SSRG International Journal of Economics and Management Studies
ISSN: 2393 – 9125 / http://doi.org/10.14445/23939125/IJEMS-V7I11P113
Volume 7 Issue 11, 86-90, November 2020

Review Article

Success and Limitations of Compensation packages on the Performance of Executives in Namibia's Commercial Public Enterprises

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Received Date: 19 October 2020
Revised Date: 25 November 2020
Accepted Date: 27 November 2020

Abstract *- Public enterprises' performance has been a burning topic in the country, with several public enterprises requesting government bailouts. State-owned enterprises (SOEs) are also not as efficient as a private company would operate for the sake of profit, and as a result, SOEs, in many cases, fail on all sides. Meanwhile, it is noted that the higher echelons' wages in SOEs are out of proportion with their delivery. This paper investigates the successes and limitations of executives' compensation packages in enhancing the performance of Commercial Public Enterprises in Namibia. The study's sample size was 44 and included the CEO/MD and Board Chairperson of each of the twenty-two (22) Public Enterprises listed with the Ministry of Public Enterprises. The study employed a mixed research approach for data collection using a questionnaire as a tool. The study finds 56% successes with executives' compensation packages in the CPEs, while 72% indicated "Yes" to challenges with executives' compensation packages that hinder performances. It is recommended that the Government (shareholder) find the best fit model of executive compensation packages to induce a positive performance level. Together with CPEs, the Government should invest in the 56% of respondents who indicated successes with the compensation package of executives in the CPEs. Also, on methods used to determine the compensation package for both internal and external arrangement, this relationship should be strengthened by establishing an independent high-level committee on CPE compensation. This would consequently reduce the 72% indication on Yes to challenges with compensation packages of executives that hinder performances*

Keywords *- Commercial Public Enterprises, executive compensation, performance*

I. INTRODUCTION

In 2010, the State-Owned Enterprises Council of Namibia implemented the Remuneration Framework for CEOs, Senior Managers, and Board of Directors of SOEs with maximum caps on the amounts; however, regardless of the framework, several CEOs continue to earn above these caps'. In addition to the new remuneration guidelines of 2018 and the newly implemented hybrid model in February 2020 by the Ministry of Public Enterprises in Namibia are aimed to remunerate parastatals heads in accordance to their performance and delivery while encouraging a culture of transparency and good governance (The patriot, 2017, salary war turns dirty, para.6). Hence, the need to purposively conduct a study that rules out executives' compensation packages' successes and limitations in enhancing commercial PEs in Namibia.

Performance-based pay has come under scrutiny since the global financial crisis in 2008 (Edmans, 2016). Therefore, much evidence on performance-based pay suggests that incentive-based pay can be damaging in many settings. For instance, (Cable & Vermeulen, 2016) has explained that it is not scarce for 60-80% of the pay of CEOs and other senior leaders in the USA to be tied to performance – whether quarterly earnings measure performance, stock prices, economic gain, market values, and operational levels. And yet, from a review of the research on incentives and motivation, it is wholly unclear why such a large proportion of these executives' compensation packages would need to be variable. This alone has led to arguments that executive compensation needs to be organized differently so that the variable component motivates the right behaviors (Cable & Vermeulen, 2016, Stop paying executives for performances, Para. 3). Therefore, considering the prevailing economic conditions and dwindling government revenues, it is befitting that a solution is found for CEOs of SOEs presiding over inefficient organizations while drawing huge packages. This study aimed to investigate the successes and limitations of executive officers' compensation packages and performance in Commercial Public Enterprises in Namibia.

II. A BRIEF HISTORY ABOUT OF NAMIBIA'S PUBLIC ENTERPRISES REMUNERATION SYSTEM

The report by Weidlich (2010) referred to the Government Gazette (2010), the SOE Council, as mandated by the SOEs Act 2006, where the implementation of the Remuneration Framework for CEOs, Senior Managers, and Board of Directors of SOEs maximum caps on the amounts were presented. Cabinet's framework divides SOEs into three categories: Tier 1, Tier 2, and Tier 3. It is further reported by Weidlich (2010) that the Deloitte & Touche study (2010) arranged the 60 SOEs into three different categories according to revenue, number of employees, their skills, and total assets. Hence tier three, being the highest, consisted of companies like Air Namibia, the Namibia Ports Authority, Namibia Power Corporation, Telecom Namibia, TransNamib Holdings Ltd, Roads Contractor Corporation, NamPost, and Meat Corporation of Namibia. The second tier includes companies like Agricultural Bank of Namibia, Development Bank of Namibia (DBN), Namibia Airports Company (NAC), and Namibia Broadcasting Corporation (NBC), among others. The third tier includes New Era Publication Company, Electricity Control Board, Meat Board of Namibia, Namibia Qualifications Authority (NQA), and Namibia Tourism Board (NTB), among others. In terms of this framework, a CEO in Tier 1 should only earn between N$401 199 and N$803 413 annually, while those in Tier 2 should earn between N$451 739 and N$987 197 annually. Tier 3 SOEs' CEOs should earn a minimum of N$709 722 and a maximum of N$1 532 828. Under this framework, the task of strategic directions and operations is placed in the hands of the respective Boards of Directors for the SOEs and their management. Hence, once the Board of Directors is appointed, the SOE's performance is left entirely upon them. This has resulted in some SOEs performing well but unfortunately, some not. However, at that time, it was established on the ground that a significant number of SOEs, for reasons unknown to the Council, ignored the Council. In particular, regardless of the framework, several CEOs continued to earn above the stipulated caps (Shihepo 2014, Govt fails to rein in CEOs earning above the salary cap, Para. 5).

All the same, the Chief Executive Officer's job in Namibia's Public Enterprises is every graduate's dream. However, one of the country's highest-paid positions is also one of the least secure jobs, as executives end up fired, suspended, having to pay fraud-related fines or settlements, and are often left with nothing but the prospect of never finding another job in the public sector. As revealed by Gaoes (2013, Disgraced CEOs: Where are they now, para.2), inciting the Deloitte and Touche Chartered Accountants, report on corporate governance (2013), this practice is disturbing and in contravention of good governance practices as stipulated by the Companies Act of 2004. Section 235 of the Act states a company must not make payments to any director as compensation for loss of office unless full particulars have been disclosed. A special resolution has approved the company's payment.

Initially, the report by Gaoes (2013) expresses concern over the fact that the boards have offered a number of parastatal CEOs who resigned from their jobs in Namibia in recent years compensation perks in the absence of formal performance evaluations and performance management processes that should have been instituted before the suspensions. Another thorny issue, according to Gaoes (2013) 's report, is the proliferation of SOEs, which has seen their number increase from 42 in 2009 to 72 by 2013. Hence, the report suggested: "This proliferation of new SOEs and the number of SOEs should be reviewed against the key criteria of whether they are providing essential services and products, which the private sector cannot or is not providing" Gaoes (, 2013).

Of equal concern were the procedures employed in hiring Managing Directors at local SOEs – or the lack thereof. Worse still, seemingly unqualified members of Boards of Directors at the SOEs suspend or fire Managing Directors with no regard for the prevalent labor laws. This had resulted in financial losses for these companies when they had to pay compensation or give golden handshakes to inappropriately dismissed executives.

A more accurate explanation as to why CEOs get fired, as reported by Gaoes (2013, Disgraced CEOs: where are they now, para.6), is that the Boards of Directors or shareholders lose confidence in their ability to generate sufficient financial returns in the future. In most cases, the Boards personalize their differences with CEOs (Gaoes, 2013). In a nutshell, the Villager newspaper study (2013) conducted on CEO terminations traced some of the executives who unceremoniously left their jobs. Although it is a commonly held belief that CEOs get fired or are forced to resign or retire under pressure because of non-performance, many in Namibia lose their jobs due to a breakdown in internal relations (Gaoes, 2013).

III. LITERATURE REVIEW

A. Agency Theory

Management is to have the business acumen to run a company in the interests of the owners. However, management does not only think about the shareholders; managers also look for personal gain. Problems arise when the managers' interests are different from the shareholders' interests – the agency problem. The agency theory postulates that conflict will occur unless management's compensation is aligned with shareholders' interests (Investopedia, 2019). Yet, the fact remains that the board of directors will always support the shareholders' side; and management must also add value to shareholders (Hayes, 2019).

Agency theory predicts that managers are motivated by their interests and states that monitoring is crucial to evaluate their performance. However, it could not reveal why managers engage in earnings management in the first place. Watts & Zimmerman (1978, 1980, 1986) (as cited in Ndjetcheu, 2012) applied agency theory and developed the Positive Accounting Theory (PAT), which focuses on internal contractual incentives. It was difficult to infer from the study clear answers to questions of interest to both standard setters and investors, such as how CEO's characteristics affect earnings management and what channels through which managerial characteristics affect earnings management.

IV. METHODOLOGY

The study adopted a mixed-methods approach. In the mixed research approach, the study followed an explorative, descriptive, and contextual research design.

A. Population

The population of Public Enterprises in Namibia is around 81, with 17644 employees, which have been created since the country's independence in 1990 (Ngwangwama, 2020). However, the 2016 Hybrid Governance Model segregated them into commercial, non-commercial, and financial institutions. This study focuses on the commercial PEs, which has a targeted population of 22 Commercial CPEs reporting to the Ministry of Public Enterprises (MPE). Within the 22 CPEs under the MPE, three different companies' tiers are grouped by their size, revenue, and market share.

B. Sample size

The target population of this study was the CEO/MD and Board Chairpersons of twenty-two largest Commercial SOEs in Namibia, which includes entities such as the Namibia Airports Company, Namibia Institute of Pathology, Namibia Ports Authority, Namibia Post and Telecommunications Holdings, Namibia Power Corporation, TransNamib Holdings, Zambezi Water Front, Namibia Water corporation, Luderitz Water Front, Windhoek Country Club, Namibia Diamond Agency, etc. These entities report directly to the Public Enterprise Ministry as articulated in the Public Enterprise Governance Act 2018. Therefore, the study's sample size was 44 and included the CEO/MD and Board Chairperson of each of the twenty-two (22) Public Enterprises listed.

C. Research Instruments

The researcher used multiple instruments and techniques within the qualitative and quantitative data collection approaches, such as structured questionnaires.

D. Data Collection Procedure

The researcher first sought permission through cover letters from the Executive Director of the Ministry of Public Enterprises and informed consent from participating CEOs and Board Chairpersons. The primary data for the research was collected directly through structured questionnaires and PE's websites. The structured questionnaire survey was carried out via a combination of face-to-face, telephonic, and email surveys. Follow-up contact was made telephonically and through emails to encourage the participants to fill the questionnaire to avoid missing data issues completely. The data on the Commercial PEs was collected from published Annual Reports of the respective company from its official website, which has already been published and certified by the IPPR and the Government of Namibia was used to strengthen the reliability and validity. The certified data used is important to ensure that the researcher does not change or add to the data to compromise the validity and reliability.

E. Data Analysis

When the questionnaires were returned, they were screened to determine if they were completed properly. Those not properly completed were removed from the questionnaires that were analyzed. After the screening had been completed, a codebook was developed to code the questionnaires. The data was captured in the IBM Statistical Package for Social Scientists (SPSS) version 26. While IBM SPSS Amos version 23 was used in the Bootstrapping Path Analysis.

V. FINDINGS AND DISCUSSIONS

The study had a response rate of 77.2 % for Executives (17) and 36.4% (8) for Board Chairpersons. The executives included 12 Chief Executive Officers (CEOs) and 5 Deputy or Acting (DCEO). Table 4.1 presents a summary of the demographic information of the respondents.

Table 4.1 Demographic Information of the Respondents

		Tier 1		Tier 2		Tier 3	
Variable	**Description**	**N**	**%**	**N**	**%**	**N**	**%**
Gender	**Male**	**3**	**60.0%**	**9**	**100.0 %**	**8**	**72.7%**
	Female	**2**	**40.0%**			**3**	**27.3%**
Age	**31-40 years**	**1**	**20.0%**	**1**	**11.1%**	**3**	**27.3%**
	41-50 years	**4**	**80.0%**	**2**	**22.2%**	**5**	**45.5%**
	51-60 years			**3**	**33.3%**	**3**	**27.3%**
	61-65 years			**3**	**33.3%**		
Academic qualification	**Diploma**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**
	Bachelor's degree	**1**	**20.0%**	**2**	**22.2%**	**0**	**0.0%**
	Master's degree	**4**	**80.0%**	**5**	**55.6%**	**9**	**81.8%**
	Doctorate (PHD)	**0**	**0.0%**	**1**	**11.1%**	**2**	**18.2%**
	Professional	**0**	**0.0%**	**1**	**11.1%**	**0**	**0.0%**
Job Level	**Chairperson**	**2**	**40.0%**	**2**	**22.2%**	**4**	**36.4%**
	Chief executive officer CEO	**2**	**40.0%**	**5**	**55.6%**	**5**	**45.5%**
	Deputy chief executive officer DCEO	**1**	**20.0%**	**2**	**22.2%**	**2**	**18.2%**
Years served in the organization	**1-5 years**	**3**	**60.0%**	**6**	**66.7%**	**7**	**63.6%**
	6-10 years	**1**	**20.0%**	**2**	**22.2%**	**2**	**18.2%**
	11-15 years			**1**	**11.1%**		
	16-20 years	**1**	**20.0%**			**2**	**18.2%**
	21+ years						

Table 4.1 indicated the summary statistics of demographic information of the respondents by the remuneration tiers. The demographic information included gender, age, job level, experience in the organization, and

the highest education level. Regarding gender, the findings indicated most of the respondents were males across all the three-tier groups. With, Tier 1, Tier 2 and Tier 3 having 60% (3), 100% (9) and 72.7% (8) males respectively. The findings further have the majority of females in the sample of Board Chairpersons (3). Only 2 female executives, of which 1 was a deputy or in an acting capacity. . The findings imply that males predominantly hold the executive appointments. While Board appointments exercise a level of gender mainstreaming, allowing women to hold high-level positions in Namibian CPEs.

As indicated in Table 4.2 below, the study findings indicated a 20% lack of success with executives' compensation package in the CPEs. In comparison, 56% of respondents indicated that there are successes with executives' compensation package in the CPEs. Surprisingly, 24% of the respondents indicate not being aware of this matter at all. This indicates a lack of control or probable ownership concerning executive compensation in some CPEs in Namibia. Concerning what method is used to determine executive compensation package, 20% of respondents indicated an internal arrangement.

In comparison, the External arrangement representing shareholders in this case Government got 0%, which means that the Government has no full control over this matter. 60% of the respondents indicated that the methods used both internal and external arrangement, while 20% said it is beyond management's power. Concerning the challenges with executives' compensation packages that hinder performances, 28% of respondents indicated no, while 72% indicated Yes to challenges with executives' compensation packages that hinder performances.

VI. RECOMMENDATIONS

Considering the findings provided above, the following recommendation has been made:

The Government, together with CPEs, should invest in the 56% successes with executives' compensation package in the CPEs. Also, on methods used to determine the compensation package for both internal and external arrangement, this relationship should be strengthened by establishing an independent high-level committee on CPEs compensation. This will consequently reduce the 72% indication of challenges with executives' compensation packages that hinder performances.

Table 4.2 Successes and Limitations of Compensation Packages of Executives

Code	Statement	Values	N	%
SecD_4.1	Have you any successes with the compensation package of executives in your organization	No	5	*20.0%*
		Yes	14	*56.0%*
		Not aware	6	*24.0%*
SecD_4.3	Which of the following is often used to determine the executive compensation package	Internal arrangement	5	*20.0%*
		External arrangement	0	*0.0%*
		Both internal and external arrangement	15	*60.0%*
		Determination beyond the power of management	5	*20.0%*
SecD_4.4	Have you had any challenges with compensation packages of executives that hinder performances	No	7	*28.0%*
		Yes	18	*72.0%*

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