CULTURE AND CORPORATE GOVERNANCE IN SOUTH AFRICA

TEBOGO ISRAEL TEDDY MAGANG

PhD

UNIVERSITY OF BRADFORD

2012

UNIVERSITY OF BRADFORD

SCHOOL OF MANAGEMENT

CULTURE AND CORPORATE GOVERNANCE IN SOUTH AFRICA

Being a Thesis submitted for the Degree of Doctor of Philosophy in the University of Bradford, School of Management

By

Tebogo Israel Teddy Magang

2012

Abstract

The main objective of this thesis is to investigate corporate governance practices in South Africa listed companies. Specifically, the thesis strives to achieve the following objectives. First, it investigates the extent of compliance with the best corporate governance practices as recommended by the King Committee on Corporate Governance prior to and post 2002 in order to understand whether there is improvement in corporate practices. Second the thesis investigates whether compliance with the best corporate governance practices are related to ethnicity of board structures (in particular Board Chairman, Board Dominance and Chief Executive Officer/Managing Director) and other factors such as company characteristics, market and performance related variables. Third it investigates the views/opinions of key stakeholders [e.g. regulators, King Code Commissioners, companies and institutional investors] regarding the state of corporate governance in SA and its influence in the Southern African Development Community (SADC) region.

The findings from regression results indicate that compliance with the King Code increased substantially between 2002 and 2008. The results also indicate that compliance is high for accounting and auditing and boards and directors issues and lowest for integrated sustainability reporting issues. The findings also indicate that ethnicity influences corporate compliance with best practice governance principles such as the King Code, as per prediction. Compliance was also found to be high for large firms, firms with multiple listings in other stock exchanges and firms audited by Big 4 audit firms.

Finally, the findings from the views of key stakeholders indicate that the Code has indeed improved corporate governance standards in South Africa, is suitable for the country because of its consideration of local circumstances and influences corporate practice in the SADC region.

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Acknowledgements

My gratitude goes to a number of individuals who have contributed towards the success of this thesis. My deepest appreciation goes to my supervisors Professor Roszaini Haniffa and Professor Musa Mangena, for their guidance, insightful comments and support throughout the duration of my study. Their constant comments, suggestion, prompt feedback and encouragement contributed to the quality of this thesis.

Second, I will forever be indebted to all my interviewees who gave me so much of their time to provide me with information for my research. Their participation and the information they provided formed the foundation on which this thesis is based. Without their help, I would not have been able to complete the thesis.

Third, I would like to thank fellow research students and leading academics who attended the 2007 and 2008 British Accounting Association's Doctoral Colloquia. In particular, I would like to acknowledge constructive criticisms and suggestions offered by Professors Jill Solomon and Elisabeth Dedman.

Fourth, I would like to express my appreciation to my sons Koketso, Loeto and Kitso and to my parents for their support and understanding. Special thanks must also go to my wife Veronica who gave me love, support (emotional, technical and proofreading) and encouragement throughout the duration of my study. Her help with the kids and household chores will forever be deeply appreciated.

Finally, the role of friends in Bradford who welcomed my family into their homes and cannot be taken for granted. Their friendship provided a firm social structure that my family is thankful for.

Definition of Key Terms and Abbreviations

a. *Ubuntu – African humanism or the foundation of sound human relations in African societies. It means "humanness" or being "being human" and includes supportiveness, co-operation and solidarity (King Report, 2002, p. 94). The King Code advocates for recognition of the culture within which governance is practiced. In this case the Ubuntu culture.*
b. *Umuntu ngumuntu ngabantu – "I am because we are and therefore I am" (Karsten and Illa, 2005). This concept defines culture in the African context.*
c. *King Code/Report – A report on corporate governance reform in South Africa.*
d. Compliance - the state of being in accordance with established guidelines, specifications, or legislation or the process of becoming so and communicating this state through established mediums of disseminating information to the relevant publics.
e. "Whites" and "Blacks" – two main ethnic groups in South Africa as defined during the apartheid era.
f. "Therisanyo" /consultation – this concept is emphasized in the African culture of Ubuntu.
g. TCI – Total Compliance Index
h. VCI – Voluntary Compliance Index
i. MCI – Mandatory Compliance Index
j. THEME1 – Boards and Directors Issues
k. THEME2 – Risk Management
l. THEME3 - Accounting and Auditing
m. THEME4 – Integrated Sustainability Reporting

1 Chapter One: Introduction

1.0 Introduction

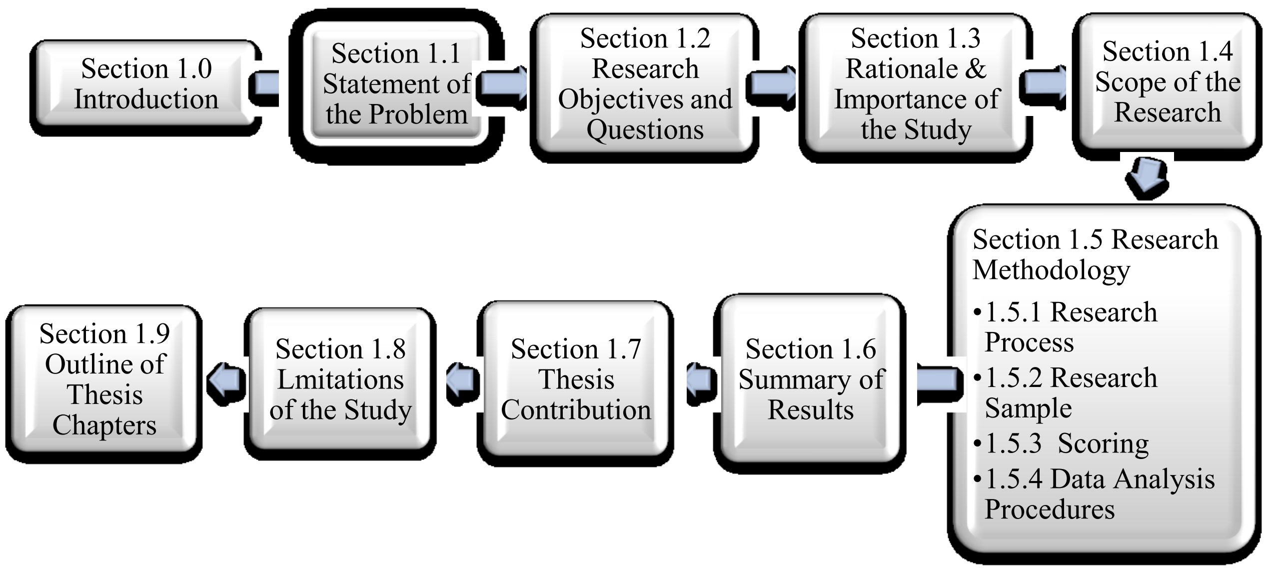
The main objective of this thesis is to investigate corporate governance practices in South African JSE Securities Exchange (the JSE) listed companies. Specifically, the thesis strives to investigate the extent of compliance with best corporate governance practices as recommended by the King Committee on Corporate Governance prior to and post 2002 in order to understand whether there is improvement in corporate practices. Corporate governance (CG) can be defined in terms of narrow definitions oriented around corporate accountability to shareholders (West, 2006, p. 434) or broader definitions that stress accountability to or meeting the interests of diverse societal stakeholder groups (Letza *et al.*, 2004, p. 243). Under the narrow definitions, CG may be defined as: *"…the system by which companies are directed and controlled"* (Cadbury, 1992, sec 2.5 p. 14) or *"…the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment"* (Shleifer and Vishny, 1997, p. 737). Claessens (2006, p. 94) defines CG as *"…a set of mechanisms designed to reduce agency costs associated with the separation of ownership and decision control"*. The narrow definitions of CG tend to reflect the Berle and Means (1932), Jensen and Meckling (1976) and Fama and Jensen (1983) agency theory approach which posits that the interests of the owners of the corporation will differ from those of management and suggests monitoring mechanisms are put in place to safeguard these interests. The narrow definitions of CG also tend to *"emphasize the primacy of ownership and property rights, and focus the corporate objectives on returning a profit to shareholders over the long term (contractarian view)"* (Smith *et al.*, 2005, p. 3). The *contractarian* view of CG is observed in the United States, Canada and the United Kingdom i.e. the Anglo-American Model. Under this view, employees, suppliers and other creditors have contractual claims on the corporation. As owners with property rights, shareholders have a claim to whatever is left after all contractual claimants have been paid.

In contrast to the narrow definitions, the broad definitions assume a corporation to be a social entity that has accountability and responsibility to a variety of stakeholders, encompassing shareowners, creditors, suppliers, customers, employees, management, government and the local community (Freeman and Reed, 1983; West, 2006). For instance, under the broad definitions CG may be defined as *"... a set of relationships between a company's management, its board, its shareholders and other stakeholders"* (OECD, 2004b, p.11) or being *"...concerned with ensuring that firms are run in such a way that society's resources are used efficiently"* (Allen, 2005, p. 165).

These various groups (stakeholders) have various contractual and non-contractual relationships with corporations and hence, affect and are affected by corporations in various ways (Freeman and Reed, 1983). The broad definitions tend to focus on the need to satisfy societal expectations, in particular the interests of employees and other stakeholders such as suppliers, creditors, tax authorities, and communities in which the corporation operates. This, commonly referred to the *communitarian* perspective (Smith *et al.*, 2005, p. 3) is found in many continental European countries such as Denmark, Norway, Germany, France and the Netherlands.

Corporate governance is important for economic development. As markets become more open and global, and business become more complex, societies around the world tend to place greater reliance on the private sector as the engine for economic growth (Claessens, 2006). In both developed and developing nations, a growing proportion of economic activity takes place in corporations. Corporations mobilise and combine capital, raw materials, labour, managerial expertise and intellectual property to produce goods and services which benefit society (Gregory and Simms, 1999). In a way, corporations purchase goods and services, create jobs and generate income, distribute profits through dividends, pay taxes, and contribute to foreign exchange in an economy. Corporations contribute to economic growth and development, which in turn lead to improved standards of living and poverty alleviation, which ideally should create a stable political system. The importance of corporate governance in an economic system cannot be overemphasized because, the quality of corporate governance impacts; the efficiency with which a corporation employs assets, the ability of a corporate entity to attract low cost capital, its ability to meet societal expectations and its overall performance (Gregory and Simms, 1999). The rest of the chapter is organised as in Figure 1.1.

Figure 1.1 Chapter One Plan



1.1 Statement of the Problem

The need for good CG has been heightened in the last two decades, following among others, high profile corporate scandals in the developed and developing world (Claessens, 2006; Haniffa and Hudaib, 2006). Examples of such corporate scandals in the developed countries include among others Polly Peck, BCCI and Maxwell group in the UK, WorldCom and Enron in the US and Parmalat in Italy. Such scandals led to the proliferation of CG codes in the developed countries such as, the Cadbury Committee (1992) in the UK, the Blue Ribbon Committee (1999) and the Tradeway Commission (1987) in the US, the Hilmer Report (1993) in Australia, the Dey Report (1994) in Canada and the Viernot Report (1995) in France. Generally, these codes were developed to address deficiencies in the CG system by recommending a comprehensive set of norms on the role and composition of the board of directors, relationships with shareholders and top management, auditing and information disclosure, and the selection, remuneration, and dismissal of directors and top managers (Aguilera and Cuervo-Cazurra, 2004). Internationally, the Organization for Economic Development (OECD) also came up with the OECD Principles of Corporate Governance (2004a) which are intended to assist both OECD and non-OECD member countries in the process of developing good CG.

Similarly, the Asian economic crises of 1997-1998 prompted the regional governments to seriously consider ways of improving governance structures resulting in the establishment of the countries' own CG codes e.g. in Malaysia the Malaysian Code of Corporate Governance (Haniffa and Hudaib, 2006), in Singapore the Corporate Governance Committee and Disclosure and Accounting Standards Committee (Eng and Mak, 2003), in Hong Kong, the Hong Kong Code of Corporate Governance of 2004.

South Africa became the first emerging country to develop a code of corporate governance via the King Report of 1994 (the King Code or the Code) (Mallin, 2004). Whilst codes in other countries were developed as a response to corporate scandals and failures, the case is different in South Africa (SA). The establishment of the first King Report (1994) can be traced to the need for South Africa to compete effectively in the global economy following the end of apartheid (Armstrong *et al.*, 2005). Prior to 1994, SA was isolated through economic and trade sanctions during the apartheid years. This encouraged complacency among its corporations and regulators because financial sanctions kept international institutions out of the domestic market and domestic firms out of the international capital markets (Malherbe and Segal, 2001). As such, SA firms and regulatory institutions were unable to benchmark corporate practices and national laws against international norms, resulting in weakly governed companies (Vaughn and Ryan, 2006, p. 505). The abolition of apartheid in 1994 resulted in SA being accepted back into the community of nations (Malherbe and Segal, 2001). Politically, the country could have diplomatic ties with other nations and economically domestic institutions and foreign financial institutions were for the first time allowed to do business together. The end of apartheid and the integration of SA into the world economy coincided with the period during which there was heightened debate about CG around the world, hence SA saw the need to embrace best CG practices in order to compete for investment capital (Dunn and Derrick, 2003).

The report, which was published by the King Committee on Corporate Governance, (formed under the auspices of the Institute of Directors of South Africa in 1992) and extensively drawing upon the Cadbury Committee of 1992, was revised via the King Report II in 2002[1]. The review was undertaken following a number of important events: first, there had been significant developments locally in terms of legislation on corporate labour practices such as Employment Equity Act – No. 55 of 1998, which seeks to address the legacy of apartheid. Internationally, the first Combined Code was issued in the UK in 1998 after combining the Cadbury Report (1992) and the Hampel Report (1998) (Pass, 2006). Therefore, a need arose in South Africa to review the King Report (1994), so as to remain competitive by keeping up with international developments (Dunn and Derrick, 2003). In addition, pressure from international investors for improved standards of CG and the need for

[1] Recently revised via King III of 2009.

private sector to compete internationally for foreign direct investment forced SA to embark on a path of reform (Armstrong *et al.*, 2005; Deutsche Bank, 2002, p. 26; Vaughn and Ryan, 2006) "to promote the highest standards of CG in South Africa" (King Report, 2002, p. 7).

Second, South Africa experienced a number of corporate failures and financial irregularities, such as Fidentia, JCI-Randgold Exploration, Masterbond, Leisurenet, MacMed and Regal Treasury Bank, all of which were blamed on weaknesses in CG structures (Sarra, 2004; World Bank, 2003). These scandals were characterised by a pattern of weak boards that failed to engage in effective oversight of the business affairs of the company and failed to ensure that senior officers did not engage in self-dealing (Sarra, 2004, p. 10). For example, the collapse of Regal Treasury was blamed on the failure by the board to disclose of material information as well as failure to contain questionable dealings by the chairman (Myburgh, 2002). Third, there were concerns that listed companies were not complying with the spirit of the King Report (1994) (Deutsche Bank, 2002; Dunn and Derrick, 2003). For instance, while Regal Bank had a board that included non-executive directors, these were friends and relatives of the chairman and therefore were not independent (Myburgh, 2002) as per the recommendations of the King Code.

A conspicuous feature of the King Report (1994, 2002, p. 8) is its adoption of the 'inclusive approach' to CG. Whilst the Cadbury Report (1992), and indeed codes in other countries, focus on shareholder wealth protection, the King Report (1994; 2002) expands the scope of CG further by advocating an integrated approach to CG in the interests of a wide range of stakeholders and embracing the social, environmental and economic aspects of a company's activities. Thus, the inclusive approach goes beyond the financial and regulatory aspects of CG adopted in most countries. The report considers good governance as involving discipline, transparency, independence, accountability, responsibility, fairness, and social responsibility. In this context, SA adopted a broad approach (rather than a narrow approach) to corporate governance with a focus on stakeholders than just shareholders.

In adopting the inclusive approach, the King Report emphasises the need to create a governance system that recognizes the central feature of the African value system, *ubuntu*. Ubuntu emphasizes the collective good over individual realisation. It recognises principles of mutual interdependence and the inclination towards consensus rather than dissention. The values of *ubuntu are* spiritual collectiveness, consensus, humility and helpfulness and coexistence with others (King Code, 2002). The King Report (2002, p. 19) noted that this is the value system that has an inherent trust and belief in the fairness of human beings based on a system of broad consultation and consideration of the interests at all levels "as practiced by the chiefs since time immemorial". The King Code recognizes the importance of this value system in modern labour relations and people management. Two main reasons have been proffered in the literature to explain why the inclusive approach was adopted in South Africa.

First, SA was ruled under the policy of apartheid for over three decades, which led to her exclusion from the community of nations because of sanctions. This policy also promoted white supremacy and excluded the black[2] majority from participation in the economy of the country (Malherbe and Segal, 2001; Sethi and Williams, 2000). As such, the inclusive approach can be seen as an attempt by the King Committee to companies in SA to address the legacy of apartheid. The King Code seems to acknowledge this in the statement, "…companies in South Africa must recognise that they co-exist in an environment where many of the country's citizens disturbingly remain on the fringes of society's economic benefits" (King Report, 2002, p.18). In addition, when the King Report of 1994 was published, it was anticipated then that the African National Congress (ANC) would win and form the next government. Given the apartheid legacy of remarkable inequality between the

[2] "Black people" is a generic term which means Africans, Coloureds and Indians (BBBEE Act, 2003, p. 4)

minority "whites" and the "black" majority population, there was political and economic uncertainty in SA as to how the ANC government would address issues relating to inequality in the economy (West, 2006), given its long standing ideological commitment to socialism (Malherbe and Segal, 2001, p. 20). Accordingly, the adoption of the inclusive approach by the King Committee on corporate governance was justified in SA given the remarkable inequality resulting from the apartheid policy (Mangena and Chamisa, 2008) and therefore, the adoption of the inclusive approach was driven by the desire to anticipate policy changes by the ANC government.

Second, as per the King Code, (2002, p. 94), the notion of sustainability and triple bottom line in the corporate world is evolving to a level which recognises the importance of interdependent relationships between an enterprise and the community in which it exists. Consequently, the Code was an attempt by the King Committee to strike a balance between "…freedom to manage, accountability and the interests of the different stakeholders" (King Report, 2002, p. 8; Rossouw *et al.*, 2002, p. 299).

Similar to the UK, compliance with the King Code is generally inspirational (self-regulatory), although the JSE Listing Requirements (2005) oblige listed companies to disclose in their annual reports the extent of compliance with the King Code and reasons for non-compliance. In the view of the King Report, agency-related costs and market mechanisms would ensure compliance with the code (Dunn and Derrick, 2003). In this respect, the King Report (King Report, 1994, 2002) encourages greater activism by shareholders, the business and financial press to enforce compliance.

Despite pioneering the inclusive approach to CG over 15 years ago, there is very limited research on whether or not companies comply with CG recommendations from the Code. Only few studies (e.g., Deutsche Bank, 2002; KPMG, 2003, 2004, 2006; Ntim, 2009) have investigated compliance with the King Code in general. The results of these studies generally suggest that companies are attempting to embrace the good governance principles from the King Code. However, the studies have a number of limitations. The Deutsche Bank (2002) study suffers from sample selection bias. The companies investigated are large and some have dual listings (e.g., Anglo American Plc, SAB Plc) in other stock exchanges such as the London Stock Exchange (LSE). As a result, these companies comply because they are subjected to intense pressures to follow best practice corporate governance, particularly from institutional investors in the foreign stock exchange they are listed, for example LSE (Ntim, 2009). In addition, the sample includes companies followed by Deutsche Bank only and is not representative of all JSE listed companies. Further, the study does not examine factors which influence compliance with the Code. The KPMG (2003; 2004; 2006) only focuses on one aspect of the King Code i.e. integrated sustainability reporting and therefore only provide partial evidence of compliance. The most extensive and relevant study is that by Ntim (2009). Ntim (2009) examines compliance with CG using data for a five-year period from 2002 to 2006. He finds that in general compliance increased from 48% in 2002 to 68% in 2006. The study also investigated whether compliance was related to firm performance. Although this study provides better insights into corporate compliance with the King Code, there is need for additional research to fully understand compliance issues in SA. For example, Ntim's (2009) study focuses on compliance with King II only, and therefore the extent of compliance with King I (prior to the revision of code) is not clear. Although one of the reasons for revising the code was because companies were not complying with the Code, there is no comprehensive research on this issue. In addition, Ntim (2009) examines overall compliance with provisions of the Code. Compliance with the four key issues from the King Code (i.e., boards and directors, risk management, accounting and auditing and integrated sustainability reporting) is still a priori research issue. Examining compliance with the key aspects of the King Code is important to enhance our understanding of the extent to which the Code has been accepted by

JSE listed firms in SA. In addition, an examination of compliance with the Code is particularly important given that the adoption of the inclusive approach was linked to addressing issues relating to inequalities between blacks and whites. For example, how has corporate governance influenced changes to board diversity and social responsibility? Further, although Ntim (2009) investigate some factors affecting compliance, he does not examine the effect of ethnicity on compliance with the Code. This aspect is important because it will help us to understand how corporate SA behaves in terms of compliance when their structures are occupied by people from the two main ethnic groups (e.g. blacks and whites). This issue is particularly interesting to examine because the literature in the context of South Africa suggests differences in culture between blacks and whites. For example, prior South African studies (e.g., Mbigi, 2000; Booysen, 2000; Louw, 2002; Luthans *et al.,* 2003; Visser, 2005) find that blacks are more collectivist, whilst whites are individualistic. Finally, Ntim (2009) draws all the data from annual reports only. Whilst this provides useful insights, better insights can be obtained by interviewing key stakeholders in SA.

Elsewhere, studies on compliance with corporate governance codes have been conducted in the UK (see Arcot *et al.*, 2010; MacNeil and Li, 2006; Weir and Laing, 2000), Germany (see Talaulicar and v. Werder, 2008; Werder *et al.*, 2005), Portugal (see Alves and Mendes, 2004), Spain (see Fernández-Rodríguez *et al.*, 2004), Australia by Henry (2010), Cyprus by Krambia-Kapardis and Psaros, (2006) and Malaysia Wahab *et al*. (2007). Despite examining compliance with corporate governance codes in the respective countries, with the exception of Wahab *et al.* (2007), these studies do not examine the effect of ethnicity on compliance with corporate governance codes. Although Wahab *et al.* (2007) examine the effect of ethnicity on compliance with the Malaysian Code of Corporate Governance (MCCG); the cultures of Malaysia and South Africa are different. For instance, the cultures of the two main ethnic groups (‘blacks’ and ‘whites’) in South Africa are different from the cultures of the main ethnic groups in Malaysia e.g. Bumiputera and Chinese. The Ubuntu culture of blacks places emphasis on significance of survival through group solidarity, brotherhood and group care (Mbigi, 1997, Poovan, 2005). In contrast, the white's culture tends to place emphasis on individual self reliance (Mbigi, 1997). According to Haniffa and Cooke (2005), all Malays are Muslims which implies different cultural values to the blacks and whites in South Africa who are mostly Christians (SA Info, 2007). As per Haniffa and Cooke (2005, p. 392), the mindset of a Malaysian manger is influenced by ethnicity, education and type of organisation they work for. The SA culture of ubuntu on the other hand recognises the oneness of humanity through interconnectedness and independence of all creation (Poovan, 2005, p. 16). The culture is also inclusivistically oriented. This is in contrast to the Eurocentric white culture which emphasises independence from other members of society, priority of individual goals and emphasis on non-communal relationships (Poovan, 2005). The cultures of SA ethnic groups contrast those of ethnic groups in Malaysia. As such, it is important to examine whether ethnicity influences compliance with best practice corporate governance principles in the context of South Africa.

1.2 Research Objectives and Questions

Given the dearth of empirical studies on corporate governance in South Africa and the literature gap on corporate compliance and ethnicity, this thesis seeks to address three main research objectives. First, the thesis investigates the extent of compliance with King Code's best practice corporate governance recommendations by JSE listed companies. Specifically, it analyses the extent of compliance with King I (pre-review) and King II (post review) and examines whether there are significant differences in terms of compliance between the pre-review and post-review periods. Second, the thesis examines whether compliance with the code is influenced by ethnicity and other corporate characteristics. Third, the thesis examines whether compliance is related to company characteristics and market and performance related variables. Fourth, the thesis explores the views/opinions of key stakeholders [e.g. regulators, King Code Commissioners, companies and institutional investors] regarding corporate governance in SA in general and corporate compliance with the King Code in particular. In order to investigate these issues, the following research questions are developed.

1. To what extent do JSE listed companies comply with the key aspects (boards, accounting and auditing, etc) of the inclusive approach to corporate governance as recommended by the King Code?
2. Does ethnicity of management and board members influence extent of compliance with the King Code in South Africa?
3. Is compliance related to company characteristics, market and performance related variables?
4. What are the views/opinions of key stakeholders regarding the state of corporate governance in SA, including corporate compliance?

1.3 Rationale and Importance of the Study

This study is motivated by the following reasons. First, ethnicity and corporate governance offer an interesting research subject in the context of South Africa because of the historical political background of the country. As such, the study will shed light on whether corporate behaviour (extent of compliance in this case) under black and white executive leadership is different or similar for JSE listed firms. The study will also provide data on the extent to which blacks have made inroads into corporate SA, following the new dispensation which resulted in blacks being given equal opportunities with their white counterparts.

Second, given the ethnic divide in SA, this study explores the possible impact of differences between 'blacks' and 'whites' values on corporate governance compliance by employing the Hofstede-Gray[3] culture theory. Third, the King Report (1994; 2002; 2009) is a unique code because it takes an inclusive approach to CG (which encapsulates the African culture of *ubuntu*, unlike other codes. The African culture of consultation/*therisanyo* and the concept of *ubuntu* or African humanism play an important role in SA, but not in other countries. It is therefore important to examine whether this cultural aspect influences corporate compliance.

Fourth, as mentioned earlier, the King Code borrows heavily from the Cadbury Code. It is therefore important to investigate whether recommendations from the developed world (Haniffa and Hudaib, 2006), are suitable for implementation in a developing country. This is particularly important given the differences in politico-economic and social environments between developed and developing countries (Gregory, 1999). For instance, African countries are characterised by unstable business environments which creates an investor unfriendly atmosphere, trade restrictions which inhibit free economic activity, high state regulation of economic activity, a culture of corruption, political interference and the weak nature of institutions (Okeahalam, 2004; Okeahalam and Akinboade, 2003). These factors may inhibit the best practice corporate governance and this would offer valuable insights in the context of countries sharing similar characteristics with South Africa.

Fifth, research on compliance with the King Code is also important because South Africa, like other countries in the developed and developing world, has had its share of corporate scandals (Armstrong *et al.*, 2005) pre- and post-revision of the King Code, which

[3] Hofstede-Gray theory is difficult to test and in relation to corporate reporting, their measures lack precision, are somewhat indirect and based on a dated survey of IBM employees (Haniffa and Cooke, 2002). However, some researchers have used the four bipolar dimensions in comparative studies of accounting practice in Lebanon and France (Baydoun and Wilett, 1995). Also, Salter and Niswander (1995) find that while Grays' (1988) model has statistically significant explanatory power, it is best at explaining actual financial reporting practices and is relatively weak in explaining extant professional and regulatory structures from a cultural base.

anecdotal evidence attributes to weak corporate structures, disclosure issues and weak boards (Sarra, 2004). This begs the question of whether JSE listed companies are complying with the King Code and whether the Code has lived up to its objective of promoting the highest standards of CG in South Africa (King Report, 2002).

Sixth, Africa is traditionally perceived as a high-risk continent by international investors due to weaknesses in corporate governance and investor protection laws (King Report, 1994; Klapper and Love, 2004; Okeahalam, 2004; Mangena and Tauringana, 2007; Mangena and Chamisa, 2008). A comprehensive study on compliance with best CG principles in South Africa (King Code) may help contribute towards a positive change in perceptions of investors with regard to whether South Africa (and possibly the Southern African Development Community (SADC) region given that King Code is recommended in the region) is a suitable destination for foreign investment capital.[4] Corporate governance affects growth and development through increased access to external financing which leads to investment, growth and greater employment creation (Claessens, 2006). Compliance with best practice CG principles has the potential to increase investor confidence, both among foreign and domestic investors (Reed, 2002). The study will also contribute to the thin literature on CG in Africa (Barako *et al.*, 2006; Mangena and Tauringana, 2007; Okeahalam, 2004; Tsamenyi *et al.*, 2007).

1.4 Scope of the Research

This study covers two periods, 2001 and 2008. The former represents the pre-review period of the King Code I while the latter represents post-review period of the Code and the

[4] Arthur Levitt as quoted by the King Report (2002) *"If a country does not have a reputation for strong corporate governance practices, capital will flow elsewhere. If investors are not confident with the level of disclosure, capital will flow elsewhere. If a country opts for lax accounting and reporting standards, capital will flow elsewhere…"* (King Code, 2002, p.10)

most recent reporting period. In this study, analysis of the extent of compliance with the King Code is limited to disclosure compliance in corporate annual reports only. Corporate disclosures may be done through other mediums, but in this study corporate annual reports are considered as the important mechanisms for dissemination of information to a wider group of users (Haniffa and Cooke, 2005). The study focuses on companies listed on the JSE main board only. Unlisted companies and companies listed in the ALTx (smaller) board are not considered because the former are not required to comply with the King Code[5] while the latter have different regulatory requirements. The King Code recommendations are directed to main board companies, although ALTx and indeed private companies can actually implement the recommendations if they want to.

The research will also use qualitative data from interviews with King Code Commissioners, institutional investors, companies, regulators (key stakeholders) to get their perceptions on compliance with the King Code and on CG in South Africa in general. Specifically, their views on whether the Code is suitable for SA and whether it has achieved its intended objectives will be examined. The views of King Code commissioners and regulators are important because they were involved in the development of the Code and ensuring compliance with good governance practices in the country respectively, while company stakeholders are directly affected by the Code.

1.5 Research Methodology

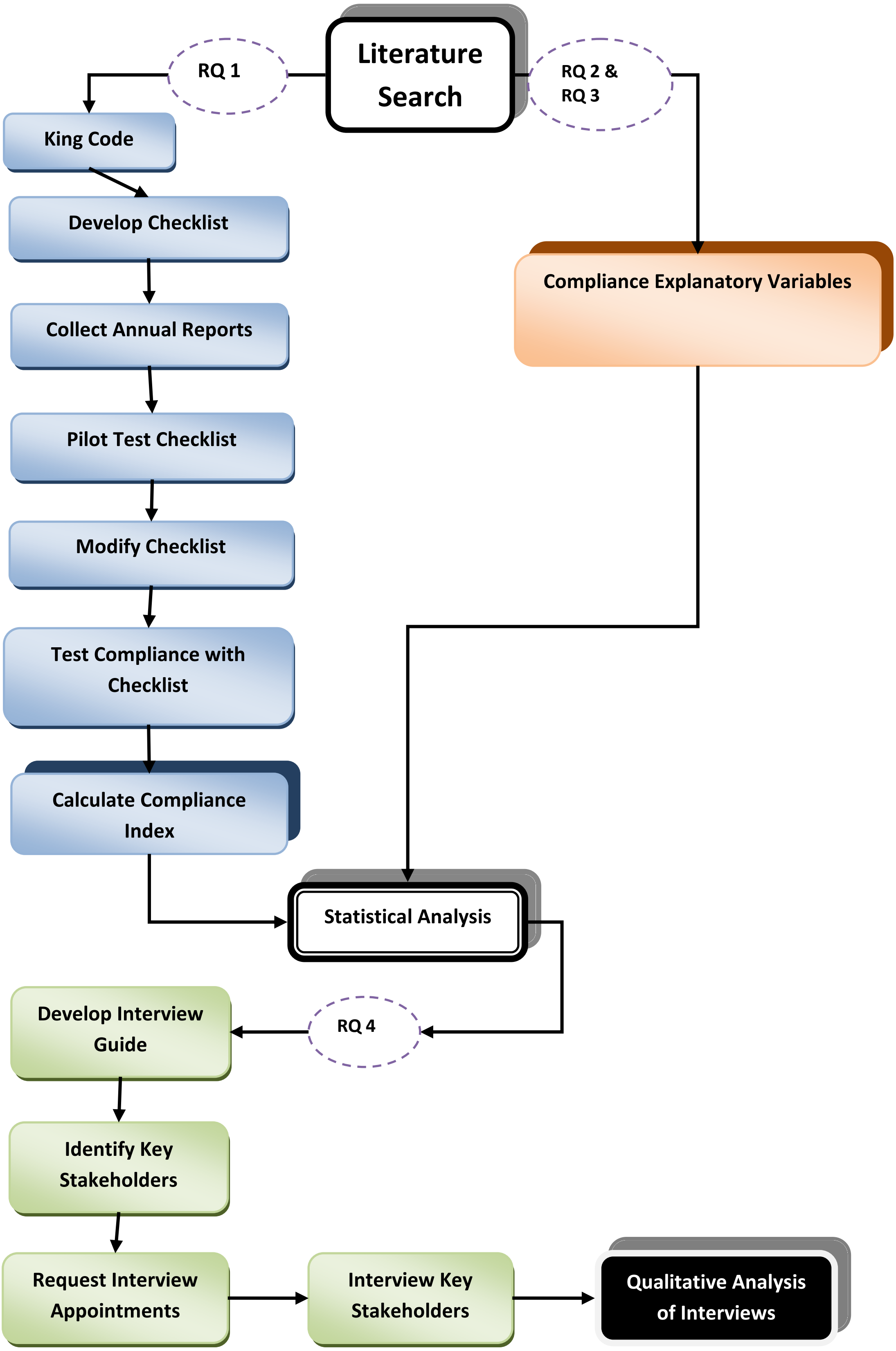
This section provides a summary of the research methodology used in this thesis. A detailed specification of the research methodology is provided in Chapter 5.

[5] The new King Code III (2009) applies to all companies in South Africa.

1.5.1 Research Process

Figure 1.2 shows the procedural flow chart of the various steps in the research process. The steps in the research process involved a literature search to provide a framework for the study, to identify relevant theories and to select the appropriate methodology and research procedures to answer the research questions. The literature search also helped to identify relevant explanatory variables to be considered in this study.

Figure 1.2 Procedural Flow Chart



Following on from the literature search, a compliance checklist was developed based on recommendations from the King Code and the JSE Listing Rules (2004). The checklist was sent to supervisors to validate its applicability and appropriateness for measuring compliance with the Code. A pilot test was conducted on ten annual reports by the researcher and the supervisors to test the reliability of the checklist. If the checklist is reliable, then, it should provide similar scores from different administrators (Saunders *et al.*, 2003, p. 101; Thanerou *et al.*, 2007, p. 153). On the basis of separate scoring results, the compliance checklist was modified to produce a final list of 53 compliance items grouped in terms of voluntary, mandatory and according to key aspects (e.g. THEME1 – Boards and Directors, THEME2 – Risk Management, THEME3 – Accounting and Auditing and THEME4 – Integrated Sustainability Reporting). The modifications entailed removing a few compliance items which were considered to measure the same thing.

1.5.2 Research Sample

The criteria for inclusion of firms in the sample were that they had to have been listed in the JSE prior to 2001 and also in 2008. Secondly, corporate annual reports of the firms must be available for both 2001 and 2008. The prior year is important for analysing compliance with the Code pre-review, while the latter year represents the post-review and most up-to-date reflection of corporate compliance with the King Code in South Africa.

A sample population of 136 JSE listed firms for the years 2001 and 2008 was arrived at based on the residual number of firms obtained after removing firms not listed in both years, firms in the financial industry and firms whose annual reports were not available for either year from the total number of firms listed in the JSE in both years. The entire sample population of 136 listed firms was considered appropriate to base the analysis on, so as to better reflect the characteristics of the larger population.

1.5.3 Scoring

Compliance index scores were obtained as follows:

i. A method of scoring CG disclosures in annual reports (e.g. Alves and Mendes, 2004; Black *et al.*, 2006; Gompers *et al.*, 2003; Henry, 2010; Ntim, 2009; Wahab *et al.*, 2007) was used to score annual reports of firms. This method involves awarding value of "1" if a particular internal CG provision is disclosed in the annual report or "0" otherwise. Since the Code operates on a 'comply or explain' regime, companies were considered to have complied with the Code if they offered narrative explanations pertaining to compliance items. For instance, some companies did not appoint various board committees because the functions of such committees were done by the entire board. Such companies were deemed to have complied with the Code.

ii. The un-weighted total scores for each company under various themes were calculated.

iii. The compliance index for each company was then calculated by dividing the actual scores obtained by the scores obtained in step (ii) by the total maximum score possible for each company under each theme. The index is percentage based and was used to analyse the extent of compliance with the King Code and to evaluate the impact of selected explanatory variables on the extent of compliance with the Code.

iv. The compliance indices were categorised as total compliance index (TCI) for all the indices in the checklist, voluntary compliance index (VCI) for items recommended by the Code but not required by the JSE Listing Rules, mandatory (MCI) for all the items which have been adopted by the JSE Listing Rules, THEME1 (Boards and Directors), THEME2 (Risk Management), THEME3 (Accounting and Auditing) and THEME4 (Integrated Sustainability Reporting).

The explanatory variables were categorised as follows:

i. Company specific characteristics
ii. Corporate governance variables
iii. Ethnicity – ethnicity of chairperson, board of directors' dominant ethnic group and ethnicity of the chief executive officer or managing directors (CEO/MD).

1.5.4 Data Analysis Procedures

Data analysis procedures entailed the following:

i. Descriptive analysis of items in the compliance checklist was conducted to find out the most and least frequent items complied with by companies in the sample. This was conducted by analysing total compliance, voluntary and mandatory compliance. Descriptive analysis was also conducted to analyse compliance with themes.
ii. Pearson and Spearman's correlation coefficients were used to test for the association between the dependent and independent variables.
iii. Multiple regression method was used to test the hypotheses. Tests of normality, multicollinearity, homoscedasticity and linearity assumptions were conducted on the dependent and independent variables to ensure that the OLS assumptions were not violated. Following these tests, data transformation using van der Waerden was undertaken on those dependent and independent variables that were not normal.
iv. Template analysis method (King, 2004) was used to analyse results of interviews with key stakeholders. The process involved classifying data into meaningful categories or codes. The codes were based on the purpose of the research as expressed by the research questions.

1.6 Summary of Results

Results from this study indicate that the extent of compliance (total compliance index) with the King Code was 40.6% in 2001 (pre-review) and 74.2% in 2008 (post-review). This indicates that sample JSE firms are complying more with the King Code following the review. The increase in the extent of compliance between the two periods was 82.8%. The results also indicate that as per expectation, the extent of compliance was high for mandatory compliance (MCI) provisions compared to voluntary compliance (VCI) provisions. For instance, the extent of compliance for VCI in 2001 was 36.1% while for MCI in the same period it was 60.2%. In 2008, the extent of compliance for VCI was 71.7% while that of MCI was 86.3%. In terms of the four themes, the extent of compliance was highest for THEME3 (Accounting and Auditing) in 2001(78.2%) and 2008 (99.0%) and lowest for THEME4 (Integrated Sustainability Reporting) in 2001 (31.5%) and 2008 (67.9%). The possible reason for the high extent of compliance with THEME3 is possibly because THEME3 consists of items which relate to normal accounting disclosure practices which companies regularly disclose in annual reports as per generally accepted accounting principles (GAAP). THEME4 on the other hand consists of social and environmental reporting provisions. Compliance was also found to be high for large firms, firms with multiple listing status and firms audited by Big 4 audit firms.

As will be discussed in chapter six, the number of blacks occupying positions of board chairman and chief executive officer/managing director was insufficient to enable OLS tests to be conducted on all ethnicity variables e.g. black CEO and Black Board Chairman. As such, only one ethnicity variable was tested to determine whether ethnicity influences compliance with the King Code. Results from this test indicate that the proportion of whites on boards of directors (PROPWHITES) has a negative relationship with extent of compliance with the King Code. The negative significant relationship was registered in 2008 across most of the models in 2001, (except MCI 2001 (insignificant) and THEME2 2008 significant at 5% level). However, in 2008, PROPWHITES was negative and significant for TCI at 1% level, VCI at 1% level, THEME1 at 1% level, and THEME4 at 1% level) as per prediction and negative but insignificant for MCI and THEME2. Generally, regression results indicate that when the proportion of whites on boards is high, the extent of compliance with the King Code is low, in support of the theoretical proposition that when people from a particular ethnic group (whites) dominate corporate structures of JSE sample firms there will be less compliance.

As discussed in chapter seven, the results indicate that board characteristics such as proportion of non-executive directors had a positive relationship with the extent of compliance in line with the popular view that the inclusion of non-executive directors on boards of directors may enhance their independence and promote good governance practices. NEDs may influence compliance with best practice corporate governance principles because of their independent judgement (Cadbury Report, 1992), the need to protect their reputation as directors and also to enhance their employability in competitive and efficient managerial labour markets. Board size also had a positive relationship with the extent of compliance, in line with the view that larger boards are associated with diversity in skills, business contacts, and experience that smaller boards may not have, which offers greater opportunity to secure critical resources. As such a large board may have a greater range of expertise to monitor the actions of management effectively (Karamanou and Vafeas, 2005) resulting in compliance with best practice corporate governance principles.

Director shareholding on the other hand had an insignificant positive relationship with extent of compliance in 2001 and a negative significant relationship in 2008. In the context of South Africa directors (owners) may influence compliance with the King Code as a legitimation strategy to seek active support or merely passive acquiescence (Suchman, 1995, p. 575), for corporate sustainability from traditionally disadvantaged blacks, more especially in the case of companies owned by white directors.

As for company characteristics, firm size had a positive significant relationship with extent of compliance in 2001 and 2008 in accordance with expectation and political cost theories. Institutional shareholding had contrasting results in 2001 and 2008. The 2001 results reflected a positive but insignificant relationship with the extent of compliance while the 2008 results were negative and mostly insignificant.

Long term debt to total equity had an insignificant positive association with extent of compliance in 2001 and a mostly insignificant negative association in 2008. Auditor type had an insignificant positive association with extent of compliance in 2001 and a significant association in 2008. Listing status had a positive and mostly significant association with extent of compliance in both 2001 and 2008. Industry type variables on the other hand generally had an insignificant association with extent of compliance. The results for return on assets (ROA) are contrasting. In 2001, ROA has a positive insignificant association with extent of compliance while in 2008; it has a negative insignificant association with extent of compliance. The findings are generally consistent with contrasting results from prior literature.

In addition to statistical tests on compliance, this study conducted interviews to gain insight into the views of key stakeholders on the importance of the King Code to SA, compliance with the Code and the impact of the Code in the SADC region. Generally the views of key stakeholders indicate that the Code is indeed important for SA because it takes the local circumstances into consideration. It has also helped to raise awareness with regard to the importance of CG in the country. Key stakeholders are also of the view that SA listed companies are not complying adequately with social and environmental reporting and that more needs to be done to ensure that SA corporations integrate social and environmental reporting into their activities. Finally, key stakeholders are of the view that the Code has positively impacted CG standards in the SADC region as evidenced by its adaption by some exchanges in the region.

1.7 Thesis Contribution

This study provides the first empirical evidence on the association between compliance with corporate governance codes and ethnicity in the context of South Africa. The thesis shows a negative association between the extent of compliance with the King Code and the proportion of whites on boards of directors. As such the study has provided insights on whether corporate behaviour (extent of compliance in this case) under white and black directorship is different or similar for JSE listed firms. The study has also explored the possible impact of differences between 'blacks' and 'whites' values on corporate governance compliance by employing the Hofstede-Gray culture theory. The study has found that corporate compliance with the King Code in SA may be low for companies whose structures are dominated by whites possibly because the King Code emphasises the *ubuntu* collectivist culture which contrasts the white individualistic culture

Secondly, the thesis contributes to the thin literature on compliance with corporate governance codes by investigating the extent to which JSE listed firms comply with the King Code. Concerns have been raised in the past on the dearth of literature on the assessment of the extent of compliance with CG principles in SA in recent times (IIF, 2007; Malherbe and Segal, 2001). As such, this study seeks to fill this gap by examining the extent of compliance with the King Code in 2001 and 2008. The thesis not only addresses the aspect of aggregate compliance, but also examines the extent of compliance with the various key issues as recommended under the King Code. For instance the study offers empirical evidence on the extent of compliance with boards and directors issues, risk management, accounting and auditing and integrated sustainability reporting issues as recommended by the King Code. The study offers evidence that SA corporations comply less with social and environmental reporting (integrated sustainability reporting) in comparison to other key issues. While the study generally indicates that SA corporate compliance with the King Code has increased following the review of the King Code I, it also shows that there is generally ample room for improvement on compliance with various provisions from the Code.

This study also provides empirical evidence with regard to the extent to which black South Africans have made inroads into corporate SA. For instance, the thesis provides empirical evidence on the number of blacks who occupy structures of listed firms in SA. While the SA black majority government has come up with intervention strategies (e.g. BBBEE Act of 2003) to try to encourage meaningful participation of blacks in the economy of SA, evidence from this thesis suggests that these strategies may not be meeting the intended objectives. As such, evidence from this study has important implications for government policy.

Further, unlike prior literature, this study extends literature on CG by examining the views of key stakeholders with regard to CG in SA. In particular the study offers evidence on the views of the key stakeholders with regard to the importance of the King Code to SA, compliance with the Code and whether the Code has a positive impact in the SADC region.

1.8 Limitations of the Study

No study is perfect and there are several limitations in this study. First, the analysis of compliance is based on disclosure compliance from corporate annual reports only.

Companies do make disclosures through other mediums such as interim reports, prospectuses, the financial press, company web pages, in-house newsletters, etc (Hassan and Marston, 2008, p. 5; Botosan and Plumlee, 2002, p. 30). Also, companies may comply but may not disclose their compliance in any medium and this is difficult to capture except by asking companies to complete questionnaires. Due to the generally poor response rate for questionnaire survey, this method was not undertaken. Furthermore, even if companies responded to the questionnaire survey, it is difficult to check the validity of their responses.

Second, this study uses Hculture theory in determining differences in societal values between two groups in South African society i.e. the 'blacks' and the 'whites'. This theory has been heavily critiqued for being obsolete and irrelevant (Ng *et al*., 2007), and using unsuitable measuring instrument and insufficient cultural dimensions (e.g. McSweeney 2002; Baskerville-Morley, 2005). Furthermore, the cultural values assumed in this study based on Hofstede's dimensions may not necessarily be applicable to the blacks and whites in SA because as culture evolves over time, the cultural values of society may change. Also, the study could not test some ethnicity variables[6] owing to the small number of blacks in the structures of corporate SA.

Third, this study uses cross-sectional data to investigate the association between culture and compliance only for two selected years (pre- and post-King Code II). A longitudinal study may perhaps capture the trend for each year.

Fourth, there may be validity and reliability problems with regard to the constructed composite compliance index (e.g. TCI, VCI, MCI and the THEME) is based on binary rather than ordinal coding which has been criticised for being less informative (Barako *et al.*, 2006). It is also an un-weighted index which considers all CG provisions to be of equal importance. Theory and practice indicates that this may not necessarily be the case.

[6] Black board chairman (BBCHAIR) and black chief executive officer/managing director (BLACKCEO/MD).

Fifth, the researcher could not gain access to the required number of interviewees. As such, conclusions from interview data are limited to specific group(s) of interviewees. However, the data is helpful in providing insights into important groups.

1.9 Outline of Thesis Chapters

The rest of the thesis is divided into eight chapters and organised as follows.

Chapter 2: Development of Corporate Governance in South Africa (Country Context)

In this chapter, the SA environment is discussed focussing on legal, economic, political and regulatory issues. The discussion focuses on how the environment of SA may affect compliance with the King Code. The discussion also examines how the culture and business environment/professional organisations in SA affect CG. The chapter further examines the colonial history of SA and the development of CG in SA.

Chapter 3: Literature Review

This chapter discusses literature on CG. In this regard CG literature on various themes is discussed. Attention is paid to CG literature on disclosure and compliance and the gap in the literature on culture and compliance with CG principles is identified.

Chapter 4: Theoretical Framework and Development of Hypothesis

This chapter develops hypotheses based on various theories, to examine factors which influence compliance with the King Code. The hypotheses are divided into ethnicity variables, board characteristics, company characteristics and market related variables.

Chapter 5: Research Design and Method

This chapter focuses on the research design and method employed to answer the research questions. Both quantitative and qualitative methods are used to answer the research questions. In this regard, the population and sample, variables and measures used, data collection methods employed, and the data analysis methods used are discussed. An attempt is made to discuss the strengths and limitations of the procedures adopted in this study. In addition, the chapter discusses the method used to answer the question pertaining to views of key stakeholders on CG in SA.

Chapter 6: Descriptive Analysis of Sample

Chapter six describes the sample. In this regard, the profile of JSE listed firms in terms of corporate ownership and type of audit firms is discussed. The chapter also dwells on the state of CG in SA by examining CG characteristics of SA listed firms. The discussion also focuses on an important aspect of this study by analysing corporate structures of JSE sample firms in terms of ethnicity of boards, chairman and CEO/MD.

Chapter 7: Empirical Results

This chapter presents the empirical results of the study. First, the chapter presents descriptive results of both dependent and independent variables. Second, the chapter presents results of regression analysis. In this way, regression results from thirteen models are presented. Further, sensitivity tests are conducted on selected variables.

Chapter 8: Conclusions: Summary of Findings, Implications, Limitations and Avenues for Future Research

Chapter eight summarises the findings from the research with regards to the extent of compliance, factors which influence compliance and views of key stakeholders. The chapter also discusses the policy implications and recommendations of the research findings. In addition, the research contribution, research limitations and avenues for future research are also presented.

2 Chapter Two: Development of Corporate Governance in South Africa (Country Context)

2.0 Introduction

This chapter makes an attempt to discuss the development of corporate governance in South Africa (SA) and various environmental factors which may affect corporate governance and firm compliance with best practice governance principles. Firms do not operate in a vacuum, but under legal, political, economic and social constraints which affect their performance, disclosure, compliance and other firm outcomes. In fact, the broader definition of corporate governance acknowledges the importance of various players within the corporate governance framework (Gillian, 2006, p. 383), as discussed in Chapter One. It is therefore important to examine how these various players/factors may affect corporate governance in a country. Figure 2.1 outlines the chapter overview.

Figure 2.1 Chapter Two Overview

2.1 Factors Affecting Corporate Governance in South Africa

2.1.1 Political Environment

In this subsection, the political environment of SA is briefly discussed to try to show how political governance operates in the country. The discussion seeks to demonstrate that SA, unlike some African countries, maintains a stable democratic system of political governance, where free and fair elections are conducted regularly and where the free market economy operates unhindered. As such the discussion will attempt to show how a stable political climate and supporting institutions will attract investment and allow good governance to flourish especially in the context of a developing country such as SA with a previous history of political instability. However, although still having challenges to address regarding the economic and social imbalances brought about by apartheid (Andreasson, 2007), SA now presents a different picture from most African countries on the political front.

Since coming to power in 1994, the post-apartheid government in SA has maintained a multi-party parliamentary democracy in which constitutional power is shared between the President and the parliament. The SA parliament consists of two houses, the National Assembly and the National Council of Provinces, which are responsible for drafting the laws of the Republic. The National Assembly, which is elected on a "list proportional representation", currently consists of 400 members (US Department of State, 2007). Since 1994, SA has held four successive free and fair elections. The National Council of Provinces fulfils the function of representing provincial interests in the national sphere of government.

The President, elected by the National Assembly from among its members, is the executive Head of State and leads the Cabinet. The President may not serve more than two five-year terms in office. The cabinet consists of the President, the deputy President and 25 ministers (the executive arm of government) (SA Info, 2007). The President appoints the deputy President and cabinet ministers. The President's constitutional responsibilities include assigning cabinet portfolios, signing bills into law, and serving as commander-in-chief of the military.

The Public Protector; the Human Rights Commission; the Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities; the Commission for Gender Equality; the Auditor-General and the Independent Electoral Commission are governmental organisations which have been created to support constitutional democracy (SA Info, 2007).

The third arm of the central government is an independent judiciary. The Constitutional Court is the highest court for interpreting and deciding constitutional issues, while the Supreme Court of Appeal is the highest court for non-constitutional matters. Most cases are heard in the extensive system of High Courts and Magistrates Courts. The constitution's bill of rights provides for due process including the right to a fair, public trial within a reasonable time of being charged and the right to appeal to a higher court. The bill of rights also guarantees fundamental political and social rights of SA's citizens (SA Info, 2007).

SA maintains a transparent democratic process or system through which a government is selected, held accountable, monitored and replaced. In short, the three arms of government (e.g. the executive, legislative and the judiciary) work together in SA in the running of the country to create a stable political environment conducive for economic activity. Developing countries require a corporate governance system that will attract international investment and enhance economic growth through the provision of stability and confidence (West, 2009, p. 10). Political stability is one of the essential elements necessary to create an enabling environment for enterprises to thrive in developing countries. In this regard SA passes the political stability test.

2.1.2 Legal Environment

This subsection briefly discusses various pieces of legislation that are relevant to businesses and therefore which have an impact on CG in SA. The key relevant legislations are discussed in the following subsections.

2.1.2.1 The Companies Act (1973)

The South African Companies Act no. 61 of 1973 (the Companies Act/the Act) is the primary statute which governs corporate law in SA. The Companies Act is administered and supervised by the Department of Trade and Industry (DTI) through the Registrar of Companies. The Companies Act sets out several regulatory requirements which govern the relationship between the firm, directors, shareholders and other stakeholders. As per section 19 of the Companies Act, two types of companies may be formed in South Africa, a private and a public company. According to section 32 of the Companies Act, public companies must have a minimum of seven members (shareholders) and corporate entities can be members. For private companies, membership is limited to between 1-50 members under section 20. The governance structure under the Companies Act resembles the statute's British origins (Rossouw *et al.*, 2002). Under the Act, the board is responsible for the oversight of the company. The articles of association spell out the structure and powers of the board.

Section 228 of the Act seeks to protect shareholders against actions from directors and management by requiring that disposal of the whole undertaking or assets of the undertaking be disposed of only after authorisation by members by means of an ordinary majority members' resolution at the general meeting. Directors are also required to declare their direct or indirect interest in a contract of the company, to prevent harmful conflict of interests. In addition, such contracts also have to be authorised or confirmed by the members of a company in a general meeting.

According to section 268A-268I, public companies are supposed to appoint a company secretary (optional for private companies). The company secretary is appointed by the board of directors. The company secretary is the principal administrative officer of the company. He/she is responsible for ensuring that board procedures are regularly reviewed and followed in practice and that all legal and regulatory requirements are complied with. The board of directors has the responsibility to approve the Annual Financial Statements and must present them to the Annual General Meeting for the members' receipt within 21 days notice as per section 302. Members elect the directors and formally appoint the auditors.

Under sections 252-268 of the Companies Act, members have remedies which include: relief from oppression (section 252); the ability to seek an appointment of inspectors to investigate financial interest in and control of the company (section 254); the power to impose some restrictions on shares or debentures (section 256); and some power to investigate the company's affairs (section 257). For instance, the oppression remedy under section 252 specifies that a member may complain that an act or omission of the company is unfairly prejudicial, unjust or inequitable, or that the affairs of the company are being conducted in a manner that is unfairly prejudicial, unjust or inequitable. The court has broad powers to remedy the oppression including making orders for regulating the future conduct of the company. According to section 210 of the Companies Act, directors may be appointed to the board through a resolution at the general meeting of the company. Section 220 of the Companies Act, addresses the procedure through which a director may be relieved of his duties before the expiration of his period of office. Removal of directors may be done through a company resolution. As per the South African Companies Act 1973, all pubic companies must have a minimum of two directors, while the JSE's Listings Rules mandate listed firms to have a minimum of four directors. The King Code on the other hand sets out a general principle that every board must consider whether its size makes it effective. None of these corporate governance principles and or regulatory instruments sets a maximum board size. Subsections 3.59-3.84 and the whole of sections 7 and 10 deal with the duties, responsibilities, powers, and rights of directors, shareholders, the company secretary, and auditors as discussed in the Companies Act. With regard to director remuneration, schedule 2 of the Act offers directors a right to adequate remuneration for services offered. The King Code requires directors' remuneration to be determined by a remuneration committee that consists only of independent non-executive directors. The Companies Act also regulates the appointment, removal and duties of the auditors under section (269-283). In line with the need for auditor rotation, section 271 requires public companies to appoint auditors at every Annual General Meeting to hold office from the conclusion of that meeting until the conclusion of the next Annual General Meeting of the company.

2.1.2.2 Insider Trading Act (1998)

People in a fiduciary position are tasked with managing the company on behalf of the owners of the company or shareholders. By trading whilst in the possession of information that they have received in the performance of their duties such individuals benefit at the expense of shareholders. Therefore, the Insider Trading Act seeks to prohibit individuals who have inside information relating to securities or financial instruments from dealing in such securities or financial instruments. This Act is important because it prohibits expropriation of outsiders by insiders because of their privileged position. For instance, section 2 and 5 of the Act imposes penalties on any insider who is convicted of a direct or indirect insider trading, of a criminal fine not exceeding R2 million or imprisonment for a period not exceeding 10 years or both. Section 11 of the Act grants wide ranging statutory powers to the Financial

Services Board (FSB) including the power to investigate any matter relating to insider trading, summon, interrogate, search any entity deemed to be an offender under the provisions of this Act. The Act also establishes a directorate (Insider Trading Directorate) under the FSB to institute any civil proceedings against those who transgress the provisions of this Act.

This Act is relevant when discussing CG in SA because it is one of the essential regulatory frameworks which may help in enhancing good governance practices in a country. In short, the Act prevents trading of a corporation's stock or other securities (e.g. bonds or stock options) by individuals with potential access to non-public information about the company (insiders). Other Acts which influence CG in SA are briefly summarised in Table 2.1.

Table 2.1 SA Acts which Impacts Corporate Governance

Year	Acts
1997	*Basic Conditions of Employment Act* Gives effect to the right to fair labour practices referred to in the Constitution by establishing and making provision for the regulation of basic conditions of employment; and thereby requires employers to comply with the obligations of the Republic as a member state of the International Labour Organisation.
1998	*Employment Equity Act* Promotes the constitutional right of equality and the exercise of true democracy; eliminates unfair discrimination in employment; ensures the implementation of employment equity to redress the effects of discrimination; requires the workforce to be broadly representative of the SA population; promotes economic development and efficiency in the workforce. Applies to companies of a specific size (mostly large).
1996 &1998	*Environmental Issues: Constitution of the Republic of SA (1996) & National Environmental Act (1998)* The *Constitution of the Republic of South Africa*, as well as environmental legislation, defines environmental rights of South Africans. Section 24 of the *Constitution* specifies that everyone has the right to an environment that is not harmful to their health or well-being; and to have the environment protected for the benefit of present and future generations, through reasonable legislative measures that prevent pollution and ecological degradation; promotion of conservation and ecologically sustainable development and use of natural resources while promoting justifiable economic and social development.
2000	*Promotion of Access to Information Act* This Act gives effect to the constitutional right of access to any information held by any public or private body that is required for the exercise or protection of any rights. According to the Act, where a request is made in terms of the Act, the body to which the request is made is obliged to release the information, except where the Act expressly provides that the information may or must not be released (e.g. limited protection of privacy, commercial confidentiality, safety of individuals etc). In short, this Act seeks to promote transparency and good governance by doing away with the secretive and unresponsive culture in public and private bodies which often leads to an abuse of power and human rights violations.
2003	*Broad Based Black Economic Empowerment Act* This Act seeks to address the historical socio-economic imbalances created by apartheid. The Act seeks to accelerate the pace of black economic advancement, by generating a greater level of ownership of businesses by black people. According to BEE guidelines and legislation, companies must promote black ownership and representation at all levels of operation, from entry level employees to the highest levels of executives and boards.

Source: Compiled from SA Statutes

2.1.3 Economic Environment

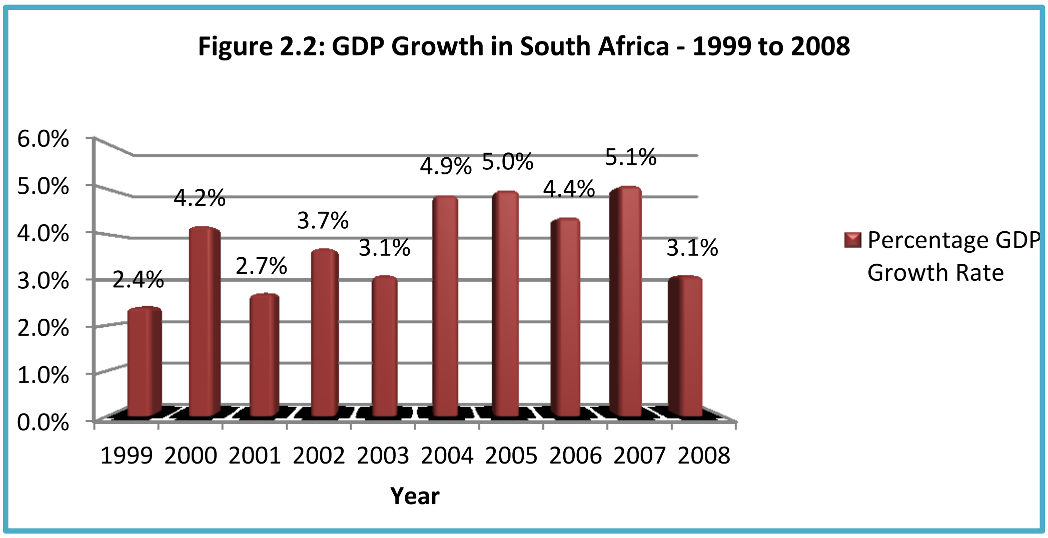
SA is the economic powerhouse of the African continent, with a gross domestic product (GDP) four times that of its Southern African neighbours, and comprising an estimated 25% of the entire GDP of Africa (SA Info. 2009). The country leads the continent in industrial output (an estimated 40% of Africa’s total output) and mineral production (an estimated 45% of total mineral production) and generates most of Africa’s electricity (over

60%) (SA Info., 2009). It is blessed with an abundance of natural resources, such as gold, diamonds, platinum, coal etc. In comparison to most African countries, SA has well-developed financial, legal, communications, energy, and transport sectors. Its stock exchange, the JSE, is ranked among the top 20 in the world. The country also boasts a modern infrastructure supporting efficient distribution of goods throughout the Southern African region (South Africa Info, 2009). Corporate law and corporate practice in SA have largely been adopted from the UK (West, 2006).

The SA financial services sector is well developed, has a sound regulatory and legal framework and boasts dozens of domestic and foreign institutions which provide a full range of services such as commercial, retail and merchant banking, mortgage lending, insurance and investment (Armstrong *et al.*, 2005, p. 13). The SA banking sector consists of many local and foreign banks and offers modern facilities such as electronic and internet banking facilities.

The SA economy experienced the longest period of economic expansion since September 1999, registering an average annual economic growth of over 4% up to the fourth quarter of 2007 (South Africa Info, 2009) compared to an average of less than 1% a year in the decade prior to 1994. Growth was robust from 2004 to 2008 as SA reaped the benefits of macroeconomic stability and a global commodities boom, but began to slow down in the second half of 2008 due to the global financial crisis' impact on commodity prices and demand. Figure 2.2 shows the (Gross Domestic Product) GDP growth in SA between 1999 and 2007.

Figure 2.2 GDP Growth in South Africa - 1999 to 2008



Data source: (South Africa Info, 2009) and (US Department of State, 2009)

However, as a result of the global economic crisis, GDP contracted in the third and fourth quarters of 2008, officially plunging the economy into recession. This contraction continued into the first, second and third quarters of 2009, with GDP growth at -6.4%, -3% and -3.2% respectively. Economic growth is expected to recover gradually to 4% by 2011 (Stats SA, 2009). Table 2.2 shows the sector contribution to GDP for 2005 to 2008.

Table 2.2 Sector Contribution to GDP

Sector	2005	2006	2007	2008
Agriculture, forestry and fishing	2.7%	2.5%	2.6%	2.9%
Mining and quarrying	7.6%	7.5%	7.5%	7.1%
Manufacturing	18.5%	19.7%	20.7%	21.2%
Electricity, gas and water	2.4%	2.4%	2.5%	2.5%
Construction	2.8%	3.0%	3.5%	3.8%
Wholesale and retail trade; hotels and restaurants	13.9%	14.7%	15.5%	15.7%
Transport, storage and communication	10.0%	10.5%	11.1%	11.6%
Finance, real estate and business services	21.1%	23.1%	24.9%	26.9%
General Govt services	14.9%	15.3%	16.0%	16.6%
Personal services	6.3%	6.6%	7.0%	7.3%

Source: Stats SA, Gross domestic product: Annual estimates (Statistical release P0441) (2009)

As can be seen from Table 2.2, the financial sector contributes more than other sectors to the GDP between 2005 and 2008. The manufacturing sector is the second largest contributor to GDP while wholesale and retail claims the third spot. Growth in the financial sector has implications for compliance with financial regulatory and other legal frameworks. The SA banking and financial sector conforms to first world market principles, which gives confidence to local and international investors (Coetzer, 2009). This positions SA as a suitable country to do business in because of the existence of enabling factors such as a world class banking and financial sector.

2.1.3.1 Regional and International Trade Relations

SA participates in a number of trade relationships, both regional and bilateral. SA is a member of SADC whose main objective is to achieve regional economic integration (USAID, 2008). SA's participation in the SADC, comprising 14 sub-Saharan African countries, allows access to a market of approximately 140 million people, which is expected to grow at an annual rate of around 3% (South Africa Info, 2008). SA has negotiated free trade agreements with the SADC, and the European Union (EU) (the SA-EU Trade Development Co-operation Agreement). It was a founding member of the General Agreement on Tariffs and Trade (1947), and is an active member of the World Trade Organisation. Its commitment to free trade is evidenced by reduction of tariffs and the phasing out of non-tariff barriers. SA is party to various international agreements and conventions relating to the protection of intellectual property including patents, trademarks, designs and copyright. Being a party to the World Trade Organisation agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), SA is obliged to comply with the minimum standards set by that Agreement for the protection of intellectual property. Such membership has implications on the culture of compliance with regulatory requirements in the country. This has an effect of influencing compliance with best practice recommendations among business organisations, in line with the tone set at a country level. As such South Africa has put in place laws which govern compliance with international norms. As will be discussed in section 2.1.6, the DTI is responsible for compliance with corporate laws.

SA has placed greater importance on forming strong economic trading blocs to gain access to key markets given the fierce competition for foreign direct investment among developing nations. SA has a trade imbalance with other African countries as indicated by the 2003 figures, which indicate that 16% of South African exports went to Africa compared with 4% of imports during the same year (South Africa Info, 2008). Table 2.3 shows the 2003 trade figures between SA and some other African countries.

Table 2.3 Trade Figures between SA and major African Trading Partners

Trade Partner	Exports	Imports
Angola	R3.0b	R3.0b
Democratic Republic of Congo	R1.2b	R28m
Ghana	R1.1b	R52m
Kenya	R2.2b	R2.1b
Malawi	R1.7b	R381m
Mauritius	R2.0b	R124m
Mozambique	R5.6b	R28m
Nigeria	R2.5b	R2.7b
Tanzania	R1.8b	R136m
Zambia	R5.6b	R3.4b
Zimbabwe	R6.5b	R2.6b

Source: SA Info. (2010) – SA Trade with Africa

SA has a trade surplus with most of her major African trading partners except with Nigeria which had a surplus of R200.0m for the year under consideration. South Africa influences corporate governance in the SADC region to some extent. For instance countries like Zimbabwe, Botswana, Zambia, etc have corporate governance that recommends either King Code or Cadbury Code. SADC countries have similar listing rules (SA Info, 2007).

2.1.3.2 Other Trading Partners

Europe accounts for half of SA's total foreign trade. Seven out SA's ten major trade partners are located in Western Europe, led by the UK and Germany. SA's trade relations and development co-operation with the EU are governed by the Trade, Development and Co-operation Agreement (TDCA), which was signed in 1999. The main objective of the TDCA is to create a free-trade area between SA and the EU over a 12-year period. The EU and SA will, in terms of the agreement, open their markets to each other (South Africa Info, 2008).

In terms of foreign direct investment, the UK is the largest foreign investor in SA, with assets worth an estimated R132-billion and the third largest trading partner with a two-way trade worth R66.0-billion annually (South Africa Info, 2008). This is not surprising given the historical ties of the two countries. Other major European trading partners include Germany, France, Italy, Netherlands, Belgium and Switzerland. SA has also forged trade links with Asian countries such as Japan which is the fifth largest investor in SA with assets estimated at around R2-billion. These investments are concentrated in minerals processing and the motor assembly and related sectors, especially tyres. Japan is also a substantial aid donor to SA. Bilateral ties between SA and Japan are strengthened through The Partnership Forum (South Africa Info, 2008). Trade with Japan was R32.0 billion in 2001. SA also trades with other Asian countries such as China, Malaysia, Singapore, Thailand and Indonesia. As a trading partner with other countries, SA may be compelled to comply with trade related protocols e.g. SADC protocol on free trade in the region, WTO's Trade Related Aspects of Intellectual Property Rights (TRIPS), international protocols on labour related issues i.e.

human trafficking. This may ultimately impact compliance with best CG practice in the country as SA cultivates business friendly environment which complies with international norms. For instance, SA's European and other trading partners may influence compliance with best practice governance principles in SA. This was the case when investors demanded reform in both corporate structures and corporate governance practices in exchange for their infusion of capital when SA was readmitted into the community of nations in 1994 (Kakabadse and Korac-Kakabadse, 2002). As such the demands by international investors that corporations practise accountability, transparency and fairness to all stakeholders may create an investor friendly environment and ultimately make SA competitive.

2.1.4 Culture

Researchers have defined culture in several ways. For instance, Kroeber and Kluckhohn, as cited in Miller-Loessi and Parker (2003, p. 530) define culture as consisting:

> *"of patterns, explicit and implicit, of and for behaviour, acquired and transmitted by symbols constituting the distinctive achievement of human groups, including their embodiment in artefacts; the essential core of culture consists of traditional (i.e. historically derived and selected) ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action, on the other hand as conditioning elements of the future action".*

More recently Myers (1999, p. 11) defines culture as, "the enduring behaviours, ideas, attitudes and traditions, shared by a large group of people and transmitted from one generation to the next". Using the analogy of the way computers are programmed Hofstede and Hofstede (2005, p. 3) define culture as "software of the mind" which partially predetermine a person’s behaviour. According to Hofstede & Hofstede (2005, p. 3) culture is leaned through socialisation and education. Hofstede & Hofstede (2005, p. 3) contend that socialisation begins with the family, continues with the neighbourhood, then at school, in youth groups, at the workplace and ends in the living community.

Culture is not genetically inherited; but rather leaned from our social environment. Each person is guided by the beliefs, customs, norms and values of their culture. As such, this explains why people have different approaches to life (Poovan, 2005, p. 4). Culture influences our human abilities such as perception, thinking, acting and feeling; hence our pattern of behaviour becomes consistent with our cultural reality. As human beings, we reflect our culture because of the way we act, think, perceive things e.g. “we become the mirrors of our culture – our culture is mirrored in us” (Poovan, 2005, p. 4).

Culture regulates human behaviour because (1) it has the power to stipulate acceptable and unacceptable behaviours, (2) it defines how we behave and (3) it provides people with an identity (Hofstede and Hofstede, 2005). As a result, of these regulatory powers that cultures possess, people from the same culture have the tendency to exhibit behaviours which are common. For instance, the Eurocentric culture is characterised by individualism, competition and materialism. The motto of the survival of the strongest individual or most competitive business organisation is the foundation and the driving force in this culture – society is shaped, built and developed around the interest of the individual and the needs of the best performing business. This is in contrast to the African culture of Ubuntu which promotes the ideologies of communality, collectivism, human unity and pluralism (Karsten and Illa, 2005). As such differences in cultures may influence individuals to behave in different ways when dealing with corporate matters such as disclosure, compliance, transparency etc because of their cultural orientation. This leads to an examination of the Ubuntu and the Eurocentric culture.

2.1.4.1 Cultural Values of Blacks and Whites

The predominant cultures of blacks and whites in SA are the Ubuntu culture and the Eurocentric culture (Booysen, 2000), respectively. Ubuntu is a traditional indigenous African family system which developed spontaneously through the sharing of cattle, commodities and pieces of land for the purpose of survival. The development of the culture was spontaneous in the sense that the principles of Ubuntu were not discussed and agreed at any forum by the tribesmen/women and King. The culture just developed among community members over centuries. The Ubuntu culture is the way of life that black Africans believe in, trust and practice in their daily interaction with others.

The origins of Ubuntu could be traced to the need for survival by African communities e.g. when communities had to work together to complete tasks which would ensure survival. Traditionally, African communities lived together and shared basic needs such as shelter, water and food. Ubuntu expresses the interconnectedness among human beings as described by the *Sotho/Tswana* proverb *"Motho ke motho ka batho ba bangwe"* or Xhosa *"Umuntu ngumuntu ngabanye abantu"* which means "I am because we are" or "a person is a person because of other people" (Mbigi, 1997, p. 2). This proverb demonstrates the interconnectedness of an African to the community and members of his community. This culture is classified by researchers as collectivist in nature (see Gykeye, 2003; Mbiti, 1989; Menkiti, 1979; Wiredu, 2003). The African culture of Ubuntu is viewed as a source of guidance for communities in times of peace, uncertainty, birth, life and death (Malunga, 2006a, p. 2). "At its best it has been the basis for identity, respect and self confidence" (Malunga, 2006a, p. 2). The Ubuntu culture enables the African people to live in harmony with the physical, social and spiritual environment. It also provides a foundation for leadership, problem solving, decision making and hope for the future (Malunga, 2006a, p. 2).

According to (Prinsloo, 2000, p. 277) "Ubuntu embodies a tradition of consultation of and decision making by the ordinary members of society". Karsten and Illa (2005, p. 607) see *Ubuntu* as "a pervasive spirit of caring and community, harmony and hospitality, respect and responsiveness that individuals and groups display for one another." Mbigi (1997), as quoted in Karsten and Illa (2005, p. 607), lists the following principles of *Ubuntu*: *"unconditional African collective contribution, solidarity, acceptance, dignity, stewardship, compassion and care hospitality and legitimacy".* Malunga (2006, p. 2) observes five principles of *Ubuntu.* These are "sharing and collective ownership of opportunities, responsibilities and challenges; the importance of people and relationships over things; participatory decision making and leadership; patriotism; and reconciliation as a goal of conflict management". The *Ubuntu* culture emphasizes the importance of coexistence within the society.

In contrast, the whites' culture is considered to be individualistic, masculine, low uncertainty avoidance and has a long term orientation (Booysen, 2000; McFarlin *et al.*, 1999). The culture is characterised by the desire to be independent from other members of society by individual members, lack of concern for interpersonal bonds and a high level of competition. The cultures of the two main groups have implications on compliance with CG principles, considering that culture may partially account for the actions of individuals (Hofstede, 1988). For instance, as discussed in section 4.2.1 of chapter 4, a board dominated by people from the Ubuntu culture may influence compliance of a company with some aspects of the King Code which are collectivist in nature e.g. board diversity, social investment, employment equity, human capital development among others because compliance with these recommendations may have a positive impact on the community. Culture, proxy ethnicity is therefore important to consider when discussing CG in SA.

2.1.4.2 Societal Goals

The South African societal goals are largely influenced by the legacy of apartheid. The South African government has always pursued democratisation and social and economic change, as well as reconciliation and the building of consensus founded on the commitment to improve the lives of all South Africans, especially the previously disadvantaged and the poor (South African Government, 2007). At the dawn of the new democracy, the South African government placed emphasis on meeting basic needs through programmes for socioeconomic development such as the provision of housing, piped water, electricity education and healthcare and social grants for those in need (South African Government, 2007). The South African government also has to address the issue of security and policing. During the apartheid era the South African security agents were trained to protect the one ethnic group ("white") (South African Government, 2007). To this end, the government has to transform the police into a service working with the community and overcoming the grave problem of criminality and a culture of violence posed by the social dislocations inherited from the past.

The government has also embarked on the major objectives of creating jobs, poverty eradication, reduction of inequality and overall economic growth. Government efforts have seen an improvement in the achievement of macroeconomic stability and the initiation of microeconomic reform, although unemployment is still a major problem. One way to tackle the issue of diversity in employment has been through the South African Employment Equity which seeks to enable black people to gain access to jobs.

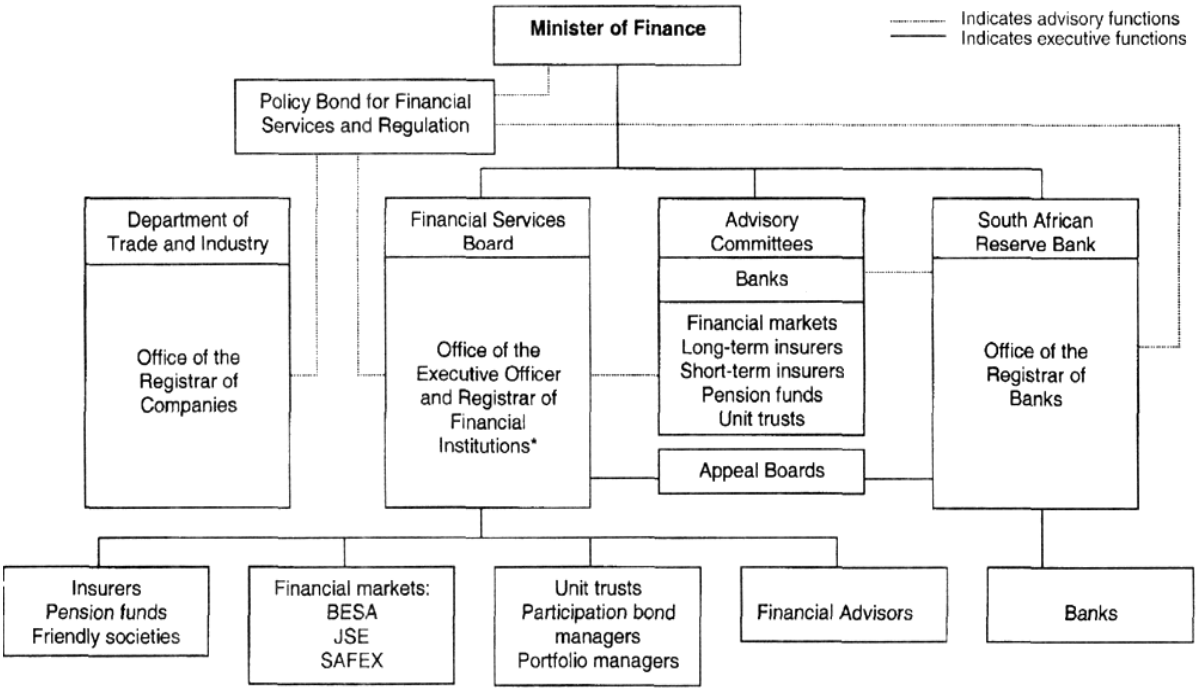
SA, like many African countries, is grappling with the scourge of HIV/AIDS which has the potential to negatively impact the workforce (Sarra, 2004). In the spirit of good CG, organisations must recognise that they operate within the context of economic as well as social challenges and to that extent that its staff, business associates, and customers are affected by adverse circumstances (such as HIV/AIDS) which may ultimately affect the organisation (SAICA, 2004). The HIV/AIDS pandemic poses one of the gravest risks (e.g. operational risks, absenteeism, cost of employment, credit, target market, legal, health) that many organisations have to face and corporate boards have to consider ways in which HIV/AIDS risks are managed in their organisations (SAICA, 2004). In this regard, it makes business sense for organisations to embark on HIV/AIDS risk management not only because it is recommended by the King Report, but because the pandemic poses risk to the very existence of the business. The South African government, non-governmental organisations and the society in general have devoted ample resources to addressing this pandemic. It forms one of the major goals which South African society seeks to address. As will be discussed in section 2.1.8.3.2, these aspects are recommended in the Code under integrated sustainability reporting. As such, societal goals in SA affect corporate compliance with the Code.

2.1.5 Financial Regulation in SA

2.1.5.1 DTI & FSB

The SA financial regulatory system consists of regulation of financial instruments, regulation of the markets for these instruments and regulation for the market participants (Armstrong *et al.*, 2005). Figure 2.3 shows the SA financial regulatory structure.

Figure 2.3 South African Financial Regulatory System



The Minister of Finance has the final authority in financial regulation over the Financial Services Board (FSB) in the non-banking financial sector and the South African Reserve Bank in the banking sector. The Department of Trade and Industry (DTI) is the government department responsible for commercial and industrial policy. The DTI and its subsidiary agencies are involved in promoting economic development, Black Economic Empowerment, implementing commercial law (including companies' law and intellectual property law), promoting and regulating international trade, and consumer protection. The DTI impacts corporate governance through its function of creating a predictable, competitive, equitable and socially responsible environment for investment, enterprise and trade (DTI, 2008). Basically, the DTI has the responsibility to position SA as a suitable destination of capital. This is conducted through a number of divisions within the DTI. Among others, the Companies and Intellectual Property Registration Office (CIPRO) registers companies and intellectual property rights, maintains related registries and develops information for disclosure to stakeholders. The DTI also has a Competition Commission (CC) division whose main responsibility is to investigate anti-competitive conduct. It also assesses the impact of mergers and acquisitions on competition and takes appropriate action. The CC also monitors competition levels and market transparency in the economy; identifies impediments to competition, and, plays an advocacy role in addressing these impediments (DTI, 2008). This creates a level playing field for businesses in SA. Through the Competition Tribunal, the DTI may authorise or prohibit large mergers and adjudicate cases of anti-competitive behaviour (DTI, 2008). The CC may also impose penalties on enterprises for engaging in restrictive practice or abuse of their dominance.

Another function of the DTI includes creation of an enabling environment for fair trade through customs tariff investigations, trade remedies and import and export control. This is conducted through the International Trade Administration Commission of SA (ITAC) which manages and monitors all investigations with regards to alleged dumping[7] and subsidized export. This unit basically serves to ensure that cheap subsidised produce is not dumped in SA. In a way, ITAC promotes fair competition, at the same time protecting local industries.

The FSB is an independent institution (not a government institution) established by the Financial Services Board Act, 97 of 1990 to among others supervise compliance with laws regulating financial institutions and the provision of financial services; and advise the minister on matters concerning financial institutions and financial services (FSB, 2009). The supervision function of non-banking financial services is bestowed upon the FSB in terms of 16 Parliamentary Acts (Rossouw *et al*., 2002, 294; FSB, 2009). The FSB functions are also delegated to the Insider Trading Directorate (ITD) as well as an advisory board on financial

[7] Article 2 of the World Trade Organisation Anti-Dumping Agreement defines a dumped product as: a product introduced into the commerce of another country at less than its normal value, if the export price of the product exported from one country to another is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country (WTO Anti-Dumping Agreement, 1994) found at: http://www.antidumpingpublishing.com

markets, and advisory committees on long- and short-term insurance pension funds and unit trusts respectively (FSB, 2009). The financial markets board is responsible for supervision and issuing licenses for the operation of the securities markets such as the stock, bond and financial futures markets. The financial markets board supervises the JSE, the Bond Exchange of SA (BESA) and the South African Futures Exchange (SAFEX). The JSE which is the focus of this study is discussed in the following subsection together with BESA and SAFEX.

2.1.5.1.1 The JSE

The JSE provides the following services to investors under one roof: an equities market, including stocks from the Main Board and the small to mid-cap Alternative Exchange, an interest rate market, an active financial derivatives market and an agricultural products market. The JSE is privately owned, funded, and governed by a Board of Directors. Its activities are licensed and regulated by two Acts of Parliament, namely the Stock Exchanges Control Act, 1 of 1985 ("SECA"), which governs the equities markets, and the Financial Markets Control Act, 55 of 1989 ("FMCA"), which governs the derivatives markets (JSE, 2010). The JSE is governed by the JSE Listing Rules (2007) which have since adopted some of the recommendations from the King Code and made them mandatory for listed firms to comply with (or explain non-compliance) with these recommendations.

The JSE Securities Exchange was established as a stock exchange in 1887 and it became a member of the World Federation of Exchanges in 1963 (JSE, 2010). As of 2001, there were 616 companies listed in the JSE Securities Exchange whilst in 2008 there were 334 companies listed in the Main Board and 77 companies listed in the ALTx board. The Johannesburg Stock Exchange had a market capitalization of US$579.1 billion (as of 30th

September 2006), making it the largest exchange in Africa and the 16th largest stock exchange worldwide (JSE, 2010). The exchange trades shares for a wide variety of industries, with the largest portion of market capitalization coming from the mining industry. There are three categories of listing in the JSE, namely the Main Board, the Development Capital Market (DCM) and the Venture Capital Market (VCM). The listing requirements of each of these are designed to enable companies at different stages of development to obtain a listing which best suits their respective circumstances (JSE, 2010).

The JSE Listing Requirements (2007) spell out conditions which must be met by firms requiring a listing on the JSE Securities Exchange Main Board. In order for companies to be listed on the JSE Securities Exchange Main Board, a company must have a subscribed capital of at least R25.0 million and not less than 25,000,000 equity shares in issue. It must also have a satisfactory audited profit history for the preceding three financial years, the last of which reported an audited profit of at least R8,000,000 before taxation (JSE Listing Requirements, 2007 Section 4). The company must also have at least 300 shareholders.

The DCM[8] and VCM[9] listing requirements are less stringent than those of the Main Board

In addition to the Main Board, DCM and VCM listings, the JSE also offers an alternative exchange known as the ALTx. The ALTx board was established in 2003. It is a market for small to medium companies that are in a growth phase. The ALTx plays a vital

[8] The DCM listing requirements include: subscribed capital of at least R1 million with at least one million equity shares in issue; a satisfactory profit history for the preceding two years, the last of which should reflect an audited profit before taxation of not less than R500,000; a minimum of 10% of each class of equity shares to be held by the public; and a minimum of 75 public shareholders for equity shares, 25 for preference shares and 10 for debentures (JSE, 2010).

[9] The VCM requirements on the other hand include: a memorandum summarising the nature of the business of the company, its modus operandi, its business plans and prospects. Subscribed capital of at least R500,000.00 in the form of not less than one million equity shares in issue; no profit history is required, but the applicant should in its analysis of future earnings, indicate credible returns on capital that, on a time-weighted basis, are above average; a minimum of 10% of each class of shares must be held by the public; and there must be at least 75 public shareholders for equity shares, 25 for preference shares and 10 for debentures.

role within the JSE, by providing smaller companies not yet able to list on the JSE Main Board with a clear growth path and access to capital. Listing on the ALTx Board requires a subscribed capital of R 2.0 million, no profit history and pre-tax profit requirements and 100 shareholders. Companies which are not able to list on the Main board may list on the ALTx board (JSE Listing Rules, 2007, Sc 4.).

2.1.5.1.1.1 **The JSE Listing Rules**

JSE listed corporations are required to comply with the JSE Listing Rules (2007); as such the Listing Rules are an integral part of internal corporate governance mechanisms in SA. The Listing Rules append some sections of the Companies Act, the Insider Trading Act and the King Code. The JSE Listing Rules (2007) consist of 22 sections and 27 schedules which cover a range of topics from authority of the JSE (Section 1), conditions for listing, CG, and pyramid companies among others. The business of the JSE is to provide facilities for the listing of securities, to provide the JSE's users with an orderly marketplace for trading in such securities and to regulate the market accordingly. The Listing Rules, therefore, ensure that the business of the JSE is carried out in the best interests of the public (JSE Listing Rules, 2010).

Sections 3.84 (a) to (h) and section 8.63 (a) contains specific requirements concerning corporate governance. Under section 3.84 listed companies or companies seeking to be listed in the JSE must have a policy detailing the procedures for appointments to the board, a balanced board, no role duality, remuneration and audit committee and a brief CV of each director. The companies must also categorise each director accordingly and have a policy with regard to non-audit services among others. These provisions also form part of the King Code. According to section 3.15 of the Listing Rules, interim company reports shall be published and distributed to shareholders after the expiration of the first six month period of a financial year, by no later than three months after that date. Section 3.19 of the Listing Rules requires listed companies to distribute annual financial statements to all shareholders within six months after the end of each financial year and at least twenty-one clear days before the date of the annual general meeting. These reports form important communication tools between the principals and the agents. Section 3.83 of the Listing Rules requires directors to maintain a register of the disclosures made in terms of section 140A of the Act. The register should the issuer is to publish the beneficial interests of directors and major shareholders in its annual financial statements as required by paragraphs 8.63(d) and (f) of the Listing Rules.

2.1.5.1.2 SAFEX (South African Futures Exchange)

SAFEX became part of the JSE in 2001. It is the principal market in SA for trade in derivative financial products e.g. financial and commodity futures and options. In order to trade in the SAFEX market, a trader must be: a registered financial institution in terms of the Securities Services Act, with own funds of R 200 million; provide a surety-ship to the SAFEX clearing house and to enter into a clearing house agreement with SAFEX. Similar to other futures markets, the SAFEX market offers assurance of future prices and availability of goods, and hence provides stability in an unstable business environment by offering the facility to hedge against an unstable financial environment. In terms of CORPORATE GOVERNANCE, SAFEX provides a market through which firms may hedge against financial risks and increase liquidity in the market.

2.1.5.1.3 BESA (Bond Exchange of South Africa)

BESA operates as an independent, licensed exchange and is constituted as a public company. It operates and regulates debt securities and associated derivative instruments issued by central and local government, public sector corporations' enterprises and major companies. BESA primarily includes government-issued securities and corporate debt securities. In terms of CG, BESA provides a stable platform though which business can obtain finance for investment and growth.

2.1.5.1.4 Challenges Facing the SA Financial Regulatory Environment

A critical challenge facing the DTI is the recruitment and retention of high calibre people in key managerial and technical positions across all the core programmes of the department. This is exacerbated by intense competition for skilled personnel within both Government and the private sector, and between them.

The FSB is financed by the financial services industry through levies and fees, with no contribution from the government (FSB, 2001; Bamber *et al.,* 2001; Rossouw *et al.,* 2002). As such, this has the potential to affect the FSB's enforcement independence as a regulatory institution. It raises the question of whether the FSB can *'bite the hand that feeds it'* e.g. whether it can be truly independent of, and properly regulate, market participants who fund it. According to the Institute of International Finance (IIF) (2007), SA's self regulation environment (SRO) creates a weak enforcement environment. This is not helped by the fact that the South African enforcement function is fragmented between the FSB and the DTI, which tends to weaken authority. The FSB supervises compliance with laws regulating non-banking financial institutions and services while the DTI supervises compliance with company law. The DTI is perceived by market participants to have a weaker enforcement function partly due to lack of trained personnel (IIF, 2007). The IIF suggests that restructuring of the DTI will increase focus and strengthen the enforcement environment.

2.1.6 Colonial History

2.1.6.1 Colonial History and Corporate Governance in South Africa

The colonial history of SA has had a lasting legacy on the corporate landscape of the country. First, the pyramid structures which were prevalent in the JSE in the 1990s owe their origins to the mining finance houses formed in the 19^{th} and 20^{th} century to exploit the Johannesburg gold deposits. The ownership structure of these firms brought about unacceptable business and governance controls characterised by elaborate control structures and conflicts of interest (Vaughn and Ryan, 2006). The presence of pyramid structures in the JSE can be traced to the historical background of the country. Second, because of the policy of apartheid, SA experienced virtual isolation from the global economy for over three decades. As such, South African corporate practices fell behind international norms, as did laws and regulations (Malherbe and Segal, 2001), although the country has since brought its CG standards at par with international norms.

Third, the South African corporate structure has been found to be similar to the Anglo-Saxon shareholder system of CG which focuses on shareholder wealth maximization with single tier board (Rossouw *et al.*, 2002; West, 2006). The corporate landscape reflects centuries of colonialism and apartheid and has been adopted mainly from the UK (West, 2006, p. 435). However, the South African King Code espouses an inclusive approach to CG (Institute of Directors, 1994, 2002).

Fourth, economic marginalisation during the apartheid era ensured that whites controlled the economy by denying blacks access to positions of leadership and managerial decision making. This situation still prevail in modern SA whereby the economy is predominantly in the hands of white English-speaking conglomerates, with an overwhelmingly black labour force (Southall, 2006; Thomas and Bendixen, 2000; West, 2006). Because of the colonial history of SA, the post-apartheid government has enacted a series of statutory requirements such as the Employment Equity Act, Basic Conditions of Employment Act and the Broad Based Black Economic Empowerment. These pieces of legislation influence corporate governance, in particular corporate compliance with sustainability reporting.

2.1.7 Professional Bodies

Professional bodies play an important role in corporate governance issues in SA. Some of the important professional bodies in SA are discussed in the following subsections.

2.1.7.1 South Africa Chamber of Commerce (SACOB)

SACOB is one of the many organisations[10] in SA which represents the interests of various firms from different interest groups. However, SACOB is the largest in the country with a membership of close to 20,000 businesses, including 80 of the largest corporations in SA, and nearly 20 sector-specific business associations. SACOB seeks to address economic, social and political issues affecting the business community in SA. SACOB also publishes the monthly Business Confidence Index (SA Info., 2010). SACOB and other umbrella organisations impact corporate governance in SA because member organisations are expected

[10] Others include: The National African Federated Chamber of Commerce (Nafcoc), an independent business support organisation that primarily, but not exclusively, serves the interests of black economic empowerment companies and small businesses; The Foundation for African Business and Consumer Services (Fabcos), established in 1988, aims to bring black business into the mainstream economy; The Minara Chamber of Commerce which represents and assists South African Muslim businesses and entrepreneurs among others.

to adhere to a strict code of conduct, which is consistent with corporate governance practice in the country. As such, members are expected to abide by rules and regulations in force in SA and also to practice good corporate governance by complying with recommended best practice in SA. As discussed in section 2.1.9.3.1, SACOB supported the initiative to make recommendations on the first King Code (Rossouw *et al.,* 2002) in 1992. As such, it subscribes to good governance principles under the King Code. Members of SACOB may therefore be expected to comply with principles from the Code.

2.1.7.2 South African Institute of Chartered Accountants (SAICA)

SAICA is one of the main accounting bodies[11] in SA which offers training in the area of management and accounting. The institute came into existence in January 1980 (SAICA, 2010). Some of the aims of SAICA are to enhance the quality and information used in the private and public sectors for measuring and enhancing organisational performance; to fulfil a leadership role regarding relevant business-related issues and providing reliable and respected public commentary. SAICA boasts a membership of over 30,000 Chartered Accountants [CAs(SA)] who hold positions as board directors, chief executive officers (CEOs), chief financial officers (CFOs), managing directors, business owners /entrepreneurs, auditors and leaders in their spheres of business operation (SAICA, 2010). Most of these members operate in commerce and industry, and play a significant role in the nation's highly dynamic business sector and economic development. SAICA members enjoy the privilege of using the highly regarded and prestigious CA (SA) designation. In its 2009 survey of the directors of the JSE's Top 200 companies ranked by market capitalization, SAICA found that 25% are CAs (SA).

[11] Other bodies with almost similar objectives include the following: Public Accountants and Auditors Board (PAAB); Southern African Institute of Chartered Secretaries and Administrators (ICSA); Association of Chartered Certified Accountants (ACCA); Chartered Institute of Management Accountants (CIMA); South African Institute of Professional Accountants (SAIPA); Institute of Certified Bookkeepers (ICB) and Institute of Administration and Commerce (IACSA).

In addition, the survey showed that more than 90% of the Top 200's Chief Financial Officers hold the coveted designation while 22% of the CEOs also hold the designation (SAICA, 2010).

SAICA and other professional accountancy bodies contribute significantly to corporate governance in SA by providing training to members in the field of accounting. In this way, this helps towards ensuring compliance with the King Code (2002) recommendation that the majority of the members of the audit committee should be financially literate. Also, most of its members hold key positions in listed companies and are responsible for corporate governance issues such as compliance with rules, regulations and self regulatory principles.

Professional accounting organisations such as SAICA, CIMA, ACCA etc normally have a professional code of conduct which members are expected to abide by at all times in the execution of their duties. Ethical principles expected of members include integrity; objectivity; professional competence and due care; confidentiality; and professional behaviour (SAICA, 2010). As such, it may be expected that firms with directors who hold qualifications from such organisations may have better corporate governance practices[12] including compliance with good governance principles.

In addition, SAICA is the guardian of what constitutes Generally Accepted Accounting Practice in SA (GAAP). Since 2005, JSE listed companies are required under the JSE Securities Exchange Listing Rules to comply with IFRSs.

[12] However, this may not necessarily be the case if prior experience with corporate collapses in SA is anything to go by. In 2000, LeisureNet collapsed despite having many governance mechanisms in place, including six chartered accountants on the audit committee (Sarra, 2004, p. 7).

2.1.7.3 Institute of Directors of South Africa (IoDSA)

IoDSA originated in London in 1903, and almost sixty years later, in 1960, the Southern African chapter of the Institute was established in Johannesburg (IoDSA, 2010). Recently, in 2009, the IoDSA became autonomous from the IoD in the United Kingdom although it still maintains close links and enjoys a mutual working relationship with it. According to information from the IoDSA website, the institute is a custodian of corporate governance in SA. It also seeks to be a role model for good governance, leadership and integrity and to develop and enhance professional directorship in SA and the SADC region.

The IoDSA is currently the only organisation that represents directors, professionals, business owners and leaders in their individual capacities in South Africa. In pursuit of safeguarding corporate governance standards, the Institute is committed to the development of business owners and directors through education and improvement of governance structures. As part of improving corporate governance standards, in 1992 the King Committee on corporate governance was formed under the auspicious of the IoDSA, to make recommendations on a Code of Practice in terms of the financial aspects of corporate governance in SA (Rossouw *et al.*, 2002, p. 296). This process marks the start of development of corporate governance in SA, which is examined in the next section.

2.1.7.3.1 Development of Corporate Governance in SA

The first King Report was released in November 1994 under the auspices of the Institute of Directors of SA (IoDSA). The initiative also had the backing of various organisations in SA such as SACOB, the Institute of Chartered Secretaries and Administrators (ICSA), SAICA and the JSE (Rossouw *et al.*, 2002). The King Committee's (named after its chair Judge Mervyn King) terms of reference included both financial and ethical dimensions of corporate governance. The King Code (1994) adopted many of the corporate governance standards and principles that had already been advocated in other national and international codes (Aguilera and Cuervo-Cazurra, 2004; Armstrong *et al.*, 2005; Rossouw *et al.*, 2002). In particular, the King Code borrowed heavily from the Cadbury Report (1992). The primary objective of the King Report was to promote the highest standards of corporate governance in SA by advocating an integrated approach to governance in the interests of a range of stakeholders (King Report, 1994). A distinguishing feature of the King Report (compared with the Cadbury Report) was its integrated approach to good corporate governance with regard to social, ethical, and environmental practice, to serve the interests of a wide range of stakeholders (Armstrong *et al.*, 2005).

The following subsections discuss the broad outlines of the key recommendations of the King Code I, II and III.

2.1.7.3.2 The King Code I

The recommendations from King I consist of six key areas: board and directors, risk management, internal audit control, accounting and auditing, integrated sustainability reporting, and compliance and enforcement.

i. Boards and directors

Similar to other Codes, such as the Cadbury Report (1992), the first King Report (1994) drew attention to the importance of a proper functioning board of directors as a key ingredient of good corporate governance. The King Code (1994) identified the board as the focal point of the corporate governance system because it is ultimately accountable for the performance affairs of the company. The board must retain full and effective control over the company, monitor the executive management and ensure that decisions on material matters are in the hands of the board. It has a role to ensure that the company complies with all relevant laws, regulations and codes of business practices, and that it communicates with shareholders and other stakeholders in a timely and transparent manner (King Code 1994). In this context, the King Report makes a number of recommendations to make the board of directors effective. It recommended that the selection and appointment of directors should be matters for the board as a whole. As such, the King Code I did not recommend the appointment of nomination committees, unlike the Cadbury Code.

Similar to the Cadbury Code, it recognised the important role played by non-executive directors in setting and maintaining high standards of corporate governance (King Code, 1994). The Code noted the importance of independence and experience brought by non-executive directors to issues of strategy, performance, resources, major appointments and standards of conduct (King Report, 1994). The 1994 King Code recommended that boards of directors should have at least two non-executive directors of adequate calibre and independence. In contrast, the Cadbury Report (1992) recommended three non-executive directors. The issue of independent non-executive directors was not addressed under the King Code I. For instance, the Code did not specify the number of independent directors on the board and did not specify that the board chair should be an independent director, similar to the Cadbury Report (1992).

The King Code I stipulated that all boards should have at least an audit committee and remuneration committee in order to be efficient and effective, in line with the recommendations from the Cadbury Report (1992). In addition, it recommended that the two committees must consist of at least two non-executive directors, with the majority of its members, including the chairman of the committees, being non-executive directors.

As part of securing good corporate governance, the King Code I also recommended that board chairpersons should ensure that non-performing directors are not re-elected and should have their services terminated (King Report, 1994, para. 4.3). It is worth noting that the King Code does not specifically recommend a specific board size, but leaves that to the discretion of company boards. The King Code (1994) also recommended that the length of executive directors' contracts is restricted to a maximum term of three years and that any extension should be subject to shareholder confirmation.

ii. Risk Management, Internal Audit & Control

Section 10 of the King Code I recommended that companies must have well resourced internal audit and control units in line with the recommendation from Cadbury. As per the King Code I, the function of internal auditors is complementary to, but different from, that of outside auditors. To this end, the King Code I recommended that companies must set up internal audit functions to undertake regular monitoring of key controls and procedures. Section 10.2 of the King Code I recommended that internal audit units carry out investigations on behalf of the audit committee and to follow up any suspicion of fraud. In an attempt to maintain independence, the King Code I recommended that the heads of internal audit committees should have unfettered access to the chairman of the audit committees.

Similar to Cadbury, King Code I recommended that company directors should keep a system of internal control over financial management of the company, such as procedures for reducing fraud. This aspect is also in accordance with the provisions of the South African Companies Act. The Code also recommended that directors should report on the effectiveness of their system of internal control and that external auditors should express their opinion on the directors' statement in the annual reports. However, King Code I did not specify how risks should be addressed or integrated in the company.

iii. Accounting and Auditing

In terms of accounting and auditing, King I made the following recommendations under section 11 of the Code: that South African companies should prepare their accounts in line with Generally Accepted Accounting Principles (GAAP) as per the recommendations of the JSE Listing Rules and the South African Accounting Standards Board. As such, it recommended that directors must prepare financial statements for every financial year which give a true and fair view of the state of affairs of the company or group. In line with the South African Companies Act, it was also recommended that directors must maintain adequate accounting records and confirm that suitable accounting policies and standards have been consistently applied in preparing the financial reports. King I also recommended that accounts should be prepared based on the principles of 'substance over form'. Further, it was also recommended that financial statements must be comprehensible, transparent and that directors must maintain the integrity of the financial reports.

King I also recommended that directors must express their opinions on the status of the business as a 'going concern' i.e. whether it will be able to continue into the foreseeable future. This requires that directors fully state the assumptions used in their assessment of the 'going concern' status of the business for the ensuing financial year. By expressing their opinions on the status of the business as a 'going concern' directors in a way are making a declaration that material fraud which may incapacitate the business has not been committed, hence the business will be in existence in years to come.

King I also recognised the important role played by the audit committee. It recommended that the audit committee should play a critical role in ensuring the integrity of the financial reports. The Code recommended that the audit committee must be composed in such a way that it enables non-executive directors to contribute independent judgement and that the committee must review financial statements. The Code also recommended that the finance director and the head of internal audit must attend the audit committee meetings to provide answers to questions on any issues of concern raised at these meetings. The Code also recommended that the external auditor should be given access at all times to the board chairman, management, the audit committee and the chairman of the audit committee.

iv. Integrated Sustainability Reporting/Non-Financial Information

The distinguishing feature of King Code I from the Cadbury Report (1992) is the recommendation for firms to engage in stakeholder reporting. Section 12 and 13 of the King Code I made several recommendations which address affirmative action and stakeholder rights. This was in apparent recognition of the socio-economic and political situation prevailing in the country at the time the Code was developed. The stakeholder issues covered contribution to the community, health and safety, environment and fair employment practices (King Report, 1994). Some stakeholders are of the opinion that King Code I was more of a '*wish list*'[13] with regard to recommendations under integrated sustainability reporting.

With regard to black economic empowerment (BEE), King Code I did not make BEE because this aspect was brought about by the new government after 1994. It also did not make recommendations on HIV/Aids and employment equity issues. Similar to Cadbury, it made recommendations on organisational ethics.

In trying to maintain the principle of recognising that companies no longer act independently from the societies and environment in which they operate, King I recommended that firms should invest in their local communities. First firms should assess the particular needs of the communities in which they operate and integrate these needs into the policies and goals of their companies. King I tried to suggest examples of various

[13] In an interview with a company secretary of a mining firm in SA, she expressed her views that *"King1 was a wish list, King 2 became a requirement, King 3 is practical*" in terms of realising the goals set out in the Code.

contributions to the communities in which companies operate such as: improving access to portable water, to construct or renovate local schools or health centres in consultation with local communities' leaders or make donations to local Non-Governmental Organisations (NGOs) that offer essential services like affordable housing. On fair employment practices, King I recommended that firms should try to address the massive legacy of apartheid by contributing to employee skills development, upholding labour and employee rights and avoiding discrimination and harassment along ethnic, religious and gender lines.

With regard to health and safety, King I recommended that every company must keep a safe and healthy working environment by providing training, tools and protective equipment to help reduce workplace accidents and fatalities. On environmental issues, King I recommended that sustainable development requires a constant awareness and respect for the conservation of the environment. As such, the Code recommended that companies should conduct a regular environmental assessment impact to identify and adequately address any negative consequences of their operations. In an apparent warning to companies on environmental issues, King I suggested that if companies do not take the initiative to address recommendations on integrated sustainability reporting, government could legislate on these issues, which would be legally binding on firms.

The King Code I also recommended that every firm should prepare a code of ethics which acts as a guide on the dealings of directors, management, and all employees.

v. Compliance and Enforcement

Similar to the Cadbury Report (1992), compliance with recommendations under the King Code I is inspirational e.g. self regulatory. The King Code I viewed compliance as a matter of direct responsibility of boards of directors and indirectly a responsibility of auditors and shareholders. In line with the *'comply or explain'* regime of the Code, the board of directors have the responsibility to explain why it was not appropriate for it to adopt a Corporate Governance measure as recommended by the Code. On the other hand, external auditors should offer their opinion on the extent of compliance to the provisions and or recommendations of the Code. King Code I also recommended that both local and international shareholders to play an active role on issues of compliance with the Code by positively influencing compliance. As such, the Code encouraged companies to enter into sustainable dialogue, based on constructive engagement and mutual understanding of objectives with institutional investors. Shareholders were encouraged to exercise their rights by attending, voting and asking pertinent questions at Annual General Meetings as stipulated in the Companies Act.

2.1.7.3.3 Achievements, Weaknesses and Criticisms of King Code I

One of the achievements of the King Code I is that it was instrumental in raising the level of awareness of what constitutes good governance, both in the private and public sector in SA (Armstrong *et al.*, 2005, p. 14; Malherbe and Segal, 2001). Armstrong *et al.*, (2005) also argue that the Code offered for the first time a coherent, disciplined and practical governance framework relevant to the local context. King I adopted the inclusive approach to corporate governance, which requires that corporations should recognise that they no longer exist in isolation from the communities in which they do business (King Code I, 1994, West, 2002). In this regard, the King Code raised awareness with regard to the importance of corporate sustainability through triple bottom line reporting i.e. the notion that organisations with issues related to sustainable development needed to work away from a single (i.e.

financial) bottom line to a recognition that organisations also need to monitor both social and environmental performance, therefore have social and environmental 'bottom lines'.

The King Code I also made several recommendations which have since been incorporated into the South African Companies Act, such as compelling disclosure of the identity of beneficial owners of shares held by nominees. The King Code also highlighted corporate responsibility issues in terms of the Labour Relations Act (1995), the Employment Equity Act (1997) and the National Environmental Management Act (1998). It also encouraged the JSE to introduce more rigorous listing rules which are comparable with international standards (Armstrong *et al.*, 2005). The King Code has helped to improve corporate governance standards in SA. For instance, Credit Lyonnais Securities Asia (CLSA) reported that SA ranked fifth, emerging with good corporate governance structures in a survey of 495 firms in 25 emerging markets (King Report, 2002; para. 15; CLSA, 2000, p. 69).

However, the King Code I was not without shortcomings. According to Malherbe and Segal (2001), the King Code 1994 followed the Cadbury Report (1992) such that it neglected the control situations that predominate in SA, and the governance concerns that arise from them. For instance, SA, like most emerging economies, has control bloc situations whereby these influential groups of shareholders may abuse their positions to the detriment of minority shareholders. The King Code (1994) was silent on such control situations and on conflict of interest. The King Code 1994 has also been heavily criticised for failing to recommend the appointment of independent non-executive directors. For instance, in a departure from the Cadbury Report, the King Code 1994 did not recommend that non-executive directors be independent of management (Malherbe and Segal, 2001). The Code also did not make recommendations on the establishment of nomination committees or the process which should be followed in nominating new directors to the board. This brings into question issues of board independence from management (Malherbe and Segal, 2001). Another criticism of the King Code I is that although it recommended the establishment of remuneration committees, it did not specify rules which should be used to guide firms in setting remuneration levels of their directors. As such, this did not address the concerns of shareholders and the general public about self-enrichment and consumption of too many perquisites by directors.

The King Code has also been criticised for failing to position its integrated approach to corporate governance in terms of whether it is a *communitarian or contractarian* system of corporate governance (Kakabadse and Korac-Kakabadse, 2002; Spisto, 2005). Further, the King Code I was also criticised for having extensive non-governance content which consisted of a series of wide-ranging but somewhat vague stipulations on communication to stakeholders, worker participation, affirmative action, and code of ethics. This aspect was also associated with the slow adoption of the Code by listed companies (Malherbe and Segal, 2001).

2.1.7.3.4 King Code II

The King Code I was reviewed in 2002 following domestic and international events. As discussed in section 1.1 the review was undertaken to: 1. assess the currency of King Code against developments, locally and internationally, since its publication on 29 November 1994; 2. review and clarify the earlier proposal in the King Report 1994 for an "inclusive approach" for the sustainable success of companies; 3. recognise the increasing importance placed on non-financial issues worldwide, and to consider and recommend reporting on issues associated with social and ethical accounting, auditing, and reporting and health safety and environment; 4. recommend how compliance with a new Code of Corporate Governance for SA can be measured and based on outcomes, that is how the success of companies can be measured through the "balanced score card" approach of reporting (King Report, 2002, p. 16).

Among domestic events, the Code was reviewed following corporate governance scandals involving Masterbond Group, Regal Treasury Bank among others. The Masterbond Group collapsed because of serious deficiencies in the South African Supervisory system and those sections of the Companies Act which were designed to protect investors (Nel, 2001). The investigation into the collapse of the Masterbond Group revealed astonishing degree of dishonesty, inefficiency, lack of professional integrity and lack of independence on the part of some auditors involved with these companies (Nel, 2001). Regal Treasury Bank collapsed in 2001 because the CEO, Levenstein was not a fit and proper person to be a director and CEO of a bank or its holding company, and carried on the business of the bank and Holdings in a reckless manner (Myburgh, 2002). The boards of directors of the bank and its holding company acted in breach of the Banks and Companies Act and the standards of corporate governance. Myburgh (2002) also attributed the collapse of Regal Treasury Bank to actions by the external auditors, Ernest & Young. According to Myburgh Ernst and Young acted in breach of the Public Accountants and Auditors Act and the Banks Act during the 2000 audit by giving consent to the release of the 2001 preliminary financial results of Holdings when they had not completed the 2001 audit properly in two material respects. The reserve Bank of South Africa was also accused of failing to act swiftly and decisively in October or November 2000 by not taking appropriate action for the removal of Levenstein as CEO (Myburgh, 2002). These corporate failures brought about pressure for the need to examine corporate governance practices in South Africa, hence the review of King Code I.

Table 2.4 presents a summary of recommendations from the Cadbury, and King Codes I, II and III. The differences between King I and King II include the following: the

King Code II defines good corporate governance principles as constituting discipline, transparency, independence, accountability, responsibility, fairness and social responsibility while King I defined it in terms of accountability, fairness responsibility and transparency. A conspicuous feature of the King Code (2002) is its adoption of the “inclusive approach” to corporate governance, unlike the King Code I which took an “integrated” approach. The King Code emphasizes the need to create a governance system that recognizes the African value system.

Unlike the King Code I, the King Code II offers clear guidance on how the inclusive approach to corporate governance should be operationalised (King Code, 2002 para, 6). Third, the stakeholders relevant to the company’s business should also be identified. These factors should all be combined in developing the strategies to achieve the company’s goals.

Table 2.4 Comparison of Provisions from the Cadbury, King I, II and King III Codes

	Cadbury Report 1992	King I – 1994	King II – 2002	King III – 2009
Boards and Director:				
Board structure	Unitary board	Unitary board	Unitary board	Unitary board
Non-executive directors	At least three	At least three	Majority of NEDs > 50%	Majority of NEDs > 50%
Independent non-exec. directors	At least two	At least two	Majority of I NEDs > 50%	Majority of I NEDs > 50%
Role duality	Split CEO Board Chair Roles	Separate Roles	Separate Roles	Separate Roles
Chairperson independence	Non-executive director	Non-executive director	Preferably an INED	Must be an INED
Board meetings	Frequently/Regularly	Frequently/Regularly	At least once every quarter	At least once every quarter
Board committees	Audit, remuneration & nomination	Audit, remuneration & nomination	Audit, remuneration & nomination	Audit, risk, remuneration & nomination. (Audit min 3 members)
Director/insider share dealings	Not specified	Not specified	Prohibits insider trading	Prohibits insider trading
				Shareholder Approval of Remuneration Policy Business Rescue Proceedings Minimum of 2 Exec. Directors to be appointed to Board (CEO & FD). Staggered Rotation of NEDs NEDs should not receive share options All audit committee members to be INEDs
Risk management, internal audit and control				
Risk management	Not covered	Not covered	Risk mngmt/committee	Risk committee
Internal audit	Establish internal audit function	Establish internal audit function	Establish internal audit function	Establish internal audit function
Internal control system	Establish internal control system	Establish internal control system	Establish internal control system	Establish internal control system
				Alternative Dispute Resolution
Accounting and Auditing				
Auditing	Audit committee/auditors	Audit committee/auditors	Audit committee/internal auditor	
Accounting/financial reporting	Accounting standards (GAAP)	Accounting standards (GAAP)	Accounting standards/IFRS	

Integrated sustainability reporting **Ethics** **Environment** **Health and safety** **Affirmative/employment equity** **Black empowerment** **HIV/AIDS** **Culture** **Sustainability Reports**	Code of ethics Not covered Not covered Not covered Not covered Not covered Not covered Not covered	Code of ethics Not covered Not covered Not covered Not covered Not covered Not covered Not covered	Code of ethics Environment Health and safety Employment equity Black empowerment HIV Ubuntu Not Covered	Code of ethics Environment Health and safety Employment equity Black empowerment HIV Ubuntu Integrated Sustainability Report
Compliance and enforcement	Board, institutional/shareholders and Auditors	Board, institutional/shareholders and Auditors	Board, institutional/shareholders, auditors, the courts, financial press, and peer pressure	
IT Governance	Not covered	Not covered	Not covered	Develop & Implement IT Governance Framework Measure & Report IT Performance to Board
Compliance regime	Comply or explain	Comply or explain	Comply or explain	Apply or explain
Code principles	Openness, integrity and Accountability	Accountability, fairness, Responsibility and transparency	Accountability, discipline, fairness, independence, responsibility, social responsibility & transparency	Inclusivity, Innovation, fairness, and collaboration & Social transformation
Governance principle	Financial aspects of governance	Integrated/Inclusive approach to CORPORATE GOVERNANCE	Integrated/Inclusive approach to corporate governance	Integrated performance reporting to CG (Governance, strategy & sustainability)

Recently, the King Coe II was reviewed following the release of the New Companies Act no. 71 of 2008. Similar to King 1 and II, the review was also influenced by corporate governance changes around the world. Some of the new aspects of King III (2009) are: it applies to all entities regardless of the manner and form of incorporation or establishment; it is based on the *"apply or explain"* regime while King I and II were based on *"comply or explain"* regime or the comply or else framework (one size fits all); and it is based on the concept of sustainability reporting e.g. it advocates sustainability to be made an integral part of all company processes. Unlike King I and II, King III deals with IT (information technology) governance. According to King III, IT governance is a "framework that supports the effective and efficient management of information resources (for example people, funding and information) to facilitate the achievement of corporate objectives. The Code therefore recommends that IT governance should be an integral part of the overall governance structures within a company that ensure that the company's IT sustains and extends the strategy and objectives. Table 2.4 provides comparisons between the three King Codes and the Cadbury Code.

2.1.7.3.5 Criticism of King Code II

The King Code has received endorsements from leading academics and policy makers as an example of a good corporate governance model in the world (Armstrong *et al.*, 2005; Malherbe and Segal 2001; Andreasson 2006b; Rossouw *et al.*, 2002).

The major criticism levelled against King II is that it adopted a shareholder unitary board mirroring the Anglo-American model but equally tasking boards with meeting demanding stakeholder requirements (Kakabadse and Korac-Kakabadse 2002). For instance, stakeholder requirements such as HIV sensitivity and the promotion of black empowerment are more easily accommodated by the continental European stakeholder model of corporate governance, whereas business and organisational issues are the remit of the executive board and the broader economic stakeholder and societal concerns fall under the umbrella of the supervisory board (Kakabadse and Korac-Kakabadse 2002). The King Code II has also been criticised for inconsistencies with regard to the issue of accountability of corporate directors (Sarra 2004). There is also the criticism of conflict between the African value system under the Ubuntu and the Anglo-American governance system. According to West (2006), there is an incompatibility between aspects of African culture and the Anglo-American corporate governance system. West (2006) outlines the following conflicts between the Ubuntu culture and the Anglo-American corporate governance system: for instance, he contends that the emphasis on communal rights under the Ubuntu culture conflicts with the individual right to private property that is fundamental in Anglo-American models; the insistence on consensus in decision making conflicts with corporate structures where directors are appointed by only one party (shareholders), and whose interests are typically elevated above those of other stakeholders; and the urgent need for social justice and redress of inequalities conflicts with an economic system in which development needs are a hoped-for long-term consequence of the immediate pursuit of profit and efficiency" (West, 2006, p. 441).

Overall, the King Code II has received international acclaim as a good corporate governance model in the world and has also heightened the importance of good corporate governance practices in SA (Armstrong *et al.*, 2005; Malherbe and Segal 2001).

2.2 Chapter Summary

SA is considered as one of the leading countries in terms of economic growth and development. It is also called the hub of Africa given the numerous financial and business transactions flowing through the country in comparison with other African countries. This chapter sought to examine the SA country context. In this regard, the chapter attempted to discuss how the political, legal, economic and cultural aspects affect corporate governance in SA. An attempt was also made to discuss the financial regulatory environment under which the JSE is administered. The FSB is the main body which supervises compliance with laws regulating financial institutions and the provision of financial services. SA does not have a single regulatory body equivalent to the provincial securities commission in Canada or the United States Securities and Exchange Commission that reviews prospectuses for public offerings. As discussed in the chapter, this function is carried out by various combinations of the JSE, CIPRO and other entities discussed in the chapter.

The chapter also sought to discuss how the colonial history of SA affects corporate governance in the country. Further, an attempt was made to examine how various professional bodies affect corporate governance and corporate compliance in the country such as SACOB, SAICA and IoDSA, which leads to a discussion on the development of corporate governance in SA.

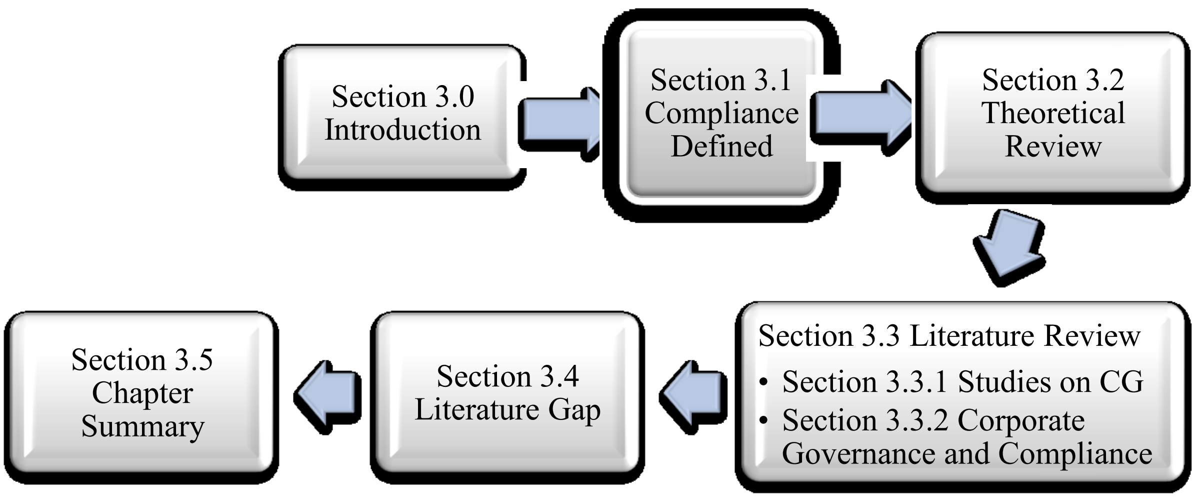
In the next chapter, literature on corporate governance is reviewed to try to identify a gap in the literature.

3 Chapter Three: Literature Review

3.0 Introduction

In Chapter 1, the objectives and research questions for this study were discussed together with the rationale and importance of the study. Chapter 2 discussed the country context of South Africa. This chapter seeks to achieve the following objectives: first, compliance is defined in the context of this study; second, relevant extant theories that attempt to link corporate governance mechanisms and various firm outcomes will be discussed. Third, the chapter also reviews relevant literature on corporate governance and compliance so as to identify gaps in the literature. In this regard, the chapter briefly discusses some of the areas and issues in corporate governance such as performance, compensation and corporate governance disclosure. In particular, a review of the literature on corporate governance and corporate compliance is presented in sub-section 3.2.2 and a gap in the literature is identified in section 3.3. Section 3.4 summarises the chapter. Figure 3.1 presents an overview of the chapter.

Figure 3.1 Chapter Three Plan



3.1 Compliance Defined

This section attempts to define corporate compliance with best corporate governance principles in the context of this study. Burgstaller (2007, p. 45), suggests that compliance can be said to occur when the actual behaviour of a given subject conforms to prescribed behaviour, and non-compliance or violation occurs when actual behaviour significantly differs from prescribed behaviour. As per this definition, compliance signifies conduct which is in accordance with prescribed practice. It includes refraining from acts not in accordance with prescribed practice. Compliance may require positive action to live up to the prescribed requirements of, say, corporate governance principles. Compliance is therefore linked to the concept of implementation because it requires practical steps to put in place in accordance with prescribed practice i.e. governance principle recommendations. According to Burgstaller (2007), there are three reasons why a given actor may comply with a rule or a requirement. First, the actor may comply because they fear the punishment of rule or requirement enforcers; second, because the actor sees the rule as in its own interest; and third, because the actor feels the rule is legitimate and ought to be obeyed or complied with.

In the context of the proposed study, it is assumed that firms comply with corporate governance codes because of the legitimate expectations of the relevant publics and that compliance with governance principles generated by legitimate institutions such as IoDSA is deemed by firms as the right thing to do. Further, compliance is also assumed to require practical steps to implement prescribed practice. This definition implies that measurement of compliance may entail verification of practical steps to implement prescribed practice. However, the process of verification would be limited to statements from companies on compliance i.e. declarations in various media (annual reports, internet, company websites etc). As such, compliance is defined in terms of the extent of compliance disclosures in the annual reports of listed companies or other mass communication media such as newspapers, the internet and in-house magazines (Haniffa and Cooke, 2005) used by companies for disclosure purposes. However, this study relies on annual reports to measure compliance with the King Code.

Consequently, compliance measured in this manner implies considerable reliance on assertions from corporate executives (in annual reports) with regard to the "state of being compliant" with governance codes. Compliance has two aspects: "the act of compliance in the practical sense" and "the communication aspect" by way of compliance disclosure in the medium of communication chosen by companies. Two major problems arise with regard to investigation of compliance with corporate governance principles in this way. First, companies may claim to be compliant with corporate governance codes by making compliance disclosures in annual reports or other such corporate communication media, whilst in the practical sense this is not the case. Secondly, an attempt to address this problem by interviewing company officials to elicit information on corporate compliance practices may also not help because interviewees could claim to comply with corporate governance codes if asked about compliance with specific issues whilst this is not the case in practice. The best approach to address these problems is for the researcher to observe and record corporate compliance with governance principles over time, to be able to draw accurate conclusions. This brings us to the definition of what compliance is.

Compliance may therefore be defined as a state of being in accordance with established guidelines, specifications, or legislation or the process of becoming so and communicating this state through established mediums of disseminating information to the relevant publics. Disclosure may be defined as making something known or revealing something (Sykes, 1982). Corporate disclosure compliance, on the other hand, may be defined as a means to influence perceptions regarding the future financial prospects of the firm in the minds of external, and primarily financial, stakeholders such as stock analysts, capital markets and investors and others (Brammer and Pavelin, 2006a).

For the purposes of this study, compliance is defined as the implementation of recommendations from the King Code II over and above the mandatory requirements by South African company laws, the JSE Listing Requirements and other regulatory requirements.

3.1.1 Mandatory and Voluntary/Best Practice Compliance

Corporate governance codes around the world (e.g. Cadbury Report, GCGC, MCGC, King Code etc) adopt a "comply or explain" (MacNeil and Li, 2006, p. 486) or self regulatory regime. However, others adopt a mandatory approach such as The Sarbanes–Oxley Act of 2002 which was adopted following public outrage in the wake of the Enron, WorldCom and other high profile corporate scandals. The mandatory approach was adopted as an effort to forestall a potential crisis in public investor confidence (Dunn and Derrick, 2003). The essence of comply or explain is that compliance with the codes is not mandatory whilst disclosure relating to compliance is. The comply or explain regime is also premised on flexibility, because it is not possible to adopt a "one size fits all" approach to corporate governance codes because corporations differ in terms of size, structure, and culture (MacNeil and Li, 2006, p. 486).

Self regulation includes voluntary measures as well as other kinds of initiatives, such as self monitoring, reporting and certification, or the establishment of an industry-based regulatory body with the responsibility for monitoring its members. Generally, self regulation is intended to influence and shape the actions of the self regulated industry without having to rely on the traditional regulatory approach of command and control inspection and enforcement, with its subsequent greater government involvement. There is an ongoing debate in corporate governance matters on the need for regulation (a legal framework) versus self-regulation (e.g. non-binding corporate governance codes) (Wymeersch, 2006). Proponents of mandatory regulation argue that a legal framework offers clarity and uniformity across companies and industries and enhances the enforceability of good corporate governance practices. They also contend that obligatory reporting is a powerful tool to achieve compliance predictably because of the enforcement aspect (Cleyn, 2008). On the other hand, obligatory/mandatory compliance is not enough to guarantee genuine compliance with corporate governance codes and the philosophy behind them. This is evidenced by reports of corporations complying with the letter and not the spirit of the code (Deutsche Bank, 2002). Obligatory compliance also requires a lot of resources (Burgstaller, 2007) as already mentioned above and breeds box-ticking.

Prior literature has identified peer pressure as a motivation for compliance and an argument for self regulation (Wymreesch, 2006), as company boards comply with codes to protect their reputation (Cleyn, 2008) and the reputation of their companies (Levis, 2006). Wymeersch (2006, p. 2) states that the "moral value" aspect of corporate governance codes reduces the need for legal regulation. Several studies have found that in general companies do comply with corporate governance codes under the comply or explain regime (see Arcot *et al.*, 2010; MacNeil and Li, 2006; Ntim, 2009; Weir, 1997). However, some researchers have found problems with the monitoring and explanations offered for non-compliance. MacNeil and Li (2006) find that investors' tolerance of non-compliance is linked to some extent with superior financial performance (in terms of share price) i.e. investors do not value reasoned arguments for non-compliance and prefer to use financial performance as a proxy to determine when non-compliance can be excused.

The comply or explain regime is also based on the assumption that the market will monitor compliance with a code and penalise non-compliance through lowering share prices (Wymreesch, 2006) or accepting the justification for non-compliance given the circumstances (Anand, 2005). As such, there is no consensus as to which approach (self regulation or mandatory) is preferable with regard to compliance with corporate governance codes. Both approaches have their benefits (perceived) and flaws which may result in failure/success to achieve the desired results. The checks and balances under self regulation may not be operational in the case of superior financial performance (MacNeil and Li, 2006). On the other hand, mandatory regulation may lead to box ticking, whereby firms comply with the letter and not the spirit of the code. The proposed study will focus attention on voluntary compliance and some aspects of mandatory compliance because it investigates compliance with a self regulatory code of corporate governance.

3.2 Theoretical Review

This section discusses the relevant extant theories that attempt to link corporate governance mechanisms and various firm outcomes e.g. disclosure, performance, compliance etc. These theories are drawn from various disciplines such as accounting, economics, finance, and law, amongst others (e.g., Rwegasira, 2000; Mallin, 2007; Solomon, 2007; Durisin and Puzone, 2009). As a result, past studies have adopted several theoretical perspectives. Common among them include agency, resource dependence, managerial signalling, legitimacy, organisational political costs, stakeholder and stewardship theories. Clarke (2004) offers a detailed overview of most of these corporate governance theories.

The following subsection discusses agency theory in detail. Specifically, the general principal-agent construct will be first presented in subsection 3.2.1.1. Subsection 3.2.1.2 will describe its direct application to the shareholder-manager relationship in modern corporations. Finally, the supporting theories of information asymmetry and managerial signalling, stewardship, and resource dependence will be briefly described in subsections 2.2.2 to 2.2.6.

3.2.1 Agency Theory

3.2.1.1 The Principal Agent Relationship

Agency theory is derived from the works of Berle and Means (1932), Jensen and Meckling (1976) and Fama and Jensen (1983). Jensen and Meckling (1976, p. 308) define an agency relationship *"as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision making authority to the agent."* Two problems arise in an agency relationship, when: (a) the desires or a goal of the principal and agent conflict, and (b) it is difficult or expensive for the principal to verify what the agent is actually doing (information asymmetry). The former agency problem arises because of the assumptions that: first, the principal and agent have different risk appetite (e.g. different attitudes towards risk) (Eisenhardt, 1989, p. 58). Differences in risk appetite may result in different actions, second, the principal and agent have different goals and interests (Eisenhardt, 1989, p. 58). The third assumption is that, if both parties to the relationship are utility maximisers there is good reason to believe that the agent will not always act in the best interests of the principal (Jensen and Meckling, 1976, p. 308).

Agency theory is therefore concerned with resolving problems which can arise when the interests of the principal/agent are in conflict and when it is difficult or expensive for the principal to verify what the agent is doing presumably on his behalf. Agency theory suggests that the principal can limit divergences from his interests by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant/deviant activities of the agent (Jensen and Meckling, 1976, p. 308). These may include efforts on the part of the principal to control the behaviour of the agent through contractual agreements regarding compensation policies, operating rules, budget restrictions *inter alia.*

The principal may also require the agent to expend resources (bonding costs) to guarantee that he/she will not take certain actions which would harm the principal or to ensure that the principal will be compensated if he/she takes such actions. Agency theory recognises that it is generally impossible for the principal or the agent at zero cost to ensure that the agent will make optimal decisions from the principal's viewpoint. As such, there will always be divergence between the agent's actions and those actions which will maximise the welfare of the principal, defined as residual loss. In short agency cost is defined as the sum of the costs of designing, implementing and maintaining appropriate incentive and control systems and the residual loss of not solving the problems completely (Burton, 2000, p. 196; Jensen and Meckling, 1976, p. 308).

3.2.1.2 Application of Agency Theory in a Modern Corporation

In a modern corporation, several control mechanisms are employed to try and bring the interests of managers (agents) into alignment with those of shareholders (principals). Agency theorists see corporate managers as "inherently untrustworthy" (Burton, 2000, p. 196; Donaldson, 1995, p. 166). Managers of contemporary publicly held organisations are not the owners. As such, managers of these organisation will always maximise their own utility as per the classical economics view of man (Burton, 2000). The managers will not act as profit maximisers for the owners, but will pursue their own interests to the full extent they are able. This may not simply involve maximising their remuneration and perks, but may lead to self aggrandising activities such as pursuing acquisitions which do not enhance shareholder wealth (Burton, 2000, p. 196). The difference in risk appetite between the principal and agent can also give rise to agency costs in a modern corporation through missed opportunities by a risk averse management, or at worst, through management recklessness (Burton, 2000, p. 196). Internal organisationally based mechanisms of corporate control and external, market based control mechanisms can be employed to help align the interests of managers and shareholders (Walsh and Seward, 1990). According to Burton (2000), corporate governance mechanisms represent such an agency cost.

Internally, shareholders can use outcome based contracts to co-align the preferences of agents with those of principals because the rewards for both depend on the same actions, and therefore, the conflict of self interest between principal and agent are reduced. Secondly, the principal may use information systems to curb agent opportunism (Fama, 1980; Fama and Jensen, 1983) because when the principal has information to verify agent behaviour, the agent is more likely to behave in the interests of the principal (Eisenhardt, 1989). For instance, the principal may invest in information systems such as budgeting systems, reporting procedures, boards of directors, and additional layers of management (Eisenhardt, 1989).

Externally, agency theory relies on managerial labour markets to govern or discipline internal managerial behaviour (Fama, 1980). The theory of the market for corporate control may help co-align the interests of principals with agents. According to this theory, as top managers engage in self-interested behaviour, their company's performance is likely to increasingly diverge from its maximum potential (Fama, 1980; Fama and Jensen, 1983). Underperformance in this case will be reflected in the value of the company's stock (Walsh and Seward, 1990, p. 435). Under such circumstances, other management teams are likely to offer themselves to the shareholders as alternatives to the incumbent management. According to Wash and Seward (1990, p. 435), the "market for corporate control," then, is the competition among these management teams for the rights to manage corporate resources. As such, management teams of underperforming stocks risk being rooted out and replaced by efficient management teams who may put the assets of the firm to better use in alignment with the interests of principals. Thus, the market for corporate control provides an external control mechanism whereby the shareholders' interests can be served in the event of the breakdown of the internal control mechanism (Walsh and Seward, 1990). As per the theory of market for corporate control, poorly performing firms risk being acquired by their better governed and performing counterparts.

In short agency theory is based on the hypothesis that a net reduction in agency costs such as compliance with internal corporate governance mechanisms should maximise shareholder wealth and reduce conditions for corporate malfeasance, increase efficiency and maximise firm value. Compliance with recommendations on corporate governance control mechanisms to some degree aligns the interests of principals (shareholders) and agents. Agency theory in this regard is suitable to explain compliance with corporate governance codes for the purpose of serving the interests of this stakeholder group. The principal agent relationship under agency theory limits the explanatory power of this theory to one group of stakeholders i.e. shareholders.

However, firms have many relevant publics (stakeholders) apart from shareholders. Therefore, agency theory may not necessarily serve to explain why firms comply with corporate governance recommendations, more especially that firms seek to address the interests of other stakeholders such as environmental pressure groups, government agencies, customers, employees etc (triple bottom line reporting espoused by the King Code) in the pursuit of corporate objectives. This is so because principals do not have a responsibility to account to these stakeholders [at least in the context of agency theory]. Agency theory is therefore inadequate in terms of explaining corporate compliance with corporate governance principles, when other stakeholders are factored in, because it is limited to one stakeholder group [shareholders]. Other theories such as stakeholder theory, legitimacy, culture theory etc may better explain why firms may comply with corporate governance codes.

3.2.2 Signalling Theory

Signalling theory may also be used to explain the link between corporate governance mechanisms and various firm outcomes. Signalling theory (Spence, 1973) was originally suggested in order to explain information asymmetry in the labour markets. The theory has since been developed in a number of other areas including disclosure of voluntary information (see for example Ross, 1977). Signalling theory suggests that in corporate reporting, (because of asymmetry in the market for the information) companies that believe they are “better” than other companies signal this to investors in order to attract investment and a more favourable reputation. “The idea that the possessor of superior information or insight will signal what he knows either directly or through his actions to achieve some economic benefit has been studied in a variety of institutional settings” (Verrecchia, 1983, p. 20). Companies may do this by voluntary disclosing accounting information in excess of what is required by law and other regulation. Similarly, not disclosing something can be a signal in itself. However, because of what is known as “adverse selection,” companies will always wish to signal that they are better than average.” Thus they will (according to signalling theory) tend to choose disclosure over non-disclosure. Thus in the limit, theoretically, the equilibrium position will be full disclosure as all companies will have an incentive to disclose all positive distinguishing attributes in order to maximize their own self-interest.

In the same vein, companies may comply with best practice corporate governance principles to signal to shareholders and other stakeholders that they are better managed and thus worth investing in. Also, by appointing independent non-executive directors to the board, a firm signals to potential investors of its intentions of treating them fairly, by protecting their investment. By disclosing compliance to best corporate governance principles (signalling), a firm reduces information asymmetry. Prior studies have used signalling theory to explain the lick between principals and agents in modern corporations (see Shabbir and Padget, 2005; Black *et al.,* 2006).

As such signalling theory may also be used to explain compliance with the King Code like stakeholder theory which is discussed in the following section.

3.2.3 Stakeholder Theory

Freeman and Reed (1983) define stakeholders as any group or individual who can affect or is affected by the achievement of the organization's objectives. Stakeholder theory conceptualize the organization as part of a broader social system wherein the organisation impacts, and is impacted by, other groups within society (Freeman and Reed, 1983). The theory accepts that because different stakeholder groups will have different views about how an organisation should conduct its operations, there will be various social contracts 'negotiated' with different stakeholder groups.

Stakeholder theory is used to help understand the groups and individuals that can affect and are affected by the achievement of an organization's purpose. The stakeholder effects are categorised as technological, social, political, economic, regulatory and managerial. There are two branches of stakeholder theory, thus managerial stakeholder theory and the ethical (moral) stakeholder theory (Deegan and Unerman, 2006).

The managerial branch of stakeholder theory explicitly refers to issues of stakeholder power, and how a stakeholder's relative power impacts their ability to 'coerce' the organization into complying with the stakeholder's expectations. The moral (and normative) perspective of stakeholder theory argues that all stakeholders have the right to be treated fairly by an organisation, and that issues of stakeholder power are not directly relevant (Deegan and Unerman, 2006). Within the ethical branch of stakeholder theory, there is a view that stakeholders have intrinsic rights (for example, to safe working conditions, fair pay, etc), and these rights should not be violated. That is, each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group, such as the shareholders (Donaldson and Preston, 1995, p. 66).

Stakeholder theory has been critiqued for transforming all and sundry into a stakeholder" (multiple accountability), for being incompatible with substantive business objectives and with corporate governance (Key, 1999; Sternberg, 1999, p. 13) [14].

Stakeholder theory may also be used to explain why corporations may comply with good governance principles. Unlike agency theory, stakeholder theory encompasses various stakeholders. Compliance with social issues as recommended under the King Code e.g. HIV/AIDS, community outreach programmes, employment equity etc may be an attempt by corporations to indicate to other stakeholder groups of their good corporate citizenship. Hence stakeholder theory may be used to explain compliance with best practice CG principles in this regard.

3.2.4 Legitimacy Theory

Suchman (1995, p. 574) defines legitimacy as:

> *"a generalised perception or assumption that the actions of any entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions."*

Through legitimacy, the organisation seeks congruency between organisational actions and the values of its general and relevant publics (Dowling and Pfeffer, 1975; Lindblom, 1994) or its stakeholders (Haniffa and Cooke, 2005). A disparity (actual or perceived) between organisational and social values may jeopardise organisational legitimacy

[14] Key (1999) critiques Freeman's (1984) work for presenting an incomplete linkage between actors, and between internalities and externalities. According to Key (1999), while Freeman's model identifies both external and internal stakeholder groups, he incompletely maps out the limitless linkages between these groups and individual actors. Key (1999) argues that an individual actor within a stakeholder group can be a member of a variety of groups i.e. an employee can be a member of the internal stakeholder groups or stockholder and employee, and of external groups such as professional organization, consumer, environmental activist, parent group, or other community stakeholder group. Key (1999) argues that Freeman's contention that stakeholder can be identified as separable entities misses the complexities of the real linkages. She suggests that instead of identifying stakeholder groups, both internal and external interests that groups represent must be identified.

and yield legitimacy gap. Legitimacy theory asserts that organisations continually seek to ensure that they are perceived as operating within the bounds and norms of their respective societies, that is, they attempt to ensure that their activities are perceived by outside parties as legitimate (Grey et al., 1995; Dowling and Pfeiffer, 1975). These bounds and norms are not considered to be fixed, but change over time, thereby requiring organisations to be responsive to the ethical (or moral) environment in which they operate (Deegan and Unerman, 2006). Suchman (1995) argues that legitimacy is a perception or assumption in that it represents a reaction of observers to the organisation as they see it. It reflects congruence between the behaviours of the legitimated entity and the shared beliefs of some social group and dependent on a collective audience. Legitimacy could result in a number of benefits for an organisation e.g. legitimacy could enhance stability and comprehensibility of an organisation's activities; it could lead to persistence because audiences are most likely to supply resources to organisations that appear desirable, proper or appropriate. A legitimate organisation may not have to spend substantially to legitimate its activities.

3.2.4.1 Types of Organisational Legitimacy

Suchman (1995) outlines three broad types of legitimacy e.g. pragmatic legitimacy, moral legitimacy and cognitive legitimacy. Pragmatic legitimacy rests on audiences' self-interest, whereas moral and cognitive legitimacy do not. According to Suchman (1995), organisations often can purchase pragmatic legitimacy by directing tangible rewards to specific constituencies. On the other hand, moral and cognitive legitimation implicate larger cultural rules, and side payments in contravention of the cultural rules may diminish the organisation's stature and coherence, often even in the eyes of the favoured constituency. Both pragmatic and moral legitimacy rest on discursive evaluation, whereas cognitive legitimacy does not (Suchman, 1995). Organisations can win pragmatic and moral legitimacy by participating vigorously in explicit public discussion. However cognitive legitimacy is not based on unspoken orienting assumptions, and any attempts by the organisation to try and engage in heated defences of organisational endeavours may result in negative outcomes. Legitimacy therefore falls within continuum – from pragmatic, to the moral to the cognitive. As one moves to the left end of the continuum, legitimacy becomes more elusive to obtain and more difficult to manipulate, but becomes more subtle, more profound, and more self sustaining, once established (Suchman, 1995).

3.2.4.1.1 Pragmatic Legitimacy

Suchman (1995) argues that this type of legitimacy is assumed to rest on self interested calculations of an organisation's most immediate audiences, which involves direct exchanges not only between the organisation and audience but also can involve broader political, economic, or social interdependencies. There are two types of this kind of legitimacy, influence legitimacy and dispositional legitimacy.

Under influence legitimacy, constituents support the organisation not necessarily because they believe that it provides specific favourable exchanges, but rather because they see it as responsive to their larger interests. This type of legitimacy arises when the organisation incorporates constituents into its policy making structures or adopts constituents' standards of performance as its own. Influence legitimacy is clearly based on what an organisation's immediate audiences perceive it to be. For instance, a firm may influence the perceptions of its relevant publics by appointing previously disadvantaged people in its structures but without necessarily giving them any decision making authority. This may create an illusion that the firm embraces diversity, whilst in practice this is not the case. The explanatory power of this theory on compliance with corporate governance principles is important even though compliance in this case may be described as superficial e.g. compliance with the letter and not the spirit of the underlying principle(s).

Dispositional legitimacy, on the other hand is accorded by constituents to corporations that "have our best interests at heart," that "share our values," or that are "honest," "trustworthy," "decent," and "wise" (Suchman, 1995, p. 578). Dispositional legitimacy could prove to be some form of goodwill for the organisation in times of adversity, when perceptions about the organisations' good character may dampen the deligitimating effects of isolated failures, miscues and reversals.

3.2.4.1.2 Moral Legitimacy

Moral legitimacy could be consequential (evaluation of outputs and consequences), procedural (evaluations of techniques and procedures), structural (evaluation of categories and structures) and personal (evaluation of leaders and representatives) (Suchman, 1995, p. 579). Moral legitimacy reflects a positive normative evaluation of the organization and its activities. It is not based on judgements about whether a given activity benefits the evaluator but rather on judgements about whether a given activity is the right thing to do. These judgements according to Suchman (1995) usually reflect beliefs about whether the activity effectively promotes societal welfare, as defined by the audiences' socially constructed value system. Moral legitimacy differs from pragmatic legitimacy which is considered to reflect narrow self interest.

Consequential moral legitimacy is based on organisational accomplishments, whereby the level of rewards to organisations, are determined by judgements on the quality and value of their production outcomes. Procedural moral legitimacy is amassed by organisations which produce socially valued consequences by embracing socially accepted techniques and procedures.

Organisations acquire structural moral legitimacy if their structural characteristics locate them within a morally favoured classification as deemed by their constituents. The structure in this case is deemed as the organisations' capacity to perform specific types of work. Suchman (1995) argues that structural legitimation focuses on the general organisational features that arise when entire systems of activity recur consistently over time. Personal moral legitimacy is based on the charisma of individual organisational leaders. Personal moral legitimacy is based on the ability of organisational leaders to dodge potentially stigmatising events through strategies such as blaming a scapegoat or replacing an executive.

Moral legitimacy theory seems to extend the ethical branch of stakeholder theory by bringing into the fore the importance of the conduct of the firm in accordance with moral values of its constituents. A firm's constituents may not necessarily have uniform moral values because the constituents may not be a homogeneous group. As such, an expectation on the firm to fulfil moral practices of its constituents is a non-starter. Therefore the explanatory power of this theory on compliance matters is limited.

3.2.4.1.3 Cognitive Legitimacy

This form of legitimacy may involve affirmative backing for an organisation or mere acceptance of an organisation as necessary or inevitable based on some taken for granted cultural account. Cognitive legitimacy is based on cognition rather than on interest or evaluation. Organisations exist within a wider social system which affects and is affected by it (Freeman and Reed, 1983). Hence, organisations have to employ strategies to try and make themselves relevant [or at least appear to be] in the eyes of the respective publics. Various strategies are at the disposal of organisations for legitimacy purposes, some genuine some deceptive to some degree (Suchman, 1995).

A corporation has to maintain its legitimacy for its survival. Legitimation process requires an organisation to recognise its relevant publics (stakeholders), and take the interests of these stakeholders into consideration. This creates a link between agency theory, legitimacy theory and stakeholder theory, because rationally a firm would seek legitimacy from stakeholders who are relevant for its survival.

In terms of compliance with best practice corporate governance principles, societies may expect well managed corporations which protect the interests of stakeholders to adhere to these principles. Failure to comply with these principles may constitute a deviation from legitimate expectations of society and lack of congruency between organisational actions and the values of its general and relevant publics. As such legitimacy theory may be used to explain why corporations may comply with best practice corporate governance principles.

3.2.5 Institutional Theory

Institutional theory is the brainchild of DiMaggio and Powell (1983), who proposed three different isomorphic processes (coercive isomorphism, mimetic isomorphism and normative isomorphism) which bring about homogenization of organisations. Quoting Hawley (1968), they defined isomorphism as , "a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions" (DiMaggio and Powell, 1983, p. 149).

Coercive isomorphism, the first of these, *"results from formal and informal pressures exerted on organisations by other organisations upon which they are dependent and by cultural expectations in the society within which organisations function. Such pressures may be felt as a force, as persuasion, or as invitations to join in collusion" (p. 149).* They provide a series of examples whereby the homogenization process may come about, for instance, a response to government mandate such as the adoption of new pollution control technologies to conform to environmental regulations; hiring accountants by non-profit organisations to meet tax law requirements and employment of representatives of pressure groups to fend off allegations of say discrimination, sexism etc. Deegan and Unerman (2006) contend that this form of isomorphism is related to the managerial branch of stakeholder theory whereby firms will use voluntary corporate reporting disclosures to address the economic, social, environmental and ethical values and concerns of those stakeholders who wield more power over the organisation, possibly at the expense of other stakeholders.

DiMaggio and Powell (1983)'s second isomorphic process is mimetic isomorphism, which is linked to uncertainty which may result in organisations mimicking others or modelling themselves, to deal with ambiguous problems or unclear solutions. Mimetic isomorphism, they argue is a response to uncertainty. This process takes place without the permission and knowledge of the mimicked organisation and may come about through a number of avenues. For instance, it may be done unintentionally, indirectly through employee transfer or turnover, or through consulting organisations or industry trade associations. Deegan and Unerman (2006) associate this form of isomorphism with legitimacy theory, when organisations emulate or improve upon institutional practices of other leading organisations in their sector. They argue that this process is undertaken to maintain or enhance external stakeholders' perception of the legitimacy of organisations, because failure to follow innovative practices and procedures adopted by other organisations in the same sector would risk losing legitimacy with respect to the rest of the sector.

The third and final isomorphic organizational change is normative and stems from professionalism[15]. This form of isomorphism relates to the pressure arising from group norms to adopt particular institutional practices. Deegan and Unerman (2006) opine that, in the case of corporate reporting, accountants will comply with accounting standards as a form of normative isomorphism for the organisations they work for to produce accounting reports which are shaped by accounting standards. Normative isomorphism is also thought to affect voluntary reporting practice through less formal group influences from a range of formal and

[15] Professionalism in this case is defined as, "the collective struggle of members of an occupation to define the conditions and methods of their work, to control, "the production of producers" (Larson, 1977:49-52) and to establish a cognitive base and legitimation for their occupational autonomy" (DiMaggio and Powell, 183, p. 152).

informal groups to which managers belong, such as the culture and work practices developed within their work practices.

Basically, this theory proposes that institutions will endeavour to copy or emulate other institutions because they belong to the same social system and hence should be similar or identical in their practices. Institutional theory may be used to explain why corporations deem it necessary to comply with corporate governance codes e.g. through regulatory requirements (when codes form part of listing requirements) or through peer pressure or pressure from institutional investors or other groups; when they mimic other corporations within the same sector as a legitimation process; and to the demands of the professions of their staff members or other informal or formal groupings to which their managers belong.

Institutional theory is not without limitations; first this theory assumes that institutions are copy cats and would always be following on others to standardize their practices. What if an institution does not want to emulate others but seeks to be a leader? This aspect is not addressed by this theory. It is common practice in management circles that organisations are constantly trying to come up with new and better ways of doing things to be leaders in their industries. This desire for organisations to be at the top is not addressed by this theory. The copy cat assumption is not always the norm in social systems as per the assumption of this theory.

Second, although institutional theory speaks of the desire for institutions to be identical through the three isomorphic processes, it does not address (like stakeholder theory) a complete linkage between institutions and their internalities and externalities and how these combine to attain uniformity. Even though it addresses both external and internal isomorphic pressure, the theory does not clearly state how this would come to bear on the concerned institutions (institutions seeking uniformity). This leaves the reader to assume that logically, the organisation would feel pressure to be uniform or identical with other institutions because failure to do so it may be deemed irrelevant within its industry or society as argued by the theory. The theory also falls short of addressing the various external and internal environment of the institution which may influence it against uniformity. It also fails to account for the ever changing organisational environment and how this may affect the desire to be uniform with other institutions.

3.2.6 Reputation Theory

Reputation is defined as the opinion or social evaluation of the public toward a person, a group of people or an organization (Fombrun and Shanley, 1990). Reputation is a fundamental instrument of social order based upon distributed, spontaneous social control. It is 'the result of what you do, what you say, and what other people say about you' (Fombrun and Shanley, 1990). Reputation reflects the culture and identity of companies. It is the outcome of the efforts of managers to prove their success and excellence. According to Fombrum (1996:57) as cited in Carmeli and Tishler (2005, p. 16) a favourable corporate reputation, is a strategic resource as it reflects the firm's competitive position relative to its competitors. "Having a favourable organisational reputation means that the firm's constituencies perceive the firm as more attractive than other firms" (Carmeli and Tishler, 2005, p. 16).

Reputation is a vital resource, the protection of which is of fundamental importance (Chajet, 1997). The reputation of a company increasingly will influence its appeal as an investment choice (Chajet, 1997, p. 20). A corporation's reputation for more than just maximizing shareholder value will play an ever larger role in the battle for world market share (Chajet, 1997, p. 21). According to Fombrun and Shanley (1990), a good reputation enhances profitability because it attracts customers to products, investors to securities and employees to its jobs because the company will be regarded as a reliable, credible, trustworthy and responsible for employees, customers, shareholders and financial markets.

As per Fombrum and Shanley (1990), reputation results from firms actively signalling `key characteristics to constituents to maximize social status.' Hall (1992) contends that the information stored in a reputation may influence evaluations by publics, allow the firm to attain privileged positions with its customers and supply chain, and, potentially, influence evaluations of investors (Srivastava *et al.*, 1997). Once a reputation has been established, it may help to frame the way that publics detect and interpret events which affect the firm (Srivastava *et al.*, 1997). Srivastara *et al.,* (1997) also argue that a strong reputation may indirectly affect equity markets' evaluation through its impact on operational performance.

Reputational theory basically explains how the perceptions of the publics' within the firm's social system perceive it because of its past interactions with them or because of its communication(s) with them. This theory posits that good reputation will be rewarded and bad reputation will be punished. In the context of compliance with corporate governance principles, a firm will be considered to have a good reputation if it complies with what the social system perceives as recommended best practice corporate governance principles or standards and may be rewarded by being perceived as safe to invest in by potential investors. For instance a firm which complies with the recommendations from the King Code may be perceived to have best corporate practice and attractive to investors and other stakeholders. Reputation is also important to corporate managers' especially non-executive directors. This theory is therefore important in explaining the behaviour of corporate entities or people involved in corporate management with regard to compliance with good corporate governance principles. If best practice corporate governance principles are considered by the firm's publics as a measure of good corporate governance, it may be expected that firms would comply more to earn good reputation from the respective publics.

In the following section 2.3, literature on corporate governance will be discussed and a gap in the literature identified. The section starts by briefly discussing different areas in CG before focussing on the main area of interest, compliance.

3.2.7 Corporate Governance & Culture

Hofstede (2005) identifies four universal dimensions[16] of national culture that attempt to explain general similarities and differences in culture around the world. Hofstede (2005) suggests that specific relationships exist between these cultural dimensions and individuals' preferences and actions. These dimensions are *uncertainty avoidance, individualism* versus collectivism, *masculinity* versus femininity, and large versus small *power distance.* Gray (1988) proposes a connection between these cultural dimensions and countries' financial reporting systems. Specifically, Gray identifies four accounting values[17] (professionalism, uniformity, conservatism and secrecy) and posits that accountants' levels of these accounting values are related to and derived from Hofstede's cultural values.

Tsakumis (2007) reviews literature which has tested Gray's hypotheses at the country level using financial statement data to examine the relationship between Hofstede's cultural dimensions scores and one or more aspects of countries' financial reporting systems (e.g. Eddie, 1990; Salter and Naswinder, 1995; Gray and Vint, 1995; Sudarwan and Fogarty, 1996; Zarzeski, 1996; Wingate, 1997; Jaggi and Low, 2000; Hope, 2003).

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[16] These dimensions are determined empirically from an attitude survey of approximately 116,000 IBM employees. These dimensions are: *uncertainty avoidance (UA*), the degree to which individuals in a society feel uncomfortable with uncertainty and ambiguity; *individualism (IND*), relating to people's self-concept of 'I' or 'we', or a society's preference for a loosely knit social fabric or a more interdependent, tightly knit social fabric; *masculinity (MASC*), the extent to which gender roles are differentiated within a society and the extent to which traditional masculine values of performance and visible achievement are emphasized relative to traditional feminine values of relationships, caring and nurturing; and *power distance* (*PD*), the extent to which hierarchy and unequal power distribution in institutions and organisations are accepted. Hofstede's framework has been used extensively in numerous disciplines to examine the influence of culture on individuals' performance and decision-making (e.g., Lu *et al.*, 1999; Ryan *et al.*, 2000; Thomas and Bendixen, 2000). In addition, accounting studies (e.g., Schultz *et al.*, 1993; Cohen *et al.*, 1995; Harrison and McKinnon, 1999; Patel *et al.*, 2002) show that Hofstede's dimensions appear to capture the essence of national culture in a way that has been useful in academic research.

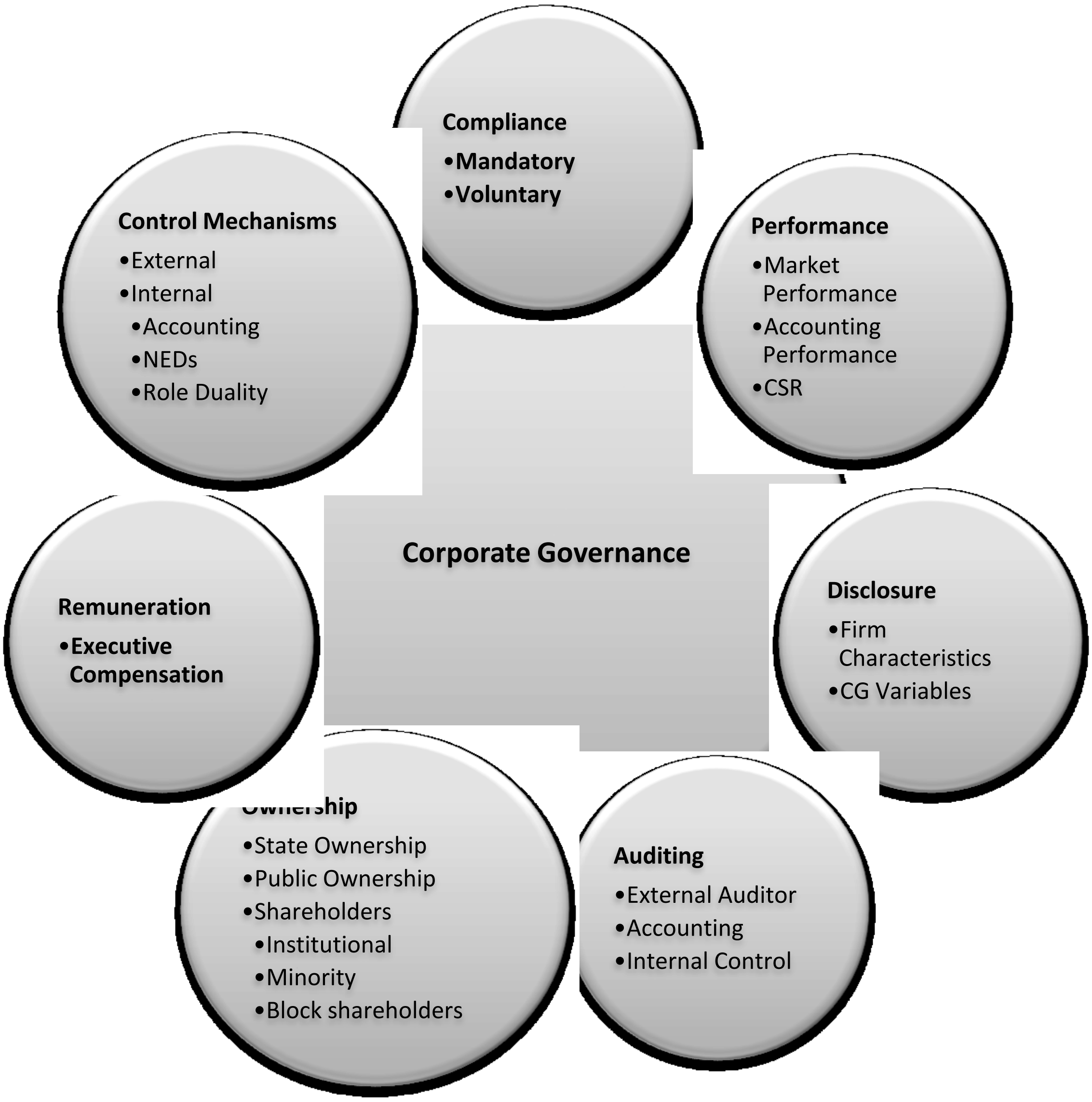
[17] Gray's identified four accounting values as follows (Gray, 1988, p. 8): the higher a country ranks in terms of Individualism and the lower it ranks in terms of Uncertainty Avoidance and Power Distance, the more likely it is to rank highly in terms of Professionalism. The higher a country ranks in terms of Uncertainty Avoidance and Power Distance and the lower it ranks in terms of Individualism then the more likely it is to rank highly in terms of Uniformity. The higher a country ranks in terms of Uncertainty Avoidance and the lower it ranks in terms of Individualism and Masculinity, the more likely it is to rank highly in terms of Conservatism. "The higher a country ranks in terms of Uncertainty Avoidance and Power Distance and the lower it ranks in terms of Individualism and Masculinity then the more likely it is to rank highly in terms of Secrecy (Gray, 1988).

In this study, Hofstede and Gray's framework is used to try to explain the association between compliance with CG principles and ethnicity. Few studies in Malaysia have been identified which have examined the relationship between ethnicity and CG (e.g. Haniffa and Cooke, 2002; 2005; Wahab *et al.*, 2007). Results of these studies may not be extended to other countries because cultures vary across countries. These studies are reviewed in sections 3.1.3 and 3.1.5.

3.3 Literature Review

Corporate governance covers a wide variety of areas or themes such as compliance, performance, disclosure, auditing, control mechanisms, ownership and remuneration/compensation. Figure 3.2 presents a pictorial view of the various areas/themes in corporate governance.

Figure 3.2 Corporate Governance Themes



Source: Based on analysis from literature review by author

3.3.1 Studies on Corporate Governance

Studies on CG and performance have examined the relationship between corporate performance and various CG characteristics such as board size (e.g. Yermack, 1996; Vafeas, 1999; Coles *et al.*, 2008; Eisenberg *et al.*, 1998; Bozec, 2005; Guest, 2009; Haniffa and Hudaib, 2006; Adams and Mehran, 1995; Beiner *et al.*, 2005; Beiner *et al.*, 2006; Henry, 2008; Sanda *et al.*, 2005; Mangena and Tauringana, 2008), board composition (, board leadership or role duality (see Rechner and Dalton, 1991; Dahya *et al.*, 1996; Ho and Williams, 2003; Haniffa and Hudaib, 2006; Bozec, 2005; Vafeas and Theodorou, 1998; Laing and Weir, 1999; Weir and Laing, 2000; Sanda *et al.*, 2005; Mangena and Chamisa, 2008) and concentrated ownership by insiders and outsiders (e.g. Ho and Williams, 2003; Mangena and Tauringana, 2008Yermack, 1996; Agrawal and Knoeber, 1996; Laing and Weir, 1999; Bozec, 2005; Sanda *et al.*, 2005).

Instead of examining single CG mechanisms, some researchers construct a comprehensive set of CG recommendations to investigate the CG-performance association, see Gompers *et al.* (2003); Bebchuk *et al.* (2009); Core *et al.* (2006); Bhagat and Bolton, (2008) and Ntim (2009) among others. Generally, findings from these studies are contrasting. For instance, others find a positive nexus between CG-performance association e.g. Gompers *et al.* (2003); Bebchuk *et al.* (2009); Ntim (2009) while others report a negative association i.e. Arcot and Bruno (2007); Henry (2008); Core *et al.* (2006).

Studies have also been conducted to examine how **c**orporate governance mechanisms shape executive pay (Conyon, 1997; Jensen, 1993). For instance, in the UK, Main and Johnson (1993) find a positive relationship between presence of a remuneration committee and higher executive pay. Other studies find a negative association between presence of remuneration committee and executive pay (e.g. Vefeas, 1999; Conyon, 1997a; Chhaochharia and Grinstein, 2009; Sun and Cahan, 2009) while others report a limited role of remuneration committees in determining management compensation (i.e. Conyon and Peck, 1998). Another stream of literature finds no evidence of an association between remuneration committee and executive compensation (e.g. Girma *et al., 2007;* Conyon, 1997b; Vafeas and Theodorou, 1998). Recently, Weir and Laing (2000), Weir *et al.* (2002), Dulewicz and Herbert (2004), and Bozec (2005) provide evidence which shows that the establishment of the three board committees has no significant impact on financial performance.

Studies have also been conducted to investigate the association between corporate characteristics and disclosures in annual reports (see, for example, Singhvi and Desai, 1971; McNally *et al.*, 1982; Cooke, 1989, 1992, 993; Wallace and Nasser, 1995; Deegan *et al.,* 2002; Brammer and Pavelin, 2006; Alsaeed, 2006; Ghazali, 2007) among others. Most of these studies measure corporate disclosure by developing a country level disclosure index and then attempt to relate the quantity of items disclosed and corporate characteristics.

Other studies extend previous studies on the determinants of corporate disclosure by examining the association between corporate disclosure and CG mechanisms (e.g. Chen and Jaggi, 2000; Eng and Mak, 2003; Gul and Leung, 2004; Haniffa and Cooke, 2002, 2005; Mangena and Chamisa, 2008) among others. Current study is on CG and compliance; as such attention will be paid to studies on corporate governance and compliance.

3.3.2 Corporate Governance and Compliance

3.3.2.1 Studies from the Developed World

Most studies on compliance with CG codes have been conducted in the developed world such as in the UK (see Arcot *et al.*, 2010; Conyon and Mallin, 1997; MacNeil and Li, 2006; Weir and Laing, 2000), Germany (see Talaulicar and v. Werder, 2008; Werder *et al.*, 2005), Portugal (see Alves and Mendes, 2004) and Spain (see Fernández-Rodríguez *et al.*, 2004) among others. In the UK, Weir and Laing (2000) analyse the extent of compliance with three key Cadbury recommendations (e.g. CEO duality, non-executive directors and the existence of board committees) and examined whether size affects firm compliance and the impact of compliance on corporate performance. Based on a sample of the largest 200 non-financial London Stock Exchange (LSE) listed companies, they compare data for the years 1992 (Pre-Cadbury) and 1995 (post-Cadbury). They find that compliance with recommendations from Cadbury increased between 1992 and 1995. For instance they find that the proportion of boards with at least three outside directors was high in 1992 at 83% and rose to 90% in 1995. In 1992, 29% of firms had a combined CEO and chair. By 1995 the figure had fallen to 15% indicating a clear move away from this type of structure. They also find a large increase in the percentage of firms with remuneration committee from 51% in 1992 to 95% in 1995. They also find that the impact of Cadbury seems to depend on the type of performance measure used e.g. higher market returns if firms have a remuneration committee but this is not reflected in ROA.

They find that large UK listed firms have embraced the Cadbury Code in terms of compliance with CEO duality, the number of outside directors on the board and the appointment of board subcommittees, consistent with Conyon and Mallin (1997). Their results also show that complete compliance with the model proposed by Cadbury does not appear to result in superior performance when compared to the performance of firms which complied in part or did not comply at all. Their results suggest that the increase in compliance with the Code may have been influenced by the LSE requirement on quoted companies to explain their governance policies and give reasons for not complying with it. The public nature of the justifications which firms have to proffer may have influenced compliance with the Code. In a similar study, but using a larger sample size of 320 non-Financial Times 1000 companies, Weir and Laing (2001) analyse the extent of compliance with three key Cadbury recommendations (e.g. CEO duality, appointment of non-executive directors on the boards of quoted companies and the existence of board committees) and its impact on corporate performance pre- and post-Cadbury for 1995 and 1996. They find that widespread adoption of Cadbury's recommendations does not necessarily lead to better performance (ROA). Their results suggest that merely adopting a "tick box" approach does nothing to ensure that shareholder interests are being actively pursued. In a study of FTSE 100 serial non-compliers, MacNeil and Li (2006) show that although compliance with the UK Combined has increased over time, investors' tolerance for non-compliance is related to a great degree to superior financial performance and that investors seem to rely on financial performance as a proxy for non-compliance rather than engaging in the tedious task of evaluating the merits of corporate provisions. As such, this casts a doubt that compliance does not necessarily lead to positive financial performance.

Dedman (2000) examines whether compliance with the recommendations of the Cadbury Report (1992) on CEO duality would be influenced by firm size, ownership structure, performance and the level of entrenchment of the top executive. Using a sample of 333 non-financial firms from the FT All Share Index in April 1990 and April 1993, she finds that the decision to split the roles of top executive and chairman is unrelated to firm size, ownership structure and performance.

Arcot and Bruno (2010) analyse 245 non-financial FTSE350 companies for the period 1998 to 2004 to determine if companies do embrace the Combined Code and how the code has impacted on monitoring of governance by shareholders. They also examine whether companies provide adequate explanations in case of non-compliance. They hand collect data from CG statements included in annual reports and details of each company's compliance with the provisions of the code and the explanations provided in case of non-compliance. They find that compliance with the code increased monotonically between 1998 and 2004 (e.g. a low of 10% in 1998–99 to a high of 56% in 2003–04). They report high percentages of compliance for companies that are non-family owned, members of the FTSE100 index, and companies cross-listed in other exchanges (mainly in the US)[18]. They also find that 17% of non-complying companies over the period of study failed to provide any explanations of non

[18] Trend analysis is used to analyse compliance and factors which influence compliance (descriptive study on compliance).

compliance. Non-complying companies were also found to provide standard and uninformative statements (51%) or provide the same explanation from one period to the next. They argue that the common use of uninformative explanations indicates a possible monitoring problem and issues of enforcement. This also raises concerns of inadequate information conveyed to minority shareholders.

In Germany, Pellens *et al.* (2001) survey companies in the DAX100 and find that 95.6 per cent of the firms comply with the provisions of the German code of good governance and 48.5 per cent have already implemented the German Code as a company guideline. More recently, Werder *et al.* (2005) have examined the degree of conformance to mandatory recommendations put forward in the German Corporate Governance Code (GCGC)[19] by 188 corporations listed on the Frankfurt Stock Exchange and 220 other companies which do not belong to any index for the period Feb 2002 – Feb 2003. Their study is based on a total of 408 compliance declarations which were content analysed to determine compliance with the 62 recommendations of the Code. They rate items as "yes" (complied with), "no" (not complied with) or "in the future" (to be complied with in the future), depending on the reported compliance with the corresponding norm. They find that overall, the recommendations of the GCGC attain a high degree of conformance and that it increases with the size of the companies[20].

Studies on compliance have also been conducted in Portugal and Spain by Alves and Mendes (2004) and Fernández-Rodríguez *et al.* (2004) respectively. In Portugal, Alves and Mendes (2004) analyse whether public companies complying with 13 best practice CG

[19] The Code contains provisions which are mandatory ("must provisions") and those which are voluntary (i.e. "shall recommendations" and "should or can suggestions"). As per Section 161 of the Stock Corporations Act, German corporations are required to issue declaration of conformity with the Code, stating the GCGC code provisions they have complied with ("shall provisions") and those they have not complied with (Werder *et al.*, 2005, p. 179).

[20] Also, in Germany, Bebenroth (2005) examines the impact of EPS and average stock price to Most Commonly Unaccepted Recommendations (MCURs) of GCGC. She finds no significant association between EPS and compliance and a significant association between average stock price with most of the MCURs recommendations.

recommendations from the CMVM[21] perform better. Compliance was measured using a closed-ended questionnaire sent by CMVM to listed companies between 1998 and 2001. To determine the degree of compliance with the 13 recommendations in the questionnaire, they adopted a dichotomous un-weighted scoring regime which scored an item *"1"* if companies complied with it and *"0"* otherwise. They find that compliance with recommendations from CMVM improved between 1998 and 2001. They conduct a series of regression analyses (154 equations) between company returns and measures of compliance and find significant association between the compliance of some CG recommendations and company returns. Overall they conclude that CMVM code of best practice has a negligible effect on company returns.

Fernández-Rodríguez *et al.* (2004) use a database of the announcements of compliance with the Spanish Code of Best Practice for 1998-2000, to analyse investors' valuation of firms' compliance with the Spanish Code. They also investigate the extent to which the degree of compliance, the companies' prior performance and firms' corporate characteristics may account for the observed excess returns. Using announcements from a sample of 57 Spanish Stock Exchange listed firms, they find that firms which make announcements of compliance with the Code experience positive abnormal returns. Their results suggest that the markets value positively announcements relating to significant restructuring of the board, more especially in low geared firms and firms with a higher percentage of executive directors. They conclude that investors value the monitoring role of the Spanish Code of Best Practice in firms which are not actively monitored by debt and where managers may dominate the board.

In Australia, Henry (2010) examines whether adherence to Australian Principles of Good Corporate Governance and Best Practice Recommendations of 2003 is associated with agency cost benefits for companies listed in the Australian Securities Exchange (ASX) for the

[21] Portuguese Securities Market Commission

period of 1992 to 2002. He randomly selected 120 of the largest companies listed on the ASX as at June 1996 excluding property and investment trust companies, banking and utilities because of unique management, financing and ownership structures. The analysis involves relating the index of compliance by ASX listed firms with a number of agency cost proxies (e.g. asset utilisation ratio, discretionary expenditure ratio, Q ratio and interaction of free cash flow and growth) to determine whether compliance with code recommendations will generate agency cost reduction benefits. He constructs an un-weighted compliance index by scoring provisions *"1"* if complied with and *"0"* otherwise. By controlling for a number of company characteristics examined in prior literature, he finds that compliance with individual provisions from the Code has no substantial impact on firm level agency costs. However, greater conformity with the governance compliance index is found to significantly reduce firm agency cost levels.

3.3.2.2 Studies from Emerging Markets

Studies on corporate compliance with governance codes have also been conducted in the emerging markets. For instance, in Malaysia, Wahab *et al.* (2007) examine the extent of compliance of Malaysian companies with the Malaysian Code of Corporate Governance (MCCG). They test whether ethnicity (proportion of Bumiputera directors on the board) and political connections, in addition to other factors which past studies have found to be significant such as firm size, auditor type, performance, debt, managerial ownership, institutional ownership etc, influence the extent of compliance. Using a sample of 440 firms listed on the Main Board of Bursa Malaysia from 1999 to 2002 they investigate compliance with 30 provisions consisting of a wider group of governance features from the MCCG. They score compliance with provisions from MCCG on the basis of an un-weighted scoring regime which scored an item *"1"* if adhered to and *"0"* otherwise.

They find that the extent of compliance with the best practice CG principles from MCCG increased twofold (31.25 to 62.50) after the reform in 2001. They also find that compliance with board and directors issues[22] was higher indicating that firms adopted these practices long before the 2001 reform. With regard to factors which influence compliance, they find a significant relationship between stock performance and CG. They suggest that firms may adopt good governance principles following good performance. They also find an association between institutional ownership and CG for politically connected firms, which suggest that politically connected firms have high institutional shareholding. Contrary to Haniffa and Cooke (2002), they find a positive association between the proportion of Bumiputera directors on the board and extent of compliance. Their results suggest that Bumiputera directors are less secretive and more willing to inform investors about firms' governance structures.

3.3.2.3 Studies from the Developing World

Few studies on corporate compliance with CG codes have been conducted in the developing world such as in Cyprus by Krambia-Kapardis and Psaros, (2006) and SA (see Deutsche Bank, 2002, KPMG, 2003, 2004; 2006 and Ntim, 2009).

In Cyprus, Krambia-Kapardis and Psaros (2006) investigate the level of compliance with the Cyprus Corporate Governance Code by companies listed on the Cyprus Stock Exchange. Using a sample of 46 listed Cypriot companies for the year 2002 they compared compliance narrations from CG reports of the sample firms with the Code and found that only 29% of listed firms are *"CG sensitive"*. They attribute low compliance with the Code to the lack of important free market controls that facilitate international institutional investment (e.g. low degree of ownership concentration, reliable and timely information flows and

[22] These consist of 6 provisions thus: Role duality, board independence, independence of audit and remuneration committee, CEO not sitting on the remuneration committee and disclosure of board appointments.

opportunities for investor diversification). Their results suggest that CG codes may not be effective if not backed by important CG framework. These results have implications for developing countries which tend not to have fully developed legal and regulatory systems, enforcement capacities and private sector institutions required to support effective CG (Gregory and Simms, 1999, p. 6).

3.3.2.4 Studies from SA

In SA, a few opinion surveys have examined some aspects of compliance with the King Code II (see for example KPMG, 2003, 2004, 2006 and Deutsche Bank, 2002). In 2003, KPMG analysed corporate reporting of JSE's Top 100 Companies on integrated sustainability reporting and found that 85% of the companies reported on sustainability related issues and 77% of the companies referenced the existence of an internal code of ethics or code of corporate conduct. The survey also reported that many companies were only giving superficial and general disclosures for the King II Code. In 2004, KPMG conducted a similar survey on 154 companies listed on the JSE All Share Index and found that the companies which have been providing some form of sustainability reporting within their public reports had declined to 64%. They attribute the difference between compliance with integrated sustainability reporting issues in 2003 and 2004[23] to the use of different sample sizes as well as different interpretations of the information provided in the published annual reports.

Similar to its other previous studies, KPMG (2006) surveyed 141 JSE All Share Index companies, focussing on one aspect of the King Code [Integrated Sustainability Reporting]. The survey reflects on the extent to which business has complied with the recommendations of King II through an assessment of the non-financial reporting of business on issues

[23] Similar studies conducted annually and based on different sample sizes.

including social, transformation, ethical, safety, health and environment. Using reports[24] published during the period June 2005 to June 2006, they report that JSE listed companies are *"attempting to improve the level and extent of their sustainability reporting (p.1)"* especially on Black Economic Empowerment and HIV/AIDS related issues[25]. They also report that significant improvement is still required in terms of reporting on the severity of environmental incidents, accounting for the value of Corporate Social Investment contributions and environmental management.

The Deutsche Bank (2002) survey sought to evaluate SA's (SA) CG framework and the individual CG practices of 73 companies which the bank follows. The report's main objectives were to establish a list of emerging market companies that the bank considered to have exemplary CG standards on a global basis and to explore and quantify the relationship between CG, stock performance and valuation. The survey found very limited cases of full compliance with the King Code and a tendency to comply only with the letter and not the spirit of the Code. Specifically, the report found that board membership in SA companies ranged from 5 to 30 with an average of 12 board members; 60% of companies had established an audit committee while 47% and 16% had established compensation and nominating committees, respectively. Almost two-thirds of companies surveyed had not met the requirement to have a majority of board members independent. In terms of the set objectives, the report found that SA companies with better CG trade at a higher valuation than those with poor CG standards.

More recently, Ntim (2009) conducted a comprehensive study on internal CG and firm performance in SA. Using a sample of 100 South African listed firms from 2002 to 2006

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[24] They used sustainability reports, annual reports or a combination of the two. They classified companies in terms of 8 industry groups and developed a questionnaire which was used for scoring annual reports of companies. Annual reports were read and sections relating to integrated sustainability reporting identified and scored.

[25] Their analysis of compliance is divided into three categories; fully addressed, partially addressed and not addressed in the report. Their results indicate that in 2004, 56% (20% in 2006) made no reference to code of ethics; 70% (23% in 2006) made no reference to whistleblowing, and 62% (28% in 2006) made no reference to preferential procurement. Generally, the results indicate that although there was an improvement between the two periods, compliance was still very low among sampled firms.

(500 firm year observations), he self-constructed a compliance checklist consisting of 50 items from the King Code II to investigate the level of compliance with the provisions of the King Code (2002) and whether such compliance leads to better performance. He finds that, on average, corporate compliance with the King Code II increased from 48% in 2002 to 68% in 2006. In terms of factors influencing compliance, he finds that on average, large firms complied more with the King Code II than small firms. For instance, large firms had an average compliance with the Code provisions of 75% compared to 44% by small firms. Similarly, firms audited by Big 4 audit firms were found to comply more with the King Code than their non-Big 4 audited counterparts. He also finds a statistically significant and positive relationship between compliance and performance[26] measured in terms of ROA and Q-ratio. These results suggest that South African listed firms with better CG trade at a significant valuation premium compared to those with poor CG standards.

3.4 Literature Gap

Studies on compliance with corporate governance principles suffer from several limitations. First, some of them examine compliance with a few governance factors such as CEO duality, non-executive directors and the existence of board committees (see Weir and Laing, 2000; Weir and Laing, 2001). Compliance with a few code provisions may not show the true extent of compliance with the entire code. To overcome this limitation, the current study examines compliance with all provisions from the code so as to understand the true

[26] In terms of specific CG variables and performance, he reports an insignificant negative association between board diversity and ROA & Q-ratio. The negative relationship between board diversity and firm performance could be attributed to the fact that the number of board members from diverse backgrounds on the boards of South African listed firms is substantially small. As such they may not be able to make a significant impact on firm financial performance. There is a negative insignificant relationship between board size and ROA and a positive significant association with Q-ratio, in line with the argument that the market appears to perceive larger boards as more effective. A statistically significant and positive relationship between ROA & performance and a statistically insignificant and negative relationship between Q-ratio and performance is reported meaning that duality has no significant impact on the sampled firms' market value. Other variables tested include percentage of non-executive directors on the board, frequency of board meetings, presence of board committees and director share ownership.

extent of compliance with the King Code. Second, their samples are biased towards large firms (e.g. Times 1000, FTSE350) (see Weir and Laing, 2000; Weir and Laing, 2001; Bruno and Arcot, 2010); as such, the results cannot be extended to smaller firms. The current study will use a sample drawn from all firms listed in the JSE. Third, others do not statistically test the relationship (based on descriptive statistics only) between compliance and factors which influence compliance (e.g. Werder *et al.*, 2005; Arcot and Bruno, 2010) and do not examine factors which influence compliance (see Alves and Mendes, 2004). The current study will conduct descriptive analysis, correlation and multiple regression tests to determine the relationship between compliance and factors which influence compliance. In a way, the study will determine the causal effect of one variable upon another.

Fourth, other studies such as Fernández-Rodríguez *et al.* (2004) examine compliance and factors which influence compliance but do not examine the effect of culture on compliance. Although other studies such as Wahab *et al.* (2007) examine compliance and whether culture (proxy ethnicity) influences compliance, their results may not be extended to other countries because of cultural differences. For instance, the Ubuntu culture of blacks in SA is different from the culture of the Bumeputera in Malaysia, which implies that results from this study may not be extended to SA. As such, the current study will examine whether the Ubuntu culture influences compliance in the SA setting.

Other limitations of these studies include sample selection bias (e.g. Deutsche Bank and KPMG) as companies under consideration consist mainly of large companies including some with dual listings (e.g. Anglo American Plc, SAB Plc) in other stock exchanges such as the London Stock Exchange. In addition, the sample consists of companies followed by Deutsche Bank only and may not be representative of all JSE listed companies. Furthermore, they focussed on one aspect of the King Code (e.g. KPMG 2003, 2004, 2006), i.e. integrated sustainability reporting, and did not examine factors which may influence compliance with the King Code.

In the case of Ntim (2009), he only considered compliance-performance relationship in the post-King Code II period and not during the King Code I and did not consider ethnicity as a possible explanatory variable (see section 1.1 on limitations relating to Ntim's (2009) study). For instance Ntim's (2009) focuses on compliance with King II only while current study examines compliance with both King I and II and does not examine compliance with the four key issues as recommended in the Code. Also, although Ntim (2009) investigate some factors affecting compliance, he does not examine the effect of ethnicity on compliance with the Code. An examination of this aspect will help us to understand how corporate SA behaves in terms of compliance when their structures are occupied by people from the two main ethnic groups (e.g. blacks and whites). The aspect is even more important to investigate given the stark contrasts between the blacks and whites culture in SA (Poovan, 2005).

Based on a review of previous studies, gaps in the literature were identified in terms theory, methods employed and context of the studies. The literature review has established that most studies focussed on board, company and market characteristics in explaining CG and compliance (e.g. Arcot *et al.*, 2010; Fernández-Rodríguez *et al.*, 2004; Ntim, 2009; Weir and Laing, 2000). For instance, most studies on compliance with CG codes have examined various factors which are associated with compliance such as size, auditor type, debt, profitability, listing status etc. and only a few studies on compliance (e.g. Wahab *et al.* 2007) with CG codes, considered 'ethnicity' as a potential explanatory variable. One possible reason is perhaps due to ethnicity not being an important issue in the context of the countries where those studies were conducted. However, it is important to examine this aspect in countries where there is positive economic discrimination such as in Malaysia (Haniffa and Cooke, 2002), Fji (Narayan, 2008; Prasad, 1998), Sri Lanka (Xu *et al.*, 2007) including SA. Given the political history of SA and the cultural differences between the two main ethnic groups ("blacks" and "whites") in the country, it is important to examine the behaviour of corporations with structures occupied by "black" and "white" executives, not only in terms of compliance with the King Code, but also in terms of other CG issues (e.g. disclosure, performance etc). Corporate governance is an activity which involves *"*both human and non-human resources or techniques as well as the interaction between the two (Haniffa and Cooke, 2005, p. 392). People have cultural backgrounds which may influence them to behave in certain ways. As such it is important to investigate whether individuals from different cultural backgrounds (e.g. blacks and whites) may influence corporations to behave in accordance with the dictates of their cultures. Therefore, the current research seeks to extend the literature on compliance with CG codes by factoring in the 'ethnicity' aspect. As a consequence, in addition to agency, stakeholder and other theories, current research will use Hofstede-Gray theory to explain the association between firm compliance and CG in SA.

Literature review has also found that most studies on compliance with CG codes tend to examine extent of compliance with a few CG factors e.g. boards and directors issues only (see Weir and Laing, 2000; Conyon and Mallin, 1997). As such, results of these studies do not show clearly the extent to which listed firms comply with all provisions from CG codes. To overcome this limitation, the current study will not only examine the extent of compliance with all provisions from the King Code, but will analyse compliance with the Code in terms of the four key issues e.g. boards and directors, risk management, accounting and auditing and integrated sustainability reporting. This will help us to understand which of the four key issues (provisions) from the Code JSE listed firms tend to comply with more/less. This is particularly important because the King Code makes recommendations on aspects such as black economic empowerment, employment equity, etc which are traditionally not part of corporate reporting.

In terms of research methods, the literature review has found that most of the studies are limited to quantitative analysis only (statistical analysis). In addition to quantitative analysis, the current study seeks to extend literature on corporate governance by examining the views/opinions of key stakeholders [e.g. regulators, King Code Commissioners, companies and institutional investors] on the King Code, corporate compliance with the Code, corporate governance in SA in general and the influence of the Code in the SADC region. The views of key stakeholders are important to examine so as to understand whether key stakeholders view the Code as relevant and important for SA. It is also important to find out from key stakeholders whether the Code serves the purpose for which it was intended (e.g. improvement of corporate governance standards) and whether. As discussed in section 1.0, it is important to understand whether the King Code has had a positive impact in the SADC region. This understanding will help investors and other stakeholders to appreciate the status of CG in this region.

By addressing these gaps, current research will contribute to the thin literature on compliance with the King Code, but also to the lack of literature on CG in Africa (Mangena and Chamisa, 2008; Okeahalam, 2004; Tsamenyi *et al.*, 2007).

3.5 Chapter Summary

The main objective of this chapter has been to review the literature on CG. In this regard, selected studies on CG were reviewed such as on performance, compensation and disclosure. Generally, empirical evidence from these studies indicates conflicting results. The chapter also presents a comprehensive review of literature on corporate compliance with CG principles. Most studies on compliance with CG codes have been conducted in developed countries, with a limited focus on board and directors' issues only. Also, some of these studies examine performance and some aspects of compliance while a few examine comprehensive compliance with CG principles.

Further, not many studies have been found which examine the effect of ethnicity of corporate compliance with CG principles. As such, this chapter has established that prior literature has not examined whether ethnicity influences corporate compliance with CG principles. Literature review has also established that most studies on compliance with CG principles tend to rely on agency theory to explain the association between compliance and CG.

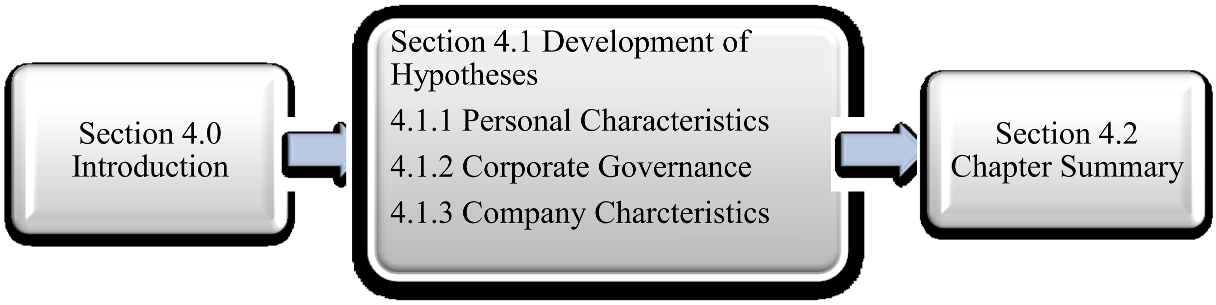
In the next chapter, hypotheses necessary to test the relationship between corporate compliance and factors which influence compliance will be developed.

4 Chapter Four: Theoretical Framework & Development of Hypothesis

4.0 Introduction

In Chapter Three, the extant literature on corporate governance was discussed. More importantly, a gap in the literature on corporate compliance with corporate governance principles was identified. In particular, it was noted that research on the extent of compliance with corporate governance recommendations and the factors influencing compliance is limited. Most importantly, it was observed that the effects of ethnicity on compliance with corporate governance is very limited internationally, and non-existent in South Africa. It was also found that prior literature on corporate compliance with governance principles tends to rely on quantitative analysis only to examine corporate compliance with corporate governance principles. Consequently, the research objectives were developed as follows: first to examine the extent of compliance with the SA King Code of corporate governance, second to investigate the factors which influence compliance with the Code and to examine whether in particular ethnicity influences compliance with the Code. In this chapter, the hypotheses to be tested in answering the research questions are formulated. The chapter ends with a summary. Figure 4.1 presents an overview of the chapter.

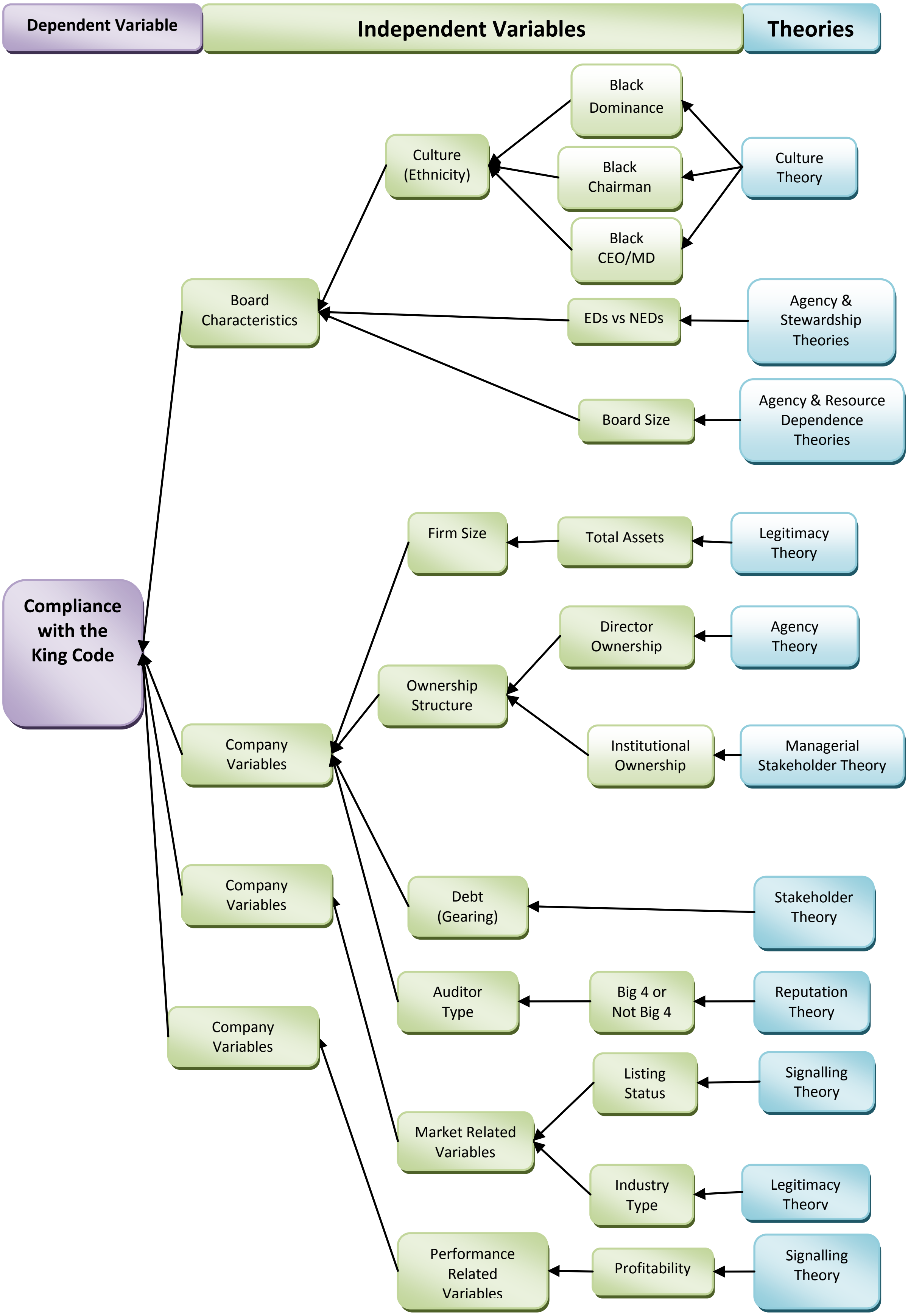
Figure 4.1 Chapter Plan



4.1 Development of Hypothesis

This section develops the hypotheses by discussing the relevant theories that attempt to link corporate governance structures and compliance. Various theories (as discussed in chapter three) underlying corporate governance, drawn from various disciplines (e.g. economics, accounting, law inter alia), are used to explain the link between variables under investigation and compliance. Figure 4.2 presents a theoretical framework of the relationship between the dependent variable and independent variables.

Figure 4.2 Relationships between Dependent and Independent Variables



4.1.1 Personal Characteristics

An important function of the board of directors is to minimize agency[27] costs that arise from the separation of ownership and decision control of the modern day corporation (Fama and Jensen, 1983). The Board guides and monitors the business and affairs of the company on behalf of the shareholders by whom they are elected and to whom they are accountable. Various factors, such as size, composition, culture, qualifications of directors etc, may therefore influence the effectiveness of the board in its oversight functions. Among other responsibilities the board has to set the company's strategic aims, appoint or fire the management team, supervise the management team and report to the owners of the company on their stewardship (Cadbury Report, 1992, s.2.5; Rossouw *et al*., 2002, p.290). The board is also responsible for ensuring that the firm follows good CG practices by complying with good governance principles (King Code, 1994, 2002 and 2009). For the purpose of this research, corporate board variables consist of board characteristics such as the culture of the board, board composition, and board size.

4.1.1.1 Ethnicity Variables

Ethnicity (proxy for culture) consists of the ethnicity of the dominant board members, the ethnicity of the board chairman, and the ethnicity of the CEO/MD. Ethnicity is important to examine because it is important to understand how corporate entities behave when their structures are dominated by people from a particular ethnic group in SA e.g. blacks and whites.

[27] Costs incurred by the principal to limit divergence (by the agent) from his/her interests by establishing appropriate incentives or control mechanisms to limit the incidence of opportunistic action by the agent (Jensen and Meckling, 1976, p.308). For instance, the principal can expend resources to design a monitoring system (monitoring costs) aimed at reducing the aberrant activities of the agent. This may include efforts on the part of the principal to control the behaviour of the agent through contractual agreements regarding budget restrictions, compensation policies, and operating rules, amongst others.

4.1.1.1.1 Ethnicity in Board Structures (Board Domination - PROPWHITES)

The culture of blacks (Ubuntu) in SA may be described as collectivist, while that of whites may be described as individualistic (Booysen, 2000; Malunga, 2006a; Nussbaum, 2003). The core values of Ubuntu culture are survival, solidarity, compassion, respect, dignity, sharing, communalism, and love (Kayuni and Tambulasi, 2005; Malunga, 2006a; Mbigi, 2000; Nussbaum, 2003). According to Hofstede and Hofstede (2005), in individualistic cultures people strive to be independent from other members in society and interpersonal bonds are not a major concern within an individualistic culture. The achievement of goals by people in individualistic cultures is self directed and competition plays a major role.

In contrast, in a collectivist culture, members of the community are dependent on each other and priority is given to group goals. Behaviour is directed towards maintaining a communal way of life in collectivist cultures while individualistic cultures usually place a lot of emphasis on non-communal relationships (Malunga, 2006b; Mbigi, 2000).

Hofstede and Hofstede (2005) hypothesise that people from a collectivist culture value social relevance (relationships), quality of life and welfare to others (feminine) whilst people from an individualistic culture value material possessions, money and assertiveness (masculine). Femininity, just like collectiveness, addresses the importance of interdependent relationships between people. As such, if the board of directors of a firm is dominated by people whose culture is collectivist and feminine, they may influence the firm to comply with the King Code because the spirit of collectivism and their feminine side influences them to address issues from a stakeholder or Ubuntu (collectivist/communitarian) perspective. For instance, the board may ensure that the company complies with recommendations on board diversity, social investment, employment equity, human capital development among others because compliance with these recommendations may have a positive impact on the community.

Studies based on Hofstede's cultural dimensions of the two main ethnic groups in South Africa suggest that whites tend to have low uncertainty avoidance and power distance, are masculine, individualistic and have a long term orientation (Booysen, 2000). Blacks on the other hand have high uncertainty avoidance and power distance, collectivist, feminine and have a short term orientation. Based on results of this study and in accordance with Gray's (1988) hypotheses, whites have the exact societal values that fit Gray's (1988) description for high level of professionalism. Thus the whites can be predicted to have a high level of professionalism. The blacks on the other hand were found to have the exact opposite societal values to those of whites on Gray's professionalism hypothesis. As such it may be predicted that blacks may have a low level of professionalism (Booysen, 2000). The blacks on the other hand have the exact societal values that fit Gray's (1988) description for high level of secrecy whilst the whites were found to have the opposite of societal values that fit Gray's (1988) description for high level of secrecy. Thus it can be predicted that blacks may have a high level of secrecy while whites have a low level of secrecy. Since the focus of this study is on compliance, then the accounting value of professionalism may be the most relevant to be considered. It is therefore argued that because whites are more professional, they may influence companies to comply more with best practice corporate governance principles recommended under the King Code than blacks whose cultural values suggest that they are less professional (Booysen, 2000). Furthermore, because whites are individualistic and driven by personal goals, they may influence compliance with Code provisions in order to improve the firm's share price, and perhaps increase their compensation from rewards of better performance. In addition, studies in South Africa show that firms complying with the Code have higher share prices because they are viewed positively by investors (Deutsche Bank, 2002). As such the individualistic culture of whites may influence a high level of compliance with the Code if they dominate the board of directors, are CEOs or board chairman.

In line with the above arguments, the following hypothesis is developed to test these aspects.

H1: Ceteris paribus, the extent of compliance with the King Code is greater for companies with boards dominated by "black or white" directors.

4.1.2 Corporate Governance

4.1.2.1 Board Size (SBD)

From an agency theory perspective, larger boards are bad, while smaller boards are good and effective at improving financial performance (e.g. Jensen, 1993, p. 865; Lipton and Lorsch, 1992). Jensen (1993) suggests that keeping boards small can help improve their performance with regard to oversight duties. He believes that large boards tend to emphasise politeness and courtesy in the boardroom at the expense of truth and frankness. He opines that when boards become too big, agency problems are exacerbated and the board become more symbolic and neglects its monitoring and control duties. This view is supported by Beasley (1996) who empirically finds that as board size increases, the likelihood of financial statement fraud increases, implying the need for increased monitoring with larger boards. Lipton and Lorsch (1992, p. 67) argue that as corporate board size goes beyond a maximum number of ten directors, additional costs of having larger boards typically associated with slow decision-making are higher than any marginal gains from intense monitoring of management's activities.

On the contrary, a larger board is more likely to have a greater range of expertise to monitor the actions of management effectively (Karamanou and Vafeas, 2005). Also, Linck (2008) finds that firms with growth opportunities, high research and development expenditures, and high stock return volatility are associated with smaller less independent boards, while larger firms have larger and more independent boards. A less independent board is likely to be inefficient in the discharge of its monitoring function. As such, results of this study suggest that a small board is not always better. Similarly Coles *et al.* (2008) empirically test the popular view that smaller and more independent boards are better. They argue that certain classes of firms are likely to benefit from large boards and boards with more insider representation. In particular, they argue that large firms which are diversified across industries with high leverage are likely to have greater advising requirements. These firms are therefore likely to benefit from a larger board of directors particularly from outside directors who posses relevant experience and expertise (Coles *et al.*, 2008, p. 351). Their results are consistent with these arguments.

In SA, the JSE Listing Requirements (2005) only specify that the minimum number of directors for listed firms should be four, whilst the King Report (2002) recommends that that the board should be of a size that allows for a diversity of expertise and experience to be effective. A Deutsche Bank (2002, p. 12) survey focussing on 73 major firms found that board size ranges from 5 to 30 directors with a mean directorship of 12. The study also highlights that companies with too many board members are perceived poorly given the collegial approach that large boards tend to adopt.

In line with these arguments, it may be hypothesised that increased monitoring from smaller boards may be associated with high level of compliance with best practice corporate governance principles such as those recommended by the King Code. Increased scrutiny may influence management to comply with best practice corporate governance principles because if they fail to do so, the board may question failure to do so. Similarly, a larger (smaller) board with a greater range of expertise and more independent directors (less expertise and few independent directors), may influence compliance (not influence compliance) with best practice corporate governance because directors are able (not able) to exercise their independent judgment and also have (do not have) expertise on issues of compliance. In contrast the collegial approach associated with large boards may be associated with low level of compliance with best practice corporate governance principles as the board becomes symbolic and neglects its monitoring and control duties

The following hypothesis is developed to test this aspect.

H3: Ceteris paribus, the extent of compliance with the King Code is higher for companies with a large board size.

4.1.2.2 Board composition (Number of Non Executive Directors as a Proportion of Board Size- PROPDNEDS)

Board composition refers to the number of non-executive directors on the board compared to executive directors. Non-executive directors (NEDs) are outside directors who monitor the decisions made by executive directors. There are two opposing views with regard to NEDs: those who are in favour of appointing more NEDs on corporate boards and those who are in favour of more executive directors on boards of directors. Arguments for the appointment of more NEDs are based on three theories: agency, resource dependency and signalling theory.

According to agency theory, boards dominated by executive directors (insiders) are less accountable (Fama, 1980, p.293; Sonnenfeld, 2002, p.108). NEDs, on the other hand, bring independent judgment to board decisions (e.g., Cadbury Report, 1992); offer the firm resources in the form of experience, expertise, business contacts and reputation (Haniffa and Hudaib, 2006, p.1039); and perform their monitoring function effectively because of the existence of competitive and efficient managerial labour markets both within and outside the firm (Fama, 1980, pp.292-294; Fama and Jensen, 1983a, p.315). Fama (1980, p.293) and Fama and Jensen (1983a, p.313) argue that once top internal management gains control of the corporate board, they are more likely to connive and collude among themselves to expropriate shareholders' wealth. Appointment of NEDs on boards of directors has the potential to reduce this collusion because NEDs have incentives to develop reputations as experts in decision control (Fama and Jensen, 1983).

However, a contrasting view based on stewardship theory is that corporate boards dominated by NEDs may impact negatively on firm outcomes (Baysinger and Hoskisson, 1990, p.74; Weir and Laing, 2000, p.267; Bozec, 2005, p.1927). Weir and Laing (2000, p.267) contend that NEDs often command less knowledge about the business and find it too difficult to understand the complexities of the company. This problem is exacerbated by the fact that outside directors are part-timers who normally also sit on boards of other companies (Bozec, 2005, p.1927). As such, they devote little time to their monitoring and advisory duties. As per stewardship theory, managers are essentially trustworthy individuals and so are good stewards of the resources entrusted to them (Donaldson and Davis, 1994, p. 51; Nicholson and Kiel, 2007, p. 588). Also, since inside (or executive) directors spend their working lives in the company they govern, they understand the businesses better than outside directors and so can make superior decisions (Donaldson and Davis, 1994, p. 51; Nicholson and Kiel, 2007, p. 588). Consequently, proponents of stewardship theory contend that superior corporate performance will be linked to a majority of inside directors as they naturally work to maximise profit for shareholders (Nicholson and Kiel, 2007, p. 588). By implication, decisions made by a board dominated by NEDs would be of a lower quality, and this would in turn lead to low firm performance. It has also been argued that corporate boards dominated by outside directors tend to stifle managerial initiative and strategic actions, which arise from excessive managerial supervision and lack of business knowledge to be truly effective (Haniffa and Hudaib, 2006, p.1039).

Prior literature on the effect of high percentage of NEDs and firm outcomes is conflicting. Some disclosure studies have reported significant positive associations between the proportion of NEDs and levels of voluntary disclosure (Chen and Jaggi, 2000; Haniffa and Cooke, 2002) because of the positive influence on the management's decisions (by NEDs) to disclose financial information. The inclusion of non-executive directors on corporate boards has also been found to increase a firm's compliance with disclosure requirements which would result in more comprehensive financial disclosure (Chen and Jaggi, 2000). Studies on CG have also found a positive relationship between the proportion of non-executive directors on a board and foreign share ownership, because foreign investors perceive non-executive directors as effective in monitoring and controlling opportunistic behaviour of managers, and thus protecting the shareholders' interests (Mangena and Tauringana, 2007, p. 75).

The King Code (2002) and the JSE Listing Rules recommend that the majority of directors on the board should be NEDs independent of management so that shareowner interests (including minority interests) can be protected. This suggests that the King Code expects companies with more NEDs to have better CG practices than those with fewer NEDs. However, in the past there have been a series of corporate scandals in SA which were characterised by a pattern of weak boards which failed to engage in effective oversight of the business affairs of the company and failed to ensure that senior officers did not engage in self-dealing e.g. Regal Treasury Bank (Sarra, 2004, p. 10). In some instances, the boards failed to discharge their responsibilities despite having more NEDs and directors who were chartered accountants e.g. LeisureNet (Sarra, 2004, p. 7).

In terms of compliance, it may be hypothesised that outside directors may influence compliance with best practice corporate governance principles because of their independent judgement (Cadbury Report, 1992) and the need to protect their reputation as directors. Outside directors may also influence compliance with best practice corporate governance principles so as to enhance their employability in competitive and efficient managerial labour markets. In contrast, because outside directors are part timers (Bozec, 2005, p.1927), devote little time to their monitoring and advisory duties and command less knowledge of business activities unlike inside directors, they may not be in a position to influence compliance with best practice corporate governance.

In the light of the above discussion, the following hypothesis is developed:

H2: Ceteris paribus, the extent of compliance with the King Code is greater for companies with a high proportion of NEDs.

4.1.3 Company Characteristics

4.1.3.1 Firm Size(STA)

The influence of size on the decision to comply with the King Code may be based on several arguments. First, corporations may comply with the King Code as a legitimation strategy. As per legitimacy theory, the organisation seeks congruency between organisational actions and the values of its general and relevant publics (Dowling and Pfeffer, 1975; Lindblom, 1994) or its stakeholders (Haniffa and Cooke, 2005). A disparity (actual or perceived) between organisational and social values may jeopardise organisational legitimacy and yield a legitimacy gap. Gray *et al.* (1995) contend that socially responsible actions by corporate management are part of the legitimation process. Legitimation strategy is even more important in large firms because large firms are more visible in the public eye and more politically sensitive (Watts and Zimmermann, 1978). Large firms tend to be more visible to relevant publics and so tend to be subject to greater political and regulatory pressure from external interests (Belkaoui and Karpik, 1989). Large firms are also subject to scrutiny by the media and may suffer bad publicity and the imposition of more regulations following non-compliance than smaller firms (Dedman, 2000). As such, larger firms may seek to ensure that they are perceived as operating within the norms and bounds of their respective societies since they cannot escape media and public scrutiny because of visibility in the public eye. In the same vein, it could be argued that corporate compliance with recommendations from corporate codes may be part of a legitimation process which is driven by size of the firm (visibility in the public eye). For this reason, larger firms are more likely to comply with the King Report to avoid bad publicity and regulatory risk. Second, apart from being visible in the public eye, large firms also tend to have more analysts following than smaller firms (Lang and Lundholm, 1993; McKinnon and Dalimunthe, 1993) and therefore may feel the need to comply with good CG practices such as the King Code to signal better CG practices to analysts who scrutinise their annual reports.

In addition, large firms in South Africa may comply with recommendations from the King Code relating to employment equity, Black Economic Empowerment (BEE), HIV/AIDs, social investment among others. Compliance with these recommendations may be used as a form distribution of wealth given the inequalities created by the apartheid, for which most large companies benefited from. From a political theory perspective, these issues are particularly important for large firms than for smaller firms. As such compliance in this case may be used to try and avoid political and regulatory pressure from government. For instance, in the mining sector government policy emphasises the role of indigenous people in this sector, and the labour unions have a similar view. Indeed the King code also attempts to take this into consideration. As such compliance may be expected to be high in this sector and among large companies because of political and regulatory pressure.

Following from this discussion, firm size is considered as another factor which may influence compliance with the King Code. Prior literature has also found a positive relationship between compliance with the Cadbury Report and firm size (Weir and Laing, 2000). Firm size has also been found to influence compliance with the German Corporate Governance Code (Werder *et al.*, 2005). In SA, the Deutsche Bank (2002) survey finds that large corporations comply with boards and directors issues as recommended in the King Code.

Firm size is therefore important to examine because it may influence compliance with the King Code. The hypothesis is as follows:

H4: Ceteris paribus, the extent of compliance with the King Code is greater for larger companies.

4.1.3.2 Institutional Ownership(INSTSHARE)

According to the managerial branch of stakeholder theory, stakeholders are identified by the organisation of concern, by reference to the extent to which the organisation believes the interplay with each group needs to be managed in order to further the interests of the organisation (Gray *et al.*, 1996, p. 45). As such, institutional investors are more important to firms because of their significant financial investment and their power to influence corporate decisions in their interests (Mitchell *et al.*, 1997). The more critical the resources controlled by a stakeholder group, the more responsive an organisation will be in meeting the needs and expectations of that stakeholder group.

The emergence of institutional investors as equity owners is seen as another important external control mechanism affecting CG worldwide (Gillan and Starks, 2003). Institutional investors have the potential to exert influence on management actions through their ownership or indirectly by trading their shares e.g. acting in unison to avoid investing in the shares of a particular company, driving up its cost of capital in the process (Drobertz *et al.*, 2003; Gillan and Starks, 2003).

Institutional investors are a significant component of equity markets in the first world e.g. the US and the European Union. Institutional investors have only started to take centre stage in emerging markets because of pension reform and privatization initiatives by governments in the developing world (Gillan and Starks, 2003). If institutional investors become dissatisfied with management performance, they may sell their shares in the company ('vote with their feet'), hold their shares and voice their dissatisfaction or hold their shares and do nothing (Gillan and Starks, 2003, p. 5). Institutional investors have been under increasing pressure to use their voting power to encourage good governance in their investee companies (Solomon, 2007).

Compliance with CG codes may be another major element that can be employed by firms to manage (or manipulate) institutional investors in order to gain their support and approval, or to distract their opposition and disapproval. Due to large ownership stake, institutional investors have strong incentives to monitor corporate practices with regard to compliance with good CG practices. Thus managers may voluntarily implement good governance principles to meet the expectations of large shareholders.

However, prior literature finds no evidence of exertion of pressure by institutional investors on poorly performing firms to comply with the Cadbury Report (Dedman, 2000). This is consistent with Mallin's (1997) findings that institutional investors spread their investments over so many companies, which makes it unlikely that they will be able to monitor and apply pressure to all firms in the portfolio.

SA has the most institutional investors relative to the size of its economy (Malherbe and Segal, 2001; Vaughn and Ryan, 2006). However, these well developed domestic institutional investors have not yet actively and publicly intervened in CG affairs (Vaughn and Ryan, 2006). Foreign institutional investors, on the other hand, have robustly criticised corporate culture, pyramid structures, governance and performance since their active return to South African markets in 1994 (Okeahalam and Akinboade, 2003). The following hypothesis is developed to test this aspect in SA, an emerging economy.

H6: Ceteris paribus, the extent of compliance with the King Code is greater for companies with a high percentage of ordinary shares held by institutional investors.

4.1.3.3 Director Share Ownership (DRCTSHARE)

According to legitimacy theory organisations continually seek to ensure that they are perceived as operating within the bounds and norms of their respective societies. The benefits to be derived from organisational legitimacy include enhanced stability and comprehensibility of an organisation's activities plus persistence because audiences are most likely to supply resources to organisations that appear desirable, proper or appropriate. Therefore compliance with the King Code is expected to be high when managerial ownership is high because managers may use legitimacy strategy to enhance the image of the corporation to its relevant publics to ensure firm survival by addressing economic, social and environmental concerns as recommended by the King Code.

The process of legitimacy on the other hand requires a firm to recognise its relevant publics (stakeholders), and take the interests of these stakeholders into consideration. For instance, about 80% of South African population is black (South African Government, 2002), a large section of the population which was previously disenfranchised because of the policy of apartheid. As a result, stakeholders relevant for firm business purposes come from this large section of the population e.g. customers, employees, suppliers, government etc. Failure to legitimate organisational activities by complying with the recommendations of the King Code (2002) may render organisations to be deemed as irrelevant in the new South Africa, resulting in a negative impact on its present and future economic activities. The owner managers may for instance influence compliance with the diversity aspect of the King Code in an endeavour to seek active support or merely passive acquiescence (Suchman, 1995, p. 575), for corporate sustainability. This is even more important for companies which are owned by "white" executive directors. These companies may comply with the King Report as a legitimation strategy.

The proxy for executive director ownership is the ratio of ordinary shares held by CEO and executive directors to the total issued share capital.

The following hypothesis is developed to test this aspect.

H7: Ceteris paribus, the extent of compliance with the King Code is greater for companies with low director share ownership.

4.1.3.4 Debt (LTDtoTE)

The level of debt in a firm could possibly influence compliance with good corporate governance principles. First, debt-holders lend capital to firms on the expectation that the capital will be returned with interest within the agreed time limit. The concerns for creditors under this contractual arrangement, is that the managers may not act in their best interests at all times. These concerns are broadly categorised as actions by firms that increase the risk of the probability that the creditors' capital and interest will be expropriated. Common examples of expropriation by managers include increasing firm leverage, unwarranted distributions to shareholders, issuance of higher priority debt claims, and investments in negative net present value projects (Jensen and Meckling, 1976; La Porta *et al.*, 2000). As a result, monitoring the firms' managers through complex debt contracts, to limit their ability to take opportunistic actions leading to bondholder wealth expropriation, is necessary (Jensen and Meckling, 1976). In a way debt financing constrains managerial expropriation through the imposition of fixed obligations on corporate cash flow (Jensen and Meckling, 1976). Ultimately, the level of debt financing has the potential to influence corporate managers to comply with best practice corporate governance principles because default on financial obligations (resulting from poor governance), may trigger winding up proceedings. This process would force the corporate manager to search for re-employment, just when his reputation has been dented (Faccio *et al.*, 2001). In a way, the need to protect their reputation would force managers to implement good governance principles which would ensure continuity of the corporate entity into the foreseeable future.

As per stakeholder theory, the more critical the resources controlled by a stakeholder group, the more it will compel an organisation to fulfil the expectations of that stakeholder group (Deegan and Unerman, 2006). If debt-holders perceive that compliance with good governance principles such as the King Code reduces the risk of firm failure, then they may be driven to demand compliance. Debt financing gives debt holders the right to make demands on a firm's management in accordance with the debt contract (covenants). Failure to fulfil the demands of debt holders may result in a high cost of capital or refusal to offer finance (Dedman, 2000).

Traditionally SA has a deep equity culture. However, debt financing is also a significant portion of the capital structures of most listed firms (Malherbe and Segal, 2001). Financial institutions in SA maintain cozy relationships with established and well connected businesses, as is the case in many African countries (Okeahalam and Akinboade, 2003). In some instances commercial firms also own and control major domestic banks, creating business conglomerates with 'in house' sources of easy financing for themselves (Okeahalam, 2004, p. 365). However, debt is important to consider as a control variable in corporate compliance with the King Report of SA. The following hypothesis is developed to investigate this aspect.

H5: Ceteris paribus, the extent of compliance with the King Code is greater for companies with high levels of debt.

4.1.3.5 Auditor Type (AUDTYPE)

According to Fombrum (1996, p. 57) as cited in Carmeli and Tishler (2005) a favourable corporate reputation, is a strategic resource as it reflects the firm's competitive position relative to its competitors. "Having a favourable organisational reputation means that the firm's constituencies perceive the firm as more attractive than other firms" (Carmeli and

Tishler, 2005, p. 16). As such, large audit firms may have corporate reputation concerns in their dealings with their client firms and may insist upon good corporate practices to safeguard their reputation, and also to maintain a competitive edge. Corporate reputation is generally defined as the sum of the perceptions and assessments of all relevant stakeholders with regard to the performance, products, services, persons, organisations, etc of a company and the respect for the company that arises from each of these factors (Wiedmann and Buxel, 2005, p. 146).

Prior literature document that Big 4 auditors provide higher quality audits than do the non-Big 4 audit firms and that the source of higher quality is a result of reputation concerns and differential auditor litigation exposure. If audit clients (auditees) are found to have financial difficulties, investors tend to partly apportion the blame to auditors by suing them for the financial loss incurred (Dye, 1993). Big 4 audit firms are therefore exposed to the risk of being sued for damages because of their perceived "deep pockets" (Hope *et al.*, 2008, p. 350). Litigation also has the potential to damage the reputation capital of audit firms. Big 4 audit firms invest more to maintain their reputation as providers of quality audit than smaller audit firms (DeAngelo, 1981). In the event of damage to reputation, large audit firms stand to lose more than the small audit firms. Big 4 firms also have many clients and are therefore likely to be less dependent on their clients, which may compromise the quality of their work to a greater degree than small audit firms (Owusu-Ansah, 1998). According to the King Code, external auditors provide an independent and objective check on the way in which the financial statements have been prepared and presented by the directors when discharging their stewardship to stakeholders. As such, an external audit provides an essential part of the checks and balances required. In addition, it also forms one of the cornerstones of corporate governance. The Code recommends that directors and auditors should be held liable for damages in proportion to their contribution to the failure of companies emanating from acts of commission and omission by directors or officers. King Code (2002, p. 126). As such auditors may influence companies to comply with best practice corporate governance so as to avoid corporate failure and liability for such.

In terms of compliance with good governance principles, Big 4 audit firms may influence their clients to comply more with these principles to protect their reputation capital because in the event of corporate failure it is common practice to examine CG practices of the auditee.

The following hypothesis is therefore developed to test this aspect.

> *H9:* Ceteris paribus, the extent of compliance with the King Code is greater for companies audited by local audit firms (no Big 4 audit firms).

4.1.3.6 Listing Status (LISTSTATUS)

Whether a company is listed domestically only or listed both in the domestic market and overseas, will have a significant impact on the extent of compliance with corporate governance principles. Listing in foreign stock exchanges other than the local stock exchange affords firms to have access to deeper foreign capital pools. As such, companies are able to attract potential shareholders to invest in their shares. However, in order to attract investors in the overseas market, the local firm must possess some attributes which make it an attractive or a worthwhile investment. For instance, the local firm must have effective corporate governance structures to reduce foreign investors' risk and increase their confidence to invest in it (Mangena and Tauringana, 2007). In addition, the local firm must ensure that there is protection of rights of minority shareholders, to avoid expropriation by controlling shareholders (La Porta *et al.*, 2000).

As per reputation theory, a firm's constituencies perceive it as more attractive than other firms if it has a favourable organisational reputation (Carmeli and Tishler, 2005, p. 16). Reputation also plays a crucial role in helping a firm gain and maintain support from its environment e.g. investors and customers. Therefore firms listing in foreign stock exchanges may comply with corporate governance principles both locally and internationally to enhance their reputation. Compliance with corporate governance principles may signal a reputation of being well governed which may ultimately attract stakeholder support. In a way, reputational concerns would influence firms to comply with good governance principles (Burgstaller, 2007).

Secondly, foreign stock exchanges in more developed markets may have stringent listing requirements. A local firm which seeks listing in a foreign stock exchange may have to meet stringent requirements at the new stock exchange. The firm may face stricter corporate governance guidelines, which may alter the behaviour of its parent/subsidiary company. As a result, a local firm with foreign listings may comply more with the local corporate governance code because of ties to the stringent foreign stock exchange and pressure from its new publics. Ultimately, this may affect the local stock exchange to upgrade corporate governance standards.

In recent years, JSE Securities Exchange has experienced a number of companies moving their primary listing to foreign stock markets such as the London Stock Exchange and the New York Stock Exchange. The reasons behind multiple listing are the desire to have access to deeper foreign capital pools, to obtain cheaper funding and to associate with markets with stronger corporate governance reputations (Deutsche Bank, 2002). As these companies are forced to comply with stricter corporate governance guidelines, their behaviour may impact other South African companies. Ultimately, this corporate migration may force the JSE Securities Exchange to face competition from exchanges with higher corporate governance standards, which puts pressure on the JSE to improve its own standards or risk losing more companies (Deutsche Bank, 2002, p. 7).

Prior literature has found that as a firm's operations become more geographically dispersed, local managers' cultures are more likely to be influenced by a variety of factors (e.g. non-local managers, foreign governments and regulations, greater shareholder base, foreign lenders etc) (Hope *et al.*, 2008). "As such, the influence of any particular country's national culture is likely to be lower with international expansion (Hope *et al.*, 2008, p. 358). Therefore it is expected that the national culture of South Africa (Ubuntu) is likely to be lower in JSE listed firms with multiple listings because of the influences outlined above. As such JSE listed firms with multiple listings may comply less with the King Code which recognises the national culture of South Africa (Ubuntu) because of external influence.

In contrast local firms (firms with single listing at JSE) would comply more with the King Code because the managers of these firms are not exposed to international influence and therefore identify more with the local culture (Ubuntu). Further, the local managers may influence firm compliance with the King Code because the Code recognises their culture therefore compliance would be a way to promote and show a sense of pride in their culture.

If local firms were started by entrepreneurs from the Ubuntu culture, it is expected that these corporations would adopt and promote the Ubuntu culture even more. It is argued here that JSE listed firms with multiple listings would be more interested in compliance with governance codes from stock exchanges where they have their primary listing. As such these corporations may comply less with the King Code because it is not as important to them as the local firms whose listing is only in the JSE Securities Exchange. Also, corporations with multiple listing status may be more engrossed with their reputation internationally as opposed to locally. These corporations would be more interested in pleasing their international audience. Compliance with the King Code which recognises the culture of Ubuntu may not be very important because recommendations from this Code may not necessarily be important to the international audience of the company with multiple listing status. It is therefore expected that companies which are listed in the JSE Securities Exchange only will comply more with the King Code. To test this aspect, the following hypothesis is developed:

H10: Ceteris paribus, the extent of compliance with the King Code is greater for companies with single listing in the JSE Securities Exchange only.

4.1.3.7 Industry Type (ITYPE)

Significant differences exist in the operations and reporting practices of firms in the manufacturing and services industry (different reporting requirements). Firms are exposed to different publics because of the nature of their operations. For instance, firms in extractive and chemical industries may be subjected to pressure from environmental pressure groups because waste products from their production processes pollute the environment. Similarly, firms in the mining industry may choose to comply with environmental laws because of the effect of mining activities on the environment. For example, as per the Mine Health and Safety Act (No. 29 of 1996) employers are required to provide and maintain a safe and healthy risk-free environment. Failure to do so may result in directors and in particular the CEO incurring personal liability (King Code, 2002). As such compliance with best practice corporate governance may be high in industries which are subjected to scrutiny or highly regulated.

Similarly, labour intensive industries may choose to comply with regulations which relate to employees. Roberts (1992), as quoted in Ghazali (2007, p. 256), defines high-profile industries as those with consumer visibility, a high level of political risk or concentrated intense competition. As such, firms in high profile industries may be compelled by the nature of their industry to embark on legitimation strategies to stay relevant within their industry. For instance, as a legitimation strategy, firms may emulate or improve upon institutional practices of other leading organisations in their sector to enhance external stakeholder perception (Deegan and Unerman, 2006). This may be in the form of compliance with regulations governing practices within their industry or compliance with other practices which may enhance stakeholder perception such as good governance practices. Compliance with regulations may also be used as a strategy to avoid further regulation from government.

Prior literature suggests that CG standards vary across industries. For instance, opinion-based surveys conducted by CLSA (2000) and Deutsche Bank (2002) in emerging markets, including SA, indicate that CG standards vary across different industries.

In SA, companies may be pressured to comply more with labour related issues because of actions of labour movements such as the Congress of South African Trade Unions (COSATU). COSATU is an umbrella organisation of more than a dozen unions across industries, and is affiliated with the African National Congress (ANC) (ruling party) and the South African Communist Party (SACP), its ally. COSATU has the power to lobby for regulation of an industry because of its political connections. To reduce the likelihood of adverse political actions (from trade unions and politicians), JSE listed corporations may employ devices such as social responsibility campaigns in the media, government lobbying (Watts and Zimmermann, 1978) or alternatively comply with the King Code recommendations e.g. diversity, equal opportunity employment and Black Economic Empowerment. As such, compliance with labour related issues in SA may be high because of the political connections of labour movements. Industry type is therefore an important aspect to examine. In order to test industry type and compliance with the King Code, the following hypothesis is developed.

> *H11, 12 & 13:* Ceteris paribus, the extent of compliance with the King Code is associated with type of industry.

4.1.3.8 Performance Variables (Profitability - ROA)

Firms which are financially healthy can more easily meet their obligations to owner-stakeholders and are less likely to be subject to significant pressure from other financial stakeholders, such as creditors (Brammer and Pavelin, 2006a). It may also be argued that financially healthy firms are in a better position to implement good CG practices such as the ones recommended by the King Code. This may be done to signal that the firm is profitable because of good CG practices. In a way, this may be done to obtain personal advantages for management such as enhancement of reputational capital. Inchausti (1997) argued from agency theory that management of a very profitable firm will use information in order to obtain personal advantages. In a disclosure study, Singhvi and Desain (1971) have indeed found that managers disclose detailed information as a means of justifying their position. As such, it may be postulated that management may choose to comply with good CG principles as a way of demonstrating that good governance practices result in enhanced profitability. This will bolster the managers' reputation and enhance the value of their human capital in a competitive labour market.

However, non-profitable firms may also comply more with CG principles so as to avoid association of the firm's non-profitability with lack of compliance with these principles. In this case, managers of non-profitable firms may employ this strategy to protect their reputation and help explain that non-profitability is caused by other factors unrelated to firm CG practices. It is common practice that the first port-of-call is CG in a poorly performing firm. Managers of poorly performing firms may thus comply with governance principles to exonerate themselves from the blame for poor results or corporate scandals.

In this case, compliance with the King Code is more important to poorly performing firms compared to profitable firms because managers of poorly performing firms have a lot to lose (or have already lost it) compared to managers of profitable firms. Hence non-profitable JSE firms are expected to comply more with the King Code than profitable firms. Profitability is measured in terms of return on assets (ROA). To test this aspect the following hypothesis is developed.

H8: Ceteris paribus, the extent of compliance with the King Code is greater for firms with lower profitability.

4.2 Chapter Summary

This chapter has attempted to develop hypotheses to be tested following on from the literature review (chapter 3) from and the SA business environment (chapter 3). The chapter attempts to do so by discussing the relevant theories that attempt to link internal CG structures and compliance in section 4.1. The variables are divided into personal characteristics, corporate governance and company characteristics. For instance, it is hypothesised using culture theory that a board of directors dominated by blacks may influence a listed firm to comply more with recommendations from the King Code in line with the culture of the dominant ethnic group. First, this may be the case because the King Code takes into account the culture of this ethnic group; secondly, the King Code makes recommendations which are stakeholder oriented which in essence are in accordance with the Ubuntu culture of blacks e.g. placing the interests of the group before individual interests. Other variables such as firm size are hypothesised in the same way using various theories such as agency, legitimacy, stakeholder and reputation theories and also in line with prior literature.

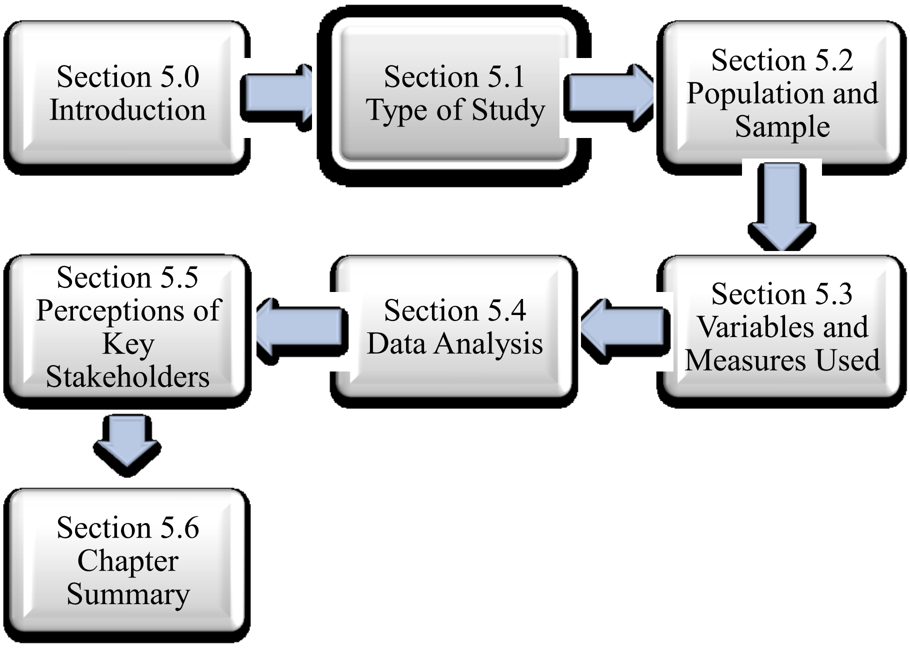
5 Chapter Five: Research Design and Methods

5.0 Introduction

In Chapter four, discussion and development of the research hypotheses for this study were presented. In this chapter, the research methods undertaken to test the hypotheses are explained. In addition, this chapter also explains the research methods used to investigate the views of key stakeholders on corporate governance in SA. The chapter starts by discussing two research paradigms- the positivist and interpretivist approaches, and then positioning the study into an appropriate approach. This will be followed by sampling method, variables and measures used, data collection, and data analysis.

This study is a two-year cross-sectional single country study, conducted in SA, a developing country in the South African Development Community (SADC). The purpose of the study is to investigate whether ethnicity (proxy for culture), company characteristics, CG variables, market related variables, and performance related variables (independent variables) influence the extent of corporate compliance (dependent variable) with the King Code of CG in SA. This will be conducted by testing hypotheses outlined in the theoretical framework and development of hypotheses. In addition, the study also seeks to gain an insight into the views of key stakeholders (e.g. regulators, King Code Commissioners, companies and institutional investors) regarding the state of CG in SA. Figure 5.1 presents the main topics discussed in the chapter.

Figure 5.1 Chapter Five Plan



5.1 Type of Study

Research into corporate governance issues has employed both positivist and non-positivist approaches e.g. (Brammer and Pavelin, 2006b; Brown and Caylor, 2006; Dahya *et al.*, 1996; Dedman, 2000; Girma *et al.*, 2007; Goncharov *et al.*, 2006; Haniffa and Cooke, 2005; Mangena and Tauringana, 2007; Ntim, 2009; v. Werder *et al.*, 2005; von Nandelstadh and Rosenberg, 2003; Weir and Laing, 2000; Yermack, 2006). Positivist approach core argument is that the social world exists externally to the researcher, and that its properties can be measured directly through observation, inquiry should be based upon scientific observation (as opposed to philosophical speculation), and therefore on empirical enquiry (Gray, 2004). Positivist approach limits the researcher to what can be seen, it also implies that the results of the research will tend to be presented as objective facts and established truths (Crotty, 1998 as quoted in Gray, 2004). Popper (1968) quoted in Gray, (2004) suggests that no theory can be proved simply by multiple observations since only one instance that refutes the theory would demonstrate it as false.

Non positivist approaches are interpretive and critical research. Interpretive research approach does not predefine dependent and independent variables, but focuses on the full complexity of human sense making as the situation emerges. "From an interpretive perspective human actions are the result of external influences. These actions have both intentions and reflections, and take place within a structure of rules which binds participants." Under interpretive research, the researcher goes beyond measurement to developing an understanding of the situation (Smith, 2003, p. 4). This may be achieved through active participation as opposed to detached observation.

Positivist approaches tend to use quantitative data analysis tools (economic modelling) e.g. (Dahya *et al.*, 1996; Mangena and Tauringana, 2007) whilst non-positivist studies use qualitative data e.g. (Turley and Zaman, 2007). Quantitative methods allow for a broader study, involving a greater number of subjects, and enhancing the generalisation of the results. However quantitative analysis suffer limitations such as omitted variable bias confounding effects, co-linearity problems and problems of interpretation e.g. whether association between variables imply causation.

Quantitative methods also collect data which may limit results to numerical descriptions rather than detailed narrative and elaborate accounts of human perception. The upside on quantitative methods is that they measure data as presented e.g. in disclosure studies e.g. (Haniffa and Cooke, 2005) information extracted from annual reports or any form of publication is measured as is, unlike data collected from interviews which may reflect what ought to be instead of what is practiced. For example, respondents may provide answers which portray a good picture of themselves or their firm (i.e. in an interview on compliance) as opposed to what is practised by the firm (De

Cleyn, 2008; Wymeersch, 2006). A similar study on compliance involving quantitative methods may extract accurate information disclosed in the annual report.

Non-positivist qualitative research maintains that the methods of natural science are inadequate to the study of social reality because the physical and social artefacts that people create, are fundamentally different from the physical reality examined by natural science (Lee, 1991). "Unlike atoms, molecules, and electrons, people create and attach their own meanings to the world around them and to the behaviour that they manifest 'in that world" (Lee, 1991, p. 347, citing Schultz 1973, p. 59). As such mixed methods approach is often advocated for because of "its ability to be 'holistic' or to 'give a rounded understanding of process and outcome' and its ability to be inclusive of multiple approaches to a problem so there is more certainty in the results" (Giddings, 2006, p. 198, citing Bazeley, 1999: 284).

In the light of this discussion current research will adopt a positivist approach and an interpretivist or qualitative approach. "Quantitative analyses are best used when the aim is to test theoretical predictions with precise measures of variables" (Thanerou et al., 2007, p. 17). Therefore quantitative techniques will be used to investigate factors which affect compliance with the King Report and whether culture affects compliance with recommendations from the report. Further, qualitative approaches will be used to gain a thorough understanding of corporate governance in South Africa. Qualitative research explores the richness, depth, and complexity of phenomena and also produces findings not arrived at by means of statistical procedures or other means of quantification" (Strauss & Corbin, 1990).

5.2 Population and Sample Selection

As noted in chapter 2, the JSE Securities Exchange lists companies on two separate boards, the Main Board Market and the alternative board (ALTx). However, given the differences in financial reporting and CG requirements between main board and AltX, the sample for this research is drawn from the main board.

As of June 2008, there were 334 companies officially listed in the Main Board of the JSE Ltd (JSE, 2008). A list of all firms in the JSE Limited Main Board was downloaded from the JSE official website, which is available at http://www.jse.co.za.

There are a total of twelve major industries including, agriculture, automotive, construction, consumer products, information technology, financial and insurance, hotels, manufacturing, media, mining, property and service industries. Table 5.1 presents a summary of the sample selection procedure. Panel A of Table 5.1 shows the sample population by industrial classification using the FTSE/JSE Global Classification System (FTSE, 2002) as of 30th June 2008. Panel A indicates that the JSE market is dominated by financials, resources (mining), general industries and consumer goods. The four industries account for almost 65% of the total population of JSE firms listed in both 2001 and 2008.

For the sample used in this study, all financial and insurance companies are eliminated from this analysis because they are subject to other regulatory frameworks which do not apply to other quoted companies (Ntim, 2009; Weir and Laing, 2000). For instance, banks in SA are governed by the Banks Act (No. 94 of 1990) and are also regulated by the South African Reserve bank (SARB). As such compliance and disclosure requirements for finance and insurance companies are not similar to those of companies in other industries in SA. For instance, risk management committees are mandatory in banks and not for other companies. Leaving out financial firms may help facilitate comparison with prior studies (cf. Laing and Weir, 1999; Ntim, 2009; Weir and Laing, 2000; Werder *et al.*, 2005) who also exclude such firms. Panel B of Table 5.1 shows the final sample size of 136 firms by industrial classification of companies.

Table 5.1 Summary of Sample Selection Procedure

Panel A: Industrial Composition of All JSE Listed Firms as at 30th June 2008		*No. in each Industry*	*Percentage of Population (%)*
Financials		86	25.8
Resources		50	15.1
Basic Industries		12	3.6
General Industries		34	10.1
Cyclical Consumer Goods		46	13.7
Non-Cyclical Consumer Goods		23	6.8
Cyclical Services		14	4.1
Non-Cyclical Services		11	3.3
Utilities		4	1.1
Information Technology		27	8.2
Real Estate and Property		27	8.2
		334	100.0
Less: Financials	86		
Firms not listed in both 2001 or 2008	105		
Firms with missing data	7		
		(198)	
		136	
Panel B: Industrial Composition of JSE Firms available for Sampling		***No. in each Industry***	***Percentage of Population (%)***
Resources		19	14.0
Basic Industries		10	7.4
General Industries		13	9.6
Cyclical Consumer Goods		21	15.4
Non-Cyclical Consumer Goods		10	7.4
Cyclical Services		10	7.4
Non-Cyclical Services		8	5.9
Utilities		3	2.2
Information Technology		20	14.7
Real Estate and Property		22	16.2
		136	100.0
Panel C: Total Number of Firms in the Sample		***No. in each Industry***	***Percentage of Sample (%)***
Basic Industries, IT & Utilities		33	24.3
Resources & General Industries		32	23.5
Cyclical Services, Real Estate and Property		40	29.4
Consumer Goods		31	22.8
		136	100.0

In order to qualify for inclusion in the final sample, firms had to meet the following criteria: (1) the firm should have been listed in 2001 and 2008 e.g. it should have been quoted in the Main Board of the JSE prior to 2001; and (2) the annual reports for 2001 and 2008 should be available from the McGregor BFA Database or alternatively from the archives of the company on its website or other sources. This criteria enabled selection of firms which fall within the pre-review (2001) and post-review (2008) of the King Code. Apart from falling within the pre-review period, 2001 was selected taking into account the availability of records for the year 2001. The year 2008 was selected because it represents the most recent reporting year. As such, analysis of compliance with the King Code for this year will provide the most recent and up-to-date reflection of corporate compliance with the King Code in SA.

The total population of 136 (Appendix 1: List of Sample Firms 2001/2008) available for sampling, was arrived at after deducting firms which did not meet the abovementioned criteria. Instead of selecting a sample from the 136 firms, all the firms were included in the sample considering that the deductions resulted in a smaller population, and that the analysis will be conducted for two years.

The total number of industries was further reduced (Panel C of Table 5.1) by combining basic industries, information technology and utilities; resources and general industries; cyclical services real estate and property; and cyclical and non-cyclical consumer goods. In combining industries, care was taken to ensure that industries with similar characteristics were grouped together. For instance, resources and general industries have common characteristics with heavy equipment industries (i.e. mining, oil and gas – resources industries; and engineering and machinery, diversified industrials aerospace and defence – general industries; non-cyclical and cyclical consumer goods – consumer goods etc). As will be discussed in Chapter 6, an analysis of the characteristics of the resultant sample reveals that the sample is balanced in terms of firm size between large and small firms.

5.2.1 Sources of Data

In order to investigate corporate compliance with the King Code by JSE listed firms, information on compliance disclosures and firm characteristics was extracted from the annual reports of these firms. First 86 financial firms were eliminated from the population leaving a total of 248 firms. Secondly, 105 firms listed after 2001 were identified and also eliminated from the population leaving a total population of 143 firms. Third, annual reports were collected for the remaining firms. Finally seven firms were eliminated from the population because their annual reports were not available (missing data) resulting in a total population of 136 firms as per Panel A of Table 5.1. The annual reports were obtained from company websites and from the McGregor BFA database in 2008 and 2009. An electronic request was sent to the marketing department of McGregor BFA to provide annual reports of JSE listed firms for the years 2001 and 2008. In particular most of the annual reports which were not available from company websites were those for the year 2001. These were mailed to the researcher in a digital video disk (DVD) for a payment of ZAR 4,500.00 (About £405.00).

5.3 Variables and Measures Used

This section discusses the independent and dependent variables considered in this study. It starts by describing the independent variables and how they were operationalised in this study. The section also discusses the construction, evaluation and testing of the compliance checklist and the compliance indices.

5.3.1 Independent Variables

The independent variables examined in this study consist of one personal characteristic, eight company specific characteristics and two corporate governance variables. These variables were drawn from prior studies (e.g. Dedman, 2000; Laing and Weir, 1999;

Mangena and Chamisa, 2008; Ntim, 2009; Weir and Laing, 2000). The ethnicity variable was drawn from (e.g. Haniffa and Cooke, 2002, 2005; Wahab *et al.*, 2007).

5.3.1.1 Company Specific Characteristics

The company characteristics used in this study are firm size, ownership structure, listing status, debt, auditor type, listing status, industry type and profitability. The following discussion focuses on measurement of these variables.

a. Company Size

A number of measures have been considered for inclusion in this study as proxies for firm size, such as market capitalisation, sales, and total assets. The strengths and limitations pertaining to these measures were considered. For instance, market capitalisation has a limitation of being subjected to market price fluctuations (Haniffa, 1998). Sales on the other hand may be affected by both internal and external factors and thus would not truly reflect the size of the company. Total assets based on historical costs may be a good proxy for size as it is least affected by a change in the environment in comparison to the other variables. This study uses total assets as proxy for firm size.

b. Industry Type

In this study, JSE Securities Exchange listed corporations were first classified into 11 distinct groups. This list was narrowed down to 4 after combining common industry sectors. The financial and insurance companies were also excluded. Overall this leaves four industry groups to be tested under the industry membership hypothesis. Therefore industry dummy variables including basic industries, IT and utilities (ITYPE1); resources and general (ITYPE2); cyclical services, real estate and property (ITYPE3) and consumer goods (cyclical and non cyclical) (ITYPE4) are included as controls for these four major industries.

c. Listing Status

In this study listing status will be tested by dividing companies into two categories: domestic only – referring to companies listed in the JSE Securities Exchange only and domestic and other foreign listings – referring to companies that are listed both on the JSE Securities Exchange and with at least one other foreign listing.

d. Gearing

Debt or gearing could be calculated in several ways e.g. debt ratio or debt/equity ratio. Debt ratio refers to the ratio of total debts to total assets, while debt/equity ratio refers to long term debt to total equity. Both ratios reflect the extent of financing through debt. Debt to equity ratio would be used as a proxy for gearing because such information is readily available in annual reports.

e. Ownership Structure

This study examines three aspects of firms' ownership structure, namely ownership concentration, directors' ownership and institutional ownership.

i. **Director share ownership** refers to the proportion of shares held by all executive directors of the board scaled by total number of shares.

ii. **Institutional ownership** refers to the percentage of shareholding held by institutional investors. Information on company share ownership was obtained from the annual reports of listed companies. Section 140A of the South African Companies Act (No. 61 of 1973) mandates companies to disclose the identity of beneficial owners of shares held by nominees. As such, sample firms disclosed shareholdings of the main shareholders.

These aspects have been examined in prior literature on compliance and other firm outcomes (e.g. Eng and Mak, 2003; Mangena and Chamisa, 2008).

f. Performance Related Variables (Profitability)

Profitability could be determined in several ways, through internal measures of performance i.e. return on equity (ROE), gross margin and return on assets (ROA). However, for the purpose of this study profitability represents financial valuation of the firm by insiders. As such ROA and ROE were considered as proxies for profitability. *ROA* is defined in this study as operating profit at the end of a financial year divided by the book value of total assets at the end of a financial year (Beiner *et al.*, 2006, p. 260; Fich and Shivdasani, 2006, p. 703; Yermack, 1996, p. 192). It measures how efficiently and effectively a firm manages its operations and uses its assets to generate profits.

g. Type of Auditors

Audit firm size will be measured by a dummy variable that takes a value of "1" if a firm is audited by any of the Big 4 auditing firms (i.e., Deloitte & Touche, Ernst & Young, KPMG, and PricewaterhouseCoopers), "0" otherwise (Henry, 2010; Ntim, 2009).

5.3.1.2 Ethnicity Variables

a. Proportion of Whites/Blacks in a Board of Directors

The proportion of "black" or "white" directors was calculated by counting the number of black or white directors on the board and dividing by the total board size. In order to determine the ethnicity of a board member, the names and pictures of directors in the annual reports were employed for this task. Listed firms in SA generally publish photos[28] of board members and management. More than 95% of sample firms provided names and photos of management and board of directors. As such, this made the task of having to decide whether

[28] Black and white South Africans (European descendents) have distinct physical features apart from skin colour such as hair, Caucasian nose versus flat African nose etc. These features were used to determine whether a board member is black or white.

a director was black or white much easier. In instances where the photographs of directors was not provided, the company web-page was used as back up to search for names and photos of board members. The features of both blacks and whites were used to tell them apart e.g. skin colour (black/white), hair, facial features.

b. Race of Directors[29]

Similarly, information on the race of the chairman and CEO/MD was also determined from their names and their pictures in the annual reports.

5.0.1.1 Corporate Governance Variables

a. Board Composition & Board Size

Information on board compositions i.e. executive vs. non-executive directors was obtained from the annual reports together with information on the size of boards. The number of members on the board was counted to determine the board size.

b. Proportion of Non Executive/Executive Directors (NEDs) to Board Size

This information was obtained from the annual reports of listed companies.

5.3.2 Dependent Variables

This sub-section discusses construction and measurement of dependent variables. It also proffers a definition of compliance in the context of this study. It starts by attempting to define compliance. Compliance with the code was measured using the disclosure index

[29] Owing to the low number of black directors (as will be discussed in chapter 6) as Board Chair and CEO/MDs, the two variables were not included in the statistical model.

methodology approach (see Cooke, 1989; Ntim, 2009; Henry, 2010). A number of indexes were developed as follows: total compliance index (TCI), voluntary compliance index (VCI), mandatory compliance index (MCI), Boards and Directors (THEME1), Risk Management (THEME2), Accounting and Auditing (THEME3) and Integrated Sustainability Reporting (THEME4). To develop the indexes, a compliance checklist was constructed as follows.

5.3.2.1 Construction of Compliance Checklist

Given that the objective of the study is to examine compliance with King Code, a comprehensive list of all the items recommended by the code was developed. These resulted in 53 items. The list was divided into voluntary and mandatory items, by identifying all Code recommendations that have been made a listing requirement of the JSE Securities Exchange. This process resulted in 42 voluntary items and 11 mandatory items.

Before developing the checklist some methodological issues had to be taken into consideration. It was important to address two important methodological issues with regard to using researcher-constructed composite indices (Marston and Shrives, 1991, pp.197-199). It was therefore important to address the *reliability* and *validity* of the constructed indices. The reliability of a measure indicates the extent to which it is without bias (error free) and hence ensures consistent measurement across time and across the various items in the instrument (Sekaran, 2003, p. 203; Thanerou *et al.*, 2007, p. 150). A constructed compliance-index is reliable if it can be easily replicated by the same researcher over time (*stability*), as well as by another researcher (*reproducibility*), when coding the same content with higher levels of accuracy (Beattie *et al.*, 2004, p. 214; Beattie and Thompson, 2007, p. 139).

The process of developing the checklist follows the following steps:

i. First all the two documents were read in their entirerity.

ii. A two-column spreadsheet was designed where recommendations and requirements from the two documents were noted. Common compliance items from the two documents were reconciled and then a final list of all the voluntary and mandatory compliance items was drawn up.

iii. Compliance items were further broken down into four key compliance issues (Boards and Directors, Risk Management, Accounting and Auditing and Integrated Sustainability Reporting) in terms of the key recommendations under the King Code. In total the compliance checklist comprises 53 items broken down as follows: 48/53 (2001 /2008) items under TCI; 44 items under VCI; 9 items under MCI; 26/31 (2001/2008) items under THEME1; 9 items under THEME2; 3 items under THEME3 and 10 items under THEME4. Keywords pertaining to various compliance provisions were generated from the provisions. These words would be used to search for narrative statements relating to compliance provisions from company annual reports (see column 4 of Appendix 2)

iv. Appendix 2: South African King Code Checklist 2001/2008). The provisions were also given short identity codes e.g. a board charter setting out the responsibilities of the board (CSRB1).

v. The compliance checklist was then sent to supervisors for them to check its appropriateness for the purpose of measuring compliance with the King Code e.g. to check as to whether the compliance items in the checklist adequately measure compliance (content validity) (Saunders *et al.*, 2003, p. 101; Thanerou *et al.*, 2007, p. 156). The test for content validity in this case is focussed on the extent to which the content of a measure is representative of a wider body of material that it is trying to assess (i.e. compliance with the King Code in this case). In addition to investigating content validity, criterion validity (i.e. how well the coding instrument performs against others) as well as the generalisability of the results from the instrument (*external and construct validity*) were investigated. Apart from supervisors and other researchers, constructive criticism and suggestions were also provided by leading academics and experienced researchers at numerous *Doctoral Colloquia.* This greatly helped in significantly improving criteria and content validity of the measuring instrument.

vi. The checklist was then piloted on 10 annual reports of companies selected at random from the sample. The pilot test is used to check whether there are any compliance issues which may not be covered by the two documents but commonly complied with by listed companies. The scoring of 10 annual reports was done by three people so as to check as to whether they will arrive at similar scores (test-retest reliability). If the checklist is reliable then it should provide the same score on repeated administrators (Saunders *et al.*, 2003, p. 101; Thanerou *et al.*, 2007, p. 153).

vii. The final compliance checklist consisting of 53 items was then drawn up after incorporating all the necessary changes following the reliability and validity tests.

5.3.2.1.1 Consideration Concerning Coding and Weighting

There are two methodological issues researchers have to take into consideration when scoring corporate governance compliance disclosures in annual reports i.e. scoring and weighting.

First, in the case of coding, two approaches may be adopted, first, a *binary* coding scheme, which measures the absence or presence *(dichotomous procedure)* of an item ("0" absent or "1" present). Second, a complex *ordinal* coding scheme which attempts to capture the degree of detail and specificity of the disclosed information by using a graduated scale ("*not limited to but frequently three levels – 0, 1 and 2"*) (Beattie *et al*., 2004, p. 210). As per ordinal coding if no information is disclosed on an item, a sample firm receives "0" points, if only qualitative information is disclosed, the firm gets "1" point, while if the disclosed information is quantified, the firm receives the maximum value of "2". Binary coding has been critiqued for failure to allow the quality of specific corporate governance disclosures to be measured (Beattie *et al*., 2004, p.210) and to reflect the relative impacts of different corporate governance provisions (Gompers *et al*., 2003, p. 114). This research will adopt binary coding to score annual reports. Unlike ordinal coding, binary coding requires no, or very limited, researcher judgement about the degree of specificity of internal corporate governance provisions disclosure levels (Gompers *et al*., 2003, p. 144). As such, this makes it relatively objective, simple and easy to replicate. Binary coding also has the advantage of minimising researcher bias, which enhances transparency and reliability of the constructed index (Milne and Adler, 1999, p. 242).

Ordinal coding, on the other hand, is appropriate when measuring voluntary disclosures in which reasonable differences in the degree of disclosures can be expected (e.g., Botosan, 1997; Hassan and Marston, 2008). An examination of the items from the compliance checklist reveals that scoring provisions/recommendations from the Code involve straightforward present or absent compliance disclosures. However, some items under THEME4 (Integrated Sustainability Reporting) may involve some level of judgement.

Other items under Themes 1 to 4 are easy to score because they involve checking the presence or absence of compliance with a provision. For example, the board charter is either present (Item No. 1) ("1") or not ("0"), a narrative statement of how the company has applied the principles set out in the King Code (Item No. 5) is either present ("1") or not ("0"), a firm has split the positions of chairperson and CEO (Item No. 7) ("1") or not ("0"), etc. Therefore this leaves no avenues to qualitatively discriminate among disclosure levels, such as meaningfully differentiating between firms that provide a quantification of the information disclosed or not, which renders the use of ordinal coding inappropriate.

The second methodological issue with regard to scoring corporate governance compliance disclosures in annual reports is whether to construct a *weighted* or an *unweighted* index (Barako *et al*., 2006b, p. 8; Hassan and Marston, 2008, p. 23). Both approaches have strengths and limitations. For instance, the use of a weighted index has been criticised in that it may introduce a bias towards a particular user orientation (Barako *et al.*, 2006, p. 115). Unweighted index, on the other hand, has been critiqued on its fundamental assumption that all items are equally important (Barako *et al.*, 2006, p. 115). This study will adopt an equally weighted index because the use of an unweighted index avoids the necessity of making subjective value judgements as to the relative importance or efficacy of each corporate governance provision (Owusu-Ansah, 2005, p. 609). Secondly, a good advantage of unweighted index is that it does not involve arbitrarily or subjectively assigning weights. This eliminates a situation whereby the constructed index is unnecessarily dominated by or biased towards a particular set of corporate governance provisions with strong weights (if weighted index is used). Findings from prior literature also indicate that the use of weighted and un-weighted indices tends to give the same results, especially where the number of corporate governance provisions is relatively large (e.g., Robbins and Austin, 1986; Chow and Wong-Boren, 1987; Beattie *et al*., 2004; and Barako *et al*., 2006; 2007, amongst others).

5.3.2.1.2 Scoring of Company Annual Reports

Process of Scoring: First, each sample firm was assigned a permanent code number (e.g. 1 to 136) used to identify its annual reports for both 2001 and 2008 and also used for data entry in the checklist (scoring) and SPSS. Secondly, codes were assigned to provisions from the checklist (permanent identification numbers); these were also used for data entry into SPSS and subsequent data analysis. Keywords relating to specific compliance items (as in iii above) generated during the design phase of the compliance checklist and refined during the pilot testing of ten annual reports were used to search for and identify narrative statements which relate to specific compliance provisions in the compliance checklist.

The scoring process was conducted on an Excel spreadsheet. A total of 136 checklists for all sample firms were created in Excel for the purpose of scoring. These consisted of four columns, two for 2001 and two for 2008. The columns contained cells for voluntary and mandatory scores. Total scores for TCI, VCI, MCI, THEMEs 1 to 4 were generated automatically as each item was scored as "1" complied with or "0" otherwise (Appendix 3 Appendix 3: Results of Completed Checklist for Company 1) at the bottom of the checklist.

Compliance indices were calculated by dividing the total score for each company in each year by the total possible score under each theme. The indices were also automatically generated as scores for each company were entered.

The searching process was conducted using two computers. One computer was used for entering scores in the checklist/spreadsheet for each company whilst the other computer was used to search annual reports (in PDF Format) using keywords for statements of compliance with respective King Code provisions from the checklist. Page numbers where narrative statements of compliance provisions were found were entered in a separate column of each compliance checklist (see Column 7 & 8 of Appendix 3). This is important for the purpose of replication of the scoring process. In the event, a narrative statement relating to a particular compliance provision was not found through the PDF search technique; a meticulous task of reading through the entire annual report, searching for narrative statements and keywords relating to specific provisions of listed firms was undertaken so as to avoid wrongly penalising a company for not complying.

Appendix 3: Completed Checklist shows a typical checklist for one of the 136 sample firms. Appendix 1, on the other hand, shows the four themes together with explicit definitions of the coding instruments and how the variables are measured. The compliance checklist is more comprehensive compared to composite indices used by prior literature (Ntim, 2009). The distribution of compliance provisions across the compliance checklist reveals that THEME1 makes up 54.2% to 58.5% (2001/2008) of the total items from the SA King Code, indicating the importance of items (boards and directors) under this theme.

5.3.2.1.3 Computation of Total Scores

After each annual report of sample firms had been scored, the un-weighted compliance scores were added[30] for each company to derive the total actual score for each company. Since items were separated into total compliance, voluntary, mandatory compliance, and the themes, seven compliance scores were generated for each company. A compliance disclosure index was developed for each company by dividing the actual scores obtained by the total maximum score possible for the company in question under the seven categories. In order to construct the necessary indices to answer the main research hypothesis in this study, compliance scores were calculated using the following formulae:

The compliance score (VCS) for a company is calculated as follows:

$$\boldsymbol{Compliance\ score = \sum_{i=1}^{m} di}$$

Where Compliance score can be voluntary, mandatory, etc, *di* = 1 (if a compliance item is complied with in the annual report) 0 (if the compliance item is not complied with)

$m = \leq 48/53$ (2001/2008)

5.3.3 Operationalisation of Independent and Dependent Variables

Table 5.3 summarises the independent variables to be tested and how they will be operationalised in this study together with the sources.

[30] The compliance checklist was constructed on a spreadsheet. This enabled the researcher to construct formulas which automatically add the TCS, VCS, MCS and Theme 1 to 4 scores to separate cells as the scoring of each annual report is done. Further, the spreadsheet also enabled the researcher to construct formulae for calculation of compliance indices as binary scores from annual reports were entered.

Table 5.3 Summary of the Operationalisation of Independent Variables

Independent variables	Operationalisation
Board Characteristics	
Culture Proportion of white board members	Proportion white board members measured as the number of white board members scaled by total board members.
Ethnicity of Board Chairman	Dichotomous (1 if "black" & 0 if "white")
Ethnicity of CEO/MD	Dichotomous (1 if "black" & 0 if "white")
Other Characteristics Proportion of non-executive directors	Percentage of NEDs on board of directors
Company Characteristics:	
Firm Size	Total assets
Ownership Structure Director share ownership	Percentage of shares owned by top directors to total number of shares issued
Institutional investors	Percentage of total shares owned by institutional investors to total issued shares.
Debt	Debt equity ratio
Type of Auditor	Big 4 vs. Non-Big 4 (0 Big 4 and 1 Non-Big 4)
Corporate Governance Variables:	
Board Size	Total number of directors
Market Related Variables:	
Listing Status	Dichotomous: 1 if Domestic only 0 if Domestic and foreign listing
Industry Type	Dichotomous 1 if ITYPE*i* and 0 otherwise
ITYPE1	Basic Industries, IT & Utilities
ITYPE2	Resources and General Industries
ITYPE3	Cyclical Services, Real Estate & Property
ITYPE4	Consumer Goods
Performance Related Variables:	
Profitability	Return on assets
Dependent Variables	
TCI	TCI = Total Compliance Index
VCI	VCI = Voluntary Compliance Index
MCI	MCI = Mandatory Compliance Index
THEME1	THEME1 = Boards and Directors Issues
THEME2	THEME2 = Risk Management
THEME3	THEME3 = Accounting and Auditing
THEME4	THEME4 = Integrated Sustainability Reporting

5.3.3.1 Regression Models

The full specification of the regression models is shown in Table 5.4.

Table 5.4 Specification of the Regression Model

Regression model	$Yi = f(\beta_1 PROPWHITES + \beta_2 PROPDNEDS + \beta_3 SBD + \beta_4 STA + \beta_5 DEBT + \beta_6 INSTSHARE + \beta_7 DRCTSHARE + \beta_8 ROA + \beta_9 AUDTYPE + \beta_{10} LISTSTATUS + \beta_{11, 12, 13} INDTYPE ++ \varepsilon i)$
Where:	*Yi* = alternative compliance indices **(TCI, VCI, MCI, THEME 1, THEME 2, THEME 3 and THEME 4)** **TCI = Total Compliance Index** **VCI = Voluntary Compliance Index** **MCI = Mandatory Compliance Index** **THEME1 = Boards and Directors Issues** **THEME2 = Risk Management** **THEME3 = Accounting and Auditing** **THEME4 = Integrated Sustainability Reporting**
Continuous Variables	• PROPWHITES = proportion of whites on board of directors • PROPDNEDS = proportion of non-executive directors • STA = company size • SBD = board size • ROA = profitability • DEBT = debt/total equity ratio • INSTSHARE = institutional investors' share ownership • DRCTSHARE = proportion of shares held by all directors
Dummy Variables	• BBCHAIR = black/white board chairman • BCE/MD = black/white Chief Executive Officer • LISTSTATUS = listing status • AUDTYPE = auditor type • INDTYPE = industry type • εi = error term

5.4 Data Analysis

Having calculated all the compliance indices, the next stage is to carry out data analysis. The statistical tools used in the analysis are discussed below.

5.4.1 Descriptive Analysis

The descriptive statistics involved analysing the mean, standard deviation, maximum and minimum, and the percentiles for each variable. Also preliminary tests were conducted to determine the nature of the data to be analysed. In particular, tests of normality based on skewness and kurtosis for both the dependent and independent variables were conducted. The skewness indicates the symmetry of the distribution while kurtosis provides information about the 'peakedness' of the distribution (Pallant, 2005, p. 51). A distribution with a skewness and kurtosis of 0 indicates perfect normality, a rather uncommon occurrence in social sciences research (Pallant, 2005). The rule of thumb for normality tests based on skewness and kurtosis is ± 1.96 and ±3.00 (Cooke, 1989) respectively.

Many powerful statistical methods require approximate normality about the data, i.e. the data is a sample from a normal distribution. Normality tests are tests of a null hypothesis that the data are drawn from a normal population, specifically a goodness-of-fit test. It is important to do normality tests because this helps the researcher to determine if the data are well approximated by the normal distribution; but also to provide information on the deviation from normality. This information would then guide the researcher to the best approach to dealing with the non-normality of their data.

Other tests of normality conducted include Kolmogorov-Smirnov (K-S) test (a non-parametric version of the normality test). A K-S Lilliefors of significant value of more than

.05 indicates normality, whilst a lower value indicates that normality is questionable (Pallant, 2005, p. 57).

5.4.2 Hypothesis Testing

Hypothesis testing is the second statistical analysis which has been undertaken to answer the research question. Both univariate and multivariate analysis tests were conducted. Parametric and non-parametric tests were employed to analyse the data. Parametric tests make stringent assumptions about the nature of the population from which the observations were drawn (Siegel, 1957, p. 13). These assumptions are: the observations must be independent, the observations must be drawn from normally distributed populations and also the variables must be measured on at least an interval scale to enable interpretation of results (Siegel, 1957). Non-parametric tests or "distribution free" statistical tests do not make numerous or stringent assumptions about the population, are simpler in application but are generally considered to be less powerful than parametric tests (Siegel, 1957, p. 13). Parametric and non-parametric tests are conducted because they both have different powers. The power of a test is the probability that the test will reject a null hypothesis when in fact it is false and should be rejected (Siegel, 1957, p. 13). As such a combination of these tests will be used so as to reduce the probability of incorrectly rejecting the null hypothesis (Cooke, 1989).

a) Parametric Analysis

Pearson product-moment correlation coefficient (r) was computed to measure the association between the dependent variables (TCI, VCI, MCI, Theme 1, Theme 2 , Theme 3 and Theme 4) and independent variables (ethnicity, company characteristics, market and performance related variables). A Pearson correlation coefficient close to 1.00 indicates a very strong association between the dependent and independent variables.

b) Non-Parametric Analysis

Non-parametric tests tend to be less powerful because they may not detect differences or relationships even when they actually exist (Pallant, 2005, p. 82). Spearman's non-parametric correlation coefficients (rho) were conducted to test correlation amongst continuous variables.

5.4.2.1 Multivariate Analysis

Multiple regression analysis techniques were conducted to analyse if compliance with the King Code was associated with ethnicity, company characteristics, market and performance related variables. In total, there were seven separate regression procedures per year, which implies that there were 14 regression procedures. However, in 2008 as will be discussed in Chapter 7, there were 6 regression procedures because the results for Theme 3 (Accounting and Auditing) were constant and thus rejected by the model. In order to conduct regression tests, assumptions required for undertaking regression procedures have to be met. The following section discusses the various assumptions and tests which were conducted.

5.4.2.2 Regression Assumptions

Several assumptions have to be satisfied before conducting any regression analysis. These include no significant multicollinearity between the explanatory variables; the variance of the distribution of the dependent variable must be the same for all values of the independent variable (homoscedasticity); the relationship between the dependent and independent variable must be linear (linearity); the distribution of the values of the dependent variable for each value of the independent variable must be normal (normality) and there should be no errors related to measurement and specification. Tests of each of these assumptions and possible ways to overcome them are discussed below.

i. Multicollinearity

Several multicollinearity tests were conducted in this study. The first involved examining the correlation matrix to determine whether the explanatory variables are significantly correlated. The rule of thumb for checking problems of multicollinearity is when the correlation is >0.7 (Tabachnick and Fidell, 1996); Gujarati, 1995). Besides the correlation matrix, another test for the potential effect of multicollinearity on regression can be evaluated by computing the variance inflation factor (VIF), where a VIF exceeding 10 indicates a potential problem of collinearity (Pallant, 2005). The tolerance value based on collinearity diagnostic using SPSS for Windows may also indicate problems of multicollinearity, where tolerance value <0.1 means a collinearity problem exists (Pallant, 2005; Norusis, 1995, p. 484).

ii. Homoscedasticity

An inspection of the scatterplot of studentised residuals against predicted values was inspected to determine as to whether the assumption of homoscedasticity had been violated or not. If the residuals appear to be randomly scattered around a horizontal line through 0, then the equal variance assumption is satisfied (Norusis, 1995, p. 454). If results indicate otherwise, this may be corrected by transforming the data. The importance of fulfilling this assumption is because heteroscedasticity (unequal variance) may result in loss of efficiency and the standard errors may be biased (Doran, 1989, p. 179).

iii. Linearity

As for linearity, it was checked by plotting the studentised residuals against the predicted values. If a crescent or funnel pattern is observed, then the linearity assumption is violated and one way of overcoming this problem is by transforming the data (Norusis, 1995, p. 456).

iv. Normality

As described in section 5.4.1, normality tests based on skewness, kurtosis and KK-Lilliefors may help indicate whether the sample comes from a normal population. Besides these tests, visual inspection of the normal Q-Q plot of standardised residual as well as the detrended Q-Q plot of residuals may also indicate whether the normality assumption is satisfied. The normality assumption is said to be met if the points in the Q-Q plot fall more or less on a straight line, and in the case of detrended Q-Q plot, the points fall randomly in a band around zero (see Norusis, 1995, p. 452).

5.4.2.3 Data Transformation

Data transformation is one approach which may be adopted to solve problems related to the violation of assumptions of homoscedasticity, linearity and normality. Transformation according to Pallant (2005, p. 82) means mathematically modifying the scores using various formulas until the distribution looks more normal. There are several options available for transforming the data which include among others, trimming, logging, ranking and normalising. In this study, transformation (viz. Ranking normalising both the dependent and independent continuous variables using Van Waerden was undertaken when the normality, homoscedasticity and linearity assumptions were found to be violated. Some of the advantages associated with transformed data include meaningful regression coefficients derived from using normal scores (Cooke, 1998). Also transformed data may be used in any subsequent tests requiring normality of data which means the significance levels can be determined, the F- and t-tests may now be more meaningful and the powers of the F- and t-tests may be used (Cooke, 1998).

5.5 Perceptions of Key Stakeholders

This section discusses the processes undertaken to answer the third question of this research. In addition to investigating compliance through quantitative techniques, this research seeks to gain an insight into the views and or opinions of key stakeholders in SA on the King Code, corporate compliance. This methodological approach has not been used by prior literature on corporate compliance around the world (e.g. in SA see Deutsche Bank, 2002; Ntim, 2009; KPMG 2003; 2004; 2006) and other parts of the world e.g. in the UK (cf. Dedman, 2000; Laing and Weir, 1999; Weir and Laing, 2000). As such, this research makes a contribution to CG literature by not only investigating compliance through quantitative techniques, but also by getting opinions of key stakeholders on CG in SA through semi-structured interviews.

Interviews are usually conducted for the purpose of asking questions to ascertain people's thoughts about, and feelings towards, issues, events, behaviours and so on (Thanerou *et al.*, 2007, p. 102). Interviews are well suited when the researcher wants to see the topic from the perspective of the interviewee and understand why and how she or he comes to have this particular perspective (King 1994) as quoted in Thanerou *et al*. (2007). To this end, the third research question deals with views of key stakeholders on corporate governance in general in the country, and specifically on compliance with the King Report and its impact on neighbouring countries. An understanding of this aspect will help shed light on whether the King Code is good and relevant for corporate governance purposes in SA. It may help bring up concerns (if any) from the stakeholders on the suitability of the King Code as a corporate governance guideline in the country. In order to explore this aspect, an interview guide was developed based on earlier findings e.g. from the archives and results of quantitative analysis.

5.5.1 Identification Key stakeholders

Key stakeholders were divided into two categories: external stakeholders such as regulators, King Code Commissioners, non-governmental organisations and internal stakeholders from companies such as CEOs, NEDs and compliance managers.

a. King Code Commissioners

King Code Commissioners have a significant input into the formulation of guidelines in the King Code (King Report, 2002). They therefore form an important stakeholder group on CG matters in SA because of their involvement in the development of the King Report. It is therefore important to get their perspective on whether the King Code has served the purpose for which it was intended e.g. 'promoting the highest standards of CG in SA,' whether it is suitable for SA and their perspectives on CG in general in SA.

The list of King Code Commissioners was obtained from the King Code II. In total there are 21 King Code commissioners (King Code, 2002, p. 156-162). Five commissioners were chosen randomly for the purpose of interviews.

a. Non-Governmental Organisations

Non-governmental organisations (NGOs), on the other hand, refers to legally constituted, non-governmental organisation, created by natural or legal persons with no participation or representation of any government (Walters, 1993). NGOs are normally funded from non-governmental sources so as to maintain their non-governmental status. They tend to exclude government representatives. In many jurisdictions these types of organisation are defined as “civil society organisations” or referred to by other names (Walters, 1993).

Corporate governance is important to NGOs or civic society organisations because corporations play a crucial role towards the social up-lift of the society like NGOs. Contact details of various NGOs were obtained from their umbrella organisation, the South African National NGO Coalition, (SANGOCO). Ten NGOs were selected randomly for the purpose of interview. Responses were not received from all of the NGOs, even after three repeated reminders.

b. Internal Stakeholders (CEOs, NEDs & Other Company Officials)

Perspectives of companies on the King Code, compliance with the Code and CG in SA was also sought from company executives such as CEOs, NEDs, and other high-ranking officials such as compliance managers who are involved with CG and compliance matters. It is important to get the perspectives of key officials in companies because this may help explain why companies choose to comply/not comply with aspects of the King Code.

A subjective process of choosing respondents (purposive sampling) was adopted to obtain a sample that appears to be representative of the population of important key stakeholders. Because of the problems of accessibility, letters of requests for interviews were sent to 30 listed companies. The names and contacts of potential respondents were obtained from the web-pages of their respective organisations. Randomly selected companies were balanced between small and large firms. Responses were received from four organisations consisting of a mining firm, a production company, an investment bank and a financial bank.

5.5.2 Letter of Request

A politely worded but persuasive draft letter of request (Appendix 4: Letter of Request) covering an introduction about the researcher and the research, stating explicitly that permission was sought to conduct an interview with the respondents during the months of November and December 2009 was sent to prospective interviewees. The letter also stated why the respondent was the appropriate person for the interview, the issues to be covered and anticipated time the interview may take e.g. 20 to 30 minutes in this case. The letter also briefly addressed ethical issues with regard to confidentiality of respondents, their organisations and the information which may be gathered during the process of the interview i.e. that no source, individual or organisational, will be identified or comment attributed without the express permission of the originator.

The letter of request was sent to respondents on school letterhead to validate that it comes from the sender. Further, contact details of the researcher and supervisors were included in the letter for respondents to verify claims in the letter if need be. All this was done for credibility purposes and to give assurance to prospective interviewees that it was safe and beneficial to be part of this research process.

5.5.2.1 Negotiating Access

The first level of access is physical access or entry (Gummesson, 2000). Gaining access can be difficult because organisations or individuals may not be prepared to engage in additional, or voluntary activities because of the time and resources required. Secondly, many organisations receive frequent requests for access and cooperation and would find it impossible to agree to all or even some of these. The request for access and cooperation may also fail to interest the person who receives it because of lack of perceived value in the research, the nature of the topic because of its potential sensitivity or concern about confidentiality of the information that would be required and perceptions about the researcher's credibility and competence. Physical access in an organisation will formally be granted through its management.

As such, it is important to adopt some strategies to negotiate and gain access. First, sufficient time was availed for the process of negotiating access. Letters of request were sent by electronic mail to respondents at the beginning of September 2009 for interviews to be conducted in November 2009. Electronic mail was used because it is direct, instant and also offers ease of reply by respondents.

Access may be gained by using existing contacts (Buchanan *et al.*, 1988; Easterby-Smith *et al.,* 2002; Johnson, 1975). This approach was used to gain access to the Chief Executive Officer of one of the organisations, whom the researcher had met in the past through an international network. His knowledge of the researcher made it easy for him to trust the researcher's stated intentions and the assurances given about the use of any data provided. As discussed in section 5.5.2, the letter of request together with subsequent reminders to prospective interviewees provided a clear account of the requirements of the researcher by specifically providing information about the researcher, the research and giving them guarantees with regard to issues of confidentiality and also providing information of the time frames. It was very important to demonstrate clarity of thought and purpose in the introductory letter to try and increase the possibility of gaining access (Saunders *et al.*, 2003, p. 122). It was also important to ensure that organisational concerns were addressed with regard to granting access more especially on resources such as the time the request involved. Care was also taken to ensure that the specific single request was concisely stated to increase chances of getting access (Saunders *et al.*, 2003, p. 122).

With regard to the issue of sensitivity, the topic of CG was considered to be sensitive, especially in the case of companies when asked about compliance practices and on issues of ethnicity and compliance in SA. The experience with regard to interviews conducted indicates that interviewees only found questions on ethnicity and compliance a sensitive area though they all provided [their honest] responses to the questions. Overall, all the other questions on issues of compliance were not of a sensitive nature. Another important aspect which had to be thoroughly addressed was the issue of confidentiality of the data that was provided and anonymity of the organisation or the individual participants (Saunders *et al.*, 2003, p. 123). Interviewees were given assurances that they would not be identified or their comments attributed to them without their express permission. Out of the ten interviews conducted, only one interviewee raised the issue of confidentiality and anonymity at the beginning of the interview by specifically stating that he will be prepared to continue with the interview only if it was guaranteed that his comments would not be attributed to him or his organisation. With regard to this case, the researcher reiterated the guarantee in the letter of request to facilitate the interview. Other issues which the researcher had to take into account included highlighting the possible benefits of the research to the organisations and above all using suitable language in both written and verbal communications.

5.5.2.2 Interview Types

Categories of interview types have been considered for this exercise such as structured interviews, unstructured interviews and semi-structured interviews. Group interviews were not considered because the unit of analysis for the purpose of this study is not a group (Saunders *et al.*, 2003, p. 103).

Structured interviews are composed of completely pre-set standardised questions, normally close ended (fixed alternative) (Seidman, 2006) as quoted in Thanerou *et al*. (2007, p. 103). In structured interviews, questions are read out aloud to the interviewee and the interviewer records the responses (Thanerou *et al.*, 2007). Structured interviews have been described as being essentially questionnaires that are administered verbally with immutable response options (Lee, 1999) cited from Thanerou *et al* (2007, p. 103). This type of interview does not fulfil the objective of gaining an insight in CG in SA because it is rigid.

Unstructured interviews, on the other hand, are open-ended (free answer) and the interview is conducted in a manner that is similar to a friendly conversation (Seidman, 2006) cited in Thanerou *et al*. (2007, p. 103), with no predetermined order of questions or specified wording to the questions (Thanerou *et al.*, 2007). Normally the interview starts with broad questions which lead to more specific questions. According to Thanerou *et al*. (2007), unstructured interviews are useful where neither the nature nor the range of participants' likely opinions about the research topic are not known and cannot be easily quantified. The proposed research seeks to get interviewees' perceptions on some themes developed from the King Code. As such, specific questions relating to those themes will be put to respondents to fulfil this objective. In this regard, an open ended freewheeling interview type may not be suitable to answer question three of this research.

The third type of interview is the semi-structured interview. Semi-structured interviews have an overall topic, general themes, targeted issues, and specific questions (Lee, 2006) cited in Thanerou *et al*. (2007). They are more flexible than structured interviews, but have more focus than unstructured interviews (Thanerou *et al.*, 2007). According to Miller and Crabtree (1992) cited in Thanerou *et al*. (2007), semi-structured interviews are guided, concentrated, focused, and open-ended communication events that are co-created by the interviewer and interviewee and occur out of the stream of everyday life.

Semi-structured interviews are considered to be suitable to fulfil the objectives of the third research question because they are flexible and focussed and would therefore allow the researcher to explore specific issues on corporate governance in SA in line with predetermined themes.

5.5.2.3 Interview Guide

Different interview guides were developed for the various stakeholder groups (see, Appendix 5: Interview Guide). This was important because various stakeholder groups have different interests on CG matters. For instance, the interview guide for companies was different from that of NGOs, regulators and King Code Commissioners because different stakeholders affect and are affected by CG in different ways. The interview guides for the various stakeholders were developed based on results of the analysis from the first two questions. These results give a guide on the type of questions which may be developed to further probe on matters pertaining to the King Code, compliance and CG in general. For instance, if corporations were found to comply more with social responsibility in 2008, it was worth investigating as to why they deemed it necessary to do so. If they do not comply with some aspects of the King Code questions may be developed in the interview guide to explore why this is the case. Similarly, the interview guide for NGOs may be based mostly on social responsibility issues recommended by the King Code.

5.5.2.4 Data Collection

A minimum of three participants from each of the stakeholder groups identified was interviewed. Telephone interviewing and face-to-face interview have been considered to collect necessary data to answer the research question on stakeholder perspectives.

a) Telephone and Face-to-Face Interviews

Telephone interviews were chosen as the appropriate data collection method because they may lead to advantages associated with access, speed and lower cost. This method may enable the researcher to make contact with participants with whom it is impractical to conduct an interview face-to-face because of the distance and prohibitive costs involved and time required (Saunders *et al.*, 2003, p. 269). SA is a vast country as such key stakeholders may be spread across the country e.g. in Pretoria, Durban or Cape Town and other surrounding cities. To this end, there are prohibitive travel and accommodation costs between the various cities. This therefore made telephone interviews the most appropriate data collection method.

However, seeking to conduct qualitative interviews by telephone may lead to issues of (reduced) reliability, where participants are less willing to engage in an exploratory discussion, or even a refusal to take part (Saunders *et al.*, 2003). Other issues which may need to be addressed include ability to manage the pace of the interview and record any data forthcoming. However, a recording instrument which is capable of picking up sounds from a speakerphone was obtained for this purpose. Interviews were recorded after seeking consent from the concerned interviewees during the process of negotiating access.

Other problems with conducting an interview by telephone and recording the data are that normal visual cues that allow the participant to control the flow of the data that they share with the interviewer are absent (Saunders *et al.*, 2003). The opportunity to witness the non-verbal behaviour of participants like in a one-to-one interview would be lost which may adversely affect the researcher's interpretation of how far to pursue a particular line of questioning (Saunders *et al.*, 2003). Further, participants may be less willing to provide the researcher with as much time to talk to them in comparison with a face-to-face interview. Also, difficulties may be encountered in developing more complex questions in comparison with a face-to-face interview (Saunders *et al.*, 2003). However, given the time and financial constraints, telephone interviewing was considered appropriate.

In this research, three interviews were conducted face-to-face and seven interviews were conducted by telephone. Apart from being costly to attend face-to-face interview appointments, it was problematic for the researcher to locate offices of respondents resulting in failure to arrive on time at one of the interviews. Face-to-face interviews also required considerable amount of travelling sometimes at great risk in an unfamiliar territory. Overall face-to-face interview also gave the researcher an opportunity to see the body language of respondents when asked questions.

With regard to telephone interviews, apart from the disadvantages already alluded to, there were problems of connectivity. In one of the interviews, the connection line was cut on three occasions which greatly disrupted the interview process. Further, there were minor disruptions coming from external noise.

5.5.2.5 Interview Data Analysis

A method of content analysis called template analysis was considered suitable for analysis of interview data.

King (2004, p. 4) describes template analysis thus:

> "*The essence of template analysis is that the researcher produces a list of codes (template) representing themes identified in their textual data. Some of these will usually be defined a priori, but they will be modified and added to as the researcher reads and interprets the text.*"

Under this approach, text is analysed through the use of an analysis guide or template, consisting of a number of themes or categories relevant to the research question (Thanerou *et al.*, 2007, p. 255). The template is open ended and undergoes revision after encountering the text and the generation of the themes, patterns, and interrelationships is usually an interpretive, rather than statistical process (Thanerou *et al.*, 2007, p. 255). According to Thanerou *et al*. (2007), template approaches differ in the extent to which the codebook is built upon existing knowledge (a priori) or is developed from the initial analysis of the data (a posteriori). A priori allows for the testing of a theory, whereas a posteriori allows for a more inductive analysis. The template approach allows codes and categories to be shown hierarchically to aid the analytical process (Sanders and Mason, 1998, p. 396). The process of analysing interview transcripts leads to revision of codes being used, even changes to their place or level in the template hierarchy. Template analysis also involves unitising data as discussed below. According to King (2004), a template may be modified if a new code is inserted as a result of a relevant issue being identified through data collection for which there is no existing code and when a previously inserted code is no longer needed and is deleted. A template may also be modified by changing the level of a code and when a code initially originally included as a subcategory of one higher-code should be reclassified as a sub-category of another code (Sanders and Mason, 1998).

Template analysis was chosen because of its advantages of being a highly flexible approach that can be modified for the needs of any study in a particular area and does not have too many prescriptions and procedures (King, 2004). The principles behind template analysis are also easy to grasp more especially for people who are not familiar with qualitative methods. Template analysis also forces the researcher to take a well structured approach to handling the data, which can be a great help in producing a clear, organised, final account of the study (King , 2004, p. 133). The disadvantage with template analysis is that there is a lack of substantial literature on this kind of technique compared with other approaches such as grounded theory or discourse analysis. This may result in a less experienced researcher not being sure of analytical decisions he/she has to make, resulting in either templates too simple to allow any depth on interpretation or too complex to be manageable (King, 2004, p. 133).

5.5.2.5.1 Application of Template Analysis

In this research the process of analysing qualitative data from interviews started by disaggregating the mass of qualitative data collected into meaningful and related parts or categories. This allows rearrangement and analysis of data in a symmetrical and rigorous way (Saunders *et al.*, 2003). This gives the researcher better comprehension and management of data, integration of related data from different transcripts and notes and identification of key themes or patterns from them for further exploration. The process also helps the researcher to develop hypotheses based on the patterns or relationships in the data and to draw and verify conclusions (e.g. Dey, 1993; Miles and Haberman, 1994).

The first involved classifying the data into meaningful categories or codes (Appendix 6 Appendix 6: Template for Analysing of Interviews). The codes or labels were used to rearrange the data. For instance, three main data labels or codes and other sub-labels were used to label the data e.g. the King Code, Compliance and CG standards. The codes were based on the purpose of the research as expressed by the research question and came from terms used in the data. For instance, the research question in this case is to get the views of key stakeholders on the King Code, on corporate compliance with the King Code and on the impact of the King Code on CG standards in the SADC region. These labels helped to provide an emergent structure that is relevant to the issue under investigation and to further analyse the data.

After coding the data, the next step was to unitise the data by attaching relevant 'bits' or 'chunks' of data to the appropriate devised categories (Saunders *et al.*, 2003, p. 381). In this case, the units of data consisted mostly of paragraphs that fitted different categories. Data unitisation was done manually in Word by labelling data units and then cutting them and pasting them to the relevant code such that the Word document ended up with related units of data. This process has the effect of reducing and rearranging the data into a more manageable and comprehensive form (Saunders *et al.*, 2003, p. 382) (see Appendix 6: Template for Analysing Interviews).

5.5.3 Challenges Regarding Interviews

There were various challenges encountered by the researcher with regard to interviews. As discussed in section 5.6.2.2, a total of ten interviews were conducted between November 2009 and March 2010. The interviews were conducted with ten respondents – three King Code Commissioners, two compliance managers, one secretary general of an NGO, one CEO/MD and three company secretaries. The original plan was to interview at least 15 to 20 people representing different key stakeholder groups. Each stakeholder group was going to be represented by at least three respondents. This objective was achieved with regard to King Code commissioners and company secretaries because the target number of respondents was reached in the two cases. However, the target number of respondents was not reached among non-executive directors, company CEO/MDs, NGOs and politicians.

The King Code Commissioners stakeholder group proved to be the easiest to gain access to because all the Commissioners interviewed responded positively to the letter of request sent to them electronically. Non-executive directors, on the other hand, preferred to have their company secretaries take the responsibility of being interviewed as demonstrated from the internal electronic mail communications between them and their company secretaries, copied to the researcher. The groups which proved to be difficult to gain access to were the NGOs, politicians and government/regulators. The researcher faced the following challenges with regard to these groups.

First, prospective respondents did not respond to the letter of request despite numerous attempts to send them reminders. This was common amongst politicians and NGOs. As for politicians, none responded to electronic mail requests or several messages left with their personal assistants. In the case of NGOs, attempts to make telephonic follow up calls were unsuccessful since officials always claimed not to be the relevant people or in some cases not competent to address the issue of corporate governance. In one interesting case the relevant official promised to participate in the research during a telephone conversation with the researcher. Appropriate time and dates were set for the interview and when the researcher called the respondents to conduct the interview, he asked the researcher to call him in 30 minutes because he was still busy. After thirty minutes when he was called again he said he was at the bank and would be available in an hour's time. The researcher tried to persuade him to find suitable time convenient to him for the interview and he insisted that the interview should be conducted in an hour's time and after an hour his phone was not answered. Attempts were made to pursue him in subsequent days but to no avail. A similar situation of postponement of interview appointments was experienced with the one NGO secretary who finally took part in the interview.

In another case (of politicians), contact was made with the personal assistant who promised that she would discuss the researcher's request with the politician concerned and get back to the researcher the following week. No response was received as promised and when attempts were made to follow the matter up, more promises were made that the researcher would be contacted in the near future but this was not honoured.

These cases demonstrate the difficulty with regard to accessibility which contributed to the limitation of not being able to interview the required number of participants. As an observation, all the politicians and people from NGOs who were contacted either by electronic mail or followed up via telephone were from the black ethnic group. The researcher sensed an element of reluctance on the part of this group to participate in the interview process. Prospective respondents seemed to have suspicions about the motives of the proposed interview and whether there was a hidden agenda with regard to the interview.

5.5.4 Ethical Issues

Ethical issues normally emerge as the researcher plans the research, seeks access to organisations and to individuals, collects, analyses and reports data (Saunders *et al.*, 2003). Ethics is defined as the appropriateness of the researcher's behaviour in relation to the rights of those who become the subject of his/her work (Saunders *et al.*, 2003, p. 129). According to Saunders *et al*., (2003), ethical issues have to be considered throughout the period of the research and that researchers have to remain sensitive to the impact of their work on those approached for help, those who provide access and cooperation, and those affected by results. In this research the researcher is guided by the Bradford University Ethics Policy for Research Involving the Use of Human Participants, Data and Tissue of 2010 (latest update) (UB, 2010). This policy document provides a statement of principles and procedures for the conduct of research in cases where human participants are involved. This document was followed to ensure that there were no transgressions of the behavioural norms established by Bradford University.

Some of the ethical issues which were addressed include respecting the privacy of participants, by making them aware of their right not to participate in the research at any time of the interview process, allowing them to determine when they will participate in the data collection process. It is interesting to note that all the participants in this research always offered the researcher multiple time slots during which they might be contacted to conduct interviews. The researcher also promised to abide by the extent of the scope of the research at all times. However, when researchers brought an issue which was beyond the scope of the research but related to the issue being discussed permission was sought from participants to probe further on that issue. This happened in five of the interviews. In addition, participants were also made aware of their right not to answer any question or set of questions. Strict adherence to the time limits were ensured by the researcher, however participants were always prepared and willing to carry on with the interview despite a couple of reminders that the researcher does not wish to take much of their time. The respondents seemed to enjoy talking about issues of CG in SA such that they did not observe the 20 to 30 time limit set by the researcher.

Another important aspect which was observed during the interview process was the maintenance of objectivity during the data collection phase. Objectivity in research refers to making sure that data is correctly and fully without subjectivity in what is recorded by the researcher (Saunders *et al.*, 2003, p. 135). In this research, interviews were tape recorded using a data digital recorder after seeking the express permission of interviewees at the beginning of the interview, and later transcribed into Word documents *verbatim*. As such the issue of subjectivity did not arise during the interview process or during the process of transcribing. As already pointed out, confidentiality and anonymity was observed at all times including during the reporting stage of the research results. During the process of transcribing and analysis of data, respondents and their organisations were given code names to protect their identity. This was done in line with the guarantees given to respondents when access was sought.

Objectivity was vital during the analysis stage to make sure that data collected was not misrepresented. This entailed not being selective about which data to report, or misrepresenting facts (Zikmund, 2000; Saunders *et al.*, 2003). Also, failure to represent the data honestly will extend to the reporting stage of the research which may ultimately result in distorted conclusions and any recommendations arising there from (Saunders *et al.*, 2003, p. 139).

5.6 Chapter Summary

The main aim of this chapter is to present the research methodology employed to test the hypotheses developed in chapter four and to gain insight on the views of key stakeholders in this study is explained. The chapter sought to describe the data, sources of data, how the sample was selected and the methodology used in the study. This study employs quantitative analysis and qualitative analysis to answer research questions.

Secondly, chapter also makes an attempt to explain the rationale for the choice of data, sources of data, how the sample was arrived at, research methodology. The chapter also attempts to explain the procedures which will be undertaken to answer the research questions on compliance and factors which influence compliance.

The third objective of the chapter was to discuss the process which will be undertaken to answer the research question of perspectives of key stakeholders. This aspect of this research is different from the approaches of prior literature which focus only on quantitative analyses based on data from company annual reports. In this way, a discussion of who the key stakeholders are is presented, why they have been chosen, negotiation access and the type of interviews which were conducted. The chapter also discusses data collection through interviews, data analysis, ethical issues which had to be observed before, during and after the interviews. Finally, the experiences and limitations with regard to interviewing key stakeholders are presented.

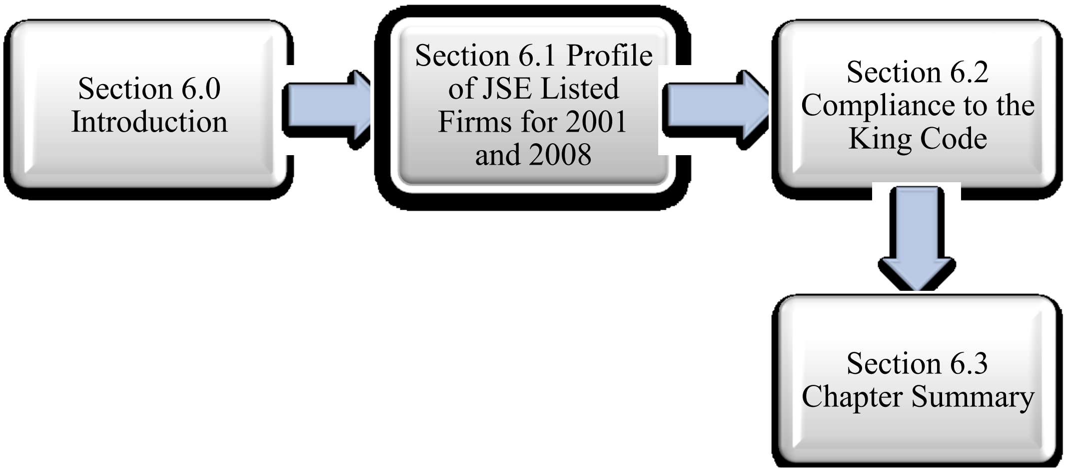
In the next chapter, the main objective is to present the analysis of results of compliance and factors which influence compliance to the SA King Code in 2001 and 2008.

6 Chapter Six: Descriptive Analysis & Findings on Extent of Compliance with the Code

6.0 Introduction

Chapter Five discusses the research methods employed to answer the research questions in this study. The objectives of this chapter are; first, to present a descriptive analysis of the sample and secondly to answer the first question on the extent to which JSE listed companies comply with the Code. Secondly, to discuss compliance to selected King Code recommendations from the compliance checklist. Figure 6.1 presents an overview of the rest of the chapter.

Figure 6.1 Chapter Six Plan



6.1 Profile of JSE Listed Firms for 2001 and 2008

Table 6.1 presents descriptive statistics of the sample for 2001 and 2008.

Table 6.1 Descriptive Statistics of Independent Variables

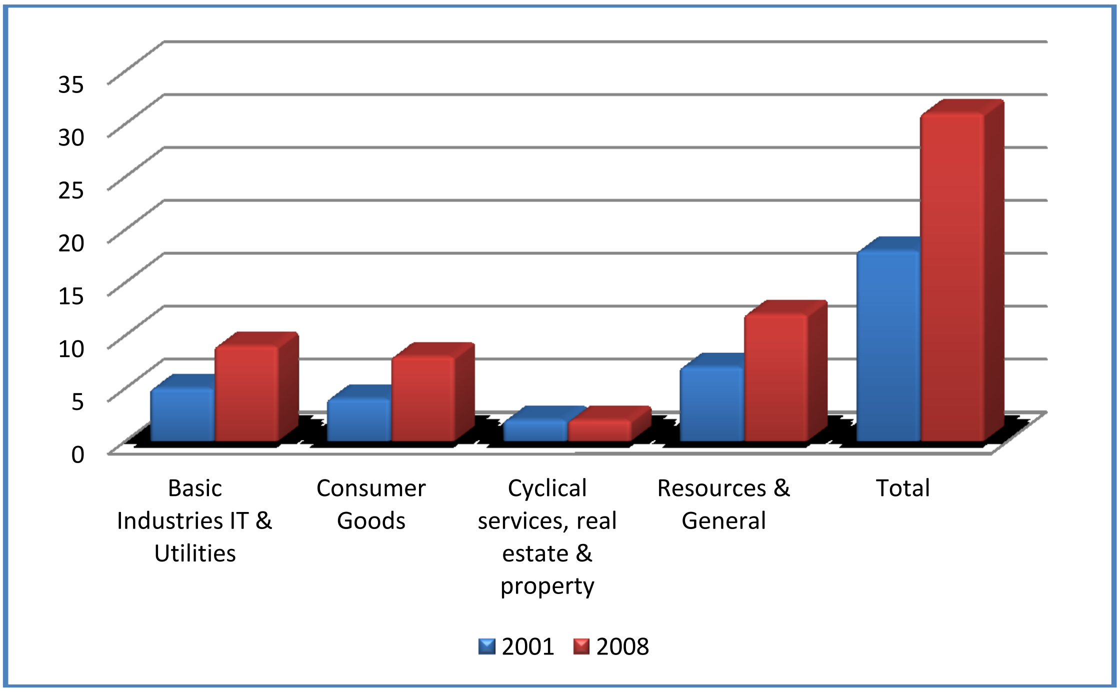
Panel A: 2001	**Mean**	**Std. Deviation**	**Minimum**	**Maximum**	**Percentiles**		
					25	**50**	**75**
PROPWHITES	0.91	0.13	0.18	1.00	0.88	0.93	1.00
PROPDNEDS	0.48	0.23	0.00	0.92	0.33	0.50	0.64
SBD	9.54	4.38	3.00	30.00	6.00	9.00	12.00
STA	11,608.82	33,252.76	70.00	228,891.00	187.00	752.50	5,018.25
LTDtoTE	0.55	1.22	0.00	8.95	0.04	0.23	0.53
INSTSHARE	0.30	0.27	0.00	0.91	0.06	0.25	0.47
DRCTSHARE	0.10	0.16	0.00	0.67	0.00	0.01	0.12
ROA	0.06	0.06	-0.09	0.22	0.02	0.06	0.11
Panel B: 2008							
PROPWHITES	0.75	0.20	0.00	1.00	0.63	0.78	0.91
PROPDNEDS	0.63	0.17	0.00	1.00	0.56	0.64	0.75
SBD	9.87	3.68	4.00	23.00	7.00	10.00	12.75
STA	8,147.35	21,865.09	50.00	153,743.00	190.50	938.00	5,379.00
LTDtoTE	0.68	1.53	0.00	15.30	0.13	0.29	0.67
INSTSHARE	0.34	0.28	0.00	0.97	0.08	0.31	0.52
DRCTSHARE	0.13	0.20	0.00	0.89	0.00	0.02	0.20
ROA	0.10	0.08	-0.10	0.30	0.04	0.09	0.15

The mean (median) PROPWHITES in 2001 is 0.91 (0.93) and 0.75 (0.78) in 2008. This indicates that the proportion of whites on boards of directors decreased by almost 28% (15%) between 2001 and 2008. The results also suggest that boards of sample JSE firms are dominated by whites in 2001 and 2008. The mean (median) proportion of Non-executive Directors (PROPDNEDs) in 2001 is 0.48 (0.50) and 0.63 (0.64) in 2008. These results suggest that in 2001 sample JSE listed firms did not comply with the recommendation to have majority non-executive directors on boards of directors as per the recommendations of the King Code. However, in 2008 boards of sample firms were dominated by non-executive directors as per the Code recommendations. From Table 6.1, it can be seen that the minimum PROPNEDs in 2001 and 2008 was 0 and the maximum was 1.00 in 2008. This indicates that in both years at least one firm did not appoint non-executive directors (NEDs) to the board whilst in 2008 all the directors of at least one firm were NEDs. The results also indicate that boards of sample JSE listed firms were not dominated by NEDs in 2001. However, in 2008 NEDs formed the majority of board members of sample JSE listed firms indicating that compliance with the King Code in this regard has increased by 16%. This suggests that South African boards are more independent following the recommendation by the King Code of the need to appoint NEDs to boards of directors. These results are consistent with findings from prior literature. For instance, Ntim (2009) finds a mean percentage of NEDs in South African corporate boards of 52% in 2002 and 60% in 2006 and an average mean of 57% for the five-year period considered under this study. Similarly, Ho and Williams (2003) finds an average percentage of NEDs of 52%.

The average board size (SBD) was found to be 9.54 in 2001, with a minimum of 3 and a maximum of 30. In 2008, average SBD was 9.87, with a minimum of 4 and a maximum of 23. Lipton and Lorsch (1992) recommend that for greater board efficiency and effectiveness, the average board size must be between 8 and 10. As per the SA Companies Act 1973, a public company must have a minimum board size of 2, but does not specify the maximum board size. As such, these results are within the requirements of the Companies Act 1973. The results are also consistent with findings from other studies in SA e.g. Ntim (2009) finds an average board size of 9.69 with a minimum of 3 and a maximum of 31 between 2002 and 2006, whereas a Deutsche Bank (2002) opinion survey finds a minimum board size of 5 and a maximum of 30 with an average of 12. Ho and Williams (2003) find an average board size of 13.02 for a sample of 84 South African firms in 1998 while Swartz and Firer (2005) report that the average South African board consists of 10.30 members, using a sample of 117 South African listed firms in 2003.

Firm size proxied by firm's total assets (STA) ranged from a minimum of R70.0 million in 2001 to a maximum of R228bn in 2001, with an average of R11.6bn, while in 2008 the range was from R50.0 million to R153bn respectively, with an average of R8.1bn. In terms of industry classification and as discussed in chapter 5 section 5.2, most of the listed companies are in the resources and general industrial sector (mining firms) (see figure 6.2). This is not surprising because historically SA's corporate sector has traditionally been dominated by mining firms, the formation of which dates as far back as the late 19th and early 20th century (Malherbe and Segal, 2001). In fact, the JSE was founded to enable raising of funds for the expansion of the fledging mining industry in Johannesburg (Mkhize and Msweli-Mbanga, 2006, p. 80).

Figure 6.2 Sample of Firms by Industrial Sector



Mining in SA has been the main driving force behind the history and development of the country for decades since the discovery of gold and diamonds in SA in the 1800s. Mining has also contributed to the development of SA's capital and money markets (Malherbe and Segal, 2001). Mining firms also have a strong connection with the colonial past and the mineral revolution of the 1860s which attracted Europeans to the African continent (DTI, 2008).

The average long-term debt to total equity (LTDtoTE) was found to be 55% with a minimum of 0% and a maximum of 895% in 2001. In 2008, the average long-term debt to total equity was 68% with a minimum of 0% and a maximum of 1,530%. In 2001, 12 (5 in 2008) firms had a level of gearing of 0. Of these 1 (1) was from the Basic Industries IT and Utilities, 3 (1) from the Consumer Goods Industry, 6 (3) from Cyclical Services, Real Estate and Property and 4 (0) from the Resources and General Industries. Malherbe and Segal (2001, p. 25) report that the funding structure of South African firms generally reflects a culture of reliance on equity and retained earnings as opposed to debt. As such, it is not surprising to find many JSE listed firms without debt financing.

The average shareholding by institutional investors (INSTSHARE) (proxied by ordinary shares held by financial banks investment banks, insurance firms, mutual funds/trusts and pension funds) was 30% in 2001 with a minimum of 0% and a maximum of 91%. In 2008, the average institutional shareholding was 34% with a minimum of 0% and a maximum of 97%. Similarly, Ntim (2009) finds a minimum of 0.28% and a maximum of 99% institutional shareholding with a comparatively high average institutional shareholding of 71%.

The proportion of ordinary shares held by executive directors (DRCTSHARE) is also reported in Table 6.1. The mean director shareholding in 2001 was 10% with a minimum of 0% and a maximum of 67%. In 2008, the minimum director shareholding was also 0% and the maximum was 89% with a mean director shareholding of 13%. Ntim (2009) reports director share ownership which ranges from 0% to 94% with an average of 20%, while Mangena and Chamisa (2008) report a mean of 20% and 23% for a sample of control and suspended JSE listed firms, respectively. Director shareholding by contrast is very high in SA compared to the US and the UK. For instance, Yermack (1996) reports director shareholding of 9% for a sample of US listed firms while Weir *et al.* (2002) report an average of 3% of director shareholding for a sample of UK listed firms.

Finally, Table 6.1 reports profitability proxied by return on assets (ROA). As seen from the results, ROA ranged from -9% to 22% in 2001 with a mean of 6% in 2001, while in 2008 the range was from -10% to 30% with a mean of 10%. Ntim (2009) reports an average ROA of 11% for a sample of 500 JSE listed firms while Klapper and Love (2004) report an average of 9% for a cross-country sample of 374 firms including SA in 1999. Similarly, Ho and Williams report an average ROA value of 13% for a sample of 84 South African firms in 1998.

Sample firms were also analysed in terms of auditor type e.g. Big 4 and non-Big 4. The 2001 and 2008 distribution of audit firms across listed firms is presented in Figure 6.3. As shown in Figure 6.3, most used (75.0% in 2001 and 79.4% in 2008) services of Big 4 audit firms.

Figure 6.3 Sample Firms by auditor type: 2001 and 2008

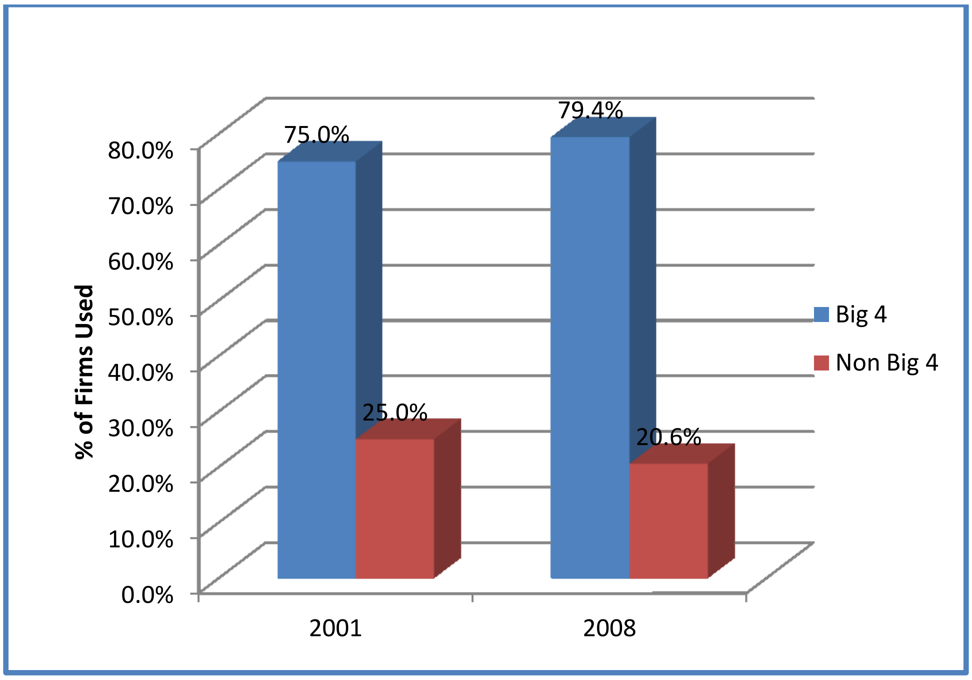
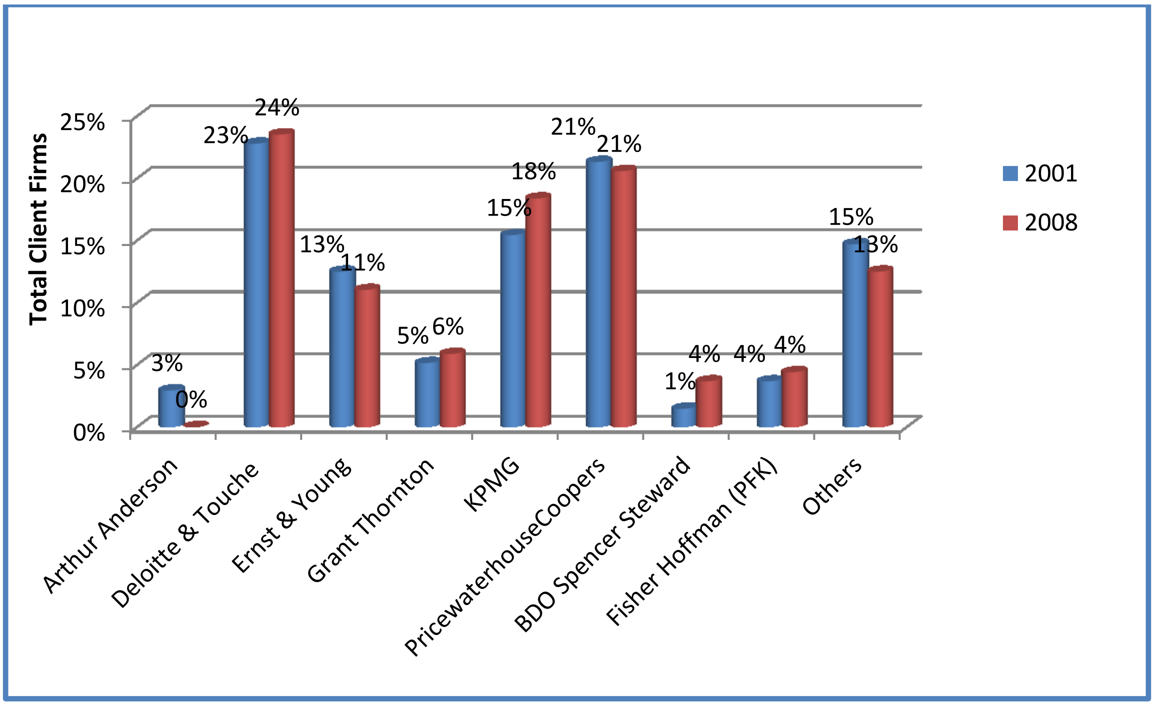


Figure 6.4 presents the top eight audit firms in SA by market share. In terms of the Big 4's market share, the audit firm that holds the largest share in 2001 was Deloitte and Touché (23%), followed by PricewaterhouseCoopers (21%). In 2008, Deloitte & Touché had a market share of 24% of sample firms while PricewaterhouseCoopers's market share was unchanged at 21%. As for non-Big 4 audit firms, Grant Thornton had a share of the market of 5% and 6% in 2001 and 2008 respectively. This distribution shows that audit market share in SA is dominated by Big 4 audit firms. This has implications on corporate compliance with best practice corporate governance principles in the country.

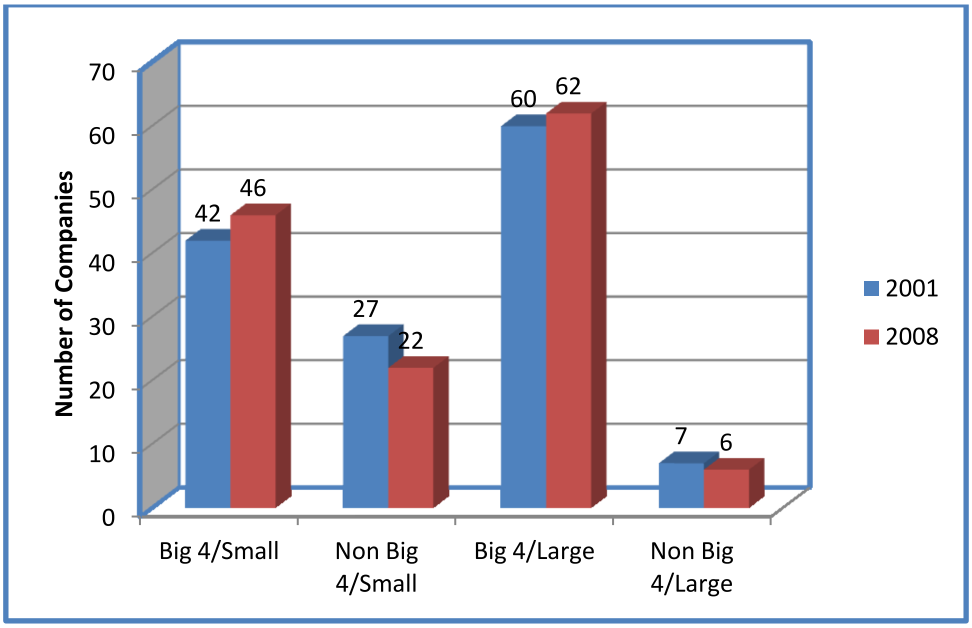
Figure 6.4 Top 8 Audit Firms in 2001 & 2008



When looking at whether there was any relationship between type of auditor and company size (presented in Figure 6.5), it was found that out of 69 small firms in 2001, 61% were audited by Big 4 audit firms. For large firms, 90% were audited by Big 4 audit firms. In

2008, 68% of small firms and 91% of large firms were audited by Big 4 audit firms. This indicates that Big 4 audit firms audited more small and large firms in 2001 and 2008. Between 2001 and 2008 the number of small firms audited by Big 4 audit firms increased by 4% while the number of large firms audited by Big 4 audit firms went up by only 1%. Generally, the analysis indicates that there has been a shift towards the use of services of Big 4 audit firms. This further indicates that Big 4 audit firms play a significant role in CG in SA.

Figure 6.5 Company Size & Type of Auditors

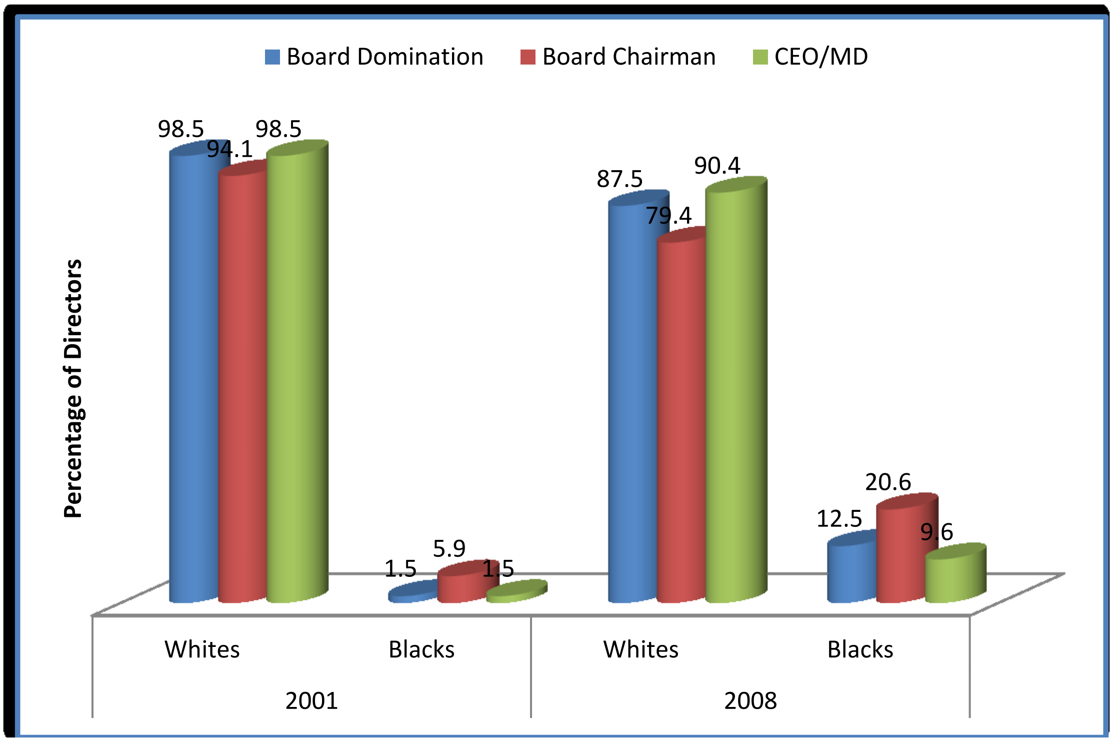


The decline in the number of Non Big 4 audit firms may be attributed to a series of stringent new listings requirements concerning financial directors and auditors of listed entities issued by the JSE Limited in September 2008 (Amoils, 2009). As per the new Listing Requirements, any audit firm that wishes to audit listed companies, must be registered by the JSE and entered onto the JSE Register of Auditors and their advisors. As such, these new requirements have cost implications on the audit firms and the auditee because registration by the JSE of audit firms requires highest professional standards to be met before qualifying for such. Because of the stringent new Listing Requirements, many smaller audit firms may choose not to audit listed companies in future and those firms that decide to continue to audit listed companies will have to remain vigilant to ensure that they maintain the highest professional standards (Amoils, 2009). Therefore the decline in the number of sample firms which are audited by Non Big 4 firms may have been caused by failure of local Non Big 4 audit firms [smaller] to meet the stringent new regulatory requirements.

6.1.1 Board Domination, Board Chairman and CEO/MD by Ethnicity in Boards of Sample Firms

Considering the history in SA of racial divisions according to skin colour (blacks/whites), it was interesting to examine the domination of board structures of sample firms in terms of ethnicity e.g. board domination (blacks/whites), white/black board chairman and white/black Chief Executive Officer/Managing Director (CEO/MD). Figure 6.6 shows the composition of boards of directors of sample firms in terms of dominant ethnicity (black/white) on the board of directors, whether the board Chairman is black/white and the ethnicity of the Chief Executive Officer, respectively. An ethnic group is deemed to dominate a board of directors if the proportion of directors from that ethnic group is above 50%.

Figure 6.6 Board Domination, Board Chairman and CEO/MD by Ethnicity in 2001 and 2008



In 2001, only 1.5% of sample firms' boards of directors were dominated by blacks compared to 12.5% in 2008. This indicates an increase of 11% in the number of boards of directors dominated by blacks over a period of seven years. The number of firms with a black board chairman increased from 4.4% in 2001 to 20.6% in 2008 among sample firms. Similarly, an increase of 8.1% in the number of firms with a black Chief Executive Officer/Managing Director among listed firms was recorded between 2001 (1.5%) and 2008 (9.6%).

These results indicate that there were few blacks on boards of sample firms for the two periods and that whites dominate corporate SA as was the case during apartheid, whereby the whites controlled the economy and the blacks were not given access to positions of leadership and managerial decision-making (Thomas and Bendixen, 2000, p. 508). As such, the results are not representative of the make-up of the South African population in terms of the two main ethnic groups (blacks and whites). SA is a nation of over 47 million people of diverse origins, cultures, languages and beliefs. As per the mid-2007 estimates from Statistics South Africa, the country's population stands at some 47.9 million (South African Government, 2007). Blacks form the majority of the population of SA, making up 90.9% of the total population. The white population is estimated at 4.3 million (9.1%).

6.1.1.1 Ratio of Directors by Ethnic Grouping of Chairperson

Another important factor to consider regarding composition of boards of directors in the context of SA is the composition of the boards based on ethnic grouping (e.g. blacks and whites). Table 6.2 shows the ratio of blacks sitting on the boards. Out of the 136 sample companies in 2001 and 2008, only one company (0.7%) in 2008 has 100% black directors on the board. In 2001 most of companies had between 0.01% and 20% black directors whilst in 2008 the majority of boards had between 20.01% and 40% black directors. This indicates that structures of corporate SA of sample firms are dominated by whites. The results also indicate that efforts to bring on board previously disadvantaged groups under the Black Economic Empowerment have not as yet achieved their objectives (de Waal, 2010; Southall, 2004).

Table 6.2 Ratio of Black Board Directors in 2001 and 2008

	No. of Companies in 2001	%	No. of Companies in 2008	%
0	59	43.4	25	18.4
0.01 – 20.00%	63	46.3	41	30.1
20.01 – 40.00%	10	7.4	42	30.9
40.01 – 60.00%	3	2.2	22	16.2
60.01 – 80.00%	0	0.0	5	3.7
80.01 - 99.99%	1	0.7	0	0.0
100%	0	0.0	1	0.7
	136	**100.0**	**136**	**100.0**

It is also interesting to analyse the total number of directors for the two periods in terms of category of directorship (e.g. EXECs, NEDs and INEDs) and ethnicity. Table 6.3 presents the results of this analysis. In 2001, less than 10% of the total directors in sample firms were black while in 2008 under a quarter (24.1%) of total directors were black.

Table 6.3 Total Number of Directors by Category & Ethnicity

	2001	%	2008	%
Total black NEDs	89	6.9	128	9.5
Total white NEDs	557	42.9	301	22.4
Total black INEDs	4	0.3	138	10.3
Total white INEDs	22	1.7	309	23.0
Total black EXECs	20	1.5	58	4.3
Total white EXECs	606	46.7	408	30.4
Total Blacks	***113***	***8.7***	***324***	***24.1***
Total Whites	***1185***	***91.3***	***1018***	***75.9***
Total Directors	**1298**	**100.0**	**1342**	**100.0**

Where: NEDs – Non-executive Directors; INEDs – Independent Non-executive Directors and EXECs – Executive Directors.

These results indicate that whites dominate boards of corporate SA in 2001 and 2008 and that blacks have not yet made inroads into corporate SA after 16 years of black rule.

6.2 Compliance to the King Code

This subsection answers the first question on the extent of compliance with the King Code by JSE listed firms in 2001 and 2008. Table 6.4 presents data on the extent of compliance for the two periods.

Table 6.4 Descriptive Statistics of Dependent Continuous Variables

Panel A: 2001	Mean	Std. Deviation	Minimum	Maximum	Percentiles		
					25th	50th (Median)	75th
TCI	0.406	0.151	0.080	0.810	0.292	0.386	0.521
VCI	0.361	0.165	0.050	0.820	0.256	0.333	0.487
MCI	0.602	0.179	0.000	1.000	0.472	0.667	0.750
Theme 1	0.384	0.164	0.080	0.770	0.269	0.385	0.462
Theme 2	0.448	0.236	0.000	1.000	0.222	0.500	0.667
Theme 3	0.782	0.379	0.000	1.000	0.667	1.000	1.000
Theme 4	0.315	0.265	0.000	1.000	0.025	0.300	0.500
Panel B: 2008							
TCI	0.742	0.175	0.240	0.980	0.604	0.792	0.887
VCI	0.717	0.192	0.200	0.980	0.551	0.795	0.864
MCI	0.863	0.139	0.330	1.000	0.778	0.889	1.000
Theme 1	0.718	0.192	0.130	1.000	0.589	0.774	0.871
Theme 2	0.811	0.159	0.330	1.000	0.667	0.889	0.972
Theme 3	0.990	0.070	0.330	1.000	1.000	1.000	1.000
Theme 4	0.679	0.304	0.000	1.000	0.500	0.800	0.900

PANEL C	% Change in Compliance between 2001 & 2008
TCI	82.8%
VCI	98.6%
MCI	43.4%
Theme 1	87.0%
Theme 2	81.0%
Theme 3	26.6%
Theme 4	115.6%

It can be seen in the table that the mean TCI (aggregation of all compliance indices) is 40.6% in 2001 which increased to 74.2% in 2008. This indicates that the mean extent of compliance with the King Code increased by 82.7% between 2001 and 2008. The range (for TCI) is from a minimum of 8% (24%) to a maximum of 81% (98%) in 2001 (2008). As can be seen from the table, the index with the lowest figure is Integrated Sustainability Reporting (THEME4) both in 2001 (32%) and 2008 (68%) while the highest mean extent of compliance index was recorded under Accounting and Auditing in 2001 (78%) and 2008 (99%). Results from the table (Panel C) also indicate that THEME4 registered the highest change in mean extent of compliance between the two years of 115.6% while THEME3 recorded the lowest increase in mean extent of compliance of 26.6%.

As presented in Table 6.4, the mean compliance for other themes also shows that there was an increase in compliance with the King Code between 2001 and 2008. In 2001 and 2008, THEME4 (Integrated Sustainability Reporting) had the lowest mean (median) compliance index of 0.315 (0.300) and 0.679 (0.800) respectively, while THEME3 (Accounting and Auditing) had the highest mean (median) compliance index of 0.782 (1.000) and 0.990 (1.000) in that order. THEME4 comprises recommendations relating to social responsibility issues such as Black Economic Empowerment (BEE) and compliance on environmental issues among others. THEME3, on the other hand, comprises of recommendations relating to normal accounting practices which companies regularly report on in accordance with accounting standards. As such, the nature of recommendations in these themes may serve to explain why compliance was low in THEME4 and high in THEME3.

In addition, as presented in Table 6.4, MCI, THEME2, THEME3 and THEME4 had a minimum mean compliance of 0.00 indicating that at least one sample firm did not comply with all the recommendations under these themes in 2001. In 2008 only THEME4 had a minimum mean compliance index of 0.00, consistent with the low compliance under this theme during the two periods. In 2001, TCI, VCI and THEME1 did not have a maximum compliance index of 1.00 while in 2008 only TCI and VCI did not register this score, indicating that none of the 136 sample firms complied with all the recommendations under TCI and VCI.

As noted above, these results suggest that compliance for sample firms improved after the review of the Code in 2002. The results are consistent with Ntim's (2009) findings in a study conducted in SA to investigate whether firms which comply with the King Code perform better between the years 2002 and 2006. In this study, Ntim (2009) finds a mean percentage increase in compliance with the King Code of 20% (i.e., from 48% in 2002 to 68% in 2006). The findings are also consistent with the results of literature on accounting disclosure. For instance, Conyon (1993), Conyon and Mallin (1997), Bauer *et al*. (2004), Weir and Laing (2002), Shabbir and Padgett (2005), Cui *et al*. (2008), Henry (2008) and Werder *et al.,* (2005) report evidence of substantial improvements in the levels of compliance with CG standards over time across a sample of European, UK, Australian and German listed firms that they examined, respectively. Similarly, the Deutsche Bank (2002) survey in SA, suggested that CG standards among South African listed firms improved over time since the introduction of both King I and II.

Frequency of compliance with the South African King Code was analysed for 48[31] compliance items in 2001 and 53 compliance items in 2008. The compliance checklist was broken into four THEMES (Tables 6.5 to 6.9) for analysis purposes. The following discussion attempts to analyse items with the largest change under each theme.

6.2.1 Compliance to THEME1

This theme comprises 31 items which fall under three components: board requirements, which consists of 5 items; board composition, 16 items for 2001 (21 items for 2008) and board meetings, 5 items for both years. Table 6.5 shows the frequency of companies complying with each of the 31 items. The mean compliance index under this theme was 38.4% in 2001 compared to 71.8% in 2008. When this theme is split into the three components, the mean compliance index indicates that sample firms complied more to the recommendations on board composition (e.g. compliance index of 47.1% in 2001 and 76.4%

[31] There are 48 items in the King Code Checklist in 2001 because 5 items do not apply to this period i.e. whether the chairman is an independent non-executive director; whether the audit committee is chaired by an independent non-executive director; whether the remuneration committee is chaired by an independent non-executive director; whether the remuneration committee consists entirely of independent non-executive directors and whether the appointment committee is chaired by an independent non-executive director.

in 2008) and less to the recommendations on board meetings (i.e. 7.4% in 2001 and 50.9% in 2008) while the compliance index for the recommendations on board requirements was 41.8% in 2001 and 73.5% in 2008. Compliance with board requirements may indicate that firms consider board issues important for best practice governance purposes.

Table 6.5 South African King Code Checklist THEME1 - 2001 and 2008

Panel A						
Compliance Checklist		**2001**		**2008**		**Change**
Compliance Items		Frequency	%	Frequency	%	%
1	**Board and Directors (THEME1)**					
1.1	**Board Requirements (SUBTHEME1.1)**					
	Does the annual report contain:					
1	a charter setting out responsibilities of the board (CSRB1)?	40	29	98	72	**145**
2	a statement of the purpose of the company as determined by the board? (SPC2)	54	40	104	76	93
3	a statement of the values of the company as determined by the board? (SVC3)	55	40	97	71	76
4	list of relevant stakeholders identified by the board? (LRS4)	26	19	79	58	**204**
5	A narrative statement of how it has applied the principles set out in the King Code? (NSAKC5) *(Man.)*	107	79	121	89	13
1.2	**Board composition (SUBTHEME1.2)**					
6	Are the roles of CEO/MD and board chairman separated or a statement provided combining the roles? (ROLEDU6) *(Man.)*	99	73	135	99	38
7	Is the chairperson an independent non-executive director? (CINED7) *(N/A 2001)*	1	1	39	29	**3800**
8	Is the capacity of each director categorised accordingly e.g. Executive, non-executive & independent non-executive. (CAPDIR8) *(Man.)*	67	49	134	99	100
9	Does the company have an audit committee? (AUDC9) *(Man.)*	109	80	132	97	21
10	Is the audit committee chaired by an independent non-executive director? (AUDINEDC10) *(N/A 2001)*	5	4	106	78	90
11	Is membership of the audit committee disclosed in the	74	54	126	93	70

	annual report? (AUMBD11)					
12	Does the annual report contain information on the qualifications of directors? (DIRQUAL12)	50	37	121	89	142
13	Does the annual report contain information on the experience of directors? (DIREXP13)	44	32	121	89	175
14	Are audit committee members financially literate? (Qualifications) (AUFLIT14)	46	34	109	80	137
15	Does the company have a remuneration committee? (REMCOM15) *(Man.)*	115	85	129	95	12
16	Is the remuneration committee chaired by an independent non-executive director? (REMCINED16)	27	20	95	70	252
17	Does the remuneration committee consist entirely of independent non-executive directors? (REMINEDS16)	26	19	87	64	235
18	Does the annual report contain details of director remuneration? (DIRREM18)	131	96	136	100	4
19	Does the company have an appointment/nomination committee? (NOMCOM19)	8	6	92	68	**1050**
20	Is the appointment committee chaired by an independent non-executive director? (NOMCINED20)	3	2	73	54	**2333**
21	Does the annual report contain a statement/policy of how board appointments are made? (BAPP21) *(Man.)*	87	64	122	90	40
22	Does the company have a corporate code of conduct on conflict of interest relating to directors and management? (CCCOND22)	16	12	66	49	313
23	Does the board have a procedure for directors to take independent professional advice? (DIRPAD23)	37	27	91	67	146
24	Is a statement of how performance evaluation of the board, its committees and its directors included? (PERFEV24)	3	2	42	31	**1300**
25	Is the board of directors demographically diverse (Blacks and whites)? (DIVERSE25)	22	16	103	76	**368**
26	Does the board of directors include women?	15	11	80	59	**433**

	(BWOMEN26)					
1.3	**Board Meetings (SUBTHEME1.3)**					
27	Does the board meet at least four times per year as per the Code? (BOARDMEET27)	42	31	123	90	193
28	Does the audit committee meet at least four times per year as per the Code? (AUDMEET28)	2	1	55	40	**2650**
29	Does the remuneration committee meet at least four times per year as per the Code? (REMMEET29)	2	1	37	27	**1750**
30	Does the appointment committee meet at least four times per year as per the Code? (APPMEET30)	1	1	30	22	**2900**
31	Does the annual report contain list of individual attendance by directors? (DIRATTEND31)	3	2	104	76	**3367**
Mean Frequency Compliance						
THME1Compliance Index		**0.384**		**0.718**		**87.0**
Board Requirements (SUBTHEME1.1)		**0.418 (19%)**		**0.735 (16%)**		**75.8**
Board Composition (SUBTHEME1.2)		**0.471 (62%)**		**0.764 (68%)**		**62.2**
Board Meetings (SUBTHEME1.3)		**0.074 (19%)**		**0.509 (16%)**		**587.8**

Man – mandatory

6.2.1.1 Board Requirements (SUBTHEME1.1)

This sub-theme consists of five items which address recommendations on the requirements of the board. It is interesting to investigate why there is a big change in compliance with various items from the checklist and also to determine the characteristics of firms which comply with these items so as to understand whether high/low compliance to the recommendations from the King Code is influenced by company specific characteristics.

A significant increase of compliance is observed in two out of five items from this sub-theme between 2001 and 2008. These are the recommendation on setting a board charter (145%) and identifying relevant stakeholders by the board of directors (– 204%). The results show that in 2001 29% of the firms complied with board charter which sets out the responsibilities of the board, whilst 72% of the firms complied in 2008. Companies may have complied less in 2001 and more in 2008 because of an increased level of scrutiny by the JSE and shareholder advocacy groups which have gained prominence in recent times in SA.

With regard to compliance to LRS4, a reading of the annual reports revealed that firms which complied with this recommendation specifically listed their stakeholders in the annual reports and explained their interactions with the various stakeholders. The level of compliance with this aspect may indicate the extent to which sample firms value stakeholder relations. A few firms demonstrated the importance of stakeholder relations as indicated by extracts from their annual reports:

"Each Anglo Platinum operation is aware of its responsibility towards society and the environment in which it operates. In the spirit of Ubuntu (African humanism), business units have developed plans with key stakeholders, including Government and local communities, to address development issues in an integrated manner" (Anglo Platinum, 2001, pp. 78-79).

The AngloGold Ashanti Report to Society 2008 is a reflection of the company's commitment to report on its impact and obligations in respect of its employees, the environment, economies and communities in which it operates. This report seeks to report on these issues to a wide range of stakeholders including shareholders, investors, communities, employees and their representatives, local and national governments and other interested parties. (AngloGoldAshanti, 2008, p. 154).

Firms which were found not to comply with this recommendation preferred to generally make reference to "all stakeholders" without pointing exactly out who these stakeholders are and how they interact with them. Reference to stakeholders in this case was used to acknowledge that the company has stakeholders but does not have a list of who they are. In some cases of non-compliance, firms mentioned only one stakeholder but acknowledged the existence of other stakeholders without identifying who they were. The following extracts are examples from annual reports of firms which failed to comply with this recommendation or make general reference to stakeholders:

"The Group is committed to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders." (Aflease in 2001, p.21).

Examples of partial reference to stakeholders:

"The group is committed to the long-term development of all its employees and stakeholders." (Sun International, 2001, p. 23).

"The company strives in its communications with stakeholders, particularly the investment community, to present a balanced and understandable assessment of the company's position." (Wooltru in 2001, p. 12).

6.2.1.2 Board Requirements (SUBTHEME1.2)

SUBTHEME1.2 comprises of 21 items which address issues relating to recommendations on how the board should be composed. As discussed in section 6.2, JSE sample firms complied more with the recommendations under this sub-theme compared to the other sub-themes in THEME1. As reported in Table 6.5, frequency of compliance to 4 recommendations out of 21 was 80% or above between 2001 and 2008. These are role duality (ROLEDU6), existence of audit committee (AUDC9), appointment of a remuneration committee (REMCOM15) and disclosure of director remuneration (DIRREM18). Five recommendations out of 21 had an average frequency of compliance ranging between 60% and 79%. These are categorisation of the capacity of each director in terms of whether they are non-executive directors (NEDs), independent non-executive directors (INEDs) and executive directors (EXECs) (CAPDIR8); disclosure of audit committee membership (AUMBD11); disclosure of information on the qualifications of directors (DIRQUAL12); information on the experience of directors (DIREXP13) and disclosure of a statement on how board appointments are made (BAPP21).

Eleven recommendations out of 21 had an average frequency of compliance of 49% and below. These are appointment of a chairman who is an INED (CINED7); whether the audit committee is chaired by an INED (AUDINEDC10); whether the chairman of the remuneration committee is an INED (REMCINED16); whether the remuneration committee consists entirely of INEDs (REMINEDS16); appointment of a nomination/appointment committee (NOMCOM19); whether the chairman of the appointment/nomination committee is an INED (NOMCINED20); availability of corporate code of conduct on conflict of interest relating to directors and management

(CCCOND22); whether the board has a procedure for directors to take independent professional advice (DIRPAD23); statement on the performance evaluation of the board, its committees and its directors (PERFEV24); board demographic diversity (DIVERSE25) and whether the board of directors includes women (BWOMEN26). The remaining one recommendation had a mean frequency of compliance between 50% and 59% (e.g. AUFLIT14 – whether audit committee members are financially literate). Recommendations on the appointment of independent non-executive directors were not covered under the King Code I (1994). As such, these recommendations do not apply to 2001 (Items: 7, 10, 16, 17 and 20).

Even though the appointment of an INED as board chair was not covered by the King Code I (1994) in 2001, 0.7% (1 firm[32]) of sample firms had appointed an INED as board chair, 46.3% appointed EXECs and 52.9% appointed NEDs as board chair. In 2008 the frequency of compliance to the recommendation on the appointment of an INED as a board chairman was 28.7%, while 25.0% of board chairpersons of sample firms were EXECs and 46.3% were NEDs.

In some cases of non-compliance to this recommendation, companies offered explanations as to why they did not appoint an INED as evidenced by extracts from their annual reports: e.g.

[32] Hypro Investments – real estate and property, is audited by Grant Thornton Kessel Feinstein (Non Big 4 audit firm). The company's corporate structures are dominated by whites. The company is a small firm with a turnover of over R72m in 2001.

__King Consolidated –__ The reason for not appointing a non-executive chairman is that, in the opinion of the Board, his position as executive chairman does not compromise the principles of CG. (2008, p. 8).

The directors own 88.59% of the ordinary shares of the company, and as the majority shareholders they are able to influence appointments to board structures. Other similar cases included the following include Bowler Metcalf in which directors own almost 40% of the ordinary shares whilst the executive chairman alone owns 21.5% of the shares. Only 20% of the ordinary shares are owned by institutional investors. The company has a single listing in the JSE and is audited by a non-Big 4 audit firm (2008). Also Awethu Breweries Limited – had two directors who beneficially held (TW Ford) 44,929,235 shares and (I. Vermaak) 386,500 shares respectively. The company had a financial obligation to one of the directors in excess of R8 million (2008). The directors of PSG Group on the other hand own 52.3% (JF Mounton Exec Chairman) of the company, while 44.4% is owned by the public and institutional investors (2008). Boards of these companies were executive directors, in contrast to the recommendations of the Code.

As seen from Table 6.5, NOMCINED19 (appointment of nomination committees) and NOMCINED20 (whether the appointment committee is chaired by an

INED) registered the highest change between 2001 and 2008 i.e. 1050% and 2333% respectively. Almost all companies which did not have an appointment committee (32% in 2008) stated that board appointments were done by the entire board. For instance, the following are extracts from annual reports of firms which did not comply with this recommendation:

> ***Isa Holdings*** *– "The appointment of a new director to the Board is approved by the Board as a whole, subject to ratification by shareholders at the next Annual General Meeting or General Meeting, whichever is the earlier" (2008, p. 2).*

> ***Hudaco Investments*** *– "The selection and appointment of directors and the company secretary is a matter for the board as a whole" (2008, p. 25).*

> ***Excellerate*** *– "Procedures for appointments to the board are formal. The board as a whole approves the appointment of new directors" (2008, p. 18).*

Compliance with the requirements to have a code of conduct on conflict of interest relating to directors and management (CCCOND22), procedure for directors to take independent professional advice (DIRPAD23) and providing a statement on how performance evaluation of the board, its committees and its directors is conducted

(PERFEV24) was generally low in both 2001 and 2008 as per the results in Table 6.5. In the case of existence of a corporate code of conduct on conflict of interests, only 12% of the sampled firms in 2001 complied with this recommendation compared to 49% in 2008. In 2001, 3% of JSE sampled firms had a statement on performance evaluation of the board, its committees and directors included in the annual report compared to 31% in 2008. This implies that most firms did not have a procedure to determine whether the board, board committees and individual directors were performing effectively. For instance, in 2001, none of the small firms complied with this recommendation compared to 4.5% of large firms. In 2008, the level of compliance was 22.1% and 39.7% for small and large firms, respectively. Similarly compliance was high among firms with multiple listings in other stock exchanges i.e. 5.6% (35.5%) of firms with multiple listings compared to 1.7% (29.5%) of firms without multiple listing in 2001 (2008).

Demographic Diversity (DIVERSE25): The King Code recommends that boards of directors in SA must consider whether diversity makes them effective. The King Code (2002) and the JSE Listing Rules recommends that in order to assess the effectiveness of the board, a regular review of the required mix of skills and experience and other qualities such as board demographics and diversity should be undertaken annually through the nomination committee or similar board committee. Frequency of compliance with demographic diversity in JSE sampled firms was found to be very low in 2001 at 16% and 76% in 2008 of sample firms. Similarly, female representation on boards of directors (presence of women on boards of directors) in JSE sampled firms on stood at 11% in 2001 and 59% in 2008 of sample firms. Consistent with the trend around the world, it was found that none of the boards of directors of JSE sampled firms consisted of a majority of women in 2001 and 2008. In contrast, 97% of the majority of board members of sample firms consisted mainly of "white" males in 2001 compared to 85% in 2008. For the purpose of determining diversity and female representation on boards of directors, the extent of diversity based on ethnicity (i.e. the number of directors representing diverse groups) was not taken into consideration. For instance, boards which had one woman or one "black" director were considered to be diverse in the same way as boards which had several women and people from diverse backgrounds and ethnicities. A reading of annual reports revealed that in most cases boards were highly male dominated and in most case dominated by white males. An observation from the annual reports also revealed that some boards had a single black director or a single female director. This may be considered as "tokenism" diversity or female representation, or compliance with the letter and not the spirit of the Code which was found to be common among JSE listed firms (e.g. Deutsche Bank, 2002).

Generally, compliance under this sub-theme was found to be very low for some of the recommendations.

6.2.1.3 Board Meetings (SUBTHEME1.3)

In 2001, only 30% of sampled firms specifically disclosed the frequency of their main board meetings whilst others mentioned that their boards met regularly, periodically or at regular intervals without stating the exact number of times and the dates the board met.

In terms of board committee meetings, although most of the sampled firms disclosed the membership of other board committees, the frequency of meetings of such committees was not disclosed which resulted in low scores for the frequency of meetings of these committees. However, in 2008, reporting on board meetings (BOARDMEET27) improved significantly with 90% of sample firms reporting that their main board met four times in accordance with the King II recommendations while 39%, 27% and 23% reported that their audit, remuneration and appointment/nomination committee respectively met four times as per the Code's recommendations. Frequency of attendance of board committee meetings was found to be low because as noted in section 6.2.1.2 firms tended to appoint at the minimum the remuneration and audit committees as recommended by the King Code. An observation from the annual reports is that many companies which did not have nomination/appointment committees disclosed that nomination and appointment of directors is a matter of the board as a whole.

Table 6.6 reports the frequency of various board committee meetings by JSE sampled firms in 2008.

Table 6.6 Frequency of Board Committee Meetings in 2008 for Sampled JSE Firms

Committee/No. Of Meetings	0	%	1	%	2	%	3	%	>=4	%	n/a	%	Total
Board Committee	4[33]	3	3	2	3	2	4	3	122	90	0	0	136
Audit Committee	8	6	10	7	25	18	38	28	55	40	0	0	136
Remuneration Committee	12	9	29	21	29	21	21	15	39	29	6	4	136
Nomination Committee	17	13	14	10	11	8	18	13	30	22	46	34	136
Risk & Compliance Committee	5	4	3	2	17	13	15	11	30	22	66	49	136
Transformation Committee	4	3	1	1	10	7	6	4	12	9	103	76	136
Health & Safety Committee	4	3	1	1	2	1	6	4	2	1	121	89	136

n/a – number of firms where committee not appointed

Results from Table 6.6 indicate that 90% of sample firms complied with the recommendation for the main board to meet four times a year. As for the board committees, 40% of sample firms and 29% of sample firms met the provision on a minimum of four committee meetings per annum for the audit and remuneration

[33] Although four firms did not disclose that their board met in 2008. They stated in the annual reports that the accounts were approved by the Board of Directors, indicating that the board met atleast once to consider and approve financial accounts.

committees respectively. Results from Table 6.6 also indicate that 4% and 34% of sample firms did not have remuneration and nomination committees.

6.2.2 Compliance to Risk Management (THEME2)

The mean compliance index for this theme was 44.8% in 2001 compared to 81.1% in 2008 as per the results from Table 6.7. This indicates that compliance improved significantly between the two periods.

Table 6.7 South African King Code Checklist THEME2 - 2001 and 2008

Panel B						
		Frequency	%	Frequency	%	%
2. Risk Management (THEME2)						
32	Existence of risk management strategy. (RISKMAN32)	112	82	132	97	18
33	Does the company have a risk committee? (RISKCOM33) *(Man.)*	12	9	75	55	**525**
34	Is the number of meetings of the risk committee disclosed in the annual report? (MEETRISK34) *(Man.)*	10	7	73	54	**630**
35	Existence of sound internal control system. (ICS35)	112	82	129	95	**15**
36	Statement on the risk appetite of the company. (RISKAPP36)	89	65	134	99	51
37	Statement on the risk assessment and adequacy of risk management and internal control systems. (RISKASSES37	85	63	134	99	58
38	Statement on key risk areas. (KEYRISK38)	71	52	134	99	89
39	Statement on key performance indicators. (STATEKPIS38)	53	39	131	96	**147**
40	Statement on existence of confidential reporting process (whistle blowing) covering fraud and other risks. (WHISBLOW40)	2	1	51	38	**2450**
THEME2 Compliance Index		**0.448**		**0.811**		**81.0**

Man – mandatory

The frequency of compliance for the recommendation to have a risk management strategy (RISKMAN32) was generally high in both 2001 at 82% and 2008 at 98%. Many firms reported the type of risks they are facing and the strategies they implement to mitigate those risks. In most cases, the risks reported were of a financial nature. However, frequency of compliance with the recommendation on appointment of risk committee was generally low in 2001 at 10% and 2008 at 57% because most firms tended to appoint the minimum board committees recommended by the Code but not other committees such as risk and safety committees.

Generally, frequency of compliance with other recommendations on risk management was generally above 90% in 2008 which represented a significant improvement from 2001. Frequency of compliance with the recommendation to implement a confidential reporting process ("whistle blowing") (WHISLBLOW40) was very low in both in 2001 at 2% and 2008 at 36%. This is a facility whereby confidential reports can be made through a hotline on suspected incidents of dishonesty, fraud and other inappropriate behaviour by various company stakeholders. Frequency of compliance was higher among firms audited by Big 4 (43%) audit firms than non-Big 4 (17.2%) audited firms in 2008. Firms with multiple listings in other stock exchanges also registered a high frequency of compliance of 61.3% compared to firms with single listing in the JSE (30.5%) in 2008. Frequency of compliance to this recommendation was also high among resources and general industry (ITYPE2) at 46.9% and low among cyclical services real estate and property (ITYPE3) at 30% in 2008. Similarly, large firms registered a high frequency of compliance of 51.5% in 2008 compared to small firms at 23.5%. Sample JSE firms which complied to this recommendation provided full details of the procedure to be followed including a dedicated confidential hotline which company employees or any other entity may use to make a confidential report on fraud and other risks as demonstrated by the following extracts from their annual reports:

> *"AngloGold Ashanti has a whistle-blowing policy that provides a channel for the reporting of practices that are in conflict with AngloGold Ashanti's business principles, unlawful conduct, financial malpractice, or are dangerous to the public and the environment. The process encourages reports to be made in good faith in a responsible and ethical manner. Employees are encouraged to discuss issues with their direct managers first (if appropriate) and then, if not resolved, to report these through the whistle-blowing line or directly to the internal audit or legal departments". (AngloGoldAshanti, 2008, p. 155)*

> *"Nampak employs the services of Tip-offs. Anonymous, an independent, confidential whistle-blowing hotline service, as a solution to reporting and investigating dishonesty, fraud and other inappropriate behaviour in the workplace. It is available for use by employees, customers, suppliers, managers or shareholders. Cases of proven corruption, theft and fraud result in dismissal." (Nampak, 2008, p. 49)*

"All employees within the Group have the opportunity to make anonymous disclosures relating to inappropriate business practices. The effectiveness of the whistle-blowing line is being reviewed to ensure that a proactive approach is applied to fraud risk management that will focus on prevention, detection and investigation." (Omnia 2008, p. 45)

Similar to results from other themes, compliance was generally high among large firms, firms with multiple listing status in other stock exchanges and firms audited by Big 4 audit firms in accordance with theoretical predictions as will be discussed in section 6.2.5.

6.2.3 Compliance to Accounting and Auditing (THEME3)

This theme consists of three items which address accounting and auditing issues such as the existence of an internal audit function (INTAUD41), disclosure of amounts paid to external auditors (AUDPAY42) and reporting on the description of non-audit services by external auditors (NONAUDSERVE43). Compliance to recommendations under this theme was 78.2% in 2001 compared to 99.0% in 2008 according to the results in Table 6.8.

Table 6.8 South African King Code Checklist THEME3 - 2001 and 2008

Panel C							
3. Accounting and Auditing (THEME3)		Frequency	%	Frequency	%	%
41	Does the company have an internal audit function? (INTAUD41)	101	74	133	98	32
42	Has the company reported the amount paid to external auditors? (AUDPAY42)	114	84	136	100	19
43	Has the company reported on the description of non-audit services rendered by the external auditor? (NONAUDSERV43)	104	76	135	99	30
THEME3 Compliance Index		**0.782**		**0.990**		**26.6**

Mean frequency of compliance to recommendations under this theme was higher than the mean frequency of compliance in THEMES 1, 2 and 4. In cases of non-compliance with recommendations under this theme, firms offered explanations as to why they did not deem it necessary to do so. For instance, in 2001, 74% of sample firms complied with the recommendation to have an effective internal audit function (INTAUD41) compared to 98% in 2008. Companies which did not comply with this recommendation in 2008 stated that they were small and as such, the board and management did not see it prudent to appoint internal auditors. The following extract from the annual report illustrates a reason for non-compliance from All Joy Foods:

> *"Due to the current size of the business, there is currently no internal audit function within the Group, but this decision is reviewed each year by the audit committee." (All Joy Foods, 2008, p. 41).*

One firm reported that the internal audit function had not yet been created and that the directors will review the need for such functions on an ongoing basis, without giving specific reasons for not creating such a function.

> *"An internal audit function has not, as yet, been created, and a remuneration committee has not been created as directors are not drawing emoluments. The*

directors review the need for such functions on an ongoing basis." (Awethu Breweries, 2008 p. 3)

Further, one firm noted that this function was considered unnecessary;

"The Company does not have an internal audit function as this has been deemed unnecessary in the past." (Premium Properties, 2008 p. 10)

In some cases where firms did not comply with this recommendation, explanations were offered as to why the internal audit function was deemed not necessary. Where explanations were offered for non-compliance, such firms were considered to have complied with the Code regime of "comply or explain":

"The responsibility for the operation of these systems of internal control lies with the executive directors who review them regularly to be satisfied that they are appropriate to provide reasonable assurance against material misstatement or loss. Because of this compensating control and the small size of the Group it is the view of the Board that no internal audit function is required." (Spanjaard, 2008, p. 4)

"In view of the limited extent of the nature of the company's business, the board considers it unnecessary to operate an internal audit function." (Wesco, 2008, p. 14)

Generally high frequency of compliance was found among large firms, firms with multiple listing status and firms audited by Big 4 audit firms as reported in Appendices 7a to 7g: Analysis of Compliance and Firm Characteristics.

6.2.4 Compliance to Integrated Sustainability Reporting (THEME4)

Overall, there are ten recommendations under this theme, as seen from Table 6.9. The mean frequency of compliance for THEME4 was 31.5% in 2001 and 67.9% in 2008. These results indicate that this theme has the least frequency of compliance in 2001 and 2008 compared to the other three themes. This may indicate that JSE listed firms comply less with the recommendations under integrated sustainability reporting which consists of aspects which form part of the principles of Ubuntu. Analysis of frequency of compliance reveals that, in 2001, 55% of sample firms had developed a Code of ethics (CODEETHIC44) compared to 78% in 2008. The Code of ethics helps an organisation to demonstrate its commitment to organisational integrity by codifying its standards in the code of ethics. Firms audited by Big 4 audit firms had a high frequency of compliance to this recommendation of 59.4% in 2001 compared to 85% in 2008 while firms audited by non-Big 4 audit firms had a frequency of compliance of 42.9% in 2001 and 51.7% in 2008. Frequency of compliance was also high among firms with listings in other stock exchanges in 2001 compared to firms with single listing in the JSE. However, in 2008 frequency of compliance to this recommendation was slightly higher for firms with single listing in the JSE at 78.1% compared to firms with multiple listings (77.4%) in other stock exchanges. Further to the development of the ethics code, the Code recommends that firms develop standards and practices in the company based on the code of ethics (STATSCODE45). Frequency of compliance to this recommendation was 54% in 2001 and 77% in 2008. Compliance to these recommendations improved between the two periods even though compliance to the development of standards and practices was slightly low.

Table 6.9 South African King Code Checklist THEME4 - 2001 and 2008

Panel D						
4. Integrated Sustainability Reporting (THEME4)						
		Frequency	%	Frequency	%	%
	Has the company reported on:					
44	existence of a code of ethics? (CODEETHIC44)	75	55	106	78	41
45	whether it has developed and implemented standards and practices in the company based on code of ethics? (STATSCODE45)	73	54	105	77	44
46	compliance with corporate social investment? (CSI46)	33	24	75	55	**127**
47	compliance with BEE partnership or in the process of establishing partnerships. (BBBEE47)	15	11	110	81	**633**
48	compliance with employment equity/transformation? (CEE48)	71	52	114	84	61
49	compliance with human capital development/skills training? (CHCD49)	22	16	65	48	195
50	compliance with preferential procurement? (CPREFP50)	10	7	60	44	**500**
51	compliance with HIV/AIDS? (HIVAIDS51)	34	25	92	68	**171**
52	compliance with environmental management? (CEM52)	46	34	97	71	111
53	compliance with health and safety policies and practices? (CH&S53)	52	38	99	73	90
Total Items in the Compliance Checklist		**48**		**53**		
THEME4 Compliance Index		**0.315**		**0.679**		**115.6**
TCI		**0.406**		**0.742**		**82.8**
Sample Size 136; Mandatory – 8, Voluntary – 40 (2001) and 45 (2008)						

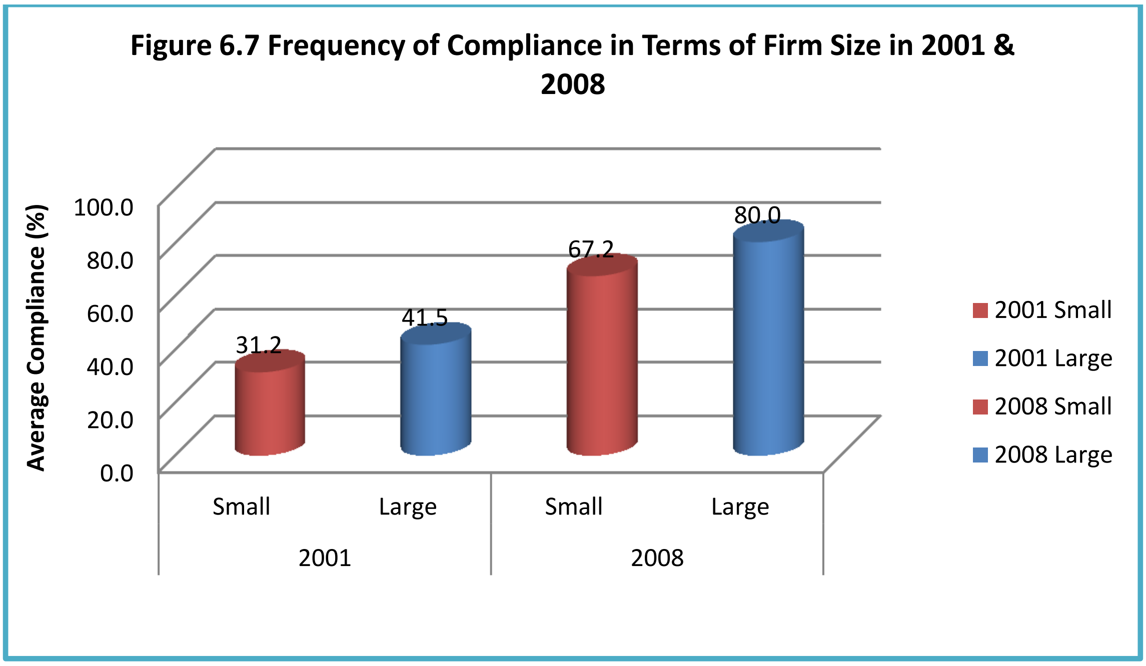
As per results from Appendices 7a to 7g, firms audited by Big 4 audit firms, firms with multiple listing status and large firms had high proportions of compliance to these recommendations. An observation from reading the annual reports of sampled firms reveals that large firms provided details of their compliance with integrated sustainability reporting in comparison to small firms. For instance, firms detailed the kind of social investment projects that they are involved in, such as *Bumbanani* ("let's build together") in the case of AFROX, the amount of money spent on these projects and the activities undertaken in these projects[34]. Some companies stated that they donate 1% of their after tax earnings to these worthy courses and provided details of the beneficiaries for the 2008 financial year. Compliance with other recommendations such as preferential procurement was also demonstrated by disclosing the percentage and amount of expenditure which went to Broad Based Black Economic Empowerment (BBBEE) firms and the shareholding by people from previously disadvantaged groups or their positions in management. Skills training also featured prominently in most annual reports of large firms through disclosures of the kind of skills development undertaken, the cadre and the number of trainees inducted in the programmes. Large companies also produced Corporate Social Investment (CSI) (Sustainability) reports in addition to the annual reports.

6.2.5 Frequency of Compliance in Terms of Firm Characteristics

This sub-section briefly discusses firm characteristics and compliance. Figure 6.7 shows average compliance in terms of firm size between 2001 and 2008.

[34] Other projects which companies were involved in include orphanage/place of safety for orphaned, abandoned, abused or destitute children, many of whom are living with HIV/Aids, school crèche facility, centre for physically and/or mentally, disabled children, youth sports club, drug rehabilitation centre for teenagers and children's feeding scheme.

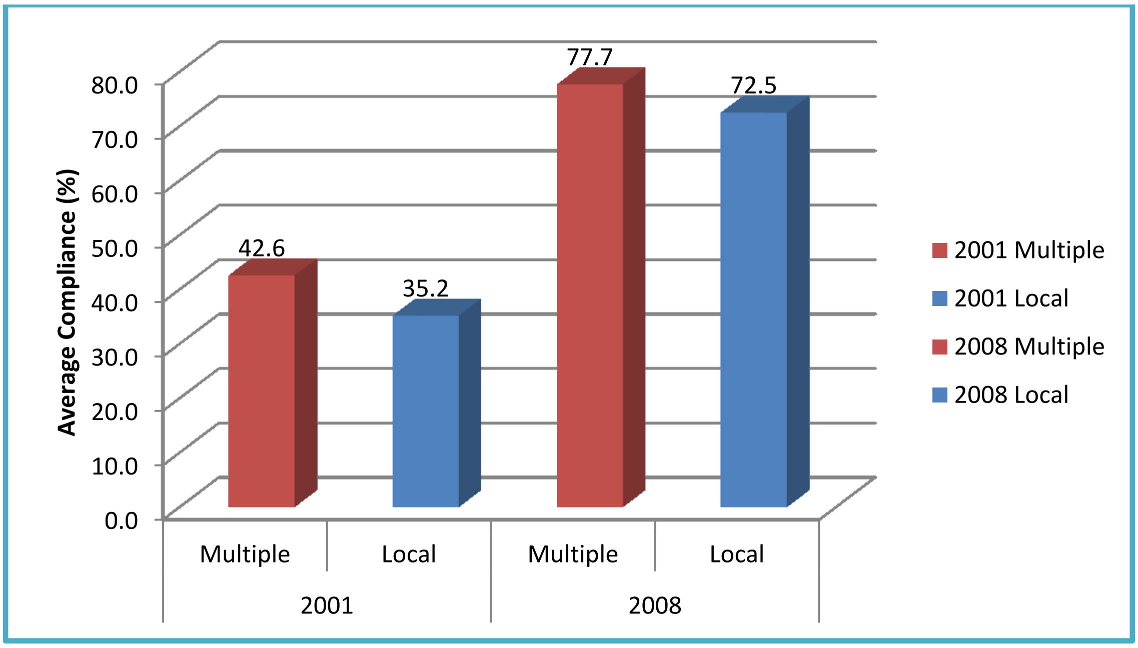
Figure 6.7 Average Frequency of Compliance in Terms of Firm Size in 2001 and 2008



Results from Figure 6.7 indicate that compliance with provisions from the King Code increased between 2001 and 2008. Second, on average large firms registered the highest average compliance of 41.5% in 2001 and 80% in 2008. As already mentioned above, this is in accordance with the theory that large firms tend to be more visible to relevant publics and so tend to be subject to greater political and regulatory pressure from external interests (Belkaoui and Karpik, 1989), are also subject to scrutiny by the media and may suffer bad publicity and the imposition of more regulations following non-compliance than smaller firms (Dedman, 2000). Consequently, large firms have additional incentives of reducing political costs of strict central regulation or even nationalisation through increased disclosure (Watts and Zimmerman, 1978, p.115; Marston and Shrives, 1991, p.205), hence the high frequency of compliance with the King Code for large firms compared to small firms. Also, large firms tend to have more analysts following than smaller firms (Lang and Lundholm, 1993; McKinnon and Dalimunthe, 1993). As such, large firms may comply with good corporate governance practices such as the King Code to signal better CG practices to analysts who scrutinise their annual reports. Agency theory also suggests that large firms have greater agency problems (Jensen, 1986, p.323; Core, 2001, p.443). This means that larger firms may have to adhere to good governance practices by complying with recommended best practice in order to reduce the problem of information asymmetry.

Figure 6.8, on the other hand, indicates average frequency of compliance in terms of auditor type.

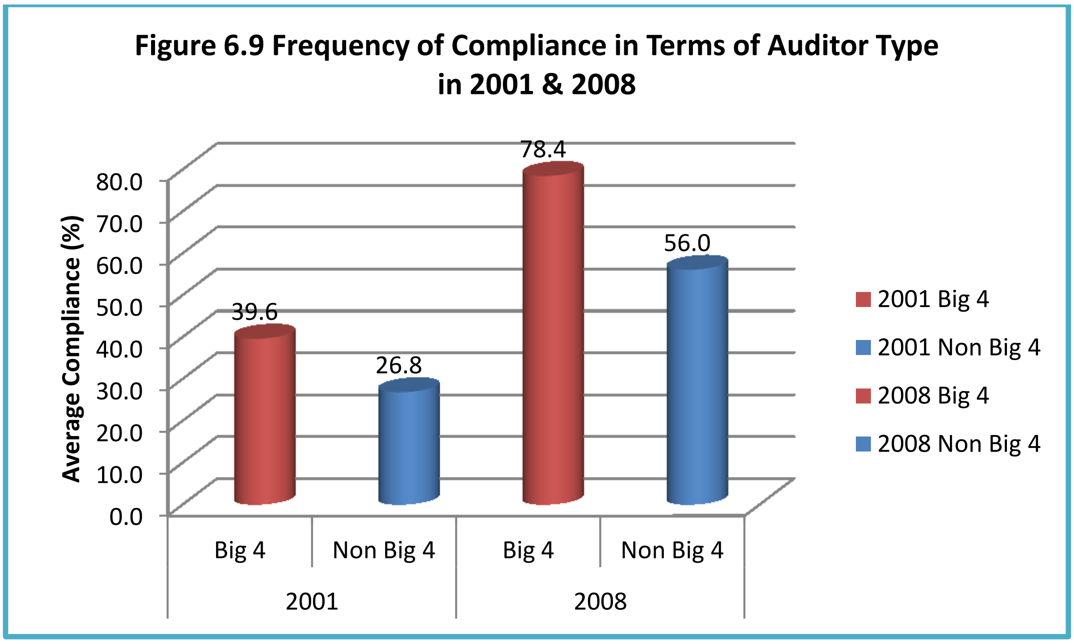
Figure 6.8 Average Frequency of Compliance in terms of Multiple Listed and Firms with Single Listing



Results from Figure 6.8 indicate that compliance with provisions from the King Code increased between 2001 and 2008 for both Big 4 and non-Big 4 audit firms. Second, firms audited by Big 4 audit firms complied with provisions from the King Code more than firms audited by non-Big 4 audit firms. Prior literature suggests that the levels of auditor independence and audit quality are positively associated with audit firm size (e.g., Pearson, 1980; DeAngelo, 1981). A major implication of this is that, on average, larger audit firms may be better able to resist management pressure in conflict situations. This is mainly due to the reputation, resources (i.e., financial, human, information and knowledge), and independence advantages that larger audit firms posses. Big 4 audit firms may influence their auditee clients to comply more to good governance principles because of reputational concerns (Carmeli and Tishler, 2005, p. 16). As such, large audit firms may have corporate reputation concerns in their dealings with their client firms and may insist upon good corporate practices to safeguard their reputation, and also to maintain a competitive edge. Large audit firms may therefore prefer to do business with large firms because they can be expected to afford costs of compliance with CG rules and also to comply with good governance principles.

Frequency of compliance with King Code provisions was also found to be high for firms with multiple listing/cross-listings in other stock exchanges (Figure 6.9).

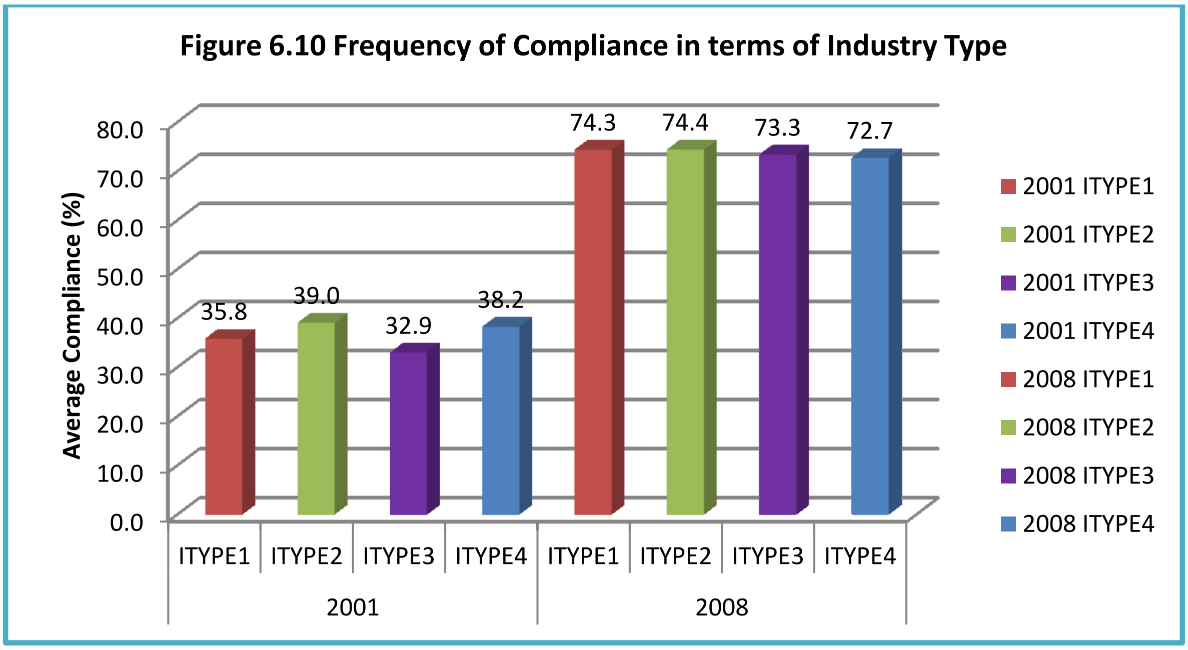
Figure 6.9 Average Frequency of Compliance in terms of Auditor Type in 2001 and 2008



These findings are in accordance with the theory that cross-listed firms may have better CG practices because of stringent accounting, governance and disclosure requirements of the foreign stock exchanges to which they are cross-listed (Haniffa and Cooke, 2002, p.329; Black *et al.*, 2006, p.403). Cross-listed firms can be expected to want to signal their quality through the adoption of better governance, disclosure and transparency (Klapper and Love, 2004, p.713). This may help explain why JSE listed firms with multiple listings in other stock exchanges comply more to the recommendations from the Code.

As for industry type, compliance with King Code provisions was found to be varied as per Figure 6.10. For instance ITYPE2 and ITYPE3 registered the highest compliance to the Code in 2001 whilst in 2008 compliance across industries was almost as par.

Figure 6.10 Average Frequency of Compliance in terms of Industry Type



6.3 Chapter Summary

This chapter has described the characteristics of the sample. In this regard, characteristics of the sample such as firm size, auditor type, and industry type were discussed. It was found that the sample is almost balanced between small and large firms in the two years. The findings also indicate that JSE sample firms used Big 4 audit firms in the two years more than non-Big 4 audit firms. The sample was also analysed in terms of CG characteristics of role duality, multiple directorships and position of chairperson. In 2001, less than 20% of JSE sample firms had infused the position of chairman and CEO, while in 2008 all JSE sample firms had separated the role of chairman and CEO. The findings from the chapter also indicate that sample firms appointed more non-executive directors on the board of directors in 2001 than in 2008. In terms of multiple directorships, only 36% and 22.8% of JSE sample firms did not have directors holding multiple directorships in other companies in 2001 and 2008 respectively.

The chapter also paid attention to analysis of corporations in terms of ethnicity. What has emerged is that overall SA companies are still very much in the hands of whites as was the case under apartheid. This is despite some intervention strategies which have been introduced by the SA government to try to address imbalances from the past such as BEE, and employment equity. White directors make the highest percentage of executives, NEDs and INEDs in 2001 and 2008. As an example, only 1.5% and 12.5% of sample firms' boards of directors were dominated by blacks in 2001 and 2008 respectively. As such, this chapter indicates that it may not be possible to statistically test two ethnicity variables i.e. ethnicity of CEO/MD and ethnicity of board chair influences compliance because the numbers are too small to enable meaningful conclusions to be drawn from the results of such tests.

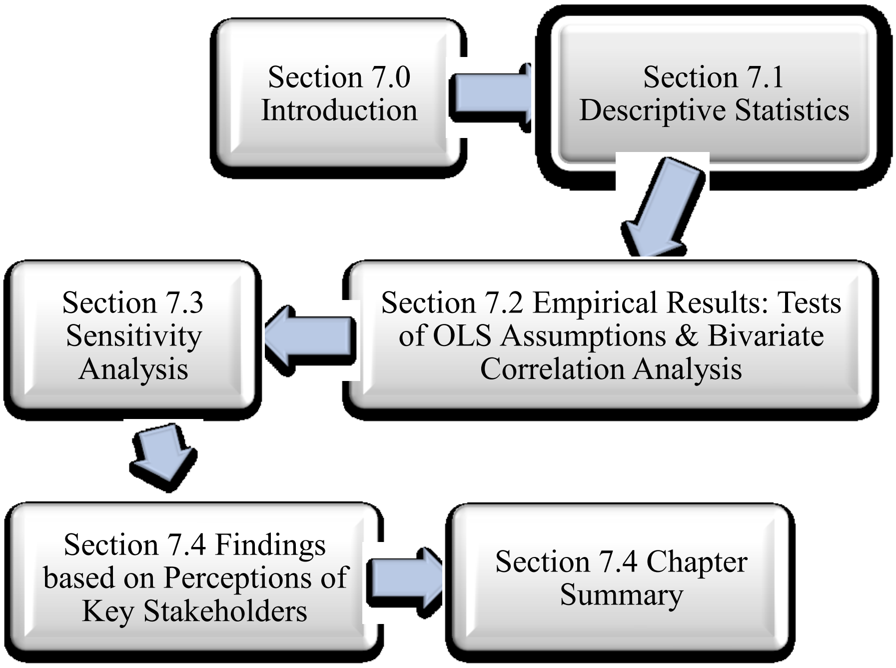
In the next chapter, hypotheses will be tested to determine the factors which influence compliance are developed.

7 Chapter Seven: Empirical Results

7.0 Introduction

In chapter six, the extent of compliance with King Code was analysed. The findings showed that compliance with the code in the pre-review period (2001) was low, but increased significantly in the post-review period (2008). The results of the analysis also indicate that there are variations in compliance among companies because of size, auditor type, industry type and listing status. In this chapter, the relationship between company specific, corporate governance and ethnicity variables which have been theoretically hypothesised to influence the extent of compliance with the King Code, will be examined, thus addressing research question three. Descriptive statistics of the dependent variable (aggregate extent of compliance index) are reviewed, followed by discussion of results of both univariate and multivariate tests. In addition, the results of multiple regressions based on rank order transformation will also be discussed. The chapter also discusses the views of key stakeholders on the King Code and corporate governance in general in SA. As such this chapter answers questions two, three and four of this research. Figure 7.1 presents an overview of the chapter.

Figure 7.1 Chapter Seven Plan



7.1 Descriptive Statistics

7.1.1 Descriptive Statistics of Dependent Variable (Extent of Compliance)

Table 7.1 provides the descriptive statistics for the extent of compliance indices comprising of Total Compliance Index (TCI), Voluntary Compliance Index (VCI), mandatory Compliance Index (MCI), Boards and Directors Issue Index (THEME1), Risk Management Index (THEME2), Accounting and Auditing Index (THEME3) and Integrated Sustainability Reporting Index (THEME4).

Table 7.1 Descriptive Statistics: Extent of Compliance Indices)

Panel A: 2001	Mean	Std. Deviation	Skewness	Kurtosis	Minimum	Maximum	K-S Lilliefors		Shapiro-Wilk	
							Statistic	Sig	Statistic	Sig
TCI	0.406	0.151	0.186	-0.564	0.080	0.810	0.083	0.024	0.985	0.153
VCI	0.361	0.165	0.275	-0.513	0.050	0.820	0.086	0.015	0.980	0.048
MCI	0.602	0.179	-0.548	0.713	0.000	1.000	0.178	0.000	0.940	0.000
Theme 1	0.384	0.164	0.481	-0.238	0.080	0.770	0.090	0.009	0.965	0.002
Theme 2	0.448	0.236	-0.241	-0.979	0.000	1.000	0.177	0.000	0.922	0.000
Theme 3	0.782	0.379	-1.388	0.184	0.000	1.000	0.431	0.000	0.589	0.000
Theme 4	0.315	0.265	0.471	-0.773	0.000	1.000	0.132	0.000	0.917	0.000
Panel B: 2008										
TCI	0.742	0.175	-0.771	-0.339	0.240	0.980	0.158	0.000	0.915	0.000
VCI	0.717	0.192	-0.733	-0.453	0.200	0.980	0.173	0.000	0.916	0.000
MCI	0.863	0.139	-0.657	0.115	0.330	1.000	0.265	0.000	0.823	0.000
Theme 1	0.718	0.192	-0.872	0.320	0.130	1.000	0.124	0.000	0.933	0.000
Theme 2	0.811	0.159	-0.580	-0.180	0.330	1.000	0.217	0.000	0.878	0.000
Theme 3	0.990	0.070	-7.839	65.773	0.330	1.000	THEME3 Constant - Omitted			
Theme 4	0.679	0.304	-0.776	-0.535	0.000	1.000	0.184	0.000	0.879	0.000

Where: TCI – Total Compliance Index; VCI – Voluntary Compliance Index; MCI – Mandatory Compliance Index; Theme 1 – Boards & Directors; Theme 2 – Risk Management; Theme 3 – Accounting and Auditing; and Theme 4 – Integrated Sustainability Reporting

Results from the above table indicate that as per the standard tests on skewness and kurtosis of the mean compliance indices, most of them are normally distributed. The rule of thumb for normality tests based on skewness and kurtosis is ± 1.96 and ±3.00 (Cooke, 1989) respectively. However, other tests of normality support the non-normality conclusion. For instance, Kolmogorov-Smirnov normality test (or K-S Lilliefors)[35] indicate that the significance value of all the compliance indices fail the normality test (Sig value of more than .05) in 2001 and 2008. The Shapiro-Wilk test of normality also indicates that the indices are not normally distributed. The rule of thumb is that if the Sig. value of the Shapiro-Wilk Test is greater the 0.05 then the data is normal. If it is below 0.05 then the data significantly deviate from a normal distribution (see Pallant, 2005; p. 59).

7.1.2 Descriptive Statistics of Independent Variables

Tests of normality were also conducted on the independent variables. Table 7.2 provides descriptive statistics of independent variables before transformation.

[35] K-S (Lilliefors) with significance of >.05 indicates normality and small significance value indicates reason to doubt the normality assumption (see Pallant, 2005; p. 57).

Table 7.2 Descriptive Statistics of Independent Variables

Panel A: 2001	Mean	Std. Deviation	Skewness	Kurtosis	Minimum	Maximum	K-S Lilliefors		Shapiro-Wilk	
							Statistic	Sig	Statistic	Sig
PROPWHITES	0.91	0.13	-2.53	8.61	0.18	1.00	0.242	0.000	0.707	0.000
PROPDNEDS	0.48	0.23	-0.45	-0.22	0.00	0.92	0.128	0.000	0.958	0.000
SBD	9.54	4.38	1.07	2.32	3.00	30.00	0.109	0.000	0.923	0.000
STA	11,608.82	33,252.76	4.66	24.05	70.00	228,891.00	0.364	0.000	0.381	0.000
LTDtoTE	0.55	1.22	5.00	28.46	0.00	8.95	0.327	0.000	0.422	0.000
INSTSHARE	0.30	0.27	0.70	-0.58	0.00	0.91	0.133	0.000	0.904	0.000
DRCTSHARE	0.10	0.16	1.92	2.81	0.00	0.67	0.278	0.000	0.654	0.000
ROA	0.06	0.06	0.38	-0.17	-0.09	0.22	0.074	0.063	0.979	0.032
Panel B: 2008										
PROPWHITES	0.75	0.20	-0.82	0.65	0.00	1.00	0.109	0.000	0.932	0.000
PROPDNEDS	0.63	0.17	-0.69	0.83	0.00	1.00	0.091	0.008	0.970	0.004
SBD	9.87	3.68	0.46	0.18	4.00	23.00	0.091	0.008	0.968	0.003
STA	8,147.35	21,865.09	4.84	26.91	50.00	153,743.00	0.355	0.000	0.395	0.000
LTDtoTE	0.68	1.53	7.22	64.16	0.00	15.30	0.327	0.000	0.373	0.000
INSTSHARE	0.34	0.28	0.54	-0.71	0.00	0.97	0.111	0.000	0.929	0.000
DRCTSHARE	0.13	0.20	1.80	2.58	0.00	0.89	0.260	0.000	0.698	0.000
ROA	0.10	0.08	0.18	-0.08	-0.10	0.30	0.090	0.010	0.985	0.147

Results from Table 7.2 also indicate that as per the standard tests on skewness and kurtosis, the independent variables are not normally distributed. The non-normality conclusion is also supported by other tests of normality viz. K-S Lilliefors and Shapiro-Wilk tests. Since the dependent variable(s) and independent variables are found to show non-normality, steps were taken to transform the data. As such techniques of transformation were employed to transform the data viz. log odds ratio, ranking and normalising (using van der Waerden). Standard tests of normality based on skewness and kurtosis, K-S Lillierfors and Shapiro-Wilk tests (see Appendices 7 to 10 (Independent & Dependent Variables after Transformation) provides descriptive statistics of the 2001 and 2008 dependent and independent variables after transformations. Generally the skewness and kurtosis indicate mild non-normality for both the dependent and independent variables while K-S Lillierfors and Shapiro-Wilk tests indicate mild non-normality in some cases.

7.2 Empirical Results: Tests of OLS Assumptions and Bivariate Correlation Analysis

As discussed in section 5.4.2, in order to answer the research questions for this research, Ordinary Least Squares (OLS) multivariate regression technique is used to test all the hypotheses that have been discussed in chapter four. As such, this requires that OLS assumptions of *multicollinearity, autocorrelation, homoscedasticity (opposite heteroscedsticity), normality and linearity* are tested. First, the multicollinearity assumption was tested by conducting a correlation matrix among variables. Tables 7.3 and 7.4 contain correlation matrices for the dependent and independent variables for 2001 and 2008 respectively. The two tables (7.3 and 7.4) report both Pearson's parametric and Spearman's non-parametric correlation coefficients. The bottom left half of the tables presents Pearson's parametric correlation while the upper right half contain Spearman's non parametric coefficients. The correlation matrices in Table 7.3 and 7.4 are based on logarithmic transformed data. Generally, the coefficients of both the parametric and non-parametric bivariate correlations indicate a close similarity, which seems to suggest that there are mild non-normalities in the variables, in line with findings from prior literature (Haniffa and Hudaib, 2006; Ntim, 2009). As such, multicollinearity tests appear to indicate that it may be statistically tolerable to use OLS techniques to test the models developed.

Table 7.3 Correlation Matrix [Pearson's r (bottom) and Spearman's rho (top)] of Continuous Independent and Dependent Variables (Compliance) for 2001

	PROP WHITES	PROP DNEDs	SBD	STA	LTD to TE	INST SHARE	DRCT SHARE	ROA	AUD TYPE	LIST STATUS	ITYPE 1	ITYPE 2	ITYPE 3	ITYPE 4	TCI	VCI	MCI	THEME 1	THEME 2	THEME 3	THEME 4
PROP WHITES	1	-0.11	-.375**	-.184*	0.063	-.184*	.267**	-0.139	-0.11	0.016	.182*	0.128	-.220*	-0.077	-.198*	-.222**	0.032	-0.165	-0.071	-0.097	-0.146
PROP DNEDs	-0.151	1	.277**	.363**	0.091	.218*	-.270**	0.129	.294**	0.107	0.061	0.067	-0.013	-0.116	.212*	.181*	.193*	.240**	0.005	0.088	0.104
SBD	-.280**	.233**	1	.639**	0.128	.233**	-.316**	.197*	.314**	.183*	-0.099	-0.05	0.148	-0.009	.457**	.453**	.193*	.390**	.201*	.208*	.364**
STA	-.172*	.301**	.588**	1	0.116	.344**	-.345**	0.166	.432**	.252**	0.053	0	0.057	-0.117	.378**	.378**	0.116	.331**	0.071	.230**	.327**
LTD to TE	0.076	0.075	0.059	0.091	1	-0.022	0.02	-.171*	0.03	0.131	0.005	0.087	-0.142	0.061	0.154	0.127	0.13	0.074	.209*	0.115	0.112
INST SHARE	-0.160	0.120	.250**	.354**	0.017	1	-.265**	0.132	0.105	-0.021	0.033	-0.018	0.071	-0.092	.192*	.191*	0.149	0.14	0.162	.241**	0.075
DRCT SHARE	.183*	-.251**	-.266**	-.274**	0.057	-.242**	1	-0.134	-.181*	-0.079	0.073	-0.039	-0.14	0.117	-0.162	-0.143	-0.103	-0.129	-0.074	-0.072	-0.088
ROA	-0.139	0.102	.185*	0.131	-.260**	0.132	0.052	1	0.03	.178*	-0.111	.234**	0.05	-.178*	.173*	.184*	0.056	.174*	0.111	0.019	0.141
AUDTYPE	-0.063	.272**	.283**	.348**	-0.028	0.039	-.199*	0.023	1	0.131	0.02	-0.089	0.063	0.001	.305**	.300**	0.078	.306**	0.034	0.109	.262**
LISTSTATUS	0.013	0.089	.225**	.272**	0.067	-0.053	-0.066	0.162	0.131	1	-0.032	-0.141	0.157	0.005	0.135	0.127	0.111	0.14	-0.027	0.072	0.163
ITYPE1	.189*	0.037	-0.093	-0.004	0.054	0.045	0.002	-0.116	0.02	-0.032	1	-.314**	-.365**	-.308**	0.039	0.05	-0.019	0.067	-0.031	0.123	-0.024
ITYPE2	0.108	0.082	-0.037	-0.048	0.084	-0.019	0.006	.209*	-0.089	-0.141	-.314**	1	-.358**	-.301**	-0.077	-0.081	-0.046	-0.026	0	-0.082	-0.117
ITYPE3	-0.157	0.002	0.167	.197*	-.192*	0.079	-0.061	0.051	0.063	0.157	-.365**	-.358**	1	-.351**	0.1	0.121	0.008	0.013	0.058	0.045	.200*
ITYPE4	-0.132	-0.124	-0.049	-0.161	0.069	-0.113	0.059	-0.148	0.001	0.005	-.308**	-.301**	-.351**	1	-0.072	-0.1	0.057	-0.058	-0.031	-0.092	-0.075
TCI	-0.149	.214*	.442**	.340**	0.131	0.164	-0.114	.182*	.293**	.173*	0.044	-0.107	0.133	-0.082	1	.976**	.576**	.824**	.558**	.505**	.747**
VCI	-0.168	.185*	.437**	.343**	0.119	0.149	-0.088	.191*	.296**	.175*	0.06	-0.122	0.152	-0.104	.979**	1	.405**	.747**	.582**	.534**	.777**
MCI	0.018	.225**	.204*	0.124	0.128	0.132	-0.139	0.051	0.107	0.079	-0.036	-0.006	-0.009	0.053	.569**	.394**	1	.700**	.191*	0.14	.255**
THEME1	-0.122	.248**	.351**	.270**	0.018	0.083	-0.084	0.135	.281**	0.157	0.083	-0.061	0.028	-0.054	.817**	.751**	.676**	1	.221**	.213*	.414**
THEME2	-0.072	-0.008	.222**	0.089	.227**	0.159	-0.075	0.098	0.036	-0.035	-0.047	-0.025	0.084	-0.018	.572**	.578**	.232**	.187*	1	.343**	.313**
THEME3	-0.085	0.119	.221**	.179*	0.104	.219*	-0.12	0.012	0.109	0.087	0.102	-0.078	0.075	-0.107	.499**	.512**	0.167	.205*	.362**	1	.351**
THEME4	-0.121	0.127	.365**	.316**	0.123	0.091	-0.06	.183*	.278**	.183*	-0.03	-0.124	.207*	-0.069	.735**	.771**	.222**	.381**	.316**	.331**	1

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Table 7.4 Correlation Matrix [Pearson's r (bottom) and Spearman's rho (top)] of Continuous Independent and Dependent Variables (Compliance) for 2008

	PROP WHITES	PROP DNEDs	SBD	STA	LTD to TE	INST SHARE	DRCT SHARE	ROA	AUD TYPE	LIST STATUS	ITYPE 1	ITYPE 2	ITYPE 3	ITYPE 4	TCI	VCI	MCI	THEME 1	THEME 2	THEME 4
PROPWHITES	1	-0.061	-.198*	-0.073	-0.072	-0.116	0.093	-0.104	-0.036	-0.027	0.167	0.087	-.197*	-0.044	-.321**	-.332**	-0.141	-.333**	-0.06	-.304**
POPDNEDs	-0.054	1	.279**	.301**	0.102	0.026	-.305**	-0.009	.280**	.180*	.232**	-.202*	0.035	-0.071	.317**	.286**	.313**	.291**	.286**	.201*
SBD	-0.132	.212*	1	.374**	-0.007	.225**	-.269**	.209*	.370**	0.165	-0.05	0.002	0.091	-0.049	.516**	.498**	.368**	.469**	.384**	.416**
STA	-0.034	.256**	.269**	1	.203*	.264**	-.327**	0.167	.318**	.230**	0.087	-0.134	-0.023	0.072	.527**	.521**	.313**	.486**	.364**	.430**
LTD to TE	-0.068	0.118	0.004	.201*	1	-0.015	-0.07	-0.102	0.011	0	0.083	-0.102	-0.099	0.126	0.04	0.058	-0.043	0.058	-0.027	0.051
INST SHARE	-0.119	0.017	0.166	0.156	-0.044	1	-.209*	0.075	0.153	0.106	0.105	-0.006	-0.084	-0.01	0.148	0.167	-0.042	0.132	0.053	.176*
DRCT SHARE	0.057	-.204*	-.296**	-.232**	0.009	-.259**	1	-0.036	-.169*	-.294**	-0.124	0.166	-0.158	0.131	-.309**	-.307**	-.195*	-.266**	-.211*	-.277**
ROA	-0.127	-0.005	0.154	.194*	-0.02	0.02	-0.046	1	.257**	0.055	0.012	-0.048	0.016	0.018	0.148	0.152	0.072	0.156	0.044	0.145
AUDTYPE	-0.008	.278**	.346**	.213*	0.031	0.122	-0.135	.249**	1	0.154	0.082	-0.077	-0.139	0.145	.372**	.372**	.250**	.360**	0.162	.395**
LISTSTATUS	-0.023	.174*	.179*	.293**	0.014	0.086	-.200*	0.073	0.154	1	-0.101	-.194*	.274**	0.003	0.081	0.087	-0.014	0.109	0.077	-0.061
ITYPE1	.171*	.238**	-0.058	0.032	0.121	0.122	-0.117	-0.005	0.082	-0.101	1	-.314**	-.365**	-.308**	-0.051	-0.042	-0.081	-0.052	-0.064	-0.015
ITYPE2	0.108	-.193*	0.033	-0.121	-0.093	-0.029	0.044	-0.067	-0.077	-.194*	-.314**	1	-.358**	-.301**	-0.04	-0.065	0.104	-0.048	0.059	-0.105
ITYPE3	-.201*	0.01	0.114	0.049	-0.106	-0.07	-0.044	-0.009	-0.139	.274**	-.365**	-.358**	1	-.351**	0.113	0.107	0.058	0.104	0.138	0.056
ITYPE4	-0.065	-0.059	-0.097	0.037	0.085	-0.019	0.123	0.083	0.145	0.003	-.308**	-.301**	-.351**	1	-0.03	-0.007	-0.085	-0.011	-0.144	0.06
TCI	-.315**	.293**	.490**	.453**	0.064	0.113	-.314**	0.161	.431**	0.058	-0.055	-0.043	0.065	0.029	1	.989**	.661**	.957**	.702**	.791**
VCI	-.324**	.273**	.483**	.457**	0.079	0.125	-.307**	0.166	.432**	0.064	-0.047	-0.065	0.064	0.044	.994**	1	.556**	.955**	.631**	.806**
MCI	-0.144	.304**	.345**	.262**	-0.056	-0.025	-.230**	0.07	.251**	-0.012	-0.083	0.101	0.056	-0.078	.673**	.586**	1	.583**	.817**	.438**
THEME1	-.332**	.283**	.465**	.443**	0.071	0.104	-.259**	0.162	.413**	0.1	-0.057	-0.042	0.061	0.035	.962**	.962**	.600**	1	.613**	.646**
THEME2	-0.036	.248**	.359**	.337**	-0.037	0.046	-.237**	0.027	.186*	0.073	-0.078	0.092	0.129	-0.154	.671**	.612**	.812**	.583**	1	.419**
THEME4	-.282**	.207*	.395**	.350**	0.072	0.126	-.324**	0.159	.416**	-0.055	-0.02	-0.113	0.032	0.099	.836**	.845**	.470**	.691**	.411**	1

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Results from Table 7.3 and Table 7.4 reveal significant relationships (P<0.01; P<0.05) among dependent and independent variables. All the correlations are below 0.70 except for correlation between compliance indices e.g. TCI and its sub-indices. Correlations between these variables are expected to be high because they measure the same thing (compliance) i.e. total compliance index (TCI) and voluntary compliance index (VCI) are both measures of compliance to the King Code; as such, it is expected that there will be high correlation between these variables. The same thing applies to all the other dependent variables. Table 7.4 also indicates that correlation figures for THEME3 (Accounting and Auditing) could not be computed because the variables in it are constant e.g. all firms complied with recommendations under this theme in 2008. As a rule of thumb, multicollinearity in regression analysis is considered harmful only when correlation exceeds 0.7 (Tabachnick and Fidell, 1996). Generally results from both Table 7.3 and 7.4 indicate that multicollinearity is not a problem, which implies that OLS techniques may be used to attempt to answer the question of compliance to the King Code.

Additionally, the variance inflation factor (VIF), tolerance statistics, eigenvlues, condition indices and variance proportions which test for multicollinearity were computed. Appendices 16a to 28c (Results of Model Summary) report tolerance and VIF statistics after transformation for the compliance indices. Appendices 29a to 30g present eigenvalues, condition indices, and variance proportions after transformation of compliance indices for 2001 and 2008. According to Pallant (2005, p. 150), tolerance statistics[36] of more than 0.10 indicates low multicorrelation with other variables, whereas tolerance values of less than 0.10 indicates that multicorrelation with other variables is high, suggesting the possibility of multicollinearity. Similarly, a VIF statistic below the value of ten implies non-existence of multicollinearity (Pallant, 2005, p. 150). As per appendices 16a to 28c, none of the variables

[36] Tolerance statistics may be replaced by Variance Inflation Factor, which is just the inverse of the Tolerance value (1 divided by Tolerance) (Pallant, 2005).

of compliance indices[37] have tolerance values less than the critical values of 0.10 and VIF statistics of above the critical value of 10. Pallant (2005, p. 179) and Gujarati (2003, pp. 351-353) suggests that eigenvalues of above the critical value of zero and condition indices below the critical value of thirty indicates that multicollinearity may not be a major problem. As per Appendices 29a to 30g (Collinearity Diagnostics) all the variables of the compliance indices have eigenvalues above the critical value of zero and condition indices below the critical value of thirty.

To test for the presence of autocorrelation Durbin Watson test was conducted (see appendix 16a to 28c Results of Model Summary). This test is conducted under the null hypothesis that there is no autocorrelation in the data. A test statistic called 'd' is computed. A '*d*'[38] closer to 0 means positive autocorrelation, a '*d*' closer to 4 means negative autocorrelation while a value of 2 means that there is no autocorrelation in the sample. According to Gujarati (2003, p. 351-353) if 'd' value is between 1.760 and 2.240, the null hypothesis that there is no autocorrelation is accepted. As per results from 16a to 28c Results of Model Summary, all the models have 'd' values which are between the upper and lower critical values of the Durbin-Watson test indicating that there is no positive or negative autocorrelation. These results indicate that it may be statistically tolerable to use OLS technique to investigate the relationships between dependent and independent variables.

In order to test for *heteroscedasticity* (opposite *homoscedasticity*) a number of tests were conducted. First a visual inspection of residuals (see Appendix 12a to 13f Scatter Plot and Normal Probalibility Plots) was done. This was conducted to determine if the residuals shows some uneven envelope of the residuals. A further test of *heteroscedasticity*, the

[37] Compliance Indices includes Total Compliance Index (TCI), Voluntary Compliance Index (VCI), Mandatory Compliance Index (MCI), THEME1, THEME2, THEME3 and THEME4.

[38] "d" is defined as the ratio between the sum of the square of the difference in the residuals with ith and (i-1) time and the square of the residual in ith time. If the upper critical value of the test comes out to be less than the value of 'd,' then there is no autocorrelation. If the lower critical value of the test is more than the value of 'd' then there is autocorrelation (Pallant, 2005).

Breusch-Pagan test *(hetest - after regression)* was conducted to determine any linear form of heteroscedasticity. The Breusch-Pagan test tests whether the estimated variance of the residuals from a regression are dependent on the values of the independent variables. (Breusch and Pagan, 1979). According to this test, a large chi-square and a low p-value would indicate that heteroscedasticity was present. Results of the Breusch-Pagan test show that the models for 2001 and 2008 are subject to mild heteroskedasticity (P-value .0421). The results indicate that the 2001(2008) models had a chi2 (1) = 6.598 (14.155) and Prob>chi2 = 0.5805 (0.0778). Based on these results both the graphical analysis and the Breusch-Pagan test for the overall model suggest mild heteroskedasticity.

Tests for homoscedasticity, normality and linearity assumptions were conducted. For instance, scatter plots, Cook's distances, Durbin-Watson, leverage values, studentised residuals, normal histogram, probability-probability (P-P) plots of residuals, skewness and kurtosis tests were conducted. In order to test for the existence of outliers which may cause hetereoscedasticity and non-linearity in the variables, regression standardised residual plots for all the compliance indices variables are presented in Appendices 12a to 13f (Scatter Plot and Normal probability-Probability Plot). All scatter plots indicate that outliers are no longer present since the distribution in all the plots looks fairly normal and linear. Other tests of normality, such as normal histogram (see Appendices 11a to 11m: Normal Histogram Plot) also indicate mild non-normality.

Appendices 14a to 14m (Residuals Statistics) report the summary studentised residuals (stud. Residuals), leverage values, and Cook's distances after transforming the dependent and compliance indices. According to Pallant (2005, p. 152) Cook's distance and leverage value greater than 1 indicates the presence of outliers (Tabachnick and Fidel, 2001, p. 69), whereas studentised residual greater than 3 suggests the presence of outliers. As can be seen from the results, none of the Cook's distances and Leverage values is greater than 1.

Durbin-Watson test is also conducted to test for the presence of autocorrelation in the residuals from the regression. Durbin-Watson statistics are reported in Appendix 15: Comparison of Regression Results for the Years 2001 and 2008. The results indicate that the Durbin-Watson statistics range between 1.974 and 2.480, indicating the presence of moderate positive autocorrelation problems. According to Gujarati (2003, pp. 467–469) Durbin-Watson value of two and above suggests that successive residual terms are, on average, much different in value to one another.

Generally, the analysis suggests that multicollinearity, hetereoscedasticity, non-normality, and non-linearity in the variables are mild such that they may not cause serious violations of the OLS assumptions. As such, it is statistically appropriate to conduct multivariate OLS regression analyses. Therefore, in the next section, results of the estimated OLS multivariate regression results will be discussed.

7.2.1.1 Discussion of Collinearity Test between Dependent, Independent & Binary Variables

Results from Table 7.3 indicate that in 2001, PROPWHITES has a negative correlation with six of the seven compliance indices i.e. TCI, VCI and THEME1 to 4. The negative relationship is significant at the 5% level for TCI and 1% level for VCI. Similarly, in 2008 PROPWHITES also has a negative significant correlation with TCI, VCI, THEME1 and THEME4 ($P<0.01$) and an insignificant negative relationship with MCI and THEME2. The negative results are in accordance with the prediction. For instance, this is in accordance with the prediction that boards of directors dominated by whites in SA may comply less with the King Code because of their individualistic culture.

As per the Pearson's and Spearman's correlation results presented in Table 7.3 PROPDNEDS has a significant positive correlation ($P<0.05$) with TCI, VCI, MCI and Theme

1 ($P<0.01$) in 2001. In 2008, the correlation between PROPDNEDS and compliance indices is positive and significant at both 1% (for TCI, VCI, MCI, THEME1 & THEME2) and 5% THEME4. This is in accordance with the popular view that firms with independent boards may practice good CG compared to firms with boards which are not independent. The results are also in line with findings from prior literature (i.e. Ntim, 2009).

Similarly, SBD (Board Size) has a significant positive correlation with all the compliance indices in 2001 and 2008 in accordance with the argument that a larger board offers the firm varied expertise and will be better placed to subject managerial decisions to greater scrutiny and monitoring (Kiel and Nicholson, 2003, p.194), which may result in good CG practices.

Results from Table 7.3 and 7.4 also indicate that STA (Firm Size) has a significant positive correlation with all the compliance indices in 2001 and 2008. These results support the argument that large companies may comply more with good CG principles because they are visible and subject to scrutiny (Lang and Lundholm, 1993). Further, they may also comply so as to minimise potential political costs, such as stringent regulation, taxation, and nationalisation (Watts and Zimmerman, 1978, p.115; Andreasson, 2009, p.22).

In 2001, LTDtoTE has a positive insignificant relationship with all the other compliance indices except THEME2 which is significant at 5%. These results lend credence to the argument that the use of debt financing can induce extra monitoring by lenders (Agrawal and Knoeber, 1996, p.377) and hence improve CG practices and firm performance. However, in 2008 correlation results between LTDtoTE are negative for MCI and THEME2. INSTSHARE has a positive correlation with all the compliance indices in 2001. In 2008, LTDtoTE has a negative correlation with MCI and a positive insignificant correlation with all other variables.

INSTSHARE has a significant positive relationship with TCI, VCI (P<0.05) and Theme 3 (P0<01), in 2001. This suggests that institutional shareholders may impact positively on internal CG structures due to their relative financial clout, reputation, knowledge and information advantages (Gillan and Starks, 2003). It also suggests that institutional shareholders can complement, as well as impact positively on, a firm's internal CG structures, including board size and percentage of non-executive directors, because they possess superior financial resources, specialised knowledge, information collection and analysis advantages over the average individual investor (Young *et al*., 2008, p. 1108). In 2008, INSTSHARE correlation is positive but insignificant with all compliance indices (MCI significant (P<0.01)). The positive results are also in line with the findings from prior literature (e.g. Ntim (2009).

DRCTSHARE, on the other hand, has an insignificant negative relationship with all the compliance indices in 2001, as seen from results in Table 7.3 as per the expectation that firms with higher director shareholding tend to have poor CG practices. DRCTSHARE also has a significant negative relationship with PROPWHITES (P<0.05), PROPDNEDS, SBD, STA and INSTSHARE (P0<01). In 2008, the correlation is negative and significant at both 1% and 5% level as per expectation.

Table 7.3 and 7.4 also indicate that ROA has a positive correlation with all the compliance indices in 2001 and 2008 in accordance with the argument that financially healthy firms are in a better position to implement good corporate governance practices such as the ones recommended by the King Code. Also, this means that firms with higher quality internal corporate governance structures performed better (ROA). The results are also consistent with prior South African studies (e.g. Ntim, 2009) reports a positive correlation between ROA and Q-Ratio and the South African Corporate Governance Index). Similarly, using a cross-country sample of listed firms that include SA, Klapper and Love (2004) find a statistically significant and positive coefficient of .10 between ROA and their composite corporate governance index.

In the case of binary variables, results from Table 7.3 and 7.4 indicate a positive significant correlation between AUDTYPE and all compliance indices in 2001 while in 2008 the correlation is positive and significant at 1% level except for THEME2 which is insignificant. These results support the argument that because of reputational concerns and the threat of litigation, Big 4 audit firms may influence their clients to comply with best practice corporate governance so as to avoid corporate failure and liability for such (Hope *et al.*, 2008, p. 350). As for LISTSTATUS, the results are mixed. For instance in 2001, some correlations are positive but insignificant (i.e. TCI, VCI, MCI, THEME1, THEME3, & THEME4) while the rest are negative but insignificant. In 2008, the results also show a mix of insignificant positive and negative correlations (e.g. MCI & THEME4). As such, these results are inconclusive. As for industry types almost all the results show a mix of insignificant correlations between compliance indices and INDTYPE. These results are in line with the argument that corporate governance standards vary across industries (e.g. CLSA, 2000; Deutsche Bank, 2002).

7.2.2 Empirical Results: Multivariate Regression Analysis

In order to test whether the extent of compliance with the King Code is significantly associated with the selected variables, a multiple linear regression analysis was conducted. Regressions were run for the TCI, VCI, MCI, and each of the themes. However, because THEME3 (Accounting and Auditing) in 2008 had no sufficient variation, given that almost all firms complied, no regressions were run. The results are reported in the following sub-sections. Two variables – BBCHAIR, BCEO/MD – are excluded from the regression analysis because results from chapter 6 indicate that the number of firms with black board chairman and black CEO/MD are too small to conduct statistical tests and draw meaningful conclusions.

7.2.2.1 Results Based on TCI & VCI Regression Models

Regression results for TCI and VCI models are presented in Table 7.5.

Table 7.5 OLS Regression Results of the Dependent Compliance Variables for 2001 and 2008

		2001				2008			
		TCI		VCI		TCI		VCI	
	Exp. Sign	Coefficient Value	*t*-statistic	Coefficient Value	t-statistic	Coefficient Value	t-statistic	Coefficient Value	t-statistic
(Constant)		-0.718	-0.201	-1.353	-0.359	-9.716	-4.65***	-10.749	-4.743***
REFLOGPROPWHITES	-	-0.027	-0.313	-0.06	-0.712	-0.259	-3.893***	-0.267	-3.988***
REFLOGPROPDNEDS	+	0.061	0.719	0.026	0.311	0.082	1.168	0.054	0.764
REFLOGSBD	+	0.312	3.137***	0.302	3.054***	0.246	3.391***	0.243	3.333***
REFLOGSTA	+	0.003	0.026	0.02	0.187	0.34	4.756***	0.343	4.772***
REFLOGLTDtoTE	+	0.173	2.06**	0.17	2.033**	-0.031	-0.467	-0.016	-0.246
REFLOGINSTSHARE	+	0.035	0.404	0.016	0.186	-0.062	-0.93	-0.051	-0.764
REFLOGDRCTSHARE	-	0.022	0.26	0.047	0.558	-0.154	-2.235**	-0.147	-2.117**
REFLOGROA	+	0.166	1.883**	0.173	1.977**	-0.039	-0.587	-0.038	-0.567
AUDTYPE	+	0.173	2.041**	0.184	2.183**	0.283	3.904***	0.286	3.924***
LISTSTATUS	+	0.018	0.213	0.018	0.212	-0.183	-2.624***	-0.175	-2.491***
ITYPE1	-/+	0.005	0.055	0.015	0.155	-0.085	-1.035	-0.074	-0.891
ITYPE2	-/+	-0.154	-1.577	-0.17	-1.75**	-0.013	-0.164	-0.029	-0.367
ITYPE4	-/+	-0.092	-0.981	-0.124	-1.335	-0.018	-0.237	-0.01	-0.127
Adjusted R^2			0.214		0.223		0.479		0.473
Standard Error			0.04171		0.04409		0.04262		0.04622
F Value			3.831***		3.975***		10.556***		10.327***
No. of Observations			136		136		136		136

Where: ***, ** and * denote p-value is significant at the 1%, 5% and 10% level respectively.

Results from Table 7.5 indicate that the F-*value* of the TCI regression model is statistically significant at the 1% significance level for both 2001 and 2008 firm years. This implies that the null hypothesis that the coefficient on the TCI is equal to zero can be rejected. The results indicate that the level of compliance as represented by TCI can be explained by the independent variables. The adjusted R-squared of TCI model in 2001 and 2008 indicates that at least 21.4% and 47.9% of the variations in the compliance indices are explained by the thirteen independent variables respectively. This compares, for example, with the adjusted R^2 42% (1992) and 24% (1995) of Weir and Laing (2000) who investigate whether compliance with best practice governance principles influences performance. The results also compare well with 46% of Fernandez-Rodriguez *et al* (2004) who examine market reaction to Spanish firms which comply with best practice corporate governance principles.

The VCI model is made of recommendations from the King Code which have not been made compulsory by the JSE Listing Rules. Results from Table 7.5 indicate that the F-*values* of the VCI regression models are statistically significant at the 1% significance level for both 2001 and 2008 firm years. The adjusted R-squared of VCI models in 2001 and 2008 indicate that at least 22.3% and 47.3% (respectively) of the variations in the compliance indices are explained by the independent variables in the model. As such, the null hypothesis that the coefficient on the VCI is equal to zero can be rejected.

Results from Table 7.5 also indicate that PROPWHITES is negative in the direction predicted for both TCI and VCI in 2001 while in 2008 it is negative as hypothesised and significant at the 1% level for all the models. These results seem to support *H1 that* a high proportion of whites in board of directors may lead to a low level of compliance with the King Code. This lends support to the argument that ethnicity influences the level of compliance with the King Code. PROPDNEDS is positive (but insignificant) for the TCI and

VCI models in 2001. In 2008, PROPDNEDS is positive (but insignificant) in line with the argument that the inclusion of non executive directors in boards may enhance their independence and promote good governance practice. As such *H2* is rejected for the 2001 and 2008 models. Board size (SBD) is positive and significant at the 1% level in 2001 and 2008 in line with the argument that there is a positive relationship between board size and firm compliance with the King Code. Auditor type (AUDTYPE) is positive and significant at the 5% level in 2001 while in 2008 it is positive and significant at the 1% level in line with the argument that large audit firms may have corporate reputation concerns in their dealings with their client firms and may insist upon good corporate practices to safeguard their reputation, and also to maintain a competitive edge. LISTSTATUS (listing status) is positive as per prediction for both models in 2001 and surprisingly negative and significant at the 1% level in 2008. The positive association between multiple listing status and compliance with the King Code is in line with the argument that, firms with foreign listings may comply more with the local corporate governance code because of ties to the stringent foreign stock exchange and pressure from its new publics.

The negative significant relationship between compliance and LISTSTATUS in 2008 may be attributed to the fact that as firms' operations become more geographically dispersed, local managers' cultures are more likely to be influenced by a variety of factors (e.g. non-local managers, foreign governments and regulations, greater shareholder base, foreign lenders etc) (Hope *et al.*, 2008). "As such, the influence of any particular country's national culture is likely to be lower with international expansion (Hope *et al.*, 2008, p. 358). Therefore it is expected that the national culture of South Africa (Ubuntu) is likely to be lower in JSE listed firms with multiple listings because of the influences outlined above. As such JSE listed firms with multiple listings may comply less with the King Code which recognises the national culture of South Africa (Ubuntu) because of external influence.

A summary of all hypotheses and results of the TCI model for 2001 and 2008 are presented in Tables 7.6 and 7.7. As per summary of results in Table 7.6, H3, H5 and H9 are rejected for the TCI models in 2001 while H1, H3, H4, H9 and H10 are accepted for the TCI model in 2008.

Table 7.6 Summary of All Hypotheses and Results of the TCI Model for 2001 and 2008

		2001				2008		
Dependent Variable		TCI				TCI		
Independent Variables	Hypothesis Number	Hypothesised Sign	Actual Sign	Statistical Significance	Conclusion	Actual Sign	Statistical Significance	Conclusion
REFLOGPROPWHITES	*H1*	-	-	Insignificant	Reject	-	Sig at 1%	Accept
REFLOGPROPDNEDS	*H2*	+	+	Insignificant	Reject	+	Insignificant	Reject
REFLOGSBD	*H3*	+	+	Sig at 1%	Accept	+	Sig at 1%	Accept
REFLOGSTA	*H4*	+	+	Insignificant	Reject	+	Sig at 1%	Accept
REFLOGLTDtoTE	*H5*	+	+	Sig at 5%	Accept	+	Insignificant	Reject
REFLOGINSTSHARE	*H6*	+	+	Insignificant	Reject	+	Sig at 5%	Accept
REFLOGDRCTSHARE	*H7*	-	+	Insignificant	Reject	+	Insignificant	Reject
REFLOGROA	*H8*	+	+	Sig at 5%	Accept	+	Insignificant	Reject
AUDTYPE	*H9*	+	+	Sig at 5%	Accept	+	Sig at 1%	Accept
LISTSTATUS	*H10*	+	+	Insignificant	Reject	+	Sig at 1%	Accept
ITYPE1	*H11*	-/+	+	Insignificant	Reject	+	Insignificant	Reject
ITYPE2	*H12*	-/+	-	Insignificant	Reject	-	Insignificant	Reject
ITYPE4	*H13*	-/+	-	Insignificant	Reject	-	Insignificant	Reject

Table 7.7 Summary of All Hypotheses and Results of the VCI Model for 2001 and 2008

		2001				2008		
Dependent Variable		VCI				VCI		
Independent Variables	Hypothesis Number	Hypothesised Sign	Actual Sign	Statistical Significance	Conclusion	Actual Sign	Statistical Significance	Conclusion
REFLOGPROPWHITES	H_1	-	-	Insignificant	Reject	-	Sig at 1%	Accept
REFLOGPROPDNEDS	H_2	+	+	Insignificant	Reject	+	Insignificant	Reject
REFLOGSBD	H_3	+	+	Sig at 1%	Accept	+	Sig at 1%	Accept
REFLOGSTA	H_4	+	+	Insignificant	Reject	+	Sig at 1%	Accept
REFLOGLTDtoTE	H_5	+	+	Sig at 5%	Accept	-	Insignificant	Reject
REFLOGINSTSHARE	H_6	+	+	Insignificant	Reject	-	Insignificant	Reject
REFLOGDRCTSHARE	H_7	-	+	Insignificant	Reject	-	Sig at 5%	Accept
REFLOGROA	H_8	+	+	Sig at 5%	Accept	-	Insignificant	Reject
AUDTYPE	H_9	+	+	Sig at 5%	Accept	+	Sig at 1%	Accept
LISTSTATUS	H_{10}	+	+	Insignificant	Reject	-	Sig at 1%	Accept
ITYPE1	H_{11}	-/+	+	Insignificant	Reject	-	Insignificant	Reject
ITYPE2	H_{12}	-/+	-	Sig at 5%	Accept	-	Insignificant	Reject
ITYPE4	H_{13}	-/+	-	Insignificant	Reject	-	Insignificant	Reject

As indicated in Table 7.7, *H3, H5, H8, H9 and H12* are accepted in 2001 for the VCI model while *H1, H3, H4, H7, H9 and H10* are accepted in 2008 for the same model.

7.2.3 Results Based on MCI and THEME1 Regression Models

MCI model consists of nine recommendations from the King Code which have been adopted by the JSE Listing Rules and, as such, are compulsory for JSE listed firms. Results of MCI and THEME1 regression models are presented in Table 7.8. As reported in Table 7.8, the F-value of the MCI model in 2001 is 1.310 and insignificant at any of the three levels of significance. This implies that the null hypothesis that the coefficient on the MCI is equal to zero can be accepted. The results indicate that the level of compliance as represented by MCI cannot be explained by the independent variables. An explanation for the insignificant result for this model may be that firms may generally comply with recommendations under MCI because failure to do so will attract punitive measures from the JSE such as censure, fine and possibly delisting (JSE Listing Rules, 2007). However, in 2008, the MCI model is significant at the 1% level of significance with an F-value of 4.065. The adjusted R-squared value of the 2008 model indicates that 22.8% of the variation in the model is explained by the independent variables and hence the null hypothesis that the coefficient on the 2008 MCI is equal to zero can be rejected. The significant result in this case may be explained by the fact that although mandatory in the context of JSE listing rules, compliance with provisions under MCI is largely inspirational which explains why the thirteen variables in the model may account for 22.8% in variation in compliance with the provisions. Table 7.8 also presents results of THEME1 regression model for 2001 and 2008. As reported, the model is significant at the 1% level in 2001 and 2008 with F-values of 2.361 and 8.766 respectively. The adjusted R-squared values of 2001 and 2008 model indicate that 11.6% and 42.8% of the variations in the compliance model are explained by the independent variables.

Table 7.8 OLS Regression Results of the Dependent Compliance Variables for 2001 and 2008

		2001				2008			
		MCI		THEME1		MCI		THEME1	
	Exp. Sign	Coefficient Value	*t*-statistic	Coefficient Value	t-statistic	Coefficient Value	t-statistic	Coefficient Value	t-statistic
Constant		2.984	0.689	-0.439	-0.107	-4.152	-1.913**	-10.038	-4.332***
REFLOGPROPWHITES	-	0.135	1.427*	-0.04	-0.448	-0.115	-1.413*	-0.287	-4.112***
REFLOGPROPDNEDS	+	0.192	2.046**	0.135	1.508*	0.228	2.647***	0.081	1.092
REFLOGSBD	+	0.173	1.563*	0.26	2.46***	0.176	1.998**	0.235	3.099***
REFLOGSTA	+	-0.091	-0.771	0.008	0.075	0.206	2.372***	0.33	4.406***
REFLOGLTDtoTE	+	0.121	1.294*	0.004	0.05	-0.111	-1.389*	-0.026	-0.386
REFLOGINSTSHARE	+	0.101	1.055	-0.01	-0.112	-0.129	-1.59*	-0.062	-0.883
REFLOGDRCTSHARE	-	-0.079	-0.832	0.059	0.651	-0.137	-1.627*	-0.09	-1.247
REFLOGROA	+	0.064	0.65	0.07	0.751	-0.029	-0.354	-0.034	-0.49
AUDTYPE	+	0.023	0.247	0.165	1.835**	0.144	1.634*	0.264	3.478***
LISTSTATUS	+	0.017	0.178	0.057	0.634	-0.178	-2.101**	-0.113	-1.548*
ITYPE1	-/+	-0.046	-0.435	0.116	1.161	-0.127	-1.268	-0.054	-0.622
ITYPE2	-/+	-0.041	-0.381	-0.012	-0.114	0.082	0.859	0.015	0.181
ITYPE4	-/+	0.079	0.756	0.009	0.087	-0.072	-0.757	-0.004	-0.044
Adjusted R^2			0.029		0.116		0.228		0.428
Standard Error			0.05062		0.0478		0.04427		0.04727
F Value			1.31		2.361***		4.065***		8.776***
No. of Observations			136		136		136		136

Where: ***, ** and * denote p-value is significant at the 1%, 5% and 10% level respectively.

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As reported in Table 7.8, results for PROPWHITES are mixed. In 2001 PROPWHITES is positive and significant at the 10% level while in 2008 it is negative as per prediction significant at the same level (10%) for the MCI model. PROPWHITES is negative for THEME1 and insignificant in 2001 while in 2008 it is significant at the 1% level. Although the results are conflicting, they indicate that generally there is a negative relationship between the level of compliance with the King Code and a high proportion of whites in the board of directors of JSE listed firms. This is in line with the hypothesised argument that the individualistic culture of whites may influence firms to comply less with the King Code.

Other results indicate that SBD is positive and significant for the two models in 2001 and 2008, while STA is negative and insignificant for MCI in 2001 and positive and insignificant for THEME1. In 2008 STA is positive and significant at the 1% level for MCI and THEME1 respectively. Results for LTDtoTE are generally mixed. In 2001 the results are positive and mostly insignificant against prediction while in 2008 they are negative as predicted but insignificant. INSTSHARE and DRCTSHARE are generally negative as predicted for both models in both years but generally insignificant. ROA is positive and insignificant in 2001 and negative and insignificant in 2008. Among the control variables, AUDTYPE is positive and significant in line with the prediction for THEME1 of 2001. In 2008 AUDTYPE is positive and significant at the 10% and 1% levels for MCI and THEME1 respectively. Results for LISTSTATUS and INDTYPE are generally mixed.

Table 7.9 and 7.10 presents a summary of the results from the MCI and THEME1 models. Results from Table 7.9 indicate that in 2001 only H2 may be accepted for MCI. The results also indicate that H2, H3, H4 and H10 may be accepted in 2008. Results from Table 7.10 indicate that H3 and H9 may be accepted in 2001 for THEME1 while in 2008 H1, H3, H4 and H9 are accepted.

Table 7.9 Summary of All Hypotheses and Results of the MCI Model for 2001 and 2008

			2001			2008		
Dependent Variable			MCI			MCI		
Independent Variables	Hypothesis Number	Hypothesised Sign	Actual Sign	Statistical Significance	Conclusion	Actual Sign	Statistical Significance	Conclusion
REFLOGPROPWHITES	*H1*	+	+	Sig at 10%	Reject	-	Sig at 10%	Reject
REFLOGPROPDNEDS	*H2*	+	+	Sig at 5%	Accept	+	Sig at 1%	Accept
REFLOGSBD	*H3*	+	+	Sig at 10%	Reject	+	Sig at 5%	Accept
REFLOGSTA	*H4*	+	-	Insignificant	Reject	+	Sig at 1%	Accept
REFLOGLTDtoTE	*H5*	+	+	Sig at 10%	Reject	-	Sig at 10%	Reject
REFLOGINSTSHARE	*H6*	+	+	Insignificant	Reject	-	Sig at 10%	Reject
REFLOGDRCTSHARE	*H7*	-	-	Insignificant	Reject	-	Sig at 10%	Reject
REFLOGROA	*H8*	+	+	Insignificant	Reject	-	Insignificant	Reject
AUDTYPE	*H9*	+	+	Insignificant	Reject	+	Sig at 10%	Reject
LISTSTATUS	*H10*	+	+	Insignificant	Reject	+	Sig at 5%	Accept
ITYPE1	*H11*	-/+	-	Insignificant	Reject	+	Insignificant	Accept
ITYPE2	*H12*	-/+	-	Insignificant	Reject	-	Insignificant	Reject
ITYPE4	*H13*	-/+	+	Insignificant	Reject	+	Insignificant	Reject

Table 7.10 Summary of All Hypotheses and Results of the THEME1 Model for 2001 and 2008

			2001			**2008**		
Dependent Variable			**THEME1**			**THEME1**		
Independent Variables	Hypothesis Number	Hypothesised Sign	Actual Sign	Statistical Significance	Conclusion	Actual Sign	Statistical Significance	Conclusion
REFLOGPROPWHITES	*H1*	-	-	Insignificant	Reject	-	Sig at 1%	Accept
REFLOGPROPDNEDS	*H2*	+	+	Sig at 10%	Reject	+	Insignificant	Reject
REFLOGSBD	*H3*	+	+	Sig at 1%	Accept	+	Sig at 1%	Accept
REFLOGSTA	*H4*	+	+	Insignificant	Reject	+	Sig at 1%	Accept
REFLOGLTDtoTE	*H5*	+	+	Insignificant	Reject	-	Insignificant	Reject
REFLOGINSTSHARE	*H6*	+	-	Insignificant	Reject	-	Insignificant	Reject
REFLOGDRCTSHARE	*H7*	-	+	Insignificant	Reject	-	Insignificant	Reject
REFLOGROA	*H8*	+	+	Insignificant	Reject	-	Insignificant	Reject
AUDTYPE	*H9*	+	+	Sig at 5%	Accept	+	Sig at 1%	Accept
LISTSTATUS	*H10*	+	+	Insignificant	Reject	-	Sig at 10%	Reject
ITYPE1	*H11*	-/+	+	Insignificant	Reject	-	Insignificant	Reject
ITYPE2	*H12*	-/+	-	Insignificant	Reject	+	Insignificant	Reject
ITYPE4	*H13*	-/+	+	Insignificant	Reject	-	Insignificant	Reject

7.2.4 Results Based on THEME2 and THEME4

Table 7.11 presents results of THEME2 and THEME4 regression models.

Table 7.11 OLS Regression Results of the Dependent Compliance Variables for 2001 and 2008

		2001		2008		2001		2008	
		THEME2		THEME2		THEME4		THEME4	
	Exp. Sign	Coefficient Value	*t*-statistic	Coefficient Value	t-statistic	Coefficient Value	*t*-statistic	Coefficient Value	*t*-statistic
Constant		4.258	0.783	-7.267	-2.917***	-4.266	-0.762	-12.009	-3.308***
REFLOGPROPWHITES	-	0.015	0.164	0.012	0.144	-0.012	-0.141	-0.219	-3.047***
REFLOGPROPDNEDS	+	-0.085	-0.928	0.153	1.748**	-0.014	-0.158	0.01	0.133
REFLOGSBD	+	0.218	2.016**	0.202	2.248**	0.213	2.079**	0.18	2.299**
REFLOGSTA	+	-0.116	-1.008	0.283	3.205***	0.064	0.589	0.255	3.315***
REFLOGLTDtoTE	+	0.314	3.443***	-0.078	-0.962	0.195	2.254**	-0.003	-0.043
REFLOGINSTSHARE	+	0.096	1.026	-0.045	-0.539	-0.027	-0.312	-0.034	-0.473
REFLOGDRCTSHARE	-	-0.073	-0.786	-0.106	-1.246	0.034	0.387	-0.23	-3.089***
REFLOGROA	+	0.182	1.902**	-0.06	-0.73	0.194	2.141**	-0.022	-0.313
AUDTYPE	+	0.03	0.323	0.079	0.885	0.187	2.148**	0.314	4.018***
LISTSTATUS	+	-0.124	-1.357*	-0.11	-1.276	0.016	0.183	-0.289	-3.851***
ITYPE1	-/+	-0.11	-1.072	-0.175	-1.716**	-0.113	-1.17	-0.089	-0.997
ITYPE2	-/+	-0.157	-1.48*	0.019	0.192	-0.229	-2.283**	-0.109	-1.294*
ITYPE4	-/+	-0.095	-0.932	-0.17	-1.768**	-0.145	-1.511	0.019	0.224
Adjusted R^2			0.074		0.201		0.17		0.395
Standard Error			0.06356		0.05081		0.06547		0.07405
F Value			1.834**		3.617***		3.121***		7.766***
No. of Observations			136		136		136		136

Where: ***, ** and * denote p-value is significant at the 1%, 5% and 10% level respectively.

As can be seen from Table 7.11, THEME2 is significant at the 5% level in 2001 with an F-value of 1.834 and adjusted R squared of 7.4%. This implies that the null hypothesis that the coefficient on THEME2 model is equal to zero can be rejected in 2001. In 2001, 7.4% of the variation in THEME2 model is explained by the independent variables while this figure is 20.1% in 2008. Regression analysis was not conducted for THEME3 because almost all companies complied with the provisions under this theme in 2001 and 2008. THEME3 consists of provisions which relate to normal accounting reporting requirements. Generally, firms comply with these provisions irrespective of size, listing status and other firm characteristics. It is therefore not surprising that variations in compliance to THEME3 are not explained by the thirteen variables in the model. It should also be noted as discussed in section 7.2 that in 2008, compliance to provisions under THEME3 was 100% which resulted in the model being rejected by SPSS. A summary of the hypotheses and results of the models are presented in Table 7.12.

Table 7.12 Summary of All Hypotheses and Results of the THEME2 Models for 2001 and 2008

			2001			2008		
Dependent Variable			**THEME2**			**THEME2**		
Independent Variables	***Hi***	**Predicted Sign**	**Actual Sign**	**Statistical Significance**	**Conclusion**	**Actual Sign**	**Statistical Significance**	**Conclusion**
REFLOGPROPWHITES	*H1*	-	+	Insignificant	Reject	+	Insignificant	Reject
REFLOGPROPDNEDS	*H2*	+	-	Insignificant	Reject	+	Sig at 5%	Accept
REFLOGSBD	*H3*	+	+	Sig at 5%	Accept	+	Sig at 5%	Accept
REFLOGSTA	*H4*	+	-	Insignificant	Reject	+	Sig at 1%	Accept
REFLOGLTDtoTE	*H5*	+	+	Sig at 1%	Accept	-	Insignificant	Reject
REFLOGINSTSHARE	*H6*	+	+	Insignificant	Reject	-	Insignificant	Reject
REFLOGDRCTSHARE	*H7*	-	-	Insignificant	Reject	-	Insignificant	Reject
REFLOGROA	*H8*	+	+	Sig at 5%	Accept	-	Insignificant	Reject
AUDTYPE	*H9*	+	+	Insignificant	Reject	+	Insignificant	Reject
LISTSTATUS	*H10*	+	-	Sig at 10%	Reject	-	Insignificant	Reject
ITYPE1	*H11*	-/+	-	Insignificant	Reject	-	5%	Accept
ITYPE2	*H12*	-/+	-	Sig at 10%	Reject	+	Insignificant	Reject
ITYPE4	*H13*	-/+	-	Insignificant	Reject	-	5%	Accept

As per results from Table 7.11, the coefficient of the main variable of interest, PROPWHITES, is positive for THEME2 model in 2001 and negative in 2008, but insignificant in both cases. In 2001, the coefficient of PROPWHITES is positive in contrast to the prediction. This does not support the prediction that compliance with the King Code will be low when the proportion of whites is high on boards of JSE listed companies. The insignificant results imply that the results are rejected.

In 2001, two variables are significant at the 5% level of significance in the direction predicted i.e. SBD and ROA. LTDtoTE on the other hand is positive as per prediction and significant at the 1% level. In 2008, PROPDNEDS, SBD and STA are positive and significant in line with theoretical expectation. With regard to controls, ITYPE1 and ITYPE4 are negative and significant at the 5% level. Table 7.13 presents regression results of THEME4 model for 2001 and 2008.

Table 7.13 Summary of All Hypotheses and Results of the THEME4 Model for 2001 and 2008

			2001			2008		
Dependent Variable			**THEME4**			**THEME4**		
Independent Variables	**Hypothesis Number**	**Predicted Sign**	**Actual Sign**	**Statistical Significance**	**Conclusion**	**Actual Sign**	**Statistical Significance**	**Conclusion**
REFLOGPROPWHITES	H_1	-	-	Insignificant	Reject	-	Sig at 1%	Accept
REFLOGPROPDNEDS	H_2	+	-	Insignificant	Reject	+	Insignificant	Reject
REFLOGSBD	H_3	+	+	Sig at 5%	Accept	+	Sig at 5%	Accept
REFLOGSTA	H_4	+	+	Insignificant	Reject	+	Sig at 1%	Accept
REFLOGLTDtoTE	H_5	+	+	Sig at 5%	Accept	-	Insignificant	Reject
REFLOGINSTSHARE	H_6	+	-	Insignificant	Reject	-	Insignificant	Reject
REFLOGDRCTSHARE	H_7	-	+	Insignificant	Reject	-	Sig at 1%	Accept
REFLOGROA	H_8	-	+	Sig at 5%	Accept	-	Insignificant	Reject
AUDTYPE	H_9	+	+	Sig at 5%	Accept	+	Sig at 1%	Accept
LISTSTATUS	H_{10}	+	+	Insignificant	Reject	-	Sig at 1%	Accept
ITYPE1	H_{11}	+	+	Insignificant	Reject	-	Insignificant	Reject
ITYPE2	H_{12}	-/+	-	Sig at 5%	Accept	-	Sig at 10%	Reject
ITYPE4	H_{13}	-/+	-	Insignificant	Reject	+	Insignificant	Reject

As can be seen from Table 7.11, THEME4 is significant at the 1% level of significance in 2001 and 2008 respectively. In 2001, 17.0% of the variation in THEME4 model is explained by the independent variables while this figure is 39.5% in 2008.

Results from Table 7.11 indicate that the coefficient PROPWHITES is negative but insignificant in 2001 while in 2008 the coefficient is significant at the 1%, supporting the prediction that compliance with the King Code will be low when the proportion of whites is high on boards of JSE listed companies. In 2001, five control variables were significant i.e. SBD, LTDtoTE, ROA, AUDTYPE and ITYPE2. In 2008, PROPDNEDS was negative and significant at the 1% level as per prediction. SBD was positive and significant at the 5% level while STA, DRCTSHARE and UUDTYPE were significant at the level of 1% in the predicted directions. In terms of other controls LISTSTATUS and ITYPE2 were significant hence the acceptance of the hypotheses.

7.2.5 Discussion of Regression Results

Results from the 12 regression models indicate that one model was rejected because it is not significant i.e. MCI 2001, while eleven models are significant. The following discussion attempts to analyse results of all the eleven models. Appendix 32 (Summary of Regression Results for Eleven Models), presents a summary of the results of the regression analysis indicating which variables are positive/negative and their level of significance.

a) PROPWHITES

Out of the 11 models, PROPWHITES (the main variable of interest) was negative and significant at the 1% level in four models (TCI & VCI 2008 and THEME1 and 4 of 2008) and negative but insignificant in four models (TCI & VCI 2001, THEME1 & THEME4 2001). PROPWHITES was also positive against prediction but insignificant in two models (MCI 2001 and THEME2 2008). PROPWITES was only positive and insignificant against expectation in two models (THEME2 2001 and 2008). However, generally PROPWHITES was negative and significant as hypothesised that there is a significant and negative relationship between compliance with the King Code provisions and board dominance by whites. The significant negative results seem to support the hypothesis that culture influences corporate compliance with best practice corporate governance principles in SA. In this case they support the argument that JSE listed firms whose boards of directors are dominated by whites may comply less with the recommendations from the King Code because of their culture of individualism as discussed in chapter 4, section 4.3. For instance, they support the argument that boards of JSE Securities Exchange listed firms dominated by "blacks" may put the interests of the group (all stakeholders) before the interests of individuals (shareholders) and vice versa if dominated by "whites" and, as such, comply with the stakeholder-oriented recommendations from the King Code. If a firm is dominated by people whose culture is collectivist and feminine; they may influence the firm to comply with the King Code because the spirit of collectivism and their feminine side influences them to address issues from a stakeholder or Ubuntu (entire group/community) perspective. The results suggest that if boards of directors of JSE listed firms are dominated by whites, they may comply less with stakeholder oriented King Code recommendations such as board diversity, social investment, employment equity, human capital development among others.

Evidence from prior literature on culture and other firm outcomes in Malaysia reports find a positive and mostly significant relationship between the proportion of Bumiputera directors on the board and corporate governance (Wahab et *al.,* 2007). The result contrasts the Hofstede-Gray framework of Haniffa and Cooke (2002) which suggests that Bumiputera directors are more secretive compared to their Chinese counterparts. Wahab et al. (2007) reason that since high secrecy may be associated with lower disclosure, their results suggest that Bumiputera directors are less secretive and are more willing to inform investors about firms' governance structures. Overall, results of these studies seem to indicate that culture has an influence on corporate governance practices.

b) Non-Executive Directors

Of the eleven models, PROPDNEDs (percentage of non-executive directors on the boards) is positive for 9 models although insignificant except for THEME1 2001 (at 10%) MCI 2008 (at 5%) and THEME2 2008 (at 5%). As such, H2 is accepted for the latter two models and rejected for the rest. However, the positive but insignificant relationship is consistent with the popular view that the inclusion of non-executive directors on boards of directors may enhance their independence and promote good governance practices. Empirically, the results are in accordance with evidence from prior South African studies of Ho and Williams (2003) and Mangena and Chamisa (2008) that indicate that more NEDs impact positively on firm outcomes. The results are also consistent with the evidence from disclosure studies which indicate that proportion of NEDs on boards of directors influences voluntary corporate disclosure (e.g. Gul and Leung, 2004; Chen and Jaggi, 2000).

However, the finding are in contrast to previous corporate governance evidence (e.g., Ntim, 2009; Weir and Laing, 2000; Haniffa and Hudaib, 2006), which report a negative link between the percentage of NEDs and ROA. The results are also in contrast to the findings from disclosure studies which report that the proportion of NEDs on boards of directors is negatively associated firm disclosure (e.g. Barako *et al.*, 2006; Eng and Mak, 2003; Haniffa and Cooke, 2002, 2005). More importantly, the findings are in accordance with the expectations of the King Code (I & II) and more recently King III which promote the inclusion of more NEDs on corporate boards.

c) Board Size

Board size (SBD) is positive and significant in all the eleven models. SBD is positive and significant at the: 1% level for TCI 2001 and 2008, VCI 2001 and 2008, VCI 2001 and 2008; THEME1 2001 and 2008; 5% level for MCI 2008 and THEME2 and THEME4 for both years. This accepts hypothesis 4, that there is a statistically significant and positive relationship between board size and firm compliance with the King Code.

The positive significant result supports results of prior studies that document a statistically significant and positive link between board size and accounting returns (e.g. Alves and Mendes, 2004; Haniffa and Hudaib, 2006; Mangena and Chamisa, 2008; Sanda *et al.*, 2005; Weir and Laing, 2000). However, the results are in contrast to evidence of prior South African studies (e.g. Ho and Williams, 2003; Mangena and Chamisa, 2008; Ntim, 2009), as well as other international evidence (e.g. Eisenberg *et al.*, 1998; Kiel and Nicholson, 2003; Shabbir and Padgett, 2005). For instance, Ntim (2009) reports a statistically insignificant and negative relationship between board size and ROA, whereas Ho and Williams (2003) report similar results between board size and the value added by a firm's physical and intellectual resources, using a sample of 84 South African firms. Theoretically, these results imply that larger boards are effective in ensuring that South African listed firms comply with good governance principles as recommended by the King Code.

d) Institutional Shareholding

Results for institutional shareholding (INSTSHARE) from the eleven models are mixed. For instance, in four models the results are positive but mostly insignificant while in seven models the results are negative and insignificant except for MCI 2008 (at the 5% level). The results mean that hypothesis 6 is not supported and hence rejected. However, the insignificant negative results are consistent with prior literature which finds no evidence of exertion of pressure by institutional investors to comply with the Cadbury Code (e.g.

Dedman, 2000). The findings are also consistent with the popular view that South African institutional investors have not yet actively and publicly intervened in CG affairs (e.g. Vaughn and Ryan, 2006). However, the results are inconsistent with evidence from disclosure studies which report a positive statistically significant relationship between institutional share ownership and firm outcomes (e.g. Ntim, 2009; Mangena and Tauringana, 2007). The results are also inconsistent with the findings from McConnell and Servaes (1990) who document a positive relationship between institutional shareholding and financial performance. The results are not consistent with the theoretical view that, due to their relative financial clout, reputation, knowledge and information advantages, institutional shareholders can impact positively on internal CG structures and financial performance by exerting their influence on board structures, composition, and functioning (e.g. Shabbir and Padgett, 2005, p. 22; Young *et al.*, 2008, p. 1108).

e) Director Share Ownership

Results on director share ownership (DRCTSHARE) are also mixed across the eleven models. For instance, five models indicate a positive but insignificant result (i.e. TCI 2001 and 2008, VCI 2001, THEME1 2001, and THEME 4 2001). Other models indicate an insignificant negative result e.g. MCI 2001 & 2008, THEME1 2008 and THEME2 2001 & 2008. THEME4 2008 on the other hand indicates a significant negative result at the 1% level. These results show that hypothesis 7 is accepted for THEME4 2008 and rejected for the other models because the hypothesis is generally not supported.

The negative result is consistent with results of previous South African studies (e.g., Ntim, 2009; Ho and Williams, 2003; Mangena and Chamisa, 2008). For instance, Ntim (2009) finds a negative relationship between director share ownership and ROA using a sample of 500 firm years in his study to investigate corporate compliance and performance. The negative result is also in line with findings from disclosure studies which report a negative association between disclosure and director share ownership (e.g. Eng and Mak, 2003).

f) Other Variables

Firm size (STA) is found to be positive and statistically significant at 1% level for TCI, VCI, MCI, THEME1, THEME2 and THEME4 all in 2008. As for other models STA is positive and insignificant for TCI, VCI, THEME1 and THEME4 all for 2001. SAT is negative against prediction but insignificant for MCI 2001. Generally, STA results indicate a positive association between the level of firm compliance with best practice corporate governance principles and firm size. The positive coefficient on firm size offers empirical support to past evidence, which suggests a positive link between firm size and firm outcomes (e.g. Weir and Laing, 2000; Gul and Leung, 2004; Haniffa and Cooke, 2005; Barako *et al.*, 2006).

Audit firm size (AUDTYPE) was positive and statistically significant at the 1% level for TCI, VCI, THEME1 and THEME4 of 2008. AUDTYPE was also positive and significant at the 1% level for TCI, VCI, THEME1 and THEME4 in 2008. It was also positive and significant at the 5% level for TCI, VCI, THEME and THEME4 in 2001 and insignificant for the rest of other models. Generally the results for AUDTYPE are in line with theoretical expectations that firms audited by Big 4 audit firms will comply more with good governance principles. The result is also consistent with prior literature on corporate governance and firm disclosure (e.g. Eng and Mak, 2003). However, the result is in contrast to other previous CG evidence (e.g. Gul and Leung, 2004; Barako *et al.*, 2006).

Listing status (LISTSTATUS) was found to be positive and significant at the 1% level in 2008 for TCI and VCI and positive and significant at the 5% level for MCI in 2008. LITSTATUS was also positive but insignificant for TCI, VCI THEME 1 & 4 off 2001. It was however negative and significant at the 1% level for VCI 2008. Also THEME1 2008, THEME2 for both years and THEME4 2008 recorded a negative relationship with LISTSTATUS. Generally, the results are mixed. The mixed results may be explained in two ways. First, the results suggest that listing in foreign stock exchanges may influence firms to comply with best practice corporate governance principles both locally and internationally to enhance their reputation and to signal a reputation of being well governed which may ultimately attract stakeholder support (Klapper and Love, 2004, p. 713). The results also support the argument that foreign stock exchanges in more developed markets may have stringent listing requirements. As such a local firm which seeks listing in a foreign stock exchange may have to meet stringent requirements at the new stock exchange. The firm may face stricter corporate governance guidelines, which may alter the behaviour of its parent/subsidiary company (Black *et al.*, 2006, p. 403; Haniffa and Cooke, 2002, p. 329).

Secondly, the negative results may suggest that the influence of the SA national culture on JSE firms with multiple listings (hence geographically dispersed operations), is low because local managers' of these firms are influenced by a variety of factors. According to Hope et *al.* (2008) these factors include among others; non-local managers, foreign governments and regulations, greater shareholder base, foreign lenders etc . "As such, the influence of any particular country's national culture is likely to be lower with international expansion (Hope *et al.*, 2008, p. 358). As such the national culture of South Africa (Ubuntu) is may be lower in JSE listed firms with multiple listings because of the influences outlined above hence the negative association between compliance and LUISTSTATUS.

The results for debt (LTDtoTE) are mixed across the eleven models e.g. positive and significant at the 1% level for THEME2 of 2001 and positive and significant at the 5% level for TCI, VCI and THEME1 of 2001. However, the results are also negative and insignificant for TCI and VCI, THEME1, THEME2 and THEME4 all of 2008 and negative but insignificant for the remaining models. Generally the results are positive as per prediction but insignificant, while in 2008, they tended to show a negative relationship between debt and the level of firm compliance.

The negative relationship is contrary to the agency theory perspective that debt financing constrains managerial expropriation through the imposition of fixed obligations on corporate cash flow (Jensen and Meckling, 1976). As such the level of debt financing has the potential to influence corporate managers to comply with best practice corporate governance principles. The positive relationship on the other hand is consistent with the view that the more critical the resources controlled by a stakeholder group, the more it will compel an organisation to fulfil the expectations (Deegan and Unerman, 2006). Hence the results support the argument that debt holders may compel an organisation comply with best practice corporate governance principles if they perceive that compliance with good governance principles such as the King Code reduces the risk of firm failure.

Profitability (ROA) was found to be generally positive and significant at the 5% level for TCI, VCI, THEME1 and 4 for 2001 models. This contrasted with 2008 results which indicated insignificant negative results for VCI, THEME1 and 2. On the other hand MCI was negative and significant at 10% level while THEME4 recorded a strong negative significant (at the 1% level) result. The negative results do not support the hypothesis that financially healthy firms are in a better position to implement good corporate governance practices such as the ones recommended by the King Code to signal that the firm is profitable because of good corporate governance practices. The positive relationship on the other hand supports the argument that management of profitable firms may choose to comply with good corporate governance principles as a way of demonstrating that good governance practices result in enhanced profitability (Inchausti, 1997). This will bolster the managers' reputation and enhance the value of their human capital in a competitive labour market.

In terms of industry variables, the results are generally inconclusive owing to the mixed results for both 2001 and 2008 across the 11 models. The results show that some industry control variables were significant in 2001 and 2008. For instance, ITYPE1 was negative and significant at the 5% level for THEME2 of 2008 while ITYPE2 was negative and significant at the 5% level for THEME1 and THEME4 of 2001. Generally these results are inconclusive.

7.3 Sensitivity Analysis

This section discusses results based on a series of robustness or sensitivity analyses tests. The main objective is to try and examine how the results reported in section 7.2 are robust or sensitive to alternative explanations and or estimations. More specifically, a series of sensitivity analyses tests are conducted on the variable PROPWHITES and firm size (STA) to try and determine how changes in these variables may affect the results. Regression analyses are conducted for TCI, THEME1 and THEME4 models only. These three models were selected because of the following reasons; TCI consists of all the items in the compliance checklist, while THEME1 consists of most of the boards and directors issues which form the nucleus of best practice corporate governance principles. THEME4 on the other hand consists of integrated social responsibility variables (social compliance).

First, a dummy variable is introduced for the mean proportion of whites in board of directors (PROPBLACKSSENSI) and regression analysis is conducted for the abovementioned models. Secondly, the findings are re-analysed to test the influence of firm size by separating the sample into large firms and small firms, first using the median as separator, and second using lower quartile versus upper quartile.

7.3.1 Results Based on the Introduction of a Dummy Variable in the PROPWHITES Variable

As already explained, a dummy variable was introduced in the model for the variable PROPWHITES. All companies with board domination of 51% and more were deemed to be 'white' dominated while those with 49% and less were considered to be 'black' dominated. As such, the variable was changed to a categorical variable. Regression analysis was conducted after replacing the

PROPWHITES continuous variable with the PROPWHITES/BLACKS categorical variable. Results for all the models were significant at the 1% (see Appendices 32a to 32F Sensitivity Analysis) indicating that the level of compliance as represented by the models can be explained by the independent variables. The results indicate that, in 2001, PROPWHITES/BLACKS was negative for all the three models (TCI, THEME1 and THEME4) as per prediction but insignificant, while in 2008 it was negative for all the models and significant at the 10% and 5% level for the TCI and THEME1 models respectively. The negative results although not significant lend support to the argument that ethnicity influences compliance as per theoretical prediction. The negative results are also in accordance with the findings in section 7.2 and are not sensitive to the tests which were conducted. Generally, other variables generally show the expected signs.

7.3.2 Results Based on the Influence of Firm Size

Sensitivity analysis was also conducted on firm size (STA). First, the sample size was split into two using the median as separator between small and large firms (*STASMALLSSA and STALARGESSA)*. Secondly, the sample size was split in terms of the upper and lower quartiles. The new variables were introduced in the models and regression analysis conducted to test the influence of firm size on the extent of compliance with the Code. In the case of the first sensitivity analysis test, firm size *(STASMALLSSA – indicating small firms)* was positive for TCI and THEME4 (significant (P<0.05%) and negative for THEME1. In 2008, the results were negative and significant for all the models. The negative results indicate an inverse relationship between firm size and compliance with best practice corporate governance principles. These results support the theoretical argument that small firms unlike their large counterparts are not visible to the public's and hence not subject to greater political and regulatory pressure from external interests (Belkaoui and Karpik, 1989). They also support the argument that in contrast to large firms small firms are not subject to scrutiny by the media and as such may not suffer bad publicity and the imposition of more regulations following non-compliance than large firms (Dedman, 2000). As such, small firms are not under pressure (unlike large firms) from their publics to ensure that they are perceived as operating within the norms and bounds of their respective societies. The results are therefore consistent with the findings in section 7.2.

In the second instance, two variables were introduced to the models *(e.g. LOWERQSTA and UPPERQSTA)* to test the influence of firm size on compliance. In 2001, UPPERQSTA was positive but insignificant for all the models, while LOWERQSTA was positive and significant for all the three models at 5% (for TCI and THEME4) and 10% (THEME1) levels. In 2008, *UPPERQSTA* was negative and statistically significant across all models while *LOWERQSTA* was positive in all the models but statistically significant for TCI and THEME1 at 5% and 1% respectively. The 2008 results are mixed and in conflict with the theoretical prediction that large firms will comply more with best practice corporate governance principles as discussed in chapter 4, section 4.1.3.1. As such the results are inconclusive and are sensitive when sample size is split in terms of quartiles.

7.4 Findings Based on Perceptions of Key Stakeholders

Unlike prior literature (e.g. Deutsche Bank, 2002; Ntim, 2009; Weir and Laing, 2000; Werder *et al.*, 2005), this research sought to find out the views of key stakeholders such as King Code Commissioners, company directors, compliance managers and non-governmental organisations/civil society organisations (NGO/CSO). The opinions of key stakeholders (Appendix 28: List of Code Names of Respondents) were sought on the King Code, compliance with the Code and the effect or impact of the Code in the SADC region.

7.4.1 Opinion on King Code

Generally the views of key stakeholders are that the King Code provides them with guidelines and serves as a reference point in terms of how to conduct the affairs of companies. However, the ability of the King Code to influence behaviours of company managers is entirely dependent on the honesty of management. This is because corporate governance involves "both human and non-human resources or techniques as well as the interaction between the two Haniffa and Cooke (2005, p. 392). As such, best practice CG principles such as the King Code, may not necessarily achieve their intended objective(s) because of the human element. First, respondents highlighted that there will always be conflict between the intentions/motives of people charged with implementing CG principles and the objectives of CG principles; second, there will be problems of interpretation of the Code which may ultimately affect implementation and finally, the Code may not necessarily be embraced in good spirit e.g. some managers may comply with the letter and not the spirit of the Code (Deutsche Bank, 2002), i.e. a "tick box" exercise.

7.4.2 Opinions on Promotion of CG Standards in SA

The views of key stakeholders generally suggest that corporate governance standards in SA have improved following the introduction of the King Code. As discussed in Chapter 7, compliance with the King Code increased between 2002 and 2008, which shows that JSE listed firms have embraced good practice governance principles. According to key stakeholders, improvement of CG standards in SA is also evident from capital inflow to SA since the introduction of the first King Code in 1994. Foreign investors are confident to invest in the equities of SA listed companies because of the reputation for strong corporate governance practices resulting from the King Code.

However, the view that King Code has improved corporate governance standards in SA was not shared by all key stakeholders. While King Code Commissioners and internal company stakeholders were of the view that the Code has improved corporate governance standards in SA, others such as secretary general of a labour union movement in SA expressed a divergent view on whether the King Code had improved corporate governance standards in SA. The labour union movement argue that company ownership, directorships of companies and inequities which existed in the SA economy during apartheid, are still existent despite the major strides SA has made in terms of political reform. This view has been echoed in South Africa in recent times by prominent ruling party activists (SAPA, 2010).

The view of the labour movement on corporate governance is that, fundamental issues of black economic empowerment have to be addressed before an assessment of whether corporate governance standards in SA have improved as a result of the King Code. In a way the perception of labour union movement is that blacks are still excluded from company ownership, directorships and senior management except for a few elite who have benefited from the BEE (Southall, 2006, p. 64). The movement argues that BEE has failed to address the problem of disempowerment among blacks. BEE has been critiqued for the creation of a small but remarkably wealthy ANC-connected 'empowerment elite' (Southall, 2006, p. 67). This small elite was peculiarly favoured by South Africa's largest companies offering to sell or grant them equity stakes at advantageous terms, often financed by the sellers themselves, in return for connections to government and the black market place (Southall, 2006, p. 75).

7.4.2.1 Opinions on Other CG Issues ("Tenderpreneuring")

Despite improvements in corporate governance standards in SA, stakeholders also raised some governance issues such as corruption and bribery. Respondents highlighted a new wave of corruption called *"tender-preneuring",* a term formed from the words tender and entrepreneurship. Through *tender-preneuring*, contracts for large public works like building roads are awarded through corrupt means by making use of family members and friends in top positions in public authority, the central government and the local council. This problem highlights a culture of poor disclosure and accountability practices on the part of public officers in SA. A code of conduct for public officers with regard to disclosure of interests may best address this problem. Alternatively, public officers may be compelled to disclose their interests through a public disclosure Act. Disclosures could be made in a register which may be available for public viewing. This to some degree may address the problem of conflict of interests. Further suggestions were made by some respondents to employ what are termed life style audits by auditing lifestyles of public officers to combat corruption.

7.4.3 Opinions on Suitability of King Code to South Africa

The King Code borrows heavily from the Cadbury Report of UK. It was therefore important to get the perspectives of key stakeholders on whether copying or "mimicking" (Haniffa and Hudaib, 2006, p. 1057) recommendations from a Code developed in a developed country like the UK, and implementing it in a developing country like South Africa could have the same desired effect similar to that in the developed country. Generally the views of other respondents on the issue of mimicking, was that although the King Code borrows from the Cadbury Report of the UK, it takes into account local circumstances such as the BEE which is unique to South Africa and not other countries.

7.4.4 Opinions on Compliance

On the issue of compliance, key stakeholders are of the view that companies **comply** more with boards and directors issues, because that section is probably the most 'influential in companies and probably the most visible.' It is 'visible' because people can see the composition of company boards, the structure of companies, board committees and question why the structures are not in accordance with recommended best practice.

Respondents opine that companies were not complying in good faith more especially on sustainability reporting. They mentioned that companies were reporting *"in a silo of* *sustainability and a lot of companies are guilty of green-washing"*. For instance they will talk about what they are doing for the "green" *but "showing nothing on how those environmental issues impact on the business and how the business is impacting on the environment."* Generally, respondents alluded to the fact that claims of compliance with integrated sustainability reporting by JSE listed firms were not backed by evidence of compliance with regard to how company activities were impacting the environment and how the environment was impacting company activities and that reporting on integrated sustainability was not linked to long term strategies of companies.

7.4.4.1 Compliance with Letter and not Spirit of the Code (Tokenism Compliance)

Respondents spoke against tokenism appointments in boards of JSE listed firms. They argue that a board of directors in a South African company should represent the diverse nature of the SA population. Generally, respondents were of the view that *"tokenism appointments"* to boards of directors are not in the best interests of the company and are dishonest. According to respondents, tokenism appointment of blacks *("box-ticking for image purposes")* to boards of directors is a *"gross violation of a company's fiduciary responsibilities and irresponsible."* They contend that, the reason for bringing ethnicity into King II was to break the strangle hold of a select group of people who tend to circulate among all the boards, that was existing in the boards of directors in South Africa as does exist in many other countries like the US and UK.

Another form of tokenism appointment noted by stakeholders is fronting. Under "*fronting"* a black person is appointed to be the spokesperson or the face of the company on national television, radio interviews and other media such as in print media. Because the BEE policy rewards the appearance of black ownership and management by awarding government contracts and tenders to compliant companies, it inadvertently invites companies to use superficial means to seem compliant. It encourages illegal "fronting" in which some companies superficially use black people as token directors for the purpose of winning government contracts. These perspectives are supported by reports of scrutiny of sham BEE deals in the financial media. For instance, in some cases a black person, such as a gardener, is identified as a director or shareholder of a company in white hands, but that person derives no benefit from and has no say in the company (de Waal, 2010). Fronting can take different forms: sometimes black people were unwittingly used as fronts; sometimes they were promised a 51 percent stake that never materialised; and sometimes they knowingly and willingly acted as fronts for a fee or commission (Marais, 2010). These acts according to Marais (2010) constitute fraud which must be punishable by law. These acts highlights the shortcomings of BEE, that it tends to focus heavily on company ownership and management. As such companies tend to cynically think that this is all that is required for transformation[39]. Marais (2010) argues that BEE empowerment should move away from focussing only on boardroom transformation (empowering a small elite) to broad-based economic empowerment by getting business to commit to skills development and on-the-job training so that marginalized workers can enjoy economic freedom (Marais, 2010). Also, the Department of Trade and Industry's Black Economic Empowerment (BEE) Advisory Council proposed legislation which criminalises BEE fronting (Marais, 2010).

7.5 Chapter Summary

The main aim of this chapter is to answer three questions of this research. In this way, the chapter presents regression results of compliance with the King Code, results of factors which influence compliance to the King Code and results of opinions of key stakeholders on the Code and corporate governance in SA. In this regard, the chapter attempted to discuss

[39] To benefit from government empowerment contracts sometimes businesses appoint politically connected individuals. As such this creates the problem whereby BEE does nothing to actually create further opportunities for the marginalised in society as the BEE model usually means that only the same minority of connected elites benefit from empowerment deals. Having benefitted from the model, these individuals, who should no longer qualify as economically disadvantaged, often continue to benefit to the detriment of real redistribution of wealth to the majority (Marais, 2010).

regression results of compliance indices on ethnicity, corporate governance and some control variables. First, descriptive statistics of both the dependent variables and independent variables are discussed and tests conducted to ensure that the data does not violate OLS assumptions. Regression analysis is conducted for the thirteen models. As per results from the chapter, eleven models out of thirteen were significant indicating that the variations in the compliance indices are explained by the variables in the models. Ethnicity was found to have a negative relationship with compliance in accordance with the prediction. Results of other variables such as board size and non-executive directors were also in accordance with predictions while other variables were in contrast to theoretical predictions e.g. institutional shareholding and director shareholding. The chapter also attempted to discuss the views of key stakeholders who were interviewed in this research. Generally, key stakeholders consider the King Code important for SA. They also attribute improvement in corporate governance standards in SA to the introduction of the Code.

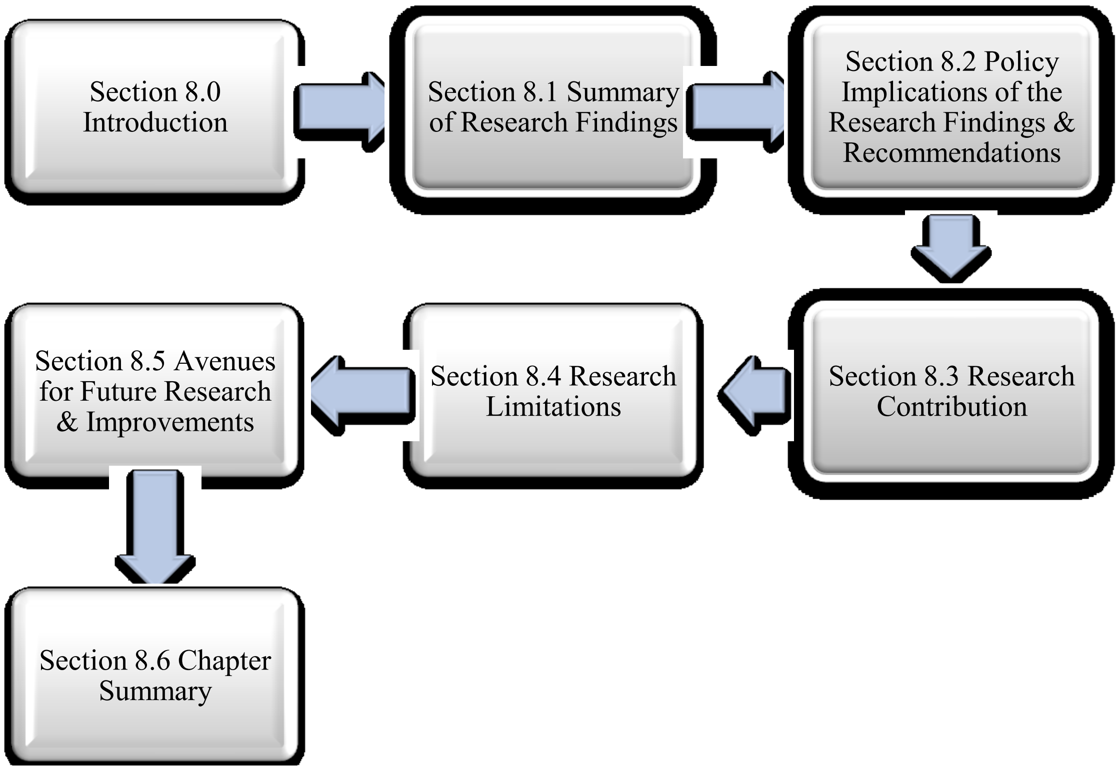
In the next chapter, a summary of this thesis will be presented.

8 Chapter Eight: Conclusion, Summary of Findings, Implications of the Research, Limitations and Avenues for Future Research

8.1 Introduction

This chapter discusses the conclusions of the thesis. It seeks to achieve five main objectives. First, it summarises the research findings. In this regard, the research findings based on the: levels of compliance with the South African King Code, factors which influence compliance to the Code and the views of key stakeholders on the Code and corporate governance in general in SA. As such, the chapter discusses the research findings on whether JSE listed firms are complying with the King Code and the extent of such compliance. Secondly, the chapter discusses factors which influence compliance with the Code focussing particularly on whether ethnicity influences compliance. Third, the chapter summarises the perceptions of key stakeholders with regard to the importance of the King Code, compliance with the Code and their opinions on the influence of the Code in the SADC region. Fourth, the chapter tries to present the implications and recommendations of the research findings. Lastly, the contribution to research, research limitations and avenues for future research will also be identified. Figure 8.1 presents the chapter overview.

Figure 8.1 Chapter Eight Plan



8.2 Summary of Research Findings

As discussed in chapter one, this research sought to answer three main research objectives. First, to examine the extent to which JSE Securities Exchange listed companies comply with key aspects of the inclusive approach to CG as recommended by the King Code. Secondly, to examine whether ethnicity of board structure (Board Dominance) influences compliance with the King Code. Third, to investigate whether company characteristics, market and performance related variables are related to compliance with code. Finally, to examine the views/opinions of key stakeholders [e.g. regulators, King Code Commissioners, companies and institutional investors] regarding the state of corporate governance in SA. The motivation to investigate these aspects is borne out of a number of factors.

First, corporate governance is an activity which involves both human and non-human resources or techniques as well as the interaction between the two (Haniffa and Cooke, 2005, p. 392). These humans have cultural background and as per Hofstede and Hofstede (2005) culture partially accounts for the behaviour and actions of individuals. Because of these unique characteristics between people from different backgrounds, socialisation processes, religion etc (cultural traits), it is clear that culture is important to examine with regard to CG.

In the context of this study, the importance of culture emanates from the cultural differences based on ethnic backgrounds of blacks and whites in SA. SA, the focus of study, is a country with a history of colonisation by Dutch and English settlers, followed by more than four decades of apartheid (West, 2006, p. 435). Under apartheid, blacks were not allowed to play a meaningful role in the economy of their country (South African Government, 2007). For instance, they received rudimentary schooling, were forbidden to organisation trade unions or engage in collective bargaining, forbidden to work in urban centres and proscribed by law from filling skilled and better paid jobs (Malherbe and Segal, 2001; South African Government, 2007). In short, they did not participate in management of direction of companies. Following the 1994 democratic elections, blacks were allowed to have a meaningful participation in the economy of their country following the dismantling of apartheid (Vaughn and Ryan, 2006). Blacks are now allowed to be CEO/MDs of corporations, shareholders in these corporations, board members and board chairs. Given this development, it is interesting to investigate how corporations may behave when their structures are dominated by blacks and whites. This is even more interesting taking into account the fact that the cultures of the two main ethnic groups are different. For instance, the black culture (Ubuntu) is largely considered to be collectivist while the white culture is individualistic (Booysen, 2000; Karsten and Illa, 2005). As such this study will test as to whether ethnicity influences compliance with good governance principles as recommended by the King Code.

Second, the King Code of SA is a unique code compared to other codes like the Cadbury Report (1992) because it takes the SA local circumstances into consideration i.e. it takes into account the culture of the context in which CG is practised i.e. the Ubuntu culture of blacks. Third, it is also interesting to examine compliance with the King Code because despite having the best CG code around the world (e.g. McKingsey, 2000 CLSA, 2000), SA has experienced a spate of CG scandals pre- and post-revision hence the need to investigate compliance with the Code. This study will also contribute to the scarce literature on CG in Africa and CG in general.

Compliance in the context of this study was limited to disclosure compliance in the corporate annual reports of JSE listed firms. Compliance with the Code is not mandatory, while disclosure relating to the Code is. As such, failure to disclose compliance or failure to provide a statement of non-compliance constitutes failure to comply. Specifically, using a sample of 136 JSE Securities Exchange listed firms for 2001 (pre-review) and 2008 (post-review) of the Code, a scoring of 53 items was prepared and completed for all 136 companies. A SACGCI was used to measure (in percentage) the extent to which companies embrace the recommendations from the Code. The index was further disaggregated into various themes i.e. THEME1 (boards and directors), THEME2 (risk management); THEME3 (accounting and auditing) and THEME4 (integrated sustainability reporting). This enabled the research to examine whether JSE listed firms comply equally with all provisions across themes.

Unlike prior literature, the study also examined whether ethnicity influences compliance with the Code. On the basis of the literature search and applicability to the environment in SA, hypotheses were developed to test whether ethnicity, company and market related variables influence compliance. In addition, and in a departure from most studies on CG, the study went further by examining the views of key stakeholders on compliance with the King Code.

In the next sub-sections, the research findings as discussed in Chapters Six and Seven are summarised. Specifically, sub-section 8.1.1 will summarise the research findings based on extent of corporate compliance with the King Code. Subsection 8.1.2 will offer a summary of the research findings based on factors which influence compliance with the King Code, including whether ethnicity influences compliance with the King Code. Section 8.1.3 will offer a summary of findings based on perceptions of key stakeholders.

8.2.1 Findings based on Extent of Compliance to the King Code

As discussed in Chapter Seven, this study sought to investigate the extent of compliance with the King Code by measuring compliance with the Code through a compliance checklist (CC). The CC consisted of 48 items for 2001 and 53 items for 2008, because some items were not covered in 2001. The Code was divided into voluntary (VCI), mandatory (MCI), total (TCI) compliance and four themes: THEME1 – Boards and Directors, THEME2 – Risk Management, THEME 3 – Accounting and Auditing and THEME4 – Integrated Sustainability Reporting. As per compliance indices under each theme and consistent with prior studies (e.g. Ntim, 2009), the findings from Chapter Six indicate that the level of compliance with the SACGCI increased substantially between 2001 and 2008. For instance, in 2001 the extent of compliance with the various themes was as follows (2008 figures in parenthesis): TCI 40.6% (74.2%), VCI 36.1% (71.7%), MCI 60.2% (86.3%), THEME1 38.4% (71.8%), THEME2 44.8% (81.1%), THEME3 78.2% (99.0%) and THEME4 31.5% (67.9%). The highest increase in compliance was registered under THEME4 at 115.6% and the least increase in compliance was registered under THEME3 at 26.6%. THEME4 was the least theme complied with both in 2001 and 2008 while THEME3 registered the highest compliance in both 2001 and 2008. The reason for high compliance with THEME3 is possibly because THEME3 consists of items which relate to normal accounting disclosure practices which companies regularly disclose in annual reports as per generally accepted accounting principles (GAAP). THEME4, on the other hand, consists of items relating to social and environmental reporting. The low level of compliance to this theme indicates that JSE sample firms are not complying with recommendations under this theme possibly because the theme consists of non-financial reporting issues. Research has established that any organisation facing a conflict between its financial performance (performance that affected share price dividend) and its social environmental performance is bound to give preference to the financial (Gray and Milne, 2002). Opinion based surveys by KPMG (2006) and Deutsche Bank (2002) also found that there is ample room for improvement on compliance with recommendations on integrated sustainability reporting by JSE listed firms.

These results suggest that JSE sample firms do not fully embrace the triple bottom line reporting as espoused in the King Code e.g. although companies do generally recognise that they no longer exist independently of the societies/communities and environment in which they do business, as recommended by the King Code, there is still room for improvement with regard to compliance with this aspect. This aspect of the Code makes it unique compared to other Codes such as Cadbury (1992). Integrated sustainability reporting in the context of SA is in line with the Ubuntu concept of helping thy neighbour and also in addressing the legacy of apartheid which disadvantaged blacks by excluding them from meaningful participation in the economy of their country. As such, low compliance with this recommendation may imply that JSE sample firms are to some degree rejecting the Ubuntu culture because, as already discussed in Chapter Six, their structures are dominated by people who are not from this culture i.e. people from the individualistic culture. Also, the low compliance with integrated sustainability reporting could be attributed to the fact that yesterday’s oppressors (under apartheid) are being asked through integrated sustainability reporting to make good their past misdeeds, taking into account the fact that structures of JSE sample firms, as per the findings from Chapter Six, are dominated by whites, and hence are rejecting this call by the King Code. As noted in Chapter Six and section 8.1.1.1, blacks have not yet made inroads into corporate SA (except for a small cortege of politically connected elite (Southall, 2006) despite government intervention strategies to try and bring them on board. Low compliance to THEME4 may also help to explain why blacks have not been able to make inroads into corporate SA.

8.2.2 Findings Based on Factors which Influence Compliance with the King Code

The following sub-sections discuss summary of findings in terms of frequency of compliance with the King Code and regression results.

8.2.2.1 Findings Based on extent of Compliance and Firm Characteristics

Frequency of compliance with the SACGCI (e.g. TCI, VCI, MCI, and THEME1 to 4) was further analysed in terms of firm size, auditor type, listing status and industry type. Consistent with findings of prior literature (e.g. CLSA, 2000; KPMG, 2006; Deutsche Bank, 2002; Ntim, 2009; Werder *et al*, 2005) the analyses indicate that the frequency of compliance with the King Code is high amongst larger firms, firms audited by Big 4 audit firms and firms with multiple listings in other stock exchanges. For instance, taking TCI as an example, frequency of compliance for large firms (small firms) was 41.5% (31.2%) in 2001 and 80.0% (67.2%) in 2008. This indicates that on average large firms complied with 41.5% of the provisions in the CC in 2001 and 80% of the provisions in 2008 compared to 31.2% and 67.2% for small firms respectively. As already discussed, large firms also have additional incentives of reducing political costs of strict central regulation or even nationalisation through increased disclosure (Andreasson, 2009; Watts and Zimmermann, 1978, p. 115). As such, large firms may comply more and disclose their CG practices more than small firms.

As already mentioned, the results also indicate that frequency of compliance with the King Code was high among firms audited by Big 4 audit firms compared with their counterparts audited by non-Big 4 audit firms. Prior literature argues that because of the cost implications with regard to compliance with CG rules, larger firms can be expected to be better able to afford the costs of compliance compared to small firms (Botosan, 1997; Lang and Lundholm, 1993). Big 4 audit firms may also not be affordable to small firms. As a result, compliance with CG rules tends to be low among firms audited by non-Big 4 audit firms.

As for industry types, frequency of compliance was not very different across the four industry types. This may be attributed to the fact that the industry types consist of different industry groups.

8.2.2.2 Regression Results on Compliance with the Code

8.2.2.2.1 Ethnicity Variables

As already discussed in Chapter Six, only one ethnicity variable was tested in this study because the number of blacks in the structures of JSE sample firms is insufficient to conduct OLS tests. As such, only PROPWHITES (proportion of whites on board of directors/proportion of blacks on board of directors) was tested to determine whether ethnicity influences compliance. The findings from the study indicate that that there is a negative relationship between PROPWHITES and compliance with the King Code. The negative relationship (although insignificant) was registered across all models in 2001. In 2008, PROPWHITES was negative and significant for four models (i.e. TCI at 5% level, VCI at 1% level, THEME1 at 1% level, and THEME4 at 5% level) as per prediction and negative but insignificant for MCI model. However, it was positive and insignificant for THEME2 against prediction.

Generally, these results indicate that ethnicity influences compliance with the King Code. For instance, the results seem to support the argument that compliance with best practice corporate governance principles may be high if structures of JSE listed firms are dominated by people from a particular ethnic group (blacks) and less when dominated by another ethnic group (whites). This finding was confirmed even when the variable PROPBLACKS (opposite of PROPWHITES) was used in the OLS models.

8.2.2.2.2 Corporate Governance Variables

In terms of board characteristics, PROPDNEDS was generally positive in the direction predicted but insignificant in 2001 across most of the themes. However, it was negative for THEME2 and THEME4 indicating that a high proportion of NEDs on the board of directors does not lead to an increase in compliance with risk management and integrated sustainability reporting provisions. The negative relationship in 2001 between these two themes and more NEDs on company boards may suggest that the two themes were less important to NEDs compared to the other themes.

However, in 2008, and as discussed in Chapter Seven, PROPDNEDS was positive across all themes (significant for MCI at 5% level and THEME2 at 5% level) indicating a positive relationship between a high proportion of NEDs on boards and compliance with the Code. The results are also consistent with the popular view that the inclusion of non-executive directors on boards of directors may enhance their independence and promote good governance practices. These results suggest that NEDs may be important to ensure proper monitoring of corporate board activities and compliance with the King Code, which make the corporate boards more transparent. The findings are also in accordance with the expectations of the King Code I, II and III, which promote the inclusion of more NEDs on corporate boards.

8.2.2.2.3 Company Characteristics

a) Board Size

Board size, on the other hand, was positive across all models in 2001 and 2008 in accordance with the view that larger boards are effective in ensuring that South African listed firms comply with good governance principles as recommended by the King Code. The results suggest that JSE sample firms with large boards comply more to the Code than those with smaller boards.

b) Director Shareholding

Director shareholding was surprisingly positive (but mostly insignificant) in 2001 across all models against expectation and significant at 10% level for VCI. The 2001 results indicate that companies with a high proportion of shares owned by directors comply more with the King Code than those with less director share ownership. However, in 2008, director share ownership was negative across all models in accordance with prediction and significant for THEME4.

In 2001, SA was still very much on the drive to attract foreign capital through good governance practices which indicate that the country is a safe destination for capital. As such, directors with shares in listed firms may have encouraged compliance with good governance principles such as the King Code so as to improve investor confidence. The period 2008, on the other hand, falls within a period in which there is awareness of good CG and the country has experienced capital inflow as per evidence from opinion based surveys (e.g. CLSA, 2000, Deutsche Bank, 2002) because of good governance practices. The campaign to woo investors may now have stabilised, hence the negative results between compliance and director share ownership. The 2008 results are also in accordance with results from prior literature (e.g. Ho and Williams, 2003; Mangena and Chamisa, 2008; Ntim, 2009) and elsewhere (e.g. Eng and Mak, 2003).

c) Firm Size (STA)

The results for firm size are generally consistent with findings from prior literature on corporate compliance with governance codes (e.g. Dedman, 2002; Weir and Laing, 2000; Werder *et al.*, 2005). As discussed in section 7.1.8, large firms are expected to comply more with CG principles than small firms. As such, results are in accordance with expectation and theory.

d) Institutional Shareholding (INSTSHARE)

Institutional shareholding was mostly positive but insignificant in 2001 in accordance with prediction. However, in 2008 it was negative and insignificant against the direction predicted across all models except for MCI (at 5% level). The 2001 results suggest that institutional shareholding and compliance with CG principles complement each other. Theoretically, firms with poor CG structures can compensate that with a dominant vigilant block shareholder (e.g., Agrawal and Knoeber, 1996; Beiner *et al.*, 2006). However, in contrast to this theory, positive relationship between the *SACGCI* and institutional shareholding in 2001 indicates that they complement each other.

The 2008 results, however, indicate that institutional directors are not playing an active role in CG as per findings from other studies (e.g. Malherbe and Segal, 2001; Mangena and Chamisa, 2008; World Bank, 2003). Institutional investors are well placed to influence good governance practices, first, because of their high share ownership on the JSE and, second, they possess superior financial resources, specialised knowledge, information collection and analyses advantages over the average individual investor (Young *et al*., 2008, p.1108). However, these results (2008) indicate that institutional investors are not playing this role. The negative relationship between INSTSHARE and SACGCI supports the idea that firms optimally choose CG structures, whereby a greater usage of one CG mechanism results in a lesser usage of another. Theoretically, the results may suggest that institutional shareholding plays a substitute-monitoring role to compliance (e.g. Eng and Mak, 2003). For instance, high institutional shareholding may act as a substitution for compliance disclosure with CG principles since monitoring may be done by institutional investors. The results are in contrast to Ntim (2009), who finds a positive relationship between institutional shareholding and South African CG index.

e) LTDtoTE (Debt)

In 2001, the regression results generally indicate a positive association with SACGCI as per prediction, but mostly insignificant. In 2008, only TCI and THEME2 have a positive insignificant relationship with SACGCI. Ntim (2009) finds a significant and positive association between debt and South African CG index. Although insignificant, the positive association between debt and SACGCI indicates that there is a complementary relationship between debt and SACGCI. It also implies that JSE sample firms with good CG standards are better placed to raise debt at a cheaper cost and that generally they are in a better position to secure lines of credit unlike their counterparts with poor governance practices.

f) Auditor Type (AUDTYPE)

Regression results indicate a positive and significant relationship between AUDTYPE and SACGCI in 2008 while in 2001 the results are insignificant. Generally, firms audited by BIG 4 audit firms may comply with good governance principles because such firms offer higher quality audits than do the non-Big 4 audit firms and that the source of higher quality is a result of reputation concerns and differential auditor litigation exposure (Carmeli and Tishler, 2005).

g) Listing Status (LISTSTATUS)

Generally, LISTSTATUS had a positive association with SACGCI with six out of eleven models (including TCI for 2001 (insignificant) and 2008 (significant for TCI, MCI and THEME4)) as per prediction. Theoretically, firms that maintain multiple listing on foreign stock markets are more likely to have better CG structures, because they are more likely to be subjected to additional accounting, governance and disclosure requirements of the foreign stock exchanges that they are cross-listed to (Haniffa and Cooke, 2002, p.329; Black *et al*., 2006a, p.403). As such, the results (2008) suggest that JSE listed firms with multiple listings in other stock exchanges, such as the LSE and NYSE, comply with good governance principles more than their counterparts with single listing in the JSE only.

h) Industry Type (ITYPE)

The industry control variables generally seem to have an insignificant association with SACGCI. However, in 2001, ITYPE2 and ITYPE4 were positive and significant at 5% and 10% levels respectively under THEME4. Similarly, in 2008 ITYPE1 was significant at the 5% level for MCI and THEME2 while IYTP4 was significant at the 5% level for THEME2. These results lend support to the argument that CG practices vary across industries (e.g. CLSA, 2000; Deutsche Bank, 2002).

i) ROA

As hypothesised, ROA has a positive relationship (insignificant) with SACGCI in 2001 and a surprisingly negative (insignificant) relationship with SACGCI in 2008 against prediction. This implies that firms which perform better comply with good CG principles (in 2001) while in 2008 the opposite holds. This is surprising because it is expected that financially healthy firms can more easily meet their obligations to owner-stakeholders and are less likely to be subject to significant pressure from other financial stakeholders, such as creditors (Brammer and Pavelin, 2006a). The results are also against expectation that financially healthy firms are in a better position to implement good CG practices such as those recommended by the King Code. The results contradict the theory that management of profitable firms will use information in order to obtain personal advantages (Inchausti, 1997) by signalling good performance through good governance practices and disclosure.

8.2.2.3 Findings Based on Perceptions of Key Stakeholders

Key stakeholders interviewed in this research believe that the Code serves as an important reference point on corporate governance issues in SA. They however are of the opinion that even the best corporate governance principles in the world may not necessarily prevent fraud because corporate governance involves humans. Generally, they opine that despite good intentions as per the Code principles, those charged with the responsibility to lead corporations may defraud them if they have the intent to do so. The stakeholders attributed the improvement in corporate governance standards in SA to the introduction of the King Code. The improvement in corporate governance standards they argued is evident from the suitability of SA as a destination for investment capital. Despite the improvement in corporate governance standards in SA, some stakeholders mentioned that there are still bad governance practices more especially in government whereby underhand tactics are employed to award tenders to non-deserving politically connected entities (tender-preneuring).

On the aspect compliance with the Code, respondents noted high compliance on boards and directors issues and low compliance with integrated sustainability issues. On other issues regarding compliance some respondents noted that there was a tendency to comply in bad faith (e.g. tokenism compliance) or to claim compliance with some aspects of the Code more especially on integrated sustainability reporting without providing evidence to back such compliance.

8.3 Policy Implications of the Research Findings & Recommendations

8.3.1 Policy Implications of Compliance with the Code

Several implications can be drawn from this study. First, this study has found that structures of sampled JSE Securities Exchange firms are predominantly controlled by whites. For instance, the findings indicate that in 2001 less than one-tenth of total directors of sample firms are blacks while in 2008 under one-quarter of total directors of sample firms are blacks. This is surprising considering that the SA government passed pieces of legislation which were meant to address this imbalance i.e. the Employment Equity Act 55 of 1998 and the BBBEE Act 53 of 2003. As such, these results suggest that the intended objectives of these Acts have not been realised. The implication of this finding is that more needs to be done in SA to ensure that blacks are able to make inroads into corporate SA. The SA authorities may have to review the impact of BBBEE and other Acts which were intended to address the legacy of apartheid so as to come up with proper intervention strategies to increase participation of blacks in the economy of SA. Further, the results confirm that the South African economy is not transformed as claimed by some prominent politicians within the ruling ANC in recent times.

Secondly, these results indicate that the introduction of the King Code I, II and now III, coupled with other statutory documents such as the Companies Act of 1973, JSE Listing Rules and the Insider Trading Act No. 135 of 1998, has contributed towards improving CG standards in SA. The improvement in CG standards is evidenced by the increase in the level of compliance with good governance principles as recommended by the King Code between 2001 and 2008. By implication, SA JSE listed firms do embrace self-regulatory good governance principles; as such, these results suggest that SA companies (listed) may be safe to invest in. Prior literature has found that investors are prepared to pay a premium for companies which practice good governance (see CLSA, 2000; Deutsche Bank, 2002). The implication of this finding is that the 'comply or explain' regime is working in SA like in other countries such as the UK. This suggests that this regime is suitable for SA.

Third, the results of this study imply that generally compliance with the King Code varies across themes. As discussed in section 8.1.1.2, the extent of compliance with the various themes was as follows in descending order: THEME3, THEME2, THEME1 and THEME4. THEME3, as already discussed, consists of recommendations which companies generally comply with in accordance with generally accepted accounting practices, hence the high compliance. THEME2, on the other hand, consists of recommendations on risk management. The high compliance with recommendations relating to risk management may indicate that JSE sample firms devote resources to risk management in line with recommendations from the Code. THEME1, on the other hand, consists of boards and directors issues. These recommendations relate to company structures. It is therefore generally expected that compliance with these recommendations will be high because company structures are visible to stakeholders, and they may question non-compliance with such at AGMs. The low compliance with other themes suggests that companies give different weights to provisions from the Code. Clearly, the results suggest that provisions under THEME4 are given less weight, hence the low compliance with this theme.

THEME4, as already discussed in Chapter Six, consists of recommendations which relate to social and environmental reporting. It consists mostly of recommendations which relate to the culture of Ubuntu which the Code recommends should be taken into consideration as the culture in which CG is practised, and those which relate to environmental issues. Compliance with these recommendations may signal that corporate SA embraces the culture of Ubuntu and also indicates the desire of corporate SA to contribute towards helping to address social imbalances which still exist in SA society as a result of apartheid e.g. through skills development, community projects, giving opportunities to previously disadvantaged people, among others. It may also signal that corporate SA protects the environment for future generations. As noted above, structures of JSE sampled firms are dominated by whites, who have a different culture from the local Ubuntu culture. As discussed in Chapter Two, the culture of whites is individualistic while the Ubuntu culture of blacks is collectivist.

The views of key stakeholders also indicate that compliance with social and environmental reporting is disingenuous among JSE Securities Exchange listed firms. For instance, key stakeholders described compliance under social and environmental reporting/integrated sustainability reporting (THEME4) using words such as; *"tokenism compliance" or "black tokenism", "fronting", "silo reporting", "green-washing" and "box ticking"*[40].

Therefore, the implication of low compliance with social and environmental issues (THEME4) as found in this study may be that:

a) Corporate SA may be rejecting the collectivist Ubuntu culture of blacks because the people responsible for compliance (who dominate corporate structures) in JSE sample firms are not from this culture.

b) Corporate SA may be rejecting government and King Code recommendations to try to address the legacy of apartheid and

c) Corporate SA may be practicing *green-washing* when it comes to environmental issues.

Fifth, as discussed in Chapter Seven, the results of this study suggest that compliance may not be culture free. In 2001, PROPWHITES (for TCI) was negative and insignificant,

[40] Tokenism compliance refers to a situation whereby a firm complies with a provision in bad faith e.g. compliance with the letter and not the spirit of the Code such as appointment of a token black to the board of directors. Fronting, on the other hand, is a fraudulent act undertaken by firms to create an impression that they have met BEE requirements so as to qualify for government contracts. Extreme examples of fronting include listing a black person as a shareholder in a company where she/he does not derive any benefits. Silo reporting refers to a situation whereby companies claim to comply with provisions on integrated sustainability reporting without necessarily showing how such compliance is integrated to their operations (e.g. empty claims in most cases). Green washing is another form of silo reporting but relating to environmental reporting.

while in 2008, it was negative and significant, in line with the prediction that whites may influence corporate SA to comply less with the King Code when they dominate structures of JSE sample firms because of their individualist culture which may not favour compliance with stakeholder-oriented provisions under the King Code's integrated sustainability reporting. PROPWHITES was significant in 2008 only, i.e. for VCI, THEME1 and THEME4. Further, PROPWHITES was negative in nine out of eleven models in accordance with the prediction that PROPWHITES has a negative relationship to compliance with the King Code. As discussed in Chapter Two and Chapter Four, the culture of blacks and whites is different. For instance, the culture of blacks (Ubuntu) is considered to be collectivist while that of whites is considered to be individualistic (see Booysen, 2000; Malunga, 2006b; Nussbaum, 2003). Following from Hofstede and Hofstede's (2005) argument that culture partly accounts for the way people behave, it may be expected that culture may account for the way JSE sample firms behave in terms of compliance with a Code of CG which takes a specific culture into consideration e.g. Ubuntu culture.

If people who dominate structures of sample firms are blacks from the Ubuntu culture, it may naturally be expected that they may influence compliance with provisions from this Code because not only does the Code take their culture into consideration, but their culture dictates that they value relationships with others, hence compliance with stakeholder-oriented aspects which serve to nurture interrelationships between the firm and community in which it conducts its business. However, the opposite may be expected if whites dominate board structures of JSE sample firms because first, the Ubuntu culture does not represent their values, beliefs and way of life, secondly their culture dictates that they are individualistic and hence stakeholder-oriented issues may not be first priority in their case. The implication of this finding is that if compliance with good governance principles is to be achieved in SA, more blacks should be given opportunities to make inroads into structures of corporate SA because they may influence compliance with the King Code since the Code promotes their culture in addition to recommending best practice CG.

Sixth, the findings of this study indicate that compliance is generally high among large firms and low among small firms. Theoretically, and as discussed in Chapter Seven, compliance with CG provisions is costly both in terms of money and time. Such large firms tend to have enough resources at their disposal to enable them to afford to implement recommendations/provisions from CG codes. This therefore explains why compliance may generally be expected to be high amongst large firms. Also, as discussed in Chapter Seven, prior literature suggests that large firms have greater agency problems compared to their small counterparts. Large firms also stand out in the public domain e.g. have a large analyst following and are subject to scrutiny from the media. This makes it imperative for them to comply with good governance principles because if they fail to do so, they may suffer bad publicity and the imposition of more regulations following non-compliance than smaller firms (Dedman, 2000).

The findings from this research also imply that compliance among JSE sample firms is high among firms audited by Big 4 audit firms than firms audited by non-Big 4 audit firms. Also, large firms are mostly audited by Big 4 audit firms compared to small firms. This finding is in accordance with the theoretical expectation that large firms may afford good quality service offered by Big 4 audit firms and Big 4 audit firms may prefer to do business with large firms to protect their reputational capital (Carmeli and Tishler, 2005).

Compliance was also found to be high among firms with multiple listings in other stock exchanges, especially in the US and the UK than for firms with single listing in the JSE only. This finding is in accordance with evidence from prior literature (see Ntim 2009). The finding is also consistent with theory because stock exchanges in the US and UK e.g. the New York Stock Exchange (NYSE) and London Stock Exchange (LSE) often maintain rigorous CG requirements and have proper enforcement mechanisms to ensure compliance with such. The JSE has experienced a number of companies moving their primary listing offshore in recent times e.g. SAB, Old Mutual, Billiton (Deutsche Bank, 2002). The reasons advanced for such relocations include the desire to tap deeper pools of capital and to obtain cheaper funding as the desire of these companies to associate themselves with markets with stronger CG reputations. This implies that SA corporations relocating to these stock exchanges must meet high CG standards in order to be listed on the LSE. The listing of shares in foreign stock exchanges by SA companies may force the JSE and the SA authorities to upgrade their CG standards.

8.3.2 Policy Implications of Findings from Interviews

As per the findings from the interviews with stakeholders, the King Code is suitable for SA because it takes into account the local context by including recommendations which seek to address social and environmental issues. The Code also promotes good governance practices in addition to having raised the awareness on good governance practices in the country. This implies that the Code is appropriate for SA and makes recommendations which make it applicable in the context of SA. Although the Code is considered to be good for SA, the study also found that key stakeholders are concerned that the Code may not necessarily help prevent CG scandals because of the involvement of humans in CG.

The findings from this study also indicate that compliance with recommendations from the King Code vary across themes. For instance, compliance was found to be highest for accounting and auditing theme and lowest for integrated sustainability reporting. The implication of this finding is that more needs to be done to ensure that corporate SA complies with social and environmental reporting. However, the King Code III addresses this aspect by integrating sustainability reporting into company processes and activities. Findings from interviews also indicate that the King Code has had a positive impact in the SADC region with regard to improving CG standards. The implication of this finding is that the King Code is important for the SADC region and it should be promoted so as to create awareness of the need for good CG practices in the region. This may ultimately create a better impression about the SADC region as a suitable destination for capital. Good CG may attract much needed foreign direct investment in the SADC region.

8.4 Research Contribution

This research makes contributions to CG literature in a number of ways. First, the study makes a contribution on the level of compliance with the King Code. Not many studies have comprehensively examined compliance with the King Code. This study has not only examined aggregate compliance with the entire Code, it has also disaggregated the Code into various themes and into voluntary and mandatory recommendations. As such, for the first time this offered evidence on the level of compliance with the various themes from the King Code. For instance, the study offered evidence on overall compliance with the Code, the level of compliance with boards and directors issues (THEME1), the level of compliance with risk management issues (THEME2), the level of compliance with accounting and auditing issues (THEME3) and the level of compliance with integrated sustainability reporting (THEME4). In addition, for the first time the study offered evidence on the level of compliance with voluntary and mandatory (provisions adopted by the JSE Listing Rules) items from the code. Unlike prior literature, this study has considered all the recommendations from the Code (SACGCI).

Second, this study has offered empirical evidence on the extent of compliance with non-financial issues (social and environmental reporting) as recommended by the King Code under integrated sustainability reporting. The study has offered evidence on whether corporate SA embraces the Ubuntu culture as per the recommendations of the King Code. The findings indicate that although corporate SA complies with recommendations under

THEME4, in general corporate SA has been slow to embrace the Ubuntu culture as demonstrated by the low compliance under this theme.

Third, this study has offered empirical evidence on the SA business environment. For instance, this study has empirically examined the extent to which blacks have made inroads into corporate SA. As per the findings from the study, blacks have not made many inroads into corporate SA despite the passage of pieces of legislation by the African National Congress (ANC) led government to try and enable blacks to have a stake in corporate SA. As per the findings from this study, more than sixteen years after political power was transferred to blacks in SA, just under a quarter of directors (in 2008) of JSE sampled firms are black. To some extent this confirms arguments that the SA economy has not been transformed and is still very much dominated by white males as was the case during apartheid. These sentiments have recently been expressed by leading political figures within the ANC (SAPA, 2010).

Fourth, for the first time this study has offered empirical evidence on whether culture influences corporate compliance with CG principles. Using ethnicity as a proxy for culture, this study investigated whether the culture of blacks and whites influences compliance with CG principles. This aspect has not been examined before in the context of SA. As such, this study fills the gap in the literature by offering for the first time direct evidence on whether ethnicity influences compliance with the King Code of SA.

Fifth, prior literature has tended to rely on one source of information to investigate CG and firm outcomes. This study extends literature on CG by examining the views of key stakeholders with regard to CG in SA. Unlike prior literature, the study examined the views of King Code commissioners, company directors and officials from NGO/CSOs on CG. This provided a human face to CG issues as opposed to restricting analysis to annual reports only. It also offered an opportunity to gain insight into the views of various stakeholders and to interrogate issues.

8.5 Research Limitations

There is no perfect study and as such this study is no exception. This section will discuss several limitations related to both the methodology and the overall design of the study.

First, analysis of the extent of compliance to the King Code is based only on corporate annual reports in this study. As such, annual reports may not contain the universal set of information disclosed by the company's management because such disclosures are often influenced by circumstances and timing of events (Haniffa, 1998). Also, companies do not only make disclosures in annual reports since there are other mediums through which companies disseminate information such as interim reports, prospectuses, financial press releases, company websites, company newsletters etc (Hassan and Marston, 2008, p. 5; Botosan and Plumlee, 2002, p. 30). However, as discussed in Chapter Six, annual reports contain a very wide range of comprehensive information, both voluntary and mandatory, which suits a wide group of users. As discussed in Chapter Six, the Companies Act and the JSE Listings Rules mandate listed firms to issue annual reports. As such, the mandatory nature of annual reports makes them a regular and reliable source of CG information (e.g., Lang and Lundholm, 1993; Botosan, 1997). This is because failure to abide by mandatory obligations by a firm can attract legal suits. Annual reports have also been relied upon because they are a major corporate reporting document, and every other financial report is in some respect subsidiary or supplementary to it Botosan (1997, p. 331).

Secondly, this study uses culture theory to explain the relationship between the extent of compliance and the King Code. As discussed in Chapter Two, culture theory as hypothesised by Hofstede (1988) has been criticised for being based on obsolete and irrelevant data owing to substantial modernisation which has taken place in most of the surveyed countries (Ng *et al.*, 2007). Hofstede's cultural dimensions have also been criticised for being based on data from a single multinational corporation which may not have the power to uncover the secrets of the entire national culture and that "what Hofstede 'identified' is not national culture, but an averaging of situationally specific opinions from which dimensions or aspects of national culture are unjustifiably inferred" (Baskerville-Morley, 2005; McSweeney, 2002, p. 104). Critics have also raised questions over the survey instrument used by Hofstede. For instance, they argue that the instrument used may not be specifically designed to investigate national cultures and hence not correctly or completely suitable in identifying all the universal cultural value dimensions (Baskerville-Morley, 2005; McSweeney, 2002). Further, critics also argue that four or five cultural dimensions are not enough to explain national culture (Baskerville-Morley, 2005). Since this study uses Hofstede's culture theory, it may have limitations relating to the limitations associated with culture theory.

Third, this study examines compliance using cross-sectional data in two periods. The two-year period may be too short. A longer time period may be most suitable to examine the behaviour of firms in terms of how they comply with the King Code and whether culture influences compliance over such a period. Also, the final sample of 136 firms was imposed on the study because of its nature e.g. examination of compliance before and after review of the King Code I. A large number of firms (i.e. 105) did not fall within the two periods under investigation which resulted in their exclusion from the study. This may affect the generalisability of the results to all JSE listed firms. Similarly, financial firms were also excluded from the study resulting in the possibility of generalisability to all firms being affected. Exclusion of financial firms is, however, in line with prior studies (e.g. Haniffa and Hudaib, 2006; MacNeil and Li, 2006; Weir and Laing, 2000).

However, the sample size as a percentage of the original population is 37.3%. This is better than Ntim's (2009) percentage of sample size to the original population of 24.9% and 34.4% of the total sample population (i.e. 100 firms out of a sample population of 291). The study was also limited to similar firms which were listed in 2001 and 2008; this to some degree introduced survivorship bias. However, it was important to use companies which existed in the two periods so as to determine actual changes between the periods. These weaknesses have the potential to limit the generalisability of the research findings.

Fourth, as discussed in Chapter Four, it was found that blacks have not made inroads into corporate SA as evidenced by their low numbers in structures of JSE sample firms. For instance, only 5.8% of board chairmen/women were black in 2001 compared to 22.8% in 2008, while the percentage of black CEOs/MDs was 1.5% in 2001 compared to 9.6% in 2008. As such, statistical analysis could not be conducted on two of the three culture variables owing to the low number of blacks in positions of board chairman and CEO/MD. Similarly, the number of black directors on the boards of JSE sample firms is very low i.e. 10% in 2001 and around 25% in 2008. These weaknesses may potentially limit the conclusions with regard to whether culture influences compliance with the King Code.

Fifth, there may be validity and reliability problems with regard to the constructed composite compliance indices. The compliance indices were constructed based on a binary rather than an ordinal coding scheme. Binary coding, as discussed in Chapter five, has limitations e.g. it is less informative (see Barako *et al.*, 2006). Also, the compliance indices are an un-weighted index. The critique associated with un-weighted indices is that they tend to treat all corporate governance provisions to be of equal importance. However, in theory and in practice this may not necessarily be the case (see Barako *et al.*, 2006). The use of un-weighted index is employed, however, because there is a general lack of a rigorously theoretical basis on which weights can be accurately assigned to various corporate governance provisions (Black *et al.*, 2006, p. 375; Ntim, 2009, p. 364). It has been argued that the use of un-weighted index avoids the necessity of making subjective value judgements as to the relative importance of each corporate governance provision (Ntim, 2009, p. 364; Owusu-Ansah, 2005, p. 609). Prior literature in accounting disclosure studies employs un-weighted indices (e.g. Black *et al.*, 2006; Gompers *et al.*, 2003; Henry, 2008; Ntim, 2009).

Also, evidence from prior literature indicates that un-weighted and weighted indices tend to give the same results, more especially in instances where the number of corporate governance provisions is substantial (see Barako *et al.*, 2006; Chow and Wong-Boren, 1987).

The coding process for this study was done by one person over a period of ten months and was conducted over two rounds so as to ascertain inter-coding consistency, similar to prior literature (see Ntim, 2009). The stability between the first and second round of coding of compliance indices yielded the following results: TCI (the entire compliance index) 0.8264; THEME1 0.7715; THEME2 0.8015 THEME3 0.9513 and THEME4 0.7814. According to Beattie and Thompson (2007), the recommended cut off level for acceptability ranges from 0.70 to 0.80. As such, the levels of stability achieved were generally above the recommended range. Similar to Ntim (2009) and unlike much of prior literature, a spreadsheet (Appendix 3: Results of Completed Checklist) containing the page numbers of what was coded, and where it was coded from, was developed to accompany the coding scheme.

Sixth, this study relied on a combination of names and photographs of board members in the annual reports of JSE sample firms to determine whether they are black or white[41]. Not all JSE sample firms included board pictures in the annual reports, for instance around 96% of sample firms included pictures/photos of the management and board while in some cases they were excluded. In such cases the websites of concerned companies were consulted to determine the ethnicity of people occupying positions in the corporate structures of listed sample firms. Names could not be entirely relied upon because as per evidence from the study, some blacks (Africans) use English first and second names resulting in the picture being used as the final indicator of ethnicity of an individual. With regard to pictures/photos, the distinct features of blacks and whites e.g. skin colour (pigmentation) and other features such as shape of nose (flat/Caucasian) and hair were used to determine the ethnicity of

[41] Ethnicity is defined in terms of the definition under apartheid SA.

directors. Although there were no cases of uncertainty with regard to ethnicity of directors, it is important to acknowledge the challenges which were encountered in this study as a limitation.

This study also assumed that all blacks in corporate SA subscribe to the Ubuntu culture while whites subscribe to the individualistic Eurocentric culture. This may not necessarily be the case because as culture evolves and through the evolution process some people may adopt different cultures.

Seventh, similar to prior literature, there may be problems in this study of how some items in the compliance index are defined. First, the definition of compliance is limited to disclosure compliance in the annual reports. Also, there is no cut off point as to what may be considered to be good compliance by JSE sample firms. Compliance may range between 0% (no compliance) and 100% (complete compliance); as such, anything below 100% may be deemed to be non-compliance. With regard to annual reports, as already discussed, disclosures in companies are not limited to annual reports.

Other potential definition problems include the following: board dominations – an ethnic group was considered to dominate a board if the ethnic group constitutes 51% or more of the board membership (theory and practice clearly shows that this may not necessarily be the case); board diversity – a board was considered to be diverse for as long as there was one black director in it at the end of the financial year (as per findings from interviews, this is clearly not the case); non-executive directors includes both independent and non-independent directors; director share ownership includes share ownership by both executive and non-executive directors. Further, institutional ownership is not categorised in terms of local and foreign institutional ownership.

Eighth, this study also suffered limitations with regard to interviews. This study conducted interviews with ten key stakeholders, which is five less than the minimum number for interviewees targeted for the study. As such, views of stakeholders are biased since they were obtained in the main from King Code Commissioners, company directors and officials. There was lack of accessibility to NGOs/CSOs, politicians and other organisations which play a significant role in CG in SA, such as the Institute of Directors of Southern Africa. As discussed in Chapter Eight, it was easy to get access to King Code Commissioners and company directors. However, it was difficult to obtain access to politicians, NGOs/CSOs and government departments.

It is interesting to note that contacted white officials were more willing to grant access for interviews compared to black officials, considering the number of officials who agreed to be interviewed and the number who declined to be interviewed (80%/20%). Generally there was a tendency among black potential interviewees to either promise to grant access and then not respond to follow ups, or postpone the interview intermittently until the researcher gave up. Non-response to requests for interviews among blacks was also very high as evidenced by the number of blacks who did not acknowledge receipt of requests for interviews and never responded to follow ups. As such, blacks tended to be reluctant to be interviewed, which may be associated with a high level of secrecy.

According to Gray (1988), the higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism and masculinity, the more likely it is to rank highly in terms of secrecy. As discussed in Chapter Four, blacks were found to have the exact societal values that fit Gray’s description for a high level of secrecy whilst the whites were found to have the opposite of societal values that fit Gray’s description for a high level of secrecy. Thus, it can be predicted that blacks may have a high level of secrecy while whites have a low level of secrecy which may explain why they tended to submit to requests for interviews in this study. However, it must be stated unequivocally that this may not necessarily reflect the nature and culture of blacks or whites in SA owing to the few numbers of people who were contacted for the interview process.

Other limitations and challenges experienced in this study relate to data collection through interviews. As already discussed in Chapter Six, two interview types were employed to collect data from interviewees, e.g. face-to-face interviews and telephone interviews. Data was recorded through a digital voice recorder and later on transcribed into Word documents. During the interviewing process there were challenges with regard to making telephone connections to interviewees. In one interview with an official of a CSO, the line connection was cut three times resulting in the interview flow being severely disrupted and important points being lost in between reconnections. There were also other challenges with regard to telephone interviewing such as external noise from traffic in the streets. In one of the interviews, the researcher was put on hold for five minutes whilst the interviewee was attending to a presumably more pressing issue brought by a member of staff. However, overall most of the interviewees respected and stuck to the appointments.

8.6 Avenues for Future Research & Improvements

This study considered whether JSE listed firms are complying with recommendations from the King Code and the extent of such compliance. The study also examined whether culture influences compliance with the Code. In addition, it examined the views of key stakeholders on the Code. To further enhance our understanding of compliance with the King Code and whether culture influences compliance with the Code, future research may consider these aspects through a longitudinal study so as to trace disclosure compliance practices and the effect of culture on compliance on a yearly basis for a particular company or a particular industry. This may provide insights into the relationship between compliance and culture and other company characteristics. Since this study considered the influence of culture and CG factors on SA listed firms, future studies could test the influence of culture in other countries such as the SADC region. This may test the assumption that the Ubuntu culture is universal in the African continent. This study may also be replicated using companies listed in the AltX board only.

Second, this study also focussed on compliance and internal CG mechanisms only. Future research may consider inclusion of several other dimensions which have an impact on corporate compliance by conducting surveys to determine other relevant issues which may affect corporate compliance. For instance, future research may examine the effect of external CG mechanisms on compliance such as the law, the market for external control, the managerial labour market etc.

Third, this study is also limited to defining culture in terms of ethnicity because of constraints of data availability. Future research may consider other cultural proxies such as religious values and culture dimensions proposed by Hofstede (1991) and corporate dimensions such as age and qualifications (Haniffa and Cooke, 2005).

As already discussed in chapter six, the number of blacks in structures of corporate SA (as of 2008) is not sufficient to enable statistical tests of OLS to be conducted. As such, future studies may replicate this study when there are more black directors in structures of corporate SA to enable OLS tests to be conducted on all cultural variables. Fourth, this study focussed only on disclosures in corporate annual reports although it is known that management utilise other mass communication mechanisms. Hence, future research may consider disclosures in other media such as newspapers, the internet, and in-house magazines.

8.7 Chapter Summary

This chapter aims to provide conclusions to the thesis through a number of objectives. First, it attempts to summarise the research findings of the study. As such, research findings based on the extent of compliance with the King Code, findings based on factors which influence compliance and findings based on interviews with key stakeholders were summarised. The findings also suggest that generally compliance with the King Code has improved significantly between 2001 and 2008 and that the extent of compliance with the Code is high for accounting and auditing and lowest for integrated sustainability reporting. The results also indicate that large firms, firms audited by Big 4 audit firms and firms with multiple listings in other stock exchanges, particularly the US and the UK, comply more with the King Code than their counterparts with single listing in the JSE only. The study also found that ethnicity does influence compliance with the Code as discussed in Chapter Seven. Other factors which were found to have a positive relationship with compliance include board size, firm size, and proportion of non-executive directors in the board. On the other hand, debt, director shareholding, top5%shareholding, institutional shareholding and ROA were found to have a negative relationship to compliance (as per current results for 2008).

The findings as per key stakeholders indicate that the Code is important for SA; compliance with integrated sustainability reporting is low as per the results from quantitative analysis. Further key stakeholders noted that the Code has had a positive impact in the SADC region.

Second, the chapter discussed the policy implications of the research findings. With regard to the low numbers of black executives in structures of corporate SA, more needs to be done to address this aspect. A review of the policies currently in place is essential to try to come up with effective and efficient strategies for empowerment of blacks. As for compliance, the results suggest that JSE listed companies comply less with integrated sustainability reporting possibly because of cultural issues owing to the high number of whites who occupy the structures of corporate SA. As such, more needs to be done to ensure blacks ascend structures of corporate SA.

Third, the chapter also sought to summarise the research contributions of the study. The study makes several new contributions to the literature on corporate governance. First, it offers for the first time empirical evidence on whether SA listed firms are complying with the King Code pre- and post-review of the King Code I, the extent of compliance and compliance with the Code in terms of the various themes. Second, the study offers empirical evidence on whether corporate SA embraces the Ubuntu culture by way of compliance with provisions which address Ubuntu principles, as recommended by the Code. The study also offers for the first time in SA an analysis of whether ethnicity influences compliance with the Code. It also provides empirical evidence on the SA business environment which indicates that corporations in SA are still very much white owned and controlled as was the case under the old South African regime. Another first for this study was the use of interviews to examine the views of key stakeholders. Prior literature tended to rely on quantitative analysis only. This study employed both quantitative and qualitative data to examine CG in SA.

The fourth objective of the chapter has been to outline the limitations pertaining to this study. First, the study relied on corporate annual reports for analysis of compliance with the code. Second, the study used Hofstede's (1988) culture theory, which has its own limitations as discussed in section 8.4. Other limitations include sample selection method, use of cross-sectional data, inability to test all culture variables owing to the low number of blacks in structures of corporate SA and validity and reliability problems which have been discussed in section 8.4. The study has other limitations, such as definition of various items and low response rate with regard to interviews with key stakeholders which resulted in the use of biased interview data.

The final objective of the chapter was to point out potential future avenues for research. For instance, future research may consider an examination of the factors in the study through a longitudinal approach, inclusion of external factors in the examination of factors which influence compliance with the Code and expansion of culture variables beyond ethnicity.

Appendices

Appendix 1: List of Sample Firms 2001/2008

Code. No.	Company Name	JSE/FTSE Classification	Industrial Classification
1	Adcorp Holdings Limited	Cyclical Services	ITYPE3
2	Advtech Group Limited	Cyclical Services	ITYPE3
3	AECI Limited	Non-Cyclical Consumer Goods	ITYPE4
4	African & Overseas enterprises Limited	Non-Cyclical Consumer Goods	ITYPE4
5	African Oxygen Limited	Basic Industries	ITYPE1
6	Tongaat Hulettes	Consumer Goods	ITYPE4
7	All Joy Foods Ltd	Non-Cyclical Consumer Goods	ITYPE4
8	Allied Electronics Corporation Limited	Information Technology	ITYPE1
9	AMAPS Holdings Limited	Cyclical Services	ITYPE3
10	AngloPlat Corporation Limited	Resources	ITYPE2
11	Anglo American plc	Resources	ITYPE2
12	Anglogold Limited	Resources	ITYPE2
13	Apexhi Properties	Real Estate	ITYPE3
14	Arcelor Mittal	General Industrials	ITYPE1
15	Argent Industrial Limited	General Industrials	ITYPE1
16	Aspen Pharmacare Holdings Limited	Cyclical Consumer Goods	ITYPE4
17	Assore Limited	Resources	ITYPE2
18	Astral Foods Limited	Non-Cyclical Consumer Goods	ITYPE4
19	Astrapak	Basic Industries	ITYPE3
20	Aveng	General Industrials	ITYPE2
21	Awethu Breweries Limited	Non-Cyclical Consumer Goods	ITYPE4
22	Barloworld limited	General Industrials	ITYPE4
23	Basil Read	Basic Industries	ITYPE2
24	Bell Equipment Limited	General Industrials	ITYPE2
25	Bidvest Group Limited	Basic Industries	ITYPE1
26	Bowler Metcalf Limited	General Industrials	ITYPE4
27	Cargo Carriers	Cyclical Services	ITYPE3
28	Cashbuild Limited	Cyclical Services	ITYPE3
29	Cenmag Holdings Limited	General Industrials	ITYPE2
30	City lodge Hotels Limited	Cyclical Services	ITYPE3
31	Combined Motor Holdings Limited	Cyclical Services	ITYPE3
32	Compu-clearing Outsourcing Limited	Information Technology	ITYPE1
33	Conafex Holdings	Non-Cyclical Consumer Goods	ITYPE4
34	Crookes Brothers Limited	Cyclical Consumer Goods	ITYPE4
35	Datacentrix	Information Technology	ITYPE1
36	Datatec	Information Technology	ITYPE1
37	Isa	Information Technology	ITYPE1
38	Didata	General Industrials	ITYPE1
39	Digicore holdings Limited	Information Technology	ITYPE1
40	Distell Group Limited	Non-Cyclical Consumer Goods	ITYPE4
40	Distell Group Limited	Cyclical Services	ITYPE4
41	Dorbyl Limited	Cyclical Services	ITYPE3
42	Element1	Cyclical Services	ITYPE4
43	Excellerate Limited	Information Technology	ITYPE1
44	Faritec Holdings Limited	Cyclical Services	ITYPE3
45	Foschini Limited	Telecommunications	ITYPE1
46	Telkom	Information Technology	ITYPE1
47	Gijimaast (ast group)	Resources	ITYPE2
48	Gold reef Casino Resorts	Cyclical Services	ITYPE2
49	Goldfields Limited	Resources	ITYPE2
50	Goodhope (oakfields)	Cyclical Services	ITYPE3

51	Grindrod	Basic Industries	ITYPE1
52	Group Five Limited	Real Estate	ITYPE3
53	Growthpoint Properties Limited	Resources	ITYPE2
54	Harmony Gold Mining Company Limited	Basic Industries	ITYPE1
55	Highveld Steel and Vanadium Corp. Ltd	Cyclical Services	ITYPE3
56	(HCI)Hosken Consolidated Inv. Limited	General Industrials	ITYPE2
57	Howden Africa Holdings Limited	Cyclical Services	ITYPE3
58	Hudaco Industries Limited	Resources	ITYPE2
59	HwangeLtd	Real Estate	ITYPE3
60	Hyprop Investments Limited	Telecommunications	ITYPE1
61	Stellavista	Basic Industries	ITYPE1
62	Iliad Africa Limited	Non-Cyclical Consumer Goods	ITYPE4
63	Illovo sugar Limited	Cyclical Services	ITYPE3
64	Imperial Holdings Limited	Resources	ITYPE2
65	Intertrading Limited	Cyclical Services	ITYPE4
66	Implats	Basic Industries	ITYPE1
67	Invicta Holdings Limited	Mining	ITYPE2
68	Thabex	Cyclical Services	ITYPE3
69	Italtile Limited	General Industrials	ITYPE2
70	Jasco Electronics Holdings Limited	Cyclical Services	ITYPE3
71	JD Group Limited	Cyclical Services	ITYPE3
72	Kagiso Media Limited	Basic Industries	ITYPE1
73	Kairos Industrial Holdings Ltd	Non-Cyclical Consumer Goods	ITYPE4
74	King Consolidated Holdings	Non-Cyclical Consumer Goods	ITYPE4
75	Kwv Investments	Information Technology	ITYPE1
76	Labat africa Limited	Resources	ITYPE2
77	Lonmin plc	Resources	ITYPE2
78	Lonrho Africa plc	General Industrials	ITYPE2
79	Masonite (africa) Limited	Cyclical Services	ITYPE4
80	Massmart	Resources	ITYPE2
81	Merafe	Cyclical Services	ITYPE3
82	Metair Investments Limited	Cyclical Services	ITYPE3
83	Mr Price Group Limited	General Industrials	ITYPE2
84	Mrhld (Murray & Roberts Limited)	General Industrials	ITYPE1
85	Mustek Limited	General Industrials	ITYPE2
86	Mvelapanda	Basic Industries	ITYPE1
87	Nampak Limited	Cyclical Services	ITYPE3
88	Naspers Limited	Cyclical Consumer Goods	ITYPE4
89	Netcare	Cyclical Services	ITYPE3
90	Nictus Limited	Resources	ITYPE2
91	Northam Platinum Limited	Cyclical Services	ITYPE4
92	Nu-world Holdings Limited	Cyclical Consumer Goods	ITYPE4
93	Oceana Group Limited	Real Estate	ITYPE3
94	Octodec Investments Limited	Basic Industries	ITYPE1
95	Omnia Holdings Limited	Information Technology	ITYPE1
96	Pangbourne Properties	Cyclical Services	ITYPE3
97	Paracon Poldings	Cyclical Services	ITYPE3
98	Pick ‘n Pay Stores Ltd	Information Technology	ITYPE4
99	Pinnacle Media	Cyclical Services	ITYPE3
100	Premium Properties Limited	Basic Industries	ITYPE1
101	PPC Limited	Cyclical Services	ITYPE4
102	Rainbow Chicken Limited	Non-Cyclical Consumer Goods	ITYPE4
103	Reunert Limited	General Industrials	ITYPE2
104	Rex Trueform Clothing Co. Ltd	Cyclical Services	ITYPE4
105	Richemont	Cyclical Services	ITYPE4
106	Sab Miller	Non-Cyclical Consumer Goods	ITYPE4
107	Sable Holdings Limited	Real Estate	ITYPE3
108	Sallies Limited	Resources	ITYPE2
109	Sappi Limited	Basic Industries	ITYPE1

110	Sasol	Resources	ITYPE2
111	Seardel Investment Corp. Ltd	General Industrials	ITYPE2
112	Securedata	Cyclical Services	ITYPE3
113	Setpoint Technology	Information Technology	ITYPE1
114	Shoprite Holdings Limited	Cyclical Services	ITYPE3
115	Simmer and Jack Mines Limited	Resources	ITYPE2
116	PSG Group	Basic Industries	ITYPE1
117	Spanjaard Limited	Information Technology	ITYPE1
118	Spescom Limited	Information Technology	ITYPE1
119	Square One	Cyclical Services	ITYPE3
120	Sun International Ltd	Cyclical Services	ITYPE3
121	Super Group Limited	Real Estate	ITYPE3
122	Sycom Property Fund	Cyclical Consumer Goods	ITYPE4
123	Tiger Brands Limited	Resources	ITYPE2
124	Trans Hex	Cyclical Services	ITYPE3
125	Transpaco Limited	Cyclical Services	ITYPE3
126	Truworths International	Information Technology	ITYPE1
127	UCS Group Limited	Cyclical Services	ITYPE3
128	Value Group Limited	Cyclical Services	ITYPE3
129	Verimark	Resources	ITYPE2
130	Village Main Reef	Basic Industries	ITYPE1
131	WB Holdings Limited	Cyclical Services	ITYPE3
132	Wesco Investments Limited	Cyclical Services	ITYPE3
133	Winhold Limited	Cyclical Services	ITYPE4
134	Wooltru Limited	Cyclical Services	ITYPE4
135	Woolworths Holdings Limited	General Industrials	ITYPE2
136	Yorkcorp	Cyclical Services	ITYPE3

Appendix 2: South African King Code Checklist 2001/2008

Compliance Checklist		King Code Page No.	Key words	Measurement
Compliance Items				
1	**Board and Directors (THEME1)**			
1.1	**Board Requirements (SUBTHEME1.1)**			
	Does the annual report contain:			
1	a charter setting out responsibilities of the board (CSRB1)?	49	Charter, responsibilities, tasks, obligations, function, board roles,	A binary number of 1 if the board charter is set out and a score of 0 otherwise.
2	a statement of the purpose of the company as determined by the board? (SPC2)	49	Purpose, objectives, vision, mission	A binary of 1 if a narrative statement of purpose of the company is disclosed in the annual report and 0 otherwise.
3	a statement of the values of the company as determined by the board? (SVC3)	49	Values, vision, mission, objectives	A binary number of 1 if values of the company are disclosed in the annual report and 0 otherwise.
4	list of relevant stakeholders identified by the board? (LRS4)	5.3 pp 9	Stakeholders, customers, employees, suppliers, communities	A binary number of 1 if a list of stakeholders is disclosed in the annual report and 0 otherwise.
5	A narrative statement of how it has applied the principles set out in the King Code? (NSAKC5) *(Man.)*	21	Application, King Code, principles	A binary number of 1 if a statement of application of the King Code is disclosed in the annual report and 0 otherwise.
1.2	**Board composition (SUBTHEME1.2)**			
6	Are the roles of CEO/MD and board chairman separated or a statement provided combining the roles. (ROLEDU6) *(Man.)*	2.3.3 pp 24	Board Chairman/CEO/MD, Directorate, Directors	A binary number of 1 if the roles of chairperson and CEO/MD of a firm are split at the end of its financial year, 0 otherwise.
7	Is the chairperson an independent non-executive director? (CINED7)			
8	Is the capacity of each director categorised accordingly e.g. Executive, non-executive & independent non executive. (CAPDIR8) *(Man.)*	2.4.3 pp 24	Directors, directorate	A binary of 1 if a narrative that clasisies directors into executive, non-executive and INEDs is disclosed in the firm's annual reportat the end of its financial year, 0 otherwise.
9	Does the company have an audit committee? (AUDC9) *(Man.)*	3.3 pp 33	Committees, audit	A binary of 1 if a list of aduti committee members is disclosed or a narrative on the audit committee members is disclosed and 0 otherwise.
10	Is the audit committee chaired by an independent non executive director? (AUDINEDC10)	3.3.2 pp 33	Committees, audit, chair	A binary of 1 if the audit committee chair is categorised as an INED and 0 otherwise
11	Is membership of the audit committee disclosed in the annual report? (AUMBD11)	3.3.1 pp 33	Committees, audit	A binary of 1 if a list of audit committee members or a narrative is disclosed in the annual report and 0 otherwise.
12	Does the annual report contain information on the qualifications of directors? (DIRQUAL12)	2.4.2 pp 26	Directors, qualification, directorate	A binary of 1 if the qualifications of directors are disclosed under their profile in the annual report or 0

				otherwise.
13	Does the annual report contain information on the experience of directors? (DIREXP13)	2.4.2 pp 26	Experience, directors directorate	A binary of 1 if the experience of directors is disclosed in the annual report and 0 otherwise.
14	Are audit committee members financially literate? (Qualifications) (AUFLIT14)	2.4.2 pp 26	Audit, committees, qualification	A binary of 1 if the audit committee members have financial qualifications (accounting/financial/business) qualifications and 0 otherwise.
15	Does the company have a remuneration committee? (REMCOM15) *(Man.)*	2.5.2 pp 28	Remuneration, compensation, committees	A binary of 1 if a list of remuneration committee members or a narrative is disclosed in the annual report and 0 otherwise.
16	Is the remuneration committee chaired by an independent non executive director? (REMCINED16)	2.5.2 pp 28	Remuneration, compensation, committee, chair, directors	A binary of 1 if the audit committee chair is categorised as an INED in the annual report and 0 otherwise.
17	Does the remuneration committee consist entirely of independent non-executive directors? (REMINEDS16)	3.1 pp 190	Remuneration, compensation, committee, directors	A binary of 1 if the list of remuneration committee members consists entirely of INEDs and 0 otherwise.
18	Does the annual report contain details of director remuneration? (DIRREM18)	2.5 pp 28	Remuneration, compensation, directors	A binary of 1 if director remuneration is disclosed in the annual report and 0 otherwise.
19	Does the company have an appointment/nomination committee? (NOMCOM19)	4.1 pp 197	Nomination, appointment, selection, committee	A binary of 1 if a nomination/appointment committee or a narrative is disclosed on the committee and 0 otherwise.
20	Is the appointment committee chaired by an independent non executive director? (NOMCINED20)	4.1 pp 197	Nomination, appointment, selection, chair	A binary of 1 if the audit committee chair is an INED and 0 otherwise.
21	Does the annual report contain a statement/policy of how board appointments are made? (BAPP21) *(Man.)*	4.1 pp 197	Board appointments/selection	A binary of 1 if a narrative on board appointments is provided (where there is no nomination committee) and 0 otherwise.
22	Does the company have a corporate code of conduct on conflict of interest relating to directors and management? (CCCOND22)	9.1 pp 41	Code of Ethics, Code	A binary of 1 if a narrative on the code of conduct/ethics is disclosed in the annual report and 0 if otherwise.
23	Does the board have a procedure for directors to take independent professional advice? (DIRPAD23)	2.1.7 pp 24	Professional advice, board training	A binary of 1 if a narrative stating that the board has an agreed procedure whereby directors may take independent professional advice, if necessary, at the company's expense and 0 otherwise.
24	Does a statement of how performance evaluation of the board, its committees and its directors included? (PERFEV24)	2.8 pp 31	Performance evaluation/assessment, director evaluation	A binary of 1 if a narrative on the evaluation of the performance and effectiveness of a firm's board as a whole individual directors is disclosed in the annual report, o otherwise.
25	Is the board of directors demographically diverse (Blacks and whites)? (DIVERSE25)	7.1 pp 127	Directorate, diversity, board, directorate	A binary of 1 if the board of directors consisted of a combination of any number of black and white directors at the end of the financial year, 0 otherwise.
26	Does the board of directors include women? (BWOMEN26)	7.2 pp 127	Diversity, women, directorate, board	A binary of 1 if the board of directors consisted of atleast 1 woman director at the end of the financial

				year, 0 otherwise.
1.3	**Board Meetings (SUBTHEME1.3)**			
27	Does the board meet at least four times per year as per the Code? (BOARDMEET27)	2.6 pp 30	Board meetings, frequency	A binary of 1 if a narrative stating that the board met four times or more during the financial year, 0 otherwise.
28	Does the audit committee meet at least four times per year as per the Code? (AUDMEET28)	2.7 pp 30	Board committee meetings, audit, frequency	A binary of 1 if a narrative of frequency of meetings of the audit committee is disclosed in the annual report, 0 otherwise.
29	Does the remuneration committee meet at least four times per year as per the Code? (REMMEET29)	2.7 pp 30	Board committee meetings, remuneration, frequency	A binary of 1 if a narrative of frequency of meetings of the remuneration committee is disclosed in the annual report, 0 0therwise.
30	Does the appointment committee at least four times per year as per the Code? (APPMEET30)	2.7 pp 30	Board committee meetings, appointment/nomination/selection, frequency	A binary of 1 if a narrative of frequency of meetings of the appointment/nomination committee is disclosed in the annual report, 0 0therwise.
31	Does the annual report contain list of individual attendance by directors. (DIRATTEND31)	2.6 pp 30	Board meetings, frequency	A binary of 1 if a narrative of director attendance is disclosed in the annual report, 0 otherwise.
2. Risk Management (THEME2)				
32	Existence of risk management strategy. (RISKMAN32)	2.1 pp 77	Risk management, strategy	A binary of 1 if a narrative on a system of total process of risk management, which includes a related system of internal control is disclosed in the annual report, 0 otherwise.
33	Does the company have a risk committee? (RISKCOM33) *(Man.)*	7.1 pp 77, 209	Risk management committee, risk committee	A binary of 1 if a narrative on a dedicated risk management committee is disclosed in the annual report, 0 otherwise.
34	Is the number of meetings of the risk committee disclosed in the annual report? (MEETRISK34) *(Man.)*	7.4 pp 77, 211	Risk committee, meetings	A binary of 1 if a narrative on the frequency risk committee meetings is disclosed in the annual report, 0 otherwise.
35	Existence of sound internal control system. (ICS35)	3.1 pp 78	Internal control, controls	A binary of 1 if a narrative on the structure, work and authority flows, people and management information system is in place, is disclosed in the annual reports, 0 otherwise.
36	Statement on the risk appetite of the company. (RISKAPP36)	3.1.2 pp 78	Risks, tolerance, appetite	A binary of 1 if a narrative on either termination, transfer, acceptance (tolerance) or mitigation through a system of appropriate internal controls is disclosed, 0 otherwise.
37	Statement on the risk assessment and adequacy of risk management and internal control systems. (RISKASSES37			A binary of 1 if a narrative which demonstrate that the company has dealt comprehensively with the issues of risk management and internal control e.g. appropriate disclosure on matters such as risk tolerance and the risk management process in the annual report, 0 otherwise
38	Statement on key risk areas. (KEYRISK38)	81	Key risk areas, risks, risk	A binary of 1 if a narrative containing a list of risks

			management	faced by the company is disclosed in the annual report, 0 otherwise.
39	Statement on key performance indicators. (STATEKPIS38)	80	Key performance indicators, risk management, key risks	A binary of 1 if narrative which indicates that the firm has identified key risk areas and key performance indicators of the company and monitor these factors as part of a regular review of processes and procedures to ensure the effectiveness of its internal systems of control, 0 otherwise.
40	Statement on existence of confidential reporting process (whistle blowing) covering fraud and other risks. (WHISBLOW40)	81	Whistle, confidential reporting, hot line	A binary of 1 if a narrative stating that there are established easily accessible "whistle-blowing"/hot line/confidential reporting channels, 0 otherwise.
3. Accounting and Auditing (THEME3)				
41	Does the company have an internal audit function? (INTAUD41)	4.1 pp 128	Internal audit, audit	A binary of 1 if a narrative stating the existence of an internal audit function, 0 otherwise.
42	Has the company reported the amount paid to external auditors? (AUDPAY42)	126	Audit fee, external auditors, audit payment	A binary of 1 if the amount paid to external auditors is disclosed in the financial statements (income statement), 0 otherwise.
43	Has the company reported on the description of non-audit services rendered by the external auditor? (NONAUDSERV43)	126	Non-audit services, audit services	A binary of 1 if a narrative is disclosed in the annual reports indicating the kind of services rendered by auditors over and above the normal audit services, 0 otherwise.
THEME4 Integrated Sustainability Reporting				
	Has the company reported on:			
44	Existence of a code of ethics? (CODEETHIC44)	pp 101	Code, ethics, conduct	A binary of 1 if a narrative which shows the existence of a clearly defined and documented code of ethics, stating the principles, norms, and standards that a firm promotes for the guidance and conduct of its activities, internal relations and interactions, with external stakeholders in accordance with established values, is disclosed in the annual report, 0 otherwise.
45	Whether it has developed and implemented standards and practices in the company based on code of ethics. (STATSCODE45)	Pp 102	Standards, codes, ethics	A binary of 1 if a narrative explaining what is acceptable, and not acceptable practice, or stating corporate ethical standards, stating how ethical infringements are identified, talks of promotion of ethical conduct, or how conflicts are resolved; is disclosed and 0, otherwise.
46	Compliance with corporate social investment? (CSI46)	pp 117	Social, investment	A binary of 1 if a narrative explaining the type of community investment and amount of money spent of the project, or expenditure of a social nature is disclosed, 0 otherwise.
47	Compliance with BEE partnership or in the process of establishing	Pp115-117	BEE	A binary of 1 if a narrative on BEE e.g. ownership of

	partnerships. (BBBEE47)			shares by previously disadvantaged groups, appointment to BoD of blacks, appointment to top management positions etc is disclosed, 0 otherwise.
48	Compliance with employment equity/transformation? (CEE48)	Pp113-115	Employment equity, employment, employment transformation	A binary of 1 if a narrative on employment practices of companies stating commitment to equal opportunity employment is disclosed in the annual report, 0 otherwise.
49	Compliance with human capital development/skills training? (CHCD49)	Pp113-115	Kills training, skills development	A binary of 1, if a narrative stating expenditure on development of staff/staff training or a policy on skills development, 0 otherwise.
50	Compliance with preferential procurement? (CPREFP50)	Pp114	Preferential, targeted, BEE procurement	A binary of 1, if a narrative stating the organisations (owned by blacks) from which preferential procurement was undertaken plus amount of purchase, 0 otherwise.
51	Compliance with HIV/AIDS? (HIVAIDS51)	Pp109	HIV/AIDS	A binary of 1, if a narrative stating the existence of an HIV/AIDS policy, assistance rendered to HIV/AIDS projects or participation of the company on HIV/AIDS national projects, 0 otherwise.
52	Compliance with environmental management? (CEM52)	Pp106	Environment management	A binary of 1, if a narrative stating environmental management issues addressed or expenditure towards environmental management, 0 otherwise.
53	Compliance with health and safety policies and practices? (CH&S53)	Pp106	SHE, health, safety	A binary of 1, if a narrative explaining the integration of business processes and safety, health, and environmental management is disclosed, 0 otherwise.

Appendix 3: Results of Completed Checklist for Company 1

Compliance Checklist							
Company Code: 1		2001		2008		2001	2008
Compliance Items		Voluntary	Mandatory	Voluntary	Mandatory	Page No.	Page No.
1	**Board and Directors (THEME1)**						
1.1	**Board Requirements (SUBTHEME1.1)**						
	Does the annual report contain:						
1	a charter setting out responsibilities of the board (CSRB1)?	0		0			
2	a statement of the purpose of the company as determined by the board? (SPC2)	1		1		Pg1	Pg9
3	a statement of the values of the company as determined by the board? (SVC3)	1		1		Pg1	Pg10
4	list of relevant stakeholders identified by the board? (LRS4)	0		0			
5	A narrative statement of how it has applied the principles set out in the King Code? (NSAKC5) *(Man.)*	0		0			
1.2	**Board composition (SUBTHEME1.2)**						
6	Are the roles of CEO/MD and board chairman separated or a statement provided combining the roles. (ROLEDU6) *(Man.)*		1		1	Pg3,4	Pg30,31
7	Is the chairperson an independent non-executive director? (CINED7)				1		
8	Is the capacity of each director categorised accordingly e.g. Executive, non-executive & independent non executive. (CAPDIR8) *(Man.)*		1		1	Pg3,4,5	Pg30,31
9	Does the company have an audit committee? (AUDC9) *(Man.)*		1		1	Pg28	Pg32,33
10	Is the audit committee chaired by an independent non executive director? (AUDINEDC10)				1		Pg32,33
11	Is membership of the audit committee disclosed in the annual report? (AUMBD11)	1		1		Pg28	Pg32,33
12	Does the annual report contain information on the qualifications of directors? (DIRQUAL12)	1		1		Pg2,3,4	Pg30,31
13	Does the annual report contain information on the experience of directors? (DIREXP13)	0		1			Pg30,31
14	Are audit committee members financially literate? (Qualifications) (AUFLIT14)	0		1			Pg32,33
15	Does the company have a remuneration committee? (REMCOM15) *(Man.)*		1		1	Pg29	Pg34
16	Is the remuneration committee chaired by an independent non executive director? (REMCINED16)			1			Pg34
17	Does the remuneration committee consist entirely of independent non-executive directors? (REMINEDS16)			1			Pg34
18	Does the annual report contain details of director remuneration? (DIRREM18)		1		1	Pg42	Pg46,47,84,85

19	Does the company have an appointment/nomination committee? (NOMCOM19)		0		1		Pg34
20	Is the appointment committee chaired by an independent non executive director? (NOMCINED20)			1			Pg34
21	Does the annual report contain a statement/policy of how board appointments are made? (BAPP21) *(Man.)*		0		1		Pg34
22	Does the company have a corporate code of conduct on conflict of interest relating to directors and management? (CCCOND22)	0		0			Pg32
23	Does the board have a procedure for directors to take independent professional advice? (DIRPAD23)	0		0			
24	Does a statement of how performance evaluation of the board, its committees and its directors included? (PERFEV24)	0		0			
25	Is the board of directors demographically diverse (Blacks and whites)? (DIVERSE25)	1		1		Pg2,3,4	Pg30,31
26	Does the board of directors include women? (BWOMEN26)	1		1		Pg2,3,4	Pg30,31
1.3	**Board Meetings (SUBTHEME1.3)**						
27	Does the board meet at least four times per year as per the Code? (BOARDMEET27)	0		0			
28	Does the audit committee meet at least four times per year as per the Code? (AUDMEET28)	0		0			
29	Does the remuneration committee meet at least four times per year as per the Code? (REMMEET29)	0		0			
30	Does the appointment committee at least four times per year as per the Code? (APPMEET30)	0		0			
31	Does the annual report contain list of individual attendance by directors. (DIRATTEND31)	0		0			
2. Risk Management (THEME2)							
32	Existence of risk management strategy. (RISKMAN32)	0		1			Pg32
33	Does the company have a risk committee? (RISKCOM33) *(Man.)*		0		1		Pg33
34	Is the number of meetings of the risk committee disclosed in the annual report? (MEETRISK34) *(Man.)*		0		1		Pg33.34
35	Existence of sound internal control system. (ICS35)	0		0			
36	Statement on the risk appetite of the company. (RISKAPP36)	0		0			
37	Statement on the risk assessment and adequacy of risk management and internal control systems. (RISKASSES37	0		0			
38	Statement on key risk areas. (KEYRISK38)	0		0			
39	Statement on key performance indicators. (STATEKPIS38)	0		0			
40	Statement on existence of confidential reporting process (whistle blowing) covering fraud and other risks. (WHISBLOW40)	0		0			
3. Accounting and Auditing (THEME3)							

41	Does the company have an internal audit function? (INTAUD41)	0		1			Pg35
42	Has the company reported the amount paid to external auditors? (AUDPAY42)	0		1			Pg77
43	Has the company reported on the description of non-audit services rendered by the external auditor? (NONAUDSERV43)	0		1			Pg77
THEME4 Integrated Sustainability Reporting							
	Has the company reported on:						
44	Existence of a code of ethics? (CODEETHIC44)	0		0			
45	Whether it has developed and implemented standards and practices in the company based on code of ethics. (STATSCODE45)	0		0			
46	Compliance with corporate social investment? (CSI46)	0		1			Pg27
47	Compliance with BEE partnership or in the process of establishing partnerships. (BBBEE47)	0		1			Pg9.33.40, 45
48	Compliance with employment equity/transformation? (CEE48)	0		1			Pg38
49	Compliance with human capital development/skills training? (CHCD49)	0		1			Pg38
50	Compliance with preferential procurement? (CPREFP50)	0		1			Pg9
51	Compliance with HIV/AIDS? (HIVAIDS51)	0		1			Pg35
52	Compliance with environmental management? (CEM52)	0		1			Pg25
53	Compliance with health and safety policies and practices? (CH&S53)	0		1			Pg35
Total	**Voluntary Compliance Score (VCS)**	**15**		**36**			
	Mandatory Compliance Score (MCS)		**5**		**8**		
	Total Compliance Score (TCS)						
	Total Compliance Items in the Checklist	**48**		**53**			
	Total Compliance Index (TCI = TCS/48 or 53)	**0.417**		**0.830**			
	THEME1 26/31	**11**	**0.423**	**25**	**0.806**		
	THEME1 9	**2**	**0.222**	**8**	**0.889**		
	THEME1 3	**3**	**1.000**	**3**	**1.000**		
	THEME1 10	**4**	**0.400**	**8**	**0.800**		
	VOLCINDEX 39		**0.385**		**0.818**		
	MANCINDEX 9		**0.556**		**0.889**		
	SUBTHEME1.1 5		**0.400**		**0.400**		
	SUBTHEME1.2 16/21		**0.563**		**0.952**		
	SUBTHEME1.3 5		**0.000**		**0.600**		

Note: Scores may not be assigned to coloured cells.

Appendix 4: Letter of Request

Ref: Brad/Int
Date: 11th February 2010

Bradford University School of Management,
Emm Lane,
Bradford
BD9 4JL
UK

Lindie Engelbrecht
Chief Executive, IoD
144 Katherine Street, Grayston Ridge Office Park,
Block B, 1st Floor, Sandown, Sandton, 2196
PO Box 908, Parklands 2121
Email: iodsa@iodsa.co.za

Dear Respondent,

Permission to conduct interview on Corporate Governance in South Africa

I am Tebogo Magang, and I am currently pursuing my PhD studies at Bradford University School of Management. My thesis is on corporate governance in South Africa, particularly perceptions of corporations and key stakeholders on the South African King Code and its impact on corporations and stakeholders. Results of this study will not only enhance our understanding of corporate governance in the new South Africa, but will also help international investors appreciate the status quo of corporate governance in SA and to make informed decisions on whether to invest in JSE listed companies.

You have knowledge and experience which would be of value to me and I therefore kindly wish to request for an appointment to telephonically interview you so as to get your perspective on the King Code (2002). The interview will generally cover the King Code itself, issues of compliance with the Code and corporate governance in general in South Africa. I envisage that the interviews will take about 20 to 30 minutes per session.

I am aware of the need to treat my findings with utmost confidentiality. I can assure you that no source, individual or organisational, will be identified or comment attributed without the express permission of the originator. A copy of the summary of the findings of this project will be sent to each of the participants in the study, if requested.

I hope you are able to assist me and should be grateful if you would return the attached proforma. My contact telephone number: Mobile +44 776 589 1624. My e-mail address is: t.i.Magang@Bradford.ac.uk or Magangti@hotmail.co.uk.

If you require any further information please do not hesitate to get in touch with me or my supervisors:

Professor Ros Haniffa
Professor of Accounting & Head of Accounting & Finance Group
Bradford University School of Management

Emm Lane, Bradford BD9 4JL
E-mail: r.haniffa@Bradford.ac.uk
Telephone (Personal): +44 (0) 1274 234403
Telephone (Secretary): +44(0) 1274234344
Fax (School): +44(0) 1274 546866 or

Dr. Musa Mangena
Seniour Lecturer
Bradford University School of Management
Emm Lane, Bradford BD9 4JL
E-mail: r.haniffa@Bradford.ac.uk
Telephone (Personal): +44 (0) 1274 234340
Telephone (Secretary): +44(0) 1274234344
Fax (School): +44(0) 1274 546866

Yours sincerely,

Tebogo I. Magang (Mr)

For the Attention of T. Magang, Bradford University School of Management

Dear Tebogo Magang,
Permission to conduct interview on Corporate Governance in South Africa

I am able to participate through **telephone interview** on:

Date....................................... Time..............................

Please contact me to arrange a suitable date, time and venue.
My contact number:…………………………………………….

I do recommend you to speak with..

I am unable to talk to you about the King Code.

Yours Sincerely,
Position:..
Organisation:...
Telephone:..
Fax:..
E-Mail:...

Appendix 5: Interview Guide

Interview Guide for King Code Commissioners

1. **King Code**
    a) What was the motive for establishing the King Code?
    b) Is the Code suitable in the context of South Africa?
    c) What are the reasons for updating the Code (King Code I, King Code II & King Code III)?
    d) Has the objectives been achieved? Yes/No – Why?
    e) Why the Code emphasised on the five key issues (boards and directors, risk management, internal audit, integrated sustainability reporting and accounting and auditing)?
    f) Which aspects of King Code were successful/unsuccessful? Why?
    g) Impact of King Code on SA companies and its stakeholders.
    h) What is the role of the government/regulator in ensuring that the King Code achieves its goals in the short and longer term?
    i) What is the role of NGOs in ensuring that the King Code achieves its goals in the short and longer term?

2. **Compliance**
    a) Perception on whether JSE listed corporations comply with the King Code Measurement of compliance with the King Code
    b) Importance for corporations to comply with the King Code; Why?
    c) Perception on which aspects of the Code have been/have not been complied with by corporations?
    d) What factors may influence compliance by corporations?
    e) In your opinion, why do companies comply/not comply to the Code?
    f) In your opinion, why companies comply on some aspects more than others?
    g) Steps to be undertaken by government/regulator to ensure compliance by corporations?
    h) King Code is just recommendations/best practice, should it be made mandatory? Why?
    i) How would compliance help society?
    j) Who benefits from compliance by JSE listed corporations?

3. **Corporate Governance**
    a) Comments on the standard of corporate governance in JSE listed corporations since the inception of the King Code?
    b) Comments on the standard of corporate governance in South Africa in general?
    c) Standard of corporate governance in South Africa compared to other Southern African Development Community countries?
    d) What contributes to this standard of corporate governance?
    e) Areas for improvement?
    f) One of the main objectives of the Department of Trade and Industry is to make South Africa a suitable destination for capital. In your opinion has the King Code (2002) contributed towards this objective?

Appendix 6: Template for Analysing of Interviews

1. **King Code**
   - **Importance of the King Code to SA**
     - 1..1. Importance as a good Standard of CG
     - 1..2. Importance of King Code & people/management behaviour
     - 1..3. Conflict between good corporate governance standards & management behaviour
   - **Promotion of CG Standards in SA**
     - 1..1. Process of development of King Code and CG awareness in SA
       - 1..1.1. Media reporting
       - 1..1.2. Stakeholder involvement in Code Development
     - 1..2. How objective of improving CG standards has been achieved
       - 1..2.1. Stakeholder accounts on CG standards in SA (MK)
       - 1..2.2. Conflict between Civil Society organisations views & Other Stakeholders
         - 1..2.2.1. "Tenderpreneuring"
         - 1..2.2.2. Life Style Audits to Combat Corruption
         - 1..2.2.3. BEE and Failure to Empower Blacks
   - **Suitability of King Code to South Africa**
     - 1..1. Process of Compiling King Code & Suitability to SA
     - 1..2. Mimicking Codes from Developed Countries
   - **King Code & prevention of CG Scandals in SA**
     - 1..1. Legislation, Dishonesty and Corporate Governance

2. **Compliance**
   - **Compliance five key issues**
     - 2..1. Issue most complied with
     - 2..2. Issue least complied with
       - 2..2.1. Conflict – "Silo" or "Green-wash" reporting on Integrated Sustainability Reporting
     - 2..3. Compliance, Environmental Issues & Skills Development
     - 2..4. Why compliance is high/low for some issues
     - 2..5. Compliance & Improvement of CG Standards
   - **Compliance with Letter and not Spirit of the Code.**
     - 2..1. Tokenism Blacks
       - 2..1.1. Tokenism widespread, not unique to SA
     - 2..2. Conflict between BEE and Compliance with King Code
     - 2..3. Board Representative & Compliance
     - 2..4. Compliance and Box-ticking
       - 2..4.1. How to improve Effectiveness of NEDs
     - 2..5. Compliance and Moral Issues
     - 2..6. King Code and Culture in Organisations
   - **Compliance across industries**
   - **Compliance in terms of firm size**
   - **Beneficiaries of Compliance**
     - 2..1. Importance of Compliance
   - **Impact of King Code on Stakeholders**
     - 2..1. King Code & Shareholder Activism
     - 2..2. Measuring Compliance
     - 2..3. Who decides on compliance

2..4. Role Played by JSE IN Compliance Issues

3. **Corporate Governance**
   - **Standard of CG in SA since King Inception**
     3..1. CG Development in SA & Reasons for King Code
     3..2. Challenges to Good CG Practice in SA
   - **Standard before & after review of King Code**
   - **General views of CG in SA**
   - **Areas for further improvement of King I, II and III**
     3..1. Mandatory or Voluntary Code

Appendix 7: 2001 Independent Variables after Transformations

Variable	Mean	Median	Variance	Std. Deviation	Minimum	Maximum	Skewness	Kurtosis	Kolmogorov-Smirnova		Shapiro-Wilk	
PROPWHITES	0.0323	0.0298	0.0010	0.0373	0.0000	0.1200	1.0520	0.2150	0.2410	0.2300	0.8120	0.8270
PROPDNEDS	0.1538	0.1523	0.0050	0.0690	0.0000	0.2800	0.0740	-0.3410	0.0970	0.2300	0.9750	0.8820
SBD	1.3249	1.3424	0.0080	0.0891	1.1000	1.4500	-0.8650	0.0410	0.1220	0.0200	0.9120	0.8370
PROPDNEDS	5.3539	5.3582	0.0000	0.0074	5.3400	5.3600	-1.1090	-0.4470	0.2600	0.2000	0.7130	0.8270
STA	0.9828	0.9877	0.0000	0.0157	0.9400	1.0000	-1.0560	-0.0590	0.1690	0.2000	0.8370	0.8260
LTDtoTE	0.2003	0.2197	0.0060	0.0789	0.0000	0.2800	-0.9650	-0.0240	0.1530	0.2000	0.8770	0.8270
INSTSHARE	0.2035	0.2208	0.0010	0.0277	0.1500	0.2200	-1.1520	-0.3700	0.2680	0.2000	0.6880	0.8830
DRCTSHARE	0.0623	0.0654	0.0010	0.0235	0.0000	0.1200	-0.5130	-0.0990	0.0820	0.2700	0.9710	0.7600
ROA	0.0323	0.0298	0.0010	0.0373	0.0000	0.1200	1.0520	0.2150	0.2410	0.2000	0.8120	0.8520

Appendix 8: 2001 Dependent Variables after Transformations

Variable	Mean	Median	Variance	Std. Deviation	Minimum	Maximum	Skewness	Kurtosis	Kolmogorov-Smirnova		Shapiro-Wilk	
TCI	0.1449	0.1537	0.0020	0.0471	0.0300	0.2400	-0.3420	-0.5680	0.1000	0.0020	0.9760	0.0180
VCI	0.1613	0.1723	0.0030	0.0500	0.0300	0.2500	-0.4500	-0.4480	0.1070	0.0010	0.9690	0.7600
MCI	0.1433	0.1248	0.0030	0.0514	0.0500	0.2800	0.4220	-0.1950	0.1770	0.0000	0.9440	0.8520
THEME1	0.1398	0.1414	0.0030	0.0508	0.0300	0.2300	-0.5460	-0.3570	0.1010	0.0020	0.9510	0.7600
THEME2	0.1860	0.1758	0.0040	0.0661	0.0000	0.3000	-0.0090	-0.7650	0.1610	0.0000	0.9280	0.8370
THEME3	0.0686	0.0000	0.0130	0.1161	0.0000	0.3000	1.2890	-0.0970	0.4360	0.0000	0.5990	0.8270
THEME4	0.2212	0.2304	0.0050	0.0719	0.0400	0.3000	-0.6890	-0.4590	0.1400	0.0000	0.9010	0.8260

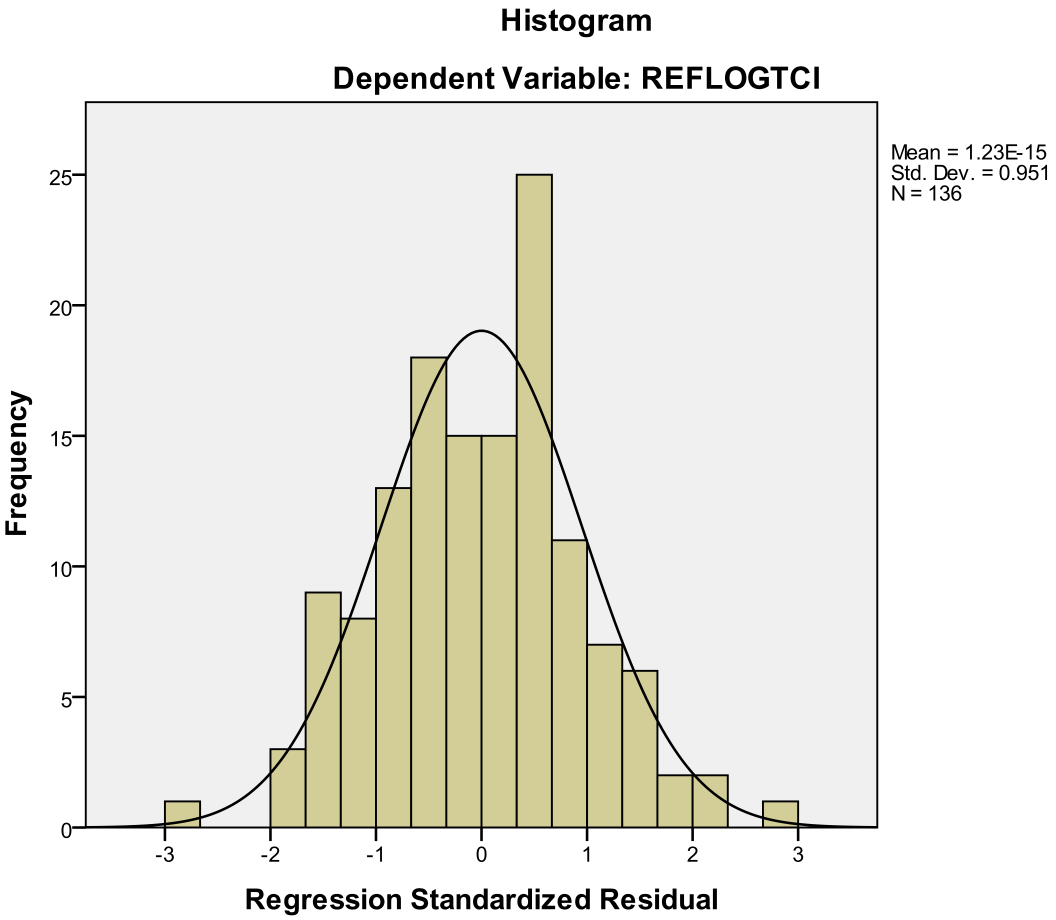
Appendix 9: 2001 Independent Variables after Transformations

Varibale	Mean	Median	Variance	Std. Deviation	Minimum	Maximum	Skewness	Kurtosis	Kolmogorov-Smirnova		Shapiro-Wilk	
PROPWHITES	0.0323	0.0298	0.0010	0.0373	0.0000	0.1200	1.0520	0.2150	0.2410	0.2000	0.8120	0.8820
PROPDNEDS	0.1538	0.1523	0.0050	0.0690	0.0000	0.2800	0.0740	-0.3410	0.0970	0.2030	0.9750	0.0130
SBD	1.3249	1.3424	0.0080	0.0891	1.1000	1.4500	-0.8650	0.0410	0.1220	0.0900	0.9120	0.8270
PROPDNEDS	5.3539	5.3582	0.0000	0.0074	5.3400	5.3600	-1.1090	-0.4470	0.2600	0.2000	0.7130	0.8820
STA	0.9828	0.9877	0.0000	0.0157	0.9400	1.0000	-1.0560	-0.0590	0.1690	0.2000	0.8370	0.8370
LTDtoTE	0.2003	0.2197	0.0060	0.0789	0.0000	0.2800	-0.9650	-0.0240	0.1530	0.2500	0.8770	0.8270
INSTSHARE	0.2035	0.2208	0.0010	0.0277	0.1500	0.2200	-1.1520	-0.3700	0.2680	0.2000	0.6880	0.8260
DRCTSHARE	0.0623	0.0654	0.0010	0.0235	0.0000	0.1200	-0.5130	-0.0990	0.0820	0.2700	0.9710	0.0060
ROA	0.0323	0.0298	0.0010	0.0373	0.0000	0.1200	1.0520	0.2150	0.2410	0.2500	0.8120	0.8820

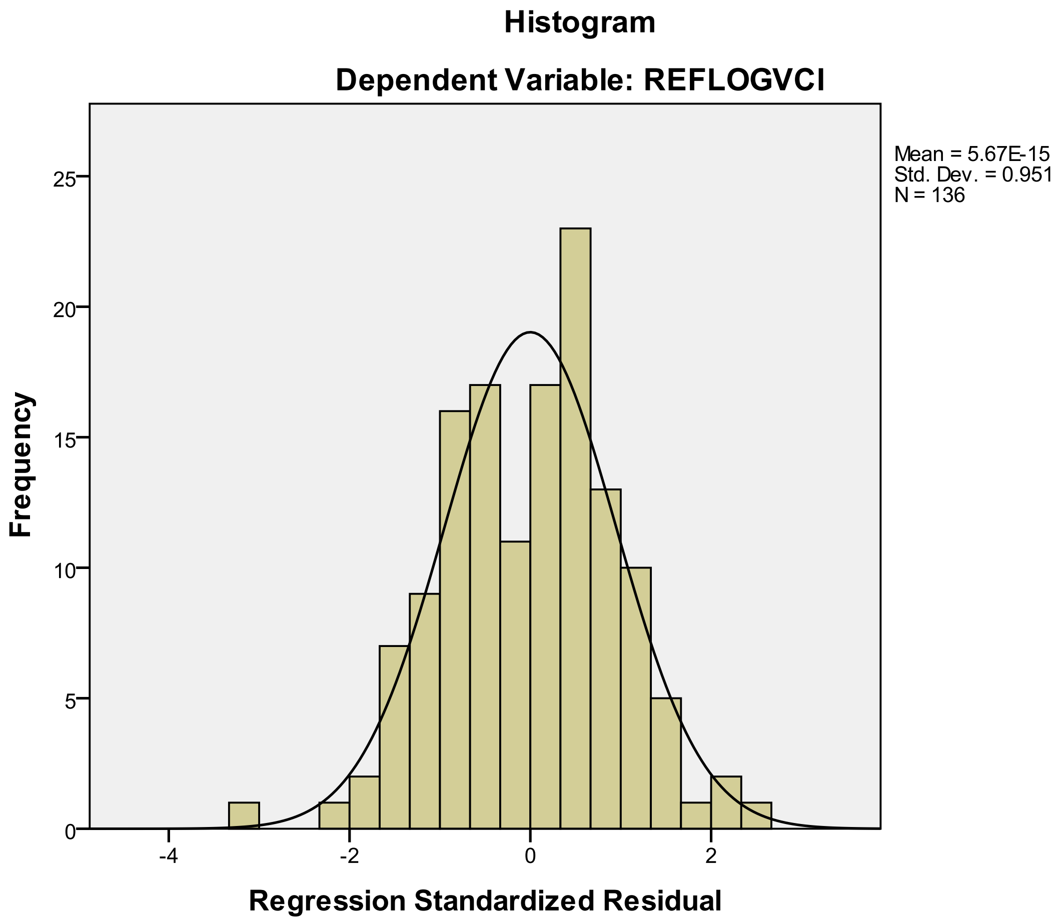
Appendix 10: 2008 Dependent Variables after Transformations

	Mean	Median	Variance	Std. Deviation	Minimum	Maximum	Skewness	Kurtosis	Kolmogorov-Smirnova		Shapiro-Wilk	
TCI	0.0888	0.0748	0.0030	0.0591	0.0000	0.2400	0.5710	-0.7270	0.1380	0.2000	0.9340	0.8370
VCI	0.0967	0.0737	0.0040	0.0637	0.0000	0.2500	0.5270	-0.8100	0.1560	0.2000	0.9360	0.8270
MCI	0.0523	0.0457	0.0030	0.0504	0.0000	0.1600	0.2730	-1.2970	0.2770	0.2500	0.8180	0.8260
THEME1	0.1032	0.0885	0.0040	0.0625	0.0000	0.2700	0.5690	-0.3320	0.1110	0.2100	0.9590	0.8370
THEME2	0.0713	0.0457	0.0030	0.0569	0.0000	0.2200	0.3320	-0.7440	0.2030	0.2700	0.8860	0.8270
THEME3	0.1103	0.0792	0.0090	0.0952	0.0000	0.3000	0.5110	-0.9620	0.1700	0.2500	0.9010	0.8260
THEME4	0.0888	0.0748	0.0030	0.0591	0.0000	0.2400	0.5710	-0.7270	0.1380	0.2000	0.9340	0.8370

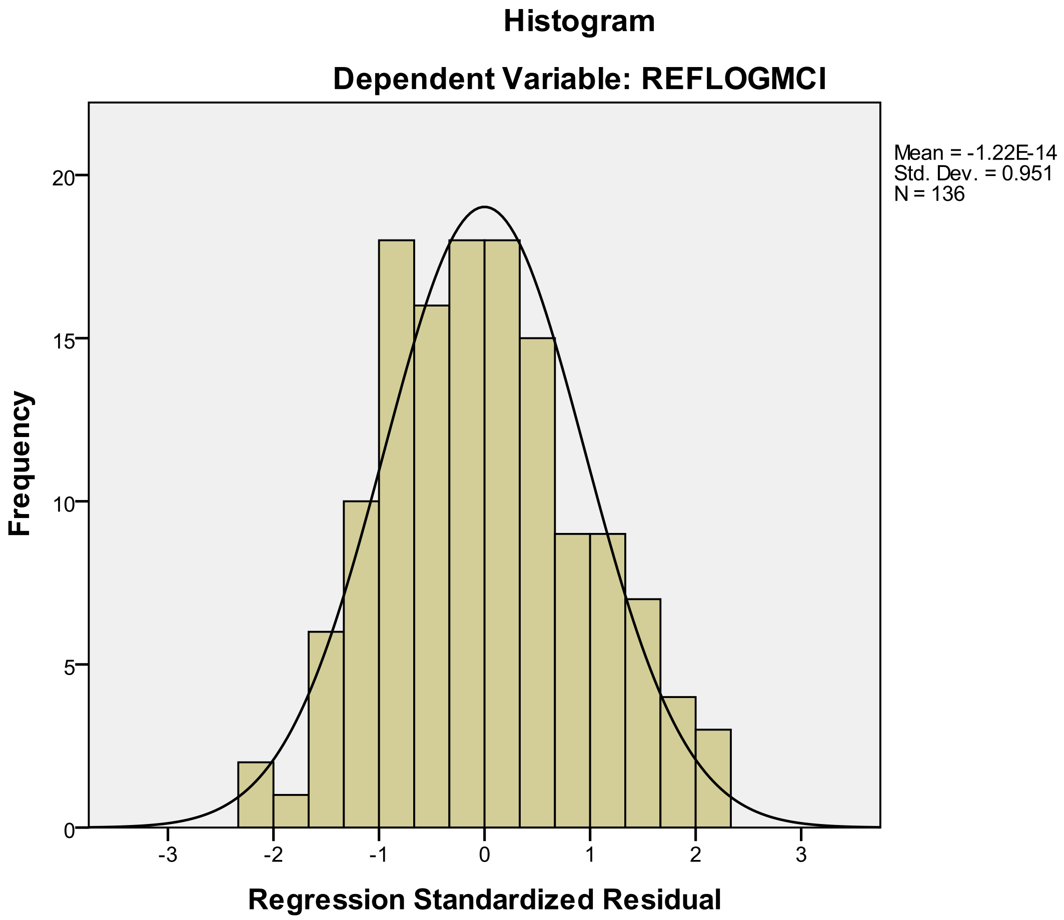
Appendix 11a: Normal Histogram Plot for TCI Model 2001



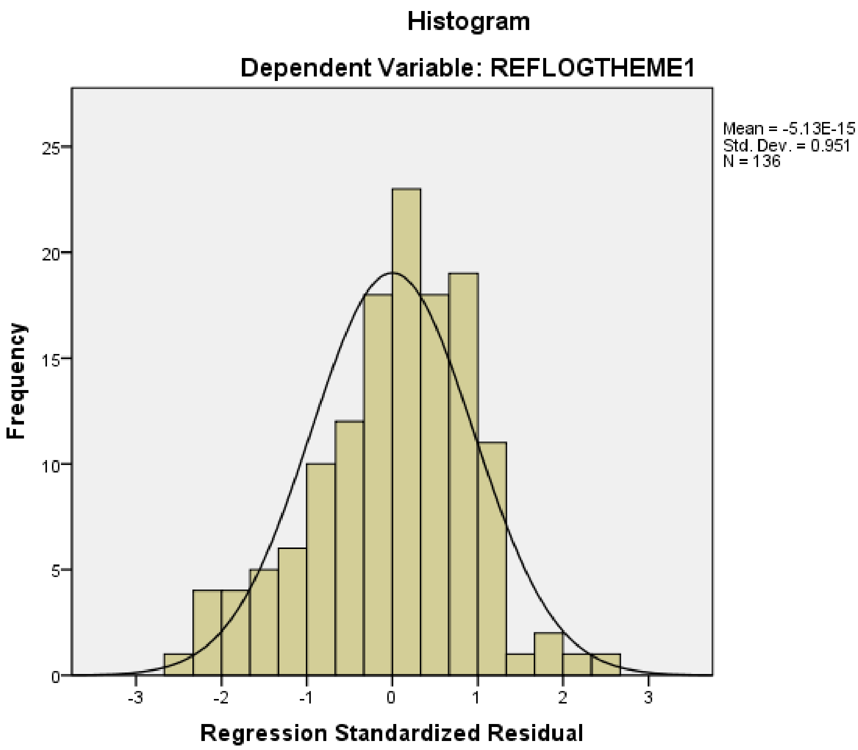
Appendix 11b: Normal Histogram Plot for VCI Model 2001



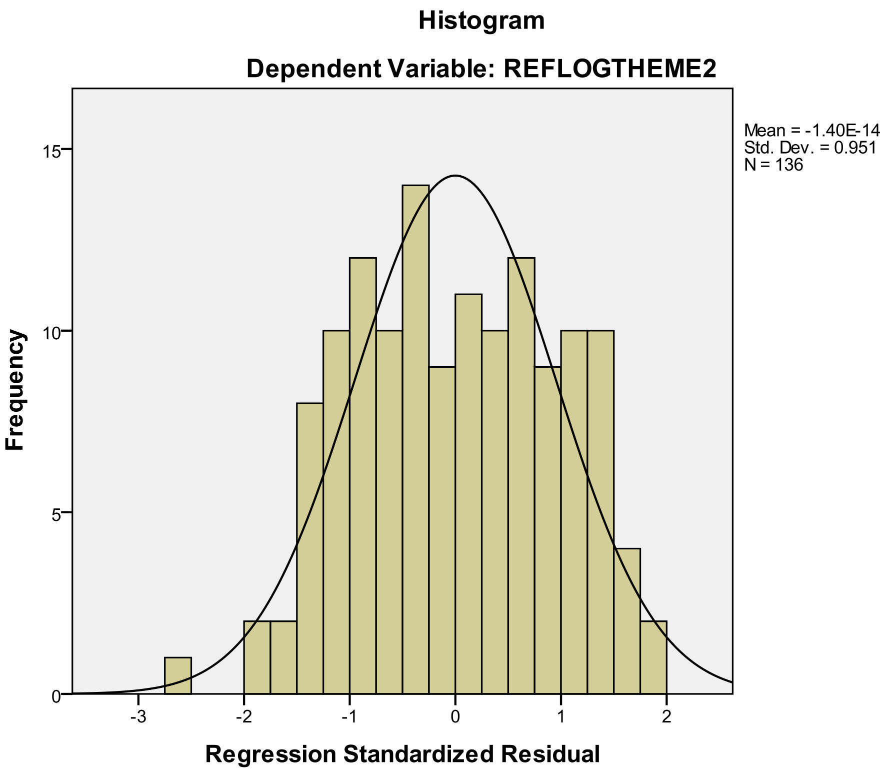
Appendix 11c: Normal Histogram Plot for MCI Model 2001



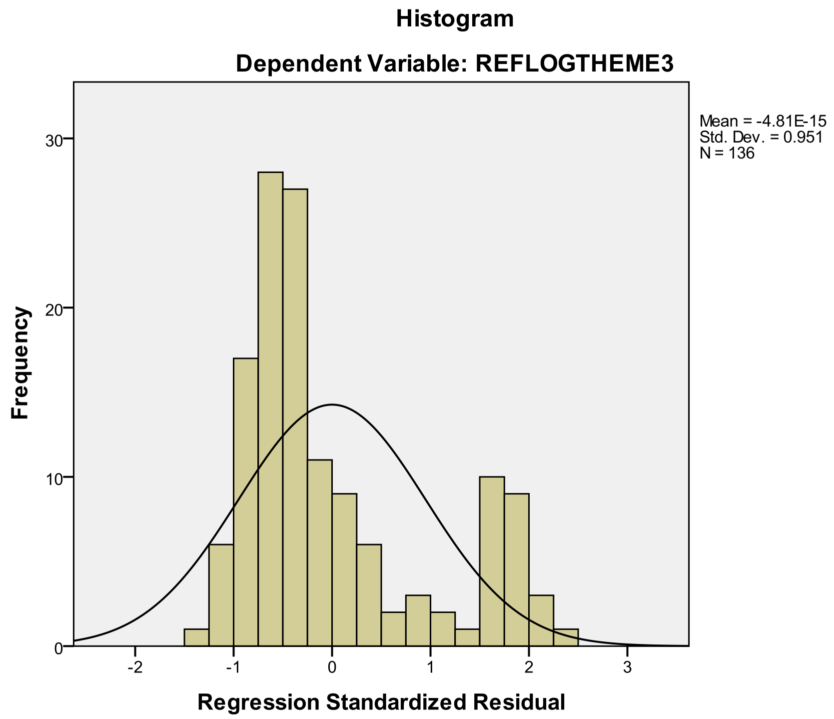
Appendix 11d: Normal Histogram Plot for THEME1 Model 2001



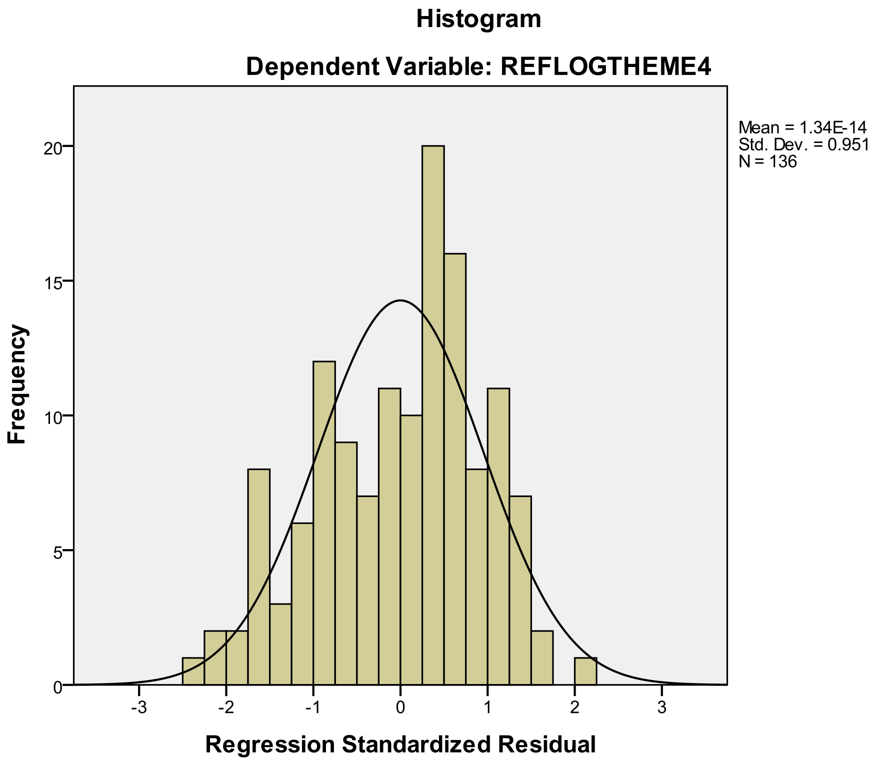
Appendix 11e: Normal Histogram Plot for THEME2 Model 2001



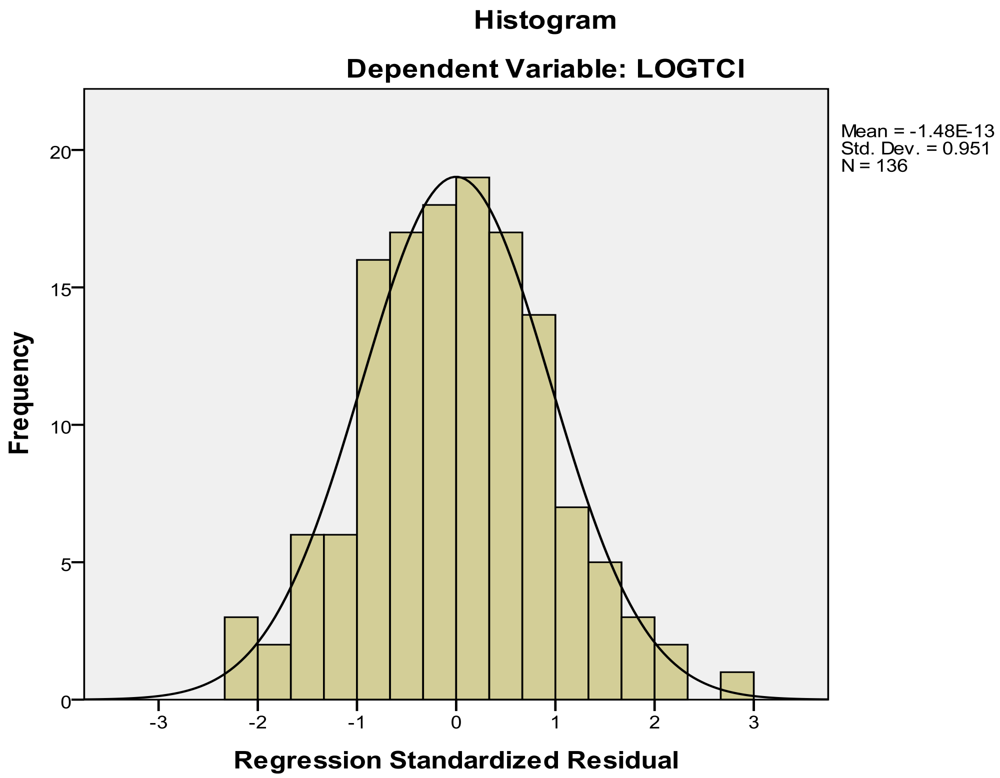
Appendix 11f: Normal Histogram Plot for THEME3 Model 2001



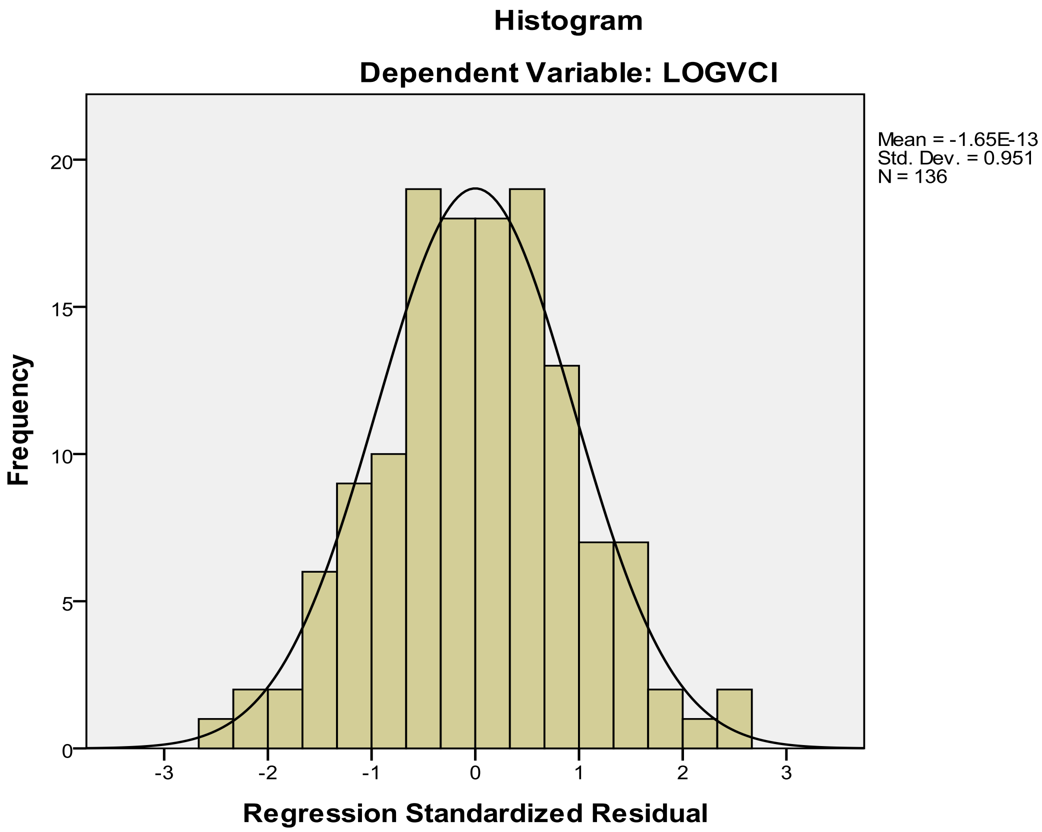
Appendix 11g: Normal Histogram Plot for THEME4 Model 2001



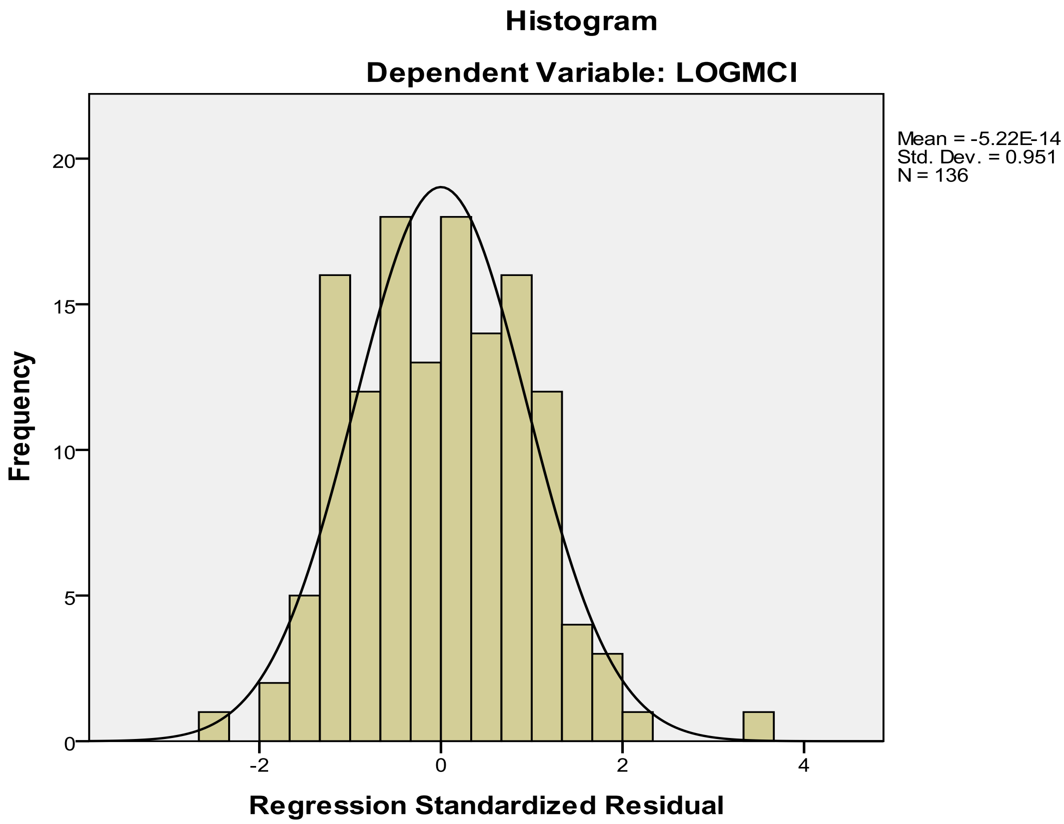
Appendix 11h: Normal Histogram Plot for TCI Model 2008



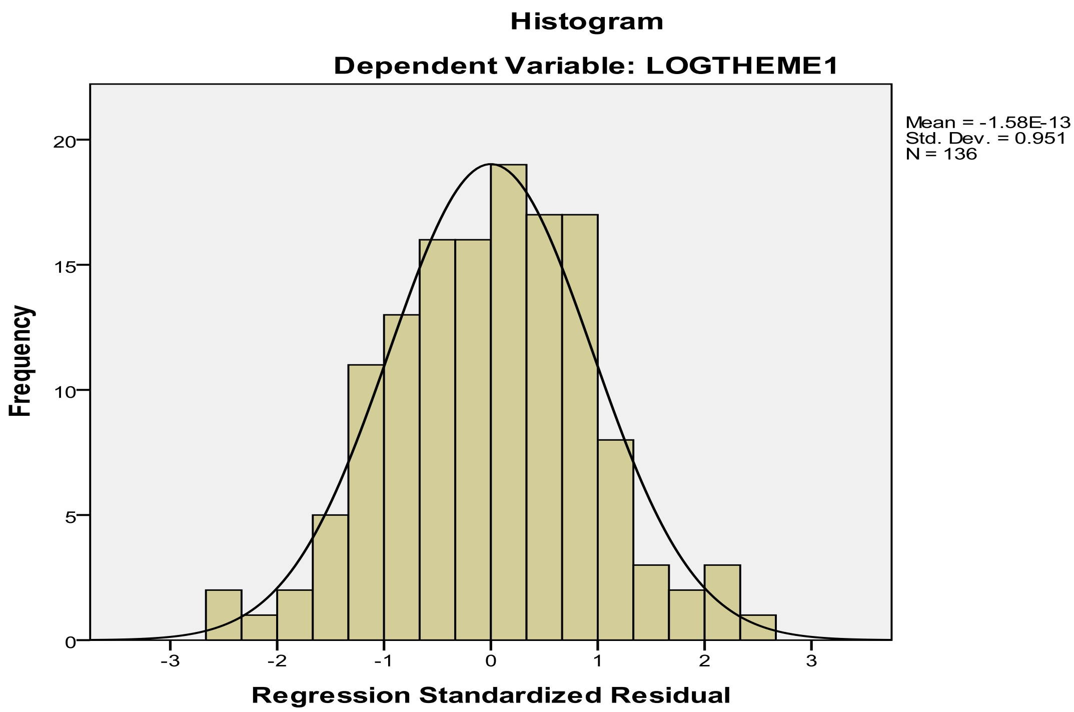
Appendix 11i: Normal Histogram Plot for VCI Model 2008



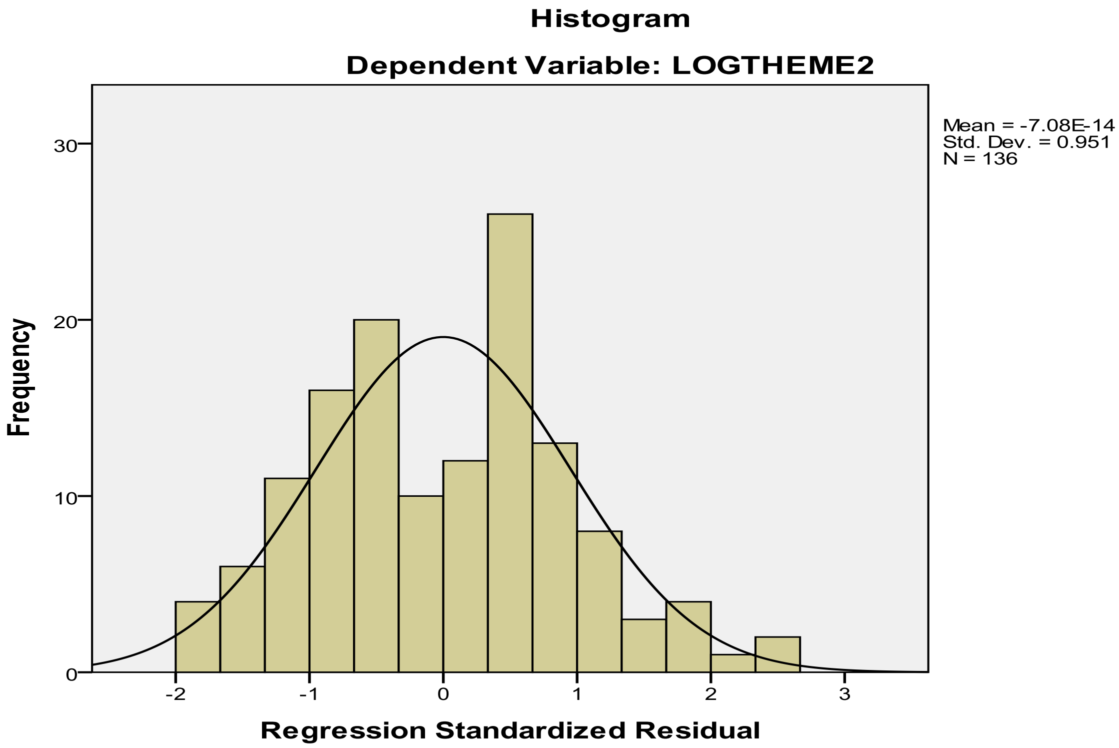
Appendix 11j: Normal Histogram Plot for MCI Model 2008



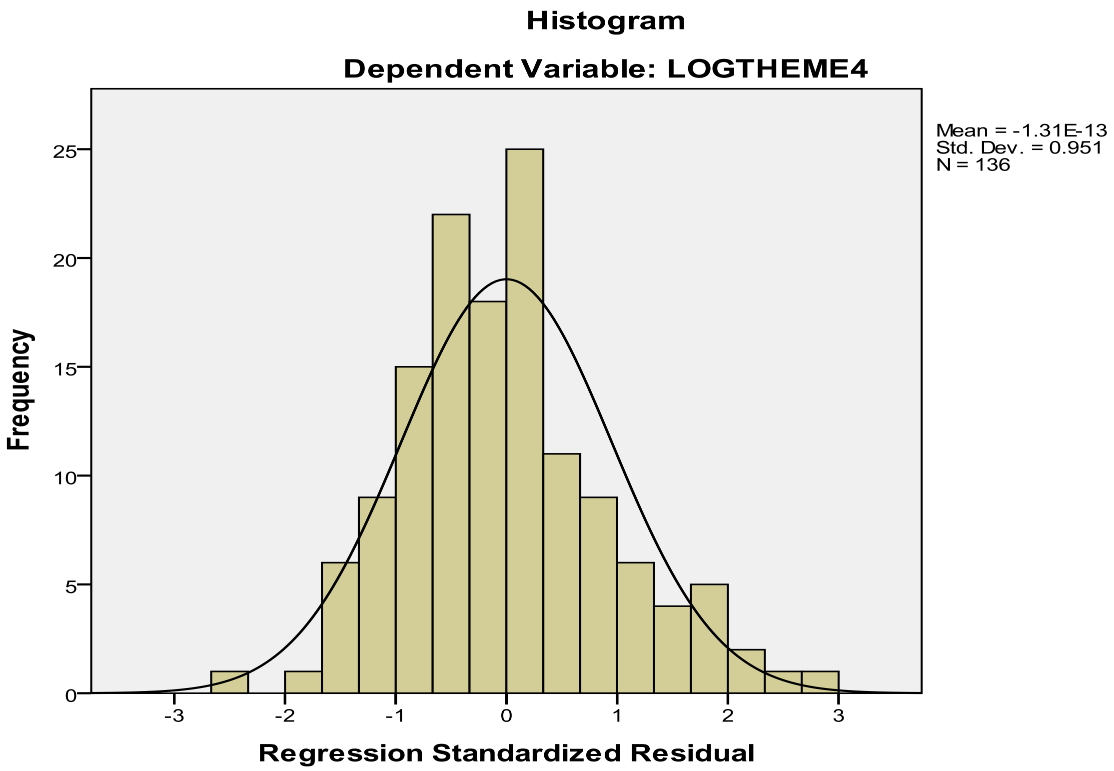
Appendix 11k: Normal Histogram Plot for THEME1 Model 2008



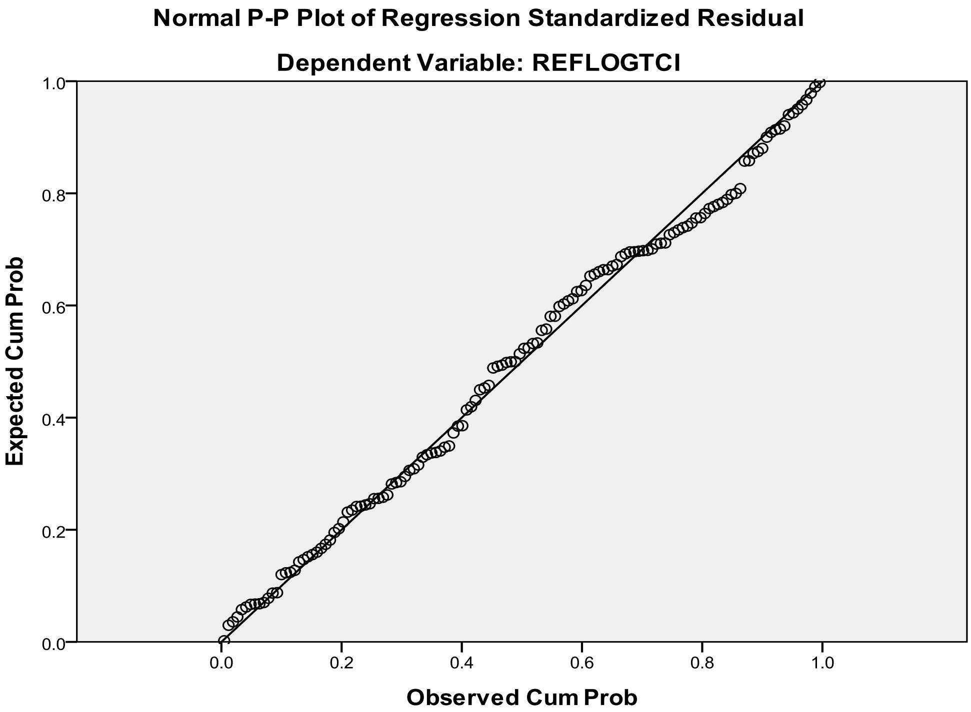
Appendix 11l: Normal Histogram Plot for THEME2 Model 2008

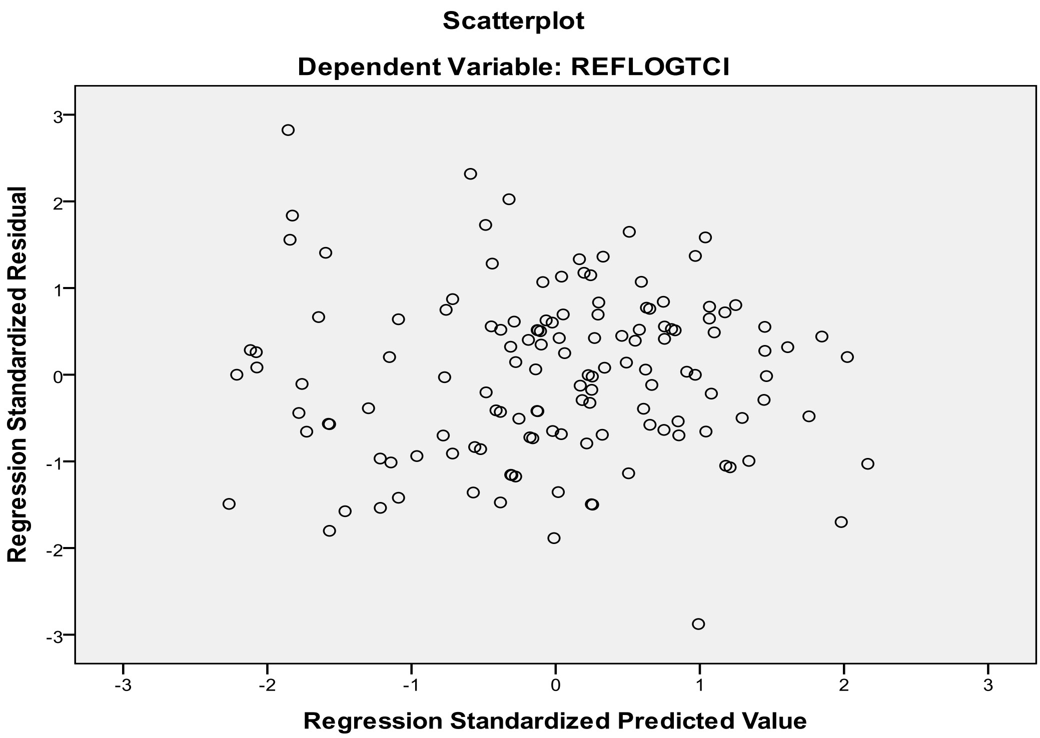


Appendix 11m: Normal Histogram Plot for THEME4 Model 2008

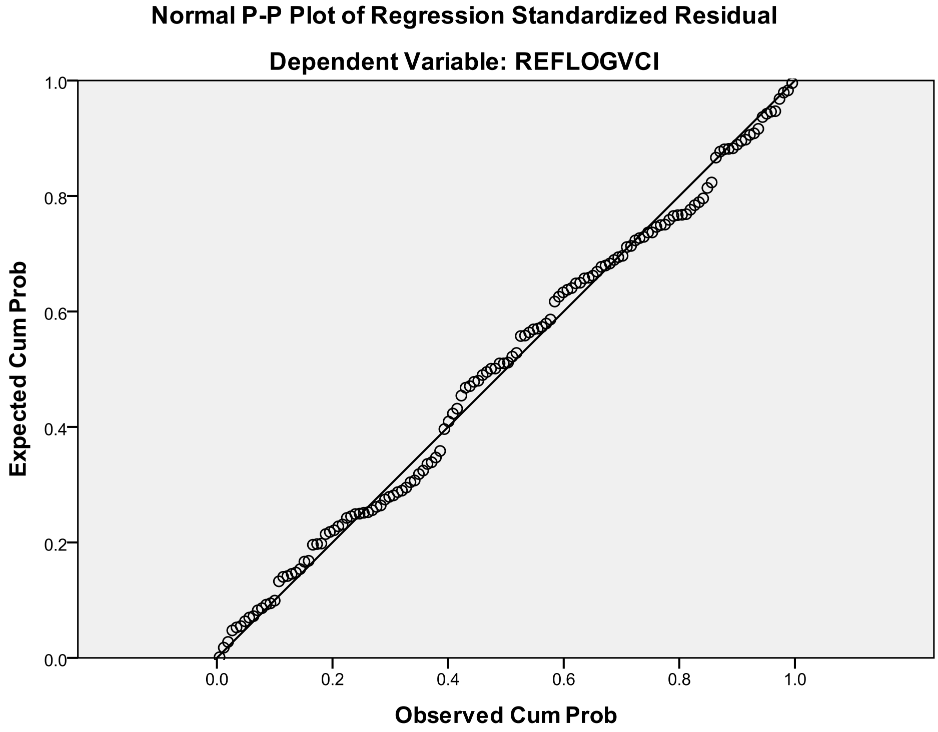


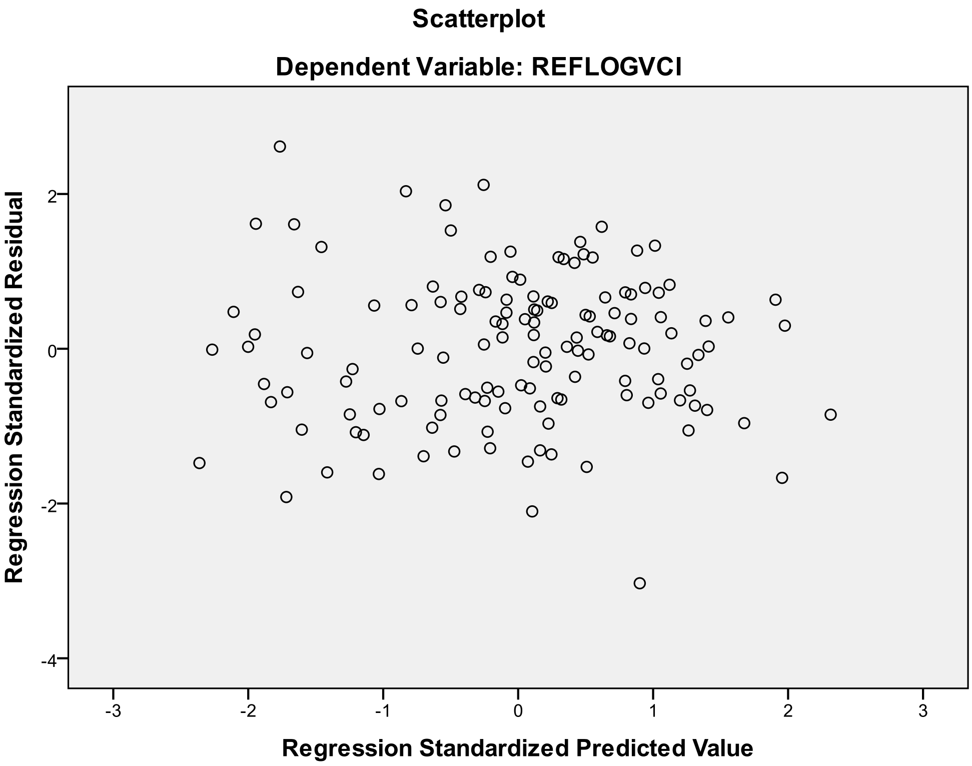
Appendix 12a: A Scatter Plot and Normal probability-Probability Plot of Regression for the TCI Model 2001



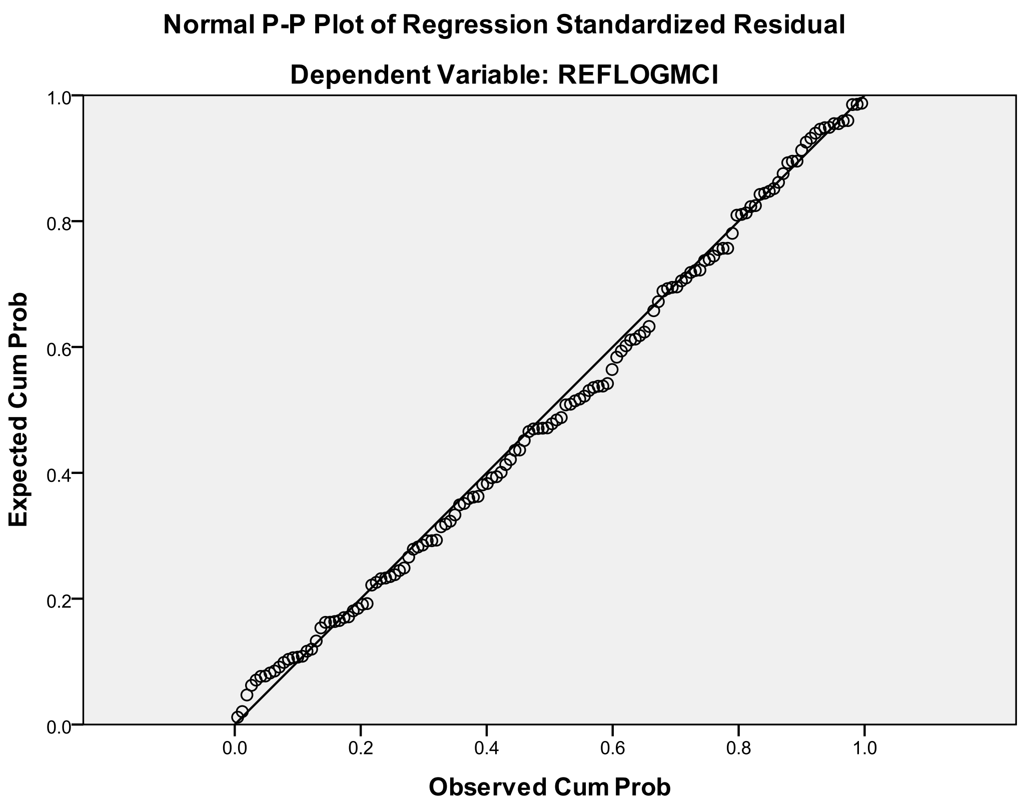


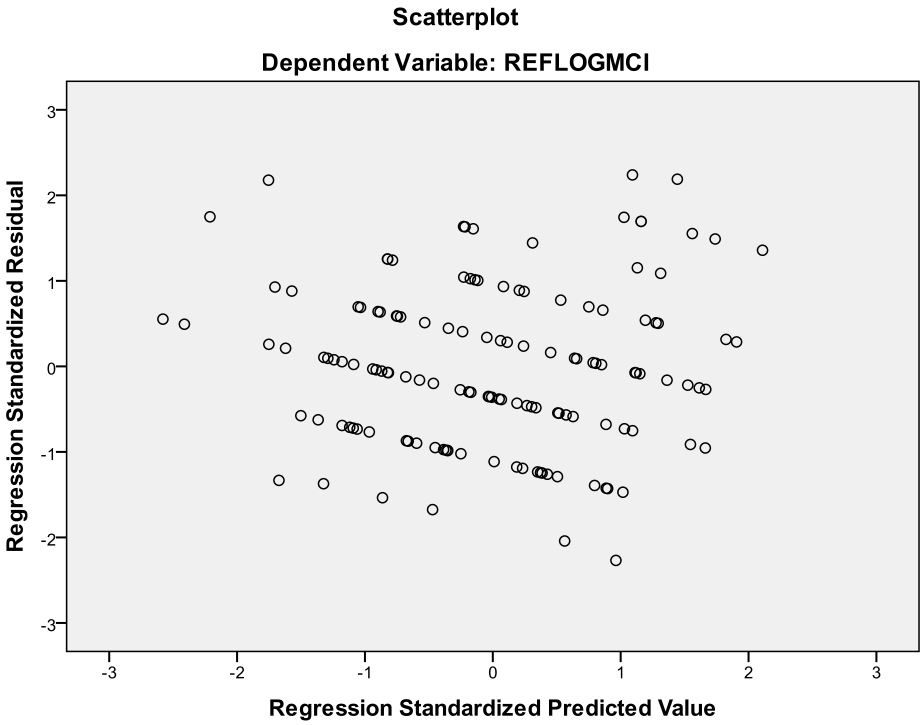
Appendix 12b : A Scatter Plot and Normal probability-Probability Plot of Regression for the VCI Model 2001



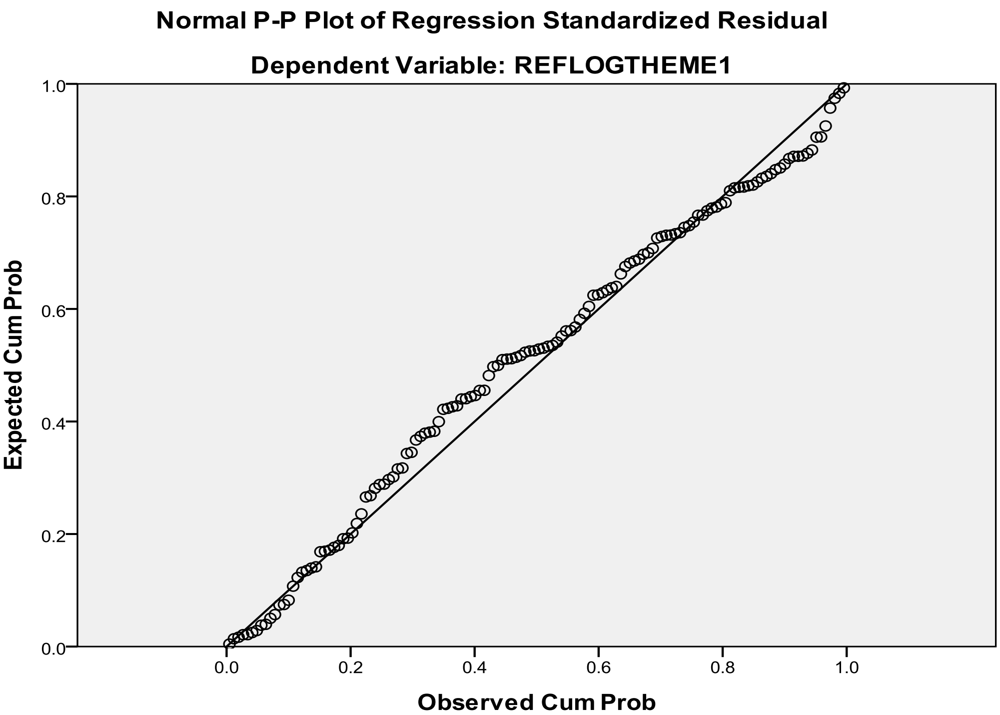


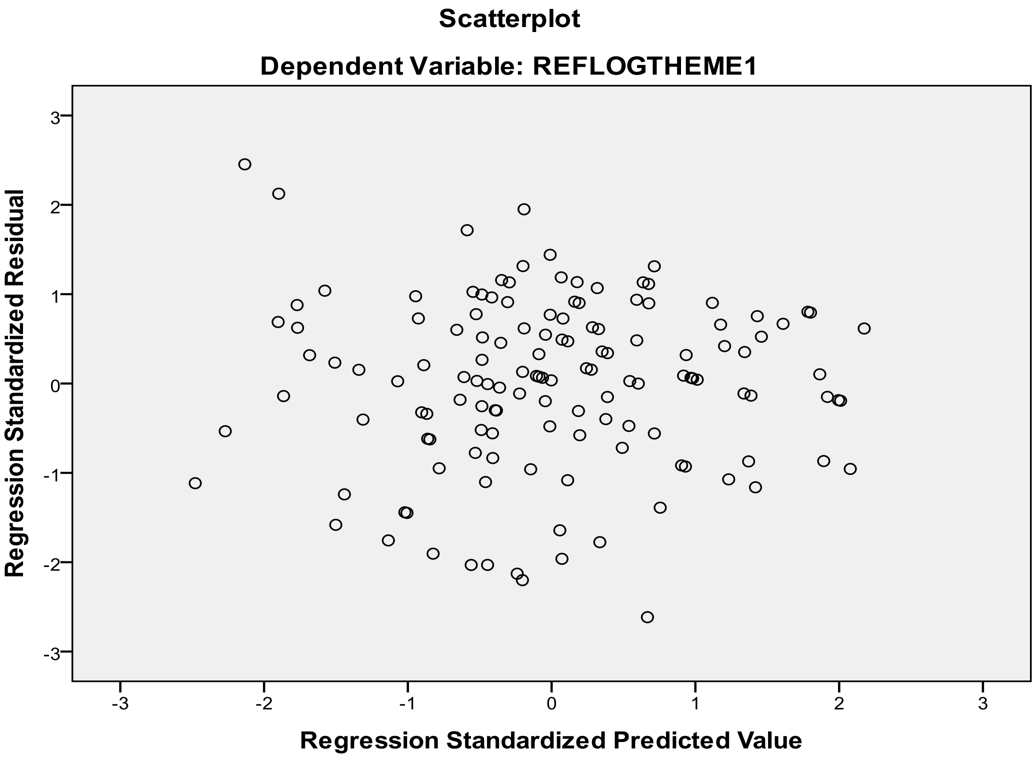
Appendix 12c : A Scatter Plot and Normal probability-Probability Plot of Regression for the VCI Model 2001



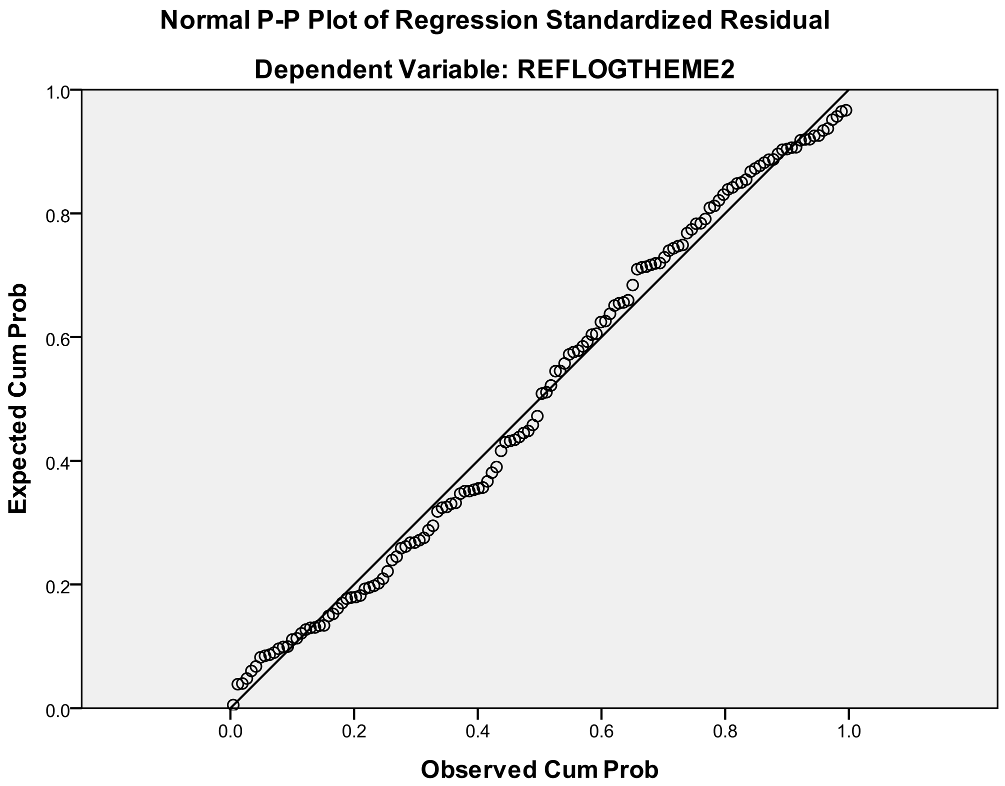


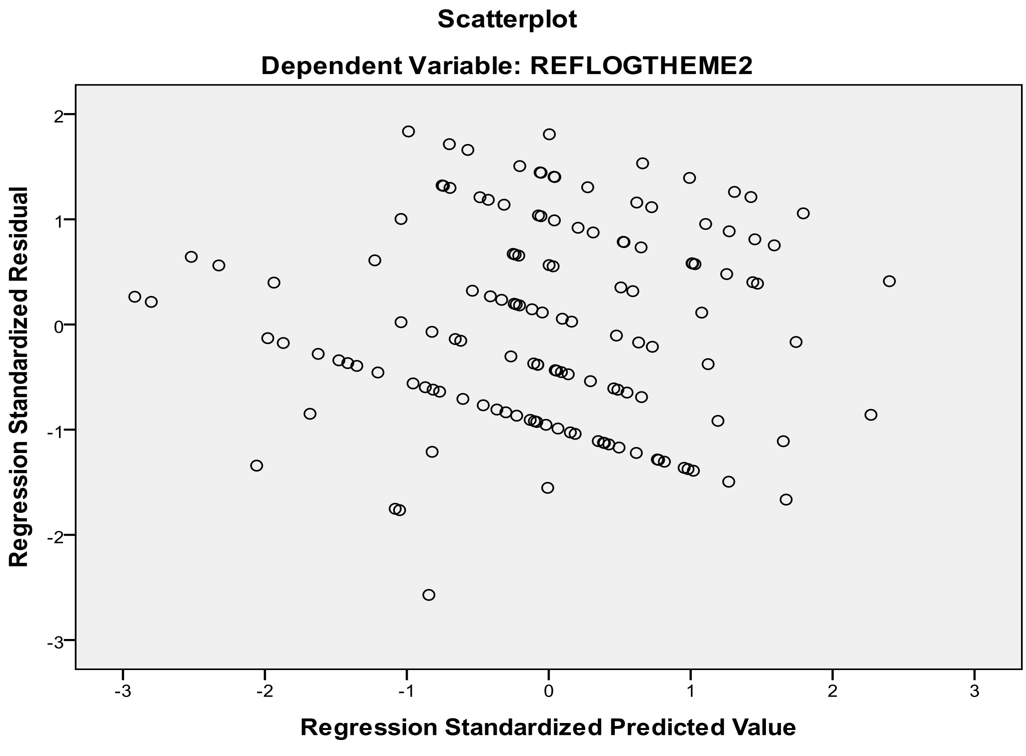
Appendix 12d: A Scatter Plot and Normal probability-Probability Plot of Regression for the THEME1 Model 2001



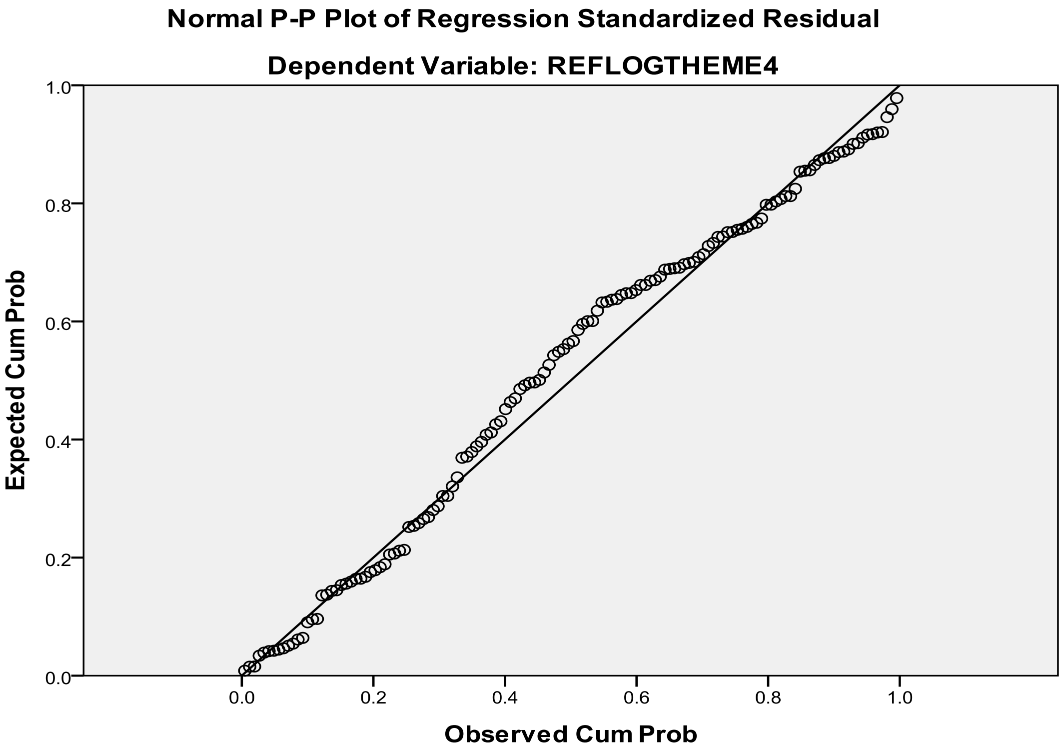


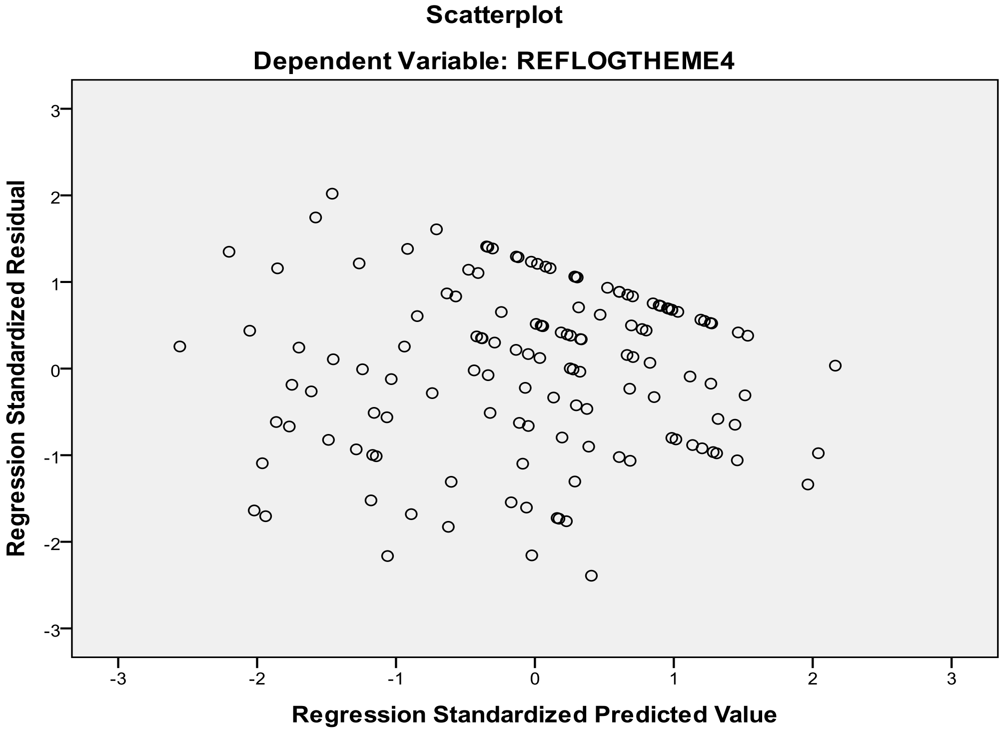
Appendix 12e : A Scatter Plot and Normal probability-Probability Plot of Regression for the THEME2 Model 2001


Normal P-P Plot of Regression Standardized Residual
Dependent Variable: REFLOGTHEME2
Expected Cum Prob
Observed Cum Prob
0.0
0.2
0.4
0.6
0.8
1.0

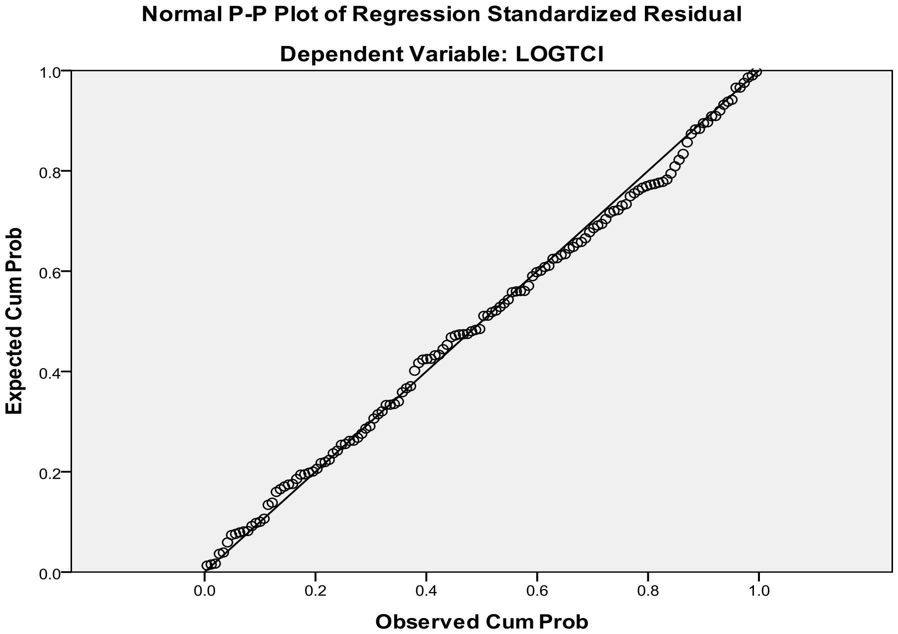

Scatterplot
Dependent Variable: REFLOGTHEME2
Regression Standardized Residual
Regression Standardized Predicted Value
-3
-2
-1
0
1
2
3

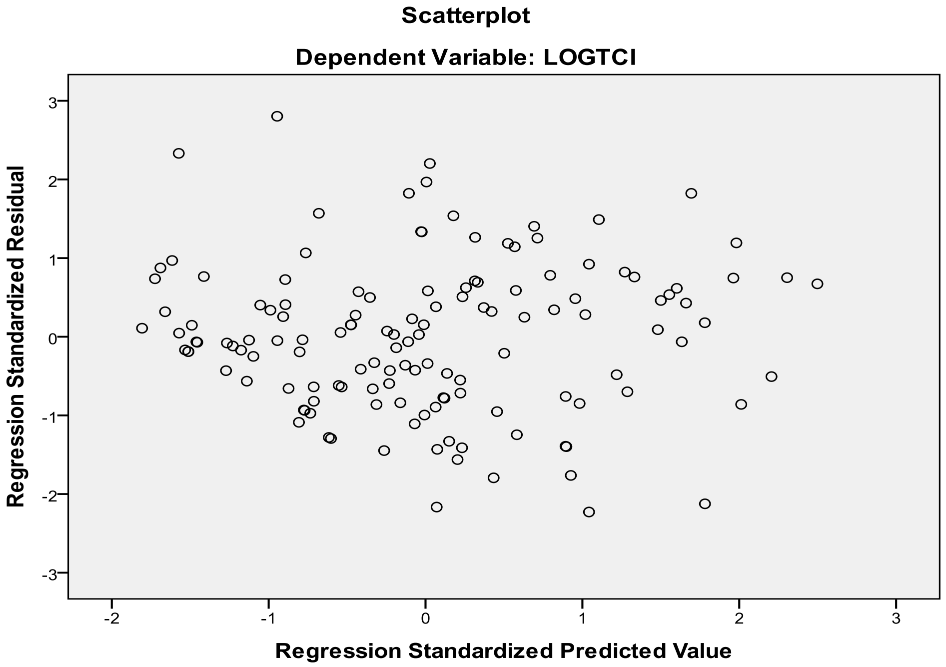
Appendix 12f: A Scatter Plot and Normal probability-Probability Plot of Regression for the THEME4 Model 2001



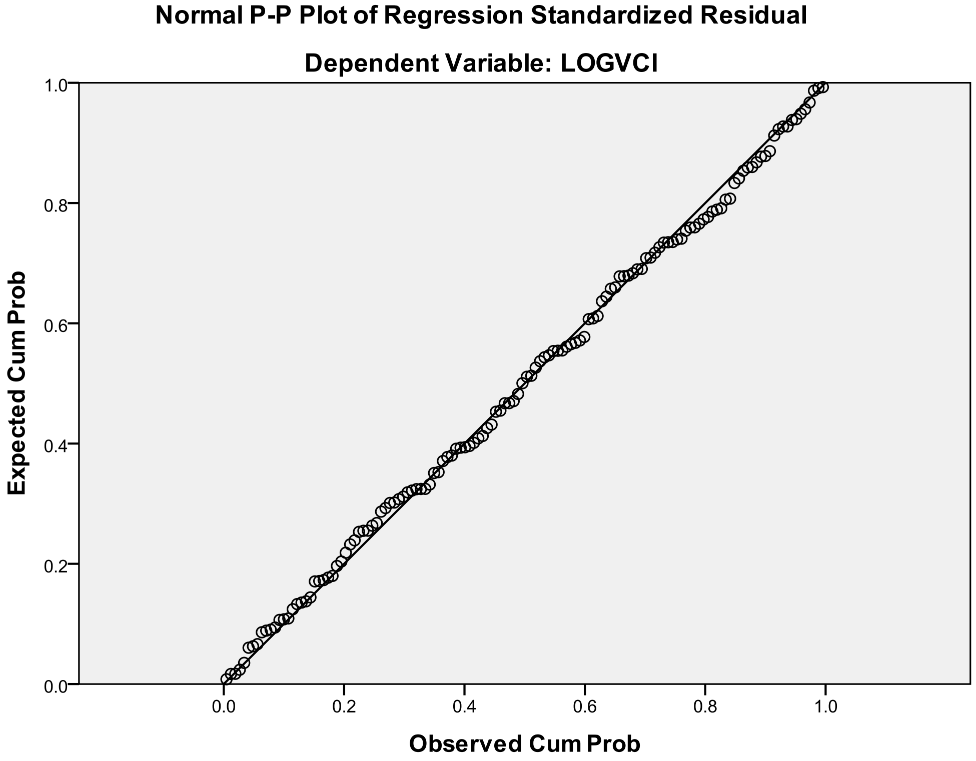


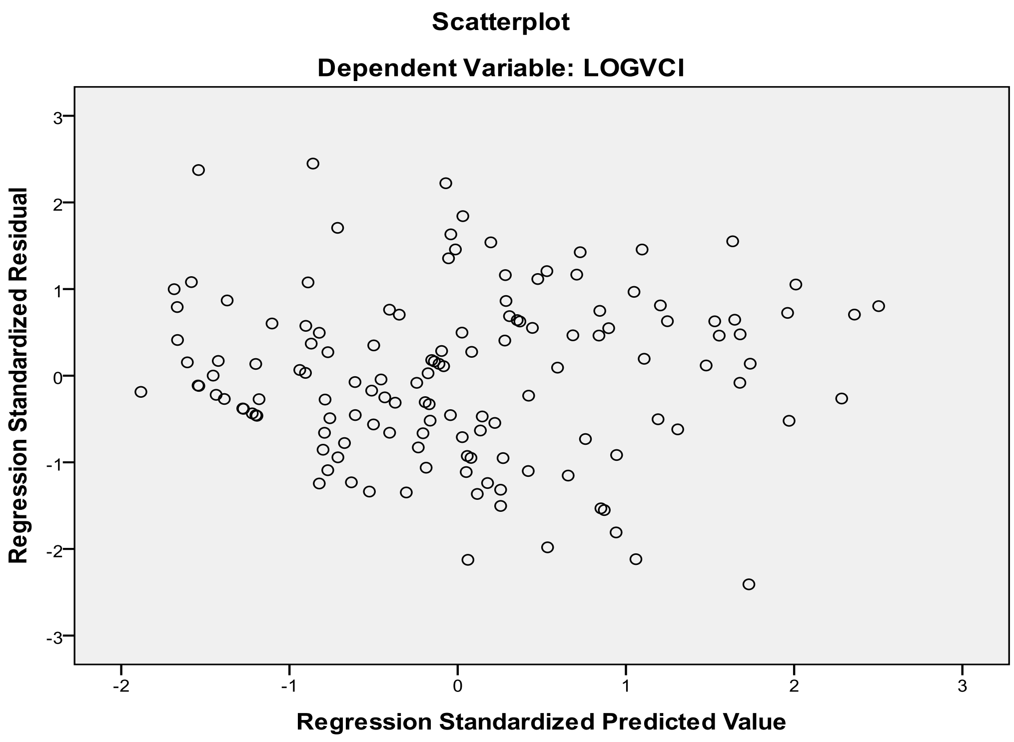
Appendix 13a: A Scatter Plot and Normal probability-Probability Plot of Regression for the TCI Model 2008



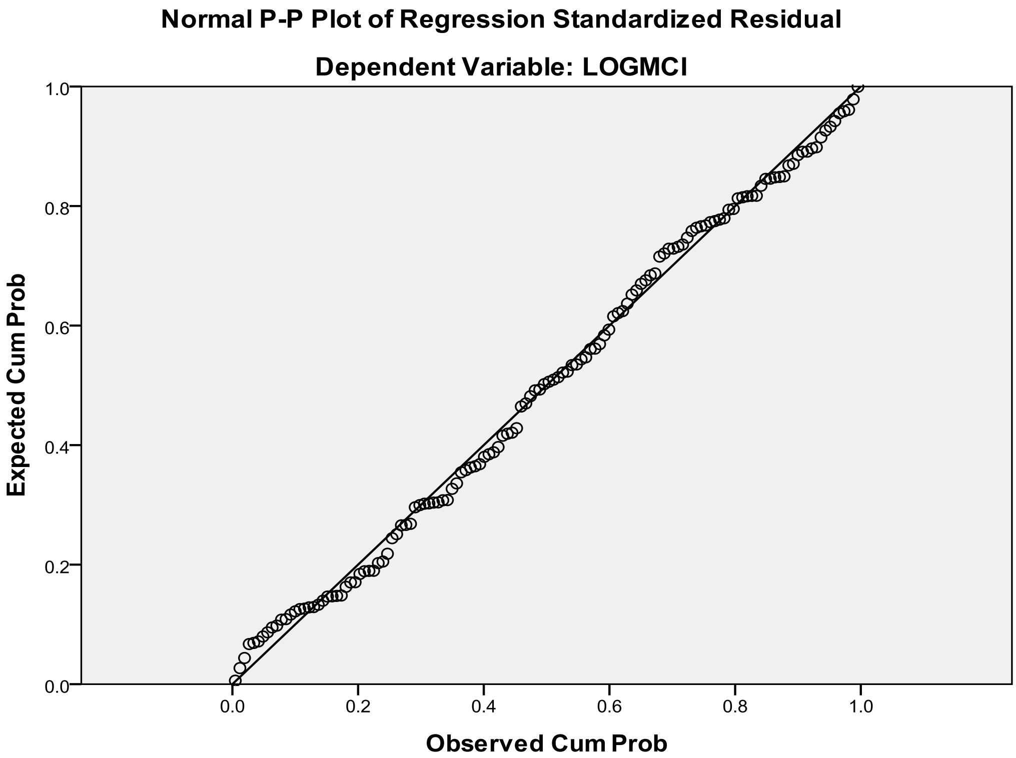


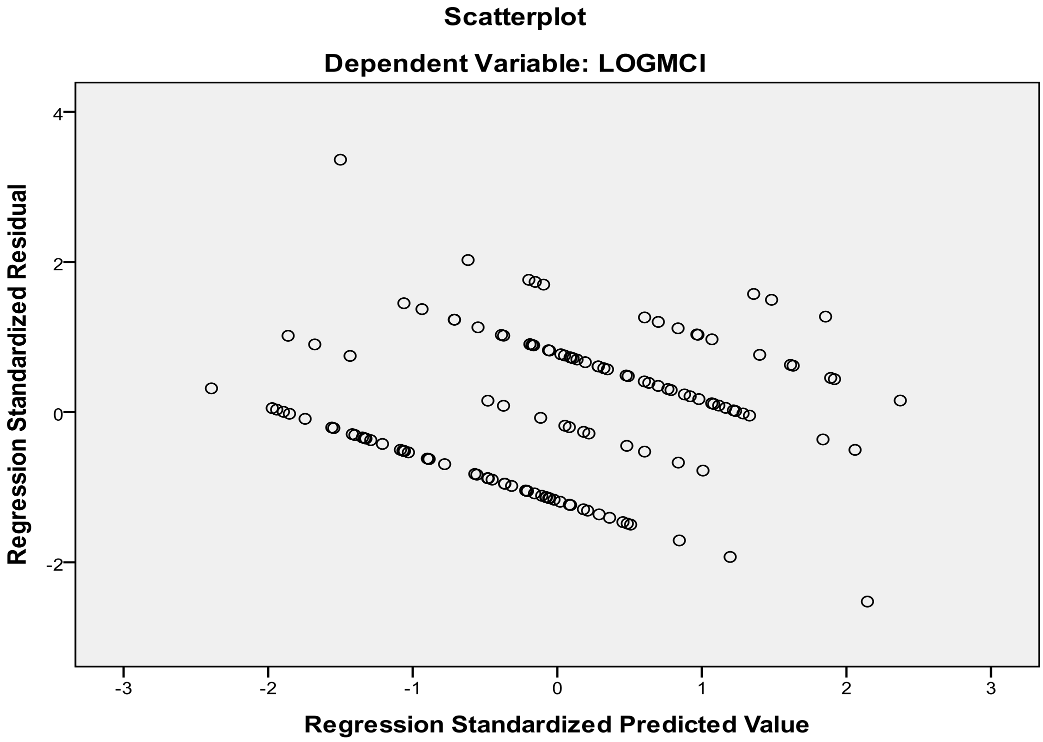
Appendix 13b: A Scatter Plot and Normal probability-Probability Plot of Regression for the VCI Model 2008



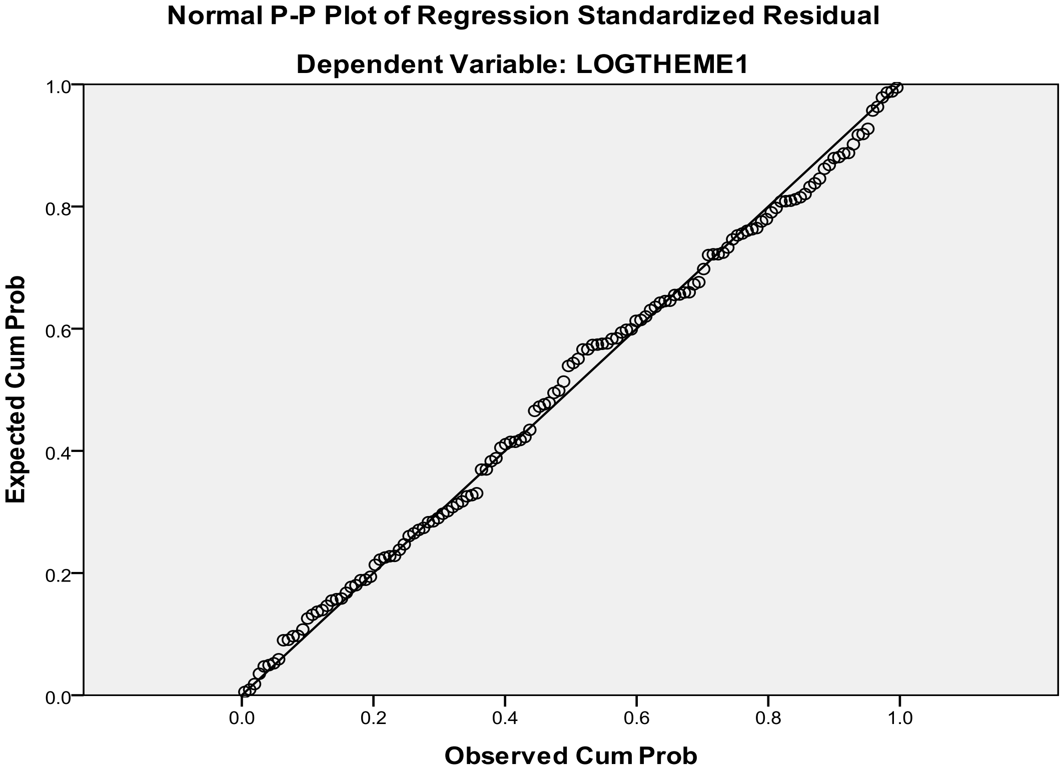


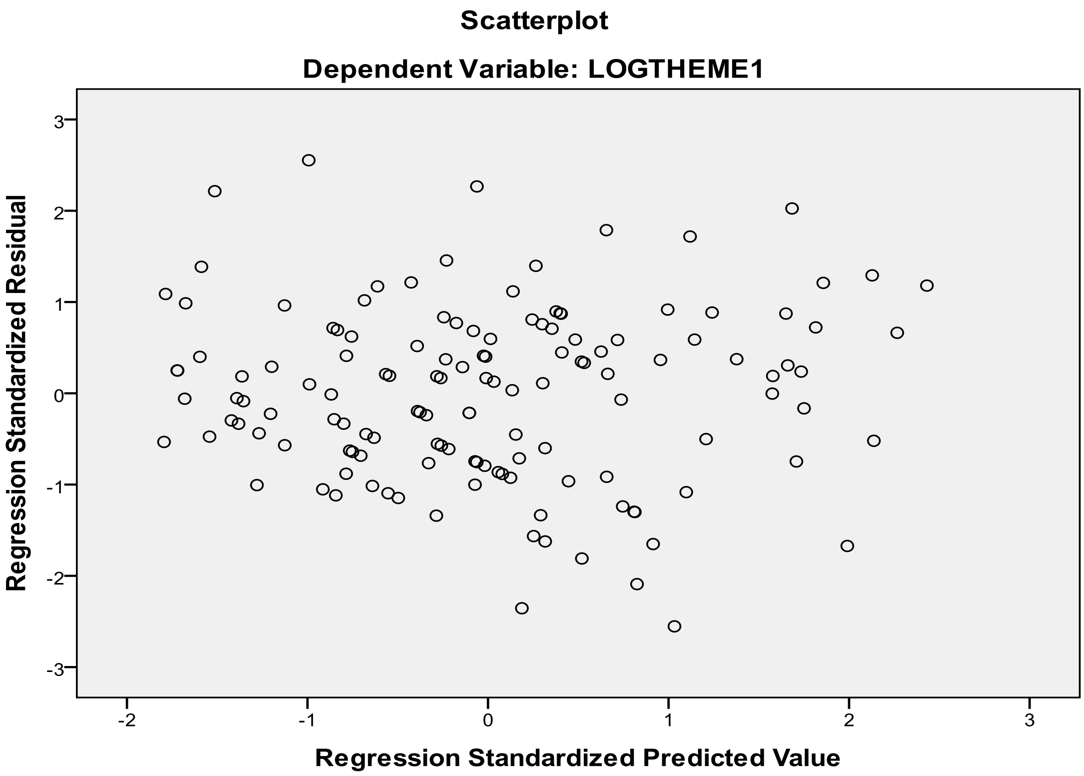
Appendix 13c : A Scatter Plot and Normal probability-Probability Plot of Regression for the MCI Model 2008



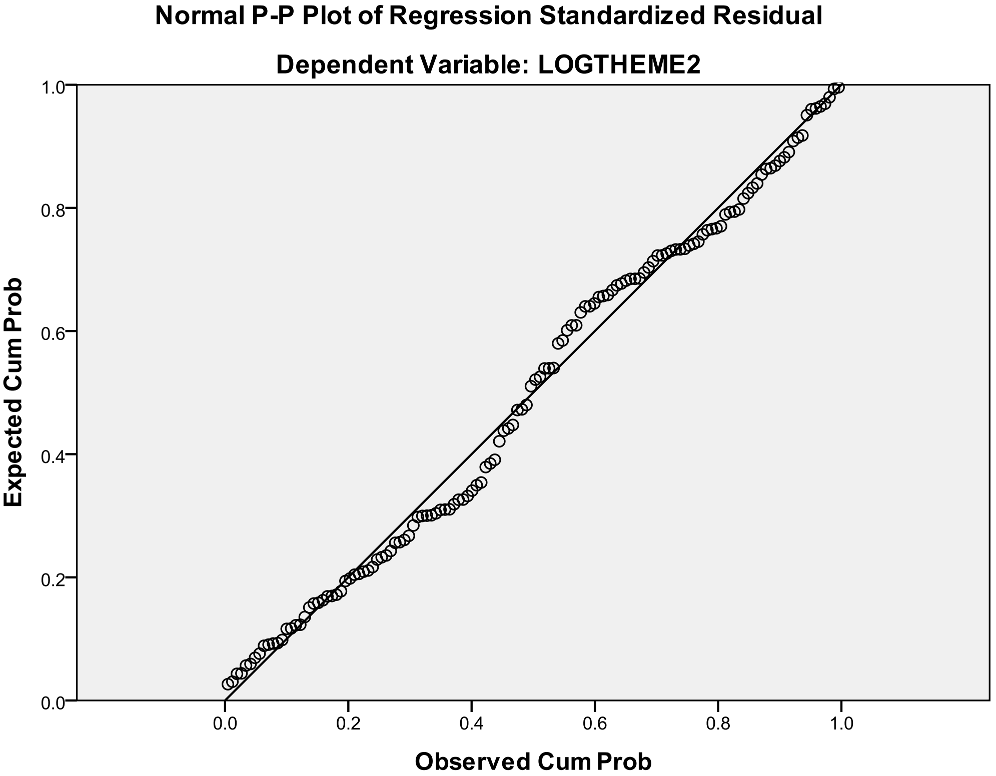


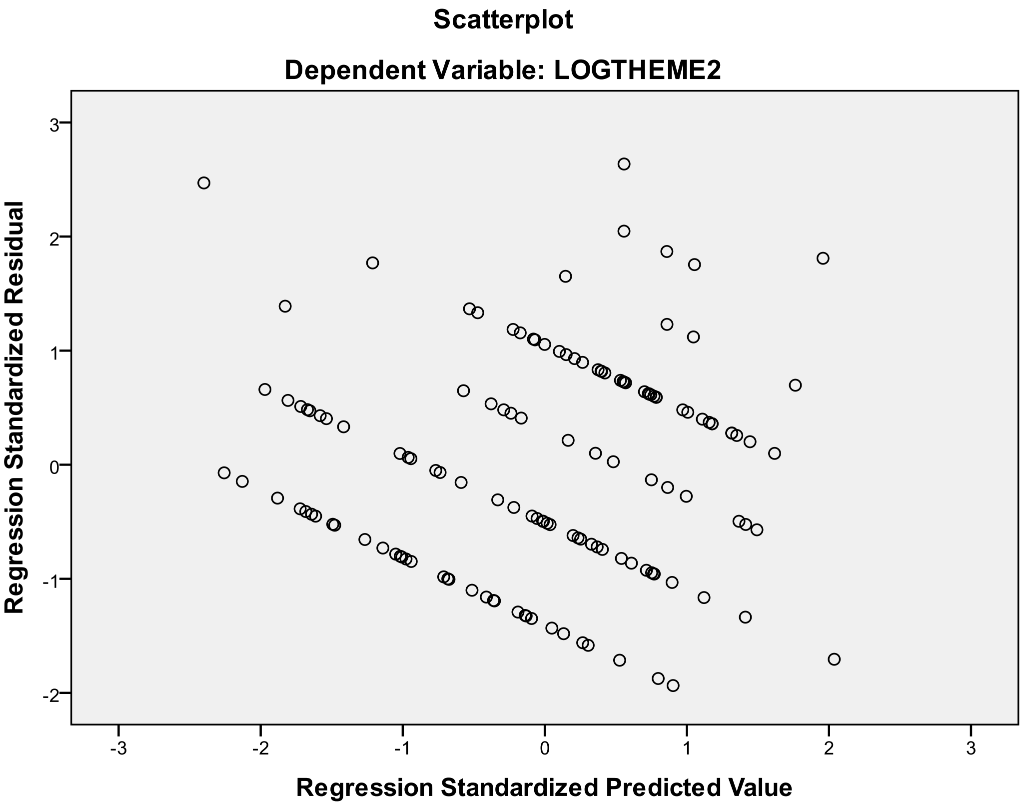
Appendix 13d: A Scatter Plot and Normal probability-Probability Plot of Regression for the THEME1 Model 2008





Appendix 13e : A Scatter Plot and Normal probability-Probability Plot of Regression for THEME2 Model 2008

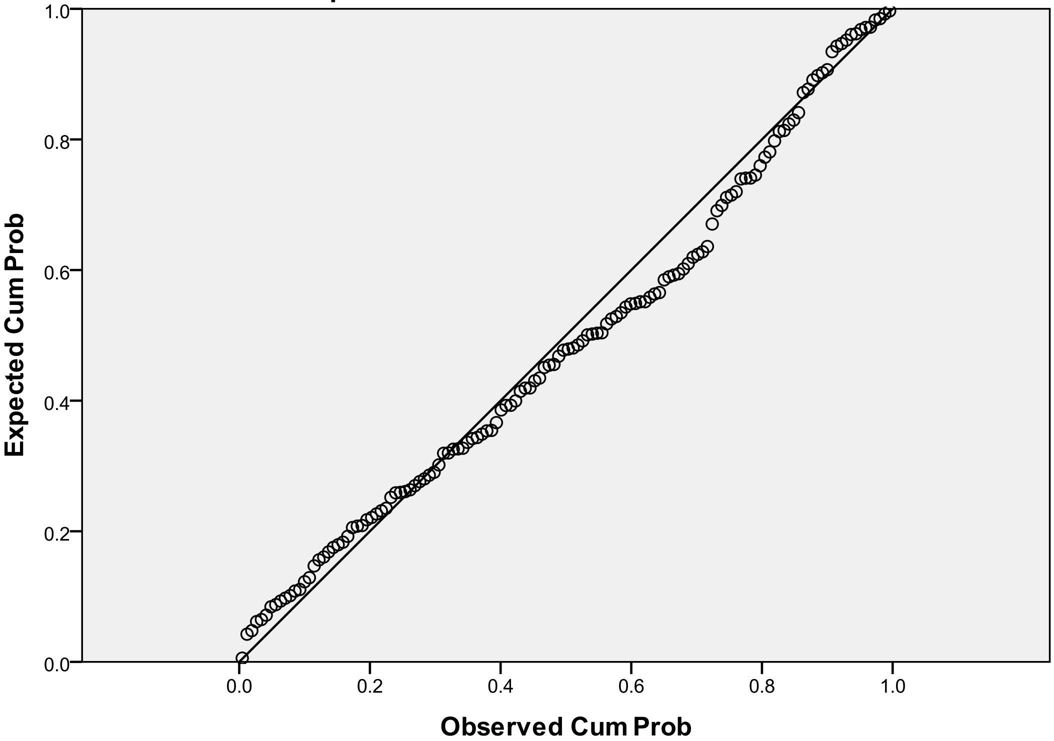




Appendix 13f: A Scatter Plot and Normal probability-Probability Plot of Regression for the THEME4 Model 2008

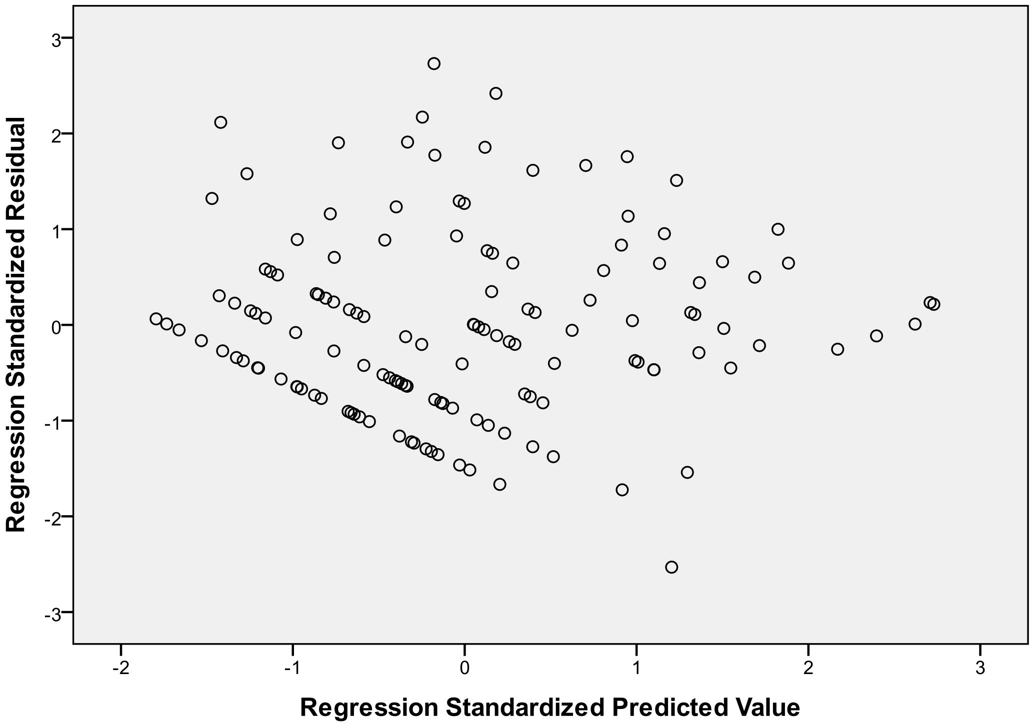
Normal P-P Plot of Regression Standardized Residual

Dependent Variable: LOGTHEME4



Scatterplot

Dependent Variable: LOGTHEME4



Appendix 14a: Residuals Statistics Table for TCI model 2001

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.0875	.1998	.1449	.02534	136
Std. Predicted Value	-2.266	2.165	.000	1.000	136
Standard Error of Predicted Value	.009	.020	.013	.002	136
Adjusted Predicted Value	.0824	.2042	.1449	.02570	136
Residual	-.12000	.11776	.00000	.03966	136
Std. Residual	-2.877	2.823	.000	.951	136
Stud. Residual	-3.107	3.003	.000	1.006	136
Deleted Residual	-.13996	.13327	.00000	.04442	136
Stud. Deleted Residual	-3.224	3.108	.000	1.015	136
Mahal. Distance	4.896	30.375	12.904	4.980	136
Cook's Distance	.000	.115	.009	.016	136
Centered Leverage Value	.036	.225	.096	.037	136

a. Dependent Variable: REFLOGTCI

Appendix 14b: Residuals Statistics Table for VCI model 2001

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.0969	.2245	.1613	.02728	136
Std. Predicted Value	-2.362	2.316	.000	1.000	136
Standard Error of Predicted Value	.009	.021	.014	.002	136
Adjusted Predicted Value	.0953	.2284	.1614	.02763	136
Residual	-.13361	.11521	.00000	.04191	136
Std. Residual	-3.030	2.613	.000	.951	136
Stud. Residual	-3.273	2.780	.000	1.006	136
Deleted Residual	-.15584	.13039	-.00001	.04700	136
Stud. Deleted Residual	-3.413	2.860	.000	1.016	136
Mahal. Distance	4.896	30.375	12.904	4.980	136
Cook's Distance	.000	.127	.009	.016	136
Centered Leverage Value	.036	.225	.096	.037	136

a. Dependent Variable: REFLOGVCI

Appendix 14c: Residuals Statistics Table for MCI model 2001

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.0969	.1812	.1433	.01798	136
Std. Predicted Value	-2.580	2.110	.000	1.000	136
Standard Error of Predicted Value	.011	.024	.016	.003	136
Adjusted Predicted Value	.0894	.1854	.1433	.01910	136
Residual	-.11486	.11334	.00000	.04813	136
Std. Residual	-2.269	2.239	.000	.951	136
Stud. Residual	-2.331	2.396	.000	1.005	136
Deleted Residual	-.12121	.12985	-.00001	.05389	136
Stud. Deleted Residual	-2.375	2.445	.001	1.012	136
Mahal. Distance	4.896	30.375	12.904	4.980	136
Cook's Distance	.000	.075	.009	.012	136
Centered Leverage Value	.036	.225	.096	.037	136

a. Dependent Variable: REFLOGMCI

Appendix 14d: Residuals Statistics Table for THEME1 model 2001

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.0833	.1894	.1398	.02279	136
Std. Predicted Value	-2.479	2.174	.000	1.000	136
Standard Error of Predicted Value	.010	.023	.015	.003	136
Adjusted Predicted Value	.0757	.1918	.1398	.02347	136
Residual	-.12500	.11726	.00000	.04544	136
Std. Residual	-2.615	2.453	.000	.951	136
Stud. Residual	-2.825	2.610	.000	1.004	136
Deleted Residual	-.14579	.13271	.00004	.05072	136
Stud. Deleted Residual	-2.910	2.675	-.001	1.013	136
Mahal. Distance	4.896	30.375	12.904	4.980	136
Cook's Distance	.000	.095	.008	.015	136
Centered Leverage Value	.036	.225	.096	.037	136

a. Dependent Variable: REFLOGTHEME1

Appendix 14e: Residuals Statistics Table for THEME2 model 2001

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.1081	.2501	.1860	.02671	136
Std. Predicted Value	-2.917	2.400	.000	1.000	136
Standard Error of Predicted Value	.013	.031	.020	.004	136
Adjusted Predicted Value	.1051	.2529	.1860	.02772	136
Residual	-.16342	.11665	.00000	.06042	136
Std. Residual	-2.571	1.835	.000	.951	136
Stud. Residual	-2.708	1.976	.000	1.004	136
Deleted Residual	-.18132	.13522	-.00002	.06744	136
Stud. Deleted Residual	-2.782	2.000	.000	1.009	136
Mahal. Distance	4.896	30.375	12.904	4.980	136
Cook's Distance	.000	.057	.008	.010	136
Centered Leverage Value	.036	.225	.096	.037	136

a. Dependent Variable: REFLOGTHEME2

Appendix 14f: Residuals Statistics Table for THEME3 model 2001

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-.0511	.1620	.0686	.03934	136
Std. Predicted Value	-3.042	2.374	.000	1.000	136
Standard Error of Predicted Value	.024	.055	.036	.006	136
Adjusted Predicted Value	-.0595	.1613	.0683	.04161	136
Residual	-.14641	.28219	.00000	.10927	136
Std. Residual	-1.274	2.455	.000	.951	136
Stud. Residual	-1.337	2.704	.001	1.002	136
Deleted Residual	-.16130	.34239	.00027	.12142	136
Stud. Deleted Residual	-1.341	2.778	.005	1.009	136
Mahal. Distance	4.896	30.375	12.904	4.980	136
Cook's Distance	.000	.111	.008	.014	136
Centered Leverage Value	.036	.225	.096	.037	136

a. Dependent Variable: REFLOGTHEME3

Appendix 14g: Residuals Statistics Table for THEME4 Model 2001

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.1294	.2988	.2212	.03589	136
Std. Predicted Value	-2.556	2.163	.000	1.000	136
Standard Error of Predicted Value	.014	.032	.021	.004	136
Adjusted Predicted Value	.1259	.3010	.2213	.03639	136
Residual	-.15660	.13222	.00000	.06224	136
Std. Residual	-2.392	2.019	.000	.951	136
Stud. Residual	-2.542	2.148	-.001	1.004	136
Deleted Residual	-.17690	.14964	-.00011	.06944	136
Stud. Deleted Residual	-2.601	2.181	-.002	1.010	136
Mahal. Distance	4.896	30.375	12.904	4.980	136
Cook's Distance	.000	.060	.008	.011	136
Centered Leverage Value	.036	.225	.096	.037	136

a. Dependent Variable: REFLOGTHEME4

Appendix 14h: Residuals Statistics Table for TCI model 2008

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.0112	.1961	.0888	.04297	136
Std. Predicted Value	-1.807	2.498	.000	1.000	136
Standard Error of Predicted Value	.009	.019	.014	.002	136
Adjusted Predicted Value	.0104	.1927	.0887	.04336	136
Residual	-.09496	.11945	.00000	.04051	136
Std. Residual	-2.228	2.803	.000	.951	136
Stud. Residual	-2.332	3.020	.001	1.006	136
Deleted Residual	-.10404	.13871	.00010	.04541	136
Stud. Deleted Residual	-2.376	3.127	.002	1.015	136
Mahal. Distance	5.267	26.396	12.904	4.030	136
Cook's Distance	.000	.105	.009	.014	136
Centered Leverage Value	.039	.196	.096	.030	136

a. Dependent Variable: LOGTCI

Appendix 14i: Residuals Statistics Table for VCI model 2008

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.0100	.2121	.0967	.04609	136
Std. Predicted Value	-1.883	2.502	.000	1.000	136
Standard Error of Predicted Value	.010	.021	.015	.002	136
Adjusted Predicted Value	.0113	.2077	.0966	.04649	136
Residual	-.11133	.11316	.00000	.04394	136
Std. Residual	-2.409	2.448	.000	.951	136
Stud. Residual	-2.582	2.638	.001	1.006	136
Deleted Residual	-.12795	.13141	.00015	.04921	136
Stud. Deleted Residual	-2.645	2.706	.002	1.014	136
Mahal. Distance	5.267	26.396	12.904	4.030	136
Cook's Distance	.000	.080	.009	.013	136
Centered Leverage Value	.039	.196	.096	.030	136

a. Dependent Variable: LOGVCI

Appendix 14j: Residuals Statistics Table for MCI model 2008

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-.0140	.1180	.0523	.02770	136
Std. Predicted Value	-2.392	2.373	.000	1.000	136
Standard Error of Predicted Value	.010	.020	.014	.002	136
Adjusted Predicted Value	-.0163	.1303	.0524	.02841	136
Residual	-.11169	.14887	.00000	.04209	136
Std. Residual	-2.523	3.362	.000	.951	136
Stud. Residual	-2.725	3.623	-.001	1.005	136
Deleted Residual	-.13030	.17287	-.00014	.04707	136
Stud. Deleted Residual	-2.800	3.820	.000	1.015	136
Mahal. Distance	5.267	26.396	12.904	4.030	136
Cook's Distance	.000	.151	.009	.016	136
Centered Leverage Value	.039	.196	.096	.030	136

a. Dependent Variable: LOGMCI

Appendix 14k: Residuals Statistics Table for THEME1 Model 2008

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.0252	.2088	.1032	.04345	136
Std. Predicted Value	-1.795	2.431	.000	1.000	136
Standard Error of Predicted Value	.010	.021	.015	.002	136
Adjusted Predicted Value	.0164	.2022	.1032	.04397	136
Residual	-.12070	.12068	.00000	.04494	136
Std. Residual	-2.553	2.553	.000	.951	136
Stud. Residual	-2.672	2.751	.000	1.005	136
Deleted Residual	-.13214	.14014	.00000	.05024	136
Stud. Deleted Residual	-2.742	2.829	.000	1.014	136
Mahal. Distance	5.267	26.396	12.904	4.030	136
Cook's Distance	.000	.087	.008	.013	136
Centered Leverage Value	.039	.196	.096	.030	136

a. Dependent Variable: LOGTHEME1

Appendix 14l: Residuals Statistics Table for THEME2 Model 2008

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-.0007	.1324	.0713	.02998	136
Std. Predicted Value	-2.400	2.037	.000	1.000	136
Standard Error of Predicted Value	.011	.023	.016	.002	136
Adjusted Predicted Value	-.0209	.1468	.0713	.03097	136
Residual	-.09836	.13393	.00000	.04830	136
Std. Residual	-1.936	2.636	.000	.951	136
Stud. Residual	-2.079	2.842	.000	1.008	136
Deleted Residual	-.11341	.15565	.00001	.05436	136
Stud. Deleted Residual	-2.108	2.928	.001	1.015	136
Mahal. Distance	5.267	26.396	12.904	4.030	136
Cook's Distance	.000	.094	.009	.014	136
Centered Leverage Value	.039	.196	.096	.030	136

a. Dependent Variable: LOGTHEME2

Appendix 14m: Residuals Statistics Table for THEME4 Model 2008

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-.0047	.2851	.1103	.06404	136
Std. Predicted Value	-1.796	2.730	.000	1.000	136
Standard Error of Predicted Value	.016	.033	.024	.003	136
Adjusted Predicted Value	-.0054	.2827	.1099	.06458	136
Residual	-.18744	.20215	.00000	.07040	136
Std. Residual	-2.531	2.730	.000	.951	136
Stud. Residual	-2.714	2.853	.003	1.007	136
Deleted Residual	-.21542	.22078	.00047	.07898	136
Stud. Deleted Residual	-2.788	2.941	.005	1.016	136
Mahal. Distance	5.267	26.396	12.904	4.030	136
Cook's Distance	.000	.079	.009	.015	136
Centered Leverage Value	.039	.196	.096	.030	136

a. Dependent Variable: LOGTHEME4

Appendix 15: Comparison of Regression Results for the Years 2001 and 2008

Model	Regression Results	2001	2008
TCI	Adjusted R^2	0.214	0.479
	Standard Error	0.047	0.042
	F Value	3.831	10.556
	Sig. Value	0.000	0.000
	Durbin-Watson Statistic	2.334	2.480
VCI	Adjusted R^2	0.223	0.473
	Standard Error	0.044	0.046
	F Value	3.975	10.327
	Sig. Value	0.000	0.000
	Durbin-Watson	2.284	2.395
MCI	Adjusted R^2	*0.029*	0.228
	Standard Error	*0.050*	0.044
	F Value	*1.310*	4.065
	Sig. Value	*0.216*	0.000
	Durbin-Watson Statistic	*2.227*	2.167
Theme 1	Adjusted R^2	0.116	0.428
	Standard Error	0.047	0.047
	F Value	2.361	8.776
	Sig. Value	0.008	0.000
	Durbin-Watson	2.427	2.445
Theme 2	Adjusted R^2	0.074	0.201
	Standard Error	0.063	0.058
	F Value	1.834	3.617
	Sig. Value	0.045	0.000
	Durbin-Watson Statistic	1.974	2.250
Theme 3	Adjusted R^2	*0.020*	Dependent Variable (Theme 3) is constant.
	Standard Error	*0.114*	
	F Value	*1.216*	
	Sig. Value	*0.270*	
	Durbin-Watson Statistic	*2.079*	
Theme 4	Adjusted R^2	0.170	0.395
	Standard Error	0.065	0.074
	F Value	3.121	7.766
	Sig. Value	0.000	0.000
	Durbin-Watson Statistic	1.978	2.147

Appendix 16a: Model Summary for TCI Model 2008

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change
1	.728a	0.529	0.479	0.04262	0.529

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGTCI

Appendix 16b: Anova Table for TCI Model 2008

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.249	13	0.019	10.556	.000a
	Residual	0.222	122	0.002		
	Total	0.471	135			

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGTCI

Appendix 16c: Coefficient Table for TCI Model 2008

Coefficients(a)

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-9.716	2.089		-4.65	0		
	LOGPROPWHITES	-0.235	0.06	-0.259	-3.893	0	0.87	1.15
	LOGPROPDNEDS	0.104	0.089	0.082	1.168	0.245	0.773	1.293
	LOGSBD	0.124	0.036	0.246	3.391	0.001	0.734	1.361
	LOGSTA	1.951	0.41	0.34	4.756	0	0.756	1.322
	LOGLTDtoTE	-0.285	0.61	-0.031	-0.467	0.641	0.903	1.107
	LOGINSTSHARE	-0.046	0.05	-0.062	-0.93	0.354	0.864	1.158
	LOGDIRECTSHARE	-0.243	0.109	-0.154	-2.235	0.027	0.81	1.235
	LOGROA	-0.076	0.13	-0.039	-0.587	0.558	0.876	1.141
	AUDTYPE	0.041	0.01	0.283	3.904	0	0.735	1.361
	LISTSTATUS	-0.026	0.01	-0.183	-2.624	0.01	0.795	1.258
	ITYPE1	-0.012	0.011	-0.085	-1.035	0.303	0.566	1.767
	ITYPE2	-0.002	0.011	-0.013	-0.164	0.87	0.63	1.588
	ITYPE4	-0.003	0.011	-0.018	-0.237	0.813	0.639	1.566

a. Dependent Variable: LOGTCI

Appendix 17a: Model Summary for VCI Model 2008

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.724a	0.524	0.473	0.04622	2.395

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGVCI

Appendix 17b: ANOVAs Table for VCI Model 2008

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.287	13	0.022	10.327	.000a
	Residual	0.261	122	0.002		
	Total	0.547	135			

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGVCI

Appendix 17c: Coefficient Table for VCI Model 2008

Coefficients(a)

		Unstandardised Coefficients		Standardised Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-10.749	2.266		-4.743	0		
	LOGPROPWHITES	-0.261	0.066	-0.267	-3.988	0	0.87	1.15
	LOGPROPDNEDS	0.074	0.097	0.054	0.764	0.446	0.773	1.293
	LOGSBD	0.132	0.04	0.243	3.333	0.001	0.734	1.361
	LOGSTA	2.124	0.445	0.343	4.772	0	0.756	1.322
	LOGLTDtoTE	-0.162	0.662	-0.016	-0.246	0.806	0.903	1.107
	LOGINSTSHARE	-0.041	0.054	-0.051	-0.764	0.446	0.864	1.158
	LOGDIRECTSHARE	-0.25	0.118	-0.147	-2.117	0.036	0.81	1.235
	LOGROA	-0.08	0.141	-0.038	-0.567	0.572	0.876	1.141
	AUDTYPE	0.044	0.011	0.286	3.924	0	0.735	1.361
	LISTSTATUS	-0.026	0.011	-0.175	-2.491	0.014	0.795	1.258
	ITYPE1	-0.011	0.012	-0.074	-0.891	0.375	0.566	1.767
	ITYPE2	-0.004	0.012	-0.029	-0.367	0.714	0.63	1.588
	ITYPE4	-0.002	0.012	-0.01	-0.127	0.899	0.639	1.566

a. Dependent Variable: LOGVCI

Appendix 18a: Model Summary for VCI Model 2008

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.550a	0.302	0.228	0.04427	2.167

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOMCI

Appendix 18b: ANOVAs Table for VCI Model 2008

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.104	13	0.008	4.065	.000a
	Residual	0.239	122	0.002		
	Total	0.343	135			

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGMCI

Appendix 18c: Coefficient Table for VCI Model 2008

Coefficients(a)

		Unstandardised Coefficients		Standardised Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-4.152	2.171		-1.913	0.058		
	LOGPROPWHITES	-0.089	0.063	-0.115	-1.413	0.16	0.87	1.15
	LOGPROPDNEDS	0.245	0.093	0.228	2.647	0.009	0.773	1.293
	LOGSBD	0.076	0.038	0.176	1.998	0.048	0.734	1.361
	LOGSTA	1.011	0.426	0.206	2.372	0.019	0.756	1.322
	LOGLTDtoTE	-0.88	0.634	-0.111	-1.389	0.167	0.903	1.107
	LOGINSTSHARE	-0.082	0.051	-0.129	-1.59	0.115	0.864	1.158
	LOGDIRECTSHARE	-0.184	0.113	-0.137	-1.627	0.106	0.81	1.235
	LOGROA	-0.048	0.135	-0.029	-0.354	0.724	0.876	1.141
	AUDTYPE	0.018	0.011	0.144	1.634	0.105	0.735	1.361
	LISTSTATUS	-0.021	0.01	-0.178	-2.101	0.038	0.795	1.258
	ITYPE1	-0.015	0.012	-0.127	-1.268	0.207	0.566	1.767
	ITYPE2	0.01	0.011	0.082	0.859	0.392	0.63	1.588
	ITYPE4	-0.009	0.011	-0.072	-0.757	0.45	0.639	1.566

a. Dependent Variable: LOGMCI

Appendix 19a: Model Summary for THEME1 Model 2008

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.695a	0.483	0.428	0.04727	2.445

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGTHEME1

Appendix 19b : ANOVA Table for THEME1 Model 2008

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.255	13	0.02	8.776	.000a
	Residual	0.273	122	0.002		
	Total	0.528	135			

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGTHEME1

Appendix 19c: Coefficient Table for THEME1 Model 2008

Coefficients(a)

		Unstandardised Coefficients		Standardised Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-10.038	2.317		-4.332	0		
	LOGPROPWHITES	-0.276	0.067	-0.287	-4.112	0	0.87	1.15
	LOGPROPDNEDS	0.108	0.099	0.081	1.092	0.277	0.773	1.293
	LOGSBD	0.125	0.04	0.235	3.099	0.002	0.734	1.361
	LOGSTA	2.005	0.455	0.33	4.406	0	0.756	1.322
	LOGLTDtoTE	-0.261	0.677	-0.026	-0.386	0.7	0.903	1.107
	LOGINSTSHARE	-0.048	0.055	-0.062	-0.883	0.379	0.864	1.158
	LOGDIRECTSHARE	-0.15	0.121	-0.09	-1.247	0.215	0.81	1.235
	LOGROA	-0.071	0.144	-0.034	-0.49	0.625	0.876	1.141
	AUDTYPE	0.04	0.012	0.264	3.478	0.001	0.735	1.361
	LISTSTATUS	-0.017	0.011	-0.113	-1.548	0.124	0.795	1.258
	ITYPE1	-0.008	0.013	-0.054	-0.622	0.535	0.566	1.767
	ITYPE2	0.002	0.012	0.015	0.181	0.857	0.63	1.588
	ITYPE4	-0.001	0.012	-0.004	-0.044	0.965	0.639	1.566

a. Dependent Variable: LOGTHEME1

Appendix 20a: Model Summary for THEME2 Model 2008

Model Summary[b]

		Model Summary(b)			
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.527a	0.278	0.201	0.05081	2.25

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGTHEME2

Appendix 20b: ANOVAs Table for THEME2 Model 2008

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.121	13	0.009	3.617	.000a
	Residual	0.315	122	0.003		
	Total	0.436	135			

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGTHEME2

Appendix 20c: Coefficient Table for THEME2 Model 2008

Coefficients(a)

		Unstandardised Coefficients		Standardised Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-7.267	2.491		-2.917	0.004		
	LOGPROPWHITES	0.01	0.072	0.012	0.144	0.885	0.87	1.15
	LOGPROPDNEDS	0.186	0.106	0.153	1.748	0.083	0.773	1.293
	LOGSBD	0.098	0.043	0.202	2.248	0.026	0.734	1.361
	LOGSTA	1.568	0.489	0.283	3.205	0.002	0.756	1.322
	LOGLTDtoTE	-0.699	0.727	-0.078	-0.962	0.338	0.903	1.107
	LOGINSTSHARE	-0.032	0.059	-0.045	-0.539	0.591	0.864	1.158
	LOGDIRECTSHARE	-0.162	0.13	-0.106	-1.246	0.215	0.81	1.235
	LOGROA	-0.113	0.155	-0.06	-0.73	0.467	0.876	1.141
	AUDTYPE	0.011	0.012	0.079	0.885	0.378	0.735	1.361
	LISTSTATUS	-0.015	0.012	-0.11	-1.276	0.204	0.795	1.258
	ITYPE1	-0.023	0.014	-0.175	-1.716	0.089	0.566	1.767
	ITYPE2	0.002	0.013	0.019	0.192	0.848	0.63	1.588
	ITYPE4	-0.023	0.013	-0.17	-1.768	0.08	0.639	1.566

a. Dependent Variable: LOGTHEME2

Appendix 21a: Model Summary for THEME4 Model 2008

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.673a	0.453	0.395	0.07405	2.147

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGTHEME4

Appendix 21b: ANOVAs Table for THEME4 Model 2008

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.554	13	0.043	7.766	.000a
	Residual	0.669	122	0.005		
	Total	1.223	135			

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGTHEME4

Appendix 21c: Coefficient Table for THEME4 Model 2008

Coefficients(a)

		Unstandardised Coefficients		Standardised Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-12.009	3.63		-3.308	0.001		
	LOGPROPWHITES	-0.32	0.105	-0.219	-3.047	0.003	0.87	1.15
	LOGPROPDNEDS	0.021	0.155	0.01	0.133	0.895	0.773	1.293
	LOGSBD	0.146	0.063	0.18	2.299	0.023	0.734	1.361
	LOGSTA	2.363	0.713	0.255	3.315	0.001	0.756	1.322
	LOGLTDtoTE	-0.046	1.06	-0.003	-0.043	0.966	0.903	1.107
	LOGINSTSHARE	-0.041	0.086	-0.034	-0.473	0.637	0.864	1.158
	LOGDIRECTSHARE	-0.584	0.189	-0.23	-3.089	0.002	0.81	1.235
	LOGROA	-0.071	0.226	-0.022	-0.313	0.754	0.876	1.141
	AUDTYPE	0.073	0.018	0.314	4.018	0	0.735	1.361
	LISTSTATUS	-0.065	0.017	-0.289	-3.851	0	0.795	1.258
	ITYPE1	-0.02	0.02	-0.089	-0.997	0.321	0.566	1.767
	ITYPE2	-0.024	0.019	-0.109	-1.294	0.198	0.63	1.588
	ITYPE4	0.004	0.019	0.019	0.224	0.823	0.639	1.566

a. Dependent Variable: LOGTHEME4

Appendix 22a: Model Summary for TCI Model 2001

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.538a	0.29	0.214	0.04171	2.334

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGTCI

Appendix 22b: Anova Table for TCI Model 2001

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.087	13	0.007	3.831	.000a
	Residual	0.212	122	0.002		
	Total	0.299	135			

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGTCI

Appendix 22c: Coefficient Table for TCI Model 2001

Coefficients(a)

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-0.718	3.569		-0.201	0.841		
	REFLOGPROPWHITES	-0.034	0.107	-0.027	-0.313	0.755	0.808	1.237
	REFLOGPROPDNEDS	0.041	0.058	0.061	0.719	0.473	0.814	1.229
	REFLOGSBD	0.165	0.053	0.312	3.137	0.002	0.588	1.701
	REFLOGSTA	0.018	0.676	0.003	0.026	0.979	0.516	1.939
	REFLOGLTDtoTE	0.52	0.252	0.173	2.06	0.042	0.823	1.216
	REFLOGINSTSHARE	0.021	0.051	0.035	0.404	0.687	0.79	1.265
	REFLOGDRCTSHARE	0.038	0.144	0.022	0.26	0.795	0.806	1.241
	REFLOGROA	0.333	0.177	0.166	1.883	0.062	0.749	1.335
	AUDTYPE	0.019	0.009	0.173	2.041	0.043	0.808	1.237
	LISTSTATUS	0.002	0.012	0.018	0.213	0.831	0.819	1.221
	ITYPE1	0.001	0.01	0.005	0.055	0.956	0.655	1.526
	ITYPE2	-0.017	0.011	-0.154	-1.577	0.117	0.611	1.637
	ITYPE4	-0.01	0.01	-0.092	-0.981	0.329	0.665	1.505

a. Dependent Variable: LOGTCI

Appendix 23a: Model Summary for VCI Model 2001

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.545a	0.298	0.223	0.04409	2.284

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGVCI

Appendix 23b: ANOVAs Table for VCI Model 2001

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.1	13	0.008	3.975	.000a
	Residual	0.237	122	0.002		
	Total	0.338	135			

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGVCI

Appendix 23c: Coefficient Table for VCI Model 2001

Coefficients(a)

		Unstandardised Coefficients		Standardised Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-1.353	3.772		-0.359	0.721		
	REFLOGPROPWHITES	-0.081	0.113	-0.06	-0.712	0.478	0.808	1.237
	REFLOGPROPDNEDS	0.019	0.061	0.026	0.311	0.756	0.814	1.229
	REFLOGSBD	0.17	0.056	0.302	3.054	0.003	0.588	1.701
	REFLOGSTA	0.133	0.714	0.02	0.187	0.852	0.516	1.939
	REFLOGLTDtoTE	0.542	0.267	0.17	2.033	0.044	0.823	1.216
	REFLOGINSTSHARE	0.01	0.054	0.016	0.186	0.853	0.79	1.265
	REFLOGDRCTSHARE	0.085	0.153	0.047	0.558	0.578	0.806	1.241
	REFLOGROA	0.369	0.187	0.173	1.977	0.05	0.749	1.335
	AUDTYPE	0.021	0.01	0.184	2.183	0.031	0.808	1.237
	LISTSTATUS	0.003	0.012	0.018	0.212	0.832	0.819	1.221
	ITYPE1	0.002	0.011	0.015	0.155	0.877	0.655	1.526
	ITYPE2	-0.02	0.011	-0.17	-1.75	0.083	0.611	1.637
	ITYPE4	-0.015	0.011	-0.124	-1.335	0.184	0.665	1.505

a. Dependent Variable: LOGVCI

Appendix 24a: Model Summary for MCI Model 2001

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.350a	0.123	0.029	0.05062	2.227

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1

b. Dependent Variable: LOGMCI

Appendix 24b: ANOVAs Table for MCI Model 2001

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.044	13	0.003	1.31	.216a
	Residual	0.313	122	0.003		
	Total	0.356	135			

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1

b. Dependent Variable: LOGMCI

Appendix 24c: Coefficient Table for MCI Model 2001

Coefficients(a)

		Unstandardised Coefficients		Standardised Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	2.984	4.331		0.689	0.492		
	REFLOGPROPWHITES	0.186	0.13	0.135	1.427	0.156	0.808	1.237
	REFLOGPROPDNEDS	0.143	0.07	0.192	2.046	0.043	0.814	1.229
	REFLOGSBD	0.1	0.064	0.173	1.563	0.121	0.588	1.701
	REFLOGSTA	-0.632	0.82	-0.091	-0.771	0.442	0.516	1.939
	REFLOGLTDtoTE	0.396	0.306	0.121	1.294	0.198	0.823	1.216
	REFLOGINSTSHARE	0.066	0.062	0.101	1.055	0.293	0.79	1.265
	REFLOGDRCTSHARE	-0.146	0.175	-0.079	-0.832	0.407	0.806	1.241
	REFLOGROA	0.139	0.215	0.064	0.65	0.517	0.749	1.335
	AUDTYPE	0.003	0.011	0.023	0.247	0.806	0.808	1.237
	LISTSTATUS	0.003	0.014	0.017	0.178	0.859	0.819	1.221
	ITYPE1	-0.005	0.013	-0.046	-0.435	0.665	0.655	1.526
	ITYPE2	-0.005	0.013	-0.041	-0.381	0.704	0.611	1.637
	ITYPE4	0.01	0.013	0.079	0.756	0.451	0.665	1.505

a. Dependent Variable: LOGMCI

Appendix 25a: Model Summary for THEME1 Model 2001

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.448a	0.201	0.116	0.0478	2.247

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1

b. Dependent Variable: LOGTHEME1

Appendix 25b : ANOVA Table for THEME1 Model 2001

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.07	13	0.005	2.361	.008a
	Residual	0.279	122	0.002		
	Total	0.349	135			

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1

b. Dependent Variable: LOGTHEME1

Appendix 25c: Coefficient Table for THEME1 Model 2001

Coefficients(a)

		Unstandardised Coefficients		Standardised Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-0.439	4.089		-0.107	0.915		
	REFLOGPROPWHITES	-0.055	0.123	-0.04	-0.448	0.655	0.808	1.237
	REFLOGPROPDNEDS	0.1	0.066	0.135	1.508	0.134	0.814	1.229
	REFLOGSBD	0.148	0.06	0.26	2.46	0.015	0.588	1.701
	REFLOGSTA	0.058	0.774	0.008	0.075	0.941	0.516	1.939
	REFLOGLTDtoTE	0.014	0.289	0.004	0.05	0.96	0.823	1.216
	REFLOGINSTSHARE	-0.007	0.059	-0.01	-0.112	0.911	0.79	1.265
	REFLOGDRCTSHARE	0.108	0.165	0.059	0.651	0.517	0.806	1.241
	REFLOGROA	0.152	0.203	0.07	0.751	0.454	0.749	1.335
	AUDTYPE	0.019	0.01	0.165	1.835	0.069	0.808	1.237
	LISTSTATUS	0.008	0.013	0.057	0.634	0.528	0.819	1.221
	ITYPE1	0.014	0.012	0.116	1.161	0.248	0.655	1.526
	ITYPE2	-0.001	0.012	-0.012	-0.114	0.909	0.611	1.637
	ITYPE4	0.001	0.012	0.009	0.087	0.931	0.665	1.505

a. Dependent Variable: LOGTHEME1

Appendix 26a: Model Summary for THEME2 Model 2001

Model Summary[b]

		Model Summary(b)			
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.404a	0.163	0.074	0.06356	1.974

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1

b. Dependent Variable: LOGTHEME2

Appendix 26b: ANOVAs Table for THEME2 Model 2001

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.096	13	0.007	1.834	.045a
	Residual	0.493	122	0.004		
	Total	0.589	135			

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1

b. Dependent Variable: LOGTHEME2

Appendix 26c: Coefficient Table for THEME2 Model 2001

Coefficients(a)

		Unstandardised Coefficients		Standardised Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	4.258	5.438		0.783	0.435		
	REFLOGPROPWHITES	0.027	0.163	0.015	0.164	0.87	0.808	1.237
	REFLOGPROPDNEDS	-0.082	0.088	-0.085	-0.928	0.355	0.814	1.229
	REFLOGSBD	0.161	0.08	0.218	2.016	0.046	0.588	1.701
	REFLOGSTA	-1.038	1.029	-0.116	-1.008	0.315	0.516	1.939
	REFLOGLTDtoTE	1.324	0.385	0.314	3.443	0.001	0.823	1.216
	REFLOGINSTSHARE	0.08	0.078	0.096	1.026	0.307	0.79	1.265
	REFLOGDRCTSHARE	-0.173	0.22	-0.073	-0.786	0.433	0.806	1.241
	REFLOGROA	0.513	0.269	0.182	1.902	0.059	0.749	1.335
	AUDTYPE	0.004	0.014	0.03	0.323	0.747	0.808	1.237
	LISTSTATUS	-0.024	0.018	-0.124	-1.357	0.177	0.819	1.221
	ITYPE1	-0.017	0.016	-0.11	-1.072	0.286	0.655	1.526
	ITYPE2	-0.024	0.016	-0.157	-1.48	0.141	0.611	1.637
	ITYPE4	-0.015	0.016	-0.095	-0.932	0.353	0.665	1.505

a. Dependent Variable: LOGTHEME2

Appendix 27a: Model Summary for THEME3 Model 2001

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.339a	0.115	0.02	0.11495	2.079

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGTHEME3

Appendix 27b: ANOVAs Table for THEME3 Model 2001

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.209	13	0.016	1.216	.276a
	Residual	1.612	122	0.013		
	Total	1.821	135			

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGTHEME3

Appendix 27c: Coefficient Table for THEME3 Model 2001

Coefficients(a)

		Unstandardised Coefficients		Standardised Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	3.561	9.835		0.362	0.718		
	REFLOGPROPWHITES	-0.114	0.295	-0.037	-0.386	0.7	0.808	1.237
	REFLOGPROPDNEDS	0.06	0.159	0.036	0.376	0.708	0.814	1.229
	REFLOGSBD	0.199	0.145	0.153	1.376	0.171	0.588	1.701
	REFLOGSTA	-0.851	1.861	-0.054	-0.457	0.648	0.516	1.939
	REFLOGLTDtoTE	0.773	0.695	0.104	1.111	0.269	0.823	1.216
	REFLOGINSTSHARE	0.25	0.141	0.17	1.774	0.079	0.79	1.265
	REFLOGDRCTSHARE	-0.095	0.398	-0.023	-0.238	0.812	0.806	1.241
	REFLOGROA	-0.069	0.487	-0.014	-0.142	0.887	0.749	1.335
	AUDTYPE	0.013	0.025	0.05	0.523	0.602	0.808	1.237
	LISTSTATUS	0.017	0.032	0.051	0.544	0.588	0.819	1.221
	ITYPE1	0.013	0.028	0.049	0.468	0.64	0.655	1.526
	ITYPE2	-0.022	0.03	-0.081	-0.746	0.457	0.611	1.637
	ITYPE4	-0.029	0.029	-0.107	-1.023	0.308	0.665	1.505

a. Dependent Variable: LOGTHEME3

Appendix 28a: Model Summary for THEME4 Model 2001

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.500a	0.25	0.17	0.06547	1.978

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGTHEME3

Appendix 28b: ANOVAs Table for THEME4 Model 2001

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.174	13	0.013	3.121	.000a
	Residual	0.523	122	0.004		
	Total	0.697	135			

a. Predictors: (Constant), ITYPE4, LISTSTATUS, LOGPROPWHITES, LOGLTDtoTE, LOGINSTSHARE, LOGROA, LOGPROPDNEDS, LOGSBD, ITYPE2, LOGDIRECTSHARE, LOGSTA, AUDTYPE, ITYPE1
b. Dependent Variable: LOGTHEME3

Appendix 28c: Coefficient Table for THEME4 Model 2001

Coefficients(a)

		Unstandardised Coefficients		Standardised Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-4.266	5.602		-0.762	0.448		
	REFLOGPROPWHITES	-0.024	0.168	-0.012	-0.141	0.888	0.808	1.237
	REFLOGPROPDNEDS	-0.014	0.091	-0.014	-0.158	0.875	0.814	1.229
	REFLOGSBD	0.171	0.082	0.213	2.079	0.04	0.588	1.701
	REFLOGSTA	0.625	1.06	0.064	0.589	0.557	0.516	1.939
	REFLOGLTDtoTE	0.893	0.396	0.195	2.254	0.026	0.823	1.216
	REFLOGINSTSHARE	-0.025	0.08	-0.027	-0.312	0.756	0.79	1.265
	REFLOGDRCTSHARE	0.088	0.226	0.034	0.387	0.7	0.806	1.241
	REFLOGROA	0.594	0.278	0.194	2.141	0.034	0.749	1.335
	AUDTYPE	0.031	0.014	0.187	2.148	0.034	0.808	1.237
	LISTSTATUS	0.003	0.018	0.016	0.183	0.855	0.819	1.221
	ITYPE1	-0.019	0.016	-0.113	-1.17	0.244	0.655	1.526
	ITYPE2	-0.039	0.017	-0.229	-2.283	0.024	0.611	1.637
	ITYPE4	-0.025	0.016	-0.145	-1.511	0.133	0.665	1.505

a. Dependent Variable: LOGTHEME4

Appendix 29a: Collinearity Diagnostics for TCI 2001

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions													
				(Constant)	REFLOGPROPWHITES	REFLOGPROPDNEDS	REFLOGSBD	REFLOGSTA	REFLOGLTDtoTE	REFLOGINSTSHARE	REFLOGDRCTSHARE	REFLOGROA	AUDTYPE	LISTSTATUS	ITYPE1	ITYPE2	ITYPE4
1	1	9.940	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	1.050	3.077	.00	.03	.00	.00	.00	.00	.00	.00	.00	.01	.00	.07	.07	.29
	3	1.020	3.122	.00	.00	.00	.00	.00	.00	.00	.00	.00	.02	.00	.23	.22	.00
	4	.743	3.658	.00	.06	.00	.00	.00	.00	.00	.00	.00	.62	.00	.01	.01	.05
	5	.519	4.375	.00	.62	.01	.00	.00	.00	.01	.00	.01	.14	.00	.01	.00	.05
	6	.278	5.984	.00	.07	.00	.00	.00	.00	.00	.00	.00	.01	.03	.56	.50	.43
	7	.134	8.620	.00	.06	.14	.00	.00	.00	.31	.00	.05	.00	.28	.05	.03	.00
	8	.132	8.689	.00	.00	.71	.00	.00	.00	.16	.00	.03	.07	.03	.00	.00	.00
	9	.089	10.589	.00	.04	.04	.00	.00	.00	.07	.00	.66	.00	.30	.00	.08	.00
	10	.083	10.943	.00	.06	.02	.00	.00	.00	.26	.03	.12	.01	.25	.04	.03	.12
	11	.012	28.939	.00	.02	.06	.03	.00	.00	.11	.86	.01	.02	.04	.00	.00	.00
	12	.002	65.410	.00	.04	.00	.79	.00	.01	.01	.10	.01	.03	.01	.01	.01	.01
	13	.000	264.356	.00	.00	.01	.00	.00	.99	.00	.01	.10	.00	.02	.02	.05	.02
	14	4.961E-7	4475.932	1.00	.00	.02	.18	1.00	.00	.07	.00	.00	.04	.04	.00	.00	.02

a. Dependent Variable: REFLOGTCI

Appendix 29b: Collinearity Diagnostics for VCI 2001

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions													
				(Constant)	REFLOGPROPWHITES	REFLOGPROPDNEDS	REFLOGSBD	REFLOGSTA	REFLOGLTDtoTE	REFLOGINSTSHARE	REFLOGDRCTSHARE	REFLOGROA	AUDTYPE	LISTSTATUS	ITYPE1	ITYPE2	ITYPE4
1	1	9.940	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	1.050	3.077	.00	.03	.00	.00	.00	.00	.00	.00	.00	.01	.00	.07	.07	.29
	3	1.020	3.122	.00	.00	.00	.00	.00	.00	.00	.00	.00	.02	.00	.23	.22	.00
	4	.743	3.658	.00	.06	.00	.00	.00	.00	.00	.00	.00	.62	.00	.01	.01	.05
	5	.519	4.375	.00	.62	.01	.00	.00	.00	.01	.00	.01	.14	.00	.01	.00	.05
	6	.278	5.984	.00	.07	.00	.00	.00	.00	.00	.00	.00	.01	.03	.56	.50	.43
	7	.134	8.620	.00	.06	.14	.00	.00	.00	.31	.00	.05	.00	.28	.05	.03	.00
	8	.132	8.689	.00	.00	.71	.00	.00	.00	.16	.00	.03	.07	.03	.00	.00	.00
	9	.089	10.589	.00	.04	.04	.00	.00	.00	.07	.00	.66	.00	.30	.00	.08	.00
	10	.083	10.943	.00	.06	.02	.00	.00	.00	.26	.03	.12	.01	.25	.04	.03	.12
	11	.012	28.939	.00	.02	.06	.03	.00	.00	.11	.86	.01	.02	.04	.00	.00	.00
	12	.002	65.410	.00	.04	.00	.79	.00	.01	.01	.10	.01	.03	.01	.01	.01	.01
	13	.000	264.356	.00	.00	.01	.00	.00	.99	.00	.01	.10	.00	.02	.02	.05	.02
	14	4.961E-7	4475.932	1.00	.00	.02	.18	1.00	.00	.07	.00	.00	.04	.04	.00	.00	.02

a. Dependent Variable: REFLOGVCI

Appendix 29c: Collinearity Diagnostics for VCI 2001

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions													
				(Constant)	REFLOGPROPWHITES	REFLOGPROPDNEDS	REFLOGSBD	REFLOGSTA	REFLOGLTDtoTE	REFLOGINSTSHARE	REFLOGDRCTSHARE	REFLOGROA	AUDTYPE	LISTSTATUS	ITYPE1	ITYPE2	ITYPE4
1	1	9.940	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	1.050	3.077	.00	.03	.00	.00	.00	.00	.00	.00	.00	.01	.00	.07	.07	.29
	3	1.020	3.122	.00	.00	.00	.00	.00	.00	.00	.00	.00	.02	.00	.23	.22	.00
	4	.743	3.658	.00	.06	.00	.00	.00	.00	.00	.00	.00	.62	.00	.01	.01	.05
	5	.519	4.375	.00	.62	.01	.00	.00	.00	.01	.00	.01	.14	.00	.01	.00	.05
	6	.278	5.984	.00	.07	.00	.00	.00	.00	.00	.00	.00	.01	.03	.56	.50	.43
	7	.134	8.620	.00	.06	.14	.00	.00	.00	.31	.00	.05	.00	.28	.05	.03	.00
	8	.132	8.689	.00	.00	.71	.00	.00	.00	.16	.00	.03	.07	.03	.00	.00	.00
	9	.089	10.589	.00	.04	.04	.00	.00	.00	.07	.00	.66	.00	.30	.00	.08	.00
	10	.083	10.943	.00	.06	.02	.00	.00	.00	.26	.03	.12	.01	.25	.04	.03	.12
	11	.012	28.939	.00	.02	.06	.03	.00	.00	.11	.86	.01	.02	.04	.00	.00	.00
	12	.002	65.410	.00	.04	.00	.79	.00	.01	.01	.10	.01	.03	.01	.01	.01	.01
	13	.000	264.356	.00	.00	.01	.00	.00	.99	.00	.01	.10	.00	.02	.02	.05	.02
	14	4.961E-7	4475.932	1.00	.00	.02	.18	1.00	.00	.07	.00	.00	.04	.04	.00	.00	.02

a. Dependent Variable: REFLOGMCI

Appendix 29d: Collinearity Diagnostics for THEME1 2001

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions													
				(Constant)	REFLOGPROPWHITES	REFLOGPROPDNEDS	REFLOGSBD	REFLOGSTA	REFLOGLTDtoTE	REFLOGINSTSHARE	REFLOGDRCTSHARE	REFLOGROA	AUDTYPE	LISTSTATUS	ITYPE1	ITYPE2	ITYPE4
1	1	9.940	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	1.050	3.077	.00	.03	.00	.00	.00	.00	.00	.00	.00	.01	.00	.07	.07	.29
	3	1.020	3.122	.00	.00	.00	.00	.00	.00	.00	.00	.00	.02	.00	.23	.22	.00
	4	.743	3.658	.00	.06	.00	.00	.00	.00	.00	.00	.00	.62	.00	.01	.01	.05
	5	.519	4.375	.00	.62	.01	.00	.00	.00	.01	.00	.01	.14	.00	.01	.00	.05
	6	.278	5.984	.00	.07	.00	.00	.00	.00	.00	.00	.00	.01	.03	.56	.50	.43
	7	.134	8.620	.00	.06	.14	.00	.00	.00	.31	.00	.05	.00	.28	.05	.03	.00
	8	.132	8.689	.00	.00	.71	.00	.00	.00	.16	.00	.03	.07	.03	.00	.00	.00
	9	.089	10.589	.00	.04	.04	.00	.00	.00	.07	.00	.66	.00	.30	.00	.08	.00
	10	.083	10.943	.00	.06	.02	.00	.00	.00	.26	.03	.12	.01	.25	.04	.03	.12
	11	.012	28.939	.00	.02	.06	.03	.00	.00	.11	.86	.01	.02	.04	.00	.00	.00
	12	.002	65.410	.00	.04	.00	.79	.00	.01	.01	.10	.01	.03	.01	.01	.01	.01
	13	.000	264.356	.00	.00	.01	.00	.00	.99	.00	.01	.10	.00	.02	.02	.05	.02
	14	4.961E-7	4475.932	1.00	.00	.02	.18	1.00	.00	.07	.00	.00	.04	.04	.00	.00	.02

a. Dependent Variable: REFLOGTHEME1

Appendix 29e: Collinearity Diagnostics for THEME2 2001

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions													
				(Constant)	REFLOGPROPWHITES	REFLOGPROPDNEDS	REFLOGSBD	REFLOGSTA	REFLOGLTDtoTE	REFLOGINSTSHARE	REFLOGDRCTSHARE	REFLOGROA	AUDTYPE	LISTSTATUS	ITYPE1	ITYPE2	ITYPE4
1	1	9.940	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	1.050	3.077	.00	.03	.00	.00	.00	.00	.00	.00	.00	.01	.00	.07	.07	.29
	3	1.020	3.122	.00	.00	.00	.00	.00	.00	.00	.00	.00	.02	.00	.23	.22	.00
	4	.743	3.658	.00	.06	.00	.00	.00	.00	.00	.00	.00	.62	.00	.01	.01	.05
	5	.519	4.375	.00	.62	.01	.00	.00	.00	.01	.00	.01	.14	.00	.01	.00	.05
	6	.278	5.984	.00	.07	.00	.00	.00	.00	.00	.00	.00	.01	.03	.56	.50	.43
	7	.134	8.620	.00	.06	.14	.00	.00	.00	.31	.00	.05	.00	.28	.05	.03	.00
	8	.132	8.689	.00	.00	.71	.00	.00	.00	.16	.00	.03	.07	.03	.00	.00	.00
	9	.089	10.589	.00	.04	.04	.00	.00	.00	.07	.00	.66	.00	.30	.00	.08	.00
	10	.083	10.943	.00	.06	.02	.00	.00	.00	.26	.03	.12	.01	.25	.04	.03	.12
	11	.012	28.939	.00	.02	.06	.03	.00	.00	.11	.86	.01	.02	.04	.00	.00	.00
	12	.002	65.410	.00	.04	.00	.79	.00	.01	.01	.10	.01	.03	.01	.01	.01	.01
	13	.000	264.356	.00	.00	.01	.00	.00	.99	.00	.01	.10	.00	.02	.02	.05	.02
	14	4.961E-7	4475.932	1.00	.00	.02	.18	1.00	.00	.07	.00	.00	.04	.04	.00	.00	.02

a. Dependent Variable: REFLOGTHEME2

Appendix 29f: Collinearity Diagnostics for THEME3 2001

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions (Constant)	REFLOGPROPWHITES	REFLOGPROPDNEDS	REFLOGSBD	REFLOGSTA	REFLOGLTDtoTE	REFLOGINSTSHARE	REFLOGDRCTSHARE	REFLOGROA	AUDTYPE	LISTSTATUS	ITYPE1	ITYPE2	ITYPE4
1	1	9.940	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	1.050	3.077	.00	.03	.00	.00	.00	.00	.00	.00	.00	.01	.00	.07	.07	.29
	3	1.020	3.122	.00	.00	.00	.00	.00	.00	.00	.00	.00	.02	.00	.23	.22	.00
	4	.743	3.658	.00	.06	.00	.00	.00	.00	.00	.00	.00	.62	.00	.01	.01	.05
	5	.519	4.375	.00	.62	.01	.00	.00	.00	.01	.00	.01	.14	.00	.01	.00	.05
	6	.278	5.984	.00	.07	.00	.00	.00	.00	.00	.00	.00	.01	.03	.56	.50	.43
	7	.134	8.620	.00	.06	.14	.00	.00	.00	.31	.00	.05	.00	.28	.05	.03	.00
	8	.132	8.689	.00	.00	.71	.00	.00	.00	.16	.00	.03	.07	.03	.00	.00	.00
	9	.089	10.589	.00	.04	.04	.00	.00	.00	.07	.00	.66	.00	.30	.00	.08	.00
	10	.083	10.943	.00	.06	.02	.00	.00	.00	.26	.03	.12	.01	.25	.04	.03	.12
	11	.012	28.939	.00	.02	.06	.03	.00	.00	.11	.86	.01	.02	.04	.00	.00	.00
	12	.002	65.410	.00	.04	.00	.79	.00	.01	.01	.10	.01	.03	.01	.01	.01	.01
	13	.000	264.356	.00	.00	.01	.00	.00	.99	.00	.01	.10	.00	.02	.02	.05	.02
	14	4.961E-7	4475.932	1.00	.00	.02	.18	1.00	.00	.07	.00	.00	.04	.04	.00	.00	.02

a. Dependent Variable: REFLOGTHEME3

Appendix 29g: Collinearity Diagnostics for THEME4 2001

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions													
				(Constant)	REFLOGPROPWHITES	REFLOGPROPDNEDS	REFLOGSBD	REFLOGSTA	REFLOGLTDtoTE	REFLOGINSTSHARE	REFLOGDRCTSHARE	REFLOGROA	AUDTYPE	LISTSTATUS	ITYPE1	ITYPE2	ITYPE4
1	1	9.940	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	1.050	3.077	.00	.03	.00	.00	.00	.00	.00	.00	.00	.01	.00	.07	.07	.29
	3	1.020	3.122	.00	.00	.00	.00	.00	.00	.00	.00	.00	.02	.00	.23	.22	.00
	4	.743	3.658	.00	.06	.00	.00	.00	.00	.00	.00	.00	.62	.00	.01	.01	.05
	5	.519	4.375	.00	.62	.01	.00	.00	.00	.01	.00	.01	.14	.00	.01	.00	.05
	6	.278	5.984	.00	.07	.00	.00	.00	.00	.00	.00	.00	.01	.03	.56	.50	.43
	7	.134	8.620	.00	.06	.14	.00	.00	.00	.31	.00	.05	.00	.28	.05	.03	.00
	8	.132	8.689	.00	.00	.71	.00	.00	.00	.16	.00	.03	.07	.03	.00	.00	.00
	9	.089	10.589	.00	.04	.04	.00	.00	.00	.07	.00	.66	.00	.30	.00	.08	.00
	10	.083	10.943	.00	.06	.02	.00	.00	.00	.26	.03	.12	.01	.25	.04	.03	.12
	11	.012	28.939	.00	.02	.06	.03	.00	.00	.11	.86	.01	.02	.04	.00	.00	.00
	12	.002	65.410	.00	.04	.00	.79	.00	.01	.01	.10	.01	.03	.01	.01	.01	.01
	13	.000	264.356	.00	.00	.01	.00	.00	.99	.00	.01	.10	.00	.02	.02	.05	.02
	14	4.961E-7	4475.932	1.00	.00	.02	.18	1.00	.00	.07	.00	.00	.04	.04	.00	.00	.02

a. Dependent Variable: REFLOGTHEME4

Appendix 30a: Collinearity Diagnostics for TCI 2008

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions													
				(Constant)	LOGPROPWHITES	LOGPROPDNEDS	LOGSBD	LOGSTA	LOGLTDtoTE	LOGINSTSHARE	LOGDIRECTSHARE	LOGROA	AUDTYPE	LISTSTATUS	ITYPE1	ITYPE2	ITYPE4
1	1	10.091	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	1.064	3.080	.00	.00	.00	.00	.00	.00	.00	.00	.00	.07	.00	.00	.22	.16
	3	1.014	3.155	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.26	.05	.12
	4	.703	3.788	.00	.00	.00	.00	.00	.00	.00	.00	.00	.66	.00	.00	.07	.04
	5	.381	5.143	.00	.29	.00	.00	.00	.00	.01	.00	.01	.00	.08	.12	.10	.24
	6	.282	5.978	.00	.51	.00	.00	.00	.00	.01	.00	.01	.01	.11	.18	.15	.12
	7	.146	8.311	.00	.03	.00	.00	.00	.00	.02	.00	.12	.01	.57	.24	.30	.22
	8	.120	9.166	.00	.04	.05	.00	.00	.00	.69	.00	.08	.01	.07	.08	.08	.03
	9	.113	9.458	.00	.00	.37	.00	.00	.00	.01	.00	.42	.00	.08	.04	.01	.00
	10	.064	12.516	.00	.09	.47	.00	.00	.00	.12	.05	.31	.12	.01	.02	.02	.01
	11	.016	25.326	.00	.00	.08	.15	.00	.00	.12	.63	.02	.01	.03	.00	.00	.01
	12	.005	45.078	.00	.01	.00	.83	.00	.00	.01	.29	.00	.09	.00	.03	.00	.02
	13	1.653E-5	781.241	.03	.01	.00	.00	.03	1.00	.01	.00	.01	.00	.00	.02	.00	.02
	14	1.551E-6	2550.748	.97	.00	.03	.01	.97	.00	.01	.01	.02	.00	.04	.00	.00	.00

a. Dependent Variable: LOGTCI

Appendix 30b: Collinearity Diagnostics for VCI 2008

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions (Constant)	LOGPROPWHITES	LOGPROPDNEDS	LOGSBD	LOGSTA	LOGLTDtoTE	LOGINSTSHARE	LOGDIRECTSHARE	LOGROA	AUDTYPE	LISTSTATUS	ITYPE1	ITYPE2	ITYPE4
1	1	10.091	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	1.064	3.080	.00	.00	.00	.00	.00	.00	.00	.00	.00	.07	.00	.00	.22	.16
	3	1.014	3.155	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.26	.05	.12
	4	.703	3.788	.00	.00	.00	.00	.00	.00	.00	.00	.00	.66	.00	.00	.07	.04
	5	.381	5.143	.00	.29	.00	.00	.00	.00	.01	.00	.01	.00	.08	.12	.10	.24
	6	.282	5.978	.00	.51	.00	.00	.00	.00	.01	.00	.01	.01	.11	.18	.15	.12
	7	.146	8.311	.00	.03	.00	.00	.00	.00	.02	.00	.12	.01	.57	.24	.30	.22
	8	.120	9.166	.00	.04	.05	.00	.00	.00	.69	.00	.08	.01	.07	.08	.08	.03
	9	.113	9.458	.00	.00	.37	.00	.00	.00	.01	.00	.42	.00	.08	.04	.01	.00
	10	.064	12.516	.00	.09	.47	.00	.00	.00	.12	.05	.31	.12	.01	.02	.02	.01
	11	.016	25.326	.00	.00	.08	.15	.00	.00	.12	.63	.02	.01	.03	.00	.00	.01
	12	.005	45.078	.00	.01	.00	.83	.00	.00	.01	.29	.00	.09	.00	.03	.00	.02
	13	1.653E-5	781.241	.03	.01	.00	.00	.03	1.00	.01	.00	.01	.00	.00	.02	.00	.02
	14	1.551E-6	2550.748	.97	.00	.03	.01	.97	.00	.01	.01	.02	.00	.04	.00	.00	.00

a. Dependent Variable: LOGVCI

Appendix 30c: Collinearity Diagnostics for MCI 2008

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions													
				(Constant)	LOGPROPWHITES	LOGPROPDNEDS	LOGSBD	LOGSTA	LOGLTDtoTE	LOGINSTSHARE	LOGDIRECTSHARE	LOGROA	AUDTYPE	LISTSTATUS	ITYPE1	ITYPE2	ITYPE4
1	1	10.091	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	1.064	3.080	.00	.00	.00	.00	.00	.00	.00	.00	.00	.07	.00	.00	.22	.16
	3	1.014	3.155	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.26	.05	.12
	4	.703	3.788	.00	.00	.00	.00	.00	.00	.00	.00	.00	.66	.00	.00	.07	.04
	5	.381	5.143	.00	.29	.00	.00	.00	.00	.01	.00	.01	.00	.08	.12	.10	.24
	6	.282	5.978	.00	.51	.00	.00	.00	.00	.01	.00	.01	.01	.11	.18	.15	.12
	7	.146	8.311	.00	.03	.00	.00	.00	.00	.02	.00	.12	.01	.57	.24	.30	.22
	8	.120	9.166	.00	.04	.05	.00	.00	.00	.69	.00	.08	.01	.07	.08	.08	.03
	9	.113	9.458	.00	.00	.37	.00	.00	.00	.01	.00	.42	.00	.08	.04	.01	.00
	10	.064	12.516	.00	.09	.47	.00	.00	.00	.12	.05	.31	.12	.01	.02	.02	.01
	11	.016	25.326	.00	.00	.08	.15	.00	.00	.12	.63	.02	.01	.03	.00	.00	.01
	12	.005	45.078	.00	.01	.00	.83	.00	.00	.01	.29	.00	.09	.00	.03	.00	.02
	13	1.653E-5	781.241	.03	.01	.00	.00	.03	1.00	.01	.00	.01	.00	.00	.02	.00	.02
	14	1.551E-6	2550.748	.97	.00	.03	.01	.97	.00	.01	.01	.02	.00	.04	.00	.00	.00

a. Dependent Variable: LOGMCI

Appendix 30d: Collinearity Diagnostics for THEME1 2008

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions													
				(Constant)	LOGPROPWHITES	LOGPROPDNEDS	LOGSBD	LOGSTA	LOGLTDtoTE	LOGINSTSHARE	LOGDIRECTSHARE	LOGROA	AUDTYPE	LISTSTATUS	ITYPE1	ITYPE2	ITYPE4
1	1	10.091	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	1.064	3.080	.00	.00	.00	.00	.00	.00	.00	.00	.00	.07	.00	.00	.22	.16
	3	1.014	3.155	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.26	.05	.12
	4	.703	3.788	.00	.00	.00	.00	.00	.00	.00	.00	.00	.66	.00	.00	.07	.04
	5	.381	5.143	.00	.29	.00	.00	.00	.00	.01	.00	.01	.00	.08	.12	.10	.24
	6	.282	5.978	.00	.51	.00	.00	.00	.00	.01	.00	.01	.01	.11	.18	.15	.12
	7	.146	8.311	.00	.03	.00	.00	.00	.00	.02	.00	.12	.01	.57	.24	.30	.22
	8	.120	9.166	.00	.04	.05	.00	.00	.00	.69	.00	.08	.01	.07	.08	.08	.03
	9	.113	9.458	.00	.00	.37	.00	.00	.00	.01	.00	.42	.00	.08	.04	.01	.00
	10	.064	12.516	.00	.09	.47	.00	.00	.00	.12	.05	.31	.12	.01	.02	.02	.01
	11	.016	25.326	.00	.00	.08	.15	.00	.00	.12	.63	.02	.01	.03	.00	.00	.01
	12	.005	45.078	.00	.01	.00	.83	.00	.00	.01	.29	.00	.09	.00	.03	.00	.02
	13	1.653E-5	781.241	.03	.01	.00	.00	.03	1.00	.01	.00	.01	.00	.00	.02	.00	.02
	14	1.551E-6	2550.748	.97	.00	.03	.01	.97	.00	.01	.01	.02	.00	.04	.00	.00	.00

a. Dependent Variable: LOGTHEME1

Appendix 30e: Collinearity Diagnostics for THEME2 2008

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions													
				(Constant)	LOGPROPWHITES	LOGPROPDNEDS	LOGSBD	LOGSTA	LOGLTDtoTE	LOGINSTSHARE	LOGDIRECTSHARE	LOGROA	AUDTYPE	LISTSTATUS	ITYPE1	ITYPE2	ITYPE4
1	1	10.091	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	1.064	3.080	.00	.00	.00	.00	.00	.00	.00	.00	.00	.07	.00	.00	.22	.16
	3	1.014	3.155	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.26	.05	.12
	4	.703	3.788	.00	.00	.00	.00	.00	.00	.00	.00	.00	.66	.00	.00	.07	.04
	5	.381	5.143	.00	.29	.00	.00	.00	.00	.01	.00	.01	.00	.08	.12	.10	.24
	6	.282	5.978	.00	.51	.00	.00	.00	.00	.01	.00	.01	.01	.11	.18	.15	.12
	7	.146	8.311	.00	.03	.00	.00	.00	.00	.02	.00	.12	.01	.57	.24	.30	.22
	8	.120	9.166	.00	.04	.05	.00	.00	.00	.69	.00	.08	.01	.07	.08	.08	.03
	9	.113	9.458	.00	.00	.37	.00	.00	.00	.01	.00	.42	.00	.08	.04	.01	.00
	10	.064	12.516	.00	.09	.47	.00	.00	.00	.12	.05	.31	.12	.01	.02	.02	.01
	11	.016	25.326	.00	.00	.08	.15	.00	.00	.12	.63	.02	.01	.03	.00	.00	.01
	12	.005	45.078	.00	.01	.00	.83	.00	.00	.01	.29	.00	.09	.00	.03	.00	.02
	13	1.653E-5	781.241	.03	.01	.00	.00	.03	1.00	.01	.00	.01	.00	.00	.02	.00	.02
	14	1.551E-6	2550.748	.97	.00	.03	.01	.97	.00	.01	.01	.02	.00	.04	.00	.00	.00

a. Dependent Variable: LOGTHEME2

Appendix 30f: Collinearity Diagnostics for THEME4 2008

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions													
				(Constant)	LOGPROPWHITES	LOGPROPDNEDS	LOGSBD	LOGSTA	LOGLTDtoTE	LOGINSTSHARE	LOGDIRECTSHARE	LOGROA	AUDTYPE	LISTSTATUS	ITYPE1	ITYPE2	ITYPE4
1	1	10.091	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	1.064	3.080	.00	.00	.00	.00	.00	.00	.00	.00	.00	.07	.00	.00	.22	.16
	3	1.014	3.155	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.26	.05	.12
	4	.703	3.788	.00	.00	.00	.00	.00	.00	.00	.00	.00	.66	.00	.00	.07	.04
	5	.381	5.143	.00	.29	.00	.00	.00	.00	.01	.00	.01	.00	.08	.12	.10	.24
	6	.282	5.978	.00	.51	.00	.00	.00	.00	.01	.00	.01	.01	.11	.18	.15	.12
	7	.146	8.311	.00	.03	.00	.00	.00	.00	.02	.00	.12	.01	.57	.24	.30	.22
	8	.120	9.166	.00	.04	.05	.00	.00	.00	.69	.00	.08	.01	.07	.08	.08	.03
	9	.113	9.458	.00	.00	.37	.00	.00	.00	.01	.00	.42	.00	.08	.04	.01	.00
	10	.064	12.516	.00	.09	.47	.00	.00	.00	.12	.05	.31	.12	.01	.02	.02	.01
	11	.016	25.326	.00	.00	.08	.15	.00	.00	.12	.63	.02	.01	.03	.00	.00	.01
	12	.005	45.078	.00	.01	.00	.83	.00	.00	.01	.29	.00	.09	.00	.03	.00	.02
	13	1.653E-5	781.241	.03	.01	.00	.00	.03	1.00	.01	.00	.01	.00	.00	.02	.00	.02
	14	1.551E-6	2550.748	.97	.00	.03	.01	.97	.00	.01	.01	.02	.00	.04	.00	.00	.00

a. Dependent Variable: LOGTHEME4

Appendix 31: List of Code Names of Respondents

Commissioners	
	1. Respondent A
	2. Respondent B
	3. Respondent C
Company Executives	
	4. Respondent D
	5. Respondent E
	6. Respondent F
	7. Respondent G
	8. Respondent H
	9. Respondent I
Labour Union Movement - COSATU	
	10. Respondent J

Appendix 32: Summary of Regression Results for Eleven Models

			2001	2008	2001	2008	2008	2001	2008	2001	2008	2001	2008
Hypothesis No.	**Variables**	**Predicted Sign**	**TCI**	**TCI**	**VCI**	**VCI**	**MCI**	**THEME1**	**THEME1**	**THEME2**	**THEME2**	**THEME4**	**THEME4**
H1	PROPWHITES	-	-ve	-ve***	-ve	-ve***	-ve*	-ve	- ve***	+ ve	+ ve	- ve	- ve***
H2	PROPNEDS	+	+ve	+ve	+ve	+ve	+ve***	+ ve*	+ ve	- ve	+ ve**	- ve	+ ve
H3	SBD	+	+ve***	+ve***	+ve***	+ve***	+ve**	+ ve***	+ ve***	+ ve**	+ ve**	+ ve**	+ ve**
H4	STA	+	+ve	+ve***	+ve	+ve***	+ve***	+ ve	+ ve***	- ve	+ ve***	+ ve	+ ve***
H5	LTDtoTE	+	+ve**	+ve	+ve**	-ve	-ve*	+ ve	- ve	+ ve***	- ve	+ ve**	- ve
H6	INSTSHARE	+	+ve	+ve**	+ve	-ve	-ve*	- ve	- ve	+ ve	- ve	- ve	- ve
H7	DRCTSHARE	-	+ve	+ve	+ve	-ve	-ve*	+ ve	- ve	- ve	- ve	+ ve	- ve***
H8	ROA	+	+ve**	+ve	+ve**	-ve	-ve*	+ ve	- ve	+ ve**	- ve	+ ve**	- ve***
H9	AUDTYPE	+	+ve**	+ve***	+ve**	+ve***	+ve*	+ ve**	+ ve***	+ ve	+ ve	+ ve**	+ ve***
H10	LISTSTATUS	+	+ve	+ve***	+ve	-ve***	+ve**	+ ve	- ve*	- ve*	- ve	+ ve	- ve
H13	ITYPE1	-/+	+ve	+ve	+ve	-ve	+ve	+ ve	- ve	- ve	- ve**	+ ve	- ve
H13	ITYPE2	-/+	-ve	-ve	-ve**	-ve	-ve	- ve	+ ve	- ve*	+ ve	- ve**	- ve*
H13	ITYPE4	-/+	-ve	-ve	-ve	-ve	+ve	+ ve	- ve	- ve	- ve**	- ve	+ ve

Appendix 32a: Sensitivity Analysis on PROPWHITES: OLS Regression Results for 2008

		2008		2008		2008	
		TCI	***PROP BLACKSSENSI***	**THEME1**	***PROP BLACKSSENSI***	**THEME4**	***PROP BLACKSSENSI***
	Exp. Sign	Coefficient Value	*t*-statistic	Coefficient Value	t-statistic	Coefficient Value	t-statistic
(Constant)		-9.702	-4.422***	-10.038	-4.119***	-12.027	-3.222***
REFLOGPROPDNEDS	+	0.098	1.328	0.097	1.249	0.022	0.284
REFLOGSBD	+	0.284	3.718***	0.279	3.491***	0.214	2.655***
REFLOGSTA	+	0.329	4.393***	0.319	4.059***	0.248	3.129***
REFLOGLTDtoTE	+	-0.01	-0.142	-0.005	-0.065	0.013	0.184
REFLOGINSTSHARE	+	-0.036	-0.512	-0.035	-0.475	-0.014	-0.19
REFLOGDRCTSHARE	-	-0.152	-2.1**	-0.087	-1.141	-0.227	-2.963***
REFLOGROA	+	-0.013	-0.191	-0.007	-0.099	-0.002	-0.031
AUDTYPE	+	0.278	3.643***	0.26	3.25***	0.311	3.867***
LISTSTATUS	+	-0.198	-2.713***	-0.129	-1.68**	-0.301	-3.905***
ITYPE1	-/+	0.088	1.029	0.085	0.945	-0.009	-0.102
ITYPE3	-/+	0.153	1.689**	0.121	1.279	0.142	1.49
ITYPE4	-/+	0.093	1.099	0.076	0.846	0.125	1.387
REFLOGPROPWHITES	-	-0.109	-1.593*	-0.139	-1.931**	-0.11	-1.519
Adjusted R^2			0.426		0.368		0.361
Standard Error			0.044		0.049		0.076
F Value			8.722***		7.052***		6.855***
No. of Observations			136		136		136

Where: ***, ** and * denote p-value is significant at the 1%, 5% and 10% level respectively.

Appendix 32b: Sensitivity Analysis on STA: OLS Regression Results for 2008

		2008		2008		2008	
		TCI	***STASMALLSSA***	**THEME1**	***STASMALLSSA***	**THEME4**	***STASMALLSSA***
	Exp. Sign	Coefficient Value	*t*-statistic	Coefficient Value	t-statistic	Coefficient Value	t-statistic
(Constant)		-0.004	-0.005	-0.086	-0.1	-0.298	-0.226
LOGPROPWHITES	+	-0.232	-3.296***	-0.262	-3.554***	-0.199	-2.69***
REFLOGPROPDNEDS	+	0.113	1.524*	0.112	1.447*	0.035	0.446
REFLOGSBD	+	0.259	3.356***	0.251	3.113***	0.192	2.369**
REFLOGLTDtoTE	+	0.002	0.031	0.008	0.107	0.024	0.33
REFLOGINSTSHARE	+	-0.059	-0.82	-0.056	-0.75	-0.029	-0.388
REFLOGDRCTSHARE	-	-0.158	-2.149**	-0.096	-1.254	-0.235	-3.039***
REFLOGROA	+	0.01	0.145	0.014	0.191	0.015	0.202
AUDTYPE	+	0.272	3.524***	0.255	3.166***	0.307	3.79***
LISTSTATUS	+	-0.147	-2.002	-0.076	-0.993	-0.26	-3.382***
ITYPE1	-/+	0.097	1.116**	0.091	1.002	-0.004	-0.047
ITYPE2	-/+	0.109	1.175	0.075	0.771	0.108	1.106
ITYPE4	-/+	0.074	0.87	0.059	0.66	0.113	1.264
STASMALLSSA		-0.2	-2.56**	-0.179	-2.199**	-0.136	-1.657*
Adjusted R^2			0.414		0.362		0.355
Standard Error			0.045		0.049		0.076
F Value			8.341***		6.904***		6.703***
No. of Observations			136		136		136

Where: ***, ** and * denote p-value is significant at the 1%, 5% and 10% level respectively.

Appendix 32c: Sensitivity Analysis on STA (LOWER & UPPER QURTILES): OLS Regression Results for 2008

		2008		2008		2008	
		TCI	***QUARTILES***	**THEME1**	***QUARTILES***	**THEME4**	***QUARTILES***
	Exp. Sign	Coefficient Value	*t*-statistic	Coefficient Value	t-statistic	Coefficient Value	t-statistic
(Constant)		0.581	0.78	0.567	0.689	0.338	0.258
REFLOGPROPWHITES	-	-0.228	-3.393***	-0.256	-3.66***	-0.198	-2.711***
REFLOGPROPDNEDS	+	0.093	1.329	0.09	1.232	0.022	0.282
REFLOGSBD	+	0.205	2.778***	0.194	2.515**	0.157	1.942**
REFLOGLTDtoTE	+	-0.046	-0.692	-0.043	-0.626	-0.008	-0.108
REFLOGINSTSHARE	+	-0.057	-0.858	-0.058	-0.829	-0.028	-0.378
REFLOGDRCTSHARE	+	-0.158	-2.242**	-0.093	-1.271	-0.239	-3.111***
REFLOGROA	-	-0.027	-0.412	-0.024	-0.346	-0.011	-0.157
AUDTYPE	+	0.27	3.621***	0.252	3.234***	0.311	3.818***
LISTSTATUS	+	-0.17	-2.428**	-0.103	-1.403	-0.279	-3.646***
ITYPE1	+	-0.102	-1.226	-0.069	-0.8	-0.098	-1.084
ITYPE2	-/+	-0.004	-0.054	0.024	0.291	-0.104	-1.215
ITYPE4	-/+	-0.012	-0.15	0.003	0.04	0.026	0.302
UPPERQSTA	+	-0.282	-3.901***	-0.283	-3.742***	-0.202	-2.551**
LOWERQSTA	+	0.149	1.957**	0.145	1.831***	0.08	0.97
Adjusted R^2			0.480		0.434		0.381
Standard Error			0.042		0.047		0.074
F Value			9.917***		8.384***		6.939***
No. of Observations			136		136		136

Where: ***, ** and * denote p-value is significant at the 1%, 5% and 10% level respectively.

Appendix 32d: Sensitivity Analysis on PROPWHITES: OLS Regression Results for 2001

		2001		2001		2001	
		TCI	***PROP BLACKSSENSI***	**THEME1**	***PROP BLACKSSENSI***	**THEME4**	***PROP BLACKSSENSI***
	Exp. Sign	Coefficient Value	*t*-statistic	Coefficient Value	t-statistic	Coefficient Value	t-statistic
(Constant)		-0.599	-0.167	-0.233	-0.057	-0.726	-0.726
REFLOGPROPDNEDS	+	0.057	0.675	0.131	1.449*	-0.019	-0.22
REFLOGSBD	+	0.324	3.277***	0.277	2.643***	0.222	2.186**
REFLOGSTA	+	-0.001	-0.011	0.003	0.024	0.06	0.548
REFLOGLTDtoTE	+	0.171	2.033**	0.001	0.012	0.193	2.233**
REFLOGINSTSHARE	+	0.034	0.398	-0.011	-0.119	-0.029	-0.33
REFLOGDRCTSHARE	-	0.017	0.206	0.052	0.577	0.031	0.352
REFLOGROA	+	0.17	1.949**	0.077	0.829	0.197	2.189**
AUDTYPE	+	0.169	1.997	0.16	1.776**	0.184	2.113**
LISTSTATUS	+	0.014	0.165	0.05	0.568	0.013	0.155
ITYPE1	-/+	0.161	1.639*	0.129	1.234	0.119	1.176
ITYPE3	-/+	0.164	1.577*	0.012	0.107	0.242	2.257**
ITYPE4	-/+	0.061	0.607	0.021	0.202	0.077	0.751
REFLOGPROPWHITES	-	-0.038	-0.469	-0.053	-0.63	-0.04	-0.489
Adjusted R^2			0.215		0.117		0.171
Standard Error			0.041		0.047		0.065
F Value			3.844***		2.38***		3.143***
No. of Observations			136		136		136

Where: ***, ** and * denote p-value is significant at the 1%, 5% and 10% level respectively.

Appendix 32e: Sensitivity Analysis on STA (Using Median as Separator): OLS Regression Results for 2001

		2001		2001		2001	
		TCI	***STASMALLSSA***	**THEME1**	***STASMALLSSA***	**THEME4**	***STASMALLSSA***
	Exp. Sign	Coefficient Value	*t*-statistic	Coefficient Value	t-statistic	Coefficient Value	t-statistic
(Constant)		-0.601	-2.453**	-0.137	-0.488	-0.891	-2.349**
LOGPROPWHITES	+	-0.033	-0.386	-0.04	-0.439	-0.027	-0.311
REFLOGPROPDNEDS	+	0.053	0.626	0.137	1.531*	-0.027	-0.319
REFLOGSBD	+	0.276	2.834***	0.267	2.574**	0.153	1.546
REFLOGLTDtoTE	+	0.172	2.064**	0.005	0.058	0.197	2.326**
REFLOGINSTSHARE	+	0.033	0.401	-0.008	-0.092	-0.019	-0.224
REFLOGDRCTSHARE	-	0.034	0.399	0.057	0.626	0.059	0.683
REFLOGROA	+	0.162	1.846**	0.071	0.755	0.185	2.078**
AUDTYPE	+	0.15	1.736**	0.169	1.843**	0.143	1.634*
LISTSTATUS	+	0.012	0.148	0.059	0.664	0.011	0.13
ITYPE1	-/+	0.009	0.099	0.115	1.153	-0.106	-1.119
ITYPE2	-/+	-0.149	-1.531	-0.013	-0.125	-0.221	-2.244**
ITYPE4	-/+	-0.083	-0.893	0.006	0.065	-0.133	-1.413*
STASMALLSSA		0.095	0.962	-0.011	-0.102	0.221	2.2**
Adjusted R^2			0.220		0.116		0.199
Standard Error			0.041		0.047		0.064
F Value			3.931***		2.361***		3.58***
No. of Observations			136		136		136

Where: ***, ** and * denote p-value is significant at the 1%, 5% and 10% level respectively.

Appendix 32f: Sensitivity Analysis on STA (LOWER & UPPER QURTILES): OLS Regression Results for 2001

		2001		2001		2001	
		TCI	***QUARTILES***	**THEME1**	***QUARTILES***	**THEME4**	***QUARTILES***
	Exp. Sign	Coefficient Value	*t*-statistic	Coefficient Value	t-statistic	Coefficient Value	t-statistic
(Constant)		-0.694	-2.771***	-0.181	-0.624	-1.08	-2.736***
REFLOGPROPWHITES	-	-0.063	-0.747	-0.068	-0.752	-0.049	-0.554
REFLOGPROPDNEDS	+	0.034	0.411	0.115	1.281	-0.034	-0.39
REFLOGSBD	+	0.281	2.809***	0.232	2.164**	0.207	2.012**
REFLOGLTDtoTE	+	0.203	2.427**	0.026	0.292	0.229	2.649***
REFLOGINSTSHARE	+	0.047	0.553	-0.003	-0.034	-0.002	-0.022
REFLOGDRCTSHARE	+	0.026	0.313	0.062	0.691	0.035	0.407
REFLOGROA	-	0.181	2.088**	0.081	0.874	0.209	2.332**
AUDTYPE	+	0.14	1.633*	0.138	1.497*	0.166	1.873**
LISTSTATUS	+	0.022	0.266	0.059	0.672	0.029	0.34
ITYPE1	+	-0.049	-0.517	0.075	0.734	-0.17	-1.724**
ITYPE2	-/+	-0.209	-2.113**	-0.052	-0.496	-0.287	-2.816***
ITYPE4	-/+	-0.148	-1.564	-0.033	-0.323	-0.21	-2.144**
UPPERQSTA	+	0.119	1.182	0.077	0.712	0.118	1.138
LOWERQSTA	+	0.201	2.136**	0.157	1.557*	0.196	2.019**
Adjusted R^2			0.242		0.128		0.193
Standard Error			0.040		0.047		0.064
F Value			4.076***		2.244***		3.307***
No. of Observations			136		136		136

Where: ***, ** and * denote p-value is significant at the 1%, 5% and 10% level respectively.

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