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The Effect of Company Performance and Executive Remuneration on Employee's Perceptions of Fairness in the South African Financial Services Industry

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COMPULSORY DECLARATION:

This work has not been previously submitted in whole, or in part, for the award of any degree. It is my own work. Each significant contribution to, and quotation in, this dissertation from the work, or works of other people has been attributed, cited and referenced.

Signature: _____ Date: _____

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Abstract

Orientation:

In recent years there have been widely publicised discussions and even public outcries relating to what seems to be excessive remuneration packages received by CEOs, both in South Africa and abroad. While there is a fairly extensive body of academic literature that has investigated the relationship between executive remuneration and company performance, no research could be found that has investigated how employees' perceptions of executive remuneration, in relation to company performance, influences perceptions of fairness or justice.

Research Purpose:

The main objective of the present study, which was conducted within the South African financial services industry was to establish whether executive remuneration (consisting of basic salary and short-term incentive bonuses) and company performance (in terms of return on equity) affects employees' perceptions of fairness.

Motivation for the Study:

In the South African context there are many senior executives that in most peoples' opinion earn excessive salaries and bonuses, this while the organisations' that they lead perform poorly. As a consequence of their organisation performing badly, employees need to be retrenched, yet executives seemingly do not forego or even reduce their salaries or bonuses in order to retain employees and improve the organisation's bottom line. The widely publisicised (often extreme) examples of this, illustrate and are explained by the disconnect that is currently taking place globally, specifically in South Africa. This disconnect is that of inequality of wealth between the rich and the poor as measured by the Gini Coefficient, in which South Africa is now ranked the most inequal country in the world. The aim of the present study is to better understand some of the dynamics that influence perceptions of fairness in such scenarios. The present study has implications for organisations in terms of distributive

justice outcomes, Human Resources practices and policies, as well various impacts on employee motivation and satisfaction.

Research Design:

A quantitative research approach was followed and a 2^3 full-factorial experimental design employed to investigate the research question. A convenience sampling approach was used and data was collected by means of an online questionnaire. Financial data relating to Johannesburg Stock Exchange (JSE) listed financial services organisations and their executive remuneration and company performance was extracted and analysed in order to construct eight experimental stimilu. Each respondent was given one of these stimuli scenarios to consider and asked to rate their perception fairness of the remuneration package. Respondents were then given two sets of additional information and each time asked to again rate the fairness of the remuneration package. This was done to investigate the impact on fairness if more contextual information is provided. Employees who responded to the survey (n = 97) were from various sectors of the financial services industry. The manipulation check for the experimental stimuli groups was analysed utilising a one-way ANOVA. Data from the full-factorial experiment in terms of the eight condition groups was analysed using descriptive statistics, Principal Component Analysis, a full-factorial ANOVA and a repeated measures ANOVA.

Main Findings:

The results from the full-factorial ANOVA revealed that there was no statisticaly significant main effect differences between the percieved levels of fairness for each of the eight stimuli groups. Participants perceptions of fairness did not change statistically or numerically significantly when given additional information relating to executive remuneration and company performance. No further analysis was done in terms of gender, race or level of education.

Practical Organisational Implications:

The employee and organisational implications with regards to perceptions of fairness and distributive justice by employees may aid organisations in developing and structuring corporate governance, corporate communication and public relations documentation, as well as HR policies and procedures that bring about employee buy-in and transparency with regards to executive remuneration and company performance metrics.

Contribution/Value Proposition:

The link between executive remuneration and company performance has been investigated extensivly in the past, yet no literature could be found where the perceptions of employees and role players have been investigated, in this regard. Moreover, experiments are not common in HR literature and this study makes a contribution in showing how experiments can be conducted to answer HR related research questions.

Keywords: Executive Remuneration, Company Performance, Perceptions of Fairness, Distributive Justice, 2^3 Full Factorial Experimental Design, Factorial ANOVA, Repeated Measures ANOVA.

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CHAPTER 1

INTRODUCTION

Executive remuneration has received extensive focus and attention over the last few years, both in the media as well as academic research and literature. Much of this interest is, however, due to the negative perception of the general public that executives earn excessive remuneration packages in comparison with other employees within organisations (Bradley, 2013; Ozkan, 2011).

A significant number of financial scandals in the late 20th century, culminating in the financial crisis of 2008 has led to a global recession. The down-turn in several large economies have resulted in mass retrenchments and other expense reducing measures, while executives continued to receive large remuneration packages during periods of austerity (Bradley, 2013; Jasso & Milgrom, 2008; Theunissen & Oberholzer, 2013). Much of these financial crises were centred around large corporates, such as Enron, WorldCom, Parmalat and Lehman Brothers Holdings Inc., in which one of the major contributing factors of all of these scandals were large bonuses that were being paid to the executives of these companies, this while share prices were overinflated and financial accounting indicators and statements were incorrectly and in some cases even fraudulently overstated (de Wet, 2012; Heimann, Mullet, & Bonnefon, 2014; Mueller, 2006; Theunissen & Oberholzer, 2013).

While there have been no notable South African financial scandal in the last decade that has had widespread economic implications relating to a national recession, there has been many reports of corruption, misappropriation of funds and large bonuses paid out to executives in both the private and public sectors (de Wet, 2012; Ensor, 2010; Financial Mail, 2008; Finweek, 2012; Theunissen & Oberholzer, 2013). Furthermore, due to the sensitivity of these allegations and the increased awareness of the levels of remuneration executives receive by the South African workforce, particularly workers at the lowest levels, this poses serious economic and organisational questions. One such incident in July 2011 was related to striking Sasol workers that caused national fuel shortages. These strikes were a protest against massive pay hikes of the executives at Sasol (Khu Zwayo & Matomela, 2011).

Concerns surrounding the remuneraiton of executives has led to the seemingly excessive remuneration packages of CEOs in South Africa being widely publicised and becoming subject to public scrutiny (Bonorchis & Crowley, 2014; Lamprecht, 2014; Massie, Collier, & Crotty, 2014; Ngobese, 2013). Many commentators have voiced serious concerns that executives, in particular CEOs, are being remunerated to the detriment of shareholder's interests and indeed the long-term success of the companies that they work for (de Wet, 2012; Resnick, 2013; Theunissen & Oberholzer, 2013).

The most popular theory that defines and can be attributed to controlling executive remuneration is agency theory, often also referred to as the principal-agent problem (Jensen & Meckling, 1976; Jensen & Murphy, 1990; Scholtz & Smit, 2012). While the structuring of incentives involved in executive remuneration have changed considerably since 1856 when the first joint stock exchange was established, when compared to present day structures, agency theory has remained the most approriate framework with which to describe the relationship between shareholders and executive directors, and the aligning of their interests (Amess & Drake, 2003; Scholtz & Smit, 2012). de Wet (2012) identified how agency theory is still used in all modern executive remuneration and company performance literature, in which company shareholders are viewed as the principals and management, specifically the Chief Executive Officer (CEO), as the agent. Even under the assumption that if the agent were to own all the shares of a company, they are unlikely to seek to maximise the value of the firm, but rather look to further their own financial ends (Jensen & Meckling, 1976). Agency costs, which allows for the alignment of agent goals with that of the shareholders, such as short-term and long-term incentive bonuses and plans are structured to motivate agents to act in the interest of the shareholders and maximise shareholder wealth on a sustainable basis (de Wet, 2012; Resnick, 2013; Scholtz & Smit, 2012). If the goals of the agent are not aligned to that of the shareholders, a situation exists where the executives of the company could abuse their rank and power within the company to their own advantage and to the detriment of the shareholders (Carlos & Nicholas, 1996). In order to address the potential misalignment between agents and shareholders, corporate governance measures,

specifically focusing on executive remuneration have been established. Examples of such measures are the Cadbury Committee in the UK, which in 1992 brought about worldwide reforms in corporate governance systems (de Wet, 2012); the American Securities Exchange Commission (SEC) executive remuneration policies; the Troubled Asset Relief Program (Bradley, 2013; Kim, 2010); the South African King Code of Governance Principles; and the King Report on Governance, together with the Companies Act of 2008 (Bradley, 2013; de Wet, 2012; Institute of Directors of Southern Africa, 2009; Institute of Directors Southern Africa, 2002). While agency theory has been the dominant framework that has linked executive pay and performance, there has been some research that questions the validity of this view, stating that the theory's view of pay and performance has a narrow focus when evaluated in terms of the developments in institutional theory (de Wet, 2012; Dittman & Maug, 2007; Main, Bruce, & Buck, 1996). Main, Bruce and Buck (2005) suggest the utilisation of three theories to be used as different lenses to look at executive remuneration, namely stewardship/stakeholder, executive power and principal-agent theory, which while drawing heavily on agency theory focuses on the intrinsic rewards that executives receive that are easily quantifiable. Due to the close link these theories have to agency theory, and the relative small body of literature that has been amassed, agency theory still remains the most robust framework in which to investigate the relationship between executive remuneration and company performance.

While a large volume of academic literature with regards to executive remuneration has come out of the United States of America, Canada, the United Kingdom and Europe, a small yet empirically sound body of literature has emerged which investigates executive remuneration in the South African context, specificly of publicly traded companies listed on the Johannesburg Stock Exchange (JSE). Much of these investigations have been in relation to company performance indicators such Return on Equity (ROE), Return on Assets (ROA), Earnings Per Share (EPS) and more recently economic value added (EVA) and market value added (MVA) (de Wet, 2012; Resnick, 2013; Scholtz & Smit, 2012; Theunissen & Oberholzer, 2013). There seems to be consensus in the literature that there are strong links between South

African executive remuneration and company performance, particularly traditional accounting performance indicators such as ROE, ROA and EPS, while EVA and MVA measures have showed weaker relationships with executive remuneration (de Wet, 2012; Resnick, 2013; Scholtz & Smit, 2012). A similar study conducted by Fatemi, Desai and Katz (2003), based on American companies, showed stronger relationships with MVA and EVA. These results are attributed to executive remuneration committees structuring executive incentives that are aligned with economic and market value add rather than more traditional performance measures currently utilised by their South African counterparts.

While a large amount of academic literature has been amassed in terms of investigating executive remuneration and the relationship (or lack thereof) with various company performance metrics. No research could, however, be found that has assessed the perceptions of fairness of employees when considering the remuneration given to executives, more specifically when the remuneraiton is contrasted with company performance indicators. As pay transparency and corporate governance measures continue to bring greater transparency, allow for more scrutiny and strive to ensure that executive remuneration, specifically short term incentive bonuses, are aligned to defined company performance metrics in order to ensure a pay for performance culture with higher levels of visibility, debate and critisism will ensue. Pay transparency, perceptions of fairness and organisational justice have far ranging and far felt organisational implications for employees, which include such outcomes as employee performance, affective commitment, turnover intention, voluntary turnover behaviour and absenteeism (Heneman & Judge, 2000; Kinicki, McKee-Ryan, Schriesheim, & Carson, 2002; M.L Williams, Brower, Ford, Williams, & Carraher, 2008; M.L. Williams, McDaniel, & Nguyen, 2006).

The aim of the current study was to investigate, in a controlled experimental environment, the influence of executive remuneration data (executive basic salaries and short term incentive bonuses) and company performance metrics, obtained from annual financial statements and reports, on employees' perceptions of fairnes. The objective of this research was to show the impact of executive remuneration and company performance on employee's perceptions of fairness and distributive justice.

Furthermore, to investigate to what extent the perception of fairness changes (or does not change) when additional remuneration and company performanceinformation is introduced.

CHAPTER 2

LITERATURE REVIEW

Executive Remuneration

Rappaport's (1983) seminal work on the issues regarding incentive plans and the apparent lack of association between shareholder return and the salary increases executive received, posed three relevant questions. The first question aimed to investigate why various compensation programs are often unsuccessful in motivating executives to practise strategies that will create economic value for shareholders. The second question asked why organisations do not link executive compensation and incentives directly to shareholders returns. The last question asked if there were any internal shareholder value creation performance measures that are sound, in a theoretical sense, while having the ability to be implemented practically (Rappaport, 1983). Rappaport (1983) warns of the risk of the principal-agent problem as defined above, in that too much consideration to the management of accounts and accounting ratios should not detract and draw away awareness of ongoing and operational concerns of business.

Jensen and Meckling's (1976) agency theory and Ireland's (1996) stakeholder's model of an organisation, state that the activities of top executives in an organisation are linked to the performance of the organisation and therefore need to be monitored by the shareholders of the organisation. The activities of top executives should at all times be ethical, lawful and in line with mandated risk principles (being risk free or risk adjusted). Therefore, in order to reduce agency costs shareholders incentivises top executives to align their activities with the interests of shareholders in proportion to the performance level and metrics that they achieve. This has brough about a modern concept of performance-linked remuneration for top executives, where incentives and rewards for top executives are based on informed and appropriate decisions and that incentivise actions and projects that will increase the value of the business that in turn offer greater returns to shareholders (Main et al., 1996; Resnick, 2013; Scholtz & Smit, 2012; Theunissen & Oberholzer, 2013).

Performance-linked remuneration for executives.

A number of studies have investigated performance-linked remuneration for executives. These studies have shown that the remuneration structure for top executives has been structured around the performance of the specific organisation in the particular industry that they operate in (Amess & Drake, 2003; de Wet, 2012; Gregg, Jewell, & Tonks, 2010; Harris, 2009; Jasso & Milgrom, 2008; Rappaport, 1999; Resnick, 2013; Scholtz & Smit, 2012). Almost all of these studies focus on financial performance aspects of the organisation in designing the remuneration packages of top executives.

In a detailed study of 200 listed companies in the United Kingdom it was found that executive remuneration is made up primarily of three components, namely fixed or base salary, Short-Term Incentive Bonuses (STIBs) and Long-Term Incentive Plans (LTIPs) (Conyon, Peck, Read, & Sadler, 2000). Employee benefits made up the fourth component, however, the contribution as a percentage of total remuneration packages was found to be insignificant. The quantitative averaging conducted by Conyon et al., (2000) indicated that fixed salary made up 54% of remuneration packages, STIBs made up 24%; and LTIPs 22%, where LTIPs were made up of cash incentives or company shares constituting direct ownership.

Liu and Stark (2009) concluded that the modern trend in the United Kingdom is to separate Executive Share Options (ESOs) and LTIPs from each other. Doing so, forms four fundamental and distinct components of executive remuneration, namely basic salary, STIPs, LTIBs and ESOs. While basic salary makes-up the fixed and non-variable component of executive remuneration, STIBs, LTIPs and ESOs are all performance-linked pay variables that are linked to company performance measures (Kim, 2010; Main et al., 1996; Massie et al., 2014; Resnick, 2013; Scholtz & Smit, 2012; Theunissen & Oberholzer, 2013).

Conyon et al. (2000) concluded that external consultants collated data in the preferred method utilised by UK executive remuneration committees in order to determine the levels of performance achieved by its executives. Furthermore, Bruce, Skovoroda, Fattorusso and Buck (2007) found that UK companies establish challenging criteria in

order for executives to earn the full potential of their performance-linked pay variables. The boards of these companies often opt for performance and targets that are easily measurable and were the criteria for achievement are made available to both the executives as well as all employees within the organisation in order to ensure transparency in line with generally acceptable corporate governance practices (Bruce et al., 2007).

The level and magnitude of executive pay has been established to largely be dependent upon the size of the organisation that the executive works for (Firth, Tam & Tang, 1999). While cognisant of the above, no research has investigated the relationship between the value of remuneration and the quantum of the executive's and organisation's targets (Firth, Fung, & Rui, 2006). While the size of the organisation moderates executive remuneration, variations by country as well as industry exist. Also, level of remuneration is greatly dependent on the remuneration negotiation and agreements made between organisations and its executives (Ireland, 1996; Resnick, 2013).

As determined by corporate governance committees, ESOs and LTIBs are reflected separately in annual financial statements or treated as a variable components of executives' salaries (Conyon et al., 2000; Firth et al., 2006; Resnick, 2013; Scholtz & Smit, 2012). There is a variance between countries in terms of the level of executive remuneration and the potential to earn LTIPs as opposed to STIBs, this is due to the cultural values of the relevant country (Main et al., 1996; Resnick, 2013). This is evident in Western organisations favouring STIPs in rewarding executives while Eastern organisations prefer LTIPs due to their long-term economic growth values (Conyon et al., 2000; Resnick, 2013).

Japanese organisations place a large emphasis on long-term targets and as a consequence LTIPs, thus placing the security and sustenance of the business rather than short-term goals and the STIBs associated with them (Ang & Constand, 1997). Japanese organisations employ differing strategies in terms of the retention and accountability of executives and take a long-term view of slow, sustained performance to build a more secure, sustainable, risk-free or risk adjusted outlook for

the organisation. Shareholder wealth is often prioritised far less than it is in Western organisations due the banking industry having great influence of the organisations board structure and day to day operations while capital structures possess very high debt to equity ratios (Bryson, Forth, & Zhou, 2014).

In line with the cultural values of Japanese organisations, employee satisfaction and retention are given very high priority, often superseding the interests of shareholders (Resnick, 2013). While Japanese executives are offered less mobility in their jobs they are offered greater job security when compared to their counterparts in the United States and the United Kingdom. As indicated in the literature Japanese executives receive a higher fixed component in terms of their total remuneration than variable components (Ang & Constand, 1997; Basu, Hwang, Mitsudome, & Weintrop, 2007). A study conducted by Brunello, Graziano and Parigi (2001) indicates that Italian organisations adopt the same philosophy as Japanese firms in terms of executive remuneration.

Philippino organisations pay their executives mid-year STIBs that are linked to company performance and are in turn linked and calculated on performance measures such as share price growth, MVA and ROA (Unite, Sullivan, Brookman, Majadillas, & Taningco, 2008). These calculations are based on bi-annual data and performance-linked STIPs utilising pre-determined formulae signed off by organisation's executive remuneration committees. This data and the performance metrics used in determining the above STIPs is available to the executives in order to ensure full transparency (Unite et al., 2008).

Executive remuneration in Chinese organisations is dependent on the nature of the shareholding of the organisation and pay-performance sensitivity is often present (Firth et al., 2006). Two shareholder structure scenarios are present in China, namely where the major shareholder is held by state-owned agencies where pay-performance sensitivity is not exercised or where the major shareholder is individual or private entity and pay-performance sensitivity is evident (Firth et al., 2006). In comparison to Western organisations, pay-performance sensitivities in determining executive remuneration are quite low.

Pay-performance sensitivity (PFS) is a measure to establish if executives are compensated appropriately in relation to how well they run the organisation. PFS is the change (either positive or negative) of executive's remuneration, of which STIBs would account for the majority of the variability, with the given performance of the organisation they run (Clementi & Cooley, 2009). In its simplest form, PFS is the correlation between executive remuneration and the chosen company performance metric, as such ROE or EPS. PFS is used as an indicator of the quality of the organisations corporate governance. A higher sensitivity is a hallmark of a more aligned executive remuneration structure with the interests of the shareholders (Clementi & Cooley, 2009). A higher sensitivity demonstrates that executive remuneration responds more to changes in performance.

The remuneration structure of executives in South Africa as portrayed in the academic literature is complex due to the multiple components that make up these packages (Resnick, 2013). These components while having a variable and performance-linked nature such, as STIBs, are often incorporated into basic salary packages (Ebert, Torres, & Papadakis, 2008). The majority of the JSE-listed organisations offer shares or options with no calculation and inclusion consideration of the remuneration package (Ebert et al., 2008). These share or options, however, may be subject to dissolution or forfeiture should the executive resign or be removed from the employ of the organisation (Resnick, 2013). A comparative study revealed that South African executives are paid (calculated in US Dollars) less than their respective counterparts in the United States, Australia, United Kingdom, Germany, the Netherlands and Hong Kong (Ebert et al., 2008). Furthermore, Ebert et al. (2008) concluded that executives have a higher performance-linked or variable pay component in their remuneration packages when compared to the structures and packages of executives in Western countries. The executive remuneration structure of South African executives as per a survey conducted by Price Waterhouse Coopers (2011) classifies remuneration into four broad categories namely, basic salary, STIBs, LTIPs and ad-hoc or other payments. Basic salary is the baseline and guaranteed salary package paid to executives in order for them to manage their person affairs, enhance their status as well as being afforded the recognition of remuneration as an executive. STIBs are

bonuses that are performance-linked to organisation's chosen performance metrics and are payable to the executive in less than twelve months (Bradley, 2013). LTIPs are long-term orientated performance bonuses structured around the achievement of longer term goals as determined by the organisations board as well ESOs. Ad-hoc or other payments allow for other considerations that may be extended to executive but form a negligible amount of total executive remuneration (Price Waterhouse Coopers, 2011).

In summary, a literature review of executive remuneration reveals that the remuneration of executives consists of a number of common components, namely basic salary, STIBs and LTIPs. While STIBs and LTIPs are made up and paid in different means and distributions, basic salary is a fixed component of any executive package. STIBs are performance-linked variable pay cash incentives based on pre-determined performance metrics as decided by the organisation's executive remuneration committee. LTIPs are made up predominantly of ESOs and as such comprise of shares in the organisation. STIBs paid as a percentage of total executive remuneration and as a percentage of basic salary vary in different countries as indicated to the preceding literature review. In the South African context, STIBs are markedly higher than in other countries, while overall executive remuneration on average is lower than many other countries, in comparative US Dollars. For this study, the executive remuneration components that will be utilised in this study will consist of basic salary and STIBs. LTIPs were excluded from this study due to complexity of having to calculate the value of options and shares awarded during a year, thereafter collating this data for use, falls beyond the scope of this research. Moreover, a study conducted by Farmer (2008) indicates that share options offered to executives has steadily fallen from 38% of total executive remuneration in 2004 to 23% in 2008, making this component less relevant as time progresses.

For the purposes of this study any fixed remuneration received during the financial year will be included in the subtotal that formed basic salary of the executive. Director's fees, cash remuneration and any other form of guaranteed compensation will also be included. STIBs are any unguaranteed form of remuneration. Basic salary will be analysed separately from STIBs, as the STIBs element of an executive's

remuneration package is more likely to be dependent on performance than the basic salary component. All bonuses that are due to be paid in less than twelve months will be categorised as short-term incentive bonuses, and will be included in this component of remuneration. As observed by Levitt (2004), fringe benefits such as company expenses accounts or corporate jets, are often disguised and built into the remuneration package paid to the executive. Whereby applicable this study aims to include these benefits in the research. There currently exist varying LTIPs and ESOs utilised by organisations in order to reward their executives. Calculating the value of options and shares awarded and paid during a year and collating the data into a standard format, is beyond the scope and intended research of this study.

Company Performance

Multiple performance measures are utilised in assessing company performance of organisations and are applied by the executive remuneration committee when remunerating and incentivising executives. These measures range in what they actually measure but ultimately high performance in any of these metrics translates into increased bottom line earnings both for the organisation as well as the shareholders. The most common metrics include the monitoring of shareholder's wealth and returns, ordinary share price, earnings per share as well as increases in profitability and revenue (Ang & Constand, 1997; Mehran, 1995; Murphy, 1985; Zhou, 1999). Return on assets (ROA), return on shareholder's equity (ROE), economic value added (EVA®), market value added (MVA), industry weighted share price, accounting returns such as relative performance evaluation (RPE), market value of equity (MVE) and net present value (NPV) are some of the most commonly utilised metrics in today's organisations to evaluate organisational and as a consequence executive performance (Dow & Raposo, 2005; Fatemi et al., 2003; Firth, Tam, & Tang, 1999; Liu & Stark, 2009; Unite et al., 2008). Murphy (1998) concluded that there is no standard selection criterion for company performance measures and their alignment to executive remuneration. Bradley (2013), de Wet (2012) and

Resnick (2013) all conclude that the relationship between various company performance measures and executive remuneration ranges from moderate to strong.

As mentioned above when reviewing the literature relating to executive remuneration, Western countries such as the United States, United Kingdom as well as the greater European Union have a focus on short-term incentives and bonuses. The same can be said of this short-term focus when it comes to financial performance, while the Eastern nations such as India, China and Japan, have a focus on long-term performance and sustainability (de Wet, 2012; Resnick, 2013). Metrics that measure increasing shareholders' wealth of is primary importance in the West but not in the East (Murphy, 1998). Western organisations are heavily focused on maximising performance from deregulation measures whereby the impact of these deregulations will result in significant variance in the remuneration structures of executives (Cunat & Guadalupe, 2009). Cunat and Guadalupe (2009) observed that over time the variable component in executive's remuneration packages, in the US banking and financial sector, had increased while the fixed component of these packages has decreased. This shift in the variable component of executive remuneration has been speculated to lead to an increased risk-taking attitude of executives that is not risk-adjusted, due to the potential misalignment of said remuneration and company performance measures attributed to the inherent agent-principal problem, as discussed above (Resnick, 2013).

A large disparity exists between the West and the East when the ratio of executive performance-linked pay in relation to fixed pay is considered. Western nations prefer a markedly larger performance-linked pay component than fixed pay, whereas Eastern nations prefer a larger fixed pay component (de Wet, 2012; Resnick, 2013). It is interesting to note that the literature finds that Western multinationals operating in various countries, both in the East and West, apply Western orientated standards of pay-performance related sensitivity with little to no consideration of what the local market sensitivity is (Murphy, 1998). Furthermore, the emphasis on the company performance measures utilised in executive remuneration packages varies both in terms of the owner and shareholdership of the organisation as well as the industry that the organisation operates in (Conyon & He, 2011). Conyon and He (2011) concluded

that the emphasis on performance pay varied in Eastern state-owned companies and those with independent directors. State-owned companies had flatter remuneration structures for executives with fewer performance related variables, where organisations with independent directors and shareholders have more variable performance components in their remuneration packages. Being cognisant of the above, the number of variable performance components are higher in Western executive remuneration models. There is also a markedly higher risk of Western executives losing their jobs if performance metrics are not met (Conyon & He, 2011). Consequently, the pressures of performing and exposure to risk of Western executives is much higher (Cunat & Guadalupe, 2009).

Literature indicates that Western organisations most preferred performance measures are sales growth, share price growth, earning per share (EPS), return on equity (ROE), return on assets (ROA) and economic value add (EVA) (Chizema, 2010; Jensen & Murphy, 1990; Lee, 2009; Murphy, 1985, 1998; Santhapparaj & Tong, 2004). Research by Lee (2009) and Chizema (2010) indicates that ROE and ROA have taken far more precedence in the literature due to executives facing dual impacts according to these metrics in that these performance linked pay variables are linked to equity and asset performance and their returns respectively. While this trend of performance linked pay is evident in the West and is beginning to trend countries such as Singapore, Malaysia and Australia (Lee, 2009; Santhapparaj & Tong, 2004). Kato, Kim and Lee (2007) state that a similar trend is present in publicly traded entities in Korea, where executive remuneration has historically been shown to be significantly linked stock market performance of companies utilising measures such as EPS or share price growth.

The emergence of the above has been defined by Kuang & Qin (2009) as performance vested share options (PVSOs) and demonstrate that PVSOs are different from traditional ESOs. PVSOs are designed in such a manner that they closely align the interest of executives with those of their respective board of directors and stakeholders. This new mechanism of PVSOs has been proven to reduce agency conflict between executives and stakeholders such that common vested interests are aligned to performance in terms of desired performance metrics. Executives with

ESOs and a significant equity ownership have a vested interest in ensuring long-term Initial Public Offering (IPO) performance and as a consequence closely follow the bull markets (Pukthuanthong, Roll, & Walker, 2007).

Core, Guay and Larcker, (2003) research equity orientated remuneration to CEOs and the performance metrics of CEOs based on market valuations of equity as well as the relative performance evaluation of equities, are utilised in the vast majority of US based multi-national organisations across the globe. The survey indicated a trend toward short to medium orientated remuneration and metric schemes in line with O'Connor & Rafferty's (2010) findings that organisation's boards set incentives aligned in such a manner that executives were motivated to take risks in order to increase the valuation of company assets thus increasing shareholders' wealth. O'Connor & Rafferty (2010) go on to observe that executives achieved their incentivised goal of increasing shareholders' wealth by gearing the capital structure of the organisation, thereby using more capital than they actual have in hand. This type of incentivisation, while aligning executive and shareholder interests, demonstrates how dangerous this type of practice can and sometimes is (Resnick, 2013). The above is exactly what led to the infamous bankruptcy of Lehmann Brothers in 2008, while at the same time executives of the organisation such as Richard Fuld drew an executive remuneration package of $480 million at the time the organisation filed for bankruptcy (Clark & Schor, 2008).

Kochar (1996) states that all organisations are subject to agency and transaction costs, agency costs is linked with self-interest and opportunism and transaction costs with economic efficiency of the organisation. Using both agency and transaction costs as lenses with which to view capital structuring, Kochar (1996) investigated how capital structuring has been used as a mechanism by organisations. Agency theory views capital structure as a tool that helps to reduce the agency conflict due to the constant and inherent interaction between executives and shareholders. Utilising this perspective, debt is a mechanism with which to reduce agency costs (Amess & Drake, 2003; Kochar, 1996; Scholtz & Smit, 2012). In most leveraging situations, executives are contractually liable to pay the interest and repay the capital portion of the debt. If the debt is not used effectively and interest and capital repayments are not made, then

the debt lenders of finance will attach the assets of the organisation, under the proviso that the debt is secured (de Wet, 2012; Kim, 2010; Kochar, 1996). In corporate situations such as these, executives can have their decision making ability drastically reduced of even lost altogether, often resulting in them losing their jobs. The transactional cost perspective views capital structuring as a valuable mechanism in organisations assuming that lenders cannot interfere in an organisation's operations if the contractual obligations of the debt repayment are met. Lenders would only become involved in corporate affairs and decision making when the damage has already occurred, so to speak (Kochar, 1996). Debt comes at a lower cost than equity due to lenders taking on less risk than the shareholders (Kochar, 1996). Debt is a tool with which agency costs can be reduced as high debt leveraging will also mean stronger controls and alignment of executives by shareholders, however caution needs to be exercised and corporate governance needs to be of paramount importance if this capital structuring perspective is to be utilised (Kochar, 1996).

Being cognisant of the above, O'Brien (2003) argues that the capital structure supporting innovation and growth should have an adequate proportionality of equity in any organisational structure. However, an all equity financed capital structure will deplete a significant amount of cash out of the organisation due to the high cost of capital (O'Brien, 2003). O'Connor and Rafferty (2010) cite corporate governance policies and procedures in order to maintain balance between incentivisation of executives leveraging the organisation and engaging in risk taking behaviour or incentivisation derived from holding cash. Executives should be aware that taking risks such as leveraging debt has consequences. The organisation's board should set a threshold value while linking executive's variable pay components in maintaining a cash-in-hand value above said threshold (O'Connor & Rafferty, 2010). While focusing on short-term gains and growth are a sound corporate strategy, caution should always be exercised with regards to how these gains were achieved in relation to the organisations capital structure. For this reason, executives are often incentivised by including STIBs and ESOs in their remuneration package and contract, which stipulates an optimally leveraged capital structure while having the autonomy to run

the day-to-day operations and approve crucial capital-investment decisions (Dutta, 2003).

One should be mindful that the attainment of short-term targets place substantial pressure on executives to enhance the market value of equity by all means possible. Core et al. (2003) discovered that the shareholders of organisations viewed these targets as a technique to reduce agency costs due to agency conflicts, such that executives are closely aligned with the shareholders' primary objective of maximising their wealth. Due to these pressures placed on executives, Core et al. (2003) stressed that these time-sensitive pressures resulting in STIBs result in high-risk taking attitudes which will in turn lead to the reduction of corporate governance effectiveness. A scientific model was created by Grundy and Li (2010) to test and monitor the actions of executives in Western organisations in line with investor attitudes. Their study revealed that if executives held significant LTIPs and ESOs in their remuneration package, they would be far more likely to make investment decisions that would contribute to the enhancement of positive sentiments toward the organisation, which consequentially increases the share of price of the organisation (Grundy & Li, 2010). In summary, executives endeavour to maximise the shareholders' wealth by maximising investors' positive outlook and sentiments.

Being cognisant of the above literature review and discussion, three accounting measures that analyse company performance will be defined below. These measures are verifiable and widely understood and accepted (Murphy, 1999). Murphy (1999) stated that the primary determinant of executive remuneration and incentivisation is accounting profits.

Return on Assets (ROA).

ROA measures the profits that an organisation generates with the assets it controls. It is a good measure of the performance of management of the organisations, as it assess how well assets are being utilised by management in order to generate accounting returns (Bradley, 2013). ROA is a better measure of financial performance than

income statement performance measures, as it explicitly takes into account the assets that are used to generate returns. A few variations of this formula exist, but it is generally accepted that the most commonly utilised formula is that of 'Return on Average Assets" (Bradley, 2013). Unlike Return on Equity (ROE), the capital structure of debt and equity chosen by executives does not affect the ROA formula and measurement. The ROA formula is reflected below (see Figure 1.1).

$$ROA = \frac{Net\ Income}{Average\ Total\ Assets}$$

Figure 2.1. Return on Average Assets formula.

Earnings per share (EPS).

EPS is another commonly used performance measure and is also utilised a common metric in calculating variable or performance based executive pay (Mäkeläinen, 1998). It is described as a central and fundamental performance indicator for shareholders (Bunting, 2009; Otley, 2002). EPS is calculated by dividing the earnings (or profits) by the number of shares in issue (Bunting, 2009). EPS has the advantage of being widely recognised and accepted, which is demonstrated by the fact that it has been used as a company performance measure in most of the studies that investigate the relationship between executive remuneration and company performance (Resnick, 2013). Accounting measures such as EPS have many advantages, such as being affected by both revenues and expenses as well as forcing executives to focus on generating profits (Kozan & Boulanger, 2004). EPS has been criticised in recent literature with Authers (2010) stating that is 'crazy' to evaluate and remunerate executives based on earnings per share of company share price due to the volatility of the market as well as executives inability to influence both EPS or company share price. The EPS formula is reflected below (see Figure 1.2).

$$EPS = \frac{Profit - Preferred\ Dividends}{Weighted\ Average\ Common\ Shares}$$

Figure 2.2. **Earnings per Share formula.**

Return on Equity (ROE).

ROE is a widely utilised performance measure and is readily used in both evaluating management performance as well as determining executive compensation (Pandya & Rao, 1998). Furthermore, it has been described as (Siciliano, 2003) as the most meaningful when evaluating publicly owned companies'. ROE is defined as net income divided by shareholder equity (Pandya & Rao, 1998). ROE has remained the most enduring and popular accounting performance measure, as it focuses on the returns to shareholders, which is of paramount importance to investors. ROE essentially is the measure of how well a company uses debt in its capital structure in order to increase and maximise shareholder returns (Bradley, 2013; Resnick, 2013). The ROE formula is reflected below (see Figure 1.3).

$$ROE = \frac{Net\ Income}{Shareholder\ Equity}$$

Figure 2.3. **Return on Equity formula.**

Being mindful of the above performance indicators and the preceding discussion, ROE will be utilised as the indicator that will represent company performance. ROE assesses executive's decision making prowess, effective utilisation of corporate capital structure as well as the return to shareholders'.

Distributive Justice

The performance and culture of an organisation is often related to the commitment of its employees to collective values, which is in and of itself a prerequisite for cooperative behaviour (Tremblay, Sire, & Balkin, 2000). One of the most likely

factors to improve employee commitment and job satisfaction is that of perceptions of justice in the workplace (Tremblay et al., 2000). Research into justice in the workplace has focused and emphasised two aspects, namely distributive justice and procedural justice. Distributive justice strives to explain how employees evaluate and react to the amount and manner of compensation they receive while procedural justice examines the evaluation and reaction to the procedures used in order to determine said compensation (Tremblay et al., 2000). Essentially, distributive justice focuses on the ends or outcomes, while procedural justice focuses on the means utilised in arriving at these outcomes (Sweeney & McFarlin, 1997; Tremblay et al., 2000). In order to debunk and understand justice in the workplace, two approaches need to be taken into consideration. The first approach looks at a number of studies that have demonstrated that distributive and procedural justice have their own determinants as well as independent effects (Tremblay et al., 2000). Examples of this include perceptions of distributive justice having a greater influence over attitudes towards the results of the decisions, while perceptions of procedural justice can be utilised in order to predict attitudes towards organisations (Tremblay et al., 2000). The roles of justice vary according to the organisational context and type and manner of reward and as such the universality of this rule in not absolute (Greenberg, 1996).

The second approach relates to employee compensation, literature has shown that pay satisfaction is a multidimensional construct with the antecedents and outcomes of pay satisfaction varying according to the specific dimensions of compensation (Heneman & Schawb, 1985). Heneman and Schawb (1985) identify five dimensions of compensation, namely pay level, pay increase, pay structure, employee benefits and pay administration. Several studies have investigated the validity of these dimensions (Carraher, 1991; Judge & Welbourne, 1994; Mulvey, Micelo, & Near, 1992; Scarpello, Huber, & Vandenberg, 1988), finding that there is a lack of consensus and agreement in terms of the number of dimensions that exist. The literature does however indicate that pay level and employee benefits satisfaction have sound psychometric properties that are resistant to organisational context and hence can be used as stable dimensions with regards to being compensation dimensions (Tremblay et al., 2000).

The effects of distributive justice and the perceptions of justice are best explained through Adams (1965) equity theory which hypothesizes that employees evaluate and assess pay justice by comparing their contributions (input) and compensation (output) to that of others, denoted as *referents*. The literature shows a strong link between pay satisfaction and distributive justice perceptions (Blau, 1994; Summers & Hendrix, 1991; Sweeney, 1990; Tremblay et al., 2000), albeit varying in strength based on the class or relational hierarchy of the referents (Blau, 1994; Summers & DeNisi, 1990; Tayler & Vest, 1992). Perceptions of justice with regards to pay, be it the employee's personal view as well as when compared to referent others, have consequences on how the employee views both the organisation that they work for, the executives (leadership) who run the organisation as well as the greater industrial sector that they operate in (Tremblay et al., 2000). Based on the fairness literature, distributive justice explains whether employees will judge their pay as fair if they feel that their pay-to-effort ration equals that of referent others (Hartmann & Slapničar, 2012; Konovsky, 2000; Wade, O'Reilly, & Pollock, 2006). Yet very little research has been done in order to investigate the justice relationship between employee's perceptions of fair pay and bonuses, when the referent group is that of executive management of the organisation that they currently work for, when there is a performance metric associated with said executive remuneration, particularly relating to bonuses.

Based on literature utilising fairness heuristic theory, with is focused on how individuals react to outcomes of their dealings with authorities and institutions and makes predictions in terms of the relationship between perceived fairness procedures (procedural justice), perceived fairness of outcomes (distributive justice) and acceptance of outcomes (Van den Bos, Lind, Vermunt, & Wilke, 1997; Van den Bos, Wilke, & Lind, 1997). Hartmann and Slapničar (2012) state these two concepts of justice are intrinsically different and therefore will have different implications on the remuneration system fairness and an organisation's ability to design and operate pay systems and structures. Pay transparency, would as indicated in the literature moderate these relationships. This moderation would be moderated by the extent to which employees are familiar with each other's pay levels (Hartmann & Slapničar, 2012). In a scenario where executives are involved, both their basic salaries, bonuses

as well as company performance metrics such as ROE are disclosed both in annual reports and financial as well as in the media, one could argue that there is indeed a high level of pay transparency. While pay transparency is an important factor in present discussions relating to pay fairness and the enhancement of pay justice, it has received very little attention empirically in the performance evaluation and justice literature (Collela, Paetzold, Zardkoohi, & Wesson, 2007; Hartmann & Slapničar, 2012; Lau & Moser, 2008). Based on fairness heuristic theory, Hartmann and Slapničar (2012) predict that when managers know and are aware of each other's pay relating to basic salary and bonuses, they are then able to compare each other's pay-to-effort ratios, thus meaning that distributive justice relatively more important in terms of employee motivation as well as other critical organisational issues. The corollary of the above is that managers who do not know each other's pay levels and as a consequence are unable to, through the use of equity theory, judge and perceive distributive justice in the situation will defer to the procedures (procedural justice) in determining how other manager's performance and pay is determined. Expanding on Hartmann and Slapničar's (2012) premise, employee's that are both aware and cognisant of what other employee's earn as well as what executive's in their organisation earn and perceive this remuneration to be fair, they will show increased affective motivation toward their job as well as the organisation. The above rationale is in line with studies spanning across industries and organisational levels whereby employees who feel that they the outcomes that they have received in terms of remuneration as well as how they have been treated by the organisation, their superiors and colleagues leads to a working environment whereby employees are motivated and perform better due to their perception of a fair work environment (Colquitt, Conlon, Wesson, Porter, & Mg, 2001; Colquitt, 2001a; Cropanzano, Byrne, Bobocel, & Rupp, 2001).

This is reinforced further in Ambrose and Cropanzano's (2003) longitudinal study on fairness which demonstrates the relative importance of both procedural and distributive fairness in predicting work motivation, job satisfaction, organisational commitment as well as turnover intentions. Procedural justice had a positive effect on the above job-related attitudes and takes place immediately or shortly after a relevant

organisational decision has been made, while distributive justice and job-related attitudes continue and persist over a period of time and is a far better representation of an employee's perceptions of (un)fairness of an organisation in terms of pay distribution, particularly those of executives when performance measures such as ROE (Ambrose & Cropanzano, 2003; Hartmann & Slapničar, 2012). The above is consistent with fairness heuristic theory and demonstrates the relative dominance and importance that procedural and distributive justice can play dependent on the organisational context of the situation. The theory further states that employee's justice judgements or perceptions of fairness are determined by the relative amount of information that these individuals have in terms of procedures and distributions, in this case metrics utilised in determining salaries and bonuses in line with performance metrics and the actual remuneration packages paid, respectively (Hartmann & Slapničar, 2012; Tyler & Lind, 1992). Fairness heuristic theory considers employees formation of perceptions of fairness as a coping mechanism, which when applied reduces fears of exploitation by the organisations, or its members, specifically company executives ((Diekmann, Barsness, & Sodnak, 2004; Hartmann & Slapničar, 2012).

As indicated in the literature as well as in the above review, the constructs of procedural and distributive justice are strongly related, both conceptually and empirically (Schreurs, Guenter, Schumacher, Van Emmerik, & Notelaers, 2013; M.L. Williams et al., 2006). The proposed research will investigate perceptions of fairness of employees in the financial services industry in terms of executive remuneration and company performance, which is the distributive component of organisational justice. This investigation relates to the questions that equity theory framework ask when an individual compares their inputs to their received outputs and makes a comparison to a referent other or group of referent others. This perception is what is to be investigated, as a hypothesised difference should exist between a scenario where executives receive high remuneration packages while company performance is low and a scenario where executives receive low remuneration and company performance is high.

Statement of the Research Problem and Resultant Research Question

As discussed above, a large body of academic literature has been amassed with regards to the relationship between executive remuneration and company performance. Yet to date, no research has investigated employee's perceptions of fairness in terms of executive remuneration and its relationship to company performance. These perceptions may have wide ranging implications in the context of the organisations that these employees work in. As such the main aim of the current research was to address the research question below.

Does executive remuneration, consisting of basic salary and short-term incentive bonuses, when presented to participants with a company performance metric, effect their perception of fairness with regards the scenario?

Based on this research question, a proposed hypothesis is also suggested below.

Hypothesis

H_1: Executive remuneration (basic salary and short term incentive bonuses) and company performance have a significant main effect on employee's perception of distributive justice.

CHAPTER 3

METHOD

This chapter will focus on the methods employed within the current study to address and attempt to answer the research question. The research approach and motivation for the research design will also be discussed. Details in terms of the measuring instruments, company data, the research sampling process, as well as the data collection process and procedure will also be described and discussed. Furthermore, the statistical analysis methods will be defined with specific emphasis and details of the descriptive statistics and full factorial analysis of variance (ANOVA).

Research Design

A 2^3 (i.e. 2x2x2) full-factorial experimental design was employed to investigate the extent to which perceptions of fairness are influenced when manipulating company performance and executive remuneration levels. Participants, obtained from a convenience sample of employees that work in the financial services industry, were randomly assigned to the eight experimental conditions. The eight experimental conditions were generated by means of creating combinations of two levels of company performance (low return on equity vs. high return on equity); two levels of executive fixed salary (low salary vs. high salary); and two levels of executive STIBs (low bonus vs. high bonus).

The present study could be described as a field experiment, which involved the manipulation of a naturally occurring context in order to bring about and measure relevant exogenous variations, specificaly relating to perceptions of fairness. Participants in the present study took part in an experiment outside of a laboratory environment and as such the experiment was not confined to the stringent and specific environmental controls required for an laboratory experiment. In a field experiment there is less researcher control due to the context and environment being independent

of the researcher's control. The full-factorial experimental design employed here, however, does allow for the manipulation of the variables that were proposed to influence the perceptions of fairness, namely executive basic salary, short term incentive bonuses (STIBs) and return on equity by controlling the stimuli content of the group that each participant was randomly assigned to.

Validity

The validity of an experiment is focused on whether a particular conclusion, outcome or inference is a fair and accurate approximation in relation and reference to the true conclusion, outcome or inference (Roe & Just, 2009). A field experiment's relative internal validity is generally categorised as being medium to high. With regards to the present study, the internal validity was believed to be high due to the content of the variables being extracted and analysed from factual financial data, as well as the controlled environment that the surveys were administered in, utilising Qualtrics.

Typical threats to the internal validity of an experimental study are:

1. *History threat* – where extraneous or historical events cause the observed effect rather than the intervention.
2. *Maturation threat* – that the natural maturation of the participants possibly caused the observed effects rather than the observed intervention.
3. *Testing threat* – occurs most often in pre-post tests designs where the participants' post-test responses are conditioned by their pre-test responses.
4. *Instrumentation threat* – refers to the possibility that changes in administered tests are due to differences between pre-test and post-test scores.
5. *Mortality threa*t – the possibility that participants may be dropping out of the study at differential rates between the treatments and control groups.
6. *Regression threat* – the statistical tendency of a group's overall performance on a measure or a number of measures during a post-test to regress towards the mean of that measures rather than the anticipated direction.

Threats to the internal validity of this study can be attributed to history, selection and mortality threats. In terms of history threat, participants may have been exposed to executive remuneration models at the time of participating in the study, either through for example, serving on an executive remuneration committee or by being an executive themselves. This may have affected their perceptions of fairness in terms of executive remuneration when evaluated against company performance. For example, if a participant is currently an executive at an organization, they may perceive high executive base pay, high executive STIBs and low company performance to be fair if they have been subject to this type of performance based remuneration structure themselves. Selection may have also posed a threat to the study due to the selection process not being random and containing systematic bias. This was mitigated by random assignment (randomisation) of participants to the various experimental stimuli groups, thereby decreasing systematic bias. However, due to the convenience sampling of the participants the selection sample may not be an adequate representation of the target population. Mortality may have been a threat to the study as participants who began the survey, but dropped out or did not complete the survey may have affected the nature of the group of participants being tested. An example would be if participants who are senior or top level management at organisations had higher mortality rates than participants who were employed and operated at lower managerial levels, it may have affected the perception of fairness views being recorded from the participant sample as it would be more focused on specific employee groups (Salkind, 2009).

External validity of an experiment refers to the ability to generalise the relationships and difference found in a study to other people, settings and contexts (Roe & Just, 2009). External validity was required in order to be able to generalise the results of this study. The external validity of a field experiment is categorised as medium to high (Roe & Just, 2009). While this study is more likely to have low to medium levels of external validity due to the manner in which the sample was obtained i.e. due to non-probability convenience sampling. On the other hand, real world executive remuneration and company performance data was utilised in each of the stimuli groups and as such increases the external validity of the study.

Sampling

De Goede (2007) states that is not always practical or even possible to obtain data from every subject in a target population, represented as *N*, thus a more viable and practical means to collect data is to select a representative sample, represented as *n*, of the target population. The extent to which observations can be generalised to the target population is a function of the number of participants in the selected sample and as a consequence how representative the sample is, thus the influence of the power of inferential statistics tests is dependent on sample size (Elmes & Kantowitz, 1999).

The target population that the sample was derived from was employees working within the financial services industry in South Africa. For the purposes of this study any employee working with a financial services organisation or group of companies could have participated in the research, irrespective of their individual function within the organisation or group, for example in human resources, finance or compliance. This population and sample by definition are knowledge workers. Knowledge workers are individuals who gain access to jobs through formal education and who carry and own knowledge as a powerful resource, which they own rather than the organisation (Drucker, 2002).

Sample size.

When conducting a full-factorial design, as with any factorial design, the required sample size is dictated by the number of conditions present. With eight condition or stimuli groups being present, the minimum number of participants suggested is 20, while the ideal number being 30 participants per condition (Simmons, Nelson, & Simonsohn, 2011). Based on these rules-of-thumb the minimum sample size required was 160 participants, with the ideal sample size being 240 participants. Despite attempts to obtain more respondents, the sample size that was acquired for this research was 97 participants. None of the stimuli groups met the minimum of 20 participants per condition i.e. the minimum sample size requirements were not met. This is noted and discussed as a limitation to the study.

Statistical power.

The determination of an ideal sample size remains critical for statistical power analysis purposes. Power analysis refers to the determination of both Type I and Type II errors. It is vital that these errors are not made during hypothesis testing with regards to the applicable sample size. Type I errors relate to the incorrect rejection of a null hypothesis. Type I errors can be controlled by the significance level selected where α is the maximum probability that there would be a Type I error. A Type II error occurs when there is failure to reject an incorrect null hypothesis. Due to the relativly small sample obtained, there is limited statistical power and as such inferences should be treated with the neccessary caution.

Participants

A convenience (non-probability) sampling approach was used in order to maximise the participant response rate, while accomodating the researcher's logistical and financial constraints. The request to participate in the study was distributed electronically to employees, peers, colleagues and family members working within South African financial services organisation, predominantly based in either Cape Town or Johannesburg. The request was also distributed to members of the South African Rewards Association (SARA). In total 170 responses were collected, of which 97 had sufficient responses for data analysis.

The ages of the participants ranged from 22 to 66 years (M=36.7 years, SD=11 years, n=97). In terms of gender the sample consisted of 59 males (60.8%), 35 females (36.1%), where 1 (1%) participant preferred not to answer and 2 (2.1%) participants did not answer the question.

In terms of participants of designated racial groups, 2 were black (2.1%), 74 were white (76.3%), 6 were coloured (6.2%), 9 were coloured (9.3%), 4 preferred not to answer (4.1%) and 2 (2.1%) did not answer the question. Participant's primary languages ranged from Afrikaans (n=30, 30.9%), English (n=63, 64.9%), Zulu (n=1; 1%), Xhosa (n=1, 1%). The above racial and primary language demographics are not

representative of the South African population and have draws upon a participant sample group that is predominantly English and Afrikaans white employees working in the financial services industry.

In terms of qualfications, 17 participants (17.5%) held a matric qualification, 32 (33%) held undergraduate degrees or diplomas, 37 (38.1%) held honours or postgraduate diplomas and 9 (9.3%) held Masters degrees, with 2 (2.1%) not completing the question. This is line with the population of South African financial services, as entrance and hiring criteria oftens requires a bachelors or undergraduate degree.

With regards to the specific sector of the financial services industry, 3 participants (3.1%) worked in a commercial banking environment, 5 (5.2%) in an investment banking environment, 1 (1%) in foreign exchange, 30 (30.9%) in investments, 12 (12.4%) in insurance and 44 (45.4%) in financial advisory, intermediary or administrative services, with 2 (2.1%) not completing the question. The bulk of the financial services industry, in line with the above descriptives, provides advisory, intermediary or administrative services to clients, with other sectors employing markedly less employees in more specialist functions.

In terms of the levels of management that respondents found themselves in, 10 participants (10.3%) defined their level of management within their current organisation as top management, 17 (17.5%) as senior management, 37 (38.1%) as middle management or professionally skilled staff member, 24 (24.7%) as junior management or academically qualified staff member, while 7 (7.2%) defined themselves as semi-skilled. 2 (2.1%) did not complete the question.

In terms of current employment status, 82 participants (84.5%) were permanently employed, 7 (7.2%) were on fixed-term employment contracts and 6 (6.2%) were self-employed, with 2 participants (2.1%) not completing the question.

When considering the size of the organisation from which respondents came, 9 participants (9.3%) were employed in micro-sized organisations (1-10 employees), 5

(5.2%) in small sized organisations (11-50 employees), 49 (50.5%) in medium sized organisations and 32 (33%), with 2 participants (2.1%) not completing the question.

The average number of years of employment for those currently employed was 5.23 years (SD=5.04). The minimum number of years of employment was under one year with the maximum being over 20 years.

Annual Financial Statement Data

The executive remuneration and company performance data that was utilised in order to construct the stimuli was extracted from audited and publicly available Annual Reports, Annual Financial Statements or Annual Income Reports, hereafter jointly referred to as Annual Reports.

Selection criteria.

In the present study the perceptions of fairness of employees in the South African financial services industry, in terms of executive remuneration and company performance, was investigated. The remuneration data that formed part of the stimuli for the experiment was extracted from listed financial services organisations on the JSE, specficlaly those companies that are within the top 100 listed companies as determined by market capitalisation.

Financial services organisations, for the purposes of this study's selection criteria, were defined as any company that provides financial services to individuals, corporates or other organisations. The provision of financial services needs to be the company's primary focus and range from (but not limited to) commercial or investment banking, foreign exchange, investments, insurance to financial advisory, intermediary or administrative services.

Based on the above selection criteria and based on a market capitalisation report generated on 13 June 2014, 27 listed financial services organisation fitted the defined criteria (BFA McGregor, 2014).

These qualifying organisations Annual Reports were then sourced from their respective websites in order for the organisation's executive remuneration data to be found and recorded for further analysis. Annual Reports for the organisation's 2013 fiscal year were utilised. Company performance metrics with regards to Return on Equity (ROE) for the 2013 period was calculated utilising these Annual Reports (BFA McGregor, 2014).

Criteria utilised for executive remuneration data collection and calculations included all executive directors and prescribed officers, collectively referred to as executive directors, but excluded non-executive directors. The term director has been defined in law by the Companies Act of 2008, which defines a director as "A member of the board of a company…, or an alternative director of a company and includes any person occupying the position of director or alternate director, by whatever name designated" (Deloitte Touche Tohmatsu Limited, 2013, p. 9). While a prescribed officer includes any person employed by the organisation, by whatever title they are designated that exercises general executive control over and management of the whole, or a significant portion of the business and activities of the organisation or regularly participates to a material degree in the exercise of general executive control over and management of the whole or a significant portion of the business and activities of the organisation (Deloitte Touche Tohmatsu Limited, 2013). While non-executive directors are defined as directors that are not involved in the management of the company and are independent of management on all issues including strategy, performance and the evaluation thereof, sustainability, resources, transformation, diversity, employment equity as well as standards of conduct (Deloitte Touche Tohmatsu Limited, 2013).

For the purposes of executive remuneration calculations, all executive directors and prescribed officers were included, irrespective if they resigned, were dismissed or passed away during their 2013 fiscal year.

Any organisation's Annual Report that was stated and reported in Pounds Sterling (GBP / £) was converted to South African Rand (ZAR) using the conversion rate of 1 : 17.2954 as at 31/12/2013 (South African Reserve Bank, 2014).

Should an executive director not earn or have not been paid a STIB in the reported period then the average STIB remuneration for the other executive directors in the organisation was applied. If there was only one executive director in the organisation then the average STIB remuneration per executive for all organisations fitting the selection criteria was applied.

The relevant data, as described above, was then extracted from Annual Reports with the descriptive data being generated, specifically the average, minimum and maximum values of executive basic salaries, STIBs and ROE as well as the 25^{th}, 50^{th} and 75^{th} percentile values.

The financial services organisations that fitted the initial selection criteria (Table 3.1) and the descriptive data relating to the organisations that fitted final selection criteria (Table 3.2) are presented below.

Table 3.1:

JSE Listed Top 100 Financial Services Organisation Fitting Initial Selection Criteria

ALSE	Company	Ticker	Market Capitalisation (million Rand)	% of Total Market	No. of Executives	Total Basic Remuneration per Company p.a	Average Basic Remuneration per Executive p.a.	Total STIB Remuneration per Company p.a.	Average STIB Remuneration per Executive p.a.	Company Performance (ROE)
10	Standard Bank Group Ltd.	SBK	231 463	0.0222	6	R 33 476 000	R 5 579 333	R 40 908 000	R 6 818 000	12.57%
11	FirstRand Ltd.	FSR	219 085	0.021	5	R 26 958 000	R 5 391 600	R 51 420 000	R 10 284 000	20.14%
13	Old Mutual plc	OML	172 129	0.0165	2	R 36 372 226	R 18 186 113	R 32 671 011	R 16 335 505	8.58%
15	Barclays Africa Group Ltd.	BGA	131 401	0.0126	5	R 23 409 001	R 4 681 800	R 48 400 000	R 9 680 000	18.25%
18	Sanlam Ltd.	SLM	118 874	0.0114	4	R 13 788 000	R 3 447 000	R 10 666 667	R 2 666 667	19.85%
20	Nedbank Group Ltd.	NED	112 536	0.0108	7	R 29 006 000	R 4 143 714	R 34 800 000	R 4 971 429	14.25%
26	RMB Holdings Ltd.	RMH	70 670	0.0068	1	R 8 500 000	R 8 500 000	R 5 930 656	R 5 930 656	16.95%
31	Investec plc	INP	54 356	0.0052	4	R 29 573 318	R 7 393 329	R 53 269 832	R 13 317 458	0%
32	Discovery Ltd.	DSY	53 472	0.0051	9	R 46 248 000	R 5 138 667	R 42 196 000	R 4 688 444	15.96%
35	Growthpoint Properties Ltd.	GRT	52 073	0.005	Excluded from further analysis. See description of company for details.					
36	Intu Properties plc	ITU	49 666	0.0048	3	R 28 744 955	R 9 581 652	R 16 759 243	R 5 586 414	9.43%
37	Reinet Investments SCA	REI	47 810m	0.0046	Excluded from further analysis. See description of company for details.					
38	Capital & Counties Properties PLC	CCO	46 081	0.0044	4	R 27 283 736	R 6 820 934	R 42 406 015	R 10 601 504	16.47%
41	Rand Merchant Insurance Holdings Ltd.	RMI	42 803	0.0041	1	R 5 454 000	R 5 454 000	R 5 930 656	R 5 930 656	16.32%
47	Coronation Fund Managers Ltd.	CML	34 679	0.0033	3	R 2 783 000	R 927 667	R 17 208 000	R 5 736 000	72.64%
50	Redefine Properties Ltd.	RDF	30 648	0.0029	7	R 15 216 000	R 2 173 714	R 8 608 000	R 1 229 714	18.25%
60	Capitec Bank Holdings Ltd.	CPI	24 318	0.0023	3	R 16 483 000	R 5 494 333	R 163 000	R 54 333	19.19%
62	Santam Ltd.	SNT	23 220	0.0022	3	R 8 835 000	R 2 945 000	R 3 900 000	R 1 300 000	18.26%
66	PSG Group Ltd.	PSG	21 152	0.002	3	R 6 960 000	R 2 320 000	R 8 390 000	R 2 796 667	19.03%
70	Hyprop Investments Ltd.	HYP	18 558	0.0018	2	R 2 539 000	R 1 269 500	R 2 075 000	R 1 037 500	69.17%
75	African Bank Investments Ltd.	ABL	17 072	0.0016	9	R 19 779 000	R 3 296 500	R 35 583 938	R 5 930 656	-49.42%
76	Resilient Property Income Fund Ltd.	RES	16 926	0.0016	Excluded from further analysis. See description of company for details.					
77	Capital Property Fund Ltd.	CPL	16 793	0.0016	Excluded from further analysis. See description of company for details.					

86	Attacq Ltd.	ATT	13 128	0.0013	Excluded from further analysis. See description of company for details.					
90	Redefine International P.L.C.	RPL	12 157	0.0012	Excluded from further analysis. See description of company for details.					
99	Invicta Holdings Ltd.	IVT	9 801	0.0009	4	R 10 558 000	R 2 639 500	R 8 000 000	R 2 000 000	35.73%

Table 3.2:

Descriptive Date for JSE Listed Top 100 Financial Services Organisations Executives Fitting Final Selection Criteria

	Minimum	**Maximum**	**Average**	**25th Percentile**	**50th Percentile**	**75th Percentile**
Total Basic Remuneration Per Annum	R 927 666	R 18 186 113	R 5 269 217	R 2 868 625	R 4 910 233	R 5 889 733
Total STIB Remuneration Per Annum	R 54 333	R 16 335 505	R 5 844 780	R 2 731 667	R 5 661 207	R 7 533 500
Return on Equity (ROE) for 2013 Fiscal Year	-49.42%	72.61%	18.58%	13.41%	17.60%	19.35%

Description of companies.

Descriptions of the organisations fitting initial selection criteria outlining the nature of each business, main sector within financial services that they operate in, number of employees, executive directors and prescribed officers as well as executive remuneration and company performance metrics (where applicable) are presented below.

Standard Bank Group Ltd. (SBK).

Nature of Business – Standard Bank is a South African-based financial services group with a global presence focused on emerging markets. It operates from 18 countries in Africa and from 16 countries on other continents, including key financial centres of Europe, the Americas and Asia (Profile Data, 2014).

Sector – Fins-Banks-Banks-Banks.

Number of Employees – 52 000.

Executive Directors & Prescribed Officers – Executive Directors – BJ Kruger, SK Tshabalala, SP Ridley, JH Maree (former), PG Wharton-Hood (former). Prescribed Officers – JB Hemphill. Total number of executives – 6.

Executive Remuneration and Company Performance Metrics – Average basic salary per annum - R 5 579 333; Average STIB per annum - R 6 818 000; ROE for organisations - 12.57%.

FirstRand Ltd. (FSR).

Nature of Business – Listed on the JSE, FirstRand Ltd. is one of the largest financial institutions in South Africa (Profile Data, 2014).

Sector – Fins-Banks-Banks-Banks.

Number of Employees – 37 231.

Executive Directors & Prescribed Officers – Executive Directors – D Premnarayen; Prescribed Officers – SE Nxasana, JP Burger, M Jordaan, A Pullinger. Total number of executives – 5.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 5 391 600; Average STIB per annum - R 10 284 000; ROE for organisation - 20.14%.

Old Mutual PLC (OML).

Nature of Business – Old Mutual provides life assurance, asset management, banking and general insurance to more than 14 million customers in Africa, the Americas, Asia and Europe. Originating in South Africa in 1845, Old Mutual has been listed on the London and Johannesburg Stock Exchanges, amongst others, since 1999. In the year ended 31 December 2012, the Group reported adjusted operating profit before tax of GBP 1.6 billion (on an IFRS basis) and had GBP 262 billion of funds under management from core operations (Profile Data, 2014).

Sector – Fins-Insurance-Life Insurance-Life Insurance.

Number of Employees – 54 368.

Executive Directors & Prescribed Officers – Executive Directors – J Roberts, P Broadley. Prescribed Officers – N/A. Total number of executives – 2.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 18 186 113; Average STIB per annum - R 16 335 505; ROE for organisation - 8.58%. Basic salary and STIBs converted from Pounds Sterling (GBP / £) to South African Rand (ZAR).

Barclays South Africa Group Ltd (BGA).

Nature of Business – Barclays Africa offer a comprehensive range of banking services, bank assurance and wealth management products and services (Profile Data, 2014).

Sector – Fins-Banks-Banks-Banks.

Number of Employees – 35 200.

Executive Directors & Prescribed Officers – Executive Directors – M Ramos, D Hodnett, C Bond, S van Coller, W Lategan. Total number of executives – 5.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 4 681 800; Average STIB per annum - R 9 680 000; ROE for organisation - 18.25%.

Sanlam Ltd. (SLM).

Nature of Business – Sanlam is a leading financial services group in South Africa with its head office in Belville. Established in 1918, the group demutualised in 1998 and Sanlam Ltd. then listed on the JSE Ltd. in Johannesburg and Namibian Stock Exchange (Profile Data, 2014).

Sector – Fins-Insurance-Life Insurance-Life Insurance.

Number of Employees – 12 953.

Executive Directors & Prescribed Officers – Executive Directors – J van Zyl, K Möller, T Mvusi, Y Ramiah. Total number of executives – 5.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 3 447 000; Average STIB per annum - R 2 666 667; ROE for organisation - 19.85%. J van Zyl not baid STIB as per Group CEO remuneration package.

Nedbank Group Ltd. (NED).

Nature of Business – Nedbank Group Ltd. ('Nedbank Group') is a bank holding company, with its principal banking subsidiary being Nedbank Ltd. The company's ordinary shares have been listed on JSE Ltd. since 1969 and on the Namibian Stock Exchange since 2007 (Profile Data, 2014).

Sector – Fins-Banks-Banks-Banks.

Number of Employees – 29 513.

Executive Directors & Prescribed Officers – Executive Directors – MWT Brown, GW Dempster, RK Morathi. Prescribed Officers – IG Johnson, B Kennedy, D Macready, MC Nkuhlu. Total number of executives – 7.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 4 143 714; Average STIB per annum - R 4 971 429; ROE for organisation - 14.25%.

RMB Holdings Ltd. (RMH).

Nature of Business – RMB Holdings Ltd. is a diversified financial services holding company listed on the JSE Ltd. ("JSE") under the banking sector. Its investments include FirstRand Ltd (Profile Data, 2014).

Sector – Fins-Banks-Banks-Banks.

Number of Employees – 2.

Executive Directors & Prescribed Officers – Executive Directors – P Cooper. Total number of executives – 1.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 8 500 000; Average STIB per annum - R 5 930 656; ROE for organisation - 16.95%. P Cooper not paid STIB as per Group CEO remuneration package.

Investec PLC (INP).

Nature of Business – Investec is an international, specialist bank and asset manager that provides a diverse range of financial products and services to a niche client base in three principal markets, the United Kingdom, South Africa, and Australia as well as certain other countries. Investec PLC is the controlling company of the majority of the group's non Southern-African operations (Profile Data, 2014).

Sector – Fins-Financial Srvcs-Gen Financial-Investment Srvcs.

Number of Employees – 7 575.

Executive Directors & Prescribed Officers – Executive directors – S Koseff, B Kantor, GR Burger, HJ du Toit. Total number of executives – 4.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 7 393 329; Average STIB per annum - R 13 317 458; ROE for organisations - 0.00%. Basic salary and STIBs converted from Pounds Sterling (GBP / £) to South African Rand (ZAR).

Discovery Ltd. (DSY).

Nature of Business – Discovery operates in the healthcare cover and life assurance markets in South Africa and the United Kingdom (UK), and in the South African long-term savings and financial services market, as well as the short-term insurance market (Profile Data, 2014).

Sector – Fins-Insurance-Life Insurance-Life Insurance.

Number of Employees – 6 974.

Executive Directors & Prescribed Officers – Executive Directors – A Gore, R Farber, H Kallner, NS Koopowitz, HP Mayers, A Ntsabula, A Pollard, JM Robertson, B Swartberg. Total number of executives – 9.

Executive Remuneration and Company Performance Metrics – Average basic salary per annum - R 5 138 667; Average STIB per annum - R 4 688 444; ROE for organisations - 15.96%.

Growthpoint Properties Ltd. (GRT).

Nature of Business – Growthpoint is a property investment holding company whose linked units comprising shares and variable rate debentures, are listed on the JSE Ltd. under “Real Estate” (Profile Data, 2014).

Sector – Fins-Rest-Inv-Dev.

Number of Employees – 457.

Executive Directors & Prescribed Officers – Executive Directors – LN Sasse, EK de Klerk, SM Snowball, G Völkel. Total number of executives – 4.

Executive Remuneration and Company Performance Metrics – Average basic salary per annum - R 2 275 319; Average STIB per annum - R 3 833 333; ROE for organisations - -483.65%. Excluded from final organisation selection due to the extremely negative ROE ratio which would have skewed the average ROE.

Intu Properties PLC (ITU).

Nature of Business – Intu Properties PLC is one of the UK's largest listed property companies and a constituent of the FTSE-100 Index of the UK's leading listed companies. Capeshop converted into a UK Real Estate Investment Trust (REIT) on January 2007 (Profile Data, 2014).

Sector – Fins-Rest-Inv-Ret.

Number of Employees – 228.

Executive Directors & Prescribed Officers – Executive Directors – D Fischel, M Roberts, P Burgess. Total number of executives – 3.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 9 581 652; Average STIB per annum - R 5 586 414; ROE for organisations - 9.43%. Basic salary and STIBs converted from Pounds Sterling (GBP / £) to South African Rand (ZAR).

Reinet Investments SCA (REI).

Nature of Business – Reinet was established on 21 October 2008 when the former Richemont SA changed its legal form to that of a partnership limited by shares and adopted the name Reinet Investments S.C.A. At the same time as it changed its legal status, Richemont SA redeemd its ordinary capital, which was held exclusively, by Compagnie Financière Richemont S.A ("CFR") by way of the distribution to CFR of its entire luxury goods interests. In consequence, CFR became a specifically focused luxury goods company and Reinet was established as an investment vehicle, the

principal asset of which was the former Richemont's interest in British American Tobacco (Profile Data, 2014).

Sector – Fins-Investment Instruments-Equities-Equities.

Number of Employees – 12.

Executive Directors & Prescribed Officers – Executive Directors – J Malherbe, E Michotte, F Mostert, JP Rupert, JA Grieve, D Longden. Total number of executives – 6.

Executive Remuneration and Company Performance Metrics – No further analysis done, as due the organisations structure and shareholding all executives are remunerated in terms of direct and indirect holdings which either held directly by the respective executive or indirectly via a third party intermediary. As such executive remuneration cannot be calculated using the Annual Report.

Capital & Counties Properties PLC (CCO).

Nature of Business – The group has a concentration of assets in three landmark estates for substantial active asset management to drive superior total returns for shareholders (Profile Data, 2014)

Sector – Fins-Financial Srvcs-Real Estate-Hldgs&Development.

Number of Employees – 326**.**

Executive Directors & Prescribed Officers – Executive Directors – I Durant, I Hawksworth, S Das, G Yardley. Total number of executives – 4.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 6 820 934; Average STIB per annum - R 10 601 504; ROE for organisations - 16.47%. Basic salary and STIBs converted from Pounds Sterling (GBP / £) to South African Rand (ZAR). I Durant not paid STIB as per Group CEO remuneration package.

Rand Merchant Insurance Holdings Ltd. (RMI).

Nature of Business – RMI Holdings is a listed, insurance-focused investment entity comprising an investment portfolio of South Africa's premier insurance brands. In December 2012, RMI Holdings acquired an additional 825 000 ordinary shares in MMI Holdings Ltd. for cash consideration of R17 millions. This resulted in an increase of RMI Holdings' investment in MMI Holdings Ltd. from 24.94% to 25% (Profile Data, 2014).

Sector – Fins-Investment Instruments-Equities-Equities.

Number of Employees – 0**.**

Executive Directors & Prescribed Officers – Executive Directors – P Cooper. Total number of executives – 1.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 5 454 000; Average STIB per annum - R 5 930 656; ROE for organisations - 16.32%.

Coronation Fund Managers Ltd. (CML).

Nature of Business – Coronation Fund Managers Ltd. is one of Southern Africa's most successful third-party fund management companies. It is a pure fund management business which offers both individual and institutional investors access to local and global expertise across all asset classes, including specialist Global Emerging Markets, Africa and Private Equity units (Profile Data, 2014).

Sector – Fins-Financial Srvcs-Gen Financial-Asset Managers.

Number of Employees – 246.

Executive Directors & Prescribed Officers – Executive Directors – H Nelson, A Pillay, J Snalam. Total number of executives – 3.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 927 667; Average STIB per annum - R 5 736 000; ROE for organisations - 72.64%.

Redefine Properties Ltd. (RDF).

Nature of Business – Redefine Ltd. is a Property Loan Stock company listed on the JSE, has a market capitalisation of R30 billion and directly manages a diversified portfolio of property assets in excess of R41 billion. The company is diversified through its holdings in JSE listed Redefine Properties International Ltd (Profile Data, 2014).

Sector – Fins-Rest-Inv-Div.

Number of Employees – 291.

Executive Directors & Prescribed Officers – Executive Directors – AJ Konig, DH Rice, M Wainer. Prescribed Officers – Prescribed Officer A, Prescribed Officer B, Prescribed Officer C, Prescribed Officer D. Annual Reports do not disclose the names of the prescribed officers. Total number of executives – 7.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 2 173 714; Average STIB per annum - R 1 229 714; ROE for organisations - 18.25%.

Capitec Bank Holdings Ltd. (CPI).

Nature of Business – Capitec Bank, a retail bank, is a subsidiary of Capitec which is listed on the JSE Ltd. Capitec Bank provides a simplified and affordable banking facilities to clients via the innovative use of technology in a manner which is convenient and personalised (Profile Data, 2014).

Sector – Fins-Banks-Banks-Banks.

Number of Employees – 8 308.

Executive Directors & Prescribed Officers – Executive Directors – AP du Plessis, GM Fourie, R Stassen. Total number of executives – 3.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 5 494 333; Average STIB per annum - R 54 333; ROE for organisations - 19.19%.

Santam Ltd. (SNT).

Nature of Business – Since Santam opened its doors on 1 May 1918 it showed determination, courage and commitment in becoming the largest and leading short-term insurer in South Africa. Santam has managed to build a diverse company that stretches into all areas of general insurance, across personal, commercial and specialist markets (Profile Data, 2014).

Sector – Fins-Insurance-Nonlife Insurance-Property&Casualty.

Number of Employees – 4 944.

Executive Directors & Prescribed Officers – Executive Directors – IM Kirk, HD Nel, Y Ramiah. Total number of executives – 3.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 2 945 000; Average STIB per annum - R 1 300 000; ROE for organisations - 18.26%.

PSG Group Ltd. (PSG).

Nature of Business – The group, through its various subsidiaries and associated companies, offers diversified financial and other services (including financial advice, stockbroking, asset management, insurance, financing, banking, investing, corporate finance and education services)(Profile Data, 2014).

Sector – Fins-Financial Srvcs-Gen Financial-Investment Srvcs.

Number of Employees – 5 236.

Executive Directors & Prescribed Officers – Executive Directors – WL Greeff, JA Holtzhausen, PJ Mouton. Total number of executives – 3.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 2 320 000; Average STIB per annum - R 2 796 667; ROE for organisations - 19.03%.

Hyprop Investments Ltd. (HYP).

Nature of Business – Hyprop is a professionally managed property company listed on the JSE, specialising in prime quality shopping centres. Hyprop provides investors with the opportunity to hold combined unites in quality retail real estate and distributes all its income on a semi-annual basis. The company further continues to grow portfolio through acquisitions and developments as and when appropriate opportunities arise (Profile Data, 2014).

Sector – Fins-Rest-Inv-Ret.

Number of Employees – 209.

Executive Directors & Prescribed Officers – Executive Directors – P Prinsloo, L Cohen. Total number of executives – 2.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 1 269 500; Average STIB per annum - R 1 037 500; ROE for organisations - 69.17%.

African Bank Investments Ltd. (ABL*).*

Nature of Business – ABIL is a publicly owned holding company listed on the JSE Ltd. with wholly owned subsidiaries primarily within the South African unsecured credit and furniture and appliances retailing environment. The group operates through primary businesses, African Bank and EHL, as well as insurance subsidiaries Stangen, Relyant Insurance and Relyant Life (Profile Data, 2014).

Sector – Fins-Financial Srvcs-Gen Financial-Consumer Finance.

Number of Employees - 13 180**.**

Executive Directors & Prescribed Officers – Executive Directors – L Kirkinis, T Fourie, T Sokutu, N Nalliah, G Schachar. Prescribed Officers – C Chemel, G Roussos, J de Ridder, S Kahanovitz. Total number of executives – 9.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 3 296 500; Average STIB per annum - R 5 930 656; ROE for organisations - -49.42%.

Resilient Property Income Fund Ltd. (RES).

Nature of Business – Resilient Property Income Fund is a property loan stock company which has been listed on the Johannesburg Stock Exchange since December 2002. The Fund is focused on the development of and investment in dominant retail centres in cities outside the metropolitan areas. Strict criteria are applied in evaluating target investments including presence of at least three national anchor tenants and major national retail groups occupying in excess of 70% of the lettable area. Regions not displaying sound long term growth prospects are avoided (Profile Data, 2014).

Sector – Fins-Rest-Inv-Ret.

Number of Employees – 0.

Executive Directors & Prescribed Officers – Executive Directors – D De Beer, A de Lange, N Willem Hanekom, JJ Kriek. Total number of executives – 4.

Executive Remuneration and Company Performance Metrics - No further analysis done, as due the organisations structure and shareholding all executives are remunerated in terms of direct and indirect holdings which either held directly by the respective executive or indirectly via a third party intermediary. As such executive remuneration cannot be calculated using the Annual Report.

Capital Property Fund Ltd. (CPL).

Nature of Business – Capital Property Fund is a Property Unit Trust ("PUT") which was established in June 1984 in terms of the Unit Trust Control Act and is the oldest listed PUT (Profile Data, 2014).

Sector – Fins-Rest-Inv-Ind.

Number of Employees – 0.

Executive Directors & Prescribed Officers – Executive Directors – B Stuhler, R Bornman, A de Lange, D Lewis, A Teixeira. Total number of executives – 5.

Executive Remuneration and Company Performance Metrics - No further analysis done, as due the organisations structure and shareholding all executives are

remunerated in terms of direct and indirect holdings which either held directly by the respective executive or indirectly via a third party intermediary. As such executive remuneration cannot be calculated using the Annual Report.

Attacq Ltd. (ATT).

Nature of Business – Attacq is a leading South African capital growth fund in the real estate sector. It has consistently delivered growth in capital to its investors through strategic property holdings and developments. Attacq has grown gross assets to R13.5 billion with an initial gross asset value of R600 million as at 30 June 2005 (Profile Data, 2014).

Sector – Fins-Financial Srvcs-Real Estate-Hldgs&Development.

Number of Employees – 0.

Executive Directors & Prescribed Officers – M Wilken, L van der Watt, M Hamman. Total number of executives – 3.

Executive Remuneration and Company Performance Metrics - No further analysis done, as due the organisations structure and shareholding all executives are remunerated in terms of direct and indirect holdings which either held directly by the respective executive or indirectly via a third party intermediary. As such executive remuneration cannot be calculated using the Annual Report.

Redefine International PLC (RPL).

Nature of Business – RI PLC is an income focused UK Real Estate Investment Trust with exposure to a broad range of properties and geographical area. The company has direct and indirect property investments geographically diversified across the UK, Germany, Switzerland, the Channel Islands, the Netherlands and Australia, providing exposure to the retail, office, industrial and hotel sectors (Profile Data, 2014).

Sector – Fins-Rest-Inv-Div.

Number of Employees - 0.

Executive Directors & Prescribed Officers – Executive Directors – A Rowell, MJ Watters, SJ Oakenfull. Total number of executives – 3.

Executive Remuneration and Company Performance Metrics - No further analysis done, as due the organisations structure and shareholding all executives are remunerated in terms of direct and indirect holdings which either held directly by the respective executive or indirectly via a third party intermediary. As such executive remuneration cannot be calculated using the Annual Report.

Invicta Holdings Ltd. (IVT).

Nature of Business – Invicta Holdings Ltd. is an investment holding and management company, controlling and managing assets (Profile Data, 2014).

Sector – Ind-Ind Goods&Srvcs-Ind Engineering-Ind Machinery.

Number of Employees – 4 498.

Executive Directors & Prescribed Officers – Executive Directors – AM Sinclair, CE Walters, CH Wiese, C Barnard, A Goldstone.

Executive Remuneration and Company Performance Metrics - Average basic salary per annum - R 2 639 500; Average STIB per annum - R 2 000 000; ROE for organisations - 35.73%.

Materials

Eight scenarios were designed using executive remuneration and company performance data, extracted and analysed as per the selection ctriteria descibed above. The levels and combinations of executive remuneration, consisting of basic salary and STIBs, and company performance in terms of ROE were manipulated according to the design matrix illustrated in Table 3.3. In terms of executive's basic salary or STIBs, "H" represents remuneration that is at the 75th percentile of the JSE data that fitted the defined criteria, while "L" represents remuneration that is at the 25th percentile of the market. For return on equity (ROE), "H" represents a return to shareholders that is at

the 75th percentile of the JSE data that fitted the defined criteria, while "L" represents ROE that is at the 25th percentile of the market. Due to the 2^3 Factorial Design, the eight stimuli groups account for all possible combinations of each factor level with other factors (Dziak, Nahum-Shani, & Collins, 2012).

Table 3.3:

Effect Coding Matrix for the 2x2x2 Full-factorial Design

Stimuli Group	X_1 Executive Basic Salary	X_2 Executive STIB	X_3 Return on Equity
1	H	H	H
2	H	H	L
3	H	L	L
4	L	L	L
5	L	L	H
6	L	H	H
7	L	H	L
8	H	L	H

H: Presence of factor presented at the 75th percentile level

L: Presence of factor presented at the 25th percentile level

For each stimuli group, the executive remuneration and company performance data was displayed in a standardised format to all participants as represented in Table 3.4.

Table 3.4:

Stimuli Statement Presented Each Stimuli Group Based on Effect Coding Matrix

Stimuli Statement
A financial services company is listed on the Johannesburg Stock Exchange (JSE). According to the company's 2013 Annual Financial Report, the executive officers of the company earned an average basic fixed salary of R***(X₁ - H or L)*** per annum and an average annual incentive bonus of R***(X₂ - H*** *or* ***L)*** per annum while the company's return on equity (ROE) to shareholders for the company's fiscal year was (***X₃ - H or L***).

For each stimuli group, a participant was exposed to progressively more information relating executive remuneration and company performance in order to investigate whether their perception of fairness changed through the course of the study. As such a time series was established for each stimuli group, consisting of three time sets named T_1, T_2 and T_3 respectively. In each time set the stimuli statement for the group remained the same. However, between time sets additional information regarding the state if executive remuneration was provided. The information displayed in each time set in given in Table 3.5.

Measuring Instruments

The measurement scale utilised in the present study consisted of close-ended items in order to collect quantitative data. The questionnaire was self-report and consisted of 26 items in total. The estimated time to complete the full questionnaire was ten to fifteen minutes.

Perceptions of Fairness Scale.

In order to assess participant's perceptions of fairness and distributive justice in terms of the executive remuneration and company performance information that they were given in the stimuli group that they were randomly assigned to, a three-item scale was administered at each time set i.e. Y_1, Y_2 and Y_3. This scale was adapted from distributive justice sub-scales utilised by Colquitt (2001b) and Tyler and Blader (2002). Both thse scales have showed high reliability in the past with Cronbach Alpha's of .93 and .76, respectively. The sub-scale made use of a 5-point semantic differential response scale (1 = Very Unfair, 5 = Very Fair). The questions utilised in the scale are shown in Table 3.6.

Table 3.5:

Time Series – Information Given to Participants in Each Stimuli Group

<table>
<tr><th>Time Set</th><th>Information Provided to Participant relating to Executive Remuneration and Company Performance</th></tr>
<tr><td>Y_1</td><td>No information provided other than stimuli statement.
Stimuli statement and information relating to remuneration and company performacen data that was extracted and analysed from Annual Reports were provided.</td></tr>
<tr><td>Y_2</td><td>Stimuli statement and descriptive data relating to average executive remuneration and company performance of all listed financial services organisations were provided in the table below.
<table>
<tr><th>Executive Remuneration and Company Performance Data for South African financial services companies in the JSE Top 100.</th><th>Minimum</th><th>Maximum</th><th>Average</th></tr>
<tr><td>Executive Basic Salaries</td><td>R 927 666</td><td>R 18 186 113</td><td>R 5 269 217</td></tr>
<tr><td>Executive Annual Bonuses</td><td>R 54 333</td><td>R 16 335 505</td><td>R 5 844 780</td></tr>
<tr><td>Company Performance – Return on Equity (ROE)</td><td>-49.42%</td><td>72.61%</td><td>18.58%</td></tr>
</table></td></tr>
<tr><td>Y_3</td><td>Stimuli statement and descriptive data relating to the executive remuneration of the top 15 paid CEOs on the JSE as well as their respective company performance was provided in the table below.
<table>
<tr><th>Rank</th><th>Company</th><th>CEO</th><th>Basic Fixed Salary</th><th>Annual Incentive Bonus</th><th>Total Remuneration Package</th><th>Return on Equity</th></tr>
<tr><td>1</td><td>SABMiller*</td><td>Graham Mackay</td><td>R 20 749 704</td><td>R 20 244 000</td><td>R 40 993 704</td><td>13.60%</td></tr>
<tr><td>2</td><td>Shoprite</td><td>JW Basson</td><td>R 40 964 000</td><td>-</td><td>R 40 964 000</td><td>25.61%</td></tr>
<tr><td>3</td><td>Sasol</td><td>David Constable</td><td>R 20 527 000</td><td>R 11 381 000</td><td>R 31 908 000</td><td>20.30%</td></tr>
<tr><td>4</td><td>Bidvest</td><td>Brian Joffe</td><td>R 17 238 000</td><td>R 15 383 000</td><td>R 32 621 000</td><td>25.10%</td></tr>
</table></td></tr>
</table>

5	BHP Biliton**	Marius Kloppers	R 25 525 952	-	**R 25 525 952**	**22.72%**
6	Anglo American*	Cynthia Carroll	R 15 120 000	R 4 470 000	**R 19 590 000**	**-3.70%**
7	Datatec	Jens Montanana	R 10 728 000	R 12 984 000	**R 23 712 000**	**11.50%**
8	MTN	RS Dabengwa	R 10 083 000	R 13 456 000	**R 23 539 000**	**22.50%**
9	Old Mutual*	Julian Roberts	R 14 094 000	R 2 939 000	**R 17 033 000**	**13.00%**
10	AngloGold	Mark Cutifani	R 17 386 000	R 2 939 000	**R 20 325 000**	**19.00%**
11	Gold Fields	Nicholas J Holland	R 11 483 000	R 8 460 000	**R 19 943 000**	**18.79%**
12	Anglo Platinum	Neville Francis Nicolau	R 5 037 859	-	**R 5 037 859**	**-12.60%**
13	FirstRand	Sizwe Errol Nxasana	R 7 481 000	R 9 600 000	**R 17 081 000**	**21.20%**
14	Barloworld	Clive Thomson	R 7 686 000	R 7 871 000	**R 15 557 000**	**11.30%**
15	Pick n Pay Stores	Nick Badminton	R 4 859 600	-	**R 4 859 600**	**22.10%**

*** - Conversion done from £ to Rand.**

**** - Conversion done from $ to Rand.**

Table 3.6:

Perception of Fairness Scale

Question	Item Question
1	How fair do you think the average **executive's basic salary** is in relation to the company's performance, in terms of return on equity shareholders?
2	How fair do you think the average **executive's annual bonus** is in relation to the company's performance, in terms of return on equity to shareholders?
3	How fair do you think these **executive's total remuneration package** is in relation to the company's performance, in terms of return on equity to shareholders?

Manipulation Check

To conduct a manipulation check, participants were presented with the relevant executive remuneration and company performance information corresponding to their stimuli groupa and was then asked to indicate if they considered the Rand values to be High, Average or Low. The manipulation check was intended to determine what participant's perceptions of remuneration were in relation to the real-world information that they were given. The aim of these questions was to assess if in fact respondents had an accurate understanding of the levels of remunation being paid to executives in the financial services industry. The questions given to the participants are shown in Table 3.7.

Table 3.7:

Manipulation Check Questions

Question	Item Question
1	Do you think the average **executive's basic salary** can be considered to be low, medium or high in relation to other financial services company's executives in South Africa?
2	Do you think the average **executive's annual bonus** can be considered to be low, medium or high in relation to other financial services company's executives in South Africa?
3	Do you think the company's performance as measured using r**eturn on equity (ROE)** can be considered to be low, medium or high in relation to other financial services company's performance in South Africa?

These questions were answered utilising a three-point nominal scale where participants were asked to rate the presented executive remuneration and company performance data presented in their assigned stimuli group as being "Low", "Medium" or "High". Given that the Rand value presented was either at the 25th, 50th or 75th percentile of the market the respondents assessments could be compared to objective data.

Random Assignment

The practice of random assignment is standard practice in experimental research to ensure that stimuli groups are as similar to each other as possible (Bhattacherjee, 2012). The survey was designed in Qualtrics, which randomly assigned participants to one of the eight stimuli groups. This also ensured that, as far as it was possible, each group consisted of a similar number of participants. Random assignment also improves external validity as it ensures that the effects of extraneous variables are mitigated and random in nature and as such non-systematic.

Data Collection Tools and Procedure

The executive remuneration and company performance stimuli, as described above, were pre-designed, generated and uploaded onto Qualtrics, an online and web-based survey application. An electronic survey was generated and implemented utilising the Qualtrics software package. A qualifying question was posed to each participant, as to whether they worked or have a career in the South African financial services industry. If they answered in the affirmative then they would be randomly assigned to a stimuli group. If they answered in the negative, then they were taken to a page where they were thanked for their participation, but were informed that this survey was only relevant to financial services employees working in South Africa. Each respondent was then asked to consider one of eight stimuli which represented real world remuneration and company performance data extracted and analysed from JSE listed financial services organisations and provide their assessment of its fairness.

As part of each stimuli group, a validation check was included in order to establish and benchmark participants perceptions regarding the stimuli groups' executive remuneration and company performance information. As described above, within each group three time sets were setup, specifically T_1, T_2 and T_3, in between which additional executive remuneration and company performance information was given to the participants. At each time set, the same distributive justice scale was utilised in order to assess participant's perception of fairness. This constituted the first section of the electronic survey.

The second and last section of the online survey contained demographic questions to be able to describe the sample. This section contained demographic questions such as age, gender, racial group, primary language, marital status, highest qualification, geographic location, sector of financial services currently working in, level of management, employment status, years worked at current employer as well as the size of the organisation that they currently work for.

The participants were sent an electronic mail with a cover letter (Appendix A) briefly explaining the aim of the study, as well as providing the contract details of the researchers, should there have been any questions, queries or concerns. Embedded in

the cover letter was the hyperlink to the survey. A letter from the UCT Commerce Ethics Committee stating that this research had been approved was included in the electronic mail as an additional attachment. The details of the purpose of the study and researcher contact details were reiterated in the cover letter of the Qualtrics electronic survey, once the hyperlink had been followed (Appendix B). Instructions for the completion of the survey were clearly presented and elaborated on, at the start of each section.

The survey was incentivised with a lucky draw. One respondent was randomly chosen and received a voucher for a South African retail chain. This was done in order to facilitate and motivate participants to take part in the survey. The last question in the demographics section allowed participants to fill in their email address in order to be entered into the lucky draw. They could also provide their contact details if they wished to have results of the survey sent to them. These email addresses were stripped immediately and was never made part of the data set to so protect the identity of respondents. The estimated time taken to complete the survey was between 10-15 minutes and a progress bar was displayed throughout the survey such that participants could monitor their progress in the survey, thereby assisting in a reduction of respondent fatigue and dropout (Appendix C).

Statistical Analysis

Descriptive statistics were used to assess and analyse the nature of the data collected, with a full-factorial Analysis of Variance (ANOVA) being used to assess the effects of executive remuneration and company performance on employee's perceptions of fairness. A repeated measures ANOVA was then conducted in order to assess whether there was a statistically significant change in each time set i.e. between each stimuli group namely T_1, T_2 and T_3. All statistical analyses including reliability analysis, factor analysis and ANOVAs were performed using IBM SPSS Statistics, Version 22.

CHAPTER 4

RESULTS

The purpose of this chapter is to present the statistical results obtained from the various analyses performed. The following hypothesis was statistically analysed:

Hypotheses 1: Executive remuneration (basic salary and short term incentive bonuses) and company performance have a significant main effect on employee's perception of fairness and distributive justice.

The Perception of Fairness scale's validity and reliability was assessed using Principal Component Analysis and calculating Cronbach's alpha, respectivly. Descriptive statistics were used to summarise the data collected on the perceptions of fairness, which was followed by a full-factorial Analysis of ANOVA to assess the main and interaction effects of executive remuneration and company performance on perceptionsof fairness, across the eight stimuli groups. Lastly, a Repeated Measures ANOVA for each stimuli group was used in order to investigate change in participants' perceptions of fairness when presented with additional information relating to executive remuneration and company performance.

Stimuli Group Manipulation Check

A manipulation check for the stimuli statement in each stimuli group was conducted before the participants were repeatedly asked the same questions in the Perceptions of Fairness Scale, each time after being given additional information with regards to executive remuneration and company performance. Due to the use of real world financial data extracted from organisation's annual reports, the manipulation check was administered during the full experiment. The aim of the manipulation check was to evaluate whether participants were able to distinguish and perceive whether executive's basic salary, annual bonuses and company performance were considered low, medium or high in terms of the stimuli group that they had been randomly

assigned to, in order to investigate if participants could differentiate if the stimuli data they were given was in fact low (25^{th} percentile) or high (75^{th} percentile).

The manipulation check revealed that there was a significant statistical difference between the stimuli groups irrespective of different levels of executive remuneration and company performance in each stimuli group. Due to the nature of the data utilised in the study, being that of real world data extracted and analysed from JSE listed financial services organisations, significant differences between the stimuli groups were expected.

One-Way ANOVA.

The descriptive statistics that were calculated for each of the eight stimuli groups with the observed scores shown in Table 4.1 and the associated global fairness score (Y_o) are shown in Table 4.2. The global fairness score for the stimuli groups was obtained by computing the mean for each participant in relation to the three questions they were asked in terms of rating their perceptions of fairness in terms of executive salary, executive bonuses and company performance, respectively.

Table 4.1:

Descriptive Statistics for Stimul Groups in terms of Observed Scores

Stimuli Group	Participant Perception of Fairness	Executive Basic	Executive STIBs	Return on Equity
Group 1	Factor Prescence	High	High	High
	Low	1	1	1
	Medium	6	7	3
	High	3	2	6
	Total	10	10	10
Group 2	Factor Prescence	High	High	Low
	Low	0	0	4
	Medium	10	9	7
	High	3	4	2

	Total	13	13	13
Group 3	Factor Prescence	High	Low	Low
	Low	3	5	3
	Medium	8	6	9
	High	2	2	1
	Total	13	13	13
Group 4	Factor Prescence	Low	Low	Low
	Low	0	0	1
	Medium	7	7	9
	High	7	7	4
	Total	14	14	14
Group 5	Factor Prescence	Low	Low	High
	Low	1	1	1
	Medium	6	5	6
	High	4	5	4
	Total	11	11	11
Group 6	Factor Prescence	Low	High	High
	Low	0	0	0
	Medium	7	2	7
	High	1	6	1
	Total	8	8	8
Group 7	Factor Prescence	Low	High	Low
	Low	3	2	0
	Medium	6	4	9
	High	5	8	5
	Total	14	14	14
Group 8	Factor Prescence	High	Low	High
	Low	3	2	0
	Medium	6	4	9
	High	5	8	5
	Total	14	14	14

Table 4.2:

Descriptive Statistics for Stimuli Groups and Global Fairness Score

	N	Mean	Std.Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
S1	10	2.3	.31	.10	2.05	2.49	1.67	2.67
S2	13	2.1	.44	.12	1.86	2.40	1.67	3.00
S3	13	1.9	.50	.14	1.54	2.15	1.00	2.67
S4	14	2.4	.35	.09	2.20	2.61	2.00	3.00
S5	11	2.30	.48	.15	1.98	2.63	1.33	3.00
S6	8	2.33	.25	.09	2.12	2.54	2.00	2.67
S7	14	2.31	.50	.13	2.02	2.60	1.33	3.00
S8	14	2.26	.32	.09	2.07	2.45	1.67	2.67
Total	97	2.23	.43	.044	2.14	2.31	1.00	3.00

The inferential statistics for a one-way ANOVA are presented in Table 4.3 and Table 4.4, which also show the results for Levene's Test of Homogeneity of Variances and the one-way ANOVA, respectively. Levene's Test of Homogeneity of Variances were not significant ($p>.5$) and as such it fails to reject H_o, which increases our confidence that the variances of each group investigated in the ANOVA can be considered equal and the homogeneity of variance assumption has been met. The ANOVA analysis revealed statistically significant differences between the stimuli groups (F (7, 89) = 2.295, $p <.05$).

Table 4.3:

Levene's Test of Homegeneity of Variances

Levene Statistic	df1	df2	Sig.
1.42	7	89	.21

Table 4.4:

One-Way ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.74	7	.39	2.30	.03
Within Groups	15.17	89	.17		
Total	17.90	96			

Assessing the Unidimensionality of the Perceptions of Fairness Scale

Validity.

Principal Component Analysis (PCA) was used to test the unidimensionality of the perceptions of fairness scale. The Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Bartlett's Test of Sphericity were conducted in order to conclude whether it was appropriate to proceed with PCA. KMO measures should be greater than .5, while Bartlett's test should be significant in order for factor analysis to be appropriate on a data set (Burns & Burns, 2008). A significant Bartlett's test shows that there is a degree of correlation between the variables (Burns & Burns, 2008). Both KMO and Bartlett's test were analysed for each of the stimuli groups initial stimuli statement scenario in order to confirm that the perceptions of fairness scale were assessing the same factors. Each group was tested independently. The sample size was a limitation, in terms of the rule-of-thumb that for factor analysis one requires at least five times the cases (participants) in the sample than items (Burns & Burns, 2008). See Table 4.5 for KMO and Bartlett's test results for each stimuli group.

Table 4.5:

Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Bartlett's Test of Sphericity for Stimuli Groups Initial Stimuli Statement

Stimuli Group	KMO and Bartlett's Statistics		
Stimuli Group 1	Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.60
	Bartlett's Test of Sphericity	Approx. Chi-Square	12.15
		df	3
		Sig.	.007
Stimuli Group 2	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.69
	Bartlett's Test of Sphericity	Approx. Chi-Square	13.25
		df	3
		Sig.	.004
Stimuli Group 3	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.41
	Bartlett's Test of Sphericity	Approx. Chi-Square	13.17
		df	3
		Sig.	.004
Stimuli Group 4	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.65
	Bartlett's Test of Sphericity	Approx. Chi-Square	14.03
		df	3
		Sig.	.003
Stimuli Group 5	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.57
	Bartlett's Test of Sphericity	Approx. Chi-Square	5.09
		df	3
		Sig.	.166
Stimuli Group 6	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.63
	Bartlett's Test of Sphericity	Approx. Chi-Square	8.03
		df	3
		Sig.	.045
Stimuli Group 7	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.54
	Bartlett's Test of Sphericity	Approx. Chi-Square	29.96
		df	3
		Sig.	.000

Stimuli Group 8	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.66
	Bartlett's Test of Sphericity	Approx. Chi-Square	6.98
		df	3
		Sig.	.073

The KMO measure was found to be greater than .5 and Bartlett's test significant. It was therefore considered appropriate to proceed with PCA. In terms of selecting meaningful factors, Burns and Burns (2008) recommend Kaiser's rule which selects components with eigenvalues greater than 1 as they account and explain more variance than a single or individual item in the data set. Total variance explained in terms of eigenvalues for each stimuli group are shown in Table 4.6.

Table 4.6:

Total Variance Explained in terms of Eigenvalues for each Stimuli Group

	Component	**Initial Eigenvalues**			**Extraction Sums of Squared Loadings**		
S1		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
	1	2.19	73.08	73.08	2.19	73.08	73.08
	2	.69	22.85	95.93			
	3	.12	4.07	100.00			
	Component	**Initial Eigenvalues**			**Extraction Sums of Squared Loadings**		
S2		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
	1	2.27	75.50	75.50	2.27	75.50	75.50
	2	.49	16.35	91.85			
	3	.25	8.15	100.00			
	Component	**Initial Eigenvalues**			**Extraction Sums of Squared Loadings**		
S3		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
	1	1.88	62.78	62.78	1.88	62.78	62.78
	2	.97	32.21	94.99			
	3	.15	5.01	100.000			

	Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
S4		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
	1	2.20	73.24	73.24	2.20	73.24	73.24
	2	.58	19.31	92.54			
	3	.22	7.46	100.00			

	Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
S5		**Total**	**% of Variance**	**Cumulative %**	**Total**	**% of Variance**	**Cumulative %**
	1	1.82	60.84	60.84	1.83	60.84	60.84
	2	.81	27.12	87.96			
	3	.36	12.04	100.00			

	Component	**Initial Eigenvalues**			**Extraction Sums of Squared Loadings**		
S6		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
	1	2.32	77.30	77.30	2.32	77.30	77.30
	2	.50	16.59	93.90			
	3	.18	6.10	100.00			

	Component	**Initial Eigenvalues**			**Extraction Sums of Squared Loadings**		
S7		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
	1	2.49	83.084	83.08	2.49	83.08	83.08
	2	.45	14.866	97.95			
	3	.06	2.049	100.00			

	Component	**Initial Eigenvalues**			**Extraction Sums of Squared Loadings**		
S8		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
	1	1.94	64.52	64.52	1.94	64.52	64.52
	2	.61	20.47	84.99			
	3	.45	15.01	100.00			

PCAs for all stimuli groups revealed that there was only one factor greater than 1 (ranging from stimuli group 5 eigenvalue = 1.82 to stimuli group 7 eigenvalue = 2.49) and accounting for a range of variance from 60.84% (stimuli group 5) to 83.09%

(stimuli group 7). Factor loadings for the Perceptions of Fairness loaded significantly on one component, as such the scale could be considered as unidimensional and the factor is assumed to measure the perceptions of fairness of employees.

Reliability.

The internal consistency of the Perceptions of Fairness scale was assessed by calculting the Cronbach alpha cofficient. With regards to corrected item-total correlations, (Burns & Burns, 2008) recommend that the rule of thumb in terms of item deletion is that items with a corrected item-total correlation of less than .30 be removed. No items were deleted as all items had item-total correlations greater than .30. It was thus decided to retain all items. The Perceptions of Fairness scale was, based on these results, considered reliable. See Table 4.7 for reliability statistics for the scale per stimuli group.

Table 4.7:

Reliability Statistics for Perceptions of Fairness Scale

Stimuli Group	Cronbach Alpha	N of Items
S1	.798	3
S2	.798	3
S3	.831	3
S4	.665	3
S5	.815	3
S6	.639	3
S7	.805	3
S8	.895	3

Based on this basket of evidence the scale was conisdered to be valid and reliable.

Descriptive Statistics

The descriptive statistics section provides a numerical comparison of the perceptions of fairness scale with the mean scores for the eight stimuli group. This will be done for each time set, namely Y_1, Y_2 and Y_3.

Y_1 - Stimuli Statement.

Table 4.8 provides a summary of the descriptive statistics for the perceptions of fairness score. Perceptions of fairness was measured on a five-point semantic differential scale with 5 indicating the highest score and a perception of very fair, 3 indicating the midpoint which was neutral and 1 indicating the lowest score and a perception of very unfair. The overall mean score for perceptions of fairness was marginally above the midpoint of the scale, indicating that overall participants were neutral in terms of how they perceived executive remuneration and company performance for be fair.

Table 4.8**:**

Descriptive Statistics for Perceptions of Fairness (Y1) (n = 97)

	N	Minimum	Maximum	Mean	Standard Deviation
Perceptions of Fairness	97	2	5	3.20	.78

Table 4.9 below provides a summary of the descriptive statistics for each of the variables manipulated in the stimuli groups, namely executive basic salary, executive STIB and company performance in terms of ROE. There is almost no numerical variance between the means of the variables, either at the 75^{th} or 25^{th} percentile. Figure 4.1, 4.2, and 4.3 below show that there is almost no numerical difference in the means of the variables.

Table 4.9:

Descriptive Statistics for Executive Basic Salary, Executive STIBs and Company Performance (n = 97)

	Condition	N	Minimum	Maximum	Mean	Standard

						Deviation
Executive Basic Salary	75th percentile	50	2	5	3.19	.79
	25th percentile	47	2	5	3.22	.76
Executive STIBs	75th percentile	45	2	5	3.19	.90
	25th percentile	52	2	5	3.22	.65
Company Performance	75th percentile	43	2	5	3.29	.72
	25th percentile	53	2	5	3.13	.82

Figure 4.1 below shows that there is little difference in the variability of the perceptions of fairness scores in terms of executive basic salary at the 75th and 25th percentile.

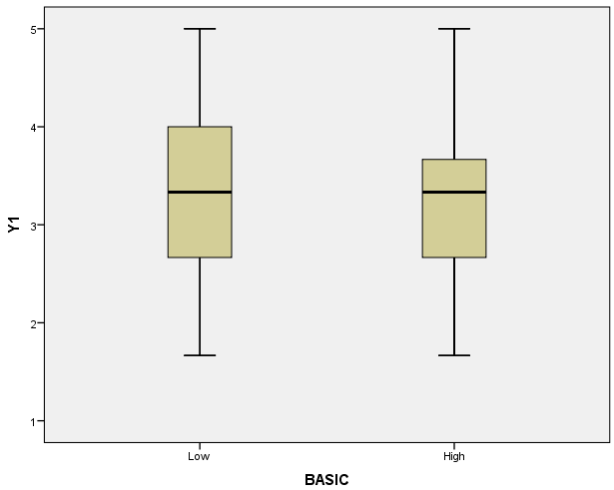

Figure 4.1. Comparison of the means for Executive Basic Salary.

Figure 4.2 below shows that the variability in the perceptions of fairness scores in terms of executive STIB at the 75th and 25th.

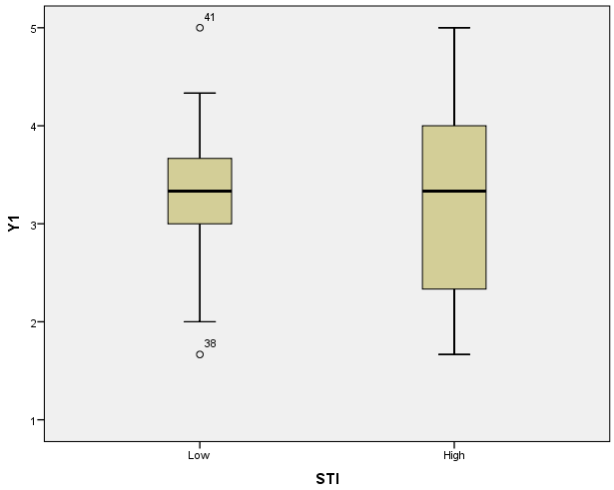

Figure 4.2. Comparison of the means for Executive STIB.

Figure 4.3 below shows the variability in the perceptions of fairness scores in terms of company performance at the 75th and 25th percentile.

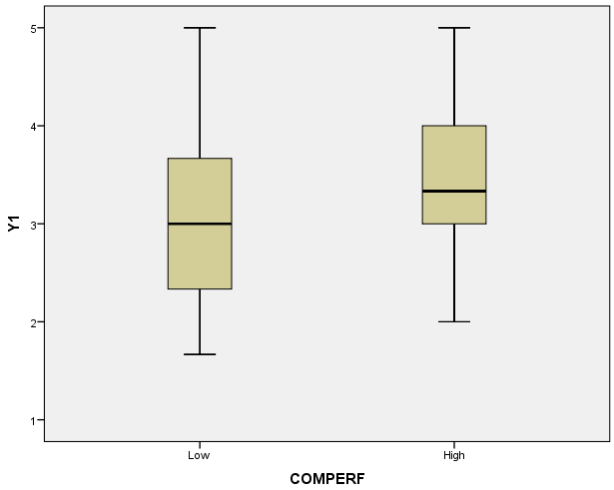

Figure 4.3. Comparison of the means for Company Performance.

Y_2 - Descriptive Data of Listed Financial Services Organisations Given.

Table 4.10 provides a summary of the descriptive statistics for the overall perception of fairness score. Perceptions of fairness was measured on a five-point semantic differential scale with 5 indicating the highest score and a perception of very fair, 3 indicating the midpoint which was neutral and 1 indicating the lowest score and a perception of very unfair. The mean score for perceptions of fairness was marginally above the midpoint of the scale, indicating that overall participants were neutral in terms of how they perceived executive remuneration and company performance for be fair.

Table 4.10:

Descriptive Statistics for Perceptions of Fairness (Y1) (n = 97)

	N	Minimum	Maximum	Mean	Standard Deviation
Perceptions of Fairness	97	2	5	3.12	.90

Table 4.11 below provides a summary of the descriptive statistics for each of the variables manipulated in the stimuli groups, namely executive basic salary, executive STIB and company performance in terms of ROE. Figure 4.4, 4.5, and 4.6 below shows the means and variance of the variables.

Table 4.11:

Descriptive Statistics for Executive Basic Salary, Executive STIB and Company Performance (n = 97)

	Condition	N	Minimum	Maximum	Mean	Standard Deviation
Executive	75^{th}	49	1	5	3.14	.89

Basic Salary	percentile					
	25th percentile	47	1	5	3.10	.93
Executive STIB	75th percentile	45	1	5	3.16	.98
	25th percentile	51	2	5	3.09	.83
Company Performance	75th percentile	42	2	5	3.26	.90
	25th percentile	54	1	5	3.01	.90

Figure 4.4 below graphicaly represents the perceptions of fairness scores in terms of executive basic salary at the 75th and 25th percentile.

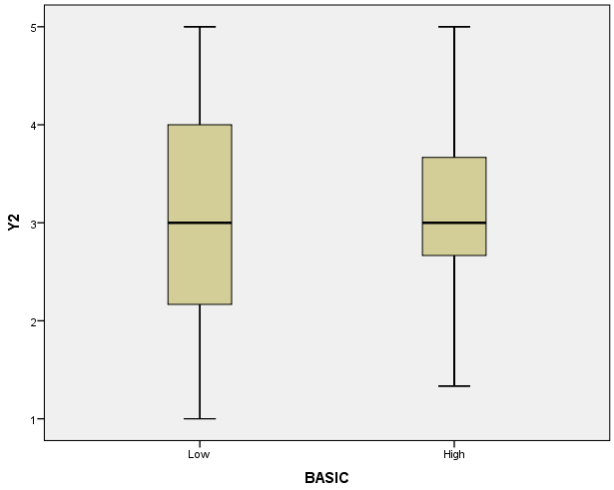

*Figure 4.4***.** Comparison of the means for Executive Basic Salary.

Figure 4.5 below shows the numerical variability in the perceptions of fairness scores in terms of executive STIB at the 75th and 25th percentile.

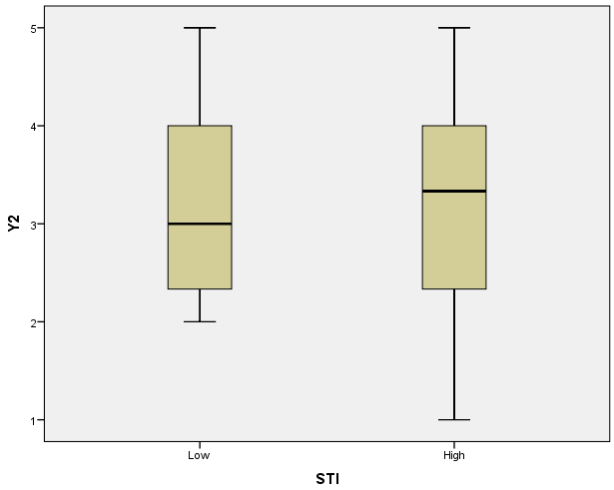

*Figure 4.5***.**Comparison of the means for Executive STIB.

Figure 4.6 below shows the numerical variability in the perceptions of fairness scores in terms of company performance at the 75th and 25th percentile.

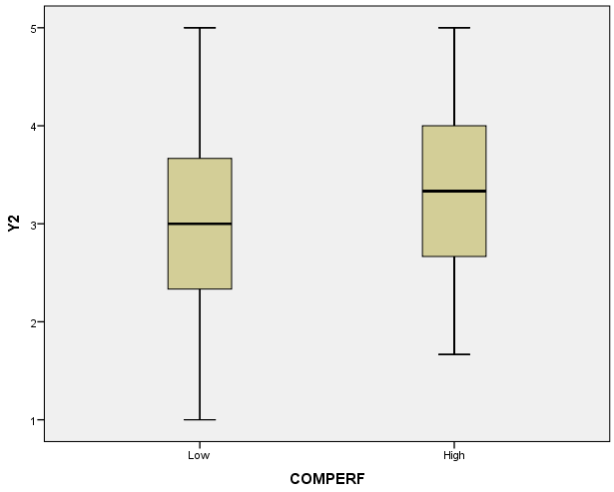

*Figure 4.6***.** Comparison of the means for Company Performance.

Y_3 - Descriptive Data for Executive Remuneration and Company Performance of Top 15 South African CEOs Given.

Table 4.12 provides a summary of the descriptive statistics for the perceptions of fairness score. Perceptions of fairness was measured on a five-point semantic differential scale with 5 indicating the highest score and a perception of very fair, 3

indicating the midpoint which was neutral and 1 indicating the lowest score and a perception of very unfair. The mean score for perceptions of fairness was marginally above the midpoint of the scale, indicating that overall participants were neutral in terms of how they perceived executive remuneration and company performance for be fair.

Table 4.12:

Descriptive Statistics for Perceptions of Fairness (Y1) (n = 95)

	N	Minimum	Maximum	Mean	Standard Deviation
Perceptions of Fairness	95	1	5	3.06	1.02

Table 4.13 below provides a summary of the descriptive statistics for each of the variables manipulated in the stimuli groups, namely executive basic salary, executive STIB and company performance in terms of ROE. Figure 4.7 4.8, and 4.9 below show that the distributions are quite similar.

Table 4.13:

Descriptive Statistics for Executive Basic Salary, Executive STIB and Company Performance (n = 97)

	Condition	N	Minimum	Maximum	Mean	Standard Deviation
Executive Basic Salary	75^{th} percentile	49	1	5	3.28	1.02
	25^{th} percentile	46	1	5	2.83	.98
Executive STIB	75^{th} percentile	44	1	5	3.01	1.1

	25th percentile	51	1	5	3.1	.96
Company Performance	75th percentile	42	1	5	3.13	1.04
	25th percentile	53	1	5	3	1.01

Figure 4.7 below shows the numerical variability in the perceptions of fairness scores in terms of executive basic salary at the 75th and 25th percentile.

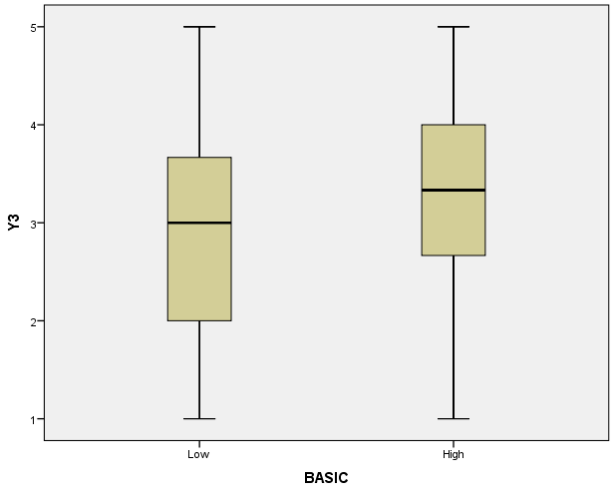

*Figure 4.7***.**Comparison of the means for Executive Basic Salary.

Figure 4.8 below shows the numerical variability in the perceptions of fairness scores in terms of executive STIB at the 75th and 25th percentile.

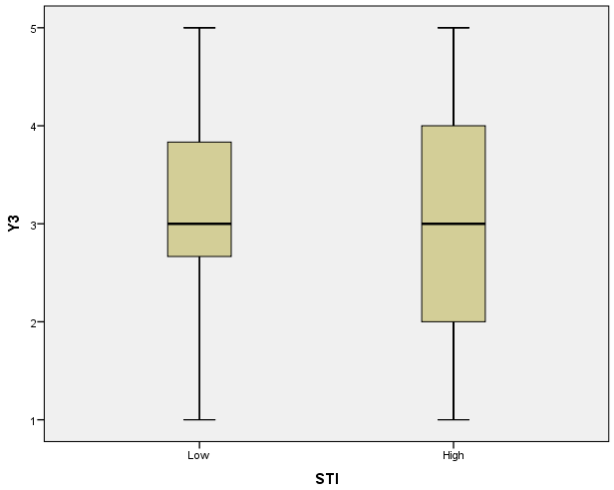

Figure 4.8. Comparison of the means for Executive STIB.

Figure 4.9 below shows the numerical variability in the perceptions of fairness scores in terms of company performance at the 75th and 25th percentile.

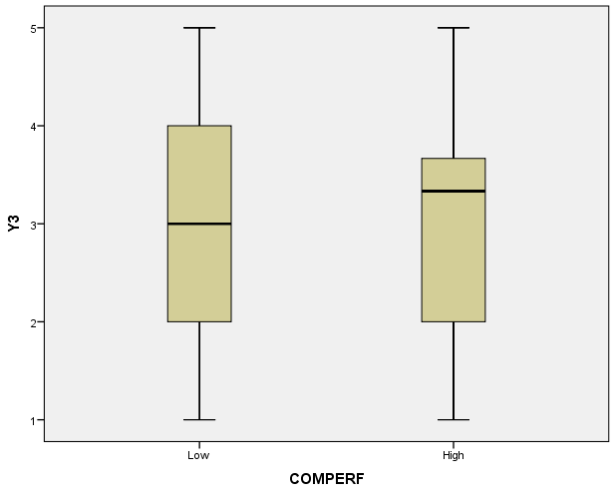

Figure 4.9. Comparison of the means for Company Performance.

Full Factorial Analysis of Variance for Executive Remuneration and Company Performance

A Full-Factorial ANOVA was used to test the statistical differences between the means obtained for the eight groups. Factorial ANOVA compares the variance between the different groups with the variability within each of the groups. An F ratio

indicates whether there is more variability between the groups than there is within the groups. Thus the Factorial ANOVA indicated whether in fact the F ratio was significant or not, which precipitates the question of whether to reject or fail to reject the null hypothesis. The Factorial ANOVA was run independently for each time set, namely Y_1, Y_2 and Y_3.

Y_1 - Stimuli Statement.

The main effects of executive remuneration and company performance were each assessed using a Factorial ANOVA. The results indicated that all three factors did not have a statistically significant main effect. These results indicated that there were no statistically significant main effects and therefore that there was no statistically significant difference between the mean scores for fairness.

See Table 4.14 for estimated marginal means and Table 4.15 for Tests of Between-Subject Effects.

Table 4.14:

Estimated Marginal Means – Dependent Variable: Y1

Executive Basic Salary				
	Mean	**Std. Error**	**95% Confidence Interval**	
			Lower Bound	**Upper Bound**
Low	3.22	.12	2.98	3.45
High	3.19	.12	2.97	3.42
Executive STIB				
	Mean	**Std. Error**	**95% Confidence Interval**	
			Lower Bound	**Upper Bound**
Low	3.22	.11	3	3.44

High	3.19	.12	2.95	3.44

Company Performance

	Mean	**Std. Error**	**95% Confidence Interval**	
			Lower Bound	**Upper Bound**
Low	3.13	.11	2.9	3.34
High	3.28	.12	3.04	3.53

Table 4.15:

Tests of Between-Subjects Effects – Dependent Variable: Y1

Source	**Type III Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**	**Partial Eta Squared**	**Noncent. Parameter**	**Observed Power[b]**
Corrected Model	1.379[a]	7	.197	.310	.948	.024	2.172	.138
Intercept	961.434	1	961.434	1513.872	.000	.944	1513.872	1.000
X1	.012	1	.012	.019	.890	.000	.019	.052
X2	.012	1	.012	.019	.890	.000	.019	.052
X3	.587	1	.587	.925	.339	.010	.925	.158
X1 * X2	.142	1	.142	.223	.638	.003	.223	.075
X1 * X3	.548	1	.548	.863	.355	.010	.863	.151
X2 * X3	.004	1	.004	.007	.934	.000	.007	.051
X1 * X2 * X3	.002	1	.002	.002	.960	.000	.002	.050
Error	56.522	89	.635					
Total	1052.889	97						
Corrected Total	57.901	96						

a. R Squared = .024 (Adjusted R Squared = -.053)

b. Computed using alpha = .05

Y_2 - Descriptive Data of Listed Financial Services Organisations Given.

The main effects of executive remuneration and company performance were each assessed using a Factorial ANOVA. The results indicated that all three factors did not have a statistically significant main effect. These results indicated that there were no statistically significant main effects and therefore that there was no statistically significant difference between the mean scores for fairness. See Table 4.16 for estimated marginal means and Table 4.17 for Tests of Between-Subject Effects.

Table 4.16:

Estimated Marginal Means – Dependent Variable: Y2

Executive Basic Salary				
	Mean	**Std. Error**	**95% Confidence Interval**	
			Lower Bound	**Upper Bound**
Low	3.1	.13	2.83	3.37
High	3.17	.13	2.9	3.43
Executive STIB				
	Mean	**Std. Error**	**95% Confidence Interval**	
			Lower Bound	**Upper Bound**
Low	3.1	.13	2.84	3.35
High	3.17	.14	2.9	3.45
Company Performance				
	Mean	**Std. Error**	**95% Confidence Interval**	
			Lower Bound	**Upper Bound**
Low	3.01	.12	2.76	3.26
High	3.26	.14	2.97	3.54

Table 4.17:

Tests of Between-Subjects Effects – Dependent Variable: Y2

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared	Noncent. Parameter	Observed Power[b]
Corrected Model	3.949[a]	7	.564	.678	.690	.051	4.748	.276
Intercept	911.278	1	911.278	1095.688	.000	.926	1095.688	1.000
X1	.119	1	.119	.143	.706	.002	.143	.066
X2	.147	1	.147	.177	.675	.002	.177	.070
X3	1.422	1	1.422	1.710	.194	.019	1.710	.253
X1 * X2	1.261	1	1.261	1.516	.221	.017	1.516	.230
X1 * X3	1.114	1	1.114	1.340	.250	.015	1.340	.208
X2 * X3	.053	1	.053	.063	.802	.001	.063	.057
X1 * X2 * X3	.027	1	.027	.033	.856	.000	.033	.054
Error	73.189	88	.832					
Total	1012.556	96						
Corrected Total	77.138	95						

a. R Squared = .024 (Adjusted R Squared = -.024)

b. Computed using alpha = .05

Y_3 - Descriptive Data for Executive Remuneration and Company Performance of Top 15 South African CEOs Given.

The main effects of executive remuneration and company performance were each assessed using a Factorial ANOVA. The results indicated that all three factors did not have a statistically significant main effect. These results indicated that there were no statistically significant main effects and therefore that there was no statistically significant difference between the mean scores of the fairness variables. See Table 4.18 for estimated marginal means and Table 4.19 for Tests of Between-Subject Effects.

Table 4.18:

Estimated Marginal Means – Dependent Variable: Y3

Executive Basic Salary				
	Mean	**Std. Error**	**95% Confidence Interval**	
			Lower Bound	**Upper Bound**
Low	2.8	.15	2.49	3.1
High	3.29	.15	3	3.58
Executive STIB				
	Mean	**Std. Error**	**95% Confidence Interval**	
			Lower Bound	**Upper Bound**
Low	3.08	.14	2.8	3.37
High	3.01	.16	2.7	3.32
Company Performance				
	Mean	**Std. Error**	**95% Confidence Interval**	
			Lower Bound	**Upper Bound**
Low	3	.14	2.72	3.27
High	3.09	.16	2.78	3.41

Table 4.19:

Tests of Between-Subjects Effects – Dependent Variable: Y3

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared	Noncent. Parameter	Observed Power[b]
Corrected Model	9.199[a]	7	1.314	1.290	.265	.094	9.030	.522
Intercept	854.085	1	854.085	838.454	.000	.906	838.454	1.000
X1	5.608	1	5.608	5.505	.021	.060	5.505	.641
X2	.136	1	.136	.134	.715	.002	.134	.065

X3	.203	1	.203	.199	.657	.002	.199	.073
X1 * X2	.026	1	.026	.025	.874	.000	.025	.053
X1 * X3	3.470	1	3.470	3.407	.068	.038	3.407	.447
X2 * X3	.362	1	.362	.356	.553	.004	.356	.091
X1 * X2 * X3	.005	1	.005	.005	.943	.000	.005	.051
Error	88.622	87	1.019					
Total	986.139	95						
Corrected Total	97.820	94						

a. R Squared = .024 (Adjusted R Squared = -.021)

b. Computed using alpha = .05

Repeated Measures Analysis of Variance

A Repeated Measures ANOVA was used to test the statistical differences between the means of the three variables, namely executive basic salary, executive STIB and company performance over time. Repeated Measures ANOVA compares the variance within each group with the variability over time. An F ratio indicates whether there is more variability between the groups than there is within the groups. Thus the Repeated Measures ANOVA indicated whether in fact the F ratio was significant or not, which precipitates the question of whether to reject or fail to reject the null hypothesis. The Repeated Measures ANOVA was run by split group analysis. See Table 4.20 for descriptive statistics.

Table 4.20:

Descriptive Statistics for Repeated Measures ANOVA

Stimuli Group		Mean	Std. Deviation	N
S1	Y1	3.37	.987	10
	Y2	3.60	.953	10
	Y3	3.57	1.043	10
S2	Y1	3.08	.964	13
	Y2	3.05	1.079	13

	Y3	2.97	1.258	13
S3	Y1	3.00	.624	13
	Y2	2.82	.661	13
	Y3	3.13	.996	13
S4	Y1	3.26	.818	14
	Y2	3.17	.884	14
	Y3	3.07	.786	14
S5	Y1	3.27	.467	11
	Y2	3.18	1.058	11
	Y3	2.64	1.233	11
S6	Y1	3.17	.873	8
	Y2	3.04	.863	8
	Y3	2.67	.854	8
S7	Y1	3.10	.907	13
	Y2	2.97	1.013	13
	Y3	2.82	1.059	13
S8	Y1	3.36	.645	13
	Y2	3.21	.752	13
	Y3	3.50	.714	13

The Repeated Measures ANOVA results showed that time and exposure to additional information did not significantly alter employee's perceptions of fairness over time as Wilks' Lamba was not significant for all stimuli groups. See Table 4.21 for multivariate test statistics, which include Wilks' Lamba.

Table 4.21:

Multivariate Tests for Repeated Measures ANOVA

Stimuli Group	Effect	Test	Value	F	Hypothesis df	Error df	Sig.
S1	Time	Pillai's Trace	.129	.594[b]	2.000	8.000	.575
		Wilks' Lambda	.871	.594[b]	2.000	8.000	.575
		Hotelling's Trace	.148	.594[b]	2.000	8.000	.575

		Roy's Largest Root	.148	.594[b]	2.000	8.000	.575
S2	Time	Pillai's Trace	.014	.081[b]	2.000	11.000	.923
		Wilks' Lambda	.986	.081[b]	2.000	11.000	.923
		Hotelling's Trace	.015	.081[b]	2.000	11.000	.923
		Roy's Largest Root	.015	.081[b]	2.000	11.000	.923
S3	Time	Pillai's Trace	.138	.883[b]	2.000	11.000	.441
		Wilks' Lambda	.862	.883[b]	2.000	11.000	.441
		Hotelling's Trace	.161	.883[b]	2.000	11.000	.441
		Roy's Largest Root	.161	.883[b]	2.000	11.000	.441
S4	Time	Pillai's Trace	.047	.294[b]	2.000	12.000	.751
		Wilks' Lambda	.953	.294[b]	2.000	12.000	.751
		Hotelling's Trace	.049	.294[b]	2.000	12.000	.751
		Roy's Largest Root	.049	.294[b]	2.000	12.000	.751
S5	Time	Pillai's Trace	.279	1.742[b]	2.000	9.000	.229
		Wilks' Lambda	.721	1.742[b]	2.000	9.000	.229
		Hotelling's Trace	.387	1.742[b]	2.000	9.000	.229
		Roy's Largest Root	.387	1.742[b]	2.000	9.000	.229
S6	Time	Pillai's Trace	.209	.795[b]	2.000	6.000	.494

		Wilks' Lambda	.791	.795[b]	2.000	6.000	.494
		Hotelling's Trace	.265	.795[b]	2.000	6.000	.494
		Roy's Largest Root	.265	.795[b]	2.000	6.000	.494
S7	Time	Pillai's Trace	.144	.927[b]	2.000	11.000	.424
		Wilks' Lambda	.856	.927[b]	2.000	11.000	.424
		Hotelling's Trace	.169	.927[b]	2.000	11.000	.424
		Roy's Largest Root	.169	.927[b]	2.000	11.000	.424
S8	Time	Pillai's Trace	.230	1.645[b]	2.000	11.000	.237
		Wilks' Lambda	.770	1.645[b]	2.000	11.000	.237
		Hotelling's Trace	.299	1.645[b]	2.000	11.000	.237
		Roy's Largest Root	.299	1.645[b]	2.000	11.000	.237

a. Design: Intercept Within Subjects Design: Time

b. Exact statistic

Summary of Results

The aim of this chapter was to present and discuss the results obtained from the various statistical analyses performed. The hypothesis was statistically analysed and the results indicated that there was no support for the hypothesis that *Executive remuneration (basic salary and short term incentive bonuses) and company performance have a significant main effect on employee's perception of fairness and distributive justice*. A Full-Factorial ANOVA was conducted to assess the main effects of the data for the Perceptions of Fairness scale. The Factorial ANOVA did not show significant main effects for any of the eight stimuli groups. Repeated Measures

ANOVA was used within each stimuli group in order to investigate if employee's perceptions changed over time, after presenting information, but the results were not significant indicating that fairness perceptions remained stable despite respondents having received the additional information.

CHAPTER 5

DISCUSSION

Introduction

As what is perceived as excessive executive remuneration packages of CEOs in South Africa continues to be widely publicised and an area of rampant public debate, the question will continue to be asked if in fact executive remuneration in related, commensurate and in line with company performance metrics. Furthermore, one must ask the question as to how employees within these organisations perceive these remuneration packages to be fair or unfair and as a consequence of this perception what are the effects of distributive justice on employees as well as the organisations they work for?

Research Question, Hypothesis and Design

The current study aimed to assess whether executive remuneration, consisting of basic salary and short term incentive bonuses as well as company performance in terms of return on equity had an effect on the perceptions of fairness of employees working in the financial services industry in South Africa. The research hypothesis was derived from the research question was the following:

H_1: Executive remuneration (basic salary and short term incentive bonuses) and company performance have a significant main effect on employee's perception of fairness and distributive justice.

The research question was investigated using a 2^3 Full-factorial Experimental Design with a sample size of 97 participants. The Full-factorial design was needed to capture the complexity of the hypothesised interaction between executive basic salary, executive STIB and company performance and how they effect perceptions of fairness. Using real world JSE listed financial service organisation's Annual Reports executive remuneration and company performance data was extracted and analysed in order to create stimuli groups which contained combinations of different executive

basic, STIB and company performance metrics. This was developed through an effect coding matrix with the relevant date that was either at the 25th or 75th percentile range. The randomly assigned stimuli was accompanied by a Perceptions of Fairness scale. The results were analysed by a One-Way ANOVA, Principal Component Analysis for the Perceptions of Fairness scale and a Factorial as well as a Repeated Measures ANOVA. All statistical analysis was completed using IBM SPSS Statistics, Version 22.

Practical Significance

Due to the small sample size and diminished power statistics, the implication of these results is not applicable to the population of financial services employees in South Africa.

Summary of Findings

Prior to commencing statistical analyses of the research data in order to ascertain if executive remuneration and company performance have a significant effect on employee's perception of fairness and distributive justice, a manipulation check was done. The manipulation check increased confidence in the variance that exist between each individual stimuli group as such met the homogeneity of variance assumption revealing statistical differences between the groups. However, the observed scores within each stimuli group's validation questions showed that participants were not able to correctly judge when executive basics, executive STIBs or ROE were being shown at the 25th or 75th percentile. Participants on average responded that executive basic, STIBs and ROE were moderately fair showing little or no understanding or knowledge of what constituted high or low levels of these factors and as such no perception of either a low fairness or high fairness scenario. Due to the premise that all stimuli groups used and presented to participant's real world executive remuneration and company performance data, statistical analysis proceeded.

PCA confirmed that the perceptions of fairness scale was unidimensional and valid across all stimuli groups, assessing the perceptions of fairness of employees through

the scale. Reliability was assessed using Cronbach alpha, which determined that all item-total correlations were reliable in each stimuli group.

Descriptive statistics showed that there was no statistical and almost no numerical variance in the mean global fairness scores of executive basic salary, executive STIBs or Company Performance (ROE) when the 25^{th} and 75^{th} percentiles are compared. This is consistent over each time set, namely Y_1, Y_2 and Y_3 where progressively more information was displayed, yet employee's perceptions of fairness remain consistent and do not change once being exposed to more information relating to real world executive remuneration and company performance data.

ANOVA was run between each stimuli group in each time set and the tests revealed that there was no significant differences between the groups in each time set. A Repeated Measures ANOVA was used to test if there was a statistically significant difference in the global fairness scores of participants over the time sets whereby they were given additional information in each set. There were no statistically significant differences in each stimuli group when a Repeated Measures ANOVA was conducted.

Based on the above results, we cannot reject the null hypothesis and as such that executive remuneration (basic salary and short term incentive bonuses) and company performance do not have a significant effect on employee's perception of fairness and distributive justice.

The results of the above are not entirely unexpected or unforeseen due to a number of factors such as trust and reliance on corporate governance measures, remuneration committees as well as employee's general indifference to executive remuneration and company performance as it may never actually effect them. Factors that may have influenced employees perceptions of fairness are discussed below.

Corporate Governance

Corporate governance measures have always been a requirement in the corporate organisational landscape ensuring accountability, transparency and alignment of core functions to the organisation's business and the industry it operates in. This is particularly true with the introduction of King III – Code of Governance Principles.

While the guidelines and principles embodied in King and adhered in the South African corporate environment have been recognised internationally, research in the South African context has found a non-existant to weak correlation exists between CEO compensation and company performance (Bradley, 2013; Institue of Directors, n.d.). This suggests that attempts to align the interests of executives and shareholders through executive pay structures has been largely unsuccessful thus far. This is obviously not good news for shareholders as executives interest may in fact not be aligned to their own thereby resulting in lower returns, which would reflect in a poor ROE percentage. This translates into problems for policymakers and economists as executives are not motivated to push the boundaries of company performance which may in the medium to long term have detrimental effects on the South African economy's efficiency (Bradley, 2013; Resnick, 2013; Scholtz & Smit, 2012; Theunissen & Oberholzer, 2013). This may translate into financial services employee's perception of fairness to be influenced in as far as them being indifferent to how executives are remunerated as they are aware that there is very little or no correlation between executive's performance and their remuneration. This would be particularly true if financial services employees are incentivised in terms of performance bonuses based on their individual performance and are penalised or rewarded accordingly while at the same time the organisation's executives are paid high STIBs when the company's ROE is low or sub-standard in terms of the industry norm. It could still be argued that the above scenario could be perceived as the highly unfair by the employee if one were the apply the equity theory framework. This leads onto the next factor that plays a role in driving and shaping a financial services employee perception of fairness and distributive justice, that of inequality in terms of the distribution of wealth in the South African population.

Inequality and Distribution of Wealth in South African Population

While South Africa may not be the most unequal country in the world anymore, it currently ranks number 3 on the list according to the World Bank's updated Gini coefficient score of 59.6 (BusinessTech, 2014). The Gini coefficient is a measure of the extent to which the distribution of income or consumable expenditure among individuals or households within an economy deviates from a perfectly equal

distribution, which is measured at 0.0 (BusinessTech, 2014; Kiersz, 2014). The US and China have scores of 41.1 and 42.1 respectively, with the average among all countries being 38.8 (BusinessTech, 2014; Kiersz, 2014). The relevance of this inequality to the above study is that employees in the financial services industry are well educated and well remunerated when compared to other sectors of the South African economy. While they are aware of the inequality that exists in South Africa in terms of wealth distribution they may or may not be directly or indirectly affected by this. Bradley's (2013) findings relating to executive remuneration in the various sectors of the South African economy observed that executives in the financial services sector receive lower average salaries than the minig sector (on average R3 111 500 lower) and the industrial sector (on average R2 285 070 lower). This offset by the fact that financial services executives receive significantly higher average bonuses that the mining sector (on average R6 213 000 higher) and the industrial sector (R 3 511 180 higher). The above can be attributed to the different environment that financial services operates in whereby variable remuneration forms a greater part of the remuneration package of executives (Bradley, 2013; Resnick, 2013; Scholtz & Smit, 2012; Theunissen & Oberholzer, 2013). Due to the relatively smaller supply of CEOs who can serve in the financial sector, the offering of higher bonuses can be attributed to retaining their services. Furthermore, the financial services sector has a significantly lower average ROE than the mining sector (on average 13.61% lower), with ROA in being 17.72% lower than the mining sector and 11.92% lower than the industry sector. In summary, the financial services industry has far more corporate governance structures in place as well being a far more regulated industry in terms of governance and oversight from the Financial Services Board (FSB) thereby leading to a far more equal sector whereby both executive remuneration structures as well as employees remuneration structures are far more aligned to each other.

In conclusion, this study was undertaken in order investigate if employee's perceptions of fairness and distributive justice were effected by executive's remuneration and company performance, of the industry that they worked in. For the purposes of this study, the financial services industry was the focus due to these

employees readily having access to technology as well as being on the whole more educated than any other industry's workforce in the South African context. Due to the corporate governance and perceived equality in the sector, employees were neutral in their perceptions of fairness toward executive remuneration and company performance.

Limitations and Recommendations for Future Research

Limitations for the current study were assessed and future recommendations are offered to improve on the limitations identified. Suggestions for future research are also included in order to expand upon the current study.

Sample and target population.

The sample group was sourced through non-probability convenience sampling. The first limitation of using non-probability convenience sampling was that the sample group may not have been adequately representative of the entire population. Lastly, the sample size was particularly small where n = 97. For a 2^3 Factorial Design a sample size of 240 participants is required for statistical significance. In future studies a probability sample should be sought with a suitable sample size.

Focus on different industrial sectors.

As discussed in the introduction to this research, one of the outcomes that was hoped for was the reconciliation and comparison of the public opinion in terms of perceptions of fariness relating to executive remuneration and company performance and that of employees in the same context. Public and employee opinion has been most often and vehemently voiced in the sectors of mining and industry rather than in financial services. For future studies employees perception of fairness should be investigated in the abovementioned sectors specifically mining. There are however serious logistical and equality issues relating to conducting research in the mining sector due to the nature of the work done, little or no access to technology, lack of education as well as the fact that most of the mining workforce lives in poverty while executives and senior management in the sector are paid relative high basics as well as bonuses relative to executives in other sectors.

Perceptions of Fairness Scale range limitation.

The scale utilised in this study consisted of three items that were rated on a 5 point semantic differential scale. Results show that participant's responses in terms of perceptions of fairness were heavily centred around a neutral response. In future research the scale needs to be expanded to have more items that assess perceptions of fairness as well as investigating whether the rating scale can be widened to a 7 or even a 10 point scale.

Longitudinal studies.

The research undertaken in this study only looked at a 'snapshot' of executive remuneration and company performance over the period of the publishing of one set of annual financial reports and statements, it does not take into account that executives work for a number of years at an organisation and are remunerated in accordance with their experience and length of tenure. This study also did not take into account the share and stock options that are given and realised by executives as part of their remuneration packages. Future studies should account for and utilise this information to investigate how perceptions of fairness of employees change when exposed to this information.

Focus on procedural justice rather than distributive justice.

This study has investigated the distributive justice, the executive remuneration and company performance in terms of actual real world data and the above recommendations for future studies have been made. Another area or branch of research that can be investigated is that of employees perceptions of fairness in terms of the how executives remuneration is actually calculated and what they are required to achieve in order to meet said benchmarks.

Conclusion

The aim of the study was to establish whether executive remuneration, executive bonuses and company performance effected South African financial services employee's perceptions of fairness. The results of the study show that there is no

statistical difference between the stimuli groups and the financial data participants were exposed to. Future studies hold promise should the limitations discussed above to addressed and overcome as there are implications for organisational citizenship behaviour (OCB), employee affective commitment and intention to leave the organisation.

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APPENDIX A

University of Cape Town

School of Management Studies

UCT Master's Survey - A study in the effects of executive remuneration and company performance on the perceptions of fairness of employees in the South African financial services industry.

The focus of this study is to determine the relationship between executive remuneration (basic salary and annual bonuses), company performance and fairness as perceived by employees in the South African financial services industry.

This Masters level research study is being supervised by Prof Anton Schlechter, who can be contacted on (021) 650 2469 or Anton.Schlechter@uct.ac.za. The researcher, Ryan Magee (Student Number: MGXRYA001), can be contacted on 072 590 9871 or mgxrya001@myuct.ac.za.

This survey does not require any employees to reveal their own remuneration packages, but simply assesses their perceptions of fairness relating to executive remuneration and company performance taken from published Financial Statements and/or Reports.

I would greatly appreciate it if you could please complete and distribute the survey.

This research is conducted in my personal capacity as a Master's student at UCT and as such all data collected will not be disclosed to any third parties.

The link can also be followed here: https://ucpcommerce.eu.qualtrics.com/SE/?SID=SV_6sWLs3oJPulCDxb

I truly appreciate your assistance in distributing the survey to employees within your organisation. I need about 240 participants in order for the statistical power of the sample to be significant.

Please give me a call or drop me an email if you have any questions, queries or concerns.

Should you wish to view my research proposal or clearance from the UCT Commerce Ethics Board, please do not hesitate to request this information.

Many thanks and look forward to hearing from you.

Thank you in advance for your participation and cooperation

APPENDIX B

UNIVERSITY OF CAPE TOWN

FACULTY OF COMMERCE

Igniting Knowledge and Opportunity

We are inviting you to participate in an Industrial/Organisational Psychology (IOP) research project conducted by the Organisational Psychology Section of the School of Management Studies at UCT. This Masters level research project is being supervised by Prof Anton Schlechter. The focus of this study is to determine the relationship between executive remuneration (basic salary and annual bonuses), company performance and fairness as perceived by employees in the South African financial services industry.

If you agree to participate in the study you will be provided with a real world example of an executive's remuneration and company performance taken from annual financial statements/reports of listed financial services companies on the Johannesburg Stock Exchange (JSE). You will then be asked to complete a short questionnaire consisting of twelve (12) questions that will ask you to evaluate the fairness of the executive's remuneration in relation to the company's performance. The entire survey should take approximately 10 minutes to complete.

Your participation in this research is voluntary and you can choose to withdraw from the research at any time. You are not required to disclose your name anywhere on the questionnaire and all responses will be confidential and used for the purposes of this research only. We have received clearance to administer the survey from the Ethics Committee of UCT's Faculty of Commerce.

We would appreciate your response by Thursday 20 November 2014. If you are interested in a summarised copy of the research findings, please supply an email address in the optional field at the end of the questionnaire.

Should you wish to contact the researcher directly regarding any queries or questions that you have in terms of the proposed research, please contact Ryan Magee (BSocSc LOPHRM Hons.) via email: mgxrya001@myuct.ac.za or via cell phone: 072 590 9871.

All participants who complete the questionnaire will be placed in a lucky draw in order to stand a chance to win a R2 000 Woolworths shopping voucher.

Thank you in advance for your participation and cooperation.

APPENDIX C

UNIVERSITY OF CAPE TOWN

FACULTY OF COMMERCE

Igniting Knowledge and Opportunity

Please carefully consider the executive remuneration and company performance data presented below and rate your perception of fairness by identifying the degree to which you agree with the following questions.

A financial services company is listed on the Johannesburg Stock Exchange (JSE). According to the company's 2013 Annual Financial Report, the executive officers of the company earned an average basic fixed salary of R5,889,733 per annum and an average annual incentive bonus of R7,533,500 per annum while the company's return on equity (ROE) to shareholders for the company's fiscal year was 13.41%.

	Very Unfair	Unfair	Neutral	Fair	Very Fair
How fair do you think the average **executive's basic salary** is in relation to the company's performance, in terms of return on equity shareholders?	○	○	○	○	○
How fair do you think the average **executive's annual bonus** is in relation to the company's performance, in terms of return on equity to shareholders?	○	○	○	○	○
How fair do you think these **executive's total remuneration package** is in relation to the company's performance, in terms of return on equity to shareholders?	○	○	○	○	○

0% 100%

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