Determinants of executive compensation in South African state-owned enterprises

by Frans Maloa* and Mark Bussin**

Abstract
This research explores the determinants of executive compensation in South African state-owned enterprises (SOEs). A quantitative research approach was followed and secondary data analysis was carried out. The target population consisted of 222 executives in 21 SOEs. This research has shown that the size of the organisation, type of industry and job function can be considered significant and positive determinants of executive compensation in South African SOEs. The findings of the present research also show that demographic characteristics are not significant determinants of executive compensation and should therefore not be taken into consideration when determining executive compensation in South African SOEs.

Key words: executive compensation, job function, type of industry, size of the organisation

1 Introduction
Since organisations across the world are striving to compete more effectively in the global economy, there is an urgent need to review current compensation practices in various economies and to determine how the practices align with enhancing organisations’ competitiveness (Ramlall, Maimani & Diab 2011). There are two key compensation decisions facing organisations: Firstly, setting compensation levels for different occupations, and secondly deciding on the magnitude of pay differentials across job categories throughout the organisational hierarchy. However, compensation is a discretionary concept (Gomez-Mejia, Berrone & Franco-Santos 2010) that is multidimensional in nature (Greckhammer 2011). Although research on executive compensation continues to proliferate, there is still no interdisciplinary consensus on the primary forces shaping observable determinants of executive compensation (Van Essen, Otten & Carberry 2012). Therefore, the determinants of compensation may not necessarily be the same in all organisations.

An important debate is currently taking place in South Africa on the extent of employee compensation at the different employment levels in organisations as well as on issues of fairness (Van Zyl 2010). Concerns regarding excessive compensation packages have arisen along with long-standing community discomfort about the widening gap between the compensation of executives and that of other employees, as

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well as about certain large termination payments with perceived lack of justification (Theunissen 2010).

Researchers have shown sustained interest in understanding the determinants of executive compensation (Datta & Iskandar-Datta 2014). According to a study conducted by Theunissen (2010), the compensation of the average chief executive officer (CEO) in all companies was 38.5 times that of the average worker in South Africa, and the CEOs of state-owned enterprises (SOEs) earned 43.9 times more on average than the country’s average worker. The CEOs of all SOEs earned a mean salary that was 2.9 times higher than that of the State President, and the CEOs of all companies earned slightly over 2.5 times the State President’s salary on average. This difference is an indication of sizeable wage gaps, which for the most part cannot be explained by visible or invisible workplace or worker characteristics (Tijdens & Van Klaveren 2012). Employer organisations, however, argue that compensation gaps are, in the main, the result of the shortage of more highly skilled employees in the workplace and differences in labour productivity levels between the different employee segments (Van Zyl 2010).

However, whether executives are paid too much is a highly contested issue (Lorsch & Khurana 2010). Research on executive compensation should nevertheless be able to indicate how executive compensation is arrived at and show all the necessary elements and dimensions at work when determining executive compensation.

Considering the importance of executive compensation, which is currently a hotly debated subject in South Africa and the rest of the world, the present study would appear to be extremely important. Prior to this research, there had been almost no empirical research on the determinants of executive compensation in the context of South African SOEs. An acceptable criterion is therefore needed, firstly to determine whether a particular executive is being over- or underpaid in the context of business-specific determinants of compensation, and secondly to be able to indicate an acceptable level of compensation (Oberholzer & Theunissen 2012). Therefore, the purpose of the present research is to contribute to the empirical development of the determinants of executive compensation in the context of South African SOEs.

Section 2 below includes a literature review that casts light on trends in executive compensation and places the discussion in the context of the theoretical perspectives that explain executive remuneration. The methodology followed in this research is discussed in section 3 and the results are presented in section 4.

2 Literature review

2.1 Trends in executive compensation in South African SOEs

Awareness of the growing gap between executives’ and workers’ compensation has always been a crucial part of public perception of executive pay (Aluncha 2013). Crotty and Bonorchis (2006) contend that vast income inequalities have always been a characteristic of the South African economy. The Minister of Public Enterprises stated that the compensation of executives was generally quite high and “did not contribute to bridging the inequality gaps between the highest paid and lowest paid” (Sowetan 14 March 2012). However, a compensation guideline for South African SOEs was established in 2007 following proposals by the Department of Public Enterprises (DPE) to address issues concerning executive compensation. In 2011 a new guideline, which
was intended to serve as an improvement on the 2007 guideline, was established. However, not all South African SOEs adopted and implemented the guidelines.

A panel tasked with reviewing executive pay in South African SOEs was appointed in 2012. The Deputy Director-General of the Department of Public Enterprises has presented a progress report on the work done by the panel. A provisional report containing a set of recommendations on the restructuring of executive pay stated that size and asset value of state-owned companies would not be accepted as a reason for paying executives at larger SOEs more than those at smaller SOEs (Sowetan 14 March 2012).

Further, according to an ANC policy discussion paper on South African SOEs and development finance institutions (DFIs) published in 2012, South African SOEs and DFIs were not created to maximise profits or incur losses. The mandate of South African SOEs and DFIs was to achieve a balance between the required level of self-funding and the undertaking of developmental projects that the private sector would ordinarily not be prepared to undertake. Thus, executive compensation in the context of South African SOEs cannot be determined according to the criteria used in the private sector.

There were also concerns about the fact that SOEs were benchmarking themselves against Johannesburg Stock Exchange-listed companies in terms of executive compensation when their mandates were different from those of such companies (Sowetan 25 April 2012). As a result, the Minister of Public Enterprises told Parliament's standing committee on public accounts in March 2012 that executive compensation increases at all state-owned entities under the control of his department would be frozen until a proper compensation policy had been put in place (Sowetan 25 April 2012).

There have been several attempts in the past to address shortcomings in the development and implementation of executive compensation as practised in South African SOEs. For example, Theunissen’s (2010) study highlighted the elements that contributed to the dispersion in salary distribution and disparities in executive compensation as risk, talent and the market. Theunissen used the Gini coefficient, which was proposed by Lorenz in 1905 as a tool for representing income distribution. The Gini coefficient relates the cumulative proportion of income to the cumulative proportion of individuals. Although Theunissen’s (2010) study contributed to our understanding of executive compensation in the South African context, the methodology used was inadequate in that the Gini coefficient only demonstrates salary disparities between executives and the remainder of the workforce, but does not indicate all the determinants that contribute to the differences in executive compensation.

A study by Greckhamer (2011) provided another perspective on executive compensation. The study facilitated the investigation of compensation through combinations of cultural and macro-environmental attributes associated with differences in compensation level and compensation inequality. Although Greckhamer (2011) shed some light on culture and the macro-environment as determinants of executive compensation, it would have been more informative had the study also focused on executive compensation in SOEs specifically.

Another issue of concern has been pay-for-performance. The prevalence of pay-for-performance in the corporate world, together with the gap between executive compensation and corporate performance, has become a target for antibusiness
sentiment and shareholder activism. Government institutions, not only in South Africa but also in most other developing nations, are increasingly placing greater emphasis on performance-related pay. That is to say, they are working to link wage and salary increases to individual performance. However, the main issues surrounding executive compensation relate not only to employees but also to better satisfying the concerns of stakeholders and customers, who are demanding better government (Van der Vyfer & Bussin 2013; Whittaker 2003).

In addition, Bevilacqua and Singh (2009) contend that the underpinning of any pay-for-performance system is the establishment of an accepted method of performance evaluation – one that is fair and transparent. However, they argue that pay-for-performance systems are often encumbered by complex, multi-layered formulas that attempt to reward such a large number of behaviours that the employees are unable to keep their priorities clear (Gomez-Mejia et al 2010). In any event, Risher (2012) contends that performance management practices have been the source of dissatisfaction and criticism for decades.

According to the economic theories of remuneration, company performance should affect an executive's remuneration only to the extent that it serves as a proxy for unobservable managerial effort or productivity. Although these theories uniformly suggest a relationship between compensation and observed performance, most analysts do not agree on the measure of company performance (Bussin 2015).

Besides, general observations with regard to previous studies by researchers on the pay-for-performance link used different company performance measures and usually highlighted advantages in their chosen company performance measures and disadvantage in the company performance measures they did not choose (Bussin 2015).

In the same way, previous studies have focused on accounting measures and traditional performance measures such as return on assets, return on equity or market performance (stock return) as criteria for determining executive compensation (De Wet, 2012; Li, Lou, Wang & Yuan 2013). Although the determinants of executive compensation have received substantial attention from academics and regulators, little consensus on the key determinants of compensation has been reached (Tosi & Greckhamer 2004; Shaw & Zhang 2010; Baxamusa 2012). As argued by Seegers, new executive reward models are required that can be tailored to specific businesses that are both relevant and simple in terms of design and number of elements (PricewaterhouseCoopers 2010).

King 111 has been adopted in South Africa as a code of conduct to provide guidance on corporate governance issues. According to principle 2.26 of King III, companies should disclose the remuneration of each individual director and certain senior executives. Full disclosure of remuneration paid to each executive director and non-executive director must be made. The company’s annual remuneration report must explain the remuneration policies followed throughout the company and explain the strategic objectives that the policies seek to achieve. The remuneration report must also explain the company’s policy on base pay and the use of appropriate benchmarks (King III, ch 14). However, there is still no clear guidance on the specific and standard determinants of executive compensation that could serve as a guide in setting the level of compensation received by executives. Furthermore, King III does not constitute formal regulation – it is a code of practice as opposed to statutory legislation where legal sanctions are applied for noncompliance (Bussin 2015).
The above challenges in South African SOEs, despite unprecedented policy interventions by government, prompted the current research. There is evidently still a need for a simplified understanding of the determinants of executive remuneration in the context of South African SOEs. The preceding discussion has therefore given rise to the research problem to be addressed in this article, namely:

What are the determinants of executive compensation in the context of South African SOEs?

An attempt will be made to answer the research question, firstly by contextualising executive remuneration in different but complementary theoretical perspectives on the matter, then by presenting the methodology in section 3, the findings in section 4, and concluding with a discussion in section 5.

2.2 Theoretical perspective on executive compensation

Frydman and Jenter (2010) and Murphy (2012) contend that theoretical understanding of the determinants of executive pay is still fragmented. One inference from these efforts is that executive pay is a very complex phenomenon that cannot easily be captured in any single model or paradigm. Trevor (2011) contends that the context in which pay is determined is therefore not the "closed system" assumed by standard theory, but a fluid open system of a variety of contextual properties acting at multiple levels of the company and influencing, profoundly, the outcomes of the pay determination process. However, at the level of operation, the context of pay determination is characterised by internal, structural and institutional pressures. Against this background, executive compensation is therefore discussed and contextualised with reference to contingency theory, size of the organisation and human capital theory.

2.2.1 Contingency theory

Contingency theory calls for attention to the environmental influences that may affect executive compensation (Robbins & Judge 2011; Sun, Zhao & Yang 2010; Trevor 2011). Contingency theory views external elements of executive compensation, such as the industry in which the organisation is operating, as the main determinant of executive compensation in an organisation. The type of industry refers to the relevant labour market according to which the organisation is classified. The going rate in the labour market becomes the key factor in ascertaining job value or worth (Gomez-Mejia et al 2010). Martocchio (2011) asserts that paying well below or well above the typical market rate for jobs can create a competitive disadvantage for companies. The importance of a job function in an organisation in terms of remuneration can be measured by comparing it to other similar jobs in the job family (Armstrong & Brown 2001; Datta Gupta, Poulsen & Villeval 2013). It is therefore important for companies to ensure that they pay set rates by using market pay rates as reference points. To this end, regression analysis is used to enable compensation professionals to establish pay rates for a set of jobs that are consistent with typical pay rates for jobs in the marketplace. In view of the foregoing, the following hypotheses are proposed:

Hypothesis 1: The type of industry contributes significantly and positively to executive compensation in the context of South African SOEs.

Hypothesis 2: The job function contribute significantly and positively to executive compensation in the context of South African SOEs.
2.2.2 Size of the organisation

Given the lack of a generally accepted theory of executive remuneration, some researchers have tried to explain pay gaps by making adjustments for differences in company size in relation to pay packages (Conyon & He 2011; Fernandes, Miguel, Pedro & Kevin 2012). According to Oberholzer and Theunissen (2012), bigger companies require executives to assume a higher level of responsibility and perform more complex tasks, which may warrant higher pay. Similarly, Bouwman (2013) contends that in most literature findings, compensation tends to be highly correlated with company size, which is measured by the number of employees. The research on which the current study is based therefore sought to establish whether executive compensation in SOEs is determined by the size of the organisation. In view of the foregoing, the following hypothesis was formulated: Hypothesis 3: The size of the organisation contributes significantly and positively to executive compensation in the context of South African SOEs.

2.2.3 Human capital theory

The human capital theory suggests that human characteristics of an individual executive contribute significantly to executive compensation (Greve, Benassi & Sti 2010; Ng & Feldman 2010; Sun et al 2010). While the importance of strategic human capital at the highest level of the organisation is not well understood (Finkelstein, Hambrick & Cannella 2009), recent research has been making some inroads by showing empirically that scarce human capital has a substantial impact on company performance (Datta & Iskander-Datta 2014; Khanna, Jones & Boivie 2014). The literature focuses on human capital as a measure of typical individual skills, level of education, age, gender and tenure among other individual characteristics, as accounting for the differences in the remuneration of individual executives (Ng & Feldman 2010; Shin 2012; Sun et al 2010).

The implication of the human capital theory for executive compensation seems to be that the more experienced, educated and highly skilled an executive is, and the longer the executive has been with an organisation, the higher the compensation should be. However, there may still be concerns about whether the gender and race of incumbents contribute to executive compensation. Thus, in linking the human capital theory to executive compensation, this study sought to determine whether executive compensation is influenced by the level of human capital, and the extent to which any such influence may contribute to the compensation of an executive. Therefore, in view of the foregoing, the following hypothesis is proposed:

Hypothesis 4: The demographic characteristics (age, gender, race, educational qualifications and tenure of an executive) contribute significantly and positively to executive remuneration in the context of South African SOEs.

Against the above background, this article therefore argues that since South African SOEs were formed to play a developmental role in meeting the needs of society, the criteria used in determining compensation should not be the same as those used by private sector companies, which use annual sales, net assets and profits to measure performance and therefore compensation. Rather, this article argues that unlike in the private sector, the size of the organisation, job function, type of industry and the demographic variables (age, gender, race, educational qualifications and tenure) of an executive should be considered in establishing common criteria according to which executive compensation could be determined in the context of South African SOEs. What follows is a discussion of the methodology followed in this article.
3 Methodology
This was an exploratory research study and empirical research was conducted to gather quantitative data. In this study, the determinants of executive compensation in South African SOEs were established, as well as their significance in predicting executive compensation in such entities.

3.1 Research approach
The literature review process was used as a point of departure to enable the statistical analysis of the collected data. The emphasis was on the quantification of variables and statistical controls. Both descriptive and explanatory research approaches were adopted for the current study.

3.2 Population and sampling
As a point of departure, literature control was performed so that the literature used could underpin the existing body of theory considered important in the exploration of relevant content and the facilitation of research findings. According to Kienzler and Pedersen (2007), samples tend to be drawn from events, persons, artefacts, activities and time. Choosing among these possibilities is challenging, but the choice is made easier if one considers what the phenomenon of interest is, and how it is usually represented. The decision on how to sample depends on whether one wants to observe, examine or interview.

The target population investigated consisted of 21 SOEs listed in Schedule 2 to the Public Finance Management Act of 1999 (PFMA). The unit of analysis consisted of the organisations (according to nature of business and organisational size) and executives that fall under the top management team, Paterson grading E – lower to F – upper (including chief executive officers, directors and senior managers). Purposive sampling was conducted. On average, a sample of 10 executives per SOE was drawn for the purposes of the study. The total sample size was therefore 222 executives from 21 different SOEs.

3.3 Data collection
To understand the determinants of executive compensation, a data corpus was collected. According to Braun and Clarke (2006), a data corpus refers to all data collected for a particular research project, whereas a data set refers to all data from the corpus that are used for a particular analysis. For the current study, the researchers obtained measures of the focal variables (determinants of executive compensation) from company annual statements and company documentation containing information about executive salaries. Data items investigated within the salary data corpus consisted of the current job grades, information on job tenure, information on employee qualifications, employee gender, employee age, employee race, organisational size in terms of the total number of employees and the industry within which each SOE operated.

3.4 Data processing and analysis
The corpus of salary data of all the organisations under study was transferred to an Excel spreadsheet containing information about job function, race and gender. After the data had been captured and edited, the Excel data were then imported into SPSS, Version 20.0 to undergo statistical analysis.
Data were summarised using descriptive statistics (such as mean, standard deviation and range), frequency distribution (percentages), correlation coefficients, and analysis of variance (ANOVA). Descriptive statistics were also calculated to describe variables numerically (Saunders, Saunders, Lewis & Thornhill 2011).

The statistical procedures chosen for this research were based on applicability to the exploratory nature of the research design. The determinants of executive compensation were first assessed by establishing the predictive power of the variables as the determinants of executive compensation. The researchers decided to set the significance value at a 95% confidence interval level (p ≤ .05) in order to counter the probability of a type I error.

Hypotheses are accepted or rejected on the basis of statistical probability. A type 1 error occurs when a true null hypothesis is mistakenly rejected. A type 2 error occurs when a false null hypothesis is mistakenly accepted. The researcher indicates how sure he wants to be that he is not committing a type 1 error in the selection of an alpha level (Johnson & Reynolds 2011).

Since this study involved a multi-variable problem, categorical multiple regression analysis was used. Categorical regression was conducted because the variables being studied fell into different categories, with a combination of interval, ordinal and nominal data. According to Albright, Winston, Zappe and Broadie (2009), multiple regressions represent an improvement over simple regressions because they allow any number of explanatory variables to be included in the analysis.

### 3.5 Validity and reliability of the research

Content validity was chosen for the current study. As Babbie (2007) states, content validity refers to the degree to which a measure covers a range of meanings included in a concept. Content validity provides adequate coverage of the investigative question (Saunders et al 2011).

In the current research, content validity of the framework was addressed by ensuring the relevance and representativeness of the content of the determinants of executive compensation through literature review and secondary data analysis of annual reports and compensation policies relating to the compensation philosophy adopted by the SOEs.

Reliability is the extent to which a measure is repeatable and yields consistent results (Foxcroft & Roodt 2009). Reliability is central to the replicability of the research in future (Cooper & Emory 1995). In the current study, reliability was addressed by using existing literature sources, theories and models (Foxcroft & Roodt 2009) of executive compensation that have been tried and tested, and are available to researchers. The current study focuses on a few of the determinants of executive compensation mentioned in the literature, namely type of industry, job function, size of the organisation and demographic characteristics (age, gender, qualifications and race).

### 4 Findings

Inferential and correlation statistical analyses were conducted for the current research.

*Inferential statistics: Multiple regressions*

To determine and assess the relationship between determinants of executive compensation, the statistical method of regression analysis was applied. This was done
by firstly determining the predictive power of the independent variables (IVs) concerning the executive compensation.

Table 1
Model summary

<table>
<thead>
<tr>
<th>Standardised data</th>
<th>Multiple R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Apparent prediction error</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.701</td>
<td>.492</td>
<td>.400</td>
<td>.508</td>
</tr>
</tbody>
</table>

The model summary indicates the correlation between executive compensation and its elements. The model summary table reports the strength of the relationship between the model and the dependent variable. R, the multiple correlation coefficients, represents the linear correlation between the observed and model-predicted values of the dependent variable. Its high value (.70) indicates a strong relationship. R square, the coefficient of determination, is the squared value of the multiple correlation coefficients. It shows that 49% (approximately half) of the variance in executive compensation in all companies combined is explained by the determinants of executive compensation. As a whole, the model adequately represents executive compensation.

Table 2
Analysis of variance

<table>
<thead>
<tr>
<th>ANOVA</th>
<th>Sum of squares</th>
<th>df</th>
<th>Mean square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>96.410</td>
<td>30</td>
<td>3.214</td>
<td>5.324</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>99.590</td>
<td>165</td>
<td>.604</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>196.000</td>
<td>195</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A one-way variance within subjects (ANOVA), as depicted by Table 2, was conducted to compare the effect of the size of the organisation, job function, industry and demographic characteristics (tenure, age, gender, qualifications and race) on executive compensation. ANOVA is appropriate when one variable is a nominal or ordinal variable and the other an interval or ratio variable (Johnson & Reynolds 2014). The researcher used an F-test to determine the statistical significance using ANOVA. The ANOVA table reports a significant F-statistic, indicating that using the model is better than estimating the mean.

Table 3: Regression coefficients indicating the significance of the IVs for executive compensation

The regression analyses identified the main determinants of executive compensation as well as the strength of each element in contributing to executive compensation. The regression coefficients obtained by estimating the full model are presented in Table 3.

The standardised coefficients of some of the variables with regard to executive compensation in Table 3 were found to present strong determinants of executive compensation in South African SOEs. Three of the eight variables tested fall below the p < 0.05 level of significance as indicated by (F = 5.324, p < 0.05, R² = .492). The three variables, namely industry (B = .438, p < 0.000), size of the organisation (B = .687, p < .000), and job function (B = .307, p = .000), contribute significantly to executive compensation. Of particular importance is the strong predictive value of the first two variables, namely size of the organisation (.687) and industry (.438). The variable of
size of the organisation has the highest beta coefficient (.687), followed by industry (.438) and job function (.307), respectively. This implies that the size of the organisation, as a determinant of executive compensation, is the strongest predictor, followed by industry and job function, respectively. From this analysis, the hypotheses below are supported. Thus,

Hypothesis 1: The type of industry contributes significantly and positively to executive compensation in the context of South African SOEs.

Hypothesis 2: The job function contributes significantly and positively to executive compensation in the context of South African SOEs.

Hypothesis 3: The size of the organisation contributes significantly and positively to executive compensation in the context of South African SOEs.

<table>
<thead>
<tr>
<th>Variable</th>
<th>R</th>
<th>R²</th>
<th>Standardised coefficient Beta</th>
<th>SE</th>
<th>df</th>
<th>F</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model summary</td>
<td>.701</td>
<td>.492</td>
<td></td>
<td></td>
<td></td>
<td>5.324</td>
<td>0.000*</td>
</tr>
<tr>
<td>Industry</td>
<td>.438</td>
<td>.083</td>
<td>6</td>
<td></td>
<td></td>
<td>27.918</td>
<td>0.000*</td>
</tr>
<tr>
<td>Size of the organisation</td>
<td>.687</td>
<td>.085</td>
<td>4</td>
<td></td>
<td></td>
<td>65.241</td>
<td>0.000*</td>
</tr>
<tr>
<td>Job function</td>
<td>.307</td>
<td>.059</td>
<td>10</td>
<td></td>
<td></td>
<td>26.654</td>
<td>0.000*</td>
</tr>
<tr>
<td>Tenure</td>
<td>.073</td>
<td>.054</td>
<td>1</td>
<td></td>
<td></td>
<td>1.844</td>
<td>0.176</td>
</tr>
<tr>
<td>Age</td>
<td>.107</td>
<td>.088</td>
<td>2</td>
<td></td>
<td></td>
<td>1.480</td>
<td>0.231</td>
</tr>
<tr>
<td>Gender</td>
<td>.094</td>
<td>.060</td>
<td>1</td>
<td></td>
<td></td>
<td>2.484</td>
<td>0.117</td>
</tr>
<tr>
<td>Qualifications</td>
<td>-0.122</td>
<td>0.117</td>
<td>3</td>
<td></td>
<td></td>
<td>1.098</td>
<td>0.351</td>
</tr>
<tr>
<td>Race</td>
<td>0.050</td>
<td>0.046</td>
<td>3</td>
<td></td>
<td></td>
<td>1.159</td>
<td>0.327</td>
</tr>
</tbody>
</table>

N = 222; *p < .05; ***p < .001

Demographic variables

The demographic variables (age, gender, race, qualifications and tenure) are not significant predictors of executive compensation, as indicated by the results concerning age (B = 0.107, p < 0.231), gender (B = 0.094, p < 0.117), race (B = 0.050, p < 0.327), qualifications (B = -0.122, p < 0.351), and tenure (B = 0.073, p < 0.176), respectively. The results can be regarded as non-significant, since they are all above the p < = 0.05 level of significance. From this analysis, the hypothesis below is rejected.

Hypothesis 4: The demographic variables (age, gender, race, qualifications and tenure) contribute significantly to executive compensation in South African SOEs.

The overall results suggest that size of the organisation, type of industry and job function are significant as determinants of executive compensation. On the other hand, the results also indicated that biographical characteristics, namely race, age, gender, qualifications and tenure are not significant as determinants of executive compensation in South African SOEs.

5 Discussion

Investigation into the determinants of executive compensation provided insight into the research methods used to determine executive compensation in South African SOEs. Limited empirical research on executive compensation, specifically in SOEs, makes it
difficult to derive common standards of practice and precludes the possibility of spreading policy initiatives broadly to include all South African SOEs. The current study asserts that in the uncertainty characterised by lack of common criteria in setting executive compensation, there is a need to consider more popular determinants reflected in literature and practice for establishing executive compensation in South African SOEs. The purpose of this study was therefore to establish the determinants of executive compensation in South African SOEs.

Data analysis used a salary data survey of 222 executives from 21 South African SOEs and produced numbers that were investigated by means of a statistical method in SPSS and through regression analysis in particular. The analysis process was deductive in that elements tested were identified from the literature review and in the salary data corpus of executives.

Given the lack of a generally accepted theory of executive compensation and the limited empirical research on this subject, particularly in South African SOEs, this article tried to address the question from three viewpoints. Contingency theory views external determinants of executive compensation, such as the industry in which the organisation operates, as the main determinants of executive compensation in an organisation. Secondly, the question was approached from the viewpoint of the size of the organisation, with executive compensation being seen as a direct function of differences in company size in the composition of pay packages, and thirdly it was approached from the perspective of the human capital theory, which suggests that the personal characteristics of an individual executive contribute significantly to remuneration. Thus, the researcher derived determinants from existing theories and previous studies.

Against this background, the current study argues that the size of the organisation, job function and type of industry are instrumental in setting the criteria according to which executive remuneration could be determined in the context of South African SOEs. This research has also shown that the demographic characteristics are not determinants of executive compensation in the context of South African SOEs.

Findings in this research appear to bear out those of the existing literature (Trevor 2011) and the contingency theory, which argues that the type of industry is the main determinant of executive compensation in an organisation. Secondly, from the perspective of the size of the organisation (Conyon & He 2011; Fernandes et al 2012), executive compensation is viewed as a direct function of differences in company size in the composition of pay packages. Previous studies have tried to explain pay gaps by acknowledging that larger companies require a higher level of responsibility and impose more complex tasks, which may warrant higher pay (Oberholzer & Theunissen 2012) and make adjustments for differences in company size in the composition of pay packages (Conyon & He 2011; Fernandes et al 2012). Thus, the determinants of executive remuneration in South African SOEs appear to be in line with most literature findings; organisation size has been confirmed as a positive and significant determinant of executive compensation (Bouwman 2013).

However, the findings of this research seem to deviate from those of previous studies on the theoretical underpinnings of the human capital theory (Greve, Benassi & Sti 2010; Ng & Feldman 2010; Sun, Zhao & Yang 2010), which suggest that the personal characteristics of an individual executive contribute significantly to executive compensation. By contrast, the demographic variables (age, gender, race, qualifications, and tenure) are not significant predictors of executive compensation, as
indicated by the results concerning age (B = 0.107, p < 0.231), gender (B = 0.094, p < 0.117), race (B = 0.050, p < 0.327), qualifications (B = -0.122, p < 0.351), and tenure (B = 0.073, p < 0.176), respectively. The results can be regarded as non-significant, since they are all above the p <= 0.05 level of significance.

The findings of the research make an important contribution to the determinants of executive compensation and extend the scope of the theory and empirical research by showing the strong determinant value of the first two variables, namely size of the organisation and the industry in which the organisation operates, on executive remuneration. The variable of size of the organisation has the highest beta coefficient (.687), followed by industry (.438) and job function (.307), respectively. This implies that size of the organisation is the strongest determinant of executive compensation in the context of South African SOEs, followed by industry and job function, respectively. In so doing, the present research highlights the benefits of expanding contingency theory and theory on the size of the organisation to include some insights from human capital theory and perspectives on educational qualifications as reliable elements in predicting executive compensation in South African SOEs.

5.1 Practical implications

In addition, conclusions drawn from the literature review indicate that practitioners should consider the theoretical models of compensation when working in the field of HR, most particularly in personnel and organisational psychology. Furthermore, the theoretical relationship between these variables and educational qualifications alone as a biographical characteristic needs to be considered as a determinant of executive compensation. The findings have provided new insight into the importance of these determinants for the design, development and management of executive compensation practices, especially in the South African SOE environment.

From a practitioner’s perspective, it is important to note that organisations are faced by executives’ insatiable pursuit of huge salary packages. Executives want to be paid more for their skills, experience and performance. However, organisations have limited resources or budget constraints, a consideration which forces compensation managers to address the basic fact of economic life, that is, scarcity and the war for talent and limited skills available in the market. The key features of this strategic transformation must be based on the choices described below.

• When determining compensation human resource practitioners need to be aware of the challenges presented by the category of industry into which the organisation falls in the context of South African SOEs.
• The size of the organisation also has an influence, depending on how the organisation compares in size to similar organisations.
• The type of job function should also be taken into consideration when determining how the executive could be compensated.

5.2 Contribution to the field of labour relations

This study sought to contribute to the field of labour relations and in particular to compensation in the context of South African SOEs. The research is intended to help improve standard practices in determining executive compensation in South African SOEs. The research was able to achieve the following:
i) Contribute more knowledge on compensation to assist in creating fairness and equity in the design, development, implementation and effective management of executive compensation in the context of South African SOEs.

ii) Create awareness of the determinants of executive compensation in South African SOEs.

iii) Help design compensation philosophies and strategies that will maximise executive employees’ motivation to engage in behaviours consistent with organisational strategies.

iv) Reveal more about the fundamental determinants of executive compensation in the context of South African SOEs as opposed to other organisations in both the public and private sectors.

v) Provide a benchmark for executive remuneration in terms of the elements and dimensions defined.

vi) Provide valuable information to researchers and practitioners around the world, especially those with an interest in executive compensation in South African SOEs for purposes of benchmarking against similar entities in other parts of the world.

vii) From a practitioner’s perspective, enable boards of directors to justify the level of remuneration paid to executives.

It is expected that management, labour relations practitioners, human resources practitioners and industrial and organisational psychologist will be able to use the findings of this research as a point of reference for further research into the development and effective implementation of compensation.

5.3 Limitations and recommendations

Most literature on executive compensation in the South African SOE context is derived from the local media in the form of newspapers and financial journals. The literature in scientific journals on the subject of the exploration of executive compensation in South African SOEs is limited. Although some authors have explored the phenomenon of executive compensation in the South African context (Crotty & Bonorchis 2006; Lorsch & Khurana 2010; PricewaterhouseCoopers 2010; Theunissen 2010; Oberholzer & Theunissen 2012; Van Zyl 2010), the literature is confined to exposing the pay gap between executives and employees at lower levels and focuses less on the determinants of executive compensation based on empirical studies.

The present research design does have limitations, which could be addressed in future research. Because of the cross-sectional nature of the data, causal relationships could not be inferred. For instance, the demographic characteristics were treated as independent variables, even though some researchers have examined them as mediating variables.

The second limitation relates to the sample and composition. The research used salary data from a sample of 21 Schedule 2 South African SOEs as defined by the PFMA. The findings of the research therefore relate only to Schedule 2 enterprises as defined by the PFMA and exclude all other SOEs in the context of South African SOEs.

The third limitation relates to the scope of executive compensation as defined in the current research. Executive compensation as defined in the current research relates to
the fixed component or basic pay and does not include the variable component of executive pay. The interpretation of the findings therefore does not relate to the total pay of executives, which includes other elements, such as benefits and performance bonuses or incentives.

In conclusion, while it is widely accepted that theoretical understanding of the determinants of the level of executive pay is still fragmented and these determinants have been dominated by financial and economic theories, elements of executive remuneration could be expanded to include psychological processes by which executive remuneration is determined. Since SOEs are characterised by the need to play a developmental role in society, unlike organisations in the private sector, which is driven by profit, determinants of executive compensation in SOEs should also objectively indicate the developmental indicators as determinants of executive remuneration. Finally, it is hoped that this article will trigger discussion among human resource practitioners and compensation specialists in particular on the variables that were proved to be positive as determinants of executive compensation as against the demographic variables, especially gender. These findings will be welcomed by researchers, as they provide empirical justification for using, combining and comparing variables as determinants of executive compensation as researched in this study. However, it remains to be seen whether demographic characteristics continue to be non-significant as determinants of executive compensation across all individual SOEs in practice.

List of References


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