and delisted companies, however, appeared to differ (refer to Figure 1). Inferential analyses were therefore conducted to determine the significance of the observed trend in the mean corporate governance scores over time, as well as the perceived difference between the scores of the listed and delisted companies.

Mixed-model ANOVA and Fisher's LSD test results

A mixed-model ANOVA was used to consider differences in the corporate governance scores of the sample companies over the entire study period. The results of this test are displayed in Table 5.

Table 5: Results of the mixed-model ANOVA [(a)]

Effect	Numerator degrees of freedom	Denominator degrees of freedom	F-value	p-value
Year	7	1037	112.629**	0.000
Listed/delisted	1	225	11.484**	0.001
Year listed/delisted	7	1037	1.110	0.354

** Significant at the 1% level * Significant at the 5% level

(a) Conducted for the period 2002–2009, since there were no delisted companies in the sample for 2010.

To determine whether the mean corporate governance scores differed significantly from one year to the next, the Fisher's LSD test was used. The results of this test are shown in Table 6.

Table 6: Results of the Fisher's LSD test (mean corporate governance scores over time)

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010
2002		0.000**	0.000**	0.000**	0.000**	0.000**	0.000**	0.000**	0.000**
2003			0.000**	0.000**	0.000**	0.000**	0.000**	0.000**	0.000**
2004				0.000**	0.000**	0.000**	0.000**	0.000**	0.000**
2005					0.171	0.001**	0.000**	0.000**	0.000**
2006						0.065	0.000**	0.000**	0.000**
2007							0.002**	0.000**	0.000**
2008								0.000**	0.000**
2009									0.000**
2010									

** Significant at the 1% level * Significant at the 5% level

As seen in the first row of Table 5, the mean corporate governance scores of the sample companies differed significantly over the entire study period. Furthermore, review of Table 6 shows that all the annual increases in the mean corporate governance scores were statistically significant, except for the annual increases from 2005 to 2006 and 2006 to 2007. In the second row of Table 5, a significant difference can be observed between the corporate governance scores of the listed and delisted companies. These results were not surprising. As time progressed, it is likely that directors and managers became more familiar with the recommendations of the King II Report. In addition, the JSE Listing Requirements (JSE 2005) obligated listed companies to disclose their compliance with the King II Report's guidelines or to explain non-compliance. Previous researchers (such as Chiraz & Anis 2013; Serve, Martinez & Djama 2012) also found that delisted companies generally had weaker and less effective corporate governance mechanisms than listed companies.

Companies that remained listed on the JSE were thus expected to improve their corporate governance practices over time. Those who failed to do so increasingly became targets for shareholder activists. As most institutional investors in South Africa engage with investee companies behind closed doors (Winfield 2011), it is difficult to gauge the nature of the issues raised. Research among institutional investors does,

however, suggest that corporate governance concerns feature prominently on the engagement agenda (Eccles, Nicholls & De Jongh 2007).

Conclusions and recommendations

It was argued in the introduction of this article that the concept of corporate governance originated as a result of the agency problem. This problem became very prominent in the 20th century, mainly due to dispersed ownership structures (Rossouw et al. 2002). South Africa is widely considered as a pioneer in the field of corporate governance. The first King Report provided very specific corporate governance guidelines to JSE-listed companies. This report was revised in the early 2000s due to changes in legislation and global corporate governance developments.

The recommendations of the King II Report were applied by the researchers to analyse the corporate governance practices of 230 JSE-listed companies over a nine-year period. In contrast to previous researchers who focused on the disclosure of corporate governance practices, the current researchers also considered whether a company's directors and managers correctly applied the King II guidelines (referred to as the acceptability dimension). Content analysis was conducted on the published annual reports of the sample companies to compile an annual corporate governance score for each company for the applicable years that it was listed on the JSE.

The sample companies substantially improved their corporate governance disclosure over the research period. A possible reason for this trend is that the JSE enforced such disclosure through its listing requirements. The sample companies also exhibited more acceptable compliance practices in 2010 than in 2002. It is likely that corporate role players gained a better understanding of the accurate implementation of the King II guidelines over time. Shareholder activists could also have enforced JSE-listed companies to put acceptable corporate governance mechanisms in place. As a result, the considered companies' managers and directors could have attempted to gradually 'do things [the implementation of corporate governance principles] right', instead of merely disclosing their compliance or the lack thereof. Acceptable corporate governance compliance can provide a sustainable competitive advantage to firms (Madhani 2007).

It should be noted that some sample companies possibly already had moderate compliance with the King II guidelines at the beginning of the study period. Over time, these companies' corporate role players could have learned how to properly disclose their compliance practices in their annual reports. As a result, such companies could have received higher corporate governance scores towards 2010. The actual

corporate governance practices of such companies did not necessarily improve, but their disclosure did.

Although the average corporate governance scores improved over the study period, the sample companies, on average, only complied with approximately 68% of the corporate governance criteria for the overall period. It was also evident from the content analysis that some sample companies did not pay attention to the appropriate implementation of the King II guidelines. The question of how acceptable corporate governance practices can be enhanced in future thus arises.

Inexperienced directors and managers require more in-house training to properly understand the implementation of the King guidelines. If these corporate role players act inappropriately, they might cause damage to the reputation of their company. If managers and directors are properly trained, they might be able to act more appropriately when faced with various corporate governance challenges. Possible reputational damage might then be reduced. The observed lack of corporate governance compliance also provides opportunities for consultants and private sector training providers to train directors on various corporate governance-related aspects. If a consultant is used, the service can be tailor-made to meet the specific needs of a company's directors and managers.

The listed companies had higher mean corporate governance scores than their delisted counterparts for the largest part of the study period. Not all the sample companies' role-players were, however, interested in complying with the King guidelines. In the annual reports of some well-known listed and delisted companies, managers and directors questioned whether a costly tick-box compliance approach really aids corporate governance in practice. It was also questioned whether the standardised King guidelines are actually applicable to all companies. These are valid concerns. If compliance initiatives become too costly, in terms of both time allocation and financial expenses, companies' decision-makers might decide not to voluntarily comply with some of the King guidelines in future.

Limitations of the study and suggestions for future research

Companies that were listed in the basic materials, oil and gas, and financials industries were excluded from the sample. The reasons for the exclusion were that the nature of these companies' activities, the degree of regulation and financial reporting differ from those of the sample companies. Basic materials and financials are two large industries in the South African economy. The companies that were listed in the excluded industries could possibly have provided different results from those of the considered industries. In future, a similar study could be conducted

to analyse the corporate governance practices of companies listed in these three industries.

The study was conducted over the period 2002 to 2010. Specific attention was given to the recommendations of the King II Report. It should be noted that the limited timeframe excluded the possible impact of the King III Report on issues such as integrated reporting. Other corporate governance researchers could conduct a similar study in future, based on the recommendations of the King III Report. The relationship between corporate governance compliance and various financial performance measures could then be investigated.

The researchers assessed the corporate governance practices of selected JSE-listed companies by means of content analysis. Future researchers could conduct interviews with the managers and directors of JSE-listed companies to determine their perceptions on the actual value that corporate governance compliance activities add to their firms. Specific attention could also be given to the impact of corporate governance on JSE-listed companies' reputation.

Improvements were observed in the sample companies' corporate governance compliance practices (both in terms of disclosure and acceptability) over the research period. If this trend continues in future, stakeholders might continue to benefit from the sound corporate governance practices of local companies.

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