

Reviewing skills and competencies of remuneration committee members

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Abstract

Whilst Remuneration Committees are facing increasing pressure to make well-informed decisions that are justifiable to all stakeholders. Very little research, if any, provides information on the skills and competencies of Remuneration Committee members. The rationale for this study emanates from the researcher's desire to look at Remuneration Committees beyond executive pay and the link to company performance, and instead focus on reviewing skills and competencies of its members.

The primary data collection method was semi-structured interviews. The sample consisted of 16 Remuneration Committee members and Remuneration Consultants. Data was analysed using the Atlas ti. system.

Empirical evidence shows that corporate governance, objectivity, business acumen and knowledge of human resources are must have skills and competencies of Remuneration Committee members. Consequently, a framework that provides a composition of an ideal effective RemCo member is included. Secondly, the study found that the usefulness of Remuneration Consultants varies. Lastly, the study found that the use of Remuneration Committee assessments, as a measurement tool to measure effectiveness were questionable. Additional research on the role of Remuneration Consultants, as well as empirical research into the most effective way of measuring committee/board performance, is required.

Implications for business and future research recommendations are offered.

Keywords: Remuneration Committee, Skills and Competencies, Remuneration Consultants, Assessments

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Signature: _____

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1 Introduction to the Research Problem

1.1 Research Problem

It has been well documented how RemCo play a role in deciding executive pay, approving remuneration policy and ensuring the alignment of the policy to the company strategy and objectives (Wixley & Everingham, 2002; Bain, 2008; Ellig, 2014; Newman, 2000). However, it appears to the best of the researcher's knowledge that there is a gap in the literature in articulating what skills are required to be an effective Remuneration Committee member (RemCo).

RemCos as extensions of the board of directors (BoD), play an important role in the governance of remuneration in organisations. Not only do they ensure that the remuneration policy and practices are aligned with the interest of the shareholders, but they do this whilst still acting in the best interest of the company. It is therefore imperative for RemCos members to be skilled enough to deal with the complexities of remuneration. The ability to understand a remuneration policy for approval, and the ability to determine what short-term or long-term incentives to be set for executives are just two skills that these individuals need to possess in order to be effective.

Present governance literature has focused on three key board committees, namely the remuneration, nomination and audit committees. Though, these studies have focused more on the adoption of the board committees in different countries (e.g., Chizema & Shinozawa, 2012), little is known about their composition. A recent study by Johnson, Schnatterly and Hill (2013) called for further research in order to understand board committees, in particular their composition, human and social capital.

In recent years, "financial crisis and corporate scandals highlight the relevance of accounting and reporting standards and transparency for preventing fraud and mismanagement, ensuring good governance, and maintaining investor and consumer confidence" (Schwab, 2015, p.35). It is to this end that ensuring good governance is viewed as a valued feature of a well-run organisation (Rambajan, 2011). Corporate boards are therefore established to not only represent the shareholders' interest, act as 'agents' but also to act as an advisory board to management.

The mere fact that the responsibilities of a director are part of legislation illustrates the

importance of this role and the extent to which governance is taken seriously in South Africa. The duties of directors are specified in section 66 of the amended Companies Act, No 71 of 2008 (Companies Act) of South Africa. This is an indication of how serious the duties of these individuals are to be taken with respect to the law of the country. The expectations of these duties extend to Executive Directors, as well as Non-Executive Directors and Independent Non-Executive Directors. The Companies Act provides additional information with respect to the nomination and the removal of directors. Both processes being important in ensuring the right individuals are selected to represent the organisations' interests.

Directors cannot afford to act irresponsibly or negligently as the consequences are severe. It is therefore imperative that not only the right individuals are selected for board membership but they are indeed eligible, from a skills and experience perspective, to hold these roles. Despite the eligibility requirement of directors, Clune, Hermanson, Tompkins and Ye (2014) found that only 68% of nomination committees conducted background or reference checks against the directorship candidate. Where nomination committees are generally responsible for the recruitment and selection of BoD.

It is interesting to note that the Companies Act only specifies the requirement of a social and ethics committee. There is no mention of an audit committee, risk committee, nomination committee or even a RemCo for that matter. Despite the omission of these committees in the Act, it does still explain that an organisation should have committees, but that these committees do not in any way absolve directors of their duties.

On the basis of the Companies Act and the King codes, EY a professional services firm published a Remuneration Governance Survey report, in 2012, that surveyed RemCo members in South Africa. The highlights of the survey indicated that organisations at the time, sensed an improvement in remuneration governance as well as increased shareholder involvement, due to the King III codes (EY, 2012). Subsequent remuneration reports by EY, showed that there was a sense of increased shareholder activity with respect to remuneration matters; a new focus on linking pay to performance and increased disclosure of how executive pay had unintended consequences (EY, 2013; EY, 2014). These reports by EY highlight the importance of having skilled RemCo members that understand the role that shareholders play in remuneration matters, the link between pay and performance and the unintended consequences of executive pay disclosures.

The increased trend in the active participation of the shareholder, with specific interest into remuneration matters, raises the following:

- Are RemCo members adequately skilled to deal with the complex issues that arise from sitting on RemCo?
- What skills and competencies are required to be an effective RemCo member?

Where effectiveness for the purposes of this study is defined as the ability of the committee to balance governance, oversight and risk management with strategic challenge and management support (Petri & Soublin, 2010).

The Oxford English Dictionary (2008) defines a skill as, capability, talent or adeptness by, where competencies are described as those factors that enable an individual to be effective in their job. These competencies include “job-relevant behaviour, motivation and technical knowledge and skills (Harvard University, n.d.)

The Institute of Directors South Africa (IoDSA) in 2013 compiled a list of aspects that lead RemCos to operate effectively. These aspects include:

1. “A clear mandate or terms of reference;
2. A minimum number of members led by an effective chair;
3. A majority of members who are independent;
4. A remuneration policy, supported by an effective remuneration system;
5. Clarity on roles and responsibilities; and
6. Experienced and competent members who are adequately versed in remuneration matters to implement that mandate” (IoDSA, 2013, p. 6).

The first 5 aspects are out of scope for this research, as this papers focuses specifically on the competencies of RemCo members. However, it should be noted that all the areas are important to running an effective RemCo. Skilled RemCo members should be able to understand their own remuneration programs in light of current trends and in order to make informed decisions for the future (Randolph-Williams, 2010).

Related to the skills and competencies of the RemCo is the role that external consultants play with regards to the efficiencies of these committees. The selection of remuneration consultants (RCs) is an important one, as it depends on their level of expertise, their experience and the reputation of the firm (Bender, 2011). RCs have the capacity to influence RemCos particularly on the matter pertaining to executive pay. RemCos rely

on RCs in order to make better informed decisions (Ndzi, 2015), therefore providing legitimacy for the decisions made (Bender, 2011).

Successful RemCos are those that are proactive and not reactive. A proactive RemCo conducts regular committee assessments in order to measure the effectiveness of the committee. These assessments enable the RemCo to look beyond the general and/or recommended practices and do what is right for the organisation they are representing (Swinford & Vnuk, 2008). The purpose of assessments is to ensure that the RemCo is being effective in delivering their duties and mandates, in safeguarding the organisation and ensuring that it is managing executive pay while stretching its performance (Appiah & Chizema, 2015). The committee assessments include an assessments of the individuals that make-up the committee, as well as the committee as a whole.

The sum of appropriate skills and competencies, the influence of external consultants and the assessments of RemCo are the focus of this study.

1.2 Research Aim

It is through understanding the board's current resources and skills that leads to a better understanding of the link between boards and company performance (Nicholson & Kiel, 2004). Therefore the main aim of the study is to determine through an exploratory approach what skills and competencies are required to be an effective RemCo member. Secondly the purpose of the study is to understand the influence that Independent Remuneration Consultants (RC) have on RemCos, if at all. Lastly the study aims to determine if assessments truly measure the effectiveness of RemCos.

The need for this study is supported by the growing necessity for technical expertise for RemCo members; the need for RemCo members to understand the requirements of their role in order to truly perform effectively; and the impact that changing governance codes and internal business trends have on the role of the RemCo board.

The rules and regulations in South Africa including the Companies Act, the King Code of Corporate Governance (King Codes) and the Johannesburg Stock Exchange (JSE) Listing Requirements, provide templates for leadership, transparency, accountability and commitment to have the best board members possible. It is due to the various rules and regulations that the agency problem is managed effectively and in a manner that does

not reduce the enlightened shareholders' value. Key for successful and effective RemCos.

1.3 Report Structure

The first chapter of the report has provided an introduction to the problem statement as well as stated the aims of this study. The next chapter of the report presents relevant background review on prior literature. This includes a review of corporate governance in South Africa, taking into consideration the amended Companies Act, King Codes and the impact the recently published draft King IV report has on remuneration governance in the country. Secondly, a review of the literature will focus specifically on remuneration governance *inter alia* the RemCo, the roles and responsibilities of the committee. The report will look at what specific skills are required or deemed to be required for RemCo members to be effective and the use of assessment tools in measuring effectiveness. Lastly the study will look at the role of external remuneration consultants and the role they play with respect to RemCos.

Chapter three describes the research questions. Thereafter chapter four details the research methodology where the justification for the methodology is provided, as well as details of the data collection methodology approach. Chapter five provides the results from the interviews, chapter six provides a discussion of the results and linking them to literature. Lastly, chapter seven provides the conclusion for the report, which includes summarising the principle findings as well as highlighting the implications for business and for future research.

The terms 'RemCo' and 'BoD', and 'Independent Non-Executive Director' and 'Non-Executive Director' are used interchangeably in this report.

2 Literature Review

2.1 Corporate Governance Background

Various literature describe corporate governance as the focused monitoring and supervision of management that ensures transparent accountability of management to shareholders and other stakeholders (Wixley & Everingham, 2002; Rossouw, van der Walt & Malan, 2002). Corporate governance provides the backbone of the operations of organisations and subsequently the control of management by shareholders. Good governance is what underpins the good conduct and judgement of those that are charged, i.e. the BoD, with the responsibility of running and managing organisations in the interest of shareholders (Global Network Director Institutes, 2015).

Daily, Dalton and Cannella (2003) indicated that the effect that ownership has on firms was popularised as early as the 1930's. However, it was Jensen and Meckling (1976) who expanded on the ownership idea in greater detail. Jensen and Meckling (1976) described the agency problem as when cooperating parties have different goals. In the business environment, these cooperating parties are generally the shareholders that have a vested interest in an organisation and management that have been assigned the task and duties of running the day-to-day operations of the organisation. Eisenhardt (1989) supported the initial definition of the agency theory by Jensen and Meckling (1976) and further adds that the differing attitudes towards risk are also some of the problems faced by principals and agents. The agency theory assumes that these risks are related to the maximisation of wealth and that the actions of management and the BoD are primarily outcomes of economic forces (Bryant & Davis, 2012).

The agency problem is a clear illustration of the ownership issues faced in organisations today, and the importance that corporate governance provides the assurance that “the agents’ of the owners of companies control companies in ways that will serve the interests of the shareholders of the company” (Rossouw, van der Walt & Malan, 2002, 289). On the other hand Raelin and Bondy (2013) found that in their review of literature on the agency theory, that there were numerous problems with the theory that were not being taken into consideration. They found that the agency theory is over simplified and has since evolved over the last few years since it was first described (Raelin & Bondy, 2013). They argued that the theory only looks at the first layer which is the

principal-agent relationship and neglects the second layer which is made of the shareholder-society relationship (Raelin & Bondy, 2013). These findings are supported by Bendickson, Muldoon, Liguori & Davis (2016) who concur with the findings by Raelin and Bondy (2013) and agreed that the agency theory has some limitations to the current business context and that the principal-agent relationship is not so easily defined. Bendickson et al. (2016) have suggested that this is due to the additional influences that affect the principal-agent relationship, such as entrepreneurial mindset, family businesses, technological improvements, differences in education and an ever changing media just to mention a few

The missing component of the agency theory as suggested by Raelin and Bondy (2013), is not too far removed from that of the stakeholder theory. Stakeholders are described by Donaldson and Preston (1995) as those parties both internal and external to an organisation that have a vested interest in the organisation when no groups' interests supersede another.

Stakeholder theory was divided into 3 approaches by Donaldson and Preston (1995), descriptive – used to describe and explain an organisations characteristics; instrumental – used to identify the link between management and shareholders, as well as the achievement of organisational goals; and lastly normative – used to interpret the purpose of the organisation which includes moral guidelines. The instrumental approach is related to the attainment of profitability of the organisation, which can be linked or attributed to the wealth maximisation philosophy of the agency theory. The instrumental approach also highlights stakeholder management as a factor for competitive advantage and better performance for an organisation (Mainardes, Alves and Raposo, 2011). This does not support the original works by Donaldson and Preston (1995) who believed that the “ultimate justification for the stakeholder theory is to be found in its normative basis” (p. 88).

The implications of this means that the normative approach is critical to corporate governance, because regardless of the profits and shareholder gain, the organisation must abide by the law and should take ethical considerations into account.

What is interesting to note is that as early as 1995, Donaldson and Preston had identified that there were a number of interpretations and definitions to describe stakeholders, stakeholder management and stakeholder models. More than 15 years later, a study by

Mainardes et al., (2011) found the same evidence when they reviewed stakeholder theory literature, there was inconsistent use and understanding of the terms. They found that there were over 66 different concepts for the term stakeholder across various literature (Mainardes et al., 2011). The same study also found that stakeholder theory had been oversimplified in the same manner as agency theory has in today's business context (Mainardes et al., 2011). However Mainardes et al. (2011) stated that the stakeholder theory does provide a balance to the agency theory, in that it is more collectivist and social rather than focused on the key actors, the principal and agent. This finding supports the finding by Raelin and Bondy (2013) that the agency theory lacks the link to society.

Agency theory and stakeholder theory form the theoretical basis of this study. The gaps identified in the agency theory are well covered by the stakeholder theory. These theories are the base themselves of corporate governance and in turn are linked to the roles and responsibilities that the BoD has to the organisation they represent as well as the shareholder, and of course other stakeholders. Without having the accountability that corporate governance bestows on individuals and companies, BoDs would essentially be making decisions that have no consequence or unrelated to being in the best interest of the company.

2.2 Corporate Governance in South Africa

There are a number of rules and regulations that organisations, particularly listed companies, need to follow in South Africa. These rules and regulations include but are not limited to the Companies Act, King Codes and the JSE Listing Requirements. Complying with the King Codes is voluntary for non-listed entities, however as long as an organisation is a registered entity they still need to abide by the rules as stipulated in the Companies Act. And likewise directors for non-listed entities are also appointed to act in the best interest of the company, the principles of the King Codes can be applied across all types of organisations in a manner that is deemed to be appropriate. The 'one size fits all' approach according to the Institute of Directors South Africa (IoDSA) does not work logically, as the sizes and variety of organisations in the country vary (2009).

Institutions such as the legal and administrative frameworks, e.g. the Companies Act, hold South African organisations accountable for the decisions they make on behalf of their stakeholders, and ensure that decisions are transparent and responsible to the best

of their ability.

2.2.1 Companies Act

As the legal and administrative framework governs organisations in the country it is important to include how Acts such as the amended Companies Act impact business today. The amended Companies Act, which was signed into law in 2011, introduced fundamental changes to company law and corporate actions for South African organisations. The new Companies Act places greater accountability on organisations and their directors, and how they manage their affairs which then affect the general public. One of the key purposes of the act is to “encourage the efficient and responsible management of companies” (Companies Act, 2008, p.44). Accordingly greater responsibility was given to directors in relation to shareholders compared to the previous Act. These changes to the Companies Act in South Africa were introduced after the publication of the King I and King II Corporate Governance codes, which further cemented the accountability placed on directors. There is an inextricable connection between good governance and compliance with the law, in that good corporate governance cannot exist separate from the law (Institute of Directors South Africa, 2009). Barac and Moloi (2010) suggested that the Companies Act reinforced some of the corporate governance principles that had been highlighted by the King codes, providing statutory backing to the principles. BoD and their subcommittees are both held liable by South African law. As the RemCo is a subcommittee of the BoD, the same liabilities and accountabilities would be applicable.

2.2.2 JSE Listing Requirements

The JSE listing requirements provide rules and regulations for both potentially listing organisations and listed entities. Section 3.84 of the listing requirements deals specifically with corporate governance, whereby it indicates the formal process of appointing board members, clear balance of power and authority, the capacity of a director, and whether they are an executive, non-executive or independent (JSE, 2015). These requirements are not dissimilar to those that are stipulated in King III. In fact, the listing requirements, do make specific reference to organisations to practice the recommendations of the codes. The JSE listing requirements need to be adhered to by organisations listed on the JSE, either by applying the various relevant King Codes or

explaining why they do not apply them. Listed entities in their annual reports are obliged to explain the non-application/application of the codes.

2.2.3 King Code of Governance

The first King Codes were published in 1994 and were at the forefront of governance internationally. They were recognized as the most comprehensive publication on governance that embraced a wide range of stakeholders (Barac & Moloi, 2010). The King Codes are seen to be of the same standard as that of the legislated Sarbanes-Oxley from the United States and the UK Corporate Governance Codes from the United Kingdom which are only applicable to listed entities. Since the initial King Codes there have been two other reports (King II and King III) published and a third one (King IV) released early 2016 for public comment. The King Codes are important with respect to BoDs and their subcommittees as they advise the basic governance processes and procedures that should be in place in an organisation.

Although, King III has over 75 principles based on the philosophies of effective leadership, sustainability and corporate citizenry, organisations are able to apply the principles that are appropriate to the size, nature and the complexity of their organisation, they are not 'one size' fits all principles (Wixley & Everingham, 2002; IoDSA, 2009; Naidoo, 2011). Each principle though is of "equal importance and together they form a holistic approach to governance" (IoDSA, 2009, p16). As part of the proposed amendments for King IV, the principles will be reduced from 75 to 16 and the principles will be focused on outcomes as opposed to process as per King III, which were previously seen as tick boxing exercise.

As King IV is still to be published, the focus of this study will be on the remuneration principles from King III. However it is worth noting an important change to the codes that will be introduced in King IV that will have an impact on future studies particularly in the remuneration field. One of the key changes include the approach of "apply OR explain" becoming "apply AND explain". 'The concept of 'apply and explain' in effect means that previously companies had to either apply the principles or explain why they were not applying them, e.g. they aren't relevant. Going forward, the application of all the principles will be assumed and companies will have to explain the practices that have been implemented.

Another important change is that greater focus is placed on remuneration governance, where the codes not only recommend that “the remuneration policy and implementation plan are both tabled for non-binding advisory vote” as per before, but the codes now specify the minimum requirements for the remuneration policy (IoDSA, 2016, p20). Thirdly, the social and ethics committee is given a larger role in that over and above its normal responsibilities, it should also oversee the remuneration practices for executives in the context of overall employee remuneration (IoDSA, 2016). This is a fundamental change, as some organisations in South Africa have joint RemCos and Social and Ethics Committees (SEC), or members that represent the RemCo also represent the SEC. Lastly, King IV highlights the importance of the link between strategy, sustainable value creation, performance and remuneration and that they should be clearly articulated by the board (IoDSA, 2016). These changes mean that there is more accountability and transparency and that areas that were previously overlooked will require adherence and explanation especially with regards to RemCos.

2.3 Board of Directors

The role of the board extends beyond its fiduciary duties. The board is responsible for ethical decision-making, understanding the strategic environment, managing the needs of all stakeholders as well as to anticipate future events (Lees, 2012). These responsibilities correspond with the outcomes of a study of managers and their perception of what a board does and how it does it by Nicholson and Newton (2010). The Nicholson and Newton (2010) study found that managers and executives believed that the board is defined by five areas of responsibility: risk and compliance, governance, strategy, management development and stakeholder management.

Despite these clear expectations and responsibilities of boards, some may argue that in recent times, various boards have been negligent in their duties, which have then led to corporate disasters such as that of Enron (Warner, 2012). The main governance theory associated with BoDs is the agency theory. This theory however is not mutually exclusive as the BoD can still provide access to resources for the organisation whilst still maintaining its monitoring role (Simmons, 2012). What is important is for boards to understand what behaviours they need to exhibit in order to be considered effective and seen to be acting in the best interest of the company.

The BoD does not work in isolation, they have a number of key stakeholders who are

not only vested in the outcomes of their decisions but are also relying on them to behave in the best interest of the organisation. The organisation should in essence take into consideration the needs and interests of those groups that are affected directly and indirectly by the decisions taken by the organisation through its policies and operations (Mainardes et al., 2011).

The BoD is selected in most instances through the process instigated by a nominations committee. This committee is a subcommittee of the main board similar to that of the audit or the RemCo. It has been found that the procedure for selecting directors had limited impact on the composition of the board, in that the right individuals with the right skills and appropriate fit were selected (Aperte, 2016). In addition that, the nominations committee also considers the chemistry and comfort with the candidate director, in order to guard the culture and the effectiveness of the board (Clune et al., 2014). In addition a study by Neill and Dukwicz (2010) found that an ideal board is made up of many characteristics beyond their governance roles and responsibilities.

An ideal board needs to be able to ask questions, which is linked to understanding the environment as per Lees (2012) and they need to be willing to make tough decisions in the face of uncertainty (Neill & Dukwicz, 2010). However the study by Johnson et al. (2013) argued that board members with high status or links to more prestigious organisations, tend to have a disproportionate amount of influence over the other directors. Payne, Benson and Finegold (2009) agree that the higher level of knowledge and sufficient power amongst other things, contribute to an effective functioning board which in turn contributes to positive corporate financial performance.

It therefore begs the question as to how much of the decisions made by the board are based on genuine consensus or by following an individual that is perceived to be well regarded. Singhchawla, Evans and Evans (2011) described how the ability of outside directors to act independently was influenced by their shareholding. Yet the same study found that Independent Non-Executive Director positively affect the organisations' performance through their ability to scrutinise management actions (Singhchawla et al., 2011). This further highlights the extent to which director independence plays a role in the effectiveness of the BoD. The intention is that the Independent Non-Executive Directors bring a level of objectivity to the boardroom with regards to decisions.

King III code states "The board should comprise a balance of power, with a majority of

non-executive directors...non-executive directors should be independent” (IoDSA, 2009, 25). An independent RemCo is likely to determine fair and equitable pay, thereby reducing agency costs (Singhchawla et al., 2011). Nevertheless, Westphal (2002) stated that independence of a board member is not the most important predictor of effectiveness, rather the board members’ strategic experience that matches the organisations’ needs. Having a strategic mind-set allows a board member to provide guidance and oversight to management when required. Similarly the characteristics of a RemCo member is linked to the characteristics and effectiveness of the entire RemCo (LeBlanc & Gillies, 2005). The key to a successful and effective board is one that is balanced not only on the independence of its members, but also on skills and experience (Bain, 2008).

An earlier study by Westphal (1999) described how social ties between management and directors encouraged collaboration in strategic decision-making. So despite Independent Non-Executive Directors having an oversight role on management, their working together with management led to better relationships between the two parties. In fact, the ability of management and the Independent Non-Executive Directors to work together enhanced the amount of advice and counsel from the Independent Non-Executive Directors on strategic issues, which subsequently lead to greater organisational performance (Westphal, 1999). The study by Lees (2012) also found that although the board is required to anticipate future events, i.e. have long-term thinking, Neill and Dukwicz, 2010) found that instead of long-term thinking boards were too focused on operational tasks and domains.

King III Principle 2.19 states “Directors should be appointed through a formal process” (IoDSA, 2009, 26). Understanding the process in which directors are appointed is a significant aspect of this study as it is at this stage that the board and its shareholders have the opportunity to nominate/recruit an individual based on their skills and experience. Although IoDSA provides guidelines in the form of practice notes on the appointment of directors, it neglects to provide guidelines on how directors should undergo continuous training and development in their roles. It also neglects to provide guidelines on board assessments. These components are key to understanding to what extent skills and competencies are considered important in board appointments and in the evaluation of board performance.

Organisations are embracing diversity in the composition of their board members, as a

diverse range of board members bring different perspectives to the organisation, and also avoids 'groupthink' (PwC, 2016; Maharaj, 2007). Although diversity from an ethnicity and gender perspective are important, diversity in terms of skills and competencies are of equal importance. According to IoDSA (2016a) "a diversified skills set brings different perspectives and input for when the board is considering and directing its strategy and decisions" (p4). Wimbush and Mattson (2012), stated that the precise need of specific skills depends on where the organisation is situated in its evolution.

2.4 Remuneration Committees

Although King III encourages the composition of board sub-committees, it does stipulate that it does not necessarily mean that the main board is absolved of any responsibilities in the areas of focus of the committees (IoDSA, 2009). In fact, RemCos provide a mechanism for boards to manage the agency problem with respect to remuneration in organisations, in that they provide the assurance to shareholders that they are doing its job in a manner that benefits the shareholder, first and foremost. Similarly the Companies Act (2008) states that the Memorandum of Incorporation "may delegate to any committee any authority of the board" (p.143). The agency theory applicable to a main board are very applicable for the RemCo, and that they are a very important governance mechanism (Appiah & Chizema, 2015; Kanapathippilai, Sol & Wines, 2015). A diverse RemCo made up of individuals with different skills and experience, adds value to the debates and discussions (Bain, 2008; Ellig, 2004; Charan, Carey & Useem, 2014) as well as expertise. The composition of the RemCo is of vital importance and is discussed in detail in the IoDSA working paper (2013), which states that the most appropriate number of members in a RemCo is between three and five, which is further confirmed by Ellig (2014).

A study by Rambjan (2011) found that in order for a RemCo to be considered effective, it should be comprised of Non-Executive Directors, with the majority of them being independent. The study also found that the presence of RemCos as a board committee allows for objectivity and transparency, the base of corporate governance (Rambajan, 2011). However as indicated earlier, independence was found to not be the most important predictor of effectiveness (Westphal, 2002). A recent study of South African top 100 firms listed on the JSE, found that having Non-Executive Directors on the RemCo, reduced executive pay (Scholtz & Engelbrecht, 2015). In as much as the

RemCo is made up of Independent Non-Executive Directors it is not expected that all these directors would be experts in the area of remuneration. It is to this end that RemCos hire external consultants also referred to as remuneration consultants (RC) to provide expertise and legitimacy to their decision making processes (Bender, 2011). External RCs are an example of these external consultants that provide support particularly to the RemCo, which is a widespread occurrence (Cadman, Carter & Hillegeist, 2010).

Bender (2007) argues that independence is an idealistic ideal for Independent Non-Executive Directors in that they have very little day-to-day knowledge of the organisations they are representing and therefore rely heavily on the executive directors to provide them with information and input into the remuneration discussions. The reliance on the management team, Bender believed then gives management power of the deliberations with the RemCo (2007).

There are four key board functions that lead to effective boards, which as expected are applicable to RemCos. These include, strategy formulation, providing advice to management, accessing resources outside of the organisation that can add value and lastly the monitoring role (Nicholson & Kiel, 2004). These functions make-up the overriding RemCo roles and responsibilities. The responsibilities of a RemCo are by nature very complex as they have to deal with maintaining shareholder value, whilst still compensating the executive directors fairly (Randolph-Williams, 2010).

Additional roles and responsibilities of a RemCo includes stakeholder communication, mainly to the shareholders with respect to remuneration decisions reached, although these responsibilities are managed by the RemCo Chair specifically (Coleman & Lurie, 2010). Secondly, it is the responsibility of the RemCo to review and approve the organisations remuneration policy and strategy, as well as managing the remuneration information that is disclosed and decisions that are made for the organisation (Scholtz & Engelbrecht, 2015). Lastly, the RemCo approves the pay design mix whilst ensuring comparability in the payment of executive pay (Hermanson, Tompkins, Veliyath and Ye, 2012; Ellig, 2014). Over and above these responsibilities, the RemCo needs to safeguard the organisation's going concern by setting stretch performance targets for the executive directors (Appiah & Chizema, 2015). All the while providing feedback or recommendations to the main board on issues that they need to consider.

2.4.1 Skills and Competencies

Very few studies have been identified that address the skills and competencies of RemCo as their main focus. Other studies identified touch briefly on the skills and competencies of RemCo albeit as part of a greater study (Ellig, 2014; Hermanson et al., 2012). In general, it appears that many studies focus on the role of the RemCo (Hermanson et al., 2012; Ellig, 2014; Dell'Atti, Intonti & Iannuzzi, 2013), the structure of the RemCo (Newman, 2000; Singhchwa et al., 2011) and the role of RemCo in determining executive pay (Anderson & Bizjak, 2003; Conyon & He, 2004). One study has found that there is a definite need for additional research on the 'softer' governance of RemCo, for example culture, characteristics, style and attitudes (Veldsman, 2012), particularly in the South African context.

The majority of South African research with a RemCo focus, again focuses on executive pay (e.g. Scholtz & Smit, 2012) similar to other international studies on the topic. Other studies focus on the link between executive pay and firm performance (e.g. Bussin & Modau, 2015). Notwithstanding, there is literature that focuses on governance in general within the African context such as Waweru (2014), West (2006) and Scholtz & Engelbrecht (2015).

The study by Hermanson et al. (2012) found that a director's expertise in areas such as human resources and mergers and acquisitions were of importance. They found that there is an important need for nomination committees to conduct due diligence on new committee members, and secondly that there is a need to acquire and retain critical human capital for board positions (Hermanson et al., 2012). Maharaj (2007) highlighted the importance of knowledge in order for board members to better synthesise information coming from different sources in order to make informed decisions. The importance of knowledge is supported by the 21% respondents of the Hermanson et al. (2012) study who suggested that a key attribute of being an effective RemCo member was having an interest to gain knowledge and to be open to reading material.

However a more recent study by Dell'Atti, Intonti and Iannuzzi (2013) established that although RemCos were making exec pay decisions, they were relying more on the expertise of RCs than having members on the board that had these skills. Bender's (2007) research supports the view of over reliance on RCs. Bender found that due to the Independent Non-Executive Directors lacked the knowledge and were far removed from

the day-to-day business of the organisation, it put them at the wrong end of the balance of power (Bender, 2007). However, by having access to RCs the RemCo is able to make its own analysis and decisions based on the 'objective' information and input provided by the consultant. Despite having access to the RCs, it is important that the RemCo should have a good understanding of the organisation they are representing and secondly they need to have interest in how it is progressing with respect to remuneration relative to its competitors.

Interestingly, Ellig (2014) believed that one of the individuals that sits on the RemCo should at least be a current or previous Remuneration Specialist of another company, independent of the board they sit on.

As mentioned earlier, there is very little to no literature on what skills RemCo members should possess in order to be effective. A periodical paper by Swinford and Vnuk (2008) expands on the characteristics of a successful RemCo, but does not indicate what skills and competencies attributes the RemCo should have. The IoDSA working paper provides a list of diverse requirements that the RemCo competent members should possess in the remuneration field (2013). These include:

- An understanding of typical remuneration practices and processes;
- Familiarity with terminology and basics for remuneration design;
- An understanding of the different outcomes of different pay schemes; and
- Experience as a business leader.

Over and above these competencies, it is equally important for RemCo members to gain the tools that they will need to design and monitor the remuneration programs that will impact the executive pay whilst maintaining shareholder value (Randolph-Williams, 2010). Having a good understanding of both the external and internal business environment, including any governance practices such as the King III Code as well as legislative knowledge, enables the RemCo to be an effective governance mechanism for the organisation.

Wimbush and Mattson (2012) believed that there were requisite skills that a board member should inherently have in order to be effective. These skills include:

- Leadership and business acumen – ability to not only lead outside the boardroom but also to follow and influence in the boardroom;

- Intellectual curiosity – potential and current board members should be interested in their continuous development;
- Analytical and problem-solving skills – these skills will allow board members to understand the various components of the business and how they fit together, as well as being capable to resolve issues, efficiently and in real-time; and
- Financial acumen and risk management – all members should possess reasonable financial acumen (Wimbush & Mattson, 2012).

The above list is not exhaustive however it provides a starting point for understanding the type of skills required to be an effective RemCo member, over and above the ones prescribed by the IoDSA (2013) working paper.

Coulson-Thomas (2009) stated that at a minimum board members should understand the role and function of the board and their legal duties and responsibilities. If RemCo members are knowledgeable on the company objectives, the remuneration systems and the general operating environment, it enables them to make informed decisions on proposals that may be presented to them and to be able to judge the validity of the proposal (Ellig, 2014).

However, knowledge in the area of remuneration should not be the only focus area, it is important for RemCo members to be 'well-rounded'. They need also to have business acumen – in order to understand the operating environment of the business and how this affects remuneration. They also need to have basic financial knowledge, to the point they can interpret information that is provided to them and link it back to the financial performance of the organisation. This view is supported by a recent study of directors in the United States by PwC (2014) which showed that directors considered financial, industry and operational expertise being the most important attributes to have for board members.

It is therefore imperative that RemCo members are provided with the necessary training to ensure that they are able to overcome obstacles such as keeping up with various forms of remuneration, their relation to tax and organisation specific situations as indicated by Ellig (2014). Ongoing training and development of directors leads to better skilled individuals that can provide greater value to the board and board committees. The lack of skills of RemCo members can lead to poor decisions being made, leading to unintended consequences for the organisation. "...some (committee members) can't tell

the difference between a stock option and a stock award” (Ellig, 2014, p. 265), these are the same individuals who are tasked with deciding executive pay.

One of the main objectives of the RemCo is to set performance targets, with respect to short-term incentives and long-term incentives for the organisation. Without the necessary skills and/or experience, this would be very difficult. Although there is always the option to hire an external consultant to assist in this area, it is vital that the RemCo should have the basic knowledge and skills to understand how targets are set. A skill matrix can be used to outline the skills and knowledge required by a board member based on industry trends, and the organisations’ specific needs (Maharaj, 2007). By using a skill matrix it ensures that there is alignment with the needs of the organisation and the board members capabilities (Maharaj, 2007).

2.4.2 Remuneration Committee Effectiveness

Principle 2.22 of King III has been identified for the purposes of this report as the key principle relating to how RemCo effectiveness is determined. This principles states, “the evaluation of the board, its committees and the individual directors should be performed every year” (IoDSA, 2009, p. 28)

The performance and effectiveness of the RemCo should be subject to regular evaluation, both self-assessments and individual board member assessments by the main board (IoDSA, 2013). “A robust evaluation compels a board to look inward and address issues related to leadership, management relationships, reporting and oversight” (Leblanc, 2009, 63). Although self-assessments allow the board members to present a view of how they believe they are performing, these may not be a true reflection of performance due to personal bias. It is therefore important that individual’s assessments are conducted by the main board over above the self-assessments. However, the study by Hermanson et al. (2012) found that RemCo members have the view that self- assessments are seen to provide little value. Similarly, Ingley and van der Walt, (2002) found that “the uneasiness and ambivalence regarding the nature and worth of board evaluations is shared by directors...” (p.173)

Another hindrance to board evaluations is that, the higher an individual was in an organisation, the more likely they were to receive infrequent and superficial reviews (Roy, 2015). Boards were often reluctant to use comprehensive performance management

systems, as they believed that the process was too time-consuming or that the results would contain evidence of improper conduct or that if key stakeholders were to have sight of the results they would be unhappy (Roy, 2015). Despite these concerns, reviewing the performance of board members against set criteria is an effective way to check RemCo efficiencies and effectiveness in carrying out their duties. Assessments may not necessarily make the board members effective, but they lead to efficiently run boards (Leblanc & Gillies, 2005). RemCos should be in a position to be proud of their governance and board member skills and competencies.

A study by Cornforth (2001) explained that there are three main influences on board performance, namely; inputs – comprised of board member skill and time; board structures and processes - e.g. board size, meeting frequency; and outputs – the actual tasks and functions that board has. Based on these influences, they found that there were key variables that led to board effectiveness, a clear understanding of roles and responsibilities; right mix of skills and experience; common vision between the board and management; and lastly a frequent review of board performance (Cornforth, 2001). Petri and Soublin (2010) expanded on the model by Cornforth (2001) and indicated that in order to measure effectiveness, the required capabilities needed to be defined. Once they had been defined, they were assessed against the board's current capabilities and against peer groups to determine if the outputs, i.e. the tasks and functions, had been effective (Petri & Soublin, 2010).

Countries such as Canada, require that the competencies and skills of individuals that serve on public companies be disclosed (Leblanc, 2009). In South Africa there is no requirement that skills and competencies of board members should be disclosed. This presents an opportunity to not only identify the skills and competencies for RemCos but also to create a 'check-list' that can aid both listed and unlisted organisations in better managing and running their RemCos. Effectiveness of directors can also be learned from the approaches of more successful peers and through integrated development programs (Coulson-Thomas, 2009).

Performance appraisal feedback is important as it assumes that the individual who seeks out feedback is effective in their role, however feedback is only sought when it is considered useful (Asumeng, 2013). Feedback allows the RemCo members to understand their areas of weakness, strengths and the ways in which they can improve upon their performance/contribution. Feedback is then sought when it is believed to

improve performance or development. (Asumeng, 2013). The feedback provided needs to be both evaluative and objective though. Objective feedback provides specific information and a clear measure of performance improvement (Johnson, 2013). Similarly evaluative feedback allows for the individual to know what behaviours led to good performance and those that lead to criticism (Johnson, 2013).

2.5 External Remuneration Consultants

It is not uncommon that boards hire external consulting companies to provide advice and support to them in their decision making process. A number of studies have looked into the effect that RCs have on the ultimate decisions made by the RemCo, and provide differing views. The one common thread amongst these studies is that when a BoD/ RemCo/ ED hire RCs it is highly correlated with greater CEO pay (Cadman et al., 2010; Kostander & Ikaheimo, 2012; Ogden & Watson, 2012; Conyon, Peck & Sadler, 2009).

This is not necessarily seen as a good thing, but rather as a cause for concern. It highlights the relationship between the hiring management team and the consultant, which is one of the ways in which the hiring of RC occur. The hiring of the RC takes place differently across different organisations. In some organisations, the RemCo selects the RC based on a shortlist provided by the Human Resources Director (HRD) (Bender, 2011; Ogden & Watson, 2012), other organisations the relationship with the RC was initiated by Executive Directors or by the consultants themselves, particularly if they were already offering other consulting services to the organisation (Kostander & Ikaheimo, 2012). Kostander and Ikaheimo (2012) found that the RemCo was guided by the CEO in terms of which RC was to be selected, due to the CEO having a strong influence on the decision. Regardless of which selection process the RC underwent, studies show that organisations that utilise the services of RCs have greater CEO pay. This is interesting considering the fact that the main reason why the RC was hired was because they brought expertise and legitimacy to remuneration decisions that need to be made by the RemCo particularly with regards to executive pay (Conyon et al, 2009; Bender, 2011). Kostander and Ikaheimo (2012) believed that this is primarily due to the limited time, knowledge and resources that were available to the RemCo to make their decisions.

The disproportionate increases in exec pay causes the surveys that are used for benchmarking to appear as though other similar organisations are under paying their

executives. Bender (2011) emphasized the importance of the RemCo to be sceptical of the advice and information provided by the RC. In fact the study by Bender showed that some RemCos make use of more than one RC in order to bring objectivity and avoid the influence of the Executive Director on the consultants (2012). Another way of avoiding the conflict that arises with the Executive Director – RC relationship is to rotate the RCs. Bender (2011) found that due to the handful of firms that provide RemCo support, RemCos were making decisions to change their RCs in order to avoid longevity of their appointment and closeness to management. A similar process that is already taking place with audit committees and their external audit firms.

Ndzi (2015) found that although RCs bring expertise and legitimacy to the RemCo decisions, they often lack independence due to the other consulting services that they offer. It is due to these other services that Ndzi (2015) found that the RCs would be more likely to offer advice that the RemCo or Executive Director wants to hear in order to retain their contracts. This then leads the RCs to offer advice that is not objective and expensive to the detriment of the long-term success of the organisation (Ndzi, 2015). Conyon et al. (2009) suggested that the best way to avoid such conflicts was for the RC to work exclusively for the RemCo and not for management, even though management may be the one paying the fees.

There is no doubt that RCs bring value to the RemCo and the decisions that make, however this advice needs to be taken cautiously. There are many advantages of having RCs provide support to the RemCo and these include, the RCs ability to provide remuneration market trends in the industry (Kostiander & Ikaheimo, 2012); RCs have access to data that the RemCo mainly made up of Independent Non-Executive Directors, who meet infrequently and are not subject matter experts or are unlikely to have (Conyon et al., 2009); and lastly RCs enable the RemCo to make informed decisions on executive pay (Ndzi, 2015). It is important to note that despite the value that RCs have, they by no means lessen the responsibility of the organisations HR professionals to the RemCo nor of the RemCo to its stakeholders (Bender, 2011).

2.6 Literature Review Summary

The earlier sections of this chapter have provided some background information with regards to Corporate Governance in South Africa, the role of BoD, the roles and responsibilities of the RemCo and lastly the effectiveness of the RemCo. The following

points highlight those aspects of the literature that are pertinent to the study, and provide a link to the subsequent chapters of the report.

1. Board member skills need to be relevant, to the committee on which they sit. Due to the complex and mainly technical aspect of a RemCo, it is critical that the members that sit on this board subcommittee are well equipped to deal with the challenges with regards to organisational pay strategies, practices and executive pay. Over and above promoting transparency and accountability, the RemCo should be proactive in staying abreast of market trends as well as the organisations performance. These will help and guide them in making the right Executive Director Pay decisions. It is also important that the RemCo members are equipped with the relevant technical skills in order to critically assess the information presented to them by both the Executive Directors and the RCs. These techniques will enable them to correctly develop pay for performance goals (Swinford & Vnuk, 2008).

In as much as some organisations rely on the expertise of the RC, it is equally important that the RemCo members themselves are skilled enough to be able to critically question the information provided to them. The mindset of the RC is generally aligned to that of management who would have inevitably hired them to fulfil a certain role either for management or the BoD (Kostiander & Ikaheimo, 2012).

2. A skilled and competent RemCo member leads to an effective RemCo. An effective RemCo is identified through frequent and honest assessments. The assessments provide an opportunity for the shareholders, 'the principles', to review the extent to which the RemCo members 'the agents', are acting in the interest of the shareholder. Alignment of goals between the shareholder and the RemCo reduces the agency problem. Although King III makes references to assessments, there is limited research that speaks to the effectiveness of these assessments in South Africa. Once again this presents an opportunity through exploratory research to understand what this topic better.

Based on the researcher's current knowledge and research there are insufficient studies in South Africa that deal with the understanding the skills and competencies

of the RemCo in the country. This study is an opportunity to provide exploratory data of the current status as well as the ideal status for RemCo members.

3 Research Questions

Research questions are based on the types of questions that the study aims to address, whereas research propositions indicate some knowledge of relationships, and hypothesis is an investigation in to the relationship between two or more constructs and how these constructs influence each other (Saunders & Lewis, 2012). Due to the nature of the study, it was relevant to use research questions. The study is of a qualitative nature with the aim of understanding skills and competencies of RemCo members much better. Research questions are also appropriate for this study as there is a clear “link to the literature and promises fresh insights (Saunders & Lewis, p.19) into the subject of skills and competencies of RemCo members in South Africa. The intention of the study was to enquire on the skills and competencies of RemCo members in South African organisations.

Therefore based on the literature review and the need for additional research in the field of remuneration, more specifically, RemCos in South Africa, the following questions were defined:

Research Question One: What skills and competencies are deemed appropriate for RemCo members?

Research Question Two: To what extent do external remuneration consultants influence the skills and competencies of RemCo members?

Research Question Three: How is RemCo effectiveness determined?

4 Research Methodology

The following list provides a summary of the steps that were used in order to carry out this research. The steps are discussed in more detail in the ensuing sections of the chapter and report.

1. A review of the pertinent literature was conducted in order to study any contributions to the areas of corporate governance in general, corporate governance in South Africa; the role of BoD; the role of RemCos and lastly the role and influence of RCs (chapter two).
2. Based on the literature review, research questions were defined (chapter three).
3. Potential research participants were contacted through purposeful, convenience and snowballing sampling methods.
4. Pilot testing was conducted to test the relevance of the questions posed in the interview schedule. Adjustments were made thereafter.
5. Semi-structured interviews were conducted with the participants, either face-to-face or telephonically.
6. The data from the interviews was analysed using the Atlas ti. system.
7. Limitations of the study were acknowledged.
8. Data was analysed and reviewed against the literature (chapter five and six).
9. Recommendations and implications for future research were identified (chapter seven).

4.1 Research Design

The selection of strategy or strategies needs to include factors that give the greatest utility in addressing the problem at hand (Berthon, Pitt, Ewing, & Carr, 2002). The qualitative methodology is the strategy factor that will enable this study to address the research questions. The qualitative research methodology was appropriate for this study as it is aimed at ensuring maximum results in answering the research questions regarding skills and competencies of RemCos. Also this method was appropriate because it focuses on interpretation which influences the research process, which in turn helps with “understanding how people think and act” (Ezzy, 2001, p.294). Buchanan, Chai and Deakin (2014) further elaborated that qualitative research allowed for intensive study of a phenomenon but without having to review the causal process. Similarly

qualitative research, according to Newman (2011) uses ideas and themes to make generalisations of the research population, which is supported the manner in which the research questions and the interview schedule are structured. Other similar studies (Bender, 2011; Clune et al., 2014; Dell'Atti et al., 2013; Hermanson et al., 2012; Ndzi, 2015) chose the qualitative research methodology to gain greater insights into the study participants and research phenomena. Such was the intention of this study, in that greater insights were sought into understanding the skills and competencies of RemCo members.

The research philosophy for this study was based on interpretivism, which is described as a philosophy that advocates the necessity to understand differences between humans in their role as social actors in their natural environments (Saunders & Lewis, 2012). In order to understand RemCo members as social actors in their committee environment, the most effective manner in which to obtain data was therefore through conducting interviews with them, the subject matter experts.

The research questions for this study were very specific to RemCo members due to the area of interest. Therefore, in order to gain insights into the subject, it was imperative that data was collected based on actual experiences of RemCo members in South African organisations. Due to the confidentiality and sensitivity of attending actual RemCo meetings, i.e. their natural environment, the researcher engaged with RemCo members outside of this setting. Interviews were conducted either at the participants' offices or in an environment that was conducive for such a conversation, was convenient for the participant, or where they felt comfortable and had minimal disturbance (Saunders & Lewis, 2012). Such environments included coffee shops selected by the participants or telephonic conversations as requested by the participant.

The literature as discussed in chapter two created the foundation for the research questions for this study in that additional research is required with respect to understanding the skills and competencies of RemCo members, the influence of RCs and the assessments of RemCos to measure effectiveness. According to Saunders & Lewis (2012), this approach is referred to as deduction, as it clarifies theory at the beginning of the study, and the study is used to collect and analyse data to answer the research questions. Whereas, with an inductive study the themes identified are linked to the theory and not the data. Literature by Braun and Clarke (2006) indicates that induction implies that the themes identified bear little relation to the specific questions

that were asked of the participants.

In this study, the questions asked of the participants, as indicated in the interview schedule (Appendix 2), were directly linked to the themes identified in the literature. These themes are discussed in detail in the following chapter. Given the nature of humans and reliability on memory to provide relevant information pertaining to their experiences in RemCos, it was important to maintain a level of flexibility with the research process as indicated by Saunders and Lewis (2012). Interviewing experts who sit on RemCos enabled the researcher to discover general information about a specific topic, i.e. skills and competencies. Saunders and Lewis (2012) refer to this as exploratory study, because the study was seeking new insights based on the apparent lack of data in the literature and sought to view RemCos in potentially a different light. Although the researcher utilised semi-structured questions due to the discussions being exploratory, the questions were broad and yet specific enough to still cover the key themes of the study.

4.2 Population and Sampling

4.2.1 Universe

The universe for studying the skills and competencies of RemCo members would be the active RemCo members and external Remuneration Consultants of South African organisations.

4.2.2 Unit of Analysis

The unit of analysis was the RemCo members.

4.2.3 Sampling

Due to time constraints and practical reasons it was not possible to interview all RemCo members and RCs in the country. Secondly, a list of all RemCo members and RCs in the country does not exist to the best of the researcher's knowledge. It was therefore appropriate to use non-probability sampling, where a selected group of cases were chosen from a particular population (Uprichard, 2012). A sample was necessary to represent the views of the population, albeit in a very general manner. Likewise, the sample was selected on its ability to meet the aims and objectives of the study, based

on the participants experience or role within RemCos.

Although knowledge of the population is required, the participants were chosen due to their representation of the population and not due to how well they know it, as discussed by Uprichard (2012). The researcher used their discretion to select some of the sample from a list that was representative of the population – in other words a purposeful non-probability sampling method was utilised. The list was based on the review of annual reports of JSE listed entities to identify their RemCo members as well as the Company Secretary that would provide access to the RemCo members. Purposeful sampling is also useful for this study as it makes generalisations about the population.

Company Secretaries were approached as they are considered to be the BoD's gatekeeper. Where a gatekeeper is defined by King and Horrocks (2010) as "someone who has the authority to grant or deny permission to access potential participants and/or the ability to facilitate such access" (p.31). In this instance, 12 Company Secretaries were approached for access to their RemCo.

Additional potential study participants were identified from the researchers' network as the researcher works in the field of remuneration and is exposed to both RemCo members and RCs. Participants were therefore identified through non-probability convenience sampling.

In addition to purposive and convenience sampling, the researcher utilised the snowball sampling methodology to identify interview participants. These additional participants were referred by those participants identified during purposive sampling. It has been established that referrals often are more willing to take part in a study, as the researcher is deemed to be more 'credible' than if they had approached them without a referral and who would ordinarily be difficult to identify (Saunders & Lewis, 2012). Snowballing sampling was also useful in that the initial participants selected to take part in the study referred others they knew met the study's criteria.

The sample population was not limited to JSE listed entities only, it included unlisted companies. This heterogeneous sampling enabled the study to have a sample of sufficiently diverse characteristics in order to provide maximum variation possible in the data that was to be collected (Saunders & Lewis, 2012). The sample selected also provided a reasonable diversity of background, status and experience of the RemCo members.

A study by Leblanc and Schwartz (2007) confirmed that although it is particularly difficult to gain access to BoD, one of the methods to do so is through a 'gate-keeper' or 'sponsor' who can connect the researcher and the potential participant. In this instance, the gatekeeper was the Company Secretary as discussed earlier, and the 'sponsor' was the RemCo member or RC that referred potential participants to the researcher.

The criteria for selection of the participants were:

- Participants must be a current or recent past member of a RemCo; or
- They must be an RC that works closely and frequently with RemCos.

Based on the sampling methods described, 28 individuals were approached to take part in the study, of which 12 (43%) did not respond to the requests. It is worth noting, that once the researcher was in contact (through telephone or email) with the potential interview participants, they all agreed to participate. Hence the final number of participants for the study was 16 interviewees representing various industries, including financial services, property and energy. 16 participants was a good number for this qualitative study as the ideal number of participants according to Saunders and Lewis (2012) is between 15 and 20.

In line with the confidentiality statement as per the consent form, the names of the participants and the names of the organisations represented are not disclosed for this study.

4.3 Research Instrument/Measurement

Interviews, specifically semi-structured interviews, were selected as the primary data collection method for this study. The interview method was selected as it provided an opportunity for the researcher to interact directly with the participants, enabling in-depth, context-rich, personal accounts, perceptions and perspectives of their experiences (Bloomberg & Volpe, 2008). In addition, it allowed the researcher to be able to probe for clarification when necessary as well to clarify statements made by the participant (Bloomberg & Volpe, 2008).

And since interviews rely on participants accounts of events or experiences as opposed to the use of experimental or archival data (Radcliffe, 2010), this method was best suited for this study. Semi-structured interviews allowed the interviewer to not only focus on the

key themes to be covered for the study but also to explore other topics that arose during the interviews. They also enabled the researcher to maintain a level of flexibility with the responses provided by the participants. In instances where the researcher is unsure of the responses that will be provided, semi-structured interviews are useful (Saunders & Lewis, 2012).

The questions in the interview schedule (see Appendix 2) were structured in an open-ended manner to allow for depth and breadth in the responses. Remuneration in its nature is a very sensitive topic particularly in a country like South Africa, where the spread between a CEO's salary and the lowest paid earner is very wide, as much as 88 times that of their employees (Business Tech, 2016). It was therefore imperative that the participants were assured of confidentiality and that no specific company information would be discussed in the study.

The questions of the interview schedule were kept broad enough in order to allow room for discussion with the participants. Secondly, although the interview schedule followed the research questions as set out in the study, they did not have to be followed sequentially. It should be noted that the research questions for the study have since changed due to the data collected during the final interviews. Hence the difference between the research questions as stipulated in the interview schedule and those indicated in chapter three. The additional research question was due to pertinent information that was shared by the participants during the interviews.

The importance of having an interview schedule was to ensure that all the research questions of the study were covered. The direction and flow of the conversation due to the nature of being semi-structured was in essence directed by the participants. It was only when the researcher felt that a question was not answered adequately enough or had been missed completely did they refer back to the interview schedule to redirect/refocus the conversation. This is one of the advantages of conducting interviews in that it enables the researcher to re-order questions asked (Saunders & Lewis, 2012). Similarly a the semi-structured interview enabled the interviewer to interact with the participants in a less formal manner which allowed for the probing for additional explanations to some of the answers, beyond the questions set-out. The main disadvantage of conducting interviews is that the potential participants may not be willing to take part in the study. The unwillingness to take part in the study may be attributed to the fact that interviews are perceived to be time-consuming and they do not offer any

anonymity for the participant.

4.4 Pilot Testing

Pilot testing was used to try and eliminate the validity and reliability threats to the study. It enabled the researcher to correct any issues with the interview questions, and to assess that the data collection methods were truly addressing the research questions. It also provided an opportunity to address any topics that could arise but were not being addressed in the interview questions (Saunders & Lewis, 2012). Due to the sensitivity of remuneration and RemCos in general, the interviews were not recorded, although it is preferable in qualitative research to audio record interviews. It became apparent during the initial pilot testing of the questions that the interview participants would not be able to respond to questions without giving context of the boards they sit on as well as some potentially sensitive situations that would be used to explain a response. As the study is focused on understanding the skills and competencies of RemCo members there was no need to record the conversations as the salient points discussed were noted as part of the handwritten notes taken during the interview discussion.

Conducting the pilot test early in the process was valuable as it allowed the researcher not only appreciate that the recording of the interviews was going against the confidentiality assurance they were offering the participants, but it also enabled the researcher to adjust the interview questions to ensure that they were adequately covering the research questions. “It is far easier to correct mistakes...at the pilot stage than to have to recollect data because mistakes had been overlooked” (Saunders & Lewis, 2012, p. 149).

4.5 Data Collection

Data collected via the interviews was used to both explore skills and competencies of RemCo members, the influence/role of RCs and the measurement of effectiveness. The interviews were conducted with both current RemCo members and RemCo RCs. The researcher believes that the sample selected had the right level of experience and knowledge to be able to respond to the questions posed. Seven interviews were conducted telephonically due to logistical reasons, such as the participant being based out of Johannesburg or time constraints. Nine interviews were conducted face-to-face, at the participants’ office, in a hotel lobby or once in a coffee shop. All these venues were

comfortable and convenient for the participant. The interviews were conducted by the researcher and lasted between 30 – 45 minutes, the majority being 45 minutes, as indicated to the participants at the time of soliciting their participation. Instances where the interviews took longer than 45mins, were those that were conducted face-to-face. Literature review by Irvin, Drew and Sainsbury (2012) discovered that telephonic interviews were for not more than half an hour, a finding similar to the experience with telephonic interviews for this study.

Participants' responses were manually taken as notes during the interview, either typed during the interview or handwritten in a notebook and then transferred onto a Word document after the interview. The quotes in the chapter five of the paper reflect the researchers' best effort to present the exact words spoken by the interviewees, based on the notes taken during the interviews. In some instances, the wording has been slightly edited for grammatical purposes, however the content has remain unchanged. Other forms of communication such as body language were noted during the interview, as they yielded greater insight than the verbal responses provided.

Due to the geographic spread of some of the participants, some interviews were conducted telephonically. The main disadvantage to telephonic interviews is that the researcher was not be able to interpret any body language or expressions the participant may have exhibited during the interview. As confirmed by Irvine, Drew and Sainsbury (2012) who reviewed a number of literature in this regard, and concluded that there are indeed missed opportunities to observe facial expressions of interviewees during telephonic interviews.

For those interviews that were conducted face-to-face, handwritten notes were transcribed into an electronic format within 24hrs of the interview. Notes from interviews conducted telephonically were captured electronically during the interview. Once all data had been captured electronically, the documents were uploaded onto the Atlas.ti system for analysis.

4.6 Data Analysis

The purpose of conducting interviews with RemCo members and RCs was for the researcher to be able to answer the research questions posed in this report. The semi-structured interviews provided valuable insights into understanding the skills and

competencies from the individuals who have the responsibility of sitting on RemCos. This is reiterated by a study by Vaismoradi, Turunen and Bondas, (2013) who state that “qualitative (research) approaches share a similar goal in that they seek to arrive at an understanding of a particular phenomenon from the perspective of those experiencing it” (p.398).

Thematic analysis in this instance is the best method of analysing the interview data for this study. This form of analysis provides a rich and detailed account of the data, through the identification, analysis and reporting of patterns that appear in the data (Braun & Clarke, 2006). It is a more relevant form of analysis than that of content analysis. This is due to the fact that content analysis focuses on describing the characteristics of a document/interview data, by examining who said what, to whom and with what effect (Vaismoradi et al., 2013).

An important part of analysing qualitative data is to understand the context in which the data was provided in order to answer the research questions. The data provides insight into the experiences of the RemCo members and RCs, revealing themes related to the research topic. King and Horrocks (2010) point out that themes are recurrent and are considered to be distinctive features of a participant’s accounts that are relevant to the research question. They also highlight in what areas the participant’s differ or have in common (King & Horrocks, 2010). These similarities and differences are influenced by the researcher’s judgement, which is important in thematic analysis. However, Braun and Clarke (2006) state that the ‘keyness’ of a theme is not necessarily determined by a quantifiable measure, but on its ability to provide response or feedback in relation to the research questions. Despite the ease in which thematic analysis can be conducted and the value gained from it, the one disadvantage of this form of analysis is that it is difficult for the researcher to make much sense of how individual accounts are shaped (King & Horrocks, 2010).

The specific process of the data analysis are discussed in chapter five.

4.7 Research Limitations

It is imperative that the data collected and represented in the study was both valid and reliable. Validity refers to the extent to which methods accurately measure what they were intended to (Saunders & Lewis, 2012). Based on the analysis of the data, the data

collected measured the themes that were intended, skills and competencies as well as effectiveness of RemCo.

The main factor that could have affected the validity of the research findings would have been the subject selection, as the researcher used their discretion in identifying the initial sample of participants. According to Saunders and Lewis (2012) subject selection biases may arise due to the fact that research subjects may not be representative of the research population, which was a possibility due to the initial subject selection.

Another threat against the validity of the study was that during the interviews the respondents may respond in a manner that is not truly reflective of actual events in order to impress the interviewer (Saunders & Lewis, 2012). However the researcher did not get this impression. The interview participants were open and candid about their experiences and were very willing to provide input that could add value to the topic. It is the opinion of the researcher that at no stage did they get the sense that the RemCo members or the RCs felt the need to exaggerate or embellish their responses in order to appear favourable or positive for the purposes of the study. The discussions held were very open and honest. There was no subject bias, whereby the participants responded in a particular manner in order to reflect feedback in a 'positive light' (Saunders & Lewis, 2012).

Having said that, there is the issue of sample bias due to the sample participants. The sample is made-up of individuals who have a vested interest in the role of a RemCo member and are therefore likely to believe that the skills they have or have been exposed to are appropriate. Which leads them to use these skills and competencies as a benchmark for other RemCo members and also as a benchmark during the interview discussions.

Daily et al. (2003) observed that leaders of organisations are unlikely to expose themselves to unnecessary scrutiny and therefore avoid having researchers conduct interviews with them. Response bias was a potential limitation of this interview methodology, but was avoided through the manner in which the research questions were posed during the interview. For example a question was posed around what the participant would want in a new RemCo member. Response bias is defined by Saunders and Lewis (2012) as the unconscious misrepresentation such as social desirability bias or acquiescence bias, whereby the respondents may respond to the researcher's

questions in a manner they think will satisfy the researcher. It was therefore critical for the research questions and adhoc questions during the interviews were phrased in a manner that reduced this bias.

Another limitation to the study was the manual note taking process during the interviews. The disadvantage is that it required the interviewer to balance the need to respond to what is being said, as well as the need to keep the interview flowing all the while taking as accurate notes as possible (King & Horrocks, 2010).

Lastly, it is argued that qualitative research methods are subjective, however this form of research acknowledges the subjective nature of the interpretative process (Ezzy, 2001). Equally Saunders and Lewis (2012) acknowledge this subjectivity and state that qualitative research in general needs to be followed up with more detailed research in the form of quantitative analysis in order to provide more reliable and valid results.

4.8 Research Methodology Summary

In summary this chapter provided an overview of the research methodology selected for the study. Qualitative semi-structured interviews were utilised to have conversations with RemCo members and RCs in order to gain insights into the research questions identified. The participant sample was made up of 16 individuals identified through three means of sampling, purposeful, convenience and snowballing. The data collected from the sample was analysed using the Atlas ti. system. Lastly, research limitations were identified based on the research methodology selected.

5 Results

Chapter five presents the results from the qualitative semi-structured interviews conducted with RemCo members and RCs in South Africa. It leads on from the previous chapter, chapter four, which discussed the research methodology chosen for the study, the sampling, data collection and analysis. The first objective of the interviews was to determine what current skills and competencies are represented on RemCos today, as well as the skills and competencies that are required for RemCo members to possess. The second objective, was to understand what type of influence if any external RCs have on RemCos. Lastly the objective of the interviews was to determine how the RemCos measure their effectiveness.

The identified sample of 16 participant were believed to be able to respond to the objectives as the participants are currently representing or consulting to RemCos as per the selection criteria.

Chapter five is structured as follows. Section one provides a detailed review of the analysis methodology employed to analyse the interview data. Thereafter, section 5.2 provides a profile of the interview participants. Section 5.3 provides the results structured under the three research questions namely:

1. What skills and competencies are deemed appropriate for RemCo members?
2. To what extent do external remuneration consultants influence the skills and competencies of RemCo members?
3. How is RemCo effectiveness determined?

Section 5.3 also provides a brief reflection of additional insights gained during the interviews. Lastly, section 5.4 provides a summary discussion explaining how the qualitative results answered the research objectives.

5.1 Data Analysis

Coding to identify the themes was conducted utilising the Atlas ti system. Key words/phrases from the interview notes were identified, and coded within the system. The process of coding reduces the sentences or phrase into one word or two words that describe the phrase. Codes according to Braun and Clarke (2006) identify a feature of the data that appears interesting to the researcher. The codes created in the Atlas ti.

system enhanced the approach utilised to analyse the data. Direct quotes from the participants were grouped under the various thematic headings.

In order to identify the major themes of the responses, common elements of the different areas of the interviews were analysed. The tool enabled the researcher to look for patterns from the interviews, with the intention of reaching conclusions in response to the research questions. The themes identified, coded and analysed in the following sections are an-accurate-as-possible reflection of all the interview participants' responses. The steps followed for the analysis were based on the phases of thematic analysis as proposed by Braun and Clarke (2006).

Analysis was conducted after each interview which allowed the researcher to not only check for data saturation, whereby no new themes were emerging from the interviews, but also to follow up on initial insights gained from earlier interviews (Saunders & Lewis, 2012). The intention was to present the themes and individual quotes with the interpretations of the interviews. Individual quotes are used for illustrative purposes and help with building the relevant arguments (Radcliffe, 2010). The quotes are supported by commentary and are further discussed in chapter six. Braun and Clarke (2006) and Radcliffe (2010) both indicate that commentary should be used to supplement the quotations, and that compelling quotes illustrate the study and make an argument for the research questions.

5.2 Sample Description

Interviews were conducted with 16 individuals that were identified as either RemCo Chairpersons, regular RemCo members or external RCs. The companies represented by these individuals varied from retail (both clothing and healthcare), financial services and property. Three of the participants were external RCs that currently consult to a number of RemCos. Table 5.1 provides a breakdown of the participants. The interview with Participant 13 was cancelled at the last minute, hence their exclusion from the analysis.

Table 5.1 provides additional breakdown of the participants.

Table 5.1 Participant list

Participant Number	Gender	Education	Industry	Role	Type of Company
1	Female	Bachelor of Arts	Consulting	Remuneration Consultant	Listed
2	Male	BCom (Hons)	Property	RemCo Chair	Listed
3	Male	MBA	Financial Services	RemCo Member	Listed
4	Female	Doctorate Industrial Psychology	Energy	Permanent Invitee	Listed
5	Female	MSc Tax and LLB	Financial Services	Permanent Invitee	Private
*6	Female	Chartered Accountant (SA)	Forestry / Agriculture / Energy / Property / Investments	RemCo Chair	Listed
*7	Male	BTech Business Management	Property/ Financial Services	RemCo Chair	Listed
8	Female	Chartered Accountant (SA)	Energy	RemCo Member	Private
9	Male	Chartered Accountant (SA)	Retail	RemCo Chair	Listed
10	Male	Chartered Accountant (SA)	Property	RemCo Member	Listed
11	Male	BSci Mechanical Engineering and MBA	Consulting	Remuneration Consultant	Private

Participant Number	Gender	Education	Industry	Role	Type of Company
12	Male	BCom Accounting	Retail	RemCo Chair	Listed
*14	Male	BCom LLB	Financial Services / FMCG / Retail	RemCo Chair	Listed
15	Male	MSc Industrial Psychology	Consulting	Remuneration Consultant	Private
*16	Female	Doctorate Industrial Psychology	Retail (Multiple)	RemCo Chair	Listed
17	Male	MPhil	Supply Chain, Transportation and Logistics	RemCo Member	Listed

*Participants are both RemCo Chair and RemCo members for different organisations

Initially 28 individuals were invited to take part in the study. 16 directors agreed, of which 10 (63%) participants were male and 6 (37%) were female. Approximately 12 (75%) participants serve or consult to boards of JSE listed entities, while the rest (25%) serve or consult to private companies. Seven (44%) of the participants are RemCo Chairs, 4 (25%) are RemCo members only, 3 (19%) are RC while the remaining 2 (13%) are permanent invitees. Figure 5.1 provides a graphical representation of the participant demographics.

Figure 5.1 Participant demographics



The educational background of the participants appears not to be of any particular influence to whether or not they were selected to be on the RemCo. The levels of education varied from Bachelor of Commerce with Honours, to Human Resources degrees, Doctorates in Industrial Psychology to qualified Chartered Accountants. One

participant's education that stood apart from the Arts and Commerce degrees, was that of a Mechanical Engineering.

Similar to the education backgrounds, the work experience of the participants vary. One participant had been a civil servant for 30 years, another participant had been working in financial services also for 20 years. One participant is semi-retired, whereas the rest of the participants have full-time or part-time jobs either with other South African organisations not in the same sector of the committees they represent or as entrepreneurs running their own businesses. One participant is an academic and lectures on a part-time basis in the field of human resources. Of the entrepreneur participants, most run and manage businesses aligned to their educational and/or prior work experience, either banking or other areas of financial services. Majority of the participants (82%) currently sit on two or more remuneration committees.

Due to the nature of the snowballing sampling methodology, two participants that did not fit the population as prescribed in the research methodology, were interviewed. It was only discovered during the interview that they did not fit the population parameters of being RemCo members. However, both participants are permanent invitees to the RemCo. It has therefore been decided to include the insights gained from the conversation into this report, as they echoed some of the findings from other interviews. The participants that sat across a number of RemCos responded to the questions predominately based on the RemCos that they were chairpersons.

With respect to years of experience as board members, RemCo Chair 5 indicated that they had been sitting on boards for over 15 years. The board roles varied from audit, risk to remuneration committees. During which time the responsibility of the RemCo has increased significantly as shareholders are becoming more conscious of the decisions made by the committee. One of the RCs indicated that they had been consulting to RemCos for over 10 years.

5.3 Results by Research Question

Table 5.2 provides a summary of the themes that emerged during the interviews. Each of these themes will be discussed with relevance to the most appropriate research question. Those themes that emerged but are not aligned to the research questions, will be discussed in the other insights section. The themes that are not aligned to a particular

research question have been included as they provide additional knowledge and supporting information for the research questions. Furthermore, they are being included due to the recurrence of these themes across the various interviews.

Table 5.2 Summary of themes

Theme	Explanation	Research Question
Current skills and competencies	Skills currently utilised in the RemCo board room. Based on the individuals around the table.	1
Required skills and competencies	Ideal skills and competencies for the RemCo board room. Based on the individuals around the table.	1
Role of RemCo chairperson	Roles and responsibilities associated with a RemCo Chair. Expectations and reality.	1
Training and development	The opportunities there are for upskilling RemCo members.	1
External Consultants	The role/influence of external consultants, primarily focusing on remuneration consultants.	2
Assessment	The methods used to measure effectiveness.	3
Feedback	How the feedback from assessments is disseminated and used.	3

5.3.1 Research Question One: What Skills And Competencies Are Deemed Appropriate For RemCo Members?

This research question aimed to identify specifically what skills and competencies make for an effective RemCo member. The question posed to the research participants was open ended allowing for a variation of responses to be captured for analysis.

5.3.1.1 Current skills and competencies

Table 5.3 provides information of the current skills and competencies that RemCo members currently possess.

Table 5.3 Current skills and competencies of RemCo members

Current skills and competencies represented in RemCos

Business Acumen
Corporate Governance
Accounting
Legal
Executive remuneration
Financial literacy
Human Resources
Long-term and Short-term incentives
Remuneration strategy

Despite the broad list of skills and competencies identified represented across the various board rooms, one participant felt that there was still room for improvement. Remuneration Consultant 1 stated:

“Quite a few of the RemCo members I have been exposed to don’t understand the basic fundamentals of remuneration. They don’t even understand how to compare their executives to the market...The issue is that they come with their own biases and are not willing to be open-minded to discuss the information provided objectively. Despite having been provided with training.”

Another participant felt that despite the technical know-how and experience some RemCo members do not bring any objectivity to the discussions, a comment that echoed the sentiments of Remuneration Consultant 1.

“Some RemCo members approach the decisions on an emotional basis. They compare themselves to what is being put on the tables for the Executive Directors, when it has nothing to do with them or what they get paid by their organisations.” (Remuneration Consultant 2)

Remuneration Consultant 2 also felt very strongly about the manner in which institutional investor company in South Africa handles the appointing of individuals onto the boards where they have significant shareholding, and who subsequently end up on RemCos. They stated:

“The... is one of the worst transgressors. Their representatives are not skilled and competent to fulfil their roles. They are atrocious”

5.3.1.2 Required skills and competencies

Table 5.4 provides a summarised list of the ideal RemCo member skills and competencies as provided by the participants during the interviews. The list is similar to that of the current skills of the RemCo members, with some additions.

Table 5.4 Ideal RemCo skills and competencies

Ideal RemCo member skills and competencies
Analytical skills
Business Acumen
Corporate Governance (Remuneration)
Critical thinking
Financial literacy
Human Resources {includes Benchmarking, Executive pay, Long-term and Short-term incentives and Remuneration philosophy and strategy}
Industry experience
Numeracy skills
Objectivity
Understand link between strategy, reward and performance

5.3.1.2.1 Business Acumen

The main skills highlighted by all the participants were firstly, the ability to understand how remuneration is a motivating tool for employees, secondly understanding the business environment in line with providing performance measures and thirdly that rewarding employees is also important.

RemCo Member 1 explains that RemCo members "...need to understand the relativity of the market".

Another participant described how the RemCo members need to keep abreast of the market trends:

"You need to understand the company and the industry. This is easier said than done as the industries are constantly going through radical change. One needs to know how the changes in the industry will affect the business... Need to keep abreast of current trends around the world". (RemCo Chair 5).

Remuneration Consultant 2 agrees and states that, “a lot of knowledge comes from general knowledge and business experience”. Permanent Invitee 2 elaborated further by stating that RemCo members need to “understand the dynamics of the industry, need to stay ahead of the head winds – contextual background”.

In addition RemCo Member 2 believes that it is important for RemCo members to know the industry regulation.

To sum up all the thoughts regarding understanding the business environment RemCo Chair 3 provides describes it succinctly:

“...Must have industry knowledge, if you don't you won't understand the rationale behind some of the decisions being made”.

5.3.1.2.2 Corporate Governance

Understanding and knowing the corporate governance rules of South Africa as per King III were highlighted by a couple of participants:

“SA leads in corporate governance culture. As a RemCo member you need to be cognisant of King III and now King IV. Corporate governance is ever evolving.” (RemCo Chair 5).

“They must have a good understanding of King III and King IV when it is published.” (Remuneration Consultant 3).

5.3.1.2.3 Human resources

It was not surprising to note that having strong human resources skills is considered essential by some of the participants, considering the fact that human resources is the overarching subject of remuneration. As explained by one participant:

“Understand the HC strategy of the business and not just the org strategy. So that they are all aligned. Things need to be done in the right context... in instances where RemCo members don't have enough HC (Human Capital) experience, RemCo tends to be too narrow in their views” (Remuneration Consultant 2)

RemCo Chair 2 explains how important human resources and understanding people is for RemCos:

“Financial expertise and numeracy skills are important but they are not the absolute. Remuneration is all about understanding what motivates people. It is about what makes people tick”.

RemCo Chair 1 agrees and stated that, RemCos need to:

“Understand what pool of talent you are working with”.

All the participants indicated that RemCos do not necessarily require detailed knowledge of human resources, but they need to have a high level of understanding. RemCo Chair 1 explains:

“It is not absolutely necessary to have HR expertise. The RemCo members need to be more commercially oriented and to understand the business, they just need to be able to interpret what the advisors are saying and if there is something specific for the RemCo to make a decision”.

One of the key responsibilities of the RemCo is to have strategic oversight on the remuneration policies. A number of participants considered the oversight responsibility to be an important aspect of their role.

One participant described the importance of understanding remuneration. They stated that unless a RemCo understood the workings of remuneration, they would be “lost in the wilderness” (Permanent Invitee 1).

RemCo Chair 3 stated:

“RemCo member needs to know how to deal with rem strategy and development”

Remuneration Consultant 2 elaborates:

“(RemCo members) must be able to understand the link between strategy, reward and performance...understand the HC strategy of the business and not just the org strategy. So that they are all aligned. Things need to be done in the right context.”

RemCo Chair 4 agrees with the view of Remuneration Consultant 2 and stated:

“Understand philosophy on rem and how we partner people. Their journey and our journey”.

5.3.1.2.4 Objectivity/Independence

A number of participants raised the point of not only being objective when sitting on a RemCo but also of being independent.

Remuneration Consultant 1 explains:

“They need a bit of objectivity and level-headedness. Rem is very emotional. Need to be

able to see both sides of the story, as potentially as a shareholder and also from the perspective for the company.”

Remuneration Consultant 2 further explains how they believe that independence is a vague term and in a way hampers the ability of objective decision-making:

“Others such as shareholders have a narrow, self-interest. They are only there to represent the interest of the shareholders and not the company. These are actual shareholders, there is no independence...after how many years does one stop being independent.”

The definition of an independent shareholder is provided by RemCo Chair 3, in their explanation as to why being an independent RemCo member is important. They stated that:

“...the member must be independent in that they own no shares; that they do not benefit in any way from the performance of the company”.

One participant described the lack of independence when looking at executive salaries as a RemCo. Remuneration Consultant 2 said:

“Some RemCo approach the decisions on an emotional basis. They compare themselves to what is being put on the tables for the Executive Directors when it has nothing to do with them or what they get paid”.

5.3.1.3 Role of the RemCo Chairperson

The importance of the role of the RemCo chairperson was made evident during a number of the interviews. The RemCo chairperson is held to a high standard due to the level of accountability they have not only to the main board, but to the shareholders and the company. They act as a mediator during RemCo meetings as well as a facilitator with the main board and with shareholders.

RemCo Chair 5 describes the responsibility of the RemCo chairperson as follows:

“A RemCo no matter expertise, need to have a strong chair, a very strong person. Anything regarding a rem and benefits has a lot of accountability. There is a person behind the salary affected by the decisions made at RemCo. A strong chair, is important, as they need to make the tough decisions.... A strong chair can control the meetings and ensures that everyone is participating. They are like a good conductor. They don't want

to overshadow the band, they are merely the conductor, who reads the sheet music. They engage where there are problems with the committee members. They bring out the best of the committee...creates robust debate”.

Additional participants elaborate further on the important role that the RemCo chairperson plays in a RemCo and for the board:

“(The) RemCo chair is held accountable. They canvass the key shareholder groups regarding any proposals put forward. They have lots of public accountability. Need to be familiar with the sector they operate”. (RemCo Member 1)

“(The) RemCo chair must be someone who can speak up and can stand up to the shareholders and to management”. (RemCo Member 2).

“(The) RemCo chair needs to be able to understand the methodology, so that they are able to respond to the difficult questions asked by the shareholders. The RemCo chair has enormous responsibility. The most important thing being the rem policy”. (Permanent Invitee 1).

“The chairman of the committee sets the KPIs for the CEO and CFO but with minimal to no input from the rest of the committee. But it is a difficult job because they need to be hands on to really understand the requirements of the role and how they can truly measure the exec’s performance”. (RemCo Member 3).

5.3.1.4 Training and Development

There is a divergence of views in terms of the upskilling of RemCo members. Some participants believe that the onus is on the Non-Executive Directors to upskill themselves and stay abreast of the market trends etc.

“We have limited session with external consultants for RemCo training. I believe that the onus is on the RemCo member to take abreast with the market trends and any other information that will enable them to fulfil their RemCo role”. (RemCo Chair 4).

“RemCo onus that they take themselves to the training. (You) can’t just glean from newspaper. Have to attend technical events. Applies to all sub committees”. (RemCo Chair 5).

“The onus is on the RemCo member to get up to speed with the skills and competence required to be an effective board member”. (RemCo Member 2).

Other participants believe that the onus is on the company through the board chair to upskill its board members.

“If you are going to sit on a RemCo it should be mandatory that you go for training or some sort of training...It should be incumbent on the organisation to take the members through the policies, the review process of philosophies. A good 2 – 3 hour induction process. So that the new member sits at the new meeting they are already informed. So basic understanding and also understanding the organisation rem policies. And even if they have lots of experience, they still need to be up to speed rem policies”. (Remuneration Consultant 1).

“The onus of the board and the board chair and the rem chair to ensure that the people they appoint have the appropriate skills and insights. (They) need to ensure that the board is properly skilled. They need to ask themselves what skills I need on the board to ensure we can fulfil our fiduciary duties for the company and the stakeholders. They need to be appropriate to the chair. If people are not skilled, they should have a process in place to attend courses”. (RemCo Chair 1).

“(It is) HR and management’s responsibility to keep the RemCo up to speed”. (Permanent Invitee 1).

Others indicate that the onus is both on the Non-Executive Director and the company they represent.

“There are two ways that the Non-Executive Directors can upskill themselves.1) for the true independent the onus is on them to upskill themselves. They need to be capable, make sure that they have attended training and continue to attend training. 2) If appointed by an investor company such as ..., then there is a combination of the company and their own desire to upskill themselves. The investor must also confirm the skills and institute the training to upskill them”. (Remuneration Consultant 2).

“RemCo members need to continuously upgrade their skills. The board also needs to ensure that they have ongoing development programs in place for the board members. They need to review what training is required. But similarly individuals can’t sit back and wait for the board to do something. They need to think about how upskilling themselves will benefit them as well as the organisation”. (RemCo Chair 3).

5.3.2 Research Question Two: To What Extent Do External Remuneration Consultants Influence The Skills and Competencies of RemCo

Members?

The external consultant was mentioned a number of times by the participants. It appears that they play an integral role in the functioning of the RemCo. At times supplementing the lacking skills, bringing objectivity to the table and other times providing additional knowledge and expertise to the committee meetings. It appears that having RCs provide information for the RemCo is the norm, for some more than others.

“External consultants are beyond a nice to have. We have a full share plan that came from..., if we didn’t have consultants we would have done it later or not at all. There are always new products on the market, so if you don’t have external consultants, you will lag behind our competitors. They have general industry input and this where their main interest lies”. (RemCo Chair 4).

“...as Non-Executive Directors you can have lots of common sense but need the expertise. You need the external advisors, the specialists, whose job it is to operate in that space. They will advise what on the long term ranges of packages e.g. LTIs, and how to structure them differently. They advise people that are capable of making decisions based on what they know”. (RemCo Member 1).

“Remuneration committees should also have outside experts that they use from time to time. Advisory, adhoc or retainer for a particular assignment. Very important due to changes in rem policy that is where outside experts have a role to play”. (RemCo Chair 5).

“External consultants provide input on the pay scales but ultimately the decisions lies with the RemCo. They also provide information and provide perspective of what’s happening in the market”. (RemCo Member 2).

It is interesting to note that one of the RCs felt that if anything RCs are underutilised by RemCos. They explained that:

“They are not heavily relied on in fact they are underutilised. The RemCo doesn’t like to use them because they see it as money. But the opportunity cost is way more than what the RemCo would pay the remuneration consultant. The issue is that some RemCo don’t question enough what is being presented to them by the Remuneration Consultant. They should not be too reliant on what they are told and instead should be cautious and have their own (possibly a second external consultant or an internal) confirm what is being presented to them. Especially when it comes to long-term or significant risks that will unfold in the future”.

The RC further explains that RemCos should have at least two different RCs that work for them. This ensures that RCs don't become too reliant one and that "utilise other remuneration consultants to provide checks and balances".

It was also mentioned that RCs are primarily used to provide benchmarking data.

"It is important to use the consultants to enable the RemCo to know what they are doing. Especially from a benchmarking perspective" (RemCo Member 4).

In other instances the external consultant is used as a check for what management presents to the RemCo. Permanent Invitee 1 explains:

"Only once we had an issue when an external advisor had to come and assist. One Non-Executive Directors was becoming uncomfortable and questioned what was being presented by management. An external consultant is on permanent retainer and acts as an independent advisor to advise the RemCo. The advisor reviews the management proposal and advises RemCo to see if there are any issues".

However, despite RCs being used to review proposals presented by management, the opposite also takes place. For example the RC could make changes that management wants that may or may not be contrary to RC's final report.

"Some RC tell the Executive Director the numbers they want to hear. Some then even alter the reports before they get to the RemCo or only present parts of the analysis based on instruction from the Executive Director – RemCos don't check this". (Remuneration Consultant 2).

One RemCo member however feels that RCs sometimes hold back on the type and amount of information they know, for fear of giving the wrong advice.

"The specialists though are limited to advising you on what's its happening, in that they don't want to go out and limb and offer what is happening in the market for fear of providing the RemCo with information they will use which may or may not cause harm to the organisation in question" (RemCo Member 4).

Despite the common use of RCs, RemCo Member 3 criticised the use of RCs. They said:

"External consultants don't really help the matter. They just benchmark and they don't really test why there are such high salaries and if these salaries are actually linked to performance".

5.3.3 Research Question Three: How Is RemCo Effectiveness Determined?

This research question provides insight into the assessment methods as well as the feedback methods that the research participants have experienced in their roles as RemCo members.

5.3.3.1 Assessments

Table 5.5 provides details of the types of assessments that are being conducted at a RemCo level, as well as the feedback methodology. RemCo Chair 7 is the only participant interviewed who indicated that the assessment was conducted on the RemCo chairperson. It appears that, based on some of the responses provided by the participants that assessments are either just a tick-box exercise or they are conducted to fulfil requirements from a governance perspective. Those participants were no 'X' has been marked indicates that no assessments takes place. As commented by RemCo Chair 1:

“One of the RemCos I sat on used to do assessments but because there was no follow through on the assessments or the feedback was generally disregarded we stopped doing them”.

Table 5.5 Method of assessment

Participant Number	Self-Assessment	Peer Review	Committee Assessment	Board Assessment
1				
2	X			
3				X
4	X		X	X
5	X	X		
6	X			X
7				X
8			X	X
9	X		X	
10	X			
11	X	X		
12	X		X	X
14				X
15	X		X	

Participant Number	Self-Assessment	Peer Review	Committee Assessment	Board Assessment
16			X*	X
17	X		X	

Assessment of committee and board effectiveness are common practice for all the participants interviewed. What appears to be the major difference is whether or not the Non-Executive Directors receive the feedback from the assessments, as well as what processes are in place to improve upon the inputs from the feedback. In some instances there is a link between the feedback received and the type of training and development that is provided for the Non-Executive Directors – as discussed in the training and development section. The consensus is that assessments are conducted and should be conducted on an annual basis.

“Each committee has a workplan. Every two years the committees are evaluated based on the work plan. Each director and committee member are interviewed using a questionnaire. The questionnaire is based on the terms of reference. Peer evaluations are conducted”. (RemCo Chair 4).

“The assessments are guided by an external party on an annual basis.”(RemCo Member 1).

“Annual self-assessments of skills, teamwork and role in team. As well as peer assessment”. (Remuneration Consultant 2).

“Self-assessment of committee. Peer review by main board, it’s is very subjective though. Exco provides input of board performance through the Group CEO”. (Permanent Invitee 2).

“Annual assessments are conducted for both the board and the various committees. An external consultant developed the checklist that is used for the assessments. General questions are asked, no specific questions about individuals. The Company Secretary and the RemCo Chair provide feedback to the committee and to the main board”. (RemCo Member 2).

“Chairman of the board has annual interviews with each members regarding their performance and contribution etc.” (RemCo Chair 1).

“Annual assessment are conducted, the results of which are kept confidential by the chair

of the board”. (RemCo Chair 3).

“An annual self-assessment in the form of a questionnaire that the company secretary sends out. Asks questions like have we retained key talent, have we looked after them adequately”. (RemCo Member 3).

“We do have annual formal evaluation of the committee, which are driven by the board. Assessment of the individual committee members. Annual assessments of committee’s roles and responsibilities”. (Remuneration Consultant 3).

“We conducted anonymous internal reviews on annual basis, these are based on certain criteria”. (RemCo Member 4).

In addition to the annual review of committee members. Remuneration Consultant 3 indicated that one of the committees they sit on also undergoes an additional review:

“One form of assessment that takes place is a review of the meeting straight after it has taken place. It allows the committee members to think about how they should handle any issues that arose going forward”.

RemCo Chair 6 was also opposed to anti-assessments, as they felt that they are a waste of time.

“What then actually happens with the assessments is that everyone regresses towards the mean and they don’t provide any real information or feedback. They are not helpful. I don’t fill in the forms it’s a waste a time”.

The same participant felt that they had no authority to be assessing their peers, and explained:

“Peer reviews are nonsense. I don’t think I am going to say that you are doing job or not to one of my colleagues so their board fees should be increased or reduced. Especially considering the sensitivity around pay in the country. Why should I say to a good friend, I don’t think you understand how something works so I am going to give you a poor rating? Those assessments don’t work”.

A similar response was provided by RemCo Chair 7 regarding peer reviews:

“One of the boards attempted to introduce it and there was discontent from the board members. They felt uncomfortable with rating each other’s performance. They felt that the only person that can really rate the RemCo chair is the chairperson of the board”.

The ability of RemCo member to assess themselves is not just a requirements of their role and of King III, but it also requires some level of maturity as described by Permanent Invitee 2.

“It is very important. It’s a maturity thing to self- assess. But something that is required by King it should be done.”

RemCo Chair 6, was the only participant to indicate that the assessments is not about the RemCo but how the company has performed.

“How we measure effectiveness – that’s a very easy question to answer. I would ask, do we have the top management team in the company – because at the end of the day, that’s our job. Do they produce the top results in the country? Are we in the top 5%? And how do we determine if we are. It’s an easy test”.

Similarly the assessments aid in determining where a particular RemCo member lacks experience and skills as explained by RemCo Chair 3:

“(The assessments) assist with developing the required programmes for the board members”.

5.3.3.2 Assessment Feedback

Feedback is also not consistently provided back to individual RemCo members. When feedback is provided it is either to the committee as a collective or the main board. It appears in most instances that the feedback is provided by the Chairperson of the RemCo or by the Company Secretary. Table 5.6 illustrates the different feedback methods and table 5.7 who provides the feedback. RemCo Chair 7 is the only participant who indicated that the feedback was given directly to the incumbent of the RemCo chair, as they were the only ones who underwent the assessment. Those participants were no ‘X’ has been marked indicates that no feedback takes place.

Table 5.6 Assessment feedback method

Participant Number	One-on-one	Committee	Board
1			
2	X		
3			

Participant Number	One-on-one	Committee	Board
4		X	
5			
6	X		
7			
8		X	X
9		X	
10			X
11	X		
12	X		X
14			
15	X		
16		X*	
17	X		

Table 5.7 Assessment feedback source

Participant Number	Chairperson	Committee Chairperson	Company Secretary
1			
2	X		
3			
4		X	
5			
6	X		
7			
8	X	X	
9	X		
10			X
11	X		
12	X	X	
14			
15	X		
16	X		
17	X	X	

“Individual feedback is only done when it is necessary, if there is a personal problem. It’s tailor made to every situation”. (RemCo Chair 4).

“The outcomes of the assessments are discussed in general with the entire board.

Individuals receive feedback from the chair and the company secretary. They don't do peer assessments, as they are very subjective as it can make things very personal". (RemCo Chair 3).

"Feedback is provided by the chairperson of the committee and they have frank discussions with each member". (Remuneration Consultant 3).

"The Committee Chair, provides feedback on what needs to be improved with respect to the performance of the committee". (Permanent Invitee 1)

"Feedback back to members is essential. Although one client has absolutely refused to have the RemCo receive any assessment feedback. Feedback should be to each individual and by the chairperson. Allow for discussions about what programs that can be put in place to upskill them. If nothing has changed by the next assessment then maybe the member needs to be removed". (Remuneration Consultant 2).

"Chairman summarises key themes and provides feedback". (RemCo Chair 1).

"Feedback is provided by the chairperson of the committee and they have frank discussions with each member. Important that these discussions happens soon. As these members rely on each other to provide input in order to improve performance". (RemCo Chair 6).

"The committee chairperson is provided feedback by the main board chairperson. But we also have one-on-one feedback sessions with the committee chairperson". (RemCo Member 4).

Although the majority of the participants had no issues with the assessment methods, RemCo Chair 2 showed displeasure at the manner in which assessments are conducted for one of the committees they sit on. They had the following to say:

"In general the surveys are very boring, and very long. Where it has been effective the questions are limited. I mean they ask us obvious questions like, "do we believe the committee is working ethically?" or "do we apply corporate governance?"...such nonsensical questions...any reasonable person will give those types of questions a 5 (the highest score), but that does not mean anything. Who wants to be seen as part of an unethical committee? The questionnaires need to be short and to the point. 15 – 20 questions we can get a more a lot of it. People will actually spend time applying their minds.

What they should be asking us is questions like "What are the objectives of the

committee, what do we want to achieve this year and have we achieved it?" In committees were I sit and ask those types of questions I have found that the responses are productive. They are more helpful in determining where we sit as a committee.

Maybe that's why other assessments don't work. They don't ask the right questions".
(RemCo Chair 2)

5.3.4 Other Insights

The role that HR plays in the RemCo is an issue that arose during the interviews and is worth noting for this report. It is concerned more with the roles and responsibilities of the RemCo and have less to do with the skills and competencies. The role that HR plays provides additional insights into the working context of the RemCos and their effectiveness.

"It is sad that a lot of HR practitioners never make it onto the board. It is mainly people from finance or engineering. I don't know why this is. Especially considering that HR looks after an organisations key asset, its people" (RemCo Member 4).

In most instances it appears that the HRD does not attend the RemCo meetings. More often than not, the CEO is a permanent invitee, sometimes the CFO is invited to attend, but the HRD less so. One participant indicated that the Human Resource is not positioned at the right level in the organisational structure, hence the reason why they are not invited to the RemCo. Another participant described how the HRD is not invited to the meetings, as the CEO and the CFO already attend. On participant explained that in one of their RemCos, the CEO and the CFO are not required to leave the room when their salaries are being discussed:

"In instances when there is a conflict of interest it is managed delicately, the person does not have to leave the room". (RemCo Chair 3).

5.4 Results Summary

There are a number of themes that emerged during the interviews that shed light on the skills and competencies of a RemCo.

There are common skills and competencies that have been highlighted across all the interviews with respect to the ideal RemCo skills and competencies. Yet, some of the

skills and competencies appear to be missing in RemCos today. The results from the interviews answered the research questions adequately, and provide additional information and a more holistic view of the skills and competencies of RemCos. The following chapter will discuss these results in greater detail and provide a link to the literature that has been covered in chapter two.

6 Discussion

Chapter six analyses, interprets and synthesizes the results as presented in chapter five. Based on these results, the objective of the research questions were achieved. The first objective of the interviews was to determine what current skills and competencies are represented on RemCos today, as well as the skills and competencies that are required for RemCo members to possess. The identified sample were believed to be able to respond to this objective as they are currently representing or consulting to RemCos.

The second objective, was to determine to what extent external RCs influence RemCos. This objective was achieved through the insights provided by the respondents of their experiences of working with RCs or being RCs themselves. It must be noted however that the response pertaining to RCs by RCs themselves would be exposed to some level of personal bias, regardless of how objective the respondent appeared during the interviews. Finally the third objective of the study was to determine how the RemCos measured their effectiveness.

Hence this chapter will discuss the results of the interviews in greater detail, relating to the specific research questions and linking them to the literature identified and highlighted in chapter two. Under each question various themes were identified that structured the understanding of skills and competencies of RemCos.

6.1 Research Question One: What Skills and Competencies Are Deemed Appropriate for RemCo Members?

This section discusses the results as provided in section 5.3.1. As indicated in section 5.3 the background of RemCo members varies significantly. There appears to not be a single work experience or education background that is dominant with the RemCo members interviewed. This is however not surprising as the RemCo is merely a subset of the main BoD. Although it is advantageous to have a remuneration/HR background complemented with business experience according to some of the participants. One participant interviewed does have such a background, and as such sits on a number of RemCos, both as a regular member and as a Chairperson. However, this does not necessarily mean they are more skilled than those participants who have other backgrounds such as a finance or engineering. It is therefore probable that as long as

the different skills and competencies required to fulfil the role are met, there is no need for all the members to possess all the competencies. A similar view shared by the Coulson-Thomas (2009).

6.1.1 Skills and Competencies

It appears that there was some level of consensus amongst the participants regarding the required skills and competencies. More specifically, knowledge of the remuneration philosophy and strategy, understanding of the business environment, i.e. business acumen, corporate governance, general human resources and lastly objectivity/independence. As much as these competencies were mentioned frequently, it is not possible to say that the other skills and competencies as indicated in table 5.4 are any less important. Payne, Benson and Finegold (2004) agree that board members, which includes RemCo members, need to have enough expertise in the different areas of business in order to successfully process information and to make decisions. Nicholson and Kiel (2004) also agree that the ability of board members to provide advice to management, is directly related to their expertise and their ability to fully understand the organisation as well as its business environment.

Having a RemCo member who has some knowledge of remuneration and/or human resources seems to be of importance to the RemCo. RemCo Chair 2 was very clear during their interview that remuneration is about understanding what motivates people. It appears then that this is an important responsibility of RemCos, i.e. the ability to understand employee motivation. As much as it can be composed of all the right people from a networking and background perspective, the RemCo members will be less effective if they do not understand what motivates employees. They will end up being unsuccessful in their endeavours as a RemCo. Study by Lees (2012) supports this view, and states that a top performing board understands the needs of its employees. In understanding the employees, it is expected that the RemCo also must have a good grasp/knowledge of what the organisations remuneration philosophy and strategy is.

Governance plays an integral role for RemCos as indicated in the responses in section 5.3.1.2.2. Coulson-Thomas (2009) confirms that having “knowledge of relevant governance requirements” (p.29) is part of being a competent BoD.

Appiah and Chizema (2015) indicated that there are 5 dimensions that measure RemCo

effectiveness, there are (1) presence of a RemCo; (2) independence of RemCo members; (3) independence of RemCo Chairperson; (4) size of RemCo and (5) frequency of RemCo meetings. Dimensions two and three are directly linked to objectivity/independence. This being one of the key competencies expressed during the interviews. The responses as reflected in section 5.3.1.1.4 illustrate how important independence is considered by RemCo members in South Africa today and therefore confirm Appiah and Chizema (2015) view in this regard.

Remuneration is considered to be an emotional subject as stated by one of the participants and it is therefore imperative that RemCo members remain objective and independent. This means that by all costs RemCo members should avoid arriving at meetings with preconceived ideas about what an outcome of a meeting should be. For example, it appears that the decision of what Executive Directors should get paid is more likely to be based on information shared during the RemCo meetings than not. This is however a difficult ask, as there is a strong possibility that some RemCo members are in some instances also Executive Directors in other organisations. Not only do RemCo members have to remain objective but they also need to consider the information presented during the meetings such as benchmarking data.

A RemCo member needs to know that they need to be able to compare similar roles whilst taking into consideration other facts such as the size of the organisation and the state of the industry. Although the RemCo member may be an Executive Director, a CEO for example at one company, it does not mean that the CEO at the company they represent at the BoD should earn the same. This example illustrates the unlikely hood of remaining objective as RemCo members whilst being exposed and/or privy to other executive pay information.

RemCo members need to be cognisant of a number of factors that may or may not influence the difference in pay. Although this is an ideal, it is difficult in reality to achieve. Bender (2011) agrees that it is indeed difficult, 'unrealistic', for there to be true independence. But as Kanapathippillai, Sohl and Wines (2015) point out, RemCo independence as well as RemCo due diligence are the driving forces towards achieving RemCo quality for an organisation. So regardless of the difficulties faced by RemCo members they need to remain as objective and independent as possible.

6.1.2 Role of RemCo Chairperson

It was evident during the interviews that the RemCo Chairperson plays a critical role in the RemCo. In as much as they should possess the same level of skills and competencies as regular RemCo members, the RemCo Chairperson appears to need to have good communication skills and excellent negotiating skills as described by participants in section 5.4.1.2. This suggests that although the RemCo Chairperson requires these additional skills, other RemCo members should also possess the skills. According to a study by LeBlanc (2005) the effectiveness of the chairperson and the effectiveness of the committee go hand-in-hand.

6.1.3 Training and Development

It is possible that those individuals that lack the necessary skills to adequately fulfil their duties as RemCo members effectively, have opportunities to upskill themselves. Upskilling, training and development are concepts identified within the King Codes. It states that “the induction of and ongoing training and development of directors should be conducted through a formal process” (IoDSA, 2009, p. 27).

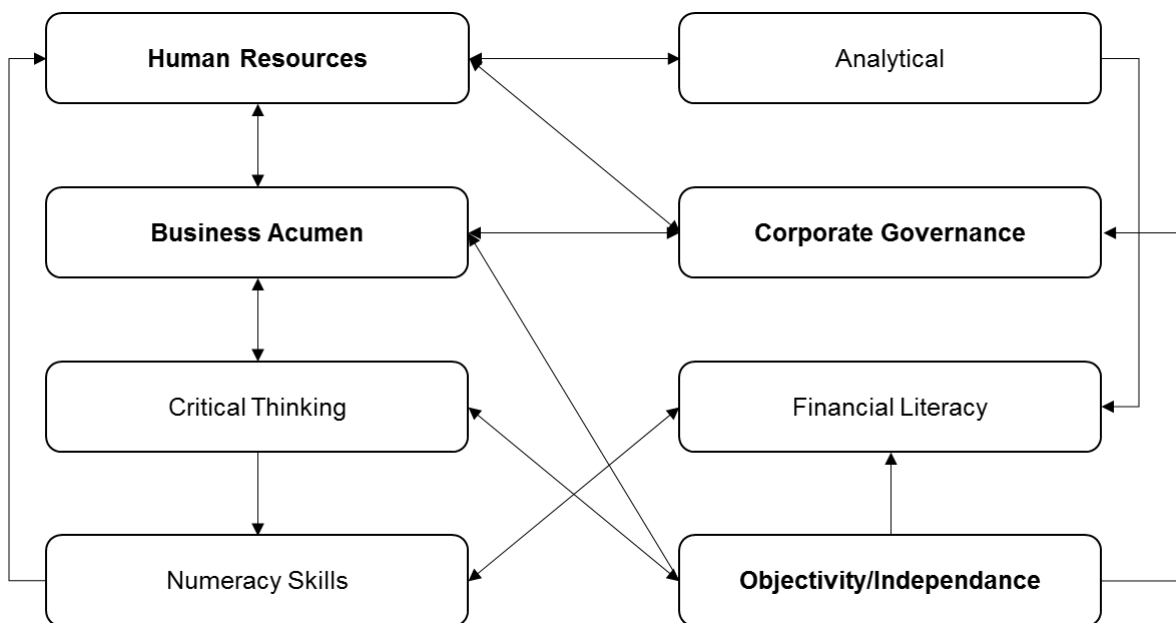
In spite of the specific mention of training and development in the King Codes, there appears to be no consensus as to where the responsibility lies. Some participants believe that it lies with the individual and therefore agree with the views of Lees (2012) that board members “must keep skills and knowledge of industry current” (p.8). Other participants believe that the onus lies with the company that is being represented to be responsible to keep the skills and knowledge of their BoD up-to-date. However, some participants felt that there is a dual responsibility, that of the individual and the company to upskill the BoD. This presents an interesting question as to what is the best way of managing the responsibility of upskilling RemCo members.

Ellig (2014) felt that the onus is on the BoD to make sure they have sufficient knowledge to fulfil their duties. Petri and Soublin (2010) concur and state that not only should new board members be trained, but continuous training and development or upskilling of current board members needs to take place. The BoD has a huge amount of responsibility not only to the shareholders and the Executive Directors, but also for the rest of the organisation and its key stakeholders. Therefore the findings of this study agrees with the views of Ellig (2014) who states that the responsibility of the board and

any of its committees is too great for them to not have the right types of skills and competencies.

Regardless of where the responsibility lies, the upskilling of all board members is vital for a BoD to be effective. It is unlikely that a RemCo member’s development not only benefits the individual, it also benefits the RemCo and the broader BoD. Reiterated by Nicholson & Kiel (2004) who state that “the commitment to director development is the commitment to the continuing improvement of an organisation” (p.17). Their study goes further to say that this development builds confidence with the shareholders (Nicholson & Kiel, 2004). However, this study found that some shareholders appoint unskilled individuals onto boards to represent them as indicated by Remuneration Consultant 2 in section 5.3.1.1.

Figure 6.1 RemCo skills and competencies



Source: Author’s own

Figure 6.1 illustrates the inextricable and bi-directional link of all the skills and competencies as detailed in table 5.4. The figure aims to show that, without each of these skills and competencies a RemCo cannot operate effectively. As indicated earlier benchmarking skills, understanding of long-term and short-term incentives, knowledge of structuring executive pay and lastly remuneration philosophy and strategy have been collapsed into Human Resources, as they are merely subsets of this broad subject. The

set of skills and competencies indicated in and discussed earlier are as critical for a RemCo member to possess. As figure 6.1 illustrates the skills have two-way link, represented by the two-way arrows, in other instances the skills are only linked in one direction. Regardless of the link direction, the skills and competencies highlighted in figure 6.1 have been indicated as being important for a RemCo member to possess in order to be effective.

Not all Independent Non-Executive Directors or Non-Executive Directors need to possess all the relevant skills or competencies. However all competencies should be covered within the group a finding shared by Coulson-Thomas (2009). The skills and competencies indicated in figure 6.1 are by no means exhaustive. Appendix 1 – provides an exhaustive list of skills and competencies for RemCo members as shared by an RC.

6.2 Research Question Two: To What Extent Do External Remuneration Consultants Influence the Skills and Competencies of RemCo Members?

This section discusses the results as provided in section 5.3.2. The responses from the participants interviewed confirm the literature as discussed in chapter two pertaining to the role of external consultants. The participants confirmed that there is indeed a mixed view of the role that RCs play for organisations and for RemCos, but that the use of RCs is widespread as per Cadman et al. (2010). It appears that the RC's do provide some level of objectivity to RemCo discussions, supporting the view by Coulson-Thomas (2009) who stated that some boards prefer to use RCs in order to appear open and objective.

It seems there is no consensus on the value-add of RCs. For example, RemCo member 1 and RemCo Chair 5 as quoted in section 5.3.2 find value in the expertise that the RCs provide, whereas RemCo Member 3 felt that RCs do not add any value. However, it appears in another instance that the issue is not that the RC does not add value, but rather that the information provided by RCs is not critiqued or questioned enough which therefore leads to complacency and over reliance by the RemCo of the RC. The inability to critique the work of the RCs appears to suggest that there may be a lack of skills and competence in the RemCo. In order to be able to critique a report, one needs to have some level of understanding of the work being presented.

For example, if a RemCo member is unfamiliar with or lacks knowledge in executive pay, it becomes very difficult for them to criticise or to comment on the information provided not only by the RC but also lacks the ability to challenge other RemCo members on the matter. RemCo Member 3 is a good example of a RemCo member who is able to question the information provided by an RC.

The study's findings are aligned with the conclusion of Conyon et al. (2009) that RCs are seen as subject matter experts that bring objectivity and legitimacy to RemCo discussions. An argument can therefore be made for the hiring of RCs, in that if they are the experts and RemCos lack the skills to fulfil their duties effectively, they should therefore be open to hiring RCs. In the same way the BoD would hire an accountant to review their financials if they do not have the expertise to do so.

A point of concern raised is the influence management has on RC. Remuneration Consultant 2 indicated how management instruct the RC to make changes to a report prior to it being presented to the RemCo, changes that are more favourable to management. The validity and reliability of what is presented to RemCo is then questioned, because in the end RCs will produce work that ensures that they are retained by the company (Ndzi, 2015). It is then possible that the output of the RCs efforts will therefore tend to be aligned with that of management's needs, leading to lost objectivity. By the time the RemCo receive the report or feedback, it will not be a true reflection of the outcomes. Is possible then that, if all or some of the RemCo have the right skills and competencies they will be able to detect changes that do not make sense or be able to review the information provided with a critical eye. This suggests that this risk can be mitigated against if the RC only works for the RemCo. And this is perhaps where the core issue with RCs lie, who do they work for, management or the company, represented by the RemCo who themselves subsequently represent the shareholders?

In concluding, caution should be taken for that information provided by RC participants with regards to the role of RCs. It is likely that the RC participant views may be slightly biased. This is due to the fact that RCs may be interested in retaining the organisation as a client for as long as possible due to the revenue generated. Secondly, it is also likely that an RC is biased to provide information or findings that support the view of management as they are the ones who would have hired them and therefore have the legitimate power to offer them more work. Therefore agreeing to the statement by Ndzi (2015) that this relationship with management influences the RCs independence. Lastly,

despite the expertise and legitimacy that RCs offer RemCos, they are not to be seen as substitute for management or the organisations internal RCs.

6.3 Research Question Three: How is RemCo Effectiveness Determined?

King III principle 2.22 states that “the evaluation of the board, its committees and the individual directors should be performed every year” (IoDSA, 2009, p.28). The responses for this particular research question is answered in two parts based on the responses provided during the interviews. The first is the actual assessments themselves and the second is the feedback from the assessments.

6.3.1 Assessments

Based on the responses from the interviews, it seems that the assessments in most cases are being conducted on annual basis. However one participant indicated that their assessments are conducted every two years. In between the assessments the RemCo represented by this participant, would be working on the action plan document derived from the previous assessment period. An argument is made by Nadler (2004) that the best mechanism for improving board effectiveness is through annual assessments. Annual assessments allow the RemCo members to receive relatively up-to-date feedback and to action any changes required.

Table 5.5. illustrates assessments of RemCo members are currently taking place across various organisations in South Africa. Well aligned to the principle requirements of King III. The most common method of assessment is the individual self-assessment, followed by the main board assessment and then the committee assessment. Very few of the RemCo represented by the interview participants conduct peer reviews. Yet, Petri and Soublin (2010) felt that peer reviews require some honest introspection and comparison to an ideal set of competencies (Petri & Soublin, 2010).

The assessments vary in nature depending on the RemCo and it appears as though some of the participants find the assessments/review process as a tick-box exercise, or time consuming and unnecessary, similar findings to that of Roy (2008). Although this is the case, the assessments of BoD and/or their subcommittees should be seen as a tool rather than a report card in agreement with Nicholson and Kiel (2004), checklists are

actually more about compliance than they are about governance (Nadler, 2004). It seems that given the experience of the participants, checklists add no value.

However as indicated by RemCo Chair 2, the questions asked in the assessments are “nonsensical” and “they don’t ask the right questions”. This suggests that it becomes difficult for the RemCo members to find value in completing the assessments. It appears that some of the questions are primarily asked in order to meet the reporting requirements for King III and not necessarily to measure if the committee has been effective in achieving its goals. This does not support Nadler (2004) who found it is key for the RemCo to understand that assessments aid the BoD in determining how a board/committee can improve. Therefore the types of questions asked in the assessment document need to be meaningful to the RemCo members.

Secondly the questions need to be S.M.A.R.T., in that the questions should do the following:

S – the questions need to be **specific**;

M – the questions need to be able to **measure** the committee tasks;

A – the questions asked should be **agreed** upon at the start of the year by the evaluator and those being evaluated;

R – the questions need to be **relevant** for the RemCo; and

T – the questions need to be **trackable** over the course of the year leading up to the point of assessment.

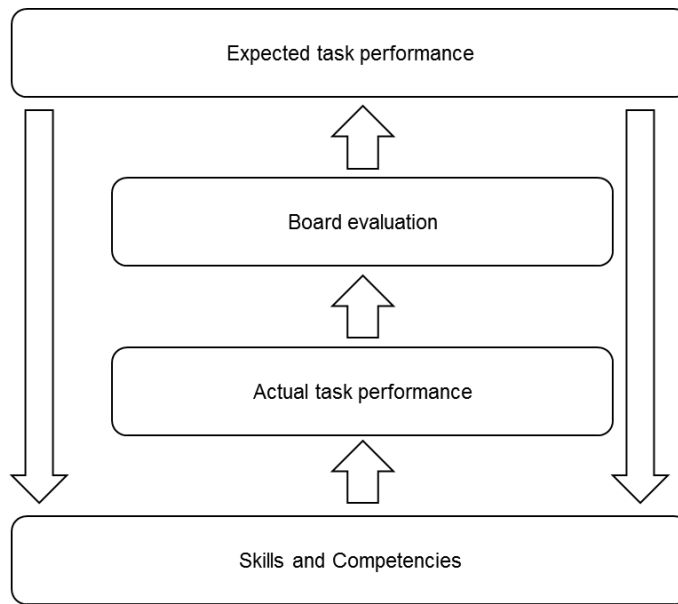
When a board chooses not to conduct assessments it may lead to increased uncertainty and high transaction costs between itself and its environment (Rasmussen, 2015). Some of the study participants indicated that no assessment took place. The inability of a RemCo to conduct assessments suggests illustrates the lack of interest of the committee in understanding where its strengths and weaknesses lie. One participant indicated that assessments used to be conducted for a RemCo they sat one, but due to the lack of feedback and follow-through from the feedback, the assessments were stopped. This supports the findings by Ingley and van der Walt (2002) that the fear of unreliable results from the assessments and the disruption of open interaction and collegiality of the board are some of the reasons for resistance to board evaluations.

Permanent Invitee 2 felt that the ability of a RemCo to assess themselves is linked to their level of maturity. Similar conclusions were reached by Roy (2008) who found that the resistance to evaluations was often linked to board members not wanting to offend or embarrass their colleagues. Roy (2008) further highlights the point that the inability to evaluate other BoD members is a significant barrier to improving internal governance. Internal governance can only be improved if the RemCo members are aware of the areas in which they are 'performing' or not 'performing', an issue this study has found to be of concern.

The study has found that assessments make the RemCo members feel uncomfortable, similar conclusions having been reached by Ingley and Walt (2002). RemCo Chair 6 indicated that they have no authority to be rating their colleagues and telling them whether or not they are performing in their roles as RemCo members. Similarly RemCo Chair 7 stated that there was resistance to the introduction of peer reviews in one of the RemCos they sit on. It appears that the responses by RemCo Chair 6 and 7 are clear indications of avoidance. Such behaviour suggests the inability of the board members to be able to be objective, a key competency requirement of being a BoD.

It is possible that a RemCo can begin to improve their performance through the critical evaluation of their decisions and subsequent actions (Nicholson & Kiel, 2004). However, Roy (2008) argues that that BoDs do not evaluate themselves against company performance but rather through inputs, processes and outputs. Evaluation against company performance is a true measurement of the effectiveness of a RemCo. Only one participant interviewed indicated that this was indeed the way they measured the RemCos effectiveness, they said that their measurement of effectiveness depends on how well the organisation has performed financially. Petri and Soublin (2010) and Lees (2012) are of the opinion that the board's competence should be linked to the strategic needs of a company and that there needs to be a regular review of the skills and experiences against the changing strategic priorities. In addition to this it is likely that the effectiveness of the RemCo may also be improved by learning the approaches of successful RemCos (Coulson-Thomas, 2009).

Figure 6.2 Board evaluation as a mechanism to assess board effectiveness



Adapted from: Rasmussen, J. (2015). Do Board Evaluations Measure Board Effectiveness? *International Studies of Management & Organization*, 45(1), 80–98

Figure 6.2 depicts the various components that are involved in the board evaluation process (Rasmussen, 2015), and would in turn be a very similar process for a RemCo. The original model by Rasmussen (2015) had as a base, board composition, board structure, identified tasks and board processes. For the sake of this study, these elements have been broken down further and consolidated into skills and competencies. As without the prerequisite skills and competencies, the board would not be able to fulfil its duties. The skills and competencies form the foundation of how the following tasks will be decided and subsequently performed. The composition of the expected task performance depends on the nature of the organisation and what's drivers are, at the same time it closely depends on the agreed upon terms of reference for the RemCo and the agreed upon objectives.

Only once tasks have been performed will the committee be able to either, assess itself, have individuals assess themselves/each other or be assessed by the BoD/Committee Chairperson. These assessments are linked directly to the expected task performance of the committee. It is difficult to measure the effectiveness of the committee and its performance of a committee if they do not have some form of 'target'. "Performance measurement systems are of little use if the results are not used to challenge and improve the current practices or performance" (Roy, 2008, p. 45) of a committee or its members. RemCo Chair 3 indicated that the assessments assist in determining the

relevant development programmes for the RemCo member.

6.3.2 Feedback

In the same manner that assessments are not limited to regular employees, neither is assessment feedback. Table 5.6 illustrates a number of participants who indicated that feedback was provided on a one-on-one basis to RemCo members. Feedback is provided by either the RemCo Chairperson, the Board Chairperson or the Company Secretary, as per table 5.7. Only one participant indicated that the feedback was provided by the Company Secretary. This illustrates that important role that a RemCo chairperson plays in the RemCo, where the Chairperson should be held accountable for implementing the development plans for the RemCo members as identified during the assessments (LeBlanc, 2009). These plans should be aligned to the goals of the RemCo as agreed at the start of the year or at the start of the adaptation of the RemCo.

With any performance feedback, there are incidents of good performance and poor performance. It is incumbent on the feedback source to ensure that both good performance and poor performance feedback is delivered to the relevant RemCo. Feedback plays an important role in facilitating performance improvements not only for the RemCo but for the BoD in general. Not only is the actual feedback important but the manner in which it is delivered is equally important, for example, one-on-one versus committee feedback. Brown, Kulik and Lim (2016) found that if consistent feedback is credible, it allows the RemCo member to manage their expectations. Furthermore Ingley and van der Walt (2002) believed that it is of value to assess the manner of the feedback in line with the activities of the committee.

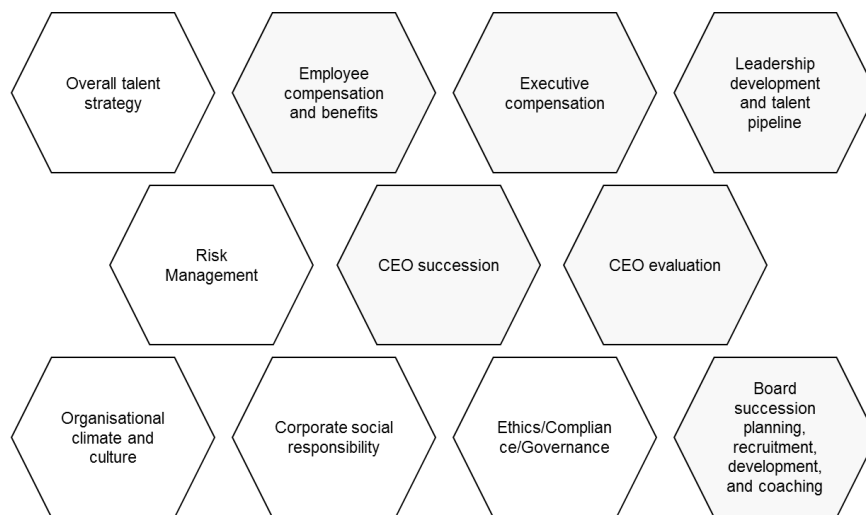
6.4 Other Insights

The fact that only three of the companies interviewed extended permanent invitations to HR for the RemCo meetings is possibly an area of concern, confirming the findings of research conducted by Chen (2015). The reason why this would be a concern is that remuneration as indicated earlier is merely a subset of the area of human resources. And therefore the exclusion of HR from the committee meetings is surprising.

Individual performance is one example of a contribution factor towards determining an individual's pay. It is possible that without this information, which is managed and owned

by HR, the individual would not be paid fairly, due to the lack of information. The HR Executive or Head is meant to be a business partner in the organisation and provides support to the CEO and CFO who are permanent invitees. HR plays a strategic role in the performance of an organisation, however based on the anecdotes provided during the interviews HR has a long way to go before it can be considered a strategic partner in the boardroom. HR can add value in the boardroom discussions. HR value add can be achieved if HR executives establish themselves as strategic trusted advisors to the boards, particularly in the area relating to risk (Chen, 2015). Figure 6.3 provides an illustration of the aspects of how HR can add value in the boardroom.

Figure 6.3 HR Value-add



Adapted from Chen, J. J. (2015). The Emerging Role of HR in the Boardroom. *People and Strategy*, 38(2), 36-43.

Figure 6.3 provides insights into the many areas of influence that HR have in a boardroom. The aspects are interlinked and all speak to each other. For example executive compensation requires data input based on the CEO evaluation, which is related to the performance of the CEO with regards to risk management, corporate and social responsibility, ethics/compliance/governance, just to mention a few. Six of these HR focus areas – highlighted in a grey colour in figure 6.3 – are areas of focus for the RemCo as well. It is therefore surprising that HR is not a permanent invitee to RemCo, despite their ability to contribute tremendously to RemCo discussions.

6.5 Discussion Summary

Valuable insights have emerged from the interviews conducted for this study. The ideal set of skills and competencies were common across the study's participants indicating congruence with what constitutes an effective RemCo member. It was surprising to discover the extent to which RemCo Chairpersons have a prominent and important role to play in RemCo and the influence they have on the skills and competencies of the committee. Similarly, training and development of RemCos was identified as a key aspect of improving the skills and competencies of RemCo members. However the issue identified in the study is that it is not clear where the onus lies of owning the training and development of RemCo members.

The RC was a contentious topic with varying about their contribution and whether or not they are over utilised or underutilised by the RemCo.

The value of RemCo assessments and feedback were discussed. The S.M.A.R.T concept was discussed with regards to how it can make for better RemCo assessments.

Lastly, insight was gained into the role or lack thereof of HR in the boardroom. The discussion highlighted the need for additional research on this topic.

7 Conclusion

Chapter seven provides a summary of all the main findings based on the research questions explored within this study. Conclusions to the research questions pertaining to RemCo skills and competencies, the influence of RCs and the measurement of the effectiveness of RemCo are provided. Using the results as indicated in chapter five together with the literature reviewed in chapter two, the report provides implications for business and for future research.

7.1 Principal Findings

The research has attempted to highlight that skills and competencies of RemCo members are important in ensuring an effective and efficient RemCo. The research methodology followed for this study, i.e. semi-structured interviews proved to be an effective way of obtaining the relevant information from the required sample. Primarily due to the fact that the researcher was able to ask structured opened-ended questions while remaining flexible enough to probe responses. In comparison, the survey questionnaire methodology would not have been an adequate methodology due to the inability of the researcher to probe responses provided. Similarly, a questionnaire format would have assumed that the participants agreed with the skills and competencies listed in the survey for agreement or disagreement. Therefore a questionnaire was not an appropriate methodology for this study.

In order to fully utilise the data captured during the interviews it was necessary for the research questions for this study to be revised. The additional area of focus was the role of the external consultant. It became very clear during the interviews that the external consultant plays a significant role in with regards to the skills and competencies of RemCo members. Prior to the change, the focus of the study had been on skills and competencies and measuring effectiveness.

7.1.1 Skills and Competencies

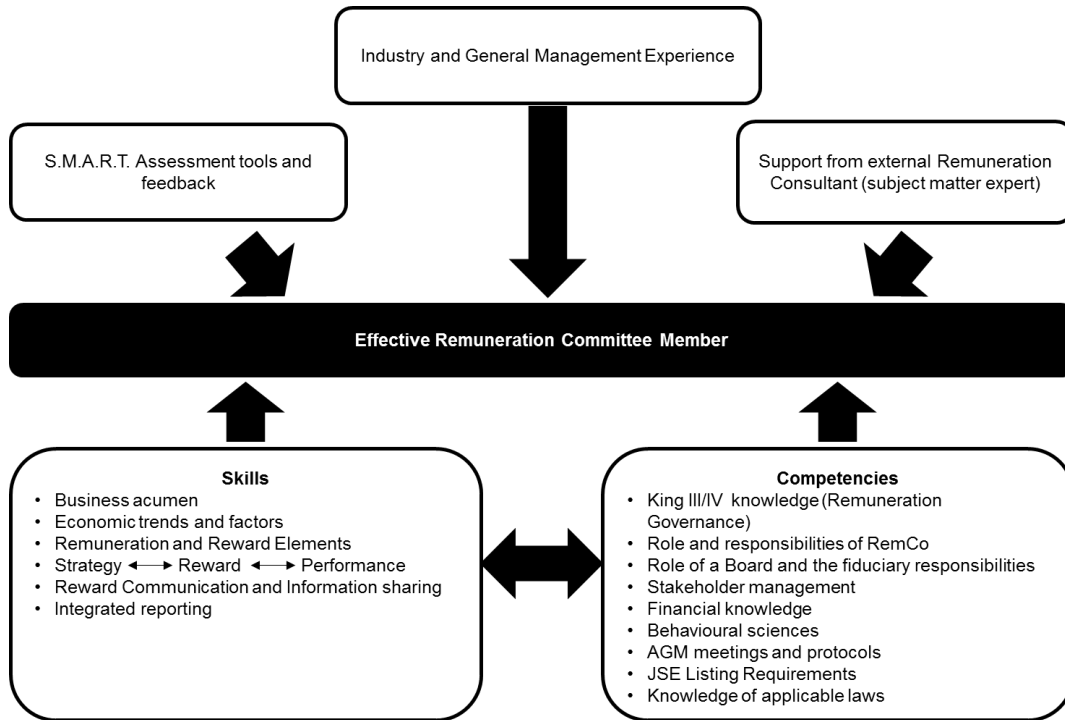
Knowledge of the remuneration philosophy and strategy, understanding the business environment – both within the industry and outside of it – general human resources and lastly objectivity/independence were identified as key skills and competencies for a RemCo member to possess. This is not to say these are the only skills and competencies

required, there are just the base requirements in order for an individual to be effective in a RemCo. The findings of the study support the working paper as published by the IoDSA in 2013 regarding the requirements of competent RemCo members. Similarly the findings support the study by Wimbush and Mattson (2012). In an ideal world an effective RemCo member would possess all skills and competencies, but this is almost impossible. A single individual does not have to possess all skills or competencies, however the sum total of the skills must be present within the RemCo collective.

RemCo members do not have to be experts in the remuneration field. However, there are opportunities for individuals to upskill themselves either through personal development interventions or development/upskilling interventions by the organisation they represent. RemCo members need to have expertise in different areas of the business (Payne et al., 2004).

As shown in Figure 7.1 the ideal skills and competencies of a RemCo member is made up of many aspects, the base being extremely important. The aspects included in the framework are based on those highlighted in figure 6.1. The framework takes the same competencies and not only maintains the link amongst all the skills and competencies but now illustrates that some of the skills are important and hence form the base of the framework. The skills and competencies in the framework are not exhaustive, as indicated earlier appendix 1 provides a comprehensive list of skills and competencies required of RemCo members.

Figure 7.1 Skills and competencies framework



Source: Author's own

Although the responsibilities of a RemCo involve complex remuneration matters, figure 7.1 attempts to illustrate the skills and competencies that can make them less so. Having the appropriate level of knowledge allows for the responsibilities to be less complicated and more manageable. Adequate knowledge also allows for less reliance on RCs for basic remuneration assistance, whilst utilising their expertise in more nuanced scenarios. A more focused and productive use of RCs also lowers the associated operational costs of RemCos.

7.1.2 Remuneration Consultants

The use of RCs for RemCo purposes is quite common in South African organisations. Yet the value they bring to the table is perhaps questionable at best, as there is no consensus of their usefulness or lack thereof. It raises the point that it may not be an issue of the principle of using RCs but rather a question about the process of choosing RCs. Two separate questions that warrant additional research.

What is agreed upon by all participants, is that RCs do bring about a level of legitimacy to their process. It is unclear where the appointment of the RC lies within these organisations. This is perhaps what compounds the conflict of interest issue between the RCs and management. Conflict is minimised for those organisations where the RC works solely for the RemCo. It begs the question, who is ultimately responsible for hiring RCs, a question also raised by Ellig (2014). For those organisations where management hired the RC there is the perception that management has influence over the RC. Thus the influenced output and recommendations that the RC would subsequently make to the RemCo.

Complacency of the RemCo and over reliance of the RC are both areas of concern raised during the interviews. Even though the RCs are considered to legitimise RemCo processes and decisions (Conyon et al., 2009), there is a concern that RCs can and sometimes do, 'yield power' over the RemCo. Management and RemCo need to be more vigilant when hiring RCs. And in doing so, need to ensure that the RCs offerings from a skills and knowledge perspective needs to be aligned with the goals and strategy of the RemCo.

Unfortunately the BoD and the RemCo by extension are not income generating institutions. They rely on the company they represent to pay for their needs such as the hiring of an RC should the need arise. Due to this fact, it appears that that conflict of interest that the RCs face is completely unavoidable. In order to manage the conflict as best as possible, it requires strict management by the RemCo. In that the terms of engagement with the RC need to clearly specify that they have been hired to advise the RemCo.

The RC can also become a permanent invitee to the RemCo in order to avoid being seen as working for management (Ellig, 2014). Being a permanent invitee will enable the RC to have access to the same company information as the RemCo members, but it also allows them to offer their expertise on a more permanent basis.

Another way to manage the conflict is for the RemCo to retain two sets of consulting firms to advise them. As indicated by one of the participants who is an RC, this means there will be less of a reliance on one RC. Interviews conducted by Bender (2011) also found that it is common to use more than one RC. Using more than one RC has the advantage that RemCo can now have more access to varied data for decision making.

Secondly having access to more sources of data makes the RemCo decisions appear more legitimate and objective (Bender, 2011).

In consulting there is usual a process of consulting submitting proposals to potential clients to be selected amongst other consulting firms for the work. The questions in table 6.1, assist the RemCo to narrow their choices from the submissions. A shortlist of the firms can be provided to the RemCo by HR (Bender, 2011). But as Kostander and Ikaheimo (2012) point out, there is at times a social relationship between RCs and companies, and if there is a dominant RC, this makes it difficult for other consultants to establish relationships with the organisation. The dominance of the consulting form, could be virtue of the other work they will already be doing for the company. Ndzi (2015) stipulates that this then leads to a lack of independence. Therefore, Ellig (2014) emphasizes that RCs should not be engaged in other assignments for the company.

Table 7.1 Questions to ask a potential consultant

What is the firm's reputation?
What are the qualifications of those who will do the work?
Are there potential conflicts of interest?
Does the firm have any ties to management or members of the board (including committee members)?
What other work does the firm do for the company?
What similar assignments have been done in the company's own industry?

Adapted from: Ellig, B. R. (2014). Role of the Board Compensation Committee. Compensation & Benefits Review, 46(5-6), 262–275.

Based on the questions listed in table 7.1, a RemCo will be able to assess if the RC has the necessary skills and experience to offer the type of advice the RemCo requires. Over and above assessing the skills/expertise, the RemCo needs to conduct a cost benefit analysis of the proposals submitted by the consulting firms vying for the opportunity to work with the RemCo.

7.1.3 Measuring Effectiveness

The measurement of board effectiveness takes place in different formats and at times not at all. The least common method of assessment is the peer assessment method.

This method is ideal as it requires comparison to a set of competencies, as pointed out by Petri and Soublin (2010).

Although assessments help boards with “...the balance of expert knowledge and subjective judgement...” (Long, 2006, p. 554), conducting an assessment is seen to be a chore rather than a process that facilitates progress within the RemCo. As Ingley and van der Walt (2002) point out, if there is too much emphasis placed on board assessments, they may be seen as punishment rather than for developmental purposes. It is therefore imperative to ensure the right questions are being asked using the most appropriate method.

In order for assessments to be of value-add to the RemCo they need to be seen as specific, measurable, agreed upon, relevant and trackable. Long questionnaires with questions that do not speak to the activities of the RemCo do not add value and are in fact time-consuming and ineffective.

Assessments on their own yield no value if there is no feedback. So the inability of RemCos to conduct assessments may lead to high transaction costs as indicated by Rasmussen (2015). Feedback for RemCos is useful as long as the right questions have been asked in the assessments. S.M.A.R.T. assessments can lead to good feedback that can in turn lead to improved performance or development.

7.2 Implications

7.2.1 Business Implications

The study has identified a number of implications for both listed and private organisations in South Africa regardless of size, as long as they have a RemCo. BoD, shareholders and senior management of organisations need to consider the following:

- 1. RemCos need to be skilled in order to provide input that is of value and is meaningful.**

Both the Companies Act (2008) and King III provide clear guidelines on the general expectations of individual directors. However, what is not clear is the expected skills and competencies that a specific and important committee such as a RemCo member needs to possess. This study has shed some light on the

opinions of those who are currently in these roles or who work closely with RemCo members.

Board appointments are not indefinite and there is therefore an opportunity for the Chairpersons to ensure that individuals with the appropriate set of skills and competencies are appointed to the relevant committees including the RemCo.

It is admittedly difficult to only appoint those individuals that have a specific set of remuneration skills considering there are other committees that are represented by the board. Therefore, there is an opportunity for increased awareness for existing RemCo members to upskill themselves continuously. Secondly, for those individuals that aspire to sit on RemCos, it is now clear what the skills and competency requirements are to be an effective RemCo member should the opportunity arise.

2. RC's are not a complete waste of time

There is still value in RemCos hiring the expertise and knowledge of RCs. The issue is not that RCs are not required, the issue is that the experience and expertise of the RCs are not being fully capitalised on. There is an opportunity for RCs to assist RemCos beyond the basics of remuneration and executive pay. Based on the interviews the RemCo members are open to development, herein lies the opportunity for RCs to be involved in RemCo development sessions. RCs getting more involved in development sessions also mitigates against conflicts of interest as these sessions are to everyone's benefit including management. This also mitigates against the concern that RCs mindsets are aligned with the CEO (Kostiander & Ikaheimo, 2012). Currently RCs are selected based on previous work they may have done for a Non-Executive Director (Bender, 2011), RCs will now become known for their objective and practical developmental sessions they conduct for RemCos. Likewise, the RemCo will be able to fully understand the basics of remuneration that the RC will be discussing, when providing advice regarding executive pay as Ndzi (2015) points out.

Lastly, organisations need to consider the rotation of their RCs. Not only will the rotation improve the objectivity brought to the table by the respective RC but it also improves the competitiveness of the RC market.

3. Joint selection process of RCs

In as much as there is still value in hiring RCs, the process of doing so is very important. Bender (2007) recommended that when RCs are being selected, they should be interviewed by committee members led by the chair, essentially the committee ultimately makes a decision as to who is hired. Having said this, in reality the RC is paid by management. In order to overcome this issue, the hiring of an RC should be such that when any RC that is hired a mandate is drafted by management and approved by RemCo. By doing this, the RemCo has oversight of the role that the RC is playing and in the same way the RC understands that they are ultimately accountable to the RemCo, despite being paid by management.

4. Assessments and feedback are important.

It is one thing to have the right sets of skills and competence, but is another to know if those skills and competence are being used effectively. It is evident from the study that organisations in South Africa need to review the method and manner in which they assess their RemCos. S.M.A.R.T. assessments are critical.

7.3 Research Limitations

Additional limitations were identified beyond those stated in chapter four and are discussed in this section.

The fact that only RemCo members and External RCs were interviewed is a limitation of this study. Further research should consider interviewing institutional investors that also sit on RemCos of their investee companies. They would provide critical insight into what they expect of the RemCo members for the companies that they have invested in. By the same token, Executive Directors, particularly CEOs and HR Executives should also be interviewed in order to provide additional insight into what they feel are the right skills and competencies for RemCo members based on their experiences, as well as their expectations. Their exclusion from this study was a limitation.

In order for the researcher to gain access to the interview participants they had to indicate upfront what the study entailed. The fact that the majority of the sample that was approached were willing to participate, could possibly mean that they were open to discuss the status of RemCo skills and competencies. There is therefore bias in the amount and type of information that was shared with the researcher. This is exemplified

by the list of skills and competencies and additional RemCo related information that an RC had compiled ahead of the interview (Appendix 1).

The limitation is therefore the information provided by individuals willing to share may be biased towards the information being sought by the researcher. Compared to those individuals that are not willing to share their insights, or far worse, do not know what skills and competencies are required to be an effective RemCo member, so would not be able to contribute at all despite being RemCo members.

7.4 Future Research Implications

Based on the lack of literature in this area and on the findings of this study, there are a number of areas that require further study. These areas of further study are as follows:

- An exploration into the role that HR plays in the South African boardroom. The fact that the majority of the RemCos represented by the participants of this study do not have HR as part of the permanent invitees is worth some additional focused analysis, as discussed in section 6.4. One question to be asked for instance is why is HR not fully represented in the board room? Is this an issue? What value does HR bring to the boardroom if at all any?
- A study focusing on the processes of RemCos in South Africa. The study by Hermanson et al. (2012) provided great insights into RemCos in the US, and is worth replication in the South African context due to the differences in governance requirements and in light of the new King IV. Also taking into consideration the first four elements as indicated by IoDSA (2013) that are required to run an effective RemCo.

Such a study would add-on to the findings of this skills and competencies research and provide additional insights into the workings of the RemCo. It would also provide a blue print for organisations that are struggling with their RemCo processes.

- As briefly discussed in section 2.1 recent studies have discovered limitations of the agency theory (Raelin & Bondy, 2013; Bendickson et al. (2016). It is therefore of value to further the research into the external influences on the principal-agent relationship with respect to RemCos. The questions such a study could aim to answer is ' Does an entrepreneurial mind set, or the fact that an organisation is

borne out of a family business, or differences in education influence the processes and/or impact of a RemCo in South Africa or anywhere else on the African continent?

- The skills and competencies link as illustrated in figure 6.1 provide an opportunity for future research to review the link, if indeed at all between all the skills and competencies identified in this study.

7.5 Conclusion

In conclusion the skills and competencies of RemCo members need to be defined. By defining the skills and competencies, it enables the RemCo members to benchmark themselves and each other. It is important that an individual understands what is expected of them when they select to join a RemCo or are nominated to be on a RemCo. Secondly, by understanding the level of skills and competencies within a RemCo will enable them to fully utilise the services of an RC in an appropriate and effective manner, i.e. RCs should not be spending their time explaining basic remuneration concepts, but should rather spend their time and the RemCo time discussing and solving complex remuneration matters. Lastly, it does not matter which form an assessment is conducted. RemCo members should know what their being assessed on and how to best respond/deal with the feedback provided.

This research as resulted in a better understanding of the skills and competencies of RemCo members, the role of external RCs as well as the measurement of the effectiveness of the RemCos.

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9 Appendix 1 – RemCo Skills and Competencies

Competence of Committee Members

- Comprehensive knowledge of King III/IV and specifically on Remuneration Governance
- Understanding of the role and responsibilities of the RemCo
- Understand the Role of a Board and the fiduciary responsibilities – RemCo a Sub-committee of the Board
- Understand the Shareholder – Management and other Stakeholder dynamics and relationships including unions
- Financial knowledge
- Understanding of behavioural sciences
- AGM meetings and protocols
- JSE Listing Requirements
- Knowledge of applicable laws
 - Equal Pay
 - Tax
 - BCA
 - Labour Law
 - Etc.

Technical Knowledge – Not Experts

- Business acumen and the workings of a business (Industry Knowledge)
- Economic trends and factors
- Remuneration and Reward Elements
 - **Remuneration philosophy and strategy knowledge and understanding**
 - Fixed Pay (CTC vs Basic and Add on)
 - Benefits
 - Variable Remuneration
 - The principles of a typical STI
 - How this relates to company performance
 - Performance measurement and management systems such as Balanced Scorecard

- The principles of LTI's
- The different type of instruments
- Accounting Practices (IFRS 2)
- Sign on and Retention Bonuses
- Remuneration mix strategy understanding
- Other Total Reward Options
- Benchmarking principles (What, why and how)
- Policy content and management
- Terms and conditions of Executives
- Termination payments – How and when appropriate
- How Reward Management integrates with other HR Practices and Strategy (Talent Management, Succession Planning, Change Management, Etc.)
- Reward Communication and Information sharing – Good governance and how to drive behaviours
- Integrated reporting
- Transformational objectives of the company / country
 - Wage gap
 - Gini Coefficient
- Employer of choice – Reputational understanding

10 Appendix 2 – Interview Schedule

The interview schedule is constructed in such a way that will allow the researcher to address the main research questions of the study.

Research Question 1: What skills and competencies do RemCo members possess today?

- a. Background Information of member, i.e. education and experience
- b. What role/s does the participant hold outside of being a RemCo member, i.e. are they fully employed elsewhere and if so in what capacity?
- c. How did the participant become a member of RemCo?

Research Question Two: What (if any) skills and competencies are deemed appropriate for RemCo members?

- a. Probe both for professional and technical skills
- b. Of the skills provided in the previous response, which do they think are very important for a RemCo member to possess and why?
- c. If the following skills/expertise are not provided, probe further
 - Financial Expertise
 - Numeracy Skills
 - Basics of remuneration design
 - Remuneration strategy development
 - Analytical and Problem Solving
 - Incentives (Short-term vs Long-term)
 - Human Resources Expertise
 - Benchmarking Methodology
 - Industry expertise

Research Question Three: How can RemCo effectiveness be determined?

- a. What assessment methods are used by the board to determine Remuneration Committee's effectiveness?
- b. If there are assessment methods used, how often do they take place?
- c. Who drives this process?
- d. What other methods are used to determine the effectiveness of the Remuneration Committee?

11 Appendix 3 – Sample Interview Consent Form

Dear Participant,

I am conducting research on the skills and competencies of remuneration committee members, and am trying to find out more about the current skill levels of remuneration committee members today as well as the ‘ideal’ pre-requisite skills and competencies. Our interview is expected to last approximately 45mins. Our discussion will provide insight into the state of skills and competencies of remuneration committee members in South Africa today.

Your participation is voluntary and you can withdraw at any time without penalty. Of course, all data will be kept confidential. If you have any concerns, please contact my supervisor or me. Our details are provided below.

Supervisor name: **Keith Fairhurst**

Email: **keith@unleashconsult.com**

Phone: **083 4194058**

Date: **17 June 2016**

Researcher name: **Muchero Mutizwa**

Email: **15389163@mygibs.co.za**

Phone: **082 967 2461**

Researcher Signature: _____

Date: _____

Signature of participant: _____

Date: _____

12 Appendix 4 – Ethics Clearance Letter

Dear Mrs Muchero Nyazema

Protocol Number: **Temp2016-01120**

Title: **Reviewing skills and competencies of remuneration committee members**

Please be advised that your application for Ethical Clearance has been APPROVED.

You are therefore allowed to continue collecting your data.

We wish you everything of the best for the rest of the project.

Kind Regards,

Adele Bekker

13 Appendix 5 – Codes used for analysis

Code	Code Description.
Assessment	The methods used to measure effectiveness.
Current skills and competencies	Skills currently utilised in the RemCo board room. Based on the individuals around the table.
Educational Background	With respect to level of education, undergraduate, postgraduate, doctorate etc.
External Consultants	The role/influence of external remuneration consultants.
Feedback	How the feedback from the assessment is disseminated and used.
Other Insights	Other relevant insights – areas of possible research.
Position on RemCo	Is the individual just a RemCo member, a RemCo Chairperson or an external consultant?
Required Skills and Competencies	Ideal skills and competencies for the RemCo board. As identified from experience.
Role of RemCo Chairperson	Roles and responsibilities associated with a RemCo Chairperson. Expectations and reality.
Training and Development	The opportunities there are for RemCo members to upskill themselves.

14 Appendix 6 – Turnitin Report