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TITLE: A corporate governance and business ethics framework based on King IV™ for Standard Bank African subsidiaries

By

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DECLARATION

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Abstract

This study investigated the degree of compliance to King IV Report on Corporate Governance for South Africa, 2016 (King IV™) principles and recommended practices by 17 sampled Standard Bank African subsidiaries. An extensive literature review of business ethics and corporate governance was performed. A wide-ranging dialogue with the relevant role players within Standard Bank Group coupled with the respondents' feedback, resulted in the King IV™ recommended practices being used as constructs to be measured to determine the degree of adherence to the recommended corporate governance and business ethics practices.

To answer the three research questions and meet the three research objectives, a manual questionnaire approach was employed to collect data from the 33 respondents that represented 17 Standard Bank African subsidiaries. The questionnaire was made up of 48 King IV™ recommended practices. Depending on their role within the Standard Bank African subsidiary boards, respondents were requested to indicate whether King IV™ corporate governance principles contained in the questionnaire were practiced or executed.

To test the reliability of the constructs in the questionnaire, a Cronbach's alpha (α) reliability test was performed with (α) equals 0.857 indicating a high level of internal consistency for the nominal scales used in the questionnaire. Validity was established through the research design and sequential mixed methods employed.

Based on the respondents' feedback the researcher developed the corporate governance and business ethics framework for Standard Bank African subsidiaries incorporating King IV™. The researcher is of the view that the framework would assist Standard Bank Group in realising its stated purpose: Africa is our home, we drive her growth. A set of recommendations which would assist the Standard Bank Group in meeting the prescripts of King IV™ are proffered.

Keywords: business ethics; corporate governance; stakeholder-inclusive approach; *Ubuntu/Botho*; sustainability; and King IV™.

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CHAPTER ONE – NATURE AND SCOPE OF THE STUDY

1.1 Introduction

How a company makes its money has an impact on the three critical triple contexts: society, economy and environment (SEE). Standard Bank Group and its subsidiaries, including those on the African continent, "operate in a societal context which they affect and by which they are affected" (King IV Report on Corporate Governance for South Africa, 2016:24). The internal and external stakeholders of Standard Bank have a material stake in the bank's activities. King IV™ puts this succinctly by stating that:

> An organisation has a society specific to itself, which includes its internal and external stakeholders with a material stake in its activities. But the organisation is also a juristic person in the broader society in which it operates. Organisations are dependent on this broader society to, for instance, provide a conducive operating environment, a viable customer base and the skills that the organisation requires. In turn, organisations contribute to the broader society as creators of wealth; providers of goods, services and employment; contributors to the fiscus; and developers of human capital. (King IV Report on Corporate Governance for South Africa, 2016:24)

Importantly, King IV™ explains that:

> This idea of interdependency between organisations and society is supported by the African concept of *Ubuntu* or *Botho*, captured by the expressions *uMuntu ngumuntu ngabantu* and *Motho ke motho ka batho* – I am because you are; you are because we are. *Ubuntu* and *Botho* imply that there should be a common purpose to all human endeavours (including corporate endeavours) which is based on service to humanity. (King IV Report on Corporate Governance for South Africa, 2016:24)

The aforesaid interdependency between organisation and society simply means that one benefits by serving the other. The logical consequence of this interdependency is that Standard Bank benefits from serving its own society of internal and external stakeholders as well as the broader society. In line with this ethos, Standard Bank should also take responsibility for the environmental outcomes of its activities and outputs as they affect society as a whole.

Ethical leadership and effective leadership are the bedrock of the *Ubuntu/Botho* concept. The former chairperson of Nedbank, one of South Africa's "big four" banks, Reuel Khoza, eloquently asserts that from an African perspective one cannot have proper management without ethical leadership. Effective leadership is strictly subordinated to ethical leadership because the ultimate responsibility of leadership is to ensure that the organisation is permeated by humanness (Khoza, 2012:1).

1.2 The African Banking Industry and Challenges

The African banking field is populated by major international banks alongside "home grown" or local African banks. African banking groups such as the South African Standard Bank Group; FirstRand Group; Nedbank Group; and Barclays Africa operate in many African countries. The Togolese Banking Group, Ecobank, which is partly owned by Nedbank, operates in 36 countries across the continent.

According to the authoritative PricewaterhouseCoopers (PwC) 2016 *African Banking Survey – Banking in Africa Matters* (PricewaterhouseCoopers, 2016b:10), Standard Bank Group was the top Sub-Saharan banking group as measured by Tier I Capital at USD7.5bn, followed by FirstRand (USD7.2bn); Barclays Africa (USD5.3bn); Nedbank (USD3.9bn); and Ecobank (USD3.1bn).

The immediate challenges facing the Sub-Saharan banks are: (1) capital management; (2) regulatory compliance, including Anti-Money Laundering (AML) and Know Your Customer (KYC); (3) managing credit risk; (4) managing liquidity risk; and (5) managing investor expectations (PricewaterhouseCoopers, 2016b:14). Cyber risk has become a challenge for all organisations, which is why King IV™ has a dedicated section on "Technology and information governance". Principle 12 of King IV™ states that: "The Board should govern technology and information in a way that supports the Bank setting and achieving its strategic objectives" (King IV™ Report on Corporate

Governance, 2016:62). This includes protection of personal information and continual monitoring of security information.

1.3 Responding to the Challenges

A string of corporate scandals has propelled regulators around the world to introduce a myriad of corporate governance codes, regulations and laws. Recently Wells Fargo Bank in the United States of America was embroiled in a sales practice scandal. Mahony (2012:1) sums up corporate scandals:

> From 1980s savings and loans crisis in the United States of America to the present day, one corporate scandal after another has been uncovered and revealed to the world in all its shocking, sordid detail. The international community's response, prompted by the demand of ordinary citizens for businesses and business leaders to be made more accountable for their actions, has been to try to bring about a set of best practice recommendations that would, if applied diligently, lead to a more ethical framework within which corporations would be required to operate.

King IV™ and its earlier iterations, King I, King II and King III, have contributed to corporate governance reforms. Professor Mervyn King is generally regarded as the father of corporate governance in South Africa and he correctly states that if a company is achieving an ethical culture and effective leadership; value creation in a sustainable manner; effective control and oversight; trust and confidence by the communities in which the company operates; and legitimacy of operation, company value will be created. Consequently, the value of intangibles would grow and the value of the company currency (i.e. share value) would likely grow as the company would be practising qualitative corporate governance (King, 2017b; King IV Report on Corporate Governance for South Africa, 2016).

The Prince of Wales, Prince Charles, in 2016 spearheaded what is called "Accounting for Sustainability" (A4S). At the launch of A4S, he said that A4S "works to help ensure that we are not battling to meet the 21st century challenges with, at best, 20th century decision-making and reporting systems" (Accounting for Sustainability, 2016).

Following the success of A4S, the International Integrated Reporting Council (IIRC) was launched in 2012 and published the International Integrated Reporting Framework (<IR>) in December 2013. Sustainability reporting was born and this ushered in intangible reporting. The King IV Report on Corporate Governance for South Africa, 2016 (King IV™) and its earlier iterations have adopted sustainability reporting. The Standard Bank Group communicates how it creates shared value in the societies in which it operates through its *Annual Integrated Report* and *Report to Society*. According to the Standard Bank Group *Report to Society*, client focus plus employee engagement plus risk and conduct equals to financial outcomes that culminate in creating a valuable impact on the SEE or shared value (Standard Bank Group, 2017b:4).

Prof. Mervyn King argues that, although financial reporting is important, intangible reporting is equally important (King, 2017a). One of the foremost companies in the world to value intangibles is an American company called Ocean Tomo LLC. Figure 1.1 below depicts the components of S&P 500 market value according to the Ocean Tomo 2015 *Study of Intangible Asset Market Value*.

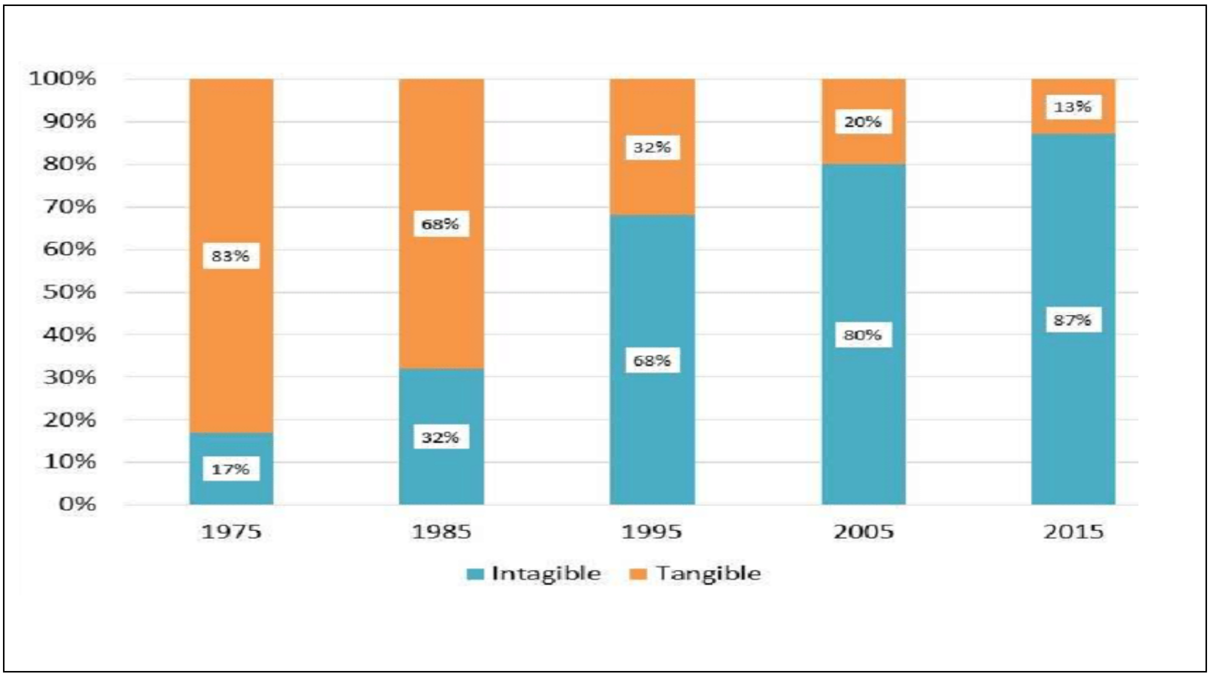

Figure 1.1: Components of S&P 500 market value

Source: Study of Intangible Asset Market Value from Ocean Value Tomo, LLC (Stathis, 2015).

Geoff Colvin of *Fortune Magazine* (cited in Stathis, 2015) states: “the components of Standard and Poor (S&P) market value data for the start of 2015 reveals the implied intangible asset value of the S&P 500 grew to an average 84% by January 1, 2015 a growth of four percentage points over ten years.” In 1975, tangible assets and intangible assets accounted for 83% and 17% respectively of the total assets of S&P 500 companies. In 2015, tangible assets and intangible assets accounted for 13% and 87% respectively of the total assets of S&P 500 companies.

Jane Gleeson-White’s seminal work on sustainability reporting has changed the world of reporting. She is the author of the Six Capitals model, which is the model adopted by the International Integrated Reporting Council (IIRC) and King IV™ (this will be discussed extensively in section 3.5.14.1 in Chapter 3). She gave the historical perspective, discussing how one of the primary functions of accountants over time has been to construct the metrics that underlie the management of the economy at a national and corporate level. “Centuries ago, this primarily concerned financial capital and manufactured capital. In the 20th century, the value of human capital and intellectual capital became more apparent.” Today, she notes, “we have a serious sustainability crisis and we need to address those in our accounts. Our numbers, the metrics that govern our companies and our economies and our nations, don’t include these most important things like the environment and the society” (Certified Public Accountants, 2016:24).

1.4 Motivation for the Study

The researcher is passionate about the African continent and is inspired by the famous seminal quote by the Roman philosopher, Pliny the Elder (23–79 AD), who said: *Ex Africa semper aliquid novi* (Out of Africa there is always something new). The researcher sought to conceptualise a new corporate governance and business ethics framework within which Standard Bank African subsidiaries would be able to operate and thereby add to the body of knowledge.

The idea to come up with a corporate governance and business ethics framework based on King IV™ for Standard Bank African subsidiaries was specifically ignited by the corporate and business ethics failure at one of Standard Bank’s Africa subsidiaries.

Rob Rose of the authoritative South African national weekly business magazine *Financial Mail* wrote an article entitled: “Inside Standard Bank’s Dirty Deal”. In summary, Standard Bank’s London unit was fined USD36.9m and received a deferred prosecution agreement by United Kingdom (UK) regulators for failing to prevent what appeared to be an unethical business deal by Standard Bank Group’s Tanzanian subsidiary.

In October 2011, Tanzania’s government decided to raise a new USD600m bond and agreed to appoint Standard Bank Plc based in the UK and Stanbic Bank Tanzania to raise the funds in exchange for an agreed fee of the proceeds. The bank partnered with Enterprise Growth Market Advisors (EGMA), whose local partners were former senior government employees. The main contention of the UK regulators was that one of the partners was a former commissioner of the Tanzania Revenue Authority (the country’s equivalent of South Africa’s South African Revenue Service) and was still the head of a government agency that acted as an adviser to the government concerning its financing needs. The second partner had until recently headed state-owned Tanzania Capital Markets & Securities Authority (Rose, 2015:10). This meant that there was a possible conflict of interest.

It should be pointed out that once Standard Bank Group was aware of the conflict of interest, it immediately informed the UK regulators and thereafter continued to cooperate in that regard. Lord Justice Brian Leveson of the UK said that no allegation of knowing participation in an offence of bribery had been made against Standard Bank – rather the concern was that the bank’s systems were too porous to stop bribery. Standard Bank Group’s fault was apparently not keeping an eagle eye on what was happening at a foreign subsidiary. Most of Stanbic Bank Tanzania staff, including the then CEO of Stanbic Bank Tanzania, had since left the bank (Rose, 2015:10). Standard Bank Group operates as Stanbic Bank in some African markets in order to differentiate itself from the UK-based Standard Chartered Bank PLC (Stanchart).

According to The Institute of Directors in Southern Africa (cited by Rossouw & van Vuuren, 2013:215), while the 20th century was the century of management, the 21st will be the century of corporate governance. In 2015 The African Union launched

“Agenda 2063”, which “is a strategic framework for the socio-economic transformation of the continent over the next 50 years (African Union, 2015).

Authors such as Levine (as cited in Senbet, 2012:365) assert that research shows a strong link between financial sector development and economic development. “The central question for the Sub-Saharan Africa is then how to develop a well-functioning financial sector and build its capacity so as to exploit its potential contribution to economic development,” writes Senbet (2012:365).

1.5 Focus of the Study

The main focus of the study was for the respondents, based on their role within the Standard Bank Boards, to indicate if corporate governance and business ethics principles and practices described in the questionnaire used in the study as the data-collection instrument were executed in their respective boards. The population was 20 Standard Bank African subsidiaries. The self-assessment was subjective and data analysis was performed using IBM® SPSS® version 25 and data interpretation was performed using Laerd Statistical package, a module to interpret IBM® SPSS® output.

1.6 Problem Statement

Whilst good corporate governance and business ethics practices are entrenched in the Standard Bank Group headquartered in South Africa, it is uncertain as to whether the group’s African subsidiaries also practise good corporate governance and business ethics.

1.7 Research Questions

The following are the research questions of the study:

- Whilst Standard Bank Group based in South Africa is subjected to a myriad of regulatory laws, principles and rules, including the recently published King IV™, what is the Standard Bank African subsidiaries’ level of awareness with regard to corporate governance and business ethics concepts governing the Standard Bank Group?
- How do various Standard Bank African subsidiaries perform against King IV™’s 16 corporate governance principles?

- To a prospective investor, does the bank exhibit a high enough level of corporate governance and business ethics to warrant investing in?

1.8 Research Objectives

The objectives of the research are to provide answers to the three research questions and are threefold:

- Standard Bank African subsidiaries are expected to align with the Standard Bank Group's corporate governance and business ethics practices. Based on the developed corporate governance and business ethics framework for Standard Bank African subsidiaries, the study's first objective is to introduce King IV™'s 16 corporate governance principles published in November 2016 to the 17 chosen subsidiaries. A King IV™ checklist accordingly took the form of a questionnaire;
- The second objective is to establish the performance of the Standard Bank African subsidiaries against the King IV™ corporate governance principles by asking respondents to self-assess their performance against the King IV™ checklist and to measure their level of success with regard to practising good corporate governance and business ethics. The survey results might highlight areas needing interventions such as corporate governance and/or business ethics training; and
- The King IV™ checklist developed in the study could be used by prospective investors in Standard Bank African subsidiaries when evaluating investment decisions, such as whether to invest in a Standard Bank African subsidiary or not.

1.9 Research Design and Methodology

This section outlines the chosen research design and methodology and includes a brief description of the corporate governance and business ethics constructs used in this thesis.

The research epistemology utilised was a mixed methods study, which combined methods associated with both quantitative and qualitative research, where the aim was for quantitative and qualitative methods to supplement each other. The use of mixed methods is deemed to increase the validity and reliability of data (Du Plooy-Cilliers, 2014:33). This study largely adhered to a realism, and in particular critical realism, frame of reference for the mixed methods study (quantitative study – Positivism – and qualitative study – Interpretivism). Ontologically, the researcher regarded corporate governance and business ethics practices within the context of ongoing environmental changes. From an epistemological perspective, the researcher mainly focused on objectively obtaining the subjective self-reported views of the board members within Standard Bank African subsidiaries.

In line with company board questionnaires or appraisals, a mixed methods (quantitative and qualitative with quantitative given a higher priority, i.e. QUANT + qual) data-collection approach was chosen. Mahony (2012:17) cogently states that a "questionnaire can be designed in such a way so as to accommodate a space for the director to record additional remarks, which will enable the evaluator to understand why an answer has been given with a particular bias." It was expected that some respondents would record comments that would assist the researcher to understand why a particular answer was given. Importantly, the inclusion of a comments section in the questionnaire transformed it into both a quantitative and qualitative data-collection instrument. For this study, a deductive research approach for mixed methods was followed. Put concisely, this meant that corporate governance and business ethics concepts known from the theory were tested using newly acquired empirical data.

The chosen research topic, research problem formulation and the resultant development of the study objectives were the result of iterations between the researcher's personal experience regarding the corporate governance and business ethics challenges within the African banking industry and theory on the subject of corporate governance and business ethics.

In order to answer the three research questions and meet the concomitant research objectives, and also taking into account that the research questions required data on corporate governance and business ethics practices in Standard Bank African subsidiaries, it was decided that primary data would be obtained.

A rigorous questionnaire-development process focusing on validity and reliability was followed. The pilot questionnaire was extensively tested by the Standard Bank Africa Regional Chief Executive for the Southern and Central Region and by the Head of Corporate Governance for Standard Bank Africa and her team. Their valuable feedback was incorporated into the final questionnaire.

The research took the form of a descriptive survey study and the survey design was cross-sectional in nature. Random sampling was considered not to be suitable for this study and therefore the researcher used non-probability purposive homogeneous sampling. The questionnaire was sent to the full-time board members of the 17 sampled Standard Bank African subsidiaries. It was also sent to the three Standard Bank Regional Chief Executives (RCEs). These executives sit on 16 (6+5+5) country boards. While, as per the research design (discussed in Chapter 5), the researcher targeted 102 responses, in total, only 33 questionnaires were returned (17 + 16 = 33). This translates as a 32.4% response rate, a number considered to be sufficiently large to allow for a statistical analysis. Saunders *et al*. (2012:283) suggest that for a study considering a homogenous population, a minimum sample size is 4 to 12 respondents.

Data capturing and analysis were performed using the Statistical Package for Social Sciences (IBM® SPSS® Statistical Software Version 25). Furthermore, analysis of the IBM® SPSS® statistical results was performed with the assistance of the UK-based subscription-based Laerd Statistics, marketed as the ultimate IBM® SPSS® Statistical Guide by its co-founders and graduates of Bristol University, Dr Adam Lund and Mark Lund. This statistical guide proved invaluable in explaining step-by-step IBM SPSS® output such as Cronbach Alpha results and descriptive statistics (frequency distribution in numbers and percentages).

1.10 Division of the Study

The study is divided into the following chapters:

- **Chapter 1: Nature and scope of study –** This chapter presents the background to the topic and describes the African banking industry. It specifies the research questions; the research focus and research objectives. The research design and process employed in the study is also discussed.

- **Chapter 2: Business ethics** – This chapter discusses business ethics concepts.
- **Chapter 3: Corporate governance** – This chapter discusses corporate governance concepts.
- **Chapter 4: Banking landscape** – This chapter discusses the conceptualisation and operationalisation of the corporate governance and business ethics framework based on King IV™ for Standard Bank African subsidiaries.
- **Chapter 5: Research design and methodology** – This chapter presents the research design and methodology employed.
- **Chapter 6: Interpretation of results** – This chapter deals with the descriptive statistics and associated statistics results.
- **Chapter 7: Discussion, conclusions and recommendations** – This chapter presents the main conclusions and recommendations and sets out a corporate governance and business ethics framework based on King IV™ for Standard Bank African subsidiaries.

1.11 Chapter Summary

This chapter provided an overview of corporate governance and business ethics in Africa. The research background, problem statement, research questions and formulated research objectives were stated. This was followed by a brief discussion of the selected research design and methodology.

In the next chapter, the topic of business ethics is discussed.

CHAPTER TWO – BUSINESS ETHICS

2.1 Introduction

The wave of modern-day corporate scandals has spurred an increased interest in business ethics. Corporate scandals continue to pervade the news owing to unethical actions by some corporate directors and boards with low fiscal probity and governance integrity.

Business ethics and good corporate governance are inseparable. Only ethical leadership can ensure sustainable good corporate governance. It has not gone unnoticed that the first chapter of the Institute of Directors in Southern Africa's King Code of Governance Principles for South Africa, 2009 (referred to as "King III") focuses on ethical leadership. The first principle of the recently published King Code of Governance Principles for South Africa, 2016 (referred to as "King IV™") is that the governing body should lead ethically and effectively.

This chapter begins by proffering definitions of ethics and business, followed by ethics concepts such as "good", "self" and "other". Classical ethics theories, such as the virtue theory of Greek philosopher, Aristotle; deontology theory of the German philosopher, Immanuel Kant; and the utilitarianism theory of British philosopher, John Stuart Mill, are then discussed. The researcher highlights criticism levelled against each of the aforementioned classical ethics theories. The business of ethics and ethics of business are then unpacked. Lastly, the following modern business ethics theories are discussed: shareholder theory, including social responsibility; corporate moral agency; and stakeholder theory.

2.2 Definition of Ethics

According to Rossouw and van Vuuren (2013:4), "ethics concerns itself with what is good or right in human interaction." These authors posit that ethics revolves around three concepts: "self", "good" and "other".

Rossouw and van Vuuren (2013:4) further state that: "ethical behaviour results when one does not merely consider what is good for oneself, but considers what is good for others.” It is important for each of the three central concepts of “self”, “good” and “other” to be included in any definition of ethics.

Authors such as Kretzschmar et al. (2012:17) are of the view that ethics and morality go hand in hand. These authors write that the term “ethics” originates from the Greek word *ethikos*. They add that when the Greek term was later translated into Latin, it was translated as *Moralis*. They go on to explain that “the common origin of the terms ‘ethics’ and ‘morality’ explains why it has become fashionable to use the two terms interchangeably. When we refer in ordinary language to an unacceptable or irresponsible behaviour, we call such behaviour ‘unethical’ or ‘immoral’. The words are therefore used as synonyms – what is unethical is immoral and what is immoral is unethical…” (Kretzschmar *et al*., 2012:17).

2.3 Philosophical Background

In order to understand ethics and business ethics, one has to understand the concepts that underpin ethics. These concepts are explained by the South African expert on applied business ethics, Professor Rossouw of the Ethics Institute of South Africa, and his co-writer, Leon van Vuuren.

Authors such as Rossouw and van Vuuren (2013:4) assert that from the definition of ethics, it is clear the three concepts of self, good and other, which are the cornerstone of the definition of ethics, also apply to business ethics. Business ethics is all about a conception of what is good (values and standards) that guides the business (self) and its interaction with others (stakeholders). Rossouw and van Vuuren (2013) conclude that what is at stake in studying and practising business ethics is giving content to the good (ethical values and standards) and determining whether the interaction between the self (business) and others (internal and external stakeholders) meets these values and standards.

Kretzschmar et al. (2012:17) write that “around these three concepts of the ‘self’, the ‘good’ and the ‘other’, we can develop an adequate definition of ethics. Behaviour can be classified as ‘ethical’ when it is not only good for self, but also good for others. An action is unethical or immoral if the actor (the person doing the action) is concerned only about what is good for her or him without any regard for how others will be affected by it. We usually classify such behaviour as selfish, because the actor is interested only in what is good for the self without caring what is good for others." Figure 2.1 below depicts the three ethical concepts of good, self and other.

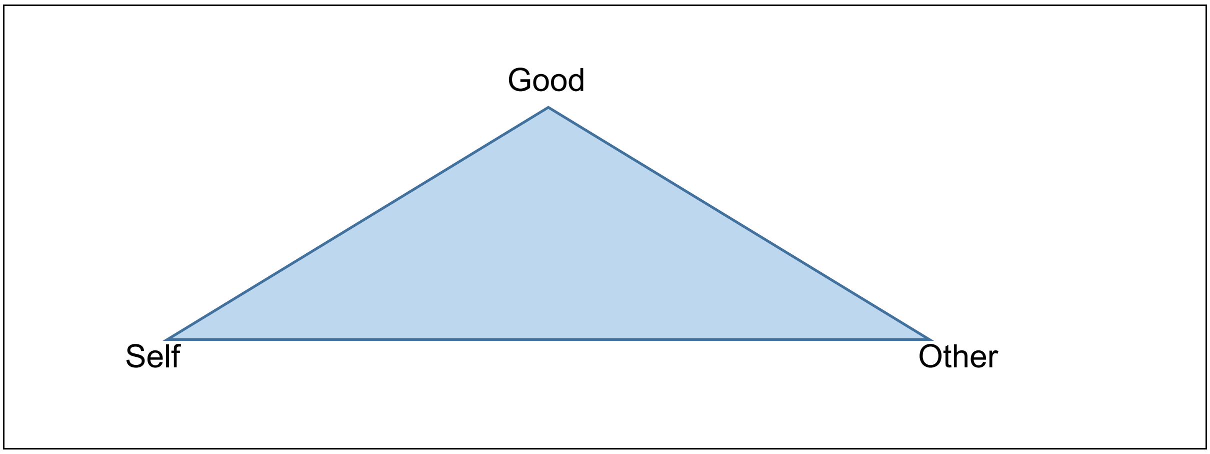

Figure 2.1: Three concepts of ethics: "good", "self" and "other"

Adapted from Rossouw and van Vuuren (2013:5)

Figure 2.1 presents the three concepts of ethics as part of a triangle. Neglecting the concept "good" collapses the uniqueness of ethics. According to Rossouw and van Vuuren (2013:5), ethics is not concerned with the interaction between a "self" and an "other" but with the quality of the interaction.

Rossouw and van Vuuren (2013:5) are of the view that "what is at stake in studying and practising business ethics is to give content to the 'good' (ethical values and standards) and to determine whether interaction between the self (business) and others internal and external stakeholders live up to these ethical values and standards."

2.3.1 Ethics and law

Although there are similarities between ethics and law, there are also differences. Ethics and law both aim towards determining what is right in human interaction and society. Table 2.1 depicts the relationship between ethics and law.

Table 2.1: Relationship between ethics and law

	Legal	Illegal
Ethical		
Unethical		

Source: Rossouw and van Vuuren (2013:7)

With reference to Table 2.1, it should be noted that actions can be both ethical and legal at the same time. One example could be of, say, Bank X publishing accurate financial statements. This is both the right thing to do and is legal. Going through a red traffic light to rush a very sick colleague to a hospital may be considered ethical but is an illegal conduct. An action can be legal but unethical. An example could be of, say, Bank X charging the poor a very high interest rate. Whilst this may seem to be legal, i.e. it does not contravene the country's banking regulations, it is nevertheless an unethical conduct. Another example could be of Bank X repossessing a school or church building due to a payment default. Whilst this is legal, it might be deemed to be unethical by some and many banks would not want to be featured in a report on the cover page of a major newspaper with a caption that aptly states that Bank X has repossessed a school or a place or worship. This will undoubtedly affect its reputation and brand.

2.3.2 Classical ethics theories

In order to understand modern ethics theories fully, one needs to refer to earlier ethics theories. There are three influential classical ethics theories:

- Virtue theory of Greek Philosopher, Aristotle;
- Deontology theory of German Philosopher, Immanuel Kant; and
- Utilitarianism theory of British Philosopher, John Stuart Mill.

Above classical ethics theories are discussed below.

2.3.2.1 The Virtue theory of Aristotle

The Greek philosopher Aristotle is associated with the classical Virtue theory of ethics. According to Rossouw and van Vuuren (2013:71), Aristotle's theories are mainly found in the collection of his writings known as “The Nicomachean Ethics”, which was put together in the 4th century BC by his son Nichomachus.

Authors such as Giddy (2014:112) are of the view that Aristotle thought of ethics as “an enquiry of how best the agent, set on leading a good life, can discern what the appropriate means are to achieve the goal”. According to Giddy (2014:112), “Young or immature people, Aristotle claims in Book 1 of the Nicomachean ethics, are, for this reason, not good students of ethics. They are unlikely to have sufficient maturity for this kind of commitment, but the study of ethics will greatly profit ‘those who desire and act in accordance with reason’.” Giddy asserts that a culture of commerce is thought to typify this kind of immaturity; for example, an agent typically acts for reasons of monetary gain and not for all the reasons to do with the discernment of the “good life”, which is understood not subjectively but as *Eudaimonia*, living well in a fulfilling way.

Aristotle (cited in Duska, 2014:122) stated that:

> Our discussion will be adequate if it achieves clarity within the limits of the subject matter. For precision cannot be expected in the treatment of all subjects alike, any more than it can be expected in all manufactured articles. Problems of what is noble and just, which politics examines, present so much variety and irregularity that some people believe they exist only by convention and not by nature. The problem of the good, too, presents a similar kind of irregularity, because in many cases good things bring harmful results… Our discussion will be adequate if it achieves clarity within the limits of the subject matter.

The central theme of Aristotle’s Virtue theory is that morality is both necessary and vital for human beings. Put differently, it is difficult to live with human dignity without being a well-rounded moral being. “Morality is not a luxury that one can select to have or not to have. Morality is thus a pre-condition for living with human dignity. People who forsake morality are according to Aristotle, debased beings who have not fulfilled their human potential,” write Rossouw and van Vuuren (2013:71).

Aristotle believed that everything in life has a goal, called *telos* in Greek. Aristotle used *telos* when referring to the goal of something. For example, the *telos* of a pen is to write. In order for people to live with human dignity, people should strive to achieve the *telos* of human life. Aristotle used the Greek word *Eudaimonia* to describe the *telos* of all human beings. *Eudaimonia* generally translates in English as happiness.

According to Aristotle, for one to reach the *telos* of *Eudaimonia* is neither simple nor automatic. Certain requirements are needed to achieve this state. First, one has to live in a society characterised by justice, and, second, one needs to be surrounded and supported by good friends in order to attain *Eudaimonia* in the fullest sense. Third, one needs adequate material provisions, and, finally one needs to develop and cultivate human potential. Whilst the first three requirements are external, the last requirement is the only internal one. Aristotle's Virtue theory focuses on this internal aspect or dimension. Aristotle (cited in Collins, 2015:304) said that "the end goals of political and individual well-being are justice and happiness: both are loosely understood concepts that propel the evolution of human history."

a. The self

According to Aristotle, morality starts with self. Morality depends on the character of an individual. To Aristotle, what matters is not what is right or wrong in interpersonal interaction, but rather in the intra-personal development of one's character. Morality requires people of good character. Only people with good character are able to be good. Aristotle opined that self-love was a prerequisite for morality, write Rossouw and van Vuuren (2013:72).

b. Virtues

Aristotle believed that the development of one's character takes place through the cultivation of virtues. A virtue, according to Aristotle, is a character trait that enables one to reach one's *telos.* Aristotle (cited in Alzola, 2015:293) positioned virtue as a condition of the soul. There are three conditions of the soul: passions, capacities and states. Aristotle argued that "neither the virtue nor the vices are passions, because we are not called good or bad on the basis of our passions. We are neither praised nor blamed for our passions, but rather for our virtues and our vices. Virtues and vice are not capacities either, for we are not praised or blamed for simple capacity of feeling the passions." Alzola (2015:293) defines virtue as a "character trait" and provides a general characterisation of its components. Put differently, Aristotle defined a virtue as a state of character.

Alzola (2015:293) unpacks the concept of virtue by asking: What sort of "states of character" does virtue comprise? He asks how different the states of character of virtue are from the "character strengths" measured by psychologists and organisational scholars. Virtues have been conceptualised as habits by Dewey, Ryle and Nussbaum; skills or abilities by Sigdwick; sentiments by Rawls; tendencies by Wallace and Kamtekar; inclinations by Kant; dispositions by Doris and Harman; and character traits by von Wright (Alzola, 2015:293).

To say that someone possesses a certain character means that he has appropriate and integrated framing capacities, which include beliefs, desires, feelings, motivations and behavioural tendencies. Take, for example, the virtue of courage. The courageous person is "the person who fears the right things, from the right end, in the right way, at the right time, and is correspondingly confident" (Aristotle as cited in Alzola, 2015:293).

Virtues have four dimensions: intellectual, emotional, motivational and behavioural. – Attributing the virtue of courage to someone entails the following four claims:

a) "He has developed appropriate framing capacities and deliberative skills to understand the presence of danger, he holds correct beliefs, and he deliberates carefully about how to respond to frightening conditions, including death (intellectual dimension).
b) He feels the appropriate level of fear, neither more nor less of the right things. He fears the things that deserve to be feared and not just any bad thing that may possibly happen (emotional dimension).
c) He stands firm against what is painful out of the right motivations and in service of the right ends, not because he fears the reproach of his fellows or expects a reward from the beneficiary of his actions (motivational dimension). And, finally,

d) He successfully stands against frightening things; he is disposed to be unperturbed when facing things that are not too frightening, and he typically succeeds in responding appropriately to frightening conditions on the basis of the constituent understanding, feelings, and motivations (behavioral dimension)" (Alzola, 2015:393).

Using the earlier example of a pen, if the *telos* of a pen is to write, then the virtues of the pen are those characteristics that enable it to write well. Aristotle argued that if the *telos* of humans is *Eudaimonia,* then the virtues required by humans are those character traits that enable them to reach their *telos*.

According to Rossouw and van Vuuren (2013:73), Aristotle defined a virtue as "an activity of the soul, implying a rational principle". Aristotle posited that there were two distinguishable dimensions in human beings: rational and irrational. The rational dimension should always be the dominant dimension. He further postulated that a person's rational ability is the real mark of a human being and that which distinguishes human beings from animals and other creatures. According to Rossouw and van Vuuren (2013:73), moral virtues are essentially rationally controlled dispositions that become permanent traits. In conclusion, Aristotle emphasised that virtues cannot be developed immediately, but should be developed over time and maintained throughout a lifetime.

According to Irwin (cited in Ghayour & Doaei, 2012:100),

> Aristotelian Ethical Theory is the theory which realizes the ethical virtues as the basis for right and wrong actions and tries to encourage people to have ethical virtues instead of focusing on external behaviour. In Aristotle's view, humans' (sic) actions should be beneficial both for him and for others, and this is the virtue. Virtue is something superior and better than a computing-oriented logic in Aristotle's Theory.

Authors such as Alzola (2015:287) are of the view that "the language of virtue is gaining wide spread appreciation in the philosophical, psychological, and management literature. Ethicists and social scientists aim to integrate normative and empirical approach into a new ‘science of virtue.’’

Authors such as MacIntyre (cited in Sinnicks, 2014:231) agree with Aristotle’s claim that virtues allow one to live a good life. According to MacIntyre’s account of moral education,

> It is the pursuit of internal goods that allows us to develop the virtues. For instance, one of the internal goods of portrait painting is that of attempting to capture the inner states or character of the subject in a way that goes beyond merely accurate representation of their appearance. Such an activity is an end in itself, but in order to truly excel at portrait painting a painter must have the humility to subordinate him or herself to the standards of excellence of the practice and to respect the achievements of the great portrait painters, such as Rembrandt and Kahlo. The portrait painter must also have the patience and self-discipline to continue to refine his or her skills, and the honesty and self-honesty to give and receive fair criticism. The goods internal to the practice thus provide the initial motivation for virtue acquisition. The virtues enable agents to achieve internal goods and to participate in the community of practitioners. In time the virtues come to be valued in themselves, and once properly acquired can be and are exhibited outside of the context in which they were learned.

According to Ferrero and Sison (2014:376), virtue ethics pay attention to the particulars of agents (motives, intentions, habits, character, relations) and actions (circumstances, community) and maintains that exceptions and prohibitions exist.

c. Mean

Aristotle believed that our natural disposition tends to err in one of two directions. Either we are too much inclined or prone to do something or too little inclined or prone to do it. Put differently, human beings have either excessive dispositions or defective dispositions. According to Rossouw and van Vuuren (2013:73), Aristotle describes the mean as “the midpoint between excessive and deficient dispositions”. Accordingly, this mean disposition can be achieved by taking rational control of one’s dispositions.

Aristotle, when referring to the mean, did not assume that a universal standard applies to all people. He indicated that a mean is always relative to a specific person.

Rossouw and van Vuuren (2013:72) illustrate this with an example. Some people tend to have either too much or too little courage. If one has too much courage, then one's disposition with regard to courage will be excessive. Conversely, if one has too little courage, one's disposition will be deficient. If Person X is naturally inclined to behave too courageously, then he or she needs to take control of his or her behaviour in order to become less courageous. Person X's mean would therefore be in the direction of exercising less courage. Should Person Y be inclined to act with too little courage, his or her mean would be in the direction of displaying more courage.

Aristotle envisaged a spectrum that runs from an excessive pole through mean position to a deficient pole, according to Rossouw and van Vuuren (2013:74). Table 2.2 depicts Aristotle's vision of the mean position with regard to a number of typical human dispositions. The table shows various virtues and vices, showing sphere of action or feeling, excess, mean and deficiency.

Table 2.2: Aristotle's table of virtues and vices

Sphere of action or feeling	Excess	Mean	Deficiency
Fear and confidence	rashness	Courage	Cowardice
Pleasure and pain	licentiousness	Temperance	Insensibility
Getting and spending	prodigality	Liberality	Illiberality
Anger	irascibility	Patience	lack of spirit
Self-expression	boastfulness	Truthfulness	Understatement
Shame	shyness	Modesty	Shamelessness

Source: Aristotle (cited in Rossouw & van Vuuren, 2013:74).

According to Aristotle, human beings tend to indulge in things that give pleasure. This results in excessive dispositions. Similarly, human beings tend to avoid things that give them the opposite of pleasure, i.e. things that give pain. This results in deficient dispositions.

Aristotle argued that reaching one's *telos* by always acting in a virtuous way will provide one with a sense of well-being and joy. In living the virtuous life, one should always be guided by what Aristotle called the "virtuous man". When one is in doubt about the right thing to do, one should always ask oneself what the virtuous man would have done in that same situation. According to Aristotle (cited in Rossouw & van Vuuren, 2013:75), a virtuous man is "the man who has taken rational control of his life; has cultivated his natural disposition into moral virtues; has always throughout his lifetime found pleasure in acting in accordance with these virtues". Rossouw and van Vuuren (2013:75) state that although this description seems to be abstract, it could be a useful criterion, as the so-called "rational person" has been used for centuries to guide the legal profession in decisions about whether an act should be considered legal or not. They conclude by stating that if the "rational man" is accepted as a guide for legal action, why might not the "virtuous man" be a guide for moral action.

a) Critique of Aristotle's Virtue theory

Anscombe (cited in Ferrero and Sison, 2014:375) does not directly endorse virtue ethics owing to what she perceives as a lack of adequate philosophy and psychology. According to Anscombe: "The virtue ethics amnesia afflicting general moral philosophy affected business and management ethics as well." Anscombe (cited in Ferrero & Sison, 2014:376) identified many difficulties besetting the virtue ethics. She argues: "First, the meaning of virtue, even to Aristotle, was no longer clear. Neither were satisfactory accounts of basic concepts of moral psychology such as 'intention', 'desire', 'motive', or 'action'. Instead, there was widespread disagreement about the existence and meaning of virtue-related notions such as 'human nature' and 'flourishing'."

Ferrero and Sison (2014:376) are of the view that, notwithstanding the deficiencies highlighted above, there are authors who still believe that virtue ethics is a valid option for ethics in general and for business ethics in particular.

2.3.2.2 Deontological ethics

The German philosopher Immanuel Kant is associated with the classical Deontological theory of ethics. Whereas the Virtue ethics theory claims that morality depends on the moral virtues of one's character, the Deontological theory of ethics argues that moral action requires conformity to rationally founded moral principles, according to Rossouw and van Vuuren (2013:75). Deontology, according to Ferrero and Sison (2014:375), considered behaviour exclusively in terms of its conformity with the universal rules of justice and rights.

According to Kretzschmar *et al*. (2012:76), Immanuel Kant in his influential work on ethics, entitled *Fundamental Principles of the Metaphysic of Ethics* and first published in 1785, was convinced that society's moral actions cannot be guided by its practical experience. People may be engaging in corrupt activities, which cannot possibly offer moral guidance. Using the same argument, Kant believed society cannot find moral guidance in its natural instincts and needs. Instead, Kant argued, the only reliable source of moral guidance resides in society's own independent thinking (or its rationality). Kretzschmar et al. (2012:76) state that, according to Kant, society should "turn its focus away from its natural needs and inclinations as well as from its present and past experiences and determine what the standard for good behaviour is through pure rational reflection".

- **The categorial imperative**

Kretzschmar *et al.* (2012: 77) write that "Kant's search for an objective standard for ethical behaviour through rational reflection led him to the discovery of an objective moral law against which all actions could be judged. He called this law the 'categorical imperative'."

The categorical imperative, in contrast to virtue ethics, applies to every person regardless of their personal goals. The categorical imperative, writes Rossouw and van Vuuren (2013:78), is an imperative from which no one is excused. Kant's moral law is thus a categorical imperative.

In order to explain categorical imperative, Kant (cited in Kretzschmar et al., 2012:77) gave the following example:

> Let the question be, for example: May I when in distress make a promise with the intention not to keep it? The shortest way, however, and an unerring one, to

> discover the answer to this question whether a lying promise is consistent with duty, is to ask myself, should I be content that my maxim (to extricate myself from difficulty by false promise) should hold good as a universal law, for myself as well as for others?

Kant argued that if such lying was made a universal law, there would be no promise at all.

On the basis of the above example, Rossouw and van Vuuren (2013:77) and Kretzschmar et al. (2012:78) are of the view that, when applying the categorical imperative, one should be guided by the principles of universality and reversibility.

- **The principle of universality**

Rossouw and van Vuuren (2013:77) and Kretzschmar et al. (2012:78) posit that the principle of universality demands that society should be willing to make the principle of its proposed action into a universal law that will be followed by all other people.

- **The principle of reversibility**

The principle of reversibility demands that society should be willing to live in a world where everyone behaves in accordance with this universal law. According to Rossouw and van Vuuren (2013:78), Kant referred to this universal moral law as the "categorical imperative". In doing so he distinguished it from hypothetical imperatives. An imperative is something that one has to do – a command that one has to obey.

Rossouw and van Vuuren (2013:78) provide the following example: suppose one owns a business; if one intends to gain a reputation for reliability, then one would strive to provide quality products and/or services to customers. The example here is a hypothetical imperative; i.e. it only applies if one has set him or herself a goal of gaining a reputation for reliability in his or her business. If one no longer has that goal, then the imperative no longer applies. Consequently, a hypothetical goal depends on one's subjective goals.

a) Critique of Kant's Deontological ethics

Authors such as Duska (2014:120) are of the view that: "Kant and the deontologists seem to be unable to justify any project of any autonomous subject except by insisting that reason demands that any proposed rule of any autonomous subject be universalized, i.e. turned into law." He further argues that this leaves the deontologists with only one answer to the question: "Why obey the law?" Accordingly, he argues that: "Moral Law on Kant's scheme is only generated if there is a willingness to concern oneself with being lawful." A question then arises: Why legislate against yourself? Anscombe (cited in Duska, 2014:120) posits that: "legislating for oneself is as absurd as calling a self-reflective decision, a vote by a majority of one." Anscombe (cited in Ferrero & Sison, 2014:375) considers Kant's idea of 'legislating for oneself' to be absurd because "legislation required a superior power and, given Kant's agnosticism, such a recourse to a 'supreme law giver' was impossible."

2.3.2.3 Utilitarian ethics

British philosopher John Stuart Mill is the classical representative of the Utilitarian moral theory. Authors such as Mill (as cited in Rossouw & van Vuuren, 2013:80) claim that "the morality of actions should be judged by their consequences." Authors such Ferrero and Sison (2014:375) are of the view that Utilitarianism, which judges action through cost-benefit analysis, without regard for norms or values, dominated in practice until virtue ethics was introduced by Anscombe's article in 1958.

Authors such as Mill (cited in Rossouw & van Vuuren, 2013:80) posit that actions are good when they contribute towards fulfilling the ultimate goal of human beings. This ultimate goal of human life Mill defined as happiness. He thus claimed that an action is considered good if it results in happiness for the majority of those affected by the specific action. This conviction he put concisely in his "Greatest Happiness Principle", which states that: "Actions are right in proportion as they tend to promote happiness, wrong as they tend to produce the reverse of happiness. By happiness is intended pleasure, and the absence of pain: by unhappiness, pain or the privation of pleasure" (Mill as cited in Rossouw & van Vuuren, 2013:80).

In the universal quest for happiness, Mill (cited in Rossouw & van Vuuren, 2013:81) argued that if an individual desires his or her own happiness, then the ultimate good must be the happiness of all people. Consequently, the ultimate goal is not the happiness of the individual, but the happiness of society in general.

Gustafson (2013:325), in his paper entitled "In Defense of a Utilitarian Business Ethic", states that he supports the Utilitarian approach to business ethics. In his opinion, "Utilitarianism is already widely used as a business ethic approach, although not well developed in the literature." He argues that Utilitarianism provides a guiding framework of decision-making that is rooted in social benefit and that this directs business toward more ethical behaviour. To Gustafson, "a business ethic approach which relies on John Stuart Mill's utilitarianism supports principles like justice, is not biased against the minority and is more reasonable than other views such as the Kantian view dealing with workers and making other decisions in business."

Gustafson (2013:326), in defence of Mill's ideas, argues that utilitarianism provides a vision of ethical behaviour that holds the common interest of humanity. He argues that this is of utmost importance when one has to make a moral decision. He further states that utilitarianism fits business well if we conceive of business as a means of transforming culture and society. Utilitarianism is the ethical perspective that most easily helps us to address the ethical relationship and responsibilities between business and society. Business provides goods and services, jobs, tax revenue and many better things. The utilitarian in business asks, according to Gustafson (2013:326-327), "How can we do business in such a way that it contributes to the greater good?" He concludes by drawing on the key features of the utilitarianism of John Stuart Mill, which states that the right actions are those that contribute the greatest good for the most.

a) Criticism of John Stuart Mill's Greatest Happiness Principle

Rossouw and van Vuuren (2013:81-84) present the following six criticisms of John Stuart Mill's theory:

- **Criticism one: The theory is degrading to humans.**

    - The first objection to Mill's theory is that people are equated to animals because the theory suggests that people's only goal in life is to attain happiness.
- **Criticism two: Happiness cannot be the rational purpose of life.**
    - The second objection to Mill's theory is that a pursuit of happiness can never be regarded as the rational purpose of human life.
- **Criticism three: Utilitarianism encourages selfishness.**
    - The third objection to Mill's theory is that it encourages the maximisation of one's own happiness.
- **Criticism four: Utilitarianism is unattainable.**
    - The fourth objection to Mill's theory is that the utilitarian standard is unrealistically very high and difficult to attain.
- **Criticism five: Utilitarianism is self-serving.**
    - The fifth objection to Mill's theory is that it is an immoral doctrine because it will inevitably result in expediency; i.e. the principle will only be applied in an opportunistic manner in order to serve the person making the decisions.
- **Criticism six: The theory is too time consuming.**
    - The sixth objection to Mill's theory is that it is too time consuming to apply in practice. It will be too time consuming to sit down each time a situation requires a moral decision; i.e. calculate the amount of pleasure and pain implied in each alternative course of action, and then come to a conclusion on the basis of the utilitarian calculus.

Authors such as Gustafson (2013:327) do not blindly support John Stuart Mill's Utilitarian approach. Gustafson correctly points out that self-interest, profit maximisation, cost-benefit analysis is often labelled as "Utilitarianism". He opines that this is the target of business ethicists looking for business to consider ethical interests along with profit. He concludes that this approach is appropriate if based on profit maximisation only and not on the Utilitarian approach per se. To him, Utilitarianism as an ethical theory is quite different from mere profit maximisation. He concedes despite these confusions, that the Utilitarian approach is commonly used.

Authors such as Ronald Green (cited in Duska, 2014:120) argue that “Efforts to construct morality on the foundation of a rationally justifiable principle or set of principles, in the spirit of Kant or Mill, are out of fashion.” Duska (2014:120) suggests that Green does not go far enough with his criticism of Kant and Mill. It is not only that they are out of fashion; they are out of fashion because aside from laying down formal decision procedures (i.e. telling us to consider whether everyone follows or engages in a procedure), such ethical theories do not resolve ethical issues. He further states that “rationality without content, be it universalizability or utility, doesn’t allow us to resolve particular issues.”

Anscombe (cited in Ferrero & Sison, 2014:375) is critical of Utilitarianism because she holds that “ethics entailed certain things to be forbidden in themselves, regardless of consequences (such as killing of the innocent).”

2.3.2.4 Summary of the classical ethics theories

The common theme among the classical ethics theories is that only human beings with decent moral character can be expected to do good. The theories also emphasise that there should be certain objective standards that should guide us in making moral decisions and that practical consequences should be taken into an account in our ethical deliberations.

According to Rossouw and van Vuuren (2013:85), although classical ethics theories are valuable and helpful, their main shortcoming is that they tend to be very abstract and not easily applicable to the concrete situations that one faces in real daily life and, more specifically, in business. To this end, a substantial number of applied theories have emerged in the field of business ethics that provide more direct guidance on how one should decide on morality in business. These ethics theories, which apply specifically to business, are discussed below.

2.4 Business Ethics

Business ethics is a form of applied ethics and is discussed below.

2.4.1 Definition of business ethics

Rossouw and van Vuuren (2013:5) define business ethics “as the values and standards that determine the interaction between business and its stakeholders”.

According to the Mauritius Institute of Directors (MIoD), there are many academic definitions of business ethics, but in essence business ethics is the “way a business conducts its activities. Business ethics is the application of morality by individuals with respect to management or business decisions” (Corporate Governance, A Director’s Handbook, CCH New Zealand, 1994, cited in Mauritius Institute of Directors, 2013:4).

2.4.2 Mauritius Institute of Directors (MIoD) – *An Ethics Guide for Boards*

One of the top Institutes of Directors in Africa, the Mauritius Institute of Directors (MIoD), in its Director Forum publication entitled: *An Ethics Guide for Boards*, states the following:

> Ethics underpins good Corporate Governance and developing an ethical corporate culture is therefore an important objective for Boards. Ethical behaviour, as witnessed by numerous corporate scandals, will not manage itself and directors and managers need clear guidance when dealing with ethical dilemmas. Decisions taken within an organisation may be made by individuals or groups, but whoever makes them will be influenced by the corporate culture. The tone at the top is critical to creating the ethical culture of the workplace. Having a Code of Ethics is a good start, but words on paper are not enough. (Mauritius Institute of Directors, 2013:3)

The MIoD has said that the guide focuses on the necessity for Boards to develop strategies and policies that embed ethical behaviour in their organisations. The guide is designed to provide practical guidance to help Boards better understand the need for ethics management and then develop the appropriate governance and management frameworks for their organisations.

The MIoD highlights the following key principles of business ethics:

- Business ethics goes beyond simple compliance with and respecting of the law;
- It is about written and unwritten codes of principles, values and behaviours, based on the organisation's culture, that govern decisions and actions within an organisation; and
- It is how decisions are made and business conducted (Mauritius Institute of Directors, 2013:3).

Unethical behaviour presents a clear risk to the image and reputation of the organisation, as well as to its sustainability. Equally, there are clear benefits to adopting an ethical culture, as follows:

- Enhanced reputation and reduced risk of scandal;
- Greater trust from shareholders that their investments are being managed with integrity;
- Greater customer trust and satisfaction;
- Reduced chance of fines, trade restrictions and prosecution;
- Less fraud and corruption;
- Reduced management time spent on handling ethics issues;
- Greater attraction and higher retention of ethical employees and top human capital talent who wish to be associated with an ethical organisation, thus resulting in improved productivity (Mauritius Institute of Directors, 2013:4); and
- Retention of customers.

2.4.3 Dealing with ethical dilemmas and making ethical decisions

Many major corporations, including Standard Bank Group, have a Code of Ethics to guide their stakeholders such as directors, management and suppliers. A Code of Ethics assists employees when dealing with difficult situations that involve everyday ethical dilemmas. It also helps employees to conduct business with the highest standards of ethical behaviour. *An Ethics Guide for Boards* includes a seven-step guide to ethical decision-making by Davis Michael.

Figure 2.2 presents the seven steps involved in ethical decision-making.

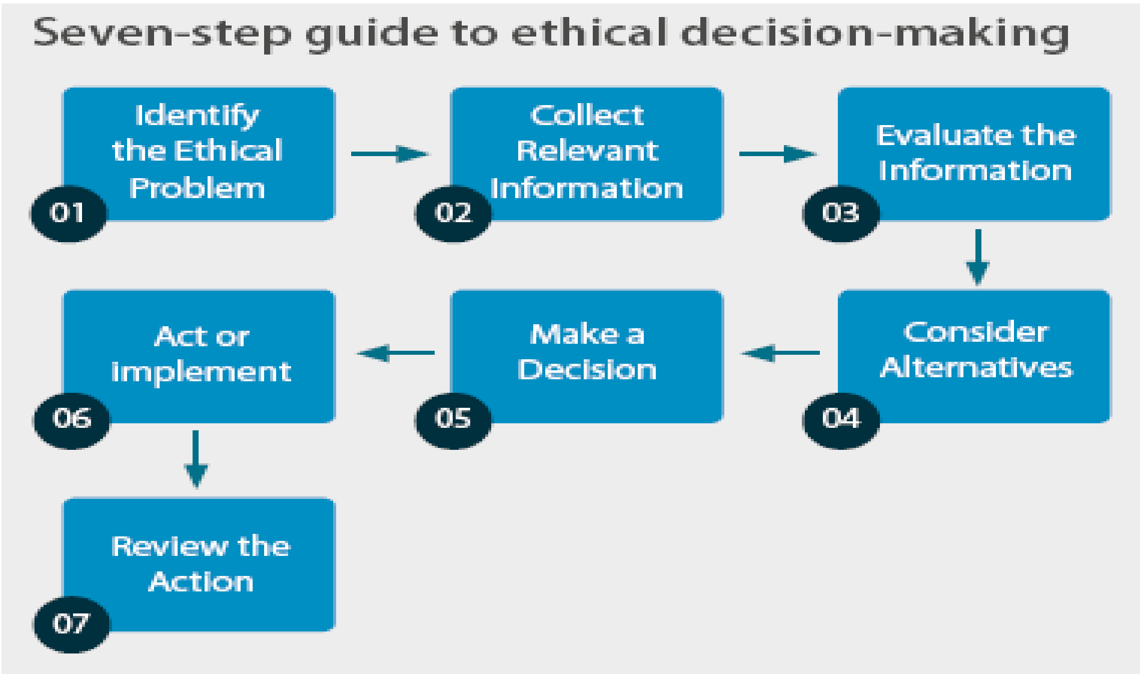

Figure 2.2: Seven-step guide to ethical decision-making

Source: Michael Davis (cited in Mauritius Institute of Directors, 2013:15).

The seven steps are designed to assist company stakeholders to make ethical decisions when confronted with ethical dilemmas. The MIoD concludes with a quick test for stakeholders to use when making a final decision to act:

- Is it legal?
- What does my Code of Ethics/policies say?
- What would my ethical role model do?
- How would it look on the front page of tomorrow's newspaper?
- How does it make me feel?
- Would I be comfortable sharing my decision with my closest family?
- Does it pass the Golden Rule test "Do to others as you would wish them to do to you?" (Mauritius Institute of Directors, 2013:15).

To ensure that business or bank's stakeholders including employees comply with business ethics, it is important that an external assurance called external assessment be undertaken by a reputable organisation such as the Ethics Institute of South Africa or equivalent.

2.4.4 The Standard Bank Group values and Code of Business Ethics

Standard Bank Group has eight values:

a) Serving our customers

We do everything in our power to ensure that we provide our customers with the products, services and solutions to suit their needs, provided that everything we do for them is based on sound business principles.

b) Growing our people

We encourage and help our people to develop to their full potential, and measure our leaders on how well they grow and challenge the people they lead.

c) Delivering to our shareholders

We understand that we earn the right to exist by providing appropriate long-term returns to our shareholders. We try extremely hard to meet our various targets and deliver on our commitments.

d) Being proactive

We strive to stay ahead by anticipating rather than reacting, but our actions are always carefully considered.

e) Working in teams

We, and all aspects of our work, are interdependent. We appreciate that, as teams, we can achieve much greater things than as individuals. We value teams within and across business units, divisions and countries.

f) Constantly raising the bar

We have confidence in our ability to achieve ambitious goals and we celebrate success, but we must never allow ourselves to become arrogant.

g) Respecting each other

We have the highest regard for the dignity of all people. We respect each other and what Standard Bank stands for. We recognise that there are corresponding obligations associated with our individual rights.

h) Upholding the highest levels of integrity

Our entire business model is based on trust and integrity as perceived by our stakeholders, especially our customers (Standard Bank Group, 2016a).

In addition to the above eight values, Standard Bank Group subscribes to a Code of Business Ethics certified by The Ethics Institute of South Africa as conforming to the highest international best practice standard. Its employees and stakeholders are encouraged to report unethical behaviour and incidents to the confidential Ethics and Fraud Hotline, which is administered by KPMG.

2.4.5 Emergence of business ethics as a business subject

The importance of ethics in business cannot be underestimated. Authors such as Engelbrecht (2012:339) write that there is evidence to suggest that business ethics is a messianic figure in today's world, or at least is perceived to be such. Arnold et al. (cited in Engelbrecht, 2012:339) argue that business ethics has grown in leaps and bounds. In terms of prominence, they believe business ethics to be an academic "rock star" in addition to being a money spinner, with almost every university teaching students in economics and business science a compulsory course or module on business ethics.

The origins of business ethics as an academic subject in American universities from 1902 to 1936 were covered in an article written by Abend in 2013. His research showed that the "academic field of business ethics in the US emerged in the early twentieth century, against the backdrop of the establishment of business schools in major universities." Joseph Wharton, in *Education of Business Men* (1891:33, as cited in Abend, 2013:177), quotes from his 1881 "Plan of the Wharton School of Finance and Economy" (the Wharton School being the very first business school in the United States (US)). He states that: "The general tendency of instruction should be such as to inculcate and impress upon the students… [t]he immorality and practical inexpediency of seeking to acquire wealth by winning it from another rather than by earning it through some sort of service to one's fellow-men."

Some 20 years later, in 1903, the *Wall Street Journal* (cited in Abend, 2013:177) summarised this expectation: a business school's "highest use will be, first, in the training of the mind in accurate and concentrated thought; and, second, in the training of the consciences of their students in habits of spontaneous morality." Such schools were socially needed because "[w]e want a race of young men who have been trained in the idea that success is not the only test by which life shall be judged." Thus, business schools would instill ethics into business, make students aware of their obligations, and advance "the highest ideals of truth and honesty".

2.4.6 Common misconceptions about business ethics

The importance of ethics in business is stressed by authors such as Acevedo (2013:63). In his article entitled: "But, Is It Ethics? Common Misconceptions in Business Ethics Education", Acevedo argues that the financial crises of 2008 and other infamous cases are partly to be blamed on corporate greed. This greed has made the discussion around applied ethics more pressing. The very survival and success of a business depend on its ethical footing. Practices such as deceptive marketing negatively affect shareholder value. Stakeholders demand transparent and honest corporate governance and accountability.

Acevedo (2013:63) correctly asserts that while businesses use societal resources to operate and make a profit, they also have a duty to reciprocate fairly in goods and services that foster human development. Acevedo adds that the business societal contract imposes ethical obligations. Business in this case, is described as a "community of members who have rights and whose purpose is, ultimately, the flourishing of society" (Acevedo, 2013:63).

The common misconceptions in business ethics education, according to Acevedo (2013:64), are outlined below.

Confusion between the concepts "ethics" and "morality" and "law"

Daft (cited in Acevedo, 2013:64) states that, in textbooks and everyday language, ethics is frequently defined as morality (e.g. "the code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong").

According to DeGeorge, Frankena and Velasquez (cited in Acevedo, 2013:64), "ethics is not morality, but the philosophical study of morality." Acevedo (2013:64) further states that "as such, ethics systematizes, questions, modifies, and justifies – when justifiable – morality. It may even reject social and individual moral standards regarding acceptable and desirable values and behaviors if found to be objectionable or groundless. For example, although bribery may be accepted in some countries, it is ethically questionable."

Confusion between the concepts "ethical relativism" and "moral relativism"

Hellriegel et al. (cited in Acevedo, 2013:65) highlight the confusion between ethical relativism and moral relativism, by stating that discrimination against women and minorities is deemed unethical and illegal in some countries and, although bribery as a business practice is unethical (and illegal) in the US, it is acceptable in places such as Mexico (Robbins & Coulter, cited in Acevedo, 2013:65). The fact that bribery and discrimination have been accepted does not make them any less questionable from an ethical, human rights, standpoint. Likewise, some statements suggest that ethical principles and judgments are purely subjective, or contingent on personal opinion (e.g. "some would argue that the company is being unethical due to its selfishness in this situation while others would argue that the company is being ethical because it is acting in the best interests of stockholders" (Certo & Certo, cited in Acevedo, 2013:65).

Confusion between the terms "business ethics" and "corporate social responsibility"

Business ethics is the philosophical study of morality in the business environment (DeGeorge, Klein & Velasquez, cited in Acevedo, 2013:65). Acevedo (2013:65) puts forward that, as such, "business ethics rigorously examines the moral principles, practices, and problems of the firm at the systemic, organizational, group, and personal levels. The ethical evaluation of economic systems and of organizational strategies, policies, systems, and actions, as well as of group and employee character and behaviors, are all part of the realm of business ethics."

On the other hand, Corporate Social Responsibility (CSR) has been variously defined "as an obligation to serve the interests of both, business and society" (Certo & Certo, Daft, Rue & Byars, cited in Acevedo, 2013:65).

Acevedo (2013:67) concludes with the following recommendations for management educators in their coverage of business ethics:

- "Accurately discuss fundamental concepts such as ethics and morality, moral problems and moral dilemmas, business ethics and corporate social responsibility;
- Accurately distinguish between ethics and law;
- Avoid statements that may imply that ethical principles are relative, or that ethical judgments or conclusions are simply opinions and, as such, are all equally reasonable;
- Discuss fundamental universal and objective ethical principles, and systematically apply them to business issues and cases; and
- Confidently formulate ethical judgments or conclusions based on sound ethical reasoning."

2.4.7 Strong ethics go with strong personal character

Engelbrecht (2012:339) is of the view that the crowning achievement in business ethics' young career is being nominated as "the solution to the global financial crises". He argues: "Ever more scholars, critics and business executives look to business ethics for solutions." Fareed Zakaria in *Newsweek* (cited in Engelbrecht, 2012:339) eloquently warns that capitalism can only fulfil its proper function when it is grounded in ethics.

Former US President George W. Bush's speech writer and Wall Street journalist William McGurn delivered an inaugural speech at Iona College's Hagan School of Business Series, "Advanced Ethical and Moral leadership," on 17 October 2015. The speech was entitled: "Lies, Damned Lies – And Business Ethics Courses". His main proposition was that "strong business ethics cannot be had without strong personal character" (McGurn, 2015:386). He eloquently argued that one cannot have business ethics without ethical businessmen in the same way that one cannot have ethical journalism without ethical journalists or medical ethics without ethical doctors or nurses. He gave the example of a common saying, used when he was at the White House, that: “If it wouldn’t look good on the front page of the Washington Post, probably you shouldn’t do it” (McGurn, 2015:387). McGurn advised that if one were to do something in the shadows, it was pretty good sign that it was not the right thing to do. Character, according to him, is much larger than this.

In the real world of business, corporate directors, managers and staff are often faced with difficult questions that require people with unquestionable moral characters to resolve. One such example was given by McGurn in his speech:

> Let me end with a story about an engineer and a corporate leader who were faced with a huge ethical challenge of their own. The engineer’s name was William LeMessurier. The businessman was Walter Wriston, the chairman of Citicorp. In 1978, a year after Citicorp’s brand-new signature skyscraper opened in Manhattan, its engineer received a call from a student who asked him a question about how the building would hold up under pressure. Mr. LeMessurier went back to his calculations and realized he’d miscalculated: under certain strong winds – which came every 16 years – the building could be knocked down. He investigated further, brought in other engineers, and consulted with the architect. They decided to go to Mr. Wriston with the bad news. Mr. Wriston, said Mr. LeMessurier, was “fantastic.” …. They came up with a plan to quietly strengthen the building over a few months, floor by floor. And they did it, too, at a cost of millions. They had many other choices. Mr. LeMessurier could have kept the info to himself, worried that exposing his mistake would ruin his career and invite lawsuits. When Mr. Wriston found out, he could have berated Mr. LeMessurier, and threatened ruin and lawsuits to absolve himself of any liability. But they didn’t. Instead, they did what needed to be done … and they spent what it took. In the end they were rewarded for doing the right thing when people learned what had happened. But there was no guarantee it would come out this way. I’d say the difference was simple: these were men of character (McGurn, 2015:387-388).

Pope Francis (cited in McGurn 2015:388) has stated that “business is a noble vocation. For a healthy, thriving business not only makes profits for its owners, it gives men and women the opportunity to provide for their families and achieve their dreams as they produce the goods and services society wants.”

2.4.8 Ethics and the accounting profession

Mastracchio *et al.* (2015:48-49) write in the official journal of the American Certified Public Accountants (CPAs) that: “The Public’s trust in accounting professionals is critical, and ethics education is one way to strengthen that trust.” They claim that the audit failures of the early 2000s have resulted in ongoing discussion about how to teach ethics for CPAs. For them, although observed misconduct (or unethical behaviour) has been declining gradually in the past years (from 55% in 2007 to 41% in 2013, according to the 2013 American National Business Ethics Survey (NBES), there is still much room for improvement.

These authors are at pains to point out that a lack of ethics can also be found in academia. They give an example of students cheating. In the autumn of 2014, they write, 64 students at Dartmouth College were charged with cheating on an ethics exam.

2.4.9 A Harvard Business School case study: Can an “ethical” bank support guns and fracking?

Marquis and Almandoz (2014:123), in their article published in the *Harvard Business Review* of April 2014, ask an instructive question: “Can an ‘ethical’ bank support guns and fracking?” In the article, they present a fictionalised Harvard Business School (HBS) case study about Jay McGuane, who founded a new ethical bank focused on environmental sustainability and aptly called “Rocky Mountain Green Bank”. Jay’s bank was part of the Global Alliance for Banking on Values.

The HBS fictionalised case study presented dilemmas faced by leaders in real companies and offered solutions from the experts. In this case the dilemmas involved funding applications from a gun manufacturer, Field Force, and a fracking company. The loan application from Field Force was debated by Rocky Mountain Green Bank’s divided Board of Directors. The Board was divided in that some directors wanted to go ahead with the loan deal, including Jay, and others were against the deal as they believed it to be against the core values of the bank.

Experts, such as Ken LaRoe, Chairman and CEO of First Green Bank, were requested to provide an opinion on the case study. LaRoe was of the view that whilst gun proliferation was not an environmental issue, since the bank had joined the Global Alliance for Banking on Values and had staked its claim as an "ethical" bank, Rocky Mountain Green Bank had to do more than simply promote "green" causes. A loan to Field Force would suggest that the bank's position was indeed just a marketing gimmick. Instead of agreeing to the funding application, the bank should affirm its commitment to a broader set of values.

LaRoe mentioned that the fictionalised case had been loosely based on an experience of First Green Bank. He said the gun application issue from a company with great financial fundamentals was debated. The senior loan committee had considered the application. Half of the committee was of the view that they should approve the application, while the other half, of which he was a part, felt that it was ethically repugnant to approve a deal for an arms manufacturer. In the end they were saved by circumstances; another bank took the business by offering a loan at a much lower rate.

Another expert, John Replogle, the President and CEO of Seventh Generation Inc., was of the view that considering that Jay had founded Rocky Mountain Green Bank on ethical principles and had enrolled it in the Global Alliance for Banking on Values, his intentions were clear. Given these factors, Jay had no business wondering whether to lend to the maker of semi-automatic weapons that find their way onto the street. Replogle asked: Why the disconnect? He then provided two reasons for Jay's behaviour. The first reason for the disconnect was that Jay as a leader had shortcomings. In his haste to get the newly founded bank running, he had missed crucial steps: He did not clearly define his bank's purpose. He did not articulate its vision and principles. Every company needs to know its reason for being in business and he did not. The second reason for the disconnect was that Jay had built the wrong

Board. Put differently, the Board had divergent views with regard to ethics and environmental sustainability. That is a big disconnect for a value-based organisation. According to John Replogle (cited in Marquis & Almandoz, 2014:127), “The board is supposed to be the North Star, looking beyond short-term needs and providing unified guidance on strategic issues.”

Replogle concluded by stating that Jay’s next move should be to first define his company’s purpose and principles and then reboot the Board. He was of the view that Jay needed to be more explicit regarding the purpose and principles of the bank. He added that companies with clear purpose and principles tend to stay out of trouble. He gave an example of Johnson & Johnson during the Tylenol poisoning crisis in 1982. The company decided it would prioritise the needs and well-being of the people it served, its customers, and decided to recall the product despite huge cost. The decision protected the company’s reputation, brand and business.

2.4.10 Pragmatic business ethics

Unlike law, ethics is a difficult subject to define, as shown earlier in Table 2.1: Relationship between ethics and law. De Cremer and De Bettignies (2013:64) concur with this view and, in their article entitled: “Pragmatic Business Ethics”, published in the 2013 *Harvard Business Review*, argue that the “black and white terrain of business ethics is often, in fact grey”. They further argue that in the workplace employees face difficult moral choices. For example, employees have to deal with conflict of interest issues, whether to pay or accept bribes and issues regarding the safety of their products or services. Also, they need to decide whether their actions may damage the firm or business reputation and/or their own reputation. These authors posit that it is not easy to answer many of these ethics-based questions.

De Cremer and De Bettignies (2013:64) correctly state that owing to pressure on businesses to succeed and make profits, employees, management and directors face choices that can lead them in an opposite direction; i.e. to act unethically. In their considered view, good people can end up doing bad things. They support their view by stating that a vast amount of research indicates that good people move from the good to the evil side when put in situations in which they see themselves as expected to do so. This could be viewed as ethics gap. They give a compelling example of the famous simulated jail experiment by the social psychologist Philip Zimbardo, in which he “demonstrated that when students played the role of a prison guard, normative and institutional norms pressured them to behave aggressively and abusively toward students playing the role of prisoners. The role of prisoners and guards activated certain expectations and behaviors that encouraged students to cross the line between good and evil” (De Cremer & De Bettignies, 2013:65). They argue that business is no exception to this. People are driven by expectations and norms that can lead them to behave unethically.

Lastly, they argue that, in business, ethics are treated highly pragmatically. This, to them, is exemplified by two popular business observations: (a) It is acceptable to push limits but not to cross the boundaries of the law and (b) ethics is about grey zones, so it is hard to take responsibility.

2.4.11 Pushing the limits but not crossing the boundaries

De Cremer and De Bettignies (2013:65) posit that business ambition often lies behind the extent to which one is willing to push the limits. These authors argue that to determine ethical limits, people no longer rely on their own moral values and instead check the existing laws and rules to see what is not legally acceptable (rather than what is legally acceptable). They argue, “The advantage of this approach is that if the law does not mention that it is not acceptable then by definition it should be acceptable.” It is this attitude of pushing the limits, they argue, that effectively clouds people’s own moral limits and, as a result, increases the chances of people eventually crossing the boundaries. What looks like a small indiscretion, and one that is not deemed ethical misconduct, may result in full blown corruption or fraud, De Cremer and De Bettignies (2013) warn. They give an example of companies fiddling with the timing of accounting entries, such as moving the debits of one year to the next year to ensure high profits. Companies may also hide material information so that management can still get their performance bonuses.

2.4.12 Ethics is about grey zones, so it is hard to take responsibility

According to De Cremer and De Bettignies (2013:65), research in the behavioural sciences shows that as long as people can rationalise behaviours, they can feel comfortable with them. Put somewhat differently, as long as people can justify their actions, they will not feel that they are pushing the limits in unacceptable ways, let alone crossing the boundaries. These studies show that people have no problem lying about their performance and actions, as long as they have enough information available that they can use to justify their choices. If business transactions take place in situations where it is easy to imagine that different results could be achieved, people are more likely to deceive and lie about their actions. Certain lies are justified as they do not feel unethical. The fact that the circumstances allow for an initial lie not to be perceived as a lie means that people can maintain their positive image as an honest business man or woman.

Justifying small and initial unethical actions is, according to De Cremer and De Bettignies (2013:66), a survival strategy that is used especially under situations that threaten one's reputation and business identity. Most importantly, they argue, research shows that the survival strategy of justifying unethical actions is particularly activated when people suffer from loss of sleep, when they feel depleted (physically and emotionally) and when they face potential losses of their wealth. Business provides ample opportunities for excessive workloads, feelings of depletion, lack of sleep and financial challenges. The presence of these circumstances elicits the kind of justification processes necessary to push the limits of what is allowed, eventually ending in boundaries being crossed.

Lastly, they argue that when people use self-justification processes, they are actually deceiving themselves by thinking that they are not corrupt or have not crossed ethical boundaries. The authors aptly call this "a clear act of ethical fading" and according to them a paradox is at work. Business situations are intrinsically grey zones and people's own behaviour actually creates these grey zones or at least promotes their existence. Importantly, they state that awareness is a necessary first step. Whenever people behave badly, they easily forget about moral principles and agreed upon codes of conduct. If people become aware of how their actions have contributed to the grey zones, their self-preservation and self-serving strategies come into play again. De Cremer and De Bettignies (2013:66) conclude that the endless long-term continuation of this process (pushing the limit and grey zones) ultimately leads to failures in the market and business systems, with the 2008 financial market crises a perfect example. De Cremer and De Bettignies (2013:66) pose the question: What should companies do about this? Their suggestion is that companies create more control systems that reward the behaviour that they would like to see and punish the behaviour that they wish to avoid. They also suggest that corporates need to develop corporate cultures that foster the strengthening of people's moral compass, while inducing an open and trustworthy leadership that allows discussion of the grey zones encountered in business and how employees should go about eliminating these zones.

2.4.13 Are traditional ways of teaching ethics effective?

Miller and Jett (2016:42) argue that traditional ways of teaching ethics are not effective and have come up with six ways to teach ethics, as follows:

- Using examples is better than lectures for teaching ethics;
- Sharing a personal ethical dilemma helps open the mind;
- An exploration of personal values adds depth and meaning;
- Smaller, less extreme transgressions are better for exploring the subtle aspects of ethical thought than transgressions that are bigger and more extreme;
- Controversy is good for thought; and
- In-person instruction is more impactful than courses.

2.4.14 Critique of business ethics

Religious authors such as John Maxwell are of the view that a specific business ethics does not exist. Salb (2016) writes: "In his book, There's No Such Thing as 'Business' Ethics, John C. Maxwell firmly contends that there is no difference between business ethics and general moral behaviour." He believes that ethics is neither a business nor a social issue but, instead, a personal issue. Maxwell (cited in Salb, 2016) believes that people use different sets of ethics for their professional life, spiritual life and family life, and argues that people who wish to be ethical should live by one standard. He believes that people behave unethically because of the convenience and the desire to win no matter the cost. In addition, people rationalise their choices with relativism by choosing their own ethical standards to guide their behaviour. Maxwell suggests that to guide the ethical mind set and establish an "integrity guideline" one needs to be guided by the Golden Rule: Do unto others what you would want them to do unto you.

The concept of the Golden Rule is not without critics. In his 2004 article entitled "Misleadership on Ethics: John Maxwell", Gill states that Maxwell's assertion that there is no difference between personal and business ethics is inaccurate in the world of corruption and ethical problems in business. In Gill's view, Maxwell is wrong to rule out any specialised focus on business ethics. Gill argues that business ethics makes people reflect on matters of right and wrong, good and bad, in a business environment. He writes that there is nothing about a business ethics enterprise that requires a contradiction between personal ethics and business ethics and argues that people who practise business ethics are usually people who work hard to practise good morals in the workplace, business organisations and in the economy in general. According to Gill (2004), by criticising this attempt, Maxwell is doing businesses an injustice at a time when business ethics is required.

Engelbrecht (2012:339) is of the view that business ethics lacks a component of radicality. He states that:

> …business ethics should not only contribute to more responsible business practices, more morally sensitive business managers and more ethical organisational cultures, but should also facilitate social hope via hermeneutic strategies aimed at changing the way we think about ourselves, our economies and the roles and responsibilities of business as such.

In Engelbrecht's view, apologetic business ethics should be supplemented with a radical version of business ethics.

Radical business ethics, according to Engelbrecht (2012:348), "has the aim of protecting business ethics as a space in which ethical considerations trump business considerations, and in which ethics can act as medium of critique to transform business and the political and economic framework that acts as its condition of possibility. Put differently, promoting a radical business ethics means guarding against a conservative and nihilistic ethics in business, as well as business ethics reduced to a mere management tool or 'soft control'."

Neo-Aristotelian Alisdair MacIntyre (cited in Giddy, 2014:111) states that, "the values associated with the culture of commerce that has dominated modernity are seen by Robert Spaemann as a breakaway from the framework of loyalty and commitment (and virtues) that, it is argued is the only possible framework for ethical reasoning…" Giddy argues that "rights" usually pertain to entities (human beings) simply by virtue of their possession of certain properties and not because they are deemed to conform to certain models of behaviour embedded in the ethical traditions. He seems to support Spaemann's assertion that it is only in the light of our prior commitment to a moral community that embodies such models that ethical reasoning of whatever kind makes sense. The commitment needs to be explicitly drawn upon by the interlocutors as a starting point. This, argues Giddy, is what the proportionalist approach compels.

To fully understand and appreciate the proportionalist approach, Giddy provides an example of a how a footballer's commitment to the nature of the game, and to the other participants, determines the meaning of "excellence" in this particular social practice, which excludes "diving" as a disproportionate means to their intended end or biting an opponent's shoulder. It is noted that Giddy (2014:111), whilst supporting Spaemann's argument, posits that the argument should be complemented by MacIntyre's re-presentation of the virtue approach to ethics, if it is to be applicable to the current age.

Giddy (2014:112) argues that, "Proportionalist reasoning is most widely known through the Just War principles, and, in particular, the precept that the means taken should be proportionate, or not unreasonably disproportionate, to the intended end." He provides an example of a manager firing a worker who has children at home to feed and educate. He argues that this might indeed be a morally good thing to do when judged in proportion to the end. The bad effect is foreseen but not intended. This is what proportionalist ethicists call the "principle of double effect".

Prasad and Agarwal (2015), in their article aptly entitled “The Oxymoron that is ‘Business Ethics’”, present the view that business ethics can be thought of as an oxymoron in that an entrepreneur can either do business or can be ethical; he cannot be both, at least successfully. Vieta (cited in Prasad & Agarwal, 2015:13) is of the opinion that “the fundamental problem with traditional capitalism is that the creators of value are different from the appropriators of value; and it is this difference between the two that has grown over a period of time that is causing the problem. Apart from questions of the morality of the entrepreneurial rent seeking behaviour, the current model of capitalism is flawed in the sense it does not address the problem of income inequality and distribution either inter-temporally or inter-spatially.” Dobb (cited in Prasad and Agarwal, 2015) suggests: “In a partial attempt to obviate the problem, ethical codes of conduct have been established so as to have a partial convergence between the Kantian dilemma about moral and pragmatic imperatives.”

2.5 Theories of the Modern Corporation

A number of theories have emerged to unpack the moral status and moral obligations of the modern corporation. The following theories will be briefly discussed: shareholder theory, including social responsibility; corporate moral agency; and stakeholder theory.

2.5.1 Corporate social responsibility

The Nobel Prize-winning economist Milton Friedman attempted to answer the question: Do companies only have responsibilities to their owners or shareholders or do they have responsibilities towards the societies they serve? Friedman (cited in Rossouw & van Vuuren, 2013:86) in his famous 1970 article published in the *New York Times Magazine* wrote: “The social responsibility of business is to increase its profits.” Friedman strongly argued that business has no social responsibility other than to make money. Friedman believed that when business executives engage in social responsibility, they do so outside their area of business responsibility. Although Friedman was not against executives engaging in social responsibility as individuals, his belief was that if executives spent company money on social responsibility activities, they were actually stealing money meant for shareholders.

2.5.1.2 Critique of Milton Friedman's social corporate responsibility theory

What Milton Friedman overlooked is that corporate citizenship is of paramount importance. Businesses operate within society, their workers are drawn from society and therefore it is unwise for companies not to plough back their profits into the society that supports them by buying goods and services.

Friedman was of the view that market forces were sufficient to ensure responsible behaviour by corporations and that the law was adequate for guaranteeing that corporations do not harm society.

Friedman's theory of corporate social responsibility has elicited much criticism from Christopher Stone. Stone (cited in Rossouw & van Vuuren, 2013:88), in his 1975 book entitled *The Social Control of Corporate Behaviour*, strongly argues against Friedman's assertions. His arguments are summarised below.

(a) Managers do not have an obligation towards shareholders only

Stone does not agree with Friedman's assertion that managers only have an obligation to maximise profit for shareholders. He also disagrees with Friedman's notion that management has made an implicit promise to shareholders to maximise profit. He correctly argues that in most cases shareholders have not met with management and that such a promise, which he refers to as a "Promissory Argument", may possibly not exist.

Another version of the argument that Stone disputes is called "Agency Argument". Friedman's view was that management as agents of shareholders had an obligation to look after the interests of their principals, or shareholders in this case. Stone correctly states that, contrary to Friedman's assertion, management is responsible not only to shareholders but to all stakeholders of the corporation. This idea is very important as it forms the basis of this research and will be explored further in chapter 4.

Sirmon et al. (cited in Kleinau *et al.*, 2016:71) write that the purpose of business is defined in its corporate mission statement, which summarises how the corporation aims to create value for society and concomitantly generate profits for its owners. They argue that these two goals are inextricably linked because, in order to generate profits, a company needs to deliver goods and services for the market. The consumers' willingness to pay for these goods and services exceeds the firm's costs of production.

Most importantly, they state that corporate profits do not simply represent the monetary gain that a corporate receives. They correctly argue that: "Corporate profits also reflect the net value for society which a corporation has produced when the cost of inputs are subtracted from the value of output."

Kleinau et al., (2016) article entitled "Minimizing Corporate Social Irresponsibility to Maximize Social Welfare" turns traditional ideas about the social responsibility of corporations upside down by arguing that it "is not conducive to aim, to maximize corporate social responsibility (CSR). Instead, corporations should embrace their social responsibility by working to minimize corporate social irresponsibility (CSI)" (Kleinau et al., 2016:71). They argue that it is more straightforward to minimize tangible sources of business and/or reputational risk such as environmental damage or child labour in the supply chain, than to maximise a construct for which a generally accepted definition is still pending.

They conclude by stating that following the line of their argument above will enable corporations to use their core business competencies and expertise to maximise social welfare by protecting those societal resources that are relevant to their own *value-creation process* (discussed further in Chapter 3).

(b) Market forces are not sufficient

It is important to state that Stone does not disagree with Friedman's notion that market forces are efficient in allocating resources, as propagated by Adam Smith in his theory of "Invisible Hand". However, he does disagree with the notion that markets are efficient in ensuring that the activities of the corporation service the social needs of the community efficiently. In most countries, including South Africa, companies are obliged to establish a Social and Ethics Committee (SEC) as provided by South African Companies Act.

(c) The law is inadequate

Stone also refutes the assertion by Friedman that adherence to the laws of the country in which a corporation operates will ensure socially responsible behaviour on the part of the corporation. He contends that there are time limitation problems, especially that laws are made in response to particular problems. Problems first occur and only then are laws formulated to deal with them. This creates the timing difference that Stone alludes to.

2.5.2 Corporate moral agency

Whilst the claim that corporations are a legal person is not in dispute, the dispute is around whether corporations should be regarded as moral persons who have moral responsibilities. Friedman (as cited in Rossouw & van Vuuren, 2013:92) argued that corporations should not be regarded as moral persons. According to him, corporations are not biological persons but are mere artificial legal entities. He argued that only individuals within the corporation should be regarded as moral agents. He further stated that these individuals have an inalienable right to exercise their moral agency but only in their personal capacity and not in the name of the corporation.

Peter French (cited in Rossouw & van Vuuren, 2013:92) agrees with Friedman that corporations are artificial legal persons but disagrees that this disqualifies them from being moral persons as well. French argues that being a biological living human being is not a prerequisite for being a moral agent. He argues that for a corporation to qualify as a moral agent, it must be shown to have a specific intention that results in an event. He claims that a corporation in this instance is not an aggregation of the individuals that form it. A corporation in this instance is a moral agent in its own right that constitutes more than the sum of all the individuals that make up the corporation. French believes that there is a specific mechanism at work within corporations that renders them moral agents in this sense. This mechanism he calls the “Corporate Internal Decision” or CID.

According to Rossouw and van Vuuren (2013:93), the CID structure of a corporation consists of two distinct elements. First, the organigram that specifies the levels of responsibilities of various members of the corporation and, secondly, the corporate decision-making rules or policies that determine what and how decisions are taken within the corporation. These decision rules are linked to the purpose and business objectives of the organisation. It is these rules and policies that ensure that decisions are taken in a manner that will assist the corporation to reach its stated corporate goals.

When the board of, for example, corporation X needs to decide on a specific course of action, it will request various documents from stakeholders, including management. On the basis of the input from these reports and their judgement, the board will come to a decision that is in line with the company's vision, mission, strategy, rules and policies. This decision is not subjective but is based on factual assessment of all possible factors to arrive at a corporate decision.

When individual board members take a decision that is based on the corporation's vision, mission, strategy, rules and policies, they are acting on behalf of the corporation and this is a corporate act. Conversely, if individual board members act contrary to the corporation's vision, mission, strategy, rules and policies, they are not acting according to the CID structure. According to French (cited in Rossouw & van Vuuren, 2013:94), "Simply when the corporation act is consistent with an instantiation or an implementation of established corporate policy, then it is proper to describe it as having been done for corporate reasons, as having been caused by a corporate desire coupled with a corporate belief and so, in other words, as corporate-intentional."

The CID structure of a corporation turns decisions made on behalf of the corporation into corporate actions. These corporate actions cannot be viewed as mere individual actions. Since they qualify as corporate actions to further or defend its interest and objectives, the corporation will be responsible and accountable to those affected by its actions. This is the core thesis of French's corporate moral agency. Put differently, corporations are regarded as moral agents with moral responsibilities in their own right.

2.5.3 Stakeholder theory

The chief proponent of the stakeholder theory is Edward Freeman. Stakeholder theory challenges the main assertion that corporations should be managed for the benefit of shareholders. Milton Friedman's shareholder theory argues that corporations should be managed for the sake of corporations. In an article penned by Freeman and Evan (cited in Rossouw & van Vuuren, 2013:95), these authors challenge the shareholder theory by reviewing the critical question: "For whose benefit and whose expenses should the corporation be managed?" They argue against the prevailing convention that a corporation should be managed for the benefit and cost of the shareholders. This rejection is based on both a legal and economic argument.

2.5.3.1 The legal argument

The legal argument for rejecting the shareholder theory's assertion that corporations should be managed for shareholders is based upon recent legal developments discussed below. Freeman and Evan correctly argue that corporations have duties towards other stakeholders, such as employees, authorities, customers and suppliers. According to Freeman and Evan (cited in Rossouw & van Vuuren, 2013:95), "The law has evolved to effectively constrain the pursuit of stockholder interest at the expense of other claimants on the firm." They refer specifically to the legislation and court findings that give certain rights to employees, be they individually or collectively. As an example, in South Africa the recognised banking union is the South African Society of Bank Officials (SASBO) and SASBO negotiates collectively on behalf of union members. The banks have to accept this. Individual members who are not part of the union also have certain rights. The banks have to accept this. Similar arguments are made with regard to vital stakeholders; i.e. suppliers, customers, communities, and others.

2.5.3.2 The economic argument

The classical economist Adam Smith, in his well-known book *The Wealth of Nations*, coined the term the "invisible hand" doctrine to explain the unintended social benefits of individual actions. Put differently, Adam Smith, when arguing in defence of free-market capitalism, was of the view that in pursuing the interest of shareholders, the community will automatically be served. Freeman and Evan (cited in Rossouw & van

Vuuren, 2013:95) refute this doctrine and are of the view that: “firms have sought to internalise the benefits and externalise the costs of their actions.” By “externalise the costs of their action”, they refer to the side effects caused by corporations in pursuance of their goals. An example might be a mining company polluting water used by the community. Freeman and Evan correctly argue that the free-market capitalist system will not correct this. For this reason, corporations must be regulated to ensure that the cost of corporate activity is not shouldered by taxpayers only. Currently regulations have been imposed on corporations owing to the failure of the market mechanism to deal with externalities. This is proof that corporations are indeed constrained and cannot pursue shareholder interest at all costs.

2.5.3.3 Stakeholders

Stakeholders are defined as “those groups who are vital to the survival and success of the corporations” (Freeman & Evan as cited in Rossouw & van Vuuren, 2013:96). In accordance with the legal argument, different stakeholders of corporations have rights that need to be respected by the management of the corporations. On the basis of the economic argument corporations are responsible to various stakeholders for the consequences of their actions. From these arguments Freeman and Evan derive the following two principles, which are the cornerstone of the stakeholder theory: *The Principle of Corporate Rights* and *The Principle of Corporate Effects*. Under the Principle of Corporate Rights they posit that the corporation and its managers may not violate the legitimate rights of others to determine their own future. Under the Principle of Corporate Effects they posit that the corporation and its managers are responsible for the effects of their actions on others.

They argue that when these principles are adopted, management of corporations will take moral responsibility for the consequences of their actions as they affect all stakeholders of the corporation. On the basis of these two principles underpinning the stakeholder theory, Freeman and Evan (cited in Rossouw & van Vuuren, 2013:96) define and describe the purpose of the modern corporation as: “… a vehicle for co-ordinating stakeholder interests. It is through the firm that each stakeholder group makes itself better off through voluntary exchanges. The corporation serves at the pleasure of its stakeholders, and none may be used as a means to the ends of another without full rights of participation in that decision."

Using the two principles, stakeholders could further be described as those groups who have rights owed to them by the corporation and duties to the corporation and who can benefit from or be harmed by the corporation. These groups include, but not limited to, shareholders, managers, employees, customers, suppliers, government, and local and international communities.

2.5.3.4 Criticism of the stakeholder theory

Criticism of the stakeholder theory of Freeman and Evan focuses on their notion that all stakeholders are treated equally. Put differently, the theory claims that the interests of no single group are given primacy over other groups. Rossouw and van Vuuren (2013:98) correctly argue that it is on this point that the supporters of the stakeholder theory divide. Goodpaster (cited in Rossouw and van Vuuren (2013:98), albeit a proponent of the stakeholder theory, is of the view that, above everything else, the primary duty of managers is to shareholders. This is in line with Milton Friedman's view discussed earlier. Goodpaster adds that this does not imply that other stakeholders are not important; management has a moral responsibility towards other stakeholders. In his article entitled "Business Ethics and Stakeholder Analysis", Goodpaster argues that this moral responsibility towards other stakeholders can never be overridden in the name of shareholder interests. He concludes that within the framework of fiduciary obligations to shareholders, managers should find ways to respect their moral obligations to all stakeholders of the corporation. This will enable the corporation to pay due consideration to its moral obligations to all stakeholders without sacrificing its mission.

2.5.4 World's most ethical companies annual survey

Ethisphere is a US-based organisation that judges the most ethical companies in the world; its yearly published results are called the "World's Most Ethical Companies® Honorees". Some of the services rendered include the: World's most Ethical Companies yearly results; Ethics Quotient and Benchmarking; Programme Assessments; Ethical Culture and Perception Assessments; Business Ethics

Leadership Alliance; Global Event and Programs; *Ethisphere Magazine*; and Other Award Programs.

On its website Ethisphere (2016) states that its conversations with companies from all over the world point to one clear conclusion: companies are hungry for actionable data that they can use to advance their programmes, culture of ethics and corporate brands.

Using an Ethisphere programme an organisation can compare its performance against the best and leading companies in the world. Ethisphere claims to be the only organisation that provides benchmarking against not just a wide group of varied for-profit, non-profit, educational and governmental organisations, but those recognised as the "World's Most Ethical Companies". Its survey is vetted by experts, has been conducted for 10 years and serves as the standard for programmes globally.

According to the company's website,

> The World's Most Ethical Companies program honors companies that excel in three areas, promoting ethical business standards and practices internally, enabling managers and employees to make good choices, and shaping future industry standards by introducing tomorrow's best practices today. Honorees have historically out-performed others financially, demonstrating the connection between good ethical practices and performance that's valued in the marketplace. (Ethisphere, 2016)

In 2016, 131 honorees were named, spanning 21 countries and 5 continents and representing over 45 industries. In its 10th year, the list includes 14 tenth-time honorees and 13 first-time honorees.

2.5.5 Corporate governance codes

Corporate scandals have prompted business communities across the world to attempt to introduce a myriad of corporate governance codes of conduct for company directors and boards. Various corporate governance principles and codes around the world are discussed in Chapter 3.

2.6 Chapter Summary

In both Greek and Latin, "ethics" (or morality) refers to the character or manner of a person. It is fashionable to use the words "ethics" and "morality" interchangeably. The Virtue theory of the Greek philosopher Aristotle taught us that morality is necessary and vital for human beings. It is difficult to live with human dignity without being a well-developed moral being. The British philosopher John Stuart Mill's Utilitarian theory taught us that actions are good when they contribute towards the fulfilment of the ultimate goal of human beings. This ultimate goal of human life he defined as happiness. The German philosopher Immanuel Kant's Deontological theory taught us of a universal and objective moral law, called the Categorical Imperative. Kant was of the view that because his universal law is of a general nature, it can be used as a criterion in making the specific moral judgements that one has to make on a daily basis. The common theme among the aforementioned classical ethics theories is that only people with decent moral character can be expected to do good. The main criticism of the classical ethics theories is that they are abstract and therefore difficult to apply in daily life. This has led to a number of applied theories in the business ethics space.

The current theories of modern corporations are mainly represented by authors such as Milton Friedman, who famously argued that the social responsibility of business is to increase its profit (for its shareholders). Friedman was a chief proponent of the shareholder theory, i.e. that the corporation should be managed only for the shareholder. He cautioned directors of corporations against using the corporation's money for corporate social responsibility. He argued that directors had no right to do this, unless they contributed in their personal capacity. Friedman also argued that corporations were not moral agents as they were not biological persons but were mere artificial legal entities that cannot be loaded with additional moral responsibilities.

In contrast, the main proponents of the stakeholder theory, Edward Freeman and William Evan, correctly argue that the corporation should be managed for all of its stakeholders, including shareholders, managers, employees, suppliers, customers and the local community. The main criticism of Freeman and Evan's stakeholder theory is that they assume that all stakeholders have the same value; i.e. are to be treated equally. This has caused tension in the stakeholder theory camp. Kenneth Goodpaster has rectified Freeman and Evan's oversight. He agrees with Friedman that corporations, and specifically their managers, have a special duty towards shareholders. As agents of the shareholders, managers have a fiduciary obligation towards shareholders to maximise profits. Goodpaster, however, stresses that this fiduciary obligation by managers to other shareholders does not necessarily mean that other stakeholders' interest in the corporation should be sacrificed. Goodpaster eloquently and correctly argues that managers also have a moral responsibility toward other stakeholders. In other words, he claims that in the framework of fiduciary obligations to shareholders, managers have to find a way to respect their moral obligations to all stakeholders of the corporation. This is the foundation of many corporate governance codes around the world, specifically the South African Codes on Corporate Governance, which will be discussed in Chapter 3.

The next chapter discusses corporate governance.

CHAPTER THREE – CORPORATE GOVERNANCE

3.1 Introduction

In Chapter 2 the common theme amongst ethics theories is that only people with decent moral character can be expected to do good. This common theme is the foundation of corporate governance. Without ethical leadership, there can be no sound corporate governance. The chair of The South African King Committee on Corporate Governance in South Africa, Professor Mervyn King, put it eloquently when he stated that:

> King I, II and III had as their foundation ethical and effective leadership. King IV is no different. Clearly, good leadership, which is underpinned by the principles of good governance, is equally valuable in all types of organisations, not just those in the private sector. Similarly, the principles of good governance are equally applicable, and equally essential, in both public and private entities. (King IV™ Report on Corporate Governance for South Africa, 2016:6)

Corporations, including banks, operate in the "triple context" of the economy, society and the environment. How corporations, including banks, make money does have an impact on the triple context. Governance, strategy and sustainability are becoming increasingly inseparable because the long-term survival of companies is no longer affected by economic factors only, but also by social and environmental factors (International Federation of Accountants, 2016:3).

Sustainable development is the buzz concept of the 21st century. The United Nations has adopted 17 Sustainable Development Goals; the United Nations Principles for Responsible Investment (UNPRI) are calling for sustainable investing; and the African Union Agenda 2063 calls for a prosperous Africa based on inclusive growth and sustainable development. Also, the IIRC, King IV™ and the International Corporate Governance Network (ICGN) all have a common theme of long-term value creation (as opposed to short-termism) and the integration of environmental, social and governance (ESG) factors as a business imperative.

Governance and corporate governance have evolved over a period of time and this will be elucidated in this chapter. This chapter is divided into the governance periods of 509 to 338 BC (The Roman Empire); the 17th century; the 20th century; and the 21st century.

3.2 Definitions of Governance and Corporate Governance

The definitions of governance and corporate governance are discussed below.

3.2.1 Governance

Governance comes from Latin word “*Gubenare*”, which means leading (Cascarino cited in Ghayour and Doaei, 2012:97).

3.2.2 Corporate governance

Michael Mason and Joan O’Mahony of the London School of Economics in their paper titled: ‘*Post-traditional Corporate Governance’* state that the term corporate governance first appeared in 1981 in George Siedel’s article, ‘*Corporate Governance under the Foreign Corrupt Practices Ac*t’ (Siedel cited in Mason and O’Mahony, 2008:32). They further state that “In the following ten years, only a further 16 articles appeared on the subject. By 2002 there was a monumental rise in interest in the topic with 1,085 articles written on the subject…” (Mason and O’Mahony, 2008:32).

According to Sir Adrian Cadbury’s corporate governance overview published in 1999 in the World Bank Report (cited in the King II Report on Corporate Governance for South Africa, 2002:6), “Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals…the aim is to align as nearly as possible the interests of individuals, corporations and society.”

3.3 Philosophical Background

In order to understand governance and corporate governance, one first has to understand the origins of both concepts. These are explained through a logical time line, beginning in the days of the Roman Empire and moving to the 21st century.

3.3.1 Evolution of governance

There is no consensus among the various authors who write about this subject on when governance originated; however, Carmeli and Markman (2011) wrote an article entitled "Capture, Governance, and Resilience: Strategy Implications from the History of Rome". Drawing on over 1,000 years of historical data on the Republic of Rome, and focusing primarily on the period of its establishment (509 BC to 338 BC), they identified two generic strategies – capture and governance – that together are important for organisational resilience.

3.3.2 The Roman Empire (509 BC to 338 BC)

Salmon (cited in Carmeli & Markman, 2011:328) states that during and after the Great Latin War, Rome was faced with the problem of governing newly acquired territories, which often included hostile acquisitions. The governance arrangement that Rome used, which became its strategy cornerstone beyond Latium (capital city of the Roman Empire) and the rest of Italy, served it for hundreds of years to come. This simple governance strategy was to remove rebellious sentiments by ensuring loyalty of the cities by turning hostile enemies into partners. This allowed Rome to save power for future expansion. Rome did not interfere in the daily life of Latium cities and tribes.

The relationship between Rome and her captured cities was based on a system of laws, policies and treaties. For example, no Roman consul could enter the captured city to loot it. The governance system gave the captured cities some independence, which minimised friction. According to Carmeli and Markman (2011:328),

> Rome implemented a carrot and stick segmentation policy to sequentially eliminate or co-opt enemies: loyal towns became part of Rome with residents given full Roman citizenship; non-loyal towns received only partial citizenship and had no political rights; hostile towns were considered a threat – their leaders killed or exiled and their assets – navy, military, lands, and slaves – were confiscated and repurposed and redeployed by Roman force.

For a company to succeed it needs a sustainable capture and governance strategy, argue Carmeli and Markman (2011:330). These authors give an example of the capture strategy of Enron, one of America's corporates involved in scandal. In 2000, before its bankruptcy in 2001, Enron was an exemplary corporation, which included electricity, natural gas, pulp and paper, and telecommunication, with USD101 billion in revenue and 22,000 employees. The authoritative financial magazine *Fortune* named Enron "America's Most Innovative Company" for six consecutive years. However, Carmeli and Markman (2011:330) find that: "Enron's capture strategy was unsustainable because its governance strategy hinged on accounting fraud and corruption – in fact, the focus on growth to the detriment of governance led to one of the biggest and most complex bankruptcy cases in the US history." Enron had a sound capture strategy, which was coupled with an unsound governance strategy. This damaged Enron together with its adjacent incumbents, such as the auditing firm Arthur Anderson.

3.4 Evolution of Corporate Governance

The origin of corporate governance is discussed below.

3.4.1 The origin of corporate governance – The East Indian Company (17th century)

One of the first companies thought to have had a corporate governance structure was the East Indian Company, which was established by a Royal Charter on 31 December 1600. According to Cadbury (2011), the company began with 218 members and was governed by a Court of Directors. The company structure consisted of the General Court or Court of Proprietors and the Court of Directors. The Court of Directors was made up of those members with voting powers. To qualify to be a member, an investment of £200 was required. The sanction of this Court was required for raising funds and it elected directors.

The Court of Directors was the executive body of the company and was responsible for the daily running of the company, although its policy decisions had to be ratified by the Court of Proprietors. The Court of Directors consisted of the Governor, the Deputy Governor and 24 directors. According to Cadbury (2011), the company structure of the East Indian Company was not dissimilar to that of the Court of the Bank of England in his time at the Bank, where he was a director. The Court of the Bank of England consisted of the Governor and Deputy Governor, and 16 directors.

The company structure of the East Indian Company was not that different from the structure of companies today, writes Cadbury (2011). The members of the Court of Proprietors were shareholders in a general meeting and the Court of Directors made up the board, assisted by various committees. The Royal Charter laid down the boundaries within which the company could operate. Most of the functions of current-day directors were carried out by the Court of Directors.

3.5 Various Corporate Governance Codes, Acts, Laws, Regulations and Guidelines in the 20th and 21st Centuries

Much ink has been spilled on the corporate scandals of the past few years, which have led to the introduction of myriad corporate governance codes in various countries. Wixley and Everingham (2010: vii), in the preface to their book entitled *Corporate Governance*, state that despite recent corporate failures "the great majority of public companies are properly and honestly run. A growing international consensus is that stronger and more effective governance measures are needed. By improving the general quality of corporate governance, the proportion of failures can be contained, it is argued, and the majority of satisfactory companies will do even better for their stakeholders."

Various countries and world organisations have introduced a myriad of corporate governance codes, legislation, guidelines and laws to encourage corporations to adopt good corporate governance practices. The most important of these for this study are outlined below.

3.5.1 Report of the World Commission on Environment and Development: Our Common Future (1987)

In 1987 the United Nations commissioned a sustainable development report called the "Report of the World Commission on Environment and Development: Our Common Future" or more commonly the 1987 "Brundtland Report" after the Commission's chairperson, Norwegian Gro Harlem Brundtland. For the purpose of this research, the sustainable development section of the report is explored.

The Brundtland Report states that *“sustainable development seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future”* (United Nations Commission on Environment and Development, 1987:39). This definition is very important as it was adopted by the King Committee on Corporate Governance in South Africa and, most importantly, King IV™. The Brundtland Report correctly states that, far from requiring the end of economic growth, it recognises that the problems of poverty and underdevelopment cannot be solved unless the world has a new era of growth in which developing countries play a large role and reap large benefits.

The Brundtland Report argues that widespread poverty is no longer inevitable. Poverty should be defeated not only because it is an evil in itself, but also because sustainable development requires meeting the basic needs of all and extending to all the opportunity to fulfil their aspirations for a better life. Meeting essential needs requires not only a new era of economic growth for nations in which the majority are poor, but also an assurance that those poor get their fair share of the resources required to sustain that growth. Such equity would be aided by political systems that secure effective citizen participation in decision-making and by greater democracy in international decision-making. More importantly, sustainable global development requires that those who are more affluent adopt lifestyles within the planet's ecological means – for example in their use of energy (United Nations Commission on Environment and Development, 1987).

The Brundtland Report further argues that rapidly growing populations can increase the pressure on resources and slow any rise in living standards; thus, sustainable development can only be pursued if population size and growth are in harmony with the changing productive potential of the ecosystem. The report further argues that sustainable development is not a fixed state of harmony, but rather a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are made consistent with future and present needs. The commission does not pretend that the process is easy or straightforward. Painful choices have to be made. Thus, in the final analysis, sustainable development must rest on political will (United Nations Commission on Environment and Development, 1987).

3.5.2 UK Corporate Governance Code (1992)

The first version of the UK Corporate Governance Code (which was formerly the UK Combined Code) was produced in 1992 by the Cadbury Committee, chaired by Sir Adrian Cadbury. The Code stated that the purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company. The UK Corporate Governance Code uses the *"comply or explain"* approach (in the absence of compliance an explanation is required).

The Code is not a rigid set of rules but a set of principles. In the UK the positions of the chairperson of the company and the CEO are separate. South Africa and many Commonwealth countries have taken the same position. It should be noted that the UK has a *unitary board*. Some of countries to be discussed later, such as the Netherlands and Germany, have a dual board system, which consists of the management board and supervisory board.

The latest revised UK Corporate Governance Code was issued in April 2016 by the Financial Reporting Council (FRC) and the need for revision is stated as follows: "The Code has been enduring, but is not immutable. Its fitness for purpose in a permanently changing economic and social business environment required its evaluation at appropriate intervals" (Financial Reporting Council, 2016:5). The revised version continues in the tradition of the previous codes by adopting its trademark *"comply or explain"* approach. According to the Financial Reporting Council (2016:8), the approach "has been in operation since the Code's beginnings and is the foundation of its flexibility. It is strongly supported by both companies and shareholders and has been widely admired and imitated internationally."

3.5.3 Report on Corporate Governance for South Africa (1994), referred to as "King I" (1994)

In 1994 the then president of South Africa, Nelson Mandela, appointed former High Court Judge Mervyn King S.C. to head a committee on corporate governance. The committee was called the King Committee on Corporate Governance in South Africa and the report it produced was called *King Report on Corporate Governance, 1994* and was published in 1994. The report is referred to as "King I" for the rest of this thesis. According to Wixley and Everingham (2010:9), King I, is a fairly tentative document compared to its successors.

When it was published, the first King Report was recognised internationally as the most comprehensive publication on the subject to embrace the inclusive approach to corporate governance (King I Report on Corporate Governance for South Africa, 1994). The purpose of the report was to promote the highest standards of corporate governance.

3.5.4 Report on Corporate Governance for South Africa (2002), referred to as "King II" (2002)

Owing to the ever-changing regulatory and economic climate, it was important for King I to keep abreast and thus the King Committee on Corporate Governance in South Africa developed the King II Report on Corporate Governance for South Africa, which was published in 2002. The King Committee appreciated the fact that the world was now moving away from the business singular objective of making profit, i.e. it was moving from a single bottom line to a triple bottom line, the embracing of economic, environmental and social aspects of companies (King II Report on Corporate Governance for South Africa, 2002:10).

Most of the concepts discussed in King II found their way into the subsequent King reports: King III and IV™. In view of this, a detailed discussion of the important concepts in King II is required.

The main doctrine contained in King II is the *"apply or explain"* approach. This approach states that where an organisation has applied the code, this needs to be contained in the report to stakeholders. Where an organisation does not comply with the code's prescripts, the stakeholders need to be told. The doctrine of *"apply or explain"* adopted by South Africa is also in line with the Dutch Corporate Governance Code, which is discussed later in this chapter.

One of the most contentious topics in corporate governance is whether all company stakeholders are equal and should be treated the same, as advocated by Freeman and Evan (this is discussed in Section 2.5.3 earlier in this thesis). The King Commission sided with Kenneth Goodpaster's contention that, whilst a company has a special fiduciary obligation to its managers and shareholders, it should also have a moral responsibility to all other stakeholders of the company. King II puts it succinctly by differentiating between accountability and responsibility. The report states that,

> One is liable to render an account when one is accountable and one is liable to be called to account when one is responsible. In governance terms, one is accountable at common law and by statute to the company if a director, and one is responsible to the stakeholders identified as relevant to the business of the company. The stakeholder concept of being accountable to all legitimate stakeholders must be rejected for the simple reason that to ask boards to be accountable to everyone would result in their being accountable to no one. The modern approach is for a board to identify the company's stakeholders, including its shareowners, and to agree policies as to how the relationship with those stakeholders should be advanced and managed in the interests of the company. Wherever the term "stakeholder" is applied in this Report, it is used in the sense enunciated in this paragraph (King II Report on Corporate Governance for South Africa, 2002:6)

According to King II, the key challenge to good corporate citizenship is to seek the appropriate balance between enterprise (performance) and constraints (conformance) by taking into account the expectations of shareholders for reasonable capital growth and responsibility concerning the interests of other stakeholders of the company. Proper governance embraces both performance and conformance and this point is encapsulated by Jim Wolfensohn, then president of the World Bank (cited in King II

Report on Corporate Governance for South Africa, 2002:7), in his statement: “The proper governance of companies will become as crucial to the world economy as the proper governing of countries.”

King II correctly states that conforming to corporate governance standards results in constraints on management and that it is the board’s responsibility to ensure that there is a balance between conformance and performance for financial success and the sustainability of the company’s business.

King II dispels the notion propagated by Milton Friedman that a corporation’s main purpose is to maximise profit for the shareholders. King II states that:

> This triple bottom line reporting also stems from the in-depth study now being done on the importance of ownership in business. Ownership is not unique to companies. It is a societal phenomenon. With ownership comes responsibilities. The logic has been that shareowners are entitled to expect directors to run the company in their sole interests – the so called shareowner dominant theory. This approach has been rejected by Courts in various jurisdictions, because on incorporation the company becomes a separate persona in law and no person whether natural or juristic can be owned. Courts have also held that shareowners have no direct interest in the property, business or assets owned by a company, their only rights being a right to vote and a right to dividends. Shareowners also change from time to time while as the owner, the company remains constant. Consequently, directors, in exercising their fiduciary duties, must act in the interest of the company as a separate person. (King II Report on Corporate Governance for South Africa, 2002:10)

King II spells out what it calls “seven characteristics of good corporate governance, namely:

- **Discipline**

  Corporate discipline is a commitment by a company's senior management to adhere to behaviour that is deemed to be universally recognised and accepted as correct and proper.
- **Transparency**

  Transparency is the ease with which people outside the company are able to make meaningful analysis of a company's actions, its economic fundamentals and the non-financial aspects pertinent to that business.
- **Independence**

  Independence is the extent to which mechanisms have been put in place by the company to minimise or avoid potential conflicts of interest that may exist, such as dominance by a strong chief executive or a large shareowner.
- **Accountability**

  Those in the company, be they individuals or groups who make decisions and take actions on specific issues, need to be accountable for their decisions and actions.
- **Responsibility**

  With regards to management, the responsibility involves behaviour that allows for corrective action and penalising mismanagement.
- **Fairness**

  The rights of various groups have to be acknowledged and respected. For an example minority shareholder interests must receive equal consideration to those of the dominant shareholder(s).
- **Social responsibility**

  A well-managed company will be aware of, and respond to, societal issues, placing a high priority on ethical standards. "A good corporate citizen is increasingly seen as one that is non-discriminatory, non-exploitative, and responsible with regard to environmental and human rights issues. A company is likely to experience indirect economic benefits such as improved productivity and corporate reputation by taking those factors into consideration" (King II Report on Corporate Governance for South Africa, 2002:11).

The shareholder primacy, which embraces a shareholder-centric view of corporate governance, is, according to Goodspeed (2016), chiefly about maximising shareholder value while only derivatively considering the interests of other stakeholders, such as employers, society, consumers and the local community. The debate about shareholder primacy has been raging since an article by two leading corporate scholars was published in the 1930s by the *Harvard Law Review*. Berle (cited in Goodspeed, 2016:22) “argued for shareholder primacy, i.e. the corporations exist for shareholder wealth maximisation. On the other hand Dodd argued the stakeholder approach, i.e. that proper purpose of the corporation also included more secure jobs for the employees, better quality and value-for-money products for consumers, and greater contributions to the welfare of the community.”

The raging debate around shareholder primacy is highlighted by Andrew Haldane, chief economist of the Bank of England (cited in Goodspeed, 2016: 24), who states, “Challenges to the shareholder-centric company model are rising, both from within and outside the corporate sector. These criticisms have deep micro-economic roots and thick macro-economic branches.”

King II strove to respond to the crucial question as to whether good corporate governance can be quantified. The Investor Opinion Survey, published in June 2000 by McKinsey & Co., working with Institutional Investors Inc. established that good corporate governance can be quantified. For the survey, well-governed companies were defined as follows:

- “having a clear majority of outsiders on the board, with no management ties;
- holding formal evaluations of directors;
- having directors with significant stakes in the company and receiving a large portion of their pay in the form of stock options; and
- being responsive to investor requests for information on governance issues” (King II Report on Corporate Governance for South Africa, 2002:12).

The survey also found that:

- More than 84% of more than 200 global institutional investors, together representing more than USD3 trillion in assets, indicated that they were willing to pay a premium for the shares of a well-governed company compared to a poorly governed company with a comparable financial report;

- Three-quarters of these institutional investors indicated that when evaluating a company for potential investment, company board practices were as important as financial performance; and
- The actual premium these institutional investors were prepared to pay was 18% for a well-run company in well-developed countries such as the UK. In emerging markets or markets perceived to have poor governance practices, they were prepared to pay a premium of 22% and as much as 27% for a well-governed company.

King II states that the implications of the aforementioned study for companies are profound. Management, by simply enforcing good governance practices, could potentially add significant share owner value. The results of this authoritative survey could assist policy makers and regulators with the knowledge that the creation of a good governance climate could make countries, especially in emerging markets, a magnet for global capital.

King II further states that other similar surveys support the contentions put forward by McKinsey's Investor Opinion Survey. Stanford University in the US issued a corporate governance report about emerging markets that reinforces McKinsey's findings.

Importantly, according to King II,

> The 19th century saw the foundations being laid for modern corporations: this was the century of the entrepreneur. The 20th century became the century of management: the phenomenal growth of management theories, management consultants and management teaching (and management gurus) all reflected this pre-occupation. As the focus swings to the legitimacy and the effectiveness of the wielding of power over corporate entities worldwide, *the 21st century promises to be the century of governance.* (King II Report on Corporate Governance for South Africa, 2002:14)

King II succinctly laid down the role of the board of directors. The King Committee wrote,

> The responsibilities of a board under the inclusive approach in the 21st century will be to define the purpose of the company and the values by which the company will perform its daily existence and to identify the stakeholders relevant to the business of the company. The board must then develop a strategy combining all three factors and ensure that management implements this strategy. The board's duty then is to monitor that implementation. The board must also deal with the well-known financial aspects. The key risk areas and the key performance indicators must be identified, as well how those risks are to be managed. In regard to the obligation to report as a going concern, the directors need to ensure that the facts and assumptions they rely on in coming to that conclusion are recorded. The board needs regularly to monitor the human capital aspects of the company in regard to succession, morale, training, remuneration, etc. In addition, the board must ensure that there is effective communication of its strategic plans and ethical code, both internally and externally. The board must see to it that there are adequate internal controls and that the management information systems can cope with the strategic direction in which the company is headed. There must be a "license to operate" check in language understandable to all those to whom it is communicated. (King II Report on Corporate Governance for South Africa, 2002:17)

The aforementioned role of the board is very important and is the backbone of this research. Research questionnaires to the study respondents sought to understand whether directors and executives fully understand their role in the companies they serve, in this instance the Standard Bank African subsidiaries.

King II states that, in South Africa, companies recognise that they co-exist in an environment where many of the country's citizens disturbingly remain on the fringes of society's economic benefits. King II adds that the King Committee's unanimous view is that the inclusive approach is fundamental to doing business in South Africa. The same can be said of the African subsidiaries of Standard Bank. The inclusive approach is likely to ensure that companies succeed at balancing economic efficiency and society's broader objectives (King II Report on Corporate Governance for South Africa, 2002:17).

3.5.4.1 King II on Ubuntu

The King II report and subsequent King III and King IV™ observe and take into account the African worldview and culture in the context of governance of organisations in South Africa. The doctrine of *Ubuntu*/*Botho* is discussed below.

The doctrine of *Ubuntu*/*Botho*

The *Ubuntu*/*Botho* doctrine is generally accepted as a recognised philosophy and as being distinctly African. Broodryk (cited in Letseka, 2013:337) conceives of *Ubuntu*/*Botho* as "a comprehensive ancient African worldview based on the values of humanness, caring, sharing, respect, compassion and associated values, ensuring a happy and qualitative human community life in a spirit of family". Roederer and Moellendorf (cited in Gade, 2012:486) echo this sentiment and argue that *Ubuntu*/*Botho* is generally rooted in African indigenous cultures. They contend that *Ubuntu*/*Botho* represents notions of worldwide human interdependence, solidarity and communalism, which can be found in all small communities in pre-colonised Africa and which inspire almost every indigenous African culture. Although *ubuntu* and *botho* are Nguni and Sotho terms, respectively, similar terms with similar meanings are found in African languages all over Sub-Saharan Africa. Kamwangamalu (cited in Gade, 2012:486) lists the following terms as examples: *umuntu* (in Kenya); *bumuntu* (in Tanzania); *vumuntu* (in Mozambique); *bomoto* (in Democratic Republic of Congo); and *gimuntu* (in Angola).

3.5.4.2 Critique of *Ubuntu*/*Botho* philosophy

Authors such as Enslin and Horsthemke (cited in Letseka, 2013:337) are sceptical of *Ubuntu*/*Botho* as a model in African democracies whilst Marx (cited in Letseka, 2013:337) describes *Ubuntu*/*Botho* as a made-up tradition. In other words, it is not a true tradition.

3.5.5 United States of America Sarbanes-Oxley (SOX) Act of 2002

In response to the Enron bankruptcy scandal and other corporate governance and accounting scandals, the US Senate began working on the corporate governance bill, which later became the Sarbanes-Oxley (SOX) Act of 2002. The US Congress rushed to finalise the SOX Act after WorldCom (long-distance phone company) filed for bankruptcy. Unlike in the UK and South Africa, where the doctrine of *"apply or explain"* was adopted, the US opted for the *"comply or else"* doctrine through the SOX Act. The SOX Act in the US contains a series of detailed requirements concerning audits and auditors of listed companies, write Wixley and Everingham (2010:13). These authors further state that in the UK many of these matters are handled by the relevant professional standards adopted by the accounting profession.

3.5.5.1 Criticism of the SOX Act of 2002

Despite SOX being one of the toughest laws on corporate governance, the Act is not without criticism. The International Federation of Accountants or IFAC (2016:5), a New York-based global organisation for the accountancy profession, in profiling Prof. Mervyn King, asked him if regulation steers desired behaviour. He responded that he believed in principles rather than in rules and was against the use of criminal sanctions to bring about the required behaviour. In his opinion, the SOX Act encourages mindless compliance, with companies developing manuals to tick off compliance. He gave the example of engineering firms that hired accountants and lawyers rather than engineers so that they could avoid criminal prosecution.

Authors such as Willits and Nicholls (2014) agree with Prof. King's assertion with regard to the cost of SOX compliance. In an article published in the *American Journal for Certified Public Accountants* entitled "Is the Sarbanes-Oxley Act Working?" Willits and Nicholls (2014:38) highlight the financial cost of complying with SOX. They state that one of the frequent complaints about SOX concerns the law's costs in comparison to its benefits – especially the cost of complying with section 404, which deals with internal controls.

Section 404 states that:

> The Commission shall prescribe rules requiring each annual report required by section 13(a) or 15(d) of the Securities Exchange Act of 1934 … to contain an internal control report, which shall - (1) state the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and (2) contain an assessment, as of the end of the most recent fiscal year of the issuer, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting. (b) INTERNAL CONTROL EVALUATION AND REPORTING. - With respect to the internal control assessment required by subsection (a), each registered public accounting firm that prepares or issues the audit report for the issuer shall attest to, and report on, the assessment made by the management of the issuer. An attestation made under this subsection shall be made in accordance with standards for attestation engagements issued or adopted by the Board. Any such attestation shall not be the subject of a separate engagement. (Sarbanes-Oxley Act, 2002: 45)

Willits and Nicholls (2014) further state that, based upon studies conducted shortly after SOX took effect, average section 404 costs ranged from USD4m to USD7m and for large companies to more than USD10m.

Authors such as Pozen (2010:52) are of the view that SOX is ineffective because the regulators have merely added a new layer of legal obligations to the job of governance without improving the quality of people serving on the boards or changing their behaviour dynamics.

3.5.6 Germany Corporate Governance Code - 2017

The Deutscher Corporate Governance Kodex (German Corporate Governance Code), here after referred to as “the Code” was first published in 2002 and presents essential statutory regulations for the management and supervision of German listed companies and contains, in the form of recommendations and suggestions, internationally and nationally acknowledged standards for good and responsible corporate governance. The Code was amended in May 2015 and in February 2017. The doctrine adopted by the Code is *“Comply or Explain” (R*egierungskommission Deutscher Corporate Governance Kodex, 2017).

The Code clarifies the obligation of the Management Board and the Supervisory Board to ensure the continued existence of the enterprise and its sustainable creation of value in conformity with the principles of the social market economy (interest of the enterprise). A *dual board system* (Management Board and Supervisory Board) is prescribed by law for German stock corporations.

The Management Board is responsible for managing the enterprise or governing body. Its members are jointly accountable for the management of the enterprise or governing body. The chairman of the Management Board coordinates the work of the Management Board. The Supervisory Board appoints, supervises and advises the members of the Management Board and is directly involved in decisions of fundamental importance to the enterprise or governing body. The chairman of the Supervisory Board coordinates the work of the Supervisory Board.

3.5.7 Dutch Corporate Governance Code - 2016

The Dutch Corporate Governance Committee (Tabaksblat Committee) published the first Dutch Corporate Governance Code (here after referred to as “the Code”) on 9 December 2003. The Code was revised in 2016 by the Dutch Corporate Governance Code Monitoring Committee.

The Code’s doctrine of *“apply or explain”* is not dissimilar to the doctrine adopted by South Africa. The Code is not an isolated set of rules but part of a larger system together with Dutch and European legislation and case law on corporate governance, which must be viewed in its entirety (Dutch Corporate Governance Code Monitoring Committee, 2016). Unlike the UK and South Africa, but similar to Germany the Netherlands has a *dual board system* that is made up of the *Management Board* and *Supervisory Board*.

3.5.8 Organisation for Economic Co-operation and Development (OECD) - 2015

The origins of the Organisation for Economic Co-operation and Development (OECD) date back to 1960, when 18 European countries plus the US and Canada joined forces to create an organisation dedicated to economic development. Currently the OECD's 35 member countries span the globe, from North and South America to Europe and the Asia-Pacific. They include many of the world's most advanced countries but also emerging countries such as Mexico, Chile and Turkey.

The OECD works closely with emerging economies such as South Africa, the People's Republic of China, India and Brazil and other developing economies in Africa, Asia, Latin America and the Caribbean. The OECD's goal is to build a stronger, cleaner and fairer world. Table 3.1 lists the OECD's current member countries. The countries include developed and least developed countries or emerging markets:

Table 3. 1: The OECD's 35 member countries

OECD COUNTRIES			
1) Australia	10) France	20) Latvia	29) Slovenia
2) Austria	11) Germany	21) Luxembourg	30) Spain
3) Belgium	12) Greece	22) Mexico	31) Sweden
4) Canada	13) Hungary	23) Netherlands	32) Switzerland
5) Chile	14) Iceland	24) New Zealand	33) Turkey
6) Czech Republic	15) Ireland	25) Norway	34) United Kingdom
7) Denmark	16) Israel	26) Poland	35) United States
8) Estonia	17) Italy	27) Portugal	
9) Finland	18) Japan	28) Slovak Republic	
	19) South Korea		

Source:OECD (2017).

Table 3.1 presents all 35 OECD member countries. The OECD principles of 2004 were revised and adopted in July 2015 and ratified by the G20 in November 2015. They are now called G20/OECD Principles of Corporate Governance. “The Principles are non-binding and do not aim at detailed prescriptions for national legislation. Rather, they seek to identify objectives and suggest various means for achieving them. The Principles aim to provide a robust but flexible reference for policy makers and market participants to develop their own frameworks for corporate governance. To remain competitive in a changing world, corporations must innovate and adapt their corporate governance practices so that they can meet new demands and grasp new opportunities” (G20/OECD, 2015:11).

3.5.9 United Nations Principles for Responsible Investing (UNPRI) – 2005

The UNPRI were developed by an international group of institutional investors to reflect the increasing relevance of ESG issues for investment practices. The process was convened by the United Nations Secretary-General, Kofi Annan, in 2005.

The UNPRI mission is stated on its website: “We believe that an economically efficient, sustainable global financial system is necessary for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole” (United Nations, 2016). Table 3.2 below presents the categories and numbers of UNPRI signatories.

Table 3. 2: UNPRI signatories as at 28 March 2017

United Nations Principles for Responsible Investing Signatories (Worldwide)	
Asset Managers	344
Investment Managers	1,148
Service Providers	225
Total	**1,717**

Source: United Nations (2017).

Table 3.2 above shows that as at 28 March 2017 the UNPRI had 1,717 signatories with Assets Under Management (AUM) of USD62 trillion as at April 2016. In Africa, some of the large companies and parastatals in Namibia, South Africa, Ghana, Morocco, Mauritius and Nigeria are represented in the signatories.

In line with the UNPRI mission and objectives, signatories may only invest in businesses that integrate ESG issues into their strategies. For example, the South African Government Pension Fund may only invest in companies that exhibit good governance and have regard for social and environmental issues.

According to the UNPRI Annual Report (United Nations, 2016:4), “The PRI is today widely recognised for its leadership role in creating global awareness about responsible investment and helping progress responsible investment within the core processes of investors around the world.”

In signing the Principles, the investors publicly commit themselves to adopting and implementing them, where consistent with their fiduciary responsibilities. They also make a commitment to evaluating the effectiveness and improving the content of the Principles over time. They believe this will improve their ability to meet commitments to beneficiaries and to better align their investment activities with the broader interests of society. The Six Principles are voluntary and aspirational and are unpacked below:

Principle 1 – We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2 – We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3 – We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4 – We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5 – We will work together to enhance our effectiveness in implementing the Principles.

Principle 6 – We will each report on our activities and progress towards implementing the Principles (United Nations, 2016).

In addition to the above, the UNPRI has an Academy called The PRI Academy, which is promoted as the gold standard for ESG training. The PRI Academy offers three courses:

- **RI Fundamentals** – Web-based Responsible Investment Training. This course delivers the business case for responsible investing and introduces new ideas to traditional investment approaches.
- **RI Essentials** – The Web-based Responsible Investing Essentials course uses case studies to illustrate the materiality of ESG issues in business.

- **Enhanced Financial Analysis** – This is a web-based course that examines the use of sustainability performance, key value drivers and overall financial outcomes.

3.5.10 Report on Corporate Governance for South Africa, 2009 (King III)

The introduction of the new Companies Act of 2008 in South Africa and regulatory and economic factors necessitated the revision of King II. The King Committee issued the King III Report on Corporate Governance for South Africa – 2009 (the "Report") and the King Code of Governance Principles – 2009 (the "Code"). The Report and the Code are together referred to as "King III" and were published in 2009. It is important to unpack King III, as it will be noticed later that the underpinning philosophies of King III are refined in King IV.

King III "applies to all entities regardless of the manner and form of incorporation or establishment and whether in public, private sectors or non-profit sectors" (King III Report on Corporate Governance for South Africa, 2009:7). The principles have been drafted so that every entity can apply them and in so doing achieve good governance. Most of the concepts introduced in prior King corporate governance reports, most notably King II, are encapsulated in King III.

The IFAC profile of Prof. Mervyn King under the heading "Governance is King" quotes Sir Adrian Cadbury, the "father" of corporate governance, as commenting about the code, "Governance yesterday focused on raising standards of board effectiveness; governance today on the role of business in society; and the course of governance tomorrow is set by King III" (International Federation of Accountants, 2016:1).

In the same article by the IFAC, King III's landmark elements are highlighted as follows:

- The philosophy of the King III code revolves around leadership, sustainability and corporate citizenship;
- The code is not designed on a *"comply or else"* (US), or on a *"comply or explain"* (UK) basis but on an *"apply or explain"* basis;

- The principles in the code are drafted so that every entity, be it public, private or non-profit, can apply them. By so doing entities will achieve good corporate governance;
- It follows the stakeholder-inclusive model, in which the board of directors is encouraged to consider the legitimate interests and expectations of stakeholders on the basis that these are in the best interests of the company;
- Alternative dispute resolution, which includes negotiation, mediation and arbitration, is encouraged as a management tool and a dispute-resolution mechanism;
- The code adopts a risk-based internal audit approach to determine whether controls are effective in managing the risks that arise from strategic direction;
- The introduction of information technology (IT) governance shows the importance of IT governance for directors; and
- The code recommends the integration of economic, social and environmental reporting, stating how the company's business has impacted positively and negatively on the community and how it intends to enhance those positive aspects and eradicate the negative aspects in future years.

3.5.10.1 Integrated thinking and integrated reporting

To show the importance of integrated reporting, King III has a chapter dedicated to integrated sustainability reporting. According to PricewaterhouseCoopers (2009:2), "The concept of reporting on economic, social and environmental performance (so-called 'triple bottom line') is thus not new. However, there is growing global and local attention to sustainability issues." King III requires companies to integrate both financial and non-financial information into their annual report. A company's integrated report should have sufficient information that records how the company has positively and negatively affected the economic life of the community in which it operated during the year under review. KPMG (2015:7) summarises integrated reporting succinctly by stating that an integrated report should:

- Be prepared every year;
- Convey adequate information regarding the company's financial and sustainability performance; and

- Focus on substance over form.

With sustainability issues having gained in importance in South Africa since the publication of King II, King III stresses that integrated reporting cannot just be a matter of collating sustainability information at the end of the year and then presenting it. King III argues that sustainability reporting should instead be integrated with other information about the company; i.e. financial information. The King III report states the following about international sustainability efforts:

- **United Nations** – Published the Global Compact and the Principles for Responsible Investment (UNPRI);
- **European Union** – Green Paper for Corporate Social Responsibility (CSR);
- **Organisation for Economic Co-operation and Development (OECD)** – Published guidelines on Multinational Companies;
- **Swedish Government** – Stated that its state-owned enterprises must have a sustainability report following the Global Reporting Initiative's (GRI) G3 guidelines;
- **United Kingdom (UK)** – The relevant CSR part of the Company Act, which came into operation in 2007, requires company directors to consider in their decision-making the impact of the company's operations on the community and the environment. King III adds that the intention of the UK company law reform was to:
    - Encourage companies to take an appropriate long-term action perspective;
    - Develop a productive relationship with employees and those in the supply chain; and
    - Take seriously their ethical, social and environmental responsibilities.
- **Germany** – In terms of the German Commercial Code, management reports must include non-financial performance indicators and companies should demonstrate that their actions have taken CSR into account in an effective way;
- **Norway** – Launched a white paper on CSR. The Paper deals with the responsibility of Norwegian companies to report on sustainability performance;

- **Denmark** – In 2008 Denmark passed a law on CSR reporting for its companies, mandating that Danish companies disclose their CSR activities or give reasons for not having any; i.e. “comply or explain”; and
- **United States of America (US)** – Former President Obama stated that sustainability issues would be central to the policies of his administration.

In South Africa, in terms of the Companies Act 71 of 2008 as amended by the Companies Act 3 of 2011 and the Companies Regulation 43, which came into effect on 1 May 2011, all state-owned companies, listed public companies and any other company with a public interest score of above 500 in any two of the previous 5 years is required to appoint a social and ethics committee.

As per the Companies Act, the social and ethics committee has certain functions. In terms of Companies Regulation 43, the social and ethics committee must monitor the company’s activities, having regard to relevant legislation and codes of best practice, in respect of:

- Social and economic development, including the company’s standing in terms of the goals and purposes of:
    - The 10 principles set out in the United Nations Global Company Principles;
    - The OECD recommendations regarding corruption. These are published on its website;
    - The Employment Equity Act 55 of 1998; and
    - The Broad-Based Black Economic Empowerment Act 53 of 2003;
- Good corporate citizenship, including the company’s:
    - Promotion of equality, prevention of unfair discrimination and measures to address corruption;
    - Contribution to development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed; and
    - Record of sponsorship, donations and charitable giving;

- The environment, health and public safety, including the impact of the company's activities and of its products or services;
- Consumer relationships, including the company's policies and records relating to advertising, public relations and compliance with consumer protection laws; and
- Labour and employment matters (Deloitte, 2016).

In addition to the above, the social and ethics committee must draw matters within its mandate to the attention of the board as required and report to the shareholders at the Annual General Meeting (AGM) (The South African Companies Act 71 of 2008 as amended by the Companies Act 3 of 2011 and the Companies Regulations 2011).

In South Africa, the Johannesburg Stock Exchange (JSE) launched the Social Responsibility (SRI) Index in 2014 as a tool to help investors identify companies that incorporate sustainability practices into their business activities.

3.5.10.2 Sustainability

A not-for-profit think tank called Tomorrow's Company (cited in King III Report on Corporate Governance for South Africa, 2009:11) recognises that tomorrow's global company should "expand its view of success and redefine it in terms of lasting positive impacts for business, society and the environment". The King Commission stated that sustainability is, however, about more than just reporting on sustainability. It is vital that companies focus on integrated performance. The board's role is to set the tone at the top so that the company can achieve this integrated performance. Sustainability also means that management pay schemes must not create incentives to maximise relatively short-term results at the expense of longer-term performance.

3.5.10.3 Combined assurance

The King III Report on Corporate Governance points out while the actual responsibility for risk management rests with management, oversight is assigned to the risk committee (or the audit committee, as specified by Wixley and Everingham, 2010:104). Principle 7.3 of King III states that: "Internal audit should provide a written assessment of the effectiveness of the company's systems of internal controls and risk management" (King III Report on Corporate Governance for South Africa, 2009:45).

In order to mitigate risk, crucial control and monitoring are required and assurance is derived from three sources:

- Management – senior company employees;
- Internal assurance providers – notably internal audit; and
- External assurance providers – notably external auditors and industry specialists such as actuaries and geologists.

3.5.11 Sustainable Capitalism – year 2012

"Sustainable Capitalism" is a concept used by the former vice president of the US turned climate-change warrior, Al Gore, and by David Blood, an ex-partner of Goldman Sachs. Together they launched an investment company called Generation Investment LLP, with offices in the US and UK. A paper that explains Sustainable Capitalism was published in 2012 by the non-profit arm of Generation Investment LLP. Its authors believe that capitalism as it is currently practised has shortcomings and needs to be "reformed". Al Gore and David Blood state how businesses can embrace environmental, social and governance metrics. They are against short-term wealth creation, i.e. short-termism, and advocate a sustainable capitalism based on long-term wealth creation that encompasses ESG. What makes Sustainable Capitalism unique is that Al Gore and David Blood and the Generation team have drawn on the expertise and advice of numerous specialists and practitioners. At the end of the paper, a total of 72 diverse specialists who contributed to the paper are acknowledged.

Definition of Sustainable Capitalism

Gore and Blood (2012) define Sustainable Capitalism as "a framework that seeks to maximise long-term economic value creation by reforming markets to address real needs while considering all costs and integrating ESG metrics into the decision-making process."

Sustainable Capitalism, according to them, applies to the entire investment value chain from entrepreneurial ventures to publicly traded large companies, from investors providing seed capital to those focused on late-stage growth-orientated opportunities, from company employees to CEOs, and from activists to policy makers and standard setters. They argue that Sustainable Capitalism transcends borders, industries, ownership forms, asset classes and stakeholders.

According to Gore and Blood (2012:1),

> The challenges facing the planet today are unprecedented and extraordinary; climate change, water scarcity, poverty, disease, growing inequality of income and wealth, demographic shifts, trans-border and internal migration, urbanisation and a global economy in a state of constant dramatic volatility and flux, to name but a few. While governments and civil society will need to be part of the solution to these massive challenges, ultimately it will be companies and investors that will mobilise the capital needed to overcome them.

To address these sustainability challenges, Al Gore and David Blood advocate a paradigm shift to Sustainable Capitalism, a framework that seeks to maximise long-term economic value creation by reforming markets to address real needs while considering all costs and stakeholders.

Franklin (cited in Gore & Blood, 2012:11) states, “You may delay, but time will not, and lost time is never found again.” The authors argue that an opportunity exists to rebuild for the long-term. Sustainable Capitalism will create opportunities and rewards but it will also mean challenging the pernicious orthodoxy of short-termism. They further argue that now is the time to accelerate the transition.

The objectives of Gore and Blood’s (2012) paper are twofold. First, they make the economic case for mainstreaming Sustainable Capitalism by highlighting the fact that it does not represent a trade-off with profit-maximisation but instead actually fosters superior long-term value creation. Second, they recommend five key actions for immediate adoption that will accelerate the mainstreaming of Sustainable Capitalism by 2020.

a) Identify and incorporate risks from stranded assets

Gore and Blood (2012:14) define stranded assets as "those that would be unprofitable under certain scenarios, which include the enforcement of a fair price on carbon and water, or improved regulation of labour standards in emerging economies". They acknowledge that it can be difficult to quantify the value of stranded assets.

Gore and Blood (2012:15) "propose working with academics and financial professionals to quantify the impact of stranded assets and the subsequent implications for assessing investment opportunities until a fair price on externalities forces a change in valuation methodologies". They write: "Our goal is to establish the financial materiality of sustainability through empirical evidence. And through this analysis we hope to provoke a wider discussion about the need for investors, in particular those with long-term liabilities, to fundamentally reassess their investment thesis relating to externalities rather than simply hedging against them."

b) Mandate integrated reporting

Gore and Blood (2012) support efforts by Professor Robert G. Eccles (at the Harvard Business School), the IIRC and Aviva Investors, who collectively are leading progress in the field of integrated reporting. While they applaud the role played by the above actors in encouraging integrated reporting, Gore and Blood (2012:17) argue that integrated reporting needs to be mandated for the required change to be effected. They state that:

> Although this policy intervention will vary on a country-by-country basis, securities regulators and stock exchanges are well suited to oversee the requirement for integrated reporting. In South Africa, the Johannesburg Stock Exchange set an exemplary precedent in its 2011 decision to require all listed companies to either produce an integrated report or explain why they were not doing so. Even so, the mandating of integrated reporting is just the first step, as reporting standards around ESG information and its link to financial metrics will need to be refined continuously.

c) End the default practice of issuing quarterly earnings guidance

In countries such as the US, listed companies are required to publish quarterly results.

In countries such as South Africa, listed companies are only required to issue half-yearly results. According to Al Gore and David Blood, quarterly results are the main cause of the plague of short-termism. Gore and Blood (2012) propose bringing together a significant group of CEOs who have already stopped providing quarterly earnings guidance with others who pledge to stop doing so as a catalyst for change around issuing quarterly earnings practice.

d) Align compensation structures with long-term sustainable performance

Gore and Blood (2012) argue that, presently, most compensation schemes disproportionately emphasise short-term performance and fail to hold financial professionals and corporate executives accountable for the longer-term ramifications of their decisions.

In their view, “while the absolute amount that executives and fund managers receive in pay should be debated, given the rise in income inequality, our focus is instead on the importance of aligning their financial rewards to the period over which results are realised. This action will create a more sustainable society by closely linking pay with long-term performance that takes both financial and ESG metrics into consideration for a comprehensive evaluation” (Gore & Blood, 2012:19).

e) Encourage long-term investing with loyalty-driven securities

Al Gore and David Blood view the short retention of shares as a problem and encourage long-term holding of shares by investors.

Gore and Blood (2012) state that short-termism can create volatility in the markets, which can have an impact on share price, and encourage companies to attract long-term investors instead. They advocate achieving this by rewarding long-term investors through the loyalty dividend or loyalty-shares (L-Shares) concept, which provides additional financial gain at the end of an agreed on (usually extended) time.

3.5.12 Africa Corporate Governance Network (ACGN) – 2013

The Africa Corporate Governance Network (ACGN) was founded in 2013 in South Africa and consists of 14 members and 10 affiliates. The formation of the ACGN was spearheaded by the Institute of Directors in Southern Africa (IoDSA) and Mauritius Institute of Directors (MIoD). The ACGN represents the voice of over 20,500 directors and senior executives in Africa. Table 3.3 below indicates the ACGN membership and affiliates.

Table 3. 3: ACGN members and affiliates

Countries/Institute of Directors	
Members	**Affiliate Members**
1) Egyptian Institute of Directors 2) Institute of Directors Ghana 3) Institut Arabe des Chefs d'Entreprise (Tunisia) 4) Institute of Directors Kenya 5) Institute of Directors in Malawi 6) Mauritius Institute of Directors 7) Institut Marocain des Administrateurs 8) Institute of Directors Mozambique 9) Institute of Directors Nigeria 10) Institute of Directors in Southern Africa 11) Institute of Directors in Tanzania 12) Institute of Corporate Governance of Uganda 13) Institute of Directors of Zambia 14) Institute of Directors Zimbabwe	1) FITC Nigeria 2) Institut National des Administrateurs de Cote d'Ivoire 3) Hawkama EL Djazair (Algeria) 4) Association of Chartered Certified Accountants (ACCA) 5) Ethics Institute 6) African Securities Exchanges Association (ASEA) 7) ICSA – Nigeria 8) ICSA – Uganda 9) ICSA – Zimbabwe 10) Society for Corporate Governance Nigeria

Source: African Corporate Governance Network (2016).

Table 3.3 above lists the core 14 members and 10 affiliates of the ACGN. Membership is diverse and encompasses the Southern, Eastern, Western and Northern Africa Regions.

The ACGN mission statement is: "to develop institutional member capacity for enhancing effective corporate governance practices, building better organisations and corporate citizens in Africa" (African Corporate Governance Network, 2016). The objectives of the ACGN are to:

- Exchange and share knowledge, information, best practice tools and resources;
- Demonstrate good practice within member organisations and networks;
- Build sustainable capacity to enable membership organisations to achieve their goals;
- Create a common platform for advocacy, initiatives and communication;
- Expand the network;
- Create a favourable investment climate (outcome); and
- Conduct research (African Corporate Governance Network, 2016).

3.5.13 The Equator Principles – 2013

The Equator Principles were published in June 2013 as a financial industry benchmark for determining, assessing and managing environmental and social risk in projects.

According to the Equator Principle website, The Equator Principles (EP) Association is the unincorporated association of member Equator Principles Financial Institutions (EPFIs), whose object is the management, administration and development of the EPs. The EP Association was formed in 2010 and was instituted to ensure long-term viability and ease of management of the member EPFIs.

The EP Association is governed by a set of governance rules, which provide guidance to existing and prospective EPFIs on the processes for the management, administration and development of the EPs.

The EP Association Steering Committee co-ordinates the administration, management and development of the EPs on behalf of the member EPFIs.

Table 3.4 lists the 12 members of the EP Association Steering Committee.

Table 3. 4: Core members of the EP Association Steering Committee

Financial Institutions
1) Barclays plc 2) Credit Suisse 3) Citigroup 4) Export Development Canada 5) ING 6) Itau Unibanco S/A 7) J.P. Morgan Chase and Co. 8) Mizuho Bank, Ltd 9) Standard Bank Group (Steering Committee Chair) 10) Standard Chartered Bank 11) Bank of Tokyo-Mitsubishi UFJ (BTMU) 12) The Royal Bank of Scotland

Table 3.4 lists the core members of the EP Association Steering Committee, which is currently chaired by the Standard Bank Group to provide co-ordination across the Steering Committee, the Working Groups and the member institutions. The EP Association governance rules detail the scope of the roles of the EP Association Steering Committee and chair and how representatives are nominated and appointed.

According to The Equator Principles Association (2013:2),

> Large infrastructure and industrial Projects can have adverse impacts on people and on the environment. As financiers and advisors, we work in partnership with our clients to identify, assess and manage environmental and social risks and impacts in a structured way, on an ongoing basis. Such collaboration promotes sustainable environmental and social performance and can lead to improved financial, environmental and social outcomes.

The EPFIs have adopted the EPs to ensure that the projects they finance and advise on are developed in a manner that is socially responsible and reflects sound environmental management practices. EPFIs recognise the importance of climate change, biodiversity and human rights, and believe that negative impacts on project-affected ecosystems, communities and the climate should be avoided where possible. If these impacts are unavoidable they should be minimised, mitigated and/or offset.

The EPFIs believe that adoption of and adherence to the EPs offer significant benefits to the institutions and their customers, and local stakeholders through their customers' engagement with locally affected communities. The EPFIs therefore recognise that their role as financiers affords them opportunities to promote responsible environmental stewardship and socially responsible development, including fulfilling their responsibility to respect human rights by undertaking due diligence in accordance with the EPs.

3.5.14 The International Integrated Reporting Council (IIRC), Integrated Reporting Framework – 2013

Based on the success of Accounting for Sustainability (A4S), the IIRC was launched in 2012. The IIRC published the International Integrated Reporting (<IR>) Framework in December 2013. The IIRC is a global coalition of various regulators, investors, companies, standard setters, the accounting profession and non-governmental organisations (NGOs) previously chaired by Prof. Mervyn King. It is a global not-for-profit organisation incorporated in England and Wales, and headquartered in London. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting. The International <IR> Framework has been developed to meet this need and provide a foundation for the future.

The International <IR> Framework has been developed to be consistent with a number of corporate reporting trends taking place across the globe. A range of market drivers are currently not being satisfied because of complex and dated reporting methods. These drivers include opportunities afforded by new technology, and the need for transparency, inclusiveness and more information that is material to modern business.

The IIRC's vision is to align capital allocation and corporate behaviour to wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking. To facilitate this vision, the International <IR> Framework has been created to include principles-based guidance and content elements to govern and explain the information within an integrated report.

According to the IIRC (2013), the Framework was released following extensive consultation and testing by businesses and investors in all regions of the world, including the 140 businesses and investors from 26 countries that participated in the IIRC Pilot Programme. This inclusive, market-led approach means that the Framework has been developed by business as a response to the new wider value-creation model businesses have in the 21st century. The value creation model is discussed later in this chapter.

The aims of the International <IR> Framework are to:

- "Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital;
- Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time;
- Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies; and
- Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term" (IIRC, 2013:2).

Most of the concepts used in King IV™ are based on the work conducted for the International <IR> Framework. This is acknowledged by Prof. Mervyn King (cited in King IV™ Report on Corporate Governance for South Africa, 2016:3), who states that:

> There are greater expectations from stakeholders than ever before. Activism by civil society and shareholders have rocked companies over the last few years. The Millennial Generation (Millennials), roughly those born since 1980, is now the most numerous age cohort. Their concerns are beginning to set the global agenda. Millennials have shown that they are concerned about the global environmental crunch much more than the global financial crises. They are consequently attracted to companies who have integrated the six capitals into their business models. (The six capitals, as set out in the International

Reporting Council's (IIRC) Integrated Reporting <IR> Framework, are financial, manufactured, human, intellectual, natural, and social and relationship capital.)

Integrated report definition

The IIRC's International <IR> Framework (IIRC, 2013:7) defines the integrated report as "…a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term."

3.5.14.1 The categories and descriptions of the Six Capitals

The IIRC's International <IR> Framework categorises and describes the Six Capitals. Figure 3.1 depicts the categories of the IIRC's Six Capital model.

Figure 3.1: The categories of the capitals (The Six Capitals)

Source: King (2016).

Figure 3.1 shows the Six Capitals as per the <IR> Framework. As stated earlier, conceptually King IV™ is based on the fundamental concepts of the <IR> Framework, including the Six Capital and Value Creation models. The fundamental concepts of the Six Capitals are unpacked below:

- **Financial capital** – The pool of funds that is:
  - available to an organisation for use in the production of goods or the provision of services; and
  - obtained through financing, such as debt, equity or grants, or generated through operations or investments (International Integrated Reporting Council, 2013:11).
- **Manufactured capital** – According to the IIRC's International <IR> Framework (International Integrated Reporting Council, 2013:11), manufactured capital consists of manufactured physical objects (as distinct from natural physical objects) that are available to an organisation for use in the production of goods or the provision of services, including:
  - buildings;
  - equipment; and
  - infrastructure (such as roads, ports, bridges, and waste and water treatment plants).

Manufactured capital is often created by other organisations or businesses, but includes assets manufactured by the reporting organisation or business for sale or when they are retained for its own use.

- **Intellectual capital** – According to the IIRC's International <IR> Framework (International Integrated Reporting Council, 2013:12), intellectual capital is organisational, knowledge-based intangibles, including:
  - intellectual property, such as patents, copyrights, software, rights and licences; and
  - organisational capital such as tacit knowledge, systems, procedures and protocols.

- **Human capital** – According to the IIRC's International <IR> Framework (International Integrated Reporting Council, 2013:12), human capital is people's competencies, capabilities and experience, and their motivations to innovate, including their:
    - alignment with and support for an organisation's governance framework, risk management approach and ethical values;
    - ability to understand, develop and implement an organisation's strategy; and
    - loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.

- **Social and relationship capital –** According to the IIRC's International <IR> Framework (International Integrated Reporting Council, 2013:12), "social and relationship capital" refers to the institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being. Social and relationship capital includes:
    - shared norms, and common values and behaviours;
    - key stakeholder relationships, and the trust and willingness to engage that an organisation has developed and strives to build and protect with external stakeholders; and
    - intangibles associated with the brand and reputation that an organisation has developed or an organisation's social licence to operate.

- **Natural capital** – According to the IIRC's International <IR> Framework (International Integrated Reporting Council, 2013:12), "natural capital" refers to all renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organisation. Natural capital includes:
    - air, water, land, minerals and forests; and
    - bio-diversity and eco-system health.

The IIRC's International <IR> Framework stresses that not all capitals are equally relevant or applicable to all organisations. While most organisations interact with all capitals to some extent, these interactions might be relatively minor or so indirect that they are not sufficiently important to include in the integrated report. It is therefore recommended that the board of directors or organisation's executive use their discretion in this regard.

3.5.14.2 Role of the capitals in the Framework

According to the IIRC's International <IR> Framework (International Integrated Reporting Council, 2013:12), the Framework does not require an integrated report to adopt the categories identified above or to be structured along the lines of the capitals. Rather, the primary reasons for including the capitals in this Framework are that they should serve as:

- Part of the theoretical underpinning for the concept of value creation; and
- A guideline for ensuring that organisations consider all the forms of capital they use or affect.

The IIRC's International <IR> Framework (International Integrated Reporting Council, 2013:12) specifies that organisations may categorise the capitals differently. For example, relationships with external stakeholders and the intangibles associated with brand and reputation (both identified as part of the social and relationship capital discussed earlier) might be considered by some organisations to be separate capitals, part of other capitals or as cutting across a number of individual capitals. Similarly, some organisations may define intellectual capital as comprising what they identify as human, "structural" and "relational" capitals.

Regardless of how an organisation categorises the capitals for its own purposes, the aforementioned categories are to be used as a guideline to ensure that the organisation does not overlook a capital that it uses or affects.

3.5.14.3 Value creation for the organisation and for others

As stated earlier, the value-creation model is one of the pillar concepts of King IV™. One of the founding members of the IIRC, as referred to earlier, is the South African Professor, Mervyn King, and this could be the reason that King IV is conceptually based on the IIRC's International <IR> Framework.

According to the IIRC's International <IR> Framework (International Integrated Reporting Council, 2013:10), value created by an organisation over time manifests itself in increases, decreases or transformations of the capitals caused by the organisation's business activities and outputs.

Figure 3.2 depicts the value created for the organisation and for others.

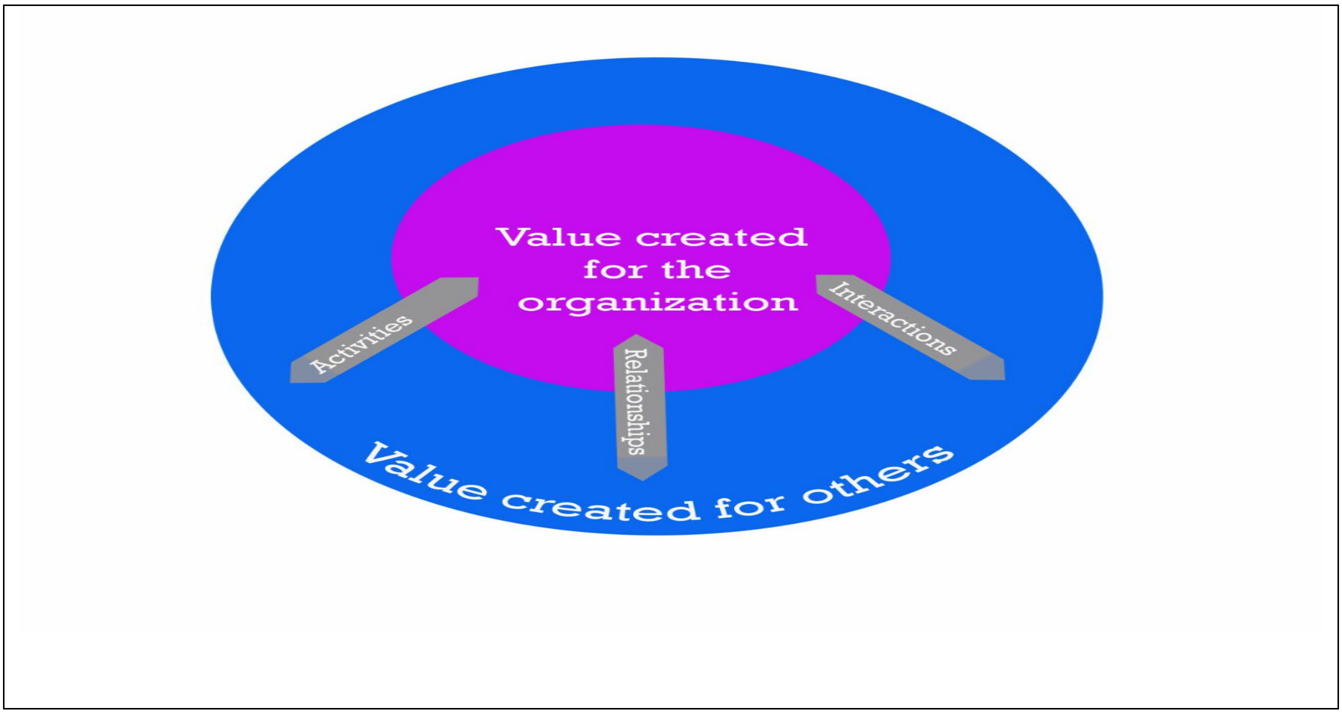

Figure 3.2: Value created for the organisation and for others

Source: The IIRC's International <IR> Framework (International Integrated Reporting Council, 2013:10).

Figure 3.2 demonstrates value created for the organisation and for others. That value has two interrelated aspects – value created for:

- The organisation itself, which enables financial returns to the providers of financial capital; and
- Others (i.e. stakeholders and society at large).

Providers of financial capital are interested in the value that an organisation creates for itself. They are also interested in the value that an organisation creates for others when it affects the ability of the organisation to create value for itself, or relates to a stated objective of the organisation (e.g. an explicit social purpose) that affects their assessments.

The IIRC's International <IR> Framework (International Integrated Reporting Council, 2013:10) specifies that the ability of an organisation to create value for itself is linked to the value it creates for others. As illustrated in Figure 3.2,

> this happens through a wide range of activities, interactions and relationships in addition to those, such as sales to customers, that are directly associated with changes in financial capital. These include, for example, the effects of the organization's business activities and outputs on customer satisfaction, suppliers' willingness to trade with the organisation and the terms and conditions upon which they do so, the initiatives that business partners agree to undertake with the organization, the organization's reputation, conditions imposed on the organization's social licence to operate, and the imposition of supply chain conditions or legal requirements.

Accordingly, when these interactions, activities and relationships are material to the organisation's ability to create value for itself, they are included in the integrated report. This includes taking into account the extent to which effects on the capitals have been externalised (i.e. the costs or other effects on capitals that are not owned by the organisation).

Companies such as Standard Bank Group have adopted the value-creation concept, showing in simple terms how value is created. This will be discussed in detail in Chapter 4.

The value-creation process in simple terms describes how an organisation’s business model factors in the inputs from the Six Capitals and converts them into outputs such as products and services. Figure 3.3 shows the conversion process.

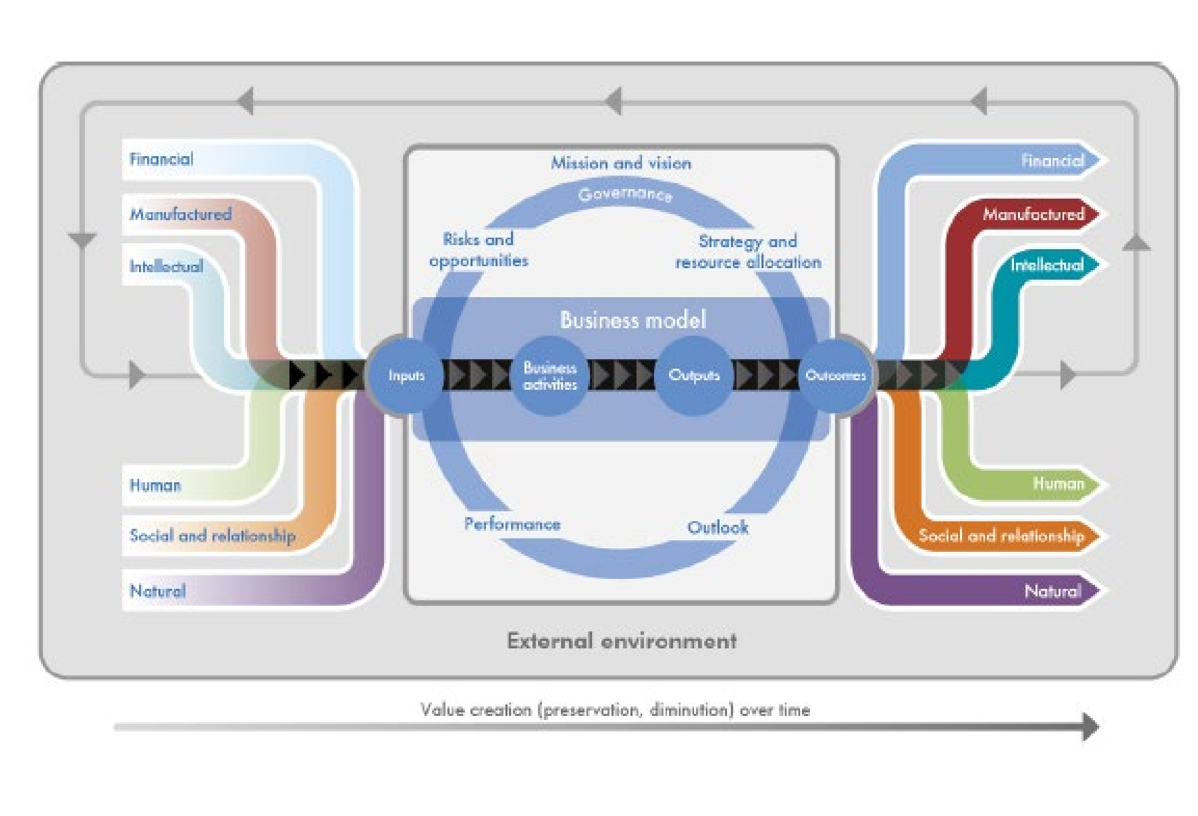

Figure 3. 3: The value-creation process

Source: The IIRC’s International <IR> Framework (International Integrated Reporting Council, 2013:13).

Figure 3.3 shows how the value-creation process works in an organisation. The value-creation process is unpacked below.

The external environment

According to the IIRC’s International <IR> Framework (International Integrated Reporting Council, 2013:13), the external environment, “including economic conditions, technological change, societal issues and environmental challenges, sets the context within which the organization operates. The mission and vision encompass the whole organization, identifying its purpose and intention in clear, concise terms.”

Governance

Those charged with governance, i.e. boards of directors, are responsible for creating an appropriate oversight structure that supports the ability of the organisation to create value.

Inputs, outputs and outcomes

The <IR> Framework argues that at the core of the organisation is its business model, which draws on various capitals as inputs and, through its business activities, converts them to outputs (products, services, by-products and waste). The organisation's activities and its outputs lead to outcomes in terms of effects on the capitals. The capacity of the business model to adapt to changes (e.g. in the availability, quality and affordability of inputs) can affect the organisation's longer-term viability (International Integrated Reporting Council, 2013:13).

Business activities

According to the IIRC's International <IR> Framework (International Integrated Reporting Council, 2013:13-14), business activities include the planning, design and manufacture of goods or the deployment of specialised skills and knowledge in the provision of services. The <IR> Framework states that encouraging a culture of innovation is often a key business activity in terms of generating new goods and services that anticipate customer demand, introducing efficiencies and better use of technology, substituting inputs to minimise adverse social or environmental effects and finding alternative uses for outputs. Outcomes are the internal and external consequences (positive and negative) for the capitals as a result of an organisation's business activities and outputs.

Mission, vision, risks and opportunities

The IIRC's International <IR> Framework (International Integrated Reporting Council, 2013:14) posits that continuous monitoring and analysis of the external environment in the context of the organisation's mission and vision identify risks and opportunities relevant to the organisation, its strategy and its business model.

Strategy and resource allocation

The organisation's strategy identifies how it intends to mitigate or manage risks and maximise opportunities. It sets out strategic objectives and strategies for achieving these objectives, which are implemented through resource allocation plans (International Integrated Reporting Council, 2013:14).

Performance

The organisation needs information about its performance, which involves setting up measurement and monitoring systems to provide information for decision-making.

Outlook

The IIRC's International <IR> Framework (I International Integrated Reporting Council, 2013:14) states that the value-creation process is not static. Regular review of each component and its interactions with other components, and a focus on the organisation's outlook lead to revision and refinement, with the aim of improving all the components.

3.5.15 The United Nations Sustainable Development Goals – 2015

In 2015 all the UN member governments agreed on a set of goals to make the world a better place; these goals were aptly called the "United Nations Sustainable Development Goals".

The United Nations Development Programme envisages the future where everybody will have enough food and can work. Additionally, it aims for a world where living on less than $1.25 a day would be a thing of the past.

Figure 3.4 depicts the United Nations Sustainable Development Goals.

Figure 3. 4: The United Nations 17 Sustainable Development Goals

Source: United Nations Sustainable Development Goals (United Nations, 2015).

Figure 3.4 above illustrates the 17 United Nations Sustainable Development Goals agreed on by 193 governments around the world. These goals are summarised below:

- **No poverty**
  - The first goal is to end extreme poverty in all forms by 2030.
- **Zero hunger**
  - This goal is to end hunger, achieve food security and improved nutrition, and promote sustainable agriculture.
- **Good health and well-being**
  - The third goal is to ensure healthy lives and promote well-being for all at all ages.
- **Quality education**
  - The fourth goal is to ensure inclusive and equitable quality education and to promote life-long learning opportunities.
- **Gender equality**
  - The fifth goal is to achieve gender equality and empower all women and girls.
- **Clean water and sanitation**

    - The sixth goal is to ensure availability and sustainable management of water and sanitation for all.
- **Affordable and clean energy**
    - The seventh goal is to ensure access to affordable, reliable, sustainable and modern energy for all.
- **Decent work and economic growth**
    - The eighth goal is to promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all.
- **Industry, innovation and infrastructure**
    - The ninth goal is to build resilient infrastructure, promote inclusive and sustainable industrialisation, and foster innovation.
- **Reduced inequality**
    - The tenth goal is to reduce inequality within and among countries.
- **Sustainable cities and communities**
    - The eleventh goal is to make cities and human settlements inclusive, safe, resilient and sustainable.
- **Responsible consumption and production**
    - The twelfth goal is to ensure sustainable consumption and production patterns.
- **Climate action**
    - The thirteenth goal is to combat climate change and its impact.
- **Life below water**
    - The fourteenth goal is to conserve and sustainably use the oceans, seas and marine resources for sustainable development.
- **Life on land**
    - The fifteenth goal is to protect and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation, and promote biodiversity.
- **Peace, justice and strong institutions**
    - The sixteenth goal is for countries to have peace, justice and strong institutions. All countries are to strive to achieve this goal.
- **Partnerships for the goals**

- The seventeenth and last goal is for countries to work together to stop climate change. A total of 193 countries agreed on these goals and are being called to work together to achieve these goals.

3.5.16 Agenda 2063 (Africa We Want) – 2015

Africa, through the African Union Commission, also developed a set of seven aspirations aptly entitled "Agenda 2063 (Africa We Want)". Aspiration 1 relates to inclusive growth and sustainable development and Aspiration 3 relates to an Africa of good corporate governance, democracy, respect for human rights, justice and the rule of law. The researcher will focus on these two aspirations as they are particularly relevant to this research. What is especially interesting is the intersection between corporate governance and the rule of law. The researcher argues that good corporate governance depends on the rule of law. Investors are unlikely to invest in a country where the government, companies, organisations and individuals disrespect the rule of law, including but not limited to court judgments. Figure 3.5 sets out the seven aspirations of Agenda 2063 (Africa We Want).

OUR ASPIRATIONS FOR THE AFRICA WE WANT

1. A prosperous Africa based on inclusive growth and sustainable development
2. An integrated continent, politically united and based on the ideals of Pan-Africanism and the vision of Africa's Renaissance
3. An Africa of good governance, democracy, respect for human rights, justice and the rule of law
4. A peaceful and secure Africa
5. An Africa with a strong cultural identity, common heritage, shared values and ethics
6. An Africa whose development is people-driven, relying on the potential of African people, especially its women and youth, and caring for children
7. Africa as a strong, united and influential global player and partner

Figure 3. 5: Agenda 2063 (Africa We Want) – 2015

Source: Agenda 2063 (African Union, 2015:2).

Figure 3.5 displays the seven aspirations set by the African Union Commission. According to the African Union Commission, Agenda 2063 is deeply "rooted in Pan Africanism and African Renaissance, provides a robust framework for addressing past injustices and realisation of the 21st Century as the African Century" (African Union, 2015:1). When drafting Agenda 2063 (Africa We Want), the authors were well aware that, for Africa to meet Agenda 2063, good governance would be a prerequisite (see Aspiration 3 in Figure 3.5). Under Aspiration 3, the African Union Commission posited that there would be "transformative leadership in all fields (political, economic, religious, cultural, academic, youth and women) and at continental, regional, national and local levels" (African Union, 2015:6).

3.5.17 International Corporate Governance Network (ICGN) Global Stewardship Principles – 2016

The ICGN was established in 1995 as an investor-led organisation. The ICGN's mission is stated on its website as being to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide. The ICGN states that its members believe in the long-term benefits of good governance and strive to make the same an integral part of their approach to business and investment. The ICGN is represented in over 47 countries and membership is open to all governance professionals, including investors, companies and others (International Corporate Governance Network, 2016). In South Africa, organisations such as Standard Bank Group Limited, the Public Investment Corporation (PIC) and the Government Employee Pension Fund (GEPF) are members of the ICGN.

The ICGN's policy positions are guided by the ICGN Global Governance Principles and Global Stewardship Principles published in 2016. Both of these sets of principles are implemented by:

- **Influencing** policy by providing a reliable source of investor opinion on governance and stewardship;
- **Connecting** peers at global events to enhance dialogue between companies and investors around long-term value creation; and

- **Informing** dialogue through knowledge and education to enhance the professionalism of governance and stewardship practices (International Corporate Governance Network, 2016).

3.5.17.1 The ICGN's 2016 Global Governance Principles and Global Stewardship Principles

According to the ICGN (2016), the following are ICGN Global Governance and Global Stewardship Principles.

Internal governance: foundations of effective stewardship

Principle 1: According to the International Corporate Governance Network (2016:12), investors should keep under review their own governance practices to ensure consistency with the aims of national requirements and the ICGN Global Stewardship Principles and their ability to serve as fiduciary agents for their beneficiaries or clients.

Developing and implementing stewardship policies

Principle 2: According to the International Corporate Governance Network (2016:14), investors should commit themselves to developing and implementing stewardship policies that outline the scope of their responsible investment practices.

Monitoring and assessing investee companies

Principle 3: The International Corporate Governance Network (2016:15), states that investors should exercise diligence in monitoring companies held in investment portfolios and in assessing new companies for investment.

Engaging companies and investor collaboration

Principle 4: According to the International Corporate Governance Network (2016:16), investors should engage with investee companies with the aim of preserving or enhancing value on behalf of beneficiaries or clients and should be prepared to collaborate with other investors to communicate areas of concern.

Exercising voting rights

Principle 5: The International Corporate Governance Network (2016:18), states that investors with voting rights should seek to vote according shares held and make informed and independent voting decisions, applying due care, diligence and judgement across their entire portfolio in the interests of beneficiaries or clients.

Promoting long-term value creation and integration of environmental, social and governance (ESG) factors

Principle 6: According to the International Corporate Governance Network (2016:19), investors should promote the long-term performance and sustainable success of companies and should integrate material ESG factors in stewardship activities.

Enhancing transparency, disclosure and reporting

Principle 7: The International Corporate Governance Network (2016:21), states that investors should publicly disclose their stewardship policies and activities and report to beneficiaries or clients on how these have been implemented so as to be fully accountable for the effective delivery of their duties.

3.5.18 Mo Ibrahim Foundation – Ibrahim Index of African Governance (IIAG) – 2017

Mo Ibrahim is a Sudanese billionaire now based in the UK. He established the Mo Ibrahim Foundation and its board of directors is represented by prominent world and African leaders such as the former Secretary General of the Organisation of African Unity (OAU), Mr Salim Ahmed Salim; and former Education Minister of Mozambique, Mrs Graça Machel, to name two.

In 2006, the Mo Ibrahim Foundation commissioned an Africa-wide annual assessment of governance called the “Ibrahim Index of African Governance” (IIAG), which covered 54 African countries.

Table 3.5 lists all the 54 African countries included in the IIAG.

Table 3. 5: All 54 African countries

African Countries				
1) Algeria 2) Angola 3) Benin 4) Botswana 5) Burkina Faso 6) Burundi 7) Cabo Verde 8) Cameroon 9) CAR 10) Chad 11) Comoros	12) Congo 13) Côte d'Ivoire 14) DRC 15) Djibouti 16) Egypt 17) Equatorial Guinea 18) Eritrea 19) Ethiopia 20) Gabon 21) Gambia 22) Ghana	23) Guinea 24) Guinea - Bissau 25) Kenya 26) Lesotho 27) Liberia 28) Libya 29) Madagascar 30) Malawi 31) Mali 32) Mauritania 33) Mauritius	34) Morocco 35) Mozambique 36) Namibia 37) Niger 38) Nigeria 39) Rwanda 40) São Tomé & Principe 41) Senegal 42) Seychelles 43) Sierra Leone 44) Somalia	45) South Africa 46) South Sudan 47) Sudan 48) Swaziland 49) Tanzania 50) Togo 51) Tunisia 52) Uganda 53) Zambia 54) Zimbabwe

Table 3.5 presents all the African countries included in the continent-wide IIAG survey. The main purpose of the Mo Ibrahim Foundation is to foster good leadership on the African continent. The secondary purpose of the Foundation is to make quality governance data freely accessible to the citizens of the continent and interested stakeholders. This is in line with the aforementioned Agenda 2063 Aspiration 3, which relates to good governance. The IIAG was originally established with Harvard University's John F. Kennedy School of Government and currently consists of more than 95 indicators, built up into 14 sub-categories, 4 categories and 1 overall measurement of governance performance. The IIAG database is available for downloading from the Foundation's website.

Mo Ibrahim, chair of the Mo Ibrahim Foundation in the 2017 IIAG press release, states that,

> As the index shows us, overall governance in Africa is improving. This is good news. However, the slowing and in some cases even reversing trends in a large number of countries, and in some key dimensions of governance, means that we must be vigilant. Without vigilance and sustained efforts, the progress of recent years could be in danger of vanishing" (Mo Ibrahim Foundation, 2017).

Figure 3.6 depicts the 2017 IIAG categories.

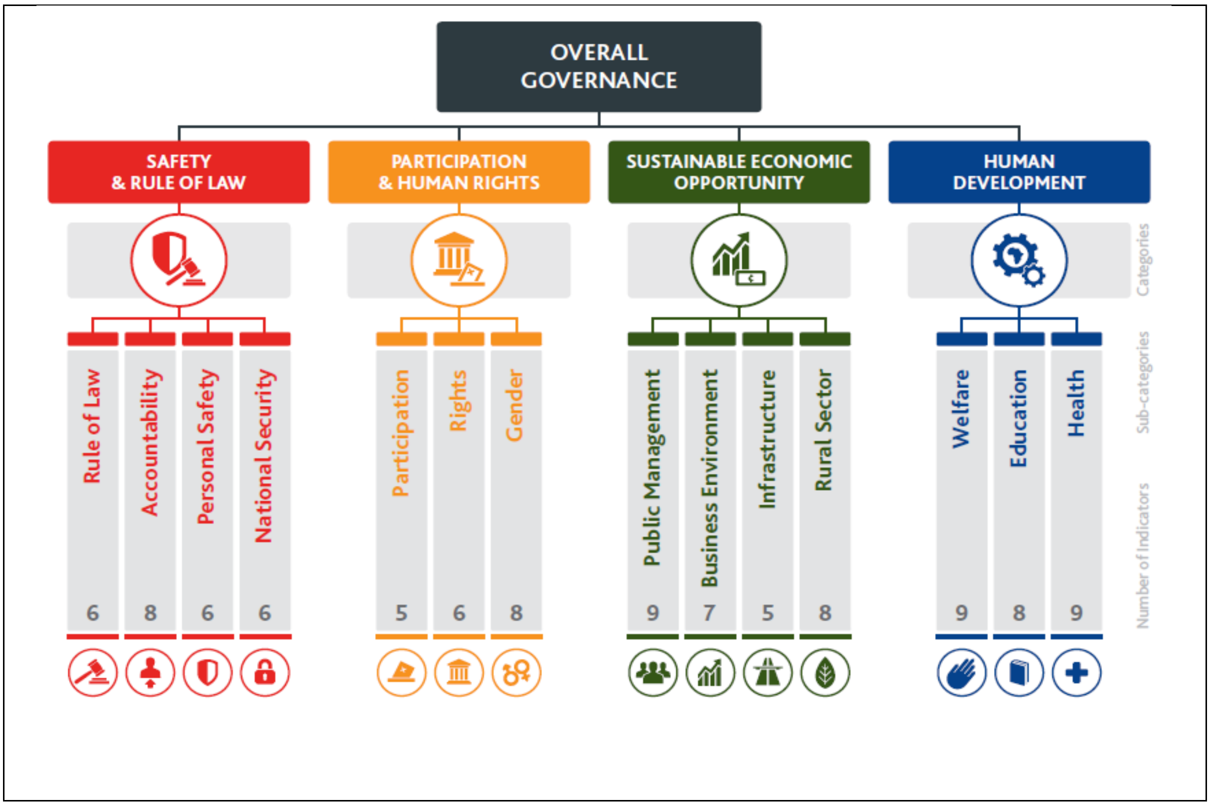

Figure 3. 6: 2017 Ibrahim Index – Overall African Governance

Source: Ibrahim Index of African Governance (Mo Ibrahim Foundation, 2017:9).

Figure 3.6 depicts the process for arriving at the annual IIAG results. The 2017 IIAG is made up of 4 categories and 14 sub-categories. The IIAG is made up of the following four categories, with their sub-categories listed under each category:

- **Safety and Law** with the following sub-categories:
  - Rule of law;
  - Accountability;
  - Personal safety; and
  - National security.
- **Participation and Human Rights** with the following sub-categories:
  - Participation;
  - Rights; and
  - Gender.
- **Sustainable Economic Opportunity** with the following sub-categories:
  - Public management;
  - Business environment;
  - Infrastructure; and

    - Rural sector.
- **Human Development** with the following sub-categories:
    - Welfare;
    - Education; and
    - Health.

The Mo Ibrahim Foundation awards the Ibrahim Prize for Achievement in African Leadership. According to the Mo Ibrahim Foundation website, the prize is meant to "change the perceptions of African leadership by showcasing exceptional role models from the continent" (Mo Ibrahim Foundation, 2016). The candidates for the prize are all African heads of government who have left office in the last three years, having been democratically elected and served their constitutionally mandated term (Mo Ibrahim Foundation, 2016). The prize is a USD5 million award paid over 10 years and USD 200,000 per year for life thereafter. The prize was not awarded in 2015 and 2016. In fact, since 2006 the prize has been awarded only five times:

- **2017** – President Ellen Johnson Sirleaf
- **2014** – President Pohamba of Namibia;
- **2011** – President Pires of Cape Verde;
- **2008** – President Mogae of Botswana; and
- **2007** – President Chissano of Mozambique.

3.5.19 Transparency International

Transparency International is a global coalition against corruption, with the vision of a world in which government, business, civil society and the daily lives of people are free of corruption. Transparency International has more than 100 chapters worldwide, with its international secretariat in Berlin. The coalition is leading the fight against corruption in its effort to turn its vision into reality (Transparency International, 2017).

Transparency International Chair Ferreira Rubio has stated that high levels of corruption also correlate with weak rule of law; government control over social media, lack of access to information and reduced participation by society (Transparency International, 2017).

Transparency International (2017) works from the premise that not one single country anywhere in the world is corruption-free. The organisation is at pains to state that public sector corruption is not simply about taxpayer money going missing. Broken government institutions and corrupt government officials fuel inequality and exploitation by keeping wealth in the hands of an elite few and trapping many more in poverty. Based on expert opinion from around the world, Transparency International publishes what is calls the Corruption Perceptions Index (CPI) to measure the levels of public sector corruption worldwide (Transparency International, 2017). Figure 3.7 presents the Sub-Saharan Africa CPI scores for 2017 (part of Global ranking).

RANK	COUNTRY/TERRITORY	SCORE
34	Botswana	61
36	Seychelles	60
48	Cabo Verde	55
48	Rwanda	55
53	Namibia	51
54	Mauritius	50
64	Sao Tome and Principe	46
66	Senegal	45
71	South Africa	43
74	Burkina Faso	42
74	Lesotho	42
81	Ghana	40
85	Benin	39
85	Swaziland	39
96	Zambia	37
103	Côte D'Ivoire	36
103	Tanzania	36
107	Ethiopia	35
112	Niger	33
117	Gabon	32
117	Togo	32
122	Djibouti	31
122	Liberia	31
122	Malawi	31
122	Mali	31
130	Gambia	30
130	Sierra Leone	30
143	Kenya	28
143	Mauritania	28
148	Comoros	27
148	Guinea	27
148	Nigeria	27
151	Uganda	26
153	Cameroon	25
153	Mozambique	25
155	Madagascar	24
156	Central African Republic	23
157	Burundi	22
157	Zimbabwe	22
161	Congo	21
161	Democratic Republic of Congo	21
165	Chad	20
165	Eritrea	20
167	Angola	19
171	Equatorial Guinea	17
171	Guinea Bissau	17
175	Sudan	16
179	South Sudan	12
180	Somalia	9

Figure 3. 7: Sub-Saharan Africa Corruption Perceptions Index 2017

Source: Corruption Perceptions Index (Transparency International, 2017).

As shown in Figure 3.7 above, the top-ranked Sub-Saharan Africa country is Botswana, ranked 34 with a score of 61, and at the bottom is Somalia, ranked 180 with a score of 9. The average score for Sub-Saharan Africa is 32, which is the lowest score out of all the continents surveyed.

According to Transparency International (2017), of the 180 countries assessed in the 2017 index, more than two-thirds score below 50. This according to Transparency International, means that over six billion people live on countries that are corrupt. The CPI uses a scale of 0 (perceived to be highly corrupt) to 100 (perceived to be very clean).

Figure 3.8 below depicts the CPI global picture, indicating the most and least corrupt countries globally.

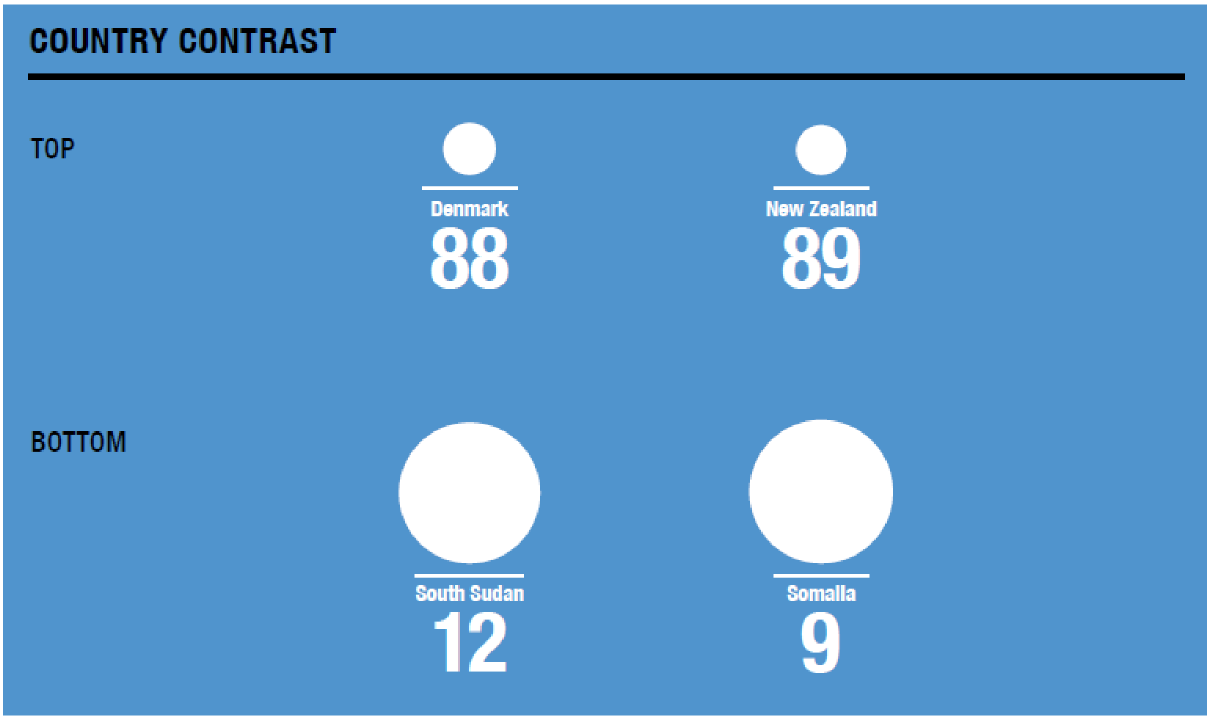

Figure 3. 8: Corruption Perceptions Index 2017 – The Global Picture

Source: Transparency International Corruption Perceptions Index (Transparency International, 2017).

Figure 3.8 above presents the 2017 Corruption Perceptions Index – The Global Picture, with Denmark and New Zealand at the top of the index with scores of 88 and 89 respectively, whilst South Sudan and Somalia are at the bottom of the index with scores of 12 and 9 respectively.

Transparency International also presents the CPI corruption problem. Figure 3.9 below summarises the CPI 2017 corruption problem findings.

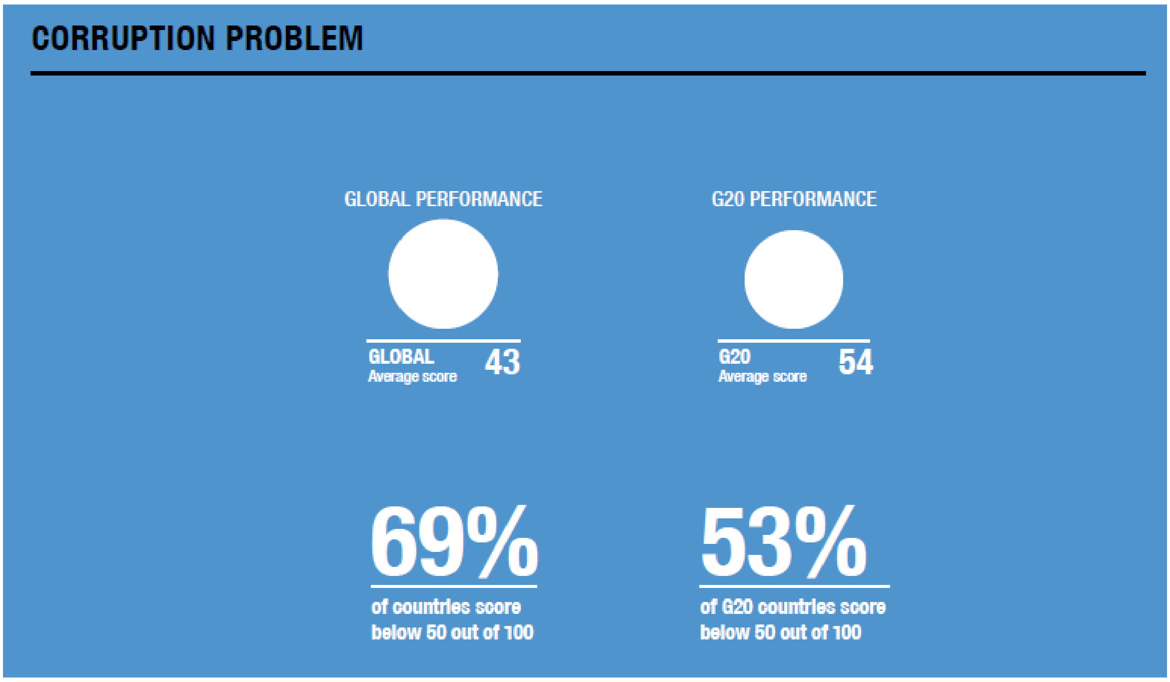

Figure 3. 9: Corruption Perceptions Index – The Global Picture (Corruption Problem)

Source: Transparency International Corruption Perceptions Index (Transparency International, 2017).

Figure 3.9 above presents a global average CPI score of 43 and G20 average score of 54 (the G20 is a group of 20 major economies founded in 1999 to promote financial stability). Globally, 69% of countries achieve a score of below 50 out of 100 and 53% of G20 countries score below 50 out of 100.

3.5.19.1 Brief summary of Sub-Saharan Africa

According to Transparency International (2017), despite being the worst performing region as a whole, Africa has several countries that consistently push back against corruption with notable progress. Some of the African countries including Botswana scored better than some countries in the Organisation for Economic Co-operation and Development (OECD). Namibia scores better on the index compared to some OECD countries like Italy, Greece and Hungary. In addition, Botswana scored 61, better than Spain at 57.

3.5.19.2 CPI 2016 – What needs to happen?

Transparency International (2016) states that:

> African leaders that come to office on an "anti-corruption ticket" will need to live up to their pledges to deliver corruption-free services to their citizens. They must implement their commitments to the principles of governance, democracy and human rights. This includes strengthening the institutions that hold their governments accountable, as well as the electoral systems that allow citizens to either re-elect them or freely choose an alternative.

3.5.20 King IV™ Report on Corporate Governance for South Africa – 2016

The King IV™ Report on Corporate Governance for South Africa is the fourth iteration by the King Committee and follows in the tradition of King I, King II and King III. King IV™ "sets out the philosophy, principles, practices and outcomes which serves as the benchmark for corporate governance in South Africa" (King IV™ Report on Corporate Governance for South Africa, 2016:20).

3.5.20.1 Fundamental concepts

The fundamental concepts dealt with in King IV™ are corporate governance, ethical leadership, and the governing body's role and responsibilities.

Definition of corporate governance

King IV™ defines corporate governance as "the exercise of ethical and effective leadership by the governing body towards the achievement of the following governance outcomes: ethical culture; good performance; effective control and Legitimacy" (King IV™ Report on Corporate Governance for South Africa, 2016:20).

King IV™ stresses that ethical and effective leadership should complement and reinforce each other.

Ethical and effective leadership

King IV™ contends that ethical leadership:

> is exemplified by integrity, competence, responsibility, accountability, fairness and transparency. It involves the anticipation and prevention, or otherwise amelioration, of the negative consequences of the organisation's activities and outputs on the economy, society and the environment and the capitals that it used and affects. (King IV™ Report on Corporate Governance for South Africa, 2016:20)

Effective leadership "is results-driven. It is about achieving strategic objectives and positive outcomes. Effective leadership includes, but goes beyond, an internal focus on effective and efficient execution" (King IV™ Report on Corporate Governance for South Africa, 2016:20).

The governing body's primary governance role and responsibilities

The governing body's primary role and responsibilities are, according to Tricker (cited in King IV™ Report on Corporate Governance for South Africa, 2016:21), part of the organisation's business cycle.

Figure 3.10 presents the governing body's primary governance role and responsibilities.

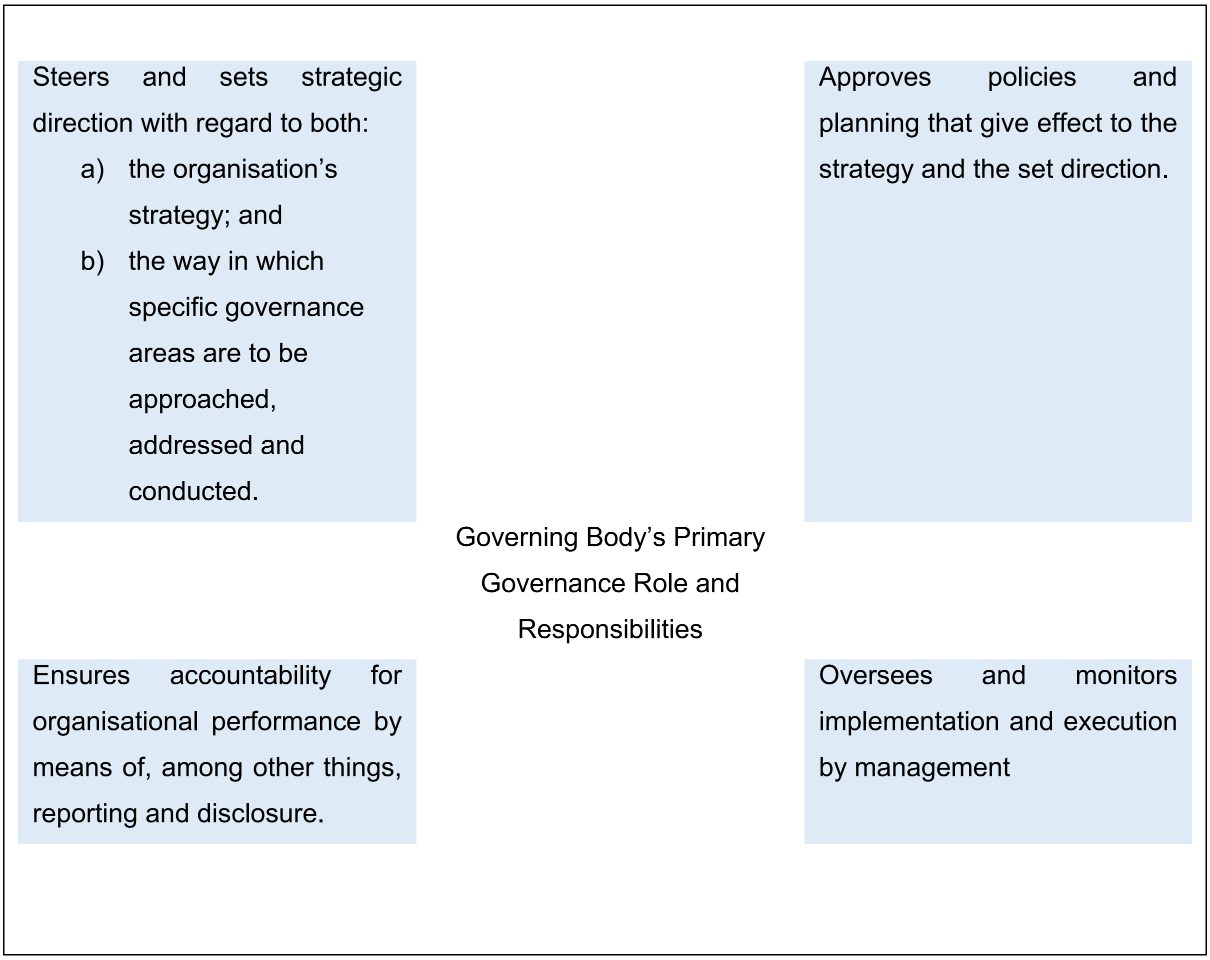

Figure 3. 10: The governing body's primary governance role and responsibilities

Source: Tricker (cited in King IV™ Report on Corporate Governance for South Africa, 2016:21).

As can be seen from Figure 3.10, the governing body steers and sets strategic direction; approves policies and planning; ensures accountability; and oversees and monitors implementation and execution of strategy by management.

3.5.20.2 Objectives of King IV™

The King IV™ objectives are to:

- "Promote corporate governance as integral to running an organisation and delivering governance outcomes such as an ethical culture, good performance, effective control and legitimacy.
- Broaden the acceptance of the King IV by making it accessible and fit for implementation across a variety of sectors and organisational types.

- Reinforce corporate governance as a holistic and interrelated set of arrangements to be understood and implemented in an integrated manner.
- Encourage transparent and meaningful reporting to stakeholders.
- Present corporate governance as concerned with not only structure and process, but also with an ethical consciousness and conduct" (King IV™ Report on Corporate Governance for South Africa, 2016:22).

3.5.20.3 Underpinning philosophies of King IV™

It is important to note that King IV™ does not represent a significant departure from its predecessor, King III. In the main, King III concepts are refined in King IV™. The core philosophy of King IV™ is sustainable development. Concepts used in King IV™ are defined in Figure 3.11.

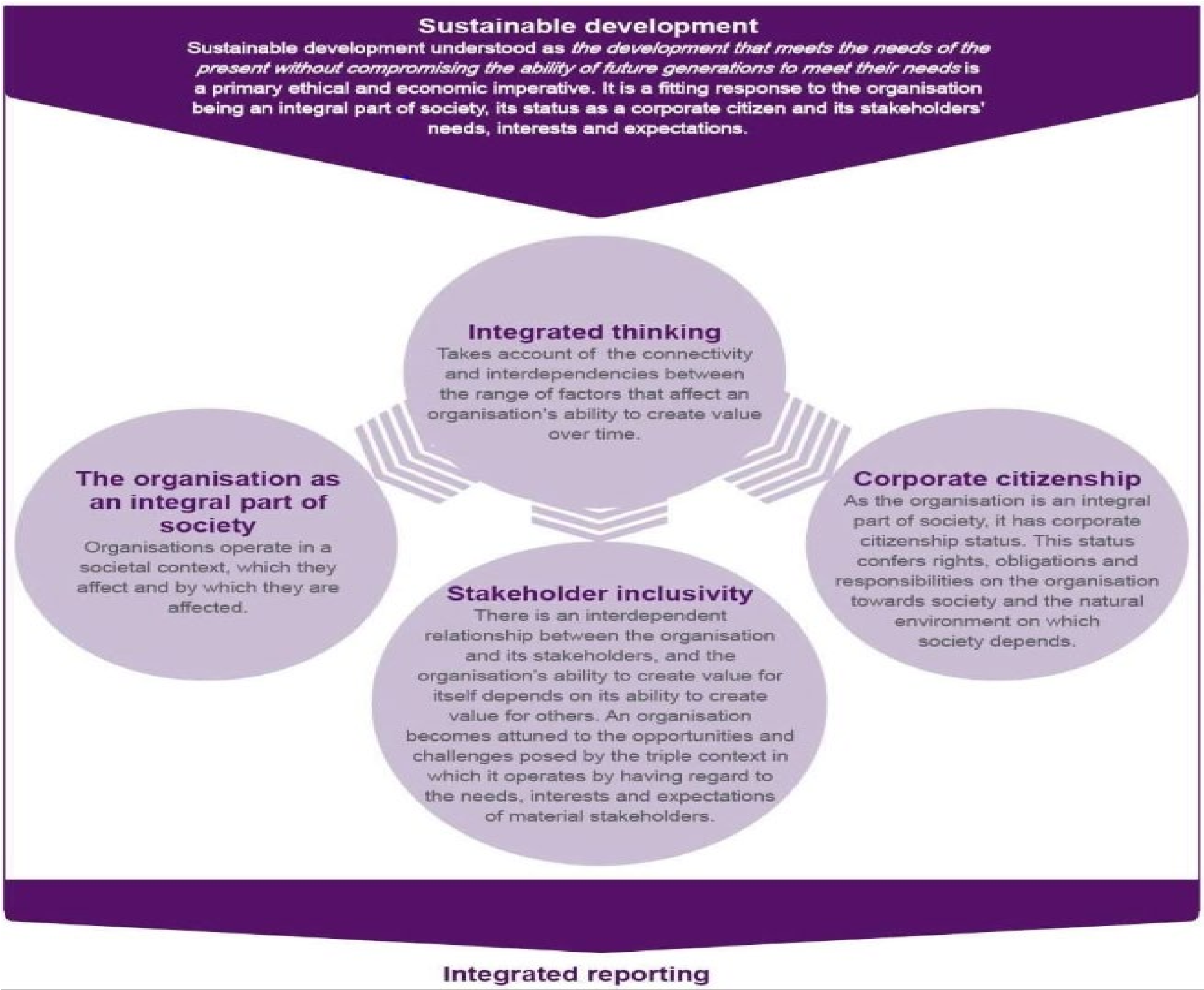

Figure 3. 11: Concepts used in King IV™

Source: King IV™ Report on Corporate Governance for South Africa (2016:23).

Figure 3.11 presents key concepts used in King IV™. These key concepts are discussed below. King IV™ states that sustainable development "is fitting response to the organisation being an integral part of society, its status as a corporate citizen and its stakeholders' needs, interests and expectations" (King IV™ Report on Corporate Governance for South Africa, 2016:23).

Integrated thinking: The organisation as an integral part of society

One of the fundamental concepts used in King IV™ is the "organisation as an integral part of society". King IV™, like its predecessors, argues that organisations operate in a societal context. The King IV™ Report on Corporate Governance for South Africa (2016:24) explains this crucial relationship between organisations and society by stating that: "Organisations operate in a societal context which they affect and by which they are affected."

King IV™ continues by stating that:

> An organisation has a society specific to itself, which includes its internal and external stakeholders with a material stake in its activities. But the organisation is also a juristic person in the broader society in which it operates. Organisations are dependent on this broader society to, for instance, provide a conducive operating environment, a viable customer base and the skills that the organisation requires. In turn, organisations contribute to the broader society as creators of wealth; providers of goods, services and employment; contributors to the fiscus; and developers of human capital. (King IV™ Report on Corporate Governance for South Africa, 2016:24)

King IV™ also makes reference to the African concept of *Ubuntu*/*Botho*, which is discussed in more detail in Chapter 4. The King IV™ Report on Corporate Governance for South Africa (2016:24) explains the interdependence between society and organisations in accordance with the *Ubuntu*/*Botho* philosophy as follows:

> This idea of interdependency between organisations and society is supported by the African concept of Ubuntu or Botho, captured by the expressions uMuntu

> ngumuntu ngabantu and Motho ke motho ka batho – I am because you are; you are because we are. Ubuntu and Botho imply that there should be a common purpose to all human endeavours (including corporate endeavours) which is based on service to humanity.

For King IV™, the consequence of the interdependency between organisations and society is that organisations benefit from serving their own society of internal and external stakeholders, as well as the broader society.

“In line with this ethos, organisations should also take responsibility for the environmental outcomes of their activities and outputs, as those affect society as a whole” (King IV™ Report on Corporate Governance for South Africa, 2016:24).

3.5.20.4 Triple context and the Six Capitals

One of the important concepts refined from the earlier King iterations is the “triple context” concept. King IV™ refers to the “triple context” or the combined context of the economy, society and environment in which the organisation operates. King IV™ states that: “The reference in King IV to ‘context’ is in the singular as these three dimensions are intertwined and should be viewed as an integrated whole” (King IV™ Report on Corporate Governance for South Africa, 2016:24).

The Six Capitals

King IV™ adopted the Six Capitals model as set out in the IIRC’s International <IR> Framework. The Six Capitals are financial, manufactured, human, intellectual, natural, and social and relationship capital. These are discussed under Section 3.5.14, which discusses the IIRC’s International <IR> Framework.

Corporate citizenship

The assertion that an organisation is an integral part of society implies that it has corporate citizenship status. King IV™ eloquently states that: “This status confers rights, obligations and responsibilities on the organisation towards society and the natural environment on which society depends. The notion of corporate citizenship recognises that the organisation is licensed to operate by its internal and external stakeholders, and by society in the broad sense” (King IV™ Report on Corporate Governance for South Africa, 2016:25).

Stakeholder-inclusive approach

This research is anchored in the stakeholder-inclusive approach. The stakeholder theory was discussed in Chapter 2 and the stakeholder-inclusive approach as adopted by King IV™ will be discussed in Chapter 4. King IV™, like its predecessors, nails its colours to the mast by adopting the stakeholder-inclusive approach. The IIRC’s International <IR> Framework (cited in the King IV™ Report on Corporate Governance for South Africa, 2016:25) states that: “There is an interdependent relationship between the organisation and its stakeholders, and the organisation’s ability to create value for itself depends on its ability to create value for others.”

Eccles and Youmans (cited in the King IV™ Report on Corporate Governance for South Africa, 2016:25) write that: “An organisation becomes attuned to the opportunities and challenges posed by the triple context in which it operates by having regard to the needs, interests and expectations of material stakeholders. When using the six capitals model as an alternative lens, it is evident that each of the forms of capital has one or more stakeholders with an interest in it.”

King IV™ defends its adoption of the stakeholder approach by stating that following this approach means that shareholders are not always considered before other stakeholders or that the company’s best interests are seen as the best interests of the shareholders. In the stakeholder-inclusive approach, the board sees other stakeholders as being valuable for making decisions that will ultimately be in the best interest of the company (King IV™ Report on Corporate Governance for South Africa, 2016:26).

In justifying its adoption of the stakeholder-inclusive approach, King IV™ takes the position that:

> [D]irectors owe their duties to the company and the company alone as the company is a separate legal entity from the moment it is registered until it is

> deregistered…The company is represented by several interests and these include the interests of shareholders, employees, consumers, the community and the environment. Thus requiring directors to act in good faith in the interest of 'the company' cannot nowadays mean anything other than a blend of all these interests, but first and foremost they must act in the best interest of the company as separate legal entity…An interest that may be primary at one particular point in time in the company's existence may well become secondary at a later stage. (Esser & Du Plessis cited in the King IV™ Report on Corporate Governance for South Africa, 2016:26)

King IV™ further argues that the interests of shareholders and stakeholders are interdependent. Following a stakeholder-inclusive approach maximises this symbiosis to promote the company's long-term sustainability. King IV™ states that whilst its position is put forward in respect of companies, it also applies to other organisations, including retirement funds and non-profit organisations. "Those charged with governance duties in these organisations should similarly recognise the interdependent nature of the relationship between members and other stakeholders and its consequences for decision-making in the best interests of the organisation over time" (King IV™ Report on Corporate Governance for South Africa, 2016:26).

Sustainable development

The concept of sustainable development, which is introduced in the earlier King Reports, is further refined in King IV™. Importantly, King IV™ adopted the definition of sustainable development provided by the 1987 "Report of the World Commission on Environment and Development: Our Common Future", also referred to as the "Brundtland Report" as discussed in Section 3.5.1.

It is important to state that whilst King IV™ adopts the Brundtland Report definition of sustainable development, the King IV report misquotes the definition. The Brundtland definition of sustainable development reads: "Humanity has the ability to make development sustainable to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs" (United Nations, 1987:8).

On the other hand, King IV™ defines sustainable development as "the development that meets the needs of the present without compromising the ability of future generations to meet their needs…" (King IV™ Report on Corporate Governance for South Africa, 2016:26). As can be seen *"own"* was omitted in the latter definition. The researcher considers the omission of "own" immaterial to the meaning of the concept.

King IV™ correctly states that: "The survival and success of organisations are intertwined with, and related to, three interdependent sub-systems: the triple context of the economy, society and the natural environment" (King IV™ Report on Corporate Governance for South Africa, 2016:26). For example, an ethical bank may not finance a transaction with adverse environmental implication(s), such as financing a company that pollutes a nearby river, in this way putting the lives of the community, birds and animals in danger. The Equator Principles, discussed under Section 3.5.13, deal with environmental compliant financing.

King IV™ persuasively concludes by stating that:

> Organisations and their leadership need to intentionally interact with, and respond to, the challenges and opportunities presented by the dynamic system of the triple context in which it operates and the capitals that the organisation uses and affects, with the aim to achieve the creation of value over time. Such an integrated approach is a hallmark of sustainable development and it is for this reason that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainability are presented in King IV as inseparable elements of the value creation process. (King IV™ Report on Corporate Governance for South Africa, 2016:26)

In order to show the importance of sustainability to the youth, Prof. Mervyn King (cited in the International Federation of Accountants, 2016:2) recalls:

> I really enjoyed the *Wall Street Journal* story of the 12-year-old boy in Los Angeles, California, reported during the McCain and Obama presidential election. To his father's question, "If you could vote, would you vote for McCain

> or Obama as your new president?" the boy responds, "Neither. I want the Terminator, Mr. Schwarzenegger." And his father says to him, "What does he know about the financial meltdown, about Iran and Iraq, and about all the other problems we have today?" The boy responds, "Probably not much, but I do know that he has done more to improve the quality of the air, the soil, and the water in the state of California than any other governor in any other state in America. And if he became the president of the US, he would do that for the whole of America. And when I am your age, these are going to be my problems." And the *Wall Street Journal* ended the article by saying, "Leaders of the corporate world: know that this is your customer of tomorrow." And that is the reality.

Sustainability is crucial in every industry, more so in the beverage industry. Natural resources such as water are critical to beverage manufacturers and are embedded in their strategies. For example, companies such as Coca-Cola and the South African Breweries Miller (SABMiller), now merged with Anheuser-Busch InBev (ABInBev), have incorporated water usage and saving as core to their production strategies. This is because water is the main ingredient of their products and the companies are expected to show their stakeholders how they are managing this precious natural resource; i.e. how they intend to sustain their business.

SABMiller (2016), knowing that water is the alpha and omega of its existence, has this to say under its sustainable development reporting on its website:

> Reduced water availability is probably the most significant implication of climate change for our business. To understand this better, we have completed systematic and comprehensive water risk assessments at our breweries, and put in place action plans to tackle water risk. We share these plans with local stakeholders, including communities, and we are also extending this approach into our agricultural supply chains.

Coca-Cola Global has produced a comprehensive sustainability report that deals with a myriad of sustainability issues, including water. Its main goal is, by 2020, to safely return to communities and nature an amount of water equal to what it uses in its finished beverages. To show the importance of sustainability to its business model, Coca-Cola appointed a chief sustainability officer and senior director to its Global Water Stewardship programme. Coca-Cola's (2016b) water replenishment programme is well documented on its website:

"**Goal:** By 2020, safely return to communities and nature an amount of water equal to what we use in our finished beverages. **Progress:** Achieved. In 2015, we estimate to have balanced 115 percent (191.9 billion liters) of the water used in our global sales volume."

Coca-Cola Global proudly reported that in 2015 it achieved its 2020 goal, some five years ahead of time. According to Coca-Cola (2016b): "Based on the Coca-Cola system's global water replenishment projects evaluated in 2015, the system is balancing the equivalent of an estimated 115 percent of the water used in our global sales volume. The remainder of water we use within our facilities and manufacturing process is returned to communities through treated wastewater." Figure 3.12 below depicts Coca-Cola's water replenishment programme.

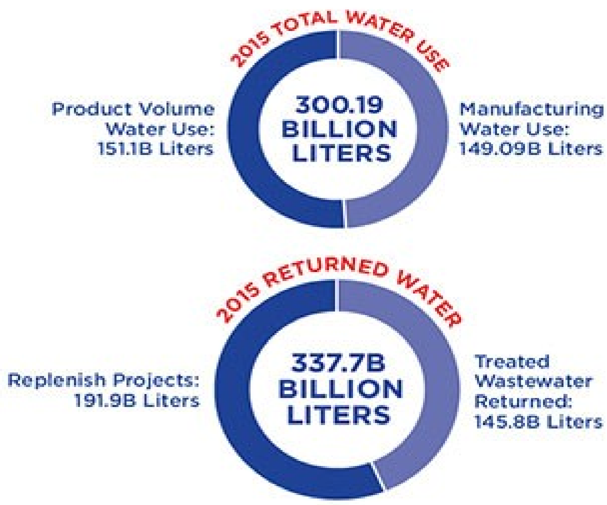

Figure 3. 12: Coca-Cola water replenishment programme

Source: Coca-Cola (2016b).

Figure 3.12 elucidates Coca-Cola's total global water usage and water returned. As can be seen, total water returned exceeds total water used. This is a momentous achievement by Coca-Cola as this was achieved five years earlier than the 2020 self-imposed target.

Coca-Cola – replenishing beyond our goal

Despite meeting its target, Coca-Cola Global (2016b) plans to continue to replenish the water it uses over time, calling this a complex and never-ending challenge.

The ubiquitous company promises to continue work to sustain community water projects to ensure that they continue to deliver the intended benefits to people and nature. It may also need to keep implementing new projects to maintain the level of replenishment as the business grows. Coca-Cola mentions that sometimes it will initiate and engage in new replenish projects because this is the right thing to do.

Coca-Cola has also initiated a woman empowerment programme called "Coca-Cola 5by20", which aims to empower 5 million women globally by 2020 (Coca-Cola, 2016a). The company states that it has empowered 27 South African women per day, every day for the last 5 years.

3.5.20.5 Distinguishing features of King IV™

The following features distinguish King IV™ from its predecessors (King I, King II and King III):

- It is outcomes-based. Achieving King IV™ principles will ultimately lead to good governance and optimise the organisation to realise intended governance outcomes: ethical culture, good performance, effective control and legitimacy.
- It clearly differentiates between principles and practices. King IV™ principles are achieved by "mindful consideration and application of the recommended practices" (King IV™ Report on Corporate Governance for South Africa, 2016:27).

- King IV™ is designed and drafted to make it "more accessible to users, and to reinforce governance as a holistic and integrated set of arrangements" (King IV™ Report on Corporate Governance for South Africa, 2016:27).
- King IV™ uses a broader form of address such as "organisations"; "governing body" and "those charged with governance duties".
- King IV™ has introduced supplements to cater for various organisations.
- King IV™ provides guidance on how the recommended practices should be applied proportionally in line with the organisation's size and resources, and extent and complexity of the organisation's activities.
- According to King IV™, in order to balance the less prescriptive approach adopted in King IV™, "there is greater emphasis on transparency with regards to how judgement was exercised when considering the practice recommendations contained in King IV. To reinforce this qualitative application of its principles and practices, King IV proposes an 'apply and explain' regime, in contrast to 'apply or explain' in King III" (King IV™ Report on Corporate Governance for South Africa, 2016:27).

3.5.20.6 Highlights of King IV™

The King IV™ report has a number of highlights as outlined below.

Integrated reporting

The concept of integrated reporting was introduced in King III and the concept is further polished in King IV™. King IV™ positions integrated reporting as "the culmination of a series of leadership responsibilities executed by the governing body. The governing body steers and sets the direction of the organisation, approves policy and planning, oversees and monitors management and then, finally, provides for accountability on organisational performance through among others, reporting and disclosure" (King IV™ Report on Corporate Governance for South Africa, 2016:30).

King IV™ sought to clarify the standing of the integrated report in relation to other reports. It deals with the integrated report as one of the many reports that may be issued by the organisation, as and when it is necessary, "to comply with legal reporting requirements, and/or to meet the particular information needs of material stakeholders.

These other reports include the financial statements, the sustainability report, the social and ethics committee report, or other online or printed information or reports" (King IV™ Report on Corporate Governance for South Africa, 2016:30).

Integrated Reporting SA (cited in the King IV™ Report on Corporate Governance for South Africa, 2016:30) states that: "An integrated report could be a standalone report which connects the more detailed information in other reports and which addresses, at a high level and in a complete, concise way, the matters that could significantly affect the organisation's ability to create value. It could also be a distinguishable, prominent and accessible part of another report which also includes the financial statements and other reports issued in compliance with legal requirements."

Balanced composition of governing bodies and independence

According to King IV™, having members of the governing body who are truly independent in appearance is an essential element in most governance codes. King IV™ seeks to contextualise the relevance of independence correctly, namely that:

- All members of the governing body, whether they are categorised as executive, non-executive or independent non-executive have, as a matter of law, a duty to act with independence of mind in the best interests of the organisation.
- Although important, independence in appearance is but one consideration in achieving balance in the composition of the governing body" (King IV™ Report on Corporate Governance for South Africa, 2016:30).

King IV™ correctly states that: "The overriding concern is whether the governing body is knowledgeable, skilled, experienced, diverse and independent enough to discharge fully its governance role and responsibilities" (King IV™ Report on Corporate Governance for South Africa, 2016:30).

Delegation to management

King III dealt with the establishment of specific management positions whilst the "King IV Code provides for the governing body to delegate the implementation and execution of approved strategy, through policy and operational plans to management via the chief executive officer (CEO)…the practices in the King IV Code contain recommendations for the governing body to oversee that key functional areas are headed by competent individuals and are adequately resourced" (King IV™ Report on Corporate Governance for South Africa, 2016:27).

Delegation to committees

Compared to King III, King IV™'s recommended practices do not prescribe what committees should be established by the governing body. The composition of the governing body is left in the hands of the governing body, which should judge what is appropriate for the organisation. King IV™ states that: "The practices furthermore recommend that the allocation of roles and responsibilities, and the composition of committees, should be considered holistically. The aim here is to promote effective collaboration among committees with minimal overlap and fragmentation of duties, as well as a balanced distribution of power" (King IV™ Report on Corporate Governance for South Africa, 2016:27).

Performance evaluations of the governing body

Unlike King III, which recommended board appraisals at least once a year, King IV™ recommends performance evaluations of the governing body at least every two years to allow for sufficient time to respond appropriately to the results of such performance evaluations. King IV™ recommends that every alternate year the governing body should schedule an opportunity for consideration, reflection on and discussion of its performance.

Corporate governance services to the governing body

Rather than dealing with the office of the company secretary in isolation, the premise of the King IV™ Code is that the governing body should ensure that it has access to professional and independent guidance on corporate governance. For most companies, this is provided by the company secretary. The Code recommends that even those companies and other organisations not obliged to appoint a company secretary should, as a matter of leading practice, consider appointing a company secretary or other professional to provide such services to the governing body.

Social and ethics committees

The social and ethics committee was introduced in the revised South African Companies Act. Regulation 43 of the Companies Act was introduced after King III came into effect. King IV™ points out that the Act "does not address the ethics role of the social and ethics committee beyond mentioning ethics in the name of the committee" (King IV™ Report on Corporate Governance for South Africa, 2016:29). King IV™ seeks to expand on the importance of the social and ethics committee and requires these committees not merely to comply with the law but to contribute to the creation of value. In addition, King IV™ states that organisations that are not legally obliged to establish the social and ethics committee are nevertheless encouraged to consider establishing a structure that would achieve the aims of such a committee.

Risk and opportunity

Definition

According to King IV™, risk definition consists of three parts: "uncertainty of events, the likelihood of such events occurring and their effect, both positive and negative" (King IV™ Report on Corporate Governance for South Africa, 2016:30).

King IV™ views risk in a positive way as opposed to the traditional way of looking at risk in a negative way, with the report stating that: "An opportunity may present itself as the potential upside of risk that could adversely affect the achievement of organisational objectives" (King IV™ Report on Corporate Governance for South Africa, 2016:30).

King IV™ states that owing to the rising complexity of risk, it recommends that a company's risk committee should comprise a majority of non-executive members of the governing body. It stresses that the requirement goes beyond what is required in King III.

Technology and information

According to King IV™, advances in technology continue to revolutionise businesses and societies and to transform products, services and business models. The Report states that: "So profound are these effects that many believe they herald the dawn of a Fourth Industrial Revolution" (King IV™ Report on Corporate Governance for South Africa, 2016:30). King IV™ asserts that such advances happen quickly and can cause significant disruptions, opportunities and risks. It suggests that: "Organisations should strengthen the processes that help them to anticipate change and respond by capturing new opportunities and managing emerging risks" (King IV™ Report on Corporate Governance for South Africa, 2016:30).

Compliance

King IV™ recommends that those who are in charge of governance in an organisation should ensure that compliance is understood not only as an obligation but also as a source of rights and protection. The governing body should have a holistic view of how laws and non-binding rules, codes and standards relate to each other. This includes how King IV™ codes relate to applicable legislation. The King IV™ Code recommends that the governing bodies should ensure continual monitoring of the regulatory environment for changes in laws and regulations and that developments are responded to as necessary.

Remuneration

The remuneration of executives in relation to general employees is a topic that has been raging for many years and is unlikely to be resolved soon. King IV™ is aware of this and has put forth some guidelines of how to tackle this pertinent topic. King IV™ states that it "aims to foster enhanced accountability on remuneration. One of the ways that it addresses this is by including more definitive disclosure requirements, among which, that remuneration should be disclosed in three parts, namely: a background statement; an overview of the remuneration policy, and implementation report" (King IV™ Report on Corporate Governance for South Africa, 2016:31). In addition, King IV™ recommends that "shareholders of companies be provided the opportunity to pass separate non-binding advisory votes on the policy and the implementation report. The remuneration policy should record the measures that the board commits to in the event that either the remuneration policy or the implementation report or both have been voted against by 25% or more of the voting rights exercised by shareholders. The Code recommends that such measures should include engagement and should address objections and concerns" (King IV™ Report on Corporate Governance for South Africa, 2016:31).

King IV™ furthermore recommends "the use of performance measures that support positive outcomes across the triple context in which the organisation operates, and/or all the capitals that the organisation uses or affects. This is a departure from linking remuneration to financial performance only. In respect of executive remuneration, it is also recommended that an account be provided of the performance measures and targets used as a basis for awarding of viable remuneration" (King IV™ Report on Corporate Governance for South Africa, 2016:31).

An important introduction in King IV™ is that executive management should be remunerated fairly and responsibly in the context of overall employee remuneration and that it should be disclosed how this has been addressed. This acknowledges the need to address the gap between the remuneration of executives and those at the lower end of the pay scale. (King IV™ Report on Corporate Governance for South Africa, 2016:31).

Assurance and audit

The concept of combined assurance was introduced in King III and is further developed in King IV™. Combined assurance is based on using both assurance and audit to enable an effective control environment. King IV™ states that: "The combined assurance model incorporates and optimises all assurance services and functions so that, taken as a whole, these enable an effective control environment; and also support the integrity of information used for internal decision-making by management, the governing body and its committees, and support the integrity of the organisation's external reports" (King IV™ Report on Corporate Governance for South Africa, 2016:31).

Most importantly, King IV™ believes "internal audit, as one of the assurance service providers to the organisation, remains pivotal to corporate governance. Its role has further evolved in recent years. It has become a trusted advisor that adds value by contributing insight into the activities of the organisation and, as a further enhancement, foresight" (King IV™ Report on Corporate Governance for South Africa, 2016:31).

Auditor and audit requirements

King IV™ tackles, albeit mutely, the raging topic of mandatory rotation of auditors, which has been introduced in some jurisdictions around the world. King IV™ leaves the consideration and decision on whether to implement either to the audit committee or governing body, subject to legislative requirements. "The Code, however, makes certain practice recommendations with regard to auditor independence, amongst them that the tenure of an audit firm needs to be disclosed" (King IV™ Report on Corporate Governance for South Africa, 2016:32).

Certain influential business people, such as the chairperson of the global company Rembrandt Group, Johann Rupert, are of the view that rotating audit firms does not make sense. Rupert has stated his preference for changing audit partners. His company changes PwC partners every five years. Skae (2017) reports that at an AGM of the Rembrandt Group, when asked by a shareholder what he (Johann Rupert) thought about rotating auditors, Rupert replied that he was "sick of the King Code nonsense". Rupert added that changing audit firms would cause a lot of disruption at companies: "No sooner has an auditor started to understand your business than you have to get rid of him."

King IV™ has opted to follow the UK Corporate Governance Code's April 2016 guidelines with regard to the reporting and auditing process. King IV recommends that "the audit committee discloses significant matters considered by it in relation to the annual financial statements and how these were addressed by the committee. This provides users of the financial statements with three different perspectives on the annual financial statements:

- The governing body's perspective in preparing the annual financial statements – particularly significant assumptions that the governing body had made.
- The perspective of the auditor on why certain areas were considered to be of most significance in the audit and how they were addressed in the audit.

- The audit committee's perspective on the matters it regarded as significant and how it discharged its responsibilities in relation to those" (The financial Reporting Council Limited, UK Code on Corporate Governance, cited in the King IV™ Report on Corporate Governance for South Africa, 2016:32).

Tax

According to King IV™, tax has become a complex multi-dimensional matter. The Report states, "The governing body should be responsible for a tax policy that is compliant with the applicable laws, but that is also congruent with responsible corporate citizenship, and that takes account of reputational repercussions" (King IV™ Report on Corporate Governance for South Africa, 2016:32). King IV™ calls for a responsible and transparent tax policy as a corporate citizenship consideration.

Shareholder activism

King IV™ discusses shareholder activism. It asserts that:

> When it comes to the quality of an organisation's application of voluntary codes of governance principles and practices, it is said that its stakeholders are the ultimate compliance officers. Shareholders, as a particular sub-set of stakeholders, have certain rights that are enshrined in company legislation and that strengthen their ability to hold boards of companies to account. By virtue of this ability, shareholders also have the power to serve as proxies for wider stakeholder interests. (King IV™ Report on Corporate Governance for South Africa, 2016:32).

King IV™ adds that: "Institutional investors (in turn a sub-set of shareholders), particularly, are extremely influential. The types of investment decisions they make and how they exercise their rights as shareholders, either reinforce or weaken good governance in the companies in which they invest" (King IV™ Report on Corporate Governance for South Africa, 2016:32).

Dispute resolution

Dispute resolution mechanisms were introduced in King III and have been further refined in King IV™. King IV™ correctly states that: "Since alternative dispute resolution mechanisms were introduced formally in King III, resolving disputes effectively has gained increased importance in light of labour strike action becoming protracted and, in some cases, hostile. Relationships are a form of capital on which all organisations rely. A dispute resolution process should be regarded as an opportunity not only to resolve the dispute at hand, but also to maintain and enhance the social and relationship capital of an organisation" (King IV™ Report on Corporate Governance for South Africa, 2016:32).

King IV™ recommends that dispute resolution mechanisms and associated processes be adopted and implemented by organisations as part of the overall management of stakeholder relationships. One of the advantages of dispute resolution is that it eliminates protracted legal proceedings and their associated costs.

3.5.20.7 King IV™ application and disclosure

Legal status of King IV™

One of the contentious issues with regard to the King Code on Corporate Governance, including King IV™ and its predecessors King I, King II and King III, is its legal status. The King Committee clarifies this as follows:

> The legal status of King IV, as with its predecessors, is that of a set of voluntary principles and leading practices. Corporate governance could apply on a statutory basis as rules, as a voluntary code of principles and practices, or as a combination of the two. In South Africa, as in many jurisdictions around the world, a hybrid system of corporate governance has developed as, over time, some practices of good governance have been legislated in parallel with the voluntary King codes of good governance. If there is a conflict between legislation and King IV, now or in the future, the law prevails. (King IV™ Report on Corporate Governance for South Africa, 2016:35)

As stated earlier, the SOX ACT of the US is premised on a *"comply or else"* approach. The King Commission does not believe in legislating corporate governance. King IV™ persuasively states that a "one-size-fits-all approach" is not logically suitable because the types of businesses and activities carried out by organisations vary. King IV™ also wishes to avoid the danger that the governing body becomes focused on compliance instead establishing the best governance practice for each issue it faces (King IV™ Report on Corporate Governance for South Africa, 2016:35).

King IV™ further stresses that "Good governance does not exist separately from the law, and a corporate governance code that applies on a voluntary basis may also trigger legal consequences. A court considers all relevant circumstances in determining the appropriate standard of conduct for those charged with governance duties, including what the generally accepted practices for a particular setting and situation are. Voluntary governance codes such as King IV recommend leading practices for how governance duties should be discharged, and therefore influence and affect what practices are considered and eventually adopted and implemented by governing bodies. The more widely certain recommended practices in codes of governance are adopted, the more likely it is that a court would regard conduct that conforms to these practices as meeting the required standard of care. In this way the provisions of voluntary codes of governance find their way into jurisprudence to become part of the common law. Consequently, failure to meet an established corporate governance practice, albeit not legislated, may invoke liability" (King IV™ Report on Corporate Governance for South Africa, 2016:35).

King IV™ concludes that "For directors of companies, adopting good corporate governance practice will be especially important if they were to rely on the protection afforded by the business judgement rule as provided for in the Companies Act in the course of litigation. In the absence of robust and sound governance structures and processes, it will be difficult, if not impossible, for a director to show that reasonably diligent steps have been taken to become informed; that material financial interests were absent or dealt with appropriately; and that there was a rational basis for believing – and that the director did believe – that a decision was in the best interests of the company" (King IV™ Report on Corporate Governance for South Africa, 2016:35).

3.5.20.8 Scope of application of King IV™

King IV™ applies to all organisations, regardless of their incorporation. The main objective of King IV™ "is to broaden acceptance of corporate governance by making it accessible and fit for application across a variety of sectors and organisational types" (King IV™ Report on Corporate Governance for South Africa, 2016:35).

3.5.20.9 Governance outcomes, principles and practices

The researcher has been privileged to attend many of Prof. Mervyn King's corporate governance seminars or conferences. The common theme is qualitative corporate governance as opposed to "mindless tick box" quantitative corporate governance. King IV™ puts it concisely by stating that: "A major challenge in the implementation of codes of corporate governance is that recommended practices could be mindlessly implemented as if they were rules, resulting in corporate governance becoming a mere compliance burden. This inflexibility also leads to an inability to interpret and apply codes of corporate governance in a way that is appropriate for the organisation and the sector in which it operates. Mindful application, on the other hand, harnesses the benefits of corporate governance in the interests of the organisation and applying the governance code comes to be seen as a process of adding rather than subtracting value" (King IV™ Report on Corporate Governance for South Africa, 2016:36).

Table 3.6 represents governance outcomes, principles and practices.

Table 3. 6: Governance outcomes, principles and practices

Governance outcomes	Principles	Practices
Governance outcomes are the benefits that organisations could realise if the underlying principles - and therefore, ultimately, good governance – are achieved. These governance outcomes are: • Ethical culture • Good performance • Effective control • Legitimacy	Principles embody the aspirations of the journey towards good corporate governance. They guide on what organisations should strive to achieve by the application of governance practices. Principles build on and reinforce one another; they are phrased so that they are fundamental to good corporate governance and hold true across all organisations.	Practices are recommended at the level of leading practice. The practices associated with a particular principle should be applied so that they support and give effect to the aspiration as expressed in that principle. Practice may be scaled in accordance with proportionality considerations.

Adapted from King IV™ Report on Corporate Governance for South Africa (2016:36).

Table 3.6 above presents the relationship between governance outcomes, principles and practices. "Understanding the relationship between governance outcomes, principles and practices…is key to mindful application of the King IV Code. It also supports one of the objectives of King IV, namely to reinforce corporate governance as a holistic and integrated set of arrangements" (King IV™ Report on Corporate Governance for South Africa, 2016:36).

3.5.20.10 Disclosure on application of King IV™

King IV™ application regime is discussed below.

King IV™ application regime

The application regime for King IV™ is *"apply and explain"*. This is a departure from the application regime of King II and III, which was borrowed from the Dutch Code on Corporate Governance as discussed earlier; i.e. *"apply or explain"*. As discussed earlier, the application regime for other major countries such as the UK is *"comply or explain"*; Germany is *"comply or explain"*; and the US is *"comply or else"*. Table 3.7 illustrates the application regime of King IV™.

Table 3. 7: Apply and explain principles

Apply principles	Explain principles
All principles are phrased as aspirations and ideals that organisations should strive for in their journey towards good governance and realising the governance outcomes. The principles are basic and fundamental to good governance, and application thereof is therefore assumed.	Explanation should be provided in the form of a narrative account, with reference to practices that demonstrate application of the principle. The explanation should address which recommended or other practices have been implemented, and how these achieve or give effect to the principles.

Source: King IV™ Report on Corporate Governance for South Africa (2016:37).

Table 3.7 presents how to apply or explain principles. Application of a principle should be supported by a concomitant narrative that states how the principle was applied; i.e. *"apply and explain"*.

3.5.20.11 What should be disclosed on the application of King IV™?

King IV™ disclosure recommendations are included in the principles that are discussed later in this chapter. King IV™ stresses that: "These recommendations are intended as guidance and starting point for disclosure on the particular principle" (King IV™ Report on Corporate Governance for South Africa, 2016:37). King IV™ adds that the detail of information to be furnished in the narrative should be guided by its materiality and should enable stakeholders to make an informed assessment of the quality of the organisation's governance.

3.5.20.12 Effective date of King IV™ implementation

According to King IV™, disclosures on the application of King IV™ are effective in respect of the financial years starting on or after 1 April 2017. King IV™ adds that immediate transition was encouraged.

3.5.20.13 King IV™ Code on Corporate Governance: Principles

King IV™ Code on Governance Principles are the cornerstone of King IV™ and are discussed below.

Leadership

Principle 1: The governing body should lead ethically and effectively.

Organisational ethics

Principle 2: The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

Responsible corporate citizenship

Principle 3: The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.

Strategy and performance

Principle 4: The governing body should appreciate that the organisation's core purpose, its risk and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value-creation process.

Reporting

Principle 5: The governing body should ensure that the reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short-, medium- and long-term prospects.

Primary role and responsibilities of the governing body

Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation.

Composition of the governing body

Principle 7: The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

Committees of the governing body

Principle 8: The governing body should ensure that its arrangement for delegation within its own structures promotes independent judgement and assists with balance of power and the effective discharge of its duties.

Evaluations of the performance of the governing body

Principle 9: The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members supports continued improvement of its performance and effectiveness.

Appointment of and delegation to management

Principle 10: The governing body should ensure that the appointment of and delegation to management contribute to role clarity and the effective exercise of authority and responsibilities.

Risk governance

Principle 11: The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.

Technology and information governance

Principle 12: The governing body should govern technology and information in a way that supports the organisation's setting and achieving its strategic objectives.

Compliance governance

Principle 13: The governing body should govern compliance with applicable laws and adopted non-binding rules, codes and standards in a way that supports the organisation's being an ethical and good corporate citizen.

Remuneration governance

Principle 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short-, medium- and long term.

Assurance

Principle 15: The governing body should ensure that assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision-making and of the organisation's external reports.

Stakeholders

Principle 16: In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

Responsibilities of institutional investors

Principle 17: The governing body of an institutional investor organisation should ensure that responsible investment is practised by the organisation to promote the good governance of and the creation of value by the companies in which it invests.

3.5.20.14 Sector supplements

The purpose of King IV™ sector supplements is to provide high-level guidance and direction on how the King IV™ should be interpreted and applied by a variety of sectors and organisational types. These include organisations in both the private and public sectors. King IV™ has supplements for municipalities; non-profit organisations; retirement funds; small and medium enterprises; and state-owned entities.

3.5.20.15 Universal applicability

In his foreword on King IV™, the Chair of King Committee stated that when drafting King IV™, the King Committee was requested by stakeholders to make it universally applicable. King IV™ states that, "King I, II and III had as their foundation ethical and effective leadership. King IV is no different. Clearly, good leadership, which is underpinned by the principles of good governance, is equally valuable in all types of organisations, not just those in the private sector. Similarly, the principles of good governance are equally applicable, and equally essential, in both public and private entities.

This link is implicit in King I, II and III; King IV seeks to make it explicit. Specifically, the King Committee was requested by many entities outside the private sector to draft King IV in such a way as to make it more easily applicable to all organisations: public and private, large and small, for-profit and not-for-profit.

King IV has been drafted with this in mind. Thus, for example, it talks of organisations and governing bodies, rather than simply companies and boards of directors. Another innovation aimed at making it easier for all organisations to use the King IV Report as a guide for good governance is the inclusion of sector supplements" (King IV™ Report on Corporate Governance for South Africa, 2016:6).

3.5.20.16 Reconciling King IV™ to legislation

The King Committee is very clear that where there is a conflict between King IV™ and legislation, the legislation will prevail. King IV™ articulately states that,

> Applicable legislation sets the minimum governance standards to be complied with. If King IV sets the bar higher, organisations should strive to achieve the higher aspiration in the interest of sound governance. If there is a conflict between the legislation and King IV, the legislation prevails. However, the mere fact that King IV advocates a higher standard of governance than the legislation demands does not, in itself, necessarily constitute a conflict. A conflict only arises when King IV and legislated provisions cannot be reconciled, not when they are merely different. Therefore, implementing a higher standard than that required by law will still be compliant with the minimum requirements of the law. (King IV™ Report on Corporate Governance for South Africa, 2016:76)

3.5.20.17 Proportional application

The King IV™ authors are aware that the whole corporate governance code may not be applicable to an organisation, which is why they are recommending the scaling of practices in accordance with the following proportionality considerations particular to the organisation: size of turnover and workforce; resources and extent and complexity of activities, including impact on the triple context in which it operates.

King IV™ states that: “Application of practices on a proportional basis is subject to legal provisions and giving effect to the principle that the practices are associated with” (King IV™ Report on Corporate Governance for South Africa, 2016:37).

3.5.20.18 Criticism of King Commission Reports including King IV™

The rotation of auditors as advocated in King IV™ has already attracted the attention of the chairperson of the Rembrandt Group, who believes in rotating audit partners rather than audit firms. This was discussed earlier in this chapter under Section 3.5.20.6: Highlights of King IV™. The researcher is of the view that King IV™ avoids tackling the issue of excessive executive perks and merely states that the “remuneration of the executive management should be fair and responsible in the context of the overall employee remuneration. It should be disclosed how this has been addressed. This acknowledges the need to address the gap between the remuneration of executives and those at the lower end of the pay scale” (King IV™ Report on Corporate Governance for South Africa, 2016:31).

The 11 July 2016 speech by Theresa May when she launched her national campaign to become Leader of the Conservative Party and Prime Minister of the United Kingdom was, interestingly, focused on corporate governance. In her speech, May (2016) states:

> The FTSE, for example, is trading at about the same level as it was eighteen years ago and it is nearly ten per cent below its high peak. Yet in the same time period executive pay has more than trebled and there is an irrational, unhealthy and growing gap between what these companies pay their workers and what they pay their bosses.
>
> So as part of the changes I want to make to corporate governance, I want to make shareholder votes on corporate pay not just advisory but binding. I want to see more transparency, including the full disclosure of bonus targets and the publication of “pay multiple” data: that is, the ratio between the CEO’s pay and the average company worker’s pay. And I want to simplify the way bonuses are

paid so that the bosses' incentives are better aligned with the long-term interests of the company and its shareholders.

This is a radical departure from the King IV™ remuneration proposals. The "executive in relation to the lowest paid worker" topic has been raging for many years and is still to be resolved.

King III recommends having a majority of non-executive independent directors in a company board of directors as this minimises the possibility of conflict of interest. Authors such as Geach (2009:5) disagree with this recommendation. Geach contends that some independent directors hardly add value and are detached from the business and that they simply do not know what is going on, which could be detrimental for the business. Geach (2009:5) is also not in favour of King III restricting the length of time that a director is appointed to a company board. King III is of the view that continued employment of a director may impair his or her independence. Geach argues that it is better to appoint an experienced director who knows the company well.

Lastly, King III adopted the *"apply or explain"* policy, in which JSE-listed companies were required to adopt King III codes on corporate governance or explain non-conformity. Authors such as Geach (2009:6) argue that by adopting the *"apply or explain"* principle, King III's prescripts and recommendations were elevated to the status of law.

3.6 Corporate Governance Developments

The developments in corporate governance are discussed below.

3.6.1 Corporate Governance 2.0

Harvard Law School Professor Guhan Subramanian developed his corporate governance model Corporate Governance 2.0. Subramanian (2015:97) lists three principles as underpinning the model: company boards should be given the authority to manage how the business is run for the long term; company boards should have procedures in place to ensure that the best possible people are appointed in the boardroom; and Boards should give shareholders an orderly voice. The aforementioned principles assume that the board is competent.

3.6.2 The case for professional boards

Harvard Business School lecturing staff, such as Robert C. Pozen, concur with Subramanian and have conceived a model of professional directorship to respond directly to the three main factors behind apparent ineffective decision-making. Pozen expresses the view that directors should have sufficient expertise in the relevant industry and that boards should have a maximum size of seven people. He suggests that management should be represented by the CEO and that the other six board members should be independent directors. He is of the view that independent directors should have extensive expertise in the line of business and should spend at least two days a month on company business beyond the regulatory board meetings. He gives the example of the American bank, Citigroup. During the 2008 financial crisis, Citigroup had 18 directors, of which 16 were independent. Only one of the independent directors had ever worked at a financial services firm (Pozen, 2010:52).

3.6.3 Four ways to fix banks

Krawcheck (2012) argues that, although the primary causes of the 2008 financial meltdown were resolved, big banks continue to suffer from governance-related problems. She posits that upgrading bank boards could be the solution to these problems and makes the following suggestions:

- **Pay executives with bonds as well as stock**
  Krawcheck (2012) argues that management compensation is a powerful driver of corporate behaviour. She argues that since the financial crisis of 2008, regulators and boards have gravitated toward increasing the amount of stock-based compensation and lengthening the mandatory holding period to induce senior banking executives to behave properly (Krawcheck, 2012:108).
- **Pay dividends as a percentage of earnings**
  Krawcheck (2012) posits that the traditional way of paying dividends per share should be replaced with a more risk-sensitive approach of paying dividends as a percentage of reported earnings. She also states that when earnings begin

to deteriorate, management teams or bank boards are usually too slow to cut dividends, which drain capital when it is most needed (Krawcheck, 2012:109).

- **Don't judge managers (just) by earnings**
  She argues that boards should pay close attention to indicators other than earnings. She writes that perhaps the most crucial metric is customer satisfaction. More business from happy customers represents quality earnings (Krawcheck, 2012:111).
- **Give board scrutiny to booming businesses, too**
  Board members are assumed to be spending most of their time on governance-related issues, business updates and "problem children". Krawcheck (2012:111) argues that they should focus instead on businesses that use capital.

3.6.4 The boardroom's quiet revolution

Parsons and Feigen (2014:99) are of the view that forward-looking boards have been discreetly transforming themselves. Parsons is the former CEO of Time Warner and chairman of Citigroup, while Feigen is the founder of Feigen Advisors, a management adviser to Fortune 300 CEOs and boards. These authors present what they deem to be striking innovations in board practice in four main categories:

- **Overseeing strategy and talent**
  Parsons and Feigen (2014:100) argue that the tradition of directors listening to presentations by management, what is known as "death by slide", should be replaced by directors visiting customers. By visiting customers, the directors will know where to invest, where to divest, and where to grow.
- **Getting board composition right**
  Many of the serving directors of the US boards have business acumen and valuable experience, argue Parsons and Feigen (2014:101), but many lack industry-specific expertise. Parsons and Feigen (2014:102) seem to support the notion of "professional directors" as advocated by the Harvard Business School Professor, Robert Pozen (see Section 3.6.2). They caution that, although Pozen's notion is somewhat extreme, more and more boards are looking for relevant experience.

Parsons and Feigen (2014:102) state that, “Boards are more actively monitoring the contributions of individual members. At one Fortune 500 company each director is asked annually to nominate five other directors whom he or she would wish to keep on the board. A director who makes no one’s list is asked to leave.”

- **Managing the quality of the conversation**
  The board needs to have quality conversation with managers. According to Parsons and Feigen (2014:102), “Good directors are also aware that when meeting with the board, even well-intentioned managers may succumb to a normal human tendency to overstate opportunity, understate risk, or sugar coat problems. Both points reflect the shortcomings of discourse in many boardrooms, and conscientious directors work hard to get below the surface to the key issues.”
- **Engaging with the CEO**
  Parsons and Feigen (2014:103) posit that smart CEOs know the value of good communication with the board and invest a lot of time in keeping close to their board members.

3.6.5 Sustainability in the boardroom

Paine (2014) states that surveys show that not more than 10% of US public company boards have a stand-alone corporate responsibility or sustainability committee. She argues that,

> In view of growing concern about business and sustainability, and given the importance of corporate responsibility for ongoing value creation, directors should be asking whether their board’s oversight in those areas is sufficient. Recent surveys suggest that no more than 10% of U.S. public company boards have a committee dedicated solely to corporate responsibility or sustainability. Nike’s experience indicates that such a committee could be a useful addition to many if not most boards in at least five ways: as a source of knowledge and expertise, as a sounding board and constructive critic, as a driver of accountability, as a stimulus for innovation, and as a resource for the full board.

> A look at how Nike's corporate responsibility committee has served each of these functions will show why. (Paine, 2014:89)

In summary, Paine identifies a primary problem as being that although more and more companies recognise the importance of corporate responsibility and sustainability for their long-term success, these issues are not dealt with sufficiently in boardrooms. In her view, the solution lies with addressing the risks and opportunities arising from problems such as climate change, water pollution, corruption, and uneven access to wealth, health and education. She commends Nike for establishing a dedicated corporate responsibility committee in 2001. Prior to this Nike was often criticised for the labour conditions in its Asian contracted manufacturing countries. Paine (2014:89) believes that companies could learn from the Nike experience by setting up such a committee.

3.6.6 Where boards fall short

Barton and Wiseman (2015:100) are of the view that boards are not carrying out their core function of providing strong oversight and strategic support for management in their attempt to create value in the long term. This is despite regulatory reforms and guidelines from institutions such as the ICGN. Additionally, Barton and Wiseman (2015:100) write that:

> A mere 34% of the 772 directors surveyed by McKinsey in 2013 agreed that the boards on which they served fully comprehended their companies' strategies. Only 22% said their boards were completely aware of how their firms created value, and just 16% claimed that their boards had a strong understanding of the dynamics of their firms' industries.

In line with the long-term value-creation model advocated by the IIRC and King IV™, the authors state that "the mental discipline of keeping long-term value creation foremost in the mind would help clarify choices and reform board behaviors" (Barton & Wiseman, 2015:101). They advocate the following changes to boards:

- **Selecting the right people**

  They are in favour of directors who have substantial real-life experience from having worked through difficult times. They also believe that mandatory retirement rules for directors should be applied intelligently to achieve the optimal balance between refreshing the board and retaining valuable experience (Barton & Wiseman, 2015:102).

- **Spending quality time on strategy**

  "The first question I would ask boards is whether they are spending enough time and effort assessing the organization's long-term strategy," states Sir David Walker, chairman of the board at Barclays and a noted authority on corporate governance in the UK (cited in Barton & Wiseman, 2015:102). He continues: "If they are honest, the answer will almost always be no." The suggestion for directors to spend more time understanding the company's strategy and how the company creates wealth is in line with what authors such as Pozen and King IV™ are proposing.

- **Engaging with long-term investors**

  Barton and Wiseman (2015:103) emphasise the importance of engaging with long-term investors by stating that, "While boards may be guilty of pushing executives to maximize short-term results, we have no doubt where that pressure really originates: the financial markets." For this reason, they find that it is essential to persuade institutional investors to be a counterforce. Focusing capital on the long term is discussed in Section 3.6.7 below.

- **Paying directors more**

  Barton and Wiseman (2015:104) advocate that directors are paid more for the services they render. They argue that, "Good capitalists believe in incentives. If we are going to ask directors to engage more deeply and more publicly, to spend a lot more time exploring and communicating long-term strategy, and to take on any attendant reputational risk, then we should give them a substantial raise. There is a growing consensus that directors should sit on fewer boards and get paid more – substantially more than the current average annual compensation of $249,000. We fully agree, but the even more important issue is how that pay is structured. A number of companies have already shifted the mix toward longer-term rewards."

3.6.7 Focusing capital on the long term

Barton and Wiseman (2014) are of the view that big investors have an obligation to end the plague of short-termism. This is in line with the thinking of, amongst others, King IV™ and the IIRC. Unlike in most countries, American listed companies report their results quarterly, which puts pressure on management to meet short-term financial goals. Countries such as South Africa and the UK require listed companies to report every six months.

Barton and Wiseman (2014:45) put it succinctly:

> Since the 2008 financial crisis and the onset of the Great Recession, a growing chorus of voices has urged the United States and other economies to move away from their focus on “quarterly capitalism” and toward a true long-term mind-set. This topic is routinely on the meeting agendas of the OECD, the World Economic Forum, the G30, and other international bodies. A host of solutions have been offered – from “shared value” to “sustainable capitalism” – that spell out in detail the societal benefits of such a shift in the way corporate executives lead and invest. Yet despite this proliferation of thoughtful frameworks, the shadow of short-termism has continued to advance – and the situation may actually be getting worse. As a result, companies are less able to invest and build value for the long term, undermining broad economic growth and lowering returns on investment for savers.

To encourage long-term investing, they argue, investors should clearly define what they mean by long-term investment. The definition should include a multi-year time horizon for value creation.

3.6.8 What CEOs really think of their boards

Sonnenfeld *et al*. (2013:98) argue that: “Over the past several years, in the wake of corporate missteps that have taken a toll on shareholders and communities alike, we've heard plenty about how boards of directors should have been more responsible stewards. Corporate watchdogs, investors and analysts, members of the media, regulators, and pundits have proposed guidelines and new practices. But one voice has been notably missing from this chorus – and it belongs to the constituency that knows boards and their failings best. It's the voice of the CEO."

After interviewing a number of veteran CEOs, Sonnenfeld *et al*. (2013) came up with five overarching pieces of advice for boards:

- **Don't shun risk or see it in personal terms** – The board should serve as a check on a recalcitrant CEO;
- **Do the homework and stay consistently plugged in** – No one should accept a board appointment unless he or she is willing to prepare for boardroom discussions thoroughly. Directors should make sure they understand the workings of the company and stay abreast of the industry developments;
- **Bring character and credentials not celebrity to the table** – CEOs interviewed did not want their sporting mates as board members. They wanted diversity in order to bring perspective and specialised knowledge to bear on discussions.
- **Constructively challenge strategy** – CEOs interviewed did not resent people such as shareholders and members of the public questioning their plans. They were disappointed by the absence of energetic debate in the boardroom.
- **Make succession transitions less awkward not more so** – CEOs interviewed were frustrated when boards fell short in this most visible and high-impact responsibility. Sonnefeld *et al*. (2013:98) conclude by stating that CEOs were also frustrated with boards' tendencies to fall in love with external candidates, i.e. preferring external candidates.

3.6.9 The big lie of strategic planning

Martin (2014) states that:

> The plan is typically supported with detailed spreadsheets that project costs and revenue quite far into the future. By the end of the process, everyone feels a lot less scared. This is a truly terrible way to make strategy. It may be an excellent way to cope with fear of the unknown, but fear and discomfort are an essential part of strategy making. In fact, if you are entirely comfortable with your strategy, there's a strong chance it isn't very good…You need to be uncomfortable and

apprehensive: True strategy is about placing bets and making hard choices. The objective is not to eliminate risk but to increase the odds of success (Martin, 2014:80).

The problem

According to Martin (2014:81), “In an effort to get a handle on strategy, managers spend thousands of hours drawing up detailed plans that project revenue far into the future.” He adds that these plans may make managers feel good, but often matter very little to performance.

Why it happens

Martin (2014:81) is of the view that: “Strategy making is uncomfortable; it’s about taking risks and facing the unknown. Surprisingly, managers try to turn it into a comfortable set of activities. But reassurance won’t deliver performance.”

The solution

Finally, Martin (2014:81) states that managers should reconcile themselves to feeling uncomfortable and follow three rules:

- “Keep it simple. Capture your strategy in a one-pager that addresses where you will play and how you will win.
- Don’t look for perfection. Strategy isn’t about finding answers. It’s about placing bets and shortening odds.
- Make the logic explicit. Be clear about what must change for you to achieve your strategic goal.”

3.6.10 Sustainability as a social movement

Robert G. Eccles, Professor of management practice at Harvard Business School, delivered a paper at the annual New York State Society of Certified Public Accountants – Hedge Fund Roundtable Sustainability Investment Leadership Conference held on 6 May 2016. The speech focused on corporate sustainability reporting as a social movement and included the context of integrated reporting, materiality and fiduciary duty. He began his speech by acknowledging the good work done by Prof. Mervyn

King in South Africa with regard to integrated reporting. He stated that: "I like to think of myself as a capital market activist, and that's where you get the title of my most recent book – *The Integrated Reporting Movement*. I think of this as a social movement. The only country where integrated reporting is mandated, thanks to the leadership of Mervyn King, is South Africa. What he did in South Africa is interesting, because it was reporting in a governance context. You can think about this talk as corporate reporting meets corporate governance" (Eccles, 2016:26).

Eccles (2016:30) related that he met with this Swedish company called Atlas Copco, an industry products company, about a year ago. They've been doing integrated reporting for a couple of years. He added that it was interesting the language that they use is that was their strategy for sustainable profitable growth. Figure 3.13 presents the materiality mapping results of Atlas Copco, the world's leading manufacturer of mining equipment.

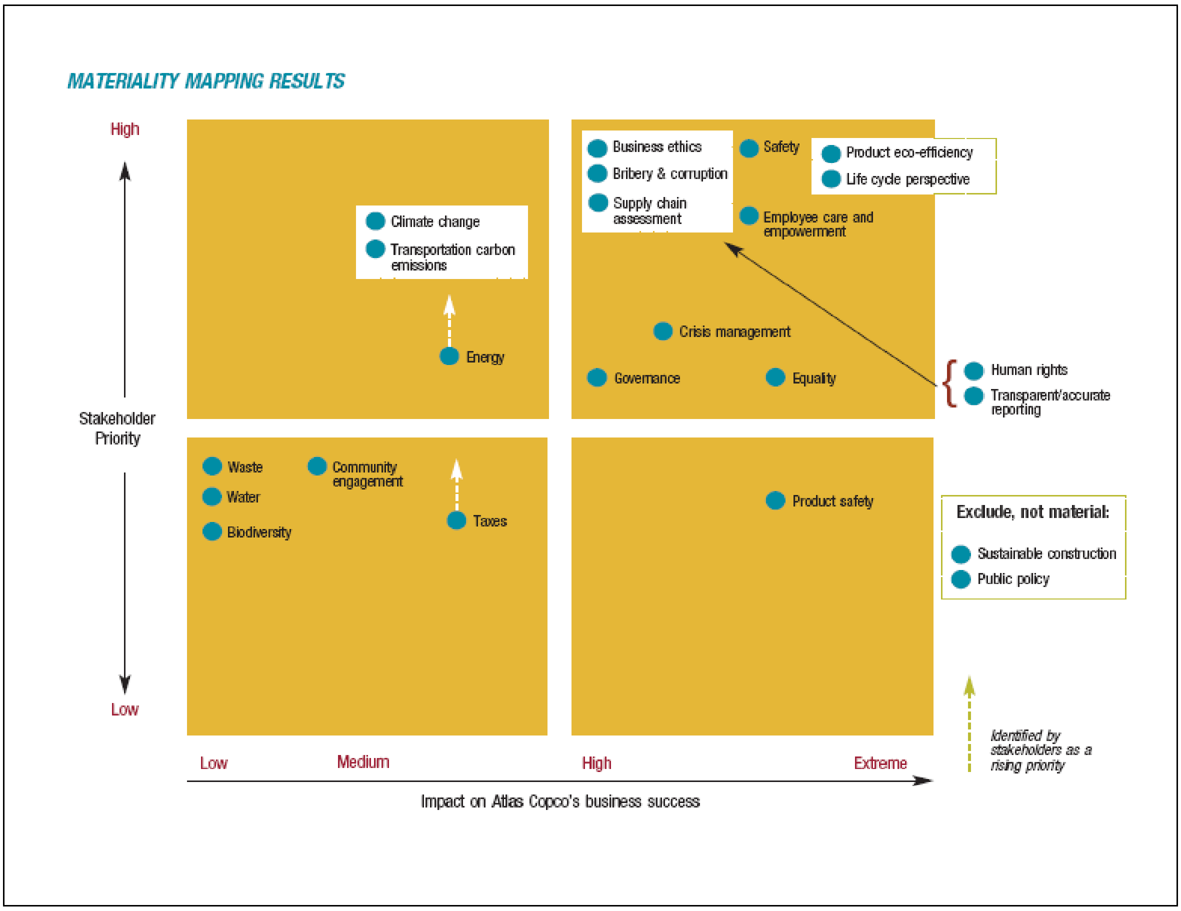

Figure 3. 13: Atlas Copco materiality mapping results

Source: Atlas Copco Materiality Mapping Results (Eccles, 2016:29).

Atlas Copco produces materiality mapping results. The company takes into consideration what other stakeholders think is important. In Figure 3.13, the X axis indicates materiality to the company. The Y axis indicates the company's perception of importance to stakeholders (see: Eccles, 2016:30).

According to Eccles (2016:30), Atlas Copco went through a very sophisticated engagement process, which is key.

> One of the major distinctions between today and the financial reporting of the '50s and '60s is the much higher levels of genuine engagement on the part of corporations. They're basically saying that "business ethics, bribery, safety – they're material to us and we recognize they're important to society. Productivity is important to us, but society is not too worried about it. There are some things that really are not material to us as a company, given our sector, like climate change. We recognize society cares about it, and so we have an obligation to report on it. And then there are some things down here in the bottom left-hand box that aren't material to us and we don't think society cares all that much." Now this is tremendously important because this is showing the ability to exercise judgment and not greenwash and say, "We care about sustainability and we're going to create value by taking care of all of our stakeholders." No, you've got limited resources. You have to choose, and so why don't you just be transparent about that?

It is important to state that the UNPRI; the IIRC's <IR> Framework; the King Report on Corporate Governance; Sustainable Capitalism; and other corporate governance instruments stress the importance of the materiality of ESG reporting.

3.7 Chapter Summary

In order to understand the concept of governance and corporate governance, the Roman Empire governance, followed by the 17th, 20th and 21st centuries corporate governance practices, was investigated. Whilst the Roman Empire ushered in governance, it was the British who introduced corporate governance to the world through companies such as the East Indian Company in the 17th century.

Corporate scandals over the last few years have seen the introduction of many corporate governance principles and codes, laws, regulations, rules and so on by regulators around the world. The UK Corporate Governance Code (formerly the UK Combined Code), established in 1992, paved the way for a myriad of corporate governance principles by major economies around the world, including Germany, the US, the Netherlands and South Africa. These principles were complemented by the UN Report on Sustainable Development; the OECD Principles on Corporate Governance; the UNPRI Principles; Sustainable Capitalism's Five Key Actions; the Africa Corporate Governance Network Principles; the Equator Principles; the IIRC's <IR> Framework; the UN's 17 Sustainable Development Goals; Africa Agenda 2063; the ICGN Global Stewardship Principles; Mo Ibrahim's IIAG; Transparency International's Corruption Watch Index; King IV™; and developments in the corporate governance space.

Corporations operate in the triple context of the economy, society and environment. "Sustainability" is now the buzz word of the 21st century. The "Terminator" example in this chapter (see "Sustainable development" under Section 3.5.20.4) shows how important sustainability is to the public, especially the Millennial Generation (Millennials). King II correctly states that, whereas the 20th century was the century of management sciences, the 21st century is the century of corporate governance.

In Chapter 4, the banking landscape will be discussed.

CHAPTER FOUR – THE BANKING LANDSCAPE

4.1 Introduction

To answer the three research questions and meet the three research objectives, a critical review of the corporate governance and business ethics literature was performed and presented in Chapter 2 (about business ethics) and Chapter 3 (about corporate governance). From this review, the researcher is of the view that business ethics and good corporate governance are inseparable. Ethical leadership can ensure sustainable good corporate governance. This is true for a company such as the Standard Bank.

In this chapter, the researcher presents the building blocks of a corporate governance and business ethics framework based on King IV™ for Standard Bank African subsidiaries; work by the IIRC's International <IR> Framework; Rossouw and van Vuuren's business ethics model; and the *Ubuntu/Botho* concept developed by Khoza along with other authors. The framework is based on corporate governance and business ethics and, more importantly, fused with the *Ubuntu/Botho* African concept. The King IV™ Report on Corporate Governance for South Africa, 2016, in which the current research is anchored, is like its predecessors, such as King II and King III, King IV™ built on an *Ubuntu/Botho* foundation.

To provide a context for the framework, this chapter begins with a discussion of the world banking landscape followed by the African banking landscape. For the world banking landscape, the authoritative annual Top 1000 World Banks ranking by 'The Banker', a financial service provided by the UK's 'Financial Times', is cited. For the African banking landscape, the authoritative African Banking 2016 surveys by auditing and consulting firms PwC and KPMG are cited. The chapter then presents an overview of the history and current operations of the Standard Bank Group, headquartered in Johannesburg, South Africa, which is the subject of this research.

4.2 The World Banking Landscape

One of the authoritative annual banking rankings is performed by The Banker, a service from the UK's 'Financial Times' called 'The Top 1000 World Banks Ranking'.

The ranking provides comprehensive coverage of the leading banks in more than 190 countries. The Banker Database combines standardised financial data, senior management information, The Banker rankings, FT.com news and market data, and original financial statements with advanced search, filtering and download functionality to provide an extensive range information for worldwide bank research and analysis (The Banker, 2017).

4.2.1 The Banker Top 1000 World Banks Ranking 2017: Data quality

The Banker (2017) claims that its research and rankings have been the industry's standard performance measures for over 50 years. Data are researched and verified in-house using a standardised template of up to 150 items and accuracy is ensured by running over 200 automated variance and relational checks on the database.

- Research Universe:
  - The Banker tracks significant local and foreign owned banks in more than 190 countries;
  - It tracks over 5,000 public, private, government and subsidiary banks, which account for more than 90% of total global banking assets; and
  - It has a data archive of up to 30 years.

4.2.2 The Banker Top 1000 World Banks Ranking 2017: Top 5 banks in the world

The top five banks in the world as per The Banker Top 1000 World Banks Ranking 2017 are listed below. The ranking criteria employed are:

- Using the latest Financial Year End (FYE) figures:
  - Tier 1 capital;
  - Total assets; and
  - Pre-tax profit.

The tier 1 capital of the top 5 banks is just over USD1 trillion. Figure 4.1 depicts the top 5 banks in the world as ranked by The Banker.

Top 5 Banks

Bank Name	Latest FYE	Tier 1 Capital	Total Assets	Pre-Tax Profits
ICBC	31-Dec-16	$281,262 mn	$3,472,988 mn	$52,270 mn
China Construction Bank	31-Dec-16	$225,838 mn	$3,016,360 mn	$42,476 mn
JP Morgan Chase & Co	31-Dec-16	$208,112 mn	$2,490,972 mn	$34,552 mn
Bank of China	31-Dec-16	$199,189 mn	$2,611,351 mn	$32,002 mn
Bank of America	31-Dec-16	$190,315 mn	$2,189,266 mn	$25,153 mn

Figure 4. 1: Top 5 banks in the world

Source: The Banker (2017).

Figure 4.1 presents the world's top 5 banks for 2017. Notably, of the top 5, three banks are based in China, namely: **Industrial and Commercial Bank of China (ICBC) – 1**; **China Construction Bank – 2**; and **Bank of China – 4.** The US is represented by JP Morgan Chase at number 3 and Bank of America at number 5. In 2007 ICBC bought 20% of the Standard Bank Group for USD5,6 billion.

4.3 African Banking Landscape

The African banking scene is populated by major international banks alongside "home grown" or local African banks. African banking groups such as the South African Standard Bank Group, FirstRand Group, Nedbank Group and Barclays Africa operate in many African countries. The Togolese Banking Group, Ecobank, which is partly owned by Nedbank, operates in 36 countries across the continent. According to Ecobank's website, it is the leading Pan-African bank with operations in 36 countries on the continent and has a larger African footprint than any other bank.

PricewaterhouseCoopers (PwC) and KPMG African banking surveys are discussed below.

4.3.1 KPMG & PwC African Banking 2016 surveys

4.3.1.1 KPMG 2016 Africa Banking Customer Satisfaction Survey

According to KPMG (2016), to succeed in today's banking environment, bank executives need to understand their customers, especially their preferences, their channel usage, and their needs and what creates customer satisfaction. KPMG talked with more than 33,000 retail banking customers spread across 18 different African markets. Customers were asked:

- What was important to them in a banking relationship?
- What channels they currently use?
- What channels they would like to use? and
- How their current banks compared to their expectations?

According to KPMG (2016:2), much has changed across Africa's banking industry in the past three years. In 2013, when the company published the first edition of the Africa Banking Industry Customer Satisfaction Survey, it reported that retail customers were most concerned about the financial stability of their banks. Fast forward to 2016 and the rules of the game had changed. The report added that customers were still concerned about financial stability, but were primarily interested in improved high-quality service, more innovation and greater convenience.

One of the KPMG survey findings is that new entrants and non-traditional players are gaining a foothold in many markets, further intensifying competition and creating disruption. At the same time, these new players have widened financial literacy amongst Africans and in many cases changed expectations of how traditional banks should operate. In countries such as Kenya, M-Pesa ("M" stands for "mobile" and *pesa* is Swahili for "money"), which is a mobile phone-based money transfer service launched by Vodafone and Mobile Operator Safaricom, has changed the financial transaction landscape. Although M-Pesa is very successful in East Africa, it has failed to disrupt traditional banking in South Africa and was shut down in 2016 by Vodafone South Africa's subsidiary, Vodacom.

KPMG (2016) believes that the data in the 2016 survey report provide valuable benchmarks and important indicators for Africa's banking executives. But the company recognises that the data on its own are insufficient and for this reason sought the views and opinions of banking leaders from across the continent regarding some of the big issues facing Africa's banks today. These viewpoints provide actionable advice on and insightful perspectives of Africa's banking industry. For the 2016 survey (and their previous report in 2013), KPMG used its Customer Service Index (CSI) methodology to determine customer satisfaction. The CSI is a weighted score that reflects the relationship between the importance rating allocated by customers to certain measures and their satisfaction with the same measures. The CSI ranks importance and satisfaction across six key measures: Convenience; Executional excellence; Branding value for money; Products and services; and Customer care. Figure 4.2 indicates the six measures used by KPMG during the 2016 survey.

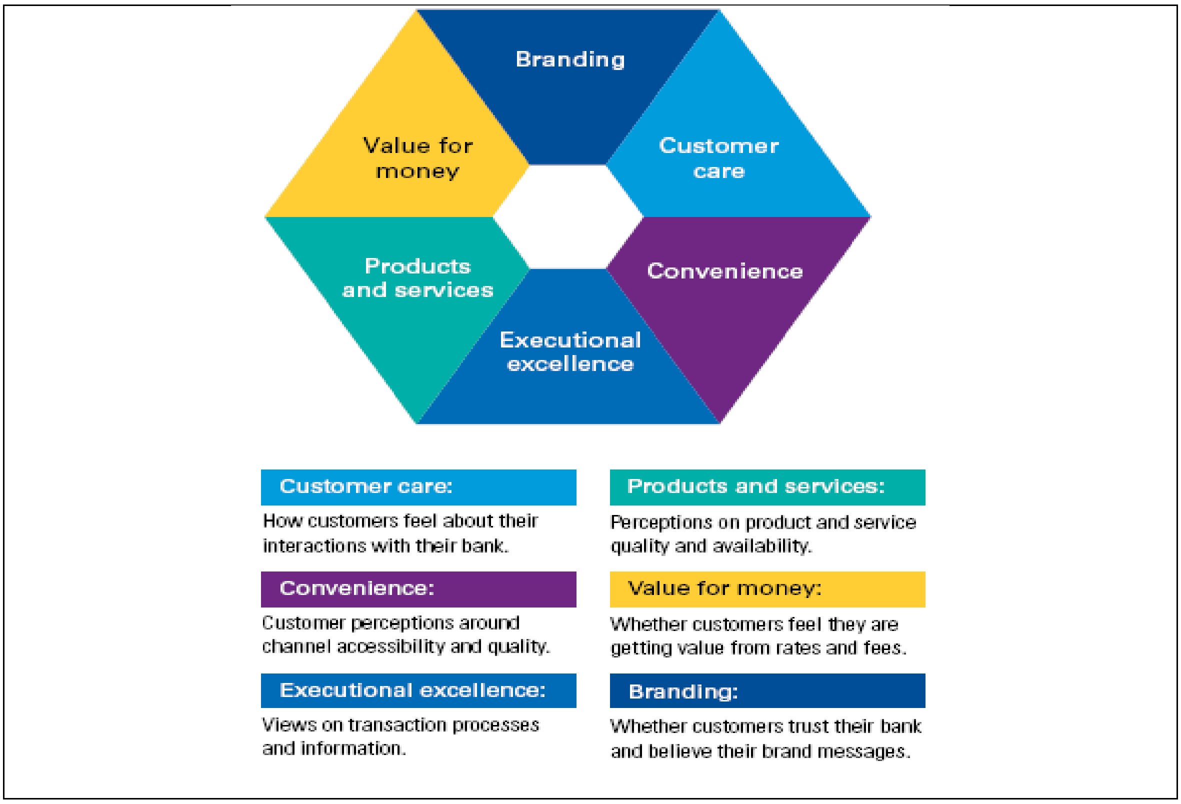

Figure 4. 2: The six key measures used by KPMG during the 2016 survey

Source: KPMG (2016:2).

Figure 4.2 presents the six measurements used by KPMG in its 2016 Africa Banking Customer Satisfaction Survey with a concomitant description of each measurement.

4.3.1.2 PwC African Banking Survey 2016 – Banking in Africa Matters

The annual Africa Banking Survey is carried out by PwC, with the 13 editions prior to 2016 focusing exclusively on South Africa. The 2016 edition, which was carried out from March to June 2016 and launched in October of that year, had an expanded focus and included African countries. The survey was developed by PwC South Africa in conjunction with PwC Market Research based in Luxembourg. The survey collected the opinions of top executives, such as CEOs, CFOs and CROs of banks operating in South Africa, Kenya and Nigeria, with face-to-face interviews supplementing the online questionnaire for CEOs of South African banks (PricewaterhouseCoopers, 2016a:4).
According to the PwC *Banking in Africa Matters – Africa Banking Survey 2016*, the top Sub-Saharan banks ranked by Tier 1 capital are: Standard Bank; FirstRand; Barclays Africa; Nedbank; and Ecobank. Figure 4.3 depicts the top Sub-Saharan banks ranked by Tier 1 capital.

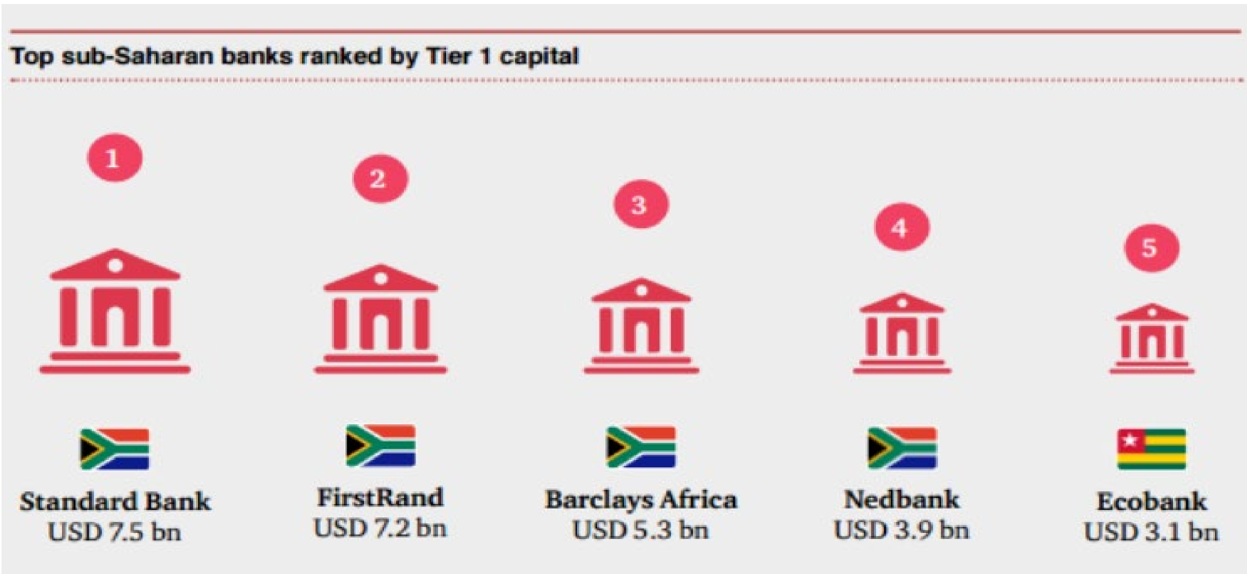

Figure 4. 3: Top Sub-Saharan banks ranked by Tier 1 capital

Source: PricewaterhouseCoopers (2016a:10).

Standard Bank Group is the largest banking group in Sub-Saharan Africa as judged by Tier 1 capital. Tier 1 capital is the core measure of a bank's financial health or strength from a central bank or regulator's point of view. Tier 1 capital is made up of core capital, which consists mainly of ordinary share capital and reserves and may include non-redeemable non-cumulative preferred shares.

4.3.1.3 State of the industry and competition

According to PricewaterhouseCoopers (2016a:10), the South African banking sector is the most mature in Africa and ranks *sixth in the world* on the Global Competitiveness Index in the category availability of financial services. The report states that Nigeria's banking sector remains loan driven, with the weakening of the oil sector due to low oil prices putting stress on corporate balance sheets and on the banking system. The report finds Kenya's banking sector to be growing, driven by a stable domestic currency, local economic growth and demand for more diversified products by middle-class customers. The report added that three unspecified smaller banks had recently failed and no reasons were proffered.

4.3.1.4 Risks and regulation

The PwC African Banking Survey mentions that "the impact of the global regulatory agenda remains uncertain; CEOs are worried that their long-term strategic objectives will be derailed by short-term regulatory requirements and timelines" PricewaterhouseCoopers (2016a:12). The survey adds that misaligned speed of regulatory change across Africa was a concern to the respondents. The survey found South Africa to be the only country in Africa that has implemented Basel III. Zimbabwe and Namibia have implemented Basel II and other countries are considering Basel II/III.

4.3.1.5 Immediate challenges for African banks

According to PricewaterhouseCoopers (2016a:14), when CEOs were asked to rate the most pressing issues on their agendas, the results showed a striking difference between South African banks and those operating in Kenya and Nigeria, hereafter referred to as "banks outside South Africa". Figure 4.4 depicts the most pressing issues in a comparison by bank types and over time. For the banks outside South Africa, capital management was reported as the top pressing issue. For South African banks, this was risk of sovereign downgrade in South Africa. South African CEOs justifiably rated cyber security as a pressing issue and the researcher found it surprising that the banks outside South Africa did not list this among their top five issues.

	SA banks – domestic origin		*SA banks – foreign origin*		*Banks outside SA*
	2016 Survey	*2013 Survey*	*2016 Survey*	*2013 Survey*	*2016 Survey*
1	Risk of sovereign downgrade in SA	Improving revenue growth	Regulatory compliance (including AML/KYC)	Addressing new compliance & regulation	Capital management
2	Cyber security	Introducing new information technology	Currency risk	Availability of key skills	Managing liquidity risk
3	Regulatory compliance (in particular AML/KYC)	Client retention	Capital management	Profit performance	Regulatory compliance (including AML/KYC)
4	GDP growth locally	Service quality	Managing costs	Compliance and regulatory constraints	Managing credit risk
5	Availability of data with new regulations/accounting standards	Availability of key skills	Improving revenue growth	Service quality	Managing investor expectations

Figure 4. 4: Immediate challenges for African banks

Source: PricewaterhouseCoopers (2016a:14).

Figure 4.4 presents immediate challenges for African banks. As can be seen, immediate challenges of South African banks vis-à-vis banks outside South Africa differ.

To demonstrate the importance of cyber security in the South African banking landscape, in August 2016 the South African online news ‘Business Day Live’ (bdlive) reported that the South African Reserve Bank (SARB) was taking action to fend off sustained cyberattacks. The SARB Governor, Lesetja Kganyago, (cited by Bisseker, 2016), “urged the financial sector to give prominence to greater deterrence, early detection, regular penetration testing, and quicker response times”. It was revealed that the SARB had established a special forum of all major financial institutions to put together contingency measures to protect South Africa’s critical financial infrastructure from a prolonged cyberattack. The SARB Governor further stated that, “In a highly interconnected world, SA cyber-defences would only be as strong as the weakest link.” He continued by stating that it was imperative for the private sector and public sector to work together on this issue.

In 2016 the Standard Bank Group was a victim of a well-planned cyber fraud. Strydom *et al*. (2016), reporting for the global media group Reuters, stated that: “The criminal gang made 14,000 withdrawals in just three hours from bank machines at 7-Eleven convenience stores across Japan on May 15, withdrawing 1.4 billion yen ($13 million), according to a source familiar with the matter.” The article continued by stating that South Africa's Central Bank “urged lenders to be vigilant against fraud involving cards. Central bank deputy governor Kuben Naidoo confirmed that Standard Bank would shoulder the losses.”

South African banks’ IT spend is massive. TechCentral IT website in September 2016 published an article entitled: ‘How much SA’s Big Banks Spend on IT’. According to Hilton Tarrant, a TechCentral reporter, “IT spending by the South African big four banks tops R30bn/year, with Standard Bank spending as much as FirstRand and Barclays Africa combined” (Tarrant, 2016).

4.3.1.6 Urban vs rural population in Sub-Saharan Africa

PricewaterhouseCoopers (2016a:27) states that, in 2015, Sub-Saharan Africa’s rural population represented 62.1% of its total population, while its urban population accounted for 37.9%. The report predicts that in the next three-and-a-half decades, these trends will reverse. The report estimates that by 2050, the urban population will have risen to 54.8%, bringing 780 million new city dwellers to African metropolises. The report predicts that the magnitude of this transformation will bring with it immense challenges with regard to environmental sustainability and food security. All banks need to heed these important statistics and start planning for the future. Figure 4.5 depicts urban vs rural population trends in Sub-Saharan Africa.

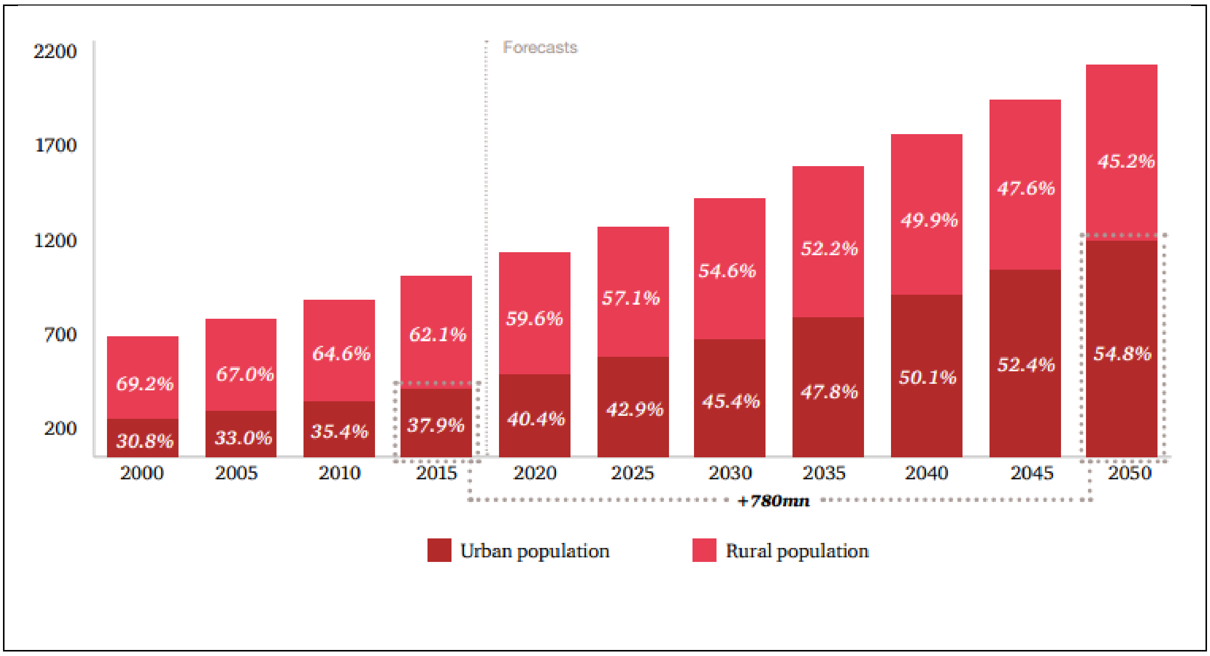

Figure 4.5: Urban vs rural population in Sub-Saharan Africa (million inhabitants) from 2000 to 2050

Source: PricewaterhouseCoopers (2016a:27).

Figure 4.5 above presents urban versus rural population trends in Sub-Saharan Africa from 2000 to 2050. As can be deduced, in the year 2000, 69.2% of the population was based in rural areas compared to 30.8%, which represents the urban population. The picture is expected to drastically change in 2050, by which time the urban population will have increased to 54.8% compared to rural population of 45.2%. This information is important and needs to be factored into future product and service design(s) by banks.

4.3.1.7 Change in consumer behaviour – The "digital natives"

In addition to being affected by rural to urban migration, banks are also confronted by the new generation, whose needs are different from the older banking customers. It is well known that the new generation prefers to use technology rather than the old ways of banking such as queuing in banking malls. According to the PwC survey, over the next 10 years, a new generation will emerge. Figure 4.6 depicts the growth in world population vs the growth in connected devices between the years 2003 and 2020.

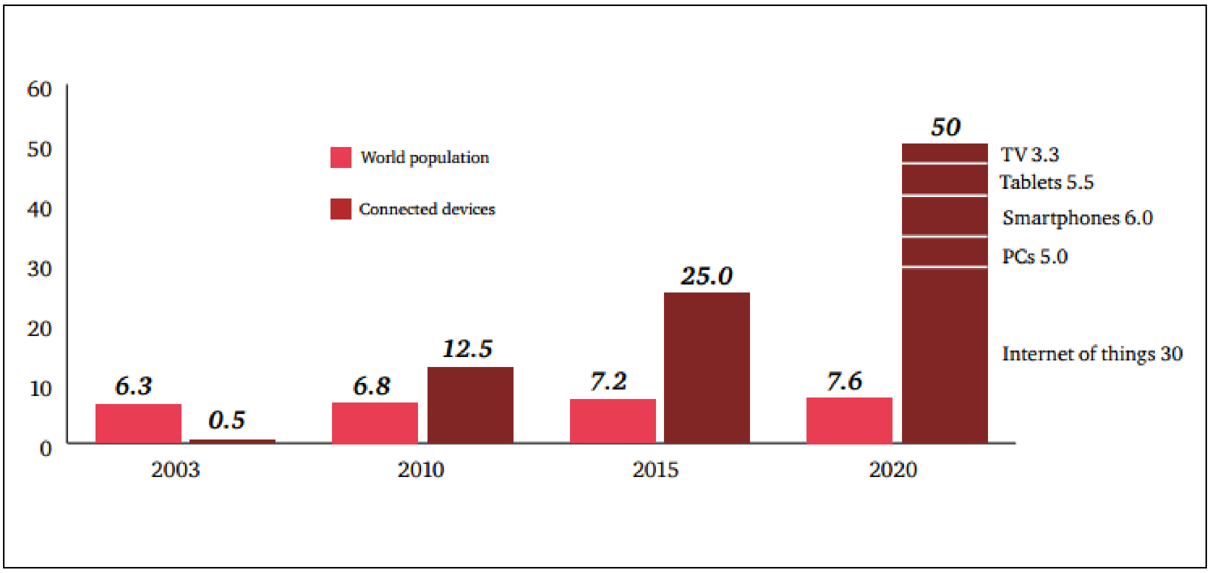

Figure 4.6: World population vs connected devices, billion, 2003–2020

Source: PricewaterhouseCoopers (2016a:28).

Figure 4.6 presents the world population vs connected devices between the years 2003 and 2020. It is interesting to note that in 2003 the world population was estimated to be 6.3 billion and had access to only 0.5 billion devices. Conversely, in 2020 the world population is projected at 7.6 billion with a whopping 50 billion devices.

The "digital natives" were born after 1990 and are beginning to enter universities and the workplace. The PwC report correctly states that the digital natives will transform the world as we know it; by 2020, they will make up 47% of the global population. The report adds: "Empowered by the technology and connected 24/7, this generation will have new expectations and new powers" (PricewaterhouseCoopers, 2016a:28).

The KPMG banking survey, under the heading: 'Encouraging the shift to internet and mobile banking: A Nigerian perspective', estimates Nigeria to have over 148 million mobile telephone subscribers, with at least 92 million of these subscribers having internet data services on their devices. The report sees internet penetration and usage growing as around one-third of Nigeria's population is currently younger than 24 years old and the middle-class population is growing (KPMG, 2016:10).

The German software company SAP Africa has urged banks to go digital or brace for tough times. This is according to an article by Brian Ngugi published in the Eastern

African Newspaper 'Business Daily Africa' (Ngugi, 2016). The article further states that the software company advised banks in the region to embrace digital technologies to counter disruptions from financial innovations. Failure to do so may, according to SAP Africa, expose them to a tough future marked by thin profits.

4.3.1.8 Impact on megatrends

Over the last five years, PwC has been identifying and following megatrends that have the potential to profoundly transform and disrupt economic sectors globally. Figure 4.7 depicts the impact of the megatrends as perceived by banking CEOs. As part of their African banking survey, PwC asked CEOs how they perceived the following megatrends and how prepared their organisations were to face them: technological change; demographic change; social and behavioural change; rise and interconnectivity of emerging markets; and war over natural resources.

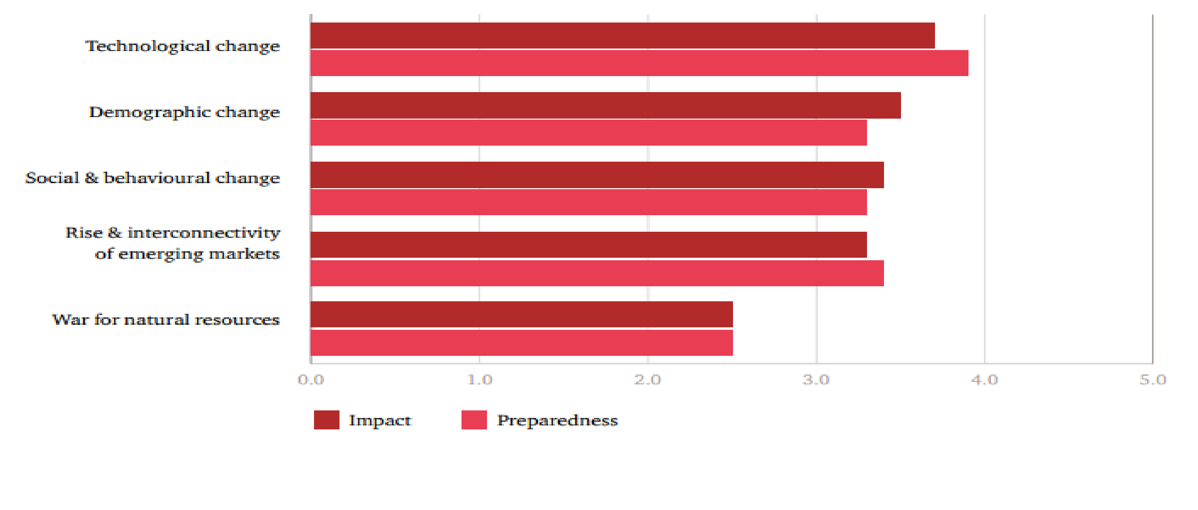

Figure 4.7: Impact of the megatrends

Source: (PricewaterhouseCoopers, 2016a:30).

It is clear from Figure 4.7 that the CEOs interviewed were of the view that technological change would have the highest impact whilst a war over natural resources would have the least impact on their organisations.

In the keynote address by SARB Deputy Governor Francois Groepe at the GIBS Conference on 29 September 2015 entitled: 'Game Changers in Financial Markets: Regulation, Innovation and Cybersecurity', the Deputy Governor elucidated the downside of disruptive innovations. For him, while disruptive innovation can bring about productivity gains, it also brings problems, such as risks of contagion, associated with the greater degree of interconnectedness (Groepe, 2015:2).

4.3.1.9 Organisation-centric vs customer-centric models

One of the biggest shortcomings of banks is their inability to gain a customer-centric view of their customers. Different product sections in banks operate in silos. As an example, when a customer applies for a home loan, he or she has to complete in a long application form. When the same customer applies for vehicle or asset finance soon thereafter, he or she again must furnish the bank with more or less the same details as provided in the home loan application form. Customers do not understand this. Most Tech companies such as Amazon only require a customer to fill in their details once. Also, companies such as Apple capture a new customer's biographical details and credit card details once and from then on as purchases are made, the credit card is automatically debited. Fortunately, banks are beginning to listen to customers' complaints regarding this issue and the buzz word in the banking world is now "customer centricity". Figure 4.8 depicts the organisation-centric vs customer centric models.

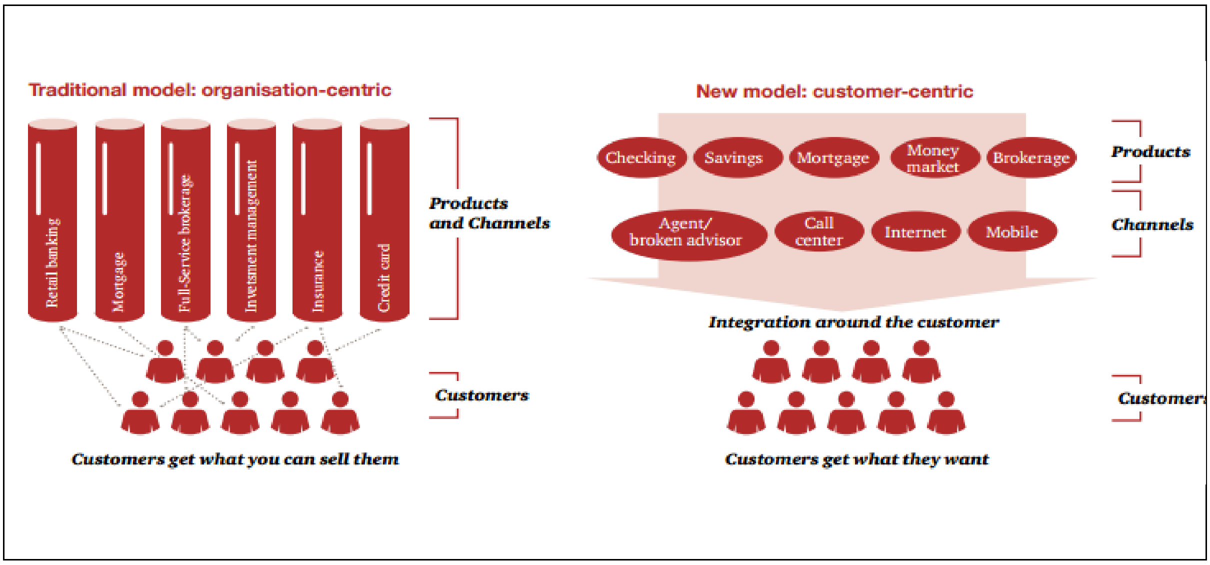

Figure 4.8: Organisation-centric vs customer-centric models

Source: (PricewaterhouseCoopers, 2016a:33).

According to the PwC survey, “The number one discussion topic this year, when conducting face-to-face interviews with CEOs for our survey, was customer-centricity” (PricewaterhouseCoopers, 2016a:33). The report correctly adds that “Over the past decades, innovations in banking – especially retail banking – have been typically launched and maintained in silos, each with its own sales and distribution model, technology, and operational structure. In the current competitive and regulatory environment, banks have to adopt a helicopter view of their customers.” Banks that continue to run according to an organisation-centric model as opposed to a customer-centric model run the risk of alienating customers. For example, while one division such as the Home Loans Unit is suing a customer for non-payment another division such as the Credit Card Unit is contacting the same customer to offer them an increased credit card limit. This occurs as a result of the bank’s system not interfacing to allow users to have a ‘helicopter view’ of customers’ accounts.

4.4 The Standard Bank Group

Having discussed the World and African banking landscapes above, the Standard Bank Group which is the subject of the research is discussed below.

4.4.1 History and overview of the Standard Bank Group

The Standard Bank was established in 1862 and has a 156-year history in South Africa. More recently (in the early 1990s), it started building a franchise in the rest of Africa. The Standard Bank Group currently operates in 20 countries on the African continent, including South Africa, as well as in other selected emerging markets. A past Chairman of the Standard Bank Group, Fred Phaswana, wrote in the Standard Bank Group’s internal magazine:

> The history of our bank is tightly linked with the history of the development of this country and sub-Saharan Africa, and Standard Bank’s vision and adaptability through the years has meant that we have been part of all crucial moments in South Africa’s history from the very start. We have been able to see those changes through to maturity, from the growth of the gold and diamond industries and formation of the Republic, right through to the first

democratic vote and all the changes that have happened since. Standard Bank was there. (Phaswana, 2012:26)

4.4.2 Standard Bank Group strategy

The Standard Bank Group's strategy is to build a leading Africa-focused financial services organisation using all its competitive advantages to the full. The group focusses on delivering superior sustainable shareholder value by serving the needs of its customers in chosen countries in Africa. It also connects other selected emerging markets to Africa and to each other, applying its sector expertise, particularly in natural resources, globally. The group's key differentiator is said to be its people. Standard Bank Group has three main pillars of business: Personal & Business Banking, Corporate & Investment Banking, and Wealth.

Standard Bank Group is listed on the Johannesburg Stock Exchange (JSE) Limited and is governed by the following: The South African Companies Act, the JSE, King Code (now King IV™) and the Banks Act.

The headline earnings for the year were R26 billion and total assets were R2 trillion as at December 2017 and the group employed 48 322 permanent employees across all geographies. Standard Bank Group has 1 212 branches and 9 036 ATMs on the African continent (Standard Bank Group, 2017a).

Standard Bank Group strategy is made up of a series of building blocks designed to ensure that the bank's employees all understand the strategy and say the same thing about the strategy. The elements of the strategy are: purpose, legitimacy, vision, values and principles, which are delivered by the bank's business units and underpinned by the bank's values. The bank's values serve as beacons to guide employees' behaviour, actions and decisions (Standard Bank Group, 2016a). The Standard Bank Group's strategy is designed to realise the opportunities that Africa presents (Standard Bank Group, 2017a). Standard Bank Group's strategy building blocks are: purpose, values, key focus areas; client services teams and strategic value drivers. Figure 4.9 shows the Standard Bank Group strategy.

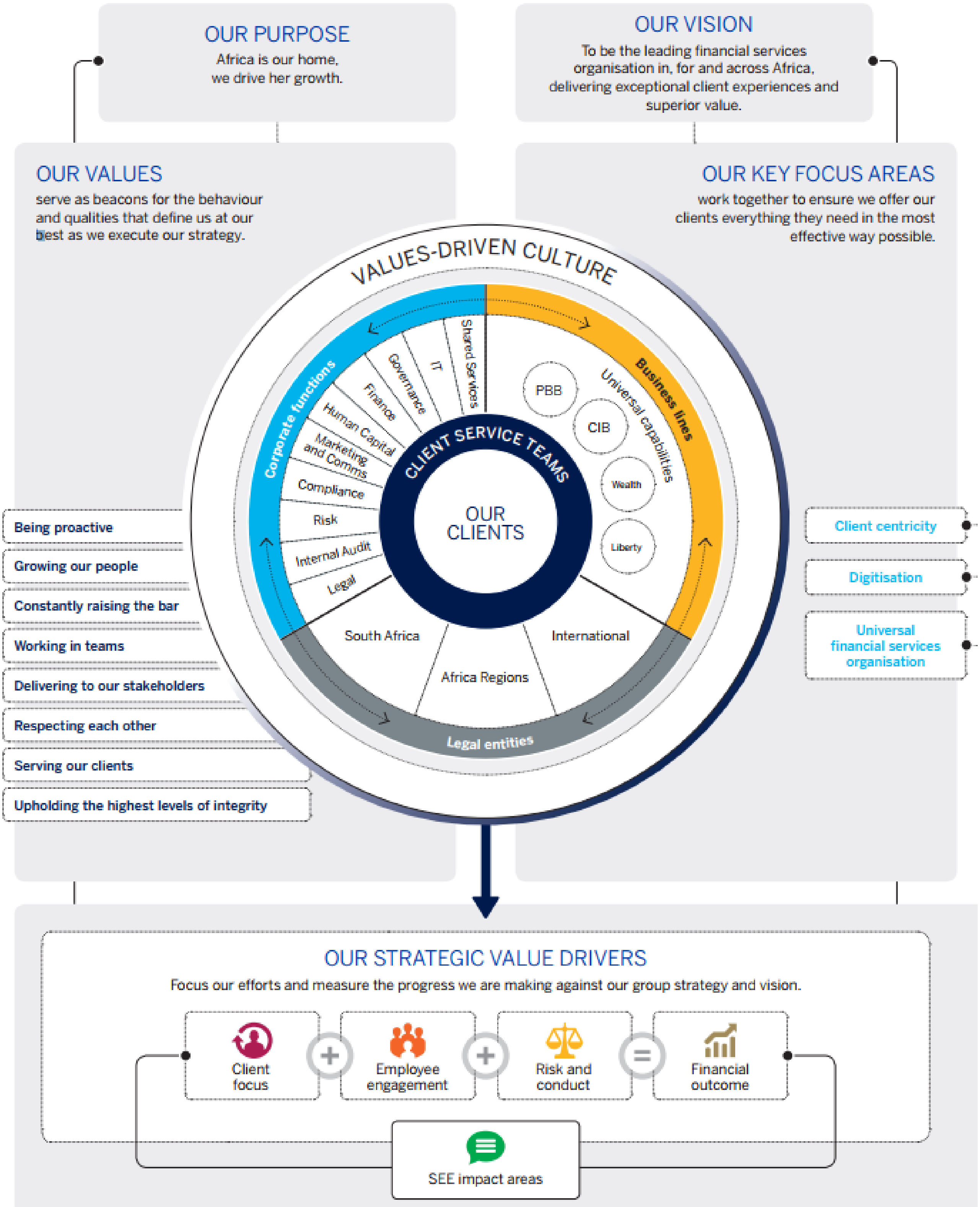

Figure 4. 9: Standard Bank Group Strategy

Source: Standard Bank Group (2017a:12).

Figure 4.9 depicts Standard Bank Group strategy. This is underpinned by the bank's purpose; vision; eight (8) values and three (3) key focus areas. The values are:

- Being proactive;
- Growing its people;
- Constantly raising the bar;
- Working in teams;
- Delivering to its customers
- Respecting each other
- Serving its clients; and
- Uploading the highest levels of integrity.

The key focus areas are:

- Client centricity;
- Digitisation; and
- Universal financial services organisation.

The Standard Bank Group strategic value drivers are client focus plus employee engagement plus risk conduct resulting in financial outcome and social, economic and environmental (SEE) outcomes.

The centre wheel shows the client service teams, namely: Personal and Business Banking (PBB); Corporate and Investment Banking (CIB); Wealth and Liberty. The three regions in which Standard Bank Group is represented are: South Africa; Africa Regions and International.

4.4.2.1 Standard Bank's six capitals

In Chapter 3 the IIRC's International <IR> Framework's value-creation model is discussed, with the researcher indicating that King IV™ is largely anchored on the International <IR> Framework. King IV™ justifies using the Framework by stating that:

> There is now general acceptance that the employment, transformation and provision of financial capital represents only a fraction of an organisation's activities. Instead, inclusive capitalism takes account of the employment, transformation and provision of all sources of capital – the six capitals – in order

to reposition capitalism as the engine of shared prosperity. It gives parity to the sources of value creation. (King IV™ Report on Corporate Governance for South Africa, 2016:4)

The Standard Bank Group has adopted a value-creation model that is not dissimilar to the IIRC's model. According to the Standard Bank Group Annual Integrated Report 2017, value is defined as the "outcomes we aim for – what success looks like – in each of our strategic value drivers" (Standard Bank Group, 2017a:4).

The Standard Bank Group has adopted the six capitals model discussed extensively in chapter 3. According to the Standard Bank Group Annual Integrated Report 2017, the "six capitals are implicit in the value drivers that underpin our strategy, and in our material issues" (Standard Bank Group, 2017a:4).

4.4.2.2 Standard Bank Group's operating presence

In 2015 the Standard Bank Group sold a majority stake in Standard Bank PLC (SB PLC) to its already 20% shareholder, ICBC, and other interests outside Africa. The Group is now mainly focused on Africa and operates in 20 African countries. The 20 countries that form the population for this research study are discussed in Chapter 5.

4.4.2.3 Key client concerns

Standard Bank Group (2017a:19) in its annual integrated report for 2017 states the following as key client concerns:

- Improving the client's banking experience;
- Combating cybercrime and fraud;
- Cheaper and more convenient banking experience;
- Ensuring the safety of their money; and
- Assistance in times of financial distress.

4.4.2.4 Managing associated risks

According to the IIRC's International <IR> Framework (International Integrated Reporting Council, 2013:27), under the topic risks and opportunities, "An integrated report should answer the question: What are the specific risks and opportunities that affect an organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?" The Standard Bank Group Annual

Integrated Report 2017 states that it aims to "instil conscious risk-taking across the group. We take a holistic and forward-looking view of the risks we face by continually assessing current and emerging risks. Our risk appetite is regularly reviewed, in response to changes in our operating context and our exposures are managed accordingly" (Standard Bank Group, 2017a:16).

4.4.2.5 Material issues

In Chapter 3 (section 3.5.14) the IIRC's International <IR> Framework is discussed comprehensively. The IIRC states that, "An integrated report should disclose information about matters that substantially affect the organization's ability to create value over the short, medium and long-term" (International Integrated Reporting Council, 2013:18). King IV™ has adopted the same material issues definition as given in the International <IR> Framework (King IV™ Report on Corporate Governance for South Africa, 2016:14).

The Standard Bank Group (2017a:19) has adopted the International <IR> framework in its integrated reporting. Under the materiality section related to key client concerns, it states that:

- Understanding the needs of its clients is important;
- Providing its customers with a personalised and comprehensive financial services offering is imperative;
- Empowering its people to better provide an excellent and consistent client experience;
- Making it easier, faster and safe to transact by accelerating innovation and digitisation; and
- Partnering with its clients during challenging times

It is important to mention that Standard Bank Group in its Annual Integrated Report 2017 has stated various strategies to address its clients' concerns and its material issues.

4.4.2.6 Responding to stakeholders

The IIRC framework and King IV™ have unequivocally adopted the stakeholder-inclusive approach. This will be discussed further in this chapter. The Standard Bank Group (2017a:11) has identified the following as its material stakeholders: clients;

employees; employee representatives; regulators; suppliers; governments; shareholders; investment analysts; communities, and civil society.

4.5 Conceptualising a Corporate Governance and Business Ethics Framework based on King IV™ for Standard Bank African Subsidiaries

4.5.1 Corporate governance constructs and frameworks

This research is conceptually based on the stakeholder-inclusive approach adopted by King IV™. Principle 16 of King IV™ states that: “In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time” (King IV™ Report on Corporate Governance for South Africa, 2016:71). An inclusive corporate stakeholder framework is in line with the corporate stakeholder theory advocated by Edward Freeman, William Evan and Kenneth Goodpaster (as discussed in Chapter 2 of this thesis). An important consideration is Goodpaster’s revision of this theory. Although Goodpaster agrees with Freeman and Evan’s corporate stakeholder theory, he takes issue with their assertion that all corporation stakeholders are treated as equals. In Goodpaster’s opinion, although corporation management has a special duty towards corporate shareholders, this fiduciary obligation towards corporate shareholders does not have to result in a situation where the interests of other important corporate stakeholders are sacrificed for the sake of corporate shareholder interests.

4.5.2 Definition of corporate stakeholders

The IIRC defines stakeholders as “[t]hose groups or individuals that can reasonably be expected to be significantly affected by an organization’s business activities, outputs or outcomes, or whose actions can reasonably be expected to significantly affect the ability of the organization to create value over time” (International Integrated Reporting Council, 2013,34). This definition has been adopted by King IV™ in its glossary of terms (King IV™ Report on Corporate Governance for South Africa, 2016:17).

4.5.2.1 Definition of stakeholder inclusivity

King IV™ defines stakeholder inclusivity as "An approach in which the governing body takes into account the legitimate and reasonable needs, interests and expectations of all material stakeholders in the execution of its duties in the best interests of the organisation over time" (King IV™ Report on Corporate Governance for South Africa, 2016:17). This approach King IV™ defines as stakeholder-centric rather than shareholder-centric and involves treating equally all sources of value creation, such as social and relationship capital, rather than prioritising financial capital providers.

4.5.2.2 Corporate stakeholders

This section discusses the various stakeholders of Standard Bank Group.

Figure 4.10 depicts an organisation's typical stakeholders.

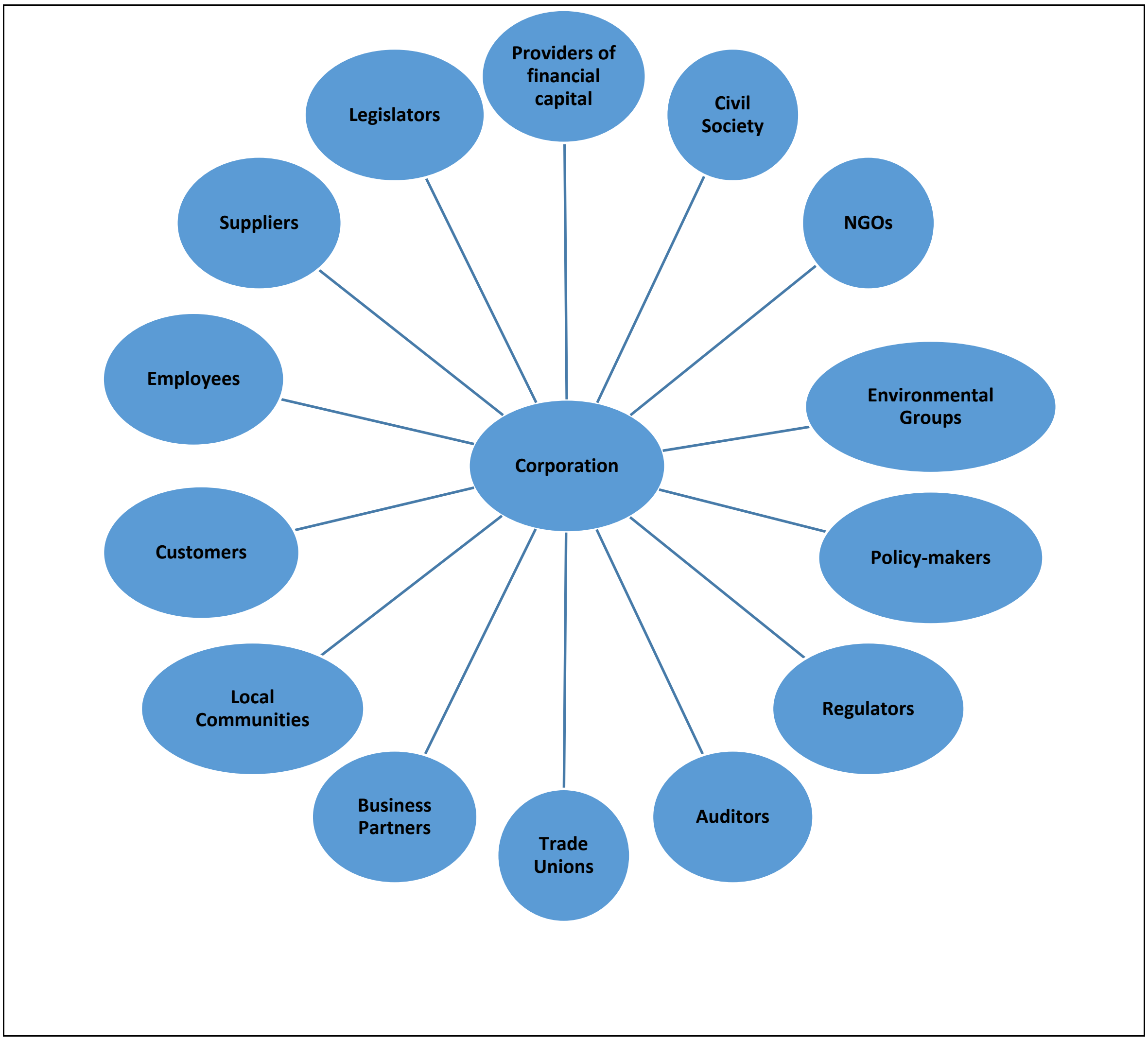

Figure 4. 10: Corporate stakeholders

Adapted from the International Integrated Reporting Council, (2013:33) and King IV™ Report on Corporate Governance for South Africa (2016:17).

Figure 4.13 depicts various internal and external corporate stakeholders. The King IV™ Report on Corporate Governance for South Africa (2016:17) states that Internal stakeholders are directly affiliated with the organisation and include its governing body, management, employees and shareholders. External stakeholders could include trade unions, civil society organisations, government and consumers. Most importantly, King IV™ adds that internal stakeholders are always material stakeholders, but external stakeholders may or may not be material.

4.5.2.3 Critique of the stakeholder, including the inclusive-stakeholder theory

A critique of the stakeholder was presented in Chapter 2 of this thesis. Suffice it to state that proponents of the shareholder primacy theory are of the view that shareholders are the providers of capital and as such they “own” the company. Goodspeed (2016:23) puts it succinctly by stating that the debate about shareholder primacy between those who embrace the shareholder-centric view and stakeholder-view proponents is “of course, not new and dates back to the 1930s when the Harvard Law Review published a discussion on the topic by two leading corporate scholars. Berle argued for shareholder primacy, i.e. that corporation exist for shareholder wealth maximisation. On the other hand, Dodd emphasised the ‘stakeholder approach’ and argued that the proper purpose of the corporation also included more secure jobs for employees, better quality and value-for-money products for consumers, and greater contributions to the welfare of the community.”

4.6 Business Ethics Constructs and Frameworks

4.6.1 Model for managing corporate ethics

The Modes of Managing Morality (MMM) Model has been developed by Rossouw and van Vuuren to manage ethics in an organisation. Table 4.1 presents the MMM Model with its five different modes of managing business ethics: immorality; reactivity; compliance; integrity; and total alignment.

Table 4.1: The Modes of Managing Morality (MMM) Model

	Immoral Mode	Reactive Mode	Compliant Mode	Integrity Mode	Totally Aligned Organisation Mode
Nature	• Unethical conduct is good for business, • The business of business is business, and not ethics	• Token gesture of ethical intent is shown (a code of ethics) • Unethical behaviour is ignored and remains unpunished	• Commitment to manage and monitor ethics performance • Rule-based approach to ethics • Discipline unethical behaviour	• Internalisation of ethical values and standards • Value-based approach to ethics • Encouraging and rewarding ethical behaviour	• Seamless integration of ethics in corporate purpose, strategy and operations • Non-negotiable morally responsible interaction with stakeholders
Purpose	• Ethics has no place in the singular pursuit of the bottom line • Unethical behaviour is espoused as good business	• Protection against dangers of unethical behaviour • Sceptics and critics are silenced (temporarily) by the existence of ethics standards	• Prevention of unethical behaviour • Desire to have a good ethical reputation	• Raising level of corporate ethical performance • Pro-active promotion of ethical behaviour • Ethics regarded as competitive advantage	• Ethics is embedded in the corporate culture and purpose • Ethics is entrenched in discourse and decision-making
Ethics Management Strategy	• A Machiavellian orientation that denies the need to make decisions concerning ethics • No ethics management strategy or interventions	• Laissez-faire ethics management • Unwilling to manage ethics in a concerted manner • Corporate (ethical) values are words on paper	• Transactional approach to managing ethics • Code clear and comprehensive and corporate ethics management structures and systems are introduced • Unethical behaviour is penalised	• Transformational approach to managing ethics • Stakeholder engagement • Ethics “talk” prevails • High-level ethics management functions and system	• Everyone is responsible for ethics performance • Ethics function/office serves as “rudder” • Ethical heroes celebrated; ethics stories told
Challenges	• Financial consequences of immorality become unaffordable • Increased dissonance between personal and corporate values	• Susceptible to ethical scandal • Stakeholder frustrated expectations • Corporate ethical reputation is below par	• Mentality of “what is not forbidden is allowed” • Personal moral autonomy and responsibility are undermined • Proliferation of ethical rules and guidance	• Discretion is abused • Moral autonomy leads to moral dissidence • Powerful leaders undermine ethics drive • Lack of clear corporate identity undermines integrity mode	• Ethical complacency, arrogance, moral laxness • Neglect ethics induction of new employees • Lack of co-ordination in managing ethics

Source: Rossouw and van Vuuren (2013:58).

As highlighted in Table 4.1, an organisation such as Standard Bank Group should strive to operate on the fifth mode, i.e. total alignment mode. According to Rossouw and van Vuuren (2013:69), the MMM Model "is a useful diagnosis tool to identify main features, purposes and challenges of a company's approach to managing ethics". It also allows companies to compare their approach to managing ethics with other approaches and to make strategic changes to the way they manage ethics if necessary.

4.6.1.1 Criticism of the MMM Model

The main criticism of the MMM Model, according to Rossouw and van Vuuren (2013:69), is stated by its authors as follows: "TAO mode can breed a mentality of ethical complacency or even ethical arrogance." A further criticism is that "ethical behaviour is simply accepted as the norm and therefore some may regard it as superfluous to keep on emphasising its importance. This ironically can result in a situation where ethics talk begins to diminish and is left to chance, rather than being continuously promoted."

4.7 Ubuntu/Botho African Worldview

King IV™, like its predecessors King II and King III, is built on the African concept of Ubuntu/Botho. King IV™ argues that an organisation is an integral part of society.

> Organisations operate in a societal context which they affect and by which they are affected. An organisation has a society specific to itself, which includes its internal and external stakeholders with a material stake in its activities. But the organisation is also a juristic person in the broader society in which it operates. Organisations are dependent on this broader society to, for instance, provide a conducive operating environment, a viable customer base and the skills that the organisation requires. In turn, organisations contribute to the broader society as creators of wealth; providers of goods, services and employment; contributors to the fiscus; and developers of human capital. (King IV™ Report on Corporate Governance for South Africa, 2016:24)

King IV™ continues:

> This idea of interdependency between organisations and society is supported by the African concept of Ubuntu or Botho, captured by the expressions uMuntu ngumuntu ngabantu and Motho ke motho ka batho – I am because you are; you are because we are. Ubuntu and Botho imply that there should be a common purpose to all human endeavours (including corporate endeavours) which is based on service to humanity. (King IV™ Report on Corporate Governance for South Africa, 2016:24)

King IV™ argues that:

> as a logical consequence of this interdependency, one person benefits by serving another. This is also true for a juristic person, which benefits itself by serving its own society of internal and external stakeholders, as well as the broader society. In line with this ethos, organisations should also take responsibility for the environmental outcomes of their activities and outputs, as those affect society as a whole. (King IV™ Report on Corporate Governance for South Africa, 2016:24

4.8 Chapter Summary

This chapter provided an overview of the global banking landscape. This was followed by an overview of the African banking landscape and the history of the Standard Bank Group. The Standard Bank Group's strategy was discussed

The next chapter will discuss the research methodology and design chosen for this study. In order to answer the research questions and meet the three research objectives, the study is delineated as follows:

- **Population**: Standard Bank Group's twenty (20) African subsidiaries;
- **Sample**: Seventeen (17) Standard Bank Group African subsidiaries;
- **Excluded Standard Bank African subsidiaries**: South Africa; Ethiopia and South Sudan).
- **Field of specialisation**: Corporate governance and business ethics; and
- **Research methodology used**: Sequential mixed methods study (quantitative and qualitative with quantitative given a higher priority, i.e. QUANT + qual).

Delineation will be discussed in chapter 5 (table 5.1); Chapter 5 (section 5.3.8.3) and Chapter 7.

CHAPTER FIVE – RESEARCH DESIGN AND METHODOLOGY

5.1 Introduction

In Chapter 4, using the various constructs, a corporate and business ethics framework based on King IV™ for Standard Bank African subsidiaries was constructed. In this chapter, the researcher unpacks the research design and methodology(ies) that were employed in the study to answer the three research questions and to meet the three research objectives.

This research is based on the Standard Bank African subsidiary countries that span Eastern, Western and Southern Africa and are part of the African Union. The research followed the tried-and-tested research process as documented by authors such as Professor Saunders *et al.* (2012) as unpacked later in this chapter. The research design and methodology chosen for the study followed the design and methodology advocated by Saunders *et al.* (2012) called the 'Research Onion'. The research design included the research philosophy, research approach, choice of research method, research strategy(ies), time horizon, data collection and data analysis. These are all described in this chapter.

5.2 Research Methodology

The research and methodology for this study is discussed below.

5.2.1 Definition of research

Research is defined as "something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge" (Saunders *et al.,* 2012:5). According to Saunders *et al*. (2012:5), two phrases are very important in the aforementioned definition: "systematic way" and "to find out things". "Systematic" suggests that research is based on logical relationships and not just beliefs (Ghauri & Grønhaug as cited in Saunders *et al*., 2012:5).

Keyton (cited in Davis, 2014:2) states that research in its most basic form can be described as "the process of asking questions and finding answers". Brink, van der Walt and van Rensburg (2012:2) state that in science "research" refers to "exploration, discovery and careful study of unexplained phenomena". Bertram and Christiansen (2014:3) put it rather succinctly by stating that: "research starts with being curious, with wondering *why* things are the way they are." Leedy (cited in Bertram & Christiansen, 2014:3) writes that research begins with a problem, by which he means those "tantalising, enigmatical, unresolved roadblocks to knowledge and human progress for which no answer has been found".

5.2.2 The research process

Many research books have different processes on how to conduct research but they all include the following research stages: formulating the research topic; introduction; literature review; designing the research; collecting data; analysing data; and, finally, writing and presenting the research results. Saunders *et al.* (2012:12) warn, however, that these stages are not likely to be followed in the order set out above, that some stages overlap and that most stages are visited more than once.

5.3 Research Design

The research design for this study is discussed below.

5.3.1 Definition of research design

The research design can be defined as "the general plan of how you will go about answering your research question(s)" (Saunders *et al.,* 2012:159). Saunders *et al.* (2012) have developed a research design construct, which they call the "research onion" and which highlights elements of the research design. The research onion is presented in Figure 5.1.

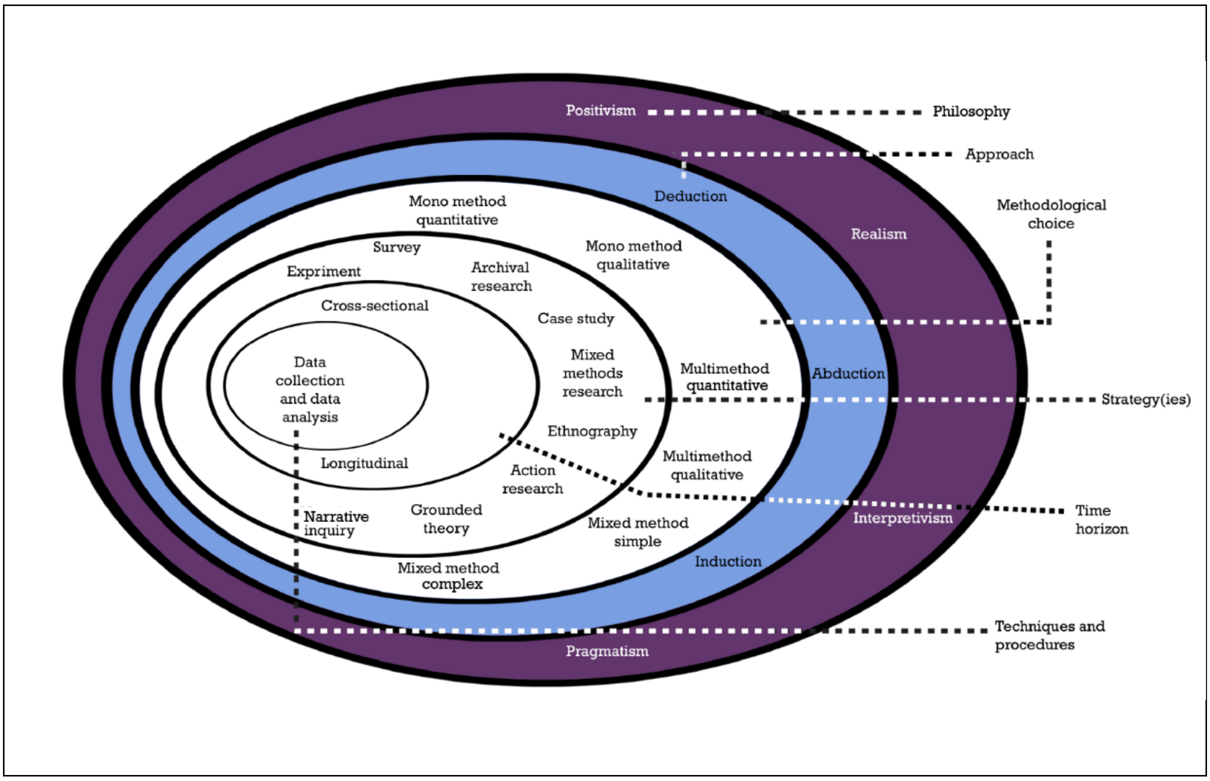

Figure 5.1: The research onion

Adapted from Saunders *et al.* (2012:160).

The outer layers of the research onion consist of the following: Research philosophy; Research approach; Methodological choice; Research strategy(ies); Research time horizon and Research Techniques and procedures).

The inner-most layer of the research onion consists of research techniques and procedures. The researcher, using the research onion as a guide, summarised these research design elements for the current research as shown in Table 5.1.

Table 5. 1: Summary of research design elements

Research philosophy (epistemology)	**Quantitative research study** – Positivism, although pragmatism is also applicable. **Qualitative research study** – Interpretivism. **Mixed Methods study** – Realism and, in particular, critical realism.
Research approach	**Quantitative research study** – Deductive approach. **Qualitative research study** – Inductive approach. **Mixed Methods study** – Deductive or inductive approach or combination of both. Abductive also applicable.
Methodological choice	○ Quantitative research study. ○ Qualitative research study. ○ Mixed Methods study – (quantitative and qualitative with quantitative given a higher priority), i.e. QUANT + qual.
Research strategies	Survey research.
Dimension of survey study	Descriptive survey research.
Survey design – time horizon	Cross-sectional.
Case study	Qualitative research study in the form of interviews to follow upon quantitative variables requiring further probe.
Sample • **Population** ○ **Nature** ○ **Size of population** ○ **Unique characteristics**	○ Standard Bank African subsidiaries. ○ 20 ○ Share common purpose; vision; mission; strategy; values, etc.
Sample techniques	• Non-probability sampling: ○ Purposive or judgemental sampling: ▪ Homogeneous sampling.
Pilot study	• Standard Bank Africa Regional Chief Executive Officer and Standard Bank Africa Head of Corporate Governance (Group Secretary's Office) provided valuable feedback on the questionnaire.
Number of Standard Bank African subsidiaries surveyed	17
Number of respondents	102
Dependent variable	Corporate governance and business ethics themes
Independent variable	Standard Bank Group business strategy
Data analysis	• Quantitative study – Software package such as IBM® SPSS® Statistics version 25. • Qualitative study – Computer Aided Qualitative Analysis Software such as CAQDAS and NVivo™12 (where required).

Table 5.1 above presents a summary of the research study design on one page. The study's research design elements are described below in line with the research onion construct.

5.3.2 Research philosophy

Research philosophy for this study is discussed below.

5.3.2.1 Positivism and postpositivism

Brink *et al.* (2012:25) define positivism as “a systemic way of doing research that emphasises the importance of observable facts”. If a research study reflects the philosophy of positivism, according to Saunders *et al.* (2012:134), then one has probably adopted the philosophical stance of the natural scientist. Gill and Johnson (cited in Saunders *et al*., 2012:134) state that, using the positivist philosophy, “You will prefer collecting data about an observable reality and search for regularities and causal relationship in your data to create law-like generalisations like those produced by scientists.” Bertram and Christiansen (2014:22) assert that “both positivism and postpositivism work with what is called the scientific method in both the social and the natural science”. They add: “Postpositivist researchers generally work in large-scale studies which they consider more likely to produce generalisable facts” (Bertram and Christiansen, 2014:24).

5.3.2.2 Methodological position of positivism

Du Plooy-Cilliers (2014:26) posits that: “Since the aim of positivistic research is to find valid and reliable causal relationships and to further objectivity and precision, positivists favour recording ‘facts’ in terms of quantities, or numbers, that can be processed by using statistical techniques. Quantitative research can thus be seen as a research strategy that emphasises quantification in the collection and analysis of data.”

5.3.2.3 Critical realism

According to Saunders *et al.* (2012:136), “Realism relates to scientific enquiry. The essence of realism is that what we sense is reality: that objects have an existence independent of the human mind.” Crotty (cited in Saunders *et al*., 2012:136) points out that in its belief in a reality that is independent of the mind, realism is opposed to idealism, which holds that “only the mind and its contents exist”.

Du Plooy-Cilliers (2014:31) states that critical realism has its origins in Germany. According to her, critical realism "was born out of frustration with positivism's non-humanistic and narrow focus and its emphasis on causal nature of universal laws. Moreover, there was also frustration with interpretivism's passive, contextual, subjective and relativist view. As a result, critical realism took aspects from both traditions and combined it in a unique way." She adds that "Critical realism holds that real structures exist independent of human consciousness, a view similar to that of the positivists who believe that a single objective reality is as a result of social conditioning. In other words, they support the view that knowledge is a social construct, which is similar to what interpretivists believe" (Saunders *et al.,* cited in Du Plooy-Cilliers, 2014:31).

5.3.2.4 Methodological position of critical realism

Du Plooy-Cilliers (2014:33) is of the view that the critical realists' idea of a multi-faceted reality that can be investigated from different angles informs their belief that no single method can provide definite results about any given objects of research. Critical realists therefore tend to use what is known as mixed methods research. Mixed methods research combines methods associated with both quantitative and qualitative research, where the aim is for quantitative and qualitative methods to supplement each other. The reason that critical realists use multiple sources of data is that it increases the validity and reliability of data."

5.3.2.5 Interpretivism

Bertram and Christiansen (2014:26) assert that for interpretivists "the purpose of social research (and also of education research) is to understand the meaning which informs human behavior". According to Saunders *et al.* (2012:137), it can be argued that the world of business and management is too complex to be analysed in the same way as one would analyse the physical sciences. They write: "Those researchers critical of positivism argue that rich insights into this complex world are lost if such complexity is reduced entirely to a series of law-like generalisations. If you sympathise with such a view, your research philosophically is likely to be nearer to that of the interpretivist" (Saunders *et al.,* 2012:137). In order to gain in-depth insight or understanding, interpretivist research entails spending many hours in direct contact with those being studied.

5.3.2.6 Methodological position of interpretivism

Du Plooy-Cilliers (2014:30) posits that "interpretivism embodies the view that social reality is in a constant state of flux and dependent on the way in which individuals experience reality internally. Since the aim of interpretivists is to gain an in-depth understanding of multiple realities, they depend on qualitative research."

5.3.2.7 Pragmatism

Saunders *et al.* (2012: 678) define pragmatism as a "position that argues that the most important determinant of the research philosophy adopted is the research question, arguing that it is possible to work within both positivist and interpretivist positions. It applies a practical approach, integrating different perspectives to help collect and interpret data."

According to Kelemen and Rumens (cited by Saunders *et al.,* 2012:130), "Pragmatism asserts that concepts are only relevant where they support action." Davis (2014:78) argues that pragmatic research attempts to find solutions to specific problems and uses both qualitative and quantitative research methods to do so.

Onwuegbuzie and Leech (cited in Davis, 2014:79) state that "Pragmatic researchers are more likely to promote collaboration among researchers, regardless of philosophical orientation. By having a positive attitude towards both techniques, pragmatic researchers are in a better position to use qualitative research to inform the qualitative portion of the research studies, and vice versa. Pragmatic research places the emphasis on the process of enquiry itself that includes multiple ways of observing."

5.3.2.8 Methodological position of pragmatism

In essence, pragmatists are of the view that there are many different ways of interpreting the world and undertaking research. They believe that "no single point of view can ever give the entire picture and that there maybe be multiple realities. This does not mean that pragmatists always use multiple methods, rather they use the method or methods that enable credible, well-founded, reliable and relevant data to be collected that advance the research" (Kelemen & Rumens, cited in Saunders *et al*., 2012:130).

According to Feilzer (cited in Davis, 2014:79),

> What distinguishes pragmatic research from other types of research is its worldview. It does not simply employ both qualitative and quantitative methods, but selects specific methods in a complementary way to find answers and solutions to problems. It departs from the assumption that objective reality cannot be represented accurately. In other words, empirical observation in itself cannot represent objective truth, since observation always takes place from a particular point of view, and since people view and experience things differently. Pragmatic research therefore includes both qualitative and quantitative research.

5.3.2.9 Research philosophy to be adopted by this research

The researcher is of the considered view that the research methodology as propagated by pragmatists is best suited for this research. The research employed a sequential mixed method; i.e. quantitative and qualitative research methods, with quantitative research having a higher priority. This will be fully unpacked later in this chapter under mixed methods design.

5.3.3 Research approach

"Research approach" is the "general term for inductive, deductive or abductive research approach" (Saunders *et al*., 2012:680). According to Ketokivi and Mantere (cited in Saunders *et al*., 2012:143), "The extent to which you are clear about the theory at the beginning of your research raises an important question concerning the design of your research project. This is often portrayed as two approaches based upon the reasoning you adopt: deductive or inductive. Deductive reasoning occurs when all the premises are true." Table 5.2 summarises the deduction, induction and abduction research approaches.

Table 5. 2: Deduction, induction and abduction: from reason to research

	Deduction	**Induction**	**Abduction**
Logic	In a deductive inference, when the premises are true, the conclusion must also be true.	In an induction inference known premises are used to generate untested conclusions.	In an abductive inference, known premises are used to generate testable conclusions.
Generalisability	Generalising from the general to the specific.	Generalising from the specific to the general.	Generalising from the interactions between the specific and the general.
Use of data	Data collection is used to evaluate propositions or hypothesis related to an existing theory.	Data collection is used to explore a phenomenon, identify themes and patterns and create a conceptual framework.	Data collection is used to explore a phenomenon, identify themes and patterns, locate these in a conceptual framework and test this through subsequent data collection and so forth.
Theory	Theory falsification or verification.	Theory generation and building.	Theory generation or modification; incorporating existing theory where appropriate, to build new theory or modify existing theory.

Adapted from Saunders *et al*. (2012:144).

Table 5.2 presents the deductive, inductive and abductive types of research approaches. For each approach, the logic, generalisability, use of data and theory are unpacked in the table and the research approaches are described in more detail below.

5.3.3.1 Deductive approach

Brink *et al.* (2012:6) define deductive reasoning as “the process of developing specific observations from general principles”. They explain that this involves moving from a general premise to a specific situation or conclusion. The deductive approach is a dominant research approach in natural sciences.

5.3.3.2 Inductive approach

Brink *et al.* (2012:5) define inductive reasoning as "the process of developing generalisations from specific observations". Bertram and Christiansen (2014:204) state that "inductive reasoning works from specific observations to broader generalisations and theories. Colloquially, this is referred to as the 'bottom up approach'."

Brink *et al.* (2012) explain that with inductive reasoning the researcher obtains information through observation and makes generalisations based upon these facts. To better understand a problem, the researcher would undertake a research study and would then analyse data to make sense of the data collected. Saunders *et al*. (2012:146) write that the strength of the inductive method is that, unlike the deductive method, it considers the way in which people interpret their social world.

5.3.3.3 Abductive approach

Suddaby (cited in Saunders *et al*., 2012:147) explains that "instead of moving theory to data (as in deduction) or data to theory (as in induction) an abductive method approach moves back and forth, in effect combining deduction and induction". According to Saunders *et al.* (2012:147), "this … matches what many business and management researchers actually do. Abduction begins with the observations of a 'surprising fact'; it then works out a plausible theory of how this could have occurred."

5.3.3.4 Research approach adopted by this research

This research adopted a deductive approach for the quantitative research aspect and an inductive approach for the qualitative research aspect. For mixed methods, an abductive approach was used.

5.3.4 Choice of a quantitative, qualitative or multiple methods research design

There are three methods of research design: quantitative, qualitative and multiple or mixed methods (both quantitative and qualitative methods). Before each method is unpacked, it is important to differentiate between the quantitative and qualitative methods.

Saunders *et al*. (2012:161) suggest: “One way of differentiating quantitative research from qualitative research is to distinguish between numeric data (numbers) and non-numeric data (words, images, video clips and other similar material)”, with “quantitative” often used to refer to any data-collection or data-analysis technique that involves numerical data and “qualitative” as a synonym for any data-collection or data-analysis technique that involves non-numerical data. These authors caution, however, that while this is an important way to differentiate this methodological choice, the distinction is narrow and creates problems, as described below.

Sanders *et al*. (2012:161) find the distinction described above problematic because in reality many business and management studies are likely to combine quantitative and qualitative elements. They give an example where a research design may use a questionnaire (which is a quantitative research instrument) but where it may be necessary to ask respondents to answer some ‘open’ questions in their own words rather than ticking the appropriate box. It may also be necessary to follow up the questionnaire with interviews in an attempt to explain findings from the questionnaire. They also point to instances where qualitative research data may be analysed quantitatively. They see quantitative and qualitative research as two ends of a continuum, with research designs combining methods in a number of ways. Figure 5.2 depicts the process of making a methodological choice.

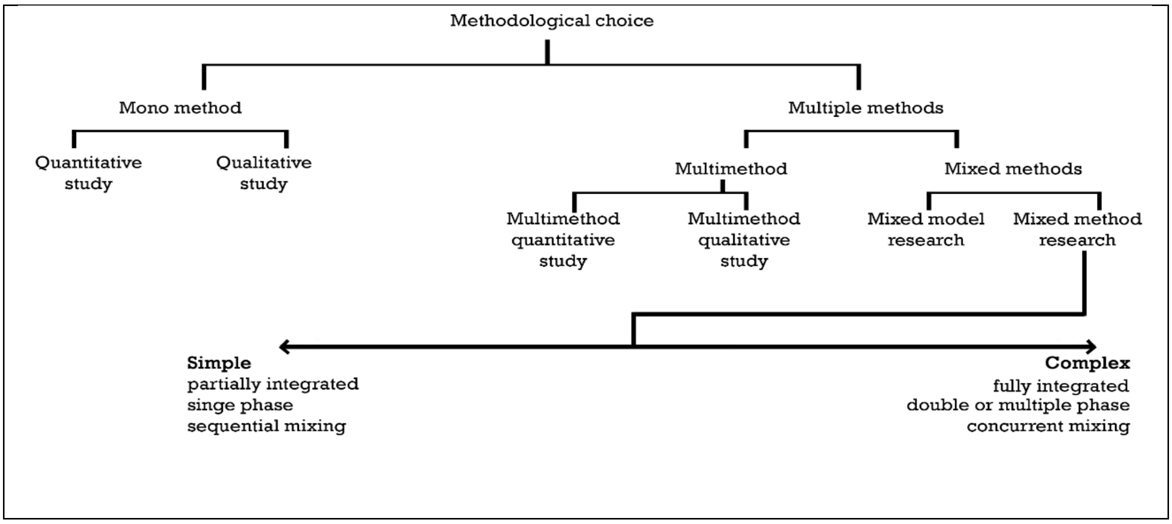

Figure 5.2: Methodological choice

Adapted from Saunders *et al.* (2012:165).

Figure 5.2 presents the methodological choice to be made by a researcher. The choice is between mono method quantitative, mono method qualitative and combined quantitative and qualitative methods called mixed methods research. The three research methods are unpacked below.

5.3.4.1 Quantitative research design

Research philosophy

Saunders *et al*. (2012:162) are of the view that "quantitative research is generally associated with positivism, especially when used with predetermined and highly structured data collection techniques".

Research approach

Saunders *et al*. (2012:162) suggest that quantitative research usually embraces a deductive approach, where data are used to test theory, but may incorporate an inductive approach, where data are used to develop a theory. Bertram and Christiansen (2014:206) consider quantitative data analysis as "primarily an inductive process of organising data into categories and identifying patterns (relationships) among those categories".

Characteristics

Saunders *et al.* (2012:162) state that: "Quantitative research examines relationships between variables, which are measured numerically and analysed using a range of statistical techniques. It often incorporates controls to ensure the validity of data, as in an experimental design." Because data are collected in a standard manner, it is important to ensure that questions asked are expressed clearly so that they are understood in the same way by respondents and in the way intended by the researcher. The researcher also needs to ensure that they understand the answers in the way intended by the respondents.

The researcher is seen as independent from those being researched, the respondents. Quantitative research often uses probability sampling techniques to ensure generalisability to a broader population (Du Plooy-Cilliers & Cronje, 2014:148). The non-probability sampling technique is also used.

Research strategy

Saunders *et al.* (2012:163) state that: "Quantitative research is principally associated with experimental and survey research strategies…" In quantitative research, a survey research strategy normally uses a questionnaire or structured interview or structured observation as ways of collecting data.

A quantitative research design took priority in the current study:

- **Research philosophy –** This research reflected the philosophy of **positivism,** although **pragmatism** was also applicable.
- **Research approach –** This research followed a **deductive approach**.
- **Characteristics –** This study used a **non-probability sampling technique** and the researcher was independent from those being researched.
- **Research strategies –** This study used **survey research** with a quantitative research questionnaire to collect data.

5.3.4.2 Qualitative research design

Research philosophy

The "Qualitative research method is associated with an interpretive philosophy" (Denzin & Lincoln, cited in Saunders *et al*., 2012:163). Denzin and Lincoln argue that this method can be considered interpretive because researchers need to make sense of the subjective and socially constructed meanings expressed about the phenomenon being studied.

Research approach

Qualitative research uses three approaches. Saunders *et al.* (2012:163) suggest that "many varieties of qualitative research commence with an inductive approach, where a naturalist and emergent research design is used to develop a richer theoretical perspective than already exists in the literature". Yin (cited in Saunders *et al.,* 2012:163) argues that in addition "some qualitative research strategies start with a deductive approach, to test an existing theoretical perspective using qualitative procedures”. Saunders *et al.* (2012:163) add that “much qualitative research uses an abductive approach, where inductive inferences are developed and deductive ones are tested iteratively throughout the research”.

Characteristics

Saunders *et al*. (2012:163) write that in qualitative research the researcher “studies participants’ meanings and the relationship between them, using a variety of data collection technique and analysis procedures, to develop a conceptual framework”. According to Du Plooy-Cilliers (2014:30), “qualitative research can be described as a research strategy that emphasises words rather than numbers (quantification) in the collection and analysis of data”. Strydom and Bezuidenhout (2014:173) state: “Qualitative research deals with the underlying qualities of subjective experiences and the meanings associated with phenomena.”

Data collection is non-standardised so that questions and procedures may alter and emerge during a research process that is both naturalistic and interactive. Qualitative research is likely to use non-probability sampling techniques. The success of the researcher depends not only on gaining physical access to respondents but also on building bonds or rapport and demonstrating sensitivity to gain cognitive access to data.

Research strategies

Authors such as Saunders *et al.* (2012) contend that qualitative research is associated with a variety of strategies. About these strategies, Saunders *et al.* (2012:163) state: “Whilst these share ontological and epistemological roots and common characteristics, each strategy has specific emphasis and scope as well as a particular set of procedures. Some of the principal strategies used with qualitative research are: action research, case study research, ethnography, grounded theory and narrative theory.” They further assert that some of these strategies can also be used with a quantitative study research design; for example, a case study.

For this study, a qualitative research study was used with lower priority (the quantitative research approach took a higher priority):

- **Research philosophy –** This research reflected the **philosophy of interpretivism** although **pragmatism** was also applicable.
- **Research approach –** This research used **inductive and abductive approaches.**
- **Characteristics –** This study used **non-probability sampling technique** and the researcher was independent from those being researched.
- **Research strategies –** This study used **survey research study** with a quantitative research questionnaire to collect data.

5.3.4.3 Mixed methods research design

Definition of mixed methods research

Scholars have defined the concept of mixed methods research in several ways. In an effort to define mixed methods research precisely, Johnson *et al.* (cited in Venkatesh *et al*., 2016:437) reviewed various definitions of the term. From their review, they define mixed methods research as "the type of research in which a researcher or team of researchers combines elements of qualitative and quantitative research approaches (e.g., use of qualitative and quantitative viewpoints, data collection, analysis, inference techniques) for the broad purposes of breadth and depth of understanding and corroboration".

For Johnson *et al.* (cited in Venkatesh *et al.*, 2016:437), this definition suggests that mixed methods research can involve mixing two or more different methods "within a single study" or "within a program of research" and that "mixing [methods] might occur across a closely related set of studies".

Evolution of mixed research methods

The evolution of mixed methods is eloquently told by Alan Bryman of the School of Management at the University of Leister. Bryman recalls a landmark training seminar held in 1989 that combined qualitative and quantitative methods and from which a book entitled *Mixing Methods: Qualitative and Quantitative Research* followed. The title of this book foreshadowed “the preferred term for the combination of quantitative and qualitative research – mixed methods research” (Bryman, 2014:121). According to Johnson and Onwuegbuzie (cited in Truscott *et al*., 2010:317), the mixed methods approach is not intended to replace quantitative or qualitative approaches, but to make use of their strengths and minimize their limitations. They continue: “Most educational researchers recognize that research methods should be used that provide the best opportunities for answering research questions” (Teddlie and Tashakkori cited in Trustcott *et al*., 2010:317).

Spillman (2014:197) asserts: “Concurrent with the trend among many qualitative researchers to incorporate some quantitative evidence in their studies, an energetic news stream of discussion and reflection about ‘mixed methods’ has also been developing.” Teddlie and Tashakkori (cited in Spillman, 2014:197) contend that “Attracting wide attention, especially in applied fields such as health, education, and social work, and centered around such sources as the *Journal of Mixed Methods Research* and the Handbook of Mixed Methods in Social and Behavioral Research, the interest has been such that some have been calling this ‘the third methodological movement’.” Teddlie and Tashakkori (cited in Truscott *et al.,* 2010:317) posit: “Mixed methods research emerged as a third methodological movement in educational research as an effort to move the field beyond quantitative versus qualitative arguments.” Venkatesh, Brown and Bala (2013:22) agree with this viewpoint, arguing that “mixed methods research has been termed the *third methodological movement (paradigm)*” (Ridenour & Newman; Teddlie & Tashakkori, cited in Venkatesh *et al.*, 2013:22).

Mixed methods research has many proponents but authors such as Denzin and Lincoln, and Guba (cited in Venkatesh *et al.,* 2013:22) caution that “although proponents of mixed methods research have suggested areas in which a mixed methods approach is potentially superior to a single method design, there has been intense debate regarding whether or not it is even appropriate to combine multiple methods that are often based on radically different paradigmatic assumptions”.

Research philosophy

Two philosophical positions that often lead to multiple methods research designs are discussed. Saunders *et al.* (2012:164) highlight the philosophical position of realism and, in particular, that of the critical realists, arguing: “They believe that whilst there is an external, objective reality to the world in which we live, the way in which each of us interprets and understands it will be affected by our particular social conditioning”. To accommodate this realist ontology and interpretivist epistemology, Tashakkori and Teddlie (cited in Saunders *et al.,* 2012:164) state that “researchers may, for example, use quantitative analysis of officially published data followed by qualitative research methods to explore perceptions”. Zachariadis *et al.* (2013:856) assert: “For critical realism, the link between the assumptions about the existence of the world and society (ontology), the idea of how knowledge is possible and of what (epistemology), and the choice of methodological approach is of major importance.”

Saunders *et al.* (2012:164) add that pragmatists may also be likely to use multiple methods research design. According to these authors, pragmatists see the dichotomy between positivism and interpretivism as not useful and rather see these philosophies as positions at each end of a continuum. This allows researchers to choose which position or mix of positions are useful to their research (Tashakkori & Teddlie, cited in Saunders *et al*., 2012:164). Importantly, Nastasi *et al.* (cited in Saunders *et al*., 2012:164) claim that: “For pragmatists, the nature of the research question, the research context and likely research consequences are driving forces determining the most appropriate methodological choice.” Pragmatists value both quantitative and qualitative methods and the exact choice will be contingent on the nature of the research.

According to Lopez-Fernandez and Molina-Azorin (cited in Povee & Roberts, 2015:41), mixed methods research has emerged as a third methodological movement fairly recently. Starr (2014:238), writing in 2014, states that “the past 10-15 years have seen a small explosion in use of quantitative approaches in specific fields of economic research, including ‘mixed methods’ research projects which use qualitative and quantitative methods in combination”. Three significant events have been credited as facilitating this dramatic movement in the use of mixed methods. First, “qualitative and quantitative communities began to engage in dialogues" (Teddlie & Johnson, cited in Povee & Roberts, 2015:41). Second, "the publication of several formative works in the 1990s, particularly those by John Creswell, Abbas Tashakkori, and Charles Teddlie have established mixed methods research as a discrete approach with its own vocabulary, design typologies, and epistemological assumptions" (Johnson, Onwuegbuzie & Turner, cited in Povee & Roberts, 2015:41). Finally, "there has been a precipitous increase in the frequency of mixed methods articles, particularly in applied fields" (Alise & Teddlie; Teddlie & Johnson, cited in Povee & Roberts, 2015:41).

Research approach

According Saunders *et al*. (2012:164), "A multiple methods research design may use either a deductive or inductive approach and is likely to combine both. For an example, quantitative or qualitative research may be used to test a theoretical proposition or propositions, followed by further quantitative or qualitative research to develop a richer theoretical perspective." This is prevalent in business and management research. "A theoretical perspective may also be used to provide some direction for the research. In this way a particular theory may be used to provide a focus for the research and to limit its scope" (Tashakkori & Teddlie, cited in Saunders *et al*., 2012:164).

Characteristics

Figure 5.2 (presented in Section 5.3.4 above) outlines the basic choice made by researchers as most suitable for answering their research questions and meeting their research objectives between using a single data-collection technique and corresponding analytical procedures (either quantitative or qualitative research design) known as mono method and using more than one data-collection technique and analytical procedure, known as multiple methods (Saunders *et al.,* 2012:164). According to Bryman (cited in Saunders *et al*., 2012:164), the multiple methods option is increasingly advocated within business and management research "because it is likely to overcome weaknesses associated with using only one method as well as providing scope for richer approach to data collection, analysis and interpretation".

5.3.4.4 Differences between qualitative and quantitative research

The difference between qualitative and quantitative research at a very simplistic level is that the former uses data in the form of words whilst the latter uses data in the form of numbers. Starr (2014:239) puts it succinctly by stating that: "Economists typically think of the distinction between quantitative and qualitative research as being that the former analyzes numerical data using statistical or econometric methods, while the latter uses data expressed in words and analyzed some other way." Interestingly she adds that economists who favour quantitative approaches tend to associate "'good' research qualities (representativeness, rigor, objectivity, explanation) with quantitative data and methods, and corresponding 'bad' ones (un-representativeness, informality, subjectivity, description) with the qualitative". In contrast, Starr finds 'good' and 'bad' research qualities in both types of research, citing as an example that "econometric analysis of data from a casually drawn 'convenience' sample and subject to a lot of measurement error may or may not permit better inferences than systematic analysis of carefully recorded and coded 'verbal' data drawn from a well-constructed purposive sample" (Starr, 2014:240).

Bryman (cited in Lock & Seele, 2015: S26) explains that qualitative work studies the meaning and context of what is said, done, or intended by people, with its focus on the interpretation of facts or their meaning. Thus, its view of the nature of knowledge arises from the constructivist view. He states that, for this approach, the main characteristic is the sample size. Methods such as case study, focus group, observations or disclosure analysis are considered qualitative modes of enquiry. Quantitative research, on the other hand, according to Benoit and Holbert (cited in Lock & Seele, 2015: S26) is "characterised by bigger sample sizes, where the relationships of different variables are measured and tested statistically. This research stream is attributable more toward the positivist notion. The aim of quantitative research was to provide an objective method for studying phenomena of scientific interest."

5.3.4.5 Mixed methods in applied research

Fielding (2010:129) states that both the US and UK provide examples where governments commission both quantitative and qualitative (mixed methods) research to prove a case. He provides as an example the class action tobacco lawsuits in the US, which were recognised from the outset as a huge project that required both quantitative and qualitative analysis. The federal government commissioned computer programming companies to design information management software to handle the data, which consisted of evidence documents that ran to millions of pages. A database was created, and individual records were coded and annotated by the hundreds of lawyers involved in the case. The primary analysis technology was a set of qualitative software tools, which was supplemented by quantitative content analysis of aspects of cases. The database enabled lawyers to search for supporting or contradictory evidence as witnesses were testifying and in court jurors were shown the original document images.

Research design for this study – A sequential mixed methods research design was chosen for this study, with a quantitative research study preceding a qualitative study. The quantitative research method was given higher priority than the qualitative research method. The quantitative research instrument, i.e. a questionnaire, incorporated a qualitative element by providing space for comment under each structured question. Mahony (2012:17), a South African corporate governance specialist, states that a "questionnaire can be designed in such a way so as to accommodate a space for the director to record additional remarks, which will enable the evaluator to understand why an answer has been given with a particular bias." Most of the respondents provided comments in the space provided.

- **Research philosophy –** This research reflected the **philosophy of realism** and, in particular, of critical realists.
- **Research approach –** This research followed a **deductive approach for the quantitative research study** and an **abductive approach, which is applicable for mixed methods**.
- **Characteristics –** This study used a **non-probability sampling technique** and the researcher ensured that he was independent from those being researched.
- **Research strategies –** As stated earlier, the study adopted a **sequential mixed methods** research design, with a quantitative research study preceding a qualitative study. A survey was conducted as part of the quantitative study.

The comments by respondents on the questionnaire resulted in the research also being a qualitative study. The comments were relatively unambiguous thereby doing away with the need for follow up interviews.

5.3.5 Research strategy(ies)

A research strategy is a plan of action to achieve a goal. According to Saunders *et al.* (2012:173), a research strategy may therefore be defined as a plan devised by the researcher for answering her or his research question. According to Denzin and Lincoln (cited in Saunders *et al.,* 2012:173), a research strategy forms the "methodological link between your philosophy and subsequent choice of methods to collect and analyse data". The dominant research strategies are: survey, case study and experiment.

This research adopted the survey research strategy for the quantitative aspect of the study and a case study (for the qualitative research study) in the form of in-depth interviews to conduct a follow-up probe of the kinds of variables identified in the quantitative study that required further study. For this reason, the discussion of research strategies in this chapter is limited to these two research strategies.

5.3.6 Survey research

Du Plooy-Cilliers and Cronje (2014:148) define a survey as "a data collection tool that consists of a series of questions designed to gather information about a relatively large group of people". According to Saunders *et al*. (2012:177), survey research "allows you to collect quantitative data which you can analyse quantitatively using descriptive and inferential statistics".

Authors such as Saunders *et al.* (2012:176) argue that the survey strategy is normally associated with a deductive research approach. It is a prevalent and widespread strategy in business and management research and is frequently used to answer questions. Surveys are popular as they are easy to administer and economical. Du Plooy-Cilliers and Cronje (2014:149) concur with this viewpoint and write that survey research "is very popular research tool and is often used to gather demographic information (age, gender, race, income, and so on) as well as data about people's attitudes, opinions, impressions, levels of satisfaction, and so on. This research tool is often used to provide a quantitative or numeric description of the trends, attitudes, or opinions of a population by asking questions of a sample of respondents and then generalising the results to the population from which the sample of respondents was selected."

It is important to state that the subjects studied might be a company (as is the case with this research, i.e. Standard Bank Group), individuals or communities. The main way of collecting information is by asking respondents structured questions. The respondents' answers then constitute the data to be analysed.

5.3.6.1 Dimensions of the survey study

A Survey study can be used for the purposes outlined below.

Exploratory research

Davis (2014:12) posits that, in exploratory research, "the aim is to gather new information about a topic that has not been researched before. The purpose of exploratory survey research is to become more familiar with a research topic and pilot initial ideas or concepts about it by refining the measurement of concepts. It is used to discover the range of responses likely to occur in some population of interest, such as JSE Top 40 companies, with the aim of refining the measurement of concepts.

Explanatory research

Davis (2014:12) asserts that "the aim of explanatory research is to find an explanation for a specific phenomenon". The explanation can be formulated as a research problem or a question; for example, one could ask: Why is white collar fraud increasing in South Africa?

The purpose of explanatory survey research is to test the researcher's theory and causal relations as explanatory research asks about the relationships between variables. Explanatory questions may not only aim at establishing the existence of a causal relationship but could also be asking why the relationship exists.

Descriptive research

Davis (2014:12) contends that descriptive research aims to describe a phenomenon that has been identified through the research conducted. She adds: “This type of research is typically guided by a question, for example: ‘What are the living conditions of South African women who have little or no access to education’?”

The purpose of descriptive research is to find out the opinions of a selected population. Descriptive survey research investigates the distribution of phenomena in a population or among subgroups of a population. The researcher's concern is to describe a distribution or to make comparisons between distributions. Analysis from descriptive questions is meant to ascertain facts and not to test the researcher’s theory. For example, it might examine what kind of people use business Skype™ in an organisation.

The current study used a descriptive survey research strategy.

5.3.6.2 Survey designs – choosing a time horizon (cross-sectional or longitudinal)

In order to give this research focus, the researcher chose a research time horizon. Saunders *et al*. (2012: 190) put it eloquently when they stated: “An important question to be asked in designing your research is, ‘Do I want my research to be a “snapshot” taken at a particular time or do I want it to be more akin to a diary or a series of snapshots and be a representation of events over a given period?’ This will, of course, depend on your research question. The ‘snapshot’ time horizon is what we call cross-sectional while the ‘diary’ perspective we call longitudinal.” Maree (cited in Du Plooy-Cilliers & Cronje, 2014:149) concurs with this point and states: “A cross-sectional survey design is used to create an overall picture of a phenomenon at one point in time.” Du Plooy-Cilliers and Cronje (2014:148) warn that data are collected from the study respondents only once.

Survey design – time horizon for this study

A cross-sectional survey design was chosen for this research. A questionnaire was sent to the chosen respondents, who were given the opportunity to complete it only once and return it to the researcher.

5.3.7 Case study

Strydom and Bezuidenhout (2014:178) define a case study as "a thick and detailed description of a social phenomenon that exists within a real-world context". They specify that "the case study recounts a real-life situation by rigorously describing the scenario in which the phenomenon occurs". Using a case study strategy, the researcher would need to use in-depth interviews to conduct a follow-up probe of the kinds of variables discovered in the quantitative study that required further study. This was not necessary and all the comments on the questionnaire were understood by the researcher.

In-depth interview

Strydom and Bezuidenhout (2014:188) define the in-depth interview as a "qualitative data collection method which allows you to pose questions to participants with the aim of learning more about their views, opinions and beliefs about a specific phenomenon". More importantly, they add, "In-depth interviews also allow you to ask a participant to clarify a point she or he is making and provide a more detailed explanation of, for example, her or his view of a specific question that you have asked."

5.3.8 Describing the sample and sampling strategy

Pascoe (2014:131) states that sampling "helps us to determine, based on our research question and problem, who and what could best help us get the answers to our questions or help us solve our problem".

5.3.8.1 Population

Bertram and Christiansen (2014:59) define population as "the total number of people, groups or organisations that could be included in a study". Wiid and Diggines (cited in Pascoe, 2014:132) narrow this definition down to "the total group of people or entities [social artefacts] from whom information is required". Using the above-mentioned definition of sampling, the researcher needed to go back to the research questions and research problem to determine who or what would best help him to get the answers needed in order to define the population for this research. Pascoe (2014:132) puts it eloquently by stating that: “Once we know whom to go to in order to find answers, we can ascertain what they have in common – what characteristics they all share. This will help us when we need to define our population in our research proposal or report.” He adds that it is very important that all the people or social artefacts in a study population should share at least one specific characteristic that relates to the research question. The 20 countries which form part the population for this research are highlighted in table 5.3. The population parameters for the study were taken to be:

- **Nature of the population:** Standard Bank African subsidiaries.
- **Size of the population:** 20 Standard Bank African subsidiaries.
- **Unique characteristics of the population:** All Standard Bank African subsidiaries share a common purpose, vision, mission, strategy and values, among other things (N = decision makers in these banks).

Table 5.3: **Population (Standard African Subsidiaries)**

Standard Bank Group Operating Presence (African Countries)			
1. Angola	6. Ghana	11. Mozambique	16. Swaziland
2. Botswana	7. Kenya	12. Namibia	17. Tanzania
3. Côte d’Ivoire	8. Lesotho	13. Nigeria	18. Uganda
4. DRC	9. Malawi	14. South Africa	19. Zambia
5. Ethiopia	10. Mauritius	15.South Sudan	20. Zimbabwe

Adapted from the Standard Bank Group *Integrated Annual Report* (Standard Bank group, 2015:17).

Table 5.3 presents the 20 Standard Bank African subsidiaries. The 20 Standard Bank African subsidiaries form the population.

Pascoe (2014:133) distinguishes between the target population and the accessible population, asserting that “the target population is everyone or everything that falls within the population parameters, whereas the accessible population refers only to the section of population that we can actually include in our study. There will be times when the population is so large and widespread that we will not be able to determine who all the members of the population are. Only those that we can reach (when questioning or observing people) or get copies of (when analyzing social artefacts) will be our accessible population.” Figure 5.3 below presents the population, sample and individual cases.

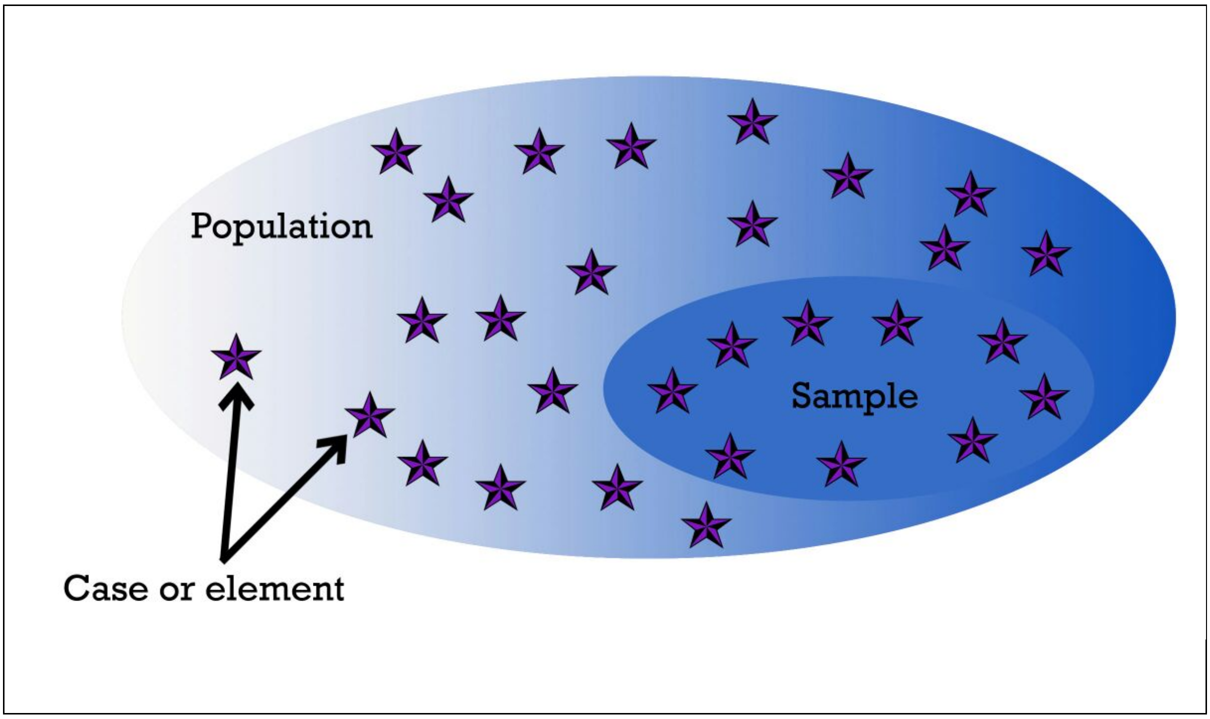

Figure 5. 3: Population, sample and individual cases

Adapted from Saunders *et al*. (2012:259).

Saunders *et al.* (2012:258) explain these concepts, indicating that where it is possible to collect and analyse data from every case or group member, this is termed a “census”. Where lack of time, money and access makes it impossible to collect or analyse all the potential data available, sampling techniques allow the researcher to reduce the amount of data they need to collect by focusing on data from a subgroup of the population.

5.3.8.2 Standard Bank African subsidiaries sampled and reasons for their selection

In deciding on which of the Standard Bank African subsidiaries to select, the researcher followed the guidelines by authors such as Saunders *et al.* (2012). These authors argue for a need to sample and state that even where the size of a population allows the collection of data from the entire population, "you should not assume that a census would necessarily provide more useful results than collecting data from a sample which represents the entire population. Sampling provides a valid alternative to a census when:

- it would be impracticable for you to survey the entire population;
- your budget constraints prevent you from surveying the entire population;
- your time constraints prevent you from surveying the entire population" (Sunders et al., 2012:260).

Indeed, Barnett (cited in Saunders *et al*., 2012:261) argues that "using a sample makes possible a higher overall accuracy than a census".

5.3.8.3 An overview of sampling techniques

Probability sampling

Saunders *et al.* (2012:261) state that: "With probability sampling the chance, or probability of each case being selected from the population is known and is usually equal for all cases." Pascoe agrees with this viewpoint and states that probability sampling "refers to whether or not each unit (whether an individual or social artefact) in the population has an equal opportunity to be part of the sample" (Pascoe, 2014:136).

For this research, the researcher did not employ probability sampling as some of the Standard Bank African subsidiaries could not be included in the sample for various reasons, which are discussed under the "non-probability sampling" section below.

Non-probability sampling

The research employed non-probability sampling as the researcher was of the view that probability sampling would not assist him in answering the three research questions and meeting the three research objectives.

According to Saunders *et al.* (2012:281), in business research, including market surveys and case study research, probability sampling may not be suitable for answering the researcher's research questions and this means that ways need to be found to select a sample. Non-probability or non–random sampling provides a range of alternative techniques for selecting samples, the majority of which include an element of subjective judgement.

Pascoe (2014:137) states that "non-probability sampling is used when it is nearly impossible to determine who the entire population is or when it is difficult to gain access to the entire population."

Findings from non-probability sampling are often not used to generalise results to the larger population. Pascoe (2014:137) states that the results for a non-probability sample are not considered reliable in the same way that findings from a probability sample would be. Figure 5.4 indicates the classifications of probability and non-probability sampling.

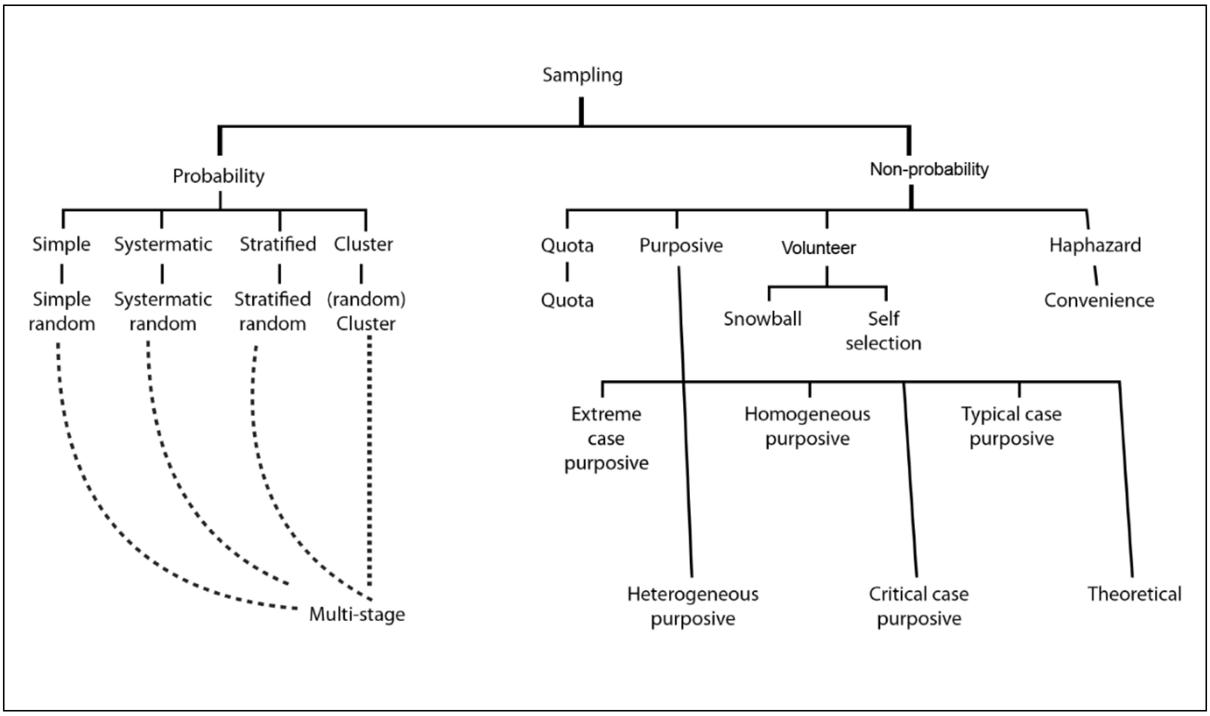

Figure 5. 4: Sampling

Adapted from Saunders *et al*. (2012:261).

Figure 5.4 presents probability sampling (including types of sampling techniques that could be employed under probability sampling) and non-probability sampling (including sampling techniques that could be employed under non-probability sampling).

The researcher having decided on non-probability sampling, the next stage was to decide on the most appropriate sampling technique and the sample. The researcher in this case followed guidance by Saunders *et al.* (2012:283) as set out in Table 5.4, which shows the minimum non-probability sample size.

Table 5. 4: Minimum non-probability sample size

Nature of Study	Minimum Sample Size
Semi-structured/in-depth interviews	5-25
Ethnographic	35-36
Grounded theory	20-35
Considering a homogeneous population	**4-12**
Considering a heterogeneous population	12-30

Adapted from Saunders *et al*. (2012:283).

Table 5.4 outlines the minimum non-probability sample size for each type of study: semi-structured/in-depth interviews; ethnographic; grounded theory; and considering a homogenous population and heterogeneous population.

Purposive sampling

According to Saunders *at al.* (2012:287), "With purposive sampling you need to use your judgement to select cases that will best enable you to answer the research question(s) and to meet your research objectives. For this reason, it is sometimes known as judgemental sampling." Within purposive sampling, there are six sampling techniques:

- **Extreme case or deviant sampling** – According to Patton (cited in Saunders *et al.*, 2012:287), extreme sampling "focuses on unusual or special cases on the basis that the data collected about these unusual or extreme outcomes will enable you to learn the most and to answer your research question (s) and meet your research objectives most effectively. This is often based on the premise that findings from extreme cases will be relevant in understanding or explaining more typical cases."
- **Critical case sampling** – According to Saunders *et al.* (2012:288), critical case sampling selects cases on the basis that they can make a point dramatically or because they are important.

- **Typical case sampling** – For Saunders *et al.* (2012:289), this type of sampling is used “to provide an illustrative profile using a representative case”.
- **Theoretical sampling** – Theoretical sampling is a type of purpose sampling that is associated with grounded theory (Saunders *et al.*, 2012:289). They added that a theoretical sample is “therefore cumulative chosen according to developing categories and emerging theory based upon your simultaneous collecting, coding and analysis of the data.”
- **Heterogeneous or maximum variation sampling –** Patton (cited in Saunders *et al*., 2012:287) states that heterogeneous sampling “uses your judgement to choose participants with sufficiently diverse characteristics to provide the maximum variation possible in the data collected. It enables you to collect data to describe and explain the key themes that can be observed.”
- **Homogenous sampling –** Saunders *et al.* (2012:288) explain that in direct contrast to heterogeneous sampling, homogeneous sampling “focuses on one particular subgroup in which all the sample members are similar, such as particular occupation or level in the organisation’s hierarchy. Characteristics of the selected participants are similar, allowing them to be explored in greater depth and minor differences to be more apparent.”

The researcher considered homogenous sampling to be best suited for this research and for answering the three research questions and meeting the three research objectives. The researcher was aware that purposive samples cannot necessarily be deemed to be statistically representative of the total Standard Bank population. According to Saunders *et al*. (2012: 287), the logic on which the researcher bases his or her strategy for selecting cases for a purposive sample should depend on the researcher’s question(s) and objectives. For the current study, the researcher was of the view that feedback of the respondents from the sampled countries would assist the Standard Bank Group, especially those African subsidiaries not forming part of the sample and future African acquisitions.

The respondents were all senior members of the Standard Bank Group African subsidiaries and included bank executives in the Standard Bank African subsidiaries, including company secretaries. Also, the South African-based executives who attended Standard Bank African subsidiary board meetings formed part of the population.

In accordance with the researcher's informed subjective judgement, the following countries were excluded from the survey:

- **South Africa** – Corporate Governance practices are fully embedded and the Standard Bank Group is JSE listed and therefore required to apply King Principles and Codes on Corporate Governance;
- **Ethiopia** –Standard Bank Group has a representative office only (not operating full banking operations); and
- **South Sudan** – This is a very small banking operation, mainly corporate banking.

As explained earlier (see Section 5.3.8.1: Population), the Standard Bank African subsidiaries population consisted of 20 African subsidiaries. With these three countries excluded, 17 African subsidiaries formed part of the survey.

5.3.9 Standard Bank African subsidiaries chosen to be surveyed

In this section the selected sample of the 17 Standard Bank African subsidiaries are stated and discussed.

The Sub-Saharan African countries are well spread across the continent and are located in Central Africa, Southern Africa, West Africa and East Africa.

Table 5.5 indicates the 17 Standard Bank African subsidiaries chosen for surveying.

Table 5. 5: Standard Bank African subsidiaries chosen for surveying

1. Angola	6. Kenya	11. Namibia	16. Zambia
2. Botswana	7. Lesotho	12. Nigeria	17. Zimbabwe
3. Côte d'Ivoire	8. Malawi	13. Swaziland	
4. DRC	9. Mauritius	14. Tanzania	
5. Ghana	10. Mozambique	15. Uganda	

All the aforementioned countries share the same Standard Bank Group purpose, mission, vision and values, with their board structure aligned to the Standard Bank Group.

Aspiration 3 of Agenda 2063 (Africa we want) paragraph 28 states: "We aspire that by 2063, Africa will:

- Be a continent where democratic values, culture, practices, universal principles of human rights, gender equality, justice and rule of law are entrenched; and
- Have capable institutions and transformative leadership in place at all levels" (African Union, 2015:5).

In accordance with aspiration 3, the researcher presents the IIAG scores and Transparency International rankings of the selected 17 countries in which Standard Bank Group operates. This would indicate the general level of governance in these countries.

Table 5.6 presents the IIAG ratings of the 17 countries.

Table 5.6: IIAG 2017 ranking, score and trend of the sampled subsidiaries

	Country	2016 Ranking	2016 Score/100	10-Year Trend (2007-2016)
1	**Angola**	45	39.4	+3.8
2	Botswana	3	72.7	-0.8
3	Côte d'Ivoire	20	54.2	+12.6
4	DRC	48	35.0	+0.5
5	Ghana	8	65.0	-1.5
6	Kenya	13	59.3	+6.5
7	Lesotho	15	58.2	+0.4
8	Malawi	18	57.0	+0.0
9	**Mauritius**	**1**	**81.4**	**+3.1**
10	Mozambique	23	52.2	-1.2
11	Namibia	5	71.2	+3.8
12	Nigeria	35	48.1	+3.4
13	Swaziland	34	48.9	+1.1
14	Tanzania	17	57.5	+0.2
15	Uganda	19	56.5	+3.0
16	Zambia	16	57.7	+2.9
17	Zimbabwe	40	45.4	+9.5

Adapted from the Ibrahim Index of African Governance 2017 (Mo Ibrahim Foundation, 2017:16).

Table 5.6 presents the 2017 IIAG scores. From the table it is clear that Mauritius is ranked 1 out of 54 countries with an overall governance score of 81.4 over 100 whilst DRC is ranked 48 out of 54 countries with a pedestrian score of 35.0 over 100.

It would be remiss of the researcher not to subject the selected countries to the yearly authoritative corruption survey by Transparency International called Corruption Perceptions Index (CPI).

Table 5.7 lists the 17 selected countries' rankings as surveyed by Transparency International based on the 2017 survey.

Table 5.7: Corruption Perceptions Index (2017) of the sampled subsidiaries

	Country	Corruption Perceptions Index Ranking – 2017	Corruption Perceptions Country/Territory Score – 2017
1	Botswana	34	61
2	Namibia	53	51
3	Mauritius	54	50
4	Lesotho	74	42
5	Ghana	81	40
6	Swaziland	85	39
7	Zambia	96	37
8	Côte d'Ivoire	103	36
9	Tanzania	103	36
10	Malawi	122	31
11	Kenya	143	28
12	Nigeria	148	27
13	Uganda	151	26
14	Mozambique	153	25
15	Zimbabwe	157	22
16	DRC	161	21
17	Angola	167	19

Adapted from Transparency International Corruption Perceptions Index 2017 (Transparency International, 2017).

Table 5.7 presents the Sub-Saharan Africa CPI for 2017 for the Standard Bank African subsidiaries that were chosen for the survey. Transparency International measures the perceived levels of public sector corruption in 180 countries around the world. Scores range from 0 (highly corrupt) to 100 (very clean). As can be seen in Table 5.7 above, Botswana is top ranked at 34 with a score of 61 whilst Angola is ranked 167 with a pedestrian score of 19.

5.3.10 Respondents

Executives and company secretaries of the Standard Bank African subsidiaries in the 17 countries sampled were chosen as the appropriate respondents for answering the three research questions and meeting the research objectives. Table 5.8 indicates the number of respondents that were expected. It was planned that in each country six respondents would be surveyed. In total the researcher aimed to survey 102 respondents (all of whom were executives and company secretaries).

Table 5.8: Standard Bank African subsidiaries – respondents

	Country	**Number of Respondents (expected)**
1	**Angola**	6
2	**Botswana**	6
3	**Côte d'Ivoire**	6
4	**DRC**	6
5	**Ghana**	6
6	**Kenya**	6
7	**Lesotho**	6
8	**Malawi**	6
9	**Mauritius**	6
10	**Mozambique**	6
11	**Namibia**	6
12	**Nigeria**	6
13	**Swaziland**	6
14	**Tanzania**	6
15	**Uganda**	6
16	**Zambia**	6
17	**Zimbabwe**	6
Total		**102**

It should be noted that the actual number of returned completed questionnaires was 33. This will be discussed in detail in chapter 6 (results presentation).

5.3.11 Data collection and analysis

Data were collected using a questionnaire and analysed statistically using quantitative data analysis software, IBM® SPSS® Statistical Software Version 25.

5.3.11.1 Data collection

The data-collection instrument was the questionnaire. DeVaus (cited in Saunders *et al.*, 2012:416) defines "questionnaire" as "a general term to include all methods of data collection in which each person is asked to respond to the same set of questions in a predetermined order". A questionnaire was sent to the targeted potential respondents who were requested to complete and return to the researcher.

Questionnaire design

Saunders *et al.* (2012:419) assert that "the design of a questionnaire differs according to how it is delivered, returned or collected, and the amount of contact you have with the respondents".

Literature was carefully reviewed before designing the questionnaire, which was developed with the aim of answering the three research questions and meeting the three research objectives. The researcher attempted to ask questions that would be understood by the respondents in the way intended by the researcher and enable the respondents to provide answers that would be understood by the researcher in the way intended by the respondent. The questionnaire was based on King IV™. Figure 5.5 indicates the types of questionnaire commonly used in research.

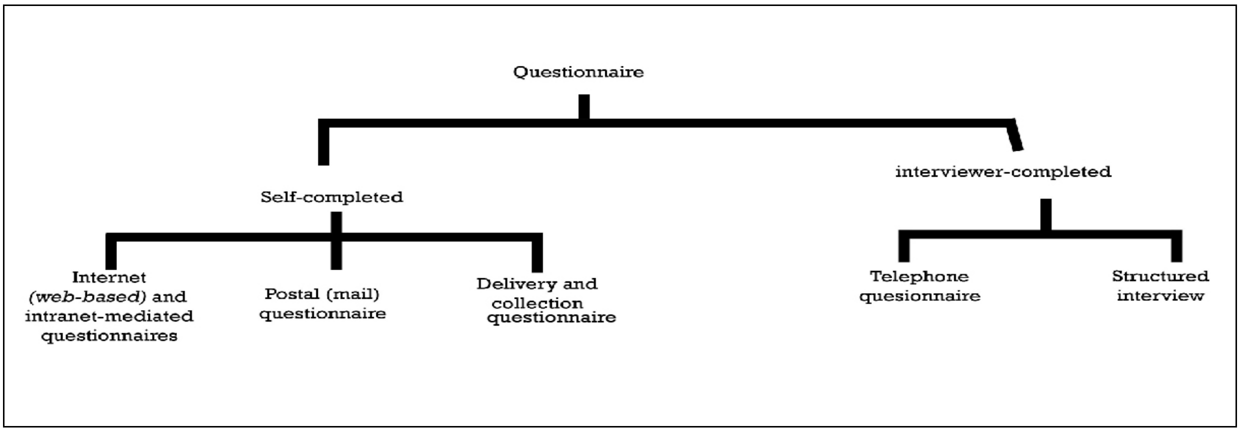

Figure 5. 5: Questionnaire

Adapted from Saunders *et al.* (2012:420).

As shown in Figure 5.5, the design of questionnaires differs. Questionnaires can be self-completed or interviewer-completed. This research employed a self-completed e-mail questionnaire.

Pilot study

Koonin (2014:257) writes that quantitative studies use pilot studies to increase the validity and reliability of the study by testing the measurement instrument. Pilot studies are usually smaller versions of the study and use a few members of the study population targeted.

For this research, as part of the pilot study, the researcher requested the Regional Chief Executive (RCE) for the Southern & Central Region of the Standard Bank Group to complete the questionnaire. This RCE represents Standard Bank Group at various Rest of Africa Banking subsidiaries, whose operations she is responsible for. She completed the questionnaire and gave the researcher valuable feedback on it, in accordance with which the researcher made amendments to the questionnaire. A Senior Manager with Standard Bank Group Governance responsible for the African countries was also requested to complete the questionnaire. Her feedback was that the questionnaire contained limited questions, although she understood that the questionnaire was based on the 16 King IV™ principles. In response to her concern, more questions were added.

Delivering and collecting the questionnaire

Respondents were assured that answering the questionnaire was voluntary and that the researcher adhered strictly to the KwaZulu-Natal University's Code of Ethics. A covering letter plus e-mail containing the questionnaire was e-mailed to the company secretaries of the 17 Standard Bank subsidiaries. The company secretaries were requested to forward the questionnaires to the executives selected as respondents and to complete the survey themselves as they formed part of the survey. The company secretaries were all employees of Standard Bank and were on the global contact list, which included their e-mail addresses. For pre-survey contact, company secretaries were sent an e-mail informing them that they should expect the questionnaire. Respondents were requested to complete a respondent consent form at the beginning of the survey and to return to the researcher. The delivery, completion and return of the questionnaire took approximately two months.

A sequential mixed method was used for collecting the data: first quantitative and then a qualitative method to be used to further probe the kinds of variables in the quantitative study that required further investigation. The respondent comments were clear thereby eliminating the need for follow up interviews.

Data coding

Once the questionnaire was received from the respondents, the data received from it were coded. The researcher avoided the old maxim: garbage in garbage out (GIGO). Mistakes were checked and rectified. Where there were mistakes, the researcher established whether the mistake had occurred at coding or data entry and made the requisite corrections.

Data analysis

- **Quantitative data** – Raw quantitative data on its own convey little meaning until it is processed to make it useful. Data were turned into information to assist the researcher to answer the three research questions and meet the three objectives. Respondents' data were captured using IBM® SPSS® Statistical Software Version 25. Analysis of the IBM® SPSS® statistical results was performed with the assistance of the UK-based subscription-based Laerd Statistics.
- **Qualitative data** – Respondents comments on the questionnaire were unambiguous and therefore no follow up interviews were required. As per the research design, if further probe of variables was required, an in-depth interviews would have been conducted with the affected respondents and computer aided qualitative data analysis software (CAQDAS) such as NVivo™ 12 would have been employed.

5.3.12 Dependent variables

Brink *et al.* (2012:90) state that the dependent variable "is the outcome variable, as it reflects the effect of or response to the independent variable". This research measured variables that are dependent on the independent variables. In this study, the dependent variables were corporate governance and business ethics.

5.3.13 Independent variables

Brink *et al.* (2012:90) state that the "independent variable also known as 'treatment' or 'experimental variable' influences other variables, thus causing change". In this study, the independent variable was the business strategy of the Standard Bank Group.

5.3.14 Question validity and reliability

The researcher took all precautions to ensure the research results passed the validity and reliability measurements tests. Validity and reliability concepts are discussed below. Chapter 6 (presentation of results) discusses extensively how validity and reliability was measured.

Internal validity

Internal validity, sometimes called measurement validity, "refers to whether the research method or design will answer your research question. In other words, there must be no errors in the design of your research and your research method must be able to assist you in answering your research question" (Koonin, 2014:257). Saunders *et al.* (2012:193) assert that internal validity is "established when your research demonstrates a causal relationship between two variables". They suggest as an example that "in an experiment internal validity would be established where an intervention can be shown statistically to lead to an outcome". Internal validity, according to Koonin (2014:257), "also speaks to errors in the results that may emerge, even though certain controls were put in place to prevent this from happening. Unfortunately, there will always be a small margin of error in all research studies, regardless of how meticulous the research was."

Bertram and Christiansen (2014:185) put it eloquently by stating that when people refer to something as valid in their daily conversations, they often mean that it is sound or justifiable. Lubisi (cited in Bertram & Christiansen, 2014:185) states that people say, for instance: "John gave a valid excuse for missing his test." Bertram and Christiansen (2014:185) suggest that the same meaning is applicable in research: "Essentially this is also what we mean if we ask if the research is valid – is the research sound or justifiable? Is it believable? Can we trust it? Validity for the postpositivist researcher is about how close to the truth about the world the research is. A concern throughout is objectivity: has the research tried to avoid bias in data collection, interpretation and in generalising the findings."

Saunders *et al.* (2012:193) contend that in a "questionnaire-based survey, internal validity would be established where a set of questions can be shown statistically to be associated with an analytical factor or outcome…" They highlight threats to internal validity, as: past or recent events; testing; instrumentation; mortality; maturation; and ambiguity about casual direction.

Table 5.9: Threats to internal validity

Threat	Definition and Explanation
Past or recent events	An event which changes participants' perceptions. For example, a vehicle maker recalling its cars for safety modifications may affect its customer views about product quality and have an unforeseen effect on planned study (unless the objective of the research is to find out about post-product recall opinions).
Testing	The impact of testing on participants' views or actions. For example, informing participants about a research project may alter their work behaviour or responses during the research if they believe it might lead to future consequences for them.
Instrumentation	The impact of a change in a research instrument between different stages of a research project affecting the comparability of results. For example, in structured observational research on call centre operations, the definitions of behaviours being observed may be changed between stages of the research, making comparison difficult.
Mortality	The impact of participants withdrawing from studies. Often participants leave their jobs or gain a promotion during a study.
Maturation	The impact of a change in participants outside of influence of the study that affects their attitudes or behaviours, etc. For example, management training may make participants revise their responses during a subsequent research stage.
Ambiguity about causal direction	Lack of clarity about cause and effect. For example, during a study, it was difficult to say if poor performance ratings were caused by negative attitudes to appraisal or if negative attitudes to appraisal were caused by poor performance ratings.

Source: Saunders *et al*. (2012:193).

Table 5.9 presents threats to internal validity, definitions and concomitant examples. According to Cook and Campbell (cited in Saunders *et al.,* 2012:193), a researcher's findings would be seen as spurious when an apparent relationship is really due to some other factor, such as a flaw in his or her research design.

For this study, the researcher timeously mitigated the threats to internal validity as and when they were identified. The researcher is of the considered view that the detailed questionnaire was able to measure what the researcher intended it to measure. The questionnaire covered the main corporate governance and business ethics themes.

External validity

External validity, according to the authors Saunders *et al.* (2012:194), "is concerned with the question: can a study's research findings be generalized to other relevant settings or groups?"

Testing reliability

Reliability is defined as "the extent to which the test, measure or instrument can be repeated with the same or a similar group of respondents, and still produces the same (or very similar) results" (Bertram & Christiansen, 2014:186). Creswell (cited in Brink *et al.,* 2012:126) contends that "reliability is concerned with the consistency, stability and repeatability of the informants' accounts, as well as the researcher's ability to collect and record information accurately''. According to Saunders *et al.* (2012:192), reliability refers to "whether your data collection techniques and analytical procedures would produce consistent findings if they were repeated on another occasion or if they were replicated by a different researcher".

The underlying issue, according to Miles and Huberman (cited in Brink *et al.*, 2012:127), is "whether the process of the study is consistent, [and] reasonably stable over time and across researchers". Koonin (2014:254) asserts that reliability "is linked to the findings of research". She explains: "When assessing if a research method or instrument is reliable, you need to ask whether the same results would be produced if the research were to be repeated by a different researcher at a different time using the same method or instrument. Therefore, reliability is about the credibility of your research, and it demands consistency."

Authors such as Saunders *et al.* (2012:192) argue that ensuring reliability is not necessarily easy and refer to a number of threats to reliability. These threats to reliability are set out and explained in Table 5.10.

Table 5. 10: Threats to reliability

Threat	Definition and Explanation
Participant error	Any factor which adversely alters the way in which a participant performs. For example, asking a participant to complete a questionnaire just before lunch break may affect the way they respond compared to choosing a less sensitive time.
Participant bias	Any factor which induces a false response. For example, conducting an interview in an open space may lead participants to provide false positive answers where they fear they are being overheard, rather than retaining their anonymity.
Research error	Any factor which alters the research's interpretation. For example, a researcher may be tired or not sufficiently prepared and misunderstand some of the more subtle meanings of his or her interviews.
Research bias	Any factor which induces bias in the researcher's recording of responses. For example, a researcher may allow her or his own subjective view or disposition get in the way of fairly recording and interpreting participants' responses.

Source: Saunders *et al.* (2012:192).

Table 5.10 presents threats to reliability. Saunders *et al.* (2012:192) are of the view that these threats imply that you will need to be methodologically rigorous in the way you devise and carry out your research to seek to avoid threatening the reliability of your findings and conclusions." They further advise that "…one key aspect is to ensure that your research process is clearly thought through and evaluated and does not contain 'logic leaps and false assumptions' …"

For a questionnaire to be valid it must be reliable. As the corporate governance and business ethics statements in the questionnaire used in this study were based on King IV™, the researcher considered the research tool to be reliable. In answering the question: would the questionnaire be able to produce consistent results under different times and different conditions, i.e. when used in the 17 countries to be sampled? The researcher is of the view that it would.

5.4 Chapter Summary

This chapter discussed the research methodology and design for the study. The research epistemology utilised was a mixed methods study, which combined methods associated with both quantitative and qualitative research, with the aim of supplementing the quantitative and qualitative methods. The employment of mixed methods was deemed to increase the validity and reliability of data. This study largely adhered to a realism and in particular critical realism frame of reference for the mixed methods study (quantitative study – positivism and qualitative study – interpretivism). Ontologically, the researcher regarded corporate governance and business ethics practices within the context of ongoing environmental changes. From an epistemological perspective, the researcher mainly focused on objectively obtaining the subjective self-reported views of the board members and executives within Standard Bank African subsidiaries.

The next chapter will discuss the interpretation of the survey results.

CHAPTER SIX – PRESENTATION OF RESULTS

6.1 Chapter Introduction

Chapter 5 discussed the research design and methodology used for this study. In order to answer the three research questions and meet the three research objectives, a quantitative and qualitative research instrument in the form of a questionnaire was designed and pre-tested by the Standard Bank Africa Regional Chief Executive (RCE): Southern and Central Regions and the Head of Corporate Governance for Standard Africa Regions and her team. Valuable feedback from the aforesaid senior employees was factored into the final questionnaire, which was approved by the University of Kwazulu-Natal's Ethical Clearance Committee.

In line with company board questionnaires or appraisals, a mixed methods research design (quantitative and qualitative with quantitative given a higher priority, i.e. QUANT + qual) was employed. Following Mahony's (2012:17) advice the questionnaire was designed with space for respondents to add comments about why they had answered questions in a particular way. This assisted the researcher to understand why a particular answer was given.

As discussed in Chapter 5, the questionnaires were sent to the company secretaries (referred to in this chapter as "ComSecs") of the 17 Standard Bank African subsidiaries. The ComSecs were requested to circulate the questionnaire to other board members such as executive and non-executive directors. Additionally, the questionnaire was directly sent by the researcher to the three RCEs. The three RCEs were responsible for the West (five countries), East (five countries), and Southern and Central (six countries) regions. Each RCE completed questionnaires for his or her countries; i.e. 16 questionnaires were completed.

All 17 ComSecs and 3 RCEs completed the questionnaire. Total number of returned questionnaires with respondent feedback was **33** [17 + 16]. The researcher was satisfied that all the ComSecs and the RCEs responded and that their responses assisted in answering the three research questions and meeting the three research objectives.

As per the research design described in Chapter 5, the researcher targeted 102 responses; however, 33 responses were received. As discussed in Chapter 5 (see Table 5.5 for the list of countries surveyed), Saunders *et al*. (2012:283) suggest a minimum sample size of 4 to 12 respondents for a study considering a homogeneous population. The current research exceeded this suggested minimum sample for a homogeneous population.

Responses from all the ComSecs and RCEs were considered first prize for the researcher. The role of the ComSec in all Standard Bank African subsidiaries is cogently explained by Standard Bank Namibia Holdings Limited (2015) and Stanbic Bank Uganda Limited (2016) in their annual reports. They explain the secretary's role as ensuring that the board remains cognisant of its duties. In addition to guiding the board in discharging its responsibilities, the ComSec keeps the board abreast of the relevant changes in legislation and governance best practices. Veaco (2010:23) agrees with this viewpoint, asking: "What distinguishes the truly effective corporate board – is it leadership, a strong commitment to governance principles or strong governance practices?" and suggesting that "among the most important factors to ensure the implementation of sound governance principles and practices is strong legal and organizational board support, provided by an excellent corporate secretary".

The RCEs' responsibilities, on the other hand, include attending board meetings as chairpersons or non-executive directors or executive directors. They are accountable for the performance of the 17 subsidiaries reporting to them. The researcher was satisfied that the valuable input from the respondents assisted in answering the three research questions and meeting the three research objectives.

Respondents' data were captured using IBM® SPSS® Statistical Software Version 25. Analysis of the IBM® SPSS® statistical results was performed with the assistance of the UK-based subscription-based Laerd Statistics. According to the Laerd Statistics website, 100,000s of thousands of students, academics and professionals around the world rely on Laerd Statistics to interpret IBM® SPSS® Statistical results (Laerd Statistics, 2017d).

In line with the research design chosen, as described in Chapter 5, a reliability test was performed. The data from the 33 respondents from the Standard Bank African subsidiaries were collected with the help of a structured questionnaire. For the analysis of data, the technique of Cronbach's alpha (α) was used to test the constructs and the results are presented in this chapter.

To ensure that validity was established, the 48 constructs in the form of King IV™ recommended practice statements were asked in a standard manner, using a quantitative and qualitative questionnaire. Bearing in mind the old adage of “garbage in, garbage out” (GIGO), each returned completed questionnaire (case) was first assigned a unique number from 1 to 33 (N = 33), after which it was subjected to a rigorous auditing process that included accounting for missing values. Frequency (N) was shown, including valid responses, and where respondents did not complete a section of the questionnaire, this was reflected in the data table under the Frequency column as missing.

Each of the 48 constructs in the questionnaire was coded and captured using the IBM® SPSS® Statistical Version 25 package. The results are presented in a table format and include, amongst others, the ‘N’ value; ‘Yes’; ‘No’; ‘Not Applicable’; and, where relevant, ‘Missing values’. Each of the 48 responses are interpreted and the relevant literature is cited to support the responses given.

6.2 Presentation of Results

This chapter presents and interprets the results of the study and is structured under the following distinct categories:

- Reliability and validation of the data from the 33 respondents;
- Organisational and biographical data;
- Leadership, ethics and corporate citizenship;
- Strategy, performance and reporting;
- Governing structures and delegation;
- Governance functional areas; and
- Stakeholder relationships.

6.2.1 Reliability and validation of the data from the 33 respondents

Reliability and validity of the research instrument used to answer the three research questions and meet the research objectives was discussed in Chapter 5.

6.2.1.1 Reliability

The reliability of the data instruments was measured using Cronbach's Alpha (α). Cronbach's alpha is a common measure of internal consistency (a measure of reliability). It is used to determine how much the items on a scale are measuring the same underlying dimension. It is most commonly used when one has questions in a survey/questionnaire that form a scale or subscale, and one intends to determine if the scale is reliable (Laerd Statistics, 2017b). Table 6.1 below presents the reliability statistics results.

Table 6. 1: Reliability statistics – Cronbach's alpha (α)

Cronbach's Alpha	N of Items
0.857	48

A questionnaire was employed to measure different, underlying constructs. Cronbach's alpha (α) is 0.857, which indicates a high level of internal consistency for the scales used [('Yes =1'); ('No = 2'); and ('Not applicable = 3')]. The higher the values of Cronbach's alpha the better. "What constitutes a good level of internal consistency differs depending on what source you refer to, although all recommended values are 0.7 or higher" (DeVillis and Kline, cited in Laerd Statistics, 2017b). Bonnet and Wright (2014:5) state that "…current practice would characterize a reliability value of .65 as 'unacceptable' and a reliability of value of .85 as 'excellent'". Authors such as Dzomonda *et al*., (2017:108) agree with this judgement and assert that a Cronbach's Alpha measure of greater than 0.70 is sufficient.

The number of items that make up the scale (e.g. the number of questions in the scale) is presented in the "N of Items" column. "Forty-eight" or "48" represents the number of King IV™ recommended practices in the questionnaire.

6.2.1.2 Validity

Respondents were requested to provide feedback based on their respective roles within Standard Bank. The forty-eight constructs in the form of King IV™ recommended practice statements were asked in a standard manner using a quantitative and qualitative questionnaire. The researcher considered that the King IV™ statements asked were expressed clearly and were understood by the Standard Bank African subsidiary respondents in the way intended by the researcher, with the respondents' answers understood by the researcher in the way intended by the respondents.

6.2.2 Organisational and biographical data

Descriptive statistics regarding the organisational and biographical data obtained are presented in this section. As indicated earlier, 33 questionnaires with respondent feedback were received from the 17 countries surveyed.

6.2.2.1 Position at the Bank

Figure 6.1 depicts the results for the 'Position at the Bank' variable for the respondents.

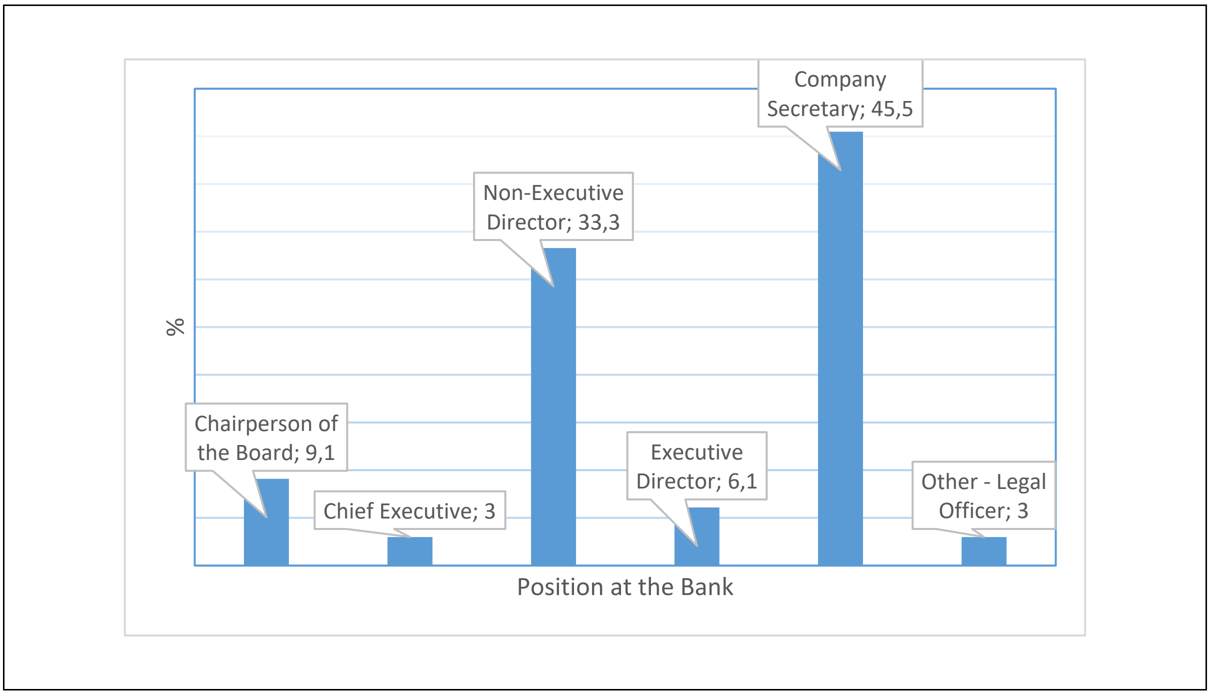

Figure 6.1: Position at the bank

In line with the researcher's expectations, the ComSecs account for just over 45% of the respondents. This specific cohort is important in that it is responsible for the effectiveness of the board. The importance of the position of company secretary has been elucidated earlier in this chapter. The non-executive directors are mainly represented by the three RCEs, as explained earlier in this chapter. The RCEs sit on various Standard Bank African subsidiary boards.

6.2.2.2 Gender

Figure 6.2 presents the 'Gender' variable results for the respondents.

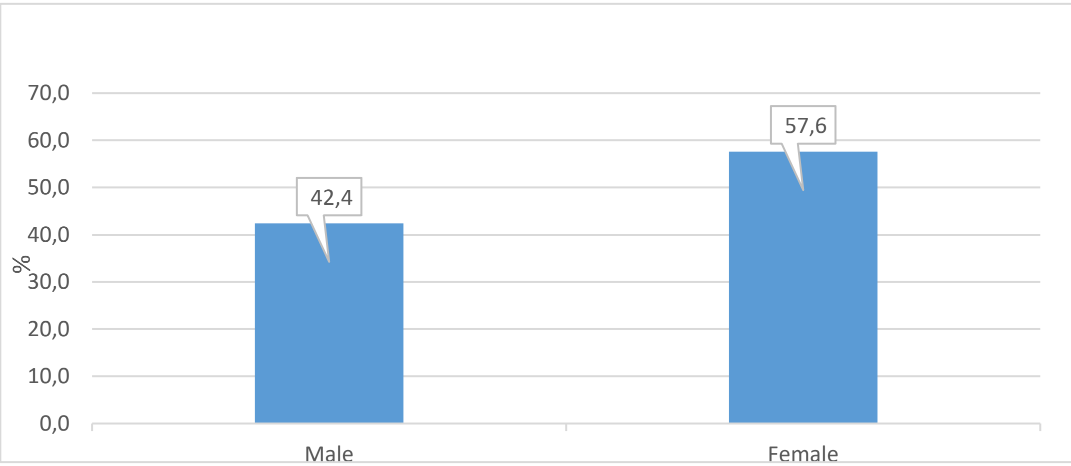

Figure 6. 2: Gender of respondents

Most of the respondents were female (57.6%), with males accounting for 42.4%. This is in line with Standard Bank Group (the whole group including South Africa; Africa Regions and International)'s gender profile as at 2016 when females accounted for 58% (2015: 58%) and males 42% (2015: 42%) of the permanent employees (Standard Bank, 2016b:4). Standard Bank Group is made up of South Africa; Africa Regions excluding South Africa and International.

6.2.2.3 Respondents number of years (tenure) with Standard Bank

Figure 6.3 depicts the 'Respondents number of years with Standard Bank' variable results for the respondents.

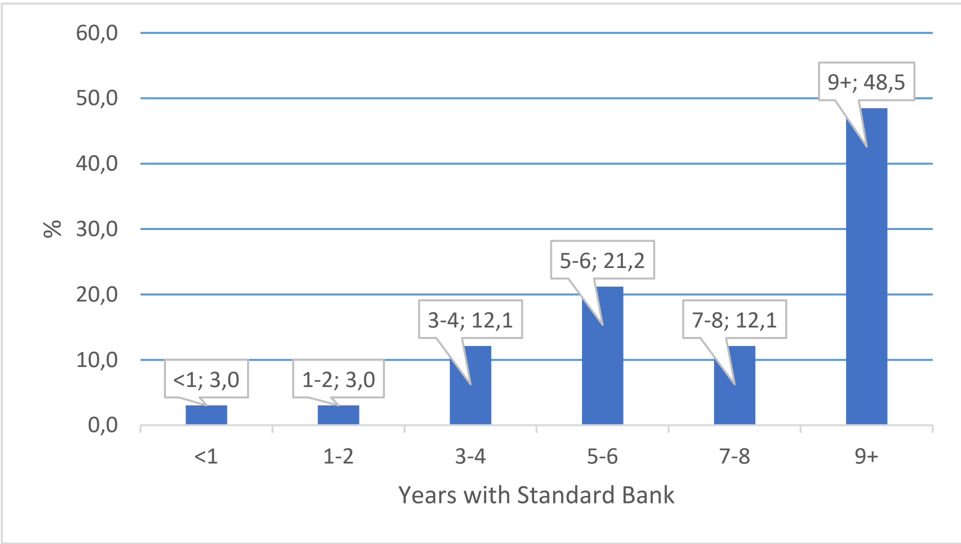

Figure 6.3: Number of years (tenure) with Standard Bank

Notably, 48% of the respondents had been with Standard Bank for nine years or more and (3%) had been employed for less than a year.

6.2.2.4 Age of the respondents

Figure 6.4 depicts the 'Age' variable of the respondents.

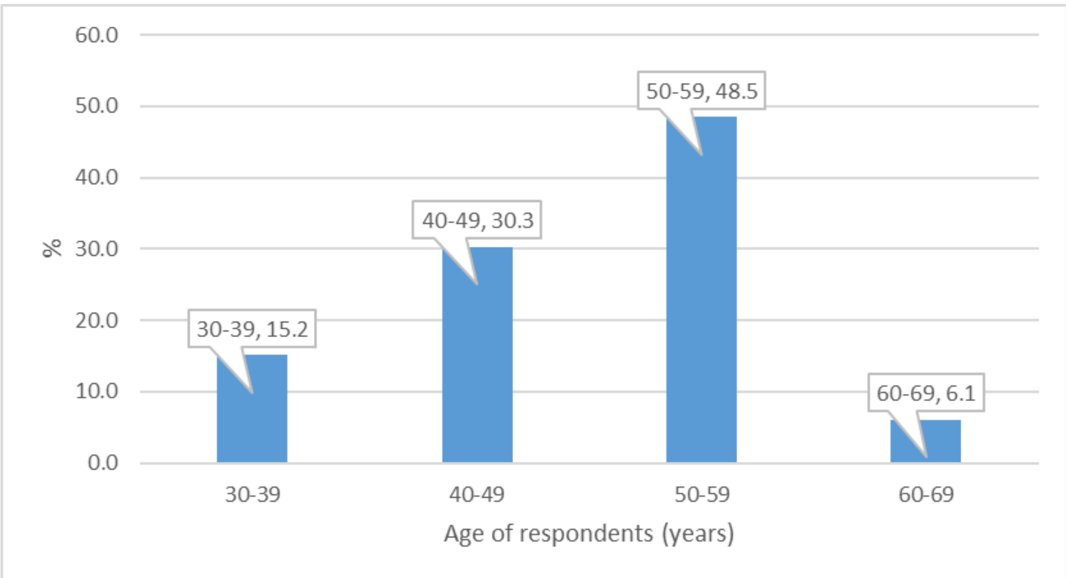

Figure 6.4: Age of the respondents

Of all the respondents 51% were aged between 50 and 59 years old.

6.3 Descriptive statistics

In addition to the organisational and biographical data and in line with the research design outlined in Chapter 5, the questionnaire contained 48 constructs in the form of King IV™ recommended statements. On the basis of their role as board members within Standard Bank African subsidiaries, the respondents were requested to indicate if corporate governance and business ethics recommended practices were applied or executed in their respective countries.

The 48 constructs in the form of the King IV™ recommended practices were coded from E1 to E48 and each response is presented in a table format, which includes: ‘Yes (1)’, ‘No (2)’ and ‘Not applicable (3)’. “Frequency (N)” is shown, which includes valid responses, and where respondents did not complete a section of the questionnaire, this is reflected in the table under the “Frequency” column as “missing”.

A. Leadership, Ethics and Corporate Citizenship

6.3.1 Principle 1: The Board should lead ethically.

The results of the descriptive statistics related to King IV™ Principle 1 are provided in Tables 6.2, 6.3 and 6.4.

Table 6.2: Descriptive statistics (nominal)

E1: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The members of the Board assume collective responsibility for steering and setting the direction of the Bank; approving policy and planning; overseeing and monitoring of implementation and execution by management; and ensuring accountability for Bank performance.	33 100.0%	0 0.0%	0 0.0%	Valid = 33 Missing = 0

All 33 or 100% of the respondents indicated that, from their respective roles within Standard Bank Africa Regions Boards, they could affirm that King IV™ principles were executed. This was not unexpected as the role of the board is to lead ethically and effectively. One respondent agreed with the statement but commented that the Board needs to lead ethically and effectively and by consensus. This respondent added that there should be robust engagement or discussion on matters so as to bring all members to the same understanding.

The Institute of Directors in Southern Africa (IoDSA) *Directors' Sentiment Index Report 2017: 2nd Edition* was based on a sample of 441 South African directors, which included both IoDSA members and non-members. The survey results showed that both IoDSA members and Non-IoDSA members were positive towards the impact of governance in South Africa. IoDSA members felt more positive about good governance practices adding value to business and Non-IoDSA members and compared to 2016 (Institute of Directors in Southern Africa, 2017:19).

Soltani & Maupetit (2015:282) concluded that ethical codes such as honesty, integrity, fairness, objectivity, mutual respect, professional competence, due care and confidentiality should be strongly emphasised. The authors also state that the European Commission and the regulatory bodies in the European countries should implement clearer policies with regard to what they called "tone at the top" or an effective control environment and accountability mechanisms particularly for management

Watson (2012:44) asserts that the role of the board is not to manage the company but to supervise. Pound (cited in Diamond & Price, 2012:57) agrees with this assertion and argues that "the essence of corporate governance is the ability of a corporation to employ a proper corporate decision-making process rather than focusing on monitoring managers".

The complexities of running a bank are cogently elucidated by Sally Krawcheck, former President of the Bank of America. She asserts that it is difficult to run a bank, stating: "The main tool with which boards and regulators have managed risk at banks in recent decades is the capital ratio. The logic is that the higher the capital ratio – that is, the more money is set aside against potential losses – the lower the risk" (Krawcheck, 2012:108). In addition, she writes, the board needs to ensure that it complies with the Basel regimes (international standards set by bank regulators) and the bank's own view of the right amount of capital to hold, called economic capital. The four ways to fix banks article were discussed in chapter 3, section 3.6.3.

Importantly, the European Confederation of Directors' Associations and The International Finance Corporation (World Bank Group)'s *Guide to Corporate Governance Practices in the European Union* issued in 2015 states that numerous studies have concluded that well-governed European companies perform better than poorly governed companies (Claessens & Yurtoglu cited in The European Confederation of Directors' Associations and The International Finance Corporation, 2015:10).

Senbet (2012:370) asserts that: "Around the world there is a growing recognition that financial systems cannot function properly without quality governance."

Noting the difficulty of running complex businesses such as banks, it comes as no surprise that some authors call for professional boards. Pozen (2010:52) argues for the introduction of professional boards. He states that: "When the world's largest financial institutions had to be rescued from insolvency in 2008 by massive injections of government assistance, many blamed corporate boards for a lack of oversight". He believes that to improve oversight the directors need to be full-time professional board members. This, he argues, can be achieved if the "directors commit to the role as their primary occupation" (Pozen, 2010:52).

The *2016 Global Board of Directors Survey*, conducted by Harvard Business School researchers and in which responses were received from more than 4,000 male and female directors from 60 countries, provides a comprehensive snapshot of the business climate and strategic priorities as seen from the boardroom of many of the world's top public and large privately held companies. The survey concluded that the boards and directors should define the skills sets needed around boardroom tables; should be diligent in recruiting the right directors; and should plan for CEO succession. (Spencer Stuart and Women Corporate Directors Foundation, 2016:13).

Table 6.3: Descriptive statistics (nominal)

E2: King IV™ Recommended practice	Yes	No	N/A	Frequency (N)
	1	2	3	
Members of the Board act ethically beyond mere legal compliance.	33 100.0%	0 0.0%	0 0.0%	Valid = 33 Missing = 0 Total = 33

All 33 or 100% of respondents specified that, based on their respective roles within Standard Bank Africa Regions Boards, the King IV™ recommended practice was implemented. One respondent agreed with the recommended practice but commented that if the Board was to do things only to comply with a legal instrument, then there would be no buy-in and without buy-in it would be just a matter of time before that started showing in counter-behaviours of all those involved.

The importance of ethics and Standard Bank Group values were discussed in Chapter 4. King IV™ like its earlier iterations (King I, King II and King III) puts ethics at the forefront of corporate governance. Bannon, Ford and Meltzer (2010:58) assert that: "Management must preempt employees' misconduct to the fullest extent possible by conveying an open and informative message about the need for strong ethical values throughout the organization." They write that organisations that take steps to build their ethical cultures will avoid the risks of bursting their own ethical bubble when the economy improves (Bannon *et al.*, 2010:58).

Table 6.4: Descriptive statistics (nominal)

King IV™ Report on Corporate Governance for South Africa: Principle	Yes	No	N/A	Frequency (N)
	1	2	3	
E3: King IV™ Recommended practice The Board adopts a stakeholder-inclusive approach in execution of their governance role and responsibilities.	33 100.0%	0 0.0%	0 0.0%	Valid = 33 Missing = 0

Thirty-three or 100% of the respondents said that from their respective roles within Standard Bank Africa Regions Boards it was clear that this King IV™ recommended practice had been implemented.

This research and the proposed corporate governance and business ethics framework that emerges from it are anchored in the stakeholder-inclusive approach discussed as part of the literature reviews presented in Chapters 2; 3 and 4. King IV™ and its earlier iterations (King I, King II and King III) are premised on the stakeholder-inclusive approach. The overwhelming majority of the respondents were aware that the Standard Bank Group had adopted the stakeholder-inclusive approach. The results of the survey were thus expected as the Standard Bank Group has adopted the stakeholder-inclusive approach: “Our Strategy is centered on our commitment to Africa and directs our growth and evolution for the shared benefit of our clients, our people, and all our stakeholders…” (Standard Bank Group, 2016a:10).

Bower & Paine (2017:52) argue that the role of corporate managers is not to maximise shareholder value. They advise that: “A company’s health—not its shareholders wealth—should be the primary concern of those who manage corporations. That may sound like a small change, but it could make companies less vulnerable to damaging forms of activist investing—and make it easier for managers to focus on the long term.”

In the PwC’s *19th Annual Global CEO Survey – January 2016: Redefining Business Success in a Changing World*, 1 409 CEOs were interviewed in 83 countries. These CEOs were asked: So what do your stakeholders want? According to the PWC researchers, the results were fascinating: “We were not surprised to see that the majority of CEOs (70%) feel their customers are most interested in cost, convenience and functionality. But we were surprised to discover that more than a quarter (27%) of CEOs believe that their customers are seeking relationships with organisations that address wider stakeholder needs” (PricewaterhouseCoopers, 2016a:13).

Most importantly, not everyone has converted to the stakeholder-inclusive approach. Some of the top American executives still believe in the shareholder primacy approach propagated by famous Economics Nobel Prize winner Milton Friedman, as discussed in Chapters 2 and 3 as part of the literature review. The *Commonsense Principles of Corporate Governance*, authored by the 13 most prominent CEOs of the US big corporates (which include names like JPMorgan Chase CEO James Dimon; Berkshire Hathaway CEO Warren Buffett; and General Motors CEO Mary Barra), outlines the effort of these authors to find common ground on how US public corporations should be run. Under the heading "Board composition", the group writes: "Directors' loyalty should be to the shareholders and the company…" (Governanceprinciples.org, 2017:1). It is safe to state that in expressing this sentiment the executives have re-ignited the shareholder primacy approach as opposed to the stakeholder-inclusive approach. Goodspeed (2016:22) sums this up as: "Shareholder primacy embraces a shareholder-centric view of good corporate governance that emphasises the maximisation of shareholder value while only derivatively considering the interests of other stakeholders such as society, local community, consumers and employees."

McGregor (2016) cites Charles Elson, Director of the Corporate Governance Center at the University of Delaware, as saying that "it's nice to see CEOs of these companies supporting the commonsense principles that have been advocated for a while". She reports that "He believes the force of such powerful figures putting their names behind these standards will make it harder for companies to argue against them."

Corporate governance experts such as Prof. Mervyn King disagree with the above assertion. An article presented as a speech by Prof. Mervyn E. King SC at the second Annual New York State Society of CPAs (NYSSCPA) with the theme: "Hedge Fund Roundtable Sustainability Investment Leadership Conference", held in New York City, on 17 May 2017, argued how misplaced the shareholder primacy approach was. In his speech, Prof. King stated:

> The CFO has to become a chief value officer. He is the true change maker inside a company. Two years ago I posed the question, "Can accountants save the planet?" I believe they can, and the rule of law is absolutely critical. Companies do not operate in a shareholder bubble. I was fascinated when Warren Buffett and others issued what they called their commonsense

> principles of corporate governance. I responded to it, to show that it was still very shareholder-centric, and we needed to be multi-stakeholder-centric, and governance cannot continue to be a grudge compliance issue and mindless checklist issue. It's got to be mindful. (King, 2017a:31)

Akisimire *et al*. (2016:121) in support of the stakeholder approach contend that "…a company exists to serve all the stakeholders who have an interest in it or who in some way may benefit from its operations … Thus, the boards are now expected to take into account the interest of many stakeholder groups."

Organisational ethics

6.3.2 Principle 2: The Board should govern the ethics of the Bank in a way that supports the establishment of an ethical culture.

The results of the descriptive statistics applied to King IV™ Principle 2 are reported in Tables 6.5, 6.6 and 6.7.

Table 6.5: Descriptive statistics (nominal)

E4: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board assumes responsibility for the governance of ethics by setting the direction for how ethics should be approached and addressed by the Bank.	32 97.0%	1 3.0%	0 0.0%	Valid = 33 Missing = 0

Thirty-two or 97% of the respondents stated that, based on their respective roles within Standard Bank Africa Regions Boards, they could affirm that the King IV™ recommended practice was applied. One (3%) of the respondents did not agree with the statement. One of the respondents agreed but commented that the Standard Bank African subsidiaries were privileged in that the Standard Bank Group had a well-defined ethics framework that subsidiaries could adopt and localise for their own use. The overwhelming results that affirm compliance with King IV™ practice are in line with the researcher's expectations. The Standard Bank Group's Code of Ethics was certified by The Ethics Institute of South Africa as conforming to the highest international best practice standards (Standard Bank Group, 2016c).

Bannon *et al.* (2010:56) cite the results of the Ethics Resource Centre's (ERC) 2009 survey. ERC is a non-profit research organisation based in the US established in 1922 and has been conducting its National Business Ethics Survey (NBES) every two years since 1994. The survey measured how employees at all levels viewed ethics within their own organisations. According to the authors, "It has shown that a significant correlation exists between the strength of the ethical culture and an increased ethical behavior." They add that: "The tone at the top is crucial to a company's ethical culture. Ethical leadership starts with the board of directors and CEO and proceeds to middle managers and supervisors." Grant Thornton's 2015 report *Corporate Governance – the Tone from the Top – Global Governance Report 2015* quotes an Australian Board member as saying, "The culture of the board and executive team sets the tone for everyone – it is mimicked throughout the organisation. A bad culture or bad behaviour is seen by everyone and cascades down" (Grant Thornton, 2015:7).

Table 6.6: Descriptive statistics (nominal)

E5: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board measures adherence to the Bank's ethical standards by employees and other stakeholders through, among others, periodic independent assessments.	11	19	0	Valid = 30
	33.3%	57.6%	0.0%	**Missing = 3**
				Total = 33

Nineteen or 57.6% of respondents stated that this King IV™ recommended practice was not executed in their respective countries. Eleven or 33.3% of the respondents agreed with the statement. At Standard Bank Group level, the recommended practice is not yet applied. Three people did not respond. When one takes into account that the questionnaire contained 48 statements, it is interesting to note that this is the only section of the questionnaire where the number of the respondents who said "No" exceeded those who said "Yes".

Standard Bank, including its African subsidiaries, has group values and a code of ethics. This is published on the Group Intranet site and all countries have access to this site in addition to dedicated country intranet sites. Standard Bank Group also has a Group Ethics Officer responsible for the implementation of ethics policies. However, whilst the Standard Bank Group has ethics standards, policies and values, periodic independent assessments of adherence to these, as advocated by King IV™ and the Ethics Institute, are not performed, as highlighted by 57.6% of the respondents.

In Chapter 2 (section 2.4.2), the Mauritius Institute of Directors' (MIoD) *Ethics Guide for Boards* was discussed. Ethics risk assessment, including independent assessment and external reporting, is propagated in this guide (Mauritius Institute of Directors, 2013:9). According to MIoD, the guide was inspired by the work of The Ethics Institute of South Africa and, in particular, the work of Prof. Deon Rossouw and his collaborator, Leon van Vuuren (Mauritius Institute of Directors, 2013:3). The two South African authors, who write authoritatively on business ethics, are extensively cited in Chapter 2. One of the functions of The Ethics Institute is to "assist organisations in gauging their current state of ethics" (The Ethics Institute, 2017). Independent ethics assessment is one of the recommendations that will be proposed in Chapter 7.

Table 6.7: Descriptive statistics (nominal)

E6: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board has sanctions and remedies in place for when the Banks' ethical standards are breached.	32 97.0%	1 3.0%	0 0.0%	Valid = 33 Missing = 0

Thirty-two or 97% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they could affirm that this King IV™ recommended practice was applied. It is noted that one (3%) of the respondents was of the view that the recommended practice was not applied. One respondent, whilst agreeing with the statement, added that this was largely driven by executive management. Another respondent, also whilst agreeing to the statement, stated that, depending on the gravity of the breach, a director may be requested to leave the Board. In general, disciplinary action is, where applicable, taken when the bank's ethical standards, policies and procedures are breached.

6.3.3 Principle 3: The Board should ensure that the Bank is and is seen to be a responsible corporate citizen.

The descriptive statistics related to King IV™ Principle 3 are reported in Tables 6.8, 6.9 and 6.10.

Table 6.8: Descriptive statistics (nominal)

E7: King IV™ Recommended practice:	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should assume responsibility for corporate citizenship by setting the direction for how it should be approached and addressed by the Bank.	32 97.0%	0 0.0%	1 3.0%	Valid = 33 Missing = 0

Thirty-two or 97% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they could confirm that this King IV™ recommended practice was being implemented. Notably, one (3%) of the respondents was of the view that the recommended practice was not applicable. In addition to issuing annual integrated reports, Standard Bank Group also issues annual Reports to Society.

According to Standard Bank's 2016 *Report to Society* (2016b:18), in line with its purpose as discussed in Chapter 4 ("Africa is our home, we drive her growth"),

> …our obligations as a responsible financial services firm in, for, across Africa, Standard Bank Group is committed to respecting the human rights of people involved in and impacted by our business…

Interestingly, a 2015 study by Hendrik Cronqvist of the University of Miami and Frank Yu of the China Europe International Business School compared the corporate social responsibility ratings of S&P 500 companies with information about the offspring of their CEOs. The researchers found that "when a firm is led by a CEO with at least one daughter, it scored an average of 11.9% higher on CSR metrics and spent 13.4% more of its net income on CSR than the median" (Cronqvist & Yu, 2015:34).

Table 6.9: Descriptive statistics (nominal)

E8: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should oversee that the Bank's core purpose and values, strategy and conduct are congruent with it being a responsible corporate citizen.	32 97.0%	0 0.0%	1 3.0%	Valid = 33 Missing = 0

An overwhelming 32 or 97% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they believed that this King IV™ recommended practice was applied. One (3%) of the respondents was of the view that the recommended practice was not applicable.

(Mankins *et al. (*2017:75) assert that:

> Most of today's leaders were taught strategy – either in school or on the job – by the old rules, in a time when capital was scarce and expensive. Not surprisingly, most large companies still treat financial capital as the firm's most precious resource and seek to carefully control how it is deployed. Those practices are out of step with what is required to win in the new age. The few "old dogs" that have learned the "new tricks" of strategy – and understand that ideas and the people who bring them to life are a company's most valuable asset – are building an impressive lead. Their peers who don't learn these lessons may find themselves irrecoverably behind in the years to come.

Mahony (2012:6) subscribes to this viewpoint and writes that: "A board needs to be there to make timely strategic decisions and to ensure that management steers operations in line with the strategy and vision of the board." This view is supported by Veleva (2010:40), who argues that: "In today's global economic downturn, identifying a company's strengths and weaknesses for better aligning resources and strategies, is becoming more important than ever. Organizations that look at corporate citizenship as a critical part of business for providing new market opportunities, reducing risk, or improving reputation, are making greater efforts to assess their strengths and weaknesses to better prioritize resources and actions."

In contrast, Barton and Wiseman (2015:100) state that: “A mere 34% of the 772 directors surveyed by McKinsey in 2013 agreed that the boards on which they served fully comprehended their companies’ strategies. Only 22% said their boards were completely aware of how their firms created value, and just 16% claimed that their boards had a strong understanding of the dynamics of their firms’ industries.” Robinson (2015:20) states that: “Whilst the ultimate responsibility for implementing the strategy rests with the Chief Executive Officer and the Executive team, the company secretary, working in close conjunction with the Chairperson, can play an active role in ensuring that the strategy is effectively implemented.”

Spalding (2015:22) writes that: “For many more companies worldwide, doing business in Africa is no longer a question. Among future-focused business leaders, a presence in Africa has moved from a ‘nice to have’ to a business imperative. Indeed, the African opportunity has become far too big to ignore – and for companies hunting for growth, it is blaring on the strategic radar.”

Table 6.10: Descriptive statistics (nominal)

E9: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should ensure that the Bank’s responsible corporate citizenship efforts include compliance with the constitution of the country, the law; standards; and adherence to its own codes of conduct and policies.	33 100.0%	0 0.0%	0 0.0%	Valid = 33 Missing = 0

Thirty-three or 100% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they believed that these King IV™ recommended practice was executed. One of the respondents commented that the subsidiaries ensure that where applicable there is compliance with country laws and the Boards remain custodians of that.

In its annual report for 2016, the Standard Bank Group states that: “Corporate citizenship relates to the integral role we play in the socio wellbeing of Africa. It commits us to using our resources responsibly as inputs to our business model and balances our needs with those of society” (Standard Bank Group, 2016b:7).

Kuznetsova and Matveeva (2015:68) argue that “correlation between the CC and accumulation of social capital is determined.” They add that “Consequently, the result of the research proves the effectiveness of the CC in the accumulation of the social capital. The advantages of the CC help the accumulation of capital to create social ties and interrelations among the members of society, to set partner relations and transform knowledge into human capital” (Kuznetsova & Matveeva, 2015:72).

B. Strategy, Performance and Reporting

6.3.4 Principle 4: The Board should appreciate that the Bank’s core purpose, its risk and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value-creation process.

The descriptive statistics related to King IV™ Principle 4 are provided in Tables 6.11, 6.12 and 6.13.

Table 6.11: Descriptive statistics (nominal)

E10: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should assume responsibility for Bank performance by steering and setting the direction for the realisation of the Bank’s core purpose and values through strategy.	33 100.0%	0 0.0%	0 0.0%	Valid = 33 Missing = 0

Thirty-three or 100% of the respondents indicated that, on the basis of their respective roles within Standard Bank Africa Regions Boards, they believed that this King IV™ principle was being applied.

Prof. King states that: “Directors need to know and understand the legitimate needs, interests, and expectations of their stakeholder groups, maybe under the rubric of the six capitals. They need to know what stakeholder expectations are. When they know that, they can develop strategy on a much more informed basis. There should, when one thinks about it, be agenda items at each board meeting on stakeholder relationships, so that when management presents a strategy, the board has an informed oversight instead of a blind one” (King, 2017a:31). Professor Mervyn King continues by advising that the Board should think in an integrated way by discussing inputs and outcomes at each Board meeting, which will lead to an integrated report. He states that, “We have moved from share value to value creation” (King, 2017a:32).

PwC’s *19th Annual Global CEO Survey – January 2016: Redefining Business Success in a Changing World CEO Survey* results are interesting. The report highlights that 1,409 CEOs were interviewed in 83 countries. When the CEOs were asked how concerned they were about the following potential economic policy, social and business threats to their organisation’s growth, the results were as follows:

- 79% - overregulation;
- 74% - geopolitical uncertainty; and
- 73% - exchange rate volatility (PricewaterhouseCoopers, 2016a:7).

The effect of the exchange rate on policy choices is eloquently put by Christopher Adam who asserts that: “The exchange rate is a key relative price in all open economies, shaping incentives for both producers and consumers, in the short and long run; it represents one of the principal channels of transmission of macroeconomic shocks and volatility to the domestic economy; and changes in exchange rates have powerful distributional effects” (Adam 2012:352). Murinde (2012:378) avers that “… notwithstanding financial reforms during the last two decades, banks and credit markets in Africa face many challenges. Impaired loan portfolios are still high (in Côte d’Ivoire, Kenya, Mozambique, Senegal, Swaziland, and Tanzania); bank regulation and supervision is still weak (especially on-site and off-site surveillance); and corporate governance and internal controls are not well established.”

PwC’s yearly survey, entitled: *African Banking Survey October 2016 – Banking in Africa Matters*, as discussed in chapter 4 stated that: “The impact of the global regulatory agenda remains uncertain; CEOs are worried that their long-term strategic objectives will be derailed by short-term regulatory requirements and timelines” (PricewaterhouseCoopers, 2016b:66).

The European Confederation of Directors Associations and Korn Ferry, in their corporate governance guidelines entitled: *Beyond The Old Boys' Network – What's happening in European boardrooms and a guide to best practices*, state:

> The agenda of European boards has become increasingly complex, changing the roles of the board and its directors from passive supervisors to active supporters and shapers of business and strategy. As a consequence, boards must address topics beyond governance and compliance and get involved in strategy, financial/auditing, remuneration, diversity, talent succession, and increasingly technical topics such as cybersecurity. Jim Leng told us, "Boards will need to spend more time debating and discussing strategy. And the agenda is getting bigger. There's the IT agenda, cyber security, not to mention corporate taxation. The agenda is exploding." Additionally, more complex agendas are having a tangible impact on the amount of time directors have to dedicate to their board roles and to the continued learning they need to undergo (The European Confederation of Directors Associations and Korn Ferry, 2015:13).

Table 6.12: Descriptive statistics (nominal)

E11: King IV™ Recommended practice	**Yes %**	**No %**	**N/A %**	**Frequency (N)**
	1	2	3	
The Bank's short, medium and long-term strategy as formulated and developed by management should be approved by the Board. When considering the proposed strategy for approval, the Board should challenge it constructively with reference to amongst others, risks and opportunities; timelines and parameters which determine the meaning of short-term, medium-term and long-term.	33 100.0%	0 0.0%	0 0.0%	Valid = 33 Missing = 0

An overwhelming majority (33 or 100%) of the respondents indicated that, from their respective roles within Standard Bank Africa Regions Boards, they believed that this King IV™ recommended practice was being implemented. One respondent commented that the Boards are fully involved with the bank's short-, medium- and long-term strategy as formulated by management and any assumptions or figures from management.

King (2017a:30) states about this recommended practice that

> So investors and other stakeholders have started asking: What is a company's long-term strategy? Does it have a strategy with critical sustainability issues embedded? Then the supply chain became critical. One could do a due diligence of the equity of a company listed on the NYSE, but something could be happening in the supply chain that could destroy value overnight—for example, human rights or child labor issues in the supply chain. Stakeholder activism became a reality. Civil society started railing against companies that were still following the dictate of short-term profits at any cost. They began asking: How does this company make its money? What is its business model? Does its business model result in negative impacts on society and the environment, but a positive impact financially? Or does it have a business model that takes account of these three contexts in which companies operate, and does it have a long-term strategy that will enhance the positive impacts of its business model, and eradicate or ameliorate the negative impacts?

In early August 2016, the Harvard Business Review Researchers hosted a roundtable with Novo Nordisk CEO Lars Rebien Sørensen, WPP CEO Martin Sorrell and Inditex CEO Pablo Isla. In an interview with these three CEOs globally, they were asked how they dealt with pressure from people with a short-term perspective. Isla asserted that: "Ultimately, what's even more important is your track record and how you build your reputation. We don't have problems with institutional investors and short-term pressure. They know the type of company they're investing in. They know that we're thinking about the long term but also paying attention to the short term" (Ignatius, 2016:56).

Barton *et al. (*2017:67) are of the view that "the long-term-focused companies surpassed their short-term-focused peers on several important financial measures and created significantly more jobs. They also delivered above-average returns to shareholders and had a 50% greater likelihood of being in the top quartile or decile at the end of the period we measured."

McGinn (2016a:42) paints a bleak picture of turnover among global CEOs reaching a record rate of nearly 17% in 2015, with more than a fifth of the CEOs who left their posts over the past few years dismissed. This, he suggests, is what causes many CEOs to concentrate on the short term. In contrast, he points to CEOs that implement long-term strategies, stating that: "On average, the world's 100 best CEOs have been on the job for 17 years—and have generated a 2,091% overall return on their stock (adjusted for exchange-rate effects), or a 20.2% annual return."

Barton & Wiseman (2014:45) stated that "Since the 2008 financial crisis and the onset of the Great Recession, a growing chorus of voices has urged the United States and other economies to move away from their focus on 'quarterly capitalism' and toward a true long-term mind-set. This topic is routinely on the meeting agendas of the OECD, the World Economic Forum, the G30, and other international bodies."

The 2016 edition of the PwC yearly survey entitled: *African Banking Survey October 2016 – Banking in Africa Matters* found that with regard to questions on strategy, the CEOs reported that customer-centricity was at the centre of their strategies. The main objective was to move away from product silos and to create cross-selling opportunities and enhance the client experience (PricewaterhouseCoopers, 2016a:32).

Table 6.13: Descriptive statistics (nominal)

E12: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
As part of oversight of performance, the Board should be alert to the general viability of the organisation with regards to its reliance and effects of the capitals; its solvency and liquidity, and its status as a going concern.	33 100.0%	0 0.0%	0 0.0%	Valid = 33 Missing = 0

Thirty-three or 100% of the respondents indicated that, on the basis of their respective roles within Standard Bank Africa Regions Boards, they could affirm that this King IV™ recommended practice was being implemented. The overwhelming respondent results were not unexpected as the continued solvency and survival of the bank is the main responsibility of the Board. The Six Capitals, as discussed extensively in Chapter 3, are alluded to in the 2016 Standard Bank Group Annual Integrated Report, which refers to "the capitals we depend on…both in terms of the inputs to our activities and our strategy, and the outcomes that we aspire to in fulfilling the expectations of our stakeholders" (Standard Bank Group, 2016a:11).

At the same 2016 CPA conference, Gleeson-White presented the historical perspective of this model, discussing how one of the primary functions of accountants over time has been to construct the metrics that underlie the management of the economy at a national and corporate level. "Centuries ago, this primarily concerned financial capital and manufactured capital. In the 20th century, the value of human capital and intellectual capital became more apparent." Today, she noted, "we have a serious sustainability crisis and we need to address those in our accounts. Our numbers, the metrics that govern our companies and our economies and our nations, don't include these most important things like the environment and the society" (Certified Public Accountants, 2016:24).

With regards to questions on bank performance, the 2016 edition of the PwC yearly survey, *African Banking Survey October 2016 – Banking in Africa Matters*, found that large full-scale South African Banks achieved Return on Equities (ROEs) in the 18%–20% range in their retail and corporate businesses and expected the same range in the coming years. In contrast, the other banks in the survey (Kenya and Nigeria) achieved ROEs of around 10% in their retail and corporate businesses and were expecting to increase these to 17% in the coming years (PricewaterhouseCoopers, 2016a:76).

Subramanian (2015:98) argues that "Boards should have the right to manage the company for the long term." Martin (2014:82) writes: "Focus your energy on the key choices that influence revenue decision makers – that is, customers."

Reporting

6.3.5 Principle 5: The Board should ensure the reports issued by the Bank enable stakeholders to make informed assessment of the Bank's performance and its short, medium and long-term prospects.

The descriptive statistics regarding King IV™ Principle 5 are presented in Tables 6.14, 6.15 and 6.16.

Table 6.14: Descriptive statistics (nominal)

E13: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should assume responsibility for the Bank's reporting by setting the direction for how it should be approached and conducted.	26 78.8%	1 3.0%	0 0.0%	Valid = 27 **Missing = 6** Total = 33

Twenty-six or 78,8 % of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they could confirm that this King IV™ recommended practice was being applied. It is notable that one (3.0%) of the respondents did not agree with the statement and six people did not respond. One of the respondents pointed out that Standard Bank issues sustainability reporting and detailed *Report to Society* in addition to financial statements.

The aim of the *Report to Society* is to communicate how the Standard Bank Group creates shared value in the societies in which it operates (Standard Bank, 2016b). The report indicates that its intended audience is the broader society (beyond shareholders). Put differently, the report is circulated to the Bank's identified stakeholders.

The Janse van Vuuren and Schulschenk (2013:25) study found that on average 86% of the respondents agreed or strongly agreed that their respective board of directors understood the integration of financial and non-financial performance measures. The report added that the majority of respondents also felt that there was a good understanding within their companies as to what integrated reporting was.

Table 6.15: Descriptive statistics (nominal)

E14: King IV™ Recommended practice	Yes	No	N/A	Frequency (N)
	1	2	3	
The Board should oversee that reports such as the annual financial statements, sustainability reports, social and ethics committee reports, or other online or printed information or reports are issued, as is necessary, to comply with legal requirements, and/or to meet the legitimate and reasonable information needs of material stakeholders.	33 100.0%	0 0.0%	0 0.0%	Valid = 33 Missing = 0

Thirty-three or 100% of the respondents indicated that according to their respective roles within Standard Bank Africa Regions Boards, they could confirm that this King IV™ recommended practice was being executed.

Eccles (2016:26) stated that: "The only country where integrated reporting is mandated, thanks to the leadership of Mervyn King, is South Africa. What he did in South Africa is interesting, because it was reporting in a governance context". Highlighting the importance of sustainability, Harvard Business School Professor Paine presents the example of appropriate action taken by the Nike board: "To address the risks and opportunities arising from problems such as climate change, water pollution, corruption, and uneven access to wealth, health, and education, Nike's board created a dedicated corporate responsibility committee in 2001" (Paine, 2014:89). Elsewhere it is reported that: "Strategic integration of sustainability initiatives embeds sustainability into organizational decision making, promotes better resource allocation, and forms the basis for integrating sustainability reporting with traditional financial reporting" (Accounting for Sustainability, Adams *et al.,* IIRC, cited in Ballou *et al.,* 2012:266).

At the 2017 CPA Conference, King (2017a:30) highlighted the importance of sustainability reports and their origins. He states:

> And so, at the beginning of this century, we as directors and accountants tried to communicate this change in value with enhanced business reporting. [Author] John Elkington spoke about the triple bottom line, but agreed eventually that we were very far from being able, from the point of metrics, to

> report on a triple bottom line, and we would for the foreseeable future continue to report in a single monetary bottom line. But the critical issue was: How does one get there? Sustainability reporting started on the northeast coast of America, in Boston and Harvard. The first company to do a sustainability report was in fact an American company in Vermont, Ben & Jerry's ice cream, in 1995. Then, although the concept of sustainability reporting was actually developed at Boston College and Harvard University, [activists] Allen White and Bob Massie came to Johannesburg, and we met and talked about it. I recommended that sustainability reporting should be a listing requirement on the Johannesburg Stock Exchange. It became the first stock exchange in the world to require sustainability reporting as a listing requirement. We were trying to communicate the value the market saw that was not on the balance sheet according to financial reporting standards.

Former US Vice President Al Gore, in his seminal article co-authored with David Blood (former Head of Goldman Sachs Asset Management) and entitled: "Sustainable Capital", writes: "In South Africa, the Johannesburg Stock Exchange set an exemplary precedent in its 2011 decision to require all listed companies to either produce an integrated report or explain why they were not doing so" (Gore & Blood, 2012:17). These authors state: "Ben Franklin famously said, 'You may delay, but time will not, and lost time is never found again.' We have the opportunity to rebuild for the long term and an obligation to seize it. Sustainable Capitalism will create opportunities and rewards but it will also mean challenging the pernicious orthodoxy of short-termism. Now is the time to accelerate the transition" (Gore & Blood, 2012:1).

Table 6.16: Descriptive statistics (nominal)

E15: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should approve management's bases for determining materiality for the purpose of deciding which information should be included in external reports.	33 100.0%	0 0.0%	0 0.0%	Valid = 33 Missing = 0

Thirty-three or 100% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they could affirm that this King IV™ recommended practice was being applied. The IIRC's International <IR> Framework (2013:18) explains materiality as follows: "An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term." "Materiality, in its essence, is entity specific. Whether the interests and issues of a certain stakeholder audience are material will vary from company to company, depending on sector, strategy, business model, and the time frame under consideration. As a consequence, materiality determination must ultimately reflect the judgement of the board of directors. The board's guiding principle in determining whether a given stakeholder group is 'significant' should be economy of director focus and information" (Eccles & Youmans, 2016:40).

C. Governing Structures and Delegation – Primary Role and Responsibilities of the Governing Body

6.3.6 Principle 6: The Board should serve as the focal point and custodian of corporate governance in the Bank.

The descriptive statistics related to King IV™ Principle 6 are presented in Tables 6.17, 6.18 and 6.19.

Table 6.17: Descriptive statistics (nominal)

E16: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should exercise its leadership role by: • steering the Bank and setting its strategic direction; • approving policy and planning that give effect to the direction provided; • overseeing and monitoring of implementation and execution by management; and • ensuring accountability for organisational performance of, among others, reporting and disclosure.	33 100.0%	0 0.0%	0 0.0%	Valid = 33 Missing = 0

Thirty-three or 100% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they believed that this King IV™ recommendation was practiced.

(Mankins *et al.,* 2017:68), argued that the "skilful allocation of financial capital is no longer a source of sustained competitive advantage. More important is a workforce that can generate good ideas and translate them into successful new products, services, and businesses."

King (2017a:32) puts it succinctly by stating that: "The Board is to serve as a focal point. The skills, experience, and diversity are necessary to discharge their governance role."

Table 6.18: Descriptive statistics (nominal)

E17: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should approve the protocol to be followed in the event that it or any of its members or committees need to obtain independent, external professional advice at the cost of the Bank on matters within the scope of their duties.	29 87.9%	2 6.1%	2 6.1%	Valid= 33 Missing=0

Twenty-nine or 87.9% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, this King IV™ recommended practice was being implemented. It is noted that two (6.1%) of the respondents did not agree with the statement and a similar number of respondents said the practice was not applicable in their countries. One respondent stated that, although he could not explicitly say that the protocol existed, there was no restriction on the ability of directors to receive external advice. One person said the practice was not applicable.

(Useem & Zelleke, 2006:2) explain the operation of decision protocols in American board of directors. Their study, in which they interviewed respondents at 31 major companies, found that decision rights between the board and executives are often allocated via annual calendars and written protocols. The authors suggest that in addition to these documents, management needs to make frequent decisions about what issues to take to the board. They write: “Executives still set much of the board’s decision-making agenda, and despite increasingly asserting their sovereignty in recent years, directors remain substantially dependent upon the executives’ judgement on what should come to the board. At the same time, a norm is emerging among directors and executives that the latter must be mindful of what directors want to hear and believe they should decide.”

Table 6.19: Descriptive statistics (nominal)

E18: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The governing body should approve the protocol to be followed by its non-executive members for requisitioning documentation from, and setting up meetings with, management.	24 72.7%	8 24.2%	1 3.0%	Valid =33 Missing=0

Twenty-four or 72.7% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, this King IV™ recommended practice was employed. It is noted that eight (24.2%) of the respondents indicated that the recommended practice was not implemented. One (3%) of the respondents indicated that the statement was not applicable.

Whilst some respondents stated that the protocol was in place, some mentioned that instead of a clear protocol, the arrangement was more ad hoc. One respondent mentioned that whilst there was no explicit protocol, there was a clear understanding that directors could forward their requests to the company secretary or CEO.

Composition of the governing body

6.3.7 Principle 7: The Board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

The results of the descriptive statistics related to King IV™ Principle 7 are indicated in Tables 6.20, 6.21 and 6.22.

Table 6.20: Descriptive statistics (nominal)

E19: King IV™ Recommended practice	Yes	No	N/A	Frequency (N)
	1	2	3	
The Board should assume responsibility for its composition by setting the direction and approving the processes for it to attain the appropriate balance of knowledge, skills, experience, diversity and independence to objectively and effectively discharge its governance role and responsibilities.	33 100.0%	0 0.0%	0 0.0%	Valid = 33 Missing = 0

Thirty-three or 100% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, this King IV™ recommended practice was employed.

The importance of human capital is stressed by Mankins *et al.* (2017:68). These authors find that: "For most of the past 50 years, business leaders viewed financial capital as their most precious resource. But today it is abundant and cheap." They suggest that: "Companies should lower hurdle rates, make numerous small investments in growth opportunities, and pay more attention to managing their human capital well."

Fernández-Aráoz (2014:5) argues that: "In the past few decades, organizations have emphasized 'competencies' in hiring and developing talent. Jobs have been decomposed into skills and filled by candidates who have them. But 21st-century business is too volatile and complex – and the market for top talent too tight – for that model to work anymore." She proffers the following solution: "Today those responsible for hiring and promotion decisions must instead focus on potential: the ability to adapt to ever-changing business environments and grow into challenging new roles." She concludes: "Managers must learn to assess current and prospective employees on five key indicators: the right motivation, curiosity, insight, engagement, and determination. Then they have to help the best get better with smart retention and stretch assignments."

The European Confederation of Directors Associations and Korn Ferry describes how board members were appointed in the past and the emerging board structure.

> The changes highlighted throughout this study are a clear pointer that the age of Europe’s boardrooms as “an old boys’ network” is over. Recruiting directors among friends and business acquaintances is heavily criticised and the few boards that still do so stand out. What is emerging is the “battle-ready board,” diversified in gender and thinking, equipped with the skills and competencies tailored to the strategy of the company, and well able to meet the challenges that European businesses will face in the coming years. (The European Confederation of Directors and Korn Ferry, 2015:2).

Grant Thornton’s 2015 report *Corporate Governance – the Tone from the Top – Global Governance Report 2015* quotes an Australian Board member as saying that: “By contrast a lack of diversity often leads to ‘groupthink’ – when people from similar backgrounds approach challenges in a similar way. This can sometimes lead to irrational or dysfunctional decisions being made. However, boardrooms have historically been dominated by older men. For example, analysis of annual reports of the largest 150 companies in India found that the average age of an independent director is 65 and the average age of a general director is 60” (Grant Thornton, 2015:10).

DeHass (2016:7) agrees with this opinion and avers that:

> For many years, discussions about board diversity have focused mainly on issues of gender, race, and ethnicity. While women and minorities remain underrepresented on many U.S. corporate boards, diversity is beginning to be viewed through a much wider lens to encompass a range of skills, experiences, and perspectives that could help safeguard an organization against new and emerging threats. The fact that many companies are facing a growing number of competitive, regulatory, and technological issues is driving this broader view of diversity. An important first step in unleashing the power of board diversity is

assessing where the members of the board currently stand in terms of skills and experiences, and then comparing that baseline to where it needs to be.

The following guidelines on making sure that a board has a proper chemistry and skill base were proffered by Seymann (2003). Although the guidelines were published in 2003, they are still applicable. According to Seymann board composition considerations fall into two categories: diversity and the mix of experiences and skills. She argues that an important goal for any bank board is for its composition to reflect the communities the bank serves. She added that if composition was done effectively, an additional benefit was that the board will more accurately reflect the bank's employee base. She concluded by stating that not only does a diverse board bring together different perspectives, but it also enhanced the bank's community relationships, reputation, and often its customer service. The number of women and minorities serving on boards has been steadily increasing as corporations recognise the importance and the benefits of bringing in new perspectives.

Table 6.21: Descriptive statistics (nominal)

<table>
<tr><td rowspan="2">E20: King IV™ Recommended practice
The Board should appoint an independent non-executive member as the lead independent to fulfil the following functions:</td><td>Yes</td><td>No</td><td>N/A</td><td rowspan="2">Frequency
(N)</td></tr>
<tr><td>1</td><td>2</td><td>3</td></tr>
<tr><td>• To lead in the absence of the chair.
• To serve as a sounding board for the chair.
• To act as an intermediary between the chair and other members of the governing body, if necessary.
• To deal with shareholders' concerns where contact through the normal channels has failed to resolve concerns, or where such contact is inappropriate.
• To strengthen independence on the Board if the chair is not an independent non-executive member of the Board.
• To chair discussions and decision-making by the governing body on matters where the chair has a conflict of interest.
• To lead the performance appraisal of the chair.</td><td>20

60.6%</td><td>9

27.3%</td><td>2

6.1%</td><td>Valid =31
Missing = 2
Total = 33</td></tr>
</table>

Twenty or 60.6% of the respondents indicated on the basis of their respective roles within Standard Bank Africa Regions Boards that this King IV™ recommended practice was executed. Nine or 27.3% of the respondents said that the recommended practice was not applied. Two or 6.1% of the respondents was of the view that the practice was not applicable. Two people did not respond. Whereas from these results it appears that the Standard Bank African subsidiaries are struggling with the notion of independent non-executive directors, at Group level the Standard Bank has 14 independent non-executive directors, 3 non-executive directors and 3 executive directors in addition to the chairman (Standard Bank Group, 2016a:98).

Independence is defined by King IV™ as

> …the exercise of objective, unfettered judgement. When used as the measure by which to judge the appearance of independence, or to categorise a non-executive member of the governing body or its committees as independent, it means the absence of an interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making. (King IV™ Report on Corporate Governance for South Africa, 2016:13)

According to the fourth annual 2016 *Non-Executive Directors' Fees Guide*, launched by the IoDSA in conjunction with Ernst & Young (EY), "Non-executive directors have a critical governance role to play, and they bear the same level of risk as executive directors in terms of the Companies Act…." (Natesan, cited in the Institute of Directors in Southern Africa and Ernst & Young, 2016).

According to Parsons and Feigen (2014:99), "Today regulations require that a majority of directors be independent, a practice that was previously optional. If the chairman is also the CEO, most boards (97% of the S&P 500) appoint a lead or presiding independent director, who has much more influence in and out of the boardroom than before. The independent directors regularly meet in executive session without the CEO in the room – a relatively new practice." With reference to the American board of directors, Michael Useem and Andy Zelleke confirm that "…the new rules also require that non-executive directors meet periodically without the chief executive, and as a consequence many companies are establishing the role of 'lead director', not only to orchestrate that event but more broadly to lead the non-executive directors in their relationship with the CEO" (Useem & Zelleke, 2006:11).

The European Confederation of Directors' Associations and The International Finance Corporation (2015:3) state that: "A sufficient number of independent directors should be elected to the board of companies to ensure that any material conflict of interest involving directors will be properly dealt with. A director should be considered to be independent only if he or she is free of any business, family, or other relationship—with the company, its controlling shareholder, or the management— that creates a conflict of interest such as to impair his or her judgment."

The European Confederation of Directors Association and Korn Ferry in their 2015 guidelines writes: "Ten years ago, it was more about being in a select group–joining an 'exclusive club'—whereas now, the importance to the markets of corporate governance means that it's a serious job. In that way, the NED [Non-Executive Director] role has moved from being an honour to being a professional responsibility" (Ken Olisa Restoration Partners, Chairman Thomson Reuters, Non-Executive Director, cited in The European Confederation of Directors Association and Korn Ferry, 2015:13).

Brudney (cited in Zattoni & Cuomo, 2010:65) as asserts that: "Despite the large emphasis on their governance role, there is no common definition of 'independent directors'." Borowski and also Brudney (cited in Zattoni & Cuomo, 2010:65) state that: "In the narrowest terms, we can consider as 'independent' a director who does not have any business or family relationship with top managers of the firm." They further state that: "In broader terms, directors are independent if they do not have any business or family relationship with subjects that can influence their accountability towards the firm. The most common approach defines independent directors as persons without a business or family relationship that may determine a conflict of interests with the corporation."

Grant Thornton’s 2015 report reads:

> A chairperson plays a key role in setting the right tone, encouraging healthy discussion and contributions from both board members and external contributors to the table. The vast majority of directors believe the role of chairperson and CEO should be separated, to allow the former to focus on developing the culture and the latter to focus on embedding it. The chair also needs to make time (both inside and outside meetings) with non-executive directors to understand their personalities and skills. (Grant Thornton, 2015:12)

Table 6.22: Descriptive statistics (nominal)

E21: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
When determining which of its committees the Chair of the Board should serve on, either as member or Chair, the Board should consider how this affects the overall concentration and balance of power on the Board. Generally, the following should apply: • The chair should not be a member of the audit committee. • The chair may be a member of the committee responsible for remuneration but should not be its chair. • The chair should be a member of the committee responsible for nominations of members of the Board and may also be its chair. • The chair may be a member of the committee responsible for risk governance and may also be its chair. • The chair may be a member of the social and ethics committee but should not be its chair.	32 97.0%	0 0.0%	1 3.0%	Valid = 33 Missing = 0

Thirty-two or 97% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, this King IV™ recommended practice was executed. One (3%) of the respondents was of the view that the recommended practice was not applicable. Most importantly, at the Standard Group level the Chair of the Board is not a member of the Board Audit Committee (BAC), which is constituted solely by independent non-executive directors.

In countries such as the US, the law specifies who can be a member of an Audit Committee. Trautman states:

> During recent years, heightened standards for board audit committee membership have been imposed by the SEC, NYSE, and others. Sarbanes-Oxley requires that the audit committee will be comprised solely of independent directors and that the company must disclose whether at least one of the members of the audit committee is a "financial expert" and if not, why not. An "audit committee financial expert" is defined as a person who has the following attributes: (1) an understanding of generally accepted accounting principles and financial statements; (2) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves; (3) experience preparing, auditing, analysing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant's financial statements, or experience actively supervising one or more persons engaged in such activities; (4) an understanding of internal controls and procedures for financial reporting; and (5) an understanding of audit committee functions (Trautman, 2013:206).

Committees of the governing body

6.3.8 Principle 8: The Board should ensure that its arrangement for delegation within its own structures promotes independent judgement and assists with balance of power and the effective discharge of its duties.

The descriptive statistics related to King IV™ Principle 8 are presented in Tables 6.23, 6.24 and 6.25.

Table 6.23: Descriptive statistics (nominal)

E22: King IV™ Recommended practice	Yes	No	N/A	Frequency (N)
	1	2	3	
The Board should determine if and when to delegate particular roles and responsibilities to an individual member or members of the Board, or to standing or ad hoc-committees. The exercise of judgement by the Board in this regard, is subject to legal requirements and should be guided by what is appropriate for the Bank and achieving the objectives of the delegation.	31 93.9%	0 0.0%	2 6.1%	Valid = 33 Missing =0

Thirty-one or 93.9% of the respondents indicated that, on the basis of their respective roles within Standard Bank Africa Regions Boards, they could affirm that this King IV™ recommended practice was executed. Two (6.1%) of the respondents were of the view that the recommended practice was not applicable to their respective countries. One respondent commented that ad hoc committees were not common and that a localisation committee was used instead. Localisation means adapting the recommended practice to comply with the in-country regulations.

King (2017a:32) states that "The board should ensure that appointment and delegation to management is done under the effective exercise of its authority and responsibility, and with adequate and effective controls and oversight."

Table 6.24: Descriptive statistics (nominal)

E23: King IV™ Recommended practice	Yes	No	N/A	Frequency (N)
	1	2	3	
Delegation to an individual member or members of the Board should be recorded in writing and approved by the Board. The record should set out the nature and extent of the responsibilities delegated, decision-making authority, the duration of the delegation, and the delegate's reporting responsibilities.	25 75.8%	7 21.2%	1 3.0%	Valid = 33 Missing = 0

Twenty-five or 75.8% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, this King IV™ recommended practice was executed. Seven or (21.2%) of respondents were of the view that the recommended practice was not applied. One or 3% of the respondents was of the view that the recommended practice was not applicable.

Useem and Zelleke (2006:2) state that in the US boards are trying to provide strong oversight while delegating authority to management. The board is dependent on management executives for what it deals with. But a norm is developing that executives need to consider what the board wants to know about and believes it should decide.

Table 6.25: Descriptive statistics (nominal)

E24: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
Any delegation by the Board of its responsibilities to a committee or a member of the Board member will not by or of itself constitute a discharge of the Board's accountability. The Board should apply its collective mind to the information, opinions, recommendations, reports and statements presented by the committee or the member.	32 97.0%	0 0.0%	1 3.0%	Valid = 33 Missing = 0

Thirty-two or 97% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, this King IV™ recommended practice was being implemented. Notably one (3%) of the respondents was of the view that the recommended practice was not applicable for the country or African subsidiary.

The results were in line with the researcher's expectation as the Board remains accountable for any delegation to a Board Committee, Board member or management. Useem and Zelleke (2006:11) agree with this viewpoint and write "…management's increasing awareness that it serves at the pleasure of the board, is the emergence of the norm among directors and executives that the CEO must be mindful of what the board wants to address. The Sarbanes-Oxley Act, stock exchange rules and associated calls for reform (e.g. Lorsch *et al.*, 2005) are pressing directors to become more alert and engaged in decisions for which they may be held more accountable. In parallel, executives are becoming more prepared to provide directors with information for, and the opportunity to have a hand in, the company's top decisions."

Evaluations of the performance of the governing body

6.3.9 Principle 9: The Board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members support continued improvement in its performance and effectiveness.

The descriptive statistics related to King IV™ Principle 9 are presented in Tables 6.26, 6.27 and 6.28.

Table 6.26: Descriptive statistics (nominal)

E25: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should assume responsibility for the evaluation of its own performance and that of its committees, its Chair and its individual members by determining how it should be approached and conducted.	33 100.0%	0 0.0%	0 0.0%	Valid = 33 Missing = 0

All thirty-three or 100% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, this King IV™ recommended practice was applied or executed.

Yafit and Kess (2016:19) state that: "Board effectiveness contributes to the sustainability of the corporation over the long term and is therefore of vital importance to stockholders and other stakeholders. A periodic board evaluation has become part of the accepted governance landscape and, if conducted properly, can be a valuable tool to increase board effectiveness. In addition, board evaluations are now required by certain stock exchange rules and the governance documents of many public companies." Rasmussen (2015:80) asserts that: "Board effectiveness has been measured by using three levels of accountability, namely, board performance, conformance to content, and conformance to context." Gordon opined that: "Good boards are realising that evaluation is a great deal more than box-ticking compliance, and that much can be gained from using an external facilitator" (Gordon, 2015:14).

Muir (2013:1) supports Board evaluations or assessments and asks: "Does board evaluation really deliver value? Does it ask the right questions? Should outside facilitators be involved? Are the board failings uncovered really being corrected? In Great Britain, which has long required board assessment, an in-depth survey posed these questions to the leaders and members of a broad spectrum of major company boards. The responses show solid support for the value of board evaluation, but concern over some ongoing weaknesses." He adds that: "Board evaluation has emerged from its infancy to become a mainstream activity. The focus is shifting from process improvement to wider behavioral considerations. This is welcome, as behavioral factors can have far greater impact on company performance than pure governance. Chairmen acknowledged that addressing behavioral issues was more challenging. The chairman's level of engagement with the process and high-integrity follow up probably have the greatest influence on the success of the evaluation. The chairman must also use emotional intelligence to ensure the executive and non-executive directors are fully engaged with the process" (Muir, 2013:6).

Sonnenfeld (2002:106) stated that that "We need to consider not only how we structure the work of a board but also how we manage the social system a board actually is." He indicates that boards have a pressing need "to be strong, high-functioning work groups whose members trust and challenge one another and engage directly with senior managers on critical issues facing corporations".

Table 6.27: Descriptive statistics (nominal)

E26: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
A formal process, either externally facilitated or not in accordance with methodology approved by the Board, should be followed for evaluating the performance of the Board, its committees, its chair and its individual members at least every two years.	31 93.9%	0 0.0%	1 3.0%	Valid = 32 **Missing = 1** Total = 33

Thirty-one or 93.9% of the respondents indicated that, based on their respective roles within Standard Bank Boards, they could confirm that their respective Boards had a formal process for Board appraisals or evaluations. One (3%) of the respondents was of the view that the statement was not applicable. One person did not respond. It is important to mention that in line with the previous iteration, i.e. King III, Board evaluations were performed annually. Perusal of Standard Bank subsidiaries, such as Stanbic Bank Uganda, shows that Board evaluations were performed annually under King III. “Board performance and that of its committees is assessed annually against their respective mandates” (Stanbic Bank Uganda Limited, 2016:91). Prof. King agrees that Board evaluations should take place and asserts that: “The Board should ensure that the valuation results in improved effectiveness, and should be done biannually, not annually” (King, 2017a:32). This is a departure from King III as indicated earlier, which advocated that assessment be performed annually. Montgomery and Kaufman posit that board self-evaluation is not enough. They recommend instead that “Consulting firms (which should be hired by the board, not by management) could bring in badly needed outside views” (Montgomery & Kaufman, 2003:93).

Leblane (2015:6) elucidates certain governance evaluation pitfalls and concomitant solution(s). He argues that:

> “Many boards default to management or the company’s outside law firm to administer their evaluation. These players should be uninvolved with the assessment. The conflict of interest in a manager facilitating the evaluation of his or her colleagues, including the CEO, is obvious. Management has a vested interest in a soft or biased evaluation. The company’s outside law firm is also conflicted. They work for management, not the board. The governance assurance provider, which could be a lawyer retained directly by the board who has never done work for management, must be free to provide advice that is adverse to management or any director. They should have a channel of accountability directly to the board. Even a self-evaluation by a board of directors, which is the rule in the U.S., is an inherent conflict of interest, as the board is assessing its own work. It is far less likely for an evaluation to be

anonymous, and for directors and participating managers to have assurance that confidentiality will be maintained when management and/or the board administer the evaluation. Without anonymity, including during interviews, the answers are not candid or valid, and the evaluation becomes flawed."

Leblane adds: "Thus, there is a movement towards independent governance evaluators, like auditors, to administer and advise on the assessment. However, even an external evaluator, like an auditor, can be captured by clever management. The client of the board evaluator is not management, but the chair of the governance and nominating committee (or its equivalent). Management should play no part in short-listing evaluators, negotiating conditions, or remuneration of the evaluator" (Leblane, 2015:6).

Table 6.28: Descriptive statistics (nominal)

E27: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
The following should be disclosed in relation to the evaluation of the performance of the Board:	1	2	3	
• A description of the performance evaluations undertaken during the reporting period, including their scope, whether they were formal or informal, and whether they were externally facilitated or not. • An overview of the evaluation results and remedial actions taken. • Whether the Board is satisfied that the evaluation process is improving its performance and effectiveness.	31 93.9%	0 0.0%	1 3.0%	Valid = 32 **Missing = 1** Total = 33

Thirty-one or 93.9% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, it was clear that this King IV™ recommended practice was executed. One (3%) of the respondents was of the view that the statement was not applicable. One person did not respond.

Yafit and Kess (2016:24) agree with the recommended practice. They assert that to be effective a board evaluation needs to be followed by a guided discussion with the board and with responsibilities delegated to follow up on issues identified. "Once responses are collected – whether via interviews or questionnaires – the director, Corporate Secretary, or outside facilitator who is spearheading the evaluation process should anonymize, aggregate, and organize the data and present it to the board at the next board meeting. This presentation is typically conducted orally, perhaps with the assistance of a slide deck, and should allow for an open dialogue with and among the board members regarding the findings and what should be done to address any identified weaknesses. The presentation of the evaluation's results and the related discussion should be reflected generally in the minutes of the meeting."

Appointment and delegation to management

6.3.10 Principle 10: The Board should ensure that the appointment of and delegation to management contribute to role clarity and the effective exercise of authority and responsibilities.

The descriptive statistics related to King IV™ Principle 10 are shown in Tables 6.29, 6.30 and 6.31.

Table 6.29: Descriptive statistics (nominal)

E28: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The CEO should be responsible for leading the implementation and execution of approved strategy, policy and operational planning, and should serve as the chief link between management and the Board.	33 100.0%	0 0.0%	0 0.0%	Valid = 33 Missing = 0

All 33 or 100% of the respondents specified that, in accordance with their respective roles within Standard Bank Africa Regions Boards, they could confirm that this King IV™ practice was applied.

Charan (2016:54) writes: "Nothing good comes of having the wrong CEO. Mentoring, coaching, senior team members with complementary skills, and special help from the board can't compensate. The misses are devastating – and very public. Yet some boards still pick chief executives who aren't right for the job – repeatedly. The revolving doors at HP before Meg Whitman, at Apple before Steve Jobs's second tenure, and at Yahoo during the past decade are only a few of many recent examples."

In an interview with the three CEOs, Novo Nordisk CEO Lars Rebien Sørensen, WPP CEO Martin Sorrell and Inditex CEO Pablo Isla, as part of the Harvard Business Review 2016 roundtable, they were asked: What are the most important challenges CEOs face these days? Sorrell responded that: “The main challenge is volatility. That includes geopolitical issues, like the Brexit vote, the Middle East, China,… It also stems from the growing pressure from activist investors, who tend to focus on short-term results, and from the shift many companies are making to zero-based cost budgeting, which affects spending. I’m not pleading poverty or over difficulty, but all of this complexity makes it harder to do our jobs” (Ignatius, 2016:54).

Botelho *et al*. (2017:71) state that: “The chief executive role is a tough one to fill. From 2000 to 2013, about a quarter of the CEO departures in the *Fortune* 500 were involuntary, according to the Conference Board. The fallout from these dismissals can be staggering…” (Botelho *et al*., 2017:71). They continue: “But our most important discovery was that successful chief executives tend to demonstrate four specific behaviors that prove critical to their performance. We also found that when boards focus on those behaviors in their selection and development processes, they significantly increase their chances of hiring the right CEO.” They list the four behaviours as: (1) deciding with speed and conviction; (2) engaging with for impact; (3) adapting proactively; and (4) delivering reliably.

Franklin (cited in Cliffe, 2017:66) states that, “I think there is concern about balancing longer term and short term. Some of us have signed on to these pronouncements claiming that there’s too much emphasis on short-termism, whether it’s a focus on stock price or on TSR. Too much focus on any single measure is really detrimental to the long-term purposes of a company. Finding the right balance is on all our minds – CEOs as well as board members. But it’s the global business environment that is keeping us up at night.”

In the best 100 performing CEOs in the world 2016 survey, Daniel McGinn states that: “There are so many reasons for leaders to focus on the short term: slow growth, shareholder activism, political turmoil – to name just a few. Yet some CEOs still manage to train their sights on the long term and deliver strong performance over many years" (McGinn, D., 2016b:41).

Sonnenfeld *et al. (*2013:104) published the results of their feedback from surveying veteran CEOs. In the survey, veteran CEOs quipped that although they were tasked with implementing and executing strategy, they were nevertheless "…disappointed by the absence of energetic debate in the boardroom." Additionally, Sonnenfeld (2002:111) argues that: "The highest-performing companies have extremely contentious boards that regard dissent as an obligation and that treat no subject as undiscussable." The latter comment, although written in 2002, is still very much applicable.

Huang *et al*. (2012:725) stated that: "Based on extant research, we hypothesize that older CEOs are associated with higher quality financial reporting. Using a sample of 3,413 firms for the period 2005 to 2008, we find a positive association between CEO age and financial reporting quality. Specifically, we find that CEO age is negatively associated with firms meeting or beating analyst earnings forecasts and financial restatements. Our study therefore extends the corporate governance and financial reporting quality literature by identifying CEO age as a determinant of financial reporting quality."

Table 6.30: Descriptive statistics (nominal)

E29: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The CEO should not be a member of the remuneration, audit or nomination committees, but should attend by invitation any meeting, or part thereof, if needed to contribute pertinent insights and information.	31 93.9%	1 3.0%	0 0.0%	Valid =32 **Missing = 1** Total = 33

Thirty-one or 93.9% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they could establish that the above recommended practice was executed. It was noted that one (3%) of the respondents did not agree with the statement. One person did not respond. Importantly, one of the respondents, whilst agreeing with the statement, commented that no executive was a member of the Board Audit Committee (BAC) but that they could attend by invitation.

King IV™ recommended practice is more rigid than European guidelines. The European Confederation of Directors' Association in 2011 published an Audit Committee guideline entitled: *Audit Committee Guidance for European Companies*. Under the section on Audit Committee composition. the European Confederation of Directors' Association states: "However, the presence of executive directors can be beneficial, as individuals like the CEO, CFO and others often have valuable insights to share. Nevertheless, in such circumstances, the chairman of the audit committee should be careful to ensure that their presence does not inhibit open discussion and challenge" (The European Confederation of Directors' Association, 2011:7).

Table 6.31: Descriptive statistics (nominal)

E30: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should satisfy itself that there is succession planning for the CEO position in place, to provide continuity of executive leadership. Succession planning should be reviewed periodically, and should provide for both succession in emergency situations and succession over the longer term.	32 97.0%	0 0.0%	1 3.0%	Valid = 33 Missing = 0

Thirty-two or 97% of the respondents specified that, on the basis of their respective roles within Standard Bank Africa Regions Boards, they could affirm that this King IV™ recommended practice was executed. One (3%) of the respondents felt that the recommended practice was not applicable.

Charan (2016) writes the following on succession: "What distinguishes directors who are great at picking CEOs? They zero in on the two or three capabilities a chief executive needs to succeed at that particular firm (the pivot on which the succession decision turns), keep an open mind about where the best candidate will come from, go deep to understand who is the best fit, and allow for imperfections" (Charan, 2016:55). Charan continues: "Choosing the directors who will lead the process is also critical. Often they are current or former CEOs, respected for their wisdom and judgment. Other board members add objectivity through their questions, and the outgoing CEO helps the decision makers learn more about the company and internal candidates.” Interestingly, in the 100 best performing CEOs in the world 2016 survey, Daniel McGinn states that 84 of the 100 CEOs were insiders (McGinn, D., 2016:47). The survey results seem to imply a high correlation between high performance and CEOs promoted within the companies they were leading. This is supported by Eben Harrell who found that insider CEO delivers better returns in seven of the preceding ten years” (Harrell, 2016). It is important to state that the current Standard Bank Group CEO in 2019 is an insider.

Ciampa (2016:62) writes,

> Whether new CEOs are hired from the outside or promoted from within, they should be aware of a daunting statistic: One-third to one-half of new chief executives fail within their first 18 months, according to some estimates. Some of these flameouts can be attributed to poor strategic choices by the new leader, and some result when the board makes an imperfect choice – overestimating a candidate’s abilities and potential or hiring a leader whose skill set doesn’t fit the context. Sometimes the new leader is obviously responsible for a handoff gone wrong, and other times the board is rightly blamed. But a close look shows that it’s rarely that simple. When a succession fails, the responsibility is almost always shared.

In Sonnenfeld *et al.’s* 2013 study, the authors talked to dozens of well-regarded veteran chief executives, focusing on people who had no reason to resent their boards, so as not to taint the results. One suggestion from the feedback of the CEOs was for the Boards to “make succession transitions less awkward, not more so…” (Sonnenfeld *et al.,* 2013:105). The authors elucidate one of the CEOs’ concerns as being, having paid such careful attention to the internal pipeline, CEOs are impatient with boards' tendencies to fall in love with external candidates. They understand that this happens because the board has spent enough time with inside prospects to see them "warts and all," while, in interviews, outside candidates can appear flawless. The authors suggest that “CEOs are dismayed that boards don't take account of this obvious illusion, and they wish for a more reasoned, thoughtful process that would take advantage of their knowledge and expertise” (2013:106). Spalding (2015:23) asserts that: “As with doing business in any region, Boards in Africa need to have succession top of mind.” To achieve this, they should use Subsidiary Boards with the right mandates and decision-making powers and mentorship programmes apart from making more effective use of alternative directors responsible for key strategic regional initiatives. Spalding (2015:23) suggests that the appointment of appropriately qualified and experienced non-executive directors may need specialist recruitment firms and concludes: “While success in African markets is undoubtedly still very much about excellent business practices, government and ethics, global boards need to adopt a fresh approach. A global business can no longer just ‘land in Africa’ and apply traditional ‘best practices’ determined by a head office on another continent – they need to ensure on the ground executive presence, agility, and a mindset of being ready to do business on the day” (Spalding, 2015:23).

D. Governance Functional Areas – Risk Governance

6.3.11 Principle 11: The Board should govern risk in a way that supports the Bank in setting and achieving its strategic objectives.

The descriptive statistics related to King IV™ Principle 11 are provided in Tables 6.32, 6.33 and 6.34.

Table 6.32: Descriptive statistics (nominal)

E31: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should assume responsibility for the governance of risk by setting the direction for how risk should be approached and addressed in the Bank. Risk governance should encompass both: • the opportunities and associated risks to be considered when developing strategy; and • the potential positive and negative effects of the same risk on the achievement of the Bank’s objectives.	33 100.0%	0 0.0%	0 0.0%	Valid = 33 Missing = 0

All 33 or 100% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they could state that the above King IV™ recommended practice was executed. The results were not unexpected as Standard Bank Group was rated the Best Bank for Financial Risk Management in Africa by the *Global Finance Magazine* (Standard Bank, 2016:27).

The European Confederation of Directors' Associations and The International Finance Corporation (World Bank Group)'s 2015 *Guide to Corporate Governance Practices in the European Union*, under the heading "Reduced risk of corporate crises and scandals", reads: "A company with good corporate governance practices will, by definition, have an effective risk-management system that is more likely to cope with corporate crises and scandals. These companies will have implemented processes, such as enterprise risk management procedures, disaster recovery systems, media management techniques, and business continuity procedures" (The European Confederation of Directors' Associations and The International Finance Corporation, 2015:10).

Senbet (2012:370) asserts that: "Risk is endemic to a dynamic financial system…There should be commensurate commitment to the development of talented financial manpower with sufficient capacity to manage and control risk."

That the Board should take responsibility for risk governance is supported by Bugalla *et al.,* (2010:21), who state that: "Despite all of the new regulatory, legal and investor demands that boards give better oversight to risk, any effort is doomed to fail without an effective board-level risk oversight mechanism." They further state that risk management is officially at least on the company board agenda for publicly traded companies in the US.

Christensen *et al.* (2017:130) write:

> For years now, business leaders and investors from around the world have waited for the Africa Rising narrative to shift from promise to reality. The

continent has understandably been the focus of increasing investment and attention since the turn of this century. With a young, urbanizing population; abundant natural resources; and a growing middle class, Africa seems to have all the ingredients necessary for breakaway growth – perhaps even outstripping the so-called tiger economies of East Asia a generation ago. Indeed, a 2010 report by the McKinsey Global Institute titled “Lions on the Move” expressly made this comparison, forecasting that consumer spending on the continent would grow by 40%, and GDP by $1 trillion, from 2008 to 2020.

Table 6.33: Descriptive statistics (nominal)

E32: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should evaluate and agree the nature and extent of the risks that the Bank should be willing to take in pursuit of its strategic objectives. It should approve in particular attention to: • the Bank’s risk appetite, namely its propensity to take appropriate levels of risk; and • the limit of the potential loss that the Bank has the capacity to tolerate.	32 97.0%	0 0.0%	0 0.0%	Valid = 32 **Missing = 1** Total = 33

Thirty-two or 97% of the 32 respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they could confirm that their respective Boards evaluated and agreed on the nature and extent of the risks that the Bank should be willing to take in pursuit of its strategic objectives. One person did not complete this section of the questionnaire.

The overwhelming majority of the respondents appear to agree with King (2017a:32), who asserts that: “You’ve got to govern risk so that you can achieve your strategic objectives.” Sonnenfeld *et al.* (2013:101) as part of their research asked dozens of veteran CEOs what boards could do better to help their businesses and concluded that the boards should “focus on the risks that are most crucial to the future of the enterprise”.

Table 6.34: Descriptive statistics (nominal)

E33: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should exercise ongoing oversight of risk management and, in particular, oversee that it results in the following: • An assessment of risks and opportunities emanating from the triple context in which the Bank operates and the capitals that the Bank uses and affects. • An assessment of the potential upside, or opportunity, presented by risks with potentially negative effects on achieving Bank objectives. • An assessment of the Bank's dependence on resources and relationships as represented by the various forms of capital. • The design and implementation of appropriate risk responses. • The establishment and implementation of business continuity arrangements that allow the Bank to operate under conditions of volatility, and to withstand and recover from acute shocks. • The integration and embedding of risk management in the business activities and culture of the Bank.	31 93.9%	0 0.0%	0 0.0%	Valid = 31 **Missing = 2** Total = 33

Thirty-one or 93.9% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they could affirm that their respective Boards exercised ongoing oversight of risk management. It is, however, notable that two of the respondents did not complete the section of the questionnaire in which this statement appeared.

Bugalla *et al.* (2010: 23) argue that: "Executive management should be working in concert with the board to set risk appetites and tolerances. They have authority to see beyond pure numbers to also consider such critical issues as organizational reputation and brand building. Executive management also has greater insights and a longer view for recognizing multiple risk correlations, including emerging, unanticipated risks that by their very nature are difficult to predict or quantify."

Technology and information governance

6.3.12 Principle 12: The Board should govern technology and information in a way that supports the Bank setting and achieving its strategic objectives.

The descriptive statistics regarding King IV™ Principle 12 are set out in Tables 6.35, 6.36 and 6.37.

Table 6.35: Descriptive statistics (nominal)

E34: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should assume responsibility for the governance of technology and information by setting the direction for how technology and information should be approached and addressed in the Bank.	32 97.0%	1 3.0%	0 0.0%	Valid = 33 Missing = 0

Thirty-two or 97% of the respondents indicated that, in accordance with their respective roles within Standard Bank Africa Regions Boards, they could confirm that this King IV™ recommended practice was executed. One (3%) of the respondents was of the view that the practice was not implemented.

Janse van Vuuren and Schulschenk (2013:25) report that in their research there were many respondents who felt that more training was required in the governance of IT in order to properly apply the requirements as set out in King IV™'s predecessor, King III.

Edelman & Singer (2015:91) write: "Companies can use new technologies, processes, and organizational structures to proactively lead rather than follow customers on their digital journeys. By making the journey a compelling, customized, and open-ended experience, firms can woo buyers, earn their loyalty, and gain a competitive advantage."

The importance of technology governance is elucidated by Prof. Mervyn King in the foreword section of King IV™. He asserts that: "Technology governance and security have become critical issues. Technology is no longer simply an enabler; the systems created by an organisation provide the platform on which it does business, and technology is now both the source of many of an organisation's future opportunities and potential disruption – an excellent example of how risk and opportunity are increasingly two sides of the same coin" (King IV™ Report on Corporate Governance for South Africa, 2016:6).

Kenya's unbanked population has dropped dramatically due to its ability to harness the power of mobile technology. In a book by the former President of Nigeria (Olusegun Obasanjo), Dr Mills and others entitled: *Making Africa Work*, the authors detail the successes of M-Pesa offered by Safaricom. They note that "from little over 2,200 in 1995, by 2015 more than 80 percent of Kenyan adults had a mobile phone, and there were 25,4 million M-Pesa subscribers. As a result, eight out of every 10 Kenyan adults is now banked – more than the number in South Africa, and the highest figure on the continent" (Mills *et al*., 2017:171).

Table 6.36: Descriptive statistics (nominal)

E35: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should approve policy that articulates and gives effect to its set direction on the employment of technology and information.	32 97.0%	0 0.0%	0 0.0%	Valid = 32 **Missing = 1** Total = 33

Thirty-two or 97% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, it was clear that this King IV™ recommended practice was executed. One person did not complete this section of the questionnaire.

Horton (cited in Rai & Mar, 2014:21) argues that an organisation's survival depends on the board and management coping with future events and anticipating the effect of those events on the organisation and the industry in which it operates.

Table 6.37: Descriptive statistics (nominal)

E36: King IV™ Recommended practice The Board should exercise ongoing oversight of technology and information management.	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
	32 97.0%	0 0.0%	0 0.0%	Valid = 32 **Missing = 1** Total = 33

An overwhelming 32 or 97% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they could assert that this King IV™ recommended practice was implemented. One person did not respond.

The threats posed by FinTechs defined by Ernst and Young (2017:5) as "organizations combining innovative business models and technology to enable, enhance and disrupt financial services", are elucidated by Ernst and Young (EY) in its *EY FinTech Adoption Index 2017*. EY's 2017 research included 20 markets and over 22,000 online interviews, providing a global perspective on FinTechs. EY states that: "When EY launched the first global EY FinTech Adoption Index in 2015, FinTech was still in its relative infancy. We found that one in seven digitally active consumers were already FinTech users. In 2017, we find that adoption has risen dramatically to one in three" (Ernst and Young, 2017:3).

PwC's 2016 survey, with regards to research questions on investment in technology and innovation, showed that in South Africa the banks believed that Fintech was posing a substantial threat to their business. The report added that even though Fintech remained a small market in Africa, investments were expected to rise significantly by 2020. Consequently, nearly half of the CEOs were engaging or considering engaging with start-ups through partnerships (PricewaterhouseCoopers, 2016b:56).

In the 2017 World Fintech Report by Capgemini and Linkedin in collaboration with Efma, Barclays UK CEO Ashok Vaswani highlights customers' expectations when using mobile banking as follows: "When a customer uses mobile banking for online banking, he/she is expecting the entire bank [functionality] to be there, including the entire breadth of products and also the products/functionalities relevant to them" (Vaswani cited in Capgemini *et al*., 2017:17).

In addition to threats by FinTechs, banks also need to be aware of the global increase in non-cash payments. *The 2017 World Payments Report – A preview into the global payment landscape* by Capgemini and BNP Paribus reports: "Our analysis of the 2015 global non-cash transaction volumes shows volumes grew 11.2% during 2014–2015 to reach 433.1 billion, the highest growth of the past decade. Two regions fueled this increase: Emerging Asia, with a growth rate of 43.4% and Central Europe, Middle East, and Africa (CEMEA, with growth of 16.4%)" (Capgemini and BNP Paribus, 2017:3).

Winnefeld *et al., (2015:87)* state that "The vast majority of companies are more exposed to cyberattacks than they have to be. To close the gaps in their security, CEOs can take a cue from the U.S. military. Once a vulnerable IT colossus, it is becoming an adroit operator of well-defended networks. Today the military can detect and remedy intrusions within hours, if not minutes. From September 2014 to June 2015 alone, it repelled more than 30 million known malicious attacks at the boundaries of its networks. Of the small number that did get through, fewer than 0.1% compromised systems in any way. Given the sophistication of the military's cyberadversaries, that record is a significant feat."

Olejarz (2015:150) writes: "Cybercrime is one of the hottest topics of the digital age. Media outlets are full of stories about retailers, governments, tech companies, celebrities, ordinary people – everything and everyone – getting hacked". He continues: "You couldn't ask for a better overview than *Future Crimes,* by Marc Goodman, a cybercrime adviser to Interpol, the United Nations, and other institutions. He provides jaw-dropping statistics (the best antivirus software catches only 5% of online threats; 80% of hackers work for organized crime rings) and a strong point of view on where our future vulnerabilities lie".

Rai and Mar (2014:21) agree that cybercrime is a threat and state that "Corporate boards of directors need to demand information and insight that will help them secure the organisation's future." They add that: "Cybersecurity is one topic about which the board must become more educated and ask strategic questions of management and internal audit."

Croock (2016:8) argues that digital technology is exposing organisations to opportunities and threats, with cybercrime escalating rapidly and ranking as the second-most reported crime in South Africa. He advises that boards include "cyber ready professionals" that can achieve oversight for cyber readiness. While protecting a company against cyber security risks takes time and commitment, the process can help an organisation to maintain shareholder value and achieve greater performance. The *2016 Global Board of Directors Survey*, conducted by Harvard Business School researchers, found that more than a third of directors of companies in Australia/New Zealand, North America and Western Europe consider cybersecurity to be a top issue. "Cybersecurity continues to be a leading issue on the agenda from a regulatory, reputational and contingency standpoint," states Julie Hembrock Daum, head of Spencer Stuart's North American Board Practice. She continues: "We see boards considering a number of different approaches to getting smart about the broader impact of technology on the business. In certain cases, they have added a director with a strong digital or security background. However, the board should not isolate cybersecurity responsibility with just this one board member, but continue to view cybersecurity as a full board priority" (Spencer Stuart and Women Corporate Directors Foundation, 2016:5).

Marie-Hélène Gyorog stated that "Africa's growing infrastructure, paired with fewer transition costs and its frail banking structure, has essentially created an ideal environment for mobile payment applications to thrive and spread much faster than in countries with strong banking cultures. What will be interesting to see now is what developed economies will learn from this development in Africa" (Gyorog, 2017). In the same article, Bill and Melinda Gates are quoted as stating that "because there is strong demand for banking among the poor, and because the poor can, in fact, be a profitable customer base, entrepreneurs in developing countries are doing exciting work – some of which will 'trickle up' to developed countries over time". Gyorog concludes by stating that it will be interesting to see if this observation by Bill and

Melinda Gates holds up and, if so, how it will transform current institutions. She asks whether there will be a move towards digitalised banking or whether the current banking structures will be retained (Gyorog, 2017).

Compliance governance

6.3.13 Principle 13: The Board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the Bank being ethical and a good corporate citizen.

The descriptive statistics applied to King IV™ Principle 13 are indicated in Tables 6.38, 6.39 and 6.40.

Table 6.38: Descriptive statistics (nominal)

E37: King IV™ Recommended practice	Yes	No	N/A	Frequency (N)
	1	2	3	
The Board should assume responsibility for the governance of compliance with applicable laws and adopted, non-binding rules, codes and standards by setting the direction for how compliance should be approached and addressed in the Bank.	33 100.0%	0 0.0%	0 0.0%	Valid = 33 Missing = 0 Total = 33

Thirty-three or 100% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they understood that this King IV™ recommended practice was applied.

Sibery and Garcia (2016:22) ask: “With companies today facing huge potential losses for everything from foreign bribery, to cybercrime, to risk failures, to financial fraud, where is your board when it comes to monitoring compliance?” They suggest that: “Before your company can prevent such risk and regulatory disasters, your board needs the knowledge and motivation to assure that an effective compliance control system is in place.”

Table 6.39: Descriptive statistics (nominal)

E38: King IV™ Recommended practice	Yes	No	N/A	Frequency (N)
	1	2	3	
The Board should approve policy that articulates and gives effect to its direction on compliance, and that identifies which non-binding rules, codes and standards the Bank has adopted.	32 97.0%	0 0.0%	0 0.0%	Valid = 32 **Missing = 1** Total = 33

Thirty-two or 97% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they could confirm that this King IV™ recommended practice was adopted. One person did not respond.

The respondent results are in line with Sibery and Garcia's (2016:26) study, in which they assert that: "The board's evolving responsibility for risk assessment and compliance is straight forward, and these activities support the company in driving ethical growth."

Table 6.40: Descriptive statistics (nominal)

E39: King IV™ Recommended practice	Yes	No	N/A	Frequency (N)
The Board should exercise ongoing oversight of compliance and, in particular, oversee that it results in the following:	1	2	3	
• Compliance being understood not only for the obligations it creates, but also for the rights and protections it affords. • Compliance management takes a holistic view of how applicable laws and non-binding rules, codes and standards relate to one another. • Continual monitoring of the regulatory environment and appropriate responses to changes and developments.	32 97.0%	0 0.0%	0 0.0%	Valid = 32 **Missing = 1** Total =33

Thirty-two or 97% of the 32 respondents indicated that, in accordance with their respective roles within Standard Bank Africa Regions Boards, they understood this King IV™ recommended practice to be applied. One of the respondents elected not to complete this section of the questionnaire.

The overwhelming respondent results seem to agree with Sibery and Garcia's (2016:26) advice. These authors ask: "How does the board define its expectations of the company's management team for carrying out the day-to-day compliance plan?" They advise the board to challenge management's understanding and decisions appropriately by, for example, extracting information from management about new risks like cybercrimes, rather than waiting for management to provide them with this information.

Remuneration governance

6.3.14 Principle 14: The Board should ensure that the Bank remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long-term.

The descriptive statistics regarding King IV™ Principle 14 are indicated in Tables 6.41, 6.42 and 6.43 below.

Table 6.41: Descriptive statistics (nominal)

E40: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should assume responsibility for the governance of remuneration by setting the direction for how remuneration should be approached and addressed on Bank-wide basis.	28 84.8%	1 3.0%	4 12.1%	Valid = 33 Missing=0 Total = 33

Twenty-eight or 84.8% of the respondents indicated that, on the basis of their respective roles within Standard Bank Africa Regions Boards, they could affirm that this King IV™ recommended practice was executed. One (3%) of the respondents was of the view that the recommended practice was not applied, whilst four (12%) of the respondents felt that the recommended practice was not applicable.

One respondent stated that the Board takes responsibility for the governance of remuneration only in countries where it is a regulatory requirement to have a Board Remuneration Committee; otherwise, remuneration is discussed as part of the Human

Capita Report at the Board Risk Committee. The respondent went further to say that non-managerial staff in most countries were unionised and remuneration was negotiated with the appropriate union. Where there was a salary and wage negotiation deadlock, Board members with human capital skills were roped in. Another respondent, who was of the view that the recommended practice was not applied, stated that, in practice, the Board had delegated the responsibility to management. This respondent felt that this was an area to be addressed in terms of the Board taking on a more direct role.

According to Standard Bank Group *Report to Society* 2016 (Standard Bank Group, 2016b:47), Standard Bank Group "…constantly strive to ensure that the benefits we offer our people are competitive while also ensuring compliance with local regulatory requirements."

Pozen & Kothari (2017:81) argue that: "More than 95% of the time, a firm's shareholders approve the recommendations of its compensation committee. Yet committees often adjust performance numbers in complex and obscure ways to justify overly generous pay." According to these authors, the solution is for compensation committees to explain the basis of their decisions more clearly in their reports and for investors to create best practices for designing and reporting compensation.

In the best 100 performing CEOs in the world 2016 survey, Nordisk CEO Lars Rebien Sørensen, who was ranked first, said: "I agree that executives' rewards should be based on long-term performance. But I need to raise another issue, which may be contentious, and that's the internal cohesion of companies. When we have too wide a disparity between executive compensation and workers' compensation, we create a barrier to the employee passion and engagement that all companies need to achieve their objectives. If there is too big a gap between what I earn and what a blue-collar worker at my company makes, it's going to create problems. Executive compensation explains part of people's distrust of business" (Sørensen, cited in McGinn, 2016b:56). As discussed in Chapter 3 (section 3.5.20.18), Theresa May has advocated for the publication of "pay multiple" data: that is, the ratio between the CEO's pay and the average company worker's pay.

Senbet (2012:370) lists as features of good governance a well-functioning corporate board and a well-designed compensation structure that creates appropriate incentives for executives in the financial system.

Table 6.42: Descriptive statistics (nominal)

E41: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should approve policy that articulates and gives effect to its direction on fair, responsible and transparent remuneration.	27 81.8%	1 3.0%	5 15.2%	Valid =33 Missing = 0 Total = 33

Twenty-seven or 81.8% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they believed that this King IV™ recommended practice was applied. One (3%) of the respondents did not agree with the statement whilst five (15.2%) of the respondents said the recommended practice was not applicable. One respondent agreed with the statement but commented that the King IV™ recommendation was largely implemented as part of the Standard Bank Group Policy and Matrix recommendations.

In the best 100 performing CEOs in the world 2016 survey, Inditex CEO Pablo Isla (ranked third) stated that: “Compensation has to be transparent, long-term-oriented, and really, really based on performance. Even more than closing the pay gap, it’s important to have everybody, if possible, benefiting from the evolution of the company. Last year we approved a profit-sharing plan for all employees, and I think it’s very much valued” (Isla, cited in McGinn, J., 2016b:57).

In the 2016 Harvard Business Review roundtable with Novo Nordisk CEO Lars Rebien Sørensen, WPP CEO Martin Sorrell, and Inditex CEO Pablo Isla, these three CEOs were asked to comment on CEO remuneration. Sorrell responded that the pay of executives should be based on their long-term performance. He argued: “If you don’t succeed, you should suffer. If you do succeed, you should be rewarded. Plus, we have to emphasize the net results of what we do, like creating employment around the world” (Ignatius, 2016:56).

Table 6.43: Descriptive statistics (nominal)

E42: King IV™ Recommended practice	**Yes %**	**No %**	**N/A %**	**Frequency (N)**
	1	2	3	
All elements of remuneration that are offered in the Bank and the mix of these should be set out in the remuneration policy, including: • base salary, including financial and non-financial benefits; • variable remuneration, including short and long-term incentives and deferrals; • payments on termination of employment or office; • sign-on, retention and restraint payments; • the provision, if any, for pre-vesting forfeiture (malus) and post-vesting forfeiture (claw-back) of remuneration; • any commissions and allowances; and • the fees of non-executive members of the Bank.	28 84.8%	1 3.0%	4 12.1%	Valid =33 Missing =0 Total = 33

Twenty-eight or 84.8% of the respondents indicated that, in accordance with their respective roles within Standard Bank Africa Regions Boards, they understood that this King IV™ recommended practice was executed. Notably, one (3%) of the respondents was of the view that the recommended practice was not applied. Four (12.1%) of the respondents said the recommended practice was not applicable in their countries or subsidiaries.

One respondent agreed with the statement but stated that to a large extent the country or subsidiary Board did not really have an input on issues such as Standard Bank Group share options, which are dependent on what Standard Bank Group chooses to give. This respondent went on to state that the country Board decision on individual salaries was very limited, although they (country Boards) agree on the Broad principles of the remuneration policy.

One respondent, having agreed with the statement, further stated that for employees the policy existed and was a regulatory requirement. What was missing was the policy for non-employees such as non-executive directors.
According to the fourth annual 2016 *Non-Executive Directors' Fees Guide*, launched by the IoDSA in conjunction with EY:

> Non-executive directors (NEDs) are responsible for making critical strategic decisions and for overseeing the management of a company without the benefit of observing the business on a full-time time basis. This requires particular skills, knowledge, experience and business judgement, for which they need to be fairly remunerated. (Natesan, cited in the Institute of Directors in Southern Africa and Ernst & Young, 2016:4).

With the support of EY, the Institute of Directors in Southern Africa has commissioned the 4th survey of fees paid to NEDs of companies listed on the Johannesburg Stock Exchange (JSE). The insights derived from the survey have been used to create a guide to help determine fair non-executive director fees by applying average hourly rates for serving on the Board, as well as the various committees (Natesan, cited in the Institute of Directors in Southern Africa and Ernst & Young, 2016:4)

Directors' remuneration is a contentious issue. Conyon and Sadler (2010:296) argue that: "Executive pay remains a highly controversial subject, recently observed in the outrage over compensation paid to executives at many of the financial firms worst hit by the credit crisis." According to Bebchuk and Fried; Core and Guay; Core and larker; and Kaplan (cited in Conyon & Sadler, 2010:297), critical questions remain as to whether levels of CEO pay are "too high" and whether overall pay packages are optimally designed.

One of the Commonsense Principles of Corporate Governance (referred to in Hall & White, 2017:9) suggests that competitive compensation is critical to attract and retain the best people and that "compensation should have both a current component and a long-term component" but "not be entirely formula based".

Assurance

6.3.15 Principle 15: The Board should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the Bank's external reports.

The descriptive statistics related to King IV™ Principle 15 are provided in Tables 6.44, 6.45 and 6.46.

Table 6.44: Descriptive statistics (Nominal)

E43: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The governing body should assume responsibility for assurance by setting the direction concerning the arrangements for assurance services and functions. The Board should delegate to the audit committee, if in place, or as is appropriate for the Bank, the responsibility for overseeing that those arrangements are effective in achieving the following objectives: • Enabling an effective internal control environment. • Supporting the integrity of information used for internal decision-making by management, the Board and its committees. • Supporting the integrity of external reports.	32 97.0%	0 0.0%	1 3.0%	Valid = 33 Missing = 0 Total = 33

Thirty-two or 97% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they could attest that this King IV™ recommended practice was implemented. One (3%) of the respondents was of the view that the recommended practice was not applicable. Standard Bank Internal Audit is responsible for driving the setting of assurance from the Head Office in Johannesburg, whilst in countries this responsibility is delegated to the Board Audit Committee (BAC) and country Internal Audit teams.

The IIRC International <IR> Framework, adopted by King IV™, states that a “balanced integrated report has no bias in the selection or presentation of information. Information in the report is not slanted, weighted, emphasized, de-emphasized, combined, offset or otherwise manipulated to change the probability that it will be received either favourably or unfavourably” (International Integrated Reporting Council, 2013:21).

Table 6.45: Descriptive statistics (nominal)

E44: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should satisfy itself that a combined assurance model is applied which incorporates and optimises the various assurance services and functions so that, taken as a whole, these support the objectives for assurance.	31 93.9	0 0.0%	2 6.1%	Valid =33 Missing =0 Total = 33

Thirty-one or 93.9% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they could attest that this King IV™ recommended practice was applied. Notably, two (6%) of the respondents were of the view that the recommended practice was not applicable.

Standard Bank at group level has adopted the combined assurance model. As discussed in Chapter 3, combined assurance is derived from three sources: senior management; internal assurance (internal auditors); and external assurance (external auditors). According to King IV™, the combined assurance model, if used correctly, will support "the integrity of the external report" (King IV™ Report on Corporate Governance for South Africa, 2016:68).

The IIRC International <IR> Framework states that: "The reliability of information is affected by its balance and freedom from material error. Reliability (which is often referred to as faithful representation) is enhanced by mechanisms such as robust internal control and reporting systems, stakeholder engagement, internal audit or similar functions, and independent, external assurance" (International Integrated Reporting Council, 2013:21).

Table 6.46: **Descriptive statistics (nominal)**

E45: King IV™ Recommended practice	**Yes**	**No**	**N/A**	
	1	2	3	**Frequency (N)**
The Board should oversee that the combined assurance model is designed and implemented to cover effectively the Bank's significant risks and material matters through a combination of the following assurance service providers and functions as is appropriate for the Bank: • The Bank's line functions that own and manage risks. • The Bank's specialist functions that facilitate and oversee risk management and compliance. • Internal auditors, internal forensic fraud examiners and auditors, safety and process assessors and statutory actuaries. • Independent external assurance service providers such as external auditors. • Other external assurance providers such as sustainability and environmental auditors or external actuaries, and external forensic fraud examiners and auditors. • Regulatory inspectors.	32 97.0%	0 0.0%	0 0%	Valid = 32 **Missing =1** Total = 33

Thirty-two or 97% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they believed that this King IV™ recommended practice was executed. One (3%) of the respondents elected not to complete this section of the questionnaire.

The role of internal auditors has evolved over the years from 'fault finding' to advising the boards and management on how to improve risk management. The European Confederation of Institute of Internal Auditing and the European Confederation of Directors' Associations, in their recommendation entitled: *Making the most of the Internal Audit Function: Recommendations for Directors and Board Committees*, state that:

> Internal audit forms the organisation's third line of defence. An independent internal audit function will, through a risk-based approach to its work, provide assurance to the organization's board of directors and senior management. This assurance will cover how effectively the organization assesses and manages its risks and will include assurance on the manner in which the first and second lines of defence operate. This assurance encompasses all

elements of an institution's risk management framework (from risk identification, risk assessment and response, to communication of risk-related information) and all categories of organisational objectives: strategic, operational, reporting and compliance. (The European Confederation of Institute of Internal Auditing and the European Confederation of Directors' Associations, 2013:5)

Prof. King agrees with the view expressed by the overwhelming majority of the respondents, stating that: "The board should ensure that its assurance services and functions enable an effective control environment, both internally and externally" (King, 2017a:13).

E. Stakeholder Relationships

6.3.16 Principle 16: In the execution of its governance role and responsibilities, the Board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the Bank over time.

The descriptive statistics regarding King IV™ Principle 16 are presented in Tables 6.47, 6.48 and 6.49.

Table 6.47: Descriptive statistics (nominal)

E46: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should assume responsibility for the governance of stakeholder relationships by setting the direction for how stakeholder relationships should be approached and conducted in the Bank.	32 97.0%	0 0.0%	1 3.0%	Valid = 33 Missing = 0

Thirty-two or 97% of the respondents indicated that, on the basis of their respective roles within Standard Bank Africa Regions Boards, they could affirm that their respective Boards had implemented this recommended King IV™ practice. One (3%) of the respondents was of the view that the recommended practice was not applicable. The Standard Bank Group has adopted the stakeholder-inclusive model as propagated by King IV™. Former Standard Bank Group Chairman Fred Phaswana stated the following in the commemorative special issue of the *The Standard* (Standard Bank Group Magazine) when Standard Bank turned 150 in 2012:

> We need to continue looking at our environment with the same courage and confidence our predecessors did, and seek out the best ways to create business and value for all stakeholders, based on our values. If we continue using these values to deal with the pitfalls and opportunities we encounter along the way, then we will surely be here for another 150 years. (Phaswana, 2012:27)

At the Standard Bank Group level, the importance of stakeholders is elucidated in the joint letter from the Group Chairperson and Group Chief Executives. They state that:

> The sustainability and competitiveness of our company are inextricably linked to the prosperity and wellbeing of the societies in which we operate. Our measures of success cannot be limited to our share price, or the return on equity achieved for our shareholders. Our measures of success include our relevance and value to our diverse stakeholder groups, including our shareholders, clients and customers, employees and regulators, and our ability to deliver our purpose – to drive Africa's growth. (Standard Bank, 2016b:14)

The overwhelming majority of the respondents agreed that the world has moved from shareholder primacy to stakeholder primacy, as eloquently put by King (2017a:30), who states that:

> Society at the beginning of the 20th century believed in this concept of the primacy of the shareholder, short-term profit at any cost, shareholders are the owners of the company, and success is equated with share price. But that idea of ownership has now been debunked forever. Professor Lynn Stout of Duke University started this debate about 20 years ago, and it culminated in lawyers agreeing that shareholders have no right to possess or use the company's assets. They can't manage the business of the company; that's delegated to

> the directors, and the directors delegate to management. And, more importantly, shareholders have no duty or responsibility to this artificial person, the company. And if a shareholder is an institutional shareholder, such as a pension fund, then they owe their duty to their ultimate beneficiaries, but not to the company in which they invest.

King (2017a:33) asserts that "In the execution of its governance role and responsibilities, the board should adopt a stakeholder-inclusive and company-centric approach that balances the needs, interests, and expectations of material stakeholders in the best long-term interests of the company. We have to move to an inclusive, stakeholder-centric model."

The importance of stakeholder management was discussed in Chapter 4. The Stakeholder-inclusivity approach as advocated by the IIRC International <IR> Framework and adopted by King IV™ is the foundation of this research.

Table 6.48: Descriptive statistics (nominal)

E47: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
	1	2	3	
The Board should approve policy that articulates and gives effect to its direction on stakeholder relationships.	29 87.9%	3 9.1%	1 3.0%	Valid = 33 Missing = 0

Twenty-nine or 87.9% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they could confirm that this King IV™ recommended practice was executed. Three or 9.1% of respondents were of the view that the recommended practice was not applied. One (3%) of the respondents was of the view that the recommended practice was not applicable.

Standard Bank Group in its *Report to Society 2016* explains how it builds trust through stakeholder engagement. Under the heading: 'Governance and reporting back to stakeholders', it states that this is achieved through stakeholder engagement policy;

quarterly reporting to Board; annual general meeting; and a reporting suite (Standard Bank Group, 2016b:10).

Leadbeater (cited in Isike & Ajeh, 2017:46) writes: "In today's competitive global business environment, cooperative relationships with stakeholders enable firms to adapt, share risks and embrace innovation." The peril of ignoring stakeholder management is elucidated by Jeffrey (cited in Isike & Ajeh, 2017:46), who argues that stakeholders have "sufficient power" to affect the performance of the enterprise, either favourably or unfavourably, for instance through mobilising social forces and/or withdrawing labour.

Table 6.49: Descriptive statistics (nominal)

E48: King IV™ Recommended practice	**Yes**	**No**	**N/A**	**Frequency (N)**
The Board should exercise ongoing oversight of stakeholder management and, in particular, oversee that it results in the following:	1	2	3	
• Methodologies for identifying individual stakeholders and stakeholder groupings. • Determination of material stakeholders based on the extent to which they affect, or are affected by, the activities, outputs and outcomes of the Bank. • Management of stakeholder risk as an integral part of Bank-wide risk management. • Formal mechanisms for engagement and communication with stakeholders, including the use of dispute resolution mechanisms and associated processes. • Measurement of the quality of material stakeholder relationships, and appropriately responding to the outcomes.	26 78.8%	4 12.1%	2 6.1%	Valid = 32 **Missing = 1** Total = 33

Twenty-six or 78.8% of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, they believed that this King IV™ recommended practice was applied. It is noted that four (12.1%) of the respondents were of the view that the recommended practice was not executed and two (6.1%) of the respondents were of the view that the statement was not applicable to their countries. One person did not complete this section of the questionnaire. It is noted that one respondent agreed with the statement but added that stakeholder management might not come across as structured in countries as articulated in King IV™. However, according to this respondent, the Boards were definitely involved in stakeholder management. In addition, one of the respondents was of the view that, although oversight over stakeholder management took place, it had not been formalised; i.e. it was more *ad hoc*.

Fassin (cited in Benn *et al.,* 2016:1) asserts that: “While the stakeholder approach starts from the premise that the firm needs to have respect, consideration, and fair treatment for all stakeholders, and that the firm has obligations and duties and responsibilities to its stakeholders, little has been said about reciprocity in these relationships.” In response, Benn *et al*.’s research sought to establish how the senior management of an organisation define and identify stakeholder and also to identify their role in relation to the organisation. Their qualitative study was undertaken with the South African subsidiary of one of the world’s largest paint manufacturers, based in Europe. The study’s conclusion was that legitimacy was the most recognised and important attribute that a stakeholder should possess in order to be granted stakeholder status.

6.3 Chapter Summary

In line with the research design, a reliability test was performed using the IBM® SPSS® Statistics version 25 package. The UK-based subscription-based Laerd Statistics assisted in the interpretation of the statistics results. A reliability test was performed using the common reliability statistical measure, Cronbach's alpha (α), which was found to be 0.857, indicating a high level of internal consistency for the scales used [(‘Yes =1’); (‘No = 2’); and (‘Not applicable = 3’)].

The researcher is confident that validity was established through the research method and design employed. There were no apparent errors in the design of the research and the research method was able to assist the researcher to answer the three research questions and meet the three research objectives. The 48 constructs in the form of King IV™ recommended practice statements were asked in a standard manner using a quantitative and qualitative questionnaire. Some of the respondents provided valuable comments on the questionnaire, in this way making the questionnaire a quantitative and qualitative instrument as envisaged by the researcher and as per the research design. Bearing in mind the old garbage-in-garbage-out (GIGO) adage, the researcher subjected the returned completed questionnaires (cases) to a rigorous auditing process that included accounting for missing values. Each questionnaire was numbered from 1 to 33 (N = 33) before the questionnaire data were captured on the IBM® SPSS® Statistical version 25 package.

Each of the 48 constructs in the questionnaire was analysed using the IBM® SPSS® Statistical version 25 package. The results were presented in table format, which included the 'N' value; 'Yes'; 'No'; 'Not Applicable'; and where applicable, 'Missing values'. Where applicable, relevant literature (business ethics or corporate governance) was cited in the analysis.

In accordance with the results analysis of the 48 King IV™ statements and taking into account the respondents' feedback, conclusions and recommendations will be presented in Chapter 7.

CHAPTER SEVEN – DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

7.1 Introduction

In Chapter 6, the organisational and biographical results of the study were presented along with the descriptive statistics of the corporate governance and business ethics constructs. Chapter 7 is the final chapter and is structured as follows: *first,* the the research problem, research questions and concomitant research objectives are presented as a reminder of what the study set out to achieve; *second,* conclusions are drawn with regard to the research design and methodology used in the study; *third,* the main conclusions and recommendations of the study with regard to the research objectives are discussed; and, *fourth*, the business ethics and corporate governance framework is presented. Chapter 7 concludes with comments on the study's limitations; contributions and recommendations for further study.

7.2 Research Problem, Research Questions and Research Objectives

The background to the formulation of the research problem is discussed in Chapter 1. To recap, the research problem is whilst good corporate governance and business ethics practices are entrenched in the Standard Bank Group headquartered in South Africa, it is uncertain as to whether the group's African subsidiaries also practise good corporate governance and business ethics.

The challenges facing any business, including banks, are achieving an ethical culture and effective leadership; creating value in a sustainable manner; ensuring effective control and oversight; generating trust and confidence by the communities in which the business operates; and ensuring the legitimacy of the operation. Successful businesses, including banks, that are able to overcome the aforementioned challenges are likely to be successful in creating value for their stakeholders. The following three research questions were formulated for this research:

- Whilst Standard Bank Group based in South Africa is subjected to a myriad of regulatory laws, principles and rules, including the recently published King IV™, what is the Standard Bank African subsidiaries' level of awareness with regard to corporate governance and business ethics concepts governing Standard Bank Group?

- How do various Standard Bank African subsidiaries perform against King IV™'s 16 corporate governance principles?
- To a prospective investor, does the bank exhibit a high enough level of corporate governance and business ethics to warrant investing in?

The aforementioned research questions assisted in the formulation of the three concomitant research objectives. The objectives of the research were to provide answers to the three research questions and were threefold:

- Standard Bank African subsidiaries are expected to align with the Standard Bank Group's corporate governance and business ethics practices. Based on the developed corporate governance and business ethics framework for Standard Bank African subsidiaries, the study's first objective is to introduce King IV™'s 16 corporate governance principles published in November 2016 to the 17 chosen subsidiaries. A King IV™ checklist accordingly took the form of a questionnaire;
- The second objective is to establish the performance of the Standard Bank African subsidiaries against the King IV™ corporate governance principles by asking respondents to self-assess their performance against the King IV™ checklist and to measure their level of success (yes or no) with regard to practising good corporate governance and business ethics. The survey results might highlight areas needing interventions such as corporate governance and/or business ethics training; and
- The third objective is: The King IV™ checklist developed in the study could be used by prospective investors in Standard Bank African subsidiaries when evaluating investment decisions, such as whether to invest in a Standard Bank African subsidiary or not.

Furthermore, the research questions provided a clear direction throughout the research process for achieving the study's overall aim, which was for the Standard Bank African subsidiaries to self-assess their performance against King IV™ with a view to establishing whether focused Board training intervention is required or not.

In order to achieve the three objectives, a business ethics and corporate governance construct in the form of a questionnaire based on King IV™ recommended principles was formulated. The formulation was necessary as there were prior business ethics and corporate governance lapses in one of the Standard Bank Group African subsidiaries, as discussed in Chapter 1.

The literature review combined with considerable pre-empirical stage testing assisted in enabling the conceptualisation of a construct of perceived business ethics and corporate governance framework for the Standard Bank African subsidiaries. On the basis of the aforementioned framework, sufficient clarity was provided in the construct of the measurable variables of good business ethics and corporate governance practices.

7.3 Research Design and Methodology

A research design and methodology appropriate for answering the three research questions and meeting the three research objectives were applied and the following conclusions were drawn.

7.3.1 Conclusion 1

The decision to select only Standard Bank African subsidiaries board members was considered to be correct, as was the decision to choose non-random purposive homogeneous sampling. All 33 respondents chosen were Board members of their respective Standard Bank African subsidiaries, such as Standard Bank Namibia, Standard Bank Lesotho and Standard Bank Swaziland, etc. In accordance with the 33 respondents' role within their respective Standard Bank African boards, they were able to indicate whether the corporate principles contained in the questionnaire were practiced or executed. The respondents included chairpersons of the board; chief executive officers; non-executive directors; executive directors; company secretaries and others. On the basis of their considered feedback, the researcher was able to make valid deductions.

7.3.2 Conclusion 2

The considerable testing of the pilot questionnaire (see Chapter 5 section 5.3.11.1) proved to be indispensable since it resulted in changes in the length of the questionnaire and the refinement of the detailed notes for guidance on completion of the questionnaire. The choice of a manual e-mail-based questionnaire was found to be appropriate. The questionnaire design was based on the standardised King IV™ recommended principles, which overcame the risk of a lack of validity and reliability. Furthermore, although manual questionnaire data capturing was a tedious exercise, the researcher found that it was a worthwhile exercise as each returned questionnaire was correctly labelled and checked for missing values. As discussed in Chapter 6 section 6.2.1.2, frequency (N) was shown, which included valid responses, and where respondents did not complete a section of the questionnaire, this was reflected in each table under the "Frequency column" as "missing".

The questionnaires were addressed to the respondents, which made it possible for personal follow-up e-mails. It is the considered view of the researcher that this method resulted in a response rate that was sufficiently high for conducting various statistical measurements. These measurements included Cronbach Alpha's reliability test. The relevance and the personalised approach resulted in some respondents indicating a wish to receive the outcome of the study.

7.3.3. Conclusion 3

As discussed in Chapters 5 and 6, data capturing and analysis was performed using the Statistical Package for Social Sciences (IBM® SPSS® Statistical Software) Version 25. Furthermore, analysis of the IBM® SPSS® statistical results was performed with the assistance of the UK-based subscription-based Laerd Statistics, marketed as the ultimate IBM® SPSS® Statistical Guide by its co-founders and graduates of Bristol University, Dr Adam Lund and Mark Lund. This guide proved invaluable in explaining step-by-step IBM SPSS® output such as Cronbach Alpha reliability test result.

7.3.4 Conclusion 4

The decision to conduct descriptive statistical analysis for measuring how business ethics and corporate governance are practiced or executed in the selected Standard Bank African subsidiaries was deemed to be correct. A Cronbach's Alpha statistical measurement was performed to measure the reliability of the questionnaire employed. As discussed in Chapter 6, Cronbach's Alpha indicated a high level of internal consistency for the nominal scale used.

As per the research design and methodology as discussed in Chapter 5, the study's sampling process was described as non-probability sampling. Furthermore, purposive homogeneous sampling was chosen as all the respondents worked for the same organisation (Standard Bank Group African subsidiaries) and were all board members. Additionally, the selected respondents exhibited similar characteristics, which allowed the researcher to explore in greater depth how business ethics and corporate governance were practised or executed in their respective country boards. All the respondents work for Standard Bank Group, albeit in various countries or subsidiaries. They are all guided by the same Standard Bank Group vision; mission and values. They are part of the Standard Bank culture. Additionally, they are all senior managers or executives of the bank. From a review of relevant literature, it was found that 33 respondents met the minimum non-probability sample size for a homogeneous population.

7.3.5 Conclusion 5

The majority of the 33 respondents were of the view that the King IV™ principles and recommended practices were observed. The Standard Bank Group based in Johannesburg, South Africa is a member of the Johannesburg Stock Exchange and therefore is obliged to adopt King Codes of Corporate Governance. Standard Bank's African subsidiaries are also expected to practice good corporate governance and business ethics. That is in addition to what the authorities in those countries require. On the other the respondents feedback highlighted few King IV™ principles and recommended practices that were not practiced or observed and these are discussed under section 7.5 (recommendations).

7.4 Main Conclusions regarding the Research Objectives

This section presents the main conclusions regarding business ethics and corporate governance practices in Standard Bank African subsidiaries in relation to the objectives of this research.

7.4.1 Research objective 1: conclusions

The first research objective was to develop a business ethics and corporate governance framework for the Standard Bank African subsidiaries based on King IV™ principles and recommended practices. As discussed in Chapter 4, the Standard Bank Group based in South Africa is subjected to a myriad of regulations and laws, including King IV™. Standard Bank African subsidiaries are therefore expected to adhere to King IV™ prescripts. King IV™ further refines business ethics and corporate governance concepts earlier introduced in King III. The King IV™ principles and concomitant recommended practices were set out by the researcher in the form of a 48-statement quantitative and qualitative questionnaire, which was presented to the respondents of the study.

On the basis of the questionnaire results, the researcher concluded that, on average, the respondents were *au fait* with the concepts contained in King IV™. Additionally, since the business ethics and corporate governance framework for Standard Bank African subsidiaries developed by the researcher as part of the first research objective was based on King IV™ (see the title of this research), it could be argued that the first objective was met. This was interesting as King IV™ was officially introduced in South Africa in November 2016. King IV™ was "effective in respect of financial years starting on or after 1 April 2017, but immediate transition is encouraged" (King IV™ Report on Corporate Governance for South Africa, 2016:38). It is also important to state that having been exposed to King III, the respondents managed to transition to King IV™, which in the main is a refinement of many King III concepts, albeit that it introduces a few concepts, as discussed in Chapter 3.

7.4.2 Research objective 2: conclusions

The second research objective was to determine the performance of the Standard Bank African subsidiaries by asking the respondents, who were Standard Bank African subsidiary board members, to self-assess their performance against King IV™ prescripts. Put differently, based on their role within Standard Bank African subsidiary boards, respondents were requested to indicate whether the King IV™ principles and recommended practices contained in the questionnaire were practiced or executed.

The results of the questionnaire (discussed in chapter 6) allowed the researcher to conclude that this objective was met. The survey results and the valuable comments by the respondents assisted the researcher in identifying and highlighting possible areas requiring further Board training. These are dealt with in Section 7.5, which presents recommendations.

7.4.3 Research objective 3: conclusions

The third objective was for the King IV™ recommended principles 'checklist' to be used by the prospective investors in Standard Bank African subsidiaries when evaluating investment decisions, such as whether to invest in a Standard Bank African subsidiary or not. This pertains to listed Standard Bank African subsidiaries only.

With the advent of King IV™, the "apply or explain" regime of King III has been replaced with "apply and explain" as discussed in Chapter 3 (section 3.5.20.10). Put differently, businesses, including banks, are required to apply the King IV™ principles and recommended practices and explain how adherence was achieved or state cause why a particular King IV™ principle was not achieved. In South Africa, the Standard Bank Group has adopted King IV™ reporting.

For this objective to be met, Standard Bank Group would first have to adopt King IV™ in its reporting and thereafter cascade adoption to its Africa subsidiaries. When this study commenced, Standard Bank was still in the process of adopting King IV™. "The board is wholly supportive of the revised King Code and work is underway to assess our adherence in relation to the specific practices and disclosure requirements attendant to the principles, ahead of the formal adoption in 2018" (Standard Bank Group, 2016b:97). It should be noted that according to the end of December 2017 Annual Integrated Report, the Group has now adopted King IV™. Standard Bank Group Integrated Report for 2017 states that "Our approach to corporate governance extends beyond compliance. We see governance as an enabler that creates competitive advantage through enhanced accountability, effective risk management, clear performance management, greater transparency and effective leadership. In line with this ambition, the King Report on Corporate Governance (King Code) has formed the cornerstone of our approach to governance" (Standard Bank Group, 2017a: 100). The report added that "The Board is satisfied with the group's application of the principles of King IV …" (Standard Bank Group, 2017a:100).

By adopting King IV™ in line with the parent company or bank, Standard Bank African subsidiaries would have to the "apply and explain" reporting regime. The subsidiaries would have to substantiate a claim that good governance is being practiced. This would require explanation which would allow prospective investors and stakeholders to make an informed decision as to whether the Bank is achieving the governance outcomes as required by King IV™. Based on the respondents' feedback, in the main King IV™ prescripts are adhered to and where some countries do not comply this is highlighted in section 7.5.

According to the authoritative McKinsey & Company (2002) *Global Investor Opinion Survey* report (OECD, 2002), one of the key findings of this survey is that global investors value corporate governance at the same level as financials when evaluating whether to invest or not in a company. The survey found that an overwhelming 71% of global investors thought that corporate factors were important for investment decisions. The report also states that corporate governance had an impact on investment outcomes and an overwhelming number of global investors were prepared to pay more or a premium for companies with high governance standards. Premiums averaged 12-14% in North America and Western Europe; 20-25% in Asia and Latin America; and 30% in Eastern Europe and Africa.

7.5 Recommendations on the Improvement of Business Ethics and Corporate Governance in the Standard Bank African subsidiaries

The following are recommendations on the improvement of Business Ethics and Corporate Governance in the Standard Bank African subsidiaries and are stated below.

7.5.1 Recommendation 1 (Application of King IV™ Principle 2)

The first set of recommendations relates to the application of King IV™ Principle 2: The Board should govern the ethics of the Bank in a way that supports the establishment of an ethical culture. The 33 respondents were asked to indicate adherence to the following King IV™ recommended practice: The Board measures adherence to the Bank's ethical standards by employees and other stakeholders through, among others, periodic assessments. It was noted that of the 33 respondents, 19 or 57.6%, stated that this King IV™ recommended practice was not executed in their respective countries (see Chapter 6, Table 6.6). Notably, 11 (33.3%) of the respondents agreed with the statement. A 100% 'No' response was expected by the researcher as at Standard Bank Group level the recommended practice is not yet applied. Three (9%) did not complete the section at all. Taking into account that the questionnaire contained 48 statements, it is interesting to note that this is the only section of the questionnaire where the number of the respondents who said 'No' exceeded those who said 'Yes'.

In order to comply with King IV™'s aforesaid recommended practice, it is recommended that Standard Bank Group introduce periodic independent assessments. Reputable organisations such as The Ethics Institute, which is based in South Africa, conducts ethics risk assessments (ERAs). According to its website, "The Ethics Institute conducts ERAs for organisations wishing to identify their ethics risks and opportunities, in line with leading governance practice" (The Ethics Institute, 2017).

In Chapter 2 (section 2.4.3) the Mauritius Institute of Directors (MIoD)'s Ethics Guide for Boards was discussed. This guide advocates conducting ERAs, including independent assessment and external reporting. According to the MIoD, the guide was inspired by the work of The Ethics Institute of South Africa (TEI) and the work of Prof Deon Rossouw and his collaborator, Leon van Vuuren (Mauritius Institute of Directors, 2013:3). The two South African authors who write authoritatively on business ethics were extensively cited in Chapter 2. Furthermore, The Institute of Directors in Southern Africa (IoDSA) in conjunction with TEI run a course on the governance of ethics. The programme includes ERA.

7.5.2 Recommendation 2 (King IV™ Principle 6)

The second set of recommendations relates to the application of King IV™ Principle 6: The Board should serve as the focal point and custodian of corporate governance in the Bank. The King IV™ recommended practice states that: The Board should approve the protocol to be followed in the event that it or any of its members or committees need to obtain independent, external professional advice at the cost of the Bank on matters within the scope of their duties.

From the comments of some of the 33 respondents, there appears to be no formal approved written protocols in the event that the Board or its members or committees need to obtain independent, external professional advice at the cost of the Bank on matters within the scope of their duties. It was noted that of the 33 respondents, 29 or 87.9%, stated that this King IV™ recommended practice was applied in their respective countries (see Chapter 6, Table 6.18). Notably, two or 6.1% of the respondents disagreed with the statement and two or 6.1% did not respond.

As discussed in Chapter 6, Useem & Zelleke (2006:2) assert that written protocols could be detailed, and comprehensive to skeletal and limited in scope. Additionally, under King IV™ Principle 6 [The Board should serve as the focal point and custodian of corporate governance in the Bank], King IV™ recommended practice states that: The governing body should approve the protocol to be followed by its non-executive members for requisitioning documentation from, and setting up meetings with, management.
Whilst the majority of the respondents agreed with the aforementioned King IV™ recommended practice, some mentioned that instead of a clear protocol, the

arrangement at their subsidiary was more *ad hoc* in nature. Furthermore, one respondent mentioned that whilst there was no explicit protocol, there was a clear understanding that directors could forward their requests to the company secretary or CEO.

It is recommended that the Standard Bank Group design and approve the appropriate protocol, which should be rolled out to its African subsidiaries. The CEO or company secretaries could use the approved protocol for requesting documentation and meetings with management. It is recommended that written protocols be introduced to comply with King IV™ Principle 6 prescripts.

7.5.3 Recommendation 3

The third set of recommendations relates to the application of King IV™ Principle 7: The Board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively. The King IV™ recommended practice states that: The Board should appoint an independent non-executive member as the lead independent to fulfil the following functions (Chapter 6, Table 6.21):

- To lead in the absence of the chair.
- To serve as a sounding board for the chair.
- To act as an intermediary between the chair and other members of the governing body, if necessary.
- To deal with shareholders' concerns where contact through the normal channels has failed to resolve concerns, or where such contact is inappropriate.
- To strengthen independence on the Board if the chair is not an independent non-executive member of the Board.
- To chair discussions and decision-making by the governing body on matters where the chair has a conflict of interest.
- To lead the performance appraisal of the chair.

It was noted that of the 33 respondents, 20 or 60.6%, stated that this King IV™ recommended practice was applied in their respective countries (see Chapter 6, Table 6.21). Notably, nine or 27.3% of the respondents disagreed with the statement and two or 6.1% were of the view that the statement was not applicable. Two or 6.1% people did not respond.

Whereas the Standard Bank African subsidiaries appear to be struggling with the notion of independent non-executive directors, at Group level, the Standard Bank has 14 independent non-executive directors, three non-executive directors and three executive directors in addition to the chairman (Standard Bank Group, 2016b:98).

Independence is defined by King IV™ as "…the exercise of objective, unfettered judgement. When used as the measure by which to judge the appearance of independence, or to categorise a non-executive member of the governing body or its committees as independent, it means the absence of an interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making" (King IV™ Report on Corporate Governance for South Africa, 2016:13).

It is recommended that the Standard Bank Group give consideration to re-aligning its African subsidiary boards with a view to having independent non-executive directors. This would in effect mirror the Standard Bank Group Board and would comply with the prescripts of King IV™.

7.5.4 Recommendation 4

The fourth set of recommendations relates to the application of King IV™ Principle 8: The Board should ensure that its arrangement for delegation within its own structures promotes independent judgement and assists with balance of power and the effective discharge of its duties. The related King IV™ recommended practice (chapter 6 Table 6.24) states that: Delegation to an individual member or members of the Board should be recorded in writing and approved by the Board. The record should set out the nature and extent of the responsibilities delegated, decision-making authority, the duration of the delegation, and the delegate's reporting responsibilities.

It was noted that of the 33 respondents, 25 or 75.8%, stated that this King IV™ recommended practice was applied in their respective countries. Notably,seven or

21.2% of the respondents disagreed with the statement. Although the majority of the respondents stated that they agreed with the recommended practice, one executive stated that in practice this was not recorded in writing in any of the boards the respondent was serving on. In line with this King IV™ recommended practice, it is recommended that delegation to individual members or members of the Board should be in writing. It is recommended that Standard Bank Group should have a formal written delegation to individual board members and this should be rolled out to its subsidiaries.

7.5.5 Recommendation 5

The fifth set of recommendations relates to the application of King IV™ Principle 16: In the execution of its governance role and responsibilities, the Board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the Bank over time. A related King IV™ recommended practice (Chapter 6 Table 6.49) states that: The Board should exercise ongoing oversight of stakeholder management and, in particular, oversee that it results in the following:

- Methodologies for identifying individual stakeholders and stakeholder groupings.
- Determination of material stakeholders based on the extent to which they affect, or are affected by, the activities, outputs and outcomes of the Bank.
- Management of stakeholder risk as an integral part of Bank-wide risk management.
- Formal mechanisms for engagement and communication with stakeholders, including the use of dispute resolution mechanisms and associated processes.
- Measurement of the quality of material stakeholder relationships, and appropriately responding to the outcomes.

It was noted that of the 33 respondents, 26 or 78.8%, stated that this King IV™ recommended practice was applied in their respective countries. Four or 12.1% of the respondents disagreed with the statement and two or 6.1% stated that the statement was not applicable in their respective countries. One or 3% did not respond. Importantly, one respondent agreed with the King IV™ recommended practice but added that stakeholder management might not come across as structured in countries as articulated in King IV™. However, in the opinion of this respondent, the Boards were definitely involved in stakeholder management. In addition, one of the respondents was of the view that, although oversight over stakeholder management took place, it had not been formalised; i.e. it was more an *ad hoc* exercise.

At the Standard Bank Group level, there is a new approach to stakeholder engagement. According to the Standard Bank Group Annual Integrated Report 2017, "…in 2017 a pilot study was conducted to assess the quality of selected stakeholder relationships in South Africa. The results have informed changes to our engagement model and will drive systematic and inclusive stakeholder engagement. Going forward we will broaden the assessment of relationships to include additional countries of operation" (Standard Bank Group, 2017a:5). It should be noted that the 2017 report was issued after receiving and analysing the questionnaire results.

7.6 A Corporate Governance and Business Ethics Framework based on King IV™ for Standard Bank African Subsidiaries

The first objective of this research was, in part, to develop a corporate governance and business ethics framework based on King IV™ for Standard Bank African subsidiaries. The extensive corporate governance and business ethics literature review informed the conceptual framework, which is presented in Figure 7.1. Key concepts of the framework are aligned with the IIRC International <IR> Framework and King IV™, including the concept of *Ubuntu/Botho*. The framework also incorporates the Modes of Managing Morality (MMM) business ethics model.

The stakeholder-inclusivity approach, as set out by the IIRC International <IR> Framework and endorsed by King IV™, forms the basis for the framework (as discussed in Chapter 4). This research framework is thus premised on the notion that, although shareholders are the owners of the bank, other important internal and external stakeholders are crucial for the survival of the business. Internal stakeholders include but are not limited to:

- Employees;
- Customers;

- Suppliers;
- Business partners; and
- Providers of financial capital.

External stakeholders include but are not limited to:

- Legislators;
- Regulators;
- Policy-makers;
- Media;
- Trade unions;
- Auditors;
- Local communities;
- Corporate governance guidelines; and
- NGOs.

It is generally accepted that failure to meet customers' expectations could ultimately bring down any business, including a bank. Important internal and external stakeholders also have the potential to bring down any business. For a bank, the Central Bank of the country in which it operates, such as the SARB, could shut down a bank if it fails to adhere to banking regulations. This research is premised on the stakeholder-inclusive approach, which holds that internal and external stakeholders are extremely important and should be treated as such.

Figure 7.1: A corporate governance and business ethics framework based on King IV™ for Standard Bank African subsidiaries is presented.

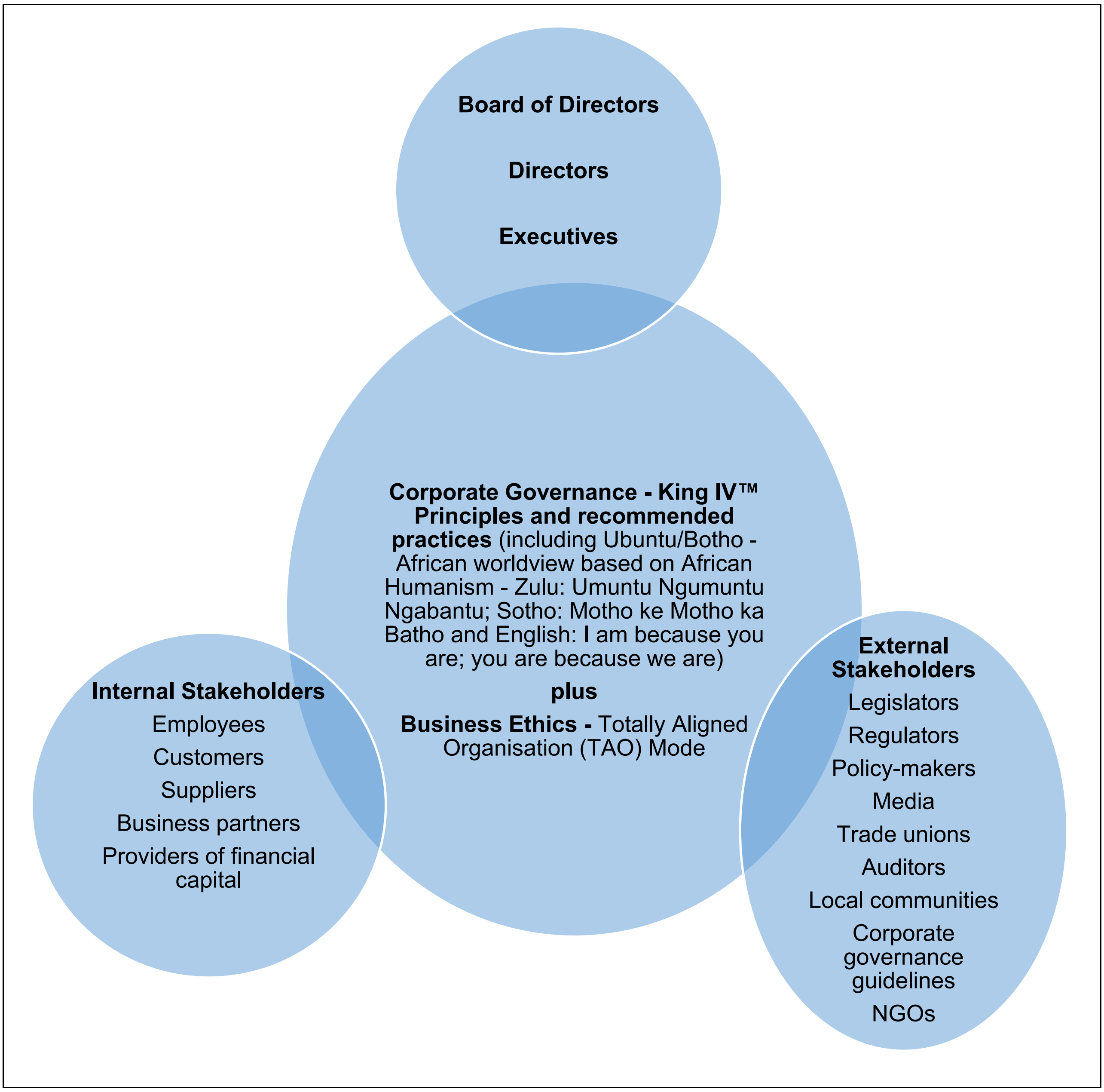

Figure 7.1: A corporate governance and business ethics framework based on King IV™ for Standard Bank African subsidiaries

Figure 7.1 presents the corporate governance and business ethics framework based on King IV™ for Standard Bank African subsidiaries developed as part of this study. Standard Bank African subsidiaries' interaction with their internal and external stakeholders should be based on good corporate governance and business ethics, which in turn should be based on King IV™. Importantly, King IV™ advocates strong business ethics, which is why its first principle states that: "The governing body should lead ethically and effectively." Most importantly, the *Ubuntu/Botho* African concept practised in many African countries, including the sampled countries, gives the framework a distinctly unique African identity.

7.6.1 Context and application of the corporate governance and business ethics framework based on King IV™ for Standard Bank African subsidiaries

Standard Bank Group and its subsidiaries, including those on the African continent, operate in the triple context of the economy, society and environment. According to King IV™, how an organisation makes its money "does have an impact on these three elements and, in turn, they impact on organisations" (King IV Report on Corporate Governance for South Africa, 2016:4).

The triple context presents the Standard Bank Group Board and the Boards of its subsidiaries with the "challenge of steering the organisations to create value in a sustainable manner, making more but with less to meet the needs of a growing population and the reality of dwindling natural resources" (King IV Report on Corporate Governance for South Africa, 2016:4).

Standard Bank Group and its subsidiaries, including those on the African continent, "operate in a societal context which they affect and by which they are affected" (King IV Report on Corporate Governance for South Africa, 2016:24). The internal and external stakeholders of Standard Bank have a material stake in the bank's activities. King IV™ puts it concisely by stating that:

> An organisation has a society specific to itself, which includes its internal and external stakeholders with a material stake in its activities. But the organisation is also a juristic person in the broader society in which it operates. Organisations are dependent on this broader society to, for instance, provide a conducive operating environment, a viable customer base and the skills that the organisation requires. In turn, organisations contribute to the broader society as creators of wealth; providers of goods, services and

> employment; contributors to the fiscus; and developers of human capital. (King IV Report on Corporate Governance for South Africa, 2016:24).

About the concept of *Ubuntu/Botho*, King IV™ states that:

> This idea of interdependency between organisations and society is supported by the African concept of *Ubuntu* or *Botho*, captured by the expressions *uMuntu ngumuntu ngabantu* and *Motho ke motho ka batho* – I am because you are; you are because we are. *Ubuntu* and *Botho* imply that there should be a common purpose to all human endeavours (including corporate endeavours) which is based on service to humanity. (King IV Report on Corporate Governance for South Africa, 2016:24)

King IV™ explains that the interdependency between organisation and society simply means that one benefits by serving the other. The logical consequence of this interdependency is that Standard Bank benefits by serving its own society of internal and external stakeholders as well as the broader society. In line with this ethos, Standard Bank should also take responsibility for the environmental outcomes of its activities and outputs as these affect society as a whole.

Ethical leadership and effective leadership are the bedrock of the *Ubuntu/Botho* (as discussed in Chapter 4 section 4.7). Khoza sums this up by stating that from an African perspective effective management and ethical leadership go together, with effective leadership subordinated to ethical leadership because the ultimate responsibility of leadership is to ensure that the organisation is permeated by humanness (Khoza, 2012:1).

7.7 Study Limitations

The study was methodically conducted with the necessary attention to the appropriate research design and methodology. Notwithstanding this, certain limitations need to be noted, some of which may provide opportunities for future research.

The study had the following limitations:

- The study and questionnaire were premised on King IV™ principles and recommended practices. During the extensive critical literature review, various concepts and perspectives of corporate governance and business ethics were highlighted. Although the researcher is confident that the corporate governance and ethics framework based on King IV™ for Standard Bank African subsidiaries developed for this study was adequately conceptualised, it is plausible that different corporate governance and business ethics concepts may be advanced;
- The study employed a mixed methods approach, i.e. using quantitative and qualitative methods, with quantitative given a higher priority (QUANT + qual). The researcher is mindful that a Qual + quant with qualitative methods given a higher priority would have further addressed any uncertainty on the developed construct;
- The researcher is closely involved with the African banking industry and, despite the meticulousness of the literature review and the development of the questionnaire, a degree of researcher bias was inevitably present when judgements were made on the conceptualisation of the constructs; and
- The respondents were mainly the full-time employees of the sampled Standard Bank African subsidiaries such as Regional Chief Executives, Chief Executive Officer and Company Secretaries. It was not possible to include non-full-time or outside board members as board meetings are usually held once a quarter. The researcher believes the inclusion of all board members would have enriched the results of the survey.

7.8 Delineation of the Study

In accordance with the researcher's informed subjective judgement, the study was delineated as follows:

- **Population**: Standard Bank Group's twenty (20) African subsidiaries;
- **Sample**: Seventeen (17) Standard Bank Group African subsidiaries;
- **Excluded Standard Bank African subsidiaries**:
    - South Africa - King IV is mandatory is South Africa;
    - Ethiopia - Standard Bank has a representative office only (not operating full banking service); and
    - South Sudan - This is a very small banking operation, mainly corporate banking.
- **Field of specialisation**: Corporate governance and business ethics; and

- **Research methodology used**: Sequential mixed methods study (quantitative and qualitative with quantitative given a higher priority, i.e. QUANT + qual).

7.9 Contribution of the Study

This section is structured according to the different contributions made by the study: methodological, empirical and theoretical.

7.9.1 Methodological contribution

In order to answer the three research questions and meet the concomitant three objectives, the study employed a survey method and a non-probability purposive homogeneous sampling technique (as discussed in Chapter 5 section 5.3.8.3). The methodological choice was a mixed methods study, using quantitative and qualitative methods, with quantitative given a higher priority (QUANT + qual). The researcher believes that the mixed methods objectives were achieved by designing the questionnaire in such a way that space was provided for respondents to record additional notes, which assisted the researcher in understanding why a particular answer was given with a particular bias (Mahony, 2012:17). From the results of the questionnaire it was concluded that the research instrument was successful in assisting the researcher to answer the three research questions and to meet the three research objectives.

Importantly, this is the first time a study of this nature has been undertaken at Standard Bank African subsidiaries to gauge the level of adherence to King IV™ prescripts with a mixed method (QUANT + qual) methodology. Consequently, the researcher believes the mixed methods used have contributed to the body of knowledge.

7.9.2 Empirical contribution

Extensive and critical review of the corporate governance and business ethics literature showed no such research to have been undertaken in South Africa, Africa or the rest of the world. This was the first time the Standard Bank African subsidiaries were subjected to a self-assessment questionnaire based on King IV™ principles and recommended practices. The questionnaire results highlighted some shortcomings with regard to adherence to King IV™ principles and recommended practices and these are discussed under the recommendations section of this chapter (Section 7.5).

Consequently, the researcher believes that the results of the self-assessment and the recommendations arising from these results have contributed to the body of knowledge.

7.9.3 Theoretical contribution

In order to answer the three research questions and meet the concomitant research objectives and using an extensive and critical literature review, a corporate governance and business ethics framework based on King IV™ for Standard Bank African subsidiaries was developed. The framework is based on the seminal stakeholder-inclusivity approach as advocated by the IIRC International <IR> Framework and endorsed by King IV™. Furthermore, the *Ubuntu/Botho* African concept was fused into the model. As discussed in Chapter 3 (section 3.5.4.1), the *Ubuntu/Botho* concept is practised in many African countries where Standard Bank operates. The Modes of Managing Morality (MMM) business ethics model (Rossouw & van Vuuren, 2013:58) was also fused into the framework.

Prof. Mervyn King points out that if a company is achieving an ethical culture and effective leadership; value creation in a sustainable manner; effective control and oversight; trust and confidence by the communities in which the company operates; and legitimacy of operation, company value will be created. Consequently, the value of intangibles will grow and the value of the company currency, i.e. share value, is likely to grow as the company will be practising qualitative corporate governance (King, 2017b; King IV Report on Corporate Governance for South Africa, 2016).

The pulling together of corporate governance (effective control, oversight, trust and confidence by the communities in which the company operates, and legitimacy of operations); *Ubuntu/Botho* (ethical culture and effective leadership); and the MMM business ethics model into a single framework is a new concept for South Africa, Africa and the rest of the world. Consequently, it is concluded that the developed framework has contributed to the body of knowledge.

7.10 Suggestions for Future Research

The critical review of the literature, the empirical results and the aforementioned study limitations alerted the researcher to areas for future research. The following areas for future research were identified:

- Whilst the methodological choice for this research was mixed methods (QUANT + qual), with quantitative given a higher priority, the researcher believes that changing the methodological choice to mixed methods (QUAL + quant) with an emphasis on qualitative methods (including interviews) would provide rich insights into corporate governance and business ethics in banking or related industries;
- The study did not compare the respondents' answers, i.e. RCEs against company secretaries. Such a comparison between different respondents may provide invaluable insights into corporate governance and business ethics practices in banking or related industries;
- Given the strategic nature of corporate governance and business ethics practices, it may be of value to extend the study to all (full-time executive and non-full-time executive) board members;
- Whilst this study was anchored on King IV™, it may be of value to use future reports on corporate governance for South Africa, such as King V or related world or African corporate governance prescripts.

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Appendices

Appendix 1: Survey questionnaire

Doctor of Business Administration (DBA) Research: A Corporate Governance and Business Ethics Framework based on King IV for Standard Bank African Subsidiaries

Standard Bank/Stanbic Bank
Business Ethics and Corporate Governance Concepts
Questionnaire is aimed at the respondents serving on Standard Bank African Subsidiaries Boards.

General notes for information and guidance of respondents (executives and company secretaries)
The evaluation of the performance of the Board executives and company secretaries is being carried out as part of a **Doctor of Business Administration (DBA) research** and is integral part of the Bank's commitment to adopt best corporate governance and business ethics practices. The objective is to measure the level of adherence to corporate governance and business ethics practices and to achieve continuous improvement by strengthening areas in which the current performance needs improvement.

This evaluation will focus on the role of the Board and its responsibilities in providing the leadership and vision for the Bank. The evaluation will be facilitated by the Company Secretary of the in-country Standard Bank Subsidiary Bank or his/her delegated senior official.

Completed questionnaires must be returned to the Company Secretary within two weeks of receipt by the respondents.

Participation in this research is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequences. There will be no monetary

gain from participating in this questionnaire. Confidentiality and anonymity of records identifying you as a participant will be maintained by the Graduate School of Business and Leadership, University of Kwazulu-Natal (UKZN) based in South Africa.
It is important to state that The Standard Bank Group is amongst others governed by The South African Companies Act; Johannesburg Stock Exchange (JSE); Bank Act and King Code. This questionnaire is based on the latest King Report, namely **King IV™ Report on Corporate Governance for South Africa, 2016** published in November 2016.

King IV™ is the fourth edition if the King Reports that sets out the philosophy, principles, practices and outcomes which serve as benchmark for corporate governance in South Africa. Importantly, it is the first report on corporate governance in the world that is outcome based. Importantly King IV™ is based to some extent on International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework.

The objectives of King IV™ are the following:

- promote good corporate governance as an integral to running a business or enterprise and delivering benefits such as (i) an ethical behavior; (ii) enhancing performance and value-creation by the organisation; (iii)enabling the governing body to exercise adequate and effective control and (iv) building and protecting trust in the organisation, and its reputation and legitimacy;
- broaden the acceptance of good corporate governance by making it accessible and fit for application by organisations of a variety of sizes, resources and complexity of strategic objectives and operations;
- reinforce good corporate governance as a holistic and inter-related set of arrangements to be understood and implemented in an integrated manner, and
- present a good corporate governance as concerned with not only structure and process but also an ethical consciousness and behavior.

Detailed notes for guidance on completing this questionnaire:

1) Please complete **ALL** questions by putting an X in the space provided;
2) The is no right or wrong answer – all that is required is your honest opinion;
3) Do not mark more than one answer in each question;
4) Answers must be definite, i.e. not straddling two options; and
5) Please note that you are encouraged to record additional remarks, which will enable the researcher to understand why an answer has been given.

Questionnaire

Section 1 | Country & position in the bank

1.1 Please choose your applicable country below:

	Tick Here (X)	Official use
Angola		A1
Botswana		A2
Côte d'Ivoire		A3
Democratic Republic of Congo (DRC)		A4
Ghana		A5
Kenya		A6
Lesotho		A7
Malawi		A8
Mauritius		A9
Mozambique		A10
Namibia		A11
Nigeria		A12
Swaziland		A13
Tanzania		A14
Uganda		A15
Zambia		A16
Zimbabwe		A17

Position in the Bank

1.2 Please indicate your position in the bank:

	Tick Here (X)	Official use
Chairperson of the Board		B1
Deputy Chairperson of the Board		B2
Chief Executive (Executive Director)		B3
Non-Executive Director		B4
Independent Non-Executive Director		B5
Executive Director		B6
Company Secretary		B7
Other, please specify		B8

Section 2 | Biographical details

	Tick Here (X)	Official use
Name:		C1
Male/Female		C2 0/1
Years with the Standard Bank (Local Subsidiary)		C3
Less than 1		C3 1
1 – 2		C3 2
3 – 4		C3 3
5 – 6		C3 4
7 – 8		C3 5
9 +		C3 6

			Official use
Age			D1
Less than 30 years			D1 1
30 – 39			D1 2
40 – 49			D1 3
50 – 59			D1 4
60 – 69			D1 5
70 +			D1 6

Section 3 | Corporate governance and business ethics concepts based on King IV™

3.1 Leadership, Ethics and Corporate Citizenship

Leadership

Principle 1: The Board should lead ethically and effectively.

E1	**Recommended practice**	The members of the Board assume collective responsibility for steering and setting the direction of the Bank; approving policy and planning; overseeing and monitoring of implementation and execution by management; and ensuring accountability for Bank performance.

Yes	No	Not Applicable (N/A)
Comment:		

E2	**Recommended practice**	Members of the Board act ethically beyond mere legal compliance.

Yes	**No**	**Not Applicable (N/A)**
Comment:		

E3	**Recommended practice**	The Board adopt a stakeholder-inclusive approach in execution of their governance role and responsibilities.

Yes	**No**	**Not Applicable (N/A)**
Comment:		

Organisational ethics

Principle 2: Board govern the ethics of the Bank in a way that supports the establishment of an ethical culture.

E4	**Recommended practice**	The Board assume responsibility for the governance of ethics by setting the direction for how ethics should be approached and addressed by the Bank.

Yes	**No**	**Not Applicable (N/A)**
Comment:		

E5	**Recommended practice**	The Board measures adherence to the Bank's ethical standards by employees and other stakeholders through, among others, periodic independent assessments.

Yes	**No**	**Not Applicable (N/A)**
Comment:		

E6	**Recommended practice**	The Board have sanctions and remedies in place for when the Banks' ethical standards are breached.

Yes	**No**	**Not Applicable (N/A)**
Comment:		

Principle 3: The Board should ensure that the Bank is and is seen to be a responsible corporate citizen.

E7	**Recommended principle**	The Board should assume responsibility for corporate citizenship by setting the direction for how it should be approached and addressed by the Bank.

Strongly Agree	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
Comment:				

E8	Recommended principle	The Board should oversee that the Bank's core purpose and values, strategy and conduct are congruent with it being a responsible corporate citizen.

Yes	No	Not Applicable (N/A)
Comment:		

E9	Recommended principle	The Board should ensure that Bank's responsible corporate citizenship efforts include compliance with the constitution of the country, the law; standards; and adherence to its own codes of conduct and policies.

Yes	No	Not Applicable (N/A)
Comment:		

3.2 Strategy, Performance and Reporting

Principle 4: The Board appreciate that the Bank's core purpose, its risk and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

E10	**Recommended practice**	The Board should assume responsibility for Bank performance by steering and setting the direction for the realisation of the Bank's core purpose and values through strategy.

Yes	No	Not Applicable (N/A)
Comment:		

E11	**Recommended practice**	The Bank's short, medium and long-term strategy as formulated and developed by management should be approved by the Board. When considering the proposed strategy for approval, the Board should challenge it constructively with reference to amongst others, risks and opportunities; timelines and parameters which determine the meaning of short-term, medium-term and long-term.

Yes	No	Not Applicable (N/A)
Comment:		

E12	**Recommended practice**	As part of oversight of performance, the Board should be alert to the general viability of the organisation with regards to its reliance and effects of the capitals; its solvency and liquidity, and its status as a going concern.

Yes	No	Not Applicable (N/A)
Comment:		

Reporting

Principle 5: The Board should ensure the reports issued by the Bank enable stakeholders to make informed assessment of the Bank's performance and its short, medium and long-term prospects.

E13	**Recommended practice**	The Board should assume responsibility for the Bank's reporting by setting the direction for how it should be approached and conducted.

Yes	No	Not Applicable (N/A)
Comment:		

E14	**Recommended practice**	The Board should oversee that reports such as the annual financial statements, sustainability reports, social and ethics committee reports, or other online or printed information or reports are issued, as is necessary, to comply with legal requirements, and/or to meet the legitimate and reasonable information needs of material stakeholders.

Yes	**No**	**Not Applicable (N/A)**
Comment:		

E15	**Recommended practice**	The Board should approve management's bases for determining materiality for the purpose of deciding which information should be included in external reports.

Yes	**No**	**Not Applicable (N/A)**
Comment:		

3.3 Governing Structures and Delegation

Primary role and responsibilities of the governing body

Principle 6: The Board should serve as the focal point and custodian of corporate governance in the Bank.

E16	**Recommended practice**	The Board should exercise its leadership role by: • steering the Bank and setting its strategic direction; • approving policy and planning that give effect to the direction provided; • overseeing and monitoring of implementation and execution by management; and • ensuring accountability for organisational performance by means of, among others, reporting and disclosure.

Yes	No	Not Applicable (N/A)
Comment:		

E17	**Recommended practice**	The Board should approve the protocol to be followed in the event that it or any of its members or committees need to obtain independent, external professional advice at the cost of the Bank on matters within the scope of their duties.

Yes	No	Not Applicable (N/A)
Comment:		

E18	**Recommended practice**	The governing body should approve the protocol to be followed by its non-executive members for requisitioning documentation from, and setting up meetings with, management.

Yes	No	Not Applicable (N/A)
Comment:		

Composition of the governing body

Principle 7: The Board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

E19	**Recommended practice**	The Board should assume responsibility for its composition by setting the direction and approving the processes for it to attain the appropriate balance of knowledge, skills, experience, diversity and independence to objectively and effectively discharge its governance role and responsibilities.

Yes	No	Not Applicable (N/A)
Comment:		

E20	**Recommended practice**	The Board should appoint an independent non-executive member as the lead independent to fulfil the following functions: • To lead in the absence of the chair. • To serve as a sounding board for the chair. • To act as an intermediary between the chair and other members of the governing body, if necessary. • To deal with shareholders' concerns where contact through the normal channels has failed to resolve concerns, or where such contact is inappropriate. • To strengthen independence on the governing body if the chair is not an independent non-executive member of the governing body. • To chair discussions and decision-making by the governing body on matters where the chair has a conflict of interest. • To lead the performance appraisal of the chair.

Yes	No	Not Applicable (N/A)
Comment:		

E21	**Recommended practice**	When determining which of its committees the Chair of the Board should serve on, either as member or Chair, the Board should consider how this affects the overall concentration and balance of power on the Board. Generally, the following should apply: • The chair should not be a member of the audit committee. • The chair may be a member of the committee responsible for remuneration but should not be its chair. • The chair should be a member of the committee responsible for nominations of members of the governing body and may also be its chair. • The chair may be a member of the committee responsible for risk governance and may also be its chair. • The chair may be a member of the social and ethics committee but should not be its chair.

Yes	**No**	**Not Applicable (N/A)**
Comment:		

Committees of the governing body

Principle 8: The Board should ensure that its arrangement for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.

E22	**Recommended practice**	The Board should determine if and when to delegate particular roles and responsibilities to an individual member or members of the Board, or to standing or ad hoc-committees. The exercise of judgement by the Board in this regard, is subject to legal requirements and should be guided by what is appropriate for the Bank and achieving the objectives of the delegation.

Yes	No	Not Applicable (N/A)
Comment:		

E23	**Recommended practice**	Delegation to an individual member or members of the Board should be recorded in writing and approved by the Board. The record should set out the nature and extent of the responsibilities delegated, decision-making authority, the duration of the delegation, and the delegates' reporting responsibilities.

Yes	No	Not Applicable (N/A)
Comment:		

E24	**Recommended practice**	Any delegation by the Board of its responsibilities to a committee or a member of the Board member will not by or of itself constitute a discharge of the Board's accountability. The Board should apply its collective mind to the information, opinions, recommendations, reports and statements presented by the committee or the member.

Yes	No	Not Applicable (N/A)
Comment:		

Evaluations of the performance of the governing body

Principle 9: The Board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.

E25	**Recommended practice**	The Board should assume responsibility for the evaluation of its own performance and that of its committees, its Chair and its individual members by determining how it should be approached and conducted.

Yes	No	Not Applicable (N/A)
Comment:		

E26	**Recommended practice**	A formal process, either externally facilitated or not in accordance with methodology approved by the Board, should be followed for evaluating the performance of the Board, its committees, its chair and its individual members at least every two years.

	No	**Not Applicable (N/A)**
Comment:		

E27	**Recommended practice**	The following should be disclosed in relation to the evaluation of the performance of the Board: • A description of the performance evaluations undertaken during the reporting period, including their scope, whether they were formal or informal, and whether they were externally facilitated or not. • An overview of the evaluation results and remedial actions taken. • Whether the Board is satisfied that the evaluation process is improving its performance and effectiveness.

Yes	**No**	**Not Applicable (N/A)**
Comment:		

Appointment and delegation to management

Principle 10: The Board should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.

E28	**Recommended practice**	The CEO should be responsible for leading the implementation and execution of approved strategy, policy and operational planning, and should serve as the chief link between management and the Board.

Yes	No	Not Applicable (N/A)
Comment:		

E29	**Recommended practice**	The CEO should not be a member of the remuneration, audit or nomination committees, but should attend by invitation any meeting, or part thereof, if needed to contribute pertinent insights and information.

Yes	No	Not Applicable (N/A)
Comment:		

E30	Recommended practice	The governing body should satisfy itself that there is succession planning for the CEO position in place, to provide continuity of executive leadership. Succession planning should be reviewed periodically, and should provide for both succession in emergency situations and succession over the longer term.

Yes	No	Not Applicable (N/A)
Comment:		

3.4 Governance Functional Areas

Risk governance

Principle 11: The Board should govern risk in a way that supports the Bank in setting and achieving its strategic objectives.

E31	Recommended practice	The Board should assume responsibility for the governance of risk by setting the direction for how risk should be approached and addressed in the Bank. Risk governance should encompass both: • the opportunities and associated risks to be considered when developing strategy; and • the potential positive and negative effects of the same risk on the achievement of Bank's objectives.

Yes	No	Not Applicable (N/A)
Comment:		

E32	**Recommended practice**	The Board should evaluate and agree the nature and extent of the risks that the Bank should be willing to take in pursuit of its strategic objectives. It should approve in particular attention to: • the Bank's risk appetite, namely its propensity to take appropriate levels of risk; and • the limit of the potential loss that the Bank has the capacity to tolerate.

Yes	**No**	**Not Applicable (N/A)**
Comment:		

E33	**Recommended practice**	The Board should exercise ongoing oversight of risk management and, in particular, oversee that it results in the following: • An assessment of risks and opportunities emanating from the triple context in which the Bank operates and the capitals that the Bank uses and affects. • An assessment of the potential upside, or opportunity, presented by risks with potentially negative effects on achieving Bank objectives. • An assessment of the Bank's dependence on resources and relationships as represented by the various forms of capital. • The design and implementation of appropriate risk responses. • The establishment and implementation of business continuity arrangements that allow the Bank to operate under conditions of volatility, and to withstand and recover from acute shocks. • The integration and embedding of risk management in the business activities and culture of the Bank.

Yes	**No**	**Not Applicable (N/A)**
Comment:		

Technology and information governance

Principle 12: The Board should govern technology and information in a way that supports the Bank setting and achieving its strategic objectives.

E34	**Recommended practice**	The Board should assume responsibility for the governance of technology and information by setting the direction for how technology and information should be approached and addressed in the Bank.

Yes	No	Not Applicable (N/A)
Comment:		

E35	**Recommended practice**	The Board should approve policy that articulates and gives effect to its set direction on the employment of technology and information.

Yes	No	Not Applicable (N/A)
Comment:		

E36	**Recommended practice**	The Board should exercise ongoing oversight of technology and information management and, in particular, oversee that it results in the following: • Integration of people, technologies, information and processes across the Bank. • Integration of technology and information risks into Bank-wide risk management. • Arrangements to provide for business resilience. • Proactive monitoring of intelligence to identify and respond to incidents, including cyber-attacks and adverse social media events. • Management of the performance of, and the risks pertaining to, third-party and outsourced service providers. • The assessment of value delivered to the Bank through significant investments in technology and information, including the evaluation of projects throughout their life cycles and of significant operational expenditure. • The responsible disposal of obsolete technology and information in a way that has regard to environmental impact and information security. • Ethical and responsible use of technology and information. • Compliance with relevant laws

Yes	No	Not Applicable (N/A)
Comment:		

Compliance governance

Principle 13: The Board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the Bank being ethical and good corporate citizen.

E37	**Recommended practice**	The Board should assume responsibility for the governance of compliance with applicable laws and adopted, non-binding rules, codes and standards by setting the direction for how compliance should be approached and addressed in the Bank.

Yes	No	Not Applicable (N/A)
Comment:		

E38	**Recommended practice**	The Board should approve policy that articulates and gives effect to its direction on compliance, and that identifies which non-binding rules, codes and standards the Bank has adopted.

Yes	No	Not Applicable (N/A)
Comment:		

E39	**Recommended practice**	The Board should exercise ongoing oversight of compliance and, in particular, oversee that it results in the following: • Compliance being understood not only for the obligations it creates, but also for the rights and protections it affords. • Compliance management takes a holistic view of how applicable laws and non-binding rules, codes and standards relate to one another. • Continual monitoring of the regulatory environment and appropriate responses to changes and developments.

Yes	No	Not Applicable (N/A)
Comment:		

Remuneration governance

Principle 14: The Board should ensure that the Bank remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long-term.

E40	**Recommended practice**	The Board should assume responsibility for the governance of remuneration by setting the direction for how remuneration should be approached and addressed on Bank-wide basis.

Yes	No	Not Applicable (N/A)
Comment:		

E41	**Recommended practice**	The Board should approve policy that articulates and gives effect to its direction on fair, responsible and transparent remuneration.

Yes	No	Not Applicable (N/A)
Comment:		

E42	**Recommended practice**	All elements of remuneration that are offered in the Bank and the mix of these should be set out in the remuneration policy, including: • base salary, including financial and non-financial benefits; • variable remuneration, including short and long-term incentives and deferrals; • payments on termination of employment or office; • sign-on, retention and restraint payments; • the provision, if any, for pre-vesting forfeiture (malus) and post-vesting forfeiture (claw-back) of remuneration; • any commissions and allowances; and • the fees of non-executive members of the Bank.

Yes	No	Not Applicable (N/A)
Comment:		

Assurance

Principle 15: The Board should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the Bank's external reports.

E43	**Recommended practice**	The governing body should assume responsibility for assurance by setting the direction concerning the arrangements for assurance services and functions. The governing body should delegate to the audit committee, if in place, or as is appropriate for the Bank, the responsibility for overseeing that those arrangements are effective in achieving the following objectives: • Enabling an effective internal control environment. • Supporting the integrity of information used for internal decision-making by management, the governing body and its committees. • Supporting the integrity of external reports.

Yes	No	Not Applicable (N/A)
Comment:		

E44	**Recommended practice**	The Board should satisfy itself that a combined assurance model is applied which incorporates and optimises the various assurance services and functions so that, taken as a whole, these support the objectives for assurance.

Yes	No	Not Applicable (N/A)
Comment:		

E45	**Recommended practice**	The Board should oversee that the combined assurance model is designed and implemented to cover effectively the Bank's significant risks and material matters through a combination of the following assurance service providers and functions as is appropriate for the Bank: • The Bank's line functions that own and manage risks. • The Bank's specialist functions that facilitate and oversee risk management and compliance. • Internal auditors, internal forensic fraud examiners and auditors, safety and process assessors and statutory actuaries. • Independent external assurance service providers such as external auditors. • Other external assurance providers such as sustainability and environmental auditors or external actuaries, and external forensic fraud examiners and auditors. • Regulatory inspectors.

Yes	No	Not Applicable (N/A)
Comment:		

3.5 Stakeholder Relationships

Stakeholders

Principle 16: In the execution of its governance role and responsibilities, the Board adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the Bank over time.

E46	**Recommended practice**	The Board should assume responsibility for the governance of stakeholder relationships by setting the direction for how stakeholder relationships should be approached and conducted in the Bank.

Yes	**No**	**Not Applicable (N/A)**
Comment:		

E47	**Recommended practice**	The Board should approve policy that articulates and gives effect to its direction on stakeholder relationships.

Yes	**No**	**Not Applicable (N/A)**
Comment:		

E48	**Principle**	The Board should exercise ongoing oversight of stakeholder management and in particular, oversee that it results in the following: • Methodologies for identifying individual stakeholders and stakeholder groupings. • Determination of material stakeholders based on the extent to which they affect, or are affected by, the activities, outputs and outcomes of the Bank. • Management of stakeholder risk as an integral part of Bank-wide risk management. • Formal mechanisms for engagement and communication with stakeholders, including the use of dispute resolution mechanisms and associated processes. • Measurement of the quality of material stakeholder relationships, and appropriately responding to the outcomes.

Yes	**No**	**Not Applicable (N/A)**
Comment:		

Source: King IV™ Report on Corporate Governance for South Africa, 2016.

Appendix 2: Gatekeepers letter

Letter to assist students in obtaining Gatekeepers Letters

UNIVERSITY OF KWAZULU-NATAL™
INYUVESI YAKWAZULU-NATALI
Graduate School of Business and Leadership

November 7, 2016

To Whom It May Concern:

PERMISSION TO CONDUCT RESEARCH AS PART OF THE DOCTOR OF BUSINESS ADMINISTRATION QUALIFICATION

Name: **Ike Phaswana** Student No: **201510002**

Dissertation Topic: **A Corporate governance and business ethics framework based on King IV for Standard Bank African subsidiaries.**

We confirm that the above student is registered at the University of UKZN for the Doctor of Business Administration (DBA) Programme. It is a requirement of their Programme that the student undertakes a practical research project in his/her final year of study.

Typically this project will be a "practical problem solving" exercise, and necessitates data gathering through questionnaires or personal interviews.

Your assistance in permitting access to your organization for purposes of conducting the research is most appreciated. Please be assured that all information gained from the research will be treated with the utmost confidentiality. Furthermore, should you wish any result/s or findings from the research "to be restricted" for an agreed period of time, this can be arranged. The confidentiality of information and anonymity of personnel will be strictly adhered to by the student.

If permission is granted, kindly confirm this by signing off on the following:
"I am aware of the nature and extent of the document and I am satisfied with all the obligations imposed therein."

Please note that additional information or conditions can be supplied by you.

Name in Full: ZOLA STEPHEN

Designation: GROUP SECRETARY

Company Name & Stamp: STANDARD BANK OF SOUTH AFRICA LTD

Thank you for your assistance in this regard.

[redacted]

Tel: (031) 260 7172

For:
The Standard Bank of South Africa LTD
Reg No: 1962/000738/06

Appendix 3: Language editing certificate

7 May 2018

To Whom It May Concern

I, Susan van Tonder, MA Linguistics, ID 6009160072083, do hereby confirm that I have conducted an English grammar edit on the draft thesis entitled: “A corporate governance and business ethics framework based on King IV™ for Standard Bank African subsidiaries” by Ike Phaswana.

Mr Phaswana is responsible for the quality and accuracy of the final submission.

Yours sincerely

[redacted]

Susan van Tonder
Associate member: Professional Editors Guild
Membership number: VAN054

Appendix 4: Ethical clearance

UNIVERSITY OF KWAZULU-NATAL
INYUVESI YAKWAZULU-NATALI

07 March 2017

Mr Ike Phaswana (201510002)
Graduate School of Business & Leadership
Westville Campus

Dear Mr Phaswana,

Protocol reference number: HSS/0162/017D
Project title: A corporate governance and business ethics framework based on King IV for Standard Bank African subsidiaries

Full Approval – Expedited Application

In response to your application received on 20 February 2017, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and FULL APPROVAL for the protocol has been granted.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

[redacted]

....

Dr Shenuka Singh (Chair)

/ms

Cc Supervisor: Professor Theuns Pelser
Cc Academic Leader Research: Dr Muhammad Hoque
Cc School Administrator: Ms Zarina Bullyraj

Humanities & Social Sciences Research Ethics Committee
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Website: www.ukzn.ac.za

1910 - 2010
100 YEARS OF ACADEMIC EXCELLENCE

Founding Campuses: Edgewood · Howard College · Medical School · Pietermaritzburg · Westville

Appendix 5: Turnitin report