

**MANAGEMENT OF NON-FINANCIAL ISSUES OF CORPORATE
GOVERNANCE AT éNDONDAKUSUKA MUNICIPALITY**

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**A dissertation submitted in partial fulfillment of the degree Master of Business
Administration, in the Graduate School of Business, Faculty of Management
University of KwaZulu-Natal**

October 2005

ABSTRACT

This study investigates the implementation of non-financial corporate governance principles at the éNdonakusuka municipality. The study draws largely on the reports of the King Commission of 1994 and 2002 because there is very little written about non-financial corporate governance principles in South Africa. Specifically, the study looks at safety, health, ethics and issues related to human resources management. Information on financial corporate governance principles is readily available and hence subject to easier monitoring and analysis than that on non-financial corporate governance principles.

In this study a questionnaire was used to solicit for information from employees about the extent to which non-financial corporate governance principles are implemented within the municipality. The thrust of the study was to get an in-depth understanding of the issues and their application to the daily functioning of the municipality. Out of the one hundred questionnaires that were distributed 64 were completed and returned.

The key findings of the study suggest that municipal workers are neutral towards non-financial matters of corporate governance at the municipality (in terms of mean scores are relative to the mid-point score of three (3) on the five (5) point scale utilized in the study). However, two principal areas emerge from the analysis. One is a negative point of view, the effectiveness of the HIV/AIDS plan is regarded with disfavor by the municipal workers and second point of view which is positive, where the municipal effort to address environmental issues is regarded in a favorable light by municipal workers in the study. In sum, one can conclude that the municipality has not been able to effectively implement non-finance corporate governance principles with particular reference to safety and health issues.

The perceptions of employees on ethics at the workplace, just like those for safety and health are neutral. Though an above neutral point is recorded for transparency by management the common belief is that information on organizational performance is not readily available. Added to this is the lack of an effective system for reporting unethical

behaviour. Though less than ten percent responses were recorded for these aspects, poor discipline and lack of role clarity were identified as the major obstacles to ethical behaviour in the organization.

The key issues for human resource development relate to performance management and training. The responses suggest that if employees are to be effective, more training needs to be conducted. Though respective Sectors of Education and Training Authority (SETAs') offer an opportunity for further staff development, the benefits of such initiatives have not been felt by the employees. Furthermore, the association between performance appraisals and training is yet to be seen.

Overall, this study confirms that there is neither a complete lack of non-financial corporate governance principles nor is the implementation of the same clear and beneficial to all employees. Seemingly, employees across the board do have a hazy picture about the application of these principles in the municipality but apparently do not have adequate information to take a definite stance and hence the majority gave neutral responses.

In conclusion the study recommends that with regard to the health and safety working environment the employer needs to intensify its HIV/AIDS programmes which are contained in the HIV/AIDS policy of the Municipality. In this effort it should conduct more workshops that encourage voluntary testing which will assist the organization to plan ahead with regard to future human capital needs resulting from HIV/AIDS pandemic. There was recognition of a certain concern for the safety of its employees, however, not as fully recommended by Occupational Health and Safety Act, No. 181 of 1993. It is therefore recommended that the municipality applies the requirements of this Act to ensure the safety of its employees.

It was further recommended that a hot-line facility to report any unethical behavior be implemented and that the employer take what has been reported seriously so that employees and the community could have confidence in the system. The employer was

also encourage to improve consultation with the stakeholders so that its policies and strategies are not considered to have been taken unilaterally, in other words, the employer should promote democracy in the workplace.

The employer was further advised to implement a performance management system that would link with training and development of human resource capital. In fact chapter 6 of the Municipal System Act, No. 32 of 2000 suggests that municipalities should have organizational and individual performance management systems so that they can measure their performance at organizational as well as individual level to enhance service delivery.


ACKNOWLEDGEMENTS

I would like to thank God, the Almighty, for providing me with the opportunity to conduct this study. I extend my sincere gratitude to Prof Coldwell for his invaluable academic guidance and respondents who made this research document possible. My words of appreciation also go to Prof. NT Ngwenya, Dr M Ngubane, Teressa (Wife), Buyelaphi (S'khuthele) and Thembinkosi Kumalo, I highly appreciated your support.

DECLARATION

I declare that this dissertation is entirely my own work and that it has not been submitted for any degree or examination in any other university, and that all sources used have been acknowledged and fully referenced.

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GLOSSARY

AG: Auditor-General

AIDS: Acquired Immune Deficiency Syndrome

BEE: Black Economic Empowerment

DM: District Municipality

EXCO: Executive Council

HIV: Human Immunodeficiency Virus

IDP: Integrated Development Plan

LM: Local Municipality

LGSETA: Local Government Sectors Education and Training Authority

LRA: Labour Relations Act, No. 66 of 1995

MFMA: Municipal Finance Management Act, No. 56 of 2003

MSA: Municipal System Act, No. 32 of 2000

MSA: Municipal Structures Act, No. 117 of 1998

NGO: Non-governmental Organization

OHSA: Occupational Health and Safety Amendment Act, No. 181 of 1993

PMS: Performance Management System

SA: South Africa

SAPPI: South African Pulp and Paper Industry

SASOL: South African Synthetic Oil

SETA: Sector Education and Training Authority

UK: United Kingdom

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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

If an organization is to survive national and international competition, serious attention should be paid to the utilization of its human resources. Improved organizational effectiveness lies in what organizations, managers and key decision-makers do by way of utilizing their human resources. By focusing only on managerial systems and manipulating various technical aspects of the organizations, short-term gains may be realized. However, long-term growth and efficiency is dependent upon a constant evaluation of the goals, needs and interests of the stakeholders within the organization. This may entail a close examination of and perhaps adjustments to existing practices, which may be based on old principles and assumptions (Bowers and Franklin 1997:14).

Bowers and Franklin (1996) emphasize the need to focus attention on employees' changing values, expectations, lifestyles and preferences as these are important factors that influence future organizational performance. They further note that "it is clear, then that means must be found to build production motivation in work settings by creating environments that meet human needs" (Bowers and Franklin, 1996: 23).

In order to achieve this, an accurate understanding of a diverse workforce within a local government environment and the culture, values, motives and behavioral preferences of all members of the organization would be required. Radall (1984: 107) found that members of groups that had a greater degree of value congruity amongst themselves and their managers appeared to be more motivated, enthusiastic and effective than those with value discrepancies. He further stresses the importance of continuously evaluating the existing values and needs of employees and states that "it is only through an understanding of these differing values systems or "profiles" that management can hope to become more effective".

Organizations wishing to improve their ethical performance need to ensure that managers acquire the appropriate knowledge and skills for facilitating this outcome. The idea of corporate governance has received unprecedented attention in recent years. Given this background, the present research explores issues of safety and health, environment, transformation, human resources development and the ethical nature of corporate governance principles with respect to the performance of the Endodakusuka Municipality.

The need for corporate governance arises because of the separation of management and ownership in the modern organization. In practice, the interest of those who have effective control over an organization can differ from the interests of those who supply the organization with external finance. The principal problem, as this conflict of interest is often described, is exemplified by management pursuing activities that may be detrimental to the interest of the stakeholders. The problem can usually be mitigated through the protection derived from good corporate governance.

1.2 CONCEPTUALIZATION OF TERMS

1.2.1 Financial and non- financial corporate governance

Non-financial corporate governance focuses on “qualitative issues which influence the ability of the enterprise to create value in the future. These typically relate to investment in human and other intellectual capital, development of corporate brands, maintenance of the reputation of the enterprise and the like” (Wixley and Everingham 2002: 106). On the other hand, financial reporting relates to the numerical performance of the organization.

Governance imposes processes and procedures that act as the boundaries of accepted behaviour for both organizations and societies, as well as, if appropriately applied, an opportunity-creating environment to develop business whiles other stakeholders

continuing to benefit along the process. Good governance should be pluralistic in nature, inclusive in decision making, empowering the weaker sections of society, and be geared to achieve the generally accepted common good (Frederikson, 1997: 103). As such, effective governance is considered to be founded on the four pillars of legitimacy, transparency, accountability and morality, principles that are often challenging to achieve even over prolonged periods of time and especially in emerging markets such as South Africa.

The concept of corporate governance and the pursuit of social responsibility have only received lip service among listed companies in South Africa (Vermeullen, 1992:32). One reason for the change in practice is that increasingly, South African companies that are listed on the London Stock Exchange such as De Beers, First Rand, and Old Mutual are now required to fall in line with the listing requirements and hence are obliged to adopt sound standards of governance (Vermeullen, 1992: 46).

In South Africa, the King Commission Report II (2002) initiatives on corporate governance are, in part, a response to the corporate scandals that arose as a result of poor corporate governance practices in most corporations. The King Commission Report II (2002) is a comprehensive document divided into six sections dealing with the accountability and responsibilities of board and directors and processes of auditing and accounting. Particular attention is given to internal audit, risk management, non-financial matters, compliance and enforcement.

1.2.2 Codes of corporate-governance

Corporate-governance codes emanate from securities commissions, stock exchanges, investors and investor associations, and multi-national organizations. Simply put, the codes embody the views of good governance. The Cadbury code, for instance, made 19 recommendations on organizational structure, independence and responsibilities of the board, effective internal financial controls and the remuneration of directors and executives.

Since companies are not required by law to comply with codes of practice there is clearly a risk that the codes may not be applied. Evidence, however, suggests that they are. In the United Kingdom, the codes have sparked real improvements, for instance, the increasing professionalism of many boards (as measured by their composition, structure and process) can directly be related to them. Even in countries where progress has been slow, the codes' existence have at the very least put corporate governance into the public domain and made managers and directors more aware of what is expected of them. The very successes of the codes, however, raise a number of concerns about their future development.

1.2.3 Why a code?

The pioneering Cadbury code was a response to a series of scandals and corporate failures among United Kingdom (UK) listed companies in the early 1990's. It aimed to help prevent similar scandals and to rebuild the trust of the public and investors by prodding companies to improve their governance practices. The codes that followed in its wake around the world embodied similar goals. Policy makers fear that scandals might trigger the indiscriminate selling of stocks and a systemic crisis. In emerging markets, which typically provide for much less transparency than is the case with companies in the first world countries, the stakes are even higher.

Codes vary in scope and detail, but most tackle four fundamental issues: fairness to all shareholders, whose rights must be upheld; clear accountability by the board and management; transparency or accurate and timely financial and non-financial reports; responsibility for the interests of minority shareholders and other stakeholders. Also abiding by the letter and spirit of the law. Policy makers around the world increasingly argue that codes that embody these principles not only protect investors against fraud and poor stewardship but may also help reduce the corporate sector's cost of capital.

The attraction of a code as opposed to a law lies in its flexibility. Putting every aspect of corporate behaviour into legislation would clearly be impossible and statutory prescriptions would be inappropriate for many governance issues. Moreover, companies need room to maneuver. For example a municipality may unexpectedly lose its Municipal Manager (Chief Executive Officer). The Mayor (leader of the municipal council) may not step in while the recruitment process is in progress since it is prohibited by the Municipal Systems Act, No. 32 of 2000 to have the same person assuming both positions. Therefore it is crucial that the codes be amended much more quickly to reflect the changing needs and circumstances and to align with the relevant act.

Despite an apparent lack of teeth, codes undoubtedly improve corporate governance. Their focus of attention often influences broader policy debates within companies, and helps clarify best practices through stating investors' expectations.

1.2.4 Required compliance

Codes are most effective when combined with mandatory disclosure, a practice known as “comply or explain”. The ‘comply or explain’ approach has since spread to dozens of countries. The Johannesburg Stock Exchange, for example, now requires companies to disclose whether they have financial experts on their audit committees and if not why not.

1.2.5 Codes and law

Ultimately, corporate governance codes and laws must support each other. The requirement that companies file financial statements is required by statute. Legislation should provide a floor, minimum standards for issues such as financial reporting, auditing requirements and the frequency and content of shareholder meetings. Corporate governance codes, by contrast, can encourage best practice in these and other areas, including shareholder relations and executive compensation.

The boundary between law and codes shifts and varies overtime. Financial scandals may call for the strengthening of regulations dealing with the responsibilities of audit committees. By contrast, in some emerging markets, where corporate governance awareness is low and public security weak, legislation might be forward over voluntary codes.

1.3 Municipal systems of governance and administration

According to the Municipal Structure Act, No. 117 of 1998 the municipality must have an elected municipal council which has a five year term of office. The municipal council has a sub-structure, which is called an executive committee, which meets more regularly to consider the matters that have been delegated to it by the council. The executive committee constitute of a Mayor, Deputy Mayor, a determine number of councillors who have been elected by the council to serve on this structure as well as the Municipal Manager with his or her managers of departments.

On the other hand there is an administration structure which is constituted of employees, which include the Municipal Manager followed by managers that are directly accountable to him or her. The administration of the council is expected to implement the Integrated Development Plan of the Council and other necessary tasks as required by section 51 of the Municipal System Act, No. 32 of 2000.

The municipality is expected, according to chapter five of the Municipal Systems Act No. 32 of 2000, to have an Integrated Development Plan (IDP) adopted by council in its first year of term of office and have it reviewed annually. This IDP should be developed in consultation with all stakeholders, namely, general community, business, and non-governmental institutions. The IDP stipulates among other things the vision, mission and objectives of the council as well as projects and programmes that would have to be implemented by the administration component within the life span of five years, which is within the term of office of the council.

1.4 The problem statement

The government of South Africa is divided into three spheres of government, namely, national, provincial and local government. Municipalities belong to the third sphere of government, which is the local government. The district, metropolitan and local municipalities comprise the local government. Their division of powers and functions are as illustrated section 84 of the Municipal Structures Act, No. 117 of 1998 where district municipality (DM) is noted to be dealing the most with the delivery of bulk services whereas the local municipality (LM) deals with issues among others that will be the collection of rates, collecting of refuse, local economic development and building of affordable houses.

éNdongakusuka Municipality is strategically located midway between Durban and Richards Bay, and lies on the development corridor on the North Coast between these two port cities. Mandeni is the only urban settlement of substance within éNdongakusuka Municipality. Mandeni however consists of a fragmented system of pockets of intense urban settlement separated by areas of little or no development. This past fragmented system is the direct result of the past administrative divisions which applied in the area, largely as a direct consequence of apartheid policies, with some areas falling within the jurisdiction of the Province of Natal, some within the KwaZulu “homeland”, some under the DSB, and others under no formal control. It must be noted that this past fragmented administrative system is a major contributory factor in the lack of local government capacity within the municipality at present (éNdongakusuka IDP 2002: 10). This municipality has a staff complement of one hundred and sixty employees and estimated R30 million rands owe to the municipality by the residents of the area in terms of services.

According to the 1996 Census the éNdongakusuka Municipality’s population is 111909. It is estimated that 50 per cent of the population comprises of the youth and women who are dominantly affected or infected with Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS). The prevalence of HIV/AIDS mostly

impacts on skills availability especially those that may be required by the organization. Within the municipality there has been no implementation of any HIV/AIDS policy to counteract the effects of the HIV/AIDS pandemic. According to the 2002 Integrated Development Plan (IDP), a South African Pulp and Paper Industry (SAPPI) survey shows that 30 per cent of the workforce is infected with the virus. In addition to this are the numerous burials that have been recorded.

The municipality has no performance management system. Employees are not assessed in terms of their work performance; a process if implemented could culminate in the identification of key skills that are needed for employee development. It has been established by the Auditor General's report of 2004 that departments and sections of the municipality have old business plans from 2002. These have not been updated to align them with the revised organizational strategy. The implication is that departments and sections are likely to pull in different directions and hence fail to assist the organization in achieving its corporate goals.

1.5 Research objectives

This research investigates the application of non-financial corporate governance principles as cited in the King Commission Report II (2002). These are safety, health, environment, ethics, transformation and human resources development.

The research has the following specific objectives:

- a) To investigate whether the municipality is perceived by employees to be concerned about issues of safety.
- b) To explore employee perceptions on working conditions in relation to health.
- c) To establish the existence of a skills development plan and how is it benefiting employees.
- d) To establish the perception regarding ethics in the municipality.

1.5 Significance of the study

This research will assist the eNdondakusuka Municipality in understanding the extent to which it has implemented non-finance corporate governance principles. An understanding of the shortfalls will also guide the municipality in formulating employee friendly strategies.

1.6 Outline of the study

This study is organized into five chapters. Chapter 1 introduces the study by focusing on concepts, the research problems and objectives. It also justifies the need for non-corporate governance principles. Chapter 2 is a review of the literature and is followed by chapter 3 on methodology. Chapter 4 presents the findings. Chapter 5 concludes the study and also provides recommendations that may enhance the implementation of non-corporate governance principles.

1.7 Conclusion

It appears that the organizations need to value their employees and constantly evaluate organizational goals as well as ensure that individual employees know about the strategic objectives of the organization. A distinction is drawn between financial corporate governance principles, which are related to core finances i.e. accounting and financial management of the institution whereas non-financial corporate governance principles are more systems related in an organization, which require to be in place for the organization to grow and stay competitive.

Legislation has been passed in an attempt to make sure thae organization complies with certain ways of doing business (such as the Labour Relations Act of 1995 and Skills Development Act of 1998 which encourage institutions to train employees). There have been perceptions that eNdondakusuka Municipality has not been complying with some of the legislation that relates to non-financial governance principles such as the training

of employees in corporate governance principles and the implementation of performance management systems. The research focuses on non-financial corporate governance principles such as safety, environmental health, ethics, transformation and human resources development.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter focuses on the concept of ethical performance and its context and operation within the local government administration paradigm. In particular, it discusses a framework, including legislative and regulatory mechanisms and their implication for corporate governance, within the local government administration. In the first part of the chapter, the legislative framework is discussed, followed by an in-depth discussion on the Hallmark of a new organization and critical components of corporate governance.

The 19th Century saw the foundations laid for modern corporations; this was the century of the entrepreneur. The 20th Century became the century of management.... The 21st Century promises to be a century of governance, as the focus swings to the legitimacy and the effectiveness of the wielding of power over corporate entities worldwide.

2002 King Commission Report on Corporate Governance

The term *corporate governance*, a decade ago, was largely academic jargon. Now this term is starting to be familiar to a number of people. It is unfortunate, though, that its familiarity in our society comes about due to revelations and news of corporate misdeeds that has become a part of our daily lives. These misdeeds have not been discovered only in the corporate world however, in various governments such as that of South Africa. It has also been noticed that it is most predominant in emerging countries such South Africa. Enron and WorldCom, to give two well-known examples of corporate organization from United States of America, engaged in misdeeds that led to their eventual downfall. Along the way, many shareholders lost their wealth and thus their faith and trust in corporate America. Similarly with regard to local government

(municipalities) where community members can be regarded as those who are supposed to be involved in what is going on in the municipality as they are meant to have a say in terms of the organizational strategy through participation in the formulation of an Integrated Development Plan. Recently, the media has reported on a number of communities taking to the street to demonstrate their frustrations with the lack of service delivery and of corruption within municipalities.

Why is corporate governance important in an organisation? The goal of every firm is to increase its shareholders' wealth. In the municipal context, the goal could be to accelerate service delivery. Effective corporate governance can instill confidence, and thus trust, in the organization and the market.

Corporate governance has been described as 'simply the system by which organizations are directed and controlled' (King Commission Report, 1994: 1). Nadler and Tricker, (1988) further elucidated and broke it down as 'if management is about running the business, governance is about seeing that it is run properly'.

Corporate governance was first institutionalized in South Africa in 1994 due to the first King Report on Corporate Governance. The document came with recommended standards of conduct for boards and directors of listed companies, banks and certain state-owned enterprises and stresses the need for companies to become a responsible part of the societies in which they operate. Whilst compliance with the code is largely not legally enforceable, a number of post 1994 amendments to the Companies Act have been inspired by the recommendations of the King Committee and the King Code quickly became the benchmark by which the robustness of corporate governance practices was generally judged (Naidoo 2002: 2). The second King Report on Corporate Governance then followed in March 1992.

2.2 THE LEGISLATIVE FRAMEWORK

The legislative framework within which corporate governance functions in the local authority is important to the study. The local authority functions within the legislative framework of:

- Constitution 108 of 1996
- Bill of Rights
- The White Paper: Transforming Public Service Delivery Batho Pele principles, (Gazette 18340, Notice 1459), 1 October 1997
- The Municipal Systems Act, No. 32 of 2000
- The Municipal Financial Management Act, No. 56 of 2003

The above legislative framework is now considered in greater detail below.

2.2.1 THE CONSTITUTION

The local authority administration takes place within the constitutional framework existing in a country. In South Africa, local government authority takes place within the constitutional framework provided for in the Constitution. Chapter 10 of the Constitution Act of South Africa, 1996 makes provision for the specific guidelines within, which public administration needs to be taking place in South Africa. The constitutional guidelines within which public administration takes place may be summed up as the need to promote a high standard of professional ethic (Mere 1993:2). There is the need for public management personnel employed by the local authority to comply with constitutional requirements, if their corporate governance practice is to be improved.

In order to improve management of corporate governance, there is the need for management personnel to apply the tenets of democracy in their work situation. The objective of democracy is to create conditions under which each individual will be able to

achieve the greatest possible well-being. However, the individual cannot be allowed to achieve their greatest well-being in a selfish and mercenary way at the expense of the community or of the general welfare. To meet the objectives of democracy, senior employees need to ensure that the machinery of government is organized in a manner which will allow transparency, deliberation, consultation and the exercise of discipline.

2.2.2 THE BILL OF RIGHTS

According to Van der Waldt and Helmbold (1993:55); the concept of the existence of certain fundamental human rights is part of most political views all over the world. Internationally, communities have attempted in various ways to give expression to the concept that every individual has certain basic needs which should be entrenched as rights. As a result of this, human rights have become part of modern international politics and international law.

To improve the culture of workplace ethics, it is important that management staff employed by a local municipality must be aware of the provisions of the Bill of Rights enshrined in the Constitution of the Republic of South Africa. According to Van der Walt & du Toit (1993:150), if public managers unlawfully contravene a provision of the Bill, the Constitutional Court may declare such action invalid. The guarantees contained in the Bill are so powerful that all administration acts and decisions of public managers may be tested against the Bill.

2.2.3 THE WHITE PAPER TRANSFORMING PUBLIC SERVICE DELIVERY: THE BATHO PELE PRINCIPLES (GAZETTE 18340, NOTICE 1459), 1 OCTOBER 1997

The legislative framework within which the public service functions, and within which management personnel employed by the local municipality function, there is a need for public managers to comply with the Batho Pele principles. The Batho Pele Principles is a new philosophy of public service delivery introduced by the White Paper on

Transforming Public Service Delivery of 1997. Batho Pele is the Sotho word that means people first. Therefore, it remains vital in public service that officials in their execution of their duties make an impact to the lives of the people without tempering with the integrity of the organisation.

2.2.4 MUNICIPAL SYSTEMS ACT, NO. 32 OF 2000

The above-mentioned Act regulates and gives guidance on how the municipality should operate. It also covers human resource management from the appointment of employees to the code of conduct expected of the employees and councillors.

2.2.5 MUNICIPAL FINANCE MANAGEMENT ACT, NO. 56 OF 2003

This is the Act that guides the municipality as to how it should formulate or review its budget before the next financial year. It suggests supply chain management and insisting that during procurement of goods and services the municipality needs to ensure that they take into account issues of Black Economic Empowerment. It also covers how the municipality should be reporting on what to the Treasury Department about municipal finances including the usage of grants.

2.3 CODE OF ETHICS

According to Fox & Meyer (1995:45), ethics is: “.....the process by which we clarify right and wrong and act on what we take to be right, i.e. a set or system of Moral principles that is generally applied. Commitment to the public interest is a function of the institutional role of government managers and the ethos of public service that this entails”.

Andries (1985:35) views ethics as the standard which guides the behaviors and actions of personnel in public institutions and which may be referred to as moral laws. It is argued that although ethical behaviour is in the eye of the beholder, it usually consists of

accepted social norms. The role of ethics in improving corporate governance among the employees employed by a local government authority cannot be overemphasized. If the actions of officials employed by the local government authority are unethical, this will undermine corporate governance practice in the eyes of the public.

2.4 WHAT IS MEANT BY ORGANISATIONAL INTEGRITY / CODE OF ETHICS

According to Cliffe Dekker Attorneys (2002) a company should demonstrate its commitment to the organization integrity by qualifying its standards in a code of ethics. It is further mentioned that each company should demonstrate its commitment to its code of ethics by:

- creating systems and procedures to introduce, monitor and enforce its ethical code
- assign high level individuals to oversee compliance with the ethical code;
- assessing the integrity of new appointees in selection and promotion procedures;
- exercise due care in delegating discretionary authority;
- Communicating with and training all employees regarding enterprise values, standards and compliance procedures;
- providing, monitoring and auditing safe systems for reporting of unethical or risky behavior;
- consistently enforcing appropriate discipline;
- responding to offences and preventing reoccurrences.

2.5 THE IMPORTANCE OF CODES OF CONDUCT AND CODES OF ETHICS FOR SENIOR OFFICIALS

According to Cendon (1992: 67), codes of ethics consist of a set of principles and standards, which serve as a guide for behaviour of public officials. Codes of ethics include ethical values as well as principles, which are the basis of the organization they govern. They tend to be more recommendations, and to not contain enforcement mechanisms. Although they normally have judicial character below that of the law, they

are guiding norms that provide principles, which can assist public officials to solve the decision-making dilemmas they might have to confront in their daily activities. In order to improve corporate governance, it is important that all employees in the service of the municipality must comply with all relevant codes of ethics that govern the discharging of functions by public officials.

The importance of codes of ethics and codes of conduct is that they inspire the channeling of public officials' personnel morality and technical skills towards public service aims, or public service right-doing. The ideal that public sector codes need to pursue is steering the personal morality and competence of public officials in particularly public service goal-oriented directions (Clapper 1995: 387).

2.6 MUNICIPAL ASSOCIATION OF VICTORIA IN AUSTRALIA

According to Municipal Association of Victoria and Victoria Local Governance Association (1997) the local government has an extremely important role to play in developing, implementing and promoting good governance. Local government is dealing with complex issues of community engagement, asset management, sustainability and service delivery in a context of high expectations and needs as well as scarce resources. Good governance will impact positively on outcomes for communities and strengthen the sector as a vital level of the Australian government system.

If you take Australia as one of example where their Municipal Association of Victoria decided to establish and adopt the policy of code of good governance in association with Victoria Local Governance Association. This could similarly apply in South Africa since there is South African Local Government Association which oversees the proper governance of municipalities in the whole country. Municipal Association of Victoria and Victoria Local Governance Association (1997) on code of good governance addresses the following topics:

1. Essential features of good governance

2. Issues inhibiting good governance
3. Mutual support
4. Statutory provisions
5. Commitment to the code, and
6. Implementation.

2.6.1 Essential features of good governance

This covered the local municipality legitimacy as it represent the interest of its communities. The mandate and policy which relates to local municipality being able to implement programmes and action in order to satisfy the purposes for which it is established i.e. facilitating the mandate of its electors. It also touches on community participation where local municipality must seek community understanding and involvement in governance through effective communication with their communities.

It also relates that management of local municipal's fictional responsibilities are carried out through locally agreed organization arrangements consistent with the provisions of the acts' that govern it. The Chief Executive Officer is responsible to Council for the effectiveness of those arrangements in achieving Council's goals in accordance with Council's priorities and approved budget.

2.6.2 Issues inhibiting good governance

Failure in good governance can include decisions involving a conflict of personal and official interests, misappropriation, poor policy or decision making, inadequate systems and procedures, inappropriate behaviour by councillors and or staff and can be based on shortcoming ranging from poor relationships to criminal behaviour.

2.6.3 Mutual support

Corrective action will often be more a matter of appropriate supportive behaviour when difficulties are identified by consultation, counseling, advice and technical assistance.

2.6.4 Statutory provisions

That all the legislative provisions starting from the constitution be adhered and implemented. That local municipality exercises other legislative powers that have been crafted specifically for this sphere of government.

2.6.5 Commitment to the code

That local municipality which is a signatory to this code (to be evidence by a resolution of Council) covenants with all councillors that it will among other things adhere to every aspect of the code.

2.6.6 Implementation

It is expected that the implementation of the code will raise performance standards across the local municipality. In other words the Code is to be a living code which will be progressively developed in consultation with local government and related groups.

2.7 THEORETICAL DEVELOPMENT

Grundy, T. (1993: 69) tried to dissect the dilemma of what an organization is. Try to draw a conventional organizational chart on a piece of paper. Place roles in boxes as in an organogram. Connect them together with vertical and horizontal lines in the traditional hierarchical organogram, putting the most senior people at the top and placing different functions across the page. Imagine that each of these represent individuals, groups and locations. The scrabble pieces become the elements of the new organization.

Throw away the old rules and rub out all the lines that connect the boxes together. The boxes are not going to be attached on the page, but, the scrambled pieces can be moved around at will. Before you do that, through, rub out the squares on your mind and mental scrabble board. Jumble the pieces up. Add some further Scrabble pieces, perhaps of a different colour, to represent other organizations or people or groupings outside your organization that make a contribution in some way to its success. Put on each Scrabble piece some and experience.

Now try breaking fore of another boundary, the flat surface. Arrange the pieces mentally in three-dimensional space. Imagine all the necessary lines of communication, the exchange of information and support between the different pieces and clusters that you believe would actually benefit your organization and help it to achieve its objectives more effectively. Imagine an open market operating between these different parts with name of the normal barriers to communication, such as turf protection, states, cultural differences or physical difficulties, gathering in the way. How do you react? Does this feel like a recipe for total chaos and anarchy? It has something for your organization.

2.7.1 THE HALLMARK OF A NEW ORGANISATION

Having unscrambled the traditional organization, having its elements, the purpose scattered and in no fixed or clear relationship to one another, it quickly becomes apparent that in the new organization it is the nature of these relationships between the elements that will be quite new. No longer can we rely on the false comfort of the neat and tidy relationships between functional and hierarchical roles displayed on the conventional organizational chart, because this has shown itself to be too rigid, too slow and insufficiently innovative. When one starts instead seeing an organization as a constantly changing Kaleidoscope of relationships between people, one begins to get a better flavor of what might be involved.

To take in technical jargon for a moment, people as elements of organization and their structural relationships to one another constitute the *architecture* or the *hardware* of the new organization. What is called organizational networking, on the other hand, is the range of connective mechanisms and processes that need putting in place, both to hold all the elements together and to make it work, thus it the “software” of the new organization.

According to (Grundy, T. 1993: 71) the type of organization that begins to emerge from these considerations has some very clear characteristics. These characteristics of this new organization are summarized as follows: radical decentralization, intense interdependence demanding expectations, transparent performance standard, distributed leadership, boundary busting, and networking and reciprocity. The characteristics of the hallmark of a new organization are defined further below.

2.7.1.1 RADICAL DECENTRALISATION

The (Grundy, T. 1993: 72) new organization prows a systematic and widespread approach to the decentralization of tasks, power and responsibility. This process, combined with a belief in “small is beautiful” means that the organization is split up into many types of small, autonomous and accountable elements. The smallest element is the individual, who is provided with considerable autonomy but is also expected to exercise considerable accountability and responsibility.

2.7.1.2 INTENSE INTERDEPENDENCE

The (Grundy, T. 1993: 74) new organization “thinks” interdependence and multidisciplinary approaches. Many of its tasks are achieved by assembling coalitions and project teams to pursue common goals. Both individual and the organization itself realize that in order to compete there should be a strong working team approach.

2.7.1.3 DEMANDING EXPECTATIONS

The (Grundy, T. 1993: 78) new organization holds demanding expectations of itself. It sets strong, simple goals and has a clear sense of its purpose and mission. People throughout the organization demand that those who guide it ensure that this is provided. In addition, throughout the organization people are very demanding of each other. Each person has the right to ask for the cooperation of others.

2.7.1.4 TRANSPARENT PERFORMANCE STANDARDS

The (Grundy, T. 1993: 80) new organization sets demanding performance standards for everyone and measures and communicates these in a transparent fashion so that all are aware how they are doing in relation to other elements. The companies thus created are used to stimulate improvement not winners and losers.

2.7.1.5 DISTRIBUTED LEADERSHIP

The (Grundy, T. 1993: 85) key relationships are built on the very wide exercising of responsibility among people, requiring of them considerable maturity and leadership qualities. These are people who are prepared to make things happen and who also share a sense of responsibility for the whole. Leadership moves beyond the boundaries of senior management into new networking roles.

2.7.1.6 BOUNDARY BUSTING

A (Grundy, T. 1993: 88) systematic awareness and elimination of physical, personal, hierarchical, functional, culture, physical and practical boundaries and barriers to such cooperation and communication is a continuing process that is necessary to perpetuate the ability of the new organization to stay flexible and adaptive.

2.7.1.7 NETWORKING AND RECIPROCITY

Having (Grundy, T. 1993: 91) shattered the rigid fabric of the conventional organization, the new organization invests in the facilitation of intense communications between people. It thrives on direct relationships and information sharing between individual in contact with each other, irrespective of considerations of role, status level, functions, culture or location. Networking is driven by a pervasive culture of reciprocity and exchange that mediates all relationships.

2.8 THE RELATIONSHIP BETWEEN THE LITERATURE AND THE PROBLEM

There has been limited corporate governance literature in relation to public service particularly to local government sphere of government. The literatures that have been examined have been based to the situation of a private sector and tried to apply to the local government scenario. It will be recalled that municipalities do not have board of directors as it apply in the private companies however, we have council and executive committee which monitors and oversee the work of administrators in a municipality.

The term corporate governance is not confined to private sector but is also relevant to the public sector. Governance relates to the governing of an organization at the top. Although it may require some detailed tasks to be carried out at the lower level governance focuses on what happens or is not happening at the top.

Since our democratic elections, South Africa (SA) has made remarkable transformation from an openly racist society towards a tolerant and democratic one. The 1996 constitution proclaimed SA as a country of unified diversity that recognizes the injustices of the past. The country outlawed discrimination on the grounds of race, sex, sexual orientation, and disability, as well as other factors. Equally, a series of laws have been passed, aimed at uplifting categories of persons discriminated against in the past. Public service agencies and business are required to discriminate fairly in favour of a designated

group. In fact, since the first King Report on corporate governance (1994), at least eight major new or amended acts have been introduced impacting on corporate governance practice and procedures (See table 1).

Table 1 Major acts influencing corporate governance since 1994

Year	Acts
1995	Labour Relations Amendment (LRA) Act No. 12 of 2002 The new LRA restricts among other things the concept of unfair labour practice to specific acts on the employer
1997	Basic Conditions of Employment Act No. 77 of 1997 Gives effect to the right to fair labour practices referred to in the constitution.
1998	Employment Equity Act No. 55 of 1998 Promotes the constitutional right of equality and the application of real democracy as well as elimination of unfair discrimination.
1998	Inside Trading Act No. 135 of 1998 Prohibits individuals who have inside information relating to securities or financial instruments from dealing in such securities or financial instruments.
1999	Public Finance Management Act No. 1 of 1999 Regulates financial management in the national to provincial governments.
1999	Amendments of the Companies Act No. 37 of 1999 Permits companies to obtain liability cover indemnifying their directors, compelling disclosure of the identity of beneficial owners of shares held by nominees.
1999	Amendments to the Bank Act No. 54 of 1999 Enforcing higher level of corporate governance in banks.
1995	Revision of Johannesburg Securities Exchange (JSE) listing requirements.
2003	Municipal Financial Management Act No. 56 of 2003 Regulates financial management in the local government sector i.e. municipalities.

Source: Compiled from Eedes (2001); www.acts.co.za

South African investors are willing to pay a premium price over share price for well governed company, which is similar to the average premium price over share price that investors are willing to pay for well-governed company in the USA, the UK and Switzerland (Mckinsey & Co., 2000). In the local government context, rate payers are willing to pay their rates and cost of services such as of water and electricity where there are able to see efficient delivery of services by their municipality.

The King's Report II (2002) places a lot of emphasis on internal audit, risk management, non financial matters, compliance and enforcement. The non financial aspects of corporate governance in particular were firstly the safety and health of the workforce, secondly ethical issues, fair treatment of workers, requirement for companies to be empathetic to social factors, such as HIV/AIDS and promotion of black empowerment (BEE). Thirdly accountability and responsiveness to broader public interest, encouraging a greater sense of responsibility to environmental and the environment stakeholder engagement and to social and ethical accounting, auditing and reporting.

The strategy of the organization should always enshrine corporate governance in it to ensure maximum productivity or improve performance of the organization, compliance and accountability. The broader viewpoint of the corporate in society implies disclosure to be given regarding matters of safety, health and environment (SHE), ethical matters and societal and transformation issues (Wixley and Everingham 2002: 106). The King Reports draws our attention to a 1999 Millennium Survey in 20 countries, which indicated that 49% of respondents rated corporate social responsibility as the item most influencing their impressions of individual organizations. T. Wixley & G Everingham also referred us to qualitative issues, which influence the ability of enterprise to create value in the future. That is related to investment in human and other intellectual capital, development of corporate brands, and maintenance of the reputation of the organisation.

It is thought that whilst financial reporting focuses on a historic record of finance, non-financial disclosures on the other hand enable users to obtain a better understanding of the long-term prospects of the organization. The King Report indicates that public

disclosure of non financial matters should be governed by the principle of materiality, relevance, clarity, comparability, timelessness and verifiability.

2.8.1 SAFETY, HEALTH AND ENVIRONMENT

2.8.1.1 Safety

The King Report II (2002) directs attention to safety by indicating that corporate governance practices should exhibit commitment to reducing work related accidents and fatalities (King Report 2002: 108). This has been showing itself recently with regard to the mining industry in South Africa and with South African Synthetic Oil (SASOL). The recommendation then goes on to call for regular measurement against an ongoing improvement objective, which should be disclosed to stakeholders. It should be mentioned that municipalities are not so exposed to massive or volatile accidents compared to the mining industry however the Occupational Health and Safety Act, No. 181 of 1993 does stipulate certain requirements that would need to be followed such as establishing a safety working committee, chaired by one of the responsible officials. According to (Wixley and Everingham 2002: 110) organizations in South Africa tends to measure these accidents year by year rather than against specific yardsticks developed by the organization itself or by following minimum requirements of legislation.

2.8.1.2 Health

The King Report II (2002) also dealt with matters of health focusing in particular on the HIV/AIDS pandemic. It is now clear especially in South Africa what impact this can have on the work situation. The reporting of this matter should exhibit an understanding of the social and economic impact of HIV/AIDS. Each organization should have the programme and policies to counter-act this epidemic and this should be a working instrument rather than mere lip service. There should be some successes that should be reported with regular monitoring and should always measure performance using indicators. For instance if the programme or strategy includes voluntary testing of

employees, the statistics should indicate annually how many people were tested. The statistics should indicate the number people that came out positive and negative as well as how it will influence the organizational strategy.

As far as disclosure is concerned, the code recommends a description of the nature and extent of the organizational strategy, and plans and policies adopted to address and manage the potential impact of HIV/AIDS on its activities (Wixley and Everingham 2002: 110). Besides the issue of HIV/AIDS the organization is required by law to provide conditions conducive to the good health of the employees or otherwise should be able to provide protection against foreseeable hazards.

2.8.1.3 Environment

The King Report II (2002) points out that the directors have specific responsibilities in terms of the National Environmental Management Act 107 of 1998 and may be personally liable if the company commits a scheduled environmental offence. It is further mentioned according to (Waxley and Everingham 2002: 112) that in the Statement of Auditing Standards 2501, where environmental issues are significant there may be a risk of material mis-statement in the financial statements arising from such matters. Therefore the auditor needs to consider it in the report.

The King Report II (2002: 112 to 113) identifies reasonable measures to be given as guidance to the directors in execution of their responsibilities with regard to environment matters. Among other issues are firstly that all environmental risks issues should be identified and prioritized and secondly that legal compliance and environment issues be dealt with promptly.

In this instance the municipality is concerned with ensuring compliance by any development within its area of jurisdiction. Institutions like SAPPI who is the major employer within the area should be monitored to ensure that it adheres to certain

standards regarding the air pollution that takes place within the area and to force them to report regularly to the municipality.

2.8.2 Ethics

The 2002 King Report II recognizes that cultural values and norms differ from country to country more especially with the Western notion of individualism vis a vis the African notion of collectivism. However, ethics have been understood around the globe to be honest, fairness, responsibility, respect and compassion. Any organization that does not embrace these core values runs the risk of becoming an economic pariah (Naidoo 2002: 139). Ethics has therefore been defined as the principles and standards espoused to guide it in its day to day business activities and its relations with internal and external stakeholders in accordance with its established corporate values.

Serving in an organization that upholds good corporate values within its systems can neutralize people who personally suffer from poor ethical conduct. The impact of bribery and corruption by communities or business can have devastating consequences. The typical example is of Mr S Shaik who has been recently on the news for being found guilty of corruption in the Durban Supreme Court. King's Report II recommended that, as part of corporate governance, every organization should define a code of ethics, which will commit it to the highest standards of behaviour. It further suggests the code should be defined in sufficient detail to give clear guidance to employees on acceptable conduct. Ethical values incorporate trustworthiness, honesty, respect, responsibility and accountability, the pursuit of excellence, law-abiding behaviour and protection of the environment.

There will be no point in attempting to inculcate ethical conduct without measuring its impact in terms of organizational perception or reputation and obviously adherence. The King Report II (2002: 103) suggests numerous ways to assist in this regard. Those are among others:

- regular and formal identification of ethical risk areas;
- development and strengthening of monitoring and compliance policies, procedures and systems;
- establishing of easily accessible whistle-blowing channels;
- alignment of the disciplinary code with the code of ethical practice;
- development of performance, measurement and remuneration systems (reward ethical behaviour and punishing unethical behaviour);
- induction of new appointees;
- training on ethical principles, standards and decision-making; and
- integrity assessment as part of selection and promotion procedures.

The development of codes of ethical behaviour is not an individual responsibility, however it should be developed together with all the stakeholders of the organization since that would create psychological contract with everyone who is part of the organization. In the municipal scenario all councillors together with junior to senior management should be involved and ethical issues communicated to all other stakeholders of the municipality such as ratepayers. The above-mentioned ethical issues will only be achieved if the following are executed:

- creation of systems and procedures to introduce, monitor and enforce it;
- enforcement of appropriate discipline with consistency
- provision, monitoring and auditing of safe systems for reporting unethical or risky behaviour;
- exercise of due care in delegating discretion and authority;
- assessment of the integrity of new appointees in selection and promotion procedures; and
- communication with the training of all employees regarding the company's values, standards and compliance procedures.

2.8.3 Transformation

South Africa pre 1994 elections created a situation of social imbalances (apartheid) that existed for many decades; there has been a need in this new democratic order to reform our society and the institutions that live within this country, which is critical for long term survival. The underlying principle of Employment Equity as well as the Black Economic Empowerment (BEE) policy is concerned with rectifying the social and economic effects of historical discrimination that resulted in the wasteful under-development and under-utilization of a large section of the population. Whilst legislation such as Employment Equity Act, No. 55 of 1998 appears to be bearing fruits in the increasing numbers of black people appointed to corporate leadership positions, the numbers are still light years away from being demographically representative, and women are to a large extent still excluded from top leadership roles (Naidoo 2002: 143).

The King Report II (2002) deals with transformation issues in four categories, relating to employment equity, diversity management, black economic empowerment and social investment. Diversity is an important integral part of transformation and its effective management within the organization will be a key contributor not only to the success of the organisation's employment equity initiatives, but, to the organization as a whole. Senior management of organizations should implement systems that instill the culture where the diversity of ideas, approaches, values and attitudes of all of its employees are embraced and encouraged. The King's Report II suggests that black economic empowerment should be aimed at redressing the continued unequal distribution of ownership, management and control of South Africa's financial and economic resources through ensuring the broader participation of black people in the formal economy. This further implies that policies and procedures of procurement especial with regards to government institutions should be geared to prefer previously disadvantaged companies as their suppliers.

2.8.4 Human Capital Development

It could be argued that in order to improve productivity human capital development should become more important in production or rendering of services. Apart from that it seems every organization claims that people are their most important asset while knowledge, all of which is created by humans and much of which is embedded in peoples' heads, is asserted to be the key to competitive advantage and business success (Schwalbach 2001: 129). The King Report II (2002) identifies a number of areas in which corporate practices could reflect the requirements of human capital development. Those are as follows:

- number of staff;
- training (including attendance, development and financial investment);
- retention, satisfaction and succession planning; and
- employee health and impact of HIV/AIDS programmes.

The King Report II (2002: 120) observes that reporting on human capital development involves both a public account of past performance and an indication of future prospects, with such disclosures likely to be targeted at a range of stakeholders, such as employees, unions and general society, as well as shareholders. Government has put various legislation in place ensuring the development of human capital such as the Skills Development Levies Act, No. 9 of 1999.

2.9 CONCLUSION

Corporate governance can confer an important competitive advantage to maximize a company's performance, increase a company's potential to encourage capital investment, and positively influence a country's ability to attract foreign investment. It remains an essential ingredient for nurturing trust and business confidence (Naidoo 2002: 9). A similar situation can apply in a municipal context where it will speed-up service delivery

to the community while simultaneously all stakeholders from rate payers, employees, non-government organizations (NGOs) and business will develop trust in the council.

Indeed, not all organizational failures can be blamed on poor corporate governance. Other factors such as the HIV/AIDS epidemic, or a sudden decrease in income of those municipalities who have a low income base perhaps because they are predominately rural without suburbs or townships to raise the rates or because ratepayers refusing to pay rates or pay for services, may lead to organizational difficulties.

Although legislation and regulations may supersede the King Report II recommendations, the only impetus currently for the Municipal Manager and managers reporting to him (Section 57 according to Municipal Systems Act, 2002) and Executive Council (EXCO) of the municipality to adopt best practice is growing evidence that good governance is beneficial for the organization and the fact that the Auditor General, communities and other stakeholders such as rate payers are vigilant in requiring compliance.

CHAPTER 3

METHODOLOGY

3.1 INTRODUCTION

This chapter discusses the methodology guiding this study. The study relied on the use of a questionnaire for purposes of data collection, which is attached in Appendix 1. As indicated in the literature review there has been very little written about non-financial corporate governance principles and hence the study is guided by the King Reports (1994 and 2002). Despite the limited availability of literature, the King Reports nonetheless give sufficient background information to “sharpen and deepen the theoretical framework, identify gaps, discover connections, analogies or relations between different research results through comparing various investigations” (Bless and Higson-Smith 1995:22). The following sections describe the research strategy.

3.2 RESEARCH DESIGN

The research is both of a qualitative and quantitative nature. Data was collected on key socio-economic variables that may possibly affect the implementation of non-financial corporate governance principles. The nature of possible responses for the closed-ended questions is discussed under data collection.

3.3 NEGOTIATING ENTRY

Various methods were used to negotiate entry into the éNdongakusuka Local Municipality. On the 12 April 2005 a discussion with the municipal manager was initially conducted for purposes of communicating the objectives of the study in addition to establishing interpersonal relations prior to questionnaire distribution.

Subsequent to that on the 3rd May 2005 a briefing sessions with the Director: Technical Services and Communication and Chief Financial Officer with their managers in total of three from different units of the municipality was also held in order to secure their support and also ensure a high response rate. In this session, the objectives of the research were elaborated coupled with the need to put emphasis on the fact that the exercise was purely academic and hence employees should be encouraged to express their opinions without reservations.

3.4 SAMPLING TECHNIQUE

According to Huysamen (1994:37) 'it is not practically and economically feasible to involve all members of the population in a research project. One can however obtain data from a population through sampling'. Bless and Higson-Smith (1995:274) defined sampling as a process used to select cases for inclusion in the research project. Given the nature of this study, time constraints and the large municipality staff compliment (150), sampling was inevitable.

A non-probability sampling technique was used with the objective of obtaining responses that may be regarded as representative of the municipal workers. To note is that non-probability sampling does not depend on the rationale of probability theory. This implies that no statistical techniques that allow for the measurement of statistical error were used. One can therefore not project the perceptions of employees in this particular municipality to all other municipalities. The researchers experience and judgment hence played a key role.

3.5 DATA COLLECTION

A total of 100 questionnaires were randomly distributed by the researcher to municipal employees. The questionnaire was in English given that all municipal employees are appointed among other things on the basis of their ability to communicate in English. The respondents were given three weeks to respond to the questions after which 64

questionnaires were returned duly completed though some with non-responses on certain questions. It was assumed the three weeks period would be sufficient to cater for slow respondents. This represents 42 per cent of municipal staff complements of 130.

A combination of closed and open-ended questions was used to obtain as much information as possible. Neuman (2000:261) notes that the use of open and closed ended questions is advantageous in that it can lead to the discovering of unanticipated findings.

The questionnaire had four sections. Section 1 solicited information related to safety at the work place and health related issues. Section 2 focused on ethical behaviour. Section 3 looked at the transformation of the municipality with respect to employment equity targets, training and development. Section 4 focused on performance management.

3.6 DATA ANALYSIS

SPSS was the main tool for data analysis in this research. In the analysis of questionnaires, respondents were presented with positively phrased statements (with one exception) to which they could respond on a five-point scale; from they could either choose and which was scored as follows, 1 – strongly disagree, 2- disagree, 3 – be neutral, 4 –agree or 5 – strongly agree. The numerical values were awarded for purposes of gauging a mean response. One (1) and two (2) were considered to be negative responses whilst four (4) and five (5) were taken as positive responses. Three (3) was considered a neutral response. In addition to the use of pre-coded questions respondents also answered open-ended questions with respect to any other issue on non-financial corporate governance. The open ended questions gave guidance to the researcher with respect to policy recommendations.

3.7 ETHICAL CONSIDERATIONS

The informed consent of employees to participate in this research was granted prior to executing the questionnaires. The need to maintain the anonymity of the respondent was

also guaranteed in addition to further guaranteeing that whatever responses were given would have no effect on worker-employee relations. To further ensure confidentiality, the respondents were advised not to put their names in the questionnaire and the researcher distributed and collected the questionnaires.

3.8 CRITICAL REVIEW OF THE METHODOLOGY

The study relied on the assumption that respondents would be willing to honestly complete the entire questionnaire and return it within the stipulated period of three weeks. Out of the total 100 questionnaires that were distributed, 64 were completed and returned. There was no particular pattern for any respondents in terms of gender, race and level of position. This was taken as a reasonable response rate. Given that some questionnaires were returned with blank sections it is clear that not all employees were totally comfortable in giving answers to all the questions despite prior assurance of anonymity. There was however no particular pattern for the non responses in respective questionnaires. The nature and extent of relationships with management and transparency of the same may have had an impact on the responses.

Though the municipal systems of governance and administration are uniform across the entire country, the perceptions of employees in one municipality does not necessarily reflect those of other municipalities and hence the findings of this study may not apply across all municipalities.

3.9 CONCLUSION

This study relied on the use of a questionnaire to assess the management of non-financial issues of corporate governance at the éNdongakusuka Municipality. The design of the questionnaire heavily relied on the King Reports (1994 and 2002) given the limited availability of South African literature on non-financial corporate governance principles.

A non-probability sampling technique was used with the objective of obtaining responses that may be regarded as representative of the municipal workers. Whilst the research was both of a qualitative and quantitative nature, SPSS was the main tool for data analysis were respondents were presented with positively phrased statements (with one exception) to which they could respond on a five-point scale; from they could either choose and which was scored as follows, 1 – strongly disagree, 2- disagree, 3 – be neutral, 4 –agree or 5 – strongly agree. The numerical values were awarded for purposes of gauging a mean response.

To note is that the results of this study are specific to a particular context or situation yet on the one hand may be used for similar settings, namely local government structures. On the basis of this methodology one can arguably assess the extent and nature to which non-financial principles have been implemented in local government structures.

CHAPTER 4

FINDINGS

4.1 INTRODUCTION

This chapter discusses the main findings of the study. The findings are based on 64 respondents (42 per cent of the total workforce) from the éNdongakusuka Municipality. Whilst distributing the questionnaires, concerted effort was put to attain equal representation across gender, race, age, position within the municipality's organogram and highest level of education attained. An analysis of the key socio-economic indicators of the respondents is shown in table 2. Whilst the majority of respondents belong to the African Black population group (and within the municipality for that matter), the view of this author is that the influence of race on how employees perceive the implementation of non-financial corporate governance principles is likely to be minimal when compared to the other variables like gender, position held and the highest level of education attained. Given the gender imbalance in most South African work places and the likelihood of senior officers to portray the organization in a good light, gender and position held are the two variables likely to influence employee perceptions on the implementation of non-financial corporate governance principles.

The discussion of results is presented in three broad categories, safety and health, ethics and human resources development.

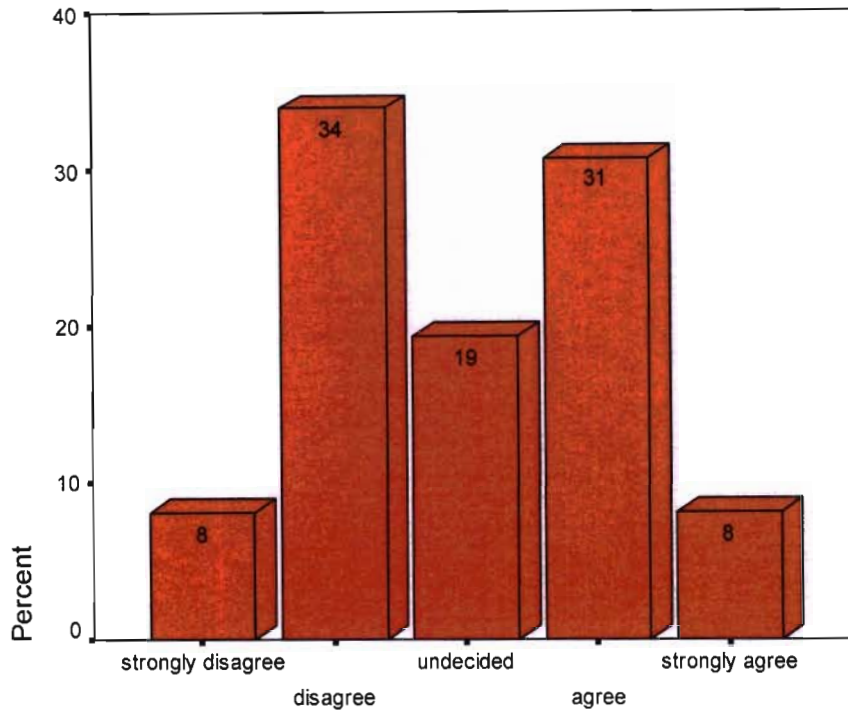
Table 2: Characteristics of respondents at éNdongakusuka Municipality

		Respondents	
		Number	Percent
Gender	Male	33	55.9
	Female	26	44.1
	Total	59	100.0
Race	African	44	75.9
	Coloured	6	10.3
	White	1	1.7
	Indian	7	12.1
	Total	58	100.0
Age	21-25	5	8.5
	26-30	22	37.3
	31-35	6	10.2
	36-40	6	10.2
	40+	20	33.9
	Total	59	100.0
Position	senior officer municipal	7	12.1
	middle officer municipal	22	37.9
	junior officer municipal	29	50.0
	Total	58	100.0
Highest Educational attainment	no education	1	1.8
	below matric	3	5.3
	matric	14	24.6
	tertiary education	39	68.4
	Total	57	100.0

Source: Author's calculations from survey

4.2 SECTION 1: SAFETY AND HEALTH ISSUES

Figure 1: Safety as a major priority in the work environment



Source: Source: Author's calculations from survey

Figure 1 shows the distribution of responses to the question on safety as a major priority for the éNdonakusuka Municipality. There is a three percentage point difference between employees who believe that safety is not a major priority for the organization compared to those who believe that it is (42 per cent negative responses and 39 per cent positive respectively). Close to a fifth (19 per cent) of the employees are neutral. Given this distribution it is therefore imperative to understand whether such responses are linked in any way to factors like position held in the organization and gender. It is only when such associations are established that one can truly explain the underlying factors behind such responses.

Table 3: Safety as a major priority in the work environment by position held

Safety in the working environment	Position			Total
	senior municipal officer	middle municipal officer	junior municipal officer	
strongly disagree	0	3	2	5
	.0%	13.6%	7.1%	8.8%
disagree	3	8	10	21
	42.9%	36.4%	35.7%	36.8%
undecided	2	2	7	11
	28.6%	9.1%	25.0%	19.3%
agree	2	8	7	17
	28.6%	36.4%	25.0%	29.8%
strongly agree	0	1	2	3
	.0%	4.5%	7.1%	5.3%
Total	7	22	28	57
	100.0%	100.0%	100.0%	100.0%

Source: Source: Author's calculations from survey

Table 3 shows the responses to the issue of safety as a major priority by position held in the organization. Irrespective of the position held, at least 45 per cent of the employees agree that safety is not a major priority for the organization. A striking issue is the almost similar proportion of senior municipal officers and of junior municipal officers who agree that safety is not a major priority for the municipality (42.9 per cent and 42.8 per cent respectively). In addition to this, close to a third of senior municipal officers are neutral on this issue. This raises a number of questions in terms of the extent to which worker safety is considered a key success factor by senior management. The proportion of neutral employees in the senior ranks is almost equal to that in the junior ranks (28.6 per cent and 25 per cent respectively). Within the middle ranks of management, 9 per cent of the employees had neutral responses. In sum, the figures suggest that worker safety is not a major priority for the organization given that less than a third of the senior municipal officers gave positive responses.

These findings suggest that safety issues are not considered as a major area of governance and hence could have problematic implication in the future. Therefore, there is seems to

be a lack of commitment from the municipality with respect to reducing potential work related accidents and fatalities. This could further lead to additional financial costs through litigation.

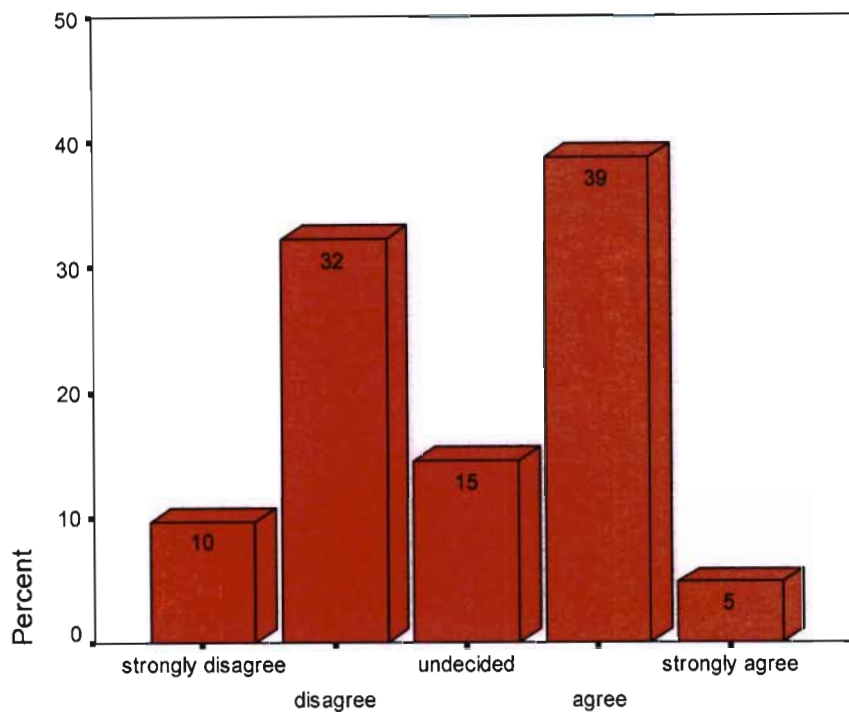
Table 4: Safety as a major priority in the working environment by gender

Safety in the working environment	gender		Total
	male	female	
strongly disagree	2	3	5
	6.1%	12.0%	8.6%
disagree	14	7	21
	42.4%	28.0%	36.2%
undecided	7	4	11
	21.2%	16.0%	19.0%
agree	9	9	18
	27.3%	36.0%	31.0%
strongly agree	1	2	3
	3.0%	8.0%	5.2%
Total	33	25	58
	100.0%	100.0%	100.0%

Source: Source: Author's calculations from survey

Table 4 further explores the issue of safety from a gender perspective. Given that male domination is still prevalent in most work places, this section explores the extent to which different gender groups view issues of worker safety in the workplace. More males (48.5 per cent) compared to females (40 per cent) think that safety is not a major priority in the organization. The proportion of neutral responses is also higher for males than females. The overall picture obtained is that more males responded in the negative compared to their female counterparts. There is close to a six-percentage point difference between males and females who gave positive responses.

Figure 2: The organization ensures the safety of its employees



Source: Source: Author's calculations from survey

Figure 2 illustrates the views of workers with respect to the extent to which the municipality ensures the safety of its employees. There is only a 2 percentage point difference between employees who think that the municipality ensures the safety of its employees (44 per cent) and those who think it does not (42 per cent). Fifteen (15) per cent of the employees are neutral on this issue. The next analysis looks at employee views on safety according to position held in the municipality.

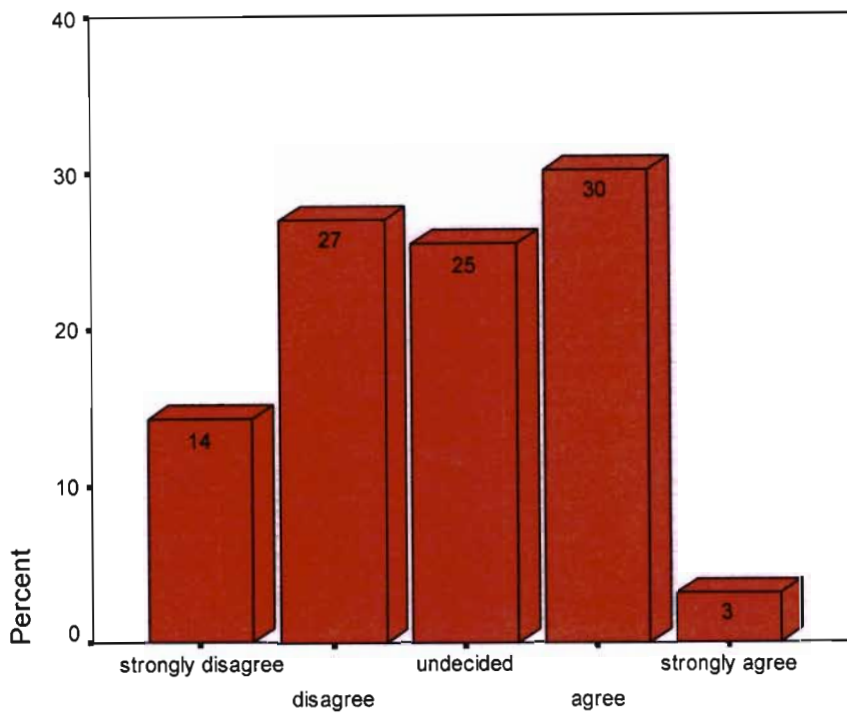
Table 5: Organizational guarantee for safety of its employees by position held in the municipality

The organization ensures the safety of its employees	Position			Total
	senior municipal officer	middle municipal officer	junior municipal officer	
strongly disagree	1	2	2	5
	14.3%	9.1%	7.4%	8.9%
Disagree	1	7	12	20
	14.3%	31.8%	44.4%	35.7%
Undecided	1	5	2	8
	14.3%	22.7%	7.4%	14.3%
Agree	4	7	10	21
	57.1%	31.8%	37.0%	37.5%
strongly agree	0	1	1	2
	.0%	4.5%	3.7%	3.6%
Total	7	22	27	56
	100.0%	100.0%	100.0%	100.0%

Source: Source: Author's calculations from survey

Table 5 shows the views of employees on the extent to which the organization guarantees the safety of its employees by position held. Seemingly, the views expressed are closely related to the position held. There are more employees in the junior ranks who think that the organization does not guarantee the safety of its employees (51.8 per cent), followed by those in middle management (40.9 per cent) and then senior management (28.6 per cent).

Figure 3: Effectiveness of HIV/AIDS awareness programmes



Source: Source: Author's calculations from survey

Figure 3 shows the proportion of employees who responded to the question on the effectiveness of HIV/AIDS programmes. Generally, there are more negative responses than positive ones. Slightly more than 40 per cent of the employees believe that the HIV/AIDS awareness programmes are ineffective compared to 33 per cent that think such programmes are effective. A quarter of the responses are neutral. Given the impact of HIV/AIDS across the board, there is a likelihood that the HIV/AIDS programmes of the municipality are in reality ineffective. Despite the cross cutting nature of HIV/AIDS issues there still exist a need to explore such perceptions from either a gender or a position held perspective. These are discussed below.

Table 6: Effectiveness of HIV/AIDS awareness programmes by gender

Effectiveness of HIV/AIDS awareness programmes	gender		Total
	male	female	
strongly disagree	5	3	8
	15.2%	12.0%	13.8%
Disagree	12	4	16
	36.4%	16.0%	27.6%
Undecided	7	8	15
	21.2%	32.0%	25.9%
Agree	9	9	18
	27.3%	36.0%	31.0%
strongly agree	0	1	1
	.0%	4.0%	1.7%
Total	33	25	58
	100.0 %	100.0%	100.0%

Source: Source: Author's calculations from survey

Table 6 shows the perceptions of municipal employees on the effectiveness of HIV/AIDS awareness programmes by gender. Most males (51.6 per cent) view the effectiveness of the municipality's HIV/AIDS awareness programmes in a negative way. Relatively few females (38 per cent) gave negative responses about the programme. Close to a fifth of the males and a third of the females are neutral on this issue. Out of all the employees, the number of females who gave positive responses on the effectiveness of the HIV/AIDS programme is doubles that of their male counterparts. Seemingly, the effectiveness of the HIV/AIDS programme is only seen by female employees, presumably because they are the ones most affected by the HIV/AIDS epidemic.

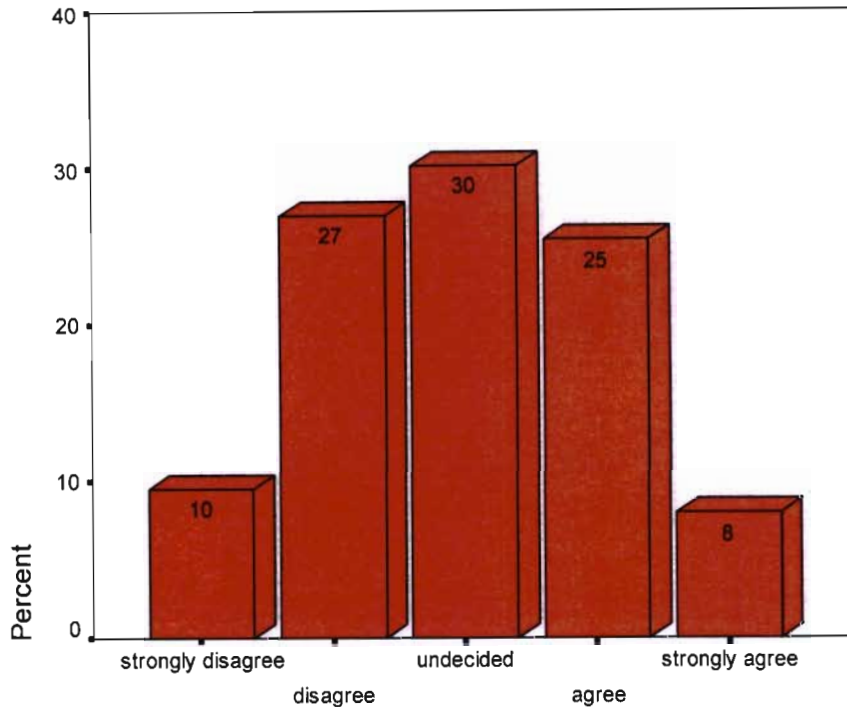
Table 7: Effectiveness of HIV/AIDS awareness programmes by position

Effectiveness of HIV/AIDS awareness programs	Position			Total
	senior municipal officer	middle municipal officer	Junior municipal officer	
strongly disagree	1	5	2	8
	14.3%	22.7%	7.1%	14.0%
Disagree	1	5	10	16
	14.3%	22.7%	35.7%	28.1%
Undecided	1	3	11	15
	14.3%	13.6%	39.3%	26.3%
Agree	4	8	5	17
	57.1%	36.4%	17.9%	29.8%
strongly agree	0	1	0	1
	.0%	4.5%	.0%	1.8%
Total	7	22	28	57
	100.0%	100.0%	100.0%	100.0%

Source: Source: Author's calculations from survey

Table 7 shows the analysis on the perception of effectiveness of the HIV/AIDS awareness programme on the basis of the position held in the municipality. According to most senior municipal officers (57 per cent) the HIV/AIDS programme is effective. Negative responses on this issue mainly arise from middle management where 54.4 per cent of the employees think that the programme is not effective. There are also a relatively high proportion of employees in junior management (43 per cent) who think that the HIV/AIDS programme is not effective while 18 percent think that it is.

Figure 4: Effectiveness of organizational HIV/AIDS plan to address its potential impact



Source: Source: Author's calculations from survey

Figure 4 presents the views of municipal employees on the effectiveness of the HIV/AIDS plan to address the potential impact of the epidemic. A majority (30 per cent) of employees are undecided on this issue. In other words they are not sure whether the municipality's plan is adequate to cope with the seemingly devastating impact of the HIV/AIDS pandemic. Generally, there are more negative than positive responses (a four percentage point's difference). Another angle is to try and understand these differences from an organogram point of view and employee qualification. Such an analysis will further shed light on how different employees relate to issues of planning in general.

Table 8: Effectiveness of organizational HIV/AIDS plan to address its potential impact by position held in the municipality

Effectiveness of organizational HIV/AIDS plan	Position			Total
	senior municipal officer	middle municipal officer	junior municipal officer	
strongly disagree	1	3	2	6
	14.3%	13.6%	7.1%	10.5%
Disagree	2	6	8	16
	28.6%	27.3%	28.6%	28.1%
Undecided	2	5	11	18
	28.6%	22.7%	39.3%	31.6%
Agree	2	8	4	14
	28.6%	36.4%	14.3%	24.6%
strongly agree	0	0	3	3
	.0%	.0%	10.7%	5.3%
Total	7	22	28	57
	100.0%	100.0%	100.0%	100.0%

Source: Source: Author's calculations from survey

Table 8 looks at the effectiveness of the organizational HIV/AIDS plan to address its potential impact by position held in the municipality. A striking revelation is that three out of seven senior members of management think that the plans are not effective yet they are the ones who should be guiding the planning process and ensuring its effectiveness. Most neutral responses are from employees in the junior ranks (31.6 per cent). The most likely interpretation is that these employees have limited information about the plans and hence are not certain about their effectiveness.

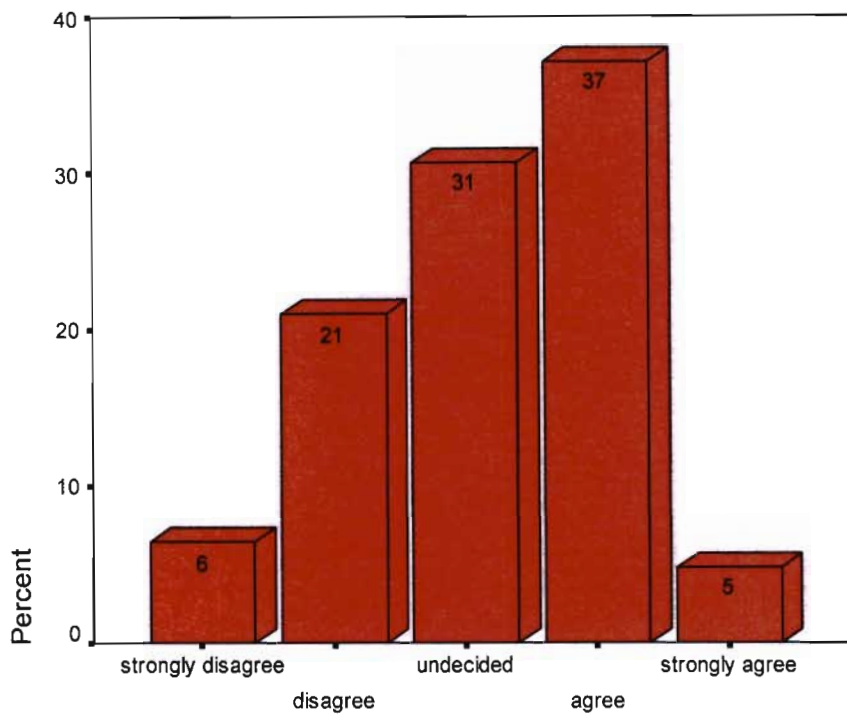
Table 9: Effectiveness of organizational HIV/AIDS plan to address its potential impact by highest level of education attained

Effectiveness of organizational HIV/AIDS plan	Highest educational attainment				Total
	no education	Below matric	matric	tertiary education	
strongly disagree	0	0	1	5	6
	.0%	.0%	7.7%	12.8%	10.7%
Disagree	0	1	7	8	16
	.0%	33.3%	53.8%	20.5%	28.6%
Undecided	0	0	4	14	18
	.0%	.0%	30.8%	35.9%	32.1%
Agree	1	2	1	11	15
	100.0%	66.7%	7.7%	28.2%	26.8%
strongly agree	0	0	0	1	1
	.0%	.0%	.0%	2.6%	1.8%
Total	1	3	13	39	56
	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Source: Author's calculations from survey

Table 9 shows the effectiveness of the organizational HIV/AIDS plan with respect to addressing the potential impact of HIV/AIDS by highest level of education attained. To note is that most workers (68 per cent) in the employment of the municipality have a qualification from a tertiary institution. A third of these employees are negative about the effectiveness of the HIV/AIDS plan, namely its impact on addressing potential impacts. Given the majority views of senior management and those of employees with tertiary education qualifications, irrespective of position held, one can safely conclude that the municipality's HIV/AIDS plans are in practice ineffective.

Figure 5: Initiative by organization to address environmental issues



Source: Source: Author's calculations from survey

Figure 5 shows the perceptions of employees on the municipality's ability to address environmental concerns of the municipalities as whole. Generally, more employees (42 per cent) think that the municipality is doing fairly well with respect to addressing environmental issues. A third of the employees neither agrees nor disagrees on the capability of the municipality to address environmental issues.

Table 10: Initiative by organization to address environmental issues by position held in the municipality

Initiative by organization to address environmental issues	Position			Total
	senior municipal officer	middle municipal officer	Junior municipal officer	
strongly disagree	0	2	2	4
	.0%	9.1%	7.4%	7.1%
Disagree	1	5	6	12
	14.3%	22.7%	22.2%	21.4%
Undecided	2	7	9	18
	28.6%	31.8%	33.3%	32.1%
Agree	4	7	9	20
	57.1%	31.8%	33.3%	35.7%
strongly agree	0	1	1	2
	.0%	4.5%	3.7%	3.6%
Total	7	22	27	56
	100.0%	100.0%	100.0%	100.0%

Source: Source: Author's calculations from survey

Table 10 indicates that four (4) in seven (7) senior management officials agree that the municipality is doing well in addressing environmental issues. The middle ranks of management (31.8 per cent) have the highest number of people with negative perceptions, though a fractionally higher percentage in fact has positive perception.

Table 11: Summary of Section 1 (safety and health issues)

Issue	Number of respondents				Mean
	Total	% positive	% neutral	% negative	
Safety in the working environment as a major priority for the organization	62	38.7	19.4	42.0	3.0
Effectiveness of HIV/AIDS awareness programmes	63	39.7	25.4	33.3	3.1
Ability of organization to deal with environmental issues proactively	62	27.4	33.9	38.7	3.1
Availability of an effective HIV/AIDS plan to address its potential impact	63	36.5	30.2	33.3	2.9
Safety of employees	62	41.9	14.5	43.5	3.3
Application of preventive measures in anticipated dangerous work situations	63	36.5	30.2	33.3	3.0
Effectiveness of HIV/AIDS policy	63	33.3	34.9	31.7	3.0
Initiative by organization to address environmental issues	62	27.4	30.6	41.9	3.5

Source: Source: Author's calculations from survey

Table 11 summarizes the responses on health and safety issues. A telling story is that most employees are neutral, at least as expressed, by the mean response which in all but one case is approximately three. This implies that the safety and health policies/programmes of the municipality and the implementation of the same are neither here nor there and hence workers cannot take a definite stance in terms of their effectiveness or lack thereof.

4.3 SECTION 2: ETHICS

Section 2 focuses on the perceptions of employees on the principle of ethics at the work place. The responses are shown in table 12.

Table 12: Ethics at the workplace

Issue	Number of respondents				Mean
	Total	% positive (n=)	% neutral (n=)	% negative (n=)	
Availability of information on organizational performance	64	40.6 (n=26)	23.4 (n=15)	35.9 (n=23)	2.9
Transparency of management	64	40.6 (n=26)	15.6 (n=10)	43.8 (n=28)	3.3
Effective system for reporting unethical behavior	64	35.9 (n=23)	39.1 (n=25)	25 (n=16)	2.9
Encouragement by management to report unethical behavior	64	29.7 (n=19)	25 (n=16)	45.3 (n=29)	3.1
Consistent enforcement of discipline	63	38.1 (n=24)	25.4 (n=16)	36.5 (n=23)	3.0

Source: Source: Author's calculations from survey

Table 12 shows the perceptions of employees on the issue of ethics at the work place. Four issues guide the extent to which ethical principles are practiced by the municipality. These entail, the availability of information on organizational performance, organizational transparency, the reporting of unethical behaviour and the enforcement of discipline. On the issue on availability of information, 40.6 percent of employees think that information on the organization is readily available. The most aspects (issues) dealing with ethics in the workplace have mean responses of approximate three (3) which is the neutral mean response. The mean score for this question is close to three, which means, on average, most employees are not sure whether the information is readily available or not. With respect to the transparency of management there are more negative

responses, 43.8 per cent. This share is 3 percentage points higher than those who view the transparency of management in a positive way.

A majority of employees (39.1) are not sure whether an effective system for reporting unethical behaviour exists. There is however a 35.9 per cent share of the employees that are positive. On average most employees fall slightly below the neutral mark as shown by a 2.9 mean response. When the question of unethical behaviour is further probed by way of assessing the support received from management, close to half of the employees (45.3 per cent) think that management does not offer the necessary support to encourage the reporting of unethical tendencies. The implication is that management is not concerned about issues of ethics since they neither encourage reporting of related matters nor do they avail information on the same. Generally, there are split views on whether management consistently enforces discipline or not. There is a 1 percentage point difference between positive and negative responses (38 and 37 per cent respectively).

4.4 SECTION 3: HUMAN CAPITAL DEVELOPMENT

Table 13: Perceptions on various human resources issues

Issue	Number of respondents				Mean
	Total	% positive	% neutral	% negative	
Demographic representation of employed staff	63	36.5% (n=23)	28.6% (n=18)	34.9% (n=22)	2.9
Effectiveness in meeting employment equity targets	61	41% (n=25)	24.6% (n=15)	34.4% (n=21)	3.0
Effectiveness in claiming SETA levies and staff development	62	32.3% (n=20)	46.8% (n=29)	21% (n=13)	3.1
Organizational procurement procedures in relation to previously disadvantaged companies	61	37.7% (n=23)	37.7% (n=23)	24.6% (n=15)	3.1
Active promotion of people from designated groups	62	29% (n=18)	30.6% (n=19)	40.3% (n=25)	2.8
Encouragement of diverse management practices	60	30% (n=18)	46.7% (n=28)	23.3% (n=14)	3.0
Effectiveness in conducting training needs analysis	62	45.2% (n=28)	17.7% (n=11)	37.1% (n=23)	3.0
Implementation of effective human resource development plans	62	33.9% (n=21)	32.2% (n=20)	33.9% (n=21)	3.0
Effective use of performance appraisals for staff development	61	16.4% (n=10)	23% (n=14)	60.7% (n=37)	2.4
Effectiveness of organizational training in staff performance	62	45.2% (n=28)	14.5% (n=9)	40.3% (n=25)	2.9

Source: Source: Author's calculations from survey

Table 13 shows the perceptions of municipal employees with respect to issues in human resource management. Key specific issues are discussed in the following sections.

4.4.1 EFFECTIVENESS IN MEETING EMPLOYMENT EQUITY TARGETS

A majority of employees (41%) think that the organization is on the right path in terms of meeting employment equity targets. There is however a considerable number of employees (34.4 per cent) that thinks otherwise. A point worth noting is that the mean response on this issue is 3.0 which imply, on an average scale, the employees cannot state with certainty that the municipality is, indeed, meeting its employment equity targets.

4.4.2 EFFECTIVENESS IN MEETING SETA LEVIES AND STAFF DEVELOPMENT

Slightly less than a third (32.3 per cent) of municipal employees are positive that the municipality is effective in claiming the SETA levies and hence interested in advancing employee development. Close to half of the employees (46.8 per cent) cannot say with certainty that the SETA levies have been claimed nor that the organization is interested in advancing employee development. The proportion of employees that are negative on this particular aspect is 21 per cent. The implication is that most employees may have knowledge that the organization is indeed claiming SETA funds but have since not been able to benefit from such claims to their satisfaction.

4.4.3 IMPLEMENTATION OF EFFECTIVE HUMAN RESOURCE DEVELOPMENT PLANS

This is the only aspect that has equal responses (33 per cent) for positive, neutral and negative responses. Generally, employees have mixed feelings on this aspect and hence one cannot conclude whether the implementation is effective or not. Further studies need

to be conducted to evaluate the effectiveness of the municipality's human resource development plan.

4.4.4 EFFECTIVE USE OF PERFORMANCE APPRAISALS FOR STAFF DEVELOPMENT

Seemingly, the municipality does not use performance appraisals for staff development. This is confirmed by 60.7 per cent of the employees that apparently have not seen the association between performance appraisals and staff development. Of all aspects investigated in this study, this issue has the least mean response of 2.4. Most employees have therefore not seen the benefits of performance appraisals at least in relation to issues of staff development.

4.5 SUMMARY FINDINGS

The summary of the findings focuses on respondents scores mean values rather than the proportion of responses in rating overall conclusion for each category.

The key findings of the study are as follows:

Safety and health

The perceptions of municipal workers on safety and health issues is neutral for all aspects apart from the availability of a plan to address the potential effects of HIV/AIDS (mean response, 2.9) and initiatives to address environmental issues (mean response, 3.5). The implication of these responses is that employees have not seen anything concrete to be able to say with certainty that safety and health issues are a priority for the municipality. The score on the effectiveness of the HIV/AIDS plan is low, presumably since due to the high prevalence rate of HIV/AIDS in the entire KwaZulu-Natal province, compared to any other province, employees are either affected or infected yet do not experience the benefits of the municipality's efforts in addressing the HIV/AIDS pandemic. In sum, one

can conclude that the municipality has not been able to effectively implement non-finance corporate governance principles with respect to safety and health issues.

Ethics

The views on ethics at the workplace, just like those for safety and health, tend to be neutral. Though an above neutral point is recorded for transparency by management the common belief is that information on organizational behaviour is not readily available. Added to this is the lack of an effective system for reporting unethical behaviour. Though less than 10 percent of responses were recorded for these aspects, poor discipline and lack of role clarity were identified as the major obstacles to ethical behaviour in the organization (from the open-ended responses).

Human Resources

The key issues for human resource development relate to performance management and training. The responses suggest that if employees are to be effective, more training needs to be conducted. Though respective SETAs' offer an opportunity for further staff development, the benefits of such initiatives have not been felt by the employees. Furthermore, the association between performance appraisals and training is yet to be seen.

Conclusion

Seemingly, employees across the board have a picture about the application of human resources development principles in the municipality, but apparently do not have adequate information to take a definite stance and hence the mean for most issues or aspects is approximately three (3) in terms of responses, except in the area of effective use of performance appraisals for staff development which approximates two (2) and reflecting disagreement with the statement.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This research investigated the implementation of non-financial corporate governance principles at the éNdondakusuka Municipality. The research design draws from the King Report and hence tries to test the principles elucidated in a specific environment, in this instance, a municipal environment. Specifically, the research focused on issues of safety in the work place, health, ethics and human resources management. Though the results rely heavily on employee perceptions they nevertheless tell an important story with respect to the extent to which non-financial corporate governance principles are being implemented within a formal or informal arrangement. Given the need to comply with internationally accepted standards of doing business and the prevalence of the HIV/AIDS epidemic, it has become increasingly relevant that companies comply with ethical principles of both a financial and non-financial nature. One finding that cuts across a number of aspects in this study is that a majority of employees (irrespective of position) have yet to see a conspicuous and clear cut implementation of non-financial corporate governance principles. Given this trend, the big question relates to exploring the manner in which the concept of ‘non-financial corporate governance’ is understood by both workers and management. The specific issues arising from each aspect are discussed below.

5.2 SAFETY AND HEALTH

The results suggest a neutral story at least as revealed by the employee responses. The majority of employees failed to take a definite stance in terms of the effectiveness or lack thereof of the municipality’s safety and health policies / programmes. The general responses raise a number of questions namely those related to issues of transparency with respect to the plans and policies and secondly the extent to which all employees are

involved in driving the organization to a higher level of performance. Are issues of safety and health a concern for all employees and departments or only for those in certain positions and departments? What is management doing about it? Seemingly, the flow of information on issues of safety and health does not permeate through the entire organizational structure nor is it equally available to all departments. An area of concern was the lack of information flow across and within departments in addition to that flow based on friendship. One respondent labeled the manner in which the municipality reacts to issues of safety and health as “exactly the opposite of what should be done”. In sum, the employee responses reveal a lack of both horizontal and vertical integration. Without a doubt, enhanced integration could result in employees feeling the benefits of safety and health policies or programmes.

5.3 ETHICS

The availability of information on organizational performance and the reporting of unethical behaviour are the major impediments for creating and maintaining an ethical environment. On the face of it, employees realize unethical conduct exist but are not protected enough to risk exposing perpetrators of unethical conduct. One respondent suggested that employees in the human resources department be ‘sworn to secrecy’ in order to guarantee a harmonious working environment. A major concern is that employees are not informed about organizational performance and hence do not know where the municipality is going. This has made the majority of employees uncertain about the way of conducting business since what one perceives as unethical may not necessarily be unethical to the other. Notwithstanding the fact that the municipality is not a profit making organization, at the minimum, it should at least reveal its performance, namely that related to service delivery in an annual report.

5.4 HUMAN CAPITAL DEVELOPMENT

The findings suggest the lack of a clear relationship between training and performance management. The responses suggest that if employees are to be effective, more training

needs to be conducted. Though respective Local Government Sector Education and Training Authority (LGSETA) which offer an opportunity for further staff development exist, the benefits of such initiatives have not been felt by the employees. Given the fact that the world is increasingly becoming a knowledge economy, municipality worker performance would be greatly enhanced if the opportunities offered by LGSETA were adequately utilized. The need for training is one aspect that arose from a number of respondents. A positive thing on the issue of training is that employees realize their weaknesses and know that their potential could be unlocked if given more knowledge and skills in performing their duties. The onus therefore lies with management to ensure that appropriate training is offered.

5.5 RECOMMENDATIONS

Health and safety environment

The challenge of HIV/AIDS is a major concern to business establishments in both the public and private sectors. Despite the gravity of the epidemic with respect to worker performance and the general business operations, its impact is not readily felt (till the employee succumbs to the disease) and hence the varying lag-time responses and coping mechanisms by different entities in the workplace.

Seemingly, employees recognize the challenges associated with HIV/AIDS and related policies. To note is that workers are aware of the municipality's HIV/AIDS policy. The implementation of the same policy however raises a number of questions with regards to its effectiveness since a majority of employees seem not to have benefited in the last couple of years. This study therefore recommends that the municipality should intensify its HIV/AIDS awareness programmes through workshops and related information dissemination strategies. In an effort to enhance the service delivery, planning processes and performance management the municipality should equally incorporate aspects of voluntary testing in its day to day business. Of critical importance is that the issue of HIV/AIDS needs incorporation into the entire strategic plan and specific operating units. In essence, continuous improvement should be at the core of managing HIV/AIDS

related issues given its relatively high prevalence in South Africa and more specifically the province of KwaZulu-Natal.

The findings suggest that safety is not a major priority for the organization. Ideal safe working conditions influence worker productivity. It is therefore recommended that the municipality should implement the recommendations of the Occupational Health and Safety Act, No 181 of 1993, which relate to the formulation of a safety committee in the work place. Such a committee will look into all the issues related to safety and report to council for corrective measures on quarterly bases. Added to this is the issue of evacuation routes and drills, which should be displayed in entrances and exit of municipal buildings and accommodative to disable individuals.

Ethics

The perceptions of employees on issues of ethics reveal to a great extent the manner in which good governance is upheld within an organization. Whilst the recommendations of the King Reports are solid, the extent to which these are implemented largely relies on the ability of senior management to exercise their usufruct rights. On their own, The King Report recommendations do not add value to matters of ethics and good governance unless backed by able and willing management. To this end, this research highlights below, pertinent issues that need redress or attention but nevertheless strongly recommends a deliberate and conspicuous role of senior management when it comes to issues of governance. Without a doubt the consequence of error with respect to governance issues is higher for senior management than for junior staff such that their role should be conspicuous across the board.

More specifically, the organization should put in place a system such as a hot-line which will be used by officials and all other stakeholders of the municipality including residents to report any unethical behaviour. This would counter any form of corruption and unbecoming behaviour. The hotline could be advertised on municipal vehicles and other public places to create awareness in all stakeholders. The assumption is that the employer would take all reports seriously and subsequently take corrective action.

The organization is encouraged to improve on its consultation through the following structures workplace forums, training and employment equity committees, which have been set out by Labour Relations Act of 1995, Skills Development Act of 1998 and Employment Equity Act of 1998 respectively. This would minimize potential conflicts between the employer and employees and therefore project the organization as one that upholds transparency.

Human Resource Development

The municipality will have to ensure the implementation of a performance management system, which will enable the Human Resources Management Department through supervisors to identify performers and non-performers. The non-performers will have to be capacitated with necessary skills to improve their performance thereby increasing the level of productivity and providing incentives to the performers. According to the Municipal Systems Act, No 32 of 2000 chapter 6 it is suggested that municipalities should have organizational and individual performance management systems.

Linked to performance management systems will be training needs analyses that should be conducted to determine the types of training that are needed by the employees and to develop a work skills plan which will be implemented as well as reviewed annually.

5.6 SUMMARY

This research has shown how far the municipality has to go to adhere to the King Report II (2002) recommendations. It is clear that corporate governance need to become a priority area and that regular evaluation is necessary to eventually realize the objective of white paper on service delivery (Batho Pele) more especial at the municipal level.

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Corporate Governance Questionnaire

Please complete this questionnaire for purposes of an investigation into the application in to survey of non-financial corporate governance principles at éNdonakusuka Municipality. This survey is purely for academic research purposes only and responses will be treated with strict confidentiality.

NB Please answer all questions in the following manner:

- a) Use one cross to choose your answer for each statement.
- b) Where a question requires comments write in the space provided.

Section 1

1. Strongly disagree 2. Disagree 3. Undecided 4. Agree 5. Strongly Agree

	1	2	3	4	5
1. Safety in the working environment has always been a major priority for this organization.					
2. HIV/Aids awareness programs are done effectively.					
3. The organization deals with environmental issues proactively.					
4. The organization has an effective HIV/Aids plan to address its potential impact.					
5. The organization ensures the safety of its employees					
6. Prevention measures are applied in anticipated dangerous work situations in this organization					
7. This organization is effectively applying its HIV/Aids policy					
8. This organization takes the initiative in addressing environmental issues.					

Section 2

1. Strongly disagree 2. Disagree 3. Undecided 4. Agree 5. Strongly Agree

	1	2	3	4	5
1. Information concerning organizational performance is readily available to employees.					
2. Management operates in an transparent way in the organization					
3. The organization has an effective system to report unethical behaviour. ✕					
4. The reporting of unethical behaviour is strongly encouraged by management.					
5. The organization enforces discipline in a consistent manner. ✓					

Section 3

1. Strongly disagree 2. Disagree 3. Undecided 4. Agree 5. Strongly Agree

	1	2	3	4	5
1. This organization ensures proper demographic representation of in its employed staff. ✕					
2. Employment equity targets are effectively met by this organization					
3. The organization effectively claims its skills development levies from SETA and re-invests it in the development of its employees.					
4. Organizational procurement procedures ensure opportunities for previously disadvantage companies.					
5. The promotion of people from the designated group is actively encouraged.					
6. The organization encourages the adoption of diversity management practices. →					

Section 4

1. Strongly disagree 2. Disagree 3. Undecided 4. Agree 5. Strongly Agree

	1	2	3	4	5
1. Training needs analysis are effectively carried out in this organization					
2. There are effective human resource development plans in operation here.					
3. Performance appraisals are effectively used for staff development.					
4. Organizational training is generally effective in improving employee's performance.					

Section 5

Is there any thing you would like to add regarding corporate governance in this organization?

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A. BIOGRAPHICAL DETAILS / DEMOGRAPHIC INFORMATION

Gender

Female	
Male	

Age

18 and below	
19 - 25	
26 - 30	
31 - 35	
36 and above	

Position

Position	Full Time	Part Time
Senior Municipal Official		
Middle Municipal Official		
Junior Municipal Official		

Race

Indian	
White	
Coloured	
Black	

Educational Level

Below Standard 8	
Below Standard 10	
With Matric only	
Without tertiary qualification	
With tertiary qualification	

MANY THANKS FOR YOUR CO-OPERATION