The consumer's expectations of the role of the institutional investor as shareholder of the public companies in South Africa

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Mini-dissertation accepted in partial fulfilment of the requirements for the degree *Master of Business Administration* at the North-West University

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Graduation: May 2020

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Preface

On 7 December of 2017, Steinhoff International Holdings NV shocked South Africa with the largest corporate scandal in the country's history. Steinhoff's failure caused its share price to drop from R46,24 to R6,25 per share in a single day (Cronje, 2017; Rossouw & Styan, 2019). The Steinhoff collapse caused about R282 billion to be lost in value, which triggered questions regarding what went wrong and how such scandals could be avoided in the future (Cronje, 2017).

To answer these questions, one need to take a step back and examine what consumers expect from institutional investors as custodians of their money. This triggered to need to advance this specific study.

Acknowledgements

I would like to thank my amazing, beautiful and loving wife, Bernice Strydom, who not only supported me with love and motivation during my two-year journey, but also brought our second-born into the world.

Dale Strydom and Louis Strydom, thank you for being the two best sons a father could ask for – all your love, loyalty, energy and playfulness made this possible and worthwhile for us as a family.

To all our friends and family, thank you for understanding the commitment that this degree required and for all the lost time over the past two years.

To all our parents, especially my mother, Cecile Janse van Rensburg, who all sacrificed so much in lost time over two years when class and study commitments were my number one priority.

A special thank you to my study leader, Mr Pieter Greyling, for the support, encouragement and knowledge shared with me during this study.

Another special thank you to Ms Marike van Rensburg, for the language editing and to Prof Suria Ellis from the statistical department, for her dedication towards this study.

Thank you to the 2019 South African Rugby World Cup winning team, the Springboks who entertained us during this last and most difficult stretch of the MBA degree. You guys managed to have all of us study around your rugby schedule.

Lastly, my team members of the Bluebean 6 group for all the long hours spent in group activities and for having one another’s back during this time, thank you.

Abstract

Recent corporate failures, such as the Steinhoff scandal, have caused large financial loss for numerous stakeholders in South Africa. The eventual owner of money that is invested usually has very little say regarding where funds are invested. In an attempt to optimise financial growth for their clients, institutional investors accept the duty of being custodians of their clients' money.

The question is: What expectations do consumers have regarding the ideal role that institutional investors should play as shareholders of public companies in South Africa? The assumption is that once their expectations are better understood, further studies could be assisted by these answers, thereby coming one step closer to solving these issues and possibly saving many people from substantial financial loss.

This study took the form of a quantitative approach. Online questionnaires were distributed to the public at large. A technologically advanced method, namely Google Forms, was used to capture all the survey data. Unusable data was discarded whereafter the 187 usable responses were transferred by this software to a spreadsheet. A statistician used the spreadsheet format to formulate statistical data, which was given to the author to interpret.

The main findings were that consumers believe that their pension funds and retirement annuities are being threatened by corporate scandals. Consumers expect institutional investors to do proper research before investing and to invest in those organisations that prioritise environmental, social and governance factors – especially good governance. The study further found that consumers expect the government and institutional investors to do more to mitigate financial loss when corporate scandals do occur. Additionally, consumers expect institutional investors to participate more actively in general meetings of companies they invest in. Institutional investors should further publish a list of companies they intend to invest in. Consumers indicated their willingness to pay a premium to protect their funds against corporate scandals. An interesting incidental finding was that consumers expect government to do more to protect their funds against large corporations that fail by reassessing the ratios of prescribed assets.

The practical management implication of these findings is to examine the expected way in which investors should manage companies as custodians and shareholders. Future

studies should define what is specifically expected from government, and whether and how investment in prescribed assets, as prescribed by Regulation 28 of the Pension Fund Act (24 of 1956), is to be amended.

Further studies should use the findings of this study and establish if, and how, corporate scandals, such as Steinhoff's failure, could be avoided; or, if they are bound to occur, how the institutional investor should foresee the occurrence thereof.

Keywords: Institutional Investors, expectation, shareholder activism, shareholders, public companies, South-Africa.

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List of Abbreviations

AGM	Annual General Meeting
CEO	Chief Executive Officer
CRISA	Code for Responsible Investing in South Africa
ESG	Environmental, Social and Governance
JSE	Johannesburg Stock Exchange
NASDAQ	National Association of Securities Dealers Automated Quotation
UK	United Kingdom

1 Introduction

1.1 Background

During December 2017, South Africa experienced its largest corporate scandal to date when Steinhoff International Holdings NV failed to produce audited financial statements, which caused its share price to plummet. However, this has not been the first large corporate failure of its kind – African Bank faced an almost similar fate in August 2014. These corporate failures seem all but coincidental and should be avoided as far as possible in the future due to the adverse consequences they leave behind for investors. However, should they occur, it is important for fund managers, employed by institutional investors, not to have their clients' financial interest in these corporations.

Wierzycka (2017) contended that "the failure of Steinhoff has shocked even the most seasoned asset managers. It is the biggest corporate scandal the JSE [Johannesburg Stock Exchange] has seen". She continued by stating that the Steinhoff scandal "was as close to a corporate-structured Ponzi scheme as one can get" (Wierzycka, 2017).

Steinhoff failed to produce audited financial statements, and after the departure of their chief executive officer (CEO) at the time, the price of Steinhoff shares plummeted. Koko (2017) states that the Government Employee Pension Fund suffered a loss of about R4,38 billion in value, which, for obvious reasons infuriated unions of government employees.

> *"The governing body of an institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote the good governance and the creation of value by the companies in which it invests." (IODSA, 2016:41)*

From the literature it can be concluded that failures such as Steinhoff could have adverse effects for its stakeholders, such as those investing their pension interest. It could further be argued that despite the important fiduciary duty, seasoned fund managers still fail to identify risky organisations, thereby causing financial loss for those who entrust fund managers with their money in the first place.

1.2 Problem statement

The problem that this study aims to address is the large amounts of money, mostly pension funds, that vanish in massive corporate failures and scandals; for example, Steinhoff in the first week of December 2017. These failures adversely affect stakeholders and the South African economy at large.

1.3 Research aim and objective

This work builds on the knowledge that large public corporations do fail occasionally, leaving large financial losses behind. Hence, this paper intends to establish what consumers expect the role of the institutional investor as shareholder or potential shareholder of South African public companies to be.

1.3.1 Core research question

How does the pension fund contributor, retirement annuity holder and investor perceive the ideal role of the institutional investor as shareholder of a public company in South Africa?

1.3.2 Secondary research question

What role should these institutional investors assume to protect their clients against large financial loss of capital?

1.4 Importance and benefits of the proposed study

This study is important because it discusses a significant threat to pension-paying and retirement-annuity-contributing citizens who entrust fund managers with their financial interests while corporations such as Steinhoff, which are extremely lucrative from a layman’s perspective, in fact fail with huge financial loss to its shareholders. If this study achieves to outline a few expectations that consumers have for institutional investors, it will add value to the lives of South Africans at large by creating awareness of these expectations. Although not the aim, this study could take the field one step further by solving the problems these corporations face and determining how to avoid being a shareholder during the time of failure.

1.5 Scope and limitations

The scope of this academic work is to study the expectations that consumers have of the considerations of the institutional investor when making decisions to invest in a certain public company. Further, this study scrutinises all current regulations, laws and guidelines that govern these institutional investors; their possible shortcomings or limitations; the causation between these possible shortcomings or limitations; the expectations of consumers; and the eventual financial loss. The study further aims to illustrate what consumers expect from institutional investors who act as custodians while investing consumers' money. Recognising what went wrong in the course of these corporate scandals and combining this insight with consumers' expectations will help to answer the research questions and make recommendations.

The scope of this study does not focus on public companies that fail as this is subjective and differs from company to company as the case may be. In light of the subjective facts that led to every individual company's failure, the scope is not to delve into specific failures as the scope would be too wide for the purpose of this mini-dissertation.

Answering the research questions might aid further studies to conclude how legislation and regulations should be optimised to avoid corporate failures in the future.

1.6 Assumptions

The author made the following assumptions: the study is purely quantitative in nature. Questionnaires were formulated and distributed to respondents to answer the research questions, whereafter the author formulated recommendations. Against this backdrop, it was assumed that all respondents would complete the questionnaires honestly and truthfully. It was further assumed that all academic and other literature that this study relied on is correct.

2 Research Methodology

2.1 Research approach

Bryman *et al*. (2017:31) state that the "quantification of aspects of social life is all that distinguishes qualitative and quantitative research". As this study was purely quantitative, questionnaires were distributed and the data analysed to draw certain conclusions.

2.2 Literature review

Chapter 3 takes the form of a literature review of the known literature on the topic. It is important to acknowledge this literature before moving to the empirical study.

2.3 Empirical study

Chapter 4 discusses the empirical study: the essence is that the quantification of observations by respondents shows how the majority perceive a social aspect of life. The study is therefore purely quantitative. Data was collected by creating questionnaires, which were circulated to the public at large. After receiving feedback about the questionnaires, the author requested the Data Statistical department at North-West University to convert the data into figures and percentages. The intention was to use percentages and other variables to demonstrate how people interact with institutional investors and public companies. Furthermore, how respondents expect institutional investors to interact with the public companies in which they are shareholders. Figure 1 illustrates the procedure of the empirical study.

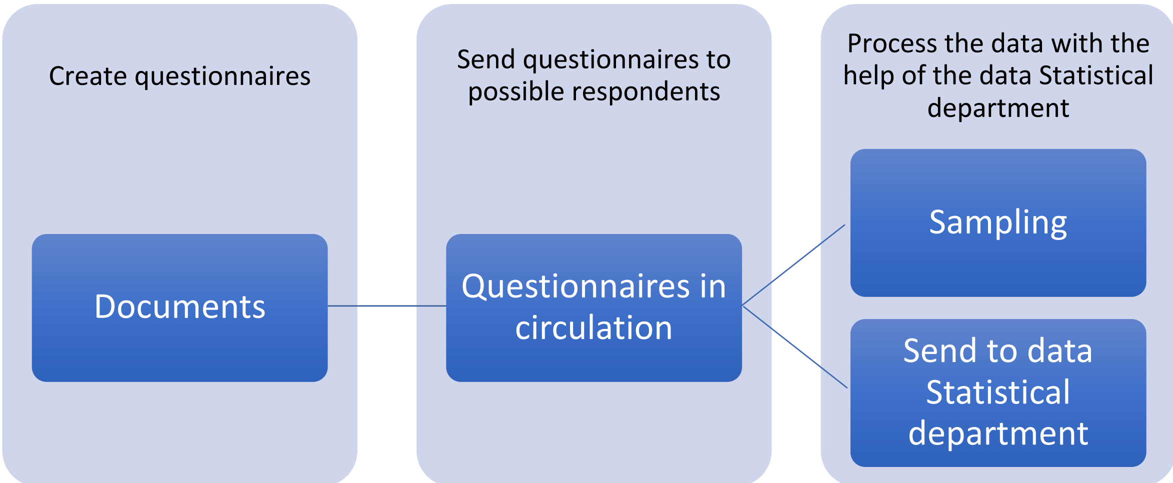

Figure 1: Flow diagram illustrating the empirical process

Combining all these factors and putting them into perspective assisted the author of the research to come to certain conclusions and to answer the research questions this study aims to answer.

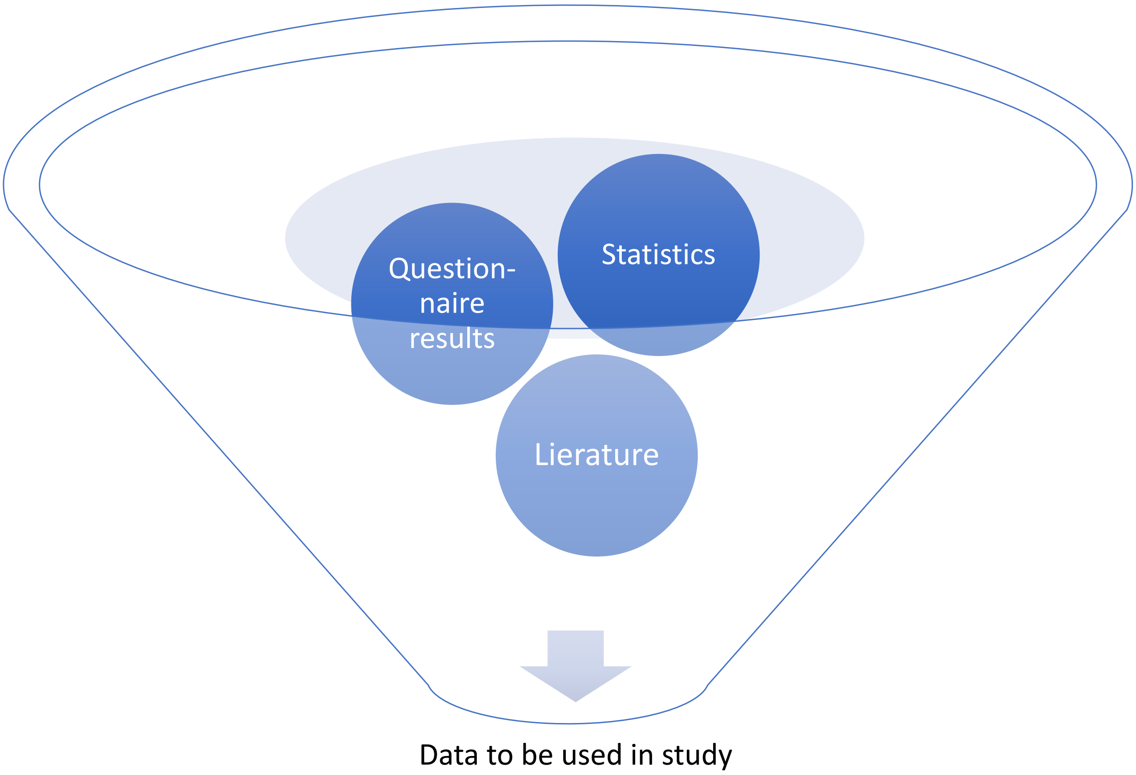

Figure 2: Illustration of data to be used in the study

2.3.1 Cross-sectional research

When collecting data, it is preferable to have a large sample that can be obtained quickly and cost effectively. One should remain mindful of the cohort effect while using this approach. The nature of this study is such that it could target a large variety of age groups without getting inaccurate results because a certain age group was favoured over others. Hence, it must be ensured that a variety of respondents from different backgrounds and income levels are reached (Bryman *et al*., 2017:108-110).

However, it was not necessary to demonstrate any correlation between different demographical groups and the outcomes of this study. Therefore, the author did not test differentiations in sex, age, race and occupational background at all. The objective of keeping this study credible was achieved by distributing the questionnaires to more than 2000 potential respondents of no specific targeted demographic.

2.4 Population and sampling

Questionnaires were distributed to individuals to understand the expectations of the capital investor while interacting with the institutional investor. One should remain mindful of non-probability sampling. Therefore, it was decided not to approach random working class people from a specific town or city as the risk of being biased was too high.

To obtain a random population sample, the author employed the following tactics: Firstly, the questionnaires were distributed to more than 2000 random people by sending a link via email. Secondly, a link to the questionnaire was sent to all the author's contacts with a request to further distribute the link. Thirdly, the link was posted on various groups on Facebook for possible respondents to click on and complete.

The author therefore submits that by using technologically advanced ways to distribute the questionnaires, the population comprised a large number of random individuals. The window to complete the questionnaire only remained open for a short amount of time.

It is accepted that due to the nature of this study, the relevant primary question is whether the respondent contributes to a pension fund or retirement annuity in South Africa. Persons who do not contribute to such funds cannot be seen as consumers. Therefore, such a person's response was excluded completely. However, as many as possible respondents who do contribute to any of these funds would be included for purposes of getting a large sample size rather than doing randomised sampling. This method provided random, non-biased and accurate information that could be relied upon to come to conclusions.

2.5 Data collection

The questionnaire was developed by the author and was distributed to a large volume of respondents. Data was collected using a spreadsheet format, from which it was converted to data that could be used for statistical analysis and various charts.

2.5.1 Questionnaires

The questionnaire indicated all the necessary ethical requirements to protect the respondents, the university and the author. A blank copy of the questionnaire is attached to this document as Annexure A. This questionnaire was distributed via various electronic means and included a link that enabled the respondent to complete the questionnaire online in no more than five minutes.

2.5.2 *Data collection*

Data was collected by creating the mentioned questionnaires, which were circulated to the public at large as described above. After all the feedback was received from the questionnaires, the Data Statistical department of the North-West University was requested to convert the data into figures and percentages. This study used percentages and other variables to show how consumers interact with institutional investors and what they expect of investors. The data assisted the author to come to certain conclusions and to answer the primary and secondary research questions.

2.6 Research ethics

It is of extreme importance that the identities of the respondents are kept confidential and anonymous (Bryman *et al*., 2017:122-131). To this effect, a confidentiality clause was added to the electronic portal. The clause explained that respondents' personal information would be completely anonymous and would not even be known to the author of the study, and that they could quit the questionnaire at any stage. The respondents had to select a tick box to indicate that they have signed the clause. Selecting the tick box indicated informed consent regarding the nature of the research.

For a significant portion of this research, the author was a member of a voluntary association known as the Pretoria Society of Advocates. As such, he needed consent to conduct a study of this nature, which was provided and given to the North-West University to obtain ethical clearance.

The data collected is stored on a password-protected computer to which only the author has access. The data was only used for this study and will be discarded when the time is right (Bryman *et al*., 2017:128).

In order to respect ethical preferences, the author did not differentiate data using controversial differentiations, such as sex and race. These demographics were further considered irrelevant for the purpose of answering the questions this study aimed to address.

3 Literature Review

3.1 Objectives of an investment

This study starts where any prospective shareholder would be at the point of deciding which company to invest in. According to Shah (2018), one should always invest your money in a company that you are familiar with. It is further crucial to study the “background of the company, its financial dealings, types of management and other things” (Shah, 2018). Shah (2018) warns against opting for the cheapest stock available but rather to prefer quality and potential long-term earnings. Cheap stock can be a good indicator of a company whose business is running slow.

Shah (2018) focuses on three key attributes, namely, the revenue growth of such a company, its debt, and the frequency of paying dividends. The rationale behind this three-point check is that a company with higher revenue, which is not necessarily from debt, has a higher share value; a company that pays frequent dividends is a sign of a profitable company. According to Boyte-White (2018), profitability is a fundamental indicator.

> *“However, what really drives fund managers’ stock-picking decisions are the stated goals of the funds they manage. Different mutual funds are designed to achieve different investing goals, which varying levels of risk.” (Boyte-White, 2018)*

Boyte-White (2018) differentiates between five different kinds of funds, namely, index funds, dividend funds, growth funds, value funds and arbitrage funds, which are discussed in the sub-sections that follow.

3.1.1 Index funds

Managers have to build a specific index, which is seen as passive investing because the funds need to match the index’s return and not to beat them. If profits reach the prescribed index, the funds or security will be withdrawn as the objectives have been met (Boyte-White, 2018).

3.1.2 Dividend funds

The goal of a dividend fund is to secure the highest possible dividends from securities held. Fund managers handpick stocks that generate the largest dividend yield per year.

It is important to bear in mind that the dividend is calculated in relation to the value of the share (Boyte-White, 2018). The more shares the fund managers buy with a specific amount of money, the more dividends are accumulated as each share pays a dividend, the same as the next share. For example, the $3 per share dividend that Microsoft Corporation paid shareholders in 2004 (Boyte-White, 2018).

3.1.3 Growth funds

The notion behind growth funds is focusing on how a company will grow rather than paying dividends. Growth fund companies are projected to expand quickly rather than being able to create long-term sustainable growth. Securities are traded quickly and bought at a lower price, and then sold after large spikes before moving to the next opportunity (Boyte-White, 2018).

3.1.4 Value funds

With value funds, the fund manager focuses on the value of a company in respect of its assets and does not necessarily focus on companies that are trendy to invest in. A value fund is usually a company that is rated lower than its peers, which could be due to a bad quarterly review. However, the person rating these companies considers factors other than the actual asset value of the company (Boyte-White, 2018).

3.1.5 Arbitrage funds or alternative funds

According to Boyte-White (2018), arbitrage funds "utilize some of the strategies employed by riskier hedge funds to generate increased gains". The strategy is to buy and sell the same securities on different exchanges due to price differences. Boyte-White (2018) gives the following example: "buying on the London Exchange and selling on the NASDAQ, or buying on the cash market and selling on the futures market".

To be successful in arbitrage fund trading, one must invest in securities that provide the highest potential profits. This type of trading can be the subject to political or criminal scrutiny (Boyte-White, 2018).

3.2 South Africa in relation to the world

Eight of the 500 largest asset managers worldwide are located in South Africa. The largest asset manager in South Africa is Investec Asset Management who came in at number 124 followed by Sanlam at number 191 (BusinessTech, 2017). From this backdrop, the study contends that South Africa competes with the world and quite fairly so where asset managers are concerned.

3.3 Legislation

South African legislation is the authority that calls legal persons, such as private and public companies, into existence by their incorporation. The Companies Act (71 of 2008), in this regard, plays the largest role. Other relevant legislation includes the Pension Act (24 of 1956) and Regulation 28 of the Pension Act (24 of 1956).

3.3.1 Companies Act (71 of 2008)

South African company relations are governed by the Companies Act (71 of 2008). The Act empowers the shareholder of a company with its rights and responsibilities. It focuses more on the rights of the shareholder because in the scheme of public companies in South Africa, a shareholder is described as a person or an entity that carries the risk of not always being listened to. This risk is due to the nature of being a shareholder: the shareholder does not partake in the daily decision-making and management of the company. However, shareholders set the direction in which the management of a company, including its board, is steered.

Section 41 of the Companies Act (71 of 2008) stipulates in short that the rights to grant certain options to shares must be approved by the shareholders of a company if those shares, securities or options or rights are issued to, amongst others, a few specific persons such as directors or future directors of the company. Shareholders are entitled to vote at shareholders' meetings and can do so by proxy (section 58 of the Companies Act, 71 of 2008).

Section 61 of the Companies Act (71 of 2008) regulates how shareholders meetings should take place. The Act further makes provision that shareholders may call for a shareholders meeting themselves in compliance with the memorandum of incorporation of that company and the Companies Act (71 of 2008). Section 61(7) of the Companies Act (71 of 2008) states that public companies, such as the one studied in this research, must hold a general meeting with its shareholders within 18 months from incorporation. Thereafter, the annual general meeting (AGM) should take place every calendar year but no more than 15 months after the date of the previous meeting. According to section 61(10) of the Companies Act (71 of 2008), such meetings must be accessible to shareholders within the Republic of South Africa.

Section 61(1)(a) of the Companies Act (71 of 2008) specifies that shareholders must receive notice of meetings at least 15 business days before the meeting. This notice must be in writing and must include the date, time and place of the meeting; the general purpose of the meeting; and the financial statements as supplied to the shareholders. Sections 64 and 65 of the Companies Act (71 of 2008) stipulate that the meetings may only proceed once there is a quorum of shareholders present; whether they are there in person or by way of resolution. Shareholders are responsible for appointing directors and may even vote to remove directors from the board (section 61 of the Companies Act, 71 of 2008).

Hence, from the literature, this study concludes that the purpose of the Companies Act (71 of 2008) is to protect shareholders' interest and to arm shareholders with various tools to be in a position to run the strategic direction of the company they invest in or at the very least partake in such decisions. A shareholder could therefore decide the direction the company takes and make any decision, whether good or bad, for the company it has a share in.

3.3.2 Pension Fund (24 of 1956)

Section 9 of the Pension Fund Act (24 of 1956) makes provision for an auditor, who is duly registered under the Auditing Profession Act (26 of 2005), to amongst other:

> *"… when becoming aware of any matter relating to the affairs of the Pension Fund, which in the opinion of the auditor, may be prejudiced to the Fund or its members, inform the Registrar thereof in writing."*

Although the Pension Fund Act (24 of 1956) has very strict compliance measurements in place regarding how funds should be administered, it discloses very little regarding the investment itself other than that it must be done with care.

3.3.3 Regulation 28 of the Pension Fund Act (24 of 1956)

Mr Pravin Gordon, Minister of Finance at the time, called for Regulation 28, made under Section 36 of the Pension Fund Act (24 of 1956). In essence, Regulation 28 provides requirements of how assets are to be spread with the intent to promote prudent investing and sustainable long-term performance (Regulation 28, Pension Funds Act, 24 of 1956). Section 2(a) of Regulation 28 (2011) provides that any funds, which include funds for the purpose of this study driven by institutional investors, must comply with the limits set out in Regulation 28 at all times.

Section 2(c) of Regulation 28 (2011) promotes education of the board “with respect to pension fund investment, governance and other related matters” and “monitor compliance with this Regulation 28 by advisors and service providers”. Furthermore, this section promotes Broad-based Black Economic Empowerment of those providing services and “ensures that the fund’s assets are appropriate for its liabilities”. This sub-section promotes the performing of proper due diligence, the understanding of risk of the profile of assets from time to time, and the sustainable long-term performance of assets but not to the detriment of environmental, social and governance (ESG) measures.

Section 3 of Regulation 28 (2011) sets the limitations for the prescribed assets in which a fund may invest. The aggregate exposure in terms of this section may not exceed 35% of the total value invested in the assets of a fund in an:

- Asset or instrument not listed on an exchange;
- Preference and ordinary shares in companies excluding shares in property companies not listed on the exchange;
- Immovable property, preference and ordinary shares in property companies, and linked units comprising shares linked to debentures in property companies not listed on an exchange; and
- Hedge funds, private equity funds and other assets not regulated in this schedule.

Section 3 of Regulation 28 (2011) has a further limitation in that the total percentage invested in the following may not exceed 15% of the total assets of a fund:

- Preference and ordinary shares in companies, excluding shares in property companies, not listed on an exchange; and
- Private equity funds.

The tables in Regulation 28 (2011) include several assets with percentages that limit what may be invested in. For the purpose of this literature review, the reader can accept that a comprehensive list is included with the aim of minimising risk to pension funds when investing. The very nature of Regulation 28, as disclosed above, is to minimise risk and to keep institutional investors from investing pension funds in however and whichever way they deem appropriate. The effective date stipulated in Regulation 28 was 1 July 2011 (2011:19).

3.4 Codes of good practice

Certain regulations, such as the King reports and the Code for Responsible Investing in South Africa (CRISA) are not legislation, but rather good practice indicators that cannot be ignored; or if ignored, it is done at one's own peril.

3.4.1 King IV

King IV, similar to as the previous King reports, is a philosophical and voluntary set of principles for good corporate governance and practices in the South African corporate industry (IODSA, 2016). Wherever the report is in contrast with the Companies Act (71 of 2008) or any other existing source of law, legislation will enjoy preference over the King IV report (IODSA, 2016). King IV has, however, become the standard for JSE-listed companies as it sets out principles for good governance that might also lead to lower risk of investing in such a company (IODSA, 2016).

Amongst other differences between King IV and the previous King reports, the most relevant difference for the purpose of this study is Principle 17 of King IV, namely, for first time deals with an institutional investor. Principle 17 states that:

> *"The governing body of an institutional investor organization should ensure that responsible investment is practiced by the organization to promote the good governance and the creation of value by the companies in which it invest." (IODSA, 2016:73)*

The author of this research proposal therefore states that there was very little literature before 2017 regarding what King said about the institutional investor (IODSA, 2016:73). The author wishes to discuss this sound principle as it is a responsible and good principle for what this study aims to achieve. The principle is divided in two sub-principles:

- Ensure responsible investment; and
- Promote good governance and create value in companies which it has invested.

Regarding the first sub-principle, namely, ensuring responsible investment, the author foresees that it might not always be clear what good investment principles are. One cannot help but to contend that there is some scope for interpreting what the principles are. Surely, someone would have to give an opinion regarding responsible investing. The fear is that the person giving feedback might be too closely related to the investment of that company or just have his/her own opinion about investing in a certain company.

The second sub-principle, namely, to promote good corporate governance, which one assumes would add value to any such a corporation, could be more achievable. If the good sound corporate governance issues as outlined by the Companies Act (71 of 2008) and the King IV (IODSA, 2016) reports are practised by institutional investors and are forced upon the companies in which institutional investors vote with their money, it could and probably would limit risks.

However, we do not know how far those risks will be eliminated, but we do know through the Steinhoff scandal that even if a company applies sound corporate governance, on paper, it is not impossible to fail. From the work of Wierzycka (2017) the author contends that although on paper Steinhoff seemingly had excellent principles in place for corporate governance structures with very clever and reputable directors, it still managed to fail. The questions to ask are therefore:

- Have the good corporate governance issues outlined on paper ever been followed?
- How do good corporate governance issues and practices lead to companies that succeed?

King IV recommends certain practices; for example, the institutional investor should "assume responsibility for governing responsible investing by setting the direction for how it should be approached and conducted by the organization" (IODSA, 2016:73). This recommendation could have certain shortcomings. Although it could be a large organisation with substantial access to funds, the institutional investor could still only have a small share in the public company, which could be too small to make a real difference compared with other shareholders. Therefore, the second practice recommended by King IV is that:

> *"The governing body should approve policy that articulates its direction on responsible investment. This policy should provide for the adoption of a recognized responsible investment code, principles and practices."*
> *(IODSA, 2016:73)*

The notion of policy that articulates the direction for responsible investment is one that should be set above all others as it can be argued that responsible investing might definitely limit certain risks in this field. One has to wonder what would be necessary in order for an institutional investor to have the required resources to make such responsible investment possible. The question remains: What is responsible investing?

A noteworthy positive statement is that a policy must be set for this company, namely, the institutional investor. This would aid accountability as the public could consider this possibility, see what the investment principles are, and then decide whether to invest. If it is later found that the institutional investor made unsound investments, the public could return to the policy and identify wrongdoers. It could even be that with these sound policies, it would be more lucrative for the public and other smaller institutional investors to trust these institutional investors with their funds.

King IV sets a further principle for institutional investors:

> *"… to outsource investment decisions or investment activities to custodians, nominees, consultants or other service providers, the governing body should oversee that the outsourcing is regulated by formal mandate which reflects and gives effect to responsible investment policy that the governing body should ensure that service providers be held accountable for complying with their formal mandate." (IODSA, 2016:73)*

The foreseeable difficulty is that with more service providers and role players in this investment cycle, there is progressively more scope for error and increasing uncertainty of what a sound investment is.

A further practice proposed by King IV is that a "responsible investment code adopted by the institutional investor and the application of its principles and practices should be disclosed" (IODSA, 2016:73). This again brings one back to the argument that institutional investors who give feedback to the public regarding their principles and stances are likely to be more lucrative to the public at large. There could be a paper trail that gives the investor recourse should such an institutional investor invest in a company that is found to be an unsound investment.

From the literature above and by considering the large corporate failures mentioned in this document, it is concluded that despite good corporate governance measures, some corporations do still fail. These corporations are funded by monies that an institutional investor had its hands on at least for some time. To improve the codes set by King, different experts have to conduct extensive further research to consider the different variables.

3.4.2 CRISA

The wake of the King III and King IV reports caused CRISA to be launched in 2011 (Naidoo, 2015:122). To this effect, Naidoo (2015:123) states:

> *"… the philosophy underlying CRISA is that institutional investors have fiduciary duties to their investors and that they are able, by virtue of their large shareholdings, to positively influence investee companies to apply sound governance principles."*

This narrative again boils down to proper corporate governance on the institutional investor's side. Sustainable and responsible investment is an approach whereby institutional investors consider financial objectives in conjunction with ESG issues to make investment decisions (Giamporcaro & Pretorius, 2012). The Committee on Responsible Investing by Institutional Investors in South Africa, led by its chairman, John Oliphant, committed themselves to launch CRISA, which focuses on five key principles (Oliphant, 2011:4).

Principle 1 promotes the sustainable management of ESG responsibilities (Oliphant, 2011:3). However, the most relevant for this study is probably Principle 2, which states that "an institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities" (Oliphant, 2011:10). Oliphant (2011:10) elaborated that this could be achieved by developing and executing extensive policies dealing with ownership responsibilities. Another important note under Principle 2 is that the institutional investor should ensure that outsourced third parties also comply with the provisions of CRISA (Oliphant, 2011:10).

Principle 3 promotes a collaborative approach to implement the CRISA principles with all stakeholders, including the shareholders and service providers (Oliphant, 2011:11). Principle 4 indicates that the institutional investor should recognise potential conflicts of interest. Principle 5 promotes transparency about policies and the implementation thereof (Oliphant, 2011:11).

3.5 Informal workings

Legislation already demonstrated what institutional investors should do to better protect pension fund and retirement annuity contributors against financial loss. These actions are not only governed by national legislation, but also by sound and comprehensive codes of conduct. However, one cannot help but wonder if these formal rules and laws are actually applied, and if not, how do these large corporates actually function?

Styan (2018:45-55) describes that Steinhoff's Markus Jooste and Christo Wiese had high-level connections and business alliances by being part of what was unofficially known as the 'Stellenbosch Mafia'. The Stellenbosch Mafia got their nickname due to the complex and apparently prominent cliques in the business industry around the Stellenbosch area. According to Styan (2018:70-73), Steinhoff avoided taxation and optimised its operations by registering in the Netherlands. In fact, 14 of the 20 largest JSE-listed companies have affiliates registered in the Netherlands (Styan, 2018:72).

Styan (2018:98-103) states that activists have been asking difficult questions about Steinhoff since 2014. These questions addressed, amongst others, shady transactions and directors' share transactions. Their questions were met by Steinhoff's attorneys or evoked responses from irritated directors. Activists felt strongly that minority shareholders in Steinhoff did not have the same information as directors (Styan, 2018:102). Styan

(2018:110) contends that nobody near Jooste would have stood up against him: if you said no to a request by Jooste, you were out.

On Tuesday, 5 November 2019, almost exactly 23 months after the Steinhoff freefall, an independent director of Shoprite Holdings, Professor Shirley Zinn, resigned with immediate effect, whereafter Tarrant (2019) remarked that "lead directors don't simply resign with immediate effect". Zinn's resigned after an AGM in which about 61% of shareholders in Shoprite Holdings voted against reappointing Wiese as chairman of the company, but "because of the high-voting deferred share under the control of Wiese's Thibault Square Financial Services, the resolution passed" (Tarrant, 2019). Wiese is connected to Steinhoff as a former chairman of Steinhoff (Tarrant, 2019). Regarding Shoprite Holdings voting at its AGM, Brand-Jonker (2019) stated that:

- Coronation, an institutional investor, refused to answer on how they voted and why;
- Allan Gray, an institutional investor, indicated that they do not hold shares in Shoprite Holdings; and
- Sanlam Investment Management, an institutional investor, indicated they voted against Wiese's re-election.

The author contends that despite reappointing the chairman of Shoprite Holdings, who has known ties to Steinhoff and is in control of high-voting shares through Thibault Square Financial Services, there were still institutional investors who invested in Shoprite Holdings, at least until 4 November 2019 being the date of the AGM.

3.6 Other relevant academical publications

Chung and Zhang (2011) assert that even though institutional investors have a large volume of assets that they manage and trade, there is still no consensus whether they primarily act as monitoring agents advocating the adoption of best practices of corporate governance. Giamporcaro (2018) states that:

> *"With Africa struggling to meet its sustainable development goals, responsible investment has a key role to play, and ESG (Environmental, Social and Governance) provisions will be crucial in catalysing additional capital flows."*

Giamporcaro (2018) notes that after several high-profile corporate governance scandals, "the proposal by the Financial Sector Conduct Authority to make it compulsory for Pension Funds to report on how they implement ESG provision in their investment approach, could be a game changer". The basis of this proposal is that South African pension funds will be compelled to show how they have applied these ESG factors, how they have complied, and how they have assisted with the sustainability thereof. Although environmental and social responsibilities have merit in their own fields, the author of this study is more interested in the governance portion of the ESG initiative.

Giamporcaro (2018) declares that "more often than not, South African institutional investors and their fund managers do not ask the right questions, or consider the risks associated with ESG factors". She continues by outlining the collapse of the microlender African Bank Investments in 2004, the Lonmin saga after the Marikana tragedy, and the recent Steinhoff debacle in 2017. Giamporcaro (2018) emphasises that:

> *"… arguably, one of the major shortcomings of businesses is that it is motivated by short-term profit, and therefore investment decisions seem to be made without taking longer-term views. ESG matters, by their very nature, should compel businesses to take a longer-term view. Yet in South Africa, and indeed across the continent, ESG is for most part regarded as a compliance issue and not recognized as a value adding activity, despite growing evidence to the contrary."*

Giamporcaro (2018) observes that certain financial institutions, such as Old Mutual, have already put certain plans into motion to promote the ESG index of their funds with about R2 billion committed by institutional investors. Giamporcaro (2018) concludes by stating that:

> *"… it is to be hoped that stronger regulations in South Africa, could help to shift short-sighted and deeply ingrained views around ESG factors, as they did in Europe. For Africa, a continent that needs billions annually to meet the United Nations sustainable development goals, but with limited resources to do so, the role of ESG will be crucial in terms of catalysing additional capital flows."*

According to Giamporcaro (2018), the conclusion that can be drawn from this study is not necessarily the lack of understanding the field of ESG issues, but rather the enforcement thereof. Hence, the questions to be asked are:

- Should the King IV guidelines be adopted as law?
- If the compliance with this law is policed, what would the effect be in relation to public money?

Loman, as quoted by Dzonzi (2018), remarks that:

> *"The Steinhoff scandal sparked many things, including a lot of finger pointing, as to where the blame should lie. One of those accused from the auditors to the analyst was the Johannesburg Stock Exchange, the location of Steinhoff's secondary listing. While the JSE may not have had the means to wholly prevent the fallout from the accounting scandal, there are some measures it can take to prevent a repeat occurring. And off the back of this the bourse has decided to tighten regulation, as this year problems outside of Steinhoff, including Viceroy short sellers causing panic in stocks like Capitec and Aspen, caused panic amongst investors. The JSE is seeking comment on the recommended proposals, which will be open until 22 October [2018]."*

This quotation on its own explains the importance of this study and subsequent studies that might follow. This is a current and very real issue that needs to be addressed. Newton-King, as quoted by Dzonzi (2018), comments that:

> *"The speed and the unexpectedness of the Steinhoff event obviously caught everybody off guard and I would say that that was the point of ignition. People started to raise questions that they had not raised before. But when it comes to proposals, the theme here is disclosure."*

Burke, as quoted by Dzonzi (2018), states that, "We as regulators learn, we learn from mistakes and loopholes people make." This study therefore contends that stronger listing regulations are being created and that the JSE is seeking recommendations regarding this. From the literature, the author argues that these stronger JSE-listing regulations are a direct result of Steinhoff and their 'friends' (referring to other companies that recently failed).

Recommendations that are considered by the JSE are widespread and range from racial and sexual diversity on boards to doubling notice periods of new stocks that want to start trading (Dzonzi, 2018). Several current proposals, however, relate to the composition, duties and diversity of the board of companies, and strengthening requirements for listings in respect of auditing committees.

After reviewing the relevant literature, the author proposes that there have been several issues in the past that have led to corporate failures. To this point, there are relatively new but good literature regarding the proposed requirements to avoid failures in the future. However, most literature focuses on the institutional investor, which is correct. Nonetheless, the author wants to establish what the actual owner of the investment, namely the consumer, expects from the institutional investor who controls the investment. It is clear that the consumer needs to do more, but to please every consumer might be a tall ask. Thus, this study aims to ascertain what most consumers expect from institutional investors who oversee their investments. Naidoo (2015), in quoting *The Guardian*, emphasises that institutional investors "will have to behave more like owners rather than passive and temporary holders of financial assets".

One must not forget the power that a shareholder in a JSE-listed company has. Such an investor can cause the share price to plummet by mass dumping (Naidoo, 2015:122). The institutional investor and public JSE-listed company are interdependent on each other. The entire field as a whole needs to be addressed to understand more specifically what is expected from the institutional investor as a shareholder in the public company.

Arand *et al.* (2015) examined whether "informativeness depends on the strength of the regulatory environment of a country and the regulatory background of the institutional investor of a company." They came to a robust conclusion after demonstrating that analyst forecasts are more valuable when the majority of institutional investors are from a strong investor-protected country. The author therefore contends that a strong regulatory background and system of a country should improve the forecasts of its institutional investors.

In recent times, we have also seen that aspects such as ESG responsibility have a high priority, which also holds true for the author. Pfeifer and Sullivan (2008) affirm that institutional investors have a substantial responsibility and capability to change aspects such as climate change. This aspect leans towards the environmental side of the responsibility, whereas this study focuses more on the governance of institutional investors. The point the author wants to make is that the role of the institutional investor as a shareholder in public companies is emphasised all over the world.

Jones *et al.* (2008) used the theoretical framework developed by Dechow and Dichev (2002) to analyse the relation between institutional investor participation and earnings quality. Agency theory states that “another person cannot look as well after your own stuff as yourself, require a protection by separation of incumbency of roles of the board, chair and CEO” (Donaldson & Davis, 1991). They note that the stewardship theory does, however, provide some support to the investor because the institutional investor should act as a steward of the investor’s interest. Bebchuk *et al*. (2017) crystallise this position by stating that investment managers “invest other people’s money”. They ask whether stewards’ decisions would be the same under these circumstances than it would be if they only invested their own money (Bebchuk *et al.*, 2017:93).

The author found that to comprehend agency problems, one has to understand that modern enterprises “do not suffer from too much shareholder intervention, but rather from too little” (Bebchuk *et al*., 2017:11). As one can assume, this problem is not confined to South Africa only. Ivanova (2017) studied institutional investors based in the United Kingdom (UK) by conducting 25 qualitative interviews to discuss challenges that institutional investors experience in the stewardship context. The conclusion was that although barriers are great, they would be facilitated at least partially by regulation (Ivanova, 2017:185). The author contends that investor activism may be hindered by a fear of breaching legal rules (Ivanova, 2017:185). McCahery *et al*. (2016) emphasise conflicts of interest as barriers to the institutional investor.

De Lima *et al*. (2018) explain the advantages of constitutional investors. They point out that institutional investors are “sophisticated investors with a competitive advantage over the individual investor”. According to these authors, this is particularly true in “common law countries and high anti-director rights index countries” (De Lima *et al.*, 2018:116). Tao *et al*. (2018:3454), however, found the exact opposite – participation by institutional investors has a significant negative impact on short-term return of stocks.

Zhang (2016) conducted an empirical study on institutional investors in South Africa and China. This study found that greater pressure on the institutional investor improves corporate governance compliance. It was further found that institutional investors would not accept suboptimal financial performance to pursue ESG principles.

Against this backdrop, the author concludes that revenue should have a better yield if it is managed by an institutional investor rather than a lay person investing his/her own money. This, however, is not the aim of this study and is a limitation as discussed in Section 2 – Research Methodology.

There are mixed opinions, at least in certain countries, regarding the financial implications of involving institutional investors, which indicates the relevance of these and further studies in the field. At the time of the study by Hendry *et al.* (2007), there was already a large contingency of shareholder activism in the industry. It is driven by optimal financial performance and the requirement to keep institutional investors accountable. The Financial Sector Conduct Authority fined Metropolitan Collective Investment R100 million after it lost two-thirds of its value in half a week in December 2015 (Anon., 2019). Thus, the author can conclude that authorities are holding institutional investors accountable at least to some extent for shockingly poor performance.

4 Empirical Study

4.1 Introduction

Using the research methodology described in Section 2, the author constructed an empirical study to add the results thereof to the known literature. The aim was to come to a conclusion and make recommendations. This chapter focuses on the outcomes and analysis of the empirical study.

4.2 Research approach

This was a quantitative study in which surveys were circulated to potential respondents using various electronic means. All responses were captured through Google Forms.

4.3 Research design

4.3.1 Questionnaire

A copy of the questionnaire hosted on Google Forms is attached to this document as Annexure A. The questionnaire contained 15 multiple choice questions that respondents had to answered by selecting the relevant tick box. The first question was the only questioned posed to qualify whether the respondent's responses would be credible.

The qualifying question asked whether the respondent contributes to any pension fund or retirement annuity in the Republic of South Africa. If respondents do not contribute to any of these funds, they are not consumers of such institutional investors, and with respect, stand to be excluded. The 14 remaining questions tested certain variables regarding what respondents expected of an institutional investor under certain circumstances.

4.3.2 Measuring the variables

The questionnaire was distributed to more than 2000 potential respondents, of which 215 completed the questionnaire. Of these responses, 187 were credible and 28 were considered invalid and disregarded. Twenty-five of the 28 disregarded responses were respondents who indicated that they do not contribute to any pension fund or retirement annuity in the Republic of South Africa. Seeing that institutional investors who invest in South African public companies were the subject of this study, these responses were considered unusable.

A further response was excluded because the respondent selected the ‘other’ option as his/her funds are in Germany due to having a German employer. This response was excluded as the focus is on South African companies. Another respondent was excluded for selecting the ‘other’ option because he/she has a property portfolio. This response was excluded for the obvious reason that such investment is in fixed property, which is not in the control of an institutional investor. One respondent indicated that he/she contributes or invests in life insurance. The author is of the view that this is not necessarily a disqualifying factor as monies paid for life insurances may also be invested by an institutional investor, but due to the sake of caution, this response was excluded.

A further respondent indicated that he/she invests in a provident fund. However, this response was included as a provident fund and pension fund are essentially the same; there may be just a small proviso and difference in the payout of such monies. The author feels that this is credible and therefore included this response. According to Netto-Jonker (2019), the main difference between a pension and provident fund “is how you receive your fund benefit at retirement”.

The qualifying respondents comprised people contributing to pension funds, retirement annuities, both retirement annuity and pension funds, and one respondent contributing to a provident fund. Figure 3 shows the representation of the respondents in terms of contributions. Being the only qualifying question in the survey, not much focus is given to the difference between a pension fund, a retirement annuity, or a combination of the two as these are all respondents the author aimed to collect certain variables from.

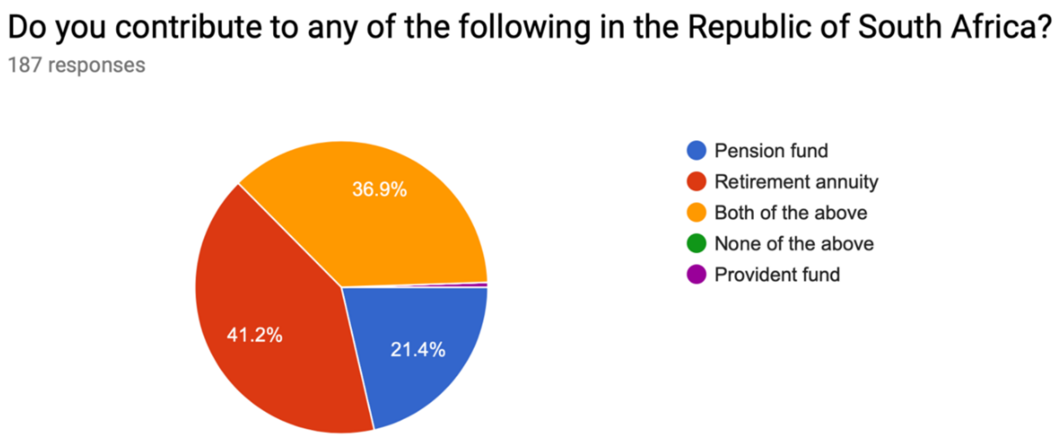

Figure 3: Study sample

Thereafter, the author wanted to determine if the respondents know where their pension fund or retirement annuity is being invested. Of the 187 respondents, 123 indicated that they do know where those funds are being invested as they either *agree* or *strongly agree* from the options provided. Figure 4 gives a breakdown of how the respondents answered this question.

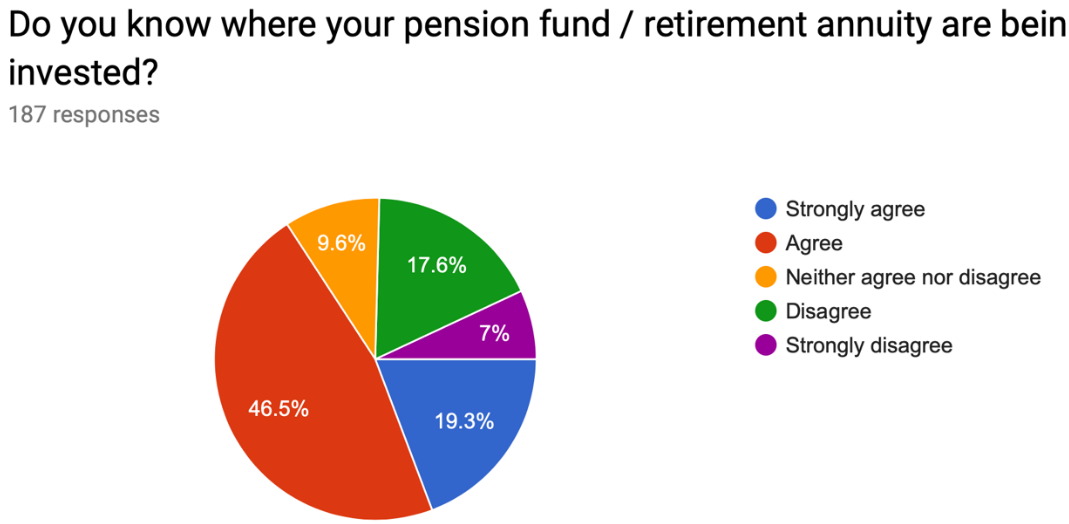

Figure 4: Respondents' knowledge regarding where their funds are invested

The participants were asked whether they have control over which pension fund or retirement annuity their money is being invested in. The author concludes that the feedback was quite neutral in that 86 respondents indicated that they do know, 78 that they do not know, and 23 were neutral on the topic. Figure 5 shows the responses to this question.

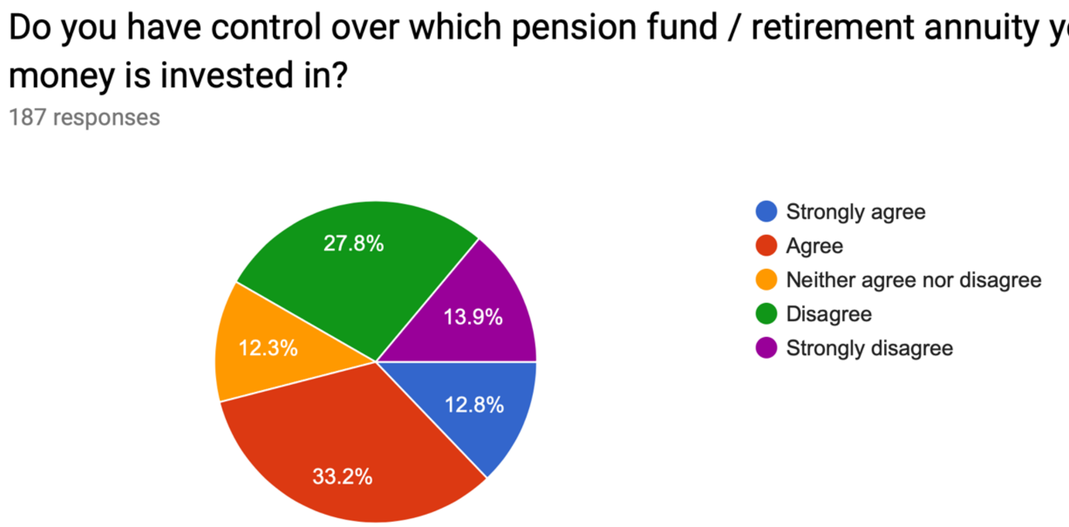

Figure 5: Respondents' control over where their funds are being invested

The respondents were asked if they think that monies invested in pension funds and retirement annuities are threatened by corporate scandals, which can cause share prices to plummet. Of the respondents, 154 respondents indicated that they agree, nine respondents disagreed, and 24 respondents were neutral on the topic. Figure 6 provides a breakdown of the respondents' answers.

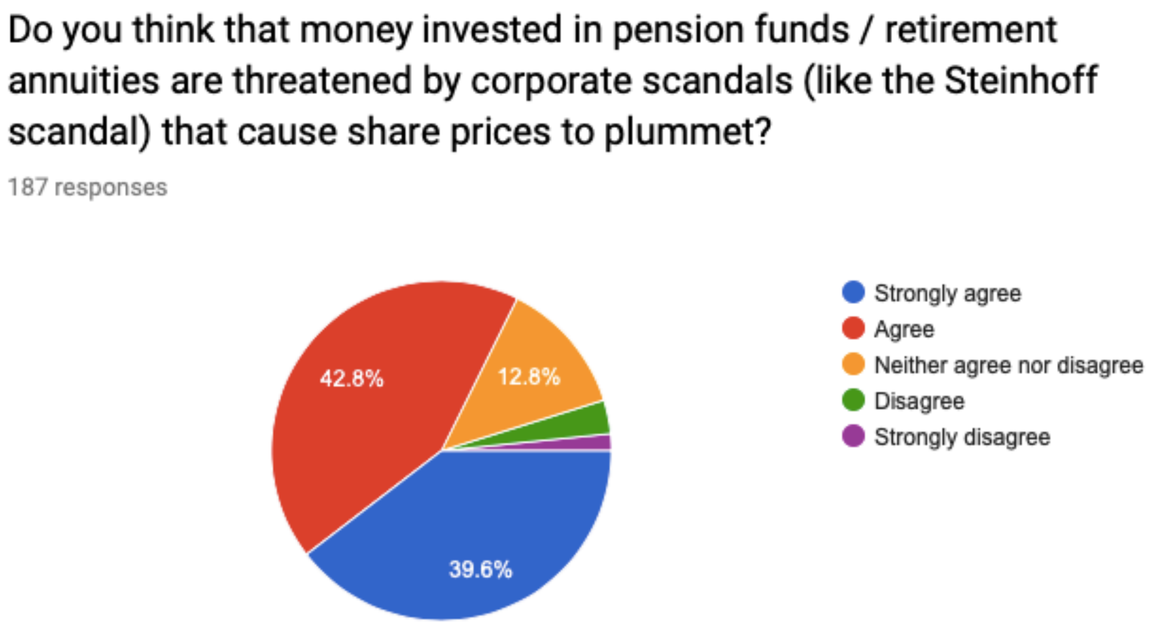

Figure 6: Respondents' views regarding perceived threat of corporate scandals

Against the backdrop of recent corporate scandals, the respondents were asked if they believe that institutional investors could do more to protect consumers against financial loss when corporate scandals occur. Of the 187 respondents, 167 agreed, only six respondents disagreed, and 14 were neutral on the topic. Figure 7 shows the detailed results of the respondents' answers to this question.

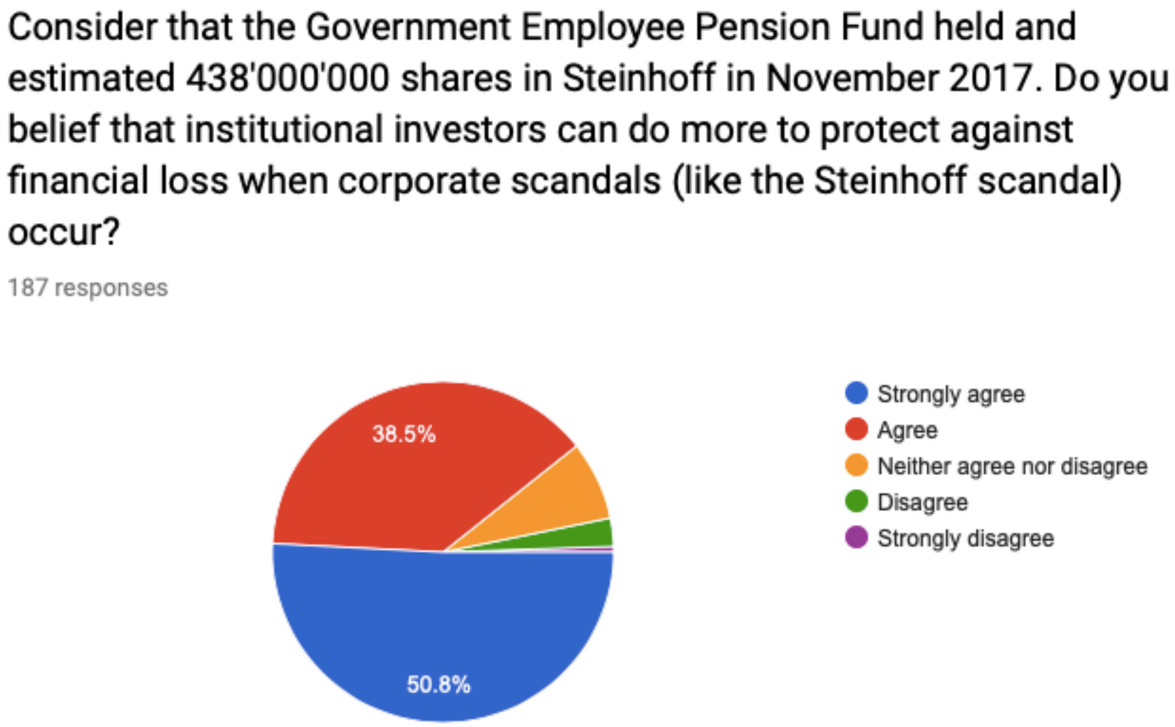

Figure 7: Respondents' views about being protected against financial loss

The respondents were asked to indicate whether they believe that their pension and/or retirement annuity is in safe hands. Of the 187 respondents, 101 indicated that they do believe their money is in safe hands, 65 were neutral on the topic, and 24 believed that their money was not in safe hands. Figure 8 illustrates the respondents' answers.

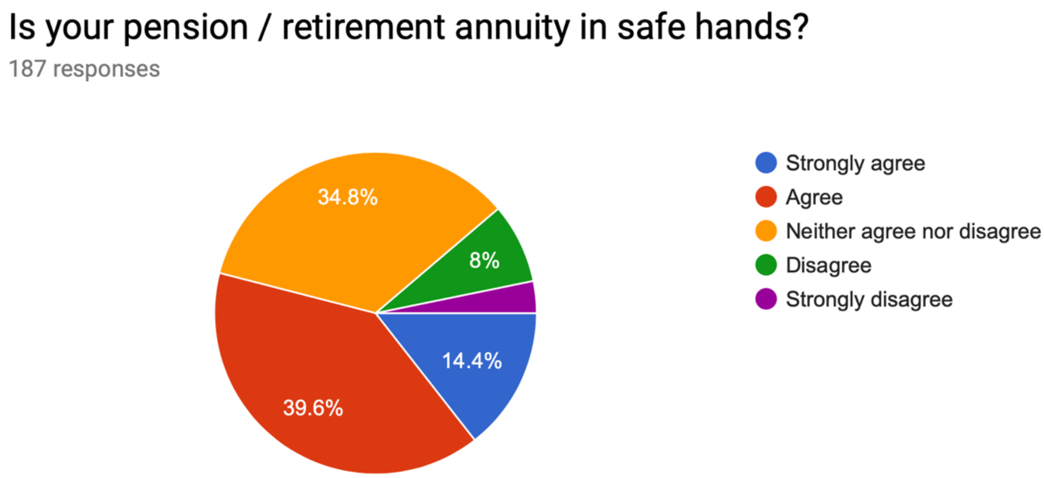

Figure 8: Respondents' views about the safety of their funds

The respondents were invited to comment on whether institutional investors should partake more actively in general meetings of shareholders in those companies that they invest in. Of the 187 respondents, 171 agreed, only four disagreed, and 12 were neutral on the topic. Figure 9 shows the respondents' answers to this question.

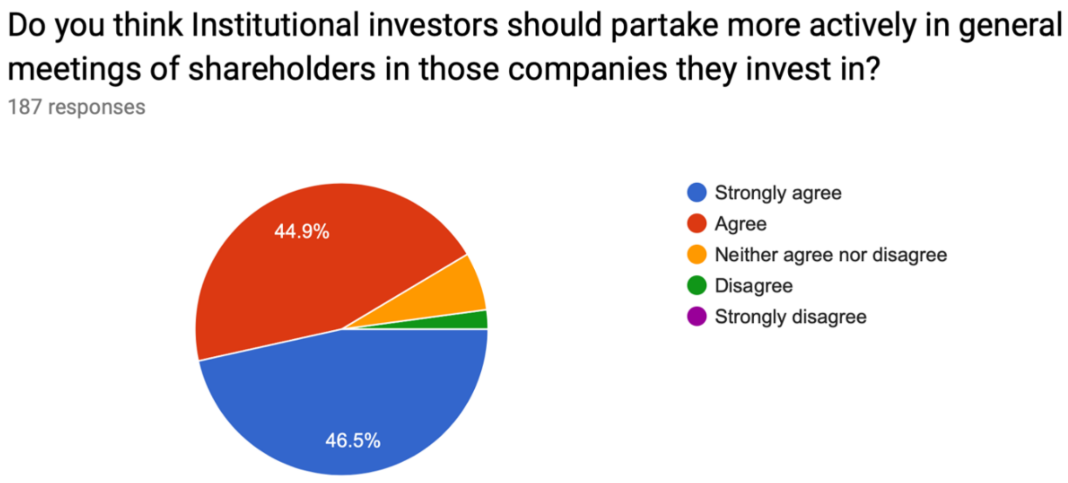

Figure 9: Respondents' views on investors' participation at shareholder meetings

After this feedback, the respondents were asked to indicate whether institutional investors should publish a list of companies annually that they intend to invest in and whether they should not be allowed to deviate from those companies. Of the 187 respondents, 146 agreed, 18 were neutral and 23 disagreed. Figure 10 provides a breakdown of how the respondents answered this question.

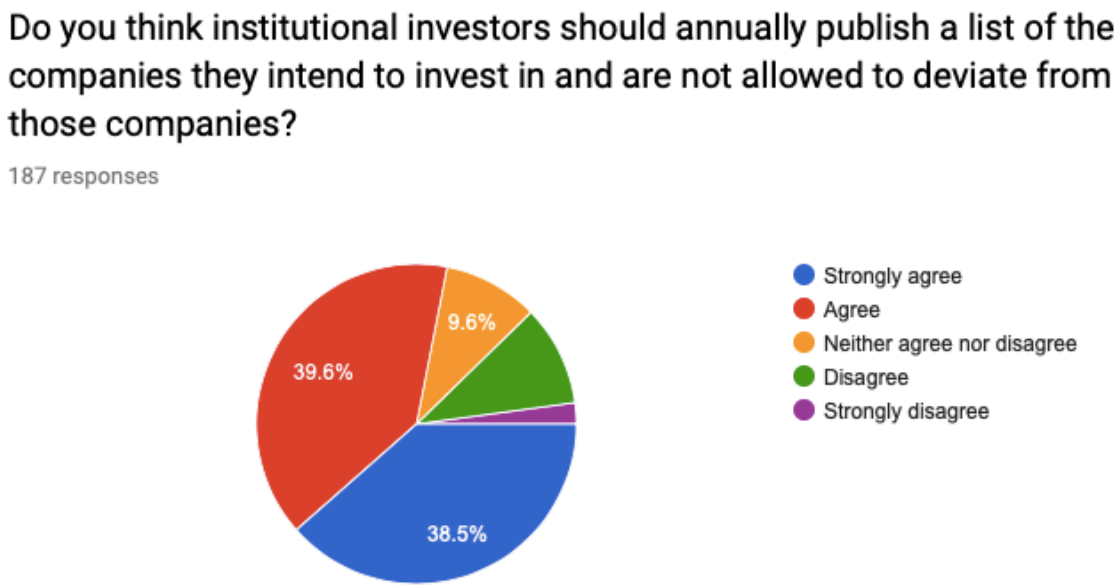

Figure 10: Respondents' views of publishing intended investments

Following this question, the respondents were asked whether institutional investors should be limited to the number of JSE-listed companies they are allowed to invest in. Seventy respondents indicated that they believe that institutional investors should be limited, 80 disagreed with this notion, leaving 37 with a neutral response. Figure 11 shows the respondents' answers.

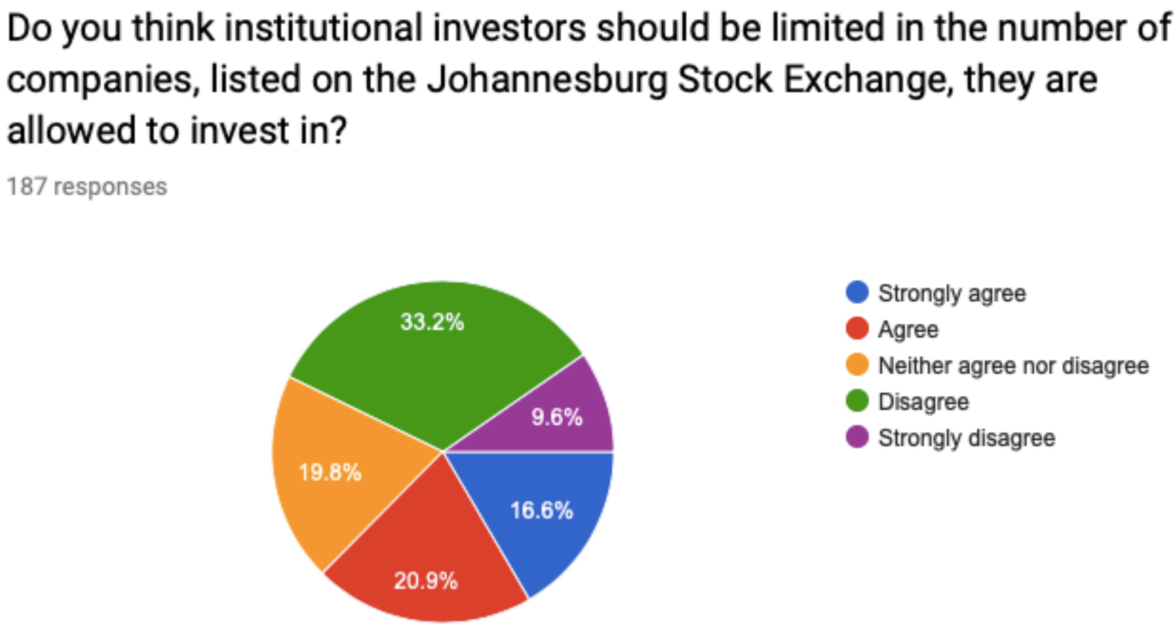

Figure 11: Respondents' views regarding investment limitations

Thereafter, the author turned to the financial side with the next two questions. The first was: Would you be willing to pay a premium to ensure that your money is invested in pension funds or retirement annuities that are protected from large corporate scandals? Of the 187 respondents, 138 agreed that they would be willing to pay a premium, 30 disagreed with the notion, leaving 19 respondents neutral on the topic. Figure 12 illustrates the respondents' answers.

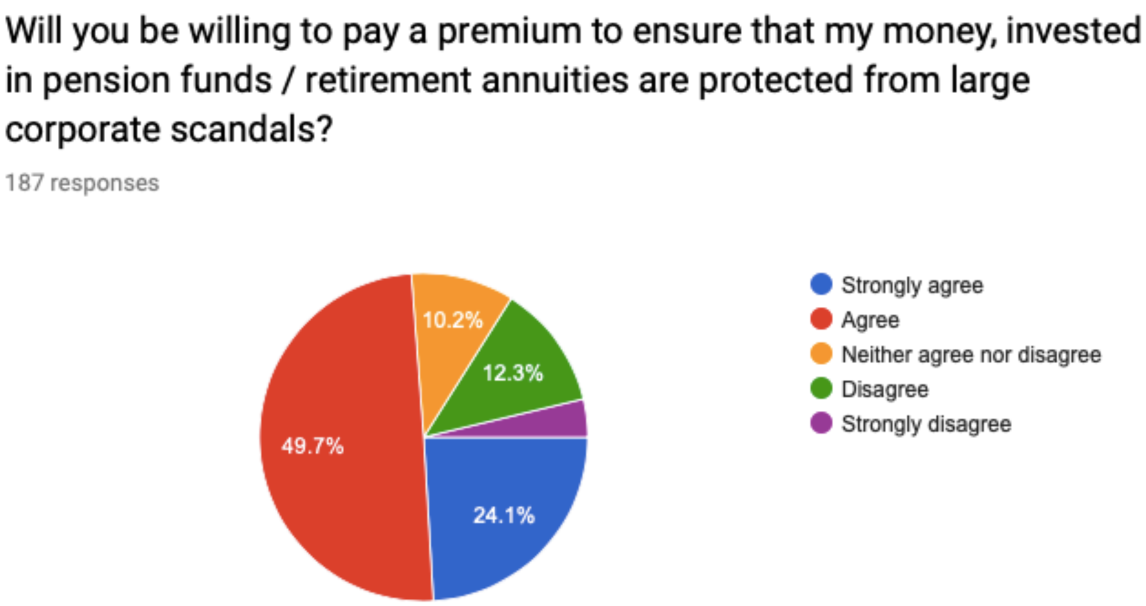

Figure 12: Respondents' willingness to pay for financial protection

The second financial question enquired whether respondents would be willing to accept greater risk on money invested in pension funds and retirement annuities for better returns. Of the 187 respondents, 99 agreed, 59 disagreed, and 29 were neutral on the topic. Figure 13 displays the respondents' answers.

The author contend that this topic should be disregarded as a possible further study for clarification. In short, the findings of this question were later found to contradict the remainder of credible data collected.

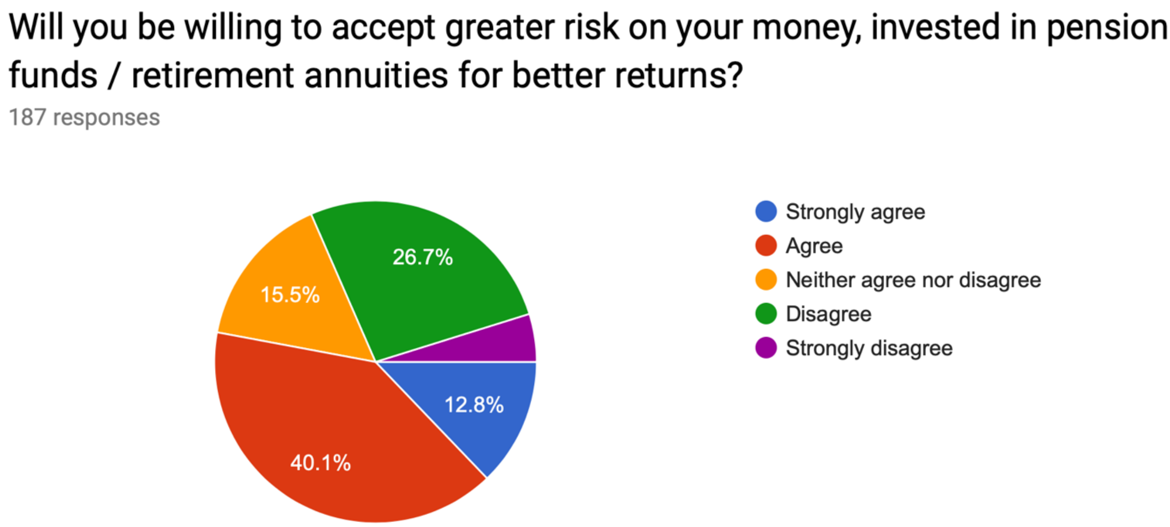

Figure 13: Respondents' willingness to accept greater risk for higher return

After asking the financial questions, the author focused on the public sector by asking whether respondents think that government could and should do more to protect funds against large corporations that fail by reassessing the ratios of prescribed assets. Of the 187 respondents, 153 agreed, 15 disagreed, and 19 were neutral on the topic. Figure 14 shows the respondents' answers.

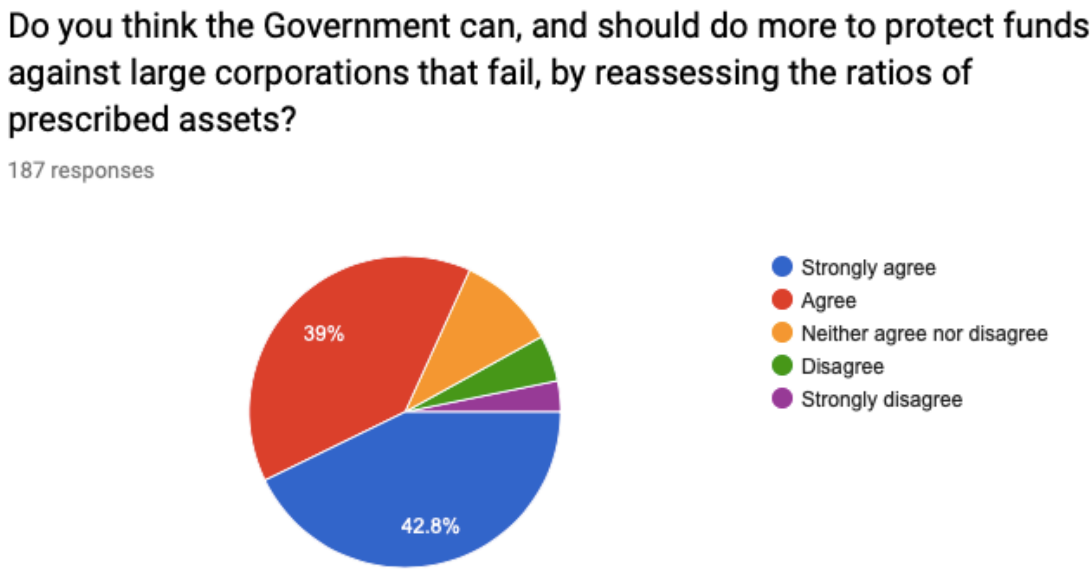

Figure 14: Respondents' views regarding government's role to protect funds

Subsequently, the respondents were questioned whether institutional investors should do better research before investing in a public company. Of the 187 respondents, 178 agreed, one disagreed, and eight were neutral on the topic. Figure 15 demonstrates the respondents' answers.

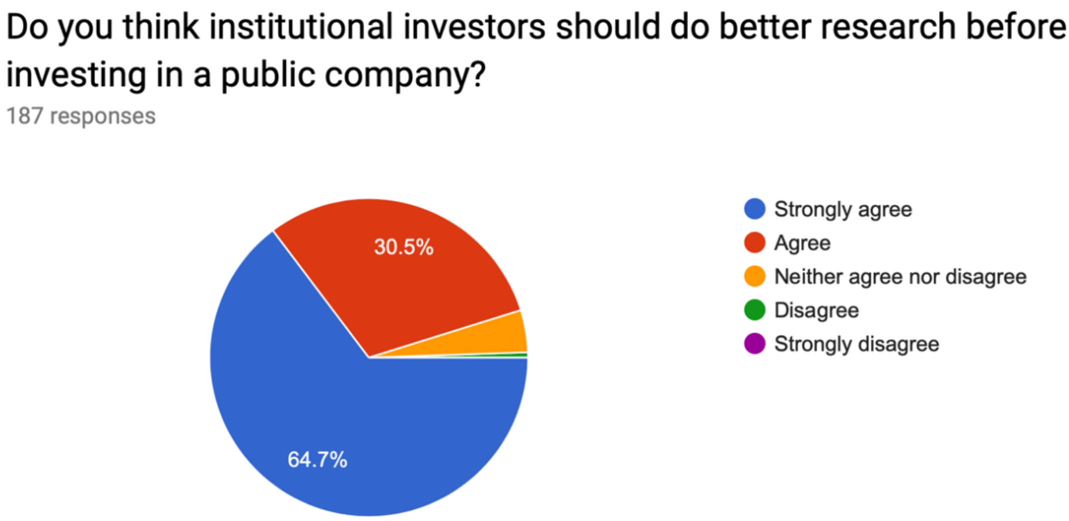

Figure 15: Respondents' views regarding institutional investors doing research

Thereafter, respondents were asked whether institutional investors should ensure that companies apply best ESG principles before they invest in such companies. Of the 187 respondents, 169 agreed with the question posed, five disagreed, and 13 were neutral on the topic. Figure 16 illustrates the respondents' answers.

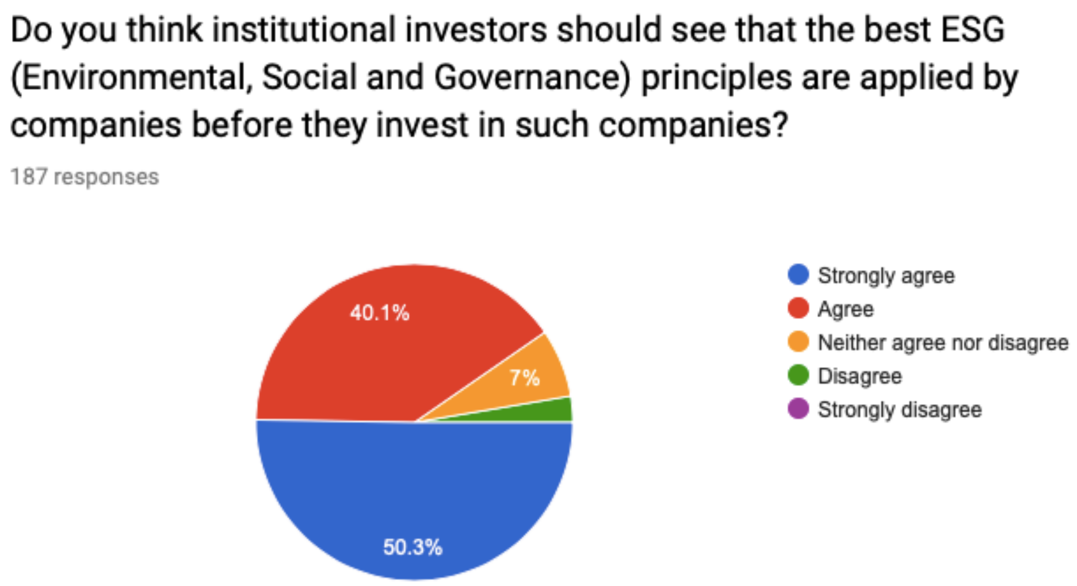

Figure 16: Respondents' views on application of ESG principles

Lastly, and against the backdrop that respondents consider ESG issues as important, respondents were asked to select the most important ESG principle. Governance was considered the most important principle by 124 respondents, the environmental principle by 41 respondents, and the social principle by 22 respondents. Figure 17 shows the respondents' answers.

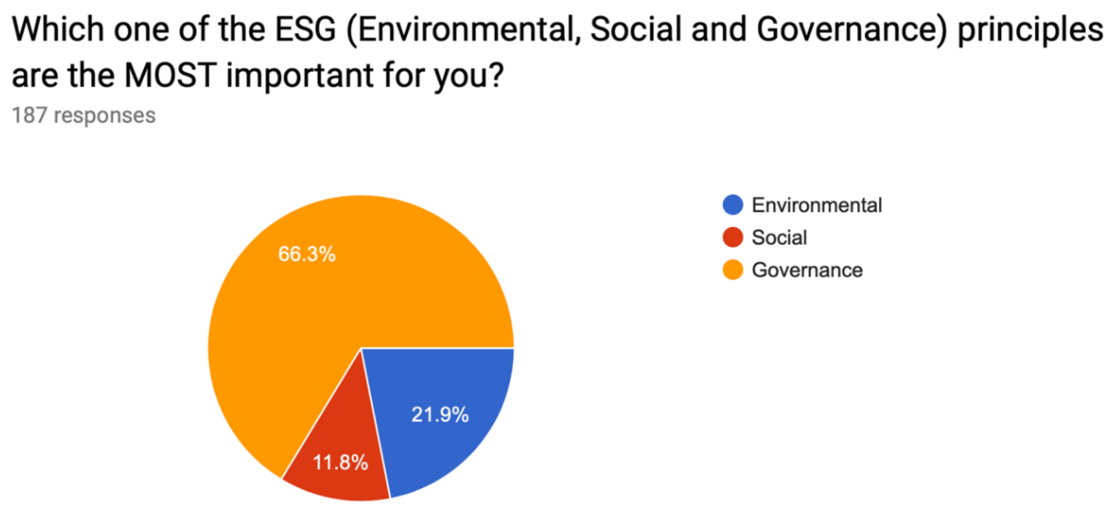

Figure 17: Respondents' views regarding ESG principles

4.3.3 Measuring instruments

Respondents were approached by electronic means, such as email, Facebook or WhatsApp, to complete the questionnaire. The survey broadcasting link was distributed to multiple contacts of the author. The sample analysis was a person who contributes to a retirement annuity or pension fund in the Republic of South Africa and, therefore, to a large extent, the general workforce.

The study used Google Forms to host the questionnaire online. Respondents had to answer each multiple choice question on the Google Forms website. The responses were captured via the online website and feedback was presented in a spreadsheet format that was converted to Microsoft Excel. Thereafter, the spreadsheet was sent to statisticians who analysed the data and provided the author with the statistical analysis.

4.3.4 Structure of questionnaire

The first question was a qualifying question. If the respondent complied with the selection criterion, the purpose of the following 14 questions was to gain various narratives regarding how the consumer expects an institutional investor to act under certain circumstances. The structure of the questions illustrates what was considered important or not to various consumers.

4.3.5 Participants of the study

Respondents comprised the general public and working class people who participated in the study after being notified of the informed consent, which is evident from Annexure A. The author had the highest ethical considerations and therefore did not enquire about the race, sex or age of respondents as these demographics were deemed unnecessary for the purpose of this study. The only criterion was the qualifying question, which enquired whether a respondent was in fact a consumer who contributes to pension funds or retirement annuities.

4.4 Statistical analysis

A statistical analysis was done of the data collected, which will be discussed below, namely, the frequency tables and descriptive statistics of respondents' answers to the questions contained in the survey. Thereafter, a factor analysis was done with Cronbach's alpha as a mean of reliability and further descriptive statistics that flowed from this factor analysis. The correlations between certain factors and further descriptive and multiple comparisons will be discussed in Chapter 5.

When assessing the descriptive statistics and correlations, certain incidental findings were made. Although these findings are not crucial to the primary research question, it is interesting to note. The findings create the possibility for further studies as will be discussed in Chapter 5.

4.4.1 Frequency tables

Frequency tables were compiled for all questions to show the frequency of a selection as well as the valid percentage thereof.

Firstly, 100% of qualifying participants contributed to a pension fund or retirement annuity or a combination of these two.

Of the respondents, 65,8% either *strongly agreed* or *agreed* when respondents were questioned whether they know where their contributions are being invested, which is in line with the pie chart given as Figure 4.

When asked whether they have control over their contributions being invested, 46% of respondents either *agreed* or *strongly agreed* with the question, which is in line with the pie chart given as Figure 5.

To the question enquiring about their thoughts about corporate scandals threatening their contributions, 82,4% of respondents answered *strongly agree* or *agree* (Figure 6).

Of the respondents, 89,3% either *strongly agreed* or *agreed* that institutional investors could do more to protect their funds against large financial loss when corporate scandals do occur, confirming the data as illustrated in the pie given in Figure 7.

When questioned whether they believed that their pension fund or retirement annuities are in safe hands, 54% either *strongly agreed* or *agreed*, which is in line with the pie chart presented in Figure 8.

Thereafter, the questionnaire enquired about institutional investors partaking more actively in general meetings of shareholders in the companies they invest in. Interestingly enough, only four of the possible five selections were selected: none of the respondents selected *strongly disagree*. Only four of the 187 respondents *disagreed* to any extent to this question, which correlates with the pie chart as illustrated in Figure 9.

Respondents were asked whether institutional investors should publish a list of companies they intend to invest in and whether investors should not be allowed to deviate from such companies. Of the respondents, 78,1% either *strongly agreed* or *agreed* with this question, which is in line with the pie chart illustrated in Figure 10.

Subsequently, when questioned whether institutional investors should be limited regarding the number of JSE-listed companies they may invest in, only 37,4% of respondents *agreed* or *strongly agreed*, which is in line with the pie chart illustrated in Figure 11.

Respondents were questioned whether they would be willing to pay a premium to ensure that monies invested are protected from large corporate scandals. Of the respondents, 73,8% either *agreed* or *strongly agreed*, which correlates with Figure 12.

To the question whether respondents are prepared to accept greater risk for monies invested in retirement annuities or pension funds in return for better returns, 52,9% either *agreed* or *strongly agreed*, which correlates with Figure 13. This was completely against all estimations of the author, which will be discussed fully in Chapter 5.

Thereafter, the questionnaire asked whether government could and should do more to protect funds against large corporations that fail by reassessing the ratios of prescribed assets. Of the respondents, 81,8% either *strongly agreed* or *agreed*, which is in line with Figure 14.

The author enquired whether institutional investors should do better research before investing in a public company; a statement with which a combined percentage of 95,2% respondents either *agreed* or *strongly agreed*, which is in line with the illustration in Figure 15.

Respondents were questioned whether institutional investors should ensure that companies apply best ESG principles before they invest in such a company. Of the respondents, 90,4% either *strongly agreed* or *agreed* with the statement. This is in line with Figure 16.

Lastly, respondents were asked to select the ESG principle that they consider as the most important. The governance principle was selected by 66,3% of respondents as the most important principle, followed by 21,9% for the environmental principle, and 11,8% for the social principle. This is in line with Figure 17.

These results demonstrate that not only do the frequency tables correlate with the pie charts as discussed above, but they also show that 100% of responses were considered. Therefore, the frequency tables corroborate the reliability of the pie charts. The feedback of the study as an aggregate clearly indicates that all responses were taken into account and distributed correctly.

4.4.2 Descriptive statistics

The selection question that enquired whether a respondent contributed to any of the qualifying funds and the question about the most important ESG principles were excluded from the descriptive statistics. It did not make sense to include these elective questions as they did not test a respondent's view on a scale of *strongly agree*, *agree*, *neither disagree or agree*, *disagree* or *strongly disagree*.

The scale for the remaining questions were rated as follows:

- Strongly agree – obtained a value of 1;
- Agree – obtained a value of 2;
- Neither agree nor disagree – obtained a value of 3;
- Disagree – obtained a value of 4; and
- Strongly disagree obtained a value of 5.

These minimum and maximum values were used to calculate an average (or a mean) and a standard deviation. Table 2, Annexure B, gives a complete layout of the descriptive statistics and the relevant questions posed. It is evident from the averages and standard deviations for the following statements, as summarised in Table 1, that the respondents agree to a large extent with the statements made.

Table 1: Summary of strong findings

Descriptive Statistics			
	No. of Participants	Mean	Std. Deviation
Do you think that money invested in pension funds/retirement annuities are threatened by corporate scandals (like the Steinhoff scandal that caused share prices to plummet)?	187	1,84	0,881
Consider that the Government Employee Pension Fund held an estimated 438 million shares in Steinhoff in November 2017. Do you believe that institutional investors could do more to protect against financial loss when corporate scandals occur (for example, the Steinhoff scandal)?	187	1,64	0,780
Do you think that institutional investors should partake more actively in general meetings of shareholders in those companies they invest in?	187	1,64	0,699
Do you think the government could and should do more to protect funds against large corporations that fail by reassessing the ratios of prescribed assets?	187	1,87	0,999
Do you think institutional investors should do better research before investing in a public company?	187	1,41	0,601
Do you think that institutional investors should see that the best ESG principles are applied by companies before they invest in such companies?	187	1,62	0,733

4.4.3 Factor analysis

Due to the nature of the questions, the author was of the view that the following questions should have been included in one factor to obtain a Cronbach's alpha:

- Do you think that institutional investors should partake more actively in general meetings of shareholders in those companies they intend to invest in?
- Do you think that institutional investors should do better research before investing in a public company?
- Do you think that institutional investors should ensure that best ESG principles are applied by companies before they invest in such a company?
- Would you be willing to pay a premium to ensure that money invested in these funds is protected from large corporate standards?
- Would you be willing to accept greater risk on your money that is invested in pension funds or retirement annuities for better returns?

- Considering that the Government Employee Pension Fund held an estimated 438 million shares in Steinhoff in November 2017, do you believe that institutional investors could do more to protect against financial loss when corporate scandals occur (for example, the Steinhoff scandal)?

These questions obtained a Cronbach's alpha of 0,548. The author believes that the Cronbach's alpha was poor due to the question enquiring about respondents' willingness to accept greater risk on the money invested in pension funds and retirement annuities in return for better returns (see Annexure B, Table 5). This question was removed from the factor analysis because the author believes that risk is a very complex matter and that consumers might not necessarily understand risk completely. This remains a limitation to the study and it is encouraged that further studies be done on this aspect. After eliminating this question, the study obtained a reliable Cronbach's alpha of 0,630 for the remaining five items. The complete statistical information for this Cronbach's alpha is attached in Annexure B, Table 3, Table 4 and Table 5.

Field (2009:675) notes that the value that would normally be regarded as appropriate for a cognitive test is 0,8, with the cut-off as 0,7. Field (2009) continues by stating that, "when dealing with psychological constructs, values below even 0,7 can, realistically, be expected because of the diversity of the constructs being measured".

The author therefore contends that the Cronbach's alpha of 0,630 can be regarded as suitable as a result of the diversity of constructs that was measured.

4.4.4 Descriptive statistics of different participants

Although not extremely relevant to the research questions this study aimed to answer, the authors decided to differentiate between participants who contribute to pension funds, participants who contribute to retirement annuities, and participants who contribute to a combination of the above to establish how the different participants perceived various aspects.

For most aspects, the respondents' answers were relatively similar. However, as highlighted for the aspect of statutory requirements, those respondents who contribute to retirement annuities agreed to a lesser extent with a mean of 2,45 than the respondents who contribute to pension with a mean of 2,05. The retirement annuity contributors also had a larger standard deviation. The statutory requirements factor discussed herein is the combination of the following questions asked in the survey:

- Do you think that institutional investors should publish a list annually of the companies they intend to invest in, and should they not be allowed to deviate from those companies?
- Do you think that institutional investors should be limited regarding the number of JSE-listed companies they are allowed to invest in?
- Do you think the government could and should do more to protect funds against large corporations that fail by reassessing the ratios of prescribed assets?

In this regard, the author refers the reader to Table 6, Annexure B. This is an incidental finding and merely noted in the passing. It might be a topic that another study could advance further.

4.4.5 Descriptive analysis of importance of ESG principles

Table 2, Annexure B, shows the descriptive analysis of the respondents and what they rated as the most important ESG principles. Although these findings are also incidental, they show that those who perceived the social principle as the most important component were less risk averse than those who thought that governance was the most important. This is not the aim of the study and in fact a limitation. However, it is a curious finding and the author encourages further studies to advance this topic.

5 Discussion on Relevant Findings

Respondents who were considered for purposes of this study were people who contribute towards a retirement annuity or a pension fund or both. However, a respondent who contributes towards a provident fund was also included as the only difference between a provident fund and a pension fund is the pay-out mechanism.

As mentioned in Chapter 4, the respondents indicated largely that they know where their pension funds or retirement annuities are being invested. The author therefore concludes that consumers are educated regarding where they invest their money via the institutional investor.

The responses were rather divided regarding whether they have control over which pension fund or retirement annuity their money is actually invested in. Although this was not especially relevant where the consumer's expectations are concerned, the purpose was to determine whether there were any noteworthy correlations, which would have been incidental at best.

Having regard to the literature and knowing that codes of good conduct, such as the King IV report and CRISA, are not compulsory principles or law in the Republic of South Africa, it is clear from those principles that:

- Institutional investors could do more to protect against financial loss when corporate scandals occur.
- Institutional investors should partake more actively in general meetings of shareholders of those companies they invest in.
- Institutional investors should publish a list of companies they intend to invest in and should not be allowed to deviate from those companies.
- Institutional investors should do better research before investing in a company.
- Institutional investors should ensure that companies apply best ESG principles before investing.

The respondents were largely in favour of organisations applying the above-mentioned principles properly. They even went so far as to indicate that they would be willing to pay a premium to ensure that the money they invest is protected.

Certain aspects were included intentionally in the questionnaire; for example, the question whether institutional investors should be limited regarding the number of JSE-listed companies they invest in. This question is meaningful because it establishes the credibility of the study as it was posed in the reverse of other lines of questioning. The author believed that the public would agree with other questions, but not with this question.

The results clearly show us exactly that. The average response to this question was 2,98 with a standard deviation of 1,264, which illustrates that the respondents disagreed with this question. It would be a limitation to restrict an institutional investor to a certain number of public companies to invest in, because it could have a negative impact on growth when windows of opportunities arise. One could argue that the respondents felt that this would not be a fair or reasonable limitation. Seeing that the respondents did not agree with limiting institutional investors in the number of companies, the author infers that it further corroborates the reliability of this study. Respondents did not merely answer *agree* or *strongly agree*, but actually considered the question carefully and answered accordingly.

Consumers felt strongly that institutional investors could and should do more to protect against financial loss when corporate scandals occur. This is not really a surprising finding, but shows the readers what the consumer actually expects the institutional investor to do, what they get paid to do, and that they could do more to fulfil this assumed duty. This finding is probably because 82,4% of consumers *agreed* and *strongly agreed* that their funds are threatened by corporate scandals that may cause share prices to plummet.

On the positive side, most respondents did feel that their funds are in safe hands. What is noteworthy is that 34,8% of respondents seemed to be indecisive on this point, which one suppose leaves room for improvement.

The question on whether the respondent would accept greater risk for better returns had quite a shocking finding as the answers were mostly positive. The only conclusion that the author could make is that risk is particularly complex, which warrants further studies to completely understand the concept. It does not affect the validity of the study as the author tried to solicit incidental findings on this question.

Although members of the public that partook in this study do not wish for stringent and unrealistic limitations to be imposed on institutional investors, they do want to see that important aspects are put in place. This finding is in line with those in the existing law and codes of good conduct.

Further studies could be done to investigate the differentiation in the ESG principles to determine how that correlates with the expectations of institutional investors. This was an incidental finding to this study. What the study did, however, unanimously found is that participants valued good governance above environmental and social principles; the latter still being of utmost importance to the consumers.

The study revealed that there are very stringent and complex recommendations and provisions in the codes of conduct and the existing laws that should enable the institutional investor to make informed decisions regarding where to invest and what to look out for as possible warning signs. However, some of the smartest asset managers missed the holes in Steinhoff. This was probably due to the notion that the codes on paper and what actually happens in boardrooms might be miles apart. When considering the informal workings at Steinhoff before its failure, one would probably notice that some activists did ask the right questions, but were voided by a culture of “if you say no to me, you’re out”.

Apart from this, one cannot help to wonder how a company avoiding taxation in South Africa could be considered good social practice. To take operations abroad to pay lower taxes is money leaving the country, and one would suppose not a good social practice. This study proved that consumers expect institutional investors to only invest in those companies that advance the best ESG principles.

The consumers indicated that they expect institutional investors to publish a list of the companies annually that they intend to invest in. They should not be allowed to deviate from those companies. This was a very interesting finding, especially because it was indicated by 78,1% of the respondents.

The study showed that consumers expect institutional investors to do better research before investing in a company. If institutional investors did sufficient research and asked difficult questions, they might have noticed that Steinhoff was not the best company to invest in during 2016 and 2017.

Consumers further indicated that the institutional investor should assume a more active role in general meetings of the companies they invest in. This also speaks to what happened at Steinhoff before its failure. When activists asked questions, the attorneys stepped in. Would it not put the institutional investor in a better position to make an informed decision on whether to maintain the shares in a company that it currently invests in? The consumers seem to think so and, quite frankly, the lessons that should have been taken from Steinhoff corroborate this notion.

The respondents revealed that they believe government should do more to protect funds against large corporate that fail by reassessing the ratios of prescribed assets. From this, the author accepts that their answer is twofold:

- Firstly, government should do more to protect funds against corporates that fail.
- Secondly, government should do so by revisiting the ratios of prescribed assets.

The fact that the respondents were in favour of reassessing the ratios of prescribed assets is an incidental finding and one that can be further advanced as it is very current and relative in South Africa.

The author therefore asserts that the public's expectation is that institutional investors must act in line with the codes of good conduct that are already available but not yet promulgated as legislation in South Africa. The fact that the study illustrated that more are expected from government could also indicate the possibility of creating legislation in line with the codes of good practice as the government is responsible for passing legislation in this country.

What is extremely positive for future business ventures is that respondents indicated that if their demands of being protected from large corporate scandals are met, they would pay a premium for such a service, which is understandable.

The aim of this study was to understand what role consumers expected the institutional investor to play as a custodian of their money, and this study did exactly that. We now know what the consumers, being investors in public companies through institutional investors, expect from such institutional investors. The author therefore contends that the primary research question was answered by the mechanisms of this study.

At this stage, the reader would also have seen how important various needs are to the different kinds of consumer. This answer should aid further studies to determine how and why so much value was lost in previous corporate scandals. The author’s hope is that this academical work will aid further studies to create awareness on how to avoid investing in companies that are bound to fail, and possibly, to eventually avoid such companies’ existence to start with.

The author recommends to continue striving for best practices. We have achieved so much over the last few years with codes of good governance conduct emerging in the business world. One should build on those codes, promote them, and enforce compliance in order to avoid large financial loss for various stakeholders.

To understand what your customer wants may be one step in doing it right at the end of the day. One would think that you would not achieve much in business unless you keep your customers happy.

6 Conclusion

This study found that consumers who contribute to pension funds and/or retirement annuities believe that:

- Their money is being threatened by corporate scandals, such as the recent Steinhoff scandal.
- Institutional investors could do more to protect against financial loss when corporate scandals occur.
- Institutional investors should partake more actively in general meetings of shareholders of those companies they invest in.
- Institutional investors should publish a list of companies annually they intend to invest in and they should not be allowed to deviate from those companies.
- The government could and should do more to protect funds against large corporations that fail.
- Institutional investors should do better research before investing in a company.
- Institutional investors should ensure that companies apply best ESG principles before the institutional investor invests in them.

The consumers went so far as to say that they would be willing to pay a premium to ensure that their money is protected against large scandals.

The conclusion and submission that this study believes have been proven are that the best principles that are formulated in the current codes of practice should be advanced further and should be implemented as if they were law. These findings combined with the increasing rise of consumer activism towards good corporate practices corroborate and strengthen the author's argument: the consumer feels that institutional investors and government should do more to protect consumers against large financial loss. Consumers are not ignorant – they know where their money is and they know where they want to invest that money, which is with companies with good and sound values in line with best practices.

Once institutional investors understand their clients' expectations, it might take the field one step further in finding out how to avoid having funds in a company before it fails.

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Annexure A – Distributed Survey

Questionnaire to study consumer expectations of an institutional investor as custodian of the consumer's money

Good day,

I am currently in the process of completing my MBA and part of the course requires a research module to be completed. My topic is “The consumer's expectations of the role of the institutional investor as shareholder of public companies in South Africa” and as such is performing research on pension fund/ retirement annuity contributors. As part of this process the respondent is requested to give their view on this ideal role.

Below you will find an informed consent statement that provides more detail around confidentiality of the information and the overall structure of the research. By completing this questionnaire, you agree to the informed consent statement, which has been made electronic for your convenience.

This informed consent statement serves to confirm the following information as it relates to the MBA mini-dissertation as described above.

1 The sole purpose of this study is to obtain information from consumers (such as yourself) related to the research topic.
2 The procedure to be followed is a quantitative research design, which includes structured, controlled and prescriptive questions in the form of a survey. Basic background information related will be asked e.g. your experience, your management level.
3 The survey will take no longer than 7 minutes to complete.
4 The survey takes place on a COMPLETELY VOLUNTARILY basis and can be terminated at any time.
5 The confidentiality of the survey and interview data is guaranteed. Your identity will not even be known to the author of this academical study and is COMPLETELY ANONYMOUS.
6 An electronic copy of the final dissertation will be made available to any respondent upon request.
7 The data gathered from the survey will only be used for research purposes.

The form below is a questionnaire of 16 questions that should take the respondent no longer than 7 minutes to complete. Should you have any questions regarding the study, this questionnaire or how information will be received by the author, please do not hesitate to contact the researcher, and author of this document:

Student
Carel Strydom
carel@hazeldeanlaw.com

Supervisor
Pieter J Greyling
greyatt@telkomsa.net

* Required

1 Do you contribute to any of the following in the Republic of South Africa? *

1. Pension fund
2. Retirement annuity
3. Both of the above
4. None of the above
5. Other:

2 Do you know where your pension fund/retirement annuity is being invested? *

1. Strongly agree
2. Agree
3. Neither agree nor disagree
4. Disagree
5. Strongly disagree

3 Do you have control over which pension fund/retirement annuity your money is invested in? *

1. Strongly agree
2. Agree
3. Neither agree nor disagree
4. Disagree
5. Strongly disagree

4 Do you think that money invested in pension funds/retirement annuities are threatened by corporate scandals (like the Steinhoff scandal) that cause share prices to plummet? *

1. Strongly agree
2. Agree
3. Neither agree nor disagree
4. Disagree
5. Strongly disagree

5 Consider that the Government Employee Pension Fund held an estimated 438'000'000 shares in Steinhoff in November 2017. Do you believe that institutional investors can do more to protect against financial loss when corporate scandals (like the Steinhoff scandal) occur? *

1. Strongly agree
2. Agree
3. Neither agree nor disagree
4. Disagree
5. Strongly disagree

6 Is your pension/retirement annuity in safe hands? *

1. Strongly agree
2. Agree
3. Neither agree nor disagree
4. Disagree
5. Strongly disagree

7 Do you think institutional investors should partake more actively in general meetings of shareholders in those companies they invest in? *

1. Strongly agree
2. Agree
3. Neither agree nor disagree
4. Disagree
5. Strongly disagree

8 Do you think institutional investors should annually publish a list of the companies they intend to invest in and are not allowed to deviate from those companies? *

1. Strongly agree
2. Agree
3. Neither agree nor disagree
4. Disagree
5. Strongly disagree

9 Do you think institutional investors should be limited in the number of companies, listed on the Johannesburg Stock Exchange, they are allowed to invest in? *

1. Strongly agree
2. Agree
3. Neither agree nor disagree
4. Disagree
5. Strongly disagree

10 Will you be willing to pay a premium to ensure that my money, invested in pension funds/retirement annuities are protected from large corporate scandals? *

1. Strongly agree
2. Agree
3. Neither agree nor disagree
4. Disagree
5. Strongly disagree

11 Will you be willing to accept greater risk on your money, invested in pension funds/ retirement annuities for better returns? *

1. Strongly agree
2. Agree
3. Neither agree nor disagree
4. Disagree
5. Strongly disagree

12 Do you think the Government can, and should do more to protect funds against large corporations that fail, by reassessing the ratios of prescribed assets? *

1. Strongly agree
2. Agree
3. Neither agree nor disagree
4. Disagree
5. Strongly disagree

13 Do you think institutional investors should do better research before investing in a public company? *

1. Strongly agree
2. Agree
3. Neither agree nor disagree
4. Disagree
5. Strongly disagree

14 Do you think institutional investors should see that the best ESG (Environmental, Social and Governance) principles are applied by companies before they invest in such companies? *

1. Strongly agree
2. Agree
3. Neither agree nor disagree
4. Disagree
5. Strongly disagree

15 Which one of the ESG (Environmental, Social and Governance) principles are the MOST important to you? *

1. Environmental
2. Social
3. Governance

SUBMIT

Never submit passwords through Google Forms.

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Annexure B – Statistical Tables

Table 2: Descriptive statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Do you know where your pension fund/retirement annuity is being invested?	187	1	5	2,47	1,188
Do you have control over which pension fund/retirement annuity your money is invested in?	187	1	5	2,97	1,299
Do you think that money invested in pension funds/retirement annuities is threatened by corporate scandals (like the Steinhoff scandal) that cause share prices to plummet?	187	1	5	1,84	0,881
Consider that the Government Employee Pension Fund held an estimated 438 million shares in Steinhoff in November 2017. Do you believe that institutional investors can do more to protect against financial loss when corporate scandals (like the Steinhoff scandal) occur?	187	1	5	1,64	0,780
Is your pension/retirement annuity in safe hands?	187	1	5	2,46	0,946
Do you think institutional investors should partake more actively in general meetings of shareholders in those companies they invest in?	187	1	4	1,64	0,699
Do you think institutional investors should publish a list annually of the companies they intend to invest in and should not be allowed to deviate from those companies?	187	1	5	1,98	1,042

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Do you think institutional investors should be limited in the number of companies, listed on the Johannesburg Stock Exchange, they are allowed to invest in?	187	1	5	2,98	1,264
Will you be willing to pay a premium to ensure that your money, invested in pension funds/retirement annuities is protected from large corporate scandals?	187	1	5	2,22	1,063
Will you be willing to accept greater risk on your money, invested in pension funds/retirement annuities for better returns?	187	1	5	2,71	1,138
Do you think the government can, and should do more to protect funds against large corporations that fail, by reassessing the ratios of prescribed assets?	187	1	5	1,87	0,999
Do you think institutional investors should do better research before investing in a public company?	187	1	4	1,41	0,601
Do you think institutional investors should see that the best ESG principles are applied by companies before they invest in such companies?	187	1	4	1,62	0,733

Table 3: Cronbach's alpha: reliability statistics

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	N of Items
0,630	0,653	5

Table 4: Summary: item statistics

Summary: Item Statistics

	Mean	Minimum	Maximum	Range	Maximum/ Minimum	Variance	Number of Items
Inter-item Correlations	0,273	0,184	0,462	0,278	2,517	0,005	5

Table 5: Item: total statistics

Item: Total Statistics					
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item – Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Do you think institutional investors should partake more actively in general meetings of shareholders in those companies they invest in?	6,88	4,739	0,354	0,141	0,591
Do you think institutional investors should do better research before investing in a public company?	7,12	4,674	0,489	0,286	0,545
Do you think institutional investors should see that the best ESG (1, 2 and 3) principles are applied by companies before they invest in such companies?	6,90	4,432	0,432	0,248	0,555
Will you be willing to pay a premium to ensure that your money, invested in pension funds/retirement annuities, is protected from large corporate scandals?	6,30	3,622	0,384	0,148	0,598
Consider that the Government Employee Pension Fund held an estimated 438 million shares in Steinhoff in November 2017. Do you believe that institutional investors can do more to protect against financial loss when corporate scandals (like the Steinhoff scandal) occur?	6,89	4,573	0,336	0,115	0,600

Table 6: Statutory requirements

		N	Mean	Std. Deviation
Statuatory_requirements	1 Pension fund	40	2,0583	0,74684
	2 Retirement annuity	77	2,4545	0,91273
	3 Both	69	2,1981	0,70553
	Total	**186**	**2,2742**	**0,81765**
Consumers_perception	1	40	2,7083	0,81366
	2	77	2,6450	0,88413
	3	69	2,5556	0,82578
	Total	**186**	**2,6254**	**0,84546**
Expectation_good_practice	1	40	1,5850	0,46274
	2	77	1,7662	0,54619
	3	69	1,7014	0,46857
	Total	**186**	**1,7032**	**0,50306**
Risk_return	1	40	2,5500	1,21845
	2	77	2,7273	1,14290
	3	69	2,7826	1,09638
	Total	**186**	**2,7097**	**1,13975**
Risk_scandals	1	40	1,7750	1,02501
	2	77	1,8701	0,84838
	3	69	1,8696	0,83864
	Total	**186**	**1,8495**	**0,88160**

Annexure C – Editing Certificate

In a Word

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FOR:

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Student Number: 12996157
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18 November 2019

Editing certificate

This document serves to confirm that the following document has been edited:

> *The consumer's expectations of the role of the institutional investor as shareholder of public companies in South Africa*

The edit included:

- Checking spelling, grammar and punctuation.
- Checking consistency of terminology and style.
- Checking the style of references and citations (accuracy of source information remains the responsibility of the student).
- Identifying areas that require additional corrections.

The Microsoft Word® track changes functionality was used to make the student aware of changes. It is the student's prerogative to choose whether to accept or reject changes.

The document remains the original work of the student. The editor has not added any additional information, rewritten sections, or changed the structure of the document.

Sincerely,

Marike van Rensburg

in a word