

**THE RELATIONSHIP BETWEEN CEO COMPENSATION AND FIRM
PERFORMANCE: A CASE STUDY OF NAMIBIAN STATE –OWNED-
ENTERPRISES (SOE’s)**

**A THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE
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ABSTRACT

Over the years, the increase in executive remuneration in both the private sector and state-owned entities (SOEs) has been the subject of intense discussions. The poor performance of some SOEs with highly remunerated executives, begs the question whether chief executive officers (CEOs) in Namibian SOEs deserve the high levels of remuneration they receive. The main purpose of the study was to determine whether there is a relationship between CEOs' remuneration and company performance in Namibia's SOEs in particular the 18 Commercial Public Enterprises as per the Hybrid Model of 2016 classification. A greater understanding of the relationship between CEO remuneration and organisational performance would expand knowledge when developing optimal CEO remuneration systems to ensure sustainability of SOEs in the Namibian context. If a relationship exists, it could justify the high remuneration received by CEOs. This quantitative study, conducted over a two-year period, collected secondary data from the annual reports of 14 selected Namibian SOEs. The primary statistical techniques used in the study included were descriptive statistics and correlational analysis on a pooled dataset. The primary finding was that there is a relationship between CEO remuneration and company performance (mainly an inverse relationship), with no consistent trend between the constructs. Return on equity appears to be an important component, as it was the most stable measure of company performance during the study period. The study period was from 2011-2015. The results indicate that the CEOs' remuneration continued to increase, even when the SOEs were performing poorly. Since the study focused on the relationship between CEOs' remuneration and company performance, it may aid policymakers in forming new rules and regulations that would help improve not only the governance of the SOE industry but also the country's economic performance while attracting international investors. The study provides new knowledge to the limited research available on SOEs in Namibia. Further, this research focused on three different components of CEOs' remuneration, thereby shedding more light on the relationship between their remuneration and company performance. The limitations of the study was that due to the sensitivity of the study embarked many of the respondents were sceptical to provide responses and would defer the responsibility and also the unavailability of published financials post a hinderance to make conclusive recommendations. Of the

recommendations made is that the stakeholder (Government) needs to ensure that CEO's sign and have in place performance agreements, and have set quantifiable targets for this commercial entities and the bottom-line needs to become the focus. There should also be remedial measures for non- performance of CEO's. Reward (remuneration) must be linked clearly to Output (results).

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DEDICATION

I dedicate this research work to my parents for the unwavering support they gave me throughout my life as a child and a student, especially in the build up to this research. Without their persistent encouragement, I would not have made it this far.

DECLARATION

I, Ingridt Namases, declare that the study of the relationship between CEO remuneration and company performance in Namibian state-owned entities is my own work, and that all the sources I have used or quoted have been indicated and acknowledged by means of complete references.

I further declare that I have not previously submitted this work, or part of it, for examination at UNAM for another qualification, or at any other higher education institution.

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List of Abbreviations

CEO	Chief Executive Officer
UNAM	University of Namibia
SOEs	State-Owned Enterprises
NASFAF	Namibia Students Financial Assistance Fund
SADC	Southern African Development Community
STIs	Short Term Incentives
LTI	Long Term Incentives
BURS	Botswana Unified Revenue Service
RA	Roads Authority
RCC	Roads Contractor Company
RFA	Road Fund Administration
NAC	Namibia Airports Company

CHAPTER 1

1.1 INTRODUCTION

This chapter introduces the study, it outlines the background of the study, and it also brings forth the statement of the problem and discusses the objective of the study. The researcher further states the hypothesis of the study, and brings out the significance of the research, highlights the limitations and ends the chapter with the delimitation of the study.

1.2 BACKGROUND OF THE STUDY

Since the Independence of Namibia on the 21st of March, 1990, the Government of Republic of Namibia has created a lot of State-Owned Enterprises (SOEs) which have been defined as an enterprise “where the state has significant control through full, majority significant ownership” Weylandt, (2016). Further to that SOE entities are created to maintain control of important national resources that would spell an economic downfall if not monitored and governed since the majority are natural monopolies. Thus, the objective behind the creation of these SOEs was for an efficient and effective rendering of services to the public on behalf of the government. Namibia being a young country which went through colonisation and apartheid as recent as the 1900s is characterised by the aspects of inequality, poverty and unemployment which was supposed to be addressed through the introduction of SOEs as a tool created by the government to fight social ills.

It is a well-known factor around the globe that SOEs are tools which different governments use to develop their countries (OECD 2016). In addition to the constitution of Namibia, Namibia has created its national economic direction called vision 2030. One of the pillars in this national mind is the strengthening of good corporate governance

which is supposed to help Namibia develop itself by using its own resources (Namibia Vision 2030, 1999). This mind seems to be challenged because the reality is speaking opposed to Vision 2030 in terms of good corporate governance as far as SOEs operation in Namibia is concerned.

With Namibia being an African country, this problem seems to be an African Big Elephant. Recently a big economy country (SA) on which Namibia's economy is pegged has demonstrated having the same problem (Global Competitive Report, 2016). This phenomenon in Africa, and the SADC in particular is worrisome if it is not properly addressed in time.

According to the Global Competitive Report, 2016, Africa including Namibia has an abundance of resources such as minerals, agricultural produce, fish and tourist attractions which are supposed to address issues of poverty and inequality effectively. However, bad corporate governance which leads to corruption and non-performance is a thorn in the flesh of Africa's developmental agendas.

In view of recent developments, State-Owned- Enterprises (SOEs) play a vital role within the Namibian domestic economy, in particular the Commercial Public Enterprises as identified with the Hybrid Model of 2016. Thus also the latter the focus of this respective study. However, the Namibian government in the 2017/2018 financial year spent over 4 billion Namibian dollars in the bail out of SOEs alone (Tileni, The Namibian Newspaper, 28 February 2018). No single dividend was declared from those that were bailed out. One can conclude that SOEs are becoming a bottomless pit where Government Treasury is pouring in money every financial year without a significant return. This can be attributed

to mismanagement and non-performance without proper accountability systems in place from the Shareholder (Government of the Republic of Namibia). Research has proven that for any SOE sector around the world to be efficient and profitable, a proper accountability system is a very paramount aspect, which Namibia and Africa in particular is lacking (Global Competitive Report, 2016).

Accountability in SOEs plays a big role in enforcing good corporate governance. Good corporate governance becomes a very important pillar in enforcing performance in SOEs. Recent media reports focussed on the financial performance of such. They required a great interrogation of the perceived relationship of CEO compensation and SOE (firm) performance. Namibia is reported to have 91 SOEs in operation. These SOEs are mostly public funded through the state coffers. This is consuming the struggling taxpayer's money and resources. The recently reported closure of the SME Bank, (Immanuel, The Namibian Newspaper, 4 June, 2017, The Namibian) and possible closure of the Roads Contractor Company and NASFAF is cause for concern. The regularly reported financially strained national airline Air Namibia and many more similar reports of other SOEs, is cause for closer scrutiny of the phenomena as it is an example of how the taxpayer's money can be misappropriated if not properly managed and accounted for by the relevant stakeholders involved, (Tileni, The Namibian Newspaper, 28 February 2018).

In organisational behaviour, where the management of processes and their inter-dependence is very crucial to high productivity/performance and higher job satisfaction. What is important for an organisation is to ensure high morale of the work-force starting from the CEO. To ensure this, the organisation must identify various operational dictums (Upinder and Santosh, 2002). In psychological theory, motivation can be conceived of as

a cycle in which thoughts influence behaviours, behaviours drive performance, performance affects thoughts, and the cycle begins again. Each stage of the cycle is composed of many dimensions including attitudes, beliefs, intentions, effort, and withdrawal which can all affect the motivation that an individual experiences. Most psychological theories hold that motivation exists purely within the individual, but socio-cultural theories express motivation as an outcome of participation in actions and activities within the cultural context of social groups.

Motivation is the reason for people's actions, desires, and needs. Motivation is also one's direction to behaviour, or what causes a person to want to repeat a behaviour. A motive is what prompts the person to act in a certain way, or at least develop an inclination for a specific behaviour.

According to Bell *et al.*, (1995), Humans are not motivated solely by wage incentives. Unlike the rational theory of motivation, people are not driven towards economic interests under the natural system. For instance, the straight piecework system pays employees based on each unit of their output. Based on studies such as, the Bank Wiring Observation Room, using a piece rate incentive system does not necessarily lead to higher production. Employees actually set upper limits on each person's daily output. These actions stand "in direct opposition to the ideas underlying their system of financial incentive, which countenanced no upper limit to performance other than physical capacity". Therefore, as opposed to the rational system that depends on economic rewards and punishments, the natural system of management assumes that humans are also motivated by non-economic factors.

Motivation can be divided into two different theories known as intrinsic (internal or inherent) motivation and extrinsic (external) motivation. Intrinsic motivation has been studied since the early 1970s. Intrinsic motivation is the self-desire to seek out new things and new challenges, to analyse one's capacity, to observe and to gain knowledge. It is driven by an interest or enjoyment in the task itself, and exists within the individual rather than relying on external pressures or a desire for consideration. The phenomenon of intrinsic motivation was first acknowledged within experimental studies of animal behaviour. In these studies, it was evident that the organisms would engage in playful and curiosity-driven behaviours in the absence of reward. Intrinsic motivation is a natural motivational tendency and is a critical element in cognitive, social, and physical development. The two necessary elements for intrinsic motivation are self-determination and an increase in perceived competence. In short, the cause of the behaviour must be internal, known as internal locus of causality, and the individual who engages in the behaviour must perceive that the task increases their competence (Bell *et al.*, 1995). Intrinsic motivation can be long-lasting and self-sustaining. Efforts to build this kind of motivation are also typically efforts at promoting student learning. Such efforts often focus on the subject rather than reward or punishment.

According to Bell *et al.*, (1995), Efforts at fostering intrinsic motivation can be slow to affect behaviour and can require special and lengthy preparation. Students are individuals, so a variety of approaches may be needed to motivate different students. It is often helpful to know what interests one's students in order to connect these interests with the subject matter. This requires getting to know one's students. Also, it helps if the instructor is interested in the subject.

Extrinsic motivation comes from influences outside of the individual. In extrinsic motivation, the harder question to answer is where do people get the motivation to carry out and continue to push with persistence. Usually extrinsic motivation is used to attain outcomes that a person wouldn't get from intrinsic motivation. Common extrinsic motivations are rewards (for example money or grades) for showing the desired behaviour, and the threat of punishment following misbehaviour. Competition is an extrinsic motivator because it encourages the performer to win and to beat others, not simply to enjoy the intrinsic rewards of the activity. A cheering crowd and the desire to win a trophy are also extrinsic incentives.

The simplest distinction between extrinsic and intrinsic motivation is the type of reasons or goals that lead to an action. While intrinsic motivation refers to doing something because it is inherently interesting or enjoyable, extrinsic motivation, refers to doing something because it leads to a separable outcome. Extrinsic motivation thus, contrasts with intrinsic motivation, which is doing an activity simply for the enjoyment of the activity itself, instead of for its instrumental value.

However, another study showed that third graders who were rewarded with a book showed more reading behaviour in the future, implying that some rewards do not undermine intrinsic motivation. While the provision of extrinsic rewards might reduce the desirability of an activity, the use of extrinsic constraints, such as the threat of punishment, against performing an activity has actually been found to increase one's intrinsic interest in that activity. In one study, when children were given mild threats against playing with an attractive toy, it was found that the threat actually served to increase the child's interest in the toy, which was previously undesirable to the child in the absence of the threat.

Motivation is a multifaceted matter to study, as far as SOEs performance is concerned. There is a perceived linkage between SOEs that are tasked with the safeguarding of national resources and firm performance in relation to Chief Executive Officers' compensation. Local print media has been vocal on the high compensation awarded to the CEOs of these SOEs. Leading to the further understanding and a general belief that though these CEOs are well paid, firm performance is not aligned positively. Recent proposed changes to the legislature governing the remuneration awarded to the SOE executive management brings into light the question of drawing this link even more visible. That one should be rewarded for actual tangible output in terms of meeting financial and otherwise expectations from the Shareholder (Government), (Weylandt, 2016). There is an emphasised need for the development of effective policies and performance measurement frameworks that will assist in the alignment of compensation and firm performance in order to enhance the latter for a positive impact and contribution to the domestic economy's overall performance.

1.3 STATEMENT OF THE PROBLEM

Understanding the dynamics of CEOs' performance in relation to their compensation which is seen as a driving factor to their ability to be motivated and perform is not a straight-forward matter, this is because it is a multifaceted aspect. It needs to be carefully researched in order to integrate all these aspects to come up with one meaningful result. Therefore, this study has applied the same technique to identify the key problem of the study. Although CEOs of SOEs in Namibia are perceived to be highly paid, in recent years these SOEs may not necessarily be performing according to expectations. There is little known published academic literature on this problem within Namibia. In South

Africa, Bussin & Modau (2015) found that the relationship is declining and insignificant as organisations are moving away from performance related elements of remuneration packages and contracts for CEOs, making the latter cause, a disconnection between the two variables.

Therefore, in this study the problem identified was that CEOs of State-Owned -Enterprises are perceived to be highly paid but the performance of SOEs in Namibia is weak. This has necessitated state funded bail outs from time to time (Weylandt, 2016). Following this, the aim of this study is to investigate the relationship between CEO Compensation and the performance of the State-Owned-Enterprises in Namibia. In line with this, as stated above, the understanding of CEOs' performance is multi-faceted thus other factors will also be explored to understand the dynamics of this phenomena.

1.4 OBJECTIVES

The main objective of this study is to investigate the relationship between CEO compensation and SOE performance in Namibia. In order to answer this objective, the study will have to answer to the following specific objectives:

- To determine the relationship between CEO compensation and SOE performance in Namibia
- To determine successes and challenges facing CEOs' Compensation in relation to the performance of SOEs in Namibia
- To determine other factors which influence CEO Compensation and SOE performance in Namibia

1.5 SIGNIFICANCE OF THE STUDY

The study aims to provide guidance and understanding of the relationship between CEO compensation and firm performance in the Namibian SOE industry. Pondering around the above-stated objectives of the study, this study will provide insight into the role of compensation in relation to firm performance, by uncovering the hidden phenomena between CEO compensation and SOE performance, linking them to other factors which may influence their association. The study will also bring a clear understanding on the much-debated CEOs' huge salaries and the value they add to the performance of SOEs. Due to the nature and state of the Namibian economy in current times and the level of performance of SOEs reported on in Namibia, this study will aid in empowering policy makers to understand the root causes of the lack of reported performance of SOEs.

Further to that, the study aimed to aid proposals of appropriate measures and policies for the financial sustainability of the SOE industry of Namibia to make them financially viable and flourish within the economy. At the end it will come up with possible recommendations. The study aims to further assist in closing the gap on the understanding of the confusion of CEO compensation and performance. Since this study is the first of its kind in Namibia, it will also contribute to the body of knowledge in the arena of SOE governance and performance.

1.6 LIMITATION OF THE STUDY

Due to the busy schedule of the respondents, it could be difficult to get most of the targeted participants to answer the questionnaire, and some may be biased or reluctant to answer their questions. However the researcher will pay such respondents several visits and as well persuade them to participate in the survey.

One of the well-documented weaknesses of a questionnaire survey method is a low response rate which leads to a non-response bias (De Vos; Strydom; Fouché & Delport, 2011). This undermines the generalizability of the results to the entire population. The risk of a low response rate will be reduced by drawing up a relatively short questionnaire comprising of closed- ended questions.

The sensitive nature of the required information, as well as the risk involved in disclosing it, can justify the unwillingness of some respondents to partake in the study (De Vos, et al. 2011). To overcome this limitation, the researcher will avoid sensitive questions and reassure the respondents of the confidentiality of the information divulged.

A low response rate can also be as a result of the researcher not being able to meet or engage with the respondents in order to explain or clarify ambiguous terms and concepts (De Vos, et al. 2011). The researcher will, therefore, prioritise a face- to- face survey approach as often as possible. The selected sample also needed to incorporate use of descriptive data, financial statements which were not published, however the researcher ensured a response to explain absence of this financial in such instances. Further to the abovementioned research did obtain at least 14 of the sampled financials.

1.7 DELIMITATION OF THE STUDY

Although the issue of CEO compensation is an issue that is affecting Africa and SADC in particular, the study focused only on SOEs in Namibia, the 18 Commercial Public Enterprises as per Hybrid Model classification of 2016. Any other information on CEO remuneration or any that has nothing to do with Namibian SOE' CEO's compensation and their impact on organisational performance will fall outside the scope of this research.

1.8 SUMMARY

This chapter looked at the introduction or background of the study, it also looked in detail at the statement of the problem. The chapter highlighted the objective of the study, then it stated the significance of the study in detail. The study gave a hypothesis and then it highlighted the limitations of the study and it end with the delimitations of the study. Linking this chapter to chapter two (2) of literature review which is discussed after this chapter.

2 CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews related literature in relation to the issue of CEO's compensation and performance. The chapter links some theories in compensation to the practical realism of performance which is a very imperative outcome that any organisation wants to achieve. Furthermore, it gives a brief overview on the various governance frameworks that had been introduced and implemented in the attempts to improve and better the governance of the Namibian State-owned- enterprises. The chapter ends with a brief conclusion.

2.2 THEORETICAL REVIEW

2.2.1 MOTIVATION AND ITS ROLE IN THE PERFORMANCE OF AN ORGANISATION

According to Herzberg's definition of motivation in the workplace is: performing a work-related action because you want to Lindstrom & Svensson (2016). The two further divided motivation in Two-Factor Theory of Motivation. This theory classifies job factors into 2 groups: "motivators" (factors that encourage employees to gain satisfaction and subsequently improve job performance) and "hygiene factors" (factors that increase job dissatisfaction and can restrict job performance). Herzberg's theory by Lindstrom &

Svensson (2016), stated that “motivators” would contribute to job satisfaction and the “hygiene factors” would contribute to dissatisfaction. Herzberg’s theory also distinguished between two types of motivators, namely, intrinsic motivators and extrinsic motivators. The intrinsic motivators refer to aspects of the job itself and the extrinsic motivators refer to other factors other than the job. Most of the research that has been reviewed demonstrates support for the distinction between intrinsic and extrinsic motivators.

In relation to this study, the question is to what extent does these theories speaks to the SOEs in Namibia in terms of CEOs compensation in relation to their performance. These theories might be a building block to understand as to why some highly compensated CEOs may not necessarily perform to the required expectations. As stated in the OCED report 2015, SOEs face some distinct governance challenges. On the one hand, SOE may suffer from undue hands-on and politically motivated ownership interference, leading to unclear lines of responsibility, a lack of accountability and efficiency losses in the corporate operations. On the other hand, a lack of any oversight due to totally passive or distant ownership by the state can weaken the incentives of SOEs and their staff to perform in the best interest of the enterprise and the general public who constitute its ultimate shareholders, and raise the likelihood of self-serving behaviour by corporate insiders.

Motivation has two main categories, which are: intrinsically and extrinsically. Scholtz (2012), explains this as follows:

- Individuals are intrinsically motivated when they seek enjoyment, interest, satisfaction of curiosity, self-expression, or personal challenge in the work.

- Individuals are extrinsically motivated when they engage in the work in order to obtain some goal that is apart from the work itself.

Scholtz (2012), describes extrinsic motivation as, money and verbal reinforcement, mediated outside of the person, whereas intrinsic motivation is mediated within the person. And a person is intrinsically motivated to perform an activity if there is no apparent reward except the activity itself or the feelings which result from the activity.

Scholtz (2012), argues that employees can be either intrinsically or extrinsically motivated or even both. It seems that intrinsic and extrinsic motivators apply differently to persons.

Shin & Seo (2010), argues that some employees focus on intrinsic outcomes whereas others are focused on extrinsic outcomes. According to Story *et al.*, (2009), individuals high in intrinsic motivation seem to prefer challenging cognitive tasks and can self-regulate their behaviours, so offering rewards, setting external goals, or deadlines, will do little for them, unless they are also high in extrinsic motivation. For employees high in intrinsic motivation, emphasis could be placed on the engaging nature of the task and encouragement of self-set goals and deadlines (Story *et al.*, 2009).

Hackman and Oldham (1976) even argue that people have individual differences in response to the same work; they differentiate between employees high and low in growth need strength. People high in growth need strength are most likely to be motivated by jobs with high skill variety, task identity, task significance, autonomy and feedback. And people low in strength are relatively insensitive for these factors according to them.

In view of the fact at hand that, CEOs in Namibia SOEs are highly paid, yet the performance level is not up to the required expectations, what category of motivation

between intrinsically and extrinsically will motivate them in order for them to meet the required performance standard.

However, it can be argued that introverts are more extrinsically motivated and extraverts more intrinsically motivated. However, it not only seems that persons are differently motivated but intrinsic and extrinsic motivation also have effect on each other. In relation to the SOEs in Namibia in as far as motivation for CEOs are concerned there is a need to understand what motivates that CEO before recruitment takes place. You assess your SOEs institutional goals and then link it to what sort of person would fit into this role to deliver on expectations. This would avoid a mismatch of fit. Balance in management between introvert and extrovert appointments otherwise the institutions are compromised as these are likely to be like minded in approaches, not challenging decisions and questioning objectives. This can lead to the below expected standard of performance of the SOEs even though they are highly remunerated this might be the case that Namibian SOEs are faced with.

2.2.2 ROLE OF THE CEO

Shaw (2011) posits that a number of academics, ranging from financial economists to organisational behaviourists, have contributed to the understanding of the field of executive remuneration. A number of prominent academics, e.g., Jensen and Murphy (2010), Edmans and Gabay (2009), Yanadori and Milkovich (2002), and Tosi and Gomez-Mejia (1994), have confined their attention to executive remuneration to specifically the remuneration of the CEO.

A CEO's job is extremely complex (Core & Guay 2010). CEOs are often considered "superstars in both academia and the business environment" (Ayaba 2012: 6). The CEO is responsible for the overall management of organisational activities, by providing strategic direction and leadership in execution (Andrews 1980). Andrews (1980) describes a CEO as the architect of organisational purpose, an organisational leader, and a personal leader. CEOs have to provide different forms of leadership — strategic, moral, and human — and strike a balance between the three (Edersheim 2007). All leaders have three major functions to fulfil in an organisation: setting direction; aligning organisational goals, strategy, and processes; and motivating people (Farkas & Wetlaufer 1996). Leadership requires charisma and vision, as well as the ability to cope with rapid change (Kotter 1999). In a study conducted by Glick (2011), the data supported the notion that the leadership role is one of the most important roles of a CEO, influencing all other roles within an organisation.

As leader, the CEO has a significant effect on the performance of the company. This is believed to be the reason for the significant growth in executive remuneration over the past several decades (Montino 2008). Furthermore, as the CEO performs one of the most important and powerful roles in an organisation in the midst of the turbulence of the 21st century, CEOs' performance today is more important to the organisation than ever (Edersheim 2007; Glick 2013).

Hambrick and Quigley (2014) maintain that CEOs have more flexibility than other executives, as their decisions can affect the entire company, instead of just a unit. The CEO plays a fundamental role in creating value and ensuring business continuity (Conlon & Smith 2010). The CEO also plays an important role in shaping corporate policies (Tian

2013). MoROEver, the CEO is uniquely positioned to ensure that a company's purpose, values, and standards are relevant to its business environment (Lafely 2009).

To maintain a competitive advantage and growth, the CEO must ensure that the company competes with the competitors who matter most. Jim (2009: 42) compares the role of today's CEO to that of "an airline pilot navigating through stormy skies. Even if they know that the ride will be rough, they recognize that employees, like passengers on the edge of their seats, are waiting for the reassuring voice over the loudspeaker."

The CEO, who is appointed by the board of directors, acts as the manager of the executives, and is responsible for leading the organisation in the delivery of corporate goals (Shaw 2011). The CEO is the only one held responsible for the performance and results of the company — not just its own objectives, but also the measures and standards of various, and often opposing, external stakeholders

(Lafely 2009). Shaw (2011) supports this view. According to Core and Guay (2010), the CEO is the individual that is ultimately responsible for the company's strategic investments, operating activities, human resource management, financing decisions, and overall company performance. Moreover, because the CEO has specific knowledge that is useful for decision-making that is costly to transfer, it is problematic (or impossible) for the board or shareholders to give the CEO thorough, systematic directives on how this job should be carried out (Fama & Jensen 1983).

Mascarenhas (2009) suggests that, over and above the core role(s) of CEO, CEOs of large companies must fulfil eight key responsibilities. These are: developing growth avenues, raising productivity, competing for talent, managing diverse risks, tightening corporate

governance, incorporating sustainability, creating innovation models, and building new infrastructure. While Mascarenhas' research focused specifically on multi-national companies, it is likely that the findings have widespread applicability (Shaw 2011).

Taking the role of the CEO into consideration, based on the above discussion, these responsibilities are difficult, and require skills and competencies of well-educated and knowledgeable individuals. Such talent is scarce. To attract and retain CEOs, they have to be properly rewarded (Kim, Kogut, & Yang 2013).

2.2.3 EXECUTIVE REMUNERATION

There is no topic in business as controversial as the remuneration of executives, and commentators, as well as executives (Ulrich 2010), often misunderstand the term. Ulrich (2010) posits that a possible reason for this is due to the use of alternative terms such as compensation, pay, and reward. Executive remuneration refers to the fixed pay, Short Term Incentives (STIs) and Long Term Incentives (LTIs), and related benefits awarded to those who occupy the most senior decision-making positions in private- and public-sector enterprises (Bussin 2011) The next section examines the origins and development of executive remuneration, and on the consequent composition of executive remuneration packages.

2.2.3.1 ORIGINS AND NATURE OF EXECUTIVE REMUNERATION

Executive remuneration refers to the remuneration paid to CEOs and other senior executives of an organisation, including fixed pay, and STIs and LTIs. The remuneration of executives, identified as a key management challenge, found its way into economic thinking as early as the 1930s (Shaw 2011). According to Murphy (2012), executive

remuneration has developed over time. This is in response to changes in both the economic and the political environment.

Frydman and Jenter (2009) theorise that the level and structure of CEO remuneration have changed noticeably over time. The post-WWII era can be divided into at least two distinct periods. Before the 1970s, low levels of pay, and only moderate levels of equity remuneration were observed. From the mid-1970s to the end of the 1990s, the components of some executives' remuneration increased dramatically, and pay disparities between executives and across companies increased (Frydman & Jenter 2009).

Shaw (2011) suggests that the first discussions regarding the remuneration of executives in the context of the modern business environment have widely been attributed to Chester Barnard's book *The Function of the Executive* (Laffont & Martimort 2001). In this pioneering work, Barnard points out that financial incentives are an important factor in encouraging individuals to provide their discretionary effort (Shaw 2011).

This challenge of providing executives with some form of financial and non-financial incentive has developed and evolved over the decades, and the emergence of the principle-agent theory arose as the underlying economic principle driving executive remuneration (Shaw 2011).

2.2.3.2 STRUCTURE AND COMPONENTS OF EXECUTIVE REMUNERATION

Remuneration structure refers to the relationship between fixed pay and the performance-based, variable components of pay. The structure of executive remuneration packages is used increasingly as a strategic tool to attract, motivate, and retain executive skills in a

globally competitive labour market. Walker (2010) concurs with this notion, and postulates that companies can attract the best executives by providing a competitive remuneration package.

Diamantopoulos (2012) postulates that the components of executive remuneration vary, and each component has its own, individual effect on the total remuneration that the executive will receive. He further states that executive remuneration contains various elements, depending on the corporate governance of the company and the contract between the CEO and the board of directors. Executive remuneration packages usually consist of basic salary, benefits, STIs, and LTIs, therefore, a combination of fixed and variable pay (Bussin 2012). Executives of listed companies often receive a fixed monthly or annual salary. The fixed portion includes salary and other benefits not linked to performance, whereas the variable portion differs according to the results of various measures of company performance (21st Century Pay Solutions 2010). According to Frydman and Jenter (2009), considerable heterogeneity in pay practices exists across companies, and most CEOs' remuneration packages comprise similar basic components. The relative importance of these remuneration elements, to executives and the company alike has, however, changed significantly over time.

Huang (2010) posits that the structure of a CEO's remuneration is more complicated than just a base salary plus a bonus. It is, furthermore, important to understand the special structure of CEOs' packages before considering whether CEOs are overpaid (Huang 2010). Ellig (2007) postulates that the design of an executive's remuneration package will follow the path where it is the easiest for the executive to qualify for a payment. Should STIs be difficult to obtain due to factors outside the control of the CEO, the structure of

the remuneration would lean towards a guaranteed cost to company or fixed pay. The contrary is also true; should STIs be easier to obtain, the structure of remuneration will lean towards more incentive pay (Nel, 2012).

WorldatWork's Total Rewards Model positions remuneration as one of six key factors of a total rewards structure that collectively define an organisation's strategy to attract, motivate, retain and engage employees (WorldatWork 2015). These factors are:

Compensation (remuneration) provided by an employer to its employees for services rendered and includes both fixed and variable pay tied to performance levels. Benefits are used to supplement the cash remuneration employees receive. This provides security for employees and their families;

Work-life effectiveness is a specific section of organisational practices, policies and programmes that help employees achieve success at both work and home;

Recognition can be formal or informal, that acknowledges or gives special attention to employee performance and supports business strategy by reinforcing behaviours that contribute to organisational success;

Performance management includes establishing expectations, skill demonstration, assessment, feedback and continuous improvement; and

Talent development provides the opportunity and tools for employees to advance their skills and competencies in both their short- and long-term careers.

WorldatWork deems remuneration as one of many benefits that a company has to offer in order to attract, retain, and motivate employees (WorldatWork 2015). This model is

influenced by the characteristics and culture of the organisation, and includes programmes, practices, elements and dimensions that organisations can use to offer and design a value proposition that benefits both the organisation and the employee (WorldatWork 2015). Figure 4 provides a graphic representation of the Total Rewards Model.

WorldatWork. Total Rewards Model



Figure 1 Total Rewards Model

Source: WorldatWork (2015)

In the present study, it was important to consider the components of remuneration individually, in order to determine the most common types of CEO remuneration options (see Otieno 2011: 26). The reason for this is that it would be expected that salaries and bonuses constitute the greatest part of the CEO's remuneration variable. A clear distinction needs to be made between the following components of a CEO's remuneration package:

The **fixed pay (or base/basic salary)** is the reward offered to the CEO for taking responsibility as the manager of the company (Swatdikun 2013). Ellig (2007) regards it as the cornerstone of a remuneration programme. Performance is not linked to this remuneration component, and it therefore remains fixed (Ulrich 2010).

The fixed pay is usually determined in line with industry norms of aligning salary levels within hierarchical and functional areas, taking into consideration the size of the company (Xu 2013). Ellig (2007) argues that fixed pay is a function of the responsibility and workload of an individual. Generally, the annual fixed pay signifies a small percentage of a CEO's total remuneration (Martocchio 2013). In addition, an increase in the basic salary will have a positive influence on many other remuneration components (Murphy 1999), because, for example, bonuses are often calculated as a percentage of the fixed pay (Xu 2013).

A **bonus** is a form of remuneration based on individual, group, or corporate performance, and is a single payment for performance, companies use to reward employees for attainment of specific, extraordinary goals (Martocchio 2013). For most executives, it is

based on group performance. To encourage the achievement of short-term objectives, executives are awarded annual bonuses (Murphy 1998).

Jensen and Murphy (2004) stated that one advantage of bonuses is that these are quite accurate indicators of the actual performance of executives, because bonuses are awarded in respect of the achievement of operational objectives that lead to value creation. On average, a CEO's bonus is equivalent to approximately 50% of his or her fixed pay (Jensen & Murphy 2010). However, Andersson, and Andersson (2006) posit that previous research indicated that bonuses do not make a difference to the performance of a company. For example, Weinberg 1995 found no relationship between CEO bonuses and company performance. Resnick (2013) suggests that South African CEOs' bonuses are somewhat higher than in other countries, regardless of executive remuneration, overall, being lower than that of many other countries.

Four types of bonuses are common in executive remuneration (Martocchio 2013).

- **Discretionary bonus:** This is awarded to executives on a voluntary basis; the board of directors weighs four factors in establishing the amount of a discretionary bonus: company profits, the financial situation of the company, business circumstances, and predictions regarding the future of the company.
- **Performance-contingent bonus:** This is paid when the CEO's performance meets specific criteria. The performance appraisal system for determining bonus awards is often the same system used for establishing merit increases or salary increases.
- **Predetermined allocation bonus:** This is calculated using a fixed formula. The amount available to pay as bonuses depends on company profits.

- **Target plan bonus:** This is linked to the CEOs' ability to meet targets, and is thus directly linked to their performance. The bonus amount increases to match performance. In theory, executives do not receive bonuses when their performance is lower than minimum acceptable standards.

2.2.3.3 KEY ISSUES IN EXECUTIVE REMUNERATION

While any discussion on executive remuneration seems to invite controversy, a few major issues have recently attracted much attention, such as the perceived excessive remuneration of CEOs compared to company performance (Surve, 2008). De Wet (2012) concurs with this, stating that the media regularly reports a growing number of remuneration practices where there is no alignment between executive pay and company performance. Okasmaa (2009) posits that, despite the large number of studies on the topic of executive remuneration, it remains difficult to explain. One reason for this is the almost “non-existent” link between performance and pay, making it uncertain what economic logic remuneration packages have (Okasmaa 2009: 43). Kirkpatrick (2009) posits that, although the academic world notes the risks of excessive CEO remuneration, these are not widely discussed and analysed.

Few CEOs would concede, at least openly, that they are overpaid. Concern regarding executive remuneration has, however, been growing for some time. It is a delicate matter for many CEOs and for the boards of the companies that employ them (Morrow 2012). The remuneration of CEOs has been a topic of much interest for journalists and academic researchers over the last 30 years, due to the sharp increase in CEO remuneration since the late 1980s (Diamantopoulos 2012: 4). This trend is best illustrated by a Forbes study that revealed that, in 1986, the USA's Top 10 highest paid CEOs, in aggregate earned

US\$57.88 million. In 2012, the top ten CEOs in terms of remuneration earned US\$616.4 million, which was ten times as much as the 1986 total (after taking inflation into account) (Sforza 2013).

Newspapers often report on the disproportionate pay of executives compared to the salary of general employees (Diamantopoulos 2012). According to Bussin (2011), the three issues that continuously emerge in public remarks on executive remuneration are: Do executives deserve the amounts they are paid? Are the variable components linked to suitable measures of performance? Is the overall remuneration structured in a way that is justifiable and trustworthy to shareholders, the business media, and the community as a whole? By far the most controversial issue is the level of remuneration that executives receive (Surve, 2008).

The main criticism against executive remuneration is the widening gap between executive remuneration and that of other employees. Ulrich (2010) states that nobody should earn more than five times the wage of an ordinary worker, while Drucker, as far back as the mid-1980s, argued that the difference should not be greater than 20 times, and that the growing gap may threaten the credibility of business leadership. Interestingly, in South Africa, executives earn more than 400 times the salary of an ordinary employee (Ulrich 2010).

Bussin (2011) asked whether the amounts paid to executives are warranted. There is the concern of supply and demand. There is general concurrence that rare capabilities and skills are required to succeed in organisational leadership roles. This poses a challenge, as the available talent pool is small, and a number of business situations require highly

specialised skill sets that are not easily obtained (Bussin 2011). Apart from high executive remuneration, another key issue is the different ways in which executives are paid. If executives were paid a fixed pay only, it would be straightforward to assess salaries paid to executives (within a company, or across companies, industries, and countries). It would then also be possible to identify the highest salary, to ascertain how executive pay has changed over time, and how executive pay compares to wages paid in other occupations. However, the following needs to be considered (Murphy 2012: 6):

- Executives receive remuneration in an array of forms, consisting of fixed salaries, annual bonuses, LTIs, restricted stock, performance shares, and retirement benefits, amongst others.
- Several of these types of remuneration are calculated using performance measures over a single or multiple year, and it is not always clear how (or when) these were calculated.
- Executives receive lump-sum amounts at different points in time, such as signing-on bonuses when joining a company, and severance payments upon departure. Additionally, some payments ‘earned’ while employed (such as defined benefit pension pay-outs) are not paid until long after the executive has departed and his remuneration is no longer reported. It is not clear how, or when, to measure these aspects of remuneration.

Hayes and Schaefer (2009) present the ‘Lake Wobegon Effect’ as a possible reason for the surge in CEO pay. According to radio host Garrison Keillor, all the children in his fictional home town of Lake Wobegon are above average, all the women are strong and all the men are good-looking. The Lake Wobegon effect is the tendency of people to

overestimate their abilities and performance in relation to those of others (Van Vugt 2013: 2). This seems to be the case with CEOs (Theunissen 2012). Hayes and Schaefer (2009) claim that no company wants to concede to having an inept CEO, so each company wants its CEO's remuneration to put him/her above the median pay level of comparable companies. Hence, when one company's CEO receives an increase, another (competing company's) CEO gets one too, irrespective of performance (Hayes & Schaefer 2009). The result is an endless benchmarking exercise, with companies pushing CEO remuneration ever higher, without taking their companies' specific conditions into consideration (Theunissen 2012).

2.2.3.4 DETERMINANTS OF EXECUTIVE REMUNERATION

A number of studies have examined the determinants of executive remuneration and the relationship between executive remuneration and company performance. As shown by Murphy (1999) in his broad review of the literature, most empirical papers have focused on CEOs' pay in the USA, and used data sets that were collected from samples consisting of listed private companies (Menozzi, Erbetta, Fraquelli, & Vannoni 2011). The literature on SOEs from a South African perspective is sparse.

Examples of studies focusing primarily on the determinants and/or effects of CEO and top management remuneration are those by Gibbons and Murphy (1990), Jensen and Murphy (1990), Tosi, Werner, Katz, and Gomez-Mejia (2000), Aggarwal and Samwick (2003), Jensen and Murphy (2010), Grund and Kräkel (2012), and Kampkötter (2012). Prior research, when examining the pay-performance link, found that determinants differ across the various components of remuneration (McKnight & Tomkins 1999).

2.2.4 EXECUTIVE REMUNERATION IN SOUTH AFRICA

The literature pertaining to the remuneration of CEOs and executives in the South African context is limited (Shaw 2011: 39). Crotty and Bonorchis (2006) attempted to uncover some of the issues related to executive pay in South Africa. Shaw (2011) noted that some of the criticisms of Crotty and Bonorchis (2006) regarding the apparently excessive levels of CEO pay are applicable to the South African context.

In South Africa, the platinum sector strike in 2014, the election manifesto of the new Economic Freedom Fighters party, and public statements in the press and on other platforms have resulted in the gap between executives' and entry-level workers' pay coming under the national spotlight (PwC 2014). Remuneration practices within SOEs are noticeably responsible for deepening inequality, despite SOEs assuming a public mandate to align executives' and general workers' remuneration and bonuses (21st Century Pay Solutions 2012).

The wage gap continues to be a challenging problem in South Africa's unequal society. In 2014, Mergence Investment Managers conducted an analysis of pay practices at the top ten JSE-listed companies. Their research showed an upward trend over the last five years, with the gap between total remuneration and average employee remuneration increasing from just under 120 times in 2009 to over 140 times in 2013 (Lamprecht 2014). Figure 9 illustrates the development of the wage gap over time. It should be noted that the CEOs' total remuneration included base pay, benefits, cash, bonuses, and share-based payments.

MANAGEMENT REMUNERATION IN BOTSWANA

BURS Act (2004) is a creation of the Botswana Parliament. Similar to the UK, Botswana follows a parliamentary system of governance. Under this system of governance citizens elect representatives to a legislative parliament to make the necessary laws and decisions for the country (StrØM, 2000). Lijphardt (1984; 1992) defines parliamentarianism as a form of constitutional democracy in which executive authority emerges from and is responsible to legislative authority.

This system of governance was borne in modern day Britain (StrØM, 2000). Accountability between the principal and agent under parliamentarianism is indirect. For instance, the prime minister (or president) and his/her cabinet are accountable to any majority of the members of parliament (who in turn are accountable to the voters or principals) and can be voted out of office by the latter through a vote of no confidence (Steffani, 1979 cited in Strom 2000). Parliament directly represents the people/electorate (principals) and thus acts as agents of the people/electorate and or principals.

The chain of delegation under this system of governance is arranged as follows; (1) from voters to elected representatives/parliamentarians, (2) from legislators to executive branch in particular to the head of government, (3) from the head of government to heads of different executive departments (ministers) and (4) from heads of different executive departments to civil servants (StrØM, 2000). According to StrØM (2000) civil servants ultimately implement public policy under the parliamentary system of governance.

In the context of BURS, the agency relationships as per the system of parliamentary democracy are as follows:

(1) the electorate/people are the principal owners of BURS while the parliamentarians are their agents (first line of delegation),

(2) the head of government/president is the agent of parliamentarians (second line of delegation), (3) the ministers (in particular MFDP) are agents of the head of executive/president (third line of delegation) and (4) BURS management is the agent of the executive in particular MFDP (fourth line of delegation). This creates a single long chain of delegation with multiple links where a single principal delegates to a single or multiple noncompeting agent.

Conventional agency theory maintains that the interests of the agent and those of the principal never fully converge because of divorce of ownership and control which leaves management free to run the company as it saw fit (Berle and Means, 1932). Managers of contemporary publicly held organisations are not the owners and as such will always maximise their own utility as per the classical economics view of man (Burton, 2000). Literature suggests several mechanisms to try and align the interests of the agents with those of the principal's e.g. outcome-based contracts (Fama, 1980), use information systems to curb agent opportunism (Fama, 1980; Fama and Jensen, 1983), performance contracts, managerial labour market (Eisenhardt, 1989) among others. This remedy is used in the context of a company where the chain of delegation is from the shareholders to the board of directors and to management. Ultimately shareholders may have an opportunity to remove incompetent directors and senior management through a vote at annual general meetings (AGMs).

In the context of BURS, the owners/electorate do not have the luxury to hold AGMs because of the system of parliamentary democracy (StrØM, 2000). Instead, their first line of agents [parliamentarians] are tasked with the responsibility of interrogating on their behalf the report tabled before parliament by the Minister in accordance with provisions of section 29 (2) (d) of the Act. Clearly, taking agency theory argument of non-convergence of the interest of agent and principals, it is logical to conclude that in a long chain of delegation under a parliamentary democracy non-convergence of interests between the owners and the managers is even greater.

2.2.5 HISTORY OF PUBLIC ENTERPRISE PERFORMANCE REFORM IN NAMIBIA

The Public Enterprises Performance Reform started immediately after the Independence of Namibia. At independence, the Namibian Government inherited a civil service of over 42,000 people, highly fragmented along ethnic lines and totally imbalanced (almost all management positions were occupied by white males). The restructuring process which followed involved the creation of thousands of new posts, increasing the number of civil servants to about 70,000. This resulted in huge expenditure on personnel as a proportion of total government current expenditure and a widely held perception that the Namibian public service is bloated and over-subscribed. Namibia's first National Development Plan (NDP 1) suggested that the government reconsider its role as provider of basic services and allow the private sector to play more of a role in service provision (Murray, 2000).

Namibia has a plethora of state-owned enterprises, operating in different sectors of the economy. These entities have different mandates and objectives, having been established for specific identified needs and developmental goals of the state. Over the years, these

entities have performed to varying degrees of achievement. There are high flyers, while others have been much less so. Many factors can explain the degree of performance of Namibian SOEs and the degree to which they have or have not fulfilled their respective mandates.

A similar set of policy proposals came from the 1995 Wage and Salary Commission (Wascom), which recommended that government deliver existing services within reduced budgets. Building on a 1994 Cabinet decision that “areas and functions within the public service need to be commercialized, privatized or deregulated”, Wascom recommended that such restructuring be done “as soon as administratively possible, subject to approval by Cabinet in each case” (Wage and Salary Commission Report, 1995). It recommended the “contracting out of a number of services provided by the civil service”. This is in line with its recommendation that, following the 1995/96 budget, government expenditure on personnel should decrease by 2% per year. While the Wascom recommendations on restructuring did not receive immediate attention, an important development has been the establishment of the Efficiency and Charter Unit, which is developing outsourcing policy and implementing Wascom’s recommendations concerning the improvement of efficiency and delivery in the public service.

Based on these policies, the Namibian government set out the following key objectives for public sector restructuring (Murray, 2000):

- Downsize the public service – This is perhaps the central objective behind the restructuring process. During the 1990s, a commonly held perception within government was that the optimum size of the public service is 30,000, which meant then that the public

service had to be reduced or downsized by not less than 50%. The principal strategies to attain downsizing are outsourcing and commercialisation. This results in employees of public institutions being transferred to newly formed, but government owned entities on terms and conditions of employment that are not worse than what they held in government.

- Reduce fiscal deficit – in theory sourcing out functions and activities to the newly established commercialised entities would enable government to direct public resources to activities which are regarded as necessary for macro-economic growth.
- Improve efficiency – SOEs are expected to operate on commercial principles and thereby realize greater efficiencies in terms of productivity and service delivery.
- Improve service delivery – Government believes that outsourcing and commercialisation will improve the delivery of basic services.

This two-part unpacks the conundrum confronting Namibia's SOEs, with respect to the rationale for their establishment and the unfortunate situations that SOEs confront in their operations leading to retrenchments. In order to do justice to the topic and provide the required insight, the discourse is structured as follows: Definition of SOEs, and Rationale for the Establishment and Existence of SOEs.

2.2.6 DEFINITION OF THE CONCEPT OF STATE-OWNED ENTERPRISES/ PUBLIC ENTERPRISES

State-owned enterprises exist in most, if not all countries around the world. They are known by many names such as government corporations, government business enterprises, government-linked companies, parastatals, public enterprises, public sector units or public sector enterprises and so on. In Namibia, during the first few years, up until

the 2000s, the term parastatal had gained currency and was widely used to refer to state-owned enterprises in the country. However, following the commercialisation of the departments of the former Ministry of Works, Transport and Communication, under the MWTC2000 initiative, which gave birth to the Roads Authority (RA), Roads Contractor Company (RCC), Road Fund Administration (RFA), Namibia Airports Company (NAC) and NamPort, the term state-owned enterprises emerged more preferable.

While literature shows that the definition of SOEs often varies from country to country, the Organisation for Economic Co-operation and Development (OECD) defines SOEs as “enterprises where the state has significant control through full, majority, or significant minority ownership”. In the Namibian context, this definition includes entities owned by the central government (NamPower, NamWater, Air Namibia), as well as those in which regional and local government institutions hold interests such as Nored, Cenored, and the like.

The legal forms which an SOE may take are influenced by various considerations such as: The level of government that owns the enterprise (central/federal, state/regional or local). The way in which the enterprise was founded. The position in the public administration hierarchy. The purpose of the SOE; and the status of the SOE if it is in the process of being privatized.

Other factors include: Full, majority or minority ownership by the government.

2.2.7 LISTINGS ON A STOCK EXCHANGE.

Government shareholdings through vehicles such as government pension funds, asset management funds, restructuring corporations and development lenders. State-enabled as

opposed to state-owned. An example in this regard is an enterprise which has been granted exclusive rights by the state. NamPower, NamWater, and Namibia Airports Company with respect to the commodities they supply or their respective mandates may fall in this category.

The varying forms of SOEs may provide governments with flexibility. However, there are also some downsides. These include complications in ownership policies, lack of transparency and insulation of SOEs from legal provisions that are applicable to other companies, including competition laws, bankruptcy provisions or securities laws. In order to address these concerns, many countries have initiated reforms to harmonize the legal status of SOEs with companies in the private sector.

The aim is to facilitate a more systematic application and enforcement of corporate governance instruments. For instance, the International Public Sector Accounting Standards (IPSAS) Board is in the process of clarifying how SOEs should be governed. This in turn will impact which financial reporting standards apply.

2.2.8 NAMIBIA'S DUAL GOVERNANCE REFORM OF PUBLIC ENTERPRISES OF 2006

The second reform for the Public Enterprises was a dual governance model, under the State Own Enterprises Act of 2006. The Act makes provision for the efficient governance of State-owned enterprises and the monitoring of their performances; to make provision for the restructuring of State-owned enterprises; to establish the State-owned Enterprises Governance Council and define its powers, duties and functions; and to make provision for incidental matters.

- 1) The Council consists of the following members,
- 2) The Prime Minister, who is the chairperson of the Council;
- 3) The member of the Cabinet responsible for finance;
- 4) The member of the Cabinet responsible for trade and industry;
- 5) The Attorney-General of Namibia appointed under Article 32(3)(i)(cc) of the Namibian Constitution; and
- 6) The Director-General of Planning appointed under Article 32(3) (i) (dd) of the Namibian Constitution.

Whenever a matter is to be discussed or considered at a meeting of the Council in relation to a State-owned enterprise or the board of a State-owned enterprise, the Council must invite the relevant portfolio Minister to attend that meeting and, when attending such meeting, a portfolio Minister who is not a member of the Council is deemed to be such a member. The Cabinet may appoint for each member of the Council a member of Cabinet to act as alternate for the member of Council whenever he or she is absent or is unable to attend to his or her duties as such a member.

2.2.9 FUNCTIONS OF THE COUNCIL

- 1) Subject to the Act, the functions of the Council are -
 - a. To establish generally accepted common principles of corporate governance and good practice governing State-owned enterprises;
 - b. To develop common policy frameworks for the operations of State-owned enterprises, including policy on issues relating to human resources, assets and finance;

c. To determine criteria for the performance measurement and evaluation of State-owned enterprises, and develop appropriate means for monitoring their performance;

d. To lay down directives in relation to -

Governance agreements to be entered into by a portfolio Minister with the board of a State-owned enterprise;

a. Performance agreements to be entered into between a portfolio Minister and the individual members of a board of a State-owned enterprise. and between such a board and its chief executive officer and other senior management staff;

b. The remuneration levels of board members, chief executive officers and other senior management staff of State-owned enterprises; and

c. Benefits for employees of State-owned enterprises generally;

d. To make determinations in relation to the number of members to be appointed to the boards of State-owned enterprises and advise the portfolio Ministers on the appointment of such members in accordance with sections 14 and 15;

e. To furnish a portfolio Minister with any comments it may wish to make in relation to an annual budget of a State-owned enterprise submitted to that Minister for approval and provided to the Council for its information and comment;

f. To facilitate the provision of programmes for the training and development of members of the boards and management staff of State-owned enterprises on corporate governance and efficient management practices;

- g. To receive and consider for approval submissions made by State-owned Enterprises on the annual distribution of profits and the declaration of dividends in terms of section 25;
 - h. To submit to Cabinet for decision any proposed restructuring plan prepared and approved by the Council under Part VI in relation to any State-owned enterprise identified by Cabinet for restructuring; and to perform any other function entrusted to the Council by or under this Act or any other law.
- 2) The Council may classify State-owned enterprises into the following categories for the purposes of this Act, namely regulatory enterprises;
- i. service rendering enterprises;
 - ii. economic and productive enterprises;
 - iii. general enterprises; and
 - iv. In performing its functions under subsection (1), differentiate between the different categories of State-owned enterprises.

2.2.10 NAMIBIA'S HYBRID GOVERNANCE REFORM OF PUBLIC ENTERPRISES OF 2016

According to the Hybrid Namibia's Model (2016), there is overwhelming evidence from global case studies (See Annex 1) and the analysis of our current ineffective Dual-Governance Model that a Centralized Governance/Ownership model is the only option to pursue.

Since Independence, the pool of PEs has grown exponentially and all types of entities were included: from Trusts, to commercial companies, to regulatory bodies, educational

facilities, financial institutions and banks, etc. As such, there is no one-size-fits-all approach and some reorganisation is required to arrive at an effective governance model.

2.2.11 HYBRID GOVERNANCE MODEL

The Hybrid Model distinguishing between three primary Categories namely Commercial Public Enterprises, Non-Commercial Public Enterprises and Financial Institutions/ Extra-Budgetary Funds.

For the purpose of the Hybrid Model, a Commercial Public Enterprises is defined as:

- a. "an entity wholly or partially owned and/or controlled by the State which, guided by market principles, is to provide a product or render a service in the best interest of the public while promoting economic growth and fulfilling its mandate; and
- b. Designated as such by the Minister (of Public Enterprises) by notice in the Gazette from time to time."

A Non-Commercial Public Enterprise would be all the other entities included in Schedule 1, which are not of a financial nature. These would resort under the respective line Ministries. All entities of a financial nature, as well as extra-budgetary funds, will resort under Ministry of Finance.

For clarity purposes, the listing of all PEs currently in Schedule 1 of the PEGA, and the intended grouping in Commercial, Non-Commercial and Financial Public Enterprises.

In the Hybrid Governance Model, the administration and supervision of the various groups of Non-Commercial Public Enterprises will be the responsibility of the respective Portfolio Ministries.

While ultimately accountable to the Portfolio Ministry, this category of PEs will still adhere to the MPE issued generally accepted common principles of good Corporate Governance and reporting. This will eventually result in increased effectiveness and efficiency with substantial anticipated cost-savings. The MPE will include these Non-commercial Public Enterprises in its oversight management system that will be made accessible to the Portfolio Ministry.

All financial institutions and extra-budgetary funds will become fully accountable to the Ministry of Finance.

As to the Commercial Public Enterprises, the MPE will execute full shareholder rights. This group of PEs will be wholly accountable to the MPE in terms of commercial and financial operation, and performance. Key oversight functions as per the PEGA include the appointment of Boards, enforcement of good Corporate Governance through Governance and Performance Agreements, critical review of Business and Financial Plans, approval of Annual Budgets, issuance of remuneration directives for Boards and Management, commission of Special Investigations as and when necessary, guidance and approvals during restructuring of PEs.

Portfolio Ministries retain full control of Industrial/Sectoral Policy formulation, Formulation of Sector Legislation and Regulation of the Sector. The Hybrid Governance Model will address the current challenges in the Dual-Governance Model, creating important oversight efficiencies which are expected to have a positive impact on the performance of the PE sector in Namibia.

2.3 EMPIRICAL STUDIES

2.3.1 UNDERSTANDING COMPENSATION IN PUBLIC ENTERPRISES

According to Armstrong and Brown (2001), in their definition, compensation conceptualised it as an adequate and equitable remuneration for employees due to their contributions to achieving organisational objectives. The definition by Naukrihub (2007), states that compensation is an integral part of human resource management which helps in motivating the employees and improving organisational effectiveness, was quite similar. These arguments suggest that there is a link between compensation and job performance. Others argue that compensation must be holistic packages beneficial to both employees and employers. Monday (2008), argues that compensation is a total of all rewards given to employees in return for their services rendered. Compensation implies having organisational policies and procedures in which the employees who perform better are paid more than the average performing employees (Pearce, 2010; Hewitt, 2009).

According Ardana *et al.*, (2012:153), compensation can be seen as everything that is received by the employee as remuneration for his contribution to the company or organisation can be regarded as compensation. If compensation is properly managed, it will be able to help the company or organisation in achieving its goals. Moreover, Ardana *et al.*, (2012:153) says compensation can be given as “wages and salaries” and compensation can be seen as “financial or non-financial.” Of course, in giving compensation, there is a reason or purpose for a company or organisation in giving it. According Notoadmodjo cited by Sutrisno (2014:188), there are several purposes of compensation, they are: rewarding work performance; ensure fairness; maintain employees; Obtain quality employees; Cost control; and Meet regulations of the

government. On the other hand, according to Werther and Davis cited by Subekti and Jauhar (2012:176), the purpose of compensation is an exchange of workers contribution to the organisation. Meanwhile, according to Sunyoto cited by Subekti and Jauhar (2012:180), the purpose of compensation is: captivating employees, keep competent employees, and employee motivation and compensation. In relation to the above explanations or definitions for compensation this speaks, loud in terms of how compensation in SOEs might have been perceived by government as to the purpose of compensation. The SOEs in Namibia were created for the following reasons which are as follows:

Efficiency, create employment and render essential services (SOE Governance Councils Act of 2006). However, the government stated that in order for the above-mentioned purposes to be achieved the SOEs must house well qualified and skilled staff members who are compensated out of the normal government compensation system. This means that they needed a higher compensation as compared to normal government employees. The compensation of SOEs staff was pegged according to the Tier classification which was a compensation framework for SOEs approved by Cabinet. The question now remains how effective was the government in enforcing compensation as it relates to the particular SOEs performance? It was just a blanket decision, that as long as you are an SOE that falls within a particular tier, you were compensated accordingly whether you performed or not. This model of compensation lacked accountability, at the end SOEs may not perform as expected because they know they will still be compensated according to the Tier they fall under. This became a burden to the Namibia government, because in some instances these

SOEs which are not performing and generating profit require funding for operations and still pay for high salaries as according to Tier classification.

Tier classification is not solely pegged on financial performance. However, the basis for classification was asset base, number of employees mainly. The aspect of linking remuneration to performance did not come out strongly, which might have been the cause for SOE CEOs being remunerated highly while the performance was stagnated or the organisation was non-performing. This matter deserves to be researched properly in order to understand its dynamics and effects.

2.3.2 UNDERSTANDING THE PERFORMANCE OF PUBLIC ENTERPRISES

According to Mirriam-Webster Dictionary (2015), there are several definitions of performance, such as: the execution of an action; something accomplished: deed, feat; the fulfilment of a claim, promise, or request; and the ability to perform. Nonetheless, performance is one of the important aspects of a company. According to Prabu (2012:9), employee performance is the work result in quantity and quality that has been achieved by an employee in their task entrusted to them. Moreover, according to Davis as cited in Prabu (2012:13), there are many factors that affecting employee performance, they are: ability and motivation factors. Ability as in potential ability (IQ) and reality ability (knowledge + skill). These means that employees with high IQ can work on the task given more easily. And for motivation, the attitude of leaders and employees towards the work situation.

The matter at hand is what really induces better performance of SOEs in Namibia, could it be remuneration, if so why then does highly paid SOEs not performing. If it was the

matter of being paid high for one to perform, why then are some SOEs which are paid lower outperform others which are paid high.

It should be that it is not necessarily remuneration which contribute to performance there might be other factors which influence performance in SOEs which are not yet known. Therefore, this study seeks to investigate those factors. According to Prabu (2012:14), negative and positive attitude on the situation in the workplace can affect their work. The situation in this sense are: low working relationship, management policy leadership style, and workplace condition. On the other hand, Prabu (2012:14) stated that there are three factors that affecting performance, they are: individual factors, psychological factors, and organisation factors. Of course, by knowing the performance of an employee the company can be benefitted. According to Sulistiani (2009:78), the benefits for the company are: compensation adjustment; performance improvement; for training and development; for employee dismissal and work plan; for research purposes; and help in diagnosing employee mistake.

2.3.3 RELATIONSHIP BETWEEN COMPENSATION AND PERFORMANCE

Crumley (2008), conducted a study of the relationship between company performance and CEO compensation in the U.S. commercial banking industry, making use of data collected from 36 companies during the period 2001 to 2003. The results indicated that there is a weak relationship between both percentage stock price return and percentage return on equity and the percentage change in CEO compensation. The study further revealed a strong relationship between sales, assets and number of employees and dollar level of CEO compensation.

Jeppson *et al.*, (2009), also conducted a study on the relationship between CEO compensation and company performance. The study used change in net income, percentage change in net income, and total revenue as measures of company performance. The results of this study revealed that no strong relationship existed between CEO compensation and company performance in terms of variable change in net income and percentage change in net income; however, the study also revealed the existence of a significant relationship with total revenue. Studies conducted in South Africa on the relationship between CEO remuneration and company performance are scanty. However, in 2009, Scholtz conducted a study on share options as part of executive remuneration. As a result of his study, he proposed changes at internal governance level in order to align executive remuneration with the interests of stakeholders.

Further to that various scholars have attempted examining the relationship between pay and performance extensively and considered it from various perspectives. However, this remains an interesting topic and remains for further understanding. In addition, Smith & Stone (2009), found the relationship to be non-existent and non-significant. Their research stretches across industries and was based on numerous factors of assessment for compensation. Base salary, cash bonuses, perks, stock awards and option awards for compensation whereas for firm performance company revenue, change in net income and total shareholder return were considered. Many of these salary components and firm performance assessments are irrelevant to the SOE sector within Namibia's setup. Tariq (2009), examined the relationship of firm performance and influence of Board and found it to be negative and insignificant. Furthermore, he stated that board size has no influence on company performance.

Ogbeide and Akanji (2016), found in their research on the Nigerian context to be of a similar nature where board size and firm size has a non-significant relationship though in their case they observed that remuneration and firm performance relationship is significantly related. Within the Namibia economy this is not similar in nature, in that the Board is a strong influence on operational matters and also instrumental in the setting of remuneration packages to respective CEO and executive management.

The scholars below found the relationship to be non-existent to relatively insignificant. Furthermore, Bussin and Modau (2015), assessed the relationship from the perspective of short-term incentives link to organisation financial performance and CEO compensation and found the relationship to be declining. To a reduction in performance- linked elements of remuneration in CEO contracts. In the Namibia context there is little to no mention of short term-incentives as this are not in most cases profit driven entities and provision of a performance bonus is only mandated in the State-Owned-Enterprises Remunerations Guideline for Directors and Senior Management. However, so performance bonus is based on both performance and availability of funds and at the discretion of the board or company. On the other hand, Lindstrom and Svensson (2016), found that within the Swedish economic environment the relationship is relative to industry and largely insignificant. Erick *et al.*, (2014), found the relationship to be negative and non-significant and rather suggested capping Executive pay to maximize shareholder wealth within the Kenya Insurance industry context similar to the Namibian context where performance bonus is discretionary.

According to Aduda (2011), the relationship is negative and non-significant within the Kenya Banking industry and similar to Erick *et al.*, (2014), who suggested a capping of

executive compensation to ensure maximization of returns to shareholders. To support the above, Wallsten (2000), also agrees and further, explored mainly two features of the relationship to draw to a conclusion that the relationship is well established. Furthermore, he found the relationship to be reactionary to firm performance and that relationship changing as the CEO ranking alters. Kazan (2016), also confirmed that the relationship is negative his basis of examination is from an agency and stakeholder theory perspective and found that the impact of remuneration of firm performance is similarly negative within the Scandinavian context. However, Scholtz and Smit (2012), found the relationship to be strongly positive for some performance indicators such as total assets, turnover and share prices.

Similarly, also Khalid and Reham (2016), did a study that examined the performance of firms in terms of profitability and its association with management remuneration and found this to be positive and significant whereas Cooper *et al.*, (2009), where they considered the relationship of CEO compensation how and it differs during good times and bad times and changes as executives move along the corporate ladder. The result of research was that the link is significant during periods when firm performance is good but not significant when firm performance is poor. In particular reference to performance rewards awarded to executives.

There are a few scholars who are of the opinion however that the relationship is positive and significant. Prentice (2007), found the relationship to be relative to the industry of focus within the public sector. This can be true as some resources in the Namibia's context are deemed needed more than others. Sigler (2011), agree and further examined the relationship between CEO total compensation and company performance after adoption

of Sarbanes Oxley Act and SEC approval of the corporate governance rules effecting executive pay for NYE companies to be significant and positive, bases of assessment were return on equity (ROE). Furthermore, Sigler (2011), found the relationship to be of a controversial nature, due to the differing legislature in place across countries. Distinct situations within different countries. The manner of data collection and how compensation is measured (method).

The extensive research and the varying outcomes do not sufficiently exhaust the topic and only leads to further need to want to explore it within the Namibian SOE industry environment to want to understand the relationship and the impact of this. The non-existence of any such prior studies done gives a distinct interest. Furthermore, the Namibian local economy is as said before heavily state funded, hence one needs to ensure that these individuals entrusted to grow the shareholders' wealth (Government) are remunerated adequately or appropriately to deliver on the task at hand as well as given mandates. Also, we need to assess the impact this has on firm performance and how this can enhance the said performance. This study will therefore, look at CEO compensation in relation to the SOE performance. The question is, will the results be the same as per the studies conducted in other Countries as stated above? The results will speak for themselves.

2.3.4 SUMMARY

This chapter reviewed related literature in relation to the issue of CEO compensation and performance. The chapter linked some theories on compensation to the practical realism of performance which is a very imperative outcome that any organisation wants to achieve. Furthermore, it gave a brief overview of the various governance frameworks that have been introduced and implemented in attempts to improve and better the governance

of the Namibian State-Owned Enterprises. The next chapter presents the research methods applied for the research.

3 CHAPTER 3

RESEARCH METHODS

3.1 INTRODUCTION

This chapter states the research design of the study, population, sample, the procedure of the study. The research instruments and data analysis tools are also covered. It also looks at the research methods of the study, research ethics and ends with a summary of the chapter.

3.2 RESEARCH DESIGN

The research adopted a quantitative method, in a case study approach. It is a single unit focus in this case the Namibian State-Owned Enterprises sector. The study was to investigate the issues relating to the compensation of CEOs in relation to firm performance within the Namibian SOEs. The period of investigation was from 2011-2015. Due to the recently tabled Hybrid Model of 2016, there was a need to investigate what transpired during the previous governance model (Weylandt, 2016).

3.3 POPULATION

The research population was the 18 Commercial Public Enterprises as stated in the Hybrid Governance Model of 2015. These Commercial PE's came from various industries such

as Transport, Health, Infrastructure, Fisheries, Energy and Mining, Trade and Industry, and Tourism.

3.4 SAMPLE

A sample is a subset of a population selected to participate in the study, it is a fraction of the whole, selected to participate in the research (Zikmund, 2003). The study has no sample since all the 18 Commercial PE as stated in the Hybrid Governance Model of 2015 were used as participants of the study. Sampling is a procedure involving a small number of items or a representative selection of the population to make a conclusion regarding the whole population (Zikmund, 2003). In this case, due to the small and manageable population, there was no need for a sampling technique to be used to sample the participants.

3.5 RESEARCH INSTRUMENTS

The research instrument for this study was a questionnaire with structured and non-structured questions. The questionnaire had four (4) sections. Section A was demographics, Section B was performance of PE, Section C was CEOs' Benefits and the last section was Section D which dealt with Performance versus Compensation.

3.6 PROCEDURE OF THE STUDY

Before the researcher conducted the study the researcher, went to seek for approval from the Ministry of Public Enterprises. After the approval had been received, the researcher went to make appointments with specific CEOs of the Commercial PE in Namibia. The researcher then handed the questionnaire to the CEOs and explained to them that the participation in the research was voluntary and the data collected was to be used for

academic purposes only. After the questionnaire had been completed, the researcher collected the questionnaires. After the collection of the questionnaires, the researcher screened them to make sure they were completed correctly. After confirmation of the completion, a code book was developed and all questionnaires were coded. After the coding of the questionnaires the data was then captured into the Statistical Package for Social Scientists for analysis.

3.7 DATA ANALYSIS

The study made use of Descriptive statistics, Pearson Correlation and Pearson Chi-square tests to measure the association and assess the data using IBM SPSS software.

3.8 RESEARCH ETHICS

The researcher applied the highest standards of confidentiality. Furthermore, this is information that is available in the public domain hence the researcher applied great care to report information accurately and ensure such information is accurately referenced. The researcher will destroy the research data after safeguarding for a minimum of 5 years. The researcher respected the right of the participants.

3.9 SUMMARY

This chapter stated the research design of the study, the population, sample, the data collection procedure of the study. The research instruments and data analysis tools were presented. It also looked at the research methods of the study and the research ethics. The next chapter presents the results of the study and their discussion.

4 CHAPTER

RESULTS AND DISCUSSION

4.1 INTRODUCTION

This chapter is devoted to the presentation and interpretation of the results for the study. The previous chapter gave an insight on the research methodology and design used by the researcher to collect data. The data from the questionnaires was captured in a codebook. A codebook is a document that summarises the data on questionnaires clearly and succinctly. The Statistical Package for Social Sciences (SPSS) was used in the analysis of the collected data. According to Saunders, Lewis and Thornhill (2012), a researcher can utilise a statistical programme to analyse data. Data was presented in various formats including tables, graphs and descriptive narrations.

4.2 DEMOGRAPHIC ANALYSIS

4.2.1 GENDER

Figure 4.1 below indicates that 84.6 % of the respondents were male while 15.4 % were female. This was an indication that there is fewer females within executive management within the SOE sector. In most cases the CEOs either completed the questionnaire or indicated a designated person for completion. The majority of the respondents were however as mentioned male which speaks to the true picture of the imbalance in favour

of males. CEOs in Namibia within the sampled 18 Commercial Entities is only two in number as opposed to 16 male CEOs.

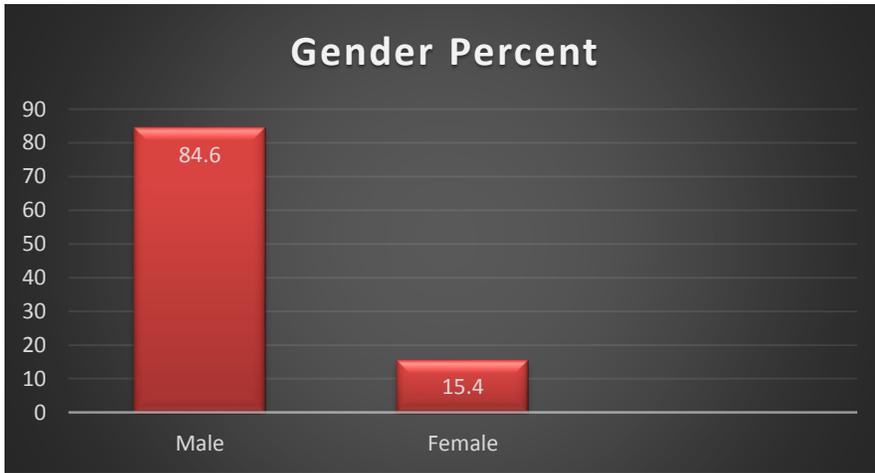


Figure 4.1 Gender

Source: Survey Results

4.2.2 POSITION

Figure 4.2 below indicates the positions of the respondents: Acting CEO 1, CEO 3, Chief Human Capital 1, Strategic chief Human 1, Capital Officer 1, Council Administrator Executive 1, HC executive 1, HR Manager 1, OD 1, MD 1, Senior Manager Sales/Business Development 1. The number of CEO is bigger, meaning that the majority of respondents to the survey were CEOs.

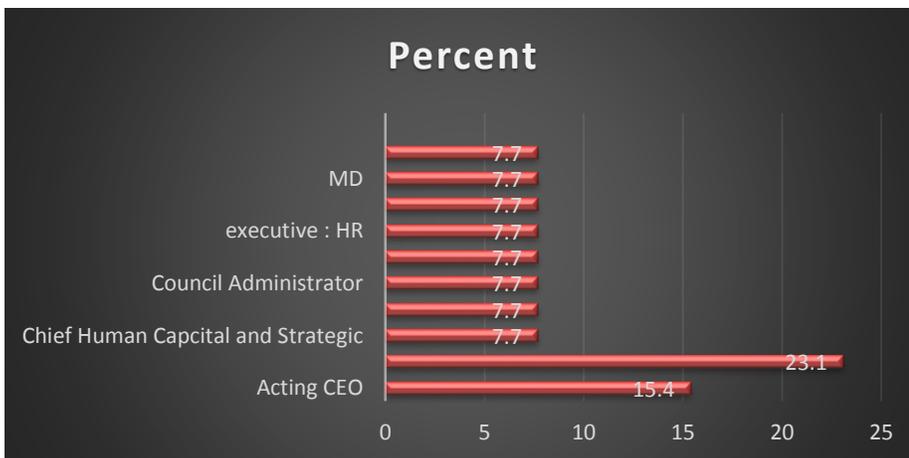


Figure 4.2 Position

Source: Survey Results

4.2.3 SECTOR

The figure 4.3 below indicates sectors of SOEs: Transport 53.8%, Energy and Mining 15.4%, Agriculture 7.7%, Fisheries 7.7%, Other 15.4%. Most of the respondents came from the transport sector with 50%+ of the total respondents. This shows that most of the SOEs in Namibia are in the transport sector.

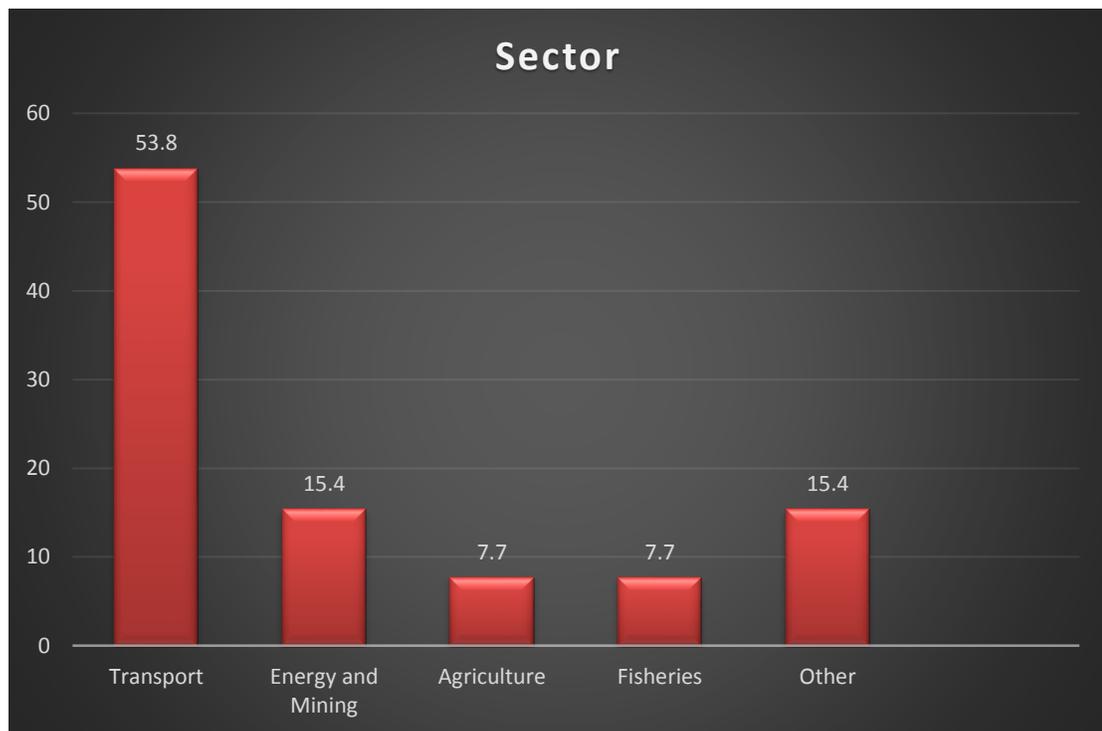


Figure 4.3 Sector

Source: Survey Results

4.2.4 CATEGORY TIER

Figure 4.4 below indicates categories of CEOs Tier 2, 38.5%, Tier 3 53.8%, None of the above 7.7%. The results indicated that most of the CEOs fall under tier 3 category. This

means that most of the CEOs in the public sector enterprises are ranked below their counter-parts in the private sector.

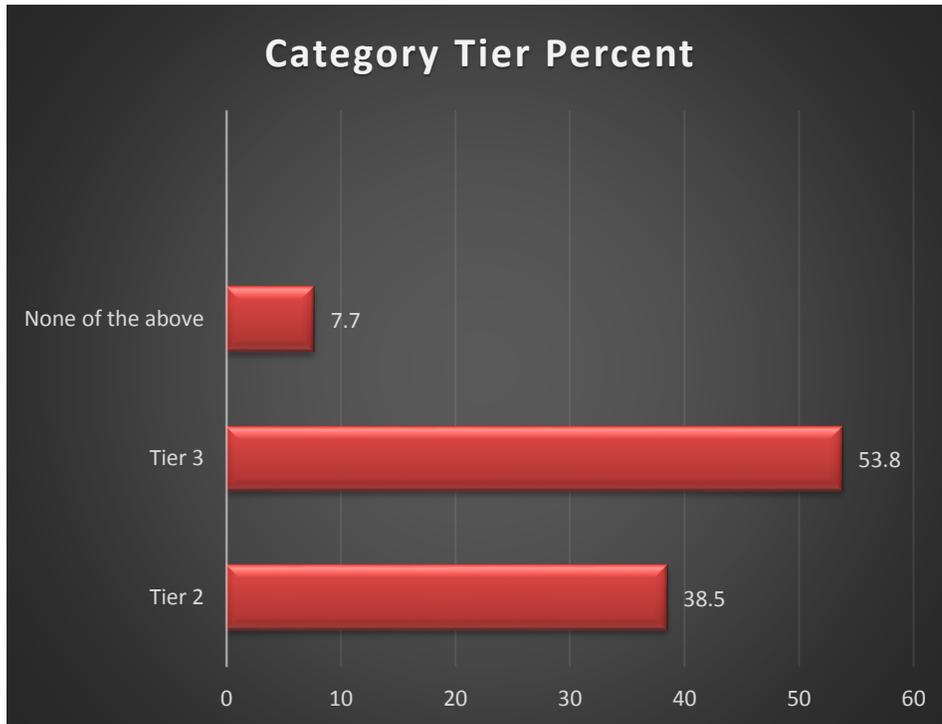


Figure 4.4 Category Tier

Source: Survey Results

4.2.5 TENURE

Figure 4.5, below indicates the tenure of the CEOs: 0-5 years 84.6% and 6-10 years 15.4%. The results show that most of the CEOs have been in office for years below 5 and this may mean that they are not well experienced in their positions. This is lower than the average tenure found by Wowak, Hambrick, and Henderson (2011) of 4.48 years, as well as Yan *et al.*, (2015), who found a mean tenure of 11.30. The CEOs' tenure might indicate that, within SOEs, CEOs may not have as much power to dictate their remuneration. Ozkan (2011) proposes that CEOs with a longer tenure.

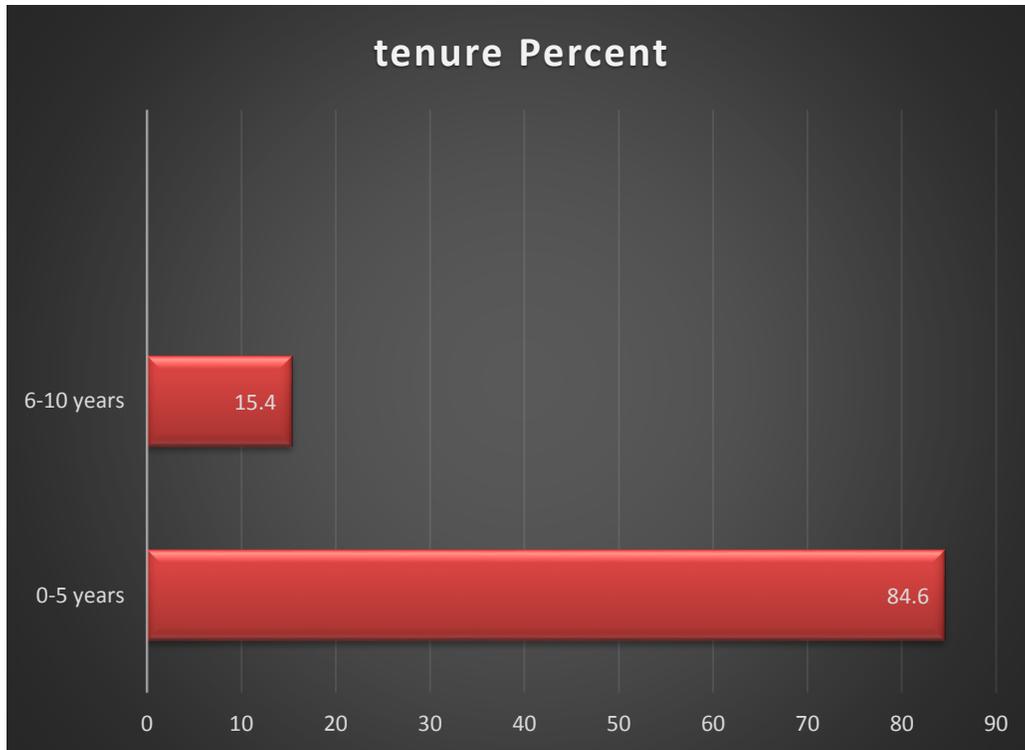


Figure 4.5 Tenure

Source: Survey Results

4.3 PERFORMANCE OF SOEs IN NAMIBIA

4.3.1 PUBLIC ENTERPRISE PERFORMANCE

Figure 4.6 below indicates the performance of the SOEs: Not satisfactory 15.4%, satisfactory 61.5% and above expectation 23.1%. Most CEOs indicated that they are satisfied with the performance of the SOEs. This means that CEOs are comfortable with the performance of their organisations.



Figure 4.6 Public Enterprise Performance

Source: Survey Results

4.4 CEO COMPENSATION PACKAGES

4.4.1 REMUNERATION

Figure 4.7, below indicates remuneration of the CEOs. When asked if they felt their remuneration was fair, those who said yes were 76.9% and no were 23.1%. This shows that most of the CEOs were content with their earnings. Many CEO respondents were satisfied with their packages and were also satisfied with the performance of their respective organisations.

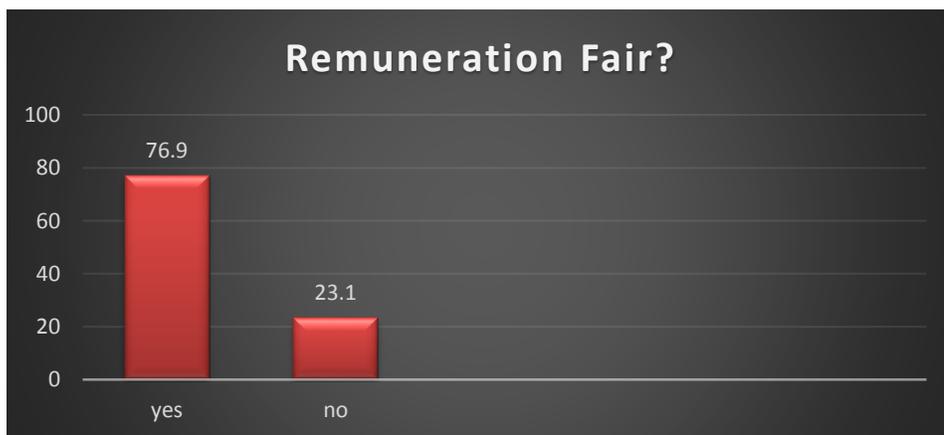


Figure 4.7 Remuneration Fair?

4.4.2 REMUNERATION RANGE

Figure 4.8, below indicates the remuneration range of the CEOs. Those who were earning below 1 million 15.4%, 1-1.5 million 38.5%, 1.6-2 million 15.4%, 2.1-3 million 15.4%. Most of the CEOs are in the range of N\$1-1.5m. Many CEOs were falling under the N\$2 million bracket, this is mainly attributed to the performance of their organisations.

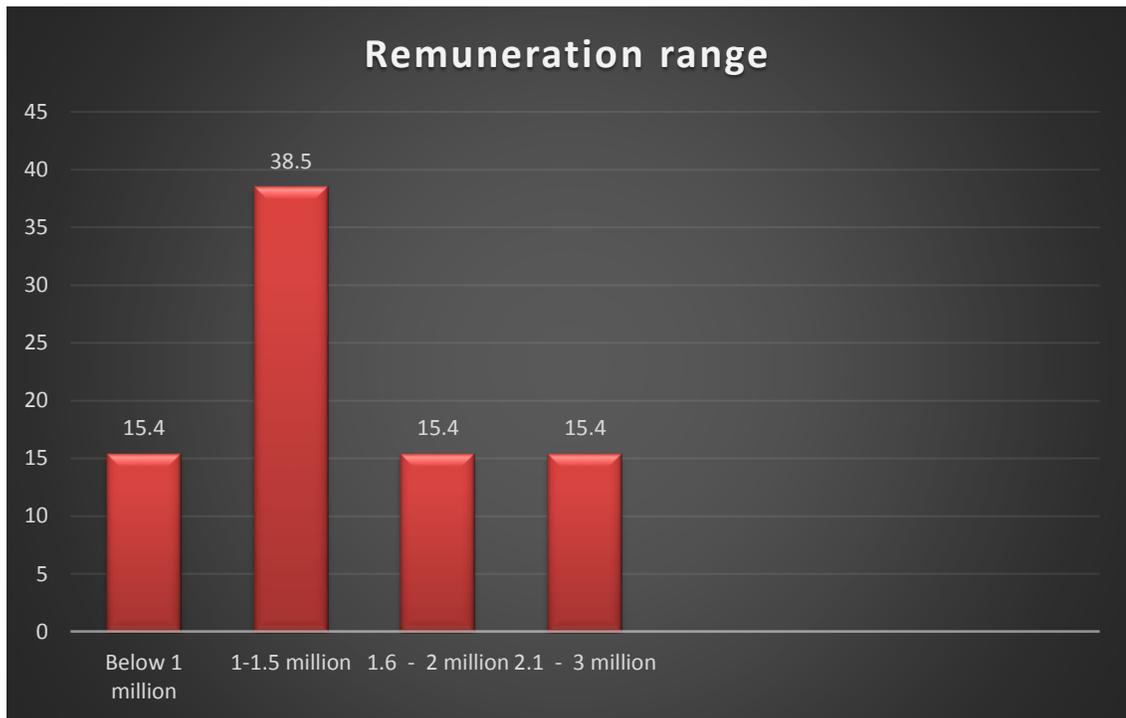


Figure 4.8 Remuneration Range

Source: Survey Results

4.4.3 OTHER BENEFITS

Figure 4.9, below shows that 69.2% of the CEOs said yes to receive other benefits and 30.8% said no. The study results show that most CEOs were receiving various benefits from their respective organisations. This is supported by 69% of the interviewed CEOs.

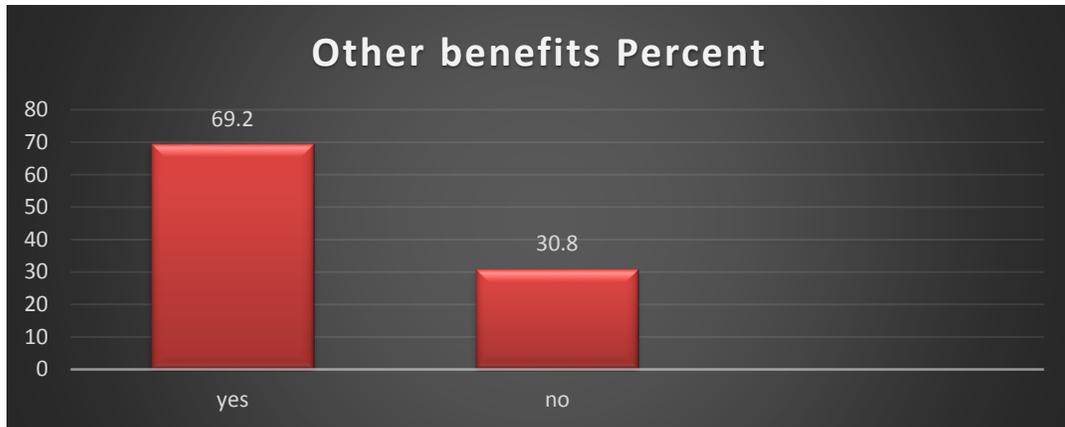


Figure 4.9 Other benefits

Source: Survey Results

4.4.4 SATISFACTION

Figure 4.10, below is a pie-chart showing 69.2% of CEOs admitting to be satisfied with their compensation packages and 30.8% indicating dissatisfaction.

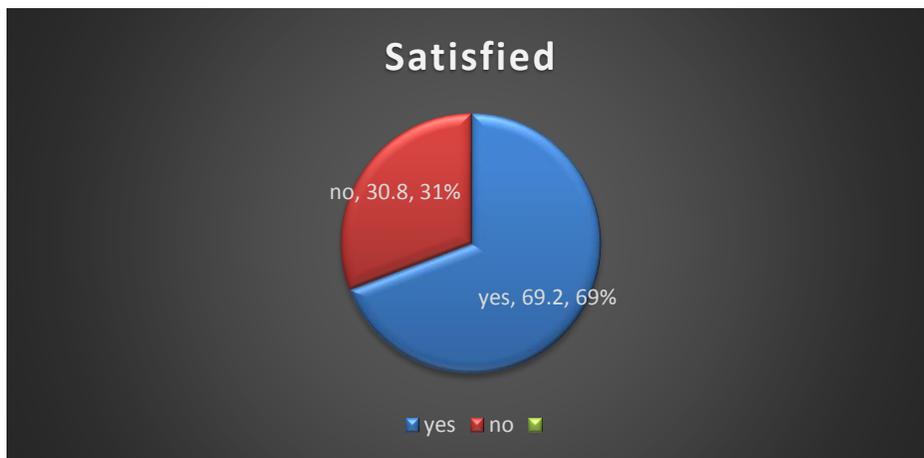


Figure 4.10 Satisfaction

Source: Survey Results

4.4.5 NEED TO IMPROVE ON REMUNERATION

Figure 4.11, below is a pie-chart showing 61.5% of the CEOs acknowledging the need to improve on remuneration and 38.5% indicating that there is no need.

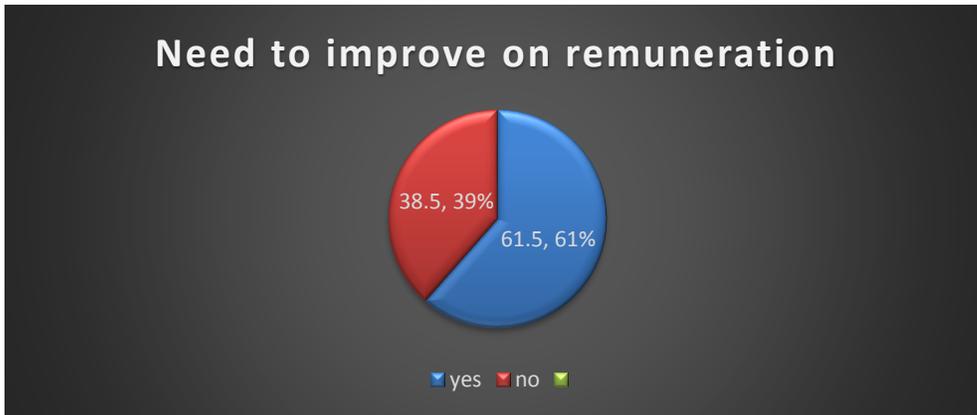


Figure 4.11 Need to improve on remuneration

Source: Survey Results

The CEOs indicated that they are satisfied by the performance of their respective SOEs with the majority 9 out of 13 indicating that they are satisfied. 9 CEOs out of the 13 indicated that they are satisfied with the remuneration that they are receiving. The CEOs also indicated that they are satisfied with other benefits they are receiving. The CEOs' position on their compensation package was that it was satisfactory although they indicated that there may be room for improvement.

4.5 RELATIONSHIP BETWEEN PERFORMANCE AND REMUNERATION

4.5.1 LINK BETWEEN PERFORMANCE AND REMUNERATION

Figure 4.12 below is a bar-chart showing 53.8% of the CEOs stated that there is no relationship between performance and remuneration and 46.2% indicated that there is a link.

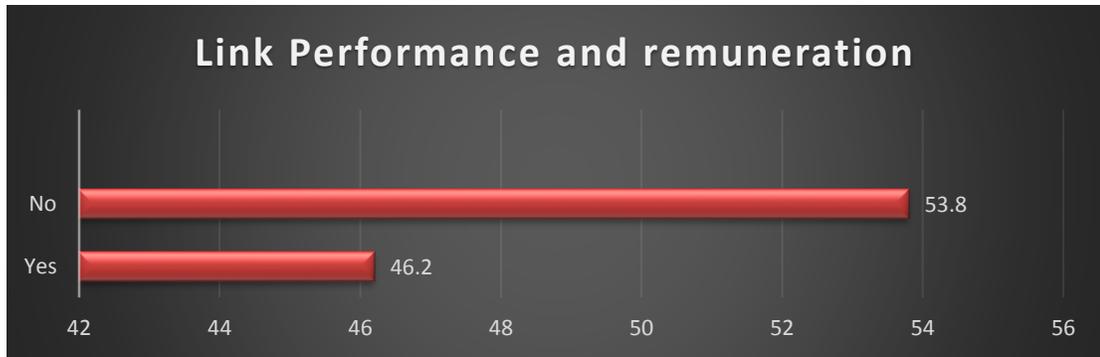


Figure 4.12 Link Performance and Remuneration

Source: Survey Results

4.5.2 INFLUENCE

Figure 4.13, depicts the influence of CEOs' compensation packages on the performance of the SOEs. 46.2% of the CEOs stated influence to be low, 35.8 rated average and 15.4% rated high.

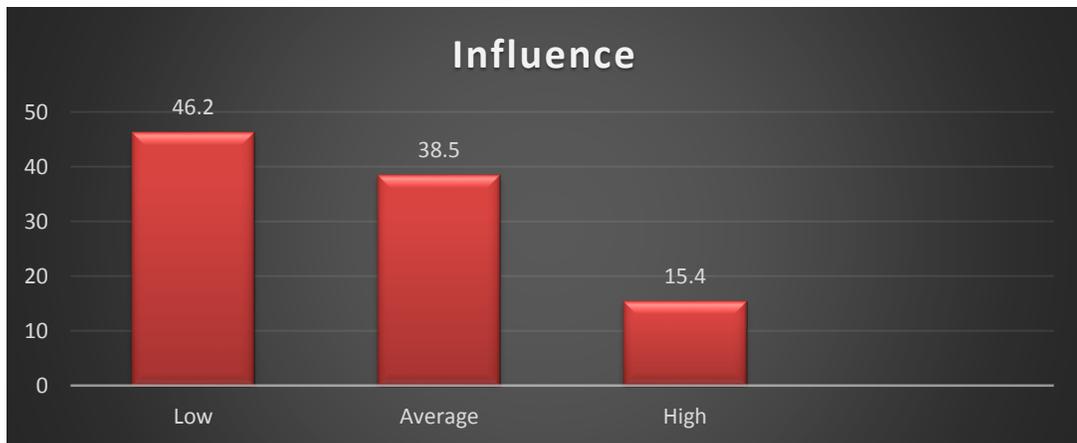


Figure 4.13 Influences

Source: Survey Results

4.5.3 MORE MONEY BETTER PERFORMANCE?

Figure 4.14, below reveals whether more money to the CEOs improves organisational performance or not. 69.2% of the CEOs posit that more money has no impact on performance improvement and 30.8% said more money helps improve performance.

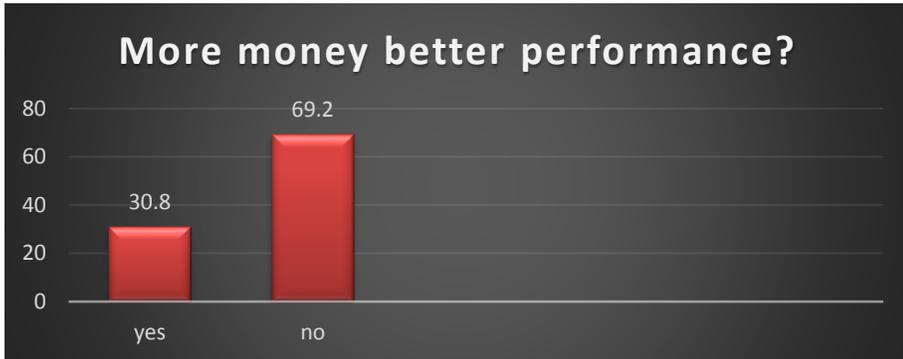


Figure 4.14 More money better performance

Source: Survey Results

4.5.4 COMPENSATION ONLY FACTOR OF INFLUENCE?

Figure 4.15, reveals whether compensation is the only factor influencing performance or not. 92.3% of the CEOs posit that compensation is not the only factor which influences performance and 7.7% indicated compensation as the sole influencer of performance.

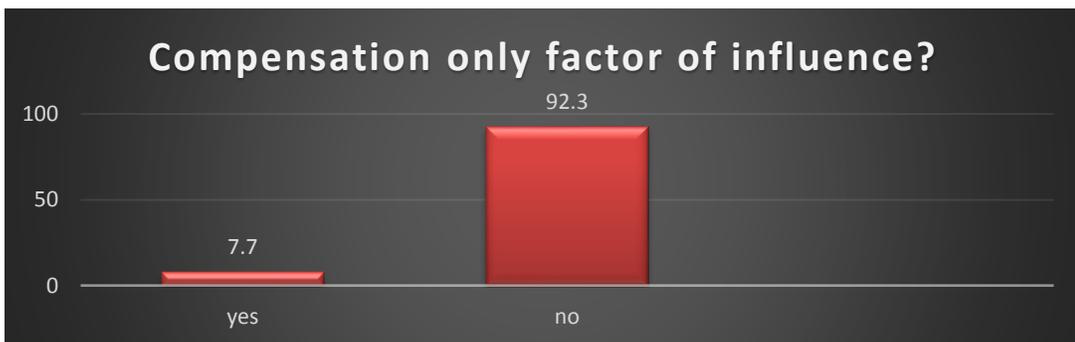


Figure 4.15 Compensation only factor of influence?

Source: Survey Results

4.5.5 The Results of Chi-square tests of the relationship between CEO Compensation and Firm Performance

A Cross-tabulation of Compensation by *Tenure of Office

Compensation cross tabulation by tenure $X^2=4.278$ P= 0.039

		Tenure		Total
		0-5 years	6-10 years	
Compensation	Low Compensation (1.5 million and below)	7	0	7
	High Compensation (1.6 million and above)	2	2	4
Total		9	2	11

Table 4.1 A Cross-tabulation of Compensation by *Tenure of Office

Source: Survey Results

The findings from the overall Chi-Square Tests indicate that there is a significant relationship between compensation and tenure in Namibian SOEs ($X^2=4.278$, $p= 0.039$). Those with higher tenure tended to have higher compensation.

A Cross-tabulation of Compensation by * Return on Equity

Compensation cross tabulation by tenure $X^2= 2.236$ p= 0.525

		Return on Equity				Total
		under 20	under 10	under 5	under 1	
Compensation	Low Compensation (1.5 million and below)	0	1	1	1	3
	High Compensation (1.6 million and above)	1	0	1	2	4
Total		1	1	2	3	7

Table 4.2 Cross-tabulation of Compensation by * Return on Equity

Source: Survey Results

The findings from the Compensation by Return on Equity cross-tabulation indicate that there is no significant relationship between compensation and return on equity in Namibian SOEs ($X^2= 2.236$ $p= 0.525$).

A Cross-tabulation of Compensation by * Total Assets

Compensation cross tabulation by Total Assets $X^2= 4.278$ $p=0.233$

	Total Assets				Total
	under 25 billion	under 10 billion	under 5 billion	under 1 billion	
Low Compensation (1.5 million and below)	0	0	2	1	3
High Compensation (1.6 million and above)	1	1	0	2	4
Total	1	1	2	3	7

Table 4.3 Cross-tabulation of Compensation by * Total Assets

Source: Survey Results

The findings from the Compensation by Total Assets cross-tabulation indicate that there is no significant relationship between compensation and total assets in Namibian SOEs ($X^2= 4.278$ $p=0.233$).

A Cross-tabulation of Compensation by * Return on assets

Compensation cross tabulation by Return on Assets $X^2= 4.958, p= 0.175$

	Return on assets				Total
	under 0.9	under 0.09	under 0.009	under 0.00009	
Low Compensation (1.5 million and below)	1	0	2	0	3
High Compensation (1.6 million and above)	1	2	0	1	4
Total	2	2	2	1	7

Table 4.4 Cross-tabulation of Compensation by * Return on assets

Source: Survey Results

The findings from the Compensation * Return on assets table indicate that there is no significant relationship between compensation and return on assets in Namibian SOEs ($X^2= 4.958, p= 0.175$).

DISCUSSION

Gender demographics indicated that 84.6 % of the respondents were male while 15.4 % were female. This was an indication that there are fewer female CEOs in Namibia within the SOEs than males. Position statistics indicated positions of respondents: Acting CEO 15.4%, CEO 23%, Chief Human Capital 7.7%, Strategic chief Human 7.7%, Capital

Officer 7.7%, Council Administrator Executive 7.7%, HC executive 7.7%, HR Manager 7.7%, OD 7.7%, MD 7.7%, Snr Manager Sales/Business Development 7.7%. Sector demographics indicated sectors of SOEs: Transport 53.8% Energy and Mining 15.4% Agriculture 7.7% Fisheries 7.7% Other 15.4%. This shows that most of the SOEs are in the transport sector. Category figures indicated categories of CEOs Tier 2, 38.5%, Tier 3 53.8% and None of the above 7.7%. Tenure figures indicated tenure of the CEOs 0-5 years 84.6%, 6-10 years 15.4%

Public Enterprise Performance variable statistics indicated that CEOs of the SOEs were satisfied with the performance of their organisations. According to Dong and Ozkan (2007), there is a significant relationship between the company performance and CEO pay. CEO pay is needed to solve the agency theory that arises in most of the companies. Meaning to say, giving the right incentive to the director is to help align the interests of the managers and the shareholder. For the dependent variable, firm performance, there are several options or measures. Previous studies regarding this topic have used several different measures as indicators for firm performance. Kuo *et al.*, (2013) use return on equity (ROE) as their performance measure. In this study Return On Assets (ROA) was used to measure the firm's performance. Only 15.4% of the CEOs were not satisfied against 61.5% who were satisfied with 23.1% of the respondents revealing that they were more than satisfied. These results show that most CEOs are content with the performance of their public enterprises.

There are many factors that can influence and determine the compensation of the CEO. Based on the work of Alves, Couto and Francisco (2016), four main factors were presented, explaining CEO compensation: company performance; firm specific

characteristics; CEO specific characteristics; and structure of the board of directors. Remuneration findings indicated most CEOs are well remunerated. Those who said yes to the variable question (Do you think PE's CEO is fairly remunerated) were 76.9% and no were 23.1%. This shows that most of the CEOs were content with their earnings. Remuneration range of the CEOs. Those who were earning below 1 million 15.4%, 1-1.5 million 38.5%, 1.6-2 million 15.4%, 2.1-3 million 15.4%. Most of the CEOs were in the range of N\$1-1.5m.

Other Benefits questions showed that 69.2% of the CEOs said yes to receive other benefits and 30.8% said no. Satisfied question showed 69.2% of the CEOs admitting to be satisfied with their compensation packages and 30.8% indicating dissatisfaction. Need to Improve on Remuneration question showed 61.5% of the CEOs acknowledging the need to improve on remuneration and 38.5% indicating that there is no need.

CEOs are expected to earn more when firm performance is good, indicating that their compensation is linked to performance (El-Sayed & Elbardan, 2016). The link between variable performance and remuneration showed 53.8% of the CEOs stated that there is a relationship between performance and remuneration and 46.2% indicated that there is a link.

The Influence question depicts the influence of CEO compensation packages on performance of the SOEs. 46.2% of the CEOs stated influence to be low, 35.8 rated average and 15.4% rated high.

More money better performance question revealed whether more money to the CEOs improves organisational performance or not. 69.2% of the CEOs posits more money has

no impact on performance improvement and 30.8% said more money helps improve performance.

Compensation only factor of influence question reveals whether compensation is the only factor influencing performance or not. 92.3% of the CEOs posit compensation is not the only factor which influences performance and 7.7% indicated compensation as the sole influencer of performance.

However, the regression analysis from the model indicated that there is no significant relationship between CEO remuneration range and independent variables: tenure, ROE, ROA, TA with an average coefficient significance of .658 which is above the expected $p < .005$.

The findings of this research, that CEO's pay has a relationship with tenure, ROE, ROA, TA, respectively, support the findings of Ndofirepi (2015), Modau (2013), and Barber *et al.*, (2006). Ndofirepi (2015) found a statistically insignificant relationship between fixed pay and accounting-based performance measures (ROA and ROE).

In his study, Modau (2013) found an inverse relationship between fixed pay and ROE, whereas Barber *et al.*, (2006) found a strong relationship between CEO salary and net income in restaurant companies. The findings of the present study are contrary to those of Osei-Bonsu and Lutta (2016), who found that CEOs' salaries are not linked to company performance. Fan, Wong, and Zhang (2007) posit that listed SOEs normally have close political connections with government. It may be the case that an increase in IFWE signals an inept board or management that could result in a loss of crucial political connections for these SOEs (Conyon & He 2016). Therefore, the negative relationship between fixed

pay and IFWE could suggest that boards and shareholders reduce fixed salaries of executives to penalise them for such losses.

The results of the present study further show that the higher an SOE's turnover and NP are, the more fixed pay the CEOs will earn. Based on the finding of a statistically strong positive relationship between fixed pay and Turnover, it could be argued that a CEO that generates a higher income for the SOE is considered to perform well, for which he or she is rewarded. This could explain the connection between CEO remuneration and company performance posited by Andersson and Andersson (2006).

The Pearson Chi-square results indicated there is a relationship between compensation and tenure only. The other variables (return on assets, return on equity and total assets) were not significantly associated with compensation. Jeppson *et al.*, (2009), also conducted a study on the relationship between CEO compensation and company performance. The study used change in net income, percentage change in net income, and total revenue as measures of company performance. The results of this study revealed that no strong relationship existed between CEO compensation and company performance in terms of variable change in net income and percentage change in net income; however, the study also revealed the existence of a significant relationship with total revenue. This assertion supports the findings of this researcher, that most variables of company performance are irrelevant to CEO's compensation.

4.6 SUMMARY

CEO pay and firm performance play a big role in every company and there are lots of researches and studies that emphasise a strong positive relationship between CEO pay and

firm performance. As mentioned earlier, most of the studies that have been done before show a positive relationship between firm performance and CEO pay by using CEO pay as their dependent variable and firm performance as their independent variable. From the results that the researcher got, the researcher concluded that there is a weak relationship between CEOs' remuneration and the organisation's performance. The next chapter presents a summary of the results, the conclusions and recommendations of the study.

5 CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The purpose of this study was to analyse the relationship between CEO compensation packages and Public enterprises' performance. This was done through determining the perceptions and attitude of SOEs' CEOs towards Public Enterprise performance in relation to CEO compensation. This chapter presents a summary of the results, the conclusions, recommendations and winds up by identifying areas for future studies.

5.2 SUMMARY OF RESULTS

Gender demographics indicated that there are fewer female CEOs in Namibia within the SOEs than males. Position statistics indicated that the number of male CEOs is bigger.

Sector demographics showed that most the SOEs are in transport sector. Tenure figures indicated tenure of the CEOs 0-5 years 84.6%, 6-10 years 15.4%.

Public Enterprise Performance variable statistics indicated that CEOs of the SOEs were satisfied with the performance of their organisations. According to Dong and Ozkan (2007), there is a positive relationship between the company performance and CEO pay. CEO pay is needed to solve the agency theory that arises in most of the companies. Meaning to say, giving the right incentive to the director should help align the interests of managers and the shareholder. For the dependent variable, firm performance, there are

several measures one can take. Previous studies regarding this topic have used several different measures as indicators for firm performance. Kuo *et al.*, (2013) used return on equity (ROE) as their performance measure. In this study Return on Asset was used to measure the firm's performance. Only 15.4% of the CEOs were not satisfied against 61.5% satisfied. 23.1% of the respondents revealed that they are above satisfaction. These results show that most CEOs are content with the performance of their public enterprises. There are many factors that can influence and determine the compensation of the CEO. Based on the work of Alves, Couto and Francisco (2016), four main factors are presented, explaining CEO compensation: company performance; firm specific characteristics; CEO specific characteristics; and structure of the board of directors. Remuneration findings indicated CEOs are well remunerated. This shows that most of the CEOs were content with their earnings.

Remuneration range of the CEOs. Most of the CEOs were in the range of N\$1-1.5m. Regarding the Other Benefits question, most of the respondents showed 69.2% CEOs said yes to receiving other benefits and 30.8% said No. Satisfied question showed 69.2% CEOs admitting to be satisfied with their compensation packages and 30.8% indicating dissatisfaction. Need to Improve on Remuneration question showed 61.5% of the CEOs acknowledging the need to improve on remuneration and 38.5% indicating that there is no need.

CEOs are expected to earn more when firm performance is good, indicating that their compensation is linked to performance measures (El-Sayed & Elbardan, 2016). The link between variable performance and remuneration showed 53.8% of the CEOs stated that there is a relationship between performance and remuneration and 46.2% indicated that there is a link.

Influence question depicted the influence of CEOs' compensation packages on performance of the SOEs. 46.2% of the CEOs stated influence to be low, 35.8 rated average and 15.4% rated high.

More money better performance question revealed whether more money to the CEOs improves organisational performance or not. 69.2% of the CEOs posits more money has no impact on performance improvement and 30.8% said more money helps improve performance.

Compensation only factor of influence question revealed whether compensation is the only factor influencing performance or not. 92.3% of the CEOs posited compensation is not the only factor which influences performance and 7.7% indicated compensation as the sole influencer of performance.

However, the regression analysis from the model indicated that there is no significant relationship between CEO remuneration range and independent variables: tenure, ROE, ROA, TA with an average coefficient significance of .658 which is above the expected $p < .005$. Relationship between fixed pay and company performance.

The findings of this research, that CEOs' pay has a relationship with tenure, ROE, ROA, TA, respectively, support the findings of Ndofirepi (2015), Modau (2013), and Barber *et al.*, (2006). Ndofirepi (2015) found a statistically insignificant relationship between fixed pay and accounting-based performance measures (ROA and ROE).

In his study, Modau (2013) found an inverse relationship between fixed pay and ROE, whereas Barber *et al.*, (2006) found a strong relationship between CEO salary and net income in restaurant companies. The findings of the present study are contrary to those of

Osei-Bonsu and Lutta (2016), who found that CEOs' salaries are not linked to company performance. Fan, Wong, and Zhang (2007) posit that listed SOEs normally have close political connections with government. It may be the case that an increase in IFWE signals an inept board or management that could result in a loss of crucial political connections for these SOEs (Conyon & He 2016). Therefore, the negative relationship between fixed pay and IFWE could suggest that boards and shareholders reduce fixed salaries of executives to penalise them for such losses.

The results of the present study further show that the higher an SOE's turnover and NP are, the more fixed pay the CEOs will earn. Based on the findings of a statistically strong positive relationship between fixed pay and Turnover, it could be argued that a CEO that generates a higher income for an SOE is considered to perform well, for which he or she is rewarded. This could explain the connection between CEO remuneration and company performance posited by Andersson and Andersson (2006).

The Pearson Chi-square results indicated there is a positive relationship between compensation and tenure only and the other variables (return on assets, return on equity and total assets) against compensation tested negatively, suggesting a weak or no relationship between the variables.

CEO pay and firm performance play a big role in every company and there are lots of researches and studies that emphasise a strong positive relationship between CEO pay and firm performance. As mentioned earlier, most of the studies that have been done before, show a positive relationship between firm performance and CEO pay by using CEO pay as their dependent variable and firm performance as their independent variable. From the

results that the researcher got, the researcher concluded that there is a weak relationship between CEOs' remuneration and the organisation's performance.

5.3 RECOMMENDATIONS

The relationship between CEO remuneration and company performance has become a much-debated topic in academic and public spheres. Critics claim that CEOs are overpaid in relation to the performance of the companies they manage. Therefore, if there is no meaningful relationship between a CEO's remuneration and the company's performance, this claim is founded. Furthermore, it is then debatable whether the millions of dollars of assets of SOEs are being managed cost-effectively.

This study provides an original contribution regarding the relationship between CEOs' remuneration and the performance of SOEs in Namibia. This will be of particular interest to investors and other stakeholders, such as unions and regulators, who expect CEO remuneration to be aligned to SOE performance.

5.3.1 Recommendations to stakeholders

In managing the relationship between SOEs' performance and their CEOs' remuneration, it is recommended that the relevant stakeholders consider the following:

- Regarding the effect of the CEO's preferences in determining his or her remuneration, it is recommended that SOEs develop a formal, standardised policy that deals specifically with discretion with regards to the strategy for the CEO's rewards;
- Regarding the alignment of the CEO's remuneration with the SOE's performance, the current notable misalignment could be evidence of inappropriately designed

remuneration frameworks that promote self-interested behaviour by CEOs. It is therefore recommended that SOEs develop a remuneration framework that ensures alignment between SOE performance and CEO remuneration;

- Regarding company performance measures that are important when determining CEOs' remuneration, it is recommended that SOEs' boards remuneration committees meticulously consider the following measures to determine remuneration: turnover, operating profit and net profit liquidity
- Jensen *et al.*, (2004) maintain that inappropriate measurement of performance leads to inappropriate incentives. SOEs need to communicate measures of CEO performance to CEOs, stakeholders and employees within the company, with the remuneration of CEOs clearly linked to these measures, to ensure high performance of SOEs;
- Once SOEs have identified the suitable and relevant measures of their performance, these need to be linked to realistic and achievable targets for CEOs, in alignment with stakeholders' expectations;
- SOEs need to develop well-defined, all-inclusive, and contemporary guidelines for setting CEOs' remuneration.

5.3.2 Recommendations to remuneration and HR practitioners

In designing any HR programme, remuneration specialists and HR practitioners have the opportunity to ensure that the design principles and features of the programme are aligned with market practices and the organisation's objectives. Based on the results of the present study, it is recommended that remuneration specialists and HR practitioners ensure that:

- SOEs' remuneration committees set remuneration in an equitable and fair manner, and are aware of social out-group bias (the tendency to have negative views about people who are not members of one's own group);
- As per the findings of Maloa (2015), inconsistencies and absence of checks and balances exists in terms of the implementation of transformation in executive remuneration. Remuneration specialists and HR practitioners, therefore need to ensure that the Employment Equity Act (EEA) 55 of 1998 is adhered to in setting CEOs' remuneration. The EEA requires employers to take measures to progressively reduce a disproportionate income differential and to institute an equal pay for equal work philosophy;
- STI payments are aligned with agreed-upon performance objectives. These objectives should not be repeated across incentives and if the performance criteria is not met, they should not be re-tested in a subsequent year;
- SOEs' remuneration committees calculate CEOs' remuneration according to a prescribed and rational method and in a transparent way, which will ensure that the shareholders' and the taxpayers' interests are protected;
- A remuneration framework and policy for CEOs of SOEs is developed that is fair and responsible with reference to all employees

5.4 AREAS FOR FUTURE RESEARCH

In order to achieve better and accurate results for future research, suggestions are proposed. A test on a larger sample with different sectors might be able to reveal more interesting and overall results. The collection of data sample could be larger by increasing the sample and adding in various sectors such as technology, finance, industries and other

organisations besides SOEs. The stratified sampling method can be used in each sector to give equal opportunity to be selected for the future studies. By testing on a larger sample and more sectors, the results on the relationship between firm performance and CEO pay will be more accurate.

Lastly, besides CEO pay, there are many other variables that might affect firm performance which are not included in this research. For example, the changes in politics, government policies on tax, the quality of internal management systems and many more. Studying more variables would give one a better understanding on the factors that will affect firm performance.

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6 ANNEXURE 1

University of Namibia

MBA: Management Strategy

**Investigation into the relationship between CEO compensation and Firm
Performance: Case study of Namibian SOEs'**

SECTION A: DEMOGRAPHICS

1) Name of institution

2) What position do you hold?

3) How long have you been in the current position?

(Please tick)

- a) 0-5 years
- b) 6-10 years
- c) 11-15 years
- d) 16-plus years

4) Gender

(Please tick)

- a) Male
- b) Female

5) What category Tier do you fall under

(Please tick)

4) Are you satisfied with the current remuneration of your CEO in your PE or are you satisfied with your remuneration package? (please tick)

Yes

No

Motivate your answer

5) Do you think there is a need to improve on the remuneration for CEO in your respective PE (please tick)

Yes

No

Motivate your answer

2) Based on your answer for Question 1 how has performance been influenced by the compensation of CEO (please tick)

- a) Low
- b) Average (middle)
- c) High

3) Do you think if CEO's are remunerated more performance of your PE will improve (please tick)

- Yes
- No

Motivate your answer

4) In your own view is the CEO compensation the only factor that influence the performance of your PE (please tick)

- Yes
- No

Motivate your answer

5) Based on the above answer are there any other factor that influences your PE performance what are they. List at least 6 factors

- 1-----
- 2-----
- 3-----
- 4-----
- 5-----
- 6-----

6) Can you rank them in order of priority

- 1-----
- 2-----
- 3-----
- 4-----
- 5-----
- 6-----

Thank you for your co-operation.