Investigating the extent of sustainability reporting in the banking industry

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ABSTRACT

This study investigated the extent to which banks in South Africa report on remuneration and incentives according to the Global Reporting Initiative (GRI) guidelines. This was based on the GRI-G4 guidelines. The study was done by examining the annual integrated reports of 2014 of eight commercial banks listed on the Johannesburg Stock Exchange. Opportunities exist to improve the quality of Sustainability Reporting as certain standards are not complied to. Other related issues that were highlighted and put into perspective include Integrated Reporting, the Global Reporting Initiative (GRI), and the banking sector and remuneration.

Content analysis was used as the research method in this empirical study. The results are revealed on a disclosure index compiled from the GRI-G4 standards. The paper concludes with recommendations based on the content from the GRI-G4 guidelines and aspects that needs further attention due to disclosures not having been adequately presented.

KEY WORDS: Sustainability Reporting, Sustainable Development; Global Reporting Initiative, Integrated Reporting; Remuneration and Incentives, Corporate Social Responsibility.

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ABBREVIATIONS USED IN THE MINI-DISSERTATION

CERES	-	Coalition for Environmentally Responsible Economies
CR	-	Corporate Responsibility
CRR	-	Corporate Responsibility Reporting
CSR	-	Corporate Social Responsibility
GRI	-	Global Reporting Initiative
IIRC	-	International Integrated Reporting Council
IRC	-	Integrated Reporting Committee
IRCSA	-	Integrated Reporting Committee of South Africa
IRS	-	Integrated Reporting Committee
JSE	-	Johannesburg Stock Exchange
NASPP	-	National Association of Stock Plan Professionals
SD	-	Sustainable Development
SR	-	Sustainability Reporting
TBL	-	Triple Bottom Line
UN	-	United Nations
UNEP	-	United Nations Environment Programme
UNWCED	-	United Nations World Commission on Environment and Development
WCED	-	World Commission on Environment and Development

CHAPTER 1

INTRODUCTION, PROBLEM STATEMENT AND DESCRIPTION OF KEY CONCEPTS

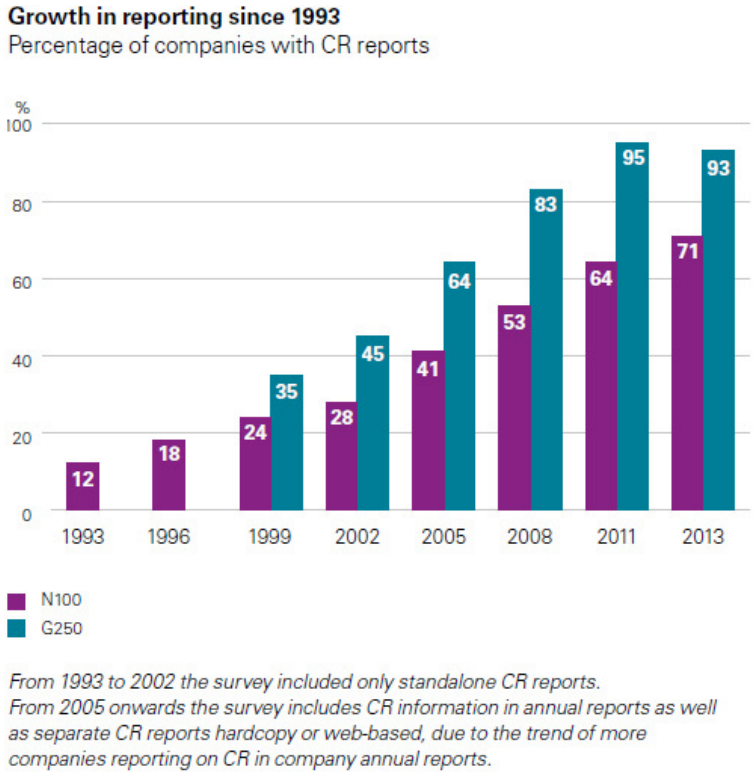
1.1 INTRODUCTION

Integrated Reporting (IR) is enhancing the way that organisations think, plan and report the story of their business (integratedreporting.org, 2015). It is a new approach to corporate reporting which is rapidly gaining international recognition (cimaglobal.com, 2015). In South Africa, a leader in the globalised movement to integrated reporting, the King Code of Governance Principles for South Africa 2009 (King III) was incorporated into the Johannesburg Stock Exchange (JSE) Listing Requirements (Integrated Reporting Committee (IRC) of South Africa, 2011:3). These stipulations require for listed companies to issue an integrated report for financial years starting on or after 1 March 2010 or to explain why they are not doing so (Integrated Reporting Committee (IRC) of South Africa, 2011:3). The King Report on Governance for South Africa 2009 (King III) (as quoted by the Integrated Reporting Committee (IRC) of South Africa, 2011:3) defines integrated reporting as "a holistic and integrated representation of the company's performance in terms of both its finance and its sustainability". It is a report to stakeholders on the strategy, performance and activities of the organisation in a manner that allows stakeholders to assess the ability of the organisation to create and sustain value over the short, medium and long-term and therefore reports not only on the financial, but also on the social, economic and environmental issues (Integrated Reporting Committee (IRC) of South Africa, 2011:6).

Integrated reporting therefore emphasises the incorporation of Corporate Social Responsibility (CSR) and Sustainability Reporting (SR) into annual reports to serve as an indication of what businesses have done and are planning to do in order to contribute to society and secure their futures. This practice of reporting on non-financial information is not new and is already being applied by companies in high rates globally. The rates of publishing CSR and SR are on a rapid increase. Figure 1.1 illustrates the findings from the 2013 KPMG survey of Corporate Responsibility Reporting (CRR). The survey indicates that at a

percentage of 93, almost all of the world's largest 250 companies report on Corporate Responsibility (KPMG, 2013:10). Of the 4100 companies from 41 countries surveyed by KPMG, 71% were utilising CSR reporting.

Figure 1.1: Growth in reporting since 1993



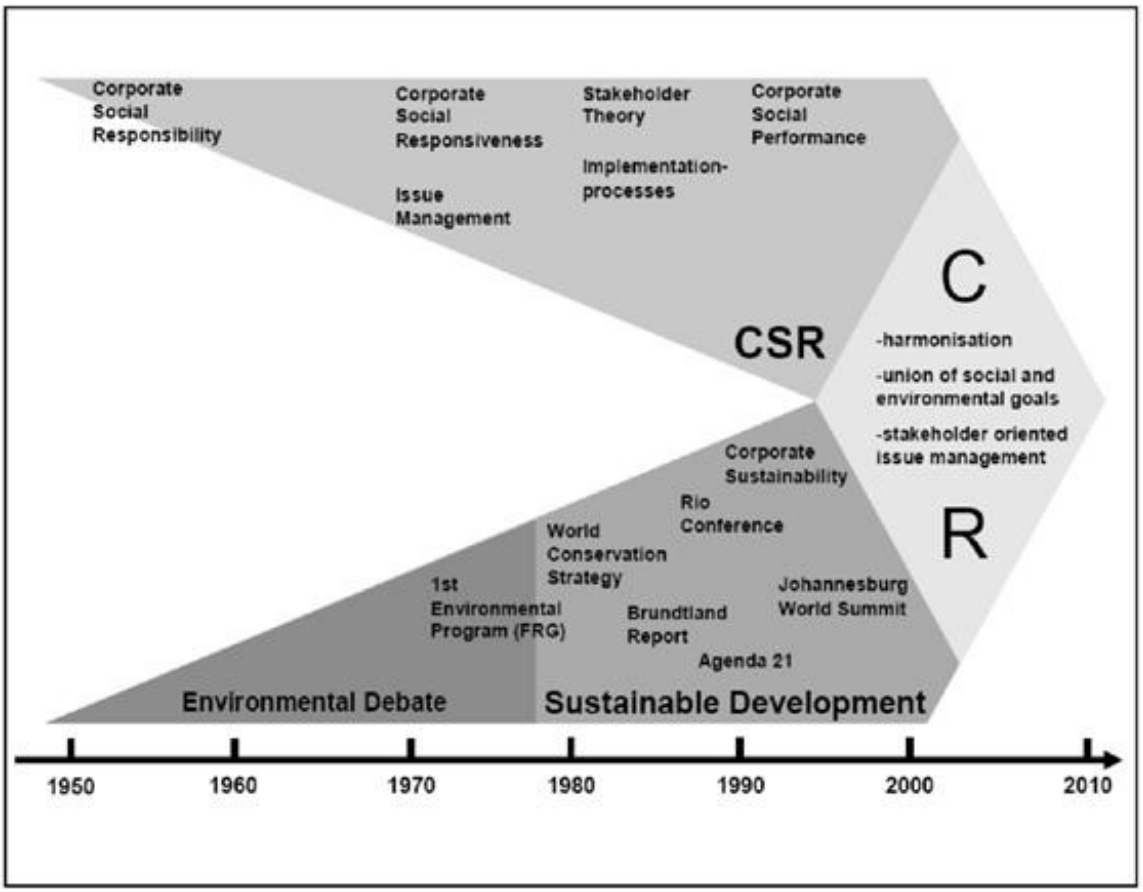
(Source: KPMG, 2013:21)

This rate of reporting shows an increase of 7 percentage points since 2011 when 64% of the companies surveyed were practising CSR (KPMG, 2013:10).

In comparison to financial reporting, CSR and SR are fairly new concepts and still in the developing stages as illustrated by Diagram 1.1. It was in the 1990s that some leading companies realised the extent of sustainability challenges and stakeholder calls for more informed corporate disclosure and voluntarily began to publish sustainability reports (Integrated Reporting Committee (IRC) of South Africa, 2011:1). Before this, only the bottom line referring to economic values was reported on. Since then, the sentiment had

changed considerably as illustrated by the Integrated Reporting Committee (IRC) of South Africa's following statement. They stated that reports based on largely financial information do not provide sufficient insight to enable stakeholders to form a comprehensive picture, and it is now, in times of financial crisis, the persistence of socio-economic inequality, the growing evidence of resource constraints and climate change, that the need for more effective forms of accountability is being realised (Integrated Reporting Committee (IRC) of South Africa, 2011:3).

Diagram 1.1: History of CSR

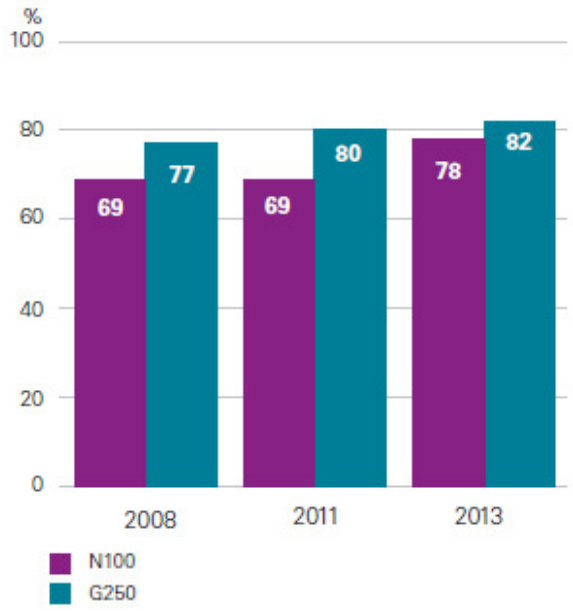


(Source: Alxneit, 2015:116; Loew *et al.*, 2004:74)

The movement towards social and SR has been reinforced recently by three important developments in the field. These developments are the publication in May 2013 of the GRI G4 Guidelines for reporting, the spread of mandatory CSR reporting requirements in countries from India to the United Kingdom and momentum towards integrating non-

financial and financial information in reporting and the work of the International Integrated Reporting Council (IIRC) (KPMG, 2013:20). An important consideration when discussing CSR and SR is the option to employ a proposed framework to serve as an indication on how to report on social and non-financial matters. Not only must the advantages and disadvantages of using a framework be weighed, but it also requires that a comparison is made between different frameworks which have considerable disparities among them.

Figure 1.2: Growth in GRI reporting



(Source: KPMG, 2013:30)

Although frustration exists over disparities between different frameworks and companies preferring to have the freedom to choose what and how to report, there is still broad support for the use of frameworks because of the credibility it adds.

Among the frameworks available to implement for the voluntary reporting of CSR, the guidelines of the Global Reporting Initiative (GRI) are the most used worldwide. This was confirmed by the study of KPMG that found that 78 percent of reporting companies worldwide referred to the GRI reporting guidelines in their CSR reports in 2013 (KPMG,

2013:11). The fact that this is a 9 percentage point increase from 2011 also indicates that the popularity of the framework is on the increase. This increase in the level of reporting is illustrated by Figure 1.2.

The financial crisis of 2008 and the role financial institutions played therein have placed a focus on the corporate governance of banks from a CSR and sustainability point of view. It was irresponsible practices including excessive risk taking and harmful products that resulted in the poor investments that compromised the sustainability of banks (Cerasi & Oliviero, 2015:2). Executive compensation could be the immediate cause of excessive risk taking and the policies that determine the remuneration practices of companies could therefore be an indication if sustainability and CSR is valued by the company and intrinsic in its vision.

1.2 PROBLEM STATEMENT

It is evident from the increase in legislation being promulgated globally to enforce CSR reporting that the issue is receiving significant support and regarded as crucial. The role the financial sector played in the financial crisis of 2008 and the fact that remuneration policies might have supported irresponsible practices that led to the crisis could also have contributed to the emphasis on CSR. Now, after a period of extensive discussions and developments in the field, it would be relevant to investigate the extent that companies are reacting to changes in legislation and stakeholder calls. This study will therefore investigate the extent to which banks in South Africa report on remuneration and incentives according to the GRI guidelines.

1.2.1 Research question

To what extent do banks listed on the JSE adhere to the proposed guidelines regarding Remuneration and Incentives as illustrated in G-4-51 to G4-55 of the GRI's G4 Sustainability guidelines?

1.3 RESEARCH OBJECTIVES

1.3.1 General objective

The general objective of this research is to investigate how banks in South Africa report on Remuneration and Incentives according to the GRI guidelines.

1.3.2 Secondary objectives

1.3.2.1 Literature review

In phase 1 a review will be done in order to conceptualise Integrated Reporting, CSR and SR. It will also serve to identify the GRI guidelines in regards to remuneration and incentives and investigate the impact it currently has on the banking industry globally and particularly in South Africa. The sources that will be consulted include:

- Similar studies done found in scientific journals and on the internet.
- Reports on Integrated reporting.
- Other studies and books written giving a broader background of the topic.

These studies are available on academic databases students have access to. The Integrated Reports of the banks are available to the public on the official websites of the banks.

1.3.2.2 Empirical study

An empirical study will be performed to illustrate the extent to which banks listed on the JSE adhere to the proposed guidelines of the GRI regarding to remuneration and incentives.

1.4 RESEARCH DESIGN

A quantitative analysis of the Integrated Reports of these banks will be done by using content analysis as the method of research. The basic technique involves counting the frequencies and

sequencing of particular words, phrases or concepts in order to identify keywords or themes (Welman et al., 2005:221). This method is appropriate for this study because it produces highly reliable (usually quantitative) data and is usually easy to repeat or replicate.

In this non-experimental study, total population sampling was used by analysing the Integrated Reports of all the banks listed on the JSE. The Integrated Reports served as a primary data source.

The population and sample group were all the banks in South Africa listed on the JSE. As a measuring instrument the GRI's G4 SR guidelines were used to compile a checklist to be used as a disclosure index. The disclosure index consists of the guidelines regarding Remuneration and Incentives as illustrated in G4-51 to G 4-55 of the proposed guidelines. The disclosure index provides a structured framework on the content and will be used to measure the Annual Integrated Reports of the specified banks.

Analysis of the data only determined the extent of compliance. Since the data consisted of low frequencies, it is not expected that the calculations would be complex. No unusual or new statistical techniques was used for the analysis of the data. As an ethical consideration, the recipient must be careful to only interpret the information and must not add or restate the information as being different to what has been provided.

1.5 SUMMARY

In chapter 2, a literature review will be presented pertaining to all relevant elements. These elements will include SR, IR and the proposed guidelines pertaining to remuneration. The literature review will also investigate developments in regards to remuneration in the banking industry globally and in South Africa.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

The literature review forms the foundation of the study to introduce the concepts of Sustainability, SR and the development towards IR. The review identifies the GRI guidelines in regards to remuneration and incentives and investigates recent developments in the issues regarding remuneration in the banking industry.

2.2 SUSTAINABILITY

2.2.1 Definition of sustainability

"Sustainable", as defined by the Oxforddictionaries.com (2015) refers to the ability to be maintained at a certain rate or level. For the term "Sustainable development" however, there is no universally accepted definition (Clayton, 2014:6). The most commonly cited definition of sustainable development comes from the World Commission on Environment and Development (WCED) report, Our Common Future. The WCED report, Our Common Future (UNWCED, 1987), defines sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". Bromley's (2008) definition resonates with that when he defines sustainability in terms of economics and the consumption of resources as "being concerned with the specification of a set of actions to be taken by present persons that will not diminish the prospects of future persons to enjoy levels of consumption, wealth, utility, or welfare comparable to those enjoyed by present persons". White (as quoted by Clayton et al., 2015:8), also describes "sustainability" in terms of economics, and states that it is a term used to indicate a process of conducting business in a way that protects the earth and its inhabitants from the irreversible damage caused by human activities. It can thus be concluded that "sustainability" in short concerns a specific set of actions of responsibility to be taken by present persons when considering resource consumption.

Because of the fact that sustainability of the natural environment cannot be addressed without considering the social and economic aspects of the surrounding communities, the concept thereof has been broadened to include the reconciliation of the three dimensions, namely the environmental, social, and economic dimension (Clayton et al., 2015:9). According to Werbach (as cited by Venables, 2012:1), "culture" must also be included as a fourth component of sustainable development in business.

2.2.2 Sustainability reporting

After the Great Depression the Securities Act of 1933 (SA, 1933) was promulgated and required listed companies to file financial reports to provide potential investors with sufficient information to make an informed investment decision (IRC, 2011:1). The financial performance of companies were always regarded as the only component relevant for investors' consideration in decision-making and it is therefore that these reports were always concerned with the financials of the company. The reports of companies mainly provided key financial information on historic performance.

It was during 1950s and 1960s that the environmental debate originated and when Corporate Social Responsibility became of concern. In the 1990s, some leading companies realised the extent of sustainability challenges and stakeholder calls for more informed corporate disclosure and voluntarily began to publish sustainability reports (IRC, 2011:1). Reports based on largely financial information do not provide sufficient insight to enable stakeholders to form a comprehensive picture, and it is now, in times of a financial crisis, the persistence of socio-economic inequality, the growing evidence of resource constraints and climate change, that the need for more effective forms of accountability is being realised (IRC, 2011:3). Stakeholders in particular demand that organisations should be more transparent on issues in respect of how they treat the environment, how they treat their employees, how they treat their communities and how they govern themselves (Clayton et al., 2015:9).

2.2.3 The value of sustainability reporting

Information is essential in any form of decision-making. This is especially the case in financial markets. The GRI (globalreporting.org, 2015) explains that SR can help organisations to measure, understand and communicate their economic, environmental, and

social and governance performance and presents the organisation's values and governance model, and links its strategy and commitment with a sustainable global economy. The GRI (globalreporting.org, 2015) also states that the sustainability report is the key platform for communicating sustainability performance and the company's positive or negative impacts.

According to Ceulemans *et al.* (2015) there are other recognised objectives of SR which include helping to plan changes for sustainable development in the organisation, to become a leader in society, and to market sustainable development efforts. According to Burritt and Schaltegger (2015), there are two main perspectives that drive SR: the "inside-out" perspective, with internal performance measurement and strategic management for Sustainable Development as the main drivers of Sustainable Reporting; and the "outside-in" perspective, with external information requests from stakeholders as the main drivers for SR. In addition to this, Kolk (2010) has found that important motivations for SR include: enhanced ability to track progress against targets, increase of Sustainable Development awareness, reputational benefits, improved all-round credibility from greater transparency, and cost savings identification.

Sustainability may also contribute to an organisation's competitive advantage. Fox (2007:43) said that being seen as an ethical and socially responsible company can result in higher sales and better relationships with communities and employees, in turn attracting top talent employees, repositioning of the company in the market and better shareholder/stakeholder relationships. A socially responsible firm builds trust with its employees and other stakeholders, which results in a favourable evaluation of their reputation (Galamadien, 2011:19).

2.2.4 Shortcomings of sustainability reporting

Although SR is rapidly becoming more prevalent and although it may hold substantial benefits to reporting companies, it is not without limitations. From a literature study done, a number of limitations were found that were brought up since the onset of the endeavour. These shortcomings could be listed as follows and are cited afterwards:

- Sustainability reports appear disconnected from the organisation's financial reports and fail to make a link between an organisation's strategy, its financial performance and its performance on environmental, social and governance issues (Clayton, 2015:8).

- Sustainability reports consist of large numbers of indicators, which complicates longitudinal comparisons and benchmarking (Lozano & Huisingh, 2010:101).

- It can become costly to collect the information for the indicators (Lozano & Huisingh, 2010:101).

- It does not consider synergies among the dimensions (Lozano & Huisingh, 2010:101).

- Compartmentalisation, neglecting possible synergies, positive or negative, among the dimensions (Lozano & Huisingh, 2010:100).

- Fail to address the time dimension beyond comparing a report to that of the previous year (Lozano & Huisingh, 2010:100).

- Not all companies exercise SR (Lozano & Huisingh, 2010:100).

- Many of the reports fall short of the GRI/SR guidelines (Lozano & Huisingh, 2010:100).

It was when these shortcomings where identified that it was realised that a more integrated approach was needed. This resulted in the emergence of integrated reporting, a new approach to corporate reporting which is rapidly gaining international recognition (cimaglobal.com, 2015).

2.3 INTEGRATED REPORTING

White (as quoted by Clayton *et al.,* 2015:9) stated that the activity of integrated reporting seeks to combine two traditional forms of corporate reporting, financial and SR, in order to compensate for the identified inadequacies of previous corporate reporting procedures. Integrated reporting therefore emphasises the incorporation of CSR and SR into annual

reports to serve as an indication of what businesses have done and are planning to do in order to contribute to society and secure their futures.

The King Code of Governance Principles for South Africa 2009 (King III) was incorporated into the JSE Listing Requirements and requires for listed companies to issue an integrated report for financial years starting on or after 1 March 2010 or to explain why they are not doing so (Integrated Reporting Committee (IRC) of South Africa, 2011:3). According to IRCSA, it is because of the limitations and criticisms of both sustainability and financial reporting that integrated reporting emerged as a preferred approach (as quoted by Clayton *et al.,* 2015:9). It is argued that sustainability and financial reporting do not accurately reflect an organisation's full sphere of economic, social and environmental issues, and more importantly how these spheres are interconnected (Clayton *et al.,* 2015:9).

The King Report on Governance for South Africa 2009 (King III) (as quoted by the Integrated Reporting Committee (IRC) of South Africa, 2011:3) defines integrated reporting as "a holistic and integrated representation of the company's performance in terms of both its finance and its sustainability". It is a report to stakeholders on the strategy, performance and activities of the organisation in a manner that allows stakeholders to assess the ability of the organisation to create and sustain value over the short, medium and long term and therefore reports not only on the financial, but also on the social, economic and environmental issues (Integrated Reporting Committee (IRC) of South Africa, 2011:6).

2.4 THE GLOBAL REPORTING INITIATIVE (GRI)

The GRI describes themself to be a leading organisation in the sustainability field and state that they promote the use of SR as a way for organisations to become more sustainable and contribute to sustainable development (globalreporting.org, 2015). The GRI was founded in Boston, United States of America, in 1997 and started as the two US non-profit organisations, the Coalition for Environmentally Responsible Economies (CERES) and the Tellus Institute (globalreporting.org, 2015). In order to create a framework for environmental reporting, and with the aim to create an accountability mechanism to ensure companies were following the CERES Principles for responsible environmental conduct, former CERES Executive Director Dr. Robert Massie and acting Chief Executive Dr. Allen White established a 'Global

Reporting Initiative' project department with investors as the initial target audience (globalreporting.org, 2015).

The scope of the initiative included social, economic, and governance issues with a focus on a SR framework consisting of Reporting Guidelines. The GRI (integratedreportingsa.org, 2015) defined SR as: "the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development". They state that it is a voluntary activity aimed at communication and accountability on Sustainable Development impacts towards stakeholders, and at the assessment and improvement of Sustainable Development performance (integratedreportingsa.org, 2015). The GRI (globalreporting.org, 2015) states that a sustainability report is "a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities" and that a sustainability report is also "a report that presents the organization's values and governance model, and that it demonstrates the link between its strategy and its commitment to a sustainable global economy" (globalreporting.org, 2015).

The following events, described by the GRI (www.globalreporting.org, 2015) in chronological order, illustrate the development of the GRI up until the initiative's current position: The first version of the Guidelines was launched in the year 2000 and the GRI was then separated as an independent institution on the advice of the Steering Committee of CERES. The second generation of Guidelines (G2) was unveiled in 2002 at the World Summit on Sustainable Development in Johannesburg. The third generation of Guidelines (G3) was launched in 2006. Over 3,000 experts from business, civil society and the labour movement participated in G3's development. In 2011 the GRI published the G3.1 Guidelines. These guidelines were an update and completion of G3, with expanded guidance on reporting gender, community and human rights-related performance. In May 2013 the GRI released the fourth generation of its Guidelines (G4).

G4 Framework

Table 2.1 below displays the framework of the new GRI G4 general standard disclosures with references codes.

Table 2.1: GRI G4 General standard disclosures

General Standard Disclosures	Core	Comprehensive
Strategy and analysis	G4-1	G4-1, G4-2
Organisational profile	G4-3 to G4-16	G4-3 to G4-16
Identified material aspects boundaries	G4-17 to G4-23	G4-17 to G4-23
Stakeholder engagement	G4-24 to G4-27	G4-24 to G4-27
Report profile	G4-28 to G4-33	G4-28 to G4-33
Governance	G4-34	G4-34, G4-35 to G4-55
Ethics and integrity	G4-56	G4-56, G4-57 to G4-58
General standard disclosure for sectors	Specific sector	Specific sector

Source: Adapted by from GRI G4 (Part 1:12)

The GRI also provides guidance for further clarification and guidance on compilation. They also indicate where definitions according to their intent could be found for certain words and phrases. These clarifications are presented alongside the GRI proposed standards on their website. The published document including the proposed G4 standards and the implementation guidance are referred to as the "GRI G4 Implementation manual.

Venables (2012:5) states that the reporting organisation has two options for reporting either using core disclosures or comprehensive disclosures and explains that the core is the minimum requirement for sustainability disclosure and that the comprehensive disclosure includes additional reporting for strategy and analysis, governance and ethics and integrity.

2.5 GRI AND REMUNERATION (G4-51 to G 4-55)

This study will focus on the disclosing of remuneration and incentives. Remuneration and incentives are categorised under the general category of Governance and is set out from G4-51 to G4-55 of the guidelines.

The GRI describes remuneration and incentives to be the standard disclosures focusing on the remuneration policies established to ensure that remuneration arrangements support the

strategic aims of the organisation, align with the interest of stakeholders, and enable the recruitment, motivation and retention of members of the highest governance body, senior executives, and employees (Integratedreportingsa.org, 2015). Remuneration and incentives are represented by G4-51 to G4-55 and the guidelines and guidance notes are displayed as follows by the GRI:

Remuneration policies (G4-51)

This standard concerns itself with the reporting of the remuneration policies of the company. It states which policies must be disclosed and also states the details that must be reported on.

G4-51a. indicates that the required information must be disclosed in regards to the highest governing body and the senior executives (Integratedreportingsa.org, 2015). The remuneration types that must be reported on for these parties are listed as follows:

- Fixed pay and variable pay:
  - Performance-based pay.
  - Equity-based pay.
  - Bonuses.
  - Deferred or vested shares.
- Sign-on bonuses or recruitment incentive payments.
- Termination payments.
- Claw backs.
- Retirement benefits, including the difference between benefit schemes and contribution rates for the highest governance body, senior executives, and all other employees.

G4-51b. states that there must be reported on how performance criteria in the remuneration policy relate to the highest governance body's and senior executives' economic, environmental and social objectives (Integratedreportingsa.org, 2015).

Guidance on G4-51 - Compilation

The Implementation Manual explains that if performance-related pay is used, it must be described how performance criteria in the remuneration policies relate to the highest governance body's and senior executives' economic, environmental and social objectives for the reporting period and the period ahead and also that if performance-related pay is used, it must be described how remuneration and incentive-related pay for senior executives are designed to reward longer-term performance (Integratedreportingsa.org, 2015).

The Implementation Manual also indicates that if termination payments are used, it must be explained whether:

- Notice periods for governance body members and senior executives are different from those for other employees.
- Termination payments for governance body members and senior executives are different from those for other employees.
- Any payments other than those related to the notice period are paid to departing governance body members and senior executives.
- Any mitigation clauses included in the termination arrangements.

Guidance on G4-51 – Definitions

The following definitions are provided by the Implementation Manual in order to state the meanings of certain terms used in the standard:

Clawback

A repayment of previously received compensation required to be made by an executive to his or her employer in the event certain conditions of employment or goals are not met.

Termination payment

All payments made and benefits given to a departing executive or member of the highest governance body whose appointment is terminated. This extends beyond monetary payments to the giving of property and the automatic or accelerated vesting of incentives given in connection with a person's departure from office.

Determining of remuneration (G4-52)

G4-52 a. states that the process for determining remuneration must be explained in the Sustainability Reports. It must also be stated in these reports if remuneration consultants were involved in determining remuneration and whether they are independent of management. G4-52 a. also states that any other relationship which the remuneration consultants have with the organisation must be reported (Integratedreportingsa.org, 2015).

Stakeholder views (G4-53)

It is stated by this standard that it must be reported on how stakeholders' views are sought and taken into account regarding remuneration. The standard explains that the results of votes on remuneration policies and proposals must also be included if applicable (Integratedreportingsa.org, 2015).

Ratios regarding compensation (G4-54)

G4 54 a. explains that the ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations must be compared to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country (Integratedreportingsa.org, 2015).

Guidance on G4-54 – Compilation

The implementation manual explains that for each country of significant operations:

- The highest-paid individual for the reporting year must be identified, defined by total compensation. The composition of the highest-paid individual's annual total compensation must be defined and disclosed.

- The implementation manual indicates that the median annual total compensation for all employees except the highest-paid individual must be calculated and that the composition of the annual total compensation for all employees must be defined and disclosed as follows (Integratedreportingsa.org, 2015):

  - The types of compensation included in the calculation must be listed.
  - It must be identified whether full-time, part-time, and contracted employees are included in this calculation. If full-time equivalent pay rates for each part-time employee are used, identify this.
  - If an organisation chooses to not consolidate this ratio for the entire organisation, identify clearly which operations or countries are included.

- The implementation manual states that the ratio of the annual total compensation of the highest-paid individual to the median annual total compensation for all employees must be calculated.

Depending on the organisation's remuneration policy and availability of data, the following components may be considered for the calculation:

- Base salary: guaranteed, short-term, non-variable cash compensation.
- Cash compensation: sum of base salary + cash allowances + bonuses + commissions + cash profit-sharing + other forms of variable cash payments.
- Direct compensation: sum of total cash compensation + total fair value of all annual long-term incentives (such as stock option awards, restricted stock shares or units, performance stock shares or units, phantom stock shares, stock appreciation rights, and long-term cash awards).

Guidance on G4-54 – Definitions

The implementation manual indicates that the following types of remuneration are included in annual total compensation:

- Salary.
- Bonus.
- Stock awards.
- Option awards.
- Non-equity incentive plan compensation.
- Change in pension value and nonqualified deferred compensation earnings.
- All other compensation.

Ratios regarding percentage increase (G4-55)

According to G 4-55 a., the ratio of percentage increase in annual total compensation for the organisation's highest-paid individual in each country of significant operations must be reported on in comparison to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country (Integratedreportingsa.org, 2015).

Guidance on G4-55 – Compilation

The implementation manual provides the following steps to be followed for each country of significant operations:

- Identify the highest-paid individual for the reporting year, defined by total compensation.
- Calculate the percentage increase in the highest-paid individuals' compensation from prior year to the reporting year.
- Calculate median annual total compensation for all employees except the highest-paid individual.
- Define and disclose the composition of the annual total compensation for the highest-paid individual and for all employees as follows:

- List types of compensation included in the calculation.
- Indicate whether full-time, part-time, and contracted employees are included in this calculation. If full-time equivalent pay rates for each part-time employee are used, indicate this.
- If an organisation chooses not to consolidate this ratio for the entire organisation, state clearly which operations or countries are included.

- Calculate the percentage increase of the median total annual compensation from prior year to the reporting year.
- Calculate the ratio of the annual total compensation percentage increase of the highest-paid individual to the median annual total compensation percentage increase for all employees.

Depending on the organisation's remuneration policy and availability of data, the following components may be considered for the calculation:

- Base salary: guaranteed, short-term, non-variable cash compensation.
- Cash compensation: sum of base salary + cash allowances + bonuses + commissions + cash profit-sharing + other forms of variable cash payments.
- Direct compensation: sum of total cash compensation + total fair value of all annual long-term incentives (such as stock option awards, restricted stock shares or units, performance stock shares or units, phantom stock shares, stock appreciation rights, and long-term cash awards).

<u>Guidance on G4-55 – Definitions</u>

The implementation manual indicates that the following types of remuneration are included in annual total compensation:

- Salary.
- Bonus.
- Stock awards.
- Option awards.
- Non-equity incentive plan compensation.
- Change in pension value and nonqualified deferred compensation earnings.

- All other compensation.

If adhered to, these standards could add significant value in the banking industry as explained in section 2.6.

2.6 THE BANKING SECTOR AND REMUNERATION

After the financial crisis of 2008, a consensus appears to have emerged among researchers and practitioners that financial institutions took too much risk in the run-up to the crisis, notwithstanding risk management arrangements and solvency regulations (Cerasi & Oliviero, 2015:2). Cerasi and Oliviero (2015:6) also indicated that several theoretical papers have shown how the design of compensation may affect risk-taking in banks, with a view to suggesting how to re-design executive compensation so as to protect all the stakeholders in banking. Goldberg and Idson (as cited by McFarlane, 2015:4) argue that agency theory alludes to a power imbalance favourable to the executives, allowing them to pursue their self-interests in the form of large pay packages.

After the crisis, the American Government and the Federal Reserve Board of America started capping the salaries and bonuses of the entire financial service industry with the goal of reducing risk (Mason, 2009). More recently, developments in the research on pay-for-performance have been invigorated by economists and politicians. These institutions were of the view that compensation policies contributed to risky behaviour by banks and therefore were a significant factor in that financial crisis and then looked to reduce financial risk by mandating bank pay (Mason, 2009).

Many studies have been done on the relationship between executive pay and risk and many pay-incentive models assume that corporate Chief Executive Officers (CEO's) maximize personal wealth at the expense of shareholders (Mason, 2009). The Federal Reserve Bank of America aimed to do this by requiring banks to review all incentive-compensation programs to ensure that they do not encourage excessive risk-taking and that they aimed to devise specific plans and timetables for improving incentive compensation, risk management, and corporate governance (Mason, 2009). The Federal Reserve Bank of America proposed implementing principles such as deferring (and possibly reclaiming) incentive payments,

using longer performance periods, and reducing sensitivity to short-term performance (Mason, 2009).

Many on the other hand believe however that these arguments are simplistic and myopic and extremely risky. They argue that the hypothesis of a correlation between executive pay and risk is dependent on assumptions that have little to do with how individuals react to incentives in the real world. They state that real world evidence shows no discernable link between the pay structure that regulators criticize and risky bank decisions and refer to the following facts listed by Mason (2009):

- The amount of stock-option compensation, the factor most often cited as potentially risk-inducing, had no bearing on bank performance during the financial crisis. A comprehensive pay study by the compensation-consulting firm Watson Wyatt shows that stock options did not encourage excessive risk-taking by executives.

- Banks headed by CEOs who owned large amounts of stock, a factor that supposedly better aligns the interests of the CEO and shareholders, fared no better during the financial crisis than banks whose CEOs owned fewer shares and actually the higher the value of a CEO's holdings of a bank's shares, the worse the bank performed during the crisis.

- Executives at banks that failed or stumbled lost massive amounts of personal wealth.

Mason (2009) explains the following ways in which, according to them, the government's intervention might fail and even have an effect opposite then intended:

- Aggregate pay might be increased instead of being reduced; When the American Congress capped the corporate tax deduction for compensation at $1 million per employee, but exempted performance-based pay from the cap, the CEO salaries previously below $1 million increased and the government cap consequently became the implicit salary floor. The Lake Wobegon Effect also increased aggregate pay and was brought about by the new disclosing and explaining standards. The Lake Wobegon Effect is a phenomenon where everyone believes himself to be "above average". When corporations compare themselves to competitors, they seek to be above average and therefore aim to pull executives who earn below-average pay up to the average or above. It is clear from these findings that

where "disclose and explain" regulations were meant to limit executive pay increases, it actually resulted in boosting aggregate CEO salaries (Mason, 2009).

- Instead of containing the bonus culture blamed for the financial crisis, it might be supported and spread more widely. After the $1 million cap was implemented, executive pay shifted decisively toward performance-based pay (Mason, 2009).

- Below-median performance might be rewarded while limiting higher-performing executives.

- Banks most in need of strong executives might be robbed of talented leaders.

According to Conyon *et al.* (2011:400), there was a sharp rise in executive compensation in financial service companies during the past decade. According to Minnick *et al.* (2010), higher pay-for-performance sensitivity in bank CEOs leads to value-enhancing acquisitions but it is stated that this finding is limited to small and medium-sized banks, so size is a factor.

Worldwide, compensation has always been a much debated topic. Figures indicate an increase in excessive executive remuneration before the economic downturn of 2008. Sthapit (2012:48) lists the following findings reported by Business Week that indicate the increase in disparities between the CEOs and other employees' compensation ahead of the economic downturn of 2008:

- CEO cash compensation increased 9.1 percent in 2003, whereas salaried worker pay increased 3 percent.

- In 1993, the average CEO in the US earned $3,841,273, and by 2000 this figure had reached $13.1 million, but by 2003 had amounted to $8.1 million.

- In 1980, CEO pay was 42 times the pay of the ordinary factory worker; in 2001 it was 531 times as much, but again, because of the falling stock market, it had dropped to 282 times by 2002.

- CEO pay rose some 313 percent between 1990 and 2002, much faster than the profits, sales, worker pay, or inflation.

2.7 SUMMARY

In chapter 2, a literature study was done which highlights nonfinancial reporting and how its importance and the focus thereon have significantly increased over the past two decades. An emphasis was placed on sustainability in the banking industry in South Africa with a specific focus on the reporting of remuneration and incentives. The importance of disclosure on Responsibility in the banking industry was emphasised. Out of the information selected from the GRI guidelines, a disclosure index was developed. This index will be utilised in the next chapter to evaluate the reporting of the banks in South Africa.

CHAPTER 3

EMPIRICAL RESEARCH

3.1 INTRODUCTION

The data collected for the purpose of this study involves the examination of the annual integrated reports of 2014 of eight commercial banks listed on the JSE. Although banks may utilise other communication channels for demonstrating SR such as the internet, newspapers, media as well as internal reports, this study pays specific attention to the published annual integrated reports of 2014.

3.2 RESEARCH METHOD

Content analysis is the key instrument used in this study to investigate the published annual integrated reports of the eight banks chosen.

The method of content analysis enables the researcher to include large amounts of textual information and systematically identify its properties, such as the frequencies of most used keywords by locating the more important structures of its communication content. According to Stemler (2001), qualitative content analysis is "a systematic, replicable technique for compressing many words of text into fewer content categories based on explicit rules of coding" and it often involves building and applying a "concept dictionary" or fixed vocabulary of terms on the basis of which words are extracted from the textual data for statistical computation. Table 3.1 addresses the strengths and weaknesses of content analysis.

Table 3.1: Strengths and weaknesses of content analysis

Strengths / Uses of Method	Weaknesses / Limitations of Method
1. It is relatively easy to gain access to the material to study.	1. May not be as objective as it claims since the researcher must select and record data accurately. In some instances the researcher must make choices about how to interpret particular forms of behavior.
2. It is relatively easy and inexpensive to build a representative sample.	2. By attempting to quantify behaviour this method may not tell us very much about the quality of people's relationships.
3. It produces highly reliable (usually quantitative) data. Content Analyses are usually easy to repeat or replicate.	3. May be time-consuming (for example, analysing a range of newspapers or annual reports).
4. It can present an objective account of events, themes, issues that may not be immediately apparent to a reader, viewer or general consumer.	4 It describes, rather than explains, certain disclosures.
5. It is an unobtrusive method – it does not involve the researcher interacting with the people / things being studied. The researcher cannot, therefore, influence the behaviour of the people being studied.	5 Quantity over quality of disclosure.

(Source: Cooper *et al*., 2007:67)

A significant advantage is that it is relatively easy to gain access to the material. The audited annual integrated reports of all the banks tested were available on their websites. It was therefore relatively easy and inexpensive to build a representative sample. Themes must be identified. Themes can be described as "umbrella" constructs which are usually identified by

the researcher before, after, and during the data collection (Welman *et al.,* 2005:211). The following techniques listed by Welman *et al*. (2005:211) are usually used in identifying themes:

- Word analyses (word repetitions, keywords in context and indigenous terms).
- Reading of larger units (for example, comparing and contrasting material and searching for missing information).
- Intentional analysis of linguistic features (metaphors, transitions and connectors).
- The physical manipulation of texts (unmarked texts, pawing and cut and sort procedures).
- Secondary data analysis.

Word analysis and the reading of larger units were the two techniques that were used in this study in order to identify themes.

3.3 SAMPLE / POPULATION

The banks chosen are all listed on the JSE. If the bank is part of a larger group and Annual Integrated Reports are provided for the whole group only, those consolidated integrated reports were used for the study. The audited integrated reports of the following banks were analysed in the study:

- Barclays Africa Group Limited (Barclays).
- Bidvest Group Limited (Bidvest).
- Capitec Bank Holdings Limited (Capitec).
- FirstRand Group (FirstRand).
- Nedbank Group Limited (Nedbank).
- Standard Bank Group (Standard Bank).
- Sasfin Holdings Limited (Sasfin).
- Investec plc and Investec Limited (Investec).

Hereinafter, only the names in brackets will be used when referring to these companies.

3.4 MEASURING INSTRUMENT

The GRI developed a voluntary reporting framework to promote sustainability and TBL reporting in regards to remuneration. In order to do so, comprehensive procedures both for the qualitative and the quantitative information is provided. The emphasis in this study was placed on studying the audited annual integrated reports of these eight banks and determine its compliance to the standards in regards to remuneration and incentives provided by the GRI to promote sustainability. The framework of the GRI was used for this study because of the fact that it is the one that is most used worldwide amongst the available frameworks.

A disclosure index was used as a measuring instrument to determine the extent of disclosures on the different areas in the integrated reports. The disclosure index was developed by compiling the GRI-G4 guidelines in the form of a checklist and could be found in Annexure 1 to 3. For the purpose of this study, the guidelines concerning remuneration were divided into five distinctive categories. These categories are:

- Remuneration policies (G4-51 a. and G4-51 b.).
- Determining of remuneration (G4-52 a.).
- Stakeholder views (G4-53 a.).
- Ratios regarding compensation (G4-54 a.).
- Ratios regarding percentage increase (G4-55 a.).

Two variables were used for the findings. The two variables were “yes” and “no”.

“**yes**” - “Yes” is used when the standard was clearly adhered to. When the findings were “yes”, the mentioned disclosure was either explicitly described or enough information was provided so that the information proposed to be disclosed could be inferred or calculated. The finding was also “yes” when it was clearly indicated that the information proposed to be disclosed was not applicable for a certain reason and was therefore not disclosed.

"**no**" - The finding was indicated as "no" when the necessary information proposed by the standard could not be found in the integrated report and also when it were not stated that the information is not applicable if it were the case.

Each bank was tested in regards to 43 standards. Category G4-51 a. and b. that concerns remuneration policies comprise 34 standards. The reporting of the process for determining of remuneration (G4-52 a.) is detailed in four standards. Reporting on the consideration of stakeholder views comprises three standards. To report on the ratios regarding compensation and the ratios regarding percentage increase is set out in one standard each.

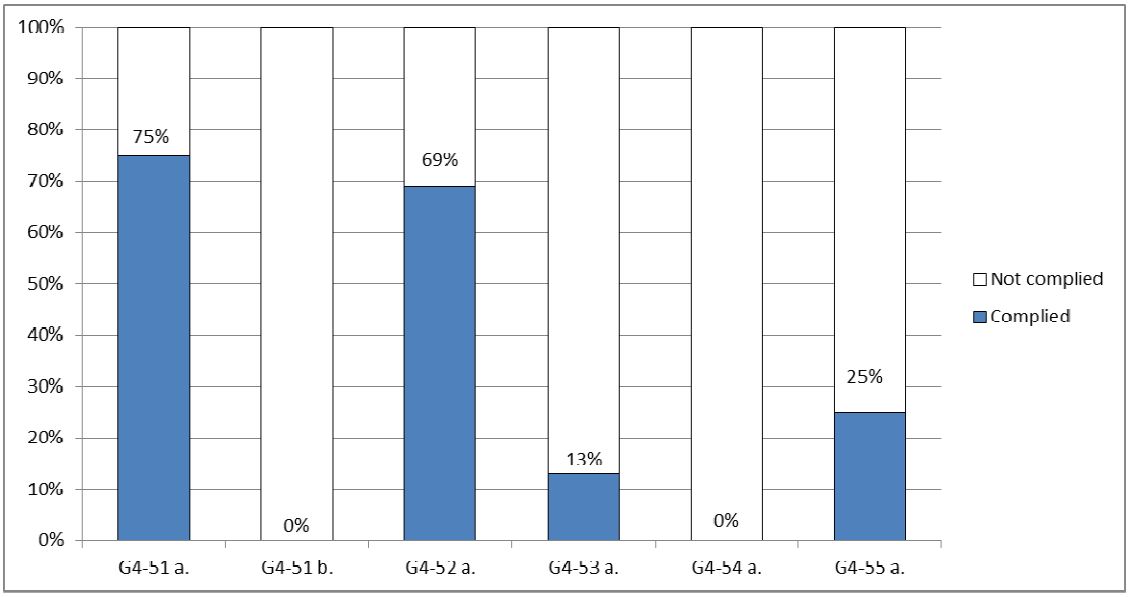
The results are hereinafter observed and discussed from a comprehensive viewpoint and also in regards to the banks and categories individually.

3.5 RESULTS

3.5.1 Overall compliance to the standards regarding remuneration (G4-51 a. to G 4-55 a.)

In this section are discussed the overall compliance by all the banks to the different standards regarding remuneration and also are the total compliance of the different banks in regards to all of the standards combined discussed. All of the standards regarding remuneration, G4-51 a. to G 4-55 a., are observed in this section.

Figure 3.1: Percentage of compliance with G4-51 a. to G4-55 a.



From Figure 3.1 it can clearly be seen that the degree of compliance varies greatly between the respective standards. This table is an indication of the degree of compliance to each standard by all the banks included in the study combined.

There was on average 75% compliance to G4-51 a, the standard concerning remuneration policies, by the integrated reports studied and 69% compliance to G4-52 a, the standard concerning the process for determining remuneration. There was a very low degree of compliance to standard G-53 a and standard G4-55 a. which concerns how stakeholders' views are sought and taken into account regarding remuneration and the ratios regarding compensation respectively.

Two of the standards had no compliance at all. They are G4-51 b. and G4-54 a. that respectively concerns how the performance criteria in the remuneration policy relate to the highest governance bodies' and senior executives' economic, environmental and social objectives and the ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees. The researcher is of the opinion that these are the two most important standards in order to reach the objective of SR in regards to remuneration and that serious consideration must be given as to why there is no compliance in regards to them. An

opportunity may exist in this area to improve the level of SR and the effect thereof by finding ways to address the non-compliance with these proposed standards.

Figure 3.2: Percentage of compliance with G4-51 a. to G4-55 a. by the banks studied

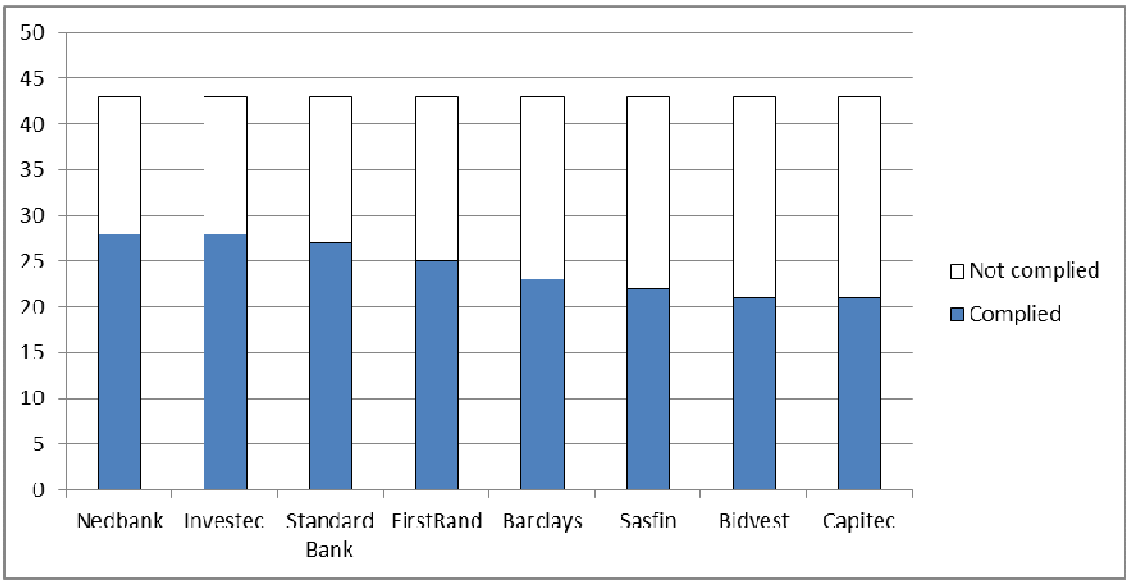


Figure 3.2 indicates the level of compliance to the GRI guidelines by the integrated report of each bank studied to all the standards regarding remuneration combined. The level of compliance ranges from the highest of 28 standards that is complied to out of 43 to the lowest of 21 standards complied to.

Nedbank and Investec had the highest level of compliance between the banks studied. Nedbank, Standard Bank and Investec obtained a higher level of compliance due to the fact that they were the only banks to report on sign-on bonuses or recruitment incentive payments and termination payments.

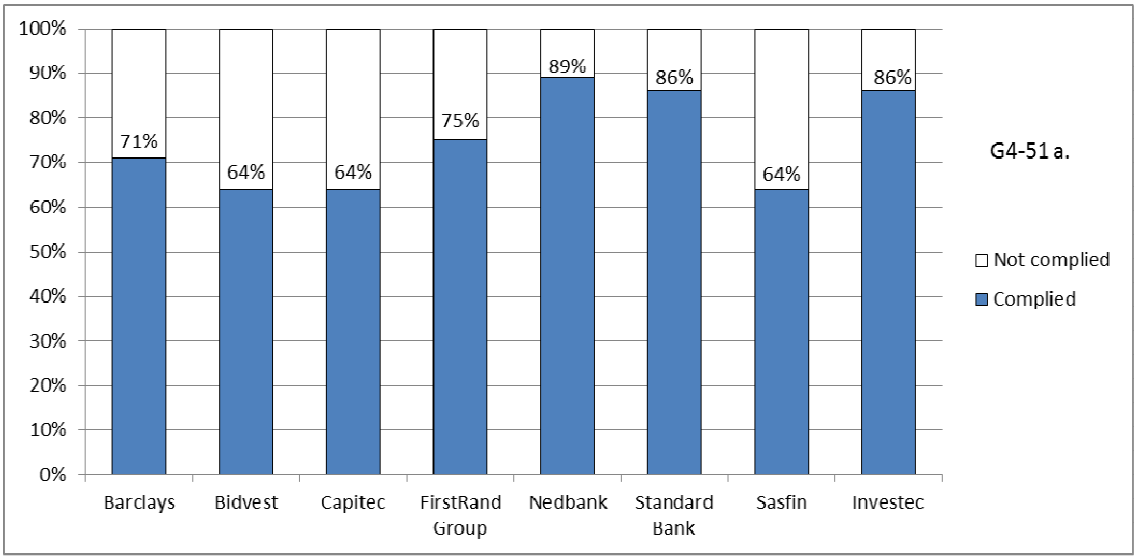
The following individual categories will now be discussed:

3.5.2 Remuneration policies (G4-51 a. and b.)

G4-51 a. describes how the remuneration policies for senior executives and the highest governing body must be detailed in the Integrated Report. G4-51 b. indicates that it must be

explained in the Integrated Report on how performance criteria in the remuneration policy relate to the economic, environmental and social objectives of the highest governing body and senior executives.

Figure 3.3: Percentage of compliance with G4-51 a. by the banks studied



Some 224 findings were made in respect to the guidelines proposing disclosures for remuneration policies for the highest governance body and senior executives. As could be seen in Figure 3.1, 167 of the findings were "yes" and results in 74.6% adherence to this standard by the eight banks selected. There is 100% adherence to the variable and fixed pay information proposed to be disclosed in regards to the highest governing body and senior executives. All of the banks clearly disclosed the variable and fixed portions in specific Rand value format for performance-based, equity-based, bonus, and deferred or vested share payments.

Three out of the eight banks reported on their policies regarding sign-on bonuses or recruiting incentives and termination payments while six out of the eight banks reported on their policy in regards to clawbacks.

In regards to retirement benefits, all of the eight banks disclosed that they contribute to retirement benefits. None of the banks however disclosed specifics about what schemes were used and the terms thereof. No comparison can therefore be made between the contribution

towards the benefits of the highest governance body, senior executives and other employees. In regards to remuneration policies for all other employees apart from the highest governance body and senior executives, only two banks reported on the contribution rate towards retirement benefits and none of the banks reported on specifics regarding the benefit schemes used.

The level of compliance with G4-51 a. by the respective banks is illustrated in Figure 3.3. Nedbank had the highest degree of compliance with 89%. Standard Bank and Investec both had the second highest degree of compliance with having complied with 86% of the proposed standards of G4-51 a. Bidvest, Capitec and Sasfin had the lowest degree of compliance with 64% of the proposed standards complied with.

The objective of disclosing how the performance criteria relate to economic, environmental and social objectives is to indicate to stakeholders the priorities of the company. It is an indication to stakeholders on the importance the company places on certain issues and if they are implementing specific strategies and procedures in order to endorse these values.

Some of the banks stated that social, environmental and economic issues are incorporated in the performance criteria of the highest governing body and senior executives. In most of the integrated reports it is also indicated that the respective banks have a focus on sustainability and respect environmental, social and economic issues.

None of the integrated reports of the banks studied provide a specific link to performance based pay and these issues. Without proof that the highest governing body and senior executives are encouraged to attempt objectives in these fields, it would not be possible to persuade stakeholders that these values are incorporated into the company and that they have any significant effect on the operations of the company.

The greatest opportunity in regards to remuneration and incentives may exist in this area to improve the level of SR and the effect thereof by findings ways to address the non-compliance with these proposed standards.

3.5.3 Determining of remuneration (G4-52)

In this section it is detailed by the standards how the process that was used to determine remuneration must be reported on. This process includes details regarding whether remuneration consultants were used and the relationship the company has with the consultants.

Figure 3.4: Percentage of compliance with G4-52 a. by the banks studied

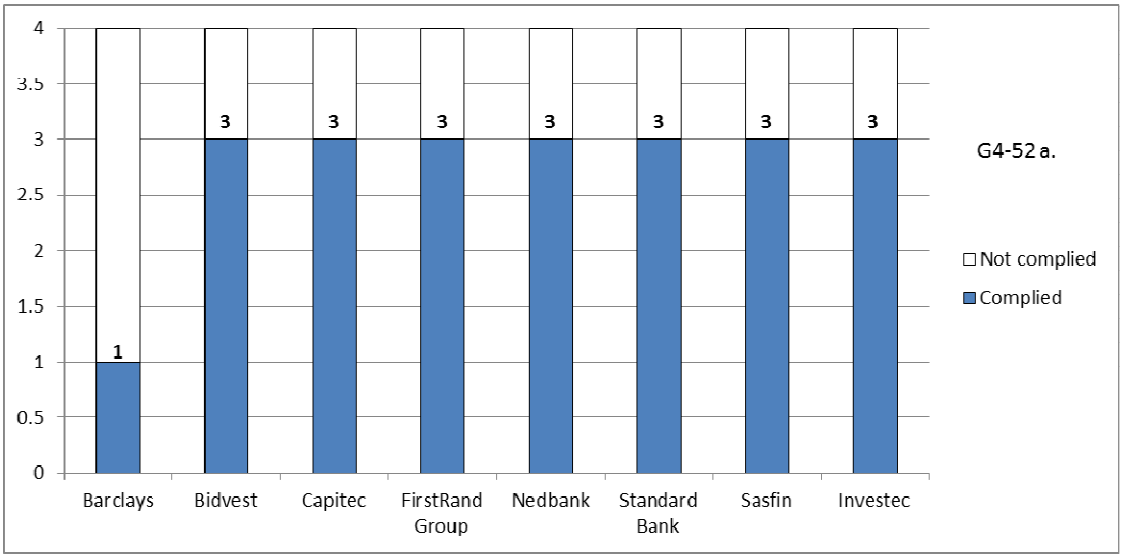


Figure 3.4 illustrates that all of the banks complied with 3 out of the 4 standards proposed by the GRI, except for Barclays that only complied with one of the proposed standards.

All of the banks reported on the first proposed standard:

- "Report the process for determining remuneration"

All of the banks except for Barclays complied with the following two proposed standards:

- "Report whether remuneration consultants are involved in determining remuneration"

- "Report whether remuneration consultants are independent of management"

None of the banks complied with the following standard:

- "Report any other relationship which the consultants have with the organization"

The researcher is of the opinion that if consultants were not used or if there were no other relationships which the consultants have with the organisation then it must be stated as such in the integrated report. In case this was not stated in the report, a "not complied" finding was made for this study. In this study the bank is regarded therefore as not having complied to the ruling when no consultant were used or when there were no other relationships between the consultants and the organisation and it was not directly stated as such in the integrated report.

3.5.4 Stakeholder views (G4-53)

In this section of the standards it is described how it must be explained within the Integrated Report if stakeholder views were sought and taken into account regarding remuneration. This included the results of votes and the disclosure of proposals that were made.

Figure 3.5: Percentage of compliance with G4-53 a.

			Barclays Africa Group Limited	FirstRand Group	Investec plc and Investec Limited
	Description	Type of data	Reported		
G4-53 a.	Report how stakeholders' views are sought and taken into account regarding remuneration	quantitative	yes	yes	
	Report the results of votes on remuneration policies	quantitative			
	Report proposals on remuneration policies	quantitative			yes

Disclosing the proposals made and the decisions made regarding the proposals would be an indication on what the strategy and values of the company are and if sustainability is incorporated into those values in regards to the implementation thereof in the operations of the company.

Only three instances were found where the banks complied with G 54-53a. This standard states that the specific instances must be reported when it is applicable. In case the instances

were not reported and there were no indication that it was not applicable, for this study the company then was indicated as having not complied.

It can be seen in Figure 3.5 that Barclays and FirstRand had indicated how they sought and taken into account the views of stakeholders regarding remuneration. We can also see that Investec was the only bank to report on proposals on remuneration policies.

3.5.5 Ratios regarding compensation (G4-54)

This section consists of G4-54, the standard that indicates that the rations of compensation between executives and other employees must be disclosed. Reasonable executive compensation and reasonable minimum and median salaries paid by the company will promote sustainability. If a comparison is made between executive compensation and median compensation it would indicate if executive compensation is excessive. If this indicator could be made public it may also lead to executive compensation being driven down by public sentiment.

In this study it was found that none of the banks complied with this standard. Although all of the banks indicated the value of all executive compensation and also indicated total salaries and wage expense paid by the company, a clear comparison could not be made between the remuneration paid to the highest-paid individual in the company and the medial annual total compensation for all employees excluding the highest-paid individual.

3.5.6 Ratios regarding percentage increase (G4-55)

This section consists of G4-55 and explains that a comparison must be made between the percentage increase in compensation awarded to executives and other employees. A comparison between the percentage increase of executive compensation in relation to the percentage increase awarded to other employees will indicate if the respective increases awarded is fair.

It was found that only two banks reported on the percentage increase in their Integrated Reports of 2014.

CHAPTER 4

LIMITATIONS, CHALLENGES AND RECOMMENDATIONS

4.1 INTRODUCTION

This study specifically focused on identifying the degree of compliance by the banks listed on the JSE to proposed remuneration disclosures by the GRI as part of SR. The research was done by using content analysis to determine the degree of compliance of the integrated reports of these banks to standards from GRI G4-51 a. to GRI G4-55 a.

Based on the findings from this study done on the 2014 Integrated Reports of the banks listed on the JSE, it is found that SR by the banks listed on the JSE in regards to remuneration as indicated by the GRI G4 are relatively poor.

All of the banks disclosed in detail the remuneration packages of the highest governing body and other senior executives. The remuneration packages of these executives were fully reported by disclosing the performance-based pay, equity-based pay, bonuses and deferred or vested share portions. These payments were also detailed in their fixed and variable form.

Regarding the reporting of remuneration of the highest governing body and other senior executives, there was a lack in the disclosure of sign-on bonuses or recruitment incentive payments, termination payments and clawbacks. The opportunity exists for the policies regarding these disclosures to be reported on in more detail and for the value amount of payments of this nature to be disclosed. Although the contribution rate of the highest governing body and senior executives to retirement benefits were fully disclosed, there was no disclosure as to specifics of the retirement products made available to these executives and to all other employees. The disclosure of the detail of retirement benefit schemes is to make it possible that comparisons could be made between the provisions for executives and all the other employees.

None of the banks reported on how performance criteria in the remuneration policy relate to economic, environmental or social objectives for neither the highest governance body nor the

senior executives. Although some banks indicated that these values were incorporated into the performance criteria of the executives, no specifics details were given. Without knowing to what degree the performance criteria is related to these objectives, it could not be established if it will have an effect or if these values really are seriously incorporated into the strategies of the company.

4.2 LIMITATIONS AND CHALLENGES

This analysis of the integrated reports was based on the sample of the banks listed on the JSE. The results of this study must therefore be interpreted with only these banks and should not be generalised to other banks or non-banking businesses.

This study only considers one period. The findings made in this study may vary over time. The same study could be performed in subsequent periods to observe the trends in changes of the degree of compliances to proposed SR standards.

4.3 RECOMMENDATIONS

Based on the findings of this study, it could be argued that progress is slow in the reporting of sustainability issues in the banking industry and that the current level of reporting on sustainability will not have the desired effect of improving sustainability.

In order to advance the degree of reporting of sustainability issues, regulatory requirements will have to be implemented by authorities. Institutions to implement SR requirements could include government, reserve banks or stock exchanges.

It is further recommended that there are a clear and substantial relation between the performance criteria of the highest governing body and senior executives and the economic, environmental and social objectives of the company. These criteria must be disclosed and monitored in order to determine if the companies are truly implementing these values.

4.4 CONCLUSION

The global financial crisis has placed an emphasis on sustainability and corporate social responsibility and also on remuneration policies and risk taking within the banking industry. Sustainability Reporting serves as a mechanism that has the potential to curb possible reckless behaviour of large corporate institutions in order to safeguard stakeholders from excessive risks and social abuses.

Although Sustainability Reporting has the potential to improve Corporate Social Responsibility, there is still much development needed in the field for it to have the desired effect. The desired disclosures will not be made as long as regulation is not implemented and monitored.

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ANNEXURES

Annexure 1: Remuneration policies (G4-51 a.)

Checklist												
STANDARD DISCLOSURES - Remuneration and Incentives												
					Banks Reported							
					Barclays Africa Group	Bidvest Group Limited	Capitec Bank Holdings	FirstRand Group	Nedbank Group Limited	Standard Bank Group	Sasfin Holdings Limited	Investec plc and Investec
	Description			Type of data	Reported							
G4-51 a. (continued)	Remuneration policies for senior executives	Fixed pay	Performance-based pay	quantitative	yes	yes	yes	yes	yes	yes	yes	yes
			Equity-based pay	quantitative	yes	yes	yes	yes	yes	yes	yes	yes
			Bonuses	quantitative	yes	yes	yes	yes	yes	yes	yes	yes
			Deferred or vested shares	quantitative	yes	yes	yes	yes	yes	yes	yes	yes
		Variable pay	Performance-based pay	quantitative	yes	yes	yes	yes	yes	yes	yes	yes
			Equity-based pay	quantitative	yes	yes	yes	yes	yes	yes	yes	yes
			Bonuses	quantitative	yes	yes	yes	yes	yes	yes	yes	yes
			Deferred or vested shares	quantitative	yes	yes	yes	yes	yes	yes	yes	yes
		Sign on bonusses or recruitment incentive payments		quantitative	no	no	no	no	yes	yes	no	yes
		Termination payments		quantitative	no	no	no	no	yes	yes	no	yes
		Clawbacks		quantitative	yes	no	yes	yes	yes	yes	no	yes
		Retirement benefits	Benefit scheme	quantitative	no	no	no	no	no	no	no	no
			Contribution rate	quantitative	yes	yes	no	yes	yes	yes	yes	yes
	Remuneration policies for all other employees	Retirement benefits	Benefit scheme	quantitative	no	no	no	no	no	no	no	no
			Contribution rate	quantitative	no	no	no	yes	yes	no	no	no

Annexure 2: Remuneration policies (G4-51 b.)

Checklist											
STANDARD DISCLOSURES - Remuneration and Incentives											
				Banks Reported							
				Barclays Africa Group	Bidvest Group Limited	Capitec Bank Holdings	FirstRand Group	Nedbank Group Limited	Standard Bank Group	Sasfin Holdings Limited	Investec plc and Investec
	Description		Type of data	Reported							
G4-51 b.	Report how performance criteria in the remuneration policy relate to the following objectives of the highest governance body	Economic	quantitative	no	no	no	no	no	no	no	no
		Environmental	quantitative	no	no	no	no	no	no	no	no
		Social	quantitative	no	no	no	no	no	no	no	no
	Report how performance criteria in the remuneration policy relate to the following objectives of the senior executives	Economic	quantitative	no	no	no	no	no	no	no	no
		Environmental	quantitative	no	no	no	no	no	no	no	no
		Social	quantitative	no	no	no	no	no	no	no	no

Annexure 3: Determining of remuneration (G4-52), Stakeholder views (G4-53), Ratios regarding compensation (G4-54), and Ratios regarding percentage increase (G4-55)

Checklist										
STANDARD DISCLOSURES - Remuneration and Incentives										
			Banks Reported							
			Barclays Africa Group	Bidvest Group Limited	Capitec Bank Holdings	FirstRand Group	Nedbank Group Limited	Standard Bank Group	Sasfin Holdings Limited	Investec plc and Investec
	Description	Type of data	Reported							
G4-52 a.	Report the process for determining remuneration	quantitative	yes	yes	yes	yes	yes	yes	yes	yes
	Report whether remuneration consultants are involved in determining remuneration	quantitative	no	yes	yes	yes	yes	yes	yes	yes
	Report whether remuneration consultants are independent of management	quantitative	no	yes	yes	yes	yes	yes	yes	yes
	Report any other relationship which the consutants have with the organisation	quantitative	no	no	no	no	no	no	no	no
G4-53 a.	Report how stakeholders' views are sought and taken into account regarding remuneration	quantitative	yes	no	no	yes	no	no	no	no
	Report the results of votes on remuneration policies	quantitative	no	no	no	no	no	no	no	no
	Report proposals on remuneration policies	quantitative	no	no	no	no	no	no	no	yes
G4-54 a.	Report the ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country	quantitative	no	no	no	no	no	no	no	no
G4-55 a.	Report the ratio of percentage increase in annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country	quantitative	yes	no	no	no	no	no	yes	no

Annexure 4: Editor's letter

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12 November 2015

TO WHOM IT MAY CONCERN

Re: Letter of confirmation of language editing

The dissertation **Investigating the extent of sustainability reporting in the banking industry** by **DJ van Zyl (13066773)** was language, technically and typographically edited. The citations, sources and referencing technique applied was also checked to comply with university guidelines. Final corrections as suggested remain the responsibility of the student.

Antoinette Bisschoff

Officially approved language editor of the NWU since 1998
Member of SA Translators Institute (no. 100181)