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GORDON INSTITUTE  
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## **THE PREVALENCE OF CORPORATE GOVERNANCE THEORIES IN THE**

### **SOUTH AFRICAN PLATINUM MINING INDUSTRY**

By

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## **ABSTRACT**

The primary objective of this study is to test the theoretical framework relating to three major Corporate Governance (CG) hypotheses by means of reviewing cited literature and testing it in the corporate field. These are the Agency, stakeholder and shareholder theories.

Many scholars have recognised the predominance of agency theory compared to the others. The literature demonstrates that the agency theory is substantially more established in practice with limited discussions and debate around other two theories.

The research adopted a two-phase research approach, which employed qualitative and quantitative methods to collect empirical data.

The findings from the field reveal that the Agency Theory indeed succeeds; however, the respondents' opinions are that academic writers have unnecessarily overstated it.

Concurring with claims by writers that the relationship between senior managers and shareholders does not exist, it is found in this research that there is no need for the relationship to exist. The study also found no evidence that senior managers are treated as agents, which is the basis of agency theory.

## DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the research requirements for the degree of Master of Business Administration at the Gordon Institute of Business Sciences, 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.

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**TABLE 1:** Population and sample

**FIGURES 1:** The Anglo-Saxon Model of Corporate Stakeholders

## **CHAPTER 1: INTRODUCTION TO RESEARCH PROBLEM**

### **1.1. Introduction to the Research Topic**

An onslaught of scandals has compelled the world to acknowledge a profound necessity for CG practices in the global economy. CG is of particular concern in developing economies, where infusion of international investor capital in the form of shareholding is essential to entities.

The intent of this research is to explore various CG theories in the South African platinum mining industry, given its significance as an emerging market, and the country's notable CG reform since the collapse of apartheid in 1994 (Vaughn & Ryan, 2006).

The research focus is limited to two platinum mining companies in South Africa. Historically there have been numerous scandals in the mining industry, specifically the platinum mining companies in other parts of the world. South Africa has been one of the few countries to adopt CG reforms such as: the King I of 1994, the King II Report of 2002, the Insider Trading Act of 1995 and Revised Listing Requirements of 1995. All these initiatives were significant measures to vastly improve the country's CG structures.

### **1.2. Scandals in the Platinum Mining Industry**

This section highlights a few reported cases of dishonour that have shaken the mining industry as a whole. Canada, a significant producer of platinum group metals (PGM), is no stranger to mining scams. In 1997, Calgary based

Bre-X Minerals Ltd shocked the world when its' platinum mine in Indonesia turned out to be one of the biggest frauds ever (Canadian Press, 2001).

In this case, senior management misled investors to invest in a new platinum deposit that promised high returns. With the aid of misinformation from geologists, senior managers were key players in the deal. As a result, Bre-X's stock lost almost all of its value.

The then Director of Mining Issues at the Prospectors and Developers Association, stated that the industry is still feeling the effects of the Bre-X scandal, making it increasingly difficult for intimate junior mining exploration companies to get finance (Alden, 2005).

Among the scandals in the mining sector is one of South Western. Dorothy Kosich, (International mining magazine 2005) uncovered a story in which a lawsuit was filed against a CEO for fraud together with breach of fiduciary, statutory and contractual duties. The CEO was alleged to have created false assay certificates to match falsified electronic results that he or someone acting on his behest supposedly entered into the drilling database for his benefit at an expense of shareholders.

The above illustrations highlight the extent of failure of CG in the companies mentioned.

This study aims to explore the South African landscape in this regard, using literature that is reviewed in detail in the chapters to follow.

To augment this investigation, the study will cross-examine three competing but also complementary theories of CG and further establish which of the theories prevail in the platinum mining companies.

The research will assist investors and funders to understand this industry prior to providing funds in these companies. It is hoped that the findings will not deter funders but rather broaden their understanding of which CG practices prevail in these companies. Further to this, policy makers can use results from this research to adjust policies and develop other CG mechanisms for the benefit of all stakeholders.

### **1.3. Definition of Senior Management**

The research intends to include senior managers, board members and investors. It is therefore important to define senior managers for use in this research.

For the purpose of this research, senior managers are individuals who report to the CEO, managing the operations of the business at the most senior level. In their companies they are sometimes referred to as executives, executive directors, directors, general managers or executive heads.

Managers are the stakeholders occupying positions of strategic leadership in the firm and exercising control over business activities (Lane, 1989).

#### **1.4. Research scope**

CG is a broad phenomenon and it examines a wide range of corporate entity issues (Hilb, 2006). The study is exploratory and engages senior management, board members and shareholders to ascertain their views on CG, establish ideas of best practice and understanding of current practice.

A few of the concepts in line with the research topic will be reviewed for the benefit of gaining more insights on the CG phenomenon.

## **CHAPTER 2: - LITERATURE REVIEW**

### **2.1. Introduction**

The theory reviewed in this section defines and describes concepts of CG (CG) as well as analyses other topics associated with it .CG is admittedly a very broad phenomenon. For relevance and benefits in this study, it is important to note that this research will only study its theories, which are Agency Theory, Stakeholder Theory and Shareholder Theory. This means that not all other areas of CG will be covered in this research.

Non-empirical insights into theories of CG are provided in detail in the following subsections of this chapter.

### **2.2. Introduction to Corporate Governance**

One feature of CG deals with the ways in which suppliers of finance (shareholders) to corporations assure themselves of getting a return on their investment. Shleifer and Vishny (1997), in their survey on what constitutes shareholder returns, asked these questions:

- How do suppliers of finance get managers to return some of the profits to them?
- How do they make sure that managers do not steal the capital they supply or invest it in bad projects?
- How do suppliers of finance control managers?

At first glance, it is not entirely obvious why the suppliers of capital get anything back. After all, they part with their money and have little to contribute to the management of the enterprise afterwards. Professional managers or entrepreneurs who ruin firms might as well abscond with the money (Shleifer and Vishny, 1997).

Although in some instances they have done so, this is usually not the case. Most advanced market economies have solved the problem of CG to some extent, in that they have assured the flows of enormous amounts of capital to firms and are subsequently able to repatriate the profits to the providers of finance. But this does not imply that they have solved the CG dilemma perfectly, or that the CG mechanisms cannot be improved (Sanders and Carpenter, 1998).

In fact, the subject of CG is of enormous practical importance. Even in advanced market economies, there is a great deal of conjecture around the adequacy and successfulness of existing governance mechanisms.

There is a continual effort by organisations to build on a good framework of policies, not only as an undertaking enforced by a regulatory body, but also to sustain and win. However, they further state that these organisations are facing a dilemma in terms of their focus in priorities.

Hart (1995) introduces this broad concept of CG from another angle. He states that CG issues arise in an organisation whenever two conditions are present. First, he makes mention of the presence of agency problems or conflict of interest.

Second, transaction costs, (described by the Dictionary of Investments Terms as the costs other than the money price that are incurred in trading goods or services) are such that this agency problem cannot be dealt with through a contract. In the absence of agency problems, all individuals associated with an organisation can be instructed to minimise costs. However, agency problems alone do not provide a rationale for CG.

Remarkably Vives (2000) asked if CG really matters, pointing out that the picture that emerges of the role and effectiveness of CG is mixed from both the theoretical and empirical perspectives. One could be tempted to conclude that CG does not matter much and that other factors, such as product market competition, drive economic performance.

Organisations of varying size treat CG differently depending on the shareholder activism in the firm. It has been agreed by scholars like Brunello *et al* (2002) that large organisations are the hardest hit by CG findings, as the focus on shareholder value is paramount relative to the interests of other stakeholders.

### **2.3. Corporate Governance in Large Organisations**

The distinguishing feature of a public company is that it has a large number of small owners. This creates two issues, first being that the owners, that is, shareholders, even though they typically have ultimate residual control rights in the form of votes, are too small and numerous to exercise this day-to-day control basis. Given this, they delegate day-to-day control to a board of directors, which in turn delegates it to management (Hart, 1995).



The second related issue is that dispersed shareholders have little or no incentive to monitor management activities. The reason is that monitoring is costly and if one shareholder leads the monitoring to improve company performance, all shareholders benefit.

Given the associated expense of monitoring, each shareholder will free ride in the hope that other shareholders will do the monitoring. Unfortunately, all shareholders think the same way and the result is that no monitoring will take place.

Because of this lack of monitoring, there is a danger that the managers of a public company will pursue their own goals at the expense of those of shareholders. Among other things, managers may:

- Overpay them and give themselves extravagant perks.
- Carry out unprofitable, but power-enhancing investments.
- Seek to entrench themselves.
- Be reluctant to lay off workers that are no longer productive
- Or they may believe that they are the best people to run the firm when, in fact, they are not.

It is in this regard that Hart (2005) suggests that in view of managers' ability to pursue their own agenda, it is obviously important that checks and balances on managerial behaviour are in place. Hence, a major part of CG concerns the design of such checks and balances.

It is therefore imperative to understand where senior managers, as part of stakeholders who need to be monitored, fit in the CG equation.

#### **2.4. Senior management in the Corporate Governance Equation**

Managers are the stakeholders occupying positions of strategic leadership in the firm and exercising control over business activities (Lane, 1989).

Finkelstein and Hambrick (1996) point out that managerial control is contingent on the amount of managerial discretion present given the existence of environmental constraints. Even in the case where self-interest is the primary goal behind managerial behaviour, there might be other contextual motivations driving self-serving tendencies (Goshal and Moran, 1996).

Aguilera & Jackson (2003), propose two dimensions of managers' identities and interests in relation to the firm. First, they borrowed from stewardship theory, where they differentiate between the *autonomy* versus *commitment* of senior managers towards the firm.

In their analysis, *autonomous managers* experience a large degree of independence from specific relationships within the firm. These managers may find it easier to "make tough decisions" or to impose hierarchical control in the firm. In contrast, *committed managers* are dependent on firm-specific relationships to pursue their interests.

The writers' second dimension refers to the *financial* versus *functional* orientation of managers.

*Financial* conceptions of managerial control refer to a strong separation of strategic and operational management and the execution of company control via financial mechanisms.

Whereas *functional* conceptions of managerial control refer to the integration of operational functions, either through technical specialisation or through strong personal involvement and leadership.

The above analysis exemplifies the importance of senior managers and different attributes required to successfully run the business on behalf of the shareholders. However, heated debates revolve around whether managers deserve to be belittled according to agency theory, or glorified, according to stakeholder theory.

## **2.5. Senior Management Remuneration and Compensation**

Whether managers will, in fact, act in the best interests of shareholders depends on the two factors. First, how closely are management goals aligned with shareholder goals? This question, raised by Armstrong and Murlis (2004) relates to the way managers are compensated.

Second, can management be replaced if they do not pursue shareholder goals? This issue relates to control of the firm. There are a number of reasons to think, even in the largest firms, that management needs a significant incentive to act in the interests of shareholders (Firer *et al*, 2004).

Management will frequently have significant economic incentives to increase share value. Managerial compensation, particularly at the top, is usually tied

to financial performance in general and sometimes to share value in particular.

For example, managers are frequently given the option to buy shares at a bargain price. As the share price is managed upwards, managers are able to extract more value for themselves. In fact, options are increasingly being used to motivate employees at all levels, not just senior management.

The other incentive managers have relates to job prospects. Better performers within the firm will tend to get promoted. More generally, those managers who are successful in pursuing shareholder goals will be in demand in the labour market and thus command higher salaries (Aggarwal and Samwick, 2003).

Management compensation must reward strong current performance and simultaneously provide incentives for similar future results (Colley et al 2006). The authors further indicate that the goal of management compensation is to find equilibrium level that provides shareholders with the greatest return consistent with their risk tolerance, net of the cost of the compensation. The challenge facing the board in this regard is to find and make the best deal for the shareholders.

In arriving at the best amount of management compensation, the board must first resolve a number of basic philosophical issues in forming the foundation for its compensation strategies. These include:

- What constitutes good performance?
- Does management make a difference in performance?

- Does compensation make a difference in getting good management results?
- How much, if any, of management's compensation should be "at risk"?

The board must be watchful over all components of compensation as they execute their duties to represent the best interests of the shareholders.

Vives (2000) states that incentives can be monetary or based on career concerns and have to be based on an observable measure of performance (better if it is verifiable in court). This performance measure can be absolute or relative to the performance of rivals or the market. However, there are problems associated with the implementation of incentive contracts, because management can manipulate them. Evidence to this could include manipulating accounting data or controlling the release of information to favour stock option payments, or capturing of board of directors or the accounting procedure.

Armstrong and Murlis (2004) remarked, "The job of the board is to hire fire and compensate the CEO and senior managers, and provide high level counsel". Deliberating about and the determination of senior management pay, though, are often delegated to a sub group of the main board termed the remuneration or compensation committee.

The theoretical importance of a remuneration committee is clear; in its absence, there exist an opportunity for senior executives to award themselves pay raises that not congruent with shareholder interests (Conyon & Peck,

1998). They supplementary bring about the fact that the absence of an independent remuneration committee is parallel to an executive's writing his employment contract with one hand and signing it with the other hand.

Hart (1995) introduces the notion of principal-agent, which he believes is useful for providing insights into why managers might be given some performance-related pay in the form of shares or stock options.

## **2.6. Roles and Functions of the Board**

The board of directors provides one check on management. Shareholders elect the board to act on their behalf, and the board in turn monitors top management and ratifies major decisions (DeFond and Park, 1998). In extreme cases the board may replace the company's chief executive and other members of the management team.

In principle, the board has a very important role to play, but academics raise a few reasons to doubt its effectiveness in practice.

The board of directors, given the responsibility of managing the corporation in the best interest of the shareholders, generally delegates its duty to a single CEO or a team of senior managers, (Furtado & Karan, 2000). The writers further declare that the separation of ownership and control allows the managers to further their own interests at the expense of the shareholders.

The Board negotiates employment contracts and have the right to fire and hire and set compensation for top managers. Board action occurs when such appointments, dismissals, or management reshuffles are undertaken. Such

action can be disciplinary or can be the result of a planned intervention for future economic growth (Sanders and Carpenter, 1998).

Being the guardian for shareholder wealth, it is assumed that boards act in the best interests of the shareholders. The involvement of directors in CG is most visible in the selection of top managers. The clearest example of the exercise of the board's power is the firing of a CEO in the face of deteriorating performance.

The King II Report of 2002 defines these roles as follows:

- To develop a strategy aligned to the purpose of the company and the values by which the company will perform its daily existence.
- To identify stakeholders relevant to the business of the company.
- Develops a strategy combining all factors of the business and ensure that management implements this strategy.
- To monitor the implementation of the strategy.
- To deal with well-known financial aspects.
- Identify key risk areas and mitigating strategies, and key performance areas (KPA's)
- Regularly monitor the human capital aspects of the company in regard to succession, morale, training, remuneration, etc.

- Ensure effective communication of the business strategic plans and ethical code, both internally and externally.
- See to it that there are adequate internal controls and that the management information systems can cope with the strategic direction in which the company is headed.

Academic writers including Hilb point out a detracting factor about board effectiveness in that it consists of directors who are members of the management team, and non-executive directors who are essentially outsiders. It is hardly reasonable to expect the executive directors to monitor themselves and non-executives are disassociated with the day-to-day business operations.

Furthermore, the non-executive directors may not have a significant financial interest in the company, and they may therefore have little to gain personally from improvements in company performance.

Finally, non-executive directors may owe their positions to management, who proposed them as directors in the first place, hence a conflict of interest.

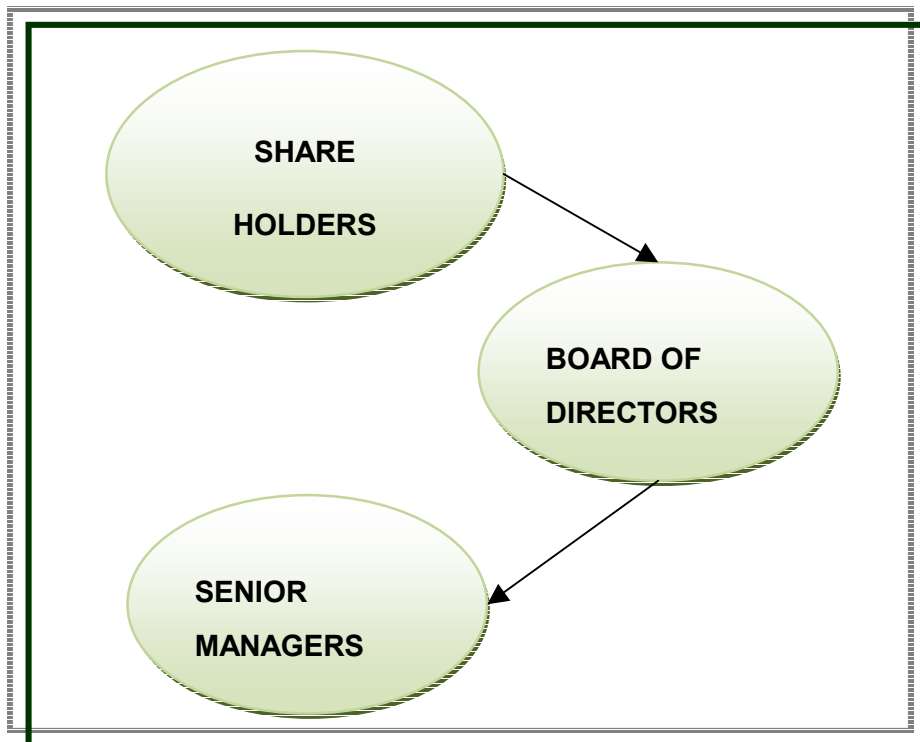
## **2.7. Corporate Governance Theories**

Having looked at CG role players in terms of this research, this part of literature review analyses CG theory that underpins this research.



Three theories are investigated that will be used as a guide in the entire research. The theories are the agency theory, stakeholder theory and shareholder theory.

The study will review different authors' views on the above theories wherein the review will further show how the debate on these three theories has evolved.



**Figure 1: Source: Lucian Cernat: The Anglo-Saxon Model of Corporate Stakeholders**

As can be seen in Figure 1, the Anglo-Saxon model of CG does not allow for management participation in shareholder decision-making.

It seems as if senior managers are the executors of decisions made between the board and shareholders to maximise shareholder value.

The figure illustrates a disconnection between shareholders and a senior manager, which is what Letza *et al* are concerned about.

While a company's management team is one of these stakeholder groups in that they can be helped or hurt by corporate actions, they also hold the sole responsibility for balancing the interests of all stakeholders, through which they are "safeguarding the welfare of the abstract entity that is the corporation" (Stern, 2006).

Letza *et al* (2004) indicate that since shareholders have to delegate control to a few directors and managers to run the company on behalf of all the shareholders, and in this regard, there is a potential risk that directors and managers may serve their own interests at the expense of all the shareholders.

These theories to be examined are introduced and elaborated in the literature review below.

### 2.7.1. Agency Theory

The agency theory claims that the purpose of the corporation is to serve the corporate interests as a whole. Remarkably, economic approaches to governance such as agency theory tend to assume some form of home economics, which depicts subordinates as individualistic, opportunistic, and self serving (Davis, J.H., Schoorman, F.D., and Donaldson, L., 1997). CG covers the agency problem in an attempt to resolve corporation's problems.

The agency problem was initially identified by Fama and Jensen, (1983), citing Jensen & Meckling (1976) and Adam Smith 1976, who noted that the directors in a joint stock company could not be expected to be as vigilant and careful with other people's money as they are with their own.

In addition, agency theory is concerned with aligning the interests of owners (shareholders) and managers, and is based on the premise that there is an inherent conflict between the interests of a firm's owners and its management, (Fama & Jensen, 1983).

The theory argues that in the modern corporation, in which share ownership is widely held, managerial actions depart from those required to maximise shareholder returns, Davis & Donaldson (1991).

Added to what other academics suppose, Donaldson and Davis (1994), believe that organisation theory and business policy have been strongly influenced by agency theory, which depicts that senior managers in the large modern corporation are agents whose interests may diverge from those of their principals.

Cernat (2004) trusts that the major problem with agency theory is that it allows excessive power to executive managers who may abuse this power in pursuit of their own interest.

Freeman (1994) reveals that agency theories assert that the agency problems can occur in all corporations where a principal-agent relationship exists. This implies that managers, as agents, may naturally use their delegated power in their hands to maximise their own utility instead of the welfare of shareholders/ principals. It is in this consideration that Goshal & Moran (1996) conclude that managers are basically untrustworthy and must therefore be fully monitored.

To overcome this enmity between principal and agency, principals naturally embark on initiatives to watch where and how agents have used their money, which results in agency costs.

#### 2.7.2. Agency Costs

To see how management and shareholder interests may differ, imagine that the firm is considering a new investment. The new investment is expected to impact favourably on the share value, but it is also relatively risky venture. The owners of the firm will wish to take the investment (because the share value will rise), but management may not, because there is the possibility that things will turn out badly and management jobs will be lost. This may influence management not to take the investment and consequently the shareholders may have lost a valuable opportunity. This is one example of an agency cost (Firer 2004).

More generally, agency costs refer to the costs of the interest between shareholders and management. These costs can be direct or indirect. An indirect agency cost is a lost opportunity, such as the one just described.

Direct agency costs come in two forms. The first is a corporate expenditure that benefits management but costs the shareholders. Perhaps the purchase of a luxurious and unneeded corporate jet would fall under this heading. The second is an expense that arises from a need to monitor management actions. Paying outside auditors to assess the accuracy of information in financial statements could be one example (Fee & Headlock, 2004).

It is sometimes argued that, left to themselves, managers would tend to maximise the amount of resources over which they have control or, more generally, corporate power or wealth. Moreover, management may tend to overemphasise organisational survival to protect job security (Furtado and Karan, 2000).

Agency theory defines agency costs as the costs incurred by an organisation that are associated with problems arising from the conflicts of interest between management and shareholders in the presence of information asymmetry between management and outside shareholders (Pintails & Park, 2003).

In Meckling's views, agency costs are the sum of the contracting, monitoring and bonding costs undertaken to reduce the costs that arise due to conflicts of interest and, the residual loss that occurs because it is generally impossible to perfectly align agents' interests with that of the principal.

Karpoff (2005), in support of Meckling, defines agency costs as sum of:

1. The monitoring expenditures by the principal,

2. The bonding expenditure by the agent,
3. The residual loss.

Viewed in this light, it is clear that the definition of agency costs and their importance in the firm hold similar definitions from different authors.

Academics also note that agency costs arise in any situation involving cooperative effort by two or more even though there is no clear-cut principal agent relationship.

### 2.7.3. Agency Relationship

Pratt & Zeckhauser (1985) define an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. They further note that if both parties to the relationship are utility maximisers, there is a good reason to believe that the agent will not always act in the best interest of the principal.

The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities for the agent.

### 2.7.4. Agency Problems

The relationship between shareholders and management is called an agency relationship (Firer, 2004). He adds that such relationships exist where someone (the principal) hires another (the agent) to represent her interest. For

example, one might hire someone (an agent) to sell a car he owns while he is unable to control the sale of the car. In all such relationships, there is a possibility of conflict of interest between the principal and the agent. Such a conflict is called an **agency problem**.

The separation of control and ownership between managers and shareholders allows managers to further their own interests at the expense of the shareholder. This conflict between principals and agents forces the need for contracts, and the public corporation therefore has been defined as a “nexus of contracts”. However, agency problems arise because complete, fully contingent, costlessly enforceable contracts do not exist in the real world (Freeman, 1994).

In the absence of agency problems, all individuals associated with the organisation can be instructed to maximise profits or net market value or to minimise costs. Individuals will be prepared to carry out their tasks since they do not care *per se* about the outcome of the organisation’s activities. Effort and other types of costs can be reimbursed directly and so incentives are not required to motivate people. Also, no governance structure is required to resolve disagreements, since there are none (Hart, 1995).

#### 2.7.5. Recommendations to Resolve Agency Problems

Fligstein and Freeland (1995) recommend the following solutions to the agency problem:

- 1) The alignment of the interests of agents to that of the principals.

- 2) A complete contract containing specifications of the agent duties. Hart (1995) in his expansion on what must form part of this contract, noted that such a contract would specify conditions under which the manager should be replaced, which assets should be bought and sold, which new workers should be taken on or old workers should be fired and so on.
- 3) Rewards and the rights of the principal to monitor their performance are required.
- 4) Adopting appropriate incentive systems to reward managers is a key solution to the agency problem.

Donaldson & Preston (1995) advocating to what Fligstein and Freeland have suggested, propose that the best solution to the agency problem is to determine the most efficient contract governing the principal-agent relationship and an optimal incentive scheme to align the behaviour of the managers with the interests of owners.

Alchian and Demsetz (1972) recommend a concept of contracts, which is the most favoured metaphor used in agency theory. He believes that all social relations in economic interaction are reducible to a set of contracts between principals and agents.

Davis *et al* (1997) suggest that imposing control structures upon the agent may curb losses to the principal resulting from interest divergence.

Davis and Donaldson (1991) further agree that agency theory specifies mechanisms, which reduce agency loss and these include incentive schemes for managers which reward them financially for maximising shareholder



interests. Such schemes typically include plans whereby senior executives obtain shares, perhaps at a reduced price, thus aligning interests of executives to those of shareholders.

## **2.8. Stakeholder Theory**

Stakeholder theory suggests that a firm should be run in the interest of all its stakeholders rather than just the shareholders (Vinten 2001). Vinten also believes that the stakeholder theory is for those who would like to be offered free lunch and enjoy the benefits of business without the discipline of the business.

In this theory, it is believed that managers are prepared to listen and to collaborate because they do not feel threatened and the effectiveness of shareholder “voice” helps to overcome managerial barriers to trust.

Aoki (1990) recognised that only investors and employees are significant stakeholders and see managers as essentially “referees” between these two stakeholder groups. Watson (2003) is among academic analysts in emphasising that managers of a firm are one of its most important and powerful constituencies and that wittingly and unwittingly, they are extremely likely to practice opportunistic and self aggrandizing behaviour.

Contrary to shareholder (agency) theories that place the interest of profit-seeking owners above all else, stakeholder theories argue that corporate executives have moral and ethical obligations to consider equally the interests

of a wide range of stakeholders affected by the actions of a corporation (Stern, 2006).

The stakeholder model claims that the firm should serve wider interests of stakeholders only. Stakeholders such as employees (management), creditors, suppliers, customers and local communities have long-term relationships with the firm and affect its long-term success.

Letza *et al* (2004) feels that unlike social entity theory that justifies stakeholder interests on the basis of moral value and fundamental human rights, the instrumental stakeholder theory legitimates stakeholder value on the grounds of it as an effective means to provide efficiency, profitability, competition and economic success.

To the extent that stakeholder theory says that firms should pay attention to all their constituencies, the theory is unassailable. Taken this far stakeholder theory is completely consistent with value maximisation or value-seeking behaviour, which implies that managers must pay attention to all constituencies that can affect the value of the firm (Freeman, 1994).

In addition, he engages a decision making angle in this description to make the theory more practical. Any theory of corporate decision-making must tell the decision makers, (i.e. managers and board of directors) how to choose among different constituencies with competing and in some cases, conflicting interests.

- Customers want low prices, high quality, and full service.

- Employees want high wages, high-quality working conditions, and fringe benefits including vacations, medical benefits, and pensions.
- Suppliers of capital want low risk and high returns.
- Communities want high charitable contributions, social expenditures by companies to benefit community at large, increased local investment and stable employment.

In its most basic sense, stakeholder theory arises from the rejection of the idea that the corporation should single-mindedly strive to maximise the benefits of a single stakeholder, the shareholder.

The task of senior management in the stakeholder theory is at the core of any decision criterion and managers need to specify how to make tradeoffs between these demands.

Wijnberg (2000) whose proposal is not against any of the views brought out by other authors in this subject agrees that there is a relationship between ethics and politics in line with the theory in the firm. She further suggests that the corporation should be considered as existing to allow the decision maker, who is normally a senior manager, to live a complete and good life and to make decisions that involve interests of different stakeholders.

Stakeholder theory is seen as probably the most popular way to treat issues that have to do with broader responsibilities of the business, without being oblivious of other aspects of the business.

## 2.9. Stewardship Theory

In contrast to agency theory, stewardship theory asserts that managers are essentially trustworthy individuals and so are good stewards of the resources entrusted to them (Donaldson and Davis, 1991, 1994). Since inside (or executive) directors spend their working lives in the company they govern, they understand the businesses better than outside directors and so can make superior decisions (Donaldson and Davis, 1991, 1994).

As a result, proponents of stewardship theory contend that superior corporate performance will be linked to a majority of inside directors as they naturally work to maximise profit for shareholders.

In the well-known language of motivation stewardship theory plays a “Theory Y” view of managers to agency’s “Theory X” perspective, arguing that an overemphasis on monitoring is unnecessary for senior management to impact on corporate performance. Stewardship theory is based on two premises; namely, that managers are naturally trustworthy Preston (1998) and/or that agency costs will be minimised as a matter of course, as senior executives are unlikely to disadvantage shareholders for fear of jeopardising their reputations.

Further, even if agency costs are a significant concern to a company and monitoring is necessary, stewardship theorists also hypothesise that shareholders will lack the knowledge, time and resources to monitor management effectively (Donaldson and Davis, 1994).

Stewardship theory depicts subordinates as collectivists, pro-organisational and trustworthy (Donaldson and Davis, 1991). The stewardship theory has moral appeal because it provides a motivational basis for the stakeholder model of the corporation as a normative concept (Donaldson & Preston, 1995). The strength of the stewardship theory is that it offers managers a different set of motivations, which could potentially include the interests of all relevant stakeholders.

Stewardship theory argues that shareholder interests are maximised by shared incumbency of different roles (Donaldson and Davis, 1991).

## **2.10. Conflicts of Interest**

Two definitions of a conflict of interest are prominent in the philosophical literature. Davis (1982) has defined conflict of interest as follows: "A person has a conflict of interest if :

- a) He is in a relationship of trust with another requiring him to exercise judgement in that other's service.
- b) He has an interest tending to interfere with proper exercise of that judgement" (Davis, 1982, p.21).

Brenkert (2004) refers to Tom Beauchamp's proposal of a similar definition: "A conflict of interest occurs whenever there exist conflict between a person's private or institutional gain that same person's official duties in a position of trust".

Brenkert, in his book about Enron's CG scandals advocates that management, especially accountants, have to exercise independence between accountants and clients they serve. The conflicts of interest also occur in the investment industry when analysts who rate stocks are also involved in securing investment banking for the firm.

Conflicts of interest happen when the interest of the professional or their family or friends conflicts or has a potential to conflict with another party (Dellaportas *et al*, 2005). Conflict of interest can arouse resentment and undermine the trust held by clients and the public in the entire organisation.

Another view from Colley *et al* (2006) states that when individuals own and manage a business, it is presumed that they will act in their own self interest, making managerial decisions to support the achievement of their short- and long-term goals, whatever they may be. There is no opportunity for a conflict of interest. When individuals serve as directors of business they represent the interests of the other owners. In this situation, the potential for conflicts of interests indeed does exist.

#### 2.10.1. Recommendations to Conflicts of interest

Some conflicts of interest are inevitable and individuals have no responsibility for the conflicts of interest in which they are involved. When confronted with conflict of interests, managers have four options, to:

- a) Remove themselves from the conflict.
- b) Resign from their position or client.

- c) Seek consent from all interested parties to continue in the position or relationship in spite of the conflict of interest.
- d) Disclosure of conflict to all interested parties (Dellaportas *et al*, 2005).

### **2.11. Dialogue on Corporate Governance Theories**

Preston (1998) recorded an exchange in views between Davis, Schoorman and Donaldson (1997), advocates of a “stewardship” theory of management and Turnbull (1997) proponents of a rather broad conception of “agency” theory fails to emphasise the critical distinction between corporate managers and stakeholders.

Preston (1998) further indicates that Davis and Donaldson (1994) are correct that the potentially conflicting self-interest of the parties is the essence of the “principal-agent problem”, and Albanese *et al*, are correct to suggest that the interests of (some) principals and (some) agents might conceivably coincide, resulting in a virtual stewardship relationship.

The outcome of the debate illustrates that the stewardship theory has moral appeal because it provide a motivational basis for stakeholder model as a normative concept (Donaldson & Preston, 1995).

### **2.12. Conclusion**

Agency theory, stewardship theory and stakeholder theory have undoubtedly espoused for different stance on what the stakeholder interests can be in the

company. Agency theory, for example, simply states that there is an agency problem in the company and therefore senior management cannot be trusted with shareholder funds.

The stakeholder theory extends the purpose of the corporation from maximising shareholder values to delivering wider outputs to a range of stakeholders and emphasises corporate efficiency in a social context.

On the other hand, stewardship theory demonstrates that senior management deserve trust from shareholders and they need to be left alone to manage the business without being managed too closely.

In contrast to the dominant agency theory, the stewardship model assumes a different nature of agent/ managerial behaviour and argues that managers, as stakeholders, are trustworthy and should be fully empowered.

It is felt that the review would be incomplete without understanding what the role of conflicts of interest plays in the stakeholder interests. Even though this part has only revealed a general understanding of these conflicts, Dellaportas *et al* (2005), has emphasized the recommendations and the importance of disclosure of interests.

It is important to bring forward that not much literature is available on stewardship theory. Few academics have dealt with this theory and it makes reference to a small number of arguments. This theory is seen as being closely related to stakeholder theory while agency theory has totally conflicting views.



## **CHAPTER 3. RESEARCH QUESTIONS**

### **3.1. Introduction**

The previous chapter presented a broad non-empirical body of information that addressed CG theories and its associated subject matters, as well as contradictory views from other scholars.

The main research question to be asked is, “Which of the three CG theories prevail in the platinum mining industry”. In order to do so, a set of questions was developed from the literature review to form a questionnaire, as shown in

**Appendix 2.**

## **CHAPTER 4. RESEARCH METHODOLOGY**

### **4.1. Introduction**

This chapter is presented in three main sections, namely the research method, research approach and the research design. Each section presents a brief motivation for the choices made in compiling the research methodology of this research project.

### **4.2. Research Method**

This study made use of both non-empirical (literature review) and empirical research approaches. The non - empirical approach was used to prepare for and structure the empirical research activities (Hussey and Hussey, 1997). The literature review chapter indicated that not much research was done on the subject specifically on the context of the South African platinum mining industry.

The empirical level of this research project is aimed at finding out which of the CG theories outweighs the rest.

Based on the research problem and the nature of this research project, the empirical approach was applied and exploratory in nature. It was applied in nature as it was undertaken to answer questions about a specific phenomenon. It was exploratory in nature as it served to clarify and define the differences between these theories according to three stakeholder groups identified (Zikmund, 2003).

Hussey and Hussey (1997) concurs with this approach stating that exploratory research is ideal to collect empirical evidence on a research problem or question that very few or no earlier studies have dealt with. Exploratory research serves to capture patterns, ideas or potential hypothesis to test. It is not used to confirm or test a hypothesis, as this research is not aiming to test any hypothesis (Hussey and Hussey, 1997).

### **4.3. Research Design**

#### **4.3.1. Qualitative and Quantitative Research**

The approach undertaken for this research consisted of both qualitative and quantitative elements in order to answer research questions developed in Chapter 3.

The following are three broad reasons for combining qualitative and quantitative approaches:

- To enable confirmation or corroboration of each other via triangulation.
- To assist in providing a deeper understanding.
- To develop new lines of thinking and providing fresh insights (Marshall and Rossman, 2006).

The reason for use of a quantitative approach together with qualitative is best described by Miles and Huberman (1994), citing Siber (1973), stating that quantitative methodologies help provide the background data, assisting in validating and interpreting qualitative results and quantitative findings, thereby helping in the better understanding of the data collected.

#### 4.3.2. Qualitative Research

A personal interview is defined as “gathering of information through face to face contact with an individual” (Zikmund, 2003, p 199).

Given the nature of the research problem outlined in Chapter 1, it was concluded that a basic qualitative method would be the most appropriate for confirming data gathered using quantitative method. This method sought to obtain the understanding of the phenomenon. Data collected through interviews was analysed to identify recurring patterns in the form of variables, themes and categories.

In this instance, the validity of the collected data was augmented by the fact that it was collected in the form of a personal interview as opposed to questions answered using electronic media.

#### 4.3.3. Quantitative Research

This technique was used to determine the quantity or extent of some of the phenomena in the form of numbers, providing the exact measurement. Zikmund (2003, p 55) explains the purpose of quantitative research as, “determining the quantity or extent of some phenomenon in the form of numbers”.

Patton (1987) reveals that quantitative measurement relies upon the use of instruments that provide a standardized framework in order to limit data collection to certain predetermined responses of analysis categories.

#### 4.4. Population and Sample

The research population were persons drawn from two groups in the two companies, namely: Senior managers (including board members) and shareholders/ investors. In cases where a shareholder was a company, a shareholder representative formed part of the research sample. Investment managers in companies under review referred the researcher to the shareholder representatives.

The selection of the respondents was random depending on availability and access.

Table.1 illustrates the sample representing each of the stakeholder group.

STAKEHOLDER	ANGLO PLATINUM		IMPALA PLATINUM	
	POPULATION	SAMPLE	POPULATION	SAMPLE
SENIOR MANAGEMENT (INCL BOARD MEMBERS)	13	13	20	20
MAJORITY SHAREHOLDERS	3	3	3	3
<b>TOTAL</b>	<b>16</b>	<b>16</b>	<b>23</b>	<b>23</b>

**Table.1 – Sample and Population**

#### **4.5. Unit of Analysis**

Unit of analysis in a research study could be “an individual, a community, an organization, a nation-state, an empire, or a civilization” (Patton, 1987). In this research, a unit of analysis was individuals that formed part of a board, shareholders and senior management in the companies under review.

#### **4.6. Target Population**

a). Target population 1: Senior managers (including board members)

Senior managers comprise managers at a senior level in the company, including board members. These individuals are sometimes referred to as executives, executive directors, directors, company secretary and division heads.

For the purpose of this research, senior managers are individuals who report to the CEO, managing the operations of the business at a very senior decision making level. In their companies they are sometimes referred to as executives, executive directors, directors, general managers or executive heads.

Managers are stakeholders occupying positions of strategic leadership in the firm and exercising control over business activities (Lane, 1989).

b). Target population 2: Shareholders (investors)

Shareholders have been identified as an organization or company representatives from companies that own more than 75% of capital stake in

the companies under investigation. These shareholders were seen as having more votes than minority shareholders.

#### **4.7. Sampling Method**

Thirty-nine individuals were selected for the research without any gender and demographics preferences to avoid bias.

The ultimate purpose of sampling was to select a set of elements from a population in such a way that descriptions of those elements accurately portrayed the parameters of the total population from which the elements were selected (Babbie & Mouton, 2003). A census method of sampling was employed in this research, which is an investigation of all the individual elements that make up the population, a total enumeration rather than a sample, (Zikmund, 2003). This method was chosen because the researcher had very limited control over who will respond to the research questions.

For shareholder representatives, a judgemental sampling method was employed, where the individuals were selected based on the judgment about some appropriate characteristics required of the sample members (Zikmund, 2003). These characteristics were that they should be representatives of the majority shareholding companies. This purely meant that shareholder representatives of minority companies had to be disregarded.

#### **4.8. Sample Size**

Bouma (2000) states that it is known that the larger the sample size, the more accurate the research, as increasing the sample size decreases the width of the confidence intervals as a given confidence level.

As shown on table 1, thirty-nine individuals were selected for the research without any gender and demographics preferences to avoid bias. It was further anticipated, as in the nature of a census that not all respondents would respond. In this regard, the researcher accepted a minimum of fifty percent response from each company.

#### **4.9. Research Instrument**

In line with two-target population groups identified, one set of self-administered questionnaire was produced to collect the required data for the study. The set questionnaire was meant to gather different angles of opinions from two population groups. This was made to ease data analysis where respondents would tick which target population they represented.

#### **4.10. Questionnaire Design**

The questionnaire was developed from the non-empirical research developed to assist in extracting the required data regarding the respondent's views on CG theories. A copy of the questionnaire appears in **Appendix 2**. The questions laid out were extracted from the reviewed literature in Chapter Two.



#### 4.11. Pre-test of Questionnaire

No matter how carefully one designs a data collection instrument such as a questionnaire, there is always the possibility, indeed the certainty, of error, (Denzin & Lincon, 2000). It was for this reason that a pre-test of the questionnaire was employed, so as to protect the research from bias and ambiguity. The pre-test was done through a few of the researcher's colleagues and individuals at the same level as the respondents.

A pre-test of this questionnaire was conducted specifically to review both the flow of questions and the simple manner in which the questions were developed.

The following individuals were selected to form part of the pre-test:

- Five senior managers who were known to the researcher and were at the same level as the prospective respondents. The questionnaire was sent to these senior managers of which only two responded. Further to the fact they were at the same level, they, similar to the profile of prospective respondents, were operating in the mining environment.
- Three MBA students in another institution who were busy with their research. They were chosen on the basis that they were familiar with research methodology as they were currently doing their research. It was anticipated that they would use their up to date knowledge to influence the questions.

The respondents were strictly asked not to answer the questions as such, rather to assess the flow of questions and the logic applied in developing the

questions. The pre-test of the questionnaire focused on the following key areas:

- Their views on the appearance of the questionnaire.
- The bias nature of the questions.
- Whether instructions were clear and easy to follow.
- Whether the questions were easy to understand (to avoid ambiguity).

Based on the respondents' inputs to the pre-test, adjustments were subsequently made to the questionnaire.

#### **4.12. Questionnaire Fine-tuning**

The original questionnaire was refined based on the recommendations by the pre-test sample.

The following were suggestions by the pre-test respondents:

- The questions were seen to be out of flow and a funnel approach was suggested by some of the respondents. This was a technique in which a researcher is advised to ask general questions before specific ones to obtain the free-open-ended responses. This was supported by Zikmund (2003, p. 345).
- The terminology was adjusted for people who are not accustomed to academic terms.
- A few questions that were deemed repetitive were deleted.

#### **4.13. Data Collection**

Tools to collect data can include surveys, interviews, documentation review, observation, and even the collection of physical artefacts (Zikmund, 2003).

The researcher collected data by sending out a self-administered questionnaire electronically to the prospective respondents. Self-administered questionnaires were only appropriate when the population under study was deemed adequately literate, which was the case in this research (Punch 1998).

Quite often, one would want to ask several questions that have the same set of answer categories. This is typically the case whenever the Likert response categories are used (Babbie & Mouton, 2003). In this research a questionnaire in the form of a Likert scale was considered a relevant method of collecting data. The options in the questionnaire were developed such that there is no neutral option given to respondents. This was utilized to avoid any response bias that would be a challenge to analyse.

Due to the access and time constraints, respondents would probably find it faster to complete a set of questions presented in this fashion. The format was hoped to increase the comparability of responses given different questions for the researcher to analyse.

The respondents' electronic mail addresses were obtained from the company websites. Once the questions were sent electronically, a follow up telephone call was made to ensure the respondent has received the mail and that the questionnaire was comprehensible.

Questionnaires were sent out to respondents electronically accompanied by an introduction letter, See **Appendix 1**. The introduction letter was meant to give a brief overview of the research, highlighting a reason for the research and assure the respondents of their confidentiality.

#### **4.14. Data Analysis**

To conduct a quantitative data analysis when other research methods are employed, a researcher often must engage in a coding process after the data has been collected (Babbie & Mouton, 2003). This, they say, will reduce wide idiosyncratic items of information to a more limited set of attributes composing a variable.

The coded data collected from questionnaires was transferred to SPSS (Statistical Package for Social Sciences), an electronic tool used for statistical analysis, data management (case selection, file reshaping, creating derived data) and data documentation (Render *et al*, 2003).

This was done with an assistance of a statistician, wherein the researcher defined the code categories and showed the statistician how to assign given respondents to proper categories. To ensure that the statistician understood what was required, it was vital for the researcher to explain the meaning of codes and give several examples of each (Babbie & Mouton, 2003).

Patterns for the three major theories of CG, namely agency theory, stewardship theory and stakeholder theory as detailed earlier were established from the results.

Rather than allowing one theory “to win” (Stoecker, 1991, p. 101), a focus was on noting the extent to which each theoretical perspective represented the empirical process. Below are different tests that were run in analysing the findings from data collected.

#### 4.14.1. Descriptive Statistics

The first step in the data analysis process was the use of descriptive statistics, in order to summarise the large quantities of raw data collected, so that the raw data could be transformed into a form that was easy to understand and interpret. Zikmund (2003) states that rearranging, ordering, or manipulating data through the use of averages, frequency distributions and percentage distributions are common ways of summarising data.

Descriptive research was designed to describe characteristics of a population or phenomenon and was based on some previous understanding of the nature of the research problem, on the reviewed literature. The following are tests that were run in order to find summaries, common trends or differences between respondents’ perceptions.

#### 4.14.2. ANOVA Tests

An ANOVA test assesses differences between two groups, and in this case we are testing the difference in perceptions between participants from Anglo Platinum and Impala Platinum (Salkind, 2008).

#### 4.14.3. Descriptive Frequency Tests

Descriptive frequency tables demonstrate respondents’ perceptions from both

companies combined. This analysis method assists the researcher to ascertain a general feeling of the research responses from all parties in both companies.

#### 4.14.4. Central Tendency Statistics

Using the measures of central tendency like the mean, median and mode; the research results are summarised to find the centre or middle of a distribution.

#### 4.14.5. Comparison Dispersion Statistics

This method compares the results between two companies under review.

Among the tests that were run during data analysis were, T-test, Chi- Square tests and Correlations test. The results from these tests are not presented, as they did not bring substantial difference from tests presented in Chapter 5.

### 4.15. Limitations

The limitations of this research study were as follows:

- The research study only covers two firms out of the six listed platinum mining firms in South Africa. This limits the findings being generalised to other companies similar to them.
- The study disregarded other individuals that form part of the stakeholder group, which are mentioned in detailed throughout the CG literature. These are the society, the customers and government.

- Only majority shareholders were selected for this research, perceptions from minority shareholders have not been tested. Therefore the researcher cannot confidently infer the results for all shareholders.

The research aimed at capturing the views of all shareholders/representatives and board members of these companies; however most of the board members did not agree to partake in the research. Therefore it is important to note that the results of this research study must be viewed with prudence and further research is recommended before generally employing any of its findings.

## CHAPTER 5. RESEARCH RESULTS

### 5.1. Introduction

This chapter describes data gathered during the empirical work facilitated by questionnaires as described in Chapter 4 covering the research methodology. The research employed both quantitative in the form of self-administered questionnaire and briefly, qualitative methods in the form of face-to face interviews, to assess the CG theories.

The study was aimed at testing CG theories from the point of view of two companies. A comparison of findings between the two companies and a brief comparison amongst respondents within each company is shown below.

It is essential to note that these results are only perceptions of respondents who participated in the research, and that the original sample shrunk into half due to other anticipated respondents' reluctance to part-take.

The participating sample consisted of 18 individuals, where 9 respondents were from Impala Plats and the other 9 from Anglo Platinum.

The results will be presented through only brief explanation in this chapter, with an in depth discussion provided in chapter seven. Only the relevant and most exceptional results will be presented and discussed later.



## 5.2. Quantitative Results

To facilitate the interpretation of the data, each of the following tables represents an overview of the expected data patterns for each theory, a summary of the observed pattern for each case and a generalised conclusion on the CG theory that was observed.

The questionnaire contains 11 “choice selection” questions, where respondents are given several options from which to choose. Most of the quantitative tables are laid out in the Appendices and reference is made to them.

### 5.2.1. Test-1: Descriptive Frequency Test

Descriptive frequency tables, which are listed in the Annexure, demonstrate respondents’ perceptions from both companies combined.

**Table 1.1** reveals dispersion of participated respondents in this research, they are 50.0 % from Impala, 50.0 % from Anglo platinum, and this indicates equal participation of respondents.

#### **Question 1.** What is the purpose of the organisation?

The question requested respondents to rank options given in the order of their priority. Out of five options (see Appendix 2), the results revealed the first option (to maximise shareholder value by means of profits), ranked the top by most respondents.

Out of 18 respondents, 17 (94%) felt that “maximising shareholder value by means of profits” was the most important. The rest of the options on the question did not make a considerable difference; hence they will not be presented, **Table 1.2.**

**Question 2.** What aspects of business performance are most important to investors/shareholders?

In this question, respondents were requested to rank the options given according to their importance (See options in the research questionnaire). 100% of respondents felt that maximising shareholder value by means of profits was the first priority.

Q, 2.1 To maximise shareholder value by means of profits	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1 st level Important	18	100.0	100.0	100.0

**Question 3.** What are senior managers' priorities?

In this question, respondents were asked to rank options in the questionnaire according to their importance.

**Table 1.3** (Appendix) shows that with one missing response, 89% of respondents felt that maximising shareholder value by means of profits was most important.

**Question 4.** How would you describe the relationship between shareholders and senior management?

In this question, respondents were asked to mark one of the listed options describing the relationship between senior management and shareholders.

The results in **Table 1.4** illustrate that most respondents felt that the

relationship is good.

**Question 5.** Are investors involved in approving or questioning investment decisions made by senior managers?

Respondents were asked to mark one of options stating the involvement of the investors in decisions made. 66% felt that the investors are indeed involved in the decision-making, See **Table 1.5**.

**Question 6.** How often do investors reject investment decisions or proposals made by senior managers?

The question seeks to understand the opinions from respondents on how often the decisions are declined by investors. **Table 1.6** reflects that 71% of respondents felt that it is seldom that investors reject investment decisions made by senior managers.

**Question 7.** How many companies are involved in auditing your company financial records?

In this question, respondents were requested to select one of three given options. 44% of respondents felt that there are two companies involved in the auditing of the companies' financial records, **Table 1.7**.

**Question 8.** Suggestions to alleviate agency problems.

The question listed five options suggested by academics to lessen agency problems. Respondents were requested to mark the options they favour and not favour most. Some of the respondents only selected one they favoured most and left the rest unmarked. Most of the respondents preferred giving principals the rights to closely monitor senior manager performance, **Table 1.8**.

**Question 9.** What kind of compensation do senior managers favour?

Please number according to priorities. With 1 being the most preferred.

This question seeks to understand what senior managers preferred as compensation, within the three suggested options. 61% of respondents preferred equity based features in pay packages as a means of compensation. Although 94% felt that “equity based bonuses were a second choice, the split is leaning towards “equity based features” **Table 1.9**.

**Question 10.** How is senior management performance measured?

This question searches for senior management measurement options. Three options were given based on the literature reviewed. 89% of respondents believed that a “combination of profits made with satisfaction of stakeholders” is how senior managers are measured, **Table 1.10**.

**Question 11.** Beliefs on CG theories in general.

This question extracted academic beliefs or statement on CG in general. These questions are directly in line with CG theories under review. Respondents were requested to select statements and reflect their agreement or disagreement with all the statements.

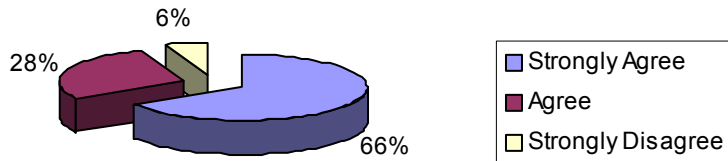
**66%** strongly agree, “A firm should be run for in the interest of all stakeholders rather than just the shareholders”.

**40%** disagree with “Managerial actions departing from those required to maximise shareholder returns”.

An equal split, leaning toward agreement (strongly agree and agree), is observed for the statement “Overemphasis on monitoring is unnecessary for senior management to impact on corporate performance”.

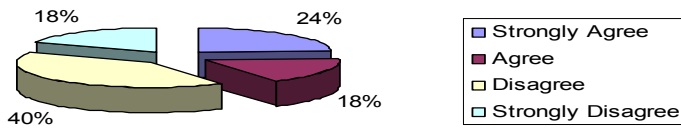
**Statement 1.**

**A firm should be run in the interest of all stakeholders rather than just for the shareholders**



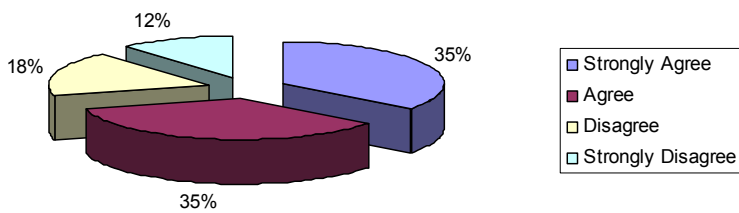
**Statement 2.**

**Managerial actions depart from those required to maximise shareholder returns**



**Statement 3.**

**An overemphasis on monitoring is unnecessary for senior management to impact on corporate performance**



5.2.2. Test-2: Comparison Dispersion Statistics- (Different Companies)

This sub-section reveals different perceptions of respondents from the two companies. The results are presented as a comparison between two companies and within companies. This comparison seeks to augment the results that have been observed using the descriptive method. Only exceptional results will be shown in this section.

**Question 1.** The purpose of your organization.

The above table results reveal comparison dispersion results of respondents' perceptions as per different company (Impala & Anglo) group wise; tabled results clearly exhibit dispersion of different group's respondents. The rest of the other options have not shown any higher percentages.

**Question 2.** What aspects of the business performance are most important to investors / shareholders? Please rank them according to priority, with 1 being most important.

Q 2.1: To maximise shareholder value by means of profits	D1 : Company name		Total
	Impala	Anglo	
1 st level Important	50.0%	50.0%	100.0%
Total	50.0%	50.0%	100.0%

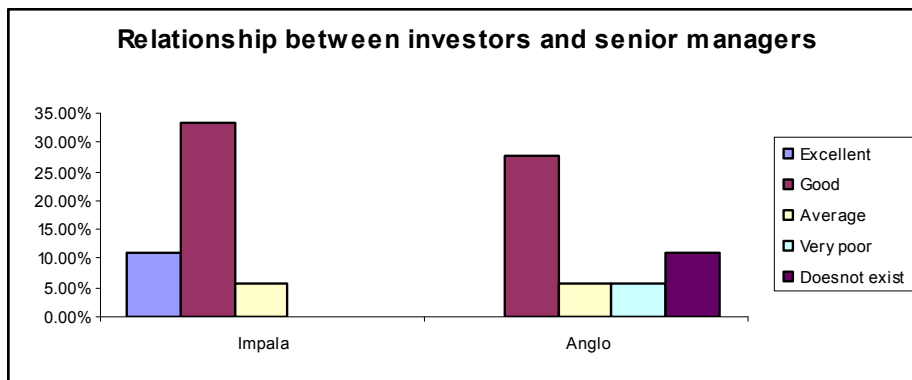
Similar to the above analysis, most of the respondents from both companies selected the first option as being the most important.

**Question 3.** What are senior managers' priorities? Please rank according to priority, with 1 being most important.

Q 3.1: To maximise shareholder value by means of profits	Company name		Total
	Impala	Anglo	
1 st level Important	41.2%	52.9%	94.1%
2 nd level important	5.9%		5.9%
Total	47.1%	52.9%	100.0%

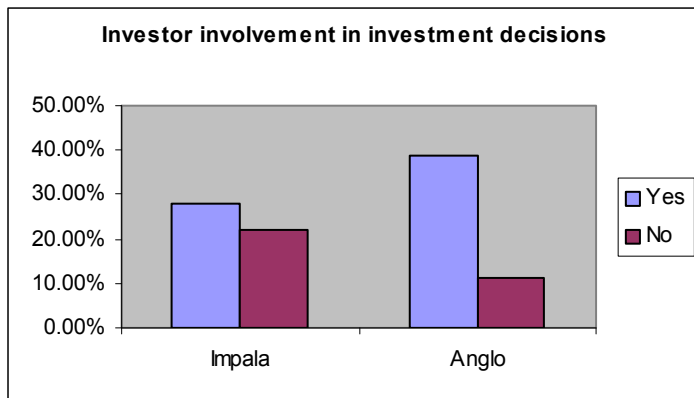
Most respondents from both companies felt that maximising shareholder value by means of profits were senior managers' priorities.

**Question 4.** The relationship between shareholders and senior management.



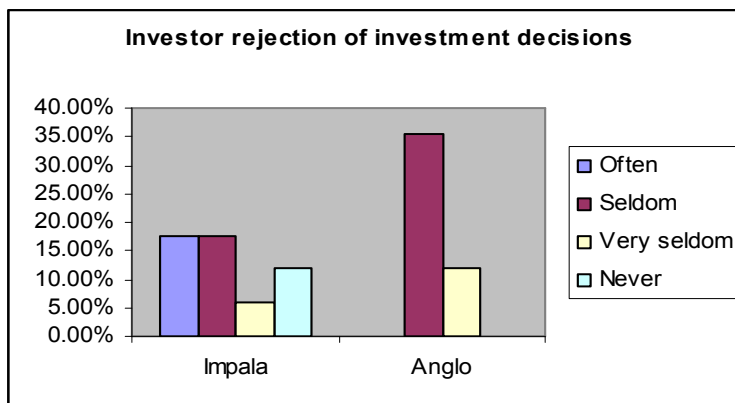
The results reveal that 35% of respondents from Impala felt that the relationship between investors and management does not exist; Anglo Platinum respondents felt the same.

**Question 5.** Involvement of investors in investment decisions.



In both companies, it is felt that the investors are involved in approving or questioning investment decisions made by senior managers. However, there is an almost equal mix from Impala respondents.

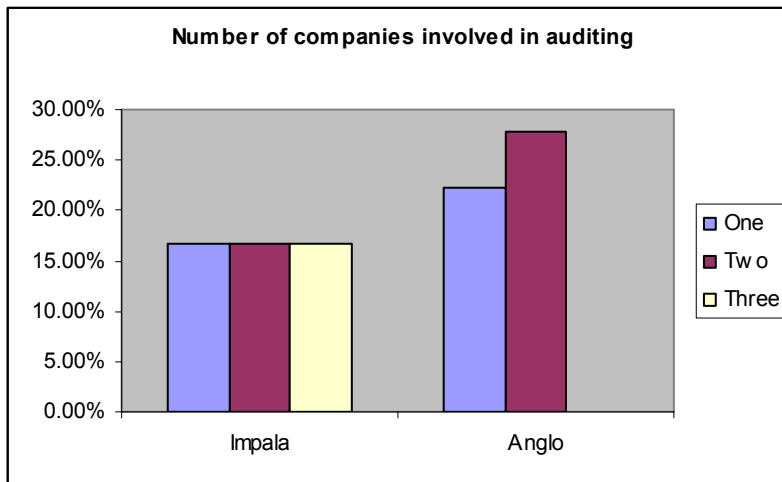
**Question 6.** How often do investors reject investment decisions or proposals made by senior management?



At Anglo Platinum, there is a feeling that investors seldom reject investment decisions made by senior managers. Once again, Impala has mixed feeling responses.

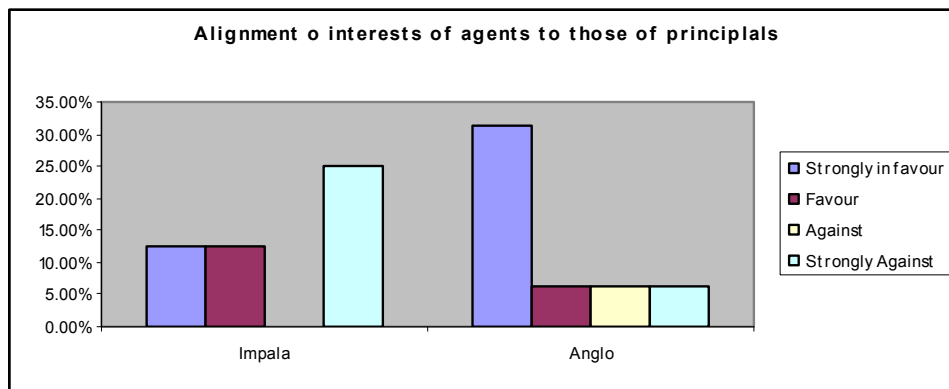
**Question 7.** How many companies are involved in auditing your company financial records?





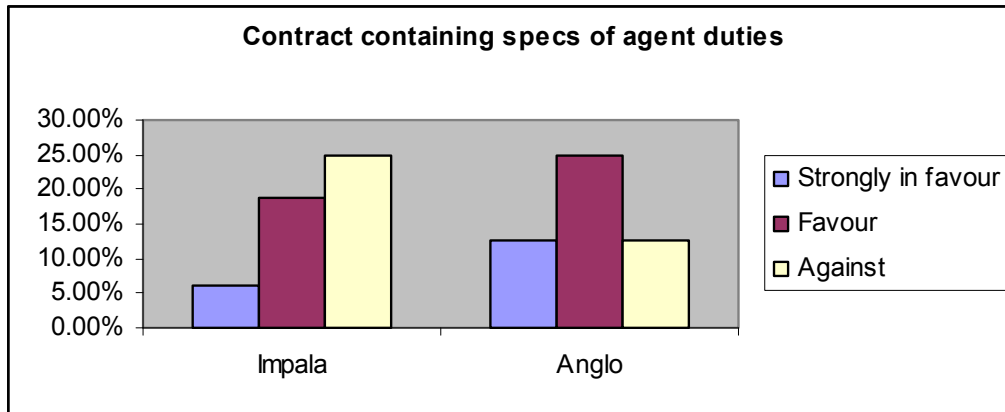
A huge difference in responses between companies is observed in this question.

**Question 8.** This question listed a few suggestions to alleviate agency problems. Respondents were requested to circle one number for each action to show whether they are in favour of or against the statements.



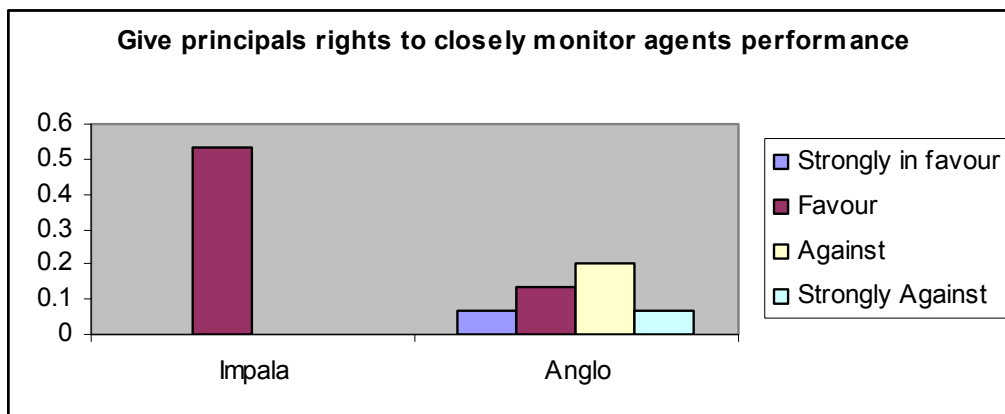
Anglo platinum respondents are in strong favour of the statement listed whereas most of the Impala platinum respondents are in strong opposition.

**Q 8.2: A complete contract containing specifications of the agent duties.**



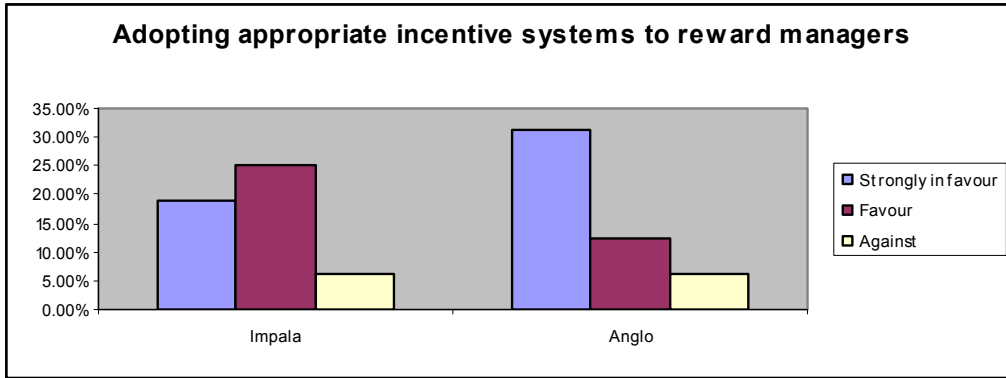
There is a difference observed between the two companies, whereby Impala respondents are against the statement, while Anglo respondents are very much in favour of it.

**Q. 8.3: Give principals the rights to closely monitor their performance are required.**



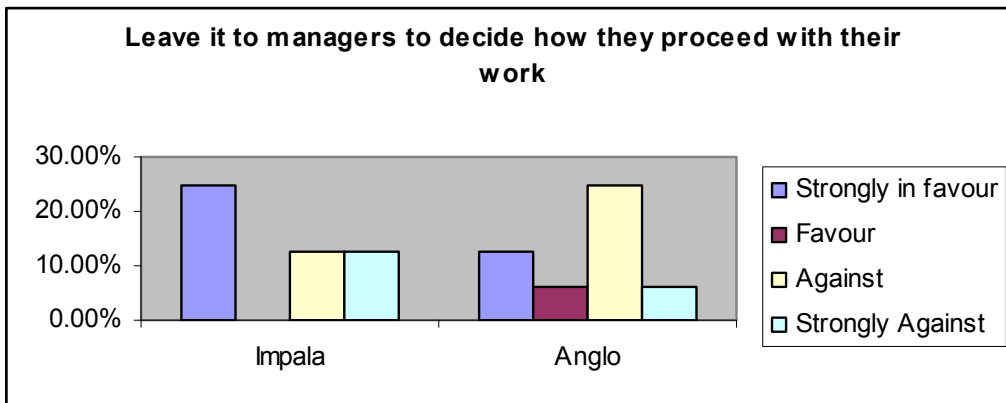
50% of respondents from Impala felt that “principals need to be given the right to closely monitor agents’ performance”, whereas respondents from Anglo mostly feel against the suggestion.

**q8.4: Adopting appropriate incentive systems to reward managers is a key solution to the agency problem.**



A mix of responses from Impala compared to responses from Anglo where they felt that they are strongly in favour of the statement.

**q8.5: Leave it to senior managers to decide how they proceed with their work**



Impala respondents were strongly in favour of the statement compared to Anglo respondents who are against the statement.

**Question 9.** Senior management compensation.

Q 9.1: Equity based features in pay packages	Company name		Total
	Impala	Anglo	
1 st level Important	35.3%	29.4%	64.7%
2 nd level important	11.8%	23.5%	35.3%
Total	47.1%	52.9%	100.0%

Equity based features have been seen as the most important by respondents from both companies compared to other forms of compensation.

**Question 10.** How is senior management performance measured?

Q.10 Senior management performance measurement	Company name		Total
	Impala	Anglo	
How is senior management performance measured On profits made only	5.6%	5.6%	11.1%
On a combination of the above	44.4%	44.4%	88.9%
Total	50.0%	50.0%	100.0%

According to these results, senior management performance is mostly measured on combination of profits made and satisfaction of all stakeholders.

**Question 11.** Statements from CG theories,

Q 11.1: Managerial actions depart from those required to maximise shareholder returns.	Company name		Total
	Impala	Anglo	
Strongly Agree	11.8%	11.8%	23.5%
Agree	5.9%	11.8%	17.6%
Disagree	17.6%	23.5%	41.2%
Strongly Disagree	11.8%	5.9%	17.6%
Total	47.1%	52.9%	100.0%

The results reveal that 41% of respondents disagree with the statement. However, there is an almost equal divide between “strongly disagree” and agree, which is seen as contradictory.

Q 11.2: A firm should be run in the interest of all its stakeholders rather than just the shareholders.	Company name		
	Impala	Anglo	Total
Strongly Agree	38.9%	27.8%	66.7%
Agree	5.6%	22.2%	27.8%
Strongly Disagree	5.6%		5.6%
Total	50.0%	50.0%	100.0%

67% of the respondents strongly agree that a firm should be run in the interest of all its stakeholders rather than just the shareholders.

Q 11.3: An overemphasis on monitoring is unnecessary for senior management to impact on corporate performance	Company name		
	Impala	Anglo	Total
Strongly Agree	23.5%	11.8%	35.3%
Agree	17.6%	17.6%	35.3%
Disagree	5.9%	11.8%	17.6%

	Strongly Disagree		11.8%	11.8%
Total		47.1%	52.9%	100.0%

For this statement, respondents have revealed widely varying opinions. We see a wide spread of distribution on views, where there is a highest equal split between agree and strongly agree.

### 5.2.3. Test-3: Central Tendency Statistics

Central tendency statistics is used to inspect the data to find the centre or middle area of the frequency distribution (Render *et al* 2003).

This analysis will focus much on research questions 8, 11, 4 and 6 as their outcome will have a major impact in the discussion to follow.

Interpretation:

**Table 3.1** reveals central tendency stats results of research statements q8.1 to q8.5

The measurement scale code interpreted as:

**1** = Strongly in Favour, **2** = Favour, **3** = Against, **4** = Strongly against

#### 1) Mean

- The research statements q8.1, q8.2, q8.3, q8.4, q8.5 have mean value is 2.00, this reveal the respondents participated in this project have articulated average perception is **favour** towards the above mentioned study statements.

## 2) Median

- The research statements q8.1, q8.2, q8.3, q8.4 have median value 2.00, this indicates **favour** is the median perception of respondents.
- The research statement q8.5 has median value 3.00, this indicates **against** is the median perception of respondent.

## 3) Mode

- The research statements q8.1, q8.4, q8.5 have mode value 1.00, this indicates **strongly in favour** is mode perception of respondents.
- The research statement q8.2, q8.3 has mode value 2.00; this indicates **favour** is mode perception of respondents.

## 4. The Standard Deviation

- The research statements q8.1, q8.2, q8.3, q8.4, q8.5 have standard deviation from 0.704 to 1.342, it reveals these variables have difference in respondent's perception.

## 5. Variance

- The research statements q8.1, q8.2, q8.3, q8.4, q8.5 have variance from 0.495 to 1.8000, it reveals these variables have variation in respondent's perception.

## 6. Range

- The research statements q8.1, q8.2, q8.3, q8.4, q8.5 have range values 2, 3 and it indicates these variables have difference in



respondent's perceptions and respondents have expressed all types of opinions towards study questions.

## 7. Minimum

- The research statements q8.1, q8.2, q8.3, q8.4, q8.5 have minimum value 1 and it indicates respondents have articulated minimum perception is strongly in favour.

## 8. Maximum

- The research statements q8.2, q8.4 has maximum value 3 and it indicates respondents have articulated maximum perception is against
- The research statements q8.1, q8.3, q8.5 has maximum value 4 and it indicates respondents have articulated maximum perception is strongly against.

**Table 3.2** reveals central tendency stats results of research statements q11.1 to q11.3

The measurement scale code interpreted as:

**1** = strongly disagree, **2** = Disagree, **3** = Agree, **4** = strongly agree

### 1) Mean

- The research statements on q11.1, q11.2, q11.3, have mean values different from each other, this reveals the respondents participated in this project have articulated all sorts of perceptions towards the study statements.

## **2) Median**

- The research statements on q11.1, q11.2, q11.3, have median values different from each other, this reveals the respondents participated in this project have articulated all sorts of perceptions towards the study statements. This indicates a non-common agreement between the respondents.

## **3) Mode**

- Similar to the observation from the mean and median, the research statements q11.1, q11.2, q11.3 have mode no common mode, which means that respondents have different perceptions about the statements on the questions.

## **4. The Standard Deviation**

- The research statements q11.1, q11.2, q11.3 have standard deviation from 0.784 to 1.068; it reveals these variables have difference in respondent's perception.

## **5. Variance**

- The research statements q11.1, q11.2, q11.3 have variance from 0.614 to 1.14; it reveals these variables have variation in respondent's perception.

## **6. Range**

- The research statements q11.1, q11.2, q11.3 have a range value of 3, and it indicates these variables have similar respondent's perceptions and respondents have expressed an **agreement** towards study questions.

## 7. Minimum

- The research statements q11.1, q11.2, q11.3 have minimum value 1 and it indicates respondents have articulated minimum perception is strongly disagree.

## 8. Maximum

- The research statements q11.1, q11.2, q11.3 has maximum value 4 and it indicates respondents have articulated maximum perception is strongly against.

### 5.2.4. Test-4: ANOVA tests

Interpretation Rules:

1. If **p** value is less than or equal  **$p \leq 0.05$** , statistically there is a significant difference between groups' opinions.
2. If **p** value is greater than  **$p > 0.05$** , statistically there is **NO** significant difference between groups' opinions.

Interpretation for research question 8.

**ANOVA**

		Sum of Squares	df	Mean Square	Sig.
q8.1	Between Groups	3.000	2	1.500	.465
	Within Groups	24.000	13	1.846	
	Total	27.000	15		
q8.2	Between Groups	.549	2	.274	.646
	Within Groups	7.889	13	.607	
	Total	8.438	15		
q8.3	Between Groups	4.267	2	2.133	.003
	Within Groups	2.667	12	.222	
	Total	6.933	14		
q8.4	Between Groups	3.000	2	1.500	.041
	Within Groups	4.750	13	.365	
	Total	7.750	15		
q8.5	Between Groups	11.083	2	5.542	.010
	Within Groups	10.667	13	.821	
	Total	21.750	15		

Interpretation:

- The ANOVA test results reveal there is **no statistically significance difference** in perceptions of different status groups' respondents towards the research statements q8.1, q8.2 because these statements **p** significance values are 0.465, 0.646 and above **0.05** (This means different status groups respondents have almost similar perceptions towards these statements and there is no huge difference in different groups respondent's opinions towards these study statements)
- The ANOVA test results reveal there is **statistically significant difference** in perceptions of different status groups respondents towards the research statements q8.3, q8.4, q8.5 because these statements **p** significance values are 0.003, 0.041, 0.010 and below **0.05** (This means different status groups respondents have significantly

different perceptions towards these statements and there is huge difference in different groups respondent's opinions towards these study statements)

Interpretation for research question 11.

**ANOVA**

		Sum of Squares	df	Mean Square	Sig.
q11.1	Between Groups	1.180	2	.590	.626
	Within Groups	17.056	14	1.218	
	Total	18.235	16		
q11.2	Between Groups	.194	2	.097	.869
	Within Groups	10.250	15	.683	
	Total	10.444	17		
q11.3	Between Groups	4.552	2	2.276	.112
	Within Groups	12.389	14	.885	
	Total	16.941	16		

Interpretation:

- The ANOVA test results reveal there is **no statistically significant difference** in perceptions of different status groups' respondents towards the research statements q11.1, q11.2 and q11.3 because these statements' **p** significance values are 0.626, 0.869 and 0.112, which is above **0.05**. (This means different status groups respondents have almost similar perceptions towards these statements and there is no huge difference in different groups respondent's opinions towards these study statements)

### **5.3. Conclusion**

The aim of this chapter was to present the research findings with minimal analyses. The following chapter will discuss the observed findings in detail so as to develop inferences in comparison to reviewed literature.

## **CHAPTER 6. DISCUSSION OF RESULTS**

### **6.1. Introduction**

The focus of this chapter is to evaluate the empirical findings of the study in relation to the reviewed literature.

This study has examined three main CG Theories extensively in an attempt to ascertain which one prevails within the two platinum mining firms in South Africa. Pragmatic results are based on primary data collected from respondents, such that the findings can be positively inferred.

The size and quality of the sample allows the researcher to provide a more powerful test of these theories within identified stakeholders in these companies.

### **6.2. Discussion**

#### **6.2.1. Agency Theory Patterns**

Armstrong and Murlis (2001) believed that managerial compensation, particularly at the top (for senior managers), is usually tied to financial performance in general and sometimes to share value in particular.

Question 9 in the research questionnaire addressed this belief and the outcome proved that senior management certainly prefer or favour pay packages with Equity based features (like share options in the business at a discounted price). This is believed by respondents to be encouraging as they work in the company where they have ownership.

For example, managers are frequently given the option to buy shares at a bargain price. The more the shares are worth, the more valuable is this option. In fact, options are increasingly being used to motivate employees at all

levels, not just senior management. In this regard a concurrence between literature and empirical findings is observed.

Both studies (qualitative and quantitative) indicate a similar incidence of Agency theory. We observe that almost all respondents from both companies have the same feeling regarding the first three questions, which is that the priorities of the firm, senior managers and business performance priorities are to “maximise shareholder returns by means of profits”. This is in line with what Agency scholars attest to.

We have observed differences in opinions between two companies where the relationship between shareholders and senior managers has been viewed differently. Generally, there is no relationship between the two stakeholders, which, once again translates to Agency theory. It is interesting to note that respondents from qualitative feedback expressed the feeling that there is no need for relationship because shareholders’ interests are not to develop relationships. In actual fact, it has been highlighted that shareholders do not even know who the senior managers in these companies are.

There’s a strong feeling that senior managers also do not need relationships with shareholders because they come and go.

As far as Firer (2004) is concerned, he states that there is a possibility of a conflict of interest between the principal and the agent, which he refers to as an agency problem. This assertion is in support of agency relationship, which means that there is a problem of trust by shareholders. A higher percentage of respondents believed that there is no agency problem in their companies, as they have not experienced any issues concerning mistrust.



The involvement of investors in the approval of investment decisions made by senior management has been observed with similarities, which are that investors are indeed involved. This observation reveals Agency theory attributes brought up by Fee & Hadlock (2004). Respondents further supposed that it is the shareholders' prerogative to be involved in decisions made concerning their investments. This has not been perceived negatively as Agency theory suggests it to be an unfriendly act.

We have seen mixed opinions on the “number of companies involved in the auditing of these companies”, where Impala has an equal distribution of opinions whereas Anglo pointed out that two (more than one) companies are involved. Once more, this shows characteristics of Agency theory.

Fee & Hadlock (2004) indicate that in Agency theory, more than one company is involved in auditing financial records because there is lack of trust by shareholders. The respondents felt that this does not translate to Agency theory; it is meant to protect parties, remove sincere errors occurring during auditing, and bring openness in the process. They further mentioned that as a matter of reality, most companies involve more than one firm to audit their finances and felt strongly that it does not qualify Agency costs.

Figure.1 (in Chapter 2) illustrates a disconnection between shareholders and a senior manager (s), which is what Letza *et al* (2004) is concerned about. Feedback from data collected indicates that the situation is normal, and does not need to be fuelled unnecessarily. If Letza *et al* (2004) suggest that there needs to be such an interaction, it may alienate the board and minimise their tasks of directing senior managers.

The empirical data illustrates that respondents strongly disagree with the statement that “managerial actions depart from those required to maximise shareholder returns” (Davis and Donaldson, 1991). Whereas under Agency theory it would be expected that this is the case (Pratt & Zeckhauser, 1985). This is shown by responses to question 11 of the research questions. This

finding is in contradiction with what Agency theory supposes. To sustain this argument, it is believed that managerial interests can never depart from those of shareholders because managers are trustworthy and they definitely consider themselves as agents.

An exceptional view of agency theory states that there is an agency problem in the company and therefore senior managers cannot be trusted; however, this has not been verified in the research findings. Respondents largely felt that they are against this belief. There is no ample evidence to suggest that senior managers cannot be trusted with shareholder funds.

### 6.2.2. Patterns of Stakeholder Theory

With regard to Stakeholder theory, clear evidence in support of literature was found, as suggested by Vinten (2001) where he implies that a firm should be run in the interest of all its stakeholders, rather than just shareholders.

Respondents are in absolute agreement with this statement in question 11.2, with the feeling that shareholders and stakeholders all have a specific interest in the company; hence the company must be governed in the interest of all stakeholders.

It can be inferred that managers are prepared to listen and collaborate because they do not feel threatened by shareholder interest.

There is clear agreement from theory and pragmatic evidence that senior managers deserve trust from shareholders and they need to be left alone to manage the business without being supervised closely. This is demonstrated in answering question 8 of the research questions, although there is a slight difference in opinions between the companies under research.

Another common factor observed between the empirical evidence and theory is the belief that managers of a firm are one of its most important and powerful

constituencies of the company. Watson (2003) shared the same view in the literature, as did the respondents.

A key concern with stakeholder theory is that it fails to account for those instances where managers do not act as good stewards, as demonstrated in the results from the field. Academics suggest that the firm should be run in the interest of the shareholders primarily, and respondents felt as such, which, in this view sees managers as not acting as good stewards to employees and other stakeholders.

### 6.2.3. Patterns of Stewardship Theory

According to data collected from the survey, respondents felt that an overemphasis on monitoring is unnecessary for senior managers, to impact on corporate performance. This was supported by the argument that there are no resources available from the company to closely monitor senior management performance except the board. Moreover, if this happens, it will confirm the use of agency costs.

This is in agreement with Donaldson & Davis (1994), where they state that managers are naturally trustworthy and are unlikely to disadvantage shareholders for fear of jeopardising their reputations.

## 6.3. Qualitative Findings

The two respondents who participated in the face-to-face interviews, in which the same questionnaire was used in the quantitative method. The following is the discussion on their perceptions towards questions asked.

They felt that the purpose of the business is indeed to maximise shareholder value by means of profits because all other stakeholders will benefit subsequent to satisfying the shareholders.

They also presented that the priorities of the shareholders is to maximise their profits, all other aspects of the business is out of their interest and control.

According to the respondents, senior managers have to align themselves with the interest of shareholders, as they are the funders of the business. All else follows thereafter.

In terms of the relationship between senior managers and investors, they felt that the relationship does not exist, and in fact there is no need for it. They admit that senior managers and the members of the board have to be committed to maximise shareholder value. The relationship is only about satisfying shareholders.

Asked if investors are involved in the approval of senior management investment decisions, they felt that investors are not involved unless a particular investment draws environmental, political and legal threats towards the company. They made an illustration of expanding the mine in Zimbabwe, in the current economic and political state.

Concerning the rejection of the investment decisions, they believed that senior management have to carry out proper investigations and calculation of risks before approaching the board with the proposal. In this case they felt that decisions would never be rejected, as there are several levels of approval before reaching board.

According to the respondent, there are two (more than one) companies involved in auditing the company financial records. This, they said, is a legal

requirement to protect the company and the shareholders. This does not mean that shareholders do not trust senior managers.

The question listed suggestions from academics to test, which statements respondents believed to be correct in lessening agency problems. The respondents were required to circle one response for each statement to show whether they were in favour or against.

The respondent felt that in an ordinary business environment, the interests of agents should be aligned with those of principals. This is done to create a common understanding and avoid stakeholders having different interests. These interests might harm the business, thereby causing shareholders to pull out of businesses. Therefore, they strongly agreed that the alignment of interests should be emphasised.

The respondents strongly disagreed with developing a complete contract containing specifications of agent duties on the basis that, agents always have a contract specifying their duties and there is no need to overemphasise specifications on the contract.

The respondents felt that principals do not have time and resources to closely monitor performance as they have other interests in a number of companies. They felt that it would be futile and costly for principals to spend time monitoring people whom they have given clear mandates in terms of protecting their investments. This, they felt, if done could cause animosity within stakeholders. It is all a matter of principals trusting agents and agents behaving responsibly.

They strongly agreed to employ incentives to senior managers appropriately, and strongly believe that senior managers must be left alone to do their work.

Equity based features in pay packages was the first priority according to them.

They felt that if individuals are given a stake in the company they work hard and treat the company as their own. It is also difficult to be dishonest to the company as the owner of the business.

### **Summary**

While some patterns predicted by the three theories did emerge, of greater significance were patterns of Agency theory. In the case of this research, for example, the findings have successfully identified positive existence of Agency theory. Respondents fundamentally felt that Agency theory exists as part of the nature of the business. Although Agency theory has substantially surfaced, so too are some few aspects other theories.

## CHAPTER 7. CONCLUSION

Although this study has advanced our understanding of CG theories, several shortfalls in the approach have been recognised.

First, while literature suggested that these theories are not universally different, results themselves provide that these are actually interpreted differently.

Clearly, for these results to be generalisable, a further quantitative test of the processes in these theories would be helpful.

Second, there is an extensive literature prepared on agency compared to other theories, which made it rather complex to equally compare all three at the same level.

A third area of concern involves the timing of the research itself. These companies were undergoing restructuring, which the researcher did not know about in time. This made data collection substantially more difficult because several potential respondents were reluctant to participate.

Lastly, there has been a strong belief that organisation theories, strategies and business policy have been strongly influenced by agency theory, which depicts that senior managers in the large modern corporation are agents whose interests may diverge from those of their principals. This statement has been a cornerstone in the entire research because if policy makers are strongly influenced by agency theory, there might be a need to understand the

results of this research in order to have a different view during policy formulation.

### **7.1. Recommendations for Future Research**

This study has the potential to challenge advice on the practice of good governance, particularly in relation to what academicians have written about. Largely, academic literature contributes enormously in shaping business and therefore, there needs to be an evolution in such literature.

The research revealed that some of the platinum mining companies have a considerable involvement of communities, as key stakeholders. These companies are managed substantially different from other corporate companies, like the ones under this particular research.

Companies like Royal Bafokeng, have a significant participation by the king of the Bafokeng community. Therefore these results may not necessarily be applicable to such companies.

It is suggested that this research be either replicated on such companies, or a different data collection method like similar to in depth interviews be employed to get further views from respondents.

Finally, care needs to be taken to distinguish between corruption and bad policy or unethical business practices, within a company.



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## APPENDICES

### Appendix 1: Introduction Letter to respondents



Dear respondent,

RE: LETTER OF INTRODUCTION – MRS H. MCUBE

I am a final year student of Master of Business Administration (MBA) at The University of Pretoria's Gordon Institute of Business Science (GIBS). In partial fulfilment of the requirement for the above degree and as a compulsory requirement by the University, I am required to conducting an academic research. My research is about **"The prevalence of Corporate Governance Theories in the South African platinum mining firms"**. The research refers to academic literature on Corporate Governance to ascertain which theory prevails in this field.

You are kindly requested to participate in the research by answering a questionnaire attached, which will not take you more than 10 minutes. Your identification in the form of a name is not required for the research and you are assured that all information provided will be treated with utmost





## Appendix 2: Research questionnaire

### RESEARCH QUESTIONS

To the respondent

(Are you an investor / shareholder, senior manager, non executive board member?) Please tick below

Investor

Senior manager

Board member


1

What is the purpose of your organization? Please rank in order of priority, with 1 being most important.

To maximise shareholder value by means of profits	
To satisfy customers	



To maintain employee well being	
To satisfy society	
To meet government requirements	

- 2 What aspects of the business performance are most important to investors / shareholders?  
Please rank them according to priority, with 1 being most important.

To maximise shareholder value by means of profits	
To satisfy customers	
To maintain employee well being	
To satisfy society	
To meet government requirements	

- 3 What are senior managers' priorities? Please rank according to priority, with 1 being most important.

To maximise shareholder value by means of profits	
To satisfy customers	
To maintain employee well being	



To satisfy society	
To meet government requirements	

- 4 How would you describe the relationship between shareholders (investors) and senior management?

Excellent	
Good	
Average	
Poor	
Very Poor	
Does not exist	

- 5 Are investors involved in approving or questioning investment decisions made by senior managers?

Yes	
No	



6 How often do investors reject investment decisions or proposals made by senior management?

Very often	
Often	
Seldom	
Very seldom	
Never	

7 How many companies are involved in auditing your company financial records?

One	
Two	
Three	

8 Listed below are suggestions to alleviate agency problems. Circle one number for each action to show whether you are in favour of or against it.

<b>SF</b> =Strongly in favour, <b>F</b> =Favour, <b>A</b> =Against, <b>SA</b> =strongly against	
The alignment of the interests of agents to that of the principals,	



A complete contract containing specifications of the agent duties.	
Give principals the rights to closely monitor their performance are required.	
Adopting appropriate incentive systems to reward managers is a key solution to the agency problem.	
Leave it to senior managers to decide how they proceed with their work	

- 9 What kind of compensation do senior managers favour? Please number according to priorities. With 1 being the most preferred.

Equity based features in pay packages (like share options in the business at a discounted price)	
Job prospects (internal promotion)	
Performance based bonuses, similar to gain sharing	

- 10 How is senior management performance measured?

On profits made only (financial bottom line)	
Only on satisfaction of all stakeholders	
On a combination of the above	



- 11 Here are some beliefs by academics. Circle one number for each action to show whether you agree or not.

SD= Strongly disagree, D=Disagree, A=Agree, SA=strongly agree	
Managerial actions depart from those required to maximise shareholder returns.	
A firm should be run in the interest of all its stakeholders rather than just the shareholders.	
An overemphasis on monitoring is unnecessary for senior management to impact on corporate performance.	

## Appendix 3: Quantitative Results

### QUANTITATIVE RESULTS TABLES

#### Test 1: Descriptive Frequency Test

**Table 1.1:**

Split between respondents	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Impala	9	50.0	50.0	50.0
Anglo	9	50.0	50.0	100.0
<b>Total</b>	<b>18</b>	<b>100.0</b>	<b>100.0</b>	

**Table 1.2:**

To maximise shareholder value by means of profits	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1 st level Important	17	94.4	94.4	94.4
2 nd level important	1	5.6	5.6	100.0
<b>Total</b>	<b>18</b>	<b>100.0</b>	<b>100.0</b>	

**Table 1.3:**





		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 st level Important	16	88.9	94.1	94.1
	2 nd level important	1	5.6	5.9	100.0
	Total	17	94.4	100.0	
Missing	System	1	5.6		
Total		18	100.0		

**Table 1.4: Relationship between senior management and investors**

<b>Q. 4:Relationship between senior management and investors</b>		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Excellent	2	11.1	11.1	11.1
	Good	11	61.1	61.1	72.2
	Average	2	11.1	11.1	83.3
	Very poor	1	5.6	5.6	88.9
	Does not exist	2	11.1	11.1	100.0



Total	18	100.0	100.0	
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**Table 1.5:**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	12	66.7	66.7	66.7
	No	6	33.3	33.3	100.0
	Total	18	100.0	100.0	

**Table 1.6:**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Often	3	16.7	17.6	17.6
	Seldom	9	50.0	52.9	70.6
	Very seldom	3	16.7	17.6	88.2
	Never	2	11.1	11.8	100.0
	Total	17	94.4	100.0	



Missing	System	1	5.6		
Total		18	100.0		

**Table 1.7:**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	One	7	38.9	38.9	38.9
	Two	8	44.4	44.4	83.3
	Three	3	16.7	16.7	100.0
	Total	18	100.0	100.0	

**Table 1.8:**

<b>Q. 8: Give principals the right to closely monitor agents' performance</b>		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly in favour	1	5.6	6.7	6.7
	Favour	10	55.6	66.7	73.3



	Against	3	16.7	20.0	93.3
	Strongly Against	1	5.6	6.7	100.0
	Total	15	83.3	100.0	
Missing	System	3	16.7		
Total		18	100.0		

**Table 1.9:**

Q. 9.Equity based features in pay packages.		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 st level Important	11	61.1	64.7	64.7
	2 nd level important	6	33.3	35.3	100.0
	Total	17	94.4	100.0	
Missing	System	1	5.6		
Total		18	100.0		

**Table 1.10:**



Q.10: Senior management performance measurement		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	On profits made only	2	11.1	11.1	11.1
	On a combination of the above	16	88.9	88.9	100.0
	Total	18	100.0	100.0	

**Test 2: Comparison Dispersion Statistics- (Different Companies)**

**Table 2.1**

Q.1: To maximise shareholder value by means of profits	Company name		Total
	Impala	Anglo	
1 st level Important	44.4%	50.0%	94.4%
2 nd level important	5.6%		5.6%
Total	50.0%	50.0%	100.0%

### Test 3: Central Tendency Statistics

**Table 3.1**

		Q8.1	Q8.2	Q8.3	Q8.4	Q8.5
N	Valid	16	16	15	16	16
	Missing	2	2	3	2	2
Mean		2.00	2.00	2.00	2.00	2.00
Median		2.00	2.00	2.00	2.00	3.00
Mode		1	2	2	1	1
Std. Deviation		1.342	.750	.704	.719	1.204
Variance		1.800	.563	.495	.517	1.450
Range		3	2	3	2	3
Minimum		1	1	1	1	1
Maximum		4	3	4	3	4



Table 3.2

		Q11.1	Q11.2	Q11.3
N	Valid	17	18	17
	Missing	1	0	1
Mean		3.00	1.00	2.00
Median		3.00	1.00	2.00
Mode		3	1	1
Std. Deviation		1.068	.784	1.029
Variance		1.140	.614	1.059
Range		3	3	3
Minimum		1	1	1
Maximum		4	4	4