

University of KwaZulu-Natal

**Examining the relationship between executive remuneration and company performance
of retail companies listed on the Johannesburg Stock Exchange Limited**

by

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DECLARATION

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Abstract

Executive remuneration is a contentious subject in the South African private sector and globally and is a significant concern for the public, shareholders, and policymakers. There is considerable outcry from the public, government, and media over the pay-for-performance schemes for executives. The uproar is focused on the subsequent disproportionately higher salaries and bonuses they earn (executives) compared to employees in the same organisation. This research study explored the relationship between executive pay and company performance for South African retail companies listed on the JSE. The agency theory was used to understand the underpinnings of the relationship between executive remuneration and company performance indicators. Company performance was assessed using total assets, turnover, earnings before interest taxation and amortisation (EBITDA) and earnings per share (EPS). The study focussed on 16 retail companies that met the inclusion criteria. An Excel data-abstraction tool collected data on short-term executive pay and company performance measures from the selected companies' integrated annual reports. The integrated annual reports were accessed online through the McGregor Bureau for Financial Analysis and the Bloomberg database from the KwaZulu-Natal Library. The analysis comprised descriptive statistics, Spearman's correlation and multiple regression methods. From the integrated annual reports, all selected companies adhered to South African corporate governance guidelines on public disclosure of executive compensation. Each company had independent non-executive directors who proposed compensation packages for the executives and senior management. From Spearman's correlation analysis, executive remuneration and total assets, turnover, and EBITDA had a weak to moderate positive correlation. Executive remuneration had a weak negative correlation with EPS. Furthermore, the multiple regression analysis established a statistically significant relationship between executive pay and EBITDA ($p < 0.05$). These findings provide valuable insights into the ongoing discussion on the appropriateness and effectiveness of performance-based remuneration strategies in South African JSE-listed retail companies. Implicitly, the study findings emphasise the need for careful consideration when selecting company performance measures to link with executive remuneration. Future research could provide more insights by exploring the connection between executive pay and non-financial company performance measures.

Keywords

Executive remuneration; compensation; company performance; corporate governance; King IV Code South Africa

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Acronyms and Abbreviations

AIR	Accounting and Integrated Reporting
BFA	Bureau for Financial Analysis
CEO	Chief Executive Officer
EBITDA	Earnings before interest, taxation, depreciation and amortisation
ESG	Environmental, Social and Governance
EPS	Earnings per share
GDP	Gross Domestic Product
JSE	Johannesburg Stock Exchange
LTI	Long-term incentives
MSCI	Morgan Stanley Capital International
REMCO	Remuneration committee
SMME	Small, Medium and Micro Enterprise
SOC	State-Owned Company
STI	Short-term incentives
TA	Total assets
TO	Turnover
USA	United States of America

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CHAPTER 1 – INTRODUCTION

1.1 Background

Executive remuneration is a contentious challenge in South Africa and globally. In South Africa, the executives' seven-figure pay (in South African rand [ZAR] terms) is a significant source of concern for the public, shareholders and policymakers (Edmans, Gosling & Jenter, 2023). The media has publicly scrutinised executive remuneration (Ewinyu & Valodina, 2023). Despite considerable attention and outcry from the public, government, and media to reduce chief executive officer (CEO) pay, executive remuneration has continued to increase (Sandberg & Andersson, 2022). Critics believe executives are paid disproportionately higher salaries and bonuses than other employees in the same organisation (Magnan & Martin, 2019; Nandamuri & Chebolu, 2019; Ewinyu & Valodina, 2023).

Following the 2008 financial crisis that was experienced worldwide, public anger grew over 'greedy' bankers who rewarded themselves with lavish bonuses as the economy struggled, while the United States of America (USA) government supported them (banks) with bailouts (Heimann, Mullet & Bonnefon, 2015). Before this financial crisis, major accounting scandals at Enron and WorldCom saw executives rewarding themselves with hefty payouts after exaggerating company earnings by billions of US dollars, sparking the debate on executive remuneration (de Wet, 2012; Theunissen & Oberholzer, 2013).

Global executive remuneration developments highlight the persistent discussion on fairness, performance alignment, and corporate accountability. In this regard, it is extremely important to assess how these dynamics are reflected in the South African context among retail companies listed on the JSE, considering the country's distinctive economic and governance environment.

Recently, South Africa reported two major financial scandals involving Steinhoff International and Tongaat Hulett (Mongwe & Malan, 2020). In 2017, Steinhoff collapsed after the former CEO resigned amid an inquiry into accounting irregularities at the company. The company inflated its profits and assets and used some fraudulent accounting tactics to boost its value for the benefit of its executives (Van Der Linde, 2022). Similarly, Tongaat Hulett experienced a multi-billion-dollar financial reporting scandal after overstating equity and declaring incorrect profits, resulting in their executives getting away with huge bonuses (Harper, 2022).

For the past three decades, South Africa has introduced a series of King reports on corporate governance to enhance accountability and transparency by companies in reporting their compensation practices. The King IV code outlines the standard conduct expected from the boards of directors for JSE-listed companies (Padayachee, 2017; Esser & Delpont, (2018). It aims to balance a fair reward to the executives and alignment with company performance and shareholder interests. To comply with the King IV code, companies are expected to disclose remuneration policies, explain how pay structures relate to company performance, and seek shareholder approval for remuneration implementation reports. However, while the code has increased transparency and scrutiny, its effectiveness in limiting increased payments is debatable. Critics contend that the "apply and explain" strategy primarily relies on companies' desire to follow the principles, allowing for selective compliance (Delpont,2018).

It has been noted that in South Africa, executive remuneration continues to rise despite the outcry from the public (Sandberg & Andersson, 2022). The CEO-to-typical worker compensation ratio in South Africa has almost quadrupled between 1980 and 2019 (Nandamuri & Chebolu, 2019). The recent announcement in the media (Business Tech, 2023 and News24, 2023) of the annual pay for the CEOs of South Africa's most significant retail companies – Woolworths, Shoprite and Pick n Pay – has further increased scrutiny on how executives are compensated. According to BusinessLIVE, (2023), a leading financial newspaper in South Africa, Woolworths' CEO earned over ZAR122 million annually, including long-term and short-term incentives, equating to ZAR330.000 a day. The media disclosure of the compensation of these executives has brought a debate about the difference in their remuneration compared to the salary an average employee at the same company earns (Sheard, 2023). The big question is whether these packages are commensurate to the value the executives create through company performance.

The findings by Bussin & Modau (2015) suggest that remuneration packages for executives are becoming less ideal for the organisation and its shareholders than they used to be. The assumption is that remuneration is now influenced by executives' need to enhance their packages. The needs can be understood as the desire to frequently strive to improve their financial status, ensure enduring riches, and sustain a lifestyle aligned with personal ambitions, including luxurious lifestyles. The focus is on the executives' personal motivations to maximise financial gain.

1.2 Problem Statement

In South Africa, executives' salaries and bonuses remain a contentious topic that has captured the interest of the media, public, trade unions, investors, government, academics and executives – reflecting a complex interplay of diverse interests among the multiple stakeholders (van Wyk & Wesson, 2021). While competitive salaries and bonuses are critical for attracting, retaining, and motivating executives, the size of the compensation affects the broader company beyond the CEOs (Padia, Naik & Callaghan, 2020). Executive remuneration attracts more interest and is the most noticeable disclosed element of corporate governance compared to any other routine corporate decisions (Muzata & Marozva, 2022)

With the increased public access to information on executive salaries and bonuses, companies can no longer afford to overlook the link between executive compensation, consumer perception and behaviour. Just as knowledge of executive compensation can influence investor decisions about a company, a recent study by Mokrzycki (2023) in the USA reported a link between consumer perception of executive pay fairness and their customers' purchasing behaviour. Executives pay packages that the public views as disproportionately high and that companies fail to account for can undermine confidence in the company's reputation and consumer buying intent (Besharat, Whitley & Kashmiri, 2024). A growing number of stakeholders disagree with the assumption that executives are the most critical factor, among many other factors, in driving a company's success (Magnan & Martin, 2019; Phetlhu & Nel, 2021).

Unlike in the past, where consumers could be considered rational agents who make decisions based solely on price and utility maximisation, recent research has highlighted how perceptions of a brand or company influence their purchasing preferences (Supiyandi, Hastjarjo & Slamet, 2022). The present research, therefore, makes unique contributions to this growing body of literature, focusing on retail companies on the Johannesburg Stock Exchange (JSE). The reputation of the JSE-listed retail companies could be harmed by public outcry or unfavourable media scrutiny regarding perceived and excessively high executive compensation that is not in line with the company's performance. The public being disgruntled, and the media spotlight could affect the stock price and overall company performance on the JSE.

The research concentrated only on the retail companies listed on the JSE, given the sector's distinct attributes, such as its reliance on consumer expenditure and susceptibility to economic fluctuations, making performance metrics more transparent and measurable. Retail companies listed on the JSE are often closely monitored by stakeholders and consumers regarding their governance processes and how their executives' salaries are structured, as these factors affect product pricing and employment. Furthermore, the retail industry is one of the most important contributors to the South African economy, providing a great context to analyse the relationship between CEO pay and performance. This focus enables the study to offer industry-specific findings while adding to a broader understanding of corporate governance in South Africa.

Despite progress in establishing the King IV reports as a corporate governance mechanism, including dedicated remuneration committees and investors holding “say-on-pay” votes, questions remain about its effectiveness. Concerns persist regarding the code's ability to police and regulate excessive executive compensation adequately. Public outcry on executive pay will likely intensify as the country faces many social and economic problems. Hopkins (2021), the former South African Reward Association president, emphasised the necessity of effective governance in executive remuneration. The concern resulted from the increased pressure in South Africa brought about by pronounced inequality, poverty, and unemployment. Additionally, The Institute of Directors in Southern Africa has advised pay committees that the efficacy of King IV depends on its adequate implementation and oversight by these committees. Issues such as corruption, mismanagement and economic stagnation – amid the past crippling electricity load shedding may see workers demand higher wage increases as well (Labour Research Service, 2023).

Consequently, it is essential to understand executive compensation's elements and the empirical data concerning the correlation between corporate performance as an indicator of the value executives contribute to shareholder wealth and the perceived excessive remuneration they receive (Costa, Lisboa & Marzinzik, 2023).

Although research on the association between executive salary and company performance has been on the rise worldwide in recent decades, studies that have focused on this subject and conducted in developing countries among retail companies are still scarce (Bussin & Blair, 2015; Ndlovu, Mutambara & Assensoh-Kodua, 2017; Bussin, 2018). While Bussin (2018) and Deyssel & Kruger (2019) investigated this relationship, their research only focused on data from

the mining and banking sectors in South Africa. Ndlovu et al. (2017) concentrated on all economic sectors of companies listed on the JSE, yet studies examining this relationship among retail companies in South Africa are limited, and there is a need to explore research beyond mining and financial industries. This gap in the published literature on the connection between executive remuneration and corporate performance called for research that could provide insight into this relationship and recommend strategies for executive remuneration among South African JSE retail companies.

1.3. Purpose statement

This study investigated the relationship between executive remuneration and company performance for South African JSE retail companies. This study contributes significantly to the ongoing discourse over the excessive compensation of executives and the fundamental inquiry into whether such salary and bonus levels correspond to the value they contribute to shareholder capital. The guaranteed base salary and short-term cash incentive served as variables to assess the total executive compensation.

Although various financial and non-financial indicators have been used in earlier studies, there seems to be no consensus on the most effective metric for assessing corporate performance. This study employed market and accounting criteria to determine the company's success, such as turnover, EBITDA, total assets and EPS.

1.4 Research questions

The aim of the study was to explore the connection between executive pay and company performance for a sample of South African JSE-listed retail companies.

The following were the research questions for the sample of South African JSE-listed retail companies:

1. Is there a relationship between executive remuneration and company turnover?
2. Is there a relationship between executive remuneration and earnings before interest, taxation, depreciation and amortisation (EBITDA)?
3. Is there a relationship between executive remuneration and total assets?

4. Is there a relationship between executive remuneration and the company's earnings per share (EPS)?

1.5 Objectives

The following objectives were set out for the sample of South African JSE-listed retail entities included in the study:

1. To examine the relationship between executive remuneration and turnover.
2. To examine the relationship between executive remuneration and earnings before interest, taxation, depreciation and amortisation (EBITDA).
3. To examine the relationship between executive remuneration and total assets.
4. To examine the relationship between executive remuneration and the company's earnings per share (EPS).

1.6 Study Significance

This research aims to add empirical evidence to the understanding of the connection between executives' pay and company success in JSE-listed retail companies. Given the ongoing debate on executive pay and inconclusive findings on the link between executive compensation and the performance of companies on the JSE in South Africa, the findings of this study will inform future discussions on executive remuneration in the country and other similar African contexts. Some stakeholders, such as the media, government, shareholders, and boards, will find the results of this study insightful in making decisions about executive compensation.

This study employs a quantitative research design to objectively investigate the correlation between executive compensation and corporate performance across retail companies listed on the JSE. To ensure data consistency and reliability, the study used secondary data gathered from the annual financial statements, compensation reports, and integrated reports of JSE-listed retail companies over eight years. The analysis focused on fixed salaries and short-term incentives for executives alongside performance indicators like company turnover), EBITDA, total assets and EPS. Statistical methods, such as regression and correlation analysis, were used to examine and measure the relationships between these variables. By grounding the analysis in empirical evidence, the study ought to objectively assess the extent to which executive remuneration is aligned with the financial performance of retail companies.

1.7 Chapter outline

This dissertation is organised across five chapters.

Chapter 1: Introduction to the study.

This section provided a detailed overview of the research background, study objectives and problem statement. It outlined the research topic and the significance of the study, regarding significant and current literature.

Chapter 2: Literature review.

This section presents a comprehensive literature review of empirical studies concerning the study objectives. The chapter provides an overview of the historical context and development of the debate surrounding executive compensation and company performance. It also explores key insights from the literature on the sensitivity of compensation to performance. The chapter concludes with a summary of the corporate governance regulatory frameworks applicable in South Africa.

Chapter 3: Research methods and limitations.

This chapter outlines and defines the methodology for data analysis to address the research objectives. The chapter establishes essential concepts, including the sample and the statistical techniques applied for thorough analysis. This chapter concludes by looking at the limitations.

Chapter 4: Results and analysis

This chapter outlines the study's findings and examines the statistical models and tests employed using the statistical software. Results are discussed based on the literature reviewed in the second chapter.

Chapter 5: Conclusions and Recommendations.

The last chapter presents conclusions and recommendations derived from the study findings and subsequent discussion of outcomes, which should be integrated into the structural design of executive remuneration packages and contracts. This section summarises the study's conclusions and outlines recommendations for future research.

1.8 Conclusion

The chapter offered a synopsis of the research problem, presented the research background, contextualised the study, and elaborated on set research questions. The objectives were clearly defined. The study outline comprehensively presented the research structure. The following chapter analyses various literary sources to improve comprehension of the connection between CEO pay and the performance of JSE-listed retail companies.

CHAPTER 2 – LITERATURE REVIEW

2.1 Introduction

The relationship between executive pay and company performance has been a subject of considerable discourse and investigation in corporate governance. Executive remuneration structures are intended to connect senior management's focus with shareholders' interests, ensuring that executives are motivated to promote company growth and long-term success. However, questions persist on whether these compensation packages, especially in large publicly traded corporations, genuinely enhance performance or reward executives without commensurate benefits to shareholders.

This literature review will describe one of the principal theoretical frameworks influencing executive compensation's comprehension, the agency theory. The review will then analyse empirical research used to explore the correlation between executive salary and corporate success while emphasising the distinct corporate governance and regulatory framework of South Africa.

2.2 The agency theory and its evolution

The agency theory originates from Adam Smith's (1776) publication "The Wealth of Nations" in the 18th century. Smith (1776) noted the risk of conflicts of interest in joint-stock corporations, where agents may fail to prioritise the principals' concerns. The principal is the company's shareholder, whereas the agent manages the company on behalf of the principal. This early identification of the principal-agent problem established the foundation for subsequent theoretical advancement studies on this subject. These studies brought attention to the likelihood of managers prioritising their interests over those of shareholders, a concept that would later become an essential aspect of agency theory.

2.2.1 The evolution of the agency theory

In their book, "*The Modern Corporation and Private Property*," Frank and Meyers (1933) expanded the agency theory introduced by Smith by analysing the ownership arrangements within American corporations. Their investigation revealed that individuals designated by owners possess authority over these organisations and oversee their operations, resulting in

them being biased and looking after their interests. However, the advancement of the agency theory commenced in the 1970s through the significant contributions of Ross (1973) and Mitnick (1975), who developed two distinct approaches in their work. While Mitnick (1975) attributed the difficulty the theory brought about to the institutional structure, Ross (1973) saw the agency theory as a problem of aligning incentives.

Ross further explained that the principal-agent dilemma in compensation decisions is not only limited to firms. The dilemma also commonly exists in society and institutions such as government, healthcare, education, and financial services. In government, for example, taxpayers (principals) elect government officials (agents) to manage public funds and make decisions for the benefit of society. Rather than concentrating on the interests of taxpayers, government representatives may concentrate on their own agendas, focusing on raising salaries, funding initiatives that benefit their supporters, or participating in corrupt practices. This conflict is often brought about by government officials embezzling or mismanaging public finances.

According to Jensen & Meckling (1976), the firm can be considered as a network of contracts between individuals with different interests. This framework provided an approach for understanding the inherent conflicts of interest in principle-agent relationships. Jensen & Meckling's (1976) work laid the groundwork for the agency theory, addressing how agency issues are brought about by corporations' separation of ownership and control, providing mitigating factors for the complications.

The agency theory is acknowledged as a fundamental backbone in economics and finance. (Panda & Leepsa, 2017). Within a business setting, the principal-agent relationship is formed by the contractual agreement in which the shareholders (principals) hire executives to oversee the business operations on their behalf. Within this arrangement, the executives are accountable for the business operations and for advancing the principal's interests by optimising and creating value for the owners (Kirsten & Du Toit, 2018).

Despite this contractual agreement, Panda & Leepsa (2017) highlight that the agent and the principal frequently encounter conflicts — the agency problem — due to their divergent goals and interests. Individuals and groups have varying risk tolerance levels, leading to diverse actions to advance self-interests. A firm's principals or owners spend their capital expecting

economic rewards, while the agents responsible for managing the company are risk-averse and prioritise maximising their profits. Implicitly, agency conflict arises from the divergent risk preferences of both the principal and the agent, leading to misunderstandings in risk-taking. Over time, literature acknowledges that the agency problem has broadened to involve more stakeholders interested in the organisation, including the board of directors and company personnel (Gwala & Mashau, 2023).

The agency theory underwent further development to overcome a more comprehensive array of concerns. Researchers analysed many methods to address agency concerns, such as corporate governance frameworks, board composition, and external market controls like takeovers and shareholder activism. Other scholars, such as Fama & Jensen (1983) and Bebchuk, Cohen, & Ferrell (2009), explored the agency problem, in terms of explaining how boards of directors serve as catalysts that help managers align their interests with shareholders, bringing efficiency and corporate governance techniques in resolving agency issues. In the same context, Eisenhardt (1989) explained the agency theory further to highlight its relevance in different organisational circumstances. The researchers divided the company's decision process into decision management and decision control, with the agents as crucial role players.

Namazi (2013) & Sarwoko (2017) further noted that several international studies have enhanced the comprehension and implementation of agency theory in varied organisational settings. Executive remuneration acts as a tool to balance the priorities of executives with those of owners through base salary, short-term incentives, stock options, and non-financial perks, such as a positive work atmosphere and possibilities for career development, among other incentives. These components, based on the agency theory of Jensen & Meckling (1976), are meant to lower the possibility of self-serving behaviour and motivate executives to act in the owners' best interests. Companies incentivise executives to prioritise both immediate results and sustainable growth.

Similar to the study by Jensen & Meckling (1976), a study in India by Panda & Leepsa (2017) concurs that executives' compensation packages aim to incentivise executives, thereby increasing shareholder value, improving business performance, and reducing agency conflicts. In evaluating the effectiveness of compensation policies in public corporations in South Africa, Deysel & Kruger (2019) also proposed that executive compensation should be linked to

business performance. Also, principals can gain by providing performance-based compensation aligned with the financial incentives that encourage executives to perform in the optimal interests of shareholders.

2.2.2 Limitations of the Agency Theory

Firstly, Abdelkarim & Zuriqi (2020) and Panda & Leepsa (2017) assert that an agency dilemma occurs when the agent has competing interests while they are entrusted to perform their duties in the best interests of shareholders. When it is costly to monitor agents continuously and when certain behaviours cannot be fully observed within the company, executives may choose to invest effort or allocate resources towards activities that do not optimise shareholder value. The activities will be focused on establishing and increasing their empires (Frank & Meyers, 1933; Gwala & Mashau, 2023).

The executives would, for example, focus on engaging in unnecessary mergers and acquisitions to increase the company's size and power, even when the deals have no benefit to shareholders in the long run. This can also be done by purchasing businesses in unrelated sectors to diversify their holdings without any financial or strategic justification. Another example is when executives may overspend on luxuries such as private planes, lavish workspaces, or costly business gatherings that elevate their status without improving the business performance or shareholder value.

Secondly, informational disparity between the agent and the principal. In most instances, leaders possess more knowledge of the relevant organisation, including management accounting, far more than the information available to principals solely through financial statements. As a result, this often results in shareholder interference as they attempt to understand the agent's long-term plans for the business. Consequently, this may impede the agents' ability to perform their duties efficiently (Fox & Lorsch, 2012).

Overstating project success or manipulating financial reporting to hide underperformance are examples of informational discrepancies between the agent and the principal. For instance, to portray a more favourable financial picture, they may postpone the recognition of losses or exaggerate revenue figures, which makes it challenging for shareholders to evaluate the company's actual performance and the efficacy of management choices.

Thirdly, Panda & Leepsa (2017) observed that executives and shareholders have different risk preferences in India. Shareholders are risk-neutral because their portfolios are well-diversified. At the same time, executives exhibit risk aversion and a profit-driven mentality, as they can only oversee a single company at any moment, precluding their risk diversification during their career span (Means, 2017; Panda & Leepsa, 2017). Given the above, executives prefer activities that avoid risk, as they endeavour to optimise their wealth during their short tenure at a company before moving to another organisation, creating disagreements between management and shareholders (Panda & Leepsa, 2017; Means, 2017). Since the executives' employment duration within their respective organisations is limited and the companies possess an indefinite lifespan, executives may put short-term gains ahead of long-term firm stability to increase their personal fortune during employment. The objective would be to temporarily raise stock prices and obtain performance-based incentives like bonuses or stock options before leaving the company. Also, they may bargain for hefty severance packages, or "golden parachutes," which guarantee significant payouts upon leaving the company regardless of performance.

Fourthly, Chen & Huang (2011) found that the agency theory needs to fully explain the intricacies of human connections, trust, and loyalty that are often crucial in organisational contexts. These findings are consistent with those by Kouiri (2023) and Gwala & Mashau (2023), highlighting that trust can encourage cooperation among principals and agents and reduce the necessity for costly monitoring. Furthermore, Cuevas-Rodríguez, Mejía & Wiseman (2012) showed that the agency theory may undervalue the potential advantages of cultivating a culture of trust and collaboration by excessively emphasising formal contracts and control mechanisms.

2.3 Corporate governance

Corporate governance encompasses the framework, systems, practices, and processes that control the administration and management of a corporation (Mallin, 2011). The process involves delicately reconciling the interests and priorities of several stakeholders linked to a corporation, such as shareholders, executives, and the public. Corporate governance covers various management elements comprising action plans, controls, performance assessment, and public disclosure. Europe, the USA, and South Africa have developed corporate governance frameworks to help governments enhance the regulatory environment (Canton, 2021).

A detailed examination of corporate governance by Alasbahi (2021) and Butzbach and Rotondo (2020) showed that numerous persistent obstacles exist in the global corporate governance landscape. These include rising stakeholder expectations for Environmental Social Governance (ESG) integration, discrepancies in executive incentives and varied regulatory standards across countries. This observation is similar to what was reported by Filatotchev Jackson & Nakajima (2013) and Schiehl, Ahmadjian & Filatotchev (2014), which show significant variations in corporate governance rules among different countries, often posing substantial challenges for international companies. Companies must adapt and constantly comply with the ever-changing corporate governance landscape.

2.3.1 King reports of corporate governance

King (1994) published the initial report on corporate governance in South Africa. The later King III Code was a response to the global movement towards good corporate governance (Doni, Corvino & Martini, 2019). The code includes a section on executive remuneration and emphasises the need for stakeholder involvement (Institute of Directors, 2009). The King III report recommends that all publicly traded firms create remuneration committees (REMCOs) that help establish and manage compensation policies (IoD, 2009). The REMCOs are responsible for determining and disclosing the underlying principles in structuring executive remuneration. The King III Code promotes accountability in executive compensation and focuses on increasing transparency.

The King IV is the most recent addition to the King Code reports series and was issued in 2016 with an "apply and explain" basis, where corporations would choose to either adopt the code or provide an explanation for the non-adoption (Gregory, 2023; Siwendu, Swanepoel & Stumke, 2024). The code suggests implementing an Accounting and Integrated Reporting (AIR) system (De Villiers et al., 2017).

Since the commencement of the 2017 financial year, the JSE has issued instructions for the implementation of the King IV Code as a prerequisite for listing on the stock exchange. This code covers modern concerns such as sustainability, integrated reporting, and stakeholder involvement. As the King IV Code suggests, comprehensive disclosures enable stakeholders to carefully examine and understand the reasoning behind executive compensation, thereby promoting trust and confidence in the executives. More recent studies have confirmed that this

equilibrium reduces conflicts and facilitates a fairer allocation of business advantages to the companies adhering to the JSE listing policies (Siwendu et al., 2024).

Furthermore, a study in South Africa by Ntim, Opong, Danbolt & Thomas (2012) suggested that following the King Code criteria is associated with enhanced business performance. Kirsten & Du Toit (2018) also suggested that introducing corporate governance specifications is ideal for realigning the interests of shareholders and executives.

Despite many mechanisms to regulate executive compensation, such as corporate governance disclosure mandates, executives might employ strategic reporting to undermine certain aspects of these mechanisms. According to Matemane, Moloian & Adelowotan (2022), strategic reporting involves the deliberate use of complex language in annual reports or the intentional hiding of specific forms and other components of remuneration, which may not be understandable to the readers of these reports.

Prominent recent business scandals, like those related to Steinhoff International and Tongaat Hullet in South Africa, have highlighted substantial governance deficiencies (Marais, Vermaak & Shewell, 2023). These instances highlight the disparity between governance principles and their implementation, exposing problems such as insufficient supervision, conflicts of interest, and unethical conduct. Within the field of corporate governance, there is extensive discussion and examination surrounding the connection between executive compensation and business performance (Ndlovu et al., 2017; Coetzee & Hall, 2020).

2.4 Executive remuneration

Executive remuneration generally includes both short- and long-term incentives. Short-term incentives comprise a fixed salary, annual performance-based bonuses, and other benefits; the parameters of this investigation were confined to examining financial remuneration, specifically short-term incentives. Short-term compensation can be easily measured in current terms, while quantifying long-term compensation is challenging. In addition, previous studies in South Africa by Bradley (2011), Shaw (2011), Bussin (2015), Ndlovu et al. (2017) and Coetzee & Hall (2020) utilised short-term pay to examine the connection between CEO remuneration and company performance.

Bolt (2023) explains the essential components of an executive salary in detail below.

- Fixed Salary: assured regular base financial compensation devoid of risk and often paid monthly.
- Benefits: These are advantages associated with monetary contributions towards healthcare insurance, retirement benefits, use of company jets or cars and travel allowances.
- Short-term incentives (STI) are performance bonuses paid in cash for achieving an agreed set of objectives or financial results.
- Long-term incentives (LTIs) encompass stock options, restricted stock, or performance-based shares. These payouts align the executive's accomplishments with the company's long-term performance, typically evaluated by shareholder returns every 3–5-year period.

Figure 2.1 below shows some of the elements that make up the executive packages

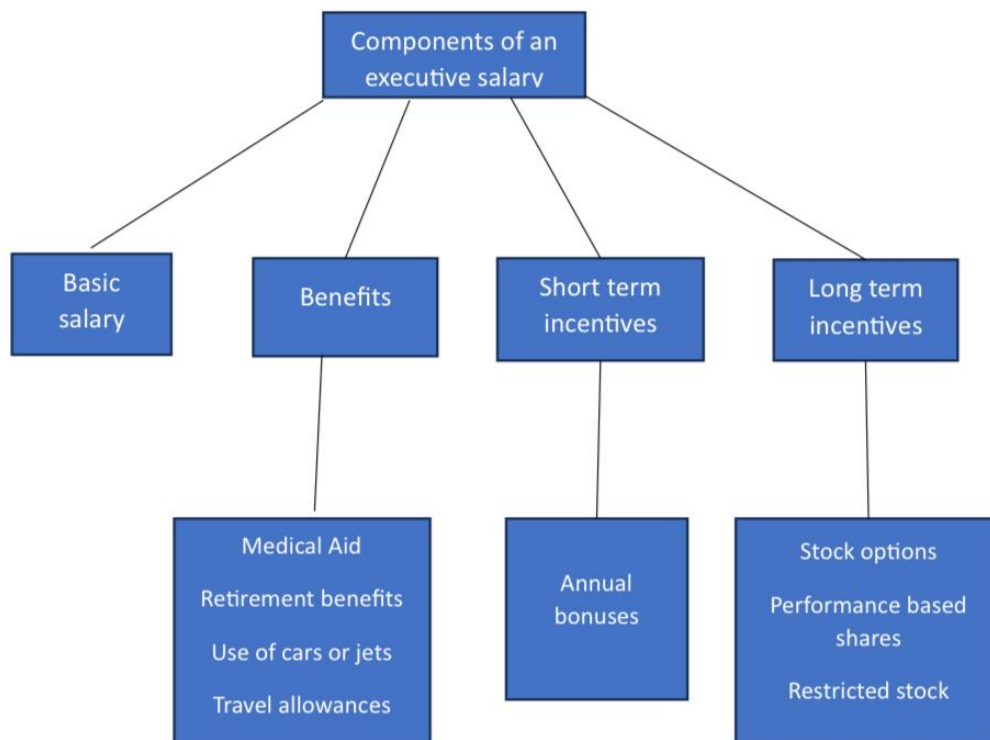


Figure 2.1: Components of an executive remuneration structure (Adapted from Bolt, 2023)

Additionally, executives also receive non-financial compensation, including a conducive working atmosphere, opportunities for professional development, and experiential learning. Murphy (2013) and Grey, Flynn & Adu, (2024) emphasise the importance of stock options and performance-based bonuses in ensuring executive actions align with shareholders' interests. They argued that paying executives with stock options incentivises and motivates them to increase shareholder value.

2.5 Company performance metrics for executive compensation and their criticism

Steyn (2015) contends that establishing a suitable metric for corporate performance is essential for understanding the link between CEO pay and company performance.

Company performance results usually are determined through accounting and market-based metrics combined (Scholtz & Smit, 2012; Bussin, 2018; Kirsten & Du Toit, 2018; Robinson,

2024). Bussin (2015) defined accounting performance measures as verified indicators in a certain year from which financial performance ratios can be deduced and market performance as indicators assessed by examining the company's share market to gauge its overall success.

The study by Coetzee & Hall (2020) (where) explained that performance metrics, including total assets, share price, EPS and turnover, are frequently used to evaluate executive compensation. In addition, Kori, Muathe & Maina, (2020) suggested that non-financial measures like market share, customer satisfaction, and innovation may also be considered to assess performance holistically. However, more consensus in published literature is needed on the most appropriate metric to measure company performance.

2.5.1 Company financial performance measures

According to Ndlovu et al. (2017) and Kirsten & Du Toit (2018), company financial metrics offer measurable objective indicators frequently employed to assess the performance of executives. While Bussin (2018) reported that financial-based measurements are crucial for analysing corporate success as they offer a transparent and unbiased way to examine the effectiveness of executives in managing the organisation's resources, O'Connell and Ward (2020) argue that these measures might encourage decisions prioritising short-term gains while disregarding long-term sustainability and stakeholder interests. These findings concur with Ataay (2018) who reported that high CEO compensation packages and performance-based short-term incentives could encourage risk-taking, manipulation of earnings, and obstruction of long-term value creation.

Bussin (2015) and Adkins (2019) contended that accounting-based company performance measures, given their historical nature, are vulnerable to fraudulent adjustment by executives to falsify the financial status of the organisation. Similarly, Safta, Achim & Borlea, (2020) highlighted that while financial metrics provide accurate and measurable information that reduces the subjective aspects of performance reviews, they can be deliberately altered to show a positive balance sheet. Executives may even change performance measures to enhance their bonuses (Adkins, 2019; Honkanen, 2022). The accounting disasters reported in the US, including the Enron scandal (Healy & Palepu, 2003; Bhasin, 2016), and in South Africa, Steinhoff International and Tongaat Hullett (Marais et al., 2023), are documented examples of high accounting disasters.

While there is broad consensus on the necessity of linking a company's reported success to its executives' compensation Resnick (2013) and Nasrin (2022), opinions vary regarding the specific performance metrics to employ. Absolute financial indicators like turnover, earnings per share (EPS), return on investment (RE), shareholder return (EBITDA), and return on assets (RA) have been used (Tho, Dung & Huyen, 2021; Bussin, 2018; Bussin & Modau, 2015).

This study used turnover, EBITDA, total assets and EPS as the financial performance indicators for the retail companies included in the analysis, as they have been used in previous studies in South Africa (Ndlovu et al., 2017; Coetzee & Hall, 2020) and globally (Alajlani, 2019; and Bouteska, Sharif & Abedin, 2024).

2.5.2 Company market performance measures

Bawa (2019) studied market-based performance measures from a shareholders' perspective in Europe and maintained that market-based measures are prospective and predominantly preferred by shareholders. These metrics operate under the assumption of market efficiency that regards stock price as an accurate reflection of the firm's intrinsic value. Ndlovu et al. (2017) agree that, unlike accounting measurements, market-based indicators are not restricted to a specific performance element. As such, they represent a company's financial success more accurately than accounting-based measures.

This outcome assumes that the primary responsibility of executives is to optimise the company's value for its shareholders, often typically indicated by the performance of the company's stock price. Unlike measurements based on accounting, the capital market is the primary information source that is less likely to be manipulated by corporate representatives (Bussin, 2015).

However, Abdullah (2016) proposed that market-based measures of past performance serve as trustworthy indicators of future performance. Market-based and accounting-based performance metrics are highly comparable and reflect distinct facets of the same fundamental concept of financial performance. (Ndlovu et al., 2017; Alajlani, 2019; Tho et al., 2021). In this regard, Zogning (2017) and Kissoonduth, Webb & Kahn (2019) argue that adopting performance-related remuneration policies is a strategy that can be used to create shared interests between shareholders and executives.

Farmer et al. (2013) and, more recently, Li (2019) proposed the implementation of “relative performance reviews” to enable a company to evaluate the performance of its executives based on controllable variables, excluding externally generated effects such as economic downturns or changes in market conditions. The company can more precisely evaluate the executives' contributions by concentrating solely on the "non-systematic" performance aspect (unaffected by external influences). This strategy seeks to enhance the equity of performance evaluations and guarantee that compensation or incentives accurately represent the leaders' genuine contributions to the company's success.

2.5.3 Environmental, Social and Governance

Historically, annual reports have incorporated reporting environmental, social, and governance (ESG) factors due to Morgan Stanley Capital International's efforts in the USA to analyse ESG aspects related to corporations (Mans-Kemp & Viviers (2018), Kilian, 2020; Keeley, Chapman, Yoshida, Xie, Imbulana, Takeda & Managi, 2022). Research by Keeley et al. (2022) has shown that when making investment decisions, company investors are currently evaluating the effectiveness of a company's management of ESG factors. The purpose of a company goes beyond making a profit and includes creating social value by meeting the needs of all its primary stakeholders. Many publicly traded companies have recently developed new ESG measurements and objectives to inform executive compensation plans.

Keeley et al. (2022) further believe there is a need for standardisation in ESG frameworks. Very few corporates will prioritise ESG performance without appropriate incentives for company executives. It is still uncommon for companies to incorporate non-financial metrics in executive compensation plans. Instead, the primary emphasis lies on financial performance indicators, with profit serving as a medium to the long-term goal for which executives must strive.

Given the country's reliance on fossil fuels for energy, ESG and its pillars are essential for sustainable growth and global competitiveness for South African enterprises. Ramalho (2020) explained that when an organisation reveals unfavourable ESG performance, investors are unlikely to invest in that specific company, even if the company is financially stable. Matemane Moloji, Adelowotan & Biswas (2023) reported a growing trend towards including ESG issues in executives' compensation schemes for JSE-listed companies.

2.6 Empirical evidence on the relationship between executive remuneration and company performance

2.6.1 Studies in European countries

Farmer et al. (2013) investigated the correlation between CEO salary and company success across 254 companies in the United Kingdom from 2003 to 2007, revealing that those incentives, namely STIs and LTIs, influence market performance. However, the study excluded the period during the 2007 global financial crisis.

In a study in the USA, Gompers & Kovvali (2023) found a substantial correlation between company performance and CEO pay. Similarly, research by Zhou (2010) in Canada reported a correlation between how big an organisation is and its CEO's pay. However, in Australia, Wijeweera, Rampling, & Eddie (2022) found that only the long-term components of the remuneration package serve as strong incentives for CEOs and senior directors, and the fixed compensation component does not provide any incentive for them to enhance owners' value.

In their study from 2007 to 2012 to investigate the connection between CEO remuneration and company success in Australian and German banks, Preißing, Southey, & Laing (2013) reported a weak correlation between CEO pay and the key performance metrics in Australia, while a strong association was observed in Germany. However, the authors focused on top banks in Australia and Germany, and the findings may have limited applicability to countries like South Africa, which have different economic conditions.

2.6.2 Studies in South Africa

Similarly, Siwendu et al. (2024) conducted a study in South Africa to find the link between JSE-listed CEOs' remuneration and the performance of their mining companies. The investigation revealed a correlation varying from weak to strong between executive salary and the organisation's financial success. Additionally, a comprehensive examination of CEO pay showed a rise in STIs and a fall in the fixed salary as a share of the overall compensation. However, the study did not account for total compensation or examine additional moderating variables that could influence potential associations

Meanwhile, a study by Nkwadi & Matemane (2022) investigating the link between JSE-listed mining CEO's pay and company performance established a positive connection between some variables of company performance and CEO salary. The findings are similar to those by Bussin, Wöcke & Deysel (2023), who discovered compelling evidence indicating a strong connection between executive remuneration and several performance metrics in South Africa. Their study, however, included basic salary, STIs and LTIs.

Padia, Naik, & Callaghan (2020) identified a substantial association between CEO compensation and business performance in their study "Variable executive remuneration and company performance: insights from the Johannesburg Stock Exchange." Their research demonstrated that a company's size significantly impacts the CEOs' compensation levels.

Bezuidenhout & Bussin (2020) conducted a correlation analysis between CEO pay and state-owned company (SOC) performance in South Africa. Their study found that turnover exhibited a more consistent association with CEO pay. The study examined the association's annual behaviour; hence, these data are inadequate for establishing a long-term link. The survey conducted by Kirsten & Toit (2018) among companies listed on the South African stock exchange found no correlation between CEO compensation and corporate performance, contradicting the earlier findings of Bezuidenhout & Bussin (2020).

In their analysis of JSE-listed companies over a six-year period, Ndlovu et al. (2017), used bivariate regression analyses for each corporate performance metric to each metric of executive salary. These findings were augmented by several regression studies correlating each component of CEO salary with corporate performance metrics. The research established some correlation between CEO compensation and market-driven corporate success indicators. In this study, accounting performance metrics (return on equity and EPS) positively correlated with CEO compensation, even though the association was weak. However, stock market-based metrics like total shareholder return may not display the same association (Jeff Boakye et al., 2020)

Bezuidenhout, Bussin & Coetzee (2018) and Maloa (2020) discovered that the correlation between CEO pay and company performance differs depending on the performance metric employed, the country, and the industry sector examined. Therefore, considering many performance criteria when examining this link is vital. Research indicates that appropriately

structured pay packages aligning with the performance objectives can favour the firm's overall performance (Deysel & Kruger, 2019). However, factors other than company success, such as corporate culture, the regulatory environment, and industry dynamics, including peer comparisons and board dynamics, can affect these packages' effectiveness (Bezuidenhout et al., 2018; Maloa, 2020).

2.7 Conclusion

The literature review uncovered a complicated and multifaceted relationship between executive salary and corporate success, shaped by many theoretical and practical viewpoints. Agency theory, a fundamental concept in this domain, asserts that executive compensation should be aligned with management's objectives and those of shareholders, thereby incentivising leaders to prioritise company performance. Nonetheless, agency theory possesses flaws, as it frequently presumes a direct correlation between incentives and performance, overlooking elements such as individual managerial motives and diverse shareholder interests.

Corporate governance principles are crucial in governing the correlation between executive compensation and corporate success, including approaches to accountability and oversight that can alleviate agency problems. The King IV Code emphasises ethical leadership, sustainability, and stakeholder inclusivity, extending beyond just financial measures to improve transparency in remuneration processes. The King IV recommendations promote a compensation strategy that combines short-term financial incentives with long-term stakeholder interests.

The literature review highlighted the significance of evaluating company success through financial, market-based, and ESG performance metrics. Financial measures, including profitability and market metrics such as EPS and EBITDA, are essential indicators of a company's immediate performance. However, there is increasing acknowledgement of ESG elements as equally essential to sustainable success in South Africa's changing business environment. The study indicated that whereas financial and market indicators yield insights into short-term success, ESG measures present a more comprehensive, long-term perspective that aligns with the standards of the King Codes and the interests of various stakeholders

Whereas executive compensation solutions based on agency theory and corporate governance can impact company performance, a holistic approach that includes financial, market, and ESG

indicators is essential for thoroughly evaluating company success. This multifaceted perspective encompasses the distinct setting of JSE-listed companies alongside the overarching expectations of sustainability and ethical governance articulated by the King IV code. Chapter Three below outlines the study method used to answer the research study questions.

CHAPTER 3 – RESEARCH METHODOLOGY

3.1 Introduction

This section explores the methodologies employed in this study, including data gathering and analysis. A well-defined methodology ensures the study's outcomes' correctness, reliability, and validity. It explains the rationale for the employed quantitative research methodology.

3.2 Research Design

The present research employed a quantitative methodology, utilising secondary data sources to explore the connection between executive pay and corporate performance for JSE-listed businesses. The research examined the correlation between executive pay and company performance over eight years, from 2016 to 2023. The study period was limited to these eight years to minimise the likelihood of relying on outdated data that may not accurately represent the current connection between executive pay and corporate performance. The eight-year timeframe facilitates the discovery of trends and patterns in executive compensation and corporate performance metrics. It comprehensively offers profound insights into the correlation between executive pay and business performance metrics.

This study relied on good corporate governance statutory requirements that govern the JSE-listed companies to guarantee the accuracy and reliability of the data collected. The King IV Code report prioritises the comprehensive and transparent disclosure of executive remuneration policies and practices (IoD, 2009). This guarantees that all compensation data is documented and accessible to the public, improving transparency. Furthermore, the code recommends periodic internal and external audits of remuneration processes and data to authenticate the accuracy and dependability of the given data and guarantee adherence to the established regulations and standards.

3.3 Sampling strategy

Similar to the research conducted by Bussin (2018) on a single sector, the study specifically concentrated on a single sector, namely the retail industry on the JSE. Using a single sector enhances reliability and comparability while removing the necessity to account for industry-specific variances among companies and altering or amending any metrics on the financial

statements. The retail industry is an essential component of the South African economy, characterized by substantial sales that proxy for the company's size relative to overall executive compensation (Malgas & Mason, 2017; Mandipa & Sibindi, 2022). This study concentrated on retail companies for the following reasons.

- The retail sector is vital to the global economy and a good indicator of consumer confidence and the state of the economy. Retail businesses are essential to consumer behaviours, job creation, and economic expansion (Malgas & Mason, 2017).
- The retail environment is vibrant and varied, blending local and foreign shops in various categories, such as food, clothing, electronics, and speciality. Therefore, the JSE's market capitalisation and trading activity are primarily driven by retail companies listed on the JSE (Khadi, 2020; Vilakazi & Bosiu, 2024).
- The choice of retail companies guarantees diversity and representation within the target audience. Retailers operating in many sub-sectors, including e-commerce platforms, fashion retailers, and supermarket chains, provide a wide range of operational characteristics, business models, and market dynamics.
- Retail executives, boards of directors, investors, legislators, and other stakeholders should take note of the research's practical consequences. Corporate governance procedures, executive compensation policies, investment choices, and regulatory changes can all be influenced by the knowledge gained by examining executive compensation and retail firm performance.
- The retail industry fits the study's aims to determine the connection between executive pay and business performance. Retail companies' executive pay policies are frequently the subject of public scrutiny and attention because of their prominence, shareholder activism, and potential influence on financial results. Executive remuneration may impact consumer trust and behaviour (Smith, 2024).

3.4 Sampling Method

Of all the JSE-listed companies, a sample of retail corporations was selected for the study. The total number of JSE-listed retail companies is relatively small, limiting the possibility of proper random sampling. A total of 16 small, medium and micro-enterprise companies from a target population of 27 retail businesses on the South African Stock Exchange on 30 May 2024 were selected for the study (Johannesburg Stock Exchange, n.d).

Table 3.1. Retail companies included in the study

Sample No	Company Name	Company Code	Category
1	Bid Corporation Limited	JSE-BID	Grocery
2	Shoprite Holdings Limited	JSE-SHP	Grocery
3	Clicks Group Limited	JSE-CLS	Pharmaceutical
4	Pepkor Holdings	JSE-PPH	Mixed
5	Woolworths Holdings Limited	JSE-WHL	Mixed
6	Mr Price Group	JSE-MRP	Mixed
7	The Foschini Group	JSE-TFG	Clothing
8	Truworths International Ltd	JSE-TRU	Clothing
9	Dischem Pharmacies Ltd	JSE-DCP	Pharmaceutical
10	Spar Group Limited	JSE-SPP	Grocery
11	Pick n Pay Stores Limited	JSE-PIK	Mixed
12	Currio Holdings Limited	JSE-COH	Other
13	Cashbuild Limited	JSE-CSB	Other
14	Lewis Group Limited	JSE-LEW	Other
15	Homechoice International plc	JSE-HIL	Other
16	STADIO Holdings Limited	JSE-SDO	Other

Source: Data extracted from the JSE database

The study included JSE-listed retail enterprises with defined policies and mission/vision statements that are linked with corporate governance and performance goals. Furthermore, enterprises with significant staff, indicating large-scale operations, have been selected to ensure that the findings reflect the sector's characteristics.

The focus was on JSE-listed retail enterprises with considerable market size and turnover. Only organisations with a consistent record of annual financial declarations and a turnover substantial enough to show meaningful retail operations were included to ensure data reliability and relevance to the study's objectives.

The criteria for inclusion were established based on:

- The obligation for companies listed on the stock exchange to reveal executive compensation and produce independently audited annual statements.
- The selection of the 16 organisations was based on their accessible published comprehensive annual reports, which outlined their executive compensation frameworks and corporate performance for the study period (2016-2023).
- The companies' integrated annual reports were accessible online or through the McGregor Bureau for Financial Analysis (BFA) and the Bloomberg terminal available at the University of Kwa-Zulu Natal.

Investigating the connection between executive pay and corporate performance of the retail sector in South Africa using the 2016-2023 time horizon corresponds with recent market and economic conditions, offering an up-to-date picture of the relationship. Recently, with the years under study considered, there have been significant changes in consumer behaviour, technological breakthroughs, international financial events and the COVID-19 influence (Redda, 2021 and Jones, 2021). These developments could influence executive pay plans and the retail industry's performance; hence, there is a need for a current study.

Sayyida, Hartini, Gunawan & Husin, (2021) explained how the retail industry faced tremendous challenges and changes globally due to COVID-19 regional lockdowns and social distancing protocols that impacted consumer shopping behaviour. Therefore, examining executive remuneration and business performance from 2016-2023, including the COVID-19 pandemic, might yield important insights into how companies responded to the crisis and its long-term consequences on the pay-performance link.

3.5 Data Collection Instruments

An Excel data-abstraction tool was used to collect data on executive remuneration and financial indicators for the selected companies from secondary data sources. Secondary data is information gathered by other entities excluding the investigator (Johnston, 2017). Secondary data refers to information from sources such as books, magazines, government publications, databases, the internet, archives, media, and business reports (Pritchard, 2023). The Bloomberg

BFA database served as the principal source for secondary data collection. The data sources also included integrated annual reports accessed from the respective companies' websites.

The Bloomberg BFA comprehensive database with archival documents on executive salaries and financial company reports was accessed online. The data was extracted from the Bloomberg database and added to an Excel spreadsheet for further analysis. The applied research tool was a data matrix that compiled all the company's data about executive pay components (fixed salary and STIs) and corporate performance (TA, TR, EPS, and EBITDA) for each year of the study (2016-2023). The Bloomberg data terminal carries standardised information that ensures unbiased analysis of the sampled companies' findings and is regarded as valid, accurate and credible in meeting the requirements of JSE-listed companies.

A number of studies in South Africa employed a similar data collection technique. Busin & Blair (2015) in examining the correlation between corporate success and executive compensation for JSE-listed firms, employed identical methodologies of panel data analysis and statistical testing. van Wyk & Wesson (2021) used the same techniques to establish the connection between long-term executive pay and corporate performance in South Africa.

3.6 Research validity

Validity defines the degree to which a research instrument or procedure accurately assesses its intended measurement. In this study, the data on executive pay and company performance were sourced from Bloomberg to represent the trends of retail organisations in South Africa precisely. Reliability signifies how data or results can be replicated under similar conditions (Heale & Twycross, 2015). Therefore, the Bloomberg database provides consistent data across several timeframes or for different researchers employing similar criteria.

Using the Bloomberg database as a data source was appropriate, considering its acknowledged reliability for delivering precise, comprehensive, and current financial and corporate information. The database is extensively used in academic and professional research, providing comprehensive information on executive compensation and economic performance, critical variables in this study. The data's validity in this research is guaranteed by Bloomberg's utilisation of audited and verified financial reports. At the same time, its reliability arises from

Bloomberg's systematic data collection processes, which yield consistent data points over time, rendering the database a robust instrument for analysis in this dissertation.

Below are definitions of the variables that were extracted from the secondary data sources:

Executive remuneration: Executive remuneration refers to compensation packages that include a fixed base salary, benefits (pension, health insurance, vehicle allowance, perquisites like club memberships, among others) and short-term bonuses for executives and senior management. Short-term dividends are paid to the executives based on how the company performed that year. Given the inconsistent salary disclosure for other senior management, the study only captured data on executive remuneration for retail companies' executives (Murray, 2023).

Turnover: The study used the company's total annual income or gross revenue to capture turnover. Turnover is the total amount of money a business generates from its operations before any costs, taxes, or expenses related to making that money are deducted. It is a significant financial indicator that gives a broad picture of the business's ability to make money from its main activities, providing insight into the company's market activity and scale. It shows a company's proper resource utilisation, bringing efficiency and effectiveness. However, because operational costs and other deductions are not included, it does not represent the business's profitability (Atlas Copco, 2023).

EBITDA The reported EBITDA was captured to indicate the companies' market performance. Analysts and investors frequently use EBITDA to assess a company's cash flow generation and financial health. EBITDA is a financial indicator that considers a business's operational performance by excluding non-operating expenses, like interest and taxes. It is regarded as an accurate reflection of a company's operational success and profitability. EBITDA is a valuable measure for comparing companies across industries or regions because it only considers the profitability of the company's core operations. However, for a thorough financial analysis, it should be used in conjunction with other metrics (Pain, 2017).

Total assets refer to the total amount of fixed and current assets owned by an entity that appears on the balance sheet. Any changes noted on total assets can indicate company growth or reduction. This study will record all the assets reported in the balance sheets regardless of how they are funded (Atlas Copco, 2023).

Earnings per share: The present research employed the closing share price to represent the EPS. Investors are more inclined to monitor the indicator as it reflects the profit an organisation generates in relation to its shares (ISS Governance, 2023).

3.7 Data Analysis

This research organised and examined the data using SPSS version 27. Executive remuneration data was described using descriptive statistics. The analysis examines executive salary and corporate performance as the dependent and independent variables. The independent variables were total assets, EBITDA, turnover and EPS.

Bivariate analysis was used in the study as it enables the examination of the direct association between two variables:

Executive compensation (e.g., salary, bonuses, stock options).

Corporate performance (e.g., profitability metrics such as turnover, EBITDA, total assets or EPS). The study explored whether a statistically significant association exists between these two variables.

The study applied Spearman's correlation to examine the data. Spearman's correlation analysis is a non-parametric technique that establishes the strength and direction of the link between two ranking variables (Pallant, 2020). Company performance measures and executive compensation may not adhere to normal distributions, and outliers can significantly impact outcomes. The Spearman's correlation is resilient to these concerns.

Bussin & Carlson (2020) employed Spearman's rank-order correlation to assess the connection between CEO pay and company performance in South African state-owned enterprises over an eight-year period. The following steps were taken in the correlation analysis:

Checking for outliers

- Scatterplots were plotted to check for outliers.

Ranking the Data:

- All variables (remuneration, turnover, total assets, EBITDA and EPS) were converted into ranks. In analysing executive remuneration and company performance, each variable observation was ranked from lowest to highest.

Differences in Ranks calculation:

- The rank (d) difference was calculated for each paired observation.

Spearman's Coefficient (ρ):

Equation 3.1 (Source: Laerd Statistics, 2018).

$$\rho = 1 - \frac{6 \sum d_i^2}{n(n^2 - 1)}$$

- The formula is: $\rho = 1 - \frac{6 \sum d_i^2}{n(n^2 - 1)}$

d_i : Difference between ranks of each pair.

n : Number of data pairs.

Interpreting Spearman's ρ :

+1: positive monotonic connection.

-1: negative monotonic connection.

0: represents the absence of a monotonic association.

Following correlation analysis, a multiple regression model was used to test which independent variables show the most significant relationship with executive pay. A USA study by Jeppson, Smith & Stone, (2009) examining the connection between CEO remuneration and financial performance for large public enterprises across multiple sectors used a similar regression model. This study adapted the same regression model Jeppson et al. (2009) used on retail companies listed on JSE to test its applicability in the South African context.

Equation 3.2 (Source: Jeppson et al., 2009, p.81).

$$\text{Equation 1 } Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + k$$

Y: dependent variable (executive remuneration)

X: independent variables (X_1 : turnover; X_2 : EBITDA; X_3 : total assets; and X_4 : share price)

β represents the coefficients of the regression model

k is the intercept or constant

An F-test was used to explore whether the company performance variables (X) explained executive remuneration (Y) variance.

3.8 Ethical Consideration

Ethical clearance for this research was obtained from the University of KwaZulu-Natal's Humanities and Social Sciences Research Ethics Committee (HSSREC/00007052/2024).

3.9 Limitations and delimitations of the study

The study used secondary data obtained from the McGregor BFA. The reliability of this study's conclusions is contingent upon the secondary data sources employed.

Employees and management, not executives alone, influence a business' financial performance. However, given that executives are responsible for providing a strategic vision and a business model and earning a salary that is publicly disclosed, this study primarily focused on executive pay.

This study examined executive remuneration against a narrow set of accounting and market-based performance metrics. The study did not utilise several company performance metrics, including non-financial aspects that can significantly determine executive compensation. This may restrict the scope of the conclusions. The performance of market-based companies is influenced mainly by macroeconomic factors, which makes it less dependable as an indicator of firm performance.

The lack of a substantial statistical correlation between executive pay and total assets and turnover may be ascribed to the limited number of organisations in the sample and the particular time range chosen for this study. The period under study was affected by COVID-19, which could have influenced the findings. Furthermore, accounting-based performance reports are inherently retrospective, which may not effectively forecast future performance.

The researcher deliberately excluded data on equity options and long-term incentive programs due to the lack of consistent revelation of executive share options among the companies in the sample. The complexity of corporate integrated annual reports is sometimes overshadowed by the information related to executive share options. A standardised procedure for reporting the yearly allocation of share-option incentives for executives would have helped their inclusion in the analysis conducted for the research.

The dependence of the study on medium-sized businesses could restrict the generalizability of the results to smaller or larger companies as these might vary significantly in structure, resources, and decision-making procedures. The outcomes may also be influenced by industry-specific dynamics, rendering cross-industry comparisons less dependable.

3.10 Conclusion

This section outlined the study methodologies employed in exploring the correlation between executive pay and the performance of retail enterprises on the JSE. A quantitative methodology was applied, concentrating on numerical data to guarantee objective analysis. The research employed a dataset of financial data from 16 JSE-listed retail companies between 2016-2023. The data encompassed variables representing short-term executive pay (salaries and bonuses) and corporate performance indicators (TA, TO, EPS and EBITDA). The data was abstracted from corporate annual statements and databases, including Bloomberg BFA. Only retail companies with accessible and current financial information were included in the study. The analytical methods included regression and Spearman's correlation analysis, supplemented by descriptive statistics to summarise the dataset. The data's validity and reliability were confirmed through source cross-referencing, and ethical standards were upheld by utilising only publicly accessible information from recognised sources.

The next chapter explores the quantitative analysis's findings, emphasising the statistical findings' interpretation. This chapter will examine the trends, correlations, and possible causation between executive compensation and company performance, investigating if increased executive payment is associated with enhanced financial results. Furthermore, it will explore the potential implications of these findings for corporate governance and the broader retail industry in South Africa.

CHAPTER 4 – RESULTS PRESENTATION AND DISCUSSION

4.1 Introduction

This section outlines research findings on the connection between executive pay and financial performance for 16 JSE-listed retail businesses. Section 4.2 illustrates the retail companies featured in the study. Section 4.3 delineates the governance system and the executive compensation structure. Sections 4.4 and 4.5 provide descriptive statistics for executive compensation and corporate performance metrics. Section 4.6 refers to bivariate analysis, whereas section 4.7 addresses the regression analysis model. Section 4.6 summarises the findings on theoretical and practical implications. Section 4.10 outlines the chapter's conclusion.

4.2 Overview of Retail Companies Analysed

The 16 retail companies that met the selection criteria from the JSE list were grouped into the following five categories:

- Grocery: Bid Corp Limited, Shoprite Holdings and Spar Group Limited
- Clothing: The Foschini Group and Truworths International
- Pharmaceuticals: Dischem Pharmacies and Clicks Group Limited.
- Mix of grocery and clothing: Pepkor holdings, Woolworths, Mr Price Group and Pick and Pay stores.
- Other (Hardware and Furnisher): Cash Build, Lewis Group, Homechoice International, Stadio Holdings and Currio Holdings.

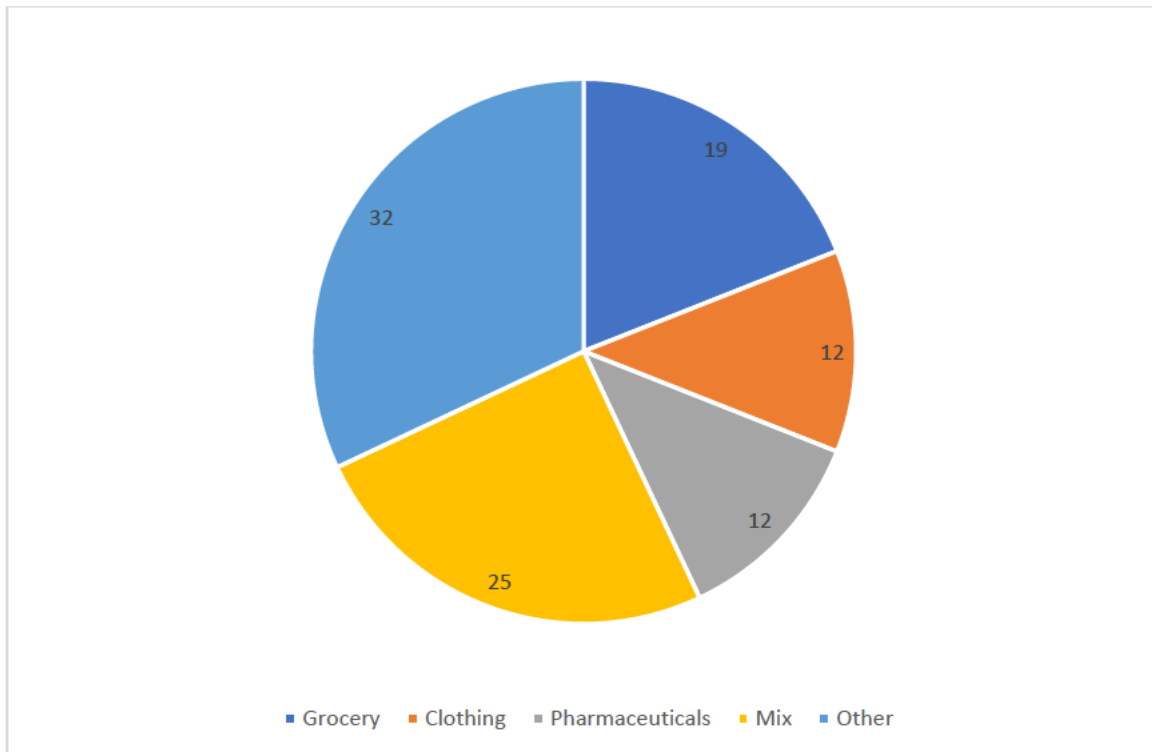


Figure 4.1: Overview of retail companies included in the study
Source: The author compiled using data from the JSE database.

4.3 Governance framework and executive remuneration structure

The present research reviewed integrated annual reports of the 16 companies over the eight years (2016-2023) to assess their governance framework. Based on the integrated yearly reports, all selected companies appeared to adhere to the King IV Code. Each company had an independent board of directors responsible for establishing Remuneration Committees comprising non-executive directors. The REMCO proposed compensation packages for the executive and senior management for the board to approve.

When evaluating executive compensation, the REMCOs relied on industry standards and market practices of comparable South African companies in size and business scope. The REMCOs were additionally accountable for conducting performance assessments regarding objectives established by the board.

Executive compensation mainly consisted of three components:

- A comprehensive guaranteed compensation package comprising a base pay and benefits (including pension, medical coverage, and automobile allowance), generally disbursed monthly.
- STIs encompassed variable cash bonuses granted to executives contingent upon the company's success during a designated fiscal year. LTIs consist of variable cash and equity packages granted to executives to attain favourable company performance over an extended period exceeding one year.

4.4 Descriptive statistics of executive remuneration

Mean and median executive compensation

Figure 4.1 below shows the mean and median executive remuneration in the study sample for the eight years from 2016 to 2023. Appendix 8.1 shows detailed descriptive statistics on executive remuneration.

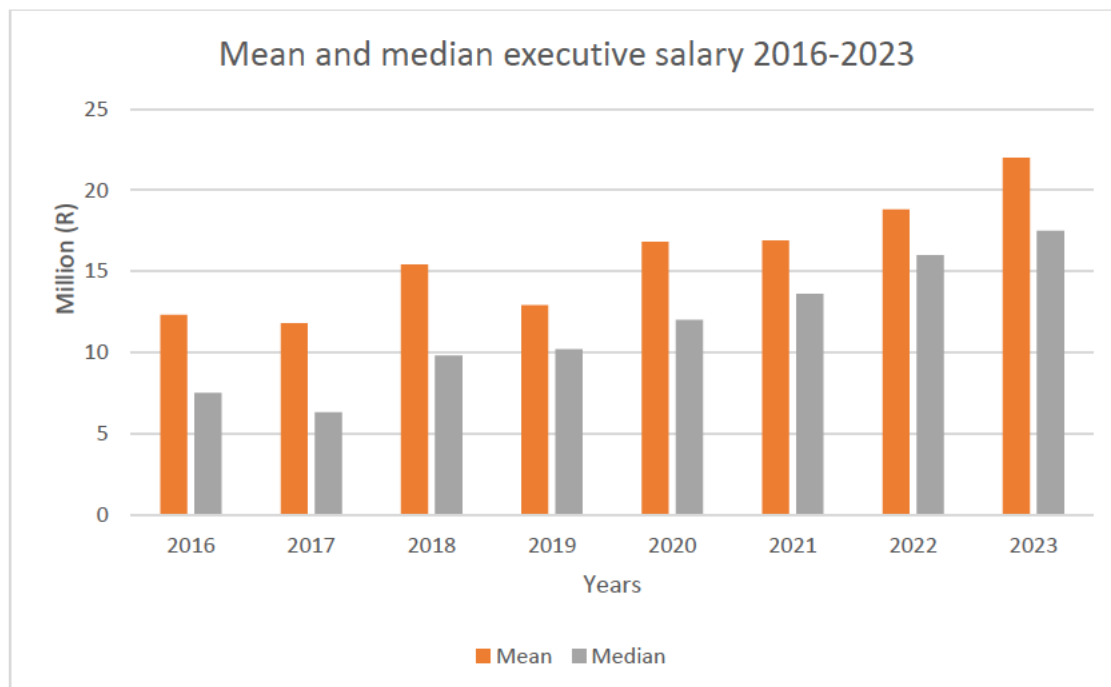


Figure 4.2: Mean and median executive salary between 2016 and 2023

Source: The author compiled and created using data from Bloomberg, 2024

The mean executive pay rose from R12.3 million in 2016 to R21.9 million in 2023. There was a notable increase in 2018 to R15.4 million, followed by generally consistent growth in remuneration. The average total compensation increased by about 80% during the eight-year research period.

Following a similar trend, the median executive remuneration in the study sample rose gradually by over 130%, from R7.5 million in 2016 to R17.5 million in 2023. The mean was consistently higher than the median over the study period – implying that executive compensation is positively skewed. Executives from Truworths, BidCorp and Woolworths earned substantially higher salaries than others, inflating the mean.

Minimum and maximum executive compensation

The minimum executive compensation more than doubled from R3.4 million in 2016 to R6.9 million in 2023. Companies such as Currio and Lewis have been paying low compensation.



Figure 4.3: Minimum salaries for executives during the study period

Source: The author compiled and created using data from Bloomberg, 2024

The maximum executive compensation showed significant variation, rising from R50.9 million in 2016 to R84.4 million in 2018 before dropping by just over 60% in 2019. The maximum

remuneration earned by an executive remained below the 2016 level until 2023 when it increased to R56.8 million. Part of the relatively lower maximum executive compensation period coincides with the Covid-19 pandemic era.



Figure 4.4 Maximum salaries for executives during the study period

Source: The author compiled and created using data from Bloomberg, 2024

Figure 4.5 below shows the trend in total executive remuneration per category of retail companies listed on JSE between 2016 and 2023.

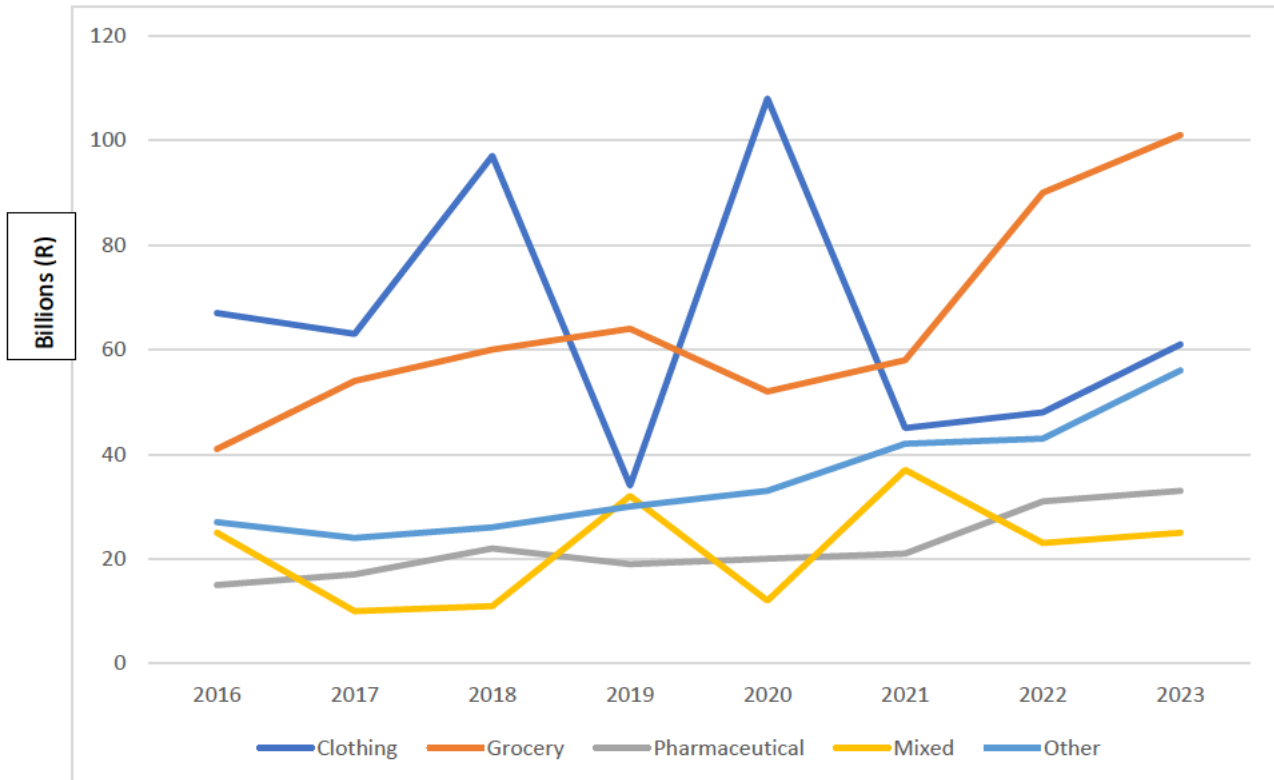


Figure 4.5: Total executive remuneration per category

Source: The author compiled and created using data from Bloomberg, 2024.

Executive remuneration was consistently higher for the clothing and grocery categories compared to others over the eight years analysed. Executive compensation showed a steady increase across all the categories.

4.5 Descriptive Statistics of Company Performance Measures.

Figure 4.6 shows mean company performance variables in the study sample between 2016 and 2023 for 16 medium-large retail companies registered on JSE. The table shows turnover, total assets, earnings per share and earnings before interest taxation, depreciation and amortisation.

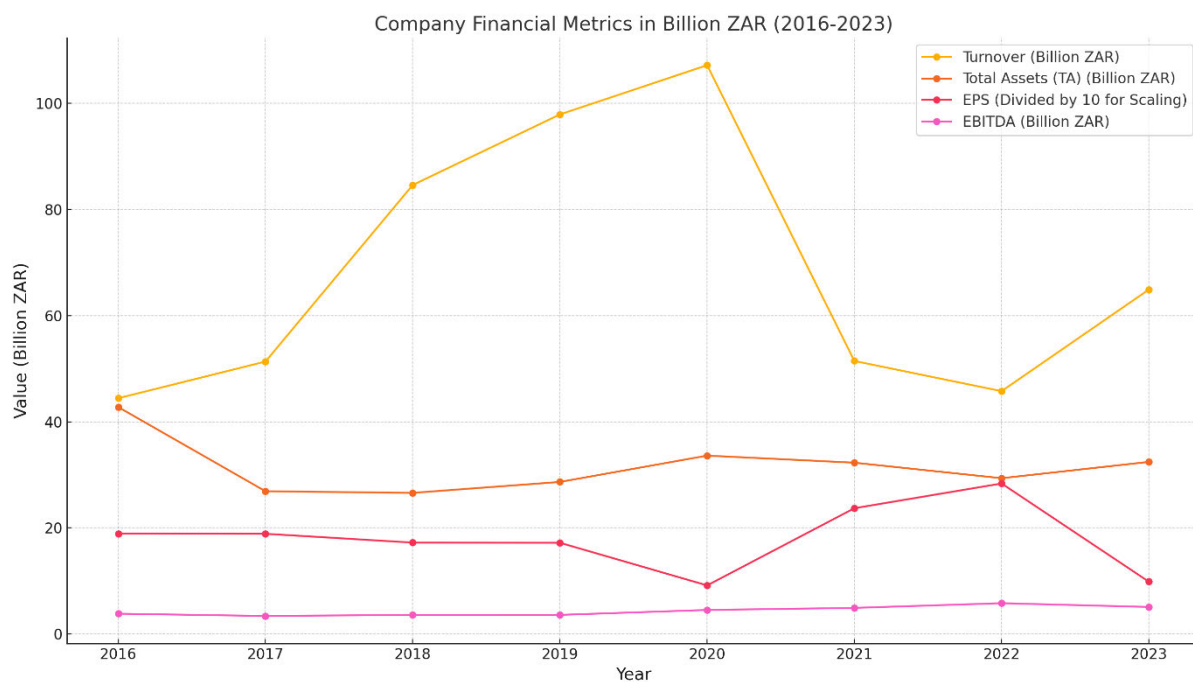


Fig 4.6: Mean company performance measures (ZAR billions).

Source: The author compiled and created using data from Bloomberg Terminal, 2024

4.6 Bivariate analysis

Spearman’s rank order correlation examined the correlation between CEO remuneration and each independent variable included in the study. Scatter plots examined the relationship between executive pay and each company’s performance variables (see Figure 4.6 to Figure 4.9). The outliers in the four scatter plots were checked to verify if they resulted from data-capturing errors. All the outliers were found to be meaningful and representative of some extreme but valid values.

From Spearman’s correlation, the analysis showed a weak to moderate positive correlation between executive pay and turnover ($\rho = 0.3742$), total assets ($\rho = 0.5118$) and EBITDA ($\rho = 0.5686$). Executive remuneration had a weak negative correlation with earnings per share ($\rho = -0.1985$).

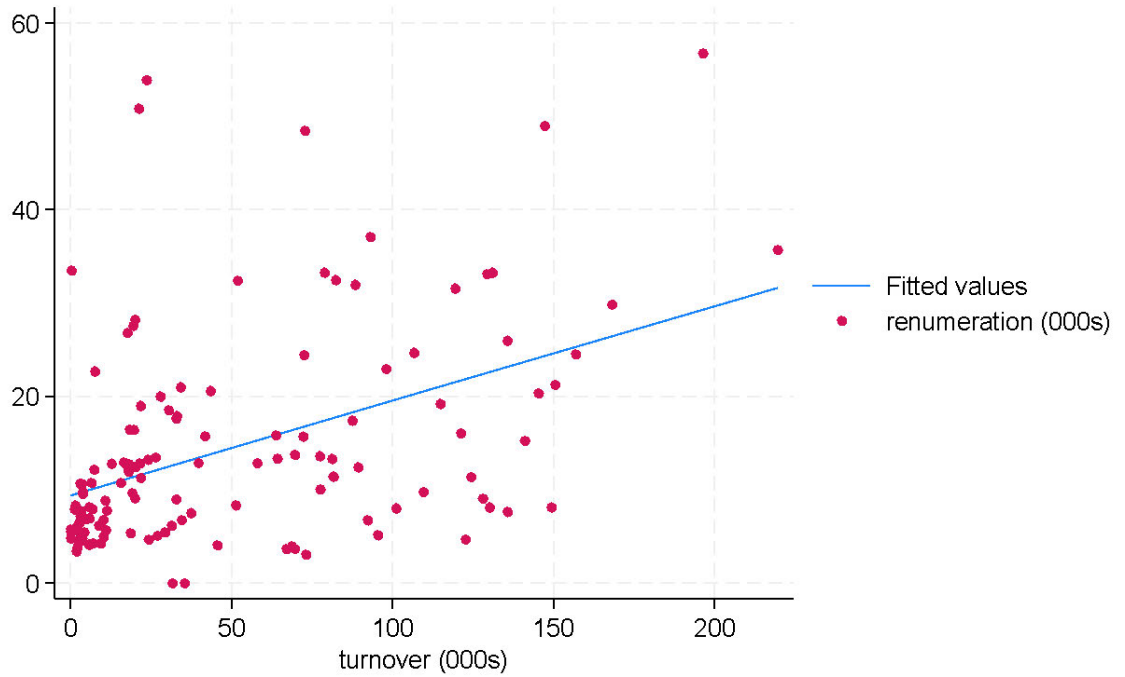


Figure 4.7: Scatter plot for executive compensation and turnover

Source: Author created using data from Bloomberg, 2024.

- Number of observations = 128
- $\rho = 0.3742$, indicating a positive monotonic link between executive pay and turnover.
- Test of H_0 : remuneration and turnover are independent
- Probability = 0.000

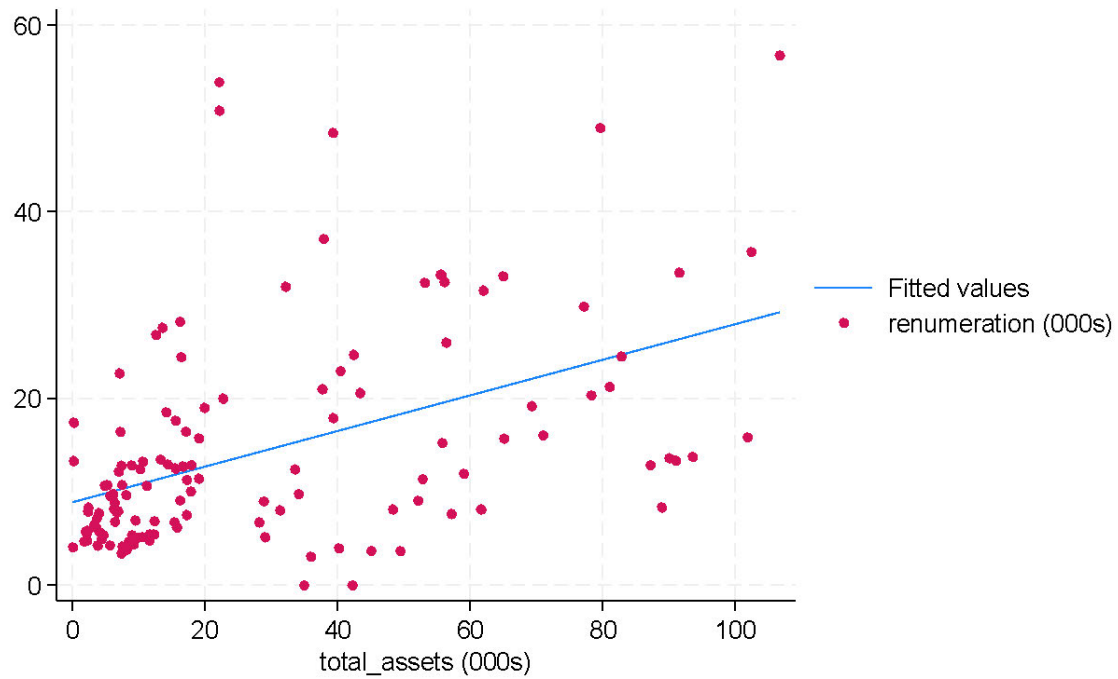


Figure 4.8: Scatter plot for executive remuneration and total assets

Source: Author created using data from Bloomberg, 2024.

- Number of observations = 128
- $\rho = 0.5118$, indicating a positive monotonic connection between executive pay and total assets.
- Test of H_0 : remuneration and total assets are independent
- Probability = 0.000

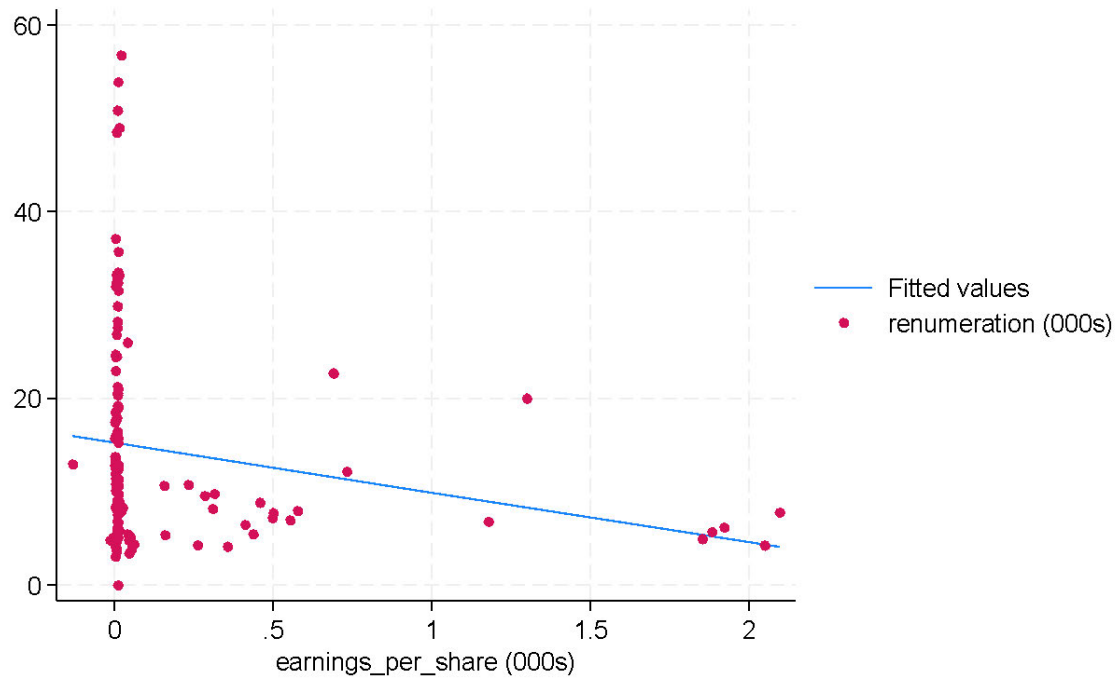


Figure 4.9: Scatter plot for executive remuneration and earnings per share

Source: Author created using data from Bloomberg, 2024.

- Number of observations = 128
- $\rho = -0.1985$, indicating a negative monotonic connection between executive pay and EPS.
- Test of H_0 : remuneration and EPS are independent
- Probability= 0.0248

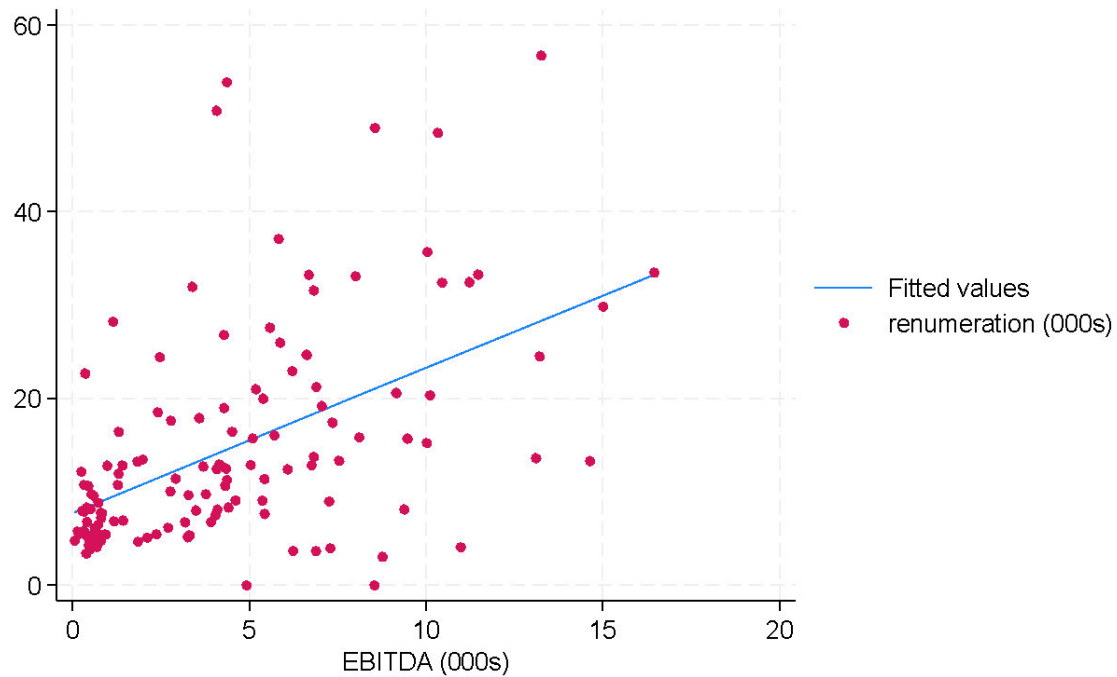


Figure 4.10: Scatter plot for executive compensation and EBITDA

Source: Author created using data from Bloomberg, 2024.

- Number of observations = 128
- $\rho = 0.5686$, indicating a positive monotonic connection between executive pay and EBITDA.
- Test of H_0 : remuneration and EBITDA are independent
- Probability = 0.0000

A zero probability (p-value) provides strong evidence against the null hypothesis, implying that the observed association is statistically significant. In practice, the probability of the observed result occurring by random chance is almost zero, suggesting a clear link between the variables under study.

4.7 Regression analysis

A multiple regression analysis was performed to ascertain the connection between executive remuneration and turnover, EBITDA, total assets and EPS. Table 4.2 below shows the results of the multiple regression analysis.

Table 4.2. Summary of multiple regression analysis output

Total observations	128					
F (4, 123)	8.86					
Probability > F	0.0000					
R ²	0.2237					
Adjusted R ²	0.1985					
Root MSE	13198					
Source	SS	Df		MS		
Model	6.1740e+09	4		1.5435e+09		
Residual	2.1425e+10	123		174188765		
Total	2.7599e+10	127		217316471		
Remuneration	β	Standard error	T	P-value	95% CI Interval	
turnover	-.0029637	.009539	-0.31	0.757	-.0218455	.0159181
Total Assets	-.0442652	.0417842	-1.06	0.292	-.1269745	.0384441
EPS	-.9712857	2.56614	-0.38	0.706	-6.050802	4.108231
EBITDA	2.059251	.4235759	4.86	0.000	1.220808	2.897693
_cons	8680.45	2101.24	4.13	0.000	4521.174	12839.73

Statistical significance:

The F-ratio test indicates if the regression model fits the data well. The results highlight that the total assets, turnover, EPS and EBITDA statistically significantly predict the executive remuneration, $F(4, 123) = 8.86$, $p < 0.0005$.

Estimated model coefficients (β):

The equation to predict remuneration from turnover, EBITDA, total assets, and EPS is:

Predicted remuneration = $8680.45 - (0.0029637 \times \text{turnover}) - (0.0442652 \times \text{total assets}) - (0.9712857 \times \text{EPS}) + (2.059251 \times \text{EBITDA})$.

Statistical significance of each variable:

From the analysis, only EBITDA ($\beta = 2,059$) showed a statistically significant ($p < 0.05$), positive relationship with CEO remuneration.

The analysis further determined whether the Covid-19 period significantly affected executive remuneration. A dummy variable was assigned to represent the Covid-19 era (1 for the period 2020 to 2022 and 0 otherwise) and was included in the multiple regression model below alongside control variables:

Equation 4.1

$$Y = \beta_0 + \beta_1 (\text{Covid-19 Dummy}) + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + k$$

Where Y represent executive remuneration, the Covid-19 dummy captures the Covid-19 era; X_2 is turnover; X_3 is total assets; X_4 is EBITDA; X_5 is EPS; and k is the error term.

Table 4.3 A regression model inserting a dummy variable for the COVID-19

Total observations = 128						
F (6.121) = 5.93						
Probability > F = 0.0000						
R ² = 0.2271						
Adjusted R ² = 0.1888						
Root MSE = 13277						
Source	SS		df		MS	
Model	6.2682e+09		6		1.0447e+09	
Residual	2.1331e+10		121		176289525	
Total	2.7599e+10		127		217316471	
Remuneration	β	Standard error	t	P-value	95% CI Interval	
Total assets	-.0031435	.0095995	-0.33	0.744	-.0221482	.0158612
Turnover	-.051942	.0438487	-1.18	0.239	-.138752	.0348681
EPS	-.9278604	2.593535	0.36	0.721	-6.06244	4.20672
EBITDA	2.360619	.6098719	3.87	0.000	1.153217	3.568021
1. Covid19_dumy	2247.481	3744.933	0.60	0.550	-5166.601	9661.564
Covid19_dumy#c.ebitda						
1	-4721787		-0.73	0.469	-1.759988	.8156309
_cons	7675.149		2.99	0.003	2586.402	12763.9

Determining how well the model fits:

The R² and adjusted R² assess the adequacy of the multiple regression model in fitting the data. The R² row indicates the R² value (coefficient of determination), which denotes the proportion of variance in the dependent variable (executive salary) explained by the independent variables (turnover, EBITDA, total assets, and EPS).

R² is a statistical measure that indicates how well the independent variables (predictors) explain the variability in the dependent variable (outcome). R² serves the purpose of assessing the goodness of fit of the model. The _cons term represents the regression model's intercept and provides the dependent variable's baseline level.

The dummy was created by assigning the value 1 for COVID-19 years (2020 to 2022), and the value zero was assigned to years without COVID-19. Including the COVID-19 dummy in the regression analysis did not improve the model fit. Despite a positive coefficient of 2247.481, the COVID-19 dummy variable was not statistically significant ($p = 0.55$). The rise in remuneration observed during the COVID-19 years was likely due to random variation rather than a systematic effect of the COVID-19 period. Implicitly, the changes in executive remuneration during the COVID-19 period were not significantly different from other periods.

4.8 Summary of Findings

The present dissertation explored the relationship between total short-term executive compensation and corporate performance for 16 retail entities listed on the JSE. According to Spearman's correlation analysis, executive remuneration had a positive monotonic relationship with turnover, total assets, and EBITDA. Executives' pay and EPS had a negative monotonic relationship. Using multiple regression analysis, executive pay and EBITDA had a statistically significant relationship.

While previous research has evaluated the connection between executive pay and company performance in the South African context, Bradley (2011), Shaw (2011); Bussin (2015); Ndlovu et al. (2017); and Coetzee & Hall (2020), findings are similar to the present study, yet most of these studies concentrated on the banking, mining, state-owned enterprises, and many other industries (Bezuidenhout & Bussin, 2020; Padia, Naik & Callaghan, 2020; Nkwandi & Matemana, 2022 and Siwendu, Swanepoel & Stumke, 2024).

The results showing increases in compensation in 2018 and 2020 may align with years of outstanding performance in the clothing sector. However, external events such as the COVID-19 pandemic in 2020 and 2021 may have significantly affected the clothing sector due to global restrictions on people's movement. Lockdowns and disruptions may have affected pay in the years mentioned above. However, adding the COVID-19 dummy variable to the multiple regression model in this study did not improve its explanatory power. Therefore, the increased executive remuneration during the pandemic results from random fluctuations rather than the impact of COVID-19. The section below discusses the findings for each objective.

4.8.1 Executive remuneration relation to turnover

From Spearman's analysis, remuneration had a positive correlation with turnover. These findings align with Nkwadi & Matemane (2022), who investigated the connection between executive compensation and financial performance in the South African mining industry. The authors highlighted the mining industry's dependence on substantial sales volumes, with executives often compensated based on short-term sales indicators such as turnover. However, retail companies listed on the JSE could modify their reward structures by using performance indicators beyond revenue, such as profitability and long-term shareholder value.

Contrary to the findings in the study by Ngwenya & Khumalo (2012) on the relationship between CEO remuneration in state-owned companies in South Africa between 2009-2011, the current investigation did not observe a statistically significant link between executive pay and turnover using the regression analysis model. The present study revealed a decrease in the average turnover growth between 2021 and 2022 that can be linked to the effects of the COVID-19 period that were experienced globally (Areddy, 2020). The impacts of the substantial reduction in the movement of goods due to restrictions placed to combat the spread of the disease were primarily experienced by all enterprises operating in the retail sector. South Africa witnessed a significant decline in retail shopping, marking the most significant annual decrease in three years (Henama, 2021). Several corporations, such as Woolworths, Truworths and the Foschini Group, boosted their business operations by promoting online shopping. This indicates that the corporations attempted to manage and reduce operational expenses while increasing turnover.

4.8.2 Executive remuneration relation to EBITDA

Consistent with results reported in South Africa by Bussin & Ncube (2017), Deysel & Kruger (2019) and Bussin & Carlson (2020), this research showed that remuneration and EBITDA were positively correlated. In extant literature, Deysel & Kruger (2019) analysed this relationship in the banking sector over seven years. Bussin & Ncube's (2017) findings were from their research on the connection between executive pay and company performance in SOCs. Both studies applied correlation and regression analysis to understand this link.

Bussin & Carlson (2020) also investigated the connection between CEO remuneration and financial performance in SOCs. The study included a quantitative, archival analysis utilising eight years of secondary data. Similar to this study, Spearman's correlation was used to assess this connection.

The positive monotonic correlation between executive compensation and EBITDA implies that an increase in EBITDA is linked to a rise in executive compensation. This indicates that organisations might correlate executive compensation with profitability, incentivising executives for robust operational performance.

The result from this assessment supports the agency hypothesis that shareholders/stakeholders are willing to generously remunerate executives if they (the shareholders) receive commensurate returns on their investments. The plethora of supporting results on the connection between executive remuneration and EBITDA in literature may explain why it is widely recognised as one of the measures of a company's operational performance (Tho et al., 2021). EBITDA has become a reliable metric for evaluating profitability (van Wyk & Wesson, 2021). It captures fixed and variable costs associated with running the company while excluding non-operational factors (Tho et al., 2021).

4.8.3 Executive remuneration relation to total assets

In this study, Spearman's positive correlation between executive pay and total assets demonstrates that leaders in larger firms with more tremendous assets typically receive higher compensation. This aligns with van Wyk & Wesson's (2021) notion that larger corporations normally necessitate more intricate administration, hence warranting elevated compensation for executives.

However, contrary to research by Ndlovu et al. (2017) among JSE-listed companies between 2010 and 2015, this present examination found no statistically significant link between executive pay and total assets with the regression model analysis. This is similar to findings from a study in the USA by Jeppson et al. (2009) that used a similar regression model as applied in this study and found no statistically significant correlation between executive remuneration and turnover, total assets and EPS.

The non-existence of a connection between executive remuneration and total assets using regression analysis can be attributed to South Africa's challenging trading conditions in the years included in the analysis in this study. The actual Gross Domestic Product for the country remained below 1.5% from 2016 to 2021 (IMF, 2021). A contracting GDP and challenging economic conditions present challenges for company executives in their efforts to increase revenue and, ultimately, an increase in share price.

4.8.4 Executive remuneration relation to EPS

The negative monotonic correlation between executive compensation and EPS utilising Spearman's rank order correlation indicates that increased executive salary correlates with diminished EPS. According to Deysel & Kruger (2015), this may suggest that although executives receive more significant compensation in some situations, it may not consistently result in proportionately increased profits for shareholders.

The results of this study revealed the absence of a statistically significant link between executive compensation and EPS. This result is consistent with some existing research while deviating from others. This implies that the relationship is intricate and may be affected by contextual and methodological factors such as company size, industry dynamics or executive pay structures.

Additional studies by Bussin & Modau (2015) revealed inconclusive findings about the correlation between executive remuneration and performance indicators such as EPS. They found that large payment packages were not regularly linked to improved EPS. This was credited to market dynamics, variations in company size, and the possible discordance between compensation frameworks and performance indicators. Ndlovu et al. (2017) did not identify a robust correlation between executive salary and financial success in South Africa. They proposed that this could be attributed to the impact of governance and the configuration of incentives, which may need to be sufficiently linked to financial results such as EPS.

Nevertheless, different studies have reported a positive association between executive compensation and company success, particularly EPS. Shaw (2011) identified a substantial positive correlation between CEO compensation and company performance in a sample of companies listed on the JSE. The study emphasised the significance of accounting-based

measures and long-term equity plans in aligning executive interests with shareholder value. Ntim et al. (2017) investigated CEO compensation in South African corporations. They discovered a moderate correlation between performance measurements, such as EPS, and payment levels, especially in organisations with strong governance structures.

4.9 Practical Implications

This research contributes to the literature on the connection between executive salary and company success, specifically for JSE-listed retail sector companies. Despite many inconclusive studies on this subject, this research provides insights into this complex relationship. The study stands out as one of the few that explicitly examines an African country, particularly the retail sector, in contrast to most of the research undertaken in the developed world and other industries. The studies focus on remuneration policies for South African businesses found on the stock exchange and present valuable insights for policymakers.

The study offers valuable findings and conclusions that can benefit REMCOs and consultants when considering payouts for entities listed on the JSE. REMCOs should develop remuneration policies that carefully examine the specific factors contributing to value creation in their respective organisations and use these factors to determine appropriate performance criteria for linking executive compensation. In addition, shareholders and other significant stakeholders in South Africa and Africa at large may closely examine the findings from this assessment and ensure executives receive appropriate salaries and bonuses commensurate with the value they bring to the company.

Most organisations cap the maximum payout for short-term incentives (STIs). This implies that the retail companies studied prioritise short-term performance objectives while also considering long-term financial performance. Accordingly, imposing limits on STIs ensures that executives cannot benefit from unregulated and exorbitant disbursements misleadingly portrayed as evidence of outstanding achievement in the short term (Balog, 2023).

The findings from this study indicate that organisations aiming to use executive salaries to address the competing interests of executives and shareholders should be cautious in this exercise. Corporations should consider adjusting their compensation systems to enhance the existing relationship or explore other performance measures to manage these differing

interests. In conclusion, the results of this research caution against indiscriminately raising executive pay to address agency issues without carefully considering the specific factors that create value in each agency relationship.

4.10 Conclusion

This study observed good compliance with the evolving corporate governance norms on companies listed on JSE in South Africa, including public disclosure of remuneration practices for the selected retail companies. Spearman's correlation analysis found that executive pay had a positive monotonic connection with turnover, total assets and EBITDA, while EPS showed a negative monotonic relationship. The multiple regression analysis highlighted a statistically significant link between executive pay and EBITDA.

These findings highlight the need to consider the appropriateness and effectiveness of company performance metrics to link with executive compensation for the retail corporations on the JSE list. With the present study limited to STIs, future studies could explore the presence and nature of the connection between LTIs and company performance in the South African retail industry. More research on the link between executive pay and non-financial company performance indicators in this sector is required and cannot be overemphasised.

CHAPTER 5 – CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study investigated the relationship between executive remuneration and company performance within the retail sector of companies listed on the Johannesburg Stock Exchange (JSE). The intention was to examine the alignment of executive pay structures with company performance indicators. The research contextualises executive compensation within corporate governance frameworks, considering South Africa's economic environment and the impact of King IV principles in fostering equitable and appropriate payment practices. It explored the theoretical foundation of the agency theory to examine how remuneration structures motivate executives to generate shareholder value and achieve sustainable performance.

A quantitative analysis of financial and remuneration data from publicly available annual reports was conducted. Company performance was evaluated using metrics like revenue EBITDA, total assets and earnings per share. These were contrasted with executive compensation metrics, encompassing basic salary and short-term incentives.

This last chapter consolidates the principal results of the study on the correlation between executive compensation and company performance among retail firms listed on JSE. It summarises the principal findings and recommendations for future research, emphasising focus areas that could gain from additional investigation to enhance further understanding of this subject. It offers insights to assist policymakers, boards of directors, and other stakeholders in developing successful remuneration policies.

5.2 Conclusions

Spearman's correlation analysis indicates a positive monotonic link between executive pay and key financial indicators, specifically turnover, total assets, and EBITDA. This suggests that executive pay tends to rise alongside these three variables. Conversely, the analysis identified a negative monotonic relationship between executive remuneration and EPS, indicating an inverse association where higher EPS correlates with lower executive pay. Furthermore, the multiple regression analysis established a statistically significant link between executive pay and EBITDA, emphasising the importance of EBITDA in determining CEO compensation.

The results from the present study highlight the complex interplay between executive remuneration and financial performance indicators and add to the current debate on the appropriateness of pay-for-performance schemes in retail companies in South Africa. As such, there is a need for careful consideration when selecting company performance measures to link with executive remuneration. Future research could provide more insights by exploring the connection between executive pay and non-financial corporate performance indicators.

5.3 Recommendations

Although executive pay and company financial performance exhibited a positive correlation, the analysis revealed that the statistical significance of this link differed across several performance metrics. Remuneration committees must develop compensation policies that consider value drivers pertinent to their organisations and appropriately establish relevant performance metrics to connect executive compensation.

Remuneration committees should improve the incorporation of market-oriented business performance indicators in developing executive remuneration structures. This is more thoughtful, considering the comparative stability of market-based performance indicators versus the vulnerability of accounting-based performance metrics to manipulation.

Retail businesses on the JSE may need to reassess their compensation frameworks to better align executive incentives with shareholder interests, incorporating indicators that more accurately represent performance. This may entail implementing performance-based elements or restructuring executive incentives to align short- and long-term goals. In that case, it may be preferable for JSE-listed retail companies to explain this strategy clearly to shareholders, clarifying how executive compensation decisions are designed to generate future profits.

5.4. Future research recommendations

This research has contributed to a further understanding of extant empirical evidence on the connection between company performance metrics and executive pay in the South African retail industry. The possible limitations of the present study are addressed in chapter three. Future studies should aim to overcome some of the highlighted shortcomings in examining this relationship among JSE-listed retail companies.

The study could be carried out over an extended duration. Although the eight-year research period may sufficiently include phases of the business cycle expansion, peak, and contraction for the retail industry, it is a constrained timeframe considering the substantial macroeconomic and microeconomic aspects involved. An extended duration that includes significant economic and market developments may provide vital insight into the study's conclusions.

The analysis of executive compensation data excluded the LTI elements from the total executive pay. Therefore, considering the substantial equity-based payouts and accruals to executives observed recently, for example, stock options or performance shares, it is essential to examine this trend independently of other compensation components.

The research study concentrated exclusively on retail companies listed on the JSE. It is, nevertheless, established that compensation practices may differ across different business sectors. The variation among various industries and corporations on the South African stock exchange may consequently influence the results of this study. Thus, evaluating this degree of variability in future studies is advisable to ascertain whether its relevance will impact the research conclusions generally in all sectors.

While the study aimed to ascertain the presence of a relationship, the studied literature revealed additional elements influencing current developments in executive pay practices. These components encompassed labour market competition, executive tenure, and organisational size. Therefore, these factors must be extensively analysed to ascertain further insights into the link between executive remuneration and corporate performance.

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Appendices

A: Descriptive Statistics on CEO Remuneration and Company Performance Measures

Year	Descriptive Stats	Total CEO Remuneration (Salary + Bonus) [R Millions]	Turnover [R Billions]	EBITDA [R Billions]	Total Assets [R Billions]	Share Price ['000 Cents]
2016	Mean	12299,81	44432,06	3821,875	42757,88	189,205
	Median	7529	22638,5	3220,5	16696	9,025
	Std Deviation	12365,17	43750,96	3130,083	75929,52	489,3593
	Minimum	3408	1761	377	3198	1,19
	Maximum	50868	135537	10970	312621	1920,4
2017	Mean	11862,38	51338,94	3396,688	26900,31	188,855
	Median	6268,5	25178,5	2997,5	16965	9,04
	Std Deviation	13438,22	48734,49	2845,862	25714,64	516,2791
	Minimum	3690	2098	469	1698	-1,2
	Maximum	53943	141000	10013	87113	2047,7
2018	Mean	15434,88	84604,5	3605,25	26594,44	172,2456
	Median	9721	30387,5	3192,5	13539,5	9,205
	Std Deviation	19782,95	152800,4	3044,172	27992,16	467,2546
	Minimum	3972	2496	128	1904	0,81
	Maximum	84356	632928	10100	90978	1851,6
2019	Mean	12898,25	97905,19	3597,5	28656,63	171,8988
	Median	10210	32726,5	3528,5	16164,5	9,205
	Std Deviation	9350,707	197310,1	2858,247	28508,79	472,9205
	Minimum	3048	2877	180	2066	0,64
	Maximum	33131	815427	8756	93521	1881,3
2020	Mean	16754,13	107188,1	4530,875	33612,25	91,58813
	Median	11901,5	34843,5	4251	16234	4,71
	Std Deviation	21499,97	225450,6	3898,212	31791,4	299,8134
	Minimum	4790	3094	45	2122	-133
	Maximum	95010	932944	13202	101778	1177
2021	Mean	16808,5	51446,69	4916,563	32279,75	236,9825
	Median	13553,5	29614	4147	18524	8,985
	Std Deviation	10109,34	51935,49	4653,455	28534,35	733,9577
	Minimum	4793	1097	269	2168	0,78
	Maximum	37128	168030	15000	90000	2936
2022	Mean	18843,81	45762,64	5801,5	29360,22	283,6431
	Median	15921,5	29135,5	5401,5	15969	11,005
	Std Deviation	11981,94	48438,79	5093,16	28641,94	600,104
	Minimum	5472	185,293	237	113,567	0,99
	Maximum	49033	147138	16445	91455	2094,7
2023	Mean	21925,25	64902,25	5089,563	32429,67	98,64562
	Median	17528	37154,5	4583	17583,5	9,875
	Std Deviation	15132,19	69797,15	4328,807	33609,36	204,5625
	Minimum	6856	1413	350	108,74	0,35
	Maximum	56775	219530	13247	106640	689

B: Ethical clearance



21 June 2024

Daisy Mukosi (223134133)
Grad School of Bus & Leadership
Westville Campus

Dear D Mukosi,

Protocol reference number: HSSREC/00007052/2024

Project title: Examining the relationship between executive remuneration and company performance of the retail companies listed on the Johannesburg Stock Exchange Limited

Degree: Masters

Approval Notification – Expedited Application

This letter serves to notify you that your application received on 16 May 2024 in connection with the above, was reviewed by the Humanities and Social Sciences Research Ethics Committee (HSSREC) and the protocol has been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

Incidents of adverse events and serious adverse events (AEs and SAEs) should be reported in writing to HSSREC, the study sponsors, and any regulatory authority (where appropriate), within 7 working days of the occurrence for local sites and 14 days for all other South African sites.

This approval is valid until 21 June 2025.

To ensure uninterrupted approval of this study beyond the approval expiry date, a progress report must be submitted to the Research Office on the appropriate form 2 - 3 months before the expiry date. A close-out report to be submitted when study is finished.

HSSREC is registered with the South African National Health Research Ethics Council (REC-040414-040).

Yours sincerely,



Professor Dipane Hlalele (Chair)
/dd

Humanities and Social Sciences Research Ethics Committee

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Founding Campuses: Edgewood Howard College Medical School Pietermaritzburg Westville

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