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Understanding the effects of regulation on managerial perceptions of
stakeholder salience

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Abstract

The increase in banking regulation globally is a rising trend and is demanding more time and attention from senior management. The aim of the case study is to analyse and assess the effects of banking sector regulations and corporate governance on the prioritisation of stakeholders by senior management.

The role of senior management is to enter into contracts with the owners of the company to act as agents for the organisation. It is then the responsibility of management to establish contracts with various other stakeholders of the organisation. The responsibility of bank management is becoming more complex and senior management have the unenviable task of identifying and prioritising stakeholders based on how they perceive stakeholder salience as described in stakeholder theory.

The research attempts to prove that managerial perception of stakeholder salience is affected by the regulatory institutions and the legislation, statutes and regulations that they enact, both internationally and locally. It is therefore critical for management to be aware of rate of change and frequency change in the regulatory environment to ascertain its ongoing effects on stakeholder salience to an organisation.

The case study is specifically focussed towards the banking industry, but aims to contribute to understanding the effects of regulation on managerial perception on stakeholder salience which could be accepted in other highly regulated industries.

Keywords

Stakeholder theory, regulation, banking, management perception, corporate governance, salience.

Declaration

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

Name: Gareth Ackroyd

Signed:

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1. INTRODUCTION TO THE RESEARCH PROBLEM AND PURPOSE

1.1. Research Scope

Banks are exposed to risks and challenges, both new and old. Volatility of financial markets, globalisation, diversification, competition and liberalisation has increased banking risk exposure. Van Greuning and Bratanovic (2009) identify three categories of banking risk namely, financial risk, operational risk and environmental risk and explain that any of these risks identified could lead to a bank's failure or jeopardise its ability to continue business.

A financial crisis is structural breakdown of an economic system and can be due to either currency crisis, balance of payment crisis, debt crisis or banking system/financial system crisis (Kaur, 2015). In the aftermath of the 2008 global financial crisis (GFC), international standard-setting bodies announced a range of strategies to address the fundamental weaknesses revealed by the crisis (Banking Association of South Africa, 2012).

Subsequent to the aftermath of the 2008 GFC comprehensive regulatory reforms were announced by the South African Reserve Bank (SARB), acting through its Bank Supervision Department (BSD), in line with internationally agreed frameworks, requirements and standards. The reforms stemmed from the post-financial crisis reform agenda of international standard-setting bodies such as the Group of Twenty (G-20), the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (Basel Committee).

The above bodies looked to effectively address the causes and prevent a recurrence of the 2008 GFC. Their main objectives were to identify weaknesses, shortcomings and specific key lessons learnt from the crisis. These reforms, which were mainly focused on avoiding future crises, ultimately culminated in the various amended and new prudential regulatory requirements, standards, revisions and enhancements to banking regulation seen today.

In light of the above events, banking sector regulation has been identified as necessary due to the systemic importance and stewardship role of banks. Pasiouras, Tanna and Zopounidis (2009) affirmed that banks operated in one of the most heavily regulated environments and further explained that research into banking regulations, and their effect on banks, has attracted both theoretical and empirical interest.

This study examines the nature of systemically important banking operations, banks in their role as custodians, the myriad relationships that exist in a banking environment, the role of corporate governance and regulation as well as the regulatory universe to which banks adhere.

The study further examines how stakeholder theory (Mitchell, 1997) underpins how senior managers are contracted as agents by one or more stakeholders to manage and uphold the stakeholder relationships and each of their differing expectations. Lastly, the study seeks to analyse and assess the effects of banking sector regulations and corporate governance on the prioritisation of stakeholders by management.

To gain an understanding of the South Africa banking environment, to identify the nature of regulation and corporate governance in banking operations, to identify the role of bank management in relation to various stakeholders within the banking industry and to understand the effects of regulation on managerial perceptions of stakeholder salience, this research draws on stakeholder theory and research from the areas of corporate governance, management, regulation and the banking environment.

1.2. Relevance to Current Environment

This study is important and relevant because the regulatory universe is becoming far more onerous for banks and financial institutions at large, and is placing more pressure on management to enforce and comply with the increasing regulatory obligations. It is a widely held view that international and local regulators have very little harmonisation and develop each regulatory act or code in isolation and without coordination or general consultation. “Regulation in the financial services environment, particularly banking is a mishmash of duplication of compliance and compounds the cost of such compliance” says one regulator (Nevin, 2014). Another regulator says, “Before we implement TCF (Treating Customers Fairly) we must first fix the regulatory confusion and overlap being generated” (Nevin, 2014).

South Africa, as a member of the G-20, is represented by the SARB, mainly through the BSD. The BSD regards the full, timely and consistent implementation of internationally agreed frameworks, requirements and standards as critical in order to ensure a level playing field between South African banks and other internationally active banks.

On the positive side, the sound prudential regulation of banks in South Africa facilitates and enables entry and expansion of South African banking operations into other offshore jurisdictions. However, the negative effect on organisational performance, reduced through system enhancements, rising staff costs, licence fees, regulatory fines, demands on management time and other unintended consequences, is yet to be fully felt.

Having regard to the ongoing post-financial crisis reform agenda of international standard-setting bodies, the perpetual evolution of international regulatory and supervisory standards and best practices is expected to materially impact on the regulation and supervision of banks and banking groups going forward.

The new banking “normal” of the foreseeable future, insofar as the prudential regulation of banks and banking groups is concerned, will continue to be subject to large volumes of ongoing prudential regulatory changes, new and/or amended requirements and standards.

The role of bank management is becoming more complex. The challenge for management is the time and resources that compliance with the new wave of regulation requires in terms of manpower, systems and monitoring. Banks are different from other companies in that the responsibility of management extends not only to holders of equity, but to depositors who provide the majority of a bank’s funding, as well as to any other stakeholder with a legitimate stake in the organisation.

Stakeholders have divergent and often opposing expectations, preferences and goals that they place on organisations. These goals and preferences are different for each stakeholder and therefore place different expectations on the management. Inherently there are differing dynamics between holders of a stake in a bank and this affects the relationships between them and the organisation as well as between each other. The above expectations result in management having to manage stakeholder expectations in relation to who they deem most important to the organisation at the time, and the relationship dynamics between the parties.

1.3. Conclusion

The research will seek to contribute to the theory of stakeholder salience and the effects that market frictions, in this case the regulatory environment, could affect managers’ perceptions of stakeholder importance to an organisation.

The Chairman of HSBC, one of the world's largest financial services and banking institutions with over 48 million customers, stated that regulators globally were beginning to consider, more seriously, the regulation of more organisations such as technology firms offering that financial services should, like banks, be more heavily regulated (Arnold, 2015).

With the above statement in mind, this case study aims to contribute to understanding the effects of regulation on managerial perception on stakeholder salience which could be accepted in other highly regulated industries. This case study will also then explore findings derived from literature related to stakeholder theory as well as research from the areas of corporate governance, management, regulation and the banking environment.

Further chapters contain research questions and propositions as well as findings from qualitative data collected and analysed. The study concludes by discussing the findings of the research and sets forth recommendations for future research as well as implications for management. The recommendations will be specifically focussed towards the banking industry, but aim to contribute to understanding the effects of regulation on managerial perception on stakeholder salience which could be accepted in other highly regulated industries.

2. LITERATURE REVIEW

2.1. Banking Operations

2.1.1. Introduction

Theory suggests that a bank's responsibility extends to government, customers (depositors and borrowers), equity holders or shareholders, staff and the community (Green, 1989). It is therefore crucial to understand the nature of banking operations, their role as a custodian of wealth, their relationships with various stakeholders and their operating environment.

2.1.2. The Nature of Banking

In a traditional sense a bank is a financial institution which has been licensed as a receiver of deposits. Green (1989) explained that a bank's role is one of stewardship which is based on trust and that banks are custodians who are asked to responsibly look after money on behalf of depositors and conversely, are tasked with the duty of lending it responsibly.

In its simplest form traditional banking involved receiving money through deposits and paying a certain level of interest to the depositor, on-lending the money to borrowers charged at a slightly higher level of interest than that paid to the depositors and banking the difference, otherwise known as the bank's margin. Banks are also highly leveraged which means that, in an accounting sense, banks hold significantly higher levels of debt on their balance sheets than they do equity.

Macey and O'Hara (2003) argue that what differentiates a bank from any other organisation is its capital structure. They state that banks have very little equity relative to other firms and that their assets (loans) and liabilities (deposits) are mismatched thereby creating liquidity for the economy by holding illiquid assets and issuing liquid liabilities. This mismatch results in deposits being lent and only a fraction of the liabilities being on reserve at any one time which introduces the risk of a bank run where depositors withdraw their deposits in such numbers that, in the future, the bank will not have enough money to pay them all.

There are two significant types of banking operations, namely retail banking and corporate and investment banking. Retail banking refers to the operations of a bank that deal directly with retail customers. Retail banking is the visible face of banking and services the general public at large, through a branch network, found in most countries all over the world. Retail banking is also known as consumer banking and sometimes as personal banking. Retail banking is accountable for most of the deposits received by a banking institution from which most of the funding, used for lending, is derived.

Corporate banking or business banking deals with servicing the needs of corporate customers and is a large contributor to a bank's overall lending activities and origination of loans. Corporate banking is a key source of profit for a banking institution due to the margins made on the deals, in agreement with corporate clients, in which the bank accepts certain levels of credit, market and investment risk.

Investment banking is often coupled with corporate banking activities. Activities include specialising in highly-complex financial transactions, whereby banks act as intermediaries, underwriters, brokers or advisors to corporates. Fees are paid for advisory services provided to clientele whilst profit or loss, through market performance, is experienced on the trading side of investment banking.

In recent times the traditional banking practice of receiving deposits and granting loans has become only one part of a bank's operations as the environment in which they operate evolves. Opportunities to design new products and provide more services have arisen. According to van Greuning and Bratanovic (2009), the pace of these changes did not appear to be slowing as banks were constantly involved in developing new instruments, products and services.

The complex nature of these new products, which are highly technical and only understood by the specialists who design them, means that the welfare of borrowing customers has become a concern for banks and regulators alike.

In light of this, Howard (2014) argued that banking supervision was a means to improve systemic stability in the banking sector as well as a means to further corporate governance objectives and to protect both shareholder stakeholders and non-shareholder stakeholders through increased capital adequacy requirements and greater transparency.

2.1.3. Banking Operations

Sohn (2007) explains that banks have two types of borrowers, those that have prior lending relationships with the particular banking institution and those that do not. The second type of borrower is one that has no such relationship and would be originating credit for the first time with the bank. Similarly, depositors and other providers of capital would be categorised in the same manner that is, first time depositors and repeat depositors.

Scott (1966) used the general concepts of the theory of the firm to explain part of the typical behaviour of persons operating banking enterprises. He postulated that banking firms were unlike other firms in many major respects, most notably their high exposure to regulatory constraints of exceptional nature in addition to those imposed by normal market mechanisms.

Scott (1966) further explained that whilst banks, like other organisations, engaged in the purchase of typical factor supplies like labour, materials and capital, bank managers engaged in the purchase of deposits, where depositors provided the factor of production for the bank, and the sale of loans, in the sense that those who borrow from a bank are its customers. Moreover, the purchase of loans, through investment fund mechanisms and a further selling of services to depositors signified that, in these cases, the bank manager had customers on both sides of the transactions involved.

The behaviour of banks and the nature of their business, as explained by Scott, implies that what differentiates a bank from other organisations is that a bank accepts money from one set of its customers to and re-lends it to another. With customers on both sides of the transaction, the bank manager is operating in two separate, but not totally independent markets, namely assets and liabilities.

Klein (1971) stated that banking institutions operated as administrators of a country's national payments system, or payment mechanism, and explained that this constituted a service to an entire population as opposed to just that of the banked population. He further went on to explain that a bank was a subset of financial intermediaries that transmitted funds that had been secured from surplus spending units (depositors) to deficit spending units (borrowers).

Detragiache, Garella and Guiso (2000) found that most banking theory assumed that organisations and individuals had only one banking relationship whilst, in fact, empirical evidence provided contrary evidence to the theory. Detragiache et al. explored why organisations chose to have multiple banking relationships and developed a model which reflected that a more stable supply of credit and reduced risk of liquidation of investments were two benefits derived from having more than one banking relationship.

Dahlstrom, Nygaard, Kimasheva and Ulvnes (2014) explained that institutional based trust in banks was based on implicit rules that regulate practices within that particular industry and were widely accepted by industry participants. Their study showed, in conjunction with previous research conducted from the banking industry, that trust relationships and lower risk of default by a bank customer were positively related. They recommend that managers therefore should engage in positive relationship building strategies to avoid relationship failure with customers.

It is with this view that the rationale for banking regulation of banking institutions was that banks differed from regular organisations in that their customers (depositors and debt holders) were not able to exercise their control rights over the organisation as shareholders owned this right (Dewatripont and Tirole, 2012).

2.2. Relationships

2.2.1. Banking Relationships

Shleifer and Vishny (1997) described agency theory, developed by Coarse (1937), Jensen and Meckling (1976) and Fama and Jensen (1983), as a contractual view of the firm which articulated the separation of finance (ownership) and management (control). Lui (2011) cited Bearle and Means 1932 research which described the distinctive feature of a modern public corporation being the separation of ownership and control, which subjected most modern organisations to an agency-principle problem.

Agency theory describes the relationship between a principal and an agent. Succinctly described by Eisenhardt (1989), agency theory can be understood as the relationship between one party, the principal, who delegated work to another party, the agent, who carried out the work.

As described in the previous section the operations of a bank are not entirely reliant on equity, usually provided by the principal, but rather on deposits made by customers. Furthermore Mullineux (2014) states that bank shareholders cannot be expected to provide good stewardship to banks because there is a conflict of interest between themselves and depositors.

Mullineux (2014) further argues that the interests of bank depositors who seek a risk-free return and require a safe haven for their money are not the same as those of bank shareholders, who have elected to hold a riskier asset in pursuit of a higher return on their investment.

There are inconsistencies with agency theory and banking operations in this instance. It can be argued that, whilst shareholders or principals are the direct beneficiaries of returns in the form of dividends and share value appreciation, it is not only shareholders and management that have a stake in banking institutions. This introduces the need for regulation as often the objectives of the agent and the principal were not aligned.

Bridoux and Stoelhorst (2013) postulate that the relationship between stakeholders and management is typically more complex than stakeholder theory typically assumes as it suggests that, for management practice, different views and approaches were necessary to convince firms to treat all their stakeholders equitably. Therefore it can be claimed that the theory of the stakeholder approach to business is more relevant to banks and their operations.

Hill and Jones (1992) constructed a paradigm that suggests that agency theory and stakeholder theory are not mutually exclusive. Their research modified agency theory to be inclusive and accommodating to theories of resource dependence for organisations. Such resources pertinent to banking include access to funding from depositors, shareholders and other investment corporations.

Lui (2011) found that in modern banking, both equity and debt formed key components of contracts of finance and whilst equity holders held formal control rights over a bank's assets and a return on their equity in the form of dividends from profits, debt holders enjoyed control rights over any profits in the event of default. Therefore as equity holders assume much of the risk compared to a relatively risk free investment for a depositor, managers tended to seek to maximise shareholder value. Contrary to this, Jensen and Meckling (1976) hypothesise that any organisation was a "nexus of contracts" and that stakeholders, that is, all parties that have a particular stake in an organisation, have contracts between themselves and the firm.

Buchholtz and Carroll (2012) defined a stakeholder as an individual or group that has one or more of the various kinds of stake or share in an undertaking. Depositors, borrowers, employees, communities and regulators all have a stake in a banking institution. Donaldson and Preston (1995) argued that, whilst stakeholder theory was commonplace in both academic and managerial literature, it had no direct managerial implications for the organisation and on the firm's performance. Their research into stakeholder theory recommended that structures (governance), attitudes (compliance) and practices (management) taken together, would constitute a stakeholder management philosophy.

The business organisation today, especially the modern corporation, is the institutional centrepiece of a complex society (Buchholtz and Carol, 2012). Moreover a bank is fundamentally important to the general public and society at large.

The systemic importance of banks to society lies in the creation of jobs and employment as well as in the safeguarding of money and the creation of wealth. According to the King Code of Governance Principles (Institute of Directors, 2009), “In the world today, companies have the greatest pools of human and monetary capital which are applied enterprisingly in the expectation of a return greater than a risk-free investment.”

A bank is therefore a part of the community and decisions made by these organisations have long-term impact on those communities. Through their business activities banks and other systemically important organisations invest in the wellbeing of those communities. Banks operate through relationships built on trust.

On inspection, any members or securities register of the major listed companies on the Johannesburg Stock Exchange (JSE), including listed banks, will show investment by local and foreign financial institutions. These institutional investors hold funds in trust for beneficiaries, who are individuals that participate in such investments as pension funds and provident funds. These funds are among the largest holders of securities in South Africa, comprised of individuals who have become the new owners of capital (Institute of Directors, 2009).

In order to use their resources more efficiently and to operate within defined and acceptable risk parameters, banks need to ensure effective governance structures are established in order to set their objectives as well as the means of obtaining them without risking the relationship with its stakeholders, which include regulators, lawmakers, the general public, shareholders, directors, managers, auditors and employees.

“Many observers have noted the increased competitiveness, aggressiveness, and customer orientation (both borrowers and depositors) of managers of banking firms” (Scott, 1966).

2.3. Corporate governance

2.3.1. Introduction

Corporate governance can be defined as a set of relationships which provides the structure through which the objectives of the company are set, the means of attaining those objectives and the monitoring of performance thereto. In a banking context, van Greuning and Bratanovic (2009) define corporate governance as a set of relationships between the bank's management, its board, its shareholders and other stakeholders.

Governance of organisations globally is done either as a statutory obligation, which implies a "comply at all costs" approach or on a voluntary, principle based practice. For example, the United States of America (USA) has adopted the former approach, namely the Sarbanes-Oxley (SOX) regulatory framework, known as the statutory regime of "comply or else" (Institute of Directors, 2009). Conversely the United Kingdom (UK) has taken a principle based approach by adopting the Cadbury Code, which assumes a "comply or explain" approach. In South Africa, the King Code of Governance Principles (or King III) has taken this a step further and denotes an "apply or explain" approach. According to the Institute of Directors (2009) King III has become an internationally recognised brand and has become the international benchmark for corporate governance practice.

2.3.2. Nature of corporate governance

A company's shareholders will appoint a board of directors to lead the company in order to achieve returns that are sustainable into future trading periods. They will select responsible leaders who are then tasked with directing strategies and operations of the organisation with a view to achieving sustainable returns.

The King Code of Governance Principles (Institute of Directors, 2009) explains that corporate governance determined how and to whom the roles and responsibilities of a company's management authority are allocated. It also determines how these roles and responsibilities are administered by the appointed executive directors, non-executive directors and senior management, including how:

- The company's strategy and objectives are set;
- The hiring, firing and monitoring of employees was undertaken;
- The day-to-day operations of the business are managed and executed;
- The interests of customers and employees are met, shareholder expectations are met, and how other recognised stakeholders interests are met;
- Whether compliance with regulation and relevant laws was considered and executed; and
- The control functions such as external audit, internal audit and management had been effectively established.

Although a board of directors is accountable to the company itself, the board should not ignore the legitimate interests and expectations of its stakeholders. In the board's decision-making process, the inclusive approach to governance advocated by King III dictates that, "the board should take account of the legitimate interests and expectations of the company's stakeholders in making decisions in the best interests of the company."

It should be noted that corporate governance comes at a cost. Shleifer and Vishny (1997) stated that governance mechanism were costly to implement. The Institute of Directors (2009) estimated that the total cost of complying with SOX to the USA economy had been approximated to amount to more than the total write-off of Enron, World Com and Tyco combined. Despite the cost, Becher and Frye (2011) argue that the benefits of monitoring may outweigh the costs, especially when there was a separation of ownership and control in an organisation. Furthermore, Jensen and Meckling (1976) postulated that when insider ownership of an organisation was low, monitoring could alleviate the effects of the agency problems.

2.3.3. Implications of corporate governance

Mullineux (2006) argued that if banks were run in the interests of equity holders, they may take more risks than its depositors would like. He further opined that governments had an incentive to protect both bank depositors and taxpayers by regulating banks to discourage excessive risk taking and concluded that good corporate governance of banks required good risk related prudential regulation.

In addition, Hagendorff, Collins and Keasey (2007) detailed the special qualities of banks and explicated that as a result standard corporate governance processes may well be inhibited within the context of banking. This further indicated the need for regulation over and above corporate governance.

Research by Becher and Frye (2011) gave strong evidence that regulation and governance were complimentary where regulators may pressure firms to adopt effective monitoring structures. Their results were not consistent with substitution which suggests that governance systems were important to shareholders and that regulation did not replace traditional monitoring. Implications of this finding infer that banks were therefore subjected to regulatory burdens from government and monitoring pressures from shareholders and stakeholders. This dual obligation would therefore incur costs for banking institutions.

Macey and O'Hara (2003) contend that, in the case of banking institutions and the peculiar environment in which they operate, corporate governance should be enhanced and a broader view should be taken to include corporate governance mechanisms that encapsulate both shareholders and depositors.

Emmanouilides (2007) found that an essential element in the safe functioning of banking institutions was effective corporate governance. He found that sound corporate governance contributed to the protection of depositors and creditors and suggested that the enhanced and superior governance of a banking institution, compared to that of a manufacturing firm, was due to the presence of regulation and supervision.

Becher and Frye (2011) further postulated that shareholders' interests did not match those of regulators in that shareholders looked for return on investment and wealth maximization as opposed to the safety and soundness of the economy. Management often adopted sound governance principles to align their needs with that of the shareholder.

2.4. Regulation

2.4.1. Introduction

As a consequence of the GFC the international and local banking industries have been under scrutiny. Barth, Lin, Ma, Seade and Song (2013) explained that banking systems did not always function in a beneficial manner and that the GFC had spurred the drive to mitigate and prevent future banking crises through regulatory reforms. As a result, regulators have focussed on managing and mitigating effects of the GFC through regulation and compliance. Banking institutions are dealing with evolving regulatory climates and the banking industry was emerging as one of the most regulated industries globally.

Globalisation has meant that in order for banks to remain competitive, it was imperative that they operated internationally and not just within their own domicile. The result is increased global banking systemic risk and the increase in regulatory measures to counter this risk. Banks are subjected to regulations from various different authorities who have developed their own country specific set of regulations or codes to which banks must adhere or comply to be able to continue to operate in certain jurisdictions. Ayed and Frioui (2011) affirm this view by explaining that banking systems, in recent decades, have had many critical moments and these have spurred international regulatory institutions and authorities to develop and align various new prudential regulatory standards.

Ozkan, Balsari and Varan (2014) argue that regulation of the banking sector was essential in protecting depositors and other stakeholders, such as minority stakeholders, from the effects of moral hazard and that each country should set the frequency, composition and timing of regulation within the range of the particular government's "helping-hand" or "grabbing-hand" approaches.

However, many years of regulation has ensured that the list of regulations that banks are required to comply with has grown exponentially. Garneau and Shahid (2009) explained through their research that each regulatory act or code was generally developed in isolation, without coordination by various authorities and regulators, and without examination into how the code or act would fit into the current regulatory and governance structures.

As a result new systems and measures are required to be implemented in order to become compliant with the overlapping regulations, acts and codes which introduced further cost implications for banks.

2.4.2. Regulators in South Africa

South African regulators are ensuring that the jurisdiction's local prudential regulatory authority for banks, focus its efforts to guarantee that the South African regulatory and supervisory framework be appropriately and timeously amended and phased-in. Banking institutions in South Africa are subject to supervision and regulation by the following major regulators:

- The South African Reserve Bank (SARB)

The SARB promotes the soundness of the domestic banking system and seeks to minimise systemic risk through the effective and efficient application of international regulatory and supervisory standards.

The SARB is responsible for supervision of banking groups on a consolidated basis with a view to appropriately supervise all material risks to which a banking group may be exposed. The function is performed by issuing banking licences to banking institutions and monitoring their activities in terms of either the Banks' Act or other regulations incidental thereto.

The Bank Supervision Department's (BSD) role is to ensure that the deposits taken from the public are not used irresponsibly and to protect the public at large. Through the BSD inspections are performed to determine compliance to relevant legislation such as FICA and to ensure remediation is performed where inadequacies in corporate governance and compliance are identified (South African Reserve Bank, 2015).

- The South African Revenue Service (SARS)

The SARS is South Africa's tax collecting authority tasked with ensuring compliance with tax legislation and ensure that taxpayers, both natural and juristic persons, are made aware of their tax obligations, provide platforms to enable tax payers to meet their obligations and finally, act against those who break the law (South African Revenue Services, 2015).

- The Financial Services Board (FSB)

The FSB was established by statute to promote and maintain sound financial investment environment in South Africa. Their duties include the promotion of fair treatment of consumer financial services and products, financial soundness of financial institutions; systemic stability of financial services industries and the integrity of financial markets and institutions (Financial Services Board, 2015).

- The Financial Intelligence Centre (FIC)

The FIC is a body that was established in 2003 to fight crime by monitoring the proceeds of crime and aims to combat money laundering and the financing of terrorism.

The FIC produces financial intelligence through the analysis of data on financial transactions. The financial intelligence is then shared with a range of local and foreign law enforcement agencies and authorities (Financial intelligence Centre, 2015).

- National Credit Regulator (NCR)

The NCR was established to promote the development of an accessible credit market, particularly to address the needs of historically disadvantaged persons, low income persons, and remote, isolated or low density communities and is responsible for the regulation of the South African credit industry (National Credit Regulator, 2015).

- The National Treasury (NT)

The NT acts as a manager to the South African governments finances and promotes good governance, economic development and social progress through the management of public finances. The NT, in cooperation with other regulatory bodies, is mandated to promote government's fiscal policy framework, to coordinate macroeconomic policy and intergovernmental financial relations (National Treasury, 2015). The cooperation extends to relationships with the SARB and the FSB.

- The Competition Commission (CC)

The CC is a statutory body constituted by the government of South Africa empowered to investigate, control and evaluate restrictive business practices, abuse of dominant positions and mergers in order to achieve equity and efficiency in the South African economy (The Competition Commission, 2015).

In addition to the above, various other documents, frameworks and requirements that materially impact on the regulation and supervision of banks and banking groups, were being issued by international standard-setting bodies on an ongoing basis, resulting in revised, additional and/or new requirements pertaining to both the regulation and supervision of banks and banking groups.

Garneau and Shahid (2009) concluded that the banking industry, being heavily regulated, was subject to large amounts of regulatory overlap that caused redundancy to certain regulations. Their research highlighted the high compliance costs for banks and added that redundancy of regulations added to the cost of compliance for banking institutions of all sizes.

The below table illustrates the raft of regulations currently imposed on banking institutions in South Africa.

Table 1: Acts pertinent to the governance of South African Banking Institutions

Act	Primary Affected Organisational Area	Priority
Administration of Estates Act 66 of 1965	Administration of Estates	High
Auditing Profession Act 26 of 2005	Audit	High
Banks Act 94 of 1990	Corporate	High
Basic Conditions of Employment Act 75 of 1997	Employment	High
Bills of Exchange Act 34 of 1964	Payment	High
Collective Investment Schemes Control Act 45 of 2002	Financial services	High
Companies Act 71 of 2008	Corporate	High
Competition Act 89 of 1998	Corporate	High
Consumer Protection Act 68 of 2008	Marketing & sales	High
Copyright Act 98 of 1978	Intellectual Property	High
Customs and Excise Act 91 of 1964	Tax	High
Deeds Registries Act 47 of 1937	Property	High
Designs Act 195 of 1993	Intellectual Property	High
Electronic Communications Act 36 of 2005	ICT	High
Electronic Communications and Transactions Act 25 of 2002	ICT	High
Employment Equity Act 55 of 1998	Employment	High
Employment Services Act 4 of 2014	Employment	High
Financial Advisory and Intermediary Services Act 37 of 2002	Financial services	High
Financial Intelligence Centre Act 38 of 2001	Financial services	High
Financial Markets Act 19 of 2012	Financial services	High
Income Tax Act 58 of 1962	Tax	High
Insolvency Act 24 of 1936	Insolvency	High

Intestate Succession Act 81 of 1987	Administration of Estates	High
Labour Relations Act 66 of 1995	Employment	High
Liquor Act 59 of 2003	Liquor	High
Liquor Products Act 60 of 1989	Liquor	High
Long-term Insurance Act 52 of 1998	Financial services	High
Lotteries Act 57 of 1997	Gaming	High
Magistrates' Courts Act 32 of 1944	Litigation	High
Matrimonial Property Act 88 of 1984	Contracting, Lending and Security	High
Medical Schemes Act 131 of 1998	Medical schemes	High
Mutual Banks Act 124 of 1993	Corporate	High
National Credit Act 34 of 2005	Lending and Security	High
National Environmental Management Act 107 of 1998	Environment	High
National Gambling Act 7 of 2004	Gaming	High
National Payment System Act 78 of 1998	Payment	High
Occupational Health and Safety Act 85 of 1993	Health and Safety	High
Patents Act 57 of 1978	Intellectual Property	High
Pension Funds Act 24 of 1956	Pension & Provident	High
Prescribed Rate of Interest Act 55 of 1975	Lending and Security	High
Prescription Act 68 of 1969	Litigation	High
Prevention of Organised Crime Act 121 of 1998	Crime prevention	High
Promotion of Access to Information Act 2 of 2000	Litigation	High
Promotion of Equality and Prevention of Unfair Discrimination Act 4 of 2000	Discrimination	High
Protected Disclosures Act 26 of 2000	Employment	High
Protection of Constitutional Democracy against Terrorist and Related Activities Act 33 of 2004	Crime prevention	High
Protection of Personal Information Act 4 of 2013	Privacy	High
Rates and Monetary Amounts and Amendment of Revenue Laws Act 13 of 2012	Tax	High
Regulation of Interception of Communications and Provision of Communication-related Information Act 70 of 2002	ICT	High
Sectional Titles Act 95 of 1986	Property	High
Sectional Titles Schemes Management Act 8 of 2011	Property	High
Security by Means of Movable Property Act 57 of 1993	Lending and Security	High
Short-term Insurance Act 53 of 1998	Insurance	High
Skills Development Act 97 of 1998	Human resources	High
Superior Courts Act 10 of 2013	Litigation	High
Tax Administration Act 28 of 2011	Tax	High
Trade Marks Act 194 of 1993	Intellectual Property	High
Transfer Duty Act 40 of 1949	Property	High
Trust Property Control Act 57 of 1988	Property	High
Value-Added Tax Act 89 of 1991	Tax	High
Voluntary Disclosure Programme and Taxation Laws Second Amendment Act 8 of 2010	Tax, Exchange Control, Securities	High
Wills Act 7 of 1953	Administration of Estates	High

Source: Mostert Opperman Inc.

Ayed and Frioui (2011) found that some authors and researchers indicated the importance of regulation on strategic orientation. They also stated that prudential regulation had been a key concern for regulatory authorities in developed countries and that the aim of this was solely to protect depositors. Finally, they noted that international regulators, since the 1970's, had aimed to achieve a global banking system that was more efficient and harmonised.

Research by Howard (2014) proposed that increased regulation, in particular financial regulation, would benefit shareholder stakeholders through the increased oversight and monitoring to ensure financial stability of banking institutions and that the increased systemic stability and transparency, brought about by the increase in financial regulation, would ultimately benefit non-shareholder stakeholders.

Having regard for the above and the intention and continual drive to strengthen the global prudential regulatory and supervisory frameworks, it should be noted that local regulator's activities and the extent of the SARB's compliance with internationally agreed frameworks and applications was, as the South African jurisdiction's prudential regulatory authority for banks, also assessed from time to time by international institutions such as the International Monetary Fund (IMF) and the Basel Committee. Such assessments aim to, amongst other things, monitor, assess and evaluate consistency and the extent of compliance with agreed standards, regulation and supervision.

However, according to Cochrane (2014) the vast bulk of financial regulations that have been enacted had little social benefit that could be quantified due to these regulations being motivated by inconsistent and incoherent objectives and goals. He further argued that financial regulation routinely imposed large costs which in all likelihood would outweigh the benefits and tended to tie management up with paperwork and legal fees whilst increasing the chance of many unintended consequences such as moral hazard from failure to meet the objectives of the various regulations.

2.4.3. Regulatory costs

Regulation appeared to account for a significant amount of total bank costs. Staff costs accounted for a banks biggest expense and added to indirect costs for compliance. With the enactment of new regulations it is habitually the companies that the regulations affect who will bear the costs, and will be most likely to complain that the costs of implementation almost always outweigh the benefits derived therefrom.

Over and above staff costs, fees for legal and auditing services also accounted for a significant amount of the regulatory spend. Results from a study by Millar and Wade Bowen (2011) suggested that small and large firms in the USA paid increased audit fees to their external auditors as a result of the SOX regulatory framework, and that small firms in general experienced larger increases than

the larger firms.

Furthermore, Garneau and Shahid (2009) also found that studies by KPMG, Grant Thornton and Deloitte had shown that compliance costs for the US banking industry increased by 87 percent between 2002 and 2006. The implications of the increase in regulatory compliance costs are twofold.

Firstly, to avoid margin squeeze or margin compression, the costs are in most instances passed on to the customer who would receive the same products or services at a higher price with no additional benefit. Secondly, where a price increase to a customer is not possible, the costs were absorbed by the bank and profitability was affected.

Typically, two types of costs that can be attributed to the introduction of new regulations into an industry. Elliehausen (1998) identified two types of regulatory costs namely, start-up costs or direct costs and ongoing costs or alternatively indirect costs. It is important to note that the aforementioned costs will be dependent on the company's willingness to comply with the regulations.

The direct and indirect costs can be further unpacked as follows:

a) Direct costs of compliance

The direct costs of compliance are made up of fees or returns for filing the requisite paperwork to receive licencing or accreditation.

b) Direct costs of non-compliance

The direct costs of non-compliance include the fines imposed by regulatory bodies for non-compliance as well as periphery costs such as settlement and legal costs.

c) Indirect costs of compliance

The indirect costs, which are the outlays associated with achieving compliance, are staff training and hiring costs, system development costs, management and legal costs as well as the ongoing monitoring of compliance.

d) Indirect costs of non-compliance

The indirect costs of non-compliance are more difficult to quantify and relate to reputational damage and costs associated with loss of trust in the organisation and the products it offers.

Pasiouras, Tanna and Zopounidis (2009) found that banking regulations, which were aimed at stabilising the global banking economy and ensuring market discipline mechanisms, restricted banking activities whilst empowering the supervisory powers of regulators and increased cost of banks.

The South African regulatory landscape has, from a structural and a policy perspective, changed substantially with the implementation of international and local standard in relation to financial sector regulation. Ongoing evolution of international regulatory and supervisory standards and best practices coupled with the large volume of documents and requirements issued by regulatory institutions, was expected to materially impact on the strategies, cost containment and engagement of employees of banks and banking groups going forward.

The role of banking regulation and supervision in the banking sector has not been decisive in terms of assessing banking sector performance as existing studies had focussed on either macroeconomic factors only or on macroeconomic factors including only certain aspects of specific regulation (Neyapti and Dincer, 2014).

2.5. Stakeholder theory

2.5.1. Introduction

Macy and O'Hara (2003) explain that asset structure, liquidity, capital adequacy, moral hazard problems and conflict between various claimants of the organisation are what distinguished a banking institution from any other business. According to Ozkan, Balsari and Varan (2014), the greater complexity of the agency problem related to information asymmetries amongst various stakeholders such as regulators, depositors and borrowers could create greater complexity in the relationship between a bank and its stakeholders.

Organisations interact and deal with third parties, which is generally used as a tool, to build their strategies upon. Mainardes, Alves and Raposo (2011) stated that central to this theme, and within the lines of strategic organisational planning, a successful organisational strategy corresponded with the integration of all stakeholder interests, as opposed to the maximisation of one third party's interests above another.

A model which identified three factors of stakeholder salience, namely power, urgency and legitimacy, was put forward by Mitchell, Agle and Wood (1997), which suggested that powers of negotiation, legitimacy of relationships and urgency of a claim on organisations vested with stakeholders and their various needs.

Mitchell, Agle and Wood's (1997) stakeholder salience model proposed that an organisation's strategic behaviour was subject to the needs of the groups of stakeholders present in its environment and their respective importance. In this way it was made possible for organisations to understand the relationships and manage the dynamics of stakeholder and management interactions.

Donaldson and Preston (1995) postulated that stakeholder theory should be considered as a set of theories relating to the management of various stakeholders and not that of a single theory. Thus the stakeholder salience model should not be used in isolation. Mainardes, Alves and Raposo (2012) added to their earlier research of 2011 by stating that it was necessary to not only identify and prioritise stakeholders by their influence and importance, but to understand the relationships with management to ensure that actions would be taken to meet the stakeholder demands placed on an organisation.

It is evident that the various stakeholders will mobilise to protect their interests in an organisation. Relationships between organisations and stakeholders are ever-changing given the complex demands placed upon organisations.

Interestingly, Tashman and Raelin (2013) indicated that a number of studies had concluded that stakeholder power, legitimacy and urgency were not considered when managers made decisions. Managers however, are tasked with identifying important stakeholder interests and prioritising them in manner that satisfies these contracts.

Harrison and Wicks (2013) argued that firms that provided more utility or value were able to retain the participation and support of its stakeholders better than those organisations who did not create value. It was established earlier that stakeholders tended to satisfy their own interests whilst, at the same time, were dependant on the firm and its other stakeholders.

Harrison and Wicks (2013) go on to further state that attending to stakeholders' interests provided a foundation to drive ongoing and future success of an organisation, and was a critical starting point for managers. According to Bridoux and Stoelhorst (2013) a dual approach to stakeholder management could lead to better value creation, by treating reciprocal stakeholders with a fairness approach and self-regarding stakeholders with an arms-length approach. The research proposed that a fairness approach was one based on fairness considerations and an arm's length approach which treated stakeholders on the basis of bargaining power.

Research by Farquhar (2011) argued that the identification of stakeholder groups and each of their claims on an organisation had become an imperative due to the multiple interactions and experiences with the various stakeholders. Farquhar (2011) concluded by maintaining that a stakeholder approach provided banking institutions with an alternative to an over-emphasis, by management, on shareholder value which allowed them to construct and market their brand to a broader stakeholder base.

Behery and Eldomiaty (2010) stated that banks played an important role in developing successful stakeholder systems, such as those found in Germany, France and most of continental Europe. Their paper highlighted the compatibility between values of stakeholder systems and strong banking industries.

Emmanouilides (2007) stated that banks faced additional factors such as enhanced risk management, strict capital adequacy and funding requirements and internal control scrutiny over and above the normal corporate governance requirements of regular firms. As a result, boards of corporate entities would have to pay greater attention to their relationships with stakeholders and argued that the approach of banking institutions to corporate governance should be different compared to organisations in unregulated industries due to the complex nature of the banking industry.

Behery and Eldomiaty (2010) further found that bank managers in differentiated roles within banking organisations viewed the various stakeholders with differing levels of salience to their organisations. For example, loans managers did not see creditors' and shareholders' contributions as equally important to the organisation whilst finance managers viewed these contributions of equal importance to ensure the continued and sustainable functioning of the firm.

Dewatripont and Tirole (2012) proposed that a paradigm existed where shareholder control in good times ensured that managers would be rewarded for good performance and that a shift in control from shareholders to debt holders in bad times ensured the punishment of managers for poor performance.

3. RESEARCH QUESTIONS

3.1. Introduction

The literature reflected an emerging trend towards an increase in regulation within the banking industry as a means to supplement corporate governance and in order to ensure the financial stability of banking institutions. Given the systemic importance of banks to a country's economy, corporate governance, which has been identified as a method of self-regulation, was not sufficient in its own right and a clear need for further regulation to safeguard the economy against this risk emerged.

Governance mechanisms were described by Shleifer and Vishny (1997) as economic and legal institutions that could be altered through the political process, for both better and worse, and in the long run would force organisations to adopt corporate governance mechanisms to take advantage of the benefits that they offer in terms of reduced costs and access to cheaper external funding.

Whilst the shareholders elect the board of directors of a company, the directors may not necessarily represent the shareholders' interests as the managers in essence controlled the allocation of funds and the allocation thereof was guided by the company's strategic objectives. Furthermore, banks as institutions have various stakeholders and these organisations interact and deal with the third parties and tend to build their strategies upon this interaction. The dynamics of these stakeholder relationships and the power, legitimacy and urgency of the various stakeholders' claims would be what drives these strategic objectives in order to maximise value creation for each of the stakeholders of the organisation.

Mitchell, Agle and Wood's (1997) concept of stakeholder salience describes the extent and measures by which managers prioritise or give preference to competing stakeholders claims on the organisation, in particular, through the measure and assessment of a stakeholder's power, legitimacy and urgency.

Tashman and Raelin (2013) refer to various studies (Frooman, 1999; Bannerjee, 2000; Vilanova, 2007; Magness, 2008) which found that managers often made decisions without considering stakeholder interests, power, urgency or legitimacy.

Furthermore, empirical studies by Agle, Donaldson, Freeman, Jensen, Mitchell and Wood (2008) explained that the relationship between a firm's performance, both financial or social, and managerial perception of stakeholder salience had to date yielded inconclusive results.

An empirical analysis conducted by Myllykangas, Kujala and Lehtimäki (2011) argued that in addition to the model of stakeholder salience, put forward by Mitchell, Agle and Wood (1997), other characteristics of stakeholder relationships were accentuated when these relations were considered from the perspective of value creation.

Myllykangas, Kujala and Lehtimäki (2011) further found that the more attributes a stakeholder had, the greater their salience to the organisation, however noted that stakeholder salience analysis in isolation was not sufficient and that complementary insights to describe relationships, in terms of value creations, was needed to understand a stakeholder's importance.

Agle et al. (2008), in particular Jensen, argued that shareholder value maximisation, from a social point of view, was wrong and identified total firm value as opposed to just maximising equity value would produce value for all stakeholders. Furthermore, Tashman and Raelin (2013) argue that managers and stakeholders codetermined the salience to the firm based on their perceptions of power, legitimacy and urgency at different levels of analysis and further, that these perceptions should only determine the various stakeholders salience to the firm if they were aligned to the institutional expectations of how these expectations should be fulfilled.

Based on these assumptions the following research question and research propositions can be proposed.

3.2. Research question

How does the regulatory environment impact the managerial perceptions of salience amongst a bank's multiple stakeholder groups?

3.3. Research propositions

3.3.1. Research proposition one

The regulatory environment impacts the extent to which managers overlook or discount certain stakeholders periodically due to increased workload, focus, time constraints and costs.

3.3.2. Research Proposition two

The impact of increasing regulatory obligations on senior managements' perception of stakeholder salience is dependent on the regulatory frame and the focus and frequency of regulations.

3.3.3. Research proposition three

Regulatory institutions have impacted the degree to which senior management contracts with an organisation's multiple stakeholders' claims.

3.3.4. Research propositions four

Senior management perceives all stakeholders as important to the organisation and pay no attention to prioritising them in favour of a balanced stakeholder view.

This chapter sets out to articulate the research question and research propositions based on the literature explored in chapter two. Subsequent chapters will provide empirical evidence to explore these areas.

4. METHODOLOGY AND DESIGN

4.1. Introduction

The purpose of this chapter is to demonstrate the appropriateness of the research method and design in its ability to link the conclusions, drawn from the data collection and analysis process, to the research question. A carefully and well-planned research design will ensure that the correct and most accurate data is collected and analysed to satisfy the objectives of the study and to answer the research question. Field (2013) stated that when an observation is made, typically a research question, data was usually collected and analysed to test the researcher's proposition. As a result, metrics that can be measured needed to be identified.

4.2. Research problem

The role of senior management is to enter into contracts with the owners of the company (equity holders) to act as agents for the organisation. It is then the responsibility of management to establish contracts with various other stakeholders of the organisation. This concept is akin to Stakeholder-Agency Theory, which holds that an organisation is a nexus of contracts between the various stakeholders (including equity holders, depositors and regulators) and the agents being management (Hill and Jones, 1992).

The responsibility of bank management is becoming more complex. Banks are different from other companies in that the responsibility of management extends not only to holders of equity, but to depositors, who provide the majority of a bank's funding, employees, government, the environment and society. Furthermore, management is being pressured by the expectations of depositors (investment safety, risk free return and fair treatment), equity holders (return on equity (ROE) and Share price), government (regulatory obligations), employees (equitable positions, pay and remuneration) and the social pressures from society. Management therefore have the unenviable task of identifying and prioritising stakeholders based on how they perceive stakeholder salience as described in stakeholder theory.

4.3. Research design

4.3.1. Method

There are two types of data which are generally used in academic research, namely quantitative and qualitative. Quantitative research focusses on many observations of a topic and quantitative data collected is usually numerical and analysed statistically.

In contrast, qualitative research by nature is the empirical research of data in the form of words or language, rather than numbers and is characterised by few, rich and in depth observations.

The aim of this research was to identify and understand perceptions of individuals in senior management roles and how they perceived various stakeholders' importance to an organisation. In order to understand an individual's perception, gain insight into their experiences and to appreciate their points of view, Denzin and Lincoln (2011) recommend qualitative methods.

Saunders and Lewis (2012) define an explanatory study as, "research that focuses on studying a situation or a problem in order to explain the relationship between the variables". In this instance the situation or problem under study is the increasingly complex, onerous and highly punitive regulatory environment of banking. The relationship between the variables was managements' perception of stakeholder salience and, in particular, the relationship between the major stakeholders of banking institutions, to be precise equity holders (used interchangeably with the term shareholders in this case study), depositors, employees, regulatory institutions or government and society.

One method which is typically used in explanatory studies includes the case study method. Baxter and Jack (2008) stated that a case study allows a researcher the opportunity to gain tremendous insight into a unit of analysis or case. In support of this supposition Harrison and Wicks (2013) agree that, "academic researchers may use a case-based method to gather rich information about the happiness of firm stakeholders."

4.3.2. The case method

Yin (2003) describes a case study as an empirical enquiry that investigates the real life context of a contemporary phenomenon when the boundaries between the context and phenomenon are not evident or articulated clearly. These case study methods can be categorised as a single or a multiple case study.

A single case study design builds constructs that are derived from a small number of observations, whereas a cross-case study (defined as a multiple case study by Yin, 2003) uses multiple cases (Gerring, 2007). He concludes that single case studies and cross-case studies operated at differing levels of analysis, in that a single case study was simply a way of defining observations, as opposed to the cross-case method of analysing those observations or the modelling of causal relations.

An embedded case study design, as identified by Yin (2003), gives a researcher the ability to look at subunits within a single, overall case and attention can be given to more than one unit of analysis.

For this reason the research has taken the form of a single, embedded case study. The suitability for this method lay in the case company, which is a multinational, multi-listed organisation and the subunits consist of various franchises which operate in different sectors of the banking industry. The embedded case study design was therefore appropriate as within the case and subunits, perceptions of stakeholder salience to the organisation could be observed and understood at the various operating levels.

The case company is an organisation which is listed on the Johannesburg stock exchange (JSE) and the Namibian Stock Exchange (NSX), namely FirstRand Limited (FSR). FSR is a regulated financial services entity, whose majority of operations are based within Southern Africa but has branches in India and the UK and representative offices in Angola, Kenya, Dubai and China. Whilst the majority of FSR's operations are within the Southern African jurisdictions, due to the nature of its operations abroad, the organisation is also subjected to foreign regulations. It is for this reason that the organisation could be considered appropriate in answering the research question.

4.3.3. Unit of analysis

The unit of analysis for the case study was management perception of stakeholder salience. Research conducted by Tashman and Raelin (2013) attempted to refine the concept of stakeholder salience by distinguishing between who and what managers perceive as important to the organisation. The study described a situation where market frictions, in this case the regulatory environment, could affect managers' perceptions of stakeholder importance.

This was particularly relevant in answering the research question of how regulatory pressures affect managers' perception of stakeholder salience, in particular equity holders, depositors and employees, given the increasingly complex, highly regulated environment in which the case company and its franchises operate.

Permission to use FSR as a case company was obtained through the Company Secretary who is a direct report to the Chief Financial Officer (CFO). The Deputy Chief Executive Officer (DCEO) was also consulted in the process and final sign-off was obtained by the CFO with consent from the Chief Executive Officer (CEO). All of the CEO, DCEO and CFO were executive directors for the Group at the time of the data collection process.

4.3.4. Sampling

Purposive sampling is described by Saunders and Lewis (2012) as a method of non-probability sampling which uses the researcher's judgement, based on reasons and premises, to select a small sample for the purposes of qualitative research.

The sample selected included participants from FSR's senior management comprising the following positions: Head of Group Regulatory Risk Management, Compliance Officer from Regulatory Risk Management, Head of Banks Act Compliance; Group Human Resources Executive; Head of Sustainability and Governance Reporting, Head of Public Policy and Regulatory Affairs, Chief Risk Officer, Senior Audit and Risk Secretary and the Group Company Secretary.

The researcher believed that the sample selected would best serve the purposes of meeting the research aims and objectives, based on the participants' collective levels of experience, exposure to the banking environment and exposure to various stakeholders.

4.3.5. Data collection

The primary data collection method comprised explanatory research involving personal, semi-structured interviews. The objective of the interviews was to obtain specific points of view and to collect information on management perceptions of stakeholder salience, based on relevant experience and the effects of the regulatory environment on these perceptions. The interviews lasted approximately one hour each. The draft research instrument (Appendix 1) set framework for the interviews and was used as a guide to structure the data collection towards gathering data that was meaningful to the objectives of the research.

Stake (1995) used a constructivist paradigm as an approach to case studies, best explained on the premise that truth was relative and dependent on an individual's perspective. Constructivism is a theory of knowledge founded by Jean Piaget. The constructivist approach offered the researcher the opportunity to firmly establish a concrete principle through perspective and detailed analysis. In research related to business ethics, Buckley (2013) succinctly explained that constructivism necessitates that various problems required distinct investigations in light of specific facts and their uniqueness and context.

Baxter and Jack (2008) explain the constructivist paradigm stating the creation of meaning through subjectivity of individuals was important and that some level or notion of subjectivity was not rejected outright.

Given that the research was conducted through semi structured interviews, and aimed at gaining an understanding of senior management perceptions, the researcher acknowledged the importance of the constructivist concept in the data collection process.

Additionally, secondary data such as annual reports and other internal company documentation was reviewed to develop chronological trends in stakeholder identification and prioritisation which assisted in the listing of primary data collected. The data reviewed for this purpose was supportive in nature and was not included in the qualitative data collection and analysis processes.

Punch (2006) recommended that a researcher consider the following ethical issues when conducting academic research:

- Informed consent: Do the participants I wish to interview have the access to all the information about the research and why they have been chosen to participate?

This question was addressed at the start of the interview in the introduction phase (Refer to Appendix 1). A draft consent letter (Refer to Appendix 2) was prepared explaining the reason for the research and that the information would be kept confidential. The letter was signed by the participants as proof of informed consent to participate. Consent was also sought from participants relating to the recording of the interviews.

- Confidentiality: Will the information be regarded as confidential and safeguarded?

An arrangement with the company's Company Secretary, in consultation with the Chief Information Officer, was negotiated relating to the recording and the storage of the electronic and transcribed files.

- Ownership of data: How will the research reports be distributed and the findings disseminated?

The research will be used for academic purposes. At all times the participants and the Company Secretary were kept informed on the progress and any changes that occurred in relations to the study.

4.3.6. Data analysis

Yin (2003) highlights three techniques for effective data analysis which were considered applicable to a single case study design, namely:

- Pattern matching: a method of data analysis that links data collected to the researchers propositions to conclude its validity;
- Explanation building: a type of pattern matching relevant to explanatory case studies. The goal of explanation building was to analyse data emanating from the case study by building an explanation about the case;

- Time-series analysis: which employs a technique of linking data obtained over a period of time to identify the trend or nature of the phenomenon through a sequence of observations; and
- Logic models: are models that stipulate a series of events over time.

Qualitative data collected from interviews was transcribed, coded and analysed. A systematic content analysis approach was used to analyse the responses to the interviews that were conducted. The researcher used explanation building to construct a description of how the regulatory environment impacted managerial perceptions of stakeholder salience between a bank's multiple stakeholders.

Punch (2006) defined participant observation as a situation where, in order to understand a situation being studied, the researcher becomes both an observer and a participant in the study. As an employee of FSR the researcher therefore brought an element of participation observer risk to the research. To mitigate the risk and in order to ensure the research was not be biased or swayed by senior management intervention, the researcher requested the participants to verify data gathered from the interview, but did not involve them in the analysis and progress of the emerging theory or propositions.

It should be noted that as an employee of the case company the researcher was able to gain better access to participants relevant to the study, especially at the senior management level of the organisation, who were able to give a richer quality of information than that of lower level employees.

Additionally the researcher identified two participants: the Group Audit Committee Chairman and the Group Risk Committee Chairman, who were regarded as independent as defined by the King Report on Governance for South Africa (2009). These participants were not available for interviews and as such were not able to give their views on the research findings.

4.3.7. Assumptions

The researcher has assumed that the sample chosen (i.e. senior management) have sufficient managerial authority to collectively impact the extent to which various stakeholders are prioritised, based on their salience to the organisation.

Secondly, it was assumed that all current regulatory obligations were complied with and met and therefore would impact the decisions of senior management of the FirstRand Group with regards to stakeholder salience. Furthermore, the researcher has assumed that the impact of future legislation, i.e. draft legislation and bills not yet promulgated, would affect the perceptions of stakeholder salience based on their future implications to the organisation.

4.3.8. Limitations

One criticism of the case study method was that they provided little basis for scientific generalisation (Yin, 2003). The type of case study chosen limited the data to a single organisation.

The study was also limited to a South African banking context as the company chosen was an entity established under South African legislation, statutes and regulatory requirements however, the Group is subjected to regulatory obligations from both local and foreign regulators which require additional compliance.

Lastly, foreign regulatory landscapes are different to the South African regulatory universe and hence the obligations, compliance and ultimately the prioritisation of stakeholders, according to stakeholder theory, in particular the stakeholder salience model, may differ.

4.3.9. Future research

Emanating from the case study the researcher developed four propositions from the data collection and analysis phase. These propositions create the platform for future research.

In addition, the regulatory environment was rapidly changing and this would have implications for future research based on the frequency and regularity of new legislation and statutes being written and promulgated by regulators and their ongoing effects on stakeholder salience to an organisation.

5. RESEARCH RESULTS

5.1. Introduction

The chapter describes the effects of the regulatory environment on senior managers' perception of salience to a bank's multiple stakeholder groups. The findings associated with the research question and the research propositions are described in detail. The chapter includes the responses from the interviewees and includes quotations in support or opposition to the research propositions.

5.2. Describing the interviews

Nine personal, semi-structured interviews were conducted within the various business units of the organisations head office. The interviews were purposeful discussions to gain insight into the research topic. During the semi structured interviews, and aimed at gaining an understanding of senior management perceptions, the researcher acknowledged the importance of the constructivist concept in the data collection process.

A standard set of questions was used for each interview however, the researcher used discretion when asking questions depending on the response given, which may have already covered the topic. The constructivist approach, in light of specific experiences and their uniqueness and context, allowed for discussion in order to firmly establish distinct principles through perspective and detailed analysis of the research topic.

5.3. Describing the interviewees

The research focused on senior managers within FSR, based on the participants' collective levels of experience, exposure to the banking environment and exposure to various stakeholders.

Table 2: List of interviewees

Number	Position	Assigned name
1	Head of Sustainability and Governance Reporting	Interviewee 1
2	Regulatory Risk Management: Compliance Officer	Interviewee 2
3	Head: Group Regulatory Risk Management	Interviewee 3
4	Group Human Resources Executive	Interviewee 4
5	Group Company Secretary	Interviewee 5
6	Head: Public Policy and Regulatory Affairs	Interviewee 6
7	Head: Banks Act Compliance	Interviewee 7
8	Chief Risk Officer	Interviewee 8
9	Senior Audit and Risk Secretary	Interviewee 9

5.4. Analysis approach

A systematic content analysis approach was used to analyse the responses to the interviews that were conducted. Following the generation of a thorough list of codes that appeared to comprehensively cover the responses of the participants, each participant's responses were subsequently re-examined to provide certainty that all participant's responses could be placed into at least one code.

Supplementary codes were created for responses that, upon re-examination, did not appear to coincide with previously generated codes. Each of the participant's responses were re-examined relative to the previously identified and novel codes and were assigned a numerical value corresponding to the particular code that responses conceptually fit. More than one numerical value, corresponding to the codes, was assigned to responses that fit conceptually into more than one code.

Following the complete generation of relevant codes, the coded responses were then examined to provide certainty that the responses that were previously coded were conceptually relevant. Upon examination, any responses that were not conceptually relevant to the code/s were recoded or removed from the analysis.

For response frequency determination, the number of references to each code was reported with each participant's responses able to be coded more than once into the same code, provided that the response formed part of a new or separate discussion point and not a continuation of a preceding response or point of discussion.

Refer to Appendix 3 for list of codes used in data analysis.

5.5. Effect of regulation on banking organisations

From the data acquired, the participants had a range of perspectives in terms of the effects of regulations on their organisations. Among the most prominent effects was the increase in costs or the cost implications associated with attempting to comply with the regulations. These costs were linked to increased employee and resource requirements in order to successfully ensure that regulations were being complied with.

Interviewee 9 said:

“and it’s costing us money, because you know there are fines if you don’t comply then they issue fines to us. We have to employ more people, we have to amend our systems, which is quite a cost, significant cost.”

Interviewee 8 said:

“I think that there is no doubt that it adds a major cost layer to doing business.”

Whilst Interviewee 4 answered:

“The Labour Relations Act (LRA) requires or now states that any employee within that threshold who has been with us on a temporary basis for longer than 3 months has got the right to demand to have the same benefits as though they were permanent, cost implications, you know, to that. We just feel that the changes that have come from a labour perspective, from a human capital perspective, have just added more and more cost to companies.”

The regulations with the most substantial impact were along the obligatory or hard regulation side, which were, according to most respondents, a requirement for businesses to comply with, although some of the participants noted that softer or voluntary regulations were becoming increasingly important in the corporate environment.

When questioned on the effects of obligatory and voluntary regulation, Interviewee 3 stated:

“I think that we are way past regulation not impacting that because at the end of the day, whether you acquire new business or you’re diverse you still require the regulators’ approval so embedded particularly for us as a sector embedded in everything that you do are regulations, so you are regulated left right and centre.”

Interviewee 1 said:

“Now obviously the impact on each one is different, the hard-core stuff has the biggest impact because you have to do it and you often have to do it in a particular way, so you don’t have much choice in how to manage costs relating to those regulations and we’ve seen that with FATCA and anti-money

laundering and all of that where it's like that's the new normal and you've got to accept that's going to have to happen in a certain way and that your ability to manage costs is pretty limited...whereas things like King III which are a bit more flexible but, you got the “apply or explain” principle, where the company has more leeway to actually say we agree with this principle in a different way or you agree with the principle but not now and that is helpful for the company to have the flexibility.”

There were also concerns about the volume of changes that were being implemented, along with the frequency and seeming divergences between the regulations, which created difficulties for attempting to remain aligned and continually compliant.

Interviewee 7 explained that:

“we see a lot of changes coming, it's constant, it's on-going, revisions to the Banks Act, the regulations related to banks, directives, circulars, guidance notes, standards, position papers, it's quite busy.”

When asked about the level of change that is taking place and the regulatory pressures, Interviewee 9 said:

“So they call it a “tsunami” of regulations coming in, and management is really stretched in trying to comply with all of this and that. I think that it's a bit of overkill ... they don't give you enough time to comply before they come out with something else.”

Furthermore, Interviewee 3 responded that:

“the level of change that is taking place at the moment. I certainly haven't been in the sector for that long, but have spoken to a few colleagues it is unprecedented, just in terms of the level of change and therefore it brings on-stream extreme complexity, because one you have to manage the regulatory frame where you are but within that space you are, on the side you look at the FSR bill obviously it's changing in terms of setting up the prudential regulator, market conduct regulator, you seeing that within market conduct new papers coming out.”

There were mixed opinions about the general trend of regulations and legislature in the future. Some indicated that regulations would continue to play a major role and changes would continue to be made, for example, Interviewee 5 stated:

“I think that eventually we’ll move back to a situation of minimal governance.”

Conversely, Interviewee 4 responded:

“Look I think, I think it’s not going to stop. The government is trying to address legitimate problems, but it doesn’t look at what is happening in the sectors, it’s just a blanket. So I don’t see it stopping, the more we have problems around labour, unemployment, unfair practices in various, whether it’s mining or whatever.”

Others suggested and hoped for a reduction in regulations, particularly because of the sense that regulators were going to experience difficulty in keeping up with industry.

Interviewee 5 hoped that:

“the trend would move back to a sense of basic morals, basic conduct and basic values and integrity.”

A number of participants were concerned about the simple application of regulations across all business regardless of specific companies that may be treating all stakeholders fairly, and some reported that there was a need to select certain regulations that applied more strongly to the South African context, as opposed to taking all international regulations and applying them without context relevance assessments. Responses from the interviewees were recorded, most notably:

Interviewee 9:

“you also get on top of that Basel, and then Basel, if you just look at the liquidity, the NSFR (net stable funding ratio) that they want to implement here, it’s a bit, to me absolutely clear that people write policy don’t understand all the jurisdictions. So in Switzerland, they’ve devised this NSFR and they don’t look at the South African market that’s not saving, so we have to apply something that’s detrimental to the South African economy. So I think policy makers must look at the jurisdiction, understand the market, and then issue something we

can implement. Not just like the whole world must just comply with it so.

Interviewee 7:

“Look they don’t want to manage us, I personally think it depends on how you look at it ... I think to implement everything carte blanche, to me that’s an issue that I think is not necessarily in our best interest.”

Interviewee 4:

“We are all being put into one pool and one legislation, you know they just paint across.”

One participant reported that regulation and legislation were currently required in order to ensure that the values and ethical compass, required within companies, was instilled before the industry could begin to experience fewer regulatory restrictions.

Generally, there was a tendency for the interviewees to suggest that presently, companies were unable to appropriately implement self-regulation, perhaps due to the lack of maturity of the South African economy or because the banking and financial sector was highly competitive.

Interviewee 5 explained:

“Ok, we’ve moved from a situation of self-regulation and then we had a whole series of massive corporate failure. The ultimate sufferers are partially the shareholders but mostly the other stakeholders. So nobody wins when there is a corporate failure, nobody, not the shareholders, not the employees, not labour unions, not society, not government. Nobody wins when there is a massive corporate failure.”

Interviewee 4 said:

“I think there is a sense that self-regulation is not strong enough and as the sector transforms, the banking sector or the financial sector, broadly, as it transforms in response to the changing business dynamics and competition, there is a sense that we are trying to be more competitive at the expense of the customer.”

There was also a sense that government, through engagements with industry, needed to develop a stronger understanding of the industry or business environment in order to implement regulations that are appropriate but not overbearing for institutions.

Interviewee 9:

“I think the biggest danger is not everybody understands the business of a bank. So they all want to have their say, tell the banks how to manage their business, but they don’t understand the impact of the change, because they don’t understand the business.

Interviewee 4:

“So at a strategic level there is engagement, there is an understanding, but when everybody goes back to their places, it becomes business as usual. And I believe this is because what is discussed strategically never ever filters down to everybody within government so that they can understand what business is trying to do.

Lastly, the participants reported some concern over the regulatory environment in that many of the regulators were not coordinating amongst themselves to ensure that the regulations that are being developed and implemented are firstly, aligned and secondly, are devoid of any contradictions, with the latter considered an issue with many of the current regulations. This was evidenced in the following responses:

Interviewee 7:

“Are all the regulatory authorities operating effectively and on the same basis?
No, so we hope that will be addressed.”

Interviewee 8:

“Also, it’s international regulation versus local, so there’s no coordination between international and local and there’s also not full coordination between the local regulators.”

5.6. Stakeholder salience and relationships

The participants' responses were mostly centred around a few key areas of interest. Firstly, it appeared as though the regulations were placing greater emphasis on treating the customer fairly and protecting customers from undue risk.

When questioned whether the increase of and various changes in regulations had altered the way senior managers prioritised between depositors (customers) and equity holders (shareholders), the responses were definite in terms of an emphasis towards customer fairness, most notably:

Interviewee 1 said:

“if you look at that in context of the current economic climate, the role of the customer has become extremely important because delivering shareholder value in an environment where the consumer is stretched it means you have to have a seriously good customer value proposition. So customers become more important...”

This view was strongly supported by Interviewee 4, who explained:

“there is a strong sense of treating the customer fairly. In fact, there is no place to hide for anybody who will, in the interest of making money, will deliberately treat a customer unfairly.”

However, this perception was not at the expense or neglect of shareholders, as they were seen as a critical element of banking institutions. Along these lines, the board was considered an agent for all stakeholders as opposed to solely shareholders, which was a perspective that has perhaps differed from the past.

Interviewee 5 was vocal about the agency problem arguing that the board did not act as an agent for shareholders only. She explained that the problem was created by the agency principle, where boards were acting for shareholders and at the whim of shareholders, to the detriment of other stakeholders, but that the role of the board had changed in that currently, shareholder elected boards' primary responsibility was to keep management in check, but that the board didn't only act as an agent for shareholders, rather they acted as an agent for all stakeholders. She was however quoted as saying that:

“the shareholder focus as a business is a very difficult element for any board to lose sight of. And the reason for that is that the shareholder can remove a board, you know. The majority of the shareholders can actually remove their directors. So there will always be an element of keeping your shareholders satisfied.”

The respondents denoted that the important emphasis was being placed on obtaining a balance between all the stakeholders of a company and attempting to service each stakeholder, and the needs associated, in an appropriate and fair manner.

Whilst interviewee 1 was of the strong opinion that the goal of any business was to make money and deliver shareholder value, he stated that agency theory and stakeholder theory were not mutually exclusive in that:

“the stakeholder one is like the evolution of the principle agent because now the capital owner is saying to the agent being the manager, listen these stakeholders are impacting our profitability you need to manage that. So yes there’s no denying that stakeholders are crucial to the business and we actually say in our annual reports so when we try to position everyone asks, and when I say everyone I mean the sustainability reporting community, how do you engage with stakeholders and all of that stuff and people buy them lunch and take them on holiday and all of that stuff, but we engage them every single day, formally, informally, on a transaction basis or a non-transactional basis and that’s how the company works, that’s how it makes money, you’ve got to engage the regulator get a license, engage customers, sell products, get employees working.”

Interviewee 5 explained:

“Our business, I think we try, we try to balance stakeholder view versus shareholder views. And the reason I can say that is because my experience with our board is that it is critical to do the right things. And the view that kind of prevails, is the right thing is the right thing for everyone. The right thing for our customers is the right thing for our shareholders. The right thing for our staff is the right thing for our shareholders.”

Interviewee 2 agreed with the above stating that she could not rank the various stakeholders of the business in order of importance and that:

“it’s up to us (senior management) to come to a middle point, where we can satisfy all of them and do it equitably, so make sure that we don’t compromise one over the other. So we cannot go and say our shareholders who are represented by our board, want a 25% return on equity, whereas we then take those funds out of the savings account by charging our customers more because that would be immoral if I can call it that. So we cannot overcharge one to make the other one happy and we cannot say our board is or our customers are the best and then not look after our shareholders, because I believe that it still needs to be balanced at the end of the day.”

Whilst it was clear that important emphasis was being placed on obtaining a balance between all the stakeholders of a company and attempting to service each stakeholder, in an appropriate and fair manner, certain of the respondents felt that each stakeholder identified by the organisation had divergent expectations.

Interviewee 1 felt strongly that:

“Stakeholders generally only care about themselves, so employees want more money, more holidays, suppliers want more money, quicker turnaround, more demand for their goods, customers want cheaper service, better value, regulators want more free regulation, shareholders want more profits.”

Interviewee 2 said:

“The shareholders want the best return for their money. The customer wants to pay as little as possible for the money they borrow from us and on the other side even with the customers, you find people who’ve put money with us, they want the best return and we sit in the middle and it’s to actually explain the strategy of the bank to all of them.”

The respondents seemed to express the importance of maintaining strong and amicable relationships with all stakeholders, with some indicating that institutions needed to actively manage these relationships and proactively take steps to ensure that, with particular reference to regulations, they obtain early information about regulations and can plan accordingly for the changes that may occur in the future.

Interviewee 4 explained that the organisation had been proactive in recognising the importance of regulatory relations and noted that it was an imperative at every level of the organisation. She said:

“my understanding is that it is not worth it not to have a good relationship with the regulators, so the thing I’ve heard time and time again, whether it is with tax or SARS or whatever, we’ve had some strain there, but we always say don’t even think twice, it’s not worth it not to build these relationships.”

In terms of relationships with regulators, the participants reported that the relationships often depended on the compliance of institutions, but that relationships between these two parties had improved over time with regulators often considered and, on occasion, being open to institutional comments, suggestions, and concerns.

Two respondents felt that the relationships with regulators and business were introducing complexity into their roles.

Interviewee 8, when asked a question on whether the increased regulatory pressures and managing difficult relationships with regulators was affecting client relations, he said:

“it makes it more complex its new. Let me give you a practical example, we had to block payments that government wanted to do to other countries. So if you block payments that the government had to do to another country just because it’s on the US sanction list, it puts you in direct conflict with the government, because it’s not on our (South Africa) sanction list but it’s on the US sanction list, because we’ve got US funders we’re not allowed to do that. But now we say to government you can’t do what you want to do, and it’s not because what they want to do is illegal or even wrong, it’s just we can’t do that. We can’t fund the Iranian leg of ABC, which is one of our biggest customers. Our government has got good relations with Iran, it’s not for nuclear weapons or anything like that, it’s for telecoms, so those are examples are where you can see.”

Interviewee 9 summed the situation up by saying:

“I think when it comes to regulators and our stakeholders, we try and build a relationship with them, we’ve got to have, we had bad relations, we’ve got a better relationship now with the SARB, we’re really focusing on all our regulators.”

Notwithstanding the heightened focus on regulatory relationships, overwhelmingly, the respondents indicated either that they were unable to prioritise one stakeholder over another or that there were risks with placing one stakeholder over another in terms of importance. However, some indicated that at times one stakeholder may be elevated in priority over another, but that this prioritisation was a fluctuating situation and that one stakeholder was not constantly prioritised. The legislation however, appeared to be pushing more towards prioritising customers and competitor movement towards this too has increased the necessity to consider customers more thoroughly.

Interviewee 4 responded saying it was difficult to identify the most important stakeholder to an organisation and further said:

“it is difficult because the moment you identify the most important the likelihood of then following through and saying others are less important is there and that’s a huge risk.”

“If you were to say: “look we exist as a business because there are investors and shareholders”, great. What are they investing in, and if they don’t get a return from people doing something will they stay investors? The answer is no. So they need people, your management, your employees to continue to do something so that they get returns and therefore they stay invested. And if you don’t have customers to help you generate? So you can’t prioritise, I won’t be able to prioritise that.”

Interviewee 5 alluded to a shift away from a shareholder view to a stakeholder view, when asked if the regulatory environment was shifting perceptions on stakeholder focus. She responded:

“I do see that there is a movement away from the shareholder view to the stakeholder view, purely because the shareholder view is not a sustainable view, there have to be other stakeholders that benefit and contribute.”

Finally, the interviewees reported that business units tended to focus on their particular stakeholder of interest, with top level management being aware of the various stakeholders and how their interests fit into the global stakeholder scheme.

Interviewee 1 was clear that the strategy was to let the various departments, business units and franchises within the business look after their own stakeholders.

He reasoned that:

“I think what you find is tactically at that level where those relationships are owned you’ve got a lot of changes, people are getting smarter, shops are talking about e-ing their customers, we are constantly looking at the SARS thing and how to enhance that relationship, so I think the overall strategy is consistent but at grassroots or at the coalface the little strategies there change all the time.”

Interviewee 2 said:

“We have a regulatory management team that is made up of SMEs, so you would find that we have a SME for Bankseta and that’s Veri, we have a SME for contact that’s Willem, we have a SME for National Credit and that they all sit in the group. But where you find that you have let’s say FAIS for an example, you would have an SME at the centre but not all FAIS issues would be in the centre, the FAIS issues happen in our retail business, so you find that in each retail business like an FNB or an WesBank, they actually have an FAIS rep or somebody who is looking after FAIS and then all these things will be then channelled to the centre. So there is SMEs for most of the risks that we are facing.”

Some indicated that although the stakeholder focus was generally specific, the stakeholder consideration in each business unit was becoming more sophisticated and strategically improved as compared to the past.

5.7. Impact on roles and perceptions

In terms of the influence of regulations on management abilities, their functions and their perceptions, a number of the participants indicated that regulations had increased workload requirements and the amount of work that they do, with some indicating that this increased workload detracted from their core functions or role in management, requiring them to complete other types of regulatory duties instead.

The respondents voiced exceptionally strong opinions on the increase in work, resource and time requirements brought about by the increase in regulatory obligations. Interviewee 9 said that five years previously, five percent of his time was taken up by regulatory obligations compared to almost 30 to 40 percent in the current regulatory environment.

Responses from interviewees were noted, particularly:

Interviewee 1:

“one of the worst things in business is a very literal interpretation of regulation because then you end up with this incredibly cumbersome and expensive approach and it ties into our fears because if you take a very literal interpretation of, and I’ve got a very good example, a regulation you actually end up creating lot more work.”

Interviewee 6:

“I think a huge amount of effort has now being diverted to regulatory compliance.”

Interviewee 5:

“We are certainly affected because it increases the amount of work that we have to do.”

Interviewee 9:

“but you can see it in the meetings when people come, they’re stretched.”

Interviewee 4:

“Let me tell you the amount of additional work that we have to do. Obviously there are regular reports that we have to submit, but the more regulated we get, and the more new things are introduced and the more legislation is changed, the more work that we have to do.”

Others indicated that the regulations generated heightened resource requirements, which may create additional opportunities for employment, but was strongly associated with greater cost outlays and expenditure implications.

For some, these regulations were seen to be creating a more complex managerial environment that managers were required to operate within, but some also indicated that individuals needed to have a positive perspective towards the regulations and view them in terms of the long-term benefit offered, not only for the institution but for the stability of the country and the financial system as a whole.

Interestingly, in general the interviewees had positive perspective towards the new and proposed regulations and were optimistic on the effect these various regulations would have on the ability of the business to service customers, as many indicated that the regulations have developed a sense of the need to obtain a balance between various stakeholders as well as the necessity for continued assessment and improvements towards the betterment of the institutions and the services they provide.

In a positive sense, regulations seemed to offer indirect ways of garnering opportunities or developing opportunities to obtain competitive advantage in the industry. Most importantly however, there was a sense that the regulations were useful for ensuring sustainability and that companies were engaging in ethical and moral conduct that promotes the quality of service to customers and other stakeholders.

Interviewee 3 in relation to ensuring sustainability, said:

“I’m a believer in doing sustainable business...I personally believe that it is important to have sustainable businesses as part of sustainable business practices.”

“I’m a firm believer in business being responsible...I think the key thing for the regulators is to speak clearer, give clarity and certainty so that when we invest and we try and sort it out we do it right”

Interviewee 4 said that in terms of servicing clients, satisfying regulators and fulfilling other stakeholders’ needs the organisation was trying to find the right balance. She said:

“I think as a group we do find the right balance... We’re compliant but at the same time I think we giving clients more focus, so we’re trying to get the balance.”

Interviewee 1 explained:

“I also think that companies are on to it that is why we starting to promote the concept of innovating of below the line and this thing of regulatory arbitrage, turning these things into competitive advantages. So they might not make more money compared to ourselves a year ago but we are more profitable relative to our peers because we get cleverer at doing this.”

The regulatory environment did not appear to have been perceived as placing additional or unwarranted strain on certain of the stakeholders identified, with some potentially more inclined to benefit than others. In fact, certain of the respondents supposed that the stakeholder most likely to be affected by the increased burden of the complex regulatory environment was the shareholder.

When asked the question of whether the spirit of the regulation was the right one in terms of what the regulators were trying to achieve, Interviewee 8 thought that that the benefit from the various regulatory changes was not going to off-set the costs. He said:

“I cannot see such a scenario I’ve seen the international precedent on that...it comes at a cost, and I think the shareholder would bear the cost.”

Interviewee 9 supported this view and said that ultimately the cost would be for the shareholders’ account as compliance and staff costs as well the threat of regulatory fines would impact the bottom line of the business and ultimately the returns to the shareholders. She stated that:

“You can only push so much onto your customers and when customers are already stretched, you can’t. So I think ultimately, the cost of systems will be the shareholder impact.”

Additionally, the interviewees indicated that one needed to perceive the regulations in the manner in which they were intended, which is to protect each stakeholder from unnecessary exposure to risk, and a thorough understanding of the regulatory purpose and requirements was necessary to have an objective assessment of the regulations.

Interviewee 4 responded to the question of whether the regulatory environment was placing undue strain on certain of the stakeholders in terms of the organisation's employees, management and also the customer, saying that she believed that there was pressure, but did not necessarily think it was undue. She declared that management were required to be objective and balanced in the way they viewed the regulatory environment. She said:

“We need to understand why these regulations you know are being brought in.”

The participants noted importantly that the regulations should not be considered to target a specific company, but rather apply to all institutions, regardless of current levels of stakeholder treatment and engagement.

Interviewee 4 confirmed:

“as I said before, recognising that regulators regulate broadly, they not regulating for FirstRand only, if it's the sector, they'll regulate for the whole sector.”

5.8. Strategic considerations

The participants had divergent and mixed opinions about how the regulatory changes were going to affect institutional strategies in the future. Many tended to suggest that these changes would alter growth strategy areas of focus and decision-making, with additional emphasis going to be placed on which products to develop and roll-out as well as which jurisdictions to enter.

The following responses received from the participants supported this view:

Interviewee 5:

“You know regulatory requirements have played an impact in terms of our growth strategies.”

Interviewee 7:

“So expansion, we need regulatory approval; that's a huge example. So whenever we want to acquire a subsidiary or expand offshore, when we want to acquire an ownership interest, we have to do an application to the banking

regulator, but before you can do the application you have to go through your due diligences and your internal processes, et cetera.”

Interviewee 3:

“so there’s no way that regulation does not impact on the expansion strategy.”

Interviewee 2:

“it’s just that we cannot expand as fast as we wanted to... there’s a capital outlay, there’s a liquidity outlay that we need to have.”

Some also reported that greater attention would be devoted towards customer risk and the exposure of customers to undue risk. Interviewee 4 was explicit in that, from a business perspective, she was alert to the heightened focus by senior managers within the organisation to close the risk for customers. She said:

“there is a sense that the customer needs more protection that the customer is at risk, and I see a tightening of that oversight and especially the customer protection is becoming bigger and bigger...we can only see the regulations as they come, you know, tightening more in terms of managing the risk and minimising the exposure to the customer, you know, from a risk point of view.”

Greater governance emphasis was one of the factors cited as an area of development in the future based on regulatory changes, which was seen to have implications for how companies were run and the ethical and moral compass of such entities. Another important consideration was that legislative and regulatory changes were likely to follow changes in the industry, indicating a “catch-up” role of the regulatory environment. This development might require institutions to consider potential regulatory changes that may be promulgated in the future, along with heightening engagements with regulators in order to appropriately communicate and discuss regulatory implications for companies, as they develop.

Interviewee 7 said:

“I think regulators are under pressure to keep track and to keep up with all the change.”

Interviewee 6, when asked about whether senior managers felt that the organisation's strategy was being driven by the change in regulatory environment, she responded:

“we're playing in a futuristic space, and legislation hasn't caught up to that... we are moving into this fast paced digital age, the legislation hasn't caught up with that yet, because once we've managed to sign up a client, we still have to FICA them, we still have to get all those documents...so I think legislation is going to play a catch up role.”

Interviewee 6 responded to the question of whether the regulations would assist the organisation in a gaining a better level or quality of customer and better the group's profitability into the future by stating:

“there are better ways to get the same outcome because regulators are normally followers and banks are the leaders so regulators always do catch up... it should help us to identify the undesirable client. So if you have a better client base you automatically better off. So in that respect KYC will definitely help.”

Overall, the participants summed up the regulatory influence on future strategy as promoting the necessity to obtain a balance between various stakeholders as the key focal area. Interestingly, there were a host of potential directions outlined for the banking sector in the next 5 to 10 years.

From a strategic point of view, it would appear that banking institutions would be impacted by the influx of additional competitors, being either other retail companies that sold similar products to what the banks were beginning to sell, or non-traditional banking companies that were beginning to move into the banking industry.

Interviewee 1 said:

“all I'm saying is that, there's a hypothetical risk that Facebook opens a bank or Google opens a bank or Vodacom and they've got just millions and millions of customers and overnight they just consume the retail banking market and what would enable to do that is their customer base and their technology.”

Interviewee 4 explained:

“Suddenly, you know, a bank is more than just a bank, it has become a shop floor for a whole lot of things. It may not be physical, but it’s become, you know, I can only call it a shop floor where you can just shop around for various things other than keeping your money or making a payment. So I think that has been enabled by technology, but what it does is it’s bringing more competition into this space, because the more we evolve and become 21st century, the more our competitors are not only banks, but are telecommunications companies, cell phone companies, retail stores.”

Interviewee 9 explained that:

“FNB, what their future in terms of branch is quite amazing, it’s much more electronically driven, I guess you’ve seen the dot FNB branches, so cutting cash carrying, the minutes spent in branches by people, having e-bankers. So what they’re doing is they cutting the feet going into the branches and increasing electronic transactions

Other participants indicated the employment opportunities would be created in the banking industry as a result of the increase in regulation and, the types of employees that were likely to be available to the industry, would shape the employment environment and the types of product offerings banks provide.

Interviewee 2:

“I see a bank being a bigger employer than it is now, that we would need more skills, we would need ICU in the compliance space, we getting skills like; statisticians, I mean who would think a statistician would work in a compliance environment, so I find that this broader range of skills is required to be in a risk management environment including compliance, will be a very big employer in the future.”

Interviewee 4 thought that:

“opportunities are opening up out there, they are opening up. Especially the younger generation understand technology much better, and the way they explore through technology you know they become very marketable, they can go into any industry.”

There was a sense from one or two participants that banking regulations would decline over time, perhaps because of the difficulties regulators may have in attempting to keep up with the market changes.

Interviewee 7:

“I hope the Basel committee calms down and slows down with the volume of changes to prudential regulatory requirements. I hope SA also becomes more practical, SA Inc., as to just having a blank statement that we will implement whatever comes from them.

Interviewee 5:

“What you need is a set of principles and then you can always examine how those principles have been implemented. I think that’s where governance is moving, but the principles will still be there. You still need a set of principles that you measure yourself against and that you check yourself against. They will definitely not be as rigid as they are now, but for sure moving into a less regulated, more self-regulated space.”

Importantly, however, some had a positive outlook towards regulations in the sense that they felt that these regulations would level the playing field in that all types of institutions, not only large corporate banks, would have to comply with the regulations.

Interviewee 3 said:

“I do think that in 5 years hopefully banks would have made peace with the character of who they are and part of that character is that we are highly regulated it’s like somebody that I started with aviation, if you ever want to run an airline the quicker you realize and you accept the DNA of being a successful airline business and you understand that this is the space within which you work and then you adapt your processes, you adapt your products, you adapt your solutions to this, the quicker you stop resisting the change the better you will be placed to get out better.

Generally, there did not seem to be a particularly new stakeholder that will emerge in the future that was already not part of the stakeholder system identified by the organisation. Some participants however, reported that certain stakeholders may begin to have more influence in the future, such as government and labour unions.

Interestingly, one major aspect of the findings was for organisations to obtain a greater understanding of people in general and utilise employees as a basis from which to consider stakeholders as employees often played a role as more than one particular type of stakeholder, for example a shareholder, a customer, an employee and a member of society.

Interestingly, Interviewee 6 thought that organised labour was at a point where they could almost position themselves as a political party. She noted:

“when I say labour I mean organised labour, I mean unionised labour. They have become so strong that they actually, they have gone to a point where they are looking to influence regulation to improve situations, and I think potentially therein lies the challenge...I think that government has tried to become more prominent, I think they have forced themselves in various ways, taxes, regulation, et cetera, but that I think is something that every corporate has to deal with so they're not more prominent than another. I think other stakeholders have suffered in our approach to business, I think that environmental elements have suffered, I think society has suffered, I think corporate citizenship is not what it should be in South Africa purely because of the regime and the role that corporates can play.”

Interviewee 5 said:

“It's a different answer when you look at stakeholders because people they fit into all three buckets. Your employee, your customer, your investor, just understand that there is a thread that goes through all 3 you know that at any point your investor is your banker and is your employee and the other way round... I don't think we tap enough into our own employees as investors and as customers, and yet we have a base there that we can actually learn a lot from.”

Interviewee 8 thought that regulators would become even more important than they were currently and said:

“I see us spending more time, even at a bank level, with those regulations and I see them rising in prominence from this relative to others. They've always been a material stakeholder, but now they're adding conducting authority, they're adding the money laundering part to the bank, and then the prudential side. I see that rising in importance still.”

5.9. Research results conclusion

This chapter focussed on describing the effects of the regulatory environment on senior managers' perception of salience to a bank's multiple stakeholder groups. Four construct were explored, namely:

- Effects of regulation on banking organisations;
- Stakeholders salience and relationships;
- Impact on roles and perceptions; and
- Strategic considerations.

Based on the research findings, several key themes were identified. The participants had a range of perspectives in terms of the effects of regulations on their organisations. Among the most prominent effects were:

Respondents indicated either that they were unable to prioritise one stakeholder over another or that there were risks with placing one stakeholder over another in terms of importance.

Some senior managers indicated that at times one stakeholder may be elevated in priority over another, but that this prioritisation was a fluctuating situation and that one stakeholder was not constantly prioritised.

Some indicated that although the stakeholder focus was generally specific, the stakeholder consideration in each business unit was becoming more sophisticated and strategically improved as compared to the past.

The legislation however, appeared to be pushing more towards prioritising customers and competitor movement towards this too has increased the necessity to consider customers more thoroughly.

Whilst it was clear that important emphasis was being placed on obtaining a balance between all the stakeholders of a company and attempting to service each stakeholder, in an appropriate and fair manner, certain of the respondents felt that each stakeholder identified by the organisation had divergent expectations.

Certain of the respondents supposed that the stakeholder most likely to be affected by the increased burden of the complex regulatory environment was the shareholder.

6. DISCUSSION OF RESULTS

6.1. Introduction

The purpose of this chapter, based on the literature review composed in chapter two and the results of the data presented in chapter five, is to interpret the results and link them to the research question and research propositions set forth in chapter three. The study has focussed on the effects of the regulatory environment on senior managers' perception of salience to a bank's multiple stakeholder groups.

The research question to be answered is:

How does the regulatory environment impact the managerial perceptions of salience amongst a bank's multiple stakeholder groups?

The research question predicates four propositions to be tested against the results presented in chapter five and supporting theory contained in the literature review in chapter two. The research propositions are set out below and clarity will be provided in relation to affirming or refuting the conformity of the findings to the literature.

Research proposition one:

The regulatory environment impacts the extent to which managers overlook or discount certain stakeholders periodically due to increased workload, focus, time constraints and costs.

Research proposition two:

The impact of increasing regulatory obligations on senior managements' perception of stakeholder salience is dependent on the regulatory frame and the focus and frequency of regulations.

Research proposition three:

Regulatory institutions have impacted the degree to which senior management contracts with an organisation's multiple stakeholders' claims.

Research proposition four:

Senior management perceives all stakeholders as important to the organisation and pay no attention to prioritising them in favour of a balanced stakeholder view.

6.2. Discussion on research question

How does the regulatory environment impact the managerial perceptions of salience amongst a bank's multiple stakeholder groups?

The responsibility of senior management is becoming more complex. Their responsibilities extend not only to holders of equity, but to depositors, who provide the majority of a bank's funding, employees, who provide the human capital necessary for the organisation to achieve its strategic objectives, government, who plays a role in providing an enabling environment in which to do business and sets the rules thereto, the natural environment and the greater stakeholder, namely society. Furthermore, management is being pressured by the expectations of depositors, equity holders, government, employees and the social difficulties and demands from society. Management therefore have the unenviable task of identifying and prioritising stakeholders based on how they perceive stakeholder salience as described in stakeholder theory.

The role of senior management is to enter into contracts with the owners of the company to act as agents for the organisation. It is then the responsibility of management to establish contracts with various other stakeholders of the organisation. This concept is akin to Stakeholder-Agency Theory, which holds that an organisation is a nexus of contracts between the various stakeholders and the agents being management (Hill and Jones, 1992). In addition, Green (1989) stated that a bank's responsibility extended to government, customers (depositors and borrowers), equity holders, staff and the community and furthermore, a bank's role was one of stewardship, based on trust and that banks were custodians asked to responsibly look after money on behalf of depositors and thereafter were tasked with the duty of lending it responsibly.

Many of the interviewee's responses supported the literature by Hill and Jones (1992) and Green (1989) by alluding to and acknowledging the agency problem and argued that senior managers were not appointed to act as an agent for shareholders solely.

In fact, the respondents denoted that the important emphasis was being placed on obtaining a balance between all the stakeholders of a company and attempting to service each stakeholder, and the needs associated, in an appropriate and fair manner.

Bridoux and Stoelhorst (2013) postulated that the relationship between stakeholders and management was typically more complex than stakeholder theory assumed as it suggested that, for management practice, different views and approaches were necessary to convince firms to treat all their stakeholders equitably. Therefore it can be claimed that the theory of the stakeholder approach to business was more relevant to banks and their operations.

Additionally, Hill and Jones (1992) constructed a paradigm that suggested that agency theory and stakeholder theory were not mutually exclusive. Their research modified agency theory to be inclusive and accommodating to theories of resource dependence for organisations.

The data suggests that senior management's perception was that the goal of any business was to make money and deliver shareholder value and that agency theory and stakeholder theory were not mutually exclusive in that many respondents believed that servicing all the stakeholders in the appropriate manner would have better and more sustainable results for the organisation and shareholders in future trading periods. Whilst it was clear that important emphasis was being placed on obtaining a balance between all the stakeholders of a company and attempting to service each stakeholder, in an appropriate and fair manner, certain of the respondents felt that each stakeholder identified by the organisation had divergent expectations.

This divergence was confirmed through research by Macy and O'Hara (2003) who found that asset structure, liquidity, capital adequacy, moral hazard problems and conflict between various claimants of the organisation are what distinguished a banking institution from any other business.

Becher and Frye (2011) further postulate that shareholders' interests did not match those of regulators in that shareholders looked for return on investment and wealth maximization as opposed to the safety and soundness of the economy. Management often adopted sound governance principles to align their needs with that of the shareholder.

Mullineux (2014) supported this view with research that argued that the interests of bank depositors, who seek a risk-free return and required a safe haven for their money, are not the same as those of bank shareholders who had elected to hold a riskier asset in pursuit of a higher return on their investment.

Having regard for the various interests of stakeholders and the systemic importance of banking institutions, van Greuning and Bratanovic (2009) defined corporate governance as a set of relationships between the bank's management, its board, its shareholders and other stakeholders. Emmanouilides (2007) stated that an essential element in the safe functioning of banking institutions was effective corporate governance and found that sound corporate governance contributed to the protection of depositors and creditors and suggested that the enhanced and superior governance of a banking institution, compared to that of a manufacturing firm, was due to the presence of regulation and supervision.

From the data collected there was strong evidence of an increase in regulatory obligations in addition to current corporate governance structures. Many respondents noted that the regulations that would have the most substantial impact were along the obligatory or hard regulation side, which were, according to most respondents, a requirement for businesses to comply with, although some of the participants noted that softer or voluntary regulations were becoming increasingly important in the corporate environment.

The participants had a range of perspectives in terms of the effects of regulations on their organisations. Among the most prominent effects was the increase in costs or the cost implications associated with attempting to comply with the regulations. These costs were linked to increased employee and resource requirements in order to successfully ensure that regulations were being complied with.

Senior management's view on cost escalation was supported by literature from Garneau and Shahid (2009) who found that studies by KPMG, Grant Thornton and Deloitte had shown that compliance costs for the US banking industry increased by 87 percent between 2002 and 2006. Further research by Cochrane (2014) showed that financial regulation routinely imposed large costs which in all likelihood would outweigh the benefits and tended to tie management up with paperwork and legal fees whilst increasing the chance of many unintended consequences such as moral hazard from failure to meet the objectives of the various regulations.

There was not only concern over the costs of regulations being applied to banking institutions. Many participants voiced their concern over the simple application of regulations across all businesses regardless of specific companies that may be treating all stakeholders fairly.

The participants reported some concern over the regulatory environment in that many of the regulators were not coordinating amongst themselves to ensure that the regulations that are being developed and implemented are firstly, aligned and secondly, are devoid of any contradictions, with the latter considered an issue with many of the current regulations.

These findings strongly support the research. Garneau and Shahid (2009) explained through their research that each regulatory act or code was generally developed in isolation, without coordination by various authorities and regulators, and without examination into how the code or act would fit into the current regulatory and governance structures. As a result, the banking industry, being heavily regulated, was subject to large amounts of regulatory overlap that caused redundancy to certain regulations.

There was also a sense from senior management that government, through engagements with industry, needed to develop a stronger understanding of the industry or business environment in order to implement regulations that are appropriate but not overbearing for institutions. Some respondents reported that there was a need to select certain regulations that applied more strongly to the South African context, as opposed to taking all international regulations and applying them without context relevance assessments.

Cochrane (2014) explained that the vast bulk of financial regulations that have been enacted had little social benefit that could be quantified due to these regulations being motivated by inconsistent and incoherent objectives and goals. However, Ozkan, Balsari and Varan (2014) argued that regulation of the banking sector was essential in protecting depositors and other stakeholders, from the effects of moral hazard.

In general the interviewees had positive perspective towards the new and proposed regulations and were optimistic on the effect these various regulations would have on the ability of the business to service customers, as many indicated that the regulations have developed a sense of the need to obtain a balance between various stakeholders as well as the necessity for continued assessment and

improvements towards the betterment of the institutions and the services they provide.

In a positive sense, regulations seemed to offer indirect ways of garnering opportunities or developing opportunities to obtain competitive advantage in the industry. Most importantly however, there was a sense that the regulations were useful for ensuring sustainability and that companies were engaging in ethical and moral conduct that promotes the quality of service to customers and other stakeholders.

This perception and insight gained from the interviewees was summarily confirmed by Ayed and Frioui (2011) who emphasised the importance of regulation on strategic orientation and noted that international regulators, since the 1970's, had aimed to achieve a global banking system that was more efficient and harmonised.

Furthermore, research by Howard (2014) proposed that increased regulation, in particular financial regulation, would benefit shareholder stakeholders through the increased oversight and monitoring to ensure financial stability of banking institutions and that the increased systemic stability and transparency, brought about by the increase in financial regulation, would ultimately benefit non-shareholder stakeholders.

The participants had divergent and mixed opinions about how the regulatory changes were going to affect institutional strategies in the future. Many tended to suggest that these changes would alter growth strategy areas of focus and decision-making, with additional emphasis going to be placed on which products to develop and roll-out as well as which jurisdictions to enter. Greater governance emphasis was one of the factors cited as an area of development in the future based on regulatory changes, which was seen to have implications for how companies were run and the ethical and moral compass of such entities.

Overall, the participants summed up the regulatory influence on future strategy as promoting the necessity to obtain a balance between various stakeholders as the key focal area.

6.3. Discussion on the research propositions

Having followed a constructivist approach to research, which predicates that truth is relative and dependent on an individual's perspective (Stake, 1995), the researcher believes that an opportunity to firmly establish a concrete principle through senior management's perspective and thorough, detailed insight was established to gain an understanding of senior management perceptions. In light of these considerations the following propositions are explored.

6.3.1. Proposition one

The regulatory environment impacts the extent to which managers overlook or discount certain stakeholders periodically due to increased workload, focus, time constraints and costs.

The respondents voiced exceptionally strong opinions on the increase in work, resource and time requirements brought about by the increase in regulatory obligations. Data indicates that the regulations generated heightened resource requirements, which may create additional opportunities for employment, but was strongly associated with greater cost outlays and expenditure implications.

According to Cochrane (2014), financial regulation routinely imposed large costs which, in all likelihood, would outweigh the benefits and tended to tie management up with paperwork and legal fees whilst increasing the chance of many unintended consequences such as moral hazard from failure to meet the objectives of the various regulations.

Overwhelmingly the influence of regulations on senior management abilities, their functions and their perceptions, indicated that regulations had increased workload requirements and the amount of work that they do, with some respondents indicating that this increased workload detracted from their core functions or role in management, requiring them to complete other types of regulatory duties instead.

Tashman and Raelin (2013) argue that managers that are responsible for attributing salience to the various stakeholders of a business can ignore or overlook stakeholder importance because of market frictions that affect managerial perceptions.

There was strong evidence from interviewees that the legislation appeared to be pushing more towards prioritising customers, and noted that competitor movement towards this too had increased the necessity to consider customers more thoroughly.

Furthermore, the participants' responses, on whether the increase of and various changes in regulations had altered the way senior managers prioritised between depositors (customers) and equity holders (shareholders), were mostly centred around a few key areas of interest. Firstly, the responses were definite in terms of an emphasis towards customer fairness and secondly, it appeared as though the regulations were placing greater emphasis on treating the customer fairly and protecting customers from undue risk.

Tashman and Raelin (2013) further indicated that a number of studies had concluded that stakeholder power, legitimacy and urgency were not considered when managers made decisions. Managers however, were tasked with identifying important stakeholder interests and prioritising them in a manner that satisfies these contracts.

Data showed that not all senior managers were exposed to all the regulatory obligations and that this had been segmented into each business unit within the organisation under study. The interviewees reported that business units tended to focus on their particular stakeholder of interest, with top level management being aware of the various stakeholders and how their interests fit into the global stakeholder scheme. Additionally, some indicated that although the stakeholder focus was generally specific, the stakeholder consideration in each business unit was becoming more sophisticated and strategically improved as compared to the past.

This view is in support of Mainardes, Alves and Raposo (2012) who stated that it was necessary to not only identify and prioritise stakeholders by their influence and importance, but to understand the relationships with management to ensure that actions would be taken to meet the stakeholder demands placed on an organisation.

Some participants reported that certain stakeholders may begin to have more influence in the future, such as government and labour unions. However, it seemed an aspect of importance that institutions obtain a greater understanding of people in general and utilise employees as a basis from which to consider stakeholders, with many stakeholders playing a role as more than one particular type of stakeholder.

6.3.2. Proposition two

The impact of increasing regulatory obligations on senior managements' perception of stakeholder salience is dependent on the regulatory frame and the focus and frequency of regulations.

In recent times the traditional banking practice of receiving deposits and granting loans has become only one part of a bank's operations as the environment in which they operate evolves. Opportunities to design new products and provide more services have arisen. According to van Greuning and Bratanovic (2009), the pace of these changes did not appear to be slowing as banks were constantly involved in developing new instruments, products and services.

Barth, Lin, Ma, Seade and Song (2013) explained that banking systems did not always function in a beneficial manner and that the GFC had spurred the drive to mitigate and prevent future banking crises through regulatory reforms. As a result, regulators have focussed on managing and mitigating effects of the GFC through regulation and compliance.

Pasiouras, Tanna and Zopounidis (2009) found that banking regulations, which were aimed at stabilising the global banking economy and ensuring market discipline mechanisms, restricted banking activities whilst empowering the supervisory powers of regulators and increased cost of banks. However, the role of banking regulation and supervision in the banking sector has not been decisive in terms of assessing banking sector performance as existing studies had focussed on either macroeconomic factors only or on macroeconomic factors including only certain aspects of specific regulation (Neyapti and Dincer, 2014).

As discussed in the previous section, certain of the respondents felt that each stakeholder identified by the organisation had divergent expectations. In addition to this, it was clear that the banking industry, being heavily regulated, was subject to large amounts of regulatory overlap that caused redundancy to certain regulations. As a result new systems and measures are required to be implemented in order to become compliant with the overlapping regulations, acts and codes.

A number of participants were concerned about the simple application of regulations across all business and some reported that there was a need to select certain regulations that applied more strongly to the South African context. Interviewees were alert to the heightened focus of regulations which were placing greater emphasis on treating the customer fairly and protecting customers from undue risk.

Ozkan, Balsari and Varan (2014) stated that each country set the frequency, composition and timing of regulation within the range of the particular government's "helping-hand" or "grabbing-hand" approaches.

There was a tendency for the interviewees to suggest that presently, companies were unable to appropriately implement self-regulation, perhaps due to the lack of maturity of the South African economy or because the banking and financial sector was highly competitive. This has introduced the need for better regulatory oversight however, respondents felt opposed local regulators taking all international regulations and applying them without context relevance assessments.

Data reflected that the perception of senior management supported the view that, in the current regulatory environment, at times one stakeholder may be elevated in priority over another, but that this prioritisation was a fluctuating situation and that one stakeholder was not constantly prioritised.

Becher and Frye (2011) postulated that shareholders' interests did not match those of regulators in that shareholders looked for return on investment and wealth maximization as opposed to the safety and soundness of the economy. Management often adopted sound governance principles to align their needs with that of the shareholder.

In contrast to the above finding by Becher and Frye (2011), some respondents were of the view that regulation and legislation, in the current banking environment, were required in order to ensure that the values and ethical compass, required within companies, was instilled before the industry could begin to experience fewer regulatory restrictions and a more balanced stakeholder view.

“Regulation in the financial services environment, particularly banking is a mishmash of duplication of compliance and compounds the cost of such compliance” says one regulator (Nevin, 2014).

Banking institutions are dealing with evolving regulatory climates and the banking industry is emerging as one of the most regulated industries globally. Participants expressed concerns about the volume of changes that were being implemented, along with the frequency and seeming divergences between the regulations, which created difficulties for attempting to remain aligned and continually compliant.

It can be noted that at times senior management perceive the importance of stakeholder salience depending on the regulatory frame and the focus and frequency of regulations. As is currently the case, greater attention is being devoted towards customer risk and the exposure of customers to undue risk however, heightened engagements with regulators was cited by respondents as a future area of engagement to ensure regulatory implications for companies were understood as they developed.

Another important consideration was that legislative and regulatory changes were likely to follow changes in the industry, indicating a “catch-up” role of the regulatory environment. This development might require institutions to consider potential regulatory changes that may be promulgated in the future, in order to reduce the focus on regulatory compliance and more on other stakeholder claims. Most respondents supported this view, stressing the need to perceive the regulations in the manner in which they were intended, which is to protect each stakeholder from unnecessary exposure to risk, and a thorough understanding of the regulatory purpose and requirements was necessary to have an objective assessment of the regulations.

The participants noted importantly that the regulations should not be considered to target a specific company, but rather apply to all institutions, regardless of current levels of stakeholder treatment and engagement. Most respondents suggested and hoped for a reduction in regulations, particularly because of the sense that regulators were going to experience difficulty in keeping up with the industry.

6.3.3. Proposition three

Regulatory institutions have impacted the degree to which senior management contracts with an organisation's multiple stakeholders' claims.

Agency theory describes the relationship between a principal and an agent. Succinctly described by Eisenhardt (1989), agency theory can be understood as the relationship between one party, the principal, who delegates work to another party, the agent, who carries out the work.

From the data it was evident that the goal of any business was to make money and that historically the shareholders took precedence over other stakeholders. However, the perception of the interviewees convincingly conveyed evidence that the increase of and various changes in regulations had altered the way senior managers prioritised between customers and shareholders, the responses were definite in terms of an emphasis towards customer fairness. However, this perception was not at the expense or neglect of shareholders, as they were seen as a critical element of banking institutions.

Mitchell, Agle and Wood's (1997) concept of stakeholder salience describes the extent and measures the means by which managers prioritise or give preference to competing stakeholders' claims on the organisation, in particular, through the measure and assessment of a stakeholder's power, legitimacy and urgency.

Mullineux (2014) stated that bank shareholders could not be expected to provide good stewardship to banks because there is a conflict of interest between themselves and depositors. Mullineux (2014) further argues that the interests of bank depositors who seek a risk-free return and require a safe haven for their money are not the same as those of bank shareholders, who have elected to hold a riskier asset in pursuit of a higher return on their investment.

The interviewees seemed to support this view and responses indicated that the agency problem was seen as devoid of merit as it was noted that a board of directors' role had changed due to the introduction of principle based corporate governance principles, with the introduction of King III, and was now seen as one where the board acted on behalf of all stakeholders as opposed to just the shareholder.

According to Ozkan, Balsari and Varan (2014), the greater complexity of the agency problem related to information asymmetries amongst various stakeholders such as regulators, depositors and borrowers could create greater complexity in the relationship between a bank and its stakeholders.

Bridoux and Stoelhorst (2013) postulate that the relationship between stakeholders and management is typically more complex than stakeholder theory typically assumes as it suggests that, for management practice, different views and approaches are necessary to convince firms to treat all their stakeholders equitably.

As presented previously, the divergent expectations of stakeholders meant that senior management constantly had to interact with the organisation's multiple stakeholders. Respondents seemed to express the importance of maintaining strong and amicable relationships with all stakeholders, with some indicating that institutions needed to actively manage these relationships and proactively take steps to ensure that, with particular reference to regulations, they obtain early information about regulations and can plan accordingly for the changes that may occur in the future.

In slight contrast to the proposition Dewatripont and Tirole (2012) contended that managerial incentives were influenced by regulation in that broader corporate choices were affected by performance and policies that validated managerial decisions during times of positive or negative firm performance served as a powerful incentive for managers to comply with regulation and stakeholder demands. Dewatripont and Tirole (2012) further postulated that a paradigm existed where shareholder control in good times ensured that managers would be rewarded for good performance and that a shift in control from shareholders to debt holders in bad times ensured the punishment of managers for poor performance.

The data seemed to contradict this view as most respondents positively reinforced the thinking that the regulations were useful for ensuring sustainability and that companies were engaging in ethical and moral conduct that promotes the quality of service to customers and other stakeholders. The organisation under study, in terms of servicing clients, satisfying regulators and fulfilling other stakeholders' needs, was trying to find the right balance.

Furthermore, regulatory environment did not appear to have been perceived as placing additional or unwarranted strain on certain of the stakeholders identified, with some potentially more inclined to benefit than others. In fact, certain of the respondents supposed that the stakeholder most likely to be affected by the increased burden of the complex regulatory environment was the shareholder.

6.3.4. Proposition four

Senior management perceives all stakeholders as important to the organisation and pay no attention to prioritising them in favour of a balanced stakeholder view.

Howard (2014) argued that banking supervision was a means to improve systemic stability in the banking sector as well as a means to further corporate governance objectives and protect both shareholder stakeholders and non-shareholder stakeholders through increased capital adequacy requirements and greater transparency.

Harrison and Wicks (2013) explained that attending to stakeholders' interests provided a foundation to drive ongoing and future success of an organisation, and was a critical starting point for managers.

Whilst there was evidence of clear emphasis being placed on obtaining a balance between all the stakeholders of a company and attempting to service each stakeholder, certain of the respondents felt that each stakeholder identified by the organisation had divergent expectations, however there was strong importance placed on engaging and maintaining amicable relationships with the various stakeholders.

In light of this view, Behery and Eldomiaty (2010) stated that banks played an important role in developing successful stakeholder systems, such as those found in Germany, France and most of continental Europe. Their research highlighted the compatibility between values of stakeholder systems and strong banking industries.

The respondents denoted that the important emphasis was being placed on obtaining a balance between all the stakeholders of a company and attempting to service each stakeholder, and the needs associated, in an appropriate and fair manner.

Additionally, it was the view of many of the interviewees that there was difficulty in ranking the various stakeholders of the organisation, in order of importance. Despite the heightened focus on regulatory relationships, overwhelmingly, the respondents indicated either that they were unable to prioritise one stakeholder over another and that there were risks associated with placing one stakeholder over another in terms of importance.

Mylykangas, Kujala and Lehtimäki (2011) further found that the more attributes a stakeholder had, the greater their salience to the organisation, however noted that stakeholder salience analysis in isolation was not sufficient and that complementary insights to describe relationships, in terms of value creations, was needed to understand a stakeholders importance.

According to the respondents, there did not seem to be a particularly new stakeholder that would emerge in the future that was already not part of the stakeholder system identified by the organisation. Some participants however, reported that certain stakeholders may begin to have more influence in the future, such as government and labour unions. Interestingly, one major aspect of the findings was for organisations to obtain a greater understanding of people in general and utilise employees as a basis from which to consider stakeholders as employees often played a role as more than one particular type of stakeholder, for example a shareholder, a customer, an employee and a member of society.

7. CONCLUSIONS AND RECOMMENDATIONS

7.1. Introduction

The research conducted in this case study has explored the nature of regulation and corporate governance in banking operations, identified the role of bank management in relation to various stakeholders within the banking industry and articulated the effects of regulation on managerial perceptions of stakeholder salience. This research has drawn on stakeholder theory and research from the areas of corporate governance, management, regulation and the banking environment.

This chapter contains the concluding findings from previous chapters and sets forth recommendations for future research as well as implications for management. The recommendations are specifically focussed towards the banking industry, but contribute to understanding the effects of regulation on managerial perception on stakeholder salience which could be accepted in other highly regulated industries.

7.2. Research findings

The research has contributed to the theory of stakeholder salience and the effects that market frictions, in this case the regulatory environment, could affect managers' perceptions of stakeholder importance to an organisation.

The role of senior management is to enter into contracts with the owners of the company to act as agents for the organisation. It is then the responsibility of management to establish contracts with various other stakeholders of the organisation. Literature by Jensen and Meckling (1976), supported by Hill and Jones (1992) argued that an organisation as a nexus of contracts and that stakeholders, that is all parties that have a particular stake in an organisation, had contracts between themselves and the firm. Implications of this relationship confirm that the responsibility of bank management is becoming more complex and senior management have the unenviable task of identifying and prioritising stakeholders based on how they perceive stakeholder salience as described in stakeholder theory.

In addition to this the literature affirmed that banking systems, in recent decades, have had many critical moments, including the GFC which began in 2008 which have spurred international regulatory institutions and authorities to develop and align various new prudential regulatory standards. This was confirmed by Barth, Lin, Ma, Seade and Song (2013) who explained that banking systems did not always function in a beneficial manner and that the GFC had spurred the drive to mitigate and prevent future banking crises through regulatory reforms.

The resultant increase in regulatory obligations has had significant effects on senior management. Among the most prominent effects was the increase in the cost implications associated with attempting to comply with the regulations, increased employee and resource requirements and increasing time pressures associated with successfully ensuring that regulations were being complied with.

The research affirmed that at times senior management perceived stakeholder salience depending on the regulatory frame and the focus and frequency of regulations. This supported research by Tashman and Raelin (2013) that proposed that managers were responsible for attributing salience to the various stakeholders of a business and could ignore or overlook stakeholder importance because of market frictions that affect managerial perceptions. The data confirmed that periodically one stakeholder may be elevated in priority over another, but this prioritisation was a fluctuating situation, based on the regulatory focus of the regulations at the time and that one stakeholder was not constantly prioritised.

Depending on the regulatory frame, certain stakeholders may begin to have more influence in the future, such as government and labour unions. Interestingly, one major aspect of the findings was for organisations to obtain a greater understanding of people in general and utilise employees as a basis from which to consider stakeholders as employees often played a role as more than one particular type of stakeholder, for example a shareholder, a customer, an employee and a member of society.

Overall, the research confirmed that whilst the business existed to make money for shareholders, there was a concerted effort by senior management to avoid prioritising different stakeholders in favour of finding a balance between all the stakeholders and attempt to service each stakeholder claim in an appropriate and fair manner. The current regulatory environment was pushing more towards prioritising customers, and competitor movement towards this too had increased the necessity to consider customers more thoroughly.

7.3. Implications for management of banking institutions

The research has proven that managerial perception of stakeholder salience is affected by the regulatory institutions and the legislation, statutes and regulations that they enact, both internationally and locally. It is therefore critical for management to be aware of rate of change and frequency change in the regulatory environment to ascertain its ongoing effects on stakeholder salience to an organisation.

Furthermore, the increase in the frequency and volume of these regulatory changes necessitates an understanding of how the increasing time and resource constraints associated with regulatory compliance affects the relationship between senior management and shareholders.

Lastly it is worthwhile for management to understand the importance of people in the work environment, especially employees in an organisation. What was evident from the data is that employees often played a role as more than one particular type of stakeholder, for example a shareholder, a customer, an employee and a member of society.

This makes prioritising according to the stakeholder salience model, proposed by Mitchell, Agle and Wood (1997) which describes the means by which managers prioritise competing stakeholders' claims on the organisation, through the assessment of a stakeholder's power, legitimacy and urgency, extremely difficult.

Insofar as the above is concerned, the researcher believes that bank managers need to understand people better, whether as an investor, a customer or as an employee, because employees are stakeholders (investors and customers) of other competing entities as well. Unless an organisation invests in understanding people in one way or another stakeholder engagement will not achieve a balance.

7.4. Recommendations for future research

As identified in chapter four of this research paper one criticism of the case study method, identified by Yin (2003), is that they provide little basis for scientific generalisation. The type of case study chosen limited the data to a single organisation.

The researcher acknowledges the limitations of a single embedded case study however notes literature by Baxter and Jack (2008) who stated that a case study allowed a researcher the opportunity to gain tremendous insight into a unit of analysis or case, and Harrison and Wicks (2013) who argued that academic researchers, in order to gather rich information about the happiness of firm stakeholders, may use a case-based method.

The limitations listed included the following:

- The type of case study chosen limits the data to a single organisation;
- The study was also limited to a South African banking context as the company chosen was an entity established under South African legislation, statutes and regulatory requirements, whilst still being subjected to regulatory obligations from both local and foreign regulators which require additional compliance; and
- The regulatory environment is rapidly changing and this may have implications for future research based on the frequency and regularity of new legislation and statutes being written and promulgated by regulators.

It is with these limitations in mind that further research into this field to understand how the regulatory environment impacts the managerial perceptions of salience amongst a bank's multiple stakeholder groups could consider the following areas of study:

- a) Expand the study to include other banking institutions within the industry to provide a larger basis for scientific generalisation including conducting research into foreign companies to examine the effects that local and international regulation has on domestic and foreign owned companies;
- b) Examine how the increased cost of achieving compliance with the increased regulatory obligations affects financial performance and the resultant relationship between senior management and stakeholders; and
- c) Exploring senior management's perception of the employee as a multiple stakeholder of an organisation.

7.5. Conclusion

The research has been specifically focussed towards the banking industry, but aims to contribute to understanding the effects of regulation on managerial perception on stakeholder salience which could be accepted in other highly regulated industries. This is particularly relevant given the changing regulatory landscape in the financial services industry. The dramatic regulatory shift with widespread regulatory implications will not only affect banks, but the draft proposals for a Twin Peaks regulatory approach, that is two regulators (one for prudential regulation and one for market conduct regulation), will impact other financial institutions such as insurance companies.

According to the deputy governor of the SARB, Kuben Naidoo, “Twin Peaks is one of the most significant and widespread regulatory changes ever implemented in the insurance industry” (Barry, 2015). A result of the new regulatory shift means that insurers and other financial institutions face a tsunami of regulation.

This study into understanding the effects of how the regulatory environment affects managers’ perceptions of stakeholder importance to an organisation is therefore relevant to financial services institutions and similar organisations in other highly regulated industries.

In conclusion the researcher hopes the propositions identified in the study are tested and researched further to assist managers in assessing who and what is important to an organisation.

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9. APPENDICES

Appendix 1: Draft interview schedule

Understanding the effects of regulation on managerial perceptions of stakeholder salience

Introduction: Thank you for attending;
Explain purpose of research;
Explain purpose of interview.

Question 1: How is the organisation impacted by regulations?
Probe: Why?

In what ways? Examples of impacts – capital, costs?
Worse or better?

Question 2: To what extent are you (as senior management) affected by the changing regulatory environment?
Probe: How and in what ways?

Examples of effects?

Question 3: Please identify the stakeholders you perceive to be most pertinent to this organisation.

Question 4: In your opinion how would you rank the stakeholders in order of importance?

Probe: Please explain why you ranked in such a manner.

Question 5: How does the organisation/senior management rank the various stakeholders identified?

Probe: Why?

Is this how it has always been done?

How effective is the method?

Question 6: From the answer above why do you consider ... as the most important?

Probe: Why?

Question 7: How has the regulatory environment affected how you rank each stakeholder?

Probe: Why?

Better or worse?

Question 8: Explain how the increase of and various changes in regulations have altered the way you prioritise between depositors and equity holders?

Question 9: How do you think the current draft regulations and future regulations will affect the relationship between management and equity holders?

Question 10: How do you think the current draft regulations and future regulations will affect the relationship between management and depositors?

Question 11: How does the regulatory environment affect the organisations strategy?

Question 12: How do you see the banking environment in 5 and 10 year's time, given the regulatory obligations of banking institutions?

Probe: Better or worse?

Possible responses?

Appendix 2: Draft consent letter

To whom it may concern,

CONSENT LETTER

I am a student enrolled in a degree at the Gordon Institute of Business Science (GIBS), studying towards a Master's in Business Administration (MBA). I am conducting research on banking regulation and stakeholder salience, and am trying to find out more about the effects that the regulatory environment, in particular banking regulations, has on management's perceptions of stakeholders' salience (i.e. legitimacy, power, urgency). Our interview is expected to last about an hour, and will help us understand how managers perceive stakeholder relationships and prioritise certain stakeholders as a result of increasing and complex regulatory obligations. Your participation is voluntary and you can withdraw at any time without penalty. Of course, all data will be kept confidential and with your permission, interviews will be recorded.

If you have any concerns, please contact my supervisor or myself. Our details are provided below.

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Phone: 082 440 5552

Signature:

Signature of participant: _____

Date: _____

Signature of researcher: _____

Date: _____

Appendix 3: List of codes used in data analysis

#	Code	Construct
1.	Organisational effect	Effect of regulation on banking organisations
2.	Long-term improvement of legislature	
3.	Additional regulation required in banking industry	
4.	Regulatory coordination	
5.	Shareholder focus: shareholders versus customers	Stakeholder salience and relationships
6.	Management of relationships among all stakeholders	
7.	Stakeholder of preference	
8.	Business unit focus on stakeholders	
9.	Impact of regulations on management	Impact on roles and perceptions
10.	Affecting ability to service customers	
11.	Undue strain on certain stakeholders	
12.	Current or future legislation affecting strategy in the future	Strategic considerations
13.	Banking industry in 5 to 10 Years	
14.	Future stakeholder of consideration	