The Determinants and Consequences of Shareholder versus Stakeholder Corporate Governance Disclosure Policies: Evidence from Post-apartheid South Africa

Abstract

This study examines the drivers of shareholder versus stakeholder corporate governance (CG) disclosures and their consequences. Based on a hand-collected dataset of 1470 firm-years in South Africa (SA), we develop disclosure indices using 72 CG provisions from the King III report of CG. We find that CEO age, foreign ownership, board size, racial diversity and audit committee increase total voluntary disclosure. Also, whilst board size and the presence of an audit committee increase both shareholder and stakeholder CG disclosures, foreign ownership have a positive (negative) relationship with shareholder (stakeholder) CG disclosures. Further, racial diversity of the board increases stakeholder disclosure but not shareholder disclosure. Our results further indicate that, *ceteris paribus*, the extent of shareholder CG disclosure relative to stakeholder CG disclosure is (1) higher with CEO age, foreign ownership, institutional ownership, and audit committee; and (2) lower with board size and racial diversity of the board. We find that, in the absence of higher level shareholder CG disclosures, the disclosure of stakeholder CG provisions can be a vehicle for managerial entrenchment that reduces pay-performance link. Our findings are robust across a raft of econometric techniques.

1. Introduction

In making corporate governance (CG) related disclosure, firms may solely focus on shareholders or may broaden their scope of disclosure to serve other stakeholders as well. Previous studies suggest that voluntary CG disclosure decisions are influenced by several factors, including ownership characteristics (Cox et al., 2004; Harjoto and Jo. 2011; Dam and Scholtens, 2012), CEO characteristics (Lewis et al., 2014), and board characteristics (Peasnell et al., 2000; Barako et al., 2006; Lim et al. 2007; Post et al., 2011; Latridis, 2013). Nevertheless, these studies mainly focus on total voluntary CG disclosure. In this paper, we investigate the determinants of shareholder versus stakeholder CG provisions disclosure and the impact of these disclosures on pay-performance link. To address these issues, we exploit the unique institutional setting in South Africa (SA) where CG codes require firms to voluntarily disclose CG information relating to shareholders as well as other non-shareholding stakeholders.

We focus on shareholder versus stakeholder CG disclosures and their impact on pay-performance link in SA for the following reasons. First, different CEO, ownership and board characteristics may have different CG information disclosure preferences in terms of their focus on shareholders or other stakeholders. For example, foreign investors who are far from firms may demand higher levels of CG disclosures that protect shareholder interests (Singhvi, 1968; Hanniffa and Cooke, 2002; Mangena and Tauringana, 2008; Bokpin and Isshak, 2009). On the other hand, other shareholder classes who invest for various strategic reasons associated with the different roles and positions they have in society may require firms to have a stakeholder focus in terms of CG disclosure (Dam and Scholtens, 2012). Further, to facilitate a rent extraction objective and to prevent board monitoring (Fracassi and Tate, 2012), long-tenured CEOs may use their familiarity with board members (Allgood and Ferrel, 2000), in order to inhibit the disclosure of monitoring-intensive CG provisions that protect shareholder interests. By studying the determinants of shareholder versus stakeholder CG disclosure practices, we can determine the likelihood that a firm may solely focus on shareholder CG disclosures or broaden their scope to serve other stakeholders.

Moreover, since the cost of disclosing CG information can be significantly high (Friedman, 1970), an understanding of the drivers of shareholder versus stakeholder CG disclosures will be important for firms as they make the crucial decision of whether to focus on shareholder value creation or to create social value in addition.

Second, a firm's decision to focus solely on shareholders or broaden their scope of disclosure to include other stakeholders may have differential consequences. For example, a focus on shareholder-related CG practices may help investors identify profitable investment opportunities and avoid adverse selection decisions (Bushman and Smith, 2001; Ntim et al., 2012a), minimize information asymmetry between managers and shareholders (Jensen and Meckling, 1976; Sheu et al., 2010) and reduce bonding and monitoring costs leading to a reduction in the costs of capital (Beiner et al., 2006). On the contrary, the consequences of disclosing CG provisions that protect the interest of other non-shareholding stakeholders may be explained by two competing views - the conflict resolution hypothesis (Cai et al., 2011) and the managerial opportunism hypothesis (Choi et al., 2013). Under the conflict resolution hypothesis, the disclosure of stakeholder CG practices may help firms establish a reputation as good corporate citizens (Barnea and Rubin, 2010), reduce conflicts by bonding with powerful non-shareholding stakeholders (Jensen, 2001; Calton, and Payne, 2003), and legitimize operations to reduce political costs (Freeman and Reed, 1983; Cheung, et al. 2010). Under the managerial opportunism hypothesis, managers (including the CEO) promote the disclosure of CG practices that protect non-shareholding stakeholders for private benefits (Barnea and Rubin, 2010). These private benefits may include improving insider's reputation as good social citizens (Barnea and Rubin, 2010) and bonding with powerful stakeholders to facilitate entrenchment, prevent monitoring (Prior et al., 2008) and demand higher pay (Milbourn, 2003). However, for the consequences of these disclosures we specifically focus on pay-performance link because it can alleviate agency costs by aligning the interests of shareholders and managers (Jensen and Murphy, 1990; Bebchuck and Fried, 2003, Hu et al. 2013). This is particularly important in emerging markets where weak investor protection (LaPorta et al. 2000; Claessens and Yurtoglu, 2013) may exacerbate the extent of agency problems. Although previous studies have examined

how various CG and CSR disclosures impact on CEO pay, the SA setting with its hybrid CG disclosure regime allows us to observe how shareholder CG disclosures may intertwine with other stakeholder CG disclosures to affect pay-performance link.

Utilising a unique hand-collected dataset of 245 listed SA firms and 72 CG provisions from 2008 to 2013, we investigate the determinants and consequences of shareholder versus stakeholder CG disclosures. We find that whilst board size and the presence of an audit committee increase both shareholder and stakeholder CG disclosures, foreign ownership have a positive (negative) relationship with shareholder (stakeholder) CG disclosures. Our analysis further suggests that, *ceteris paribus*, firms with older CEOs, higher levels of foreign and institutional ownership, and an audit committee disclose more shareholder-related CG information relative to stakeholder-related CG information. By contrast, firms with larger boards and at least one "non-white" director disclose less shareholder-related CG information relative to stakeholder-related CG information. Our evidence suggests that there are both differences and similarities between the shareholder-related and stakeholder-related CG disclosures in terms of their determinants.

For the consequences of shareholder-related versus stakeholder-related CG disclosures, the evidence indicates that while the disclosure of shareholder CG increases pay-performance link, the disclosure of other non-shareholding stakeholder CG reduces pay-performance link. This evidence also supports the managerial opportunism hypothesis. Further analysis shows that this reduction in pay-performance link only applies to firms that disclose less of the shareholder-related CG information. By contrast, disclosure of the stakeholder-related CG provisions improves the pay-performance link when accompanied with higher levels of disclosure of the shareholder-related CG provisions. This result supports the conflict resolution hypothesis.

The paper contributes to the CG literature in several ways. First, the study contributes to the CG disclosure literature in emerging markets. Most studies on CG focus on developed countries because developing countries mostly adopt and replicate CG principles in developed countries (Lim et al., 2007; Hegazy and Hegazy, 2010; Samaha et al., 2012). However, attributes such as concentrated ownership (Haniffa and Hudaib, 2006) and dominance of family ownership (Mensah,

2002) in emerging markets can weaken the market for corporate control and affect firms' willingness to comply with voluntary CG principles. More so, even between emerging markets, differences in the levels of corporate regulations enforcements may lead to major deviations in disclosure practices (Bhuiyan and Biswas, 2007). We extend this branch of literature by explicitly considering gender and racial diversity, which have not been tested in prior studies.

Second, the paper contributes to the extant literature by responding to recent calls from researchers to examine both shareholder-related and stakeholder-related disclosure practices (e.g., Filatochev and Boyd, 2009; Samaha et al., 2012). Most studies have focused primarily on total voluntary disclosure in annual reports (Haniffa and Cooke, 2002; Dam and scholtens, 2012; Ntim et al. 2012b). A few studied other aggregates of voluntary disclosure. For example, Lim et al. (2007) examined forward looking, strategic, historical financial and non-financial disclosures. Similarly, Samaha et al. (2012) examined several other categories of voluntary disclosures. However, no study so far has examined the focus of disclosure in a hybrid disclosure regime. Our study will be useful for regulators in emerging markets considering the adoption of a CG structure similar to that in SA as well as developed nations seeking to strengthen CSR disclosure in addition to CG disclosures.

Third, we provide evidence of how shareholder-related and stakeholder-related CG disclosure practices may intertwine to affect pay-performance link. Previous studies examine the relationship of executive compensation/pay-performance sensitivities with CSR (Lois and Thon, 2006; Cai et al. 2013), firm value, (Sheu et al.2010) and Australia's "two strikes" rule (Monem and Ng, 2013). Another strand of literature examines how several CG mechanisms affect executive pay (Ntim et al, 2013) and pay-performance sensitivities (Ozkan; 2011;Schultz et al. 2013). In an era where firms are constantly under pressure to respond to the needs of a wide range of stakeholders, our study is of relevance to various actors in the corporate endeavour.

The paper is organized as follows. Section 2 discusses the institutional framework and CG in SA. Section 3 discusses relevant literature and develops the hypotheses. Section 4 presents the research design and the results are analysed in section 5. Section 6 presents results of robustness tests and section 7 concludes the paper.

2. Corporate Governance in South Africa

That good CG practices may lead to a reduction in the cost of capital, improve top-level decision-making, and better corporate environment is globally recognized (International Finance Corporation, 2009). In developing countries it attracts foreign investments, provides support for private sector growth, and boost employment opportunities (Dahawy, 2008). Therefore after the collapse of apartheid - a system of legal racial segregation that brought in its trail mass unemployment and racial inequality, CG reforms became a necessity for SA.

The first CG code (King 1) was produced in 1994. However, similar to most emerging countries and as posited by Samaha et al. (2012), CG practices in emerging countries mostly tend to follow the practices in developed countries. Subsequently, King I adopted most of the CG disclosure reforms in the 1992 UK Cadbury report (King Committee, 1994). More so, unlike most emerging countries, King I also demonstrated an appreciation of the presence of differences that give rise to the need for CG between developed and emerging nations (Rabelo and Vasconcelos, 2002; Ntim et al. 2012a). Therefore, in addition to asking firms to report to shareholders, King I also required firms to separately report to other stakeholders. This implied that unlike the UK 1992 Cadbury report, King I adopted an integrated approach to CG (West, 2006).

SA further produced the second CG report (King II) in 2002. King II made some far-reaching recommendations by explicitly promoting the "inclusive" CG approach. This approach sought to strengthen the various shareholder-related disclosures and in addition explicitly required firms to disclose some specific SA affirmative action rules such as Black Economic Empowerment (BEE) and HIV AIDS, among others (Ntim et al. 2012a). These clarifications strengthened CG in SA and made the requirements clearer to SA firms.

In 2009 the third CG code (King III) was released. In line with its predecessors, King III also sought to strengthen CG provisions that promote the interest of both shareholders and stakeholders. King III attempts to create a balance between international CG practices and African peculiarities (Gstraunthaler, 2010). It strengthened the shareholding CG provisions in King II. It

prescribes a unitary board structure with a majority of non-executive directors. More so, similar to King II, it frowns on CEO duality and recommends a minimum of two executive directors on SA corporate boards. King III also catered for the interest of shareholders by recommending shareholder vote on pay at the AGM.

Further, King III catered for stakeholder interests by attempting to increase the level of importance attached to sustainability issues by asking firms to make it an integral part of the financial reporting process (Gstraunthaler, 2010). King III demands that firms become proactive instead of reactive in dealing with issues relating to stakeholders. Specifically, King III requires boards to identify the interests of legitimate stakeholders and ask management to deal with them appropriately. However, unlike King II which explicitly asked firms to disclose their compliance with specific affirmative action rules such as Black Economic Empowerment, employment equity, HIV Aids among others, King III states that firms should comply and disclose their compliance with both binding and non-binding rules in SA. This is because at the time King III was being prepared, most of these affirmative action rules had been properly enacted in SA. Moreover, to ensure the credibility of the stakeholder-related CG disclosures, King III requires audit committees to provide assurance on the sustainability issues in the integrated report and to also consider appointing an independent assurance provider to do the same. A summary of the main differences between King II and King III is presented in appendix 1.

3. Literature Review and Hypotheses Development

Ownership Characteristics

Foreign Ownership

Foreign owners are far from corporations, and may be disadvantaged in their quest for information regarding the firm, making board monitoring generally problematic for them. However, Mangena and Tauringa (2008) maintain that Zimbabwean firms with higher disclosure levels have

lower information asymmetry between domestic and foreign owners. This means that higher-quality disclosure may address the information asymmetry between domestic and foreign investors. Bokpin and Isshaq (2009) note that foreigners positively influence good CG and high disclosure levels. Others, including Haniffa and Cooke (2002) and Singhvi (1968), have also reported a positive relationship between foreign ownership and disclosure levels.

Further, even though the literature generally shows a positive relationship between foreign ownership and disclosure levels, the type of disclosure - whether of a shareholder- or stakeholder-orientation may depend on the origin of these foreign owners. Moreover, SA has a close affinity with the Anglo-Saxon countries of the UK, the USA and Australia. This is because, as the third largest gold producer in the world (only behind China and Australia), most mining firms in SA are subsidiaries of Australian mining firms. Also, as a former British colony, SA has strong trade relations with the UK. For example, the SA Info. report that as at October 2012, over half of foreign direct investments in SA were from the UK. Barako (2004) argued that in the case of multinationals where foreign ownership exists in a parent-subsidiary relationship, there is likely to be foreigners on the boards of these companies who may influence financial reporting and disclosure towards that of the parent company. Therefore, similar to their parent companies, they are likely to lean more towards shareholder-related information disclosure at the expense of stakeholder-related information disclosure.

More so, given the uniqueness of the stakeholder provisions in SA, they are likely to be alien to even foreign investors in traditional stakeholder-oriented countries such as Germany and France. Therefore, even though foreign owners may increase pressure for higher disclosure levels as posited by previous studies, this pressure may mainly be in favour of shareholder-oriented information as against stakeholder-oriented information disclosure. Therefore, it is hypothesised that:

H1: The level of foreign ownership increases shareholder-related information disclosure relative to stakeholder-related information disclosure.

Institutional Ownership

Institutional investors have strong fiduciary relationships which may propel their inclination towards voluntary CG disclosure (Hawley and Williams, 2000). Compared to individuals, institutional investors mostly have larger stakes in firms, and in stances when exit is costly, they are motivated to choose monitoring ahead of free riding (Chung and Zhang, 2011). Institutional investors may thus require higher level of voluntary disclosure to reduce information asymmetry and monitoring costs. This is because good voluntary CG disclosure improves transparency and reduces information asymmetry between insiders and outsiders (Chung et al., 2004). This view is also shared by Diamond and Verrechia (1991) who note that institutional investors encourage higher level of voluntary disclosure to reduce information asymmetry. They invest mainly for financial returns and are expected to manage risk effectively in the best interest of their ultimate investors (OECD, 2011). This means that they may be more interested in the disclosure of CG practices that protects the interests of shareholders. Notwithstanding this, Ntim et al. (2012a) report a positive relationship between stakeholder-oriented CG disclosure and firm financial performance in SA. Cox et al. (2004) also find a positive relationship between institutional investment and CSR disclosure in the UK. Harjoto and Jo (2011) note that CSR information disclosure can be effective in managing the risk of stakeholder activism. Therefore, as competent risk managers, institutional investors may not hinder this disclosure but have natural inclination towards shareholder-oriented CG disclosures. We therefore hypothesise that:

H2: Institutional ownership increases shareholder-related information disclosure relative to stakeholder-related information disclosure.

Board Characteristics

Gender Diversity

From a signalling theory perspective, managers may disclose CG information to signal their compliance with relevant CG codes (Spence, 2002; Bird and Smith, 2005; Chaney and Lewis, 1995; Glosten and Milgrom, 1985; Trueman and Titman, 1988; Richardson, 2000). However, information disclosed for signalling purposes may exclude negative information (Connelly et al. (2011). Gender schema theory (Bem,1993) posits that persons with a less-developed masculine schema (typically females) are more likely to accept and disclose negative and trauma-related information, as processing and disclosing such information is accordant with the schema. Consequently, relative to homogeneously male boards, boards with females may increase the general level of disclosure of both positive (consistent with signalling theory) and negative information (consistent with gender schema theory).

Adams and Ferreira (2009) noted that female directors are stringent monitors and demand more audit efforts than male directors. They show that women on board are positively related to CEO turnover following poor share price performance. A diverse board increases independence, reduces board member connivance, and augurs well for tough questioning (Butler, 2012). Gender-diverse boards may mitigate the effect of entrenched managers who may want to inhibit disclosure for opportunistic gains (Gul et al. 2011). Women representation may thus improve CG in poorly-governed firms (Liu et al. 2014).

In terms of disclosure type, women have higher standards of ethical behaviour and are more concerned with the wellbeing of society in general (Transparency International, 2000). Moreover, women participation is associated with higher levels of transparency and lower levels of corruption (Transparency International, 2000). Diverse boards are more likely to support and influence the community (Hillman et al., 2002). They disclose more environmental information (Post et al., 2011), have higher levels of charitable donations (Williams, 2003) and are associated with higher levels and higher quality CSR programmes (Soares et al., 2011). Gender diversity may thus lean more towards stakeholder CG disclosure. We, therefore, hypothesise that:

H3: Gender diversity increases stakeholder-related disclosure relative to shareholder-related disclosure.

Racial Diversity

Executive monitoring is one of the main functions of corporate boards (Felaye et al, 2011). But entrenched CEOs may attempt to fill boards with their cronies with a view to avoiding monitoring (Upadhyay and Zeng, 2014). This potentially leads to the creation of racially homogeneous boards in which the CEO recruits people of similar demographic features (Westpal and Milton, 2000). This may affect the board in two ways. First, racially homogeneous boards have smoother communication and transparency internally (Butler, 2012). This is because racially diverse groups approach issues from different perspectives, drag group discussions, and may encourage the formation of subgroups within groups (Lang, 1986; Butler, 2012). Second, racial heterogeneity in boards may facilitate communication to heterogeneous stakeholders such as employees and shareholders, among others, when this audience are racially diverse. Upadhyay and Zeng (2014) note a negative relationship between social diversity (including racial and gender diversity) and corporate opacity. Consequently, racial diversity may improve CG disclosure.

Racially diverse boards generate and disclose more information (Butler, 2012). Boards with minorities have greater independence from management which can be a recipe for greater monitoring (Broome et al., 2011). Broome et al. (2011) argue that board racial diversity can be a powerful public relations tactic to silence diversity advocates. This may be particularly true when the presence of racial minorities on boards foster the disclosure of diversity-related information (stakeholder focus). This is because racial minorities are powerful in influencing the under-represented race in the organisation and may thus push for the disclosure of more stakeholder information to appease their group.

In SA, although the whites are the minority in terms of the country`s population, they are the majority in the corporate endeavour. This is mainly because apartheid deprived the blacks of quality education leaving the non-white community to compete for the available blue-colour jobs. The

African National Congress (ANC) government thus enacted the Broad-Based Black Economic Empowerment (BBBEE) Act 2003 to, among others, encourage the appointment of "blacks" on corporate boards and other senior management positions. It is thus instructive to expect the presence of "blacks" on SA boards to push for the disclosure of information that seek to protect the interest of "blacks" in SA. Based on these arguments, we hypothesise that:

H4: Racial diversity increases stakeholder-related information disclosure relative to shareholder-related information disclosure.

Non-executive Directors

Shareholders and managers only sign an incomplete contract (Hart, 1989). These parties may have diverging interests; so a board is put in place to renegotiate any event that may arise but was unforeseeable at the time the contract was signed (Williamson, 1985). As to whether boards can better renegotiate these unforeseen circumstances to the benefit of shareholders may depend on its composition.

Agency theory postulates that executive directors are self-interested and are likely to pursue their self-interests to the detriment of shareholders (Jensen and Meckling, 1976). However, non-executive directors are outsiders (Haniffa and Cooke, 2002), independent of management (Lim et al., 2007) and better representatives of shareholders' interests (Pincus et al., 1989). Based on this view, outside directors may increase corporate disclosure directly and indirectly. Firstly, they may increase disclosure directly by strenuously monitoring management to ensure compliance with voluntary disclosure codes of CG. In this instance, they may positively affect both shareholder- and stakeholder-related information disclosures. Secondly, outside directors may indirectly increase corporate disclosure by reducing the benefits of withholding information (Forker, 1992) because they have a positive influence on board deliberations and decisions (Pearce and Zahra, 1992).

Resource dependency theory posits that businesses face risks if they are unable to connect with the external resources which are vital for their survival (Pfeffer and Salancik, 1978). On the

other hand, outside directors may serve as a bridge between the firm and its external environment (Tricker, 1984). Firms that are well-linked with their external environment may benefit through advice and counsel, communication channels, and legitimacy (Pfeffer and Salancik, 1978; Liu et al., 2014). In terms of advice and counsel, non-executive directors bring to the board expertise (Haniffa and Cooke, 2002) which could lead to higher quality deliberations at the board level. In terms of communication channels, because of their experience outside the firm, they are in a better position to link their firms with other external stakeholders (Liu et al., 2014). For legitimacy, various CG codes are preaching the appointment of outside directors as a mark of good CG. Therefore, firms gain legitimacy by accepting this societal norm and value.

Ferris et al. (2003) argued that outside director reputation is a function of the past performance of the firm/s on whose boards they have served. Therefore, despite their limited involvement in the running of the firm, outside directors are exposed to a higher level of risk which can soil their reputation. Independent directors may therefore push for voluntary disclosure at a level that reflects their minimal involvement in the organisation in order to reduce their risk (Lim et al., 2007).

Empirically, Peasnell et al. (2000) found a positive relationship between outside directors and earnings quality. This is because outside directors boost the monitoring of the quality of financial statement disclosure (Chen and Jaggi, 2000) and are associated with the disclosure of forward looking and strategic information (Lim et al., 2007). Others, including Ghazali and Weetman (2006) and Adams and Hossain (1998), have all reported a positive relationship between independent directors and voluntary disclosure. Notwithstanding these, others have argued in favour of a negative relationship between outside directors and voluntary disclosure. For example, excessive monitoring by outside directors may incentivise managers to starve them of the right information required for effective monitoring (Goodstein et al., 1994; Felaye et al., 2011). Other studies have also documented instances where outside directors lack requisite business knowledge (Patton and Baker, 1987) and real independence (Hwang and Kim, 2009) to effectively monitor.

To the best of our knowledge, this relationship has not been examined in SA. King III requires that SA boards have a majority of non-executive directors and we believe that this number will facilitate greater monitoring and increase voluntary disclosure in general. However, as representatives of shareholders, we expect them to favour the disclosure of shareholder-related information than stakeholder-related information. We thus hypothesise that:

H5: The proportion of non-executive directors increases shareholder-related information disclosure relative to stakeholder-related information disclosure.

Board Size

Board size is defined as the total number of directors including both executive and non-executive directors on the board (Lim et al., 2007). The effect of board size on voluntary disclosure may be explained by two competing theories - agency theory and resource dependency theory.

From agency theory perspective, boards play a crucial role in monitoring the activities of management (Jensen and Meckling, 1986). Jensen (1993) notes that larger boards are associated with shirking and free riding, difficult to coordinate, and comparatively easier to control by entrenched CEOs. Larger board size negatively affects board effectiveness (Goodstein et al., 1994; Hearn, 2013). This means that members of larger boards are less likely to effectively participate in strategic decision making on issues such as voluntary disclosure. On the contrary, smaller boards are likely to be cohesive and effective (Lipton and Lorsch, 1992), have less agency problems (Yawson, 2006) and as such may increase voluntary disclosure.

According to the resource dependency theory, larger boards offer diversity in contacts, experience, and skills which smaller boards may lack (Haniffa and Cooke, 2002). Specifically, larger boards offer increased diversity in boards' financial and non- financial expertise (Pearce and Zahra, 1992). This diversity leads to higher earnings quality through quality voluntary disclosure (Srinidhi et al., 2011; Samaha et al., 2012).

Further, larger boards are more likely to be diverse in terms of board member heterogeneity. For example, Butler (2012) argued that larger boards are likely to consist of people of different races, gender and backgrounds. This may be true in the SA context where firms are increasingly under pressure to make board appointments based on a need to comply with affirmative action rules. Therefore, bigger boards are likely to have representatives of different interests groups. This may facilitate the disclosure of information to meet the specific needs of the groups they represent, thereby increasing voluntary disclosure of stakeholder-related information. Therefore, we hypothesise that:

H6: Board size increases stakeholder-related information disclosure relative to shareholder-related information disclosure.

Audit Committee

Traditionally, audit committees are formed to reduce managerial opportunism and information asymmetry through disclosure quality (Chung et al., 2004). Audit committees may reduce agency costs by improving the quality of information flow between the principal and the agent (Bradbury, 1990). The audit committee is the main decision control mechanism used by the board for internal control purposes (Fama, 1980; Akhtaruddin, and Haron, 2010) and is a vital mechanism in the board monitoring process (Blue Ribbon Report, 1999). Unsurprisingly, the formation of audit committees have been the response of many firms following a financial scandal (Mangena and Tauringana, 2008). Forker (1992) notes that the monitoring ability of the audit committee resides in its level of independence. Therefore, following international best practices, the audit committee should consist of only independent non-executive directors (Samaha et al., 2012).

Empirically, Barako et al. (2006) report a positive relationship between audit committee and voluntary disclosure. Akhtaruddin and Haron (2010) found that the negative relationship between the proportion of executive share ownership and voluntary disclosure is weakened by the proportion

of independent directors on the audit committee. Others, including Cerbioni and Parbonetti (2007), O'Sullivan et al. (2008) and Samaha and Dahawy (2011), have all reported a positive relationship between the presence of an audit committee and voluntary CG disclosure.

In SA, King III requires firms to establish an audit committee consisting entirely of independent non-executive directors. The Companies Act of 2008 further requires audit committees to be independent of the board and report directly to shareholders in the annual report and at the AGM. A KPMG report in 2009 describes this as a move towards a two-tiered board system where both the audit committee and the board report separately to shareholders. More so, King III requires audit committees to provide assurance on the sustainability reports in addition to its traditional function of providing assurance for financial reporting. Although this requirement may also improve the quality and quantity of stakeholder-related information disclosure in SA, we expect audit committees to focus more on their traditional task of ensuring financial reporting quality. Therefore, we hypothesise that:

H7: The presence of an audit committee increases shareholder-related information disclosure relative to stakeholder-related information disclosure.

CEO Characteristics

CEO Age

Older CEOs are more experienced and may better appreciate the consequences of voluntary disclosure than younger CEOs. Sterling (2014) argues that older CEOs are risk averse compared to younger CEOs. He contends that older CEOs are more conservative and make investments that reduce firm risks. Older CEOs may thus disclose more shareholder specific information to avert risks associated with shareholder activism. This view is shared by Hambrick and Mason (1984) who note that older CEOs are more concerned with future financial security and as such less likely to pursue risky strategies. Non-disclosure of voluntary CG information is indeed a risky strategy given the recent emphasis on information disclosure. Huang et al. (2012) document that older CEOs are

associated with higher earnings quality, suggesting that older CEOs lead to higher disclosure quality.

The accounting psychology literature also suggests linkages between age and ethical/moral behaviour. Chiu (2003) and Dawson (1997) argue that people display more ethical behaviour with age. Barnet and Carson (1989) investigate the importance of ethics in managerial decision making. They report that, compared to older respondents, younger respondents acted less ethically in various ethical scenarios. Chan et al. (2002) indicated that younger managers are more apt to resort to unethical activities to boost firm profitability than their older counterparts. Ostensibly, younger managers are more likely to engage in earnings management and hinder disclosure to circumvent the possible consequences. However, "*The stakeholder idea, remember, is typically offered as a way of integrating ethical values into management decision making"* (Goodpaster 1991, p. 5). Therefore, if older CEOs are ethical then they may disclose more stakeholder-related information. This leads to the hypothesis that:

H8: CEO age increases stakeholder-related information disclosure more relative to shareholder-related information disclosure.

CEO Tenure

Proponents of managerial power hypothesis mainly consider CEO tenure as a hallmark of managerial entrenchment. Long-tenured CEOs may play a part in board member appointments, and become familiarised with board members (Allgood and Ferrell, 2000). This increased familiarity may undermine board independence, hinder monitoring, and increase the chances of CEO control over the board (Fracassi and Tate, 2012). Entrenched CEOs may not be held accountable for synchronous actions such as non-disclosure. This is because with their tenure, they have ample time to circumvent monitoring (Hill and Phan, 1991; Allgood and Ferrel, 2000).

On the contrary, if the market for corporate control and the managerial labour market (see Fama, 1980) are efficient then CEO tenure will only be possible in the presence of good corporate practices including enhanced voluntary disclosure. CEOs build career reputation, prestige, and

status over time (Felaye et al., 2011) and therefore long tenure may only be a mark of a highly accomplished CEO. Dikolli et al. (2012) found that even though firm monitoring intensity reduces with CEO tenure, CEO survival is associated with stellar firm performance. CEOs acquire firm- and industry-specific knowledge as tenure increases (Celikyurt et al., 2012) and this experience and knowledge may lead to relevant and quality firm- and industry-specific disclosure. Zhang (2009) found that long-tenured CEOs have established reputations and report high quality earnings (suggesting higher disclosure) to protect their reputations. Moreover, CEOs disclose CSR information to garner support of stakeholders (Prior et al. 2008). Therefore, older CEOs may disclose more stakeholder-related CG information for protecting their reputation. This leads to the hypothesis:

H9:CEO tenure increases stakeholder-related information disclosure relative to shareholder-related information disclosure.

Corporate Governance and Pay-performance link

Theoretically, although executive compensation research draws inspiration from several theories (e.g., agency theory, managerial power, efficient contracting, signalling theory), the effect of CG on pay-performance link is primarily rooted in the principal-agent construct (see Jensen and Meckling, 1976; 1978). Agency theory formulates a conceptual contract between a risk-neutral principal and a risk- and effort-averse agent in a fashion that brings about the separation of ownership from control, giving rise to the agency problem (Berle and Means, 1932). In such an instance, the principal may incur monitoring costs (Denis et al., 1997) by attempting to design an optimal compensation package enough to motivate the agent in the presence of foreseeable moral hazards (Murphy, 1985; 1999). This is because, from the principal's viewpoint, the agent may not make optimal decisions without the principal incurring monitoring costs (Jensen and Meckling, 1976). Consequently, the Anglo-Saxon style CG mechanisms are primarily designed to monitor agents with a view to reducing agency costs (Monks and Minnows, 2008). Although the relation between shareholder CG

disclosure and pay-performance link has not been previously studied, existing evidence suggests how several CG mechanisms put in place to protect shareholder interests foster tighter pay-performance link. For example, Hwang and Kim (2009) and Ozkan (2011) show that non-executive directors improve pay-performance link. Similarly, Schultz et al. (2013) find that larger boards lower pay-performance sensitivity in Australia. The shareholder CG provisions in SA are designed to protect shareholder interests (Ntim et al., 2012). It will thus seek to reduce agency costs by ensuring tighter pay-performance link in South African firms. This leads to the following hypothesis:

H10: The disclosure of corporate governance provisions that protect shareholder interests increases pay-performance link.

As discussed in section 1, the consequences of disclosing CG provisions that protect the interest of other non-shareholding stakeholders may be explained by two competing view- the conflict resolution hypothesis and the managerial opportunism hypothesis. The conflict resolution hypothesis arises out of stakeholder theory`s postulation that firms are required to go beyond shareholder value maximization (profitability) to being ethically and socially supportive (Carrol, 1999). Stakeholder theory contends that organisations should serve the interests of various stakeholders including both investors and non-investing stakeholders such as employees, governments, community among others (Freeman, 1984). This preposition is based on the thinking that organisations` actions impact on several stakeholders including society and therefore it is only fair for organisations to contribute towards the general well being of these stakeholders (Donaldson and Preston, 1995). *"The stakeholder idea, is typically offered as a way of integrating ethical values into management decision making"* (*Goodpaster, 1991. P.5*) and this include executive compensation administration (Potts, 2006). Altruistic virtues such as fairness, unselfishness, moderation, and self-control are exhibited in the stakeholder concept as against egoistic behaviours like selfishness and self interestedness embedded in agency theory (Cai et al., 2011). This among other things explains why some managers demand exorbitant pay but others do not, as well as why

some managers are willing to put substantial parts of their wages at risk (by closely aligning their wages with firm performance) but others are not (Cai et al.,, 2011). DesJardins (2009) maintains that as a matter of principle and character, socially responsible managers with fairness, considerateness, and moderate desires may not ask for exorbitant pay, arguably they may also be more prepared to closely align their pay with firm performance.

This line of stakeholder thinking may help firms avoid conflicts between various stakeholders such as shareholders, bond holders, NGO`s, and other activists (Jensen, 2002; Carlton and Payne, 2003; Cai et al. 2011). Therefore, *"ceteris paribus"* this conflict avoidance mentality of stakeholder oriented firms will motivate them to closely align pay to performance in order to avoid potential agency conflicts between shareholders and managers. Others including Cai et al. (2011) and Miles and Miles (2011) have also documented a negative relationship between CSR and executive compensation. From this perspective, it, may be argued that stakeholder oriented firms are more likely to have stronger pay-performance links.

By contrast, the managerial opportunism hypothesis suggests that managers may disclose CG provisions that protect the interests of other non-shareholding stakeholders (even when the cost of disclosure exceeds the benefits) to improve their own reputations (Barnea and Rubin, 2010). Prior et al. (2008) showed that managers use CSR activities to garner support from non-shareholder stakeholders to escape stakeholder scrutiny so they can misappropriate shareholder wealth. This view is shared by Cai et al. (2011) who report that managers may become entrenched by building strong relationships with non-shareholding stakeholders such as social activists, governments and communities. An improved CEO public reputation is associated with stronger bargaining power and better outside career opportunities (Cai et al., 2011). Further, Milbourn (2003) show a positive relationship between CEO reputation and stock based remuneration. Similarly, this entrenchment effect may insulate managers from effective close monitoring by other CG mechanisms. In other words, risk-averse managers with such entrenchment capabilities may *ceteris paribus* not allow a substantial part of their pay to be at risk. Based on these arguments we test these two competing hypotheses:

H10a: When the conflict resolution hypothesis is dominant, disclosure of corporate governance provisions that protect other stakeholders`(excluding shareholders) interests increases pay-performance link.

H10b: When the managerial opportunism hypothesis is dominant, disclosure of corporate governance provisions that protect other stakeholders` (excluding shareholders) interests decreases pay-performance link.

4. Research Design

Data and Sample Selection

Data on all variables were obtained from company annual reports. Annual reports are obtained from African Financials Database and company websites. Where annual reports are not available from these two sources, they are directly obtained from companies via email. We deal with extreme observations by winsorizing all variables at 0.5^{th} and 99.5^{th} percentiles. The final sample consists of an unbalanced panel[1] of 245 unique firms representing 1470 observations (excluding observations with at most three years missing values, errors and outliers). The sample period spans from 2008-2013. This has been carefully chosen to cover the introduction of the third CG code (King III). As at the sample date, there were 393 firms listed on the Johannesburg Stock Exchange (JSE) with 10 industrial classifications. The sample consisted of 108 financial and 2 utility firms. We exclude these financial and utility firms because they are heavily regulated (Tian and Twite, 2011) and this may impact differently on their disclosure practices. This is also in consonance with previous studies (Haniffa and Cooke, 2002; Ntim et al. 2012). This brought our sample to 283 firms. Another set of 38 firms were excluded because annual reports were not available bringing our final sample to 245 firms.

[1] Previous SA studies (Musa and Mangena, 2008; Ntim et al. 2012a; 2012b; 2013) used balanced panel data. We use an unbalanced panel for three reasons. First, in the real world most panels are unbalanced (Greene, 2008); therefore choosing a balanced panel may introduce sample selection bias into the dataset which may make results less-representative of the population. Second, although the choice of an unbalanced panel may also be subject to attrition bias (Baltagi, 2012), we have no reason to believe that the data is non-randomly sampled since we included all listed firms as at the sample date. Third, by allowing firms in the sample entry and exit, we capture much of the firm-level heterogeneity in disclosure which is vital for this study.

The use of panel data allows for the exploitation of both time series and cross-sectional properties of the data (Wooldridge, 2002). Also, by allowing for both entry and exit, the use of an unbalanced panel may eliminate potential selection and survivorship bias. This method also generated a much larger sample size than has been used in recent South African studies (Ntim et al. 2012a; Ntim and Soobaroyen, 2013).

Development of Disclosure Indices

The study uses CG provisions in the 2009 King III report of CG in SA (see appendix 2) as dependent variables. Following the methodology of Ntim et al. (2012a, three main CG indices are constructed. First, a disclosure index consisting of 61 CG provisions that cater for shareholder interests (SHARE) is constructed. The index covers six components in King III namely, board of directors, audit committee, the governance of risk, governance of information technology, internal audit, integrated report and disclosure. Second, another CG index consisting of 11 corporate governance provisions (STAKE) that cater for stakeholder interests is constructed. This index is based on the section of King III report that focuses on governing stakeholder relationships. Finally, a third index is built consisting of all of the 72 (GOVIN) CG provisions in King III. See appendix 2 for a full list of the King III CG provisions.

All the indices are constructed using a dichotomous variable where a firm gets a score of "1" if an item is disclosed, otherwise "0". We choose an unweighted index because there is no a priori theory for assigning weights to CG disclosure items (Black et al., 2006). This approach has also been used extensively by previous studies (see Haniffa and Cooke, 2002; Samaha et al., 2012; Ntim et al., 2012a). To increase reliability, we code each annual report twice and the scores compared (Cooke, 1992; 1996). Where discrepancies exist, the annual report is read a third time for reconciliation.

A disclosure index $Disc_{jt}$ for firm j at time t is calculated as follows:

$$Disc_{jt} = \left[\left(\sum_{t=1}^{n_{jt}} x_{ijt} \right) \div n_{jt} \right] \times 100 \quad (1)$$

Where n_{jt} = number of items expected for j^{th} firm at time t, n_{jt} = one of 61, 11, and 72 for SHARE, STAKE and GOVIN, respectively.

x_{ijt} = 1 if i^{th} item is disclosed for firm j at time t, otherwise 0 so that .

$0 \leq Disc_{jt} \leq 100$.

To test the determinants of shareholder versus stakeholder discosures, we adopt a random effects model[2] in the form:

$$\begin{aligned} Disc_{it} &= \alpha_0 + \beta_1 AGE_{it} + \beta_2 CTEN_{it} + \beta_3 FORO_{it} + \beta_4 INSO_{it} \\ &+ \beta_5 NED_{it} + \beta_6 BSIZE_{it} + \beta_7 GDIV_{it} + \beta_8 RDIV_{it} + \beta_9 AC_{it} + \sum_{i=1}^{n} \beta_i CONTROLS_{it} \quad (2) \\ &+ \mu_i + \lambda_i + \varepsilon_{it} \end{aligned}$$

We again test the effect of shareholder and stakeholder disclosure on pay-performance sensitivity by adopting these random effects models:

[2] The main issues that come with panel data modelling is how to deal with problems of observed and unobserved heterogeneity as well as their sources (Park, 2011). Kennedy (2008) suggests that an investigation is always conducted before a panel estimation technique is adopted. We therefore conduct a raft of diagnostic tests to guide us in our choice of a suitable estimating technique. First, using the Breusch and Pagan (1980) Lagrange multiplier test, we examine whether any of the individual or time specific variance components are equal to zero. The test rejected a null hypothesis of no random effect in the data. This means a random effect model is better able to deal with this heterogeneity than pooled OLS. Second, the null hypothesis of an F-test is also rejected across all the models meaning that at least one dummy parameter are not equal to zero. This indicates significant fixed-effects and warrants the use of a fixed effect model over pooled OLS. Therefore the Hausman test is run to inform the choice of either fixed or random-effects. The Hausman test failed to reject the null hypothesis that individual effects are uncorrelated with other regressors leading to the adoption of a random-effects model.

$$PAY_{it} = \alpha_1 + \beta_1 ROA_{it} + \sum_{j=1}^{7} \beta_j controls_{it} + \mu_i + \lambda_i + \varepsilon_{it} \quad (3)$$

$$PAY_{it} = \alpha_1 + \beta_1 ROA_{it} * GOVIN_{it} + \sum_{j=1}^{7} \beta_j controls_{it} + \mu_i + \lambda_i + \varepsilon_{it} \quad (4)$$

$$PAY_{it} = \alpha_1 + \beta_1 ROA_{it} * SHARE_{it} + \sum_{j=1}^{7} \beta_j controls_{it} + \mu_i + \lambda_i + \varepsilon_{it} \quad (5)$$

$$PAY_{it} = \alpha_1 + \beta_1 ROA_{it} * STAKE_{it} + \sum_{j=1}^{7} \beta_j controls_{it} + \mu_i + \lambda_i + \varepsilon_{it} \quad (6)$$

$$PAY_{it} = \alpha_1 + \beta_1 ROA * STAKE * SH\_Dummy1 + \sum_{j=1}^{7} \beta_j controls_{it} + \mu_i + \lambda_i + \varepsilon_{it} \quad (7)$$

$$PAY_{it} = \alpha_1 + \beta_1 ROA_{it} * STAKE_{it} * SH\_Dummy0_{it} + \sum_{j=1}^{7} \beta_j controls_{it} + \mu_i + \lambda_i + \varepsilon_{it} \quad (8)$$

where: $Disc_{it}$ = voluntary disclosure (one of GOVIN SHARE, STAKE and SHST with each regressed alternatively) for firm i at time t

μ = unobservable firm-specific heterogeneity and λ_i is the parameter of time dummy variable. All other variables are as defined in table 1.

[INSERT TABLE 1 APPROXIMATELY HERE]

5. Results

Descriptive Statistics

Descriptive statistics for the variables are reported in table 2. It shows that GOVIN ranges from a minimum of 8.8% to a maximum 98.8%.This indicates wide variations in terms of CG disclosure among listed firms in SA. The other CG indices (SHARE, STAKE and SHST) also show wide spreads, for example the SHARE index ranges from 6.5% to 98.59%. By contrast, the mean score on the stakeholder CG provisions (STAKE) is higher than that of the shareholder CG provisions with scores of 55.24 % and 50.66%, respectively. Overall, the scores on the CG disclosure indices (GOVIN, SHARE, and STAKE) show that out of all the possible disclosure items, firms disclose between 50.24% (GOVIN) to 55.92% (STAKE) on average. The explanatory variables (AC, INSO, FORO, BSIZE, NED, RDIV, GDIV, CTEN, and AGE) as well as the control variables (CAPEX, Q, LEV and FS) also show large range of variations. Particularly, BSIZE exhibited wide range of variations with a mean of 9.09 and a minimum of value of 2 to a maximum of 27. These wide variations justify the appropriateness of the sample selection procedure, in that it allows firm entry and exit and thus eschews possible sample selection biases that has blighted most previous studies (Lim et al., 2007; Ntim et al., 2012b).

[INSERT TABLE 2 APPROXIMATELY HERE]

To test for the presence of multi-collinearity, a correlation matrix is reported in table 3. Field (2005) indicated that a correlation greater than 80% between independent variables symbolises serious muticollinearity. However, correlations among the independent variables are generally low. This is further confirmed by a maximum and minimum tolerance of 0.9837 and 0.3313, respectively, indicating the absence of major multicollinearity problems in the data. Moreover, in consonance with theory and previous SA studies (Klapper and Love, 2004; Ntim et al., 2012b) all of the CG indices showed a positive and significant relationship with Tobin's Q. Interestingly, although both RDIV and GDIV exhibit a positive and significant relationship with GOVIN, SHARE AND STAKE, they have a negative and significant correlation with SHST. Also, other CG mechanisms such as NED, INSO, and FORO, exhibit a positive and significant relationship with all of the CG disclosure indices (GOVIN, SHARE, and STAKE). This means that these CG mechanisms could complement voluntary CG disclosure as asserted by Aggarwal et al. (2011).

[INSERT TABLE 3 APPROXIMATELY HERE]

Regression analysis

Table 4 reports the random-effects regression results in levels data with cluster-robust standard errors[3] for the aggregate CG score (GOVIN) as well as the two sub-categories (SHARE and STAKE). The random-effects logistic regression results for SHST are also reported in table 4.

For the ownership characteristics variables, we find that the coefficient of FORO is positive and statistically significant with GOVIN (p = 0.061) and SHARE (p = 0.022). However, it has a negative relationship with STAKE (p = 0.061) but a positive relationship with SHST (p = 0.071). These results confirm H1 and are consistent with the agency theory argument that foreign owners have a need for information disclosure to effectively monitor management (Mangena and Tauringana, 2008; Bokpin and Isshaq, 2009). However, FORO has a negative relationship with STAKE (p = 0.061) but a positive relationship with SHST (p = 0.071). These results are surprising given that previous studies (Haniffa and Cooke, 2002) have documented a positive relationship between foreign ownership and CSR. The conflicting results may be due to the nature of the stakeholder CG provisions in SA which are different from typical CSR provisions in most countries. Stakeholder provisions in SA consist of several affirmative action rules which may be alien to several foreign investors.

Further, INSO has a positive and statistically significant coefficient with SHARE only (p = 0.094) but positive and statistically significant coefficients with SHST (p = 0.029). These results support hypothesis H2 that companies with higher levels of institutional ownership disclose more shareholder CG information relative to stakeholder CG information. This is also consistent with the OECD's (2009) observation that institutional investors invest mainly for financial returns; therefore,

[3] In panel regressions it is possible to find correlations either across firms or time (Peterson, 2009). This means there is the need to use standard errors that are robust across firms, time or the simultaneous correlations along two dimensions (double clustering). Thompson (2011) noted that while double clustering produce accurate standard error estimates, it does not make much difference in instances where the number of firms far exceeds the time periods. Thomson further argued that double clustering is not needed in an unbalanced panel since fixing the number of observations in one direction is enough to make the bias disappear. Therefore we use one-direction robust clustered standard errors. This produced 245 clusters.

while they will not hinder stakeholder information disclosure (Brammer and Millington 2004), they are mainly concerned with shareholder CG disclosure.

Further, we find that although gender diversity (GDIV) is positive for GOVIN (p = 0.898) and STAKE (p = 0.181) and negative for SHARE (p = 0.866), none of them is statistically significant. Although GDIV has a negative relationship with SHST as hypothesised, the relationship is not statistically significant in any test leading to a rejection of H3. Further analysis (unreported but available on request) shows that most of our firms have just one female director. The non-significant result may thus be explained by both token status theory (Kanter, 1977) and critical mass theory (Kramer et al., 2006): where women directors lack the numbers, they are seen as "mere tokens" on boards and are unable to influence board decisions because their impact is marginalised.

Racial diversity (RDIV) has a positive and significant relationship with GOVIN (p = 0.036) and STAKE ($p < 0.001$). More importantly, in line with H4, racial diversity has a negative relationship with SHST (p = 0.002). These results suggest that SA firms with at least one non-white board member disclose more stakeholder-oriented CG information relative to shareholder-oriented CG information. This is consistent with the argument that racially diverse boards disclose more diverse information (Butler, 2012).

The proportion of non-executive directors on the board (NED) is positively related to GOVIN (p = 0.732), SHARE (p = 0.866), STAKE (p = 0.235) and with SHST (p = 0.118). That is, none of the coefficients is significant. Thus, our findings contradict with the agency theory proposition that outside directors are good monitors of management (Fama, 1980; Fama and Jensen, 1983). However, other studies especially from developing countries have also failed to find a significant relationship (see Haniffa and Cooke, 2002; Ghazali and Weetman, 2006). Hwang and Kim (2009) attribute the lack of a significant relationship to the ties that some non-executive directors may have with the company and its management that may compromise their independence. However, the SA case may be attributed to a lack of requisite business knowledge by independent directors (see Paton and Baker, 1987). Specifically, CG codes in SA encourage firms to appoint directors following affirmative action rules rather than solely based on competence.

Board size (BSIZE) has a positive and significant relationship with GOVIN ($p < 0.001$), SHARE ($p < 0.001$) and STAKE ($p <0.001$). These results are consistent with Ntim et al. (2012b) who also reported a positive relationship between board size and voluntary disclosure in SA. More importantly, consistent with H6, board size is negatively related to SHST ($p = 0.003$) suggesting that board size increases stakeholder-related CG disclosure relative to shareholder-related CG disclosure.

Also, the presence of an audit committee (AC) has a positive and statistically significant relationship with GOVIN ($p < 0.001$), SHARE ($p < 0.001$), and STAKE ($p < 0.001$). Consistent with H7, AC has a positive relationship with SHST ($p < 0.001$). These results imply that firms with audit committees disclose more shareholder-related CG information relative to stakeholder-related CG information. These findings are in consonance with previous studies (Akhtaruddin and Haron, 2010; Barako et al., 2006). These results also imply that despite the King III requirement for audit committees to provide assurance on both financial reports and sustainability reports, SA audit committees still focus on their traditional role of monitoring financial statements relative to sustainability issues.

Furthermore, the CEO characteristics variables show that AGE has a positive relationship with GOVIN ($p = 0.013$) and SHARE ($p < 0.008$). More importantly, AGE has a positive relationship with SHST ($p = 0.000$). These results indicate that firms with older CEOs disclose more shareholder-related CG information relative to stakeholder-related CG information leading us to reject H8. This could be because older CEOs are more concerned with future financial security (Hambrick and Mason, 1984) and may thus be associated with shareholder CG disclosures because of its association with financial performance (Ntim et al., 2012a).

Although CEO tenure (CTEN) has a positive relationship with GOVIN ($p = 0.556$), SHARE ($p = 0.449$) and STAKE ($p = 0.820$) and a negative relationship with SHST ($p = 0.307$) none of these relationships is statistically significant. Thus, hypothesis H9 is rejected. Ali and Zhang (2013) note that higher levels of institutional ownership mitigate the various effects of CEO tenure. This may be particularly true when CEO tenure becomes a managerial entrenchment device for the

facilitation of CEO opportunism. This could be a reasonable explanation given the higher levels of institutional ownership in SA (see Ntim et al., 2012a).

[INSERT TABLES 4 APPROXIMATELY HERE]

Regarding our control variables, firm size (FS) and profitability (Tobin's Q) are positively related to GOVIN (p = 0.004, 0.013), SHARE (p = 0.005, 0.025) and STAKE (p = 0.069, 0.079), respectively. These results are consistent with previous studies (see Barako et al., 2006; Samaha et al., 2012; Ntim et al., 2012a). However, whereas profitability has a positive and statistically significant relationship with SHST (p = 0.043), the coefficient of firm size is positive but not significant (p = 0.423). These results suggest that profitable firms disclose more shareholder-related CG information relative to stakeholder-related CG information. Moreover, consistent with Ntim et al. (2012b), leverage and capital expenditure are not significant across all of the regression models.

In table 5, we show the results for the effect of the shareholder versus stakeholder disclosure on pay-performance sensitivity. Again, we run the random-effects regressions with robust-cluster standard errors. We find that the pay-performance link is positive and statistically significant (coefficient of ROA = 0.069; p = 0.041). The positive relationship is stronger on the interaction term ROA*GOVIN (coefficient = 0.090, $p < 0.001$). This result indicates that CG improves the pay-performance link. This finding is consistent with previous studies (Ozkan, 2011; Ntim et al., 2013; Schultz et al., 2013). More importantly, the interaction term ROA*SHARE is also positive and statistically significant (coefficient = 0.051, $p < 0.001$). This finding is consistent with H10 and suggests that the disclosure of CG practices that protect the interests of shareholders increases the pay-performance link. Given that CG provisions designed to protect shareholder interests in SA are similar to those in the Anglo-Saxon style, they are primarily designed to monitor agents with the view to reducing agency costs (Monks and Minnows, 2008).

Furthermore, there is a positive and significant coefficient for the interaction ROA*STAKE (coefficient = 0.020, p = 0.061), it is consistent with expectation (H11). However, he coefficient is lower than that of ROA and statistically significant. This indicates that, consistent with H11, the disclosure of CG practices that protects the interests of other non-shareholding stakeholders reduces

pay-performance link. The finding is generally inconsistent with the conflict resolution hypothesis (Carlton and Payne, 2003; Jensen, 2002). The evidence supports the managerial opportunism view (Choi et al. 2013) where the CEO embarks on stakeholder CG disclosures for their private benefits by way of improving their reputations (Prior et al., 2008; Cai et al., 2011). With this hypothesis, CEOs will disclose their compliance with stakeholder CG provisions to garner support from powerful non-shareholder stakeholders and become entrenched. A risk averse CEO (Jensen and Meckling, 1978; Jensen, 2008) who becomes entrenched will not put his/her pay at risk by tying it closely to firm performance.

To confirm this we conduct further analysis. We hypothesise that the entrenchment effect will be more/less prominent in firms that comply less/more on the monitoring-intensive shareholder CG provisions. We therefore create a dummy variable (Sh-dummy1) set equal to "1" if a firm scores higher than the mean of SHARE or "0" otherwise and another dummy (Sh_dummy0) equal to "1" if a firm scores less than the mean of SHARE, otherwise "0". We then create two interaction terms, ROA*STAKE*Sh_dummy1 and ROA*STAKE*Sh_dummy0. Consistent with our expectation, we find a positive and significant coefficient for the interaction ROA*STAKE*Sh_dummy1 (coefficient = 0.084, $p < 0.001$). More importantly, the positive relationship is stronger than that of ROA indicating that the disclosure of CG provisions that protects the interest of non-shareholding stakeholders improves pay-performance link in firms that disclose more of CG provisions related to shareholders. In other words, the monitoring-intensive shareholder provisions prevent CEOs from using the stakeholder-related CG disclosures as an entrenchment tool to reduce pay-performance link. This finding is consistent with agency theory and the empirical findings of Choi et al. (2013) who report that stronger monitoring mechanisms can reduce the abuse of CSR disclosure. Furthermore, although we find a positive relationship for the interaction term ROA*STAKE*Sh_dummy0 (coefficient = 0.014, $p = 0.191$), the relationship is not significant. This implies that in the absence of high disclosure of CG provisions that protects the interest of shareholders, risk averse CEOs use the disclosure of non-shareholding stakeholder provisions to bond with powerful non-shareholding stakeholders, become entrenched and reduce

pay-performance link. This is very true of the SA context where powerful stakeholders like the government view compliance on the stakeholder-related CG provisions as efforts to bridge the inequality gap created by apartheid. This finding is also consistent with agency theory's postulation that a lack of effective monitoring mechanisms increases managerial opportunistic tendencies (Jensen and Meckling, 1978; Jensen 2002; Choi et al. 2013).

[INSERT TABLE 5 APPROXIMATELY HERE]

6. Robustness Analysis

We appreciate potential endogeneity issues with CG variables and thus conduct further analysis to reduce these problems.[4] We follow Dam and Scholtens (2012) and relate our independent variables to voluntary CG disclosure by taking timing into account. We replicate all tests by using a one-year lag of our independent variables in order to reduce potential endogeneity issues. The results are presented in Tables 6. Generally, the results remained unchanged except FORO which became insignificant with SHST (coefficient = 0.002, *p*-value = 0.149). Nevertheless, its relationship with GOVIN, SHARE, and STAKE remained unchanged.

We further test whether our results is sensitive to the choice of econometric technique. To do this we adopt a random-effects probit regression. The results (untabulated but available on request) show that the conclusions remain generally unchanged.

Next, we attempt to address the endogeneity problems in our pay-performance sensitivity regressions. This is because CEO pay and firm performance may be simultaneously determined. For example, a shareholder dissent on CEO compensation will put the CEO under immense pressure. To reduce the pressure, the board is likely to reduce the level of CEO compensation (Monem and Ng, 2013). Simultaneously, the CEO may also adopt strategies to increase firm performance to justify his/her wages. If changes in CEO pay and firm performance are simultaneously determined,

[4] To deal with the problem of endogeneity we consider adopting a dynamic panel model. Specifically we consider the Arrelano Bond estimator (see Arellano and Bond, 1991). However, for consistent estimation this method requires two specification tests - (1) a test to confirm that the error term is serially uncorrelated and (2) a test of overidentifying restrictions (see Cameron and Trivedi, 2009). Our data passed the former and failed the later making this method unsuitable. A plausible alternative is the use of a 2SLS, but this presents another problem of finding suitable instrumental variables which we could not find.

the results from the random-effects regressions can be biased and inefficient. We therefore adopt a 2SLS regression to resolve the possible endogeneity issue. To do this, we repeat the regressions in table 5 and report the results in table 7. For each regression, we assume that ROA and its interactions are endogeneous. In the first stage, the three-year lagged values of the control variables are used as instrumental variables.

The results reported in table 7 are generally consistent with the random-effects regressions. The coefficient on ROA is positive and statistically significant at 5% indicating a positive pay-performance link. Further, the interaction term ROA*GOVIN show a stronger positive coefficient and levels of significance compared to that of ROA. This indicates that consistent with previous studies (Ozkan, 2011; Schultz et al. 2013) CG practices foster stronger pay performance link. The results show that hypotheses 10 and 11 still hold after controlling for endogeneity. The results of hypothesis 11 show a stronger pay performance link than the random effects regression results. Our results for the interaction terns ROA*STAKE*Sh_dummy1 confirms the conflict resolution perspective for the disclosure of stakeholder CG provisions in firms that also disclose more shareholder provisions. Similarly, the ROA*STAKE*Sh_dummy0 also supports the managerial opportunism hypothesis for the disclosure of stakeholder CG provisions for firms that disclose less shareholder CG provisions.

7. Summary and Conclusions

The determinants and consequences of CG disclosure have been widely examined in the literature. In the case of SA, three CG reforms have been pursued in the past decades in the form of the King I (1994), King II (2002) and King III (2009). However, although emerging markets have characteristics (concentrated ownership, weak regulatory enforcement, and weak shareholder activism) different from their developed counterparts, CG reforms mainly mimic that of other developed countries (Samaha et al., 2012). The SA context is distinct because in addition to adopting various CG provisions in the developed countries, it also stresses the need to comply with affirmative action rules and other stakeholder CG provisions (Ntim et al., 2012). These coupled

with its voluntary compliance regime raises questions as to whether firms, especially foreign multi-nationals who may not be used to such disclosure requirements, will comply.

In terms of the level of compliance, we find that even though King III is relatively new, the level of compliance is very high with mean scores ranging from 50.66% to 55.24% for GOVIN, SHARE and STAKE. These compliance levels compare favourably with previous SA studies (Ntim et. al., 2012a; Ntim et al. 2012b). Interestingly, the sub-indices show that the maximum and the mean scores on the STAKE index (100% and 55.24%, respectively) are higher than that of the SHARE index. This suggests that SA firms have become accustomed to the unique stakeholder disclosure requirements. Notwithstanding these, the CG disclosure indices also show large variations among firms with a score range of 8.80% to 98.8% and a mean of 50.92% for GOVIN. This indicates high degree of heterogeneity among SA listed firms in terms of disclosure. Again, Ntim et al. (2012b) also reported similar variation in compliance on the King II provisions. This implies that some SA listed firms are taking a long time to appreciate the importance of voluntary disclosure.

Regarding the determinants of CG disclosure of SA listed companies, we find that, *ceteris paribus*, the extent of shareholder-related CG disclosure relative to stakeholder-related disclosure is (1) higher with older CEOs, higher levels of foreign ownership, higher levels of institutional ownership and the presence of an audit committee; and (2) lower with larger board size and the presence of at least one "non-white" member on the board. More so, whereas board size and the presence of an audit committee increases both shareholder- and stakeholder-related CG disclosures, higher levels of foreign ownership increases shareholder-related CG disclosures but decreases stakeholder-related CG disclosure. By contrast, racial diversity increases stakeholder-related disclosure but not shareholder-related disclosure. The overall levels of CG disclosure in SA (as proxied by GOVIN) increases with CEO age, higher levels of institutional and foreign ownership, board size, racial diversity, and the presence of an audit committee.

Moreover, the results show that disclosing CG practices that protect the interests of shareholders can reduce agency problems by improving pay-performance link. On the contrary, the

abuse of the stakeholder-related CG provisions can be a vehicle for managerial entrenchment in firms that disclose less of the shareholder-related CG information. This finding is consistent with previous studies such as Prior et al. (2008) and Choi et al. (2013) who also reported potential abuse of CSR disclosure in the absence of effective monitoring CG mechanisms.

This paper contributes to the literature by particularly responding to recent calls by Samaha et al. (2012) for studies that investigate the determinants of CG provisions that protects the interests of stakeholders other than shareholders and bondholders. The results show that different classes of shareholders, CEO and firm characteristics may impact differently on the type of CG disclosure whether of shareholder or stakeholder origin. Further, regulators, shareholders, practitioners and policy makers should carefully examine the disclosure of non-shareholding stakeholder information, especially in the absence of other monitoring CG mechanisms because they can be a recipe for managerial entrenchment.

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Table 1: Variable Definition

Variable name	*Measurement and Description*
Dependent Variables	
GOVIN	CG index that combines the provisions contained in both SHARE and STAKE
SHARE	CG disclosure index containing 61 provisions in King III that seeks to protect the interest of shareholders.
STAKE	CG disclosure index containing 11 provisions in King III that seeks to protect the interest of stakeholders.
SHST	A dummy variable that takes the value of "1" if a firm scores higher on SHARE than STAKE otherwise "0".
PAY	Natural log of change in total CEO pay.
Independent variables	
AGE	The age of the CEO in years as a CEO
CTEN	The number of years the CEO has stayed in the firm
FORO	Percentage of ordinary shares held by foreign shareholders
INSO	Percentage of ordinary shares held by institutional shareholders
BSIZE	The total number of board members
GDIV	A dummy variable that takes the value of "1" if the board consists of at least one male and one female otherwise"0".
RDIV	A dummy variable that takes the value of "1" if the board consists of at least one white and one non-white, otherwise "0".
NED	The number of non-executive directors expressed as a percentage of the total board size
AC	A dummy variable that takes the value of "1" if a firm has an audit committee otherwise "0"
Control Variables	
FS	Natural log of market capitalisation
Tobin-Q	Ratio of total assets minus book value of equity plus market value of equity to total assets

LEV	Ratio of total debts to total assets
CAPEX	Percentage of total capital expenditure to total assets
INDUSTRY	Dummies for each of the industries: oil and gas, basic materials, consumer goods, consumer services, technology, telecommunications, health care, industrials.
YEAR	Dummies for each year in the sample period; 2008-2013.

Table 2: Descriptive Statistics

VARIABLES					
Dependent Variables	***MEAN***	***STANDARD DEVIATION***	***MEDIAN***	***Minimum***	***Maximum***
GOVIN (%)	50.92	28.43	60.24	8.80	98.8
SHST (%)	27.00	44.00	0.00	0.00	100
STAKE (%)	55.24	34.55	66.67	0.00	100
SHARE (%)	50.66	27.50	59.15	6.50	98.59
PAY(Ln)	8.07	3.17	7.53	-2.64	16.78
Independent Variables					
AC (%)	58.00	32.00	72.00	0.00	100
INSO (%)	69.57	26.26	65.08	9.83	98.90
FORO (%)	56.76	12.26	49.24	0.00	99.98
BSIZE (Number)	9.09	3.68	8.00	2	27.00
NED (%)	31.99	29.73	27.27	16.88	88.89
RDIV (%)	49.00	50.00	0.00	0.00	100
GDIV (%)	54.00	50.00	100	0.00	100
CTEN (Number)	4.37	5.84	8.00	0.00	34
AGE (Number)	41.93	10.45	42	34	77
ROA (%)	12.02	55.28	30.10	-72.30	183.21
Control Variables					
CAPEX (%)	16.76	17.8	10.2	8.2	82.3
Tobin-Q	0.75	0.90	1.10	0.48	3.80
LEV (%)	13.18	16.42	17.15	0.00	115
FS	12.44	2.23	12.49	1.07	22.45

Notes:

The table presents the descriptive statistics of the variables used in the regressions. All variables are as defined in table 1.

Table 3: Correlation Matrix

		1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14*	*15*	*16*	*17*	*18*	19
GOVIN	***1***	1																		
SHST	***2***	-.04	1																	
STAKE	***3***	.89+	-.37+	1																
SHARE	***4***	.93+	.04	.84+	1															
AC	***5***	.35+	.12+	.27+	.34+	1														
CAPEX	***6***	.25+	-.08+	.35+	.33+	.32+	1													
LEV	***7***	.31*	-.06**	.31+	.30+	.29+	.25+	1												
Q	***8***	.12+	.05*	.08+	.11+	.11+	.03	.03	1											
FS	***9***	.05+	-.08+	.06*	.03*	.05*	-.15+	-.20+	0.02	1										
INSO	***10***	.19+	.08+	.16+	.19+	.17+	.10+	.11+	.08+	.06**	1									
FORO	***11***	.13+	.02+	-.10+	.13+	.03	.07+	.05**	.00	-0.04	-.01	1								
BSIZE	***12***	.39+	-.22+	.42+	.37+	.31+	.26+	.26+	.06**	-.12+	.08	.09+	1							
NED	***13***	.37+	.02	.35+	.36+	.31+	.18+	.15+	.17+	-.13+	.20+	.03	.28+	1						
RDIV	***14***	.51+	-.17+	.53+	.48+	.44+	.30+	.30+	.10+	-.10+	.15	.05*	.43+	.36+	1					
GDIV	***15***	.49+	-.09+	.49+	-.47+	.45+	.31+	.31+	.13+	-.18+	.14+	-.01	.44+	.40+	.52+	1				
CTEN	***16***	.29+	-.01+	.24+	.28+	.02	.09+	.03	.00	0.02	.13+	.00	.21+	.28+	.17+	.21+	1			
AGE	***17***	.42+	-.07+	.40+	.40+	.17+	.12+	.12+	0.03	-0.04	.12+	.10+	.30+	.34+	.36+	.35+	.38+	1		
PAY	***18***	.05	-.01	.02	.05	.03	.09+	.11+	-0.01	0.07	-.12	.02	.10+	-.14+	.01	.00	-.02	.02	1	
ROA	**19**	.07+	.00*	.03**	.04+	.03**	-.01	-.01	.07*	-.01	.02	.00	.02	.03*	.02**	-.04*	-.02	.11+	.06	1

Notes: The table presents the correlation matrix of the variables used in the regressions. +, **, and * represents statistical significants at 1%, 5% and 10% respectively. All other variables are as defined in table 1.

Table 4: Random-effects regressions in levels

	Random effects regressions			Logistic Regression	
	GOVIN	SHARE	STAKE	SHST	
Independent Variables					
Ownership Characteristics					
FORO	0.021	0.004	-0.008	0.007	0.006
	(0.061*)	(0.022**)	(0.061*)	(0.059*)	(0.071*)
INSO	0.021	0.023	0.008	0.011	0.01
	(0.193)	(0.094*)	(0.871)	(0.023**)	(0.029**)
Board Characteristics					
GDIV	0.138	-0.134	2.795	-0.131	-0.102
	(0.898)	(0.866)	(0.181)	(0.668)	(0.741)
RDIV	2.368	1.239	9.196	-0.955	-0.974
	(0.036**)	(0.253)	(0.000***)	(0.002***)	(0.002***)
NED	0.005	0.003	0.042	0.01	0.008
	(0.732)	(0.866)	(0.235)	(0.119)	(0.118)
BSIZE	1.113	0.919	2.139	-0.141	-0.1378
	(0.000***)	(0.000***)	(0.000***)	(0.002***)	(0.003***)
AC	0.646	0.667	0.496	0.031	0.030
	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)
CEO Characteristics					
AGE	0.051	0.047	0.073	0.006	0.006
	(0.013**)	(0.009***)	(0.127)	(0.001***)	(0.000***)
CTEN	0.001	0.000	0.000	0.000	0.000
	(0.556)	(0.449)	(0.820)	(0.621)	(0.307)
Control Variables					
FS	2.66	2.421	4.57		4.02
	(0.004**)	(0.005***)	(0.069*)		(0.423)
CAPEX	0.019	0.011	0.046		-0.002
	(0.405)	(0.554)	(0.351)		(0.755)
TOBIN Q	0.002	0.002	0.015		0.152
	(0.013**)	(0.025**)	(0.079*)		(0.043***)
LEV	-0.038	-0.367	-0.001		-0.002
	(0.356)	(0.277)	(0.987)		(0.912)
INDUSTRY	YES	YES	YES		YES
YEAR	YES	YES	YES		YES
Constant	3.252	3.1755	3.7611	-2.113	-2.141
	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)
Wald Chi2	22083.85	25996.94	6846.05	101.1	102.62
	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)
Number of Observations	1379	1379	1380	1380	1380
R-Squared(Adjusted)	0.78	0.79	0.58	0.32	0.36

Table.4 shows the random-effects regression results (P-values in parenthesis) for GOVIN, SHARE and STAKE. All variables are as defined in table 1. ***, **, and * represent statistical significance at 1%, 5% and 10% respectively.

Table 5: Corporate Governance and CEO Pay-Performance Link Using Random Effects Regressions

	Pay	Pay	Pay	Pay	Pay	Pay
ROA	0.069					
	(0.041**)					
ROA*GOVIN		0.090				
		(0.000***)				
ROA*SHARE			0.051			
			(0.000***)			
ROA*STAKE				0.020		
				(0.061*)		
ROA*STAKE*Sh_Dummy1					0.054	
					(0.000***)	
ROA*STAKE*Sh_Dummy0						0.014
						(0.191)
Firm Size	1.191	1.191	1.191	1.181	1.051	1.201
	(0.460)	(0.460)	(0.460)	(0.461)	(0.471)	(0.461)
LEV	0.00344	0.00367	0.00367	0.00368	0.00281	0.00379
	(0.556)	(0.530)	(0.530)	(0.0.530)	(0.624)	(0.520)
AC	-2.408	-2.421	-2.421	-2.420	-2.338	-2.399
	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)
AGE	0.072	0.075	0.075	0.075	0.073	0.074
	(0.038**)	(0.033**)	(0.033**)	(0.033**)	(0.035**)	(0.035**)
Tobin-Q	-0.008	-0.009	-0.009	-0.009	-0.008	-0.009
	(0.419)	(0.412)	(0.412)	(0.412)	(0.426)	(0.397)
BSIZE	0.036	0.035	0.035	0.035	0.037	0.036
	(0.070*)	(0.075*)	(0.073*)	(0.075*)	(0.063*)	(0.066*)
NED	-0.976**	-0.975**	-0.975**	-0.974**	-0.966**	-0.992**
	(0.019)	(0.019)	(0.019)	(0.019)	(0.020)	(0.017)
Intercept	9.599	9.604	9.604	9.605	9.584	9.520
	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)
Industry	Yes	Yes	Yes	Yes	Yes	Yes

Year	Yes	Yes	Yes	Yes	Yes	Yes
N	1107	1107	1107	1107	1106	1106
R-sq	0.22	0.22	0.22	0.22	0.20	0.20
Wald Chi2	163.39	171.22	171.7	169.29	767.08	767.08
	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)

Notes: Table 1 provides full definition of all the variables. The dependent variable in these regressions PAY,which is the natural log of change in total CEO pay. SH_Dummy1, a dummy variable equal to "1" if the level of SHARE is greater than the mean of SHARE otherwise "0"; SH_Dummy0, a dummy variable equal to "1" if the level of SHARE is less than the mean of share otherwise "0". All other variables are as defined in table 1. ***, **, and * represent statistical significance at 1%, 5% and 10% respectively.

Table 6: Random-effects regressions-Lagged Independent Variables

	Random effects regressions			Logistic regressions	
	GOVIN	SHARE	STAKE	SHST	
Independent Variables					
Ownership Characteristics					
FORO	0.001	0.000	-0.024	0.002	0.002
	(0.000***)	(0.080*)	(0.009***)	(0.134)	(0.149)
INSO	0.004	0.018	0.035	0.004	0.004
	(0.895)	(0.047**)	(0.418)	(0.052*)	(0.032**)
Board Characteristics					
GDIV	0.246	0.197	2.526	-0.223	-0.211
	(0.903)	(0.919)	(0.386)	(0.383)	(0.420)
RDIV	3.37	2.38	6.823	-0.692	-0.741
	(0.087*)	(0.205)	(0.016**)	(0.009***)	(0.006***)
NED	0.020	0.004	0.309	0.006	0.007
	(0.499)	(0.899)	(0.466)	(0.129)	(0.201)
BSIZE	0.582	0.483	1.019	-0.007	-0.006
	(0.047**)	(0.088*)	(0.017**)	(0.047**)	(0.068*)
AC	0.236	0.257	0.190	0.006	0.006
	(0.000***)	(0.000***)	(0.000***)	(0.007***)	(0.017**)
CEO Characteristics					
AGE	0.122	0.111	0.145	0.005	0.005
	(0.001***)	(0.002***)	(0.015**)	(0.020**)	(0.057*)
CTEN	0.000	0.000	0.000	0.000	0.000
	(0.143)	(0.321)	(0.110)	(0.121)	(0.212)
Control Variables					
FS	5.471	6.78	7.401		2.79
	(0.002***)	(0.001***)	(0.003***)		(0.441)
CAPEX	0.019	0.006	0.06		0.000
	(0.755)	(0.919)	(0.475)		(0.965)
TOBIN Q	0.295	0.891	1.156		0.238
	(0.012**)	(0.030**)	(0.062*)		(0.770)
LEV	-0.107	-0.111	-0.155		-0.002
	(0.184)	(0.156)	(0.169)		(0.829)

INDUSTRY	YES	YES	YES		YES
YEAR	YES	YES	YES		YES
Constant	27.1	27.445	29.601	-1.769	-1.79
	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)
Wald Chi2	871.13	847.78	530.01	74.15	74.67
	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)
Number of Observations	1165	1155	1150	1181	1154
R-squared(Adjusted)	0.53	0.52	0.43	0.35	0.42

Table.5 shows the random-effects logistic regression results (P-values in parenthesis) with SHST as dependent variable. All variables are as defined in table 1. ***, **, and * represent statistical significance at 1%, 5% and 10% respectively.

Table: 7 Corporate Governance and CEO Pay-Performance Link Using 2SLS Regression

	Pay	Pay	Pay	Pay	Pay	Pay
ROA	0.007					
	(0.082*)					
ROA*GOVIN		0.034				
		(0.000***)				
ROA*SHARE			0.014			
			(0.000***)			
ROA*STAKE				0.032		
				(0.000***)		
ROA*STAKE*SH_Dummy1"					0.066	
					(0.000***)	
ROA*STAKE*SH_Dummy0						0.037
						(0.363)
FIRM SIZE	4.730	3.260	3.191	3.620	3.021	3.330
	(0.314)	(0.293)	(0.292)	(0.300)	(0.288)	(0.567)
LEV	-0.010	-0.050	-0.051	-0.050	-0.051	-0.005
	(0.511)	(0.635)	(0.631)	(0.636)	(0.630)	(0.635)
AC	-3.423	-2.712	-2.699	-2.756	-2.756	-2.791
	(0.012**)	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)
AGE	0.096	0.094	0.092	0.011	0.013	0.025
	(0.019**)	(0.018**)	(0.017**)	(0.026**)	(0.059*)	(0.197)
Tobin-Q	-0.0396	-0.025	-0.025	-0.025	-0.043	-0.012
	(0.272)	(0.237)	(0.237)	(0.238)	(0.278)	(0.329)
BSIZE	0.050	0.071	0.066	0.101	0.075	0.032
	(0.039**)	(0.090*)	(0.074*)	(0.165)	(0.101)	(0.686)
NED	-2.970	-2.792	-2.798	-2.733	-2.808	-3.201
	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)
Year	Yes	Yes	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes	Yes	Yes
Intercept	9.751	9.170	9.204	8.975	9.133	9.768

	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.00***)
Wald Chi2	160.01	161.66	161.66	161.66	161.66	161.66
	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)	(0.000***)
N	707	707	707	707	707	707
R-sq(Adjusted)	0.21	0.21	0.21	0.21	0.21	0.21

Notes: This table shows the results of the Two-stage least squares regressions (P-values are in parenthesis). In the first stage return on assets (ROA) and all its interactions are treated as endogenous and three years lagged value of the control variables are used as instruments. In the second stage, the predicted ROA and all its interactions are used as independent variables and the dependent variable is PAY, which is the natural log of change in total CEO pay. SH_Dummy1, a dummy variable equal to "1" if the level of SHARE is greater than the mean of SHARE otherwise "0"; SH_Dummy0, a dummy variable equal to "1" if the level of SHARE is less than the mean of share otherwise "0". All other variables are as defined in table 1. ***, **, and * represent statistical significance at 1%, 5% and 10% respectively.

Appendix 1: A Summary of some vital corporate governance provisions in the second and third King reports.

Corporate Governance Provision	**2002 King Report (King II)**	**2009 King Report (King III)**
Boards and Directors		
Board Structure	Unitary Board	Unitary Board
Share Options for Non-executive directors	Allowed	Not Allowed
Non-executive directors	Majority of Board Members	Majority of Board Members
Removal of CEO and Directors	Not Addressed	The Board can Remove directors including the CEO without shareholder approval.
Rotation of Non-Executive Directors	Not addressed	A Program ensuring staggered rotation Should be put in place
Minimum Number of Executive directors on the Board	Not Addressed	At Least Two executive Directors-The CEO and the Director of Finance
Role Duality	Split CEO and Chairperson	Split CEO and Chairperson
Chairperson Independence	Independent Non-Executive Director	Independent Non-Executive Director
Board Meetings Frequency	At Least Once Every Quarter	At Least Once Every quarter
Board Committees		
Recommended Committees	Audit, Remuneration and Nomination	Audit Remuneration, Nomination and Risk
Audit Committee Membership	Majority of Independent Non-executive directors	All members should be independent non-executive directors
Audit	Not Addressed	Minimum Three

Committee Size		
Audit Committee qualifications	Majority should be Financially literate	Understanding of Integrated reporting, financial controls, Internal and external audit, corporate law and Risk management, and IT governance
Audit committee Meeting Frequency	Not Addressed	Minimum twice a year
Director/Insider Share Dealings	Prohibits Insider Dealing	Prohibits Insider Dealing
Risk Management, Internal Audit and Control		
Risk management	Risk Management	Risk committee/Audit Committee
Approach to Internal Audit	Not Addressed	Risk Based internal audit function
Accounting and Auditing		
Auditing	External Auditors/ Audit Committee	External Auditors, Audit Committee
Accounting and Financial Reporting	Accounting Standards/ IFRS	Accounting Standards/IFRS
Nature of Report at year End	Annual Report	Integrated Report
Integrated and Sustainability		

Reporting		
Ethics	Code of Ethics	Code of Ethics
Environment	Environment	Compliance with binding and non-binding laws
Health and Safety	Health and Safety	Compliance with binding and non-binding laws
Affirmative Action/Employment equity	Employment equity	Compliance with binding and non-binding laws
Black Empowerment	Black Empowerment	Compliance with binding and non-binding laws
HIV/AIDS	HIV	Not covered
Compliance and Enforcement	Boards/shareholders /auditors/courts/ media	Boards/shareholders/auditors, courts/media
Code Principles	Accountability/discipline/fairness/Independence/social responsibility/transparency	Corporate citizenship/leadership/sustainability
Corporate Governance Framework	Comply or Explain	Apply or Explain
Compliance or Regulation	Self Regulation/Voluntary	Self Regulation/Voluntary

Source: Compiled from King Report of Corporate Governance, 2002 and 2009.

Appendix 2: Full list of the South African Corporate Governance Provisions based on the third corporate governance code (King III).

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Shareholder corporate governance provisions.

1. Whether the role of chairman and CEO are separated
2. Whether the Board chair person is an independent non-executive director.
3. Whether the board meets at least four times a year.
4. Whether individual directors` meetings record is disclosed.
5. Whether the board chair person`s performance and effectiveness is evaluated and disclosed.
6. Whether the finance director is a member of the board.
7. Whether board members are clearly classified into executive, non-executive and independent non-executive directors.
8. Whether majority of board members are non-executive directors.
9. Whether the majority of non-executive directors are independent non-executive directors.
10. Whether there is a company secretary.
11. Whether the board sub-committee performance and effectiveness is evaluated.
12. Whether the board`s effectiveness and performance is evaluated.
13. Whether the effectiveness and performance of individual directors are evaluated.
14. Whether director remuneration is disclosed.
15. Whether the remuneration of the three highest paid non-director employees are disclosed.
16. Whether the remuneration policy is disclosed.
17. Whether shareholder approval was sought for the remuneration policy.

18. Whether the board sub committees` performance and effectiveness are evaluated.
19. Whether director`s biography, experience and responsibilities are disclosed.
20. Whether a nomination committee has been established.
21. Whether the nomination committee consists of a majority of independent directors.
22. Whether the chairperson of the nomination committee is an independent NED.
23. Whether the membership of the nomination committee is disclosed.
24. Whether the nomination committee members meeting attendance record is disclosed.
25. Whether a remuneration committee has been established.
26. Whether the remuneration committee is constituted entirely by independent NED.
27. Whether the chairperson of the remuneration committee is an IND.
28. Whether the membership of the remuneration committee is disclosed.

29. Whether the remuneration committee members` meetings attendance record is disclosed.
30. Whether the chairman and other non-executive directors do not receive share options or other incentive awards geared to share price or corporate performance.
31. Whether directors' remuneration, interests, and share options are disclosed.
32. Whether director remuneration policy and procedure is disclosed.
33. Whether directors have access to free independent legal advice.
34. The existence of an audit committee
35. Whether the audit committee meet at least twice a year.
36. Whether audit committee consists entirely of independent non-executive directors.
37. Whether the audit committee reported on the effectiveness of the company`s system of internal controls.
38. Whether the audit committee consist of at least three members.
39. Whether the board chairman is not a member of the audit committee.
40. Whether the audit committee reviewed the appropriateness of the expertise and adequacy of resources of the finance function.
41. Whether the audit committee reported to shareholders in the annual report.
42. Whether the names of all audit committee members are disclosed
43. Whether the qualifications of all audit committee members are disclosed.
44. Whether the period for which audit committee members have served on the audit committee is disclosed.
45. Whether the number of audit committee meetings are disclosed.
46. Whether member attendance at audit committee meetings are disclosed.
47. Whether a risk committee has been established.
48. Whether the risk committee members meeting attendance record is disclosed. Whether a narrative on both actual and potential future systematic and non-systematic risks is disclosed.
49. company risks will be managed is disclosed.
50. Whether how the board has satisfied itself that risk assessments responses and interventions are effective is disclosed.
51. Whether membership of the risk committee is disclosed.
52. Whether membership of the risk committee include both executive and non-executive directors.
53. Whether the risk committee has a minimum of three members.
54. Whether the risk committee met at least twice per year.
55. Whether key sustainable risks as well as the responses to these risks are disclosed.
56. Whether the board`s view on the effectiveness of the company`s risk management processes is disclosed.
57. Whether the board`s comments on the effectiveness of the system of internal controls is disclosed.

58. Whether the audit committee`s comment on the state of the internal financial control environment in the company is disclosed.
59. Whether an integrated report was produced.
60. Whether the annual financial statement is included in the integrated report.
61. Whether the board`s comment about the going concern status of the company is included in the integrated report.

Stakeholder Corporate governance provisions

62. Whether a narrative on how a company is complying with BBBEE requirements are disclosed.
63. Whether narrative on the existence of code of ethics are disclosed.
64. Whether a narrative on how a firm is actually complying and implementing employment equity laws in terms gender, age, ethnicity and disabilities is disclosed.
65. Whether a narrative on how a firm is addressing the threats posed by the HIV/aids pandemic in South Africa is disclosed.
66. Whether a narrative on the actual measures taken by a firm to address occupational health and safety of its employees is disclosed.
67. Whether a narrative on how a firm is actually complying with and implementing rules and regulations on the environment is disclosed.
68. Whether the sustainability report was independently assured.
69. Whether the scope of the assurance to be provided on the sustainability report is disclosed.
70. Whether the stakeholder policies are disclosed
71. Whether stakeholder groupings are disclosed
72. Whether the nature and outcomes of the board`s dealings with stakeholders are disclosed