

Evidence of incentive risk culture in South African bank compensation reports

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PREFACE

This mini-dissertation is the final deliverable for the Master of Commerce (MCom) in Applied Risk Management. The mini-dissertation was written in article format and consists of three sections: Chapter 1: Introduction (Research project overview); Chapter 2: Article; and Chapter 3: Conclusions, limitations and recommendations (Reflection).

This mini-dissertation is the student's work. The student was responsible for the final concept, set up, execution of the research project and writing of the mini-dissertation. The members of the supervisory team contributed in an advisory and technical support capacity to study conception and design, analysis and interpretation of data and critical revision of the manuscript. The mini-dissertation was language edited before submission.

The main study supervisor gave the student permission to submit this mini-dissertation for examination.

ABSTRACT

Using a qualitative content analysis method, this paper explored a unique area of risk culture by focusing on a specific risk type, incentive risk. The purpose of the study was to utilise publicly available compensation reports published by six South African banks in order to answer the research question: *What evidence of incentive risk culture is provided in the compensation reports of South African banks?* As this is a new research area, it is expected that this question would appeal to the stakeholders of the banks, and particularly their shareholders. To answer the research question, supervisory and regulatory documents were first analysed to develop key themes and sub-themes for incentive risk culture and compensation reporting. Second, the selected bank compensation reports were evaluated against these themes and sub-themes to determine whether they provide evidence of incentive risk culture. This study concludes that the compensation reports provide partial evidence of the incentive risk culture of the banks as I was able to directly link most but not all of the disclosures against the key themes and sub-themes identified. As such, I would recommend that the banks use the findings of this research project to evaluate and enhance their disclosures in order to improve on how they report on compensation risk. Furthermore, while this study has its own limitations, it provides insights into a specific risk culture topic that has not been researched previously and thus contributes to the current risk culture body of knowledge.

Keywords: *Financial Stability Board, Financial Stability Forum, Compensation, Compensation report, Reporting, Disclosure, Incentives, Incentive Risk Culture, Risk Culture*

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CHAPTER 1: RESEARCH PROJECT OVERVIEW

Since the most recent global financial crisis, risk culture has been a key topic of discussion in the banking and risk fraternity due to the belief that organisational culture was a greater contributor to the crisis than a failure to implement suitable risk management practices (Palermo, Power, & Ashby, 2017; Yihui, Siegel, & Wang, 2017). This increased focus has led to a number of published academic articles on the topic of risk culture. However, most of these articles take a generalist approach and the authors do not focus on specific risk types. The Financial Stability Board (FSB) set out four indicators for the assessment of a sound risk culture, namely: *tone from the top*, *accountability*, *effective communication and challenge*, and *incentives* (FSB, 2014). All these indicators are important to ensure a sound organisational risk culture and are not mutually exclusive. However, in this study I focused only on the fourth risk culture indicator, i.e. incentive risk.

Assessing the incentive risk culture of an organisation provides valuable insights into its compensation practices, and whether the risk assumed by employees on behalf of the organisation is considered when structuring their compensation package. This information is likely to be valuable for the bank's stakeholders, who have a vested interest in its success and would want to limit enhanced risk-taking or risk-aversion. However, due to information constraints, this kind of information is usually confidential, rendering it difficult to undertake such analysis. As such, the compensation-related information published in the bank's annual reports should enable its stakeholders to evaluate its incentive risk culture. However, no published academic study was found that provides insights into the incentive risk culture of the banks based on the analysis of their annual compensation reports. For this reason, it is unclear whether such reports provide stakeholders with adequate information on the bank's incentive risk culture. This lack of clarity has thus led me to this study, which represents an area of risk culture that has not been researched previously. Further, this study is motivated by my keen interest in discussions about incentives, which is a topical area in South Africa as well as my desire to understand how organisations balance risk and compensation, particularly in the banking sector where I am currently employed. I also believe that this study would be of particular interest to the banks' stakeholders (who include its employees, investors, regulators, shareholders, competitors and the broader community that they serve), compensation practitioners, risk managers and academics interested in the risk culture debate.

The research journey followed by the researcher included the following steps:

1. Analysing the supervisory and regulatory documents as published by the FSB, the Financial Stability Forum (FSF), the Institute of Directors of Southern Africa (IoDSA), the Companies Act (No.71 of 2008) and the JSE Listings requirements, in order to develop themes and sub-themes relating to incentive risk culture and compensation reporting.

2. Evaluating the compensation reports of six banks operating in South Africa against key themes and sub-themes to determine if they provide evidence of incentive risk culture.
3. Drawing conclusions regarding the information provided in the compensation reports.

The *Accounting, Auditability and Accountability Journal* (AAAJ) was selected for possible publication of this article. The choice of this journal is because it largely focuses on governance in the accounting industry, which includes reporting. Further, this journal has published recent work on executive compensation and risk culture, which bodes well for the possible publication of this research project given the topic and area of focus. While I had considered the *Journal of Finance* given its prestige and general focus within the field of finance, this publication largely publishes quantitative studies and has very few qualitative academic articles, most of which are dated. The AAAJ is thus better suited for the type of research undertaken in this research project as they publish qualitative studies as well. Further, the AAAJ has a long-standing reputation which dates back to 1988 and is a highly regarded periodical as evidenced by its ranking in the top 25 finance journals globally (SCImago, 2018). Given the high quality of this journal, I understand that further work on the article will be required in order to ensure that it is publishable and meets the journal's standards. The journal's guide for authors is provided here:

<https://www.emeraldgrouppublishing.com/products/journals/journals.htm?id=aaaj>

ARTICLE

Evidence of incentive risk culture in South African bank compensation reports

Abstract

Using a qualitative content analysis method, this paper explored a unique area of risk culture by focusing on a specific risk type, incentive risk. The purpose of the study was to utilise publicly available compensation reports published by six South African banks in order to answer the research question: *What evidence of incentive risk culture is provided in the compensation reports of South African banks?* As this is a new research area, it is expected that this question would appeal to the stakeholders of the banks, and particularly their shareholders. To answer the research question, supervisory and regulatory documents were first analysed to develop key themes and sub-themes for incentive risk culture and compensation reporting. Second, the selected bank compensation reports were evaluated against these themes and sub-themes to determine whether they provide evidence of incentive risk culture. This study concludes that the compensation reports provide partial evidence of the incentive risk culture of the banks as I was able to directly link most but not all of the disclosures against the key themes and sub-themes identified. As such, I would recommend that the banks use the findings of this research project to evaluate and enhance their disclosures in order to improve on how they report on compensation risk. Furthermore, while this study has its own limitations, it provides insights into a specific risk culture topic that has not been researched previously and thus contributes to the current risk culture body of knowledge.

Keywords: *Financial Stability Board, Financial Stability Forum, Compensation, Compensation report, Reporting, Disclosure, Incentives, Incentive Risk Culture, Risk Culture*

Introduction

The concept of risk culture gained prominence as a possible mitigant for future banking crises after the most recent global financial crisis (BCBS, 2015; FSB, 2014; Palermo et al., 2017). Although academic articles on risk culture as a concept have been published, these articles tend to take a “generalist” approach as the authors do not focus on specific risk types in their research. In this study, I describe a research project on banking culture related to a specific risk type, namely incentive risk.

Although incentives come in many forms, the focus of this study is on financial, or compensation, incentives. Such incentives are intended to reward employees for meeting organisational performance measures and usually form part of their total compensation package (Baker, Jensen, & Murphy, 1988; IFC, 2015). More specifically, this study is concerned with how banks account for the risk taken by their employees in their compensation structures. Active consideration of risk in compensation-based incentives provides evidence of an organisation’s incentive risk culture by linking its risk management practices with its compensation and incentives structure. Furthermore, including risk in the compensation structure design communicates a positive attitude towards risk to the banks’ stakeholders and enhances corporate governance (BCBS, 2015; FSB, 2014).

Good corporate governance requires transparency as a key element of information disclosure (IoDSA, 2016). Typically, detailed compensation-related information is provided to stakeholders in bank annual reports (IoDSA, 2009, 2016; JSE, 2014). However, no published academic study was found that provides insights into the incentive risk culture of banks based on analysis of the content of their annual compensation reports. It is therefore unclear whether such reports provide adequate information on a bank’s incentive risk culture to its stakeholders. To address this problem, a qualitative document analysis study was undertaken with the following research question in mind: *What evidence of incentive risk culture is provided in the compensation reports of South African banks?* To answer this question, a two-phased research approach was undertaken, by first thematically analysing international supervisory documents from the Financial Stability Board (FSB) and Financial Stability Forum (FSF) related to incentive risk, as well as South African regulatory documents related to compensation reporting. This initial analysis was guided by Zaiman, Van der Flier, and Born (in progress) Risk Culture Indicator (RCI) model with the aim of identifying key themes and sub-themes related to compensation risk culture. Second, the compensation reports of six South African banks were analysed and evaluated for evidence of compensation risk culture using these key themes and sub-themes.

This study aims to contribute novel and useful research on a specific risk culture concept in an under-researched area. Furthermore, the research approach and findings are useful to South African banks as they indicate areas of possible improvement in how they report on compensation risk; they also

provide a tool for banks in general to evaluate their own incentive risk cultures against the key themes identified. Lastly, this research provides a useful test case for using the RCI model in practice.

Background

This section provides a brief discussion of incentive risk culture and compensation reporting. Supervisory documentation published by the FSB (2014) and FSF (2009) was inductively analysed using a constant comparative approach (Boeije, 2002) to identify specific theme-based codes related to incentive risk culture. Further, local regulatory documentation published by the Institute of Directors of Southern Africa (IoDSA) and specifically the King IV Code; the Johannesburg Stock Exchange (JSE) Listings requirements; and the Companies Act (No. 71 of 2008) (the Companies Act) were analysed to determine which incentive-related information should be included in banks' annual compensation reports.

Risk culture

Financial institutions such as banks have to take risks in order to achieve their objectives of generating and realising shareholder returns on investment. In addition, banking regulators require that banks implement risk management processes, policies and frameworks aligned with their risk appetites to manage the risk taken in their pursuit of these objectives (BCBS, 2011, 2015; FSB, 2014; IFC, 2015; IoDSA, 2016). For these reasons, risk policies need to align with the culture of the bank, as culture shapes the risk attitudes and risk-related actions of employees (Yihui et al., 2017). Understanding the concept of culture is therefore important in the definition of risk culture. The Institute of International Finance (IIF, 2009) defined risk culture as including the norms and traditions of individuals and/or groups within an organisation that determine the way in which they identify, understand, discuss and act on the risks the organisation faces and takes. Zaiman et al. (in progress) state that "the risk culture of an organisation is manifested by the importance given to considering risk when the group makes decisions". For the purpose of this study, risk culture is defined using the Basel Committee on Banking Supervision (BCBS, 2015) view of risk culture as including the "bank's norms, attitudes and behaviours related to risk awareness, risk-taking and risk management, and controls that shape decisions on risks". Accordingly, risk culture influences the active inclusion of risk in the decisions taken by members of the organisation in their day-to-day activities and therefore affects the risks they take at work.

Sound risk culture indicators: Incentives

The FSB published indicators for the assessment of a sound risk culture in financial institutions such as banks (FSB, 2014). These indicators were provided to financial institutions with the aim to limit the moral hazard created by banks during the global financial crisis. The FSB indicators are: *tone from the top*; *accountability*; *effective communication and challenge*; and *incentives* (FSB, 2014). These four indicators are important to ensure a sound organisational risk culture, but this study focuses on only the fourth risk culture indicator, that is, incentives. It should be noted that, in South Africa in the context of incentives, the term “remuneration” is widely used, whereas compensation is used mainly in the United States and other western jurisdictions. For the purpose of this study, these terms are deemed to be synonymous and compensation has been adopted for this article as this term is more widely used internationally.

The FSB (2014) provides sub-indicators for its incentive risk culture indicator, namely: *remuneration and performance succession planning* and *talent development*. Furthermore, the FSF (2009) published guidelines for sound compensation practices, with the aim to ensure “effective governance of compensation, alignment of compensation with prudent risk taking and effective supervisory oversight and stakeholder engagement in compensation” (FSF, 2009, p. 2). While there is no agreed definition of incentive risk culture in the academic literature, for the purpose of this study a financial institution is deemed to have a fair incentive risk culture if it considers the risk that the employee takes on behalf of the organisation in structuring their compensation package (FSB, 2014).

Compensation reporting requirements for South African banks

South African banks are required to report and disclose their compensation practices in their annual integrated reports in compliance with various supervisory bodies both internationally and locally (“Companies Act 71 of 2008,” 2009; Dippenaar & Fourie, 2019; IoDSA, 2016; JSE, 2014). This focus on disclosure and reporting has been largely driven by the need for enhanced corporate governance, which focuses on sustainability, integrated reporting and long-term thinking (Mohammed, 2013; Senne, 2017). This is largely due to the realisation that the actions of financial institutions, particularly banks, have far-reaching consequences which affect all members of society. As a result, there has been a marked increase in attention to non-financial reporting that informs the banks’ stakeholders of all elements of their operations, not just their financial performance, but also their compensation practices (Higgins, Stubbs, & Love, 2014).

Stakeholders are defined as “those groups that affect and/or could be affected by the organisation’s activities, products and services and associated performance” (Accountability, 2011, p. 6). A bank’s stakeholders include its clients, community, employees, investors, regulators, shareholders and suppliers (Mohammed, 2013). The differences between these stakeholder groups make it difficult to report appropriately for all these parties (Senne, 2017). As noted by Bradford, Earp, Showalter, and

Williams (2017), adopting a stakeholder view to reporting without considering the needs of the end-user is unlikely to inform them of the bank's day-to-day operations. In practice, banks tend to direct their reporting and engagement to those parties who have a longer-term view on their sustainability, essentially their shareholders (Deloitte, 2012). As a result, South African supervisory and regulatory bodies have published guidelines for the disclosure of compensation practices of South African companies in their annual integrated reports (Dippenaar & Fourie, 2019; PWC, 2018). The aim of these guidelines is to ensure that compensation is fair, transparent, promotes good outcomes and adheres to corporate governance principles related to objectivity, oversight and ethical leadership, and provides a laundry list for key points to cover in compensation disclosure.

Table 1 provides a summary of the supervisory and regulatory documents analysed in this study. These documents relate to incentive risk culture and also outline the requirements for the disclosure of compensation in the annual integrated reports of South African banks. The supervisory documents were examined to identify key themes relating to incentive risk culture and compensation reporting.

Table 1: Summary of the key documentary resources analysed to develop themes for incentive risk culture

Source	Published	Key outcomes
FSF	2009	The FSF published <i>Principles for Sound Compensation Practice</i> , which outlines three basic requirements for sound compensation: governance of compensation, alignment with prudent risk taking and supervisory oversight by both regulators and the board of directors. The report notes that if these principles are in place, they are expected to assist with the implementation of a sound compensation structure.
Companies Act 71 of 2008	2009	The act sets out compliance guidelines for companies that operate in South Africa. For compensation, the act requires that any and all compensation paid to the executive directors of a bank be disclosed in its annual report.
FSB	2014	The FSB sets out a number of indicators for a sound risk culture, which include the incentives indicator. According to the FSB, incentives ought to consider performance, risk (and be adjusted accordingly), be well-documented with requisite succession planning and talent development that specifically focus on risk management as a critical skill.
JSE	2014	The JSE listings requirements provide regulatory compliance guidelines for companies listed on the JSE. In terms of compensation, the JSE sets out principles relating to how the compensation should be disclosed in the annual integrated report with the specific requirement that all remuneration is shown in table format.
IoDSA	2016	The IoDSA sets out 17 Principles for corporate governance, with the aim of improving ethical leadership, in the King IV report. For compensation, the IoDSA sets out requirements for disclosure of remuneration with the main aim of promoting fairness, transparency and ethical leadership through enhanced oversight from the board of directors. The report outlines how the compensation practice should be governed, designed, structured, reported and what it should address and provides the necessary requirements for the disclosure and oversight of any compensation plan.

The Risk Culture Indicator (RCI) model

The RCI model (Zaaiman et al., in progress) was used as the basis for the design of the study to code the source documents. This model, shown in Figure 1, provides an integrated view of risk culture indicators based on the FSB (2014) risk culture indicators and the supervision of behaviour and culture work of the Central Bank of the Netherlands (DNB, 2015). As this study relates to incentives only and is based on the emerging themes in the supervisory documents, the incentive-related risk culture indicators – *Risk-based incentives*, *Risk role* and *Risk-related information* – were deemed appropriate for the study. This resulted in six key themes and three sub-themes related to incentive risk culture indicators as shown in Table 2. These themes allowed me to investigate whether there is evidence of incentive risk culture in the compensation reports.

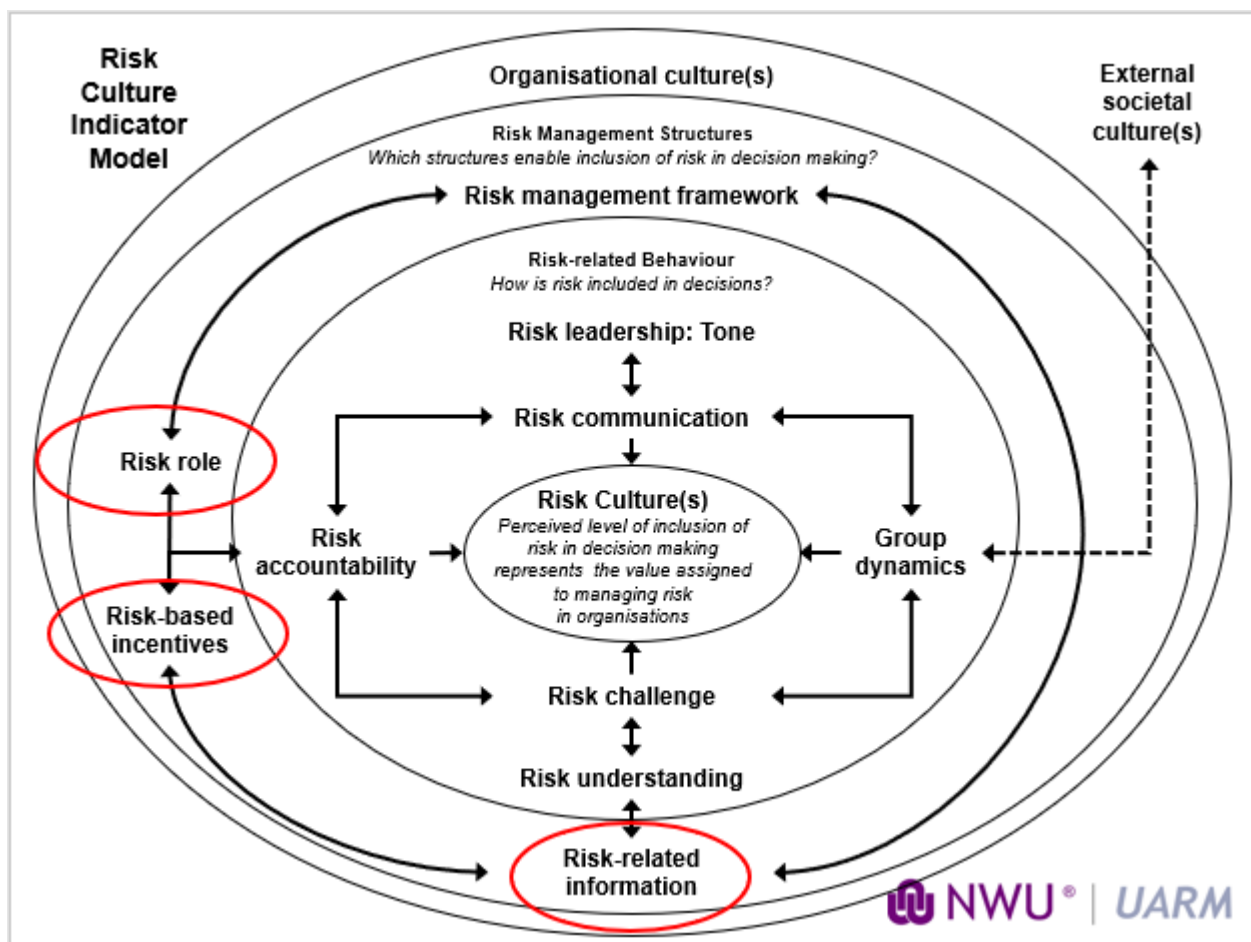


Figure 1: Risk Culture Indicator (RCI) model, with study-specific indicators highlighted in the red ovals (Zaaiman et al., in progress)

Table 2: Summarised themes and sub-themes for the analysis of incentive risk culture based on supervisory documents

RCI category	Theme	Sub-theme	Source(s)	Description of the theme
Risk-based incentives	Remuneration and performance	Core values	FSB	The compensation structures support the organisation's espoused core values including fair treatment of customers, cooperation with control functions, adherence to limits and alignment between risk and performance.
		Prudent risk-taking	FSF	The compensation structure drives appropriate risk-taking behaviour, risk appetite and risk culture within the organisation. Compensation is adjusted accordingly for risk (including type of risk, risk outcomes, risk occurrence) and aligns with risk through the incentive type paid to employees.
			FSB	
		Performance	FSB	The bank's incentive structure aligns reward with its performance relative to its strategic objectives. Further, incentives align with individual performance, which is supported by a well-documented performance review process linked to the organisation's strategy.
	Succession planning		FSB	Succession planning includes risk management experience.
	Talent development		FSB	Talent development training focuses on understanding key risks in the organisation; risk management is deemed to be a critical skill for all employees including senior management. Job rotation between control functions and business lines is undertaken to facilitate learning.
Risk role	Oversight and governance		FSF Companies Act JSE IoDSA	The board of directors oversees the compensation system of the bank and is responsible for the design of the compensation policy including its operation, monitoring and review. The board ensures that the staff engaged in financial and risk control are independent, have authority and that their compensation is independent of business performance. The compensation policy is fair and promotes fair executive management compensation in the context of all the staff within the organisation. The oversight provided by the board of directors allows them to measure and appropriately limit the risk associated with the compensation structure of the organisation.
Risk-related information	Transparency		IoDSA	The bank should strive to ensure that the disclosure of compensation is transparent, comprehensive and relevant to its stakeholders (through regular stakeholder engagements). Transparent information allows the bank's stakeholders to determine if the organisation's compensation risks are adequately managed and accounted.
	Structure and governance		Companies Act JSE IoDSA	Reporting complies with legislation in South Africa, which includes the King IV Report, the JSE listings requirements and/or the Companies Act and there is a link to ethical corporate governance practices. The structure of the report provides a 'standardised' structure for reporting on compensation. Further, abiding with legislation shows good governance practice, which is a key element of managing the compensation risk of the organisation.

Method

After the initial supervisory document analysis, a further qualitative, directed content analysis approach, as described by Assarroudi, Heshmati Nabavi, Armat, Ebadi, and Vaismoradi (2018), was applied to the most recent compensation reports, published in the annual reports for the financial year ending 2018/19, of the six largest South African banks. These documents were sourced from the relevant websites of the banks as listed in Appendix A.

The six banks included in this study were: ABSA Group Limited, FirstRand Limited, Nedbank Group Limited, Standard Bank Group Limited, Investec Limited, and Capitec Bank Limited. While there are 19 banks conducting business in South Africa, only eight are listed in the Financial Services sector of the JSE. RMB Holdings was excluded owing to its business structure as it operates as an investment holding company and does not provide day-to-day banking services. Moreover, Finbond Group Limited was excluded due to its smaller size relative to the other banks. The top six banks together have assets in excess of R5 trillion and account for over 92% of the total asset value within the banking sector. Further, the banks in the population sample account for approximately 10% of the JSE Top40 index and have a total market capitalisation of R1 trillion.

In the directed content analysis, the most recently published compensation reports of the six South African banks were evaluated against the key themes and sub-themes summarised in Table 2. The compensation report of each bank was reviewed and carefully studied prior to embarking on the coding process. This allowed me to identify the relevant quotes that would be related to a specific theme prior to the coding. Further, to ensure that the quotes link directly to the specific theme being coded for, I identified key words to look out for during the coding process from the theme description.

During this process, the relevant text was marked when identified. This process allowed me to refer each quote to a specific theme and its corresponding sub-theme and provided evidence-based reference quotes for incentive risk culture in each of the compensation reports of the selected banks. From these reference quotes, key codes related to a specific theme were identified and analysed to inform the findings of this research project. Although detailed codes were identified for data coding purposes, the information was consolidated in order to draw general conclusions about the sub-theme based on the evaluation criteria in Table 3. Appendix B Expanded Code Book contains a picture of the final code book and Figure 2 provides a graphical summary of the coding process.

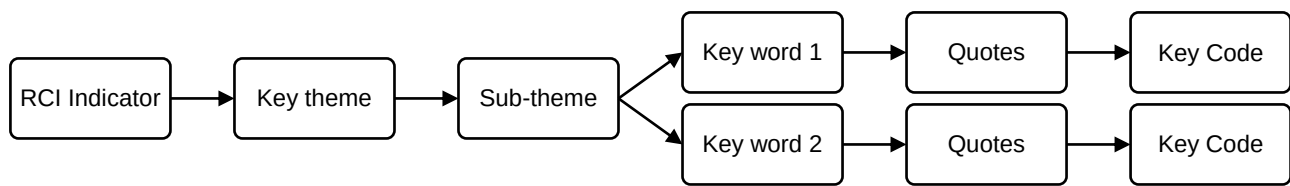


Figure 2: Summary of the coding process

Further, the codes were repeatedly checked against the key themes to ensure that the information was broadly in-line with the study and that the coding remained relevant. Comparing coded information against the individual banks aided in reducing possible bias emanating from the researcher’s subjective interpretation of the information, which could significantly influence the trustworthiness of the documentary analysis (Nowell, Norris, White, & Moules, 2017). Further to this, my research supervisor reviewed the codes continuously during the coding process to ensure that I maintained the integrity of the data used in this paper. By employing this peer check method, my supervisor was able to ensure that the validity and credibility of the research was maintained (Rolfe, 2006). Furthermore, I kept a reflexive journal to record the research process and allow for an audit trail of its progress. A detailed representation of entries to this journal is featured in Appendix C.

Once the coding process was completed, the information was applied to the key themes and sub-themes and evaluated based on the criteria outlined in Table 3.

Table 3: Evaluation criteria for evidence of incentive risk culture

Criterion	Evaluation	Key
The information provided in the report shows evidence of incentive risk culture and can be directly linked to the key themes and sub-themes for the evaluation of sound incentive risk culture	Comprehensively covered	CC
The information provided in the report shows evidence of incentive risk culture and can be partially linked to the key themes and sub-themes for the evaluation of sound incentive risk culture	Partially covered	PC
The information provided in the report shows no evidence of incentive risk culture and cannot be linked to the key themes and sub-themes for the evaluation of sound incentive risk culture	Not covered	NC

Although the coding process was time consuming as a result of the iterative process applied to a large volume of information in the reports, the document analysis method allowed for the use of secondary data, leading to efficient, practical and cost-effective exploratory research covering areas to which a researcher would not easily obtain access, as described by Bowen (2009). Figure 3 provides a summary of the process followed in this study.

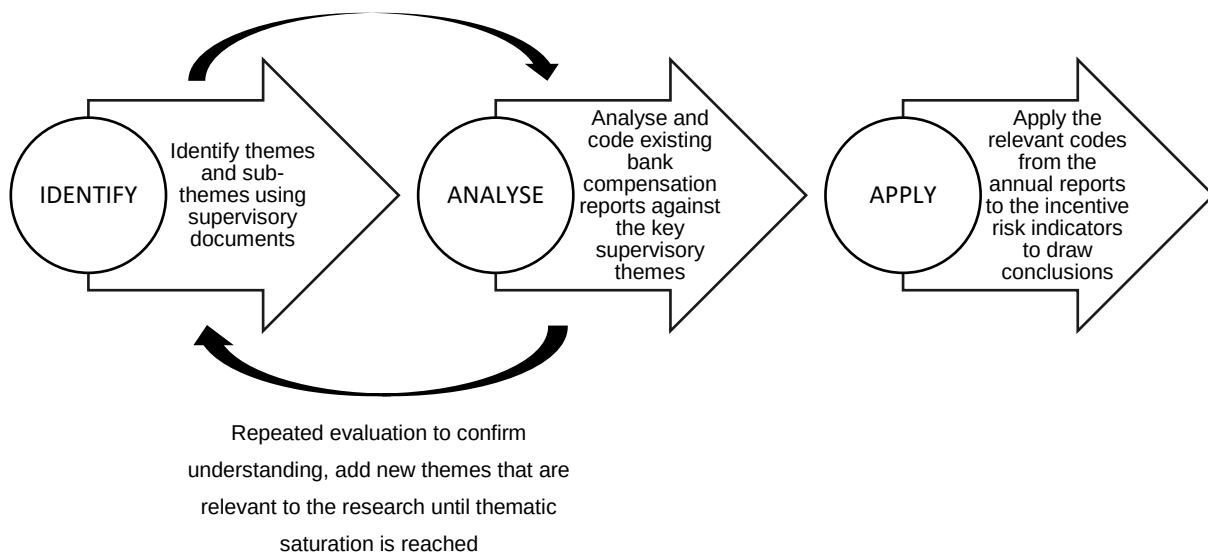


Figure 3 Summary of the research process followed in this study.

Results and Discussion

This section explores what evidence of incentive risk culture could be found in the compensation reports of the selected banks. Here, I have been able to show that there is partial evidence of incentive risk culture in the compensation reports of the banks as I was able to link most, but not all, of the disclosures against the supervisory themes identified.

This section is structured as follows:

- It is split under three headings, each linking specifically to the RCI model indicators related to the study, namely, *Risk-based incentives*, *Risk role* and *Risk-related information*.
- Under each heading, the findings are presented down to the level of sub-themes, which are listed in Table 2.
- Further, the findings are presented in two ways under each heading:
 - First, in tabular form, the findings per theme and sub-theme are presented for each bank based on the ranking criteria detailed in the methods section.
 - Second, the general findings relating to each theme and sub-theme are presented with supporting evidence to be able to draw general conclusions in terms of the research question.

Note: Despite the information being sought and recorded in this study being available in the public domain, the banks involved are not identified in the discussion of the findings as such disclosure is not necessary to answer the research question. Focusing on what a particular bank reported may detract from the general sector message of this study. The detailed codebook is available from the researcher should the reader be interested.

Risk-based incentives

This section provides the key findings based on the RCI indicator: Risk-based incentives. Table 4 provides a summary of the findings from the analysis of the compensation reports per bank as well as the average for all the banks surveyed in the study.

Table 4: Summary of findings: Risk-based incentives coded based on the key themes and sub-themes per bank

Theme	Sub-theme	Bank A	Bank B	Bank C	Bank D	Bank E	Bank F	All banks average
Remuneration and performance	Core values	PC	PC	PC	PC	PC	PC	PC
	Prudent risk-taking	CC	CC	PC	CC	CC	CC	CC
	Performance	CC	CC	CC	CC	CC	CC	CC
Succession planning		NC	NC	PC	PC	NC	NC	NC
Talent development		NC	NC	NC	NC	NC	NC	NC

Table 5 provides the research commentary based on the findings as well as evidence-based reference quotations from the compensation reports of the selected banks.

Table 5: Risk-based incentives, research commentary and quotes from findings

Theme	Sub-theme	Research commentary	Quote from findings
Remuneration and performance	Core values	The financial institutions linked their compensation structure to several factors, including the values of the organisation, fair customer treatment, cooperation with control function limits and alignment of risk and performance. Of the six banks included in the study sample, only three made specific reference to compensation being linked to the organisation's values whereas the remainder linked their compensation structure to the achievement of objectives or strategy. Further, where the other banks mentioned value, it was in quantitative form and tied to advancement of shareholder value.	"...board remuneration committee (the committee) assessed achievement against the non-financial objectives at 125% of target for culture and values" (Bank B; 2019)
		Fair customer treatment was not widely discussed by the banks. Only Bank A included customer ratings as among its key performance indicators (KPIs).	"...behaviour that are consistent with our values" (Bank C, 2018) "steady progress was made in client focus" (Bank A, 2018)

Theme	Sub-theme	Research commentary	Quote from findings
		Compliance with control functions and adherence to limits were largely discussed together. Both elements were only partially covered by the banks. In most instances, the remuneration committee (REMCO) worked with the group risk officer and group human resources to determine whether the employee had adhered to risk limits and remained compliant during their performance review.	"the group risk officer formally reports...on the application of the groups risk, compliance, capital management...and on any significant breaches of RCCM policies or limits.." (Bank A, 2018)
		All the banks provided detailed information relating to their alignment of performance with risk.	"we seek to ensure appropriate and reasonable alignment between reward, risk and conduct" (Bank F, 2018)
		Overall, the core values sub-theme was partially covered (PC) across the banks as some aspects were comprehensively covered and others not covered at all.	
	Prudent risk-taking	Prudent risk-taking was comprehensively covered by five of the banks in the study sample and only partially covered by Bank D. Comprehensive information was provided indicating that the banks were cautious in the design of their compensation and incentive structure, to ensure that (1) employees do not take undue risks in excess of the banks' risk appetite; (2) if risk is taken by the employee, their pay structure is appropriately adjusted for the specific risk assumed; (3) the incentive structure adequately accounts for the time horizon of risk and ensures that there is alignment with the type of incentive paid relative to the type of risk taken by the organisation; and (4) the appropriate pay mix is determined for the employee based on their level within the organisation. In particular, employee pay is adjusted to consider the employee's strategic relevance to the organisation, and the possible level of risk they may expose the bank to during their tenure within the organisation.	"We reward our people fairly while avoiding a bonus-centric culture that distorts motivations and may encourage excessive and irresponsible risk taking" (Bank A, 2019)
			"...while being cognisant of the impact this delivery has on the risk profile" (Bank D, 2019)
			"Our principle-based remuneration seeks to balance remuneration...while taking risk appetite into consideration" (Bank F, 2018)
		Overall, the prudent risk sub-theme was comprehensively covered (CC) as five of the six banks provided the appropriate information	

Theme	Sub-theme	Research commentary	Quote from findings
		related to the theme and only Bank D provided partial information.	
	Performance	All the banks considered their compensation structure relative to the accomplishment of the strategic objectives set by the board of directors. Performance, relating both to the performance of the bank and individual employee performance, was comprehensively covered by all the banks in the study sample. For example, where the group's expected performance metric was achieved but fell short of the strategic objectives of the organisation, the incentives due to employees were adjusted accordingly to reflect the performance of the organisation. Organisational performance was also well considered by the banks and it was the primary determinant of the amount and type of incentive paid out to employees. It is worth noting that Bank F recently changed its incentive structure to be aligned with the performance of the company as it previously followed the incentive structure of a different region which did not require that the bank pay for performance. All the banks determined the incentive paid based on regular performance reviews undertaken throughout the value chain. Overall, the performance sub-theme was comprehensively covered by the banks in the study sample.	"...your committee considered how well the group performed against the strategy approved by the board" (Bank A; 2018) "remuneration of executives and staff members is linked to sustainable value creation in line with group strategy" (Bank D, 2019) "share incentives that are no longer aligned to performance will no longer be granted" (Bank F, 2018) "the committee assesses achievement [against certain non-qualitative measures]" (Bank B, 2019)
Succession planning		Succession planning was not well covered by the banks in the study sample, although having been discussed in the compensation reports of Bank C and Bank D. However, it is worth noting that this disclosure was based on the type of incentive paid to retain key employees and there was no mention of risk management or risk within the context of succession planning. Overall, while Bank C and Bank D provided partial coverage of the succession planning sub-theme, in the context of all the banks in this study,	"a key focus...was the attraction and retention of key future talent to ensure we have a strong pipeline of successors" (Bank D; 2018)

Theme	Sub-theme	Research commentary	Quote from findings
		this theme was deemed to have not been covered at all.	
Talent development		Talent development in terms of the requirements of the FSB (2014), which includes job rotations, skills training incorporating risk management was not covered by any of the banks. However, some banks did mention that the members of the board attended training courses for compliance purposes, but none of the banks made mention of risk management being included in the training sessions.	
		Overall, talent development was not covered by any of the banks.	

Summary of findings

The compensation reports analysed provided information relating to the banks' compensation structure, design and philosophy. However, the extent of this reporting largely differed among the banks in both quantity and coverage, but the type of information included was largely similar. In terms of the RCI indicator, risk-based incentives, the information provided in the banks' compensation reports could be coded against the key themes and sub-themes identified from supervisory and regulatory information. While sub-themes such as prudent risk-taking and performance were comprehensively covered in the compensation reports, others such as core values were only partially covered. Further, succession planning was only covered partially by two banks, but the reports did not mention whether risk management experience was considered but discussed only providing incentives as a means of retaining and attracting key talent. Talent development was not covered by any of the banks.

Risk role

This section provides the key findings based on the RCI indicator: Risk role. Table 6 summarises the findings from the analysis of the compensation reports.

Table 6: Summary of findings: Risk-role coded based on the key themes and sub-themes per bank

Theme	Sub-theme	Bank A	Bank B	Bank C	Bank D	Bank E	Bank F	All banks average
Oversight and governance		CC	CC	CC	CC	CC	CC	CC

Table 7 provides the research commentary based on the findings as well as evidence-based reference quotations from the compensation reports of the selected banks.

Table 7: Risk-role, research commentary and quotes from findings

Theme	Research commentary	Quote from findings
Oversight and governance	The key elements of the oversight and governance theme: oversight, board composition, support function compensation, compensation policy and fairness, were all comprehensively covered by the banks in the study sample. The remuneration committee (REMCO) of the banks provided oversight in relation to the compensation policy; its design, operation, monitoring and review and regular reviews were held. The composition of the REMCO of all the banks comprised mainly non-executive independent directors, with most banks having more than 5 members save for Bank B, which had only four members. Further, the chief executive formed part of the invitation list for the REMCO meetings but was not necessarily required to attend the meetings. The presence of independent directors in REMCO is essential as it ensures that compensation is fair, and that employees are paid for performance. All six banks disclosed that the compensation and incentive structure for its staff employed in the control and risk functions was determined (1) independently of the business area they support; (2) overseen by the REMCO, the audit committee and the group risk committee to ensure that it is fair, market related and is able to attract suitably qualified risk and compliance skills, and (3) was determined as part of the budgeting process. Further, only Bank D showed that it had set specific caps on the bonus amount paid to staff in the risk, control and support functions; the rest were silent on this. All the banks provided detailed information relating to their remuneration policy, philosophy and the methodology employed in calculating the incentive amount. The remuneration philosophy was comprehensively covered in the compensation reports but none of the banks provided information as to why they chose to adopt their	“...group REMCO provided oversight” (Bank C, 2018) “the REMCO oversaw” (Bank D, 2018) “the Group REMCO...consists of five members, including an independent chair” (Bank C, 2018) “...the remuneration of risk and compliance functions...independently of the business they oversee” (Bank E, 2018) “the directors remuneration policy was approved by shareholders at the AGM” (Bank B, 2018)

Theme	Research commentary	Quote from findings
	specific policy. This could explain why there was variation in the disclosure practices of the banks. In terms of the methodology used to determine the incentive type and amount, five of the banks disclosed that they followed a specific formulaic methodology. Only Bank C noted that it did not follow a specific methodology but indicated that all incentives were discretionary and determined by the board of directors. The fairness of remuneration was also comprehensively covered by all the banks within the study sample. Fairness was largely considered in terms of executive compensation relative to overall employee compensation. Further, all the banks did significant market analysis to ensure that the amount they paid their staff was appropriate for their specific skill set. Compensation information published by accounting firms such as PriceWaterhouseCoopers and Deloitte's was used to benchmark the incentive and compensation structure and the banks also compared their own structures against one another as well as other listed entities in the local market. Overall, the oversight and governance theme was comprehensively covered by all the banks in the study sample.	"the methodology used to size incentive pools is a combination of top-down and bottom-up approach" (Bank A, 2018) "fixed remuneration is benchmarked against comparator groups" (Bank B, 2018) "we conducted detailed benchmarking of remuneration practices and levels" (Bank F; 2018)

Summary of findings

The compensation reports of the banks provided comprehensive coverage of the role that the board of directors played in the design, implementation, review and monitoring of the compensation structure as well as its practice. A large volume of disclosures relating to the role the board of directors played was given, which related to the sub-theme, oversight and governance. These disclosures provided insight into the role that the board of directors played in appropriately measuring and limiting the risk associated with the compensation structure of the organisation.

Risk-related information

This section provides the key findings based on the RCI indicator: Risk-related information. Table 8 summarises the findings from the analysis of the compensation reports.

Table 8: Summary of findings: Risk-related information coded based on the key themes and sub-themes per bank

Theme	Sub-theme	Bank A	Bank B	Bank C	Bank D	Bank E	Bank F	All banks average
Transparency		CC	CC	CC	CC	CC	CC	CC
Structure and governance		CC	CC	CC	CC	CC	CC	CC

Table 9 provides the research commentary based on the findings as well as evidence-based reference quotes from the compensation reports of the selected banks.

Table 9: Risk-related information, research commentary and quotes from findings

Theme	Research commentary	Quotes from findings
Transparency	The key elements of the transparency theme, transparency and stakeholder engagement were comprehensively covered in the compensation reports of all the banks. The banks provided information relating to their reporting in terms of how they actively undertook to ensure that the compensation reports are transparent and are able to provide all stakeholders with the appropriate information related to their compensation and incentive practices. It is worth noting that the banks only made statements regarding transparency, but none actually provided a definition of what they deemed transparency to be or how the information was transparent. However, all the banks disclosed that they undertook regular stakeholder engagement and went on roadshows to discuss their compensation policy with key stakeholders. This could thus lead one to believe that the information included in the compensation reports was specifically put together with the end-user in mind and essentially approved by the bank's stakeholders. As such, while a definition of transparency is not provided, the stakeholder engagement undertaken provides the necessary evidence that the information disclosed is appropriate and relevant to the bank's stakeholders. Further, transparency and stakeholder engagement seem to be closely tied together as most of the statements made regarding the one included the other. None of the banks provided insights into whether the information in the compensation reports was free of material error. It is worth noting that this study also assumes that the disclosures are correct and are free of error. Overall, all the banks provided comprehensive coverage of their transparency. This transparency allows the banks' stakeholders to	"remuneration information provided to our stakeholders should be transparent..." (Bank C, 2018) "we actively seek shareholder views and revise our reporting to improve transparency" (Bank A, 2018) "our remuneration policy...seeks to balance the objectives of all stakeholders including shareholders, employees, our customers and the broader communities in which we operate" (Bank F, 2018)

Theme	Research commentary	Quotes from findings
	determine if the organisations' compensation risks are adequately managed and accounted for in the compensation packages of the organisations' employees.	
Structure and governance	The key element of the structure and governance theme is corporate governance, which deals with whether the compensation report is disclosed in compliance with relevant legislation. All the banks noted that they complied with the Companies Act, the JSE listings requirements, King IV Report and the Banks Act. Further, Bank B further noted compliance with the UK Corporate Governance Code whereas Bank E added the Basel Pillar 3 remuneration principles to the list. These compliance disclosures implied that corporate governance was comprehensively covered in the banks' reports. Further, it is worth noting that banks A, C and E went a step further and disclosed compensation information in line with the FSB Principles for Sound Compensation Practices. Overall, all the banks provided comprehensive coverage of the structure and governance theme. As such, the reports follow a "standardised" structure when reporting on compensation. Furthermore, all the banks abide by the relevant legislation on the themes identified in Table 2, which indicates that they likely manage the risk associated with compensation practice and, second, they encourage ethical behaviour, which promotes prudent risk-taking and protects the various interests of stakeholders of the bank.	"all regulatory disclosures in this report are made in terms of the Companies Act, JSE Listings requirements, the Banks Act, Financial Stability Board Principles for Sound Compensation Practices and the King Code" (Bank A, 2018)

Summary of findings

The compensation reports of the banks provided comprehensive coverage of risk-related information in terms of transparency, stakeholder engagement and corporate governance. These themes were comprehensively covered in the compensation reports of the banks and provided details regarding compliance with various laws in their disclosures.

Summary of the results and discussion section

In this section, I show that the banks' compensation reports provide partial evidence of their incentive risk culture as I was able to link most of, but not all, the themes and sub-themes to the codes in the compensation reports. That is, from the six key themes identified as listed in Table 2, three themes – oversight and governance, transparency, and structure and governance – were comprehensively covered in the compensation reports. These themes relate primarily to the disclosures that are required by law and are specifically outlined in the King IV Report, the JSE listings requirements and the Companies Act. Two of the key themes – succession planning and talent development – were not covered in any of the banks' compensation reports. Specifically, while succession planning is only partially covered in two of the banks' compensation reports, both reports did not mention risk management experience as being a consideration for senior managers but only discussed the type of incentive paid to key staff for retention purposes. On the other hand, talent development, which provides for risk management-related training and exposure, was not mentioned in any of the reports. It is worth noting that some of the banks provided information relating to the compliance training that the members of the board of directors had undergone; however, this too did not include risk management training. Lastly, the key theme, remuneration and performance, was only partially covered in the compensation reports. That is, while the sub-themes of prudent risk-taking and performance were comprehensively covered by most the banks, the core values sub-theme was partially covered by all the banks. Overall, the banks' compensation reports partially cover the key themes and sub-themes identified from the literature and that provide evidence of their incentive risk culture.

Further to this, while the banks' compensation reports were able to provide evidence of their incentive risk culture on an industrywide basis, the extent of this evidence also differed among the individual banks. Although the purpose of this study was not to compare the banks, it is interesting to note that the order of the evidence covered was similar with the exception of two of the six banks.

Conclusion

Using a qualitative content analysis method, this paper considered a unique area of risk culture, focusing particularly on a specific risk type, incentive risk. The purpose of the study was to use publicly available compensation reports published by six South African banks. This investigation was undertaken with the following research question in mind: *What evidence of incentive risk culture is provided in the compensation reports of South African banks?* While this is a new research area, it is expected that this question will appeal to the stakeholders of the banks investigated, particularly its shareholders.

During the research process, I identified themes and sub-themes from the supervisory literature that enabled me to evaluate the evidence of incentive risk culture provided in the banks' compensation reports. The key finding of this study is that the compensation reports provide evidence of the banks' incentive risk culture as I was able directly to link most, but not all, of the disclosures against the key themes and sub-themes identified. In particular, the compensation reports provided comprehensive coverage of three key themes, partial coverage of one key theme, and did not demonstrate any coverage of the remaining two themes. Hence, the compensation reports provided only partial evidence of the banks' incentive risk culture.

The findings in this study can be used by the individual banks to assess their incentive risk culture in terms of the key themes identified. In instances where some areas are not comprehensively covered, these institutions can improve their disclosures and reporting to ensure that they achieve this level of disclosure and therefore provide their stakeholders with satisfactory information related to their incentive risk culture.

Although the research results provided in this study are expected to be beneficial to the financial industry, they are not without limitations. There are a number of factors that could have potentially affected the findings detailed in this study. First, this investigation assumes that the information disclosed in the compensation reports is valid and free from error. Second, relevant data points were evaluated against the key themes and sub-themes identified in the literature, which were based on the researcher's subjectivity and judgement as the coding was not validated by a second party due to study time constraints. However, peer checking was employed through the constant evaluation of the codebook by my research supervisor to ensure that the codes were valid, relevant to the theme and marked correctly against the themes (Rolfe, 2006). Further, I tried to ensure that the data from the compensation reports fairly represented the key themes and sub-themes by further breaking down the description of the sub-themes into keywords to look out for in the literature that correctly link to the specific themes for the purposes of coding the compensation reports. Third, this study evaluated only the compensation reports of the banks and did not examine any other parts of the integrated reports. For this reason, some of the information could be included in the other parts of the integrated reports and may thereby have been missed. Lastly, the aim of the study was to determine whether, on an industry-wide basis, the reports of the individual banks were able to provide evidence of the banking sector's incentive risk culture. The research did not determine how the banks compared with each other. This may be an interesting topic for future study.

Despite these limitations, this investigation provides a basis for future exploratory studies pertaining to incentive risk culture as it provides a benchmark to evaluate the incentive risk culture of financial institutions using their compensation reports. An interesting area of research could also be to determine how the banks' incentive risk culture has improved over the years.

Number of words:

Abstract: 243 (max: 300 words)

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CHAPTER 3: REFLECTION

The objective of my study was to explore if the compensation reports of South African banks provide evidence of their incentive risk culture by answering the following question: *What evidence of incentive risk culture is provided in the compensation reports of South African banks?*

This research question was of particular interest to me for four distinct reasons. First, incentives are topical in South Africa, where companies have been criticised for the large payments they make to top executives relative to their general employees. Second, I have always wanted to understand how incentives are used to drive the level of risk assumed by employees. Third, I work within the banking industry in South Africa and I did not know whether South African banks' compensation structures considered the risk their executives assumed on behalf of their institutions. Lastly, I understood that it would be difficult to answer this research question by simply walking into a bank and asking various people questions given the nature of the topic of incentives, as I had previously not been able to do so. For this reason, I embarked on a journey to determine whether the banks included information that would provide evidence of their incentive risk culture in the reports they published for their stakeholders.

This journey began at the start of 2019 as I was ready to finalise my studies after having taken a two-year sabbatical to explore corporate South Africa and life as we know it. Difficult as it was to return to the world of academia, particularly as I had just started a new job, I was determined to succeed. I hit my first stumbling block early on as initially I wanted to conduct a quantitative study to investigate the perceived level of incentive risk culture of dealmakers in a particular South African financial institution. This required that I distribute a questionnaire to the dealmakers employed by that institution and thus required permission from the bank for ethical purposes. However, I was not granted the permission to proceed with the study given the nature of the topic. I was left disappointed, confused, disheartened and with no direction.

At this point, I considered the merits of a qualitative study on incentive risk culture as I had to resubmit my research proposal and immediately start working on the research report to be able to complete the dissertation within a year. A qualitative study, principally involving documentary analysis, appealed to me due to its efficiency, practicality, cost effectiveness and its reliance on the researcher as the main contributor to the study. This meant that no permission was required from any bank and I could essentially get to work. Boy, was I not ready for the task at hand! Apart from examining the five supervisory documents on incentive risk culture and compensation reporting as provided in Table 1, I analysed, in great detail, the compensation reports of the six banks as indicated in Annexure A. This detailed analysis, as well as the research project itself, tested my resilience, discipline and focus all while I was juggling the pressures of work and life. There were many times

when I felt like quitting, but the support I had and my sheer desire to succeed in this programme made it impossible to throw in the towel.

This research process was rewarding and allowed me to completely immerse myself in a topic that I am truly interested in and further enabled me to better understand the compensation practices of the banks, their challenges and essentially answer the research question. That is, the compensation reports of South African banks provide evidence of the banks' incentive risk culture as I was able to directly link most of the disclosures to the key themes and sub-themes. Furthermore, I gained more insights into the incentive risk culture of the individual banks by comparing them with one another – although that was not the purpose of the study.

This study would not have been possible had I not had the support of my supervisors, Malora Zeller and Hermien Zaaiman, the Kerlick writing team as well as my classmates. I am truly grateful to have been surrounded by such a high calibre of students and academic staff, who were helpful, engaging and aided in building, defining and refining my research project and paper. Further, my family and friends were important in driving me to keep focused during the hard times through motivation and support.

APPENDICES

APPENDIX A BANK COMPENSATION REPORT SOURCES

Banking Group	Latest Published Year	Last Financial Year End	Document Used for Coding	Page Range	Source
ABSA Group Limited	2018	31 December	Remuneration Report	pg.1 - 39	https://www.absa.africa/content/dam/africa/absaafrica/pdf/reports/2018/absa-group-2018-remuneration-report.pdf
Standard Bank Group Limited	2018	31 December	Governance and Remuneration Report	pg.34 - 97	https://thevault.exchange/?get_group_doc=18/1555481047-SBGGovernanceandRemunerationReport2018LORESSingles.pdf
FirstRand Limited	2018	30 June	Annual Integrated Report	pg.91 - 117	https://www.firstrand.co.za/media/1665/firstrand-annual-integrated-report-2018.pdf
Nedbank Group Limited	2018	31 December	Group Remuneration Report	pg.1 - 34	https://www.nedbank.co.za/content/dam/nedbank/site-assets/AboutUs/Information%20Hub/Integrated%20Report/2018/2018%20Nedbank%20Group%20Remuneration%20Report.pdf
Investec Limited	2019	31 March	Integrated Report Vol.1	pg.169 - 218	https://www.investec.com/content/dam/investor-relations/financial-information/group-financial-results/2019/investec-dlc-vol-1-annual-report-2019.pdf
Capitec Bank Limited	2019	28 February	Integrated Report	pg.116 - 134	https://resources.capitecbank.co.za/Integrated_annual_report_2019.pdf

APPENDIX B EXPANDED CODE BOOK

The image below provides a summary of the completed expanded code book which links all the compensation reports to the key themes and sub-themes.



Figure 4: Image of the researcher showing the expanded code book

APPENDIX C REFLEXIVITY JOURNAL

Item	Experience/Insight	Action
The research proposal process	This research project tested me emotionally, physically and psychologically. I had to change my research topic quite late during the process (towards the end of July) which meant that relative to my classmates, I was significantly behind schedule. Having to resubmit my research proposal for approval by the UARM Optentia Committee and the Universities ethics committee meant I had to get to work as soon as possible in order to meet the submission deadline for the completed academic article in October 2019 for graduation in 2020. This was difficult as it required a lot of late nights, long-days of research and writing over the weekend, very minimal sleep and constant communication with my research supervisors. Trying to balance a full-time job in investment banking, where I recently joined and thus still need to prove myself, with the time pressures of submission proved difficult. I would like to believe that I managed to pull this off as I managed to submit on time and was able to obtain the requisite approvals to allow me to continue to work on my research project so I can submit in 2019 versus having to re-register in 2020. In summary, the following is noted regarding the research proposal submitted and approved by the Optentia Scientific and Faculty of Economic and Management Sciences Ethics committee: Topic: Evidence of incentive risk culture in South African bank compensation reports Research Question: How can compensation reporting inform stakeholders of the incentive risk cultures of South African banks?	- Constant communication with my research supervisors to ensure that our thinking was always aligned. - I put in long hours, after a 14 to 16hour workday, I usually would come back home, rest for an hour and start working on my research proposal to ensure that I would be able submit on time to obtain the requisite approvals. - During this process, I had to sacrifice my social life, I completely stopped going to the gym to preserve some of my energy and had a discussion with my boss regarding working flexible hours to allow me to submit in the 2019 academic year - which was approved.
Background (see the image below which provides a summary of the thought process related to my study)	The literature review process, which commenced during the research proposal step outlined above is important during the research process as it informs the researcher of: (1) what academic literature exists currently in their area of interest, being, incentive risk culture and compensation report; (2) the gap in the academic literature that the study could potentially fill; and (3) the key themes in literature which formed a crucial part of my methodology.	The following actions were taken: - <i>Incentive risk culture:</i> I had to look at firstly, the literature covering risk culture to properly define this concept then link that to the Financial Stability Board (FSB) fourth indicator being incentives and Financial Stability Forum (FSF) sound compensation practices in order to properly form an idea of what incentive risk culture actually is, in order to be able to define it for myself and for the study. - <i>Compensation reporting:</i> I looked at the King IV Report, the JSE listing requirements and the

Item	Experience/Insight	Action
	Due to my initial research question as detailed above, I essentially set out to look at three specific concepts being: incentive risk culture, compensation reporting and stakeholder information usefulness. Several issues were encountered during the literature review process: - <i>Incentive risk culture</i>: There was no academic research paper that discussed this concept. Majority of the articles were either on compensation/incentives or on risk culture but never both as this topic is not well covered in academic literature. - <i>Compensation reporting</i>: While there are a lot of academic articles on compensation reporting, I wanted to look specifically at the requirements for companies operating in South African, particularly the requirements for banks. In my mind, banks should disclose information that is required by the law for them to comply with legislation. - <i>Stakeholder information usefulness</i>: this was a very difficult topic to cover because while there is a lot of published academic literature, the methodology employed in my study made it difficult to answer the question relating to how the compensation reports can inform the stakeholders. Particularly, if this codebook was being developed in order to inform interview questions, at least I would have been able to ask the interviewees to determine if they deemed the information useful for stakeholders or not, but given that it is documentary analysis, it would have been difficult to analyse.	Companies Act to determine what information they ought to disclose. I went one step further and looked at the requirements set out by the Banks Act, but this Act did not include any information that was unique from what is set out in the King IV Report. - <i>Stakeholder information usefulness</i>: Due the difficulty outlined alongside, I had to relook the research question to determine if I would be able to provide any valuable findings from this study – to which my answer was no. From this, we agreed that for this study to be meaningful, it should be able to at least answer the research question. Following this discussion, we decided to amend the research question to: <i>What evidence of incentive risk culture is provided in the compensation reports of South African banks?</i>
Data collection process	Initially the plan was to do a detailed review and analysis of the non-financial sections of the integrated reports as published by the banks, this included other sections and not just the compensation report to establish if there was additional information included in the other sections. However, after I reviewed the full report of one of the banks (Bank D) and printed out all the reports, I soon realised that: - This exercise would require a significant amount of time as the reports are in excess of 100 pages each. - My research question and topic were focused on the compensation reports and I thus needed to focus on the subject area. - The other sections did not provide much added value to the study.	- I analysed the compensation reports of the banks as this would allow me to intimately engage with the material. - This analysis enabled me to evaluate the information included in the compensation reports against the key themes and sub-themes developed during in the background section.

Item	Experience/Insight	Action
Coding of information	The coding process was tedious as essentially, I had to intimately read the reports first, to determine what information is included in the compensation report before even starting the coding process. While this felt like a waste of effort at first, it made the coding and evaluation process a lot easier. Further, the coding process, which was constantly evaluated by my research supervisor, allowed me to be concise and accurate when identifying the categories and data that was relevant for this study. By further embarking on a process of breaking down the description of the sub-theme into further sub-sub-themes, I was able to determine accurate words and phrases on which to evaluate the banks reports. This helped in allowing me to select information that was essential to the study. Further, comparing the banks against one another also helped me remove my own interpretations that could be subjective, to ensure that the codes accurately reflected the information included in the reports.	
Results and discussion	The initial method employed was to compare the banks against each other in order to establish which banks compensation reports provided the most evidence of incentive risk culture. This approach was difficult in that it would result in us having to rank the banks against each other using some form of quantitative measure. This is due to the fact that it would have been difficult to infer from the results which bank has the best incentive risk culture based on the qualitative ranking method as proposed in this existing research. The use of quantitative data would also be very confusing to the reader and resulting in a research project that does not achieve the desired outcomes.	We decided that instead of comparing the banks against each other, we would rather determine, based on a certain key theme or sub-theme, whether on an industry wide basis, the banking sector provides evidence of incentive risk culture. This provided an easier method as one was able to go through the banks compensation reports, look for key data that correlated to a certain theme and then decide as to whether that data fit a specific theme or not and then was able to draw conclusions about the wider banking sector.

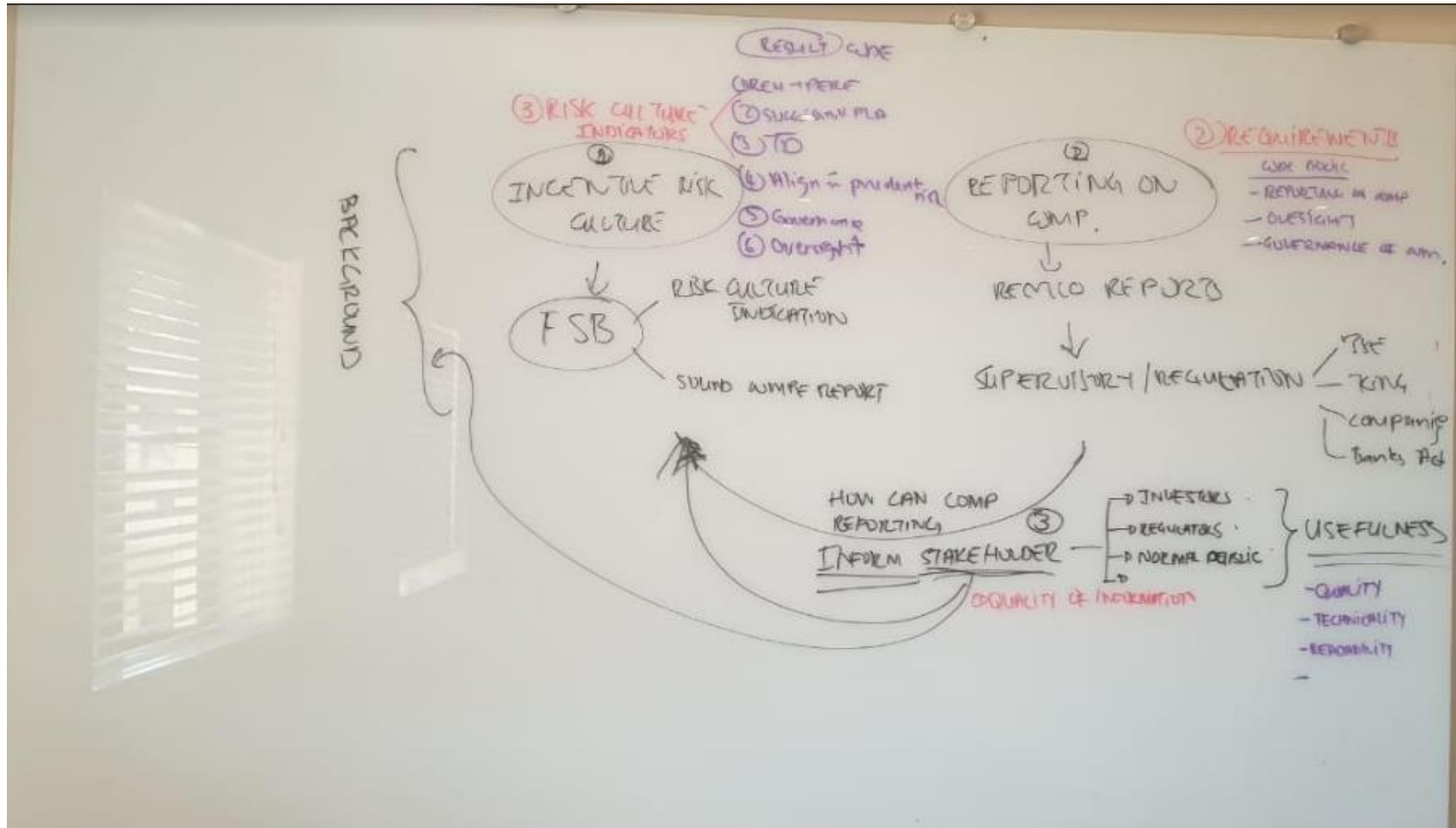


Figure 5: Summary image of the thought process behind the background section