“Investigating the extent of sustainability reporting in the banking industry”

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Investigating the extent of sustainability reporting in the banking industry

Abstract

This study investigated the extent to which banks in South Africa report on remuneration and incentives according to the Global Reporting Initiative (GRI) guidelines. The study was done by examining the annual integrated reports of eight commercial banks listed on the Johannesburg Stock Exchange. Content analysis was used as the research method in this empirical study. There was, on average, 75% compliance to G4-51 a, the standard concerning remuneration policies by the integrated reports studied and 69% compliance to G4-52 a, the standard concerning the process for determining remuneration. There was a very low degree of compliance to standard G-53 a and standard G4-55 a, which concern how stakeholders' views are sought and taken into account regarding remuneration and the ratios regarding compensation, respectively. Two of the standards had no compliance at all. They are G4-51 b and G4-54 a that respectively, concerns how the performance criteria in the remuneration policy relate to the highest governance bodies' and senior executives' economic, environmental and social objectives and the ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees. These are two of the most important standards in order to reach the objective of social responsibility reporting with regards to remuneration and that serious consideration must be given as to why there is no compliance. Based on the findings from this study, it is found that social reporting by the banks listed on the JSE with regards to remuneration, as indicated by the GRI G4, are relatively poor.

Keywords: sustainability reporting, sustainable development, global reporting initiative, integrated reporting; remuneration and incentives, corporate social responsibility, banking industry, South Africa.
JEL Classification: M14, N2, N27, M52.

Introduction

After the financial crisis of 2008, a consensus have emerged among researchers and practitioners that financial institutions took too much risk in the run-up to the crisis, notwithstanding risk management arrangements and solvency regulations (Cerasi & Oliviero, 2015, p. 2). Cerasi and Oliviero (2015, p. 6) also indicated that several theoretical papers have shown how the design of compensation may affect risk-taking in banks, with a view to suggest how to re-design executive compensation so as to protect all the stakeholders in the banking environment. Goldberg and Idson (as cited by McFarlane, 2015, p. 4) argue that the agency theory alludes to a power imbalance favorable to the executives, allowing them to pursue their self-interests in the form of large pay packages. Good reporting practices of the banking companies could add some clarity towards this belief. The annual reports of companies are a primary vehicle for communicating with shareholders and other stakeholders useful information in terms of the sustainability of the reporting entity. Comparability, consistency, verifiability, timeliness, understandability and clarity are key principles to determine the quality of the reported information (IRC, 2011, p. 10). Crucial elements such as a focus on risk, risk management, strategy and the need for forward-looking information add value to annual statements (Clayton, Rogerson & Rampedi, 2015).

The practice of reporting on non-financial information is not new and is already being applied by companies in high rates globally (Burritt & Schaltegger, 2010). There is an increase in the publishing of Corporate Social Responsibility (CSR) and Social Reports (SR). Figure 1 illustrates the findings from the 2013 KPMG survey of Corporate Responsibility Reporting (CRR). The survey indicates that at a percentage of 93, almost all of the world's largest 250 companies report on Corporate Responsibility (KPMG, 2013:10). Of the 4100 companies from 41 countries surveyed by KPMG, 71% were utilizing CSR reporting. This illustrates an increase of 7 percentage points since 2011, when 64% of the companies surveyed were practising CSR (KPMG, 2013).

In comparison to financial reporting, CSR and SR are fairly new concepts and are still in the developing stages. Although SR is rapidly becoming more prevalent and although it may hold substantial benefits to reporting companies, it is not without limitations. From a literature study done, a number of limitations were found that were brought up since the onset of the endeavor. These shortcomings could be listed as follows and are cited afterwards:

- Sustainability reports appear disconnected from the organization's financial reports and fail to make a link between an organization's strategy, its financial performance and its performance on environmental, social and governance issues (Clayton, 2015; Kolk, 2010).

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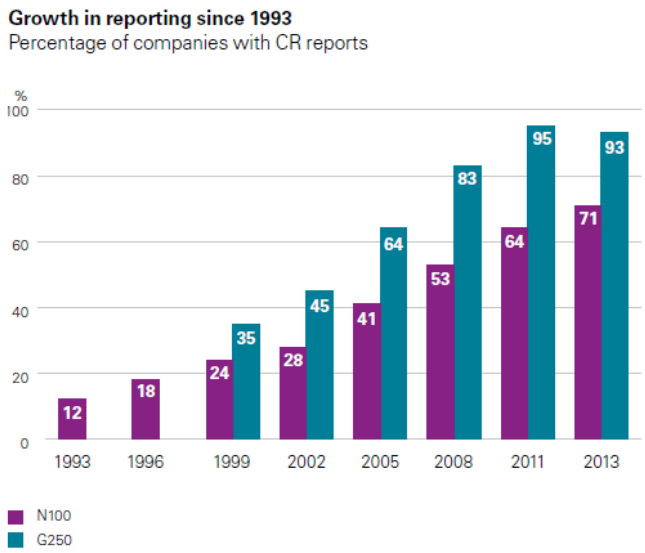

Fig. 1. Growth in reporting since 1993

Source: KPMG (2013).

- Sustainability reports consist of large numbers of indicators, which complicates longitudinal comparisons and benchmarking (Lozano & Huisingh, 2010; Cooper & Owen, 2007).
- It can become costly to collect the information for the indicators (Lozano & Huisingh, 2010).
- It does not consider synergies among the dimensions (Lozano & Huisingh, 2010).
- Compartmentalization, neglecting possible synergies, positive or negative, among the dimensions (Lozano & Huisingh, 2010; Fox, 2007).
- Fail to address the time dimension beyond comparing a report to that of the previous year (Lozano & Huisingh, 2010).
- Not all companies exercise SR (Lozano & Huisingh, 2010).
- Many of the reports fall short of the GRI/SR guidelines (Lozano & Huisingh, 2010).

It was when these shortcomings where identified that it was realized that a more integrated approach was needed. This resulted in the emergence of integrated reporting, a new approach to corporate reporting which is rapidly gaining international recognition (cimaglobal.com, 2015).

1. Integrated reporting

Integrated reporting (IR) is enhancing the way that organizations think, plan and report the story of their business (integratedreporting.org, 2015). In South Africa, a leader in the globalized movement to integrated reporting, the King Code of Governance Principles for South Africa 2009 (King III) was incorporated into the Johannesburg Stock Exchange (JSE) Listing Requirements (Integrated Reporting Committee (IRC) of South Africa, 2011). These stipulations require for listed companies to issue an integrated report for financial years starting on or after 1 March 2010 or to explain why they are not doing so (Integrated Reporting Committee (IRC) of South Africa, 2011). The King Report on Governance for South Africa 2009 (King III) (as quoted by the Integrated Reporting Committee (IRC) of South Africa, 2011) defines integrated reporting as "a holistic and integrated representation of the company's performance in terms of both its finance and its sustainability. It is a report to stakeholders on the strategy, performance and activities of the organization in a manner that allows stakeholders to assess the ability of the organization to create and sustain value over the short, medium and long-term and, therefore, reports not only on the financial, but also on the social, economic and environmental issues (Integrated Reporting Committee (IRC) of South Africa, 2011). Integrated reporting, therefore, emphasizes the incorporation of Corporate Social Responsibility (CSR) and Sustainability Reporting (SR) into annual reports to serve as an indication of what businesses have done and are planning to do in order to contribute to society.

Information is essential in any form of decision-making and this is especially the case in financial markets. According to Ceulemans et al. (2015), there are other recognized objectives of SR which include helping to plan changes for sustainable development in the organization, to become a leader in society, and to market sustainable development efforts. The movement towards social and SR has been reinforced recently by three important developments in the field. These developments are the publication in May 2013 of the GRI G4 Guidelines for reporting, the spread of mandatory CSR reporting requirements in countries from India to the United Kingdom and momentum towards integrating non-financial and financial information in reporting and the work of the International Integrated Reporting Council (IIRC) (KPMG, 2013). An important consideration when discussing CSR and SR is the option to employ a proposed framework to serve as an indication on how to report on social and non-financial matters. Not only must the advantages and disadvantages of using a framework be weighed, but it also requires that a comparison is made between different frameworks which have considerable disparities among them. Among the frameworks available to implement for the voluntary reporting of CSR, the guidelines of the Global Reporting Initiative (GRI) are the most used worldwide. This was confirmed by the study of KPMG that found that 78 percent of reporting companies worldwide

referred to the GRI reporting guidelines in their CSR reports in 2013 (KPMG, 2013). The fact that this is a 9 percentage point increase from 2011 also indicates that the popularity of the framework is on the increase. The GRI describes themselves to be a leading organization in the sustainability field and states that it promotes the use of SR as a way for organizations to become more sustainable and contribute to sustainable development (globalreporting.org, 2015). In May 2013, the GRI released the fourth generation of its Guidelines (G4). In Table 1, the framework of the new GRI G4 general standard disclosures with references codes are displayed.

Table 1. GRI G4 general standard disclosures

General standard disclosures	Core	Comprehensive
Strategy and analysis	G4-1	G4-1, G4-2
Organizational profile	G4-3 to G4-16	G4-3 to G4-16
Identified material aspects boundaries	G4-17 to G4-23	G4-17 to G4-23
Stakeholder engagement	G4-24 to G4-27	G4-24 to G4-27
Report profile	G4-28 to G4-33	G4-28 to G4-33
Governance	G4-34	G4-34, G4-35 to G4-55
Ethics and integrity	G4-56	G4-56, G4-57 to G4-58
General standard disclosure for sectors	Specific sector	Specific sector

Source: adapted by from GRI G4 (Part 1, p. 12).

Venables (2012) states that the reporting organization has two options for reporting either using core disclosures or comprehensive disclosures and explains that the core is the minimum requirement for sustainability disclosure and that the comprehensive disclosure includes additional reporting for strategy and analysis, governance, ethics and integrity.

The financial crisis of 2008 and the role financial institutions played therein have placed a focus on the corporate governance of banks from a CSR and sustainability point of view. It was irresponsible practices including excessive risk taking and harmful products that resulted in the poor investments that compromized the sustainability of banks (Cerasi & Oliviero, 2015, p. 2). Executive compensation could be the immediate cause of excessive risk taking and the policies that determine the remuneration practices of companies could, therefore, be an indication if sustainability and CSR are valued by the company and intrinsic in its vision. It is evident from the increase in legislation being promulgated globally to enforce CSR reporting that the issue is receiving significant support and is regarded as crucial. The role the financial sector played in the financial crisis of 2008 and the fact that remuneration policies might have supported irresponsible practices that led to the crisis could also have contributed to the emphasis on CSR. Now, after a period of extensive discussions and developments in the field, it would be relevant to investigate the extent that companies are reacting to changes in legislation and stakeholder calls. This study will, therefore, investigate the extent to which banks in South Africa report on remuneration and incentives according to the GRI guidelines.

2. GRI and remuneration (G4-51 to G4-55)

Remuneration and incentives are categorized under the general category of governance and are detailed in G4-51 to G4-55 of the guidelines. The GRI describes remuneration and incentives to be the standard disclosures focusing on the remuneration policies established to ensure that remuneration arrangements support the strategic aims of the organization, align with the interest of stakeholders, and enable the recruitment, motivation and retention of members of the highest governance body, senior executives, and employees (Integratedreportingsa.org, 2015). Remuneration and incentives are represented by G4-51 to G4-55 and the guidelines and guidance notes are displayed as follows by the GRI:

Remuneration policies (G4-51). This standard concerns itself with the reporting of the remuneration policies of the company. It states which policies must be disclosed and also states the details that must be reported on.

G4-51a. Indicates that the required information must be disclosed with regards to the highest governing body and the senior executives (Integratedreportingsa.org, 2015). The remuneration types that must be reported on for these parties are listed as follows:

- Fixed pay and variable pay:
  1. Performance-based pay.
  2. Equity-based pay.
  3. Bonuses.
  4. Deferred or vested shares.
- Sign-on bonuses or recruitment incentive payments.
- Termination payments.
- Claw backs.
- Retirement benefits, including the difference between benefit schemes and contribution rates for the highest governance body, senior executives, and all other employees.

G4-51b. States that there must be reported on how performance criteria in the remuneration policy relate to the highest governance body's and senior executives' economic, environmental and social objectives (Integratedreportingsa.org, 2015).

Guidance on G4-51 – compilation. The implementation manual explains that if performance-related pay is used, it must be described how performance criteria in the remuneration policies relate to the highest governance body's and senior executives' economic, environmental and social objectives for the reporting period and the period ahead and also that if performance-related pay is used, it must be described how remuneration and incentive-related pay for senior executives are designed to reward longer-term performance (Integratedreportingsa.org, 2015). The implementation manual also indicates that if termination payments are used, it must be explained whether:

- Notice periods for governance body members and senior executives are different from those for other employees.
- Termination payments for governance body members and senior executives are different from those for other employees.
- Any payments other than those related to the notice period are paid to departing governance body members and senior executives.
- Any mitigation clauses included in the termination arrangements.

Guidance on G4-51 – definitions. The following definitions are provided by the implementation manual in order to state the meanings of certain terms used in the standard:

Claw back

A repayment of previously received compensation required to be made by an executive to his or her employer in the event certain conditions of employment or goals are not met.

Termination payment

All payments made and benefits given to a departing executive or member of the highest governance body whose appointment is terminated. This extends beyond monetary payments to the giving of property and the automatic or accelerated vesting of incentives given in connection with a person's departure from office.

Determining of remuneration (G4-52). G4-52 a states that the process of determining remuneration must be explained in the sustainability reports. It must also be stated in these reports if remuneration consultants were involved in determining remuneration and whether they are independent of management. G4-52 a also states that any other relationship which the remuneration consultants have with the organization must be reported (Integratedreportingsa.org, 2015).

Stakeholder views (G4-53). It is stated by this standard that it must be reported on how stakeholders' views are sought and taken into account regarding remuneration. The standard explains that the results of votes on remuneration policies and proposals must also be included if applicable (Integratedreportingsa.org, 2015).

Ratios regarding compensation (G4-54). G4-54a explains that the ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations must be compared to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country (Integratedreportingsa.org, 2015).

Guidance on G4-54 – compilation. The implementation manual explains that for each country of significant operations:

- The highest-paid individual for the reporting year must be identified, defined by total compensation. The composition of the highest-paid individual's annual total compensation must be defined and disclosed.
- The implementation manual indicates that the median annual total compensation for all employees except the highest-paid individual must be calculated and that the composition of the annual total compensation for all employees must be defined and disclosed as follows (Integratedreportingsa.org, 2015):
    1. The types of compensation included in the calculation must be listed.
    2. It must be identified whether full-time, part-time, and contracted employees are included in this calculation. If full-time equivalent pay rates for each part-time employee are used, identify this.
    3. If an organization chooses to not consolidate this ratio for the entire organization, identify clearly which operations or countries are included.
- The implementation manual states that the ratio of the annual total compensation of the highest-paid individual to the median annual total compensation for all employees must be calculated.

Depending on the organization's remuneration policy and availability of data, the following components may be considered for calculation:

- Base salary: guaranteed, short-term, non-variable cash compensation.
- Cash compensation: sum of base salary + cash allowances + bonuses + commissions + cash profit-sharing + other forms of variable cash payments.

- Direct compensation: sum of total cash compensation + total fair value of all annual long-term incentives (such as stock option awards, restricted stock shares or units, performance stock shares or units, phantom stock shares, stock appreciation rights, and long-term cash awards).

Guidance on G4-54 – definitions. The implementation manual indicates that the following types of remuneration are included in annual total compensation:

- Salary.
- Bonus.
- Stock awards.
- Option awards.
- Non-equity incentive plan compensation.
- Change in pension value and nonqualified deferred compensation earnings.
- All other compensation.

Ratios regarding percentage increase (G4-55). According to G4-55 a, the ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations must be reported on in comparison to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country (Integratedreportingsa.org, 2015).

Guidance on G4-55 – compilation. The implementation manual provides the following steps to be followed for each country of significant operations:

- Identify the highest-paid individual for the reporting year, defined by total compensation.
- Calculate the percentage increase in the highest-paid individuals' compensation from prior year to the reporting year.
- Calculate median annual total compensation for all employees except the highest-paid individual.
- Define and disclose the composition of the annual total compensation for the highest-paid individual and for all employees as follows:
    1. List types of compensation included in the calculation.
    2. Indicate whether full-time, part-time, and contracted employees are included in this calculation. If full-time equivalent pay rates for each part-time employee are used, indicate this.
    3. If an organization chooses not to consolidate this ratio for the entire organization, state clearly which operations or countries are included.
- Calculate the percentage increase of the median total annual compensation from prior year to the reporting year.
- Calculate the ratio of the annual total compensation percentage increase of the highest-paid individual to the median annual total compensation percentage increase for all employees.

Depending on the organization's remuneration policy and availability of data, the following components may be considered for the calculation:

- Base salary: guaranteed, short-term, non-variable cash compensation.
- Cash compensation: sum of base salary + cash allowances + bonuses + commissions + cash profit-sharing + other forms of variable cash payments.
- Direct compensation: sum of total cash compensation + total fair value of all annual long-term incentives (such as stock option awards, restricted stock shares or units, performance stock shares or units, phantom stock shares, stock appreciation rights, and long-term cash awards).

Guidance on G4-55 – definitions. The implementation manual indicates that the following types of remuneration are included in annual total compensation:

- Salary.
- Bonus.
- Stock awards.
- Option awards.
- Non-equity incentive plan compensation.
- Change in pension value and nonqualified deferred compensation earnings.
- All other compensation.

If adhered to, these standards could add significant value in the banking industry in terms of good reporting practices. After the crisis, the American Government and the Federal Reserve Board of America started capping the salaries and bonuses of the entire financial service industry with the goal of reducing risk (Mason, 2009). More recently, developments in the research on pay-for-performance have been invigorated by economists and politicians. These institutions were of the view that compensation policies contributed to risky behavior by banks and, therefore, were a significant factor in the financial crisis and, then, looked to reduce financial risk by mandating bank pay (Mason, 2009).

Many studies have been done on the relationship between executive pay and risk and many pay-incentive models assume that corporate Chief Executive Officers (CEO's) maximize personal wealth at the expense of shareholders (Mason, 2009). The Federal Reserve Bank of America aimed to do this by requiring banks to review all incentive-compensation programs to en-

sure that they do not encourage excessive risktaking and that they aimed to devise specific plans and timetables for improving incentive compensation, risk management, and corporate governance (Mason, 2009). The Federal Reserve Bank of America proposed implementing principles such as deferring (and possibly reclaiming) incentive payments, using longer performance periods, and reducing sensitivity to short-term performance (Mason, 2009). Many, on the other hand, believe, however, that these arguments are simplistic and myopic and extremely risky. They argue that the hypothesis of a correlation between executive pay and risk is dependent on assumptions that have little to do with how individuals react to incentives in the real world. They state that real world evidence shows no discernable link between the pay structure that regulators criticize and risky bank decisions (Mason, 2009). Conyon et al. (2011) stated that there was a sharp rise in executive compensation in financial service companies during the past decade. According to Minnick et al. (2010), higher pay-for-performance sensitivity in bank CEOs leads to value-enhancing acquisitions, but it is stated that this finding is limited to small and medium-sized banks, so size is a factor. Worldwide, compensation has always been a much debated topic.

3. Research objective

The general objective of this research was to investigate to what extent do banks listed on the JSE adhere to the proposed guidelines regarding remuneration and incentives as illustrated in G4-51 to G4-55 of the GRI's G4 sustainability guidelines.

4. Research design

A quantitative analysis of the integrated reports of these banks was done by using content analysis as the method of research. The basic technique involves counting the frequencies and sequencing of particular words, phrases or concepts in order to identify keywords or themes (Welman et al., 2005). This method is appropriate for this study, because it produces highly reliable (usually quantitative) data and is usually easy to repeat or replicate. The Integrated Reports served as a primary data source. The population and sample group were all the banks in South Africa listed on the JSE. As a measuring instrument, the GRI's G4 SR guidelines were utilized to compile a checklist to be used as a disclosure index. If the bank is part of a larger group and annual integrated reports are provided for the whole group only, those consolidated integrated reports were used for the study. The audited integrated reports of the following banks were analyzed in the study:

- Barclays Africa Group Limited (Barclays).
- Bidvest Group Limited (Bidvest).
- Capitec Bank Holdings Limited (Capitec).
- FirstRand Group (FirstRand).
- Nedbank Group Limited (Nedbank).
- Standard Bank Group (Standard Bank).
- Sasfin Holdings Limited (Sasfin).
- Investec plc and Investec Limited (Investec).

Hereinafter, only the names in brackets will be used when referring to these companies. For the purpose of this study, the guidelines concerning remuneration were divided into five distinctive categories. These categories are:

- Remuneration policies (G4-51 a and G4-51 b)
- Determining of remuneration (G4-52 a)
- Stakeholder views (G4-53 a)
- Ratios regarding compensation (G4-54 a)
- Ratios regarding percentage increase (G4-55 a)

Two variables were used for the findings. The two variables were "yes" and "no". "Yes" is used when the standard was clearly adhered to. When the findings were "yes", the mentioned disclosure was either explicitly described or enough information was provided that the information proposed to be disclosed could be inferred or calculated. The finding was also "yes" when it was clearly indicated that the information proposed to be disclosed was not applicable for a certain reason and was, therefore, not disclosed. The finding was indicated as "no" when the necessary information proposed by the standard could not be found and also when it was not stated that the information is not applicable.

In total, each bank was measured towards 43 criteria. Standard G4-51 a and b that concern remuneration policies comprises 34 criteria. The reporting on the standard that deals with the process of determining the remuneration (G4-52 a) is detailed in four criteria. Reporting on standard, consideration of stakeholder views, comprises three criteria. To report on the ratios regarding compensation and the ratios regarding percentage increase were set out in one standard each. The results are discussed in the next section.

5. Results

5.1 Overall compliance to standards regarding remuneration (G4-51 a to G 4-55 a). In this section the overall compliance of all the banks to the different standards regarding remuneration is discussed.

This table is an indication of the degree of compliance to each standard by all the banks included in the study combined. From Figure 2, it can clearly be seen that the degree of compliance varies greatly between the respective standards.

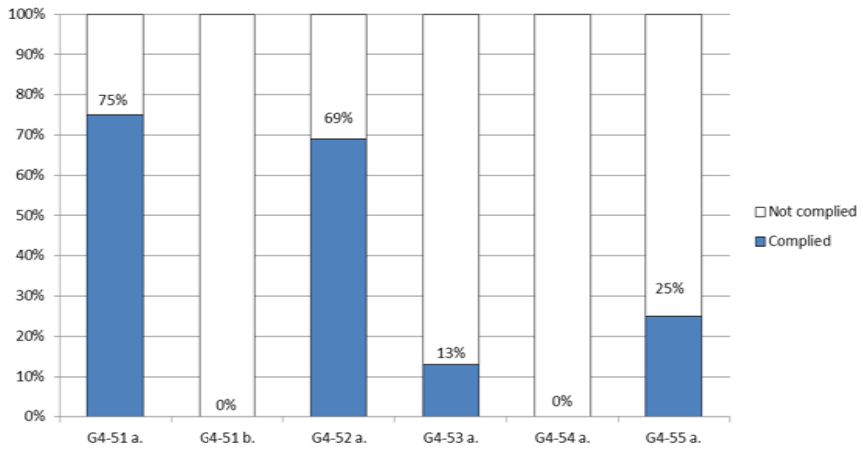

Fig. 2. Percentage of compliance with G4-51 a to G4-55 a

There was on average 75% compliance to G4-51 a, the standard concerning remuneration policies, by the integrated reports studied and 69% compliance to G4-52 a, the standard concerning the process for determining remuneration. In terms of more detailed criteria that are part of standard G4-51, there was 100% adherence to the variable and fixed pay information proposed to be disclosed with regards to the highest governing body and senior executives. All of the banks clearly disclosed the variable and fixed portions in specific Rand value format for performance-based, equity-based, bonus, and deferred or vested share payments. Three out of the eight banks reported on their policies regarding sign-on bonuses or recruiting incentives and termination payments, while six out of the eight banks reported on their policy in regards to claw backs.

With regard to the retirement benefits, all of the eight banks disclosed that they contribute to retirement benefits. None of the banks, however, disclosed specifics about what schemes were used and the terms thereof. No comparison can, therefore, be made between the contribution towards the benefits of the highest governance body, senior executives and other employees. With regard to the remuneration policies for all other employees apart from the highest governance body and senior executives, only two banks reported on the contribution rate towards retirement benefits and none of the banks reported on any specifics regarding the benefit schemes used.

There was a very low degree of compliance to standard G4-53 a and standard G4-55 a which concern how stakeholders' views are sought and taken into account regarding remuneration and the ratios regarding compensation, respectively.

Two of the standards had no compliance at all. They were G4-51 b. and G4-54 a that, respectively, concern how the performance criteria in the remuneration policy relate to the highest governance bodies' and senior executives' economic, environmental and social objectives and the ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees. An opportunity may exist in this area to improve the level of SR and the effect thereof by finding ways to address the non-compliance with these proposed standards.

5.2. Each bank's compliance towards all the standards. Figure 3 indicates the level of compliance to the GRI guidelines of each bank towards all the standards regarding remuneration combined.

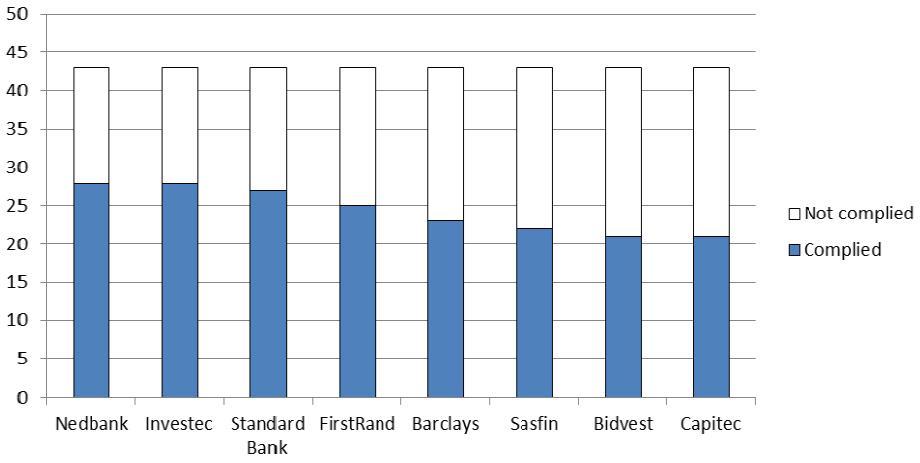

Fig. 3. Percentage of compliance with G4-51 a to G4-55 a by each bank

The level of compliance ranges from the highest of 28 out of 43 standards, to the lowest of 21 standards (48%) adhered to. Nedbank and Investec had the highest level of compliance between the banks studied. Nedbank, Standard Bank and Investec obtained a higher level of compliance due to the fact that they were the only banks to report on sign-on bonuses or recruitment incentive payments and termination payments. In the following section the individual performance per standard will be discussed.

5.3. Remuneration policies (G4-51 a and b). G4-51 a describes how the remuneration policies for senior executives and the highest governing body must be detailed in the integrated report.

The level of compliance with G4-51 a by the respective banks is illustrated in Figure 4. Nedbank had the highest degree of compliance with 89%. Standard Bank and Investec both had the second highest degree of compliance with 86% of the criteria from G4-51 a being reported on. Bidvest, Capitec and Sasfin had the lowest degree of compliance with 64%.

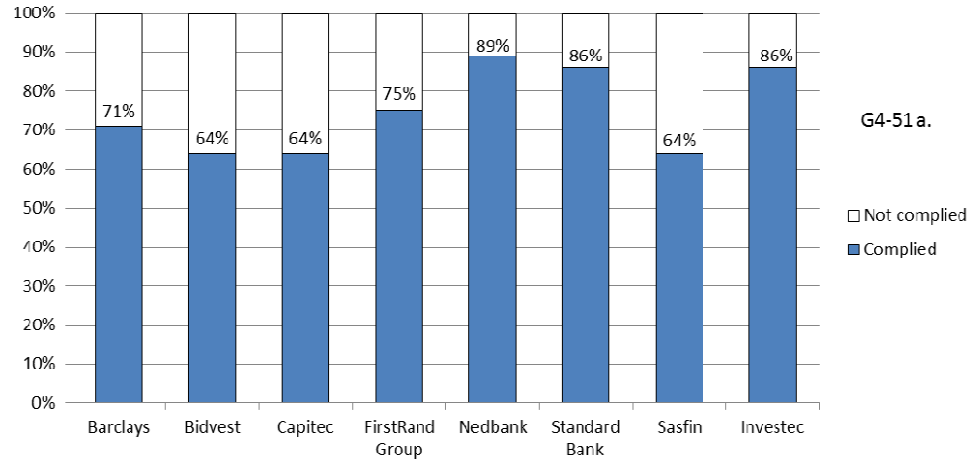

Fig. 4. Percentage of compliance with G4-51 a by each bank

In G4-51 b the requirements are that the reporting entity should explain how the performance criteria in the remuneration policy relate to the economic, environmental and social objectives of the company. It provides an indication to stakeholders of the importance the company places on certain issues and if they are implementing specific strategies and procedures in order to endorse these values. None of the integrated reports studied provides any indication that there is a link between the remuneration policy of the highest payed executives and the economic, environmental and social objectives of the company. Without proof that the highest governing body and senior executives are encouraged to achieve objectives in these fields, it would not be possible to persuade stakeholders that these values are incorporated into the company and that they have any significant effect on the operations of the company. The greatest opportunity with regards to remuneration and incentives may exist in this area to improve the level of SR and the effect thereof by findings ways to address the non-compliance with these proposed standards.

5.4. Determining of remuneration (G4-52). The focus of this section is to describe the process that was used to determine remuneration. This process includes details regarding whether remuneration consultants were used and the relationship the company has with the consultants.

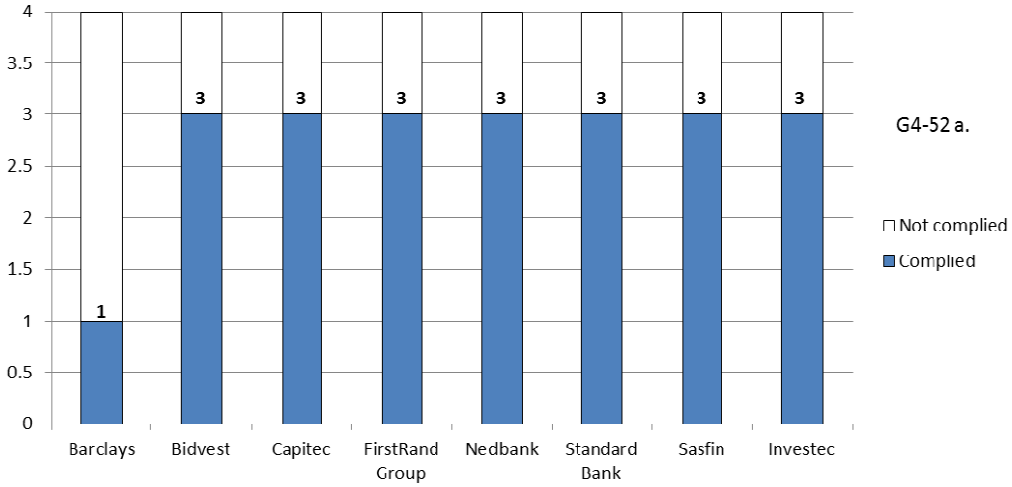

Fig. 5. Percentage of compliance with G4-52 a

Figure 5 illustrates that all of the banks complied with 3 of the 4 criteria that are part of standard G4-52, except for Barclays that complies only with one of the proposed criteria. All of the banks reported on the first proposed criteria, namely "Report the process for determining remuneration". All of the banks except for Barclays, complied with the following two proposed criteria: "Report whether remuneration consultants are involved in determining remuneration" and "Report whether remuneration consultants are independent of management".

None of the banks complied with the following criteria: "Report any other relationship which the consultants have with the organization". The researchers are of the opinion that if consultants were not used or if there was no information provided on the relationships which the consultants have with the organization, it must be stated as such in the integrated report.

5.5. Stakeholder views (G4-53). In this section, the focus is on how stakeholder views were sought and taken into account regarding remuneration. This included the results of votes and the disclosure of proposals that were made.

			Barclays Africa Group Limited	FirstRand Group	Investec plc and Investec Limited
	Description	Type of data	Reported		
G4-53 a.	Report how stakeholders' views are sought and taken into account regarding remuneration	quantitative	yes	yes	
	Report the results of votes on remuneration policies	quantitative			
	Report proposals on remuneration policies	quantitative			yes

Fig. 6. Percentage of compliance with G4-53 a

Only three instances were found where some of the banks complied with G54-53 a. This standard states that the specific instances must be reported when it is applicable. As illustrated in Figure 6, Barclays and FirstRand indicated that they sought and taken into account the views of stakeholders regarding remuneration. Investec was the only bank to report that proposals from stakeholders on remuneration policies were considered.

5.6. Ratios regarding compensation (G4-54). In this section, the ratios of compensation between executives and other employees must be disclosed. Reasonable executive compensation and reasonable minimum and median salaries paid by the company will promote sustainability. If a comparison between executive compensation and median compensation is provided, it could be an indication if executive compensation is excessive. If this indicator could be made public, it may also lead to executive compensation being driven down by public sentiment.

In this study, it was found that none of the banks complied with this standard. Although all of the banks indicated the value of all executive compensation and also indicated total salaries and wage expense paid by the company, a clear comparison could not be made between the remuneration paid to the highest-paid individual in the company and the median annual total compensation for all employees excluding the highest-paid individual.

5.7. Ratios regarding percentage increase (G4-55). This section explains that a comparison must be made between the percentage increase in compensation awarded to executives and other employees. A comparison between the percentage increase of executive compensation in relation to the percentage increase awarded to other employees will indicate if the respective increases awarded is fair. It was found that only two banks reported on the percentage increase in their integrated reports of 2014.

6. Limitations, challenges and recommendations

All of the banks disclosed in detail the remuneration packages of the highest governing body and other senior executives. The remuneration packages of these executives were fully reported by disclosing the performance-based pay, equity-based pay, bonuses and deferred or vested share portions. These payments were also detailed in their fixed and variable form.

Regarding the reporting of remuneration of the highest governing body and other senior executives, there was a lack in the disclosure of sign-on bonuses or recruitment incentive payments, termination payments and claw backs. The opportunity exists for the policies regarding these disclosures to be reported on in more detail and for the value amount of payments of this nature to be disclosed. Although the contribution rate of the highest governing body and senior executives to retirement benefits were fully disclosed, there was no disclosure as to specifics of the retirement products made available to these executives and to all other employees. The disclosure of the detail of retirement benefit schemes is to make it possible that comparisons could be made between the provisions for executives and all the other employees.

None of the banks reported on how performance criteria in the remuneration policy relate to economic, environmental or social objectives for neither the highest

governance body nor the senior executives. Although some banks indicated that these values were incorporated into the performance criteria of the executives, no specifics details were given. Without knowing to what degree the performance criteria is related to these objectives, it could not be established if it will have an effect or if these values really are seriously incorporated into the strategies of the company.

This analysis of the integrated reports was based on the sample of the banks listed on the JSE. The results of this study must, therefore, be interpreted with only these banks and should not be generalized to other banks or non-banking businesses. This study only considers one reporting period and the findings made in this study may vary over time. Based on the findings of this study, it could be argued that progress is slow in the reporting of sustainability issues in the banking industry and that the current level of reporting on sustainability will not have the desired effect to improve sustainability. In order to advance the degree of reporting on sustainability issues, regulatory requirements will have to be implemented by authorities. Institutions to implement SR requirements could include government, reserve banks or stock exchanges.

It is further recommended that there should be a clear and substantial relation between the performance criteria of the highest governing body and senior executives and the economic, environmental and social objectives of the company. These criteria must be disclosed and monitored in order to determine if the companies are truly implementing these values.

Conclusion

Based on the findings from this study, it is found that SR by the banks listed on the JSE with regards to remuneration, as indicated by the GRI G4, are relatively poor. The global financial crisis has placed an emphasis on sustainability and corporate social responsibility and also on remuneration policies and risk taking within the banking industry. Sustainability reporting serves as a mechanism that has the potential to curb possible reckless behavior of large corporate institutions in order to safeguard stakeholders from excessive risks and social abuses. Although sustainability reporting has the potential to improve corporate social responsibility, there is still much development needed in the field in order to have the desired effect.

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