**University of Pretoria**

# The value of corporate governance: a comparison between the perceived value of King III and King II

By
**PHUMZILE LANGENI**
**13393627**

A research study submitted in the full fulfilment of the requirements for the degree of **M. COM (BUSINESS MANAGEMENT)** in the **FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES** at the **UNIVERSITY OF PRETORIA**

**SUPERVISOR:**

**Prof Derick de Jongh**

**DATE: 5 JANUARY 2018**

# TABLE OF CONTENTS

## CHAPTER 3 – INTERNATIONAL SYSTEMS OF GOVERNANCE

## CHAPTER 6- RESULTS

# ABBREVIATIONS

| | |
|---|---|
| ABRACSA | Brazilian Association of Publicly-Traded Companies |
| ACGN | African Corporate Governance Network |
| AGM | Annual General Meeting |
| AICC | African Institute of Corporate Citizenship |
| ANBIMA | Brazilian Financial and Capital Markets Association |
| BM | Bursa Malaysia (BM) |
| BOFIA | Banks and Other Institutions Act, 1991 (Nigeria) |
| CAC | Corporate Affairs Commission |
| CAMA | Companies and Allied Matters Act 1990, |
| CBN | Central Bank of Nigeria (CBN) |
| CCM | Commission of Malaysia |
| CDTP | Corporate Director Training Programme |
| CEO | Chief Executive Officer |
| CG | Corporate Governance |
| CVM | Comissão de Valores Mobiliários (Brazilian securities regulator) |
| FCPA | Foreign Corrupt Practices Act of 1976 |
| FRA | Financial Reporting Act |
| FRC | Financial Reporting Council |
| IBCG | Brazilian Corporate Governance Association |
| IBGC and AMEC | Brazilian Capital Market Investors' Associations |
| ICLG | International Comparative Legal Guides |
| IFC | International Finance Corporation |
| IoDSA/IoD | Institute of Directors in Southern Africa |
| ISA | Investment and Securities Act 1999 |

| | |
|---|---|
| JSE | Johannesburg Stock Exchange now the JSE Securities Exchange |
| JOBS | Jumpstart Our Business Start-ups Act of 2012 |
| MASB | Malaysian Accounting Standards Board |
| MCCG | Malaysian Code of Corporate Governance |
| MSWG | Minority Shareholder Watchdog Group |
| NEDs | Non-Executive Directors |
| NSEC | Nigerian Stock Exchange Commission |
| OECD | Organization for Economic Co-operation and Development |
| PwC | PriceWaterhouseCoopers |
| PCAB | Public Company Accounting Oversight Board |
| SA | South Africa |
| SEC | United States Securities Exchange Commission |
| SECA | Security and Exchange Act |
| SOX | Sarbanes-Oxley Act of 2002 |
| TOC | Take-over Code |
| UK | United Kingdom |
| US | United States |

# LIST OF TABLES

# LIST OF FIGURES

# LIST OF ANNEXURES

# ACKNOWLEDGEMENTS

This has been an exciting, inspirational journey which has enhanced my appreciation and understanding of corporate governance, ethics and leadership.

As with all good journeys, I was blessed not to have undertaken this chapter of my life alone. I would like to express my utmost and most heartfelt gratitude to the people who provided me with amazing support and encouragement and who were instrumental in assisting me to complete this dissertation:

My supervisor, Prof Derick de Jongh, for his wisdom, unfailing patience, guidance, encouragement and invaluable insights, who continued to be an inspiration during trying moments.

To the experts in the field of corporate governance who took time to share with me their insights and who provided a guiding hand at the commencement of my journey.

To the interview participants, my sincere appreciation for having taken time off your busy schedules to provide me with your frank, honest and insightful views about this topic. I would not have completed this work without your valuable input.

To the staff of Afropulse Group; thank you for all your support; you are a great part of this accomplishment.

'A navy diver never leaves another behind'. Thank you Bongi for your unstinting support, patience and good cheer over the last few years. The comfort of knowing that the wheels would continue to turn smoothly provided me with the space and time to dedicate to my thesis despite work commitments.

To my parents, who have always supported me, who continued to encourage me and enquire about my progress, thank you! I am always humbled by your unwavering love and continuous support in all that I do. You have been a great pillar of strength.

Lastly, and most importantly, to my daughter, Nandi Noluthando, I dedicate this thesis to you; a reminder that nothing is impossible. I am indebted to you for the tremendous love, perseverance and patience that you have shown during the last few years. You have shown understanding beyond your tender age. Your encouragement gave me the strength to continue; it has carried me through tough days. Thank you for your love and patience in supporting my goal.

# DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the research requirements for the degree of Master of Commerce (Business Management) at the University of Pretoria.

It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Signature:

Date: 5 JANUARY 2018

## ABSTRACT

# The value of corporate governance: a comparison between the perceived value of King III and King II.

The corporate governance failures of the 1980s, 1990s and 2000 are a harsh reminder of the importance of codes of practices, ethical conduct and a balance between the profit motive and sustainability that should underpin corporate decisions and conduct. The introduction in 1994 of King I, South Africa's first corporate governance code, was not only a new milestone in business practice but a recognition of the need to establish and support new practices that were a reflection of the new democracy. Since then, three subsequent King Codes have appeared: King II, IIII and very recently King IV. This dissertation which was based on the findings of a study by Jansen van Vuuren and Schulschenk (2013), and reported that King II was perceived to have added greater value than King III, was undertaken to in more detail investigate factors or circumstances that might explain the perceived decrease in the value of King III compared with that of King II. The study also aimed to explore the participants' perception of the value of corporate governance. The study employed an exploratory, qualitative, interpretive method using probability sampling and semi-structured interviews. The participants were articulate and knowledgeable non-executive directors of companies with a close working experience of the King Codes. The findings were wide ranging. Participants overwhelmingly endorsed the value of the King Codes to corporate governance in South Africa and elsewhere. There was, however, broad agreement with the findings of the Jansen van Vuuren and Schulschenk (2013) study, which reported that King II was perceived to have added greater value than King III, mainly on the grounds that King II was ground-breaking and game changing, while King III was more of a refinement. Participants furthermore warned against the danger of compliance with future codes becoming onerous, or too much of a tick-box exercise.

**Key words: value of corporate governance, corporate governance, King Codes, ethics, sustainability, leadership, stewardship, agency theory, board of directors**

# CHAPTER 1
# The value of corporate governance: a comparison between the perceived value of King III and King II

## 1.1 INTRODUCTION

Corporate governance is highly topical today, especially in view of the continuous research conducted in the field in the past 15 years (Solomon, 2009; Rossouw, 2005; OECD report, 2004, 2005, 2008, 2014). Corporate governance has evolved from being a subject researched and investigated mainly by scholars of economics to one that is also discussed globally by investors and across boardroom tables. The growing interest in corporate governance was mostly prompted by corporate collapse, from Europe in the 1980s and Russia in 1998 to the United States (US) in the early 2000s (Claessens and Yurtoglu, 2012). As noted by Bebchuk and Weisbach (2010), corporate governance continues to be highly topical, not only among the corporate sector but also among governments, academics, regulators and society at large.

The extensive research that has been done on corporate governance speaks to a topic that is not only of high interest and relevance, but also one that is highly researchable. Evidence of this is found in some early works of Baghat and Black, 2002 and Hermalin and Weisbach, 1998). Other noted readings include writings by Klapper and Love (2004), Gompers, Ishil and Metrick (2003), La Porta, Lopez-de-Silanes, Shliefer and Vishny (2002) and Rossouw, Van der Watt and Rossouw (2002). Important reports (OECD, 1999; 2004; Cadbury, 1992; IoDSA, 1994; 2002) form part of the body of knowledge. The financial crisis of 2008 once again brought into focus the importance of corporate governance with respect to company failures. Furthermore, the recent release in South Africa of King III in 2009 and King IV in 2016 has led to an increase in research being conducted on the topic.

In the Cadbury Report (1992: 14), corporate governance is defined as: "a system by which companies are directed and controlled". The definition in the Cadbury Report places the board of directors at the epicentre of responsibility for corporate governance practices of publicly owned companies (Rossouw, Van der Watt and Rossouw, 2002). Corporate governance is a key pillar for companies and public institutions (Makiwane and Padia, 2013). It is stated that corporate governance is about “doing the right things” and “doing things right” (Mans-Kemp, Erasmus and Viviers, 2016: 93). The public’s interest in corporate governance, following from the financial meltdowns, has led to greater calls for improved corporate governance and increased transparency and disclosure (Monda and Giorgino, 2013). It has been said that the media are key to ensuring that the corporate governance debate continues to remain topical, the media being one voice of society (Armstrong, 2014).

## 1.2 RATIONALE FOR THE STUDY AND RESEARCH QUESTION

This research study is based on the findings of a report titled “Perceptions and practice of King III in South African Companies”, compiled by Jansen van Vuuren and Schulschenk (March 2013). This report was a joint publication undertaken by the Institute of Directors of Southern Africa (IoDSA) and the Albert Luthuli Centre for Responsible Leadership, University of Pretoria. According to a conversation held between the researcher and the CEO of the IoDSA in 2015, Ms Ansie Ramalho expressed the need for a study to enable better understanding of the impact of King II and King III on all entities to which they apply in South Africa.

A key finding of the results of the report by Jansen van Vuuren and Schulschenk (2013) showed that the score of the perceived value of King III was 65%, compared with the previous score of perceived value of 82% with respect to King II. It appeared from these results that there had been a significant decline in the perceived value of King III compared with King II.

The significant perceived value gap between King III and King II raises the possibility that there are factors and/or circumstances that have had a material bearing on the decline. Any perceived decline in the value of King III or any of the King Codes, without clear reasons, is important; and needs to be well understood, as the application of King Codes by companies listed on the JSE is mandatory.

The interest is thus in exploring these possible factors and/or circumstances and in understanding in greater depth the reasons behind the said perceived drop in value add. Recommendations from the report by Jansen van Vuuren and Schulschenk (2013) suggest that further research could play some role in the debate on whether or not there was a need to introduce King IV. It is also apparent from reading the report that a question mark remains on whether the King Committee on Governance would be better served to investigate further and address the perceived decline in the value of King III, with a view to responding or considering the relevance and merit of some of the issues that were raised by the participants in the 2012 survey. Moreover, an observation has been made that there has been limited research undertaken to determine the level and extent of corporate governance practices in South Africa (Mans-Kemp, Erasmus and Viviers, 2016).

This research therefore seeks to investigate the decline in the perceived value of King III compared with that of King II. On closer analysis of available literature, there also seems to be insufficient understanding of what constitutes the value of corporate governance. Conducting this research could therefore contribute towards advancing the corporate governance body of knowledge.

### 1.2.1 Research Questions

Primary research question

“What are the reasons behind the decline in the value of King III in comparison with King II, as perceived by listed companies in South Africa?”

Research Sub questions:

— Can the perceived decline in the value of King III compared with King II be related to the timing of the surveys conducted?

— Have economic circumstances at the time that King II and King III were released played a role in diminishing the perceived value of King III when compared to King II?

— Has the difference in the content and emphasis of King II relative to King III had an impact in the perceived drop in the value of King III when compared to King II?

— Is the decline in the perceived value, as concluded in the study, a reflection on the decline in the value of King III or a decline in the value of corporate governance?

— How can the findings of this study add value to the discussion on possible publication of King 1V?

### 1.2.2 Problem statement

- According to Jansen van Vuuren and Schulschenk (2013), there has been a decline in the perceived value of King III to 65%, compared with 82% for King II. There is need to explore this result to better understand the reasons for the perceived decline in the value of King III when compared to the value of King II whilst understanding any possible factors that could have contributed to such a decline.
- There is not sufficient understanding of what constitutes value in corporate governance.

### 1.2.3 Research objectives

The objective of this research is to explore and investigate factors or circumstances that explain the significant decrease in the perceived value of King III to 65%, compared with the previously reported perceived value of King II of 82% (Jansen van Vuuren and Schulschenk, 2013).

In answering the research question, the purpose will be to achieve the following:

- Explore and investigate in greater detail the factors or circumstances that explain the significant decrease of the perceived value of King III to 65% compared with a previously reported perceived value of King II of 82%.

- Establish whether these factors could have had an impact on the different way in which the value of King III is perceived in relation to that of King II.
- Increase the understanding of the meaning of the value of "corporate governance".

## 1.3 THE RESEARCH REPORT BY Jansen van Vuuren and Schulschenk (2013)

As mentioned earlier, the significant change in the perceived value as noted in the findings of the above report provided the rationale for investigating "the perceived decline in value between King II and King III".

The report by Jansen van Vuuren and Schulschenk, released in 2013, compared the findings of two IoDSA surveys conducted in 2006 and 2012. The IoDSA survey conducted on IoDSA members in 2006 tested the "extent of practices adopted and perceptions on the effectiveness of King II" (Jansen van Vuuren and Schulschenk, 2013:6). The survey conducted in 2012, also on IoDSA members, "**was to investigate how various South African companies perceive the recommendations on corporate governance as set out in the King Report on Corporate Governance in South Africa 2009 (King III), …. of the companies' business practices**" (Jansen van Vuuren and Schulschenk, 2013:9). In essence, this refers to the value of corporate governance.

The report by Jansen van Vuuren and Schulschenk compared the various responses of participants in the two abovementioned surveys on King II and King III. The aim was to test the perceived value of King II and King III respectively, as well as noting the extent of application of each of the codes.

In order to ensure comparability of results, the same questions asked in the web-based questionnaire in 2006 were repeated in the 2012 survey. In the light of some of the new topics introduced in King III, new questions pertaining to those areas were introduced. A web-based questionnaire was sent to the entire IoDSA membership population (5221 members); the survey ran from 1 August 2012 to 31 August 2012. The questionnaire was divided into sub-themes; multiple-choice and open-ended questions were asked, with responses on a 5-point scale ranging from 'strongly agree' to 'strongly disagree'. (There was, however, one multiple-choice question that included the "not applicable" option.) Of the 5221 questionnaires distributed, only 183 were returned, representing a response rate of 3.51%.

In terms of the entities that respondents represented, 57% of the respondents were from the private sector. Of these, 22% represented JSE-listed companies and 35% were from private equity. Participation from NPOs was at 11%, followed by state-owned enterprises, which made up 9% of the responses. The balance of 21% were respondents from "other" entities. The diverse make-up of the response universe is reflective of the required application of King III by all entities. In terms of organisational sitting, the distribution was executive directors (46%), non-executive directors (17%), company secretaries (13%), chairpersons of companies (7%), and "other" (17%).

### 1.3.1 Questionnaire themes for the 2012 survey

The survey was segmented into 10 themes:

- **The application of King III:** the degree to which South African companies apply the recommendations of the King Report on Corporate Governance 2009 (King III)
- **The effects of application of King III:** effects on an organisation's reputation, board of directors and relationships with other companies in its supply chain
- **Impact on board deliberations and decision making:** the impact of applying King III on board activities
- **Assurance:** determining whether the assurance provided by companies in their annual reports was done internally, externally or using combined methods
- **Implementation:** how the organisation implemented corporate governance measures as set out in King III
- **Stakeholder communication:** the nature and extent of engagement with the broader stakeholder community
- **Enablers and obstacles:** perceived as being enablers and obstacles to the application of King III
- **IT governance:** a new inclusion, which focused on IT governance and its effect on the organisation's strategy, risk management and other elements

- **Integrated reporting:** understanding integrated reporting and its importance to South African companies
- **Recommendations and suggestions:** based on the responses to the open-ended question that required respondents' views, recommendations and suggestions on King III.

The survey questions are presented in Annexure A.

### 1.3.2 Findings of the report

A summary of some of the findings from the report:

- King III had been implemented by a clear majority of the respondents.
- The successive King Codes have, according to respondents, added value to both the respondents' respective organisations and to the economy of South Africa as a whole.
- The primary reasons cited for applying King III were to demonstrate commitment to corporate governance to external stakeholders, to enhance effectiveness and confidence in the performance of the company.
- King III was found to be user friendly, but responses underscored requests for practical examples and supporting guidelines.
- The board and management in their responses displayed more interest and commitment to corporate governance than the investors and employee groups that participated in the survey.
- There was acknowledgement of the key and leading role played by King Codes in promoting effective corporate governance in South African companies

Some of the emerging trends from this study when compared with the study on King II, conducted in 2006, according to the report by Jansen van Vuuren and Schulschenk (2013: 31) were:

**An overall decline in the perceived value of King III when compared with the value of King II, with the value of King III scoring 65% compared with the score of the value of King II, which was close to 82%.**

- The wording and format of King III is seen to be a bit more user friendly than King II.
- The desire for more practical examples and guidelines was a common theme for both King II and King III.
- There was a marked increase in the number of external providers to provide insights and assurance on a company's corporate governance practices.
- There was a substantial increase from the 2006 survey in the number of companies that focused on corporate governance training.
- NPOs and smaller firms voiced the same concerns about the language applied in both King II and King III.
- The new, material additions to King III, namely IT governance and the integrated report, were welcomed by the majority of respondents and were seen to have added significant value to entities.
- However, the adverse impact of the cost of the implementation of King III was aired, mostly by NPOs and small companies.
- When costs and benefits were considered, the implementation of King III was perceived to have a greater cost than benefit.

It is worth noting that the areas in which King III was perceived to have provided less value than King II included organisational performance and contributions to the boardroom around board discussions and decisions.

The two main enablers to corporate governance application, for both King II and King III, have been listed as support and training by regulators and membership bodies like the JSE and IoDSA respectively and the desire by boards to be seen to embrace good governance practices. The three main disablers are lack of knowledge, financial cost and inadequate resources.

### 1.3.3 Comparison of the perceived value of King II with that of King III

Table 1.1 below provides a summary of the findings from the 2006 and 2012 research, which compares the perceived value of King II and King III. What is allocated under King II or King III is the response most agreed by the respondents' i.e. highest score achieved by each code for the question asked.

**Table 1.1: Comparison of the perceived value of King II with that of King III**

| Theme | King II | King III |
|---|---|---|
| **Application of King III vs. Compliance with King II** | - 82% of respondents believe King II has a perceived value add<br>- Benefits of implementation outweigh costs | - 65% of respondents believe King III has a perceived value add<br>- costs of implementing King III outweighed the benefits |
| **Benefits of good corporate governance** | - Lower organisational benefit from CG at 62% | - organisation benefits from corporate governance - 69%<br>- commitment of other companies within its supply chain and partnerships |
| **Language and format of the King Report** | - desire for more practical examples and guidelines<br>- high contribution to the organisation's understanding of the value of governance | - The format of the King III more user friendly<br>- desire for more practical examples and guidelines<br>- Language unambiguous and simple |
| **The effect of the King Report** | - Improved the quality of board operations (including deliberations and decisions)<br>- Improved organisational integrity and ethics<br>- Improved risk management processes<br>- Improved effectiveness of internal audit<br>- Improved transparency of accounting and auditing practices<br>- Improved the confidence of the board that the organisation is compliant with applicable legislation and regulations | - Improved risk management processes<br>- Improved quality of integrated sustainability reporting |
| **Effects on board deliberations and decision making** | - The exhibition of leadership by the board in providing strategy and direction<br>- The exercising of control, and monitoring of management, which | - An appropriate board composition, which resulted in increased effectiveness and efficiency |

| | | |
|---|---|---|
| | enabled the board to discharge its accountability<br>- The delegation of authority, enabling the board to function effectively and efficiently while retaining adequate control<br>- An appropriate board composition, which resulted in increased effectiveness and efficiency<br>- Enhanced confidence in the quality of its own undertakings and operations | |
| **Effects on organisational reputation** | - Greater effect on organisational reputation, including ability to retain employees | - |
| **Effects on supply chain relationships** | - Greater visible commitment to transformation issues by these other companies/organisations<br>- Increased flow of meaningful, timely and transparent information from the other companies/organisations to our organisation<br>- Improved confidence that these other companies/organisations exhibit equivalent values to ours<br>- Increased confidence in how these other companies or organisations manage their risk<br>- Greater visible commitment to corporate social investment by these other companies or organisations | - Greater visible commitment to corporate social investment by these other companies or organisations |
| **Benefits to the South African economy** | - 82% agreed | - 80% agreed |

*Source*: Jansen van Vuuren and Schulschenk (2013: 37)

Despite the disagreement noted by respondents, it is clear from Table 1.1 that the perceived value and benefits of King II seem to outweigh those of King III. There are, however, one or two instances where the value/benefit has been ascribed to both codes. The comparison of results is possible and appropriate, as the questions asked in the 2009 survey on King III were the same questions as those asked in the 2006 survey on King II. As the comparison was between King II and King III, questions in the second survey which focused on IT and integrated reporting as a result of the introduction of King III were excluded from this analysis.

The results from Table 1.1 do appear to support the conclusion reached that there is a higher perceived value of King II when compared with King III.

## 1.4 METHODOLOGY OF THE CURRENT STUDY

A qualitative, exploratory study was undertaken to consider "the reasons behind the decline in the value of King III in comparison with King II, as perceived by listed companies in South Africa".

Exploratory research, as posited by Neuman (2014), is undertaken when there is little known about a particular subject, with the benefit of undertaking the research uncovering new facts and perspectives.

Research design is the framework used in research to determine the research structure, the methodology (data collection, data analysis) among others, all combined to answer a research question (Trochim, 2006). It has been advanced that "the single most important element in constructing a research design is the consistency of the method with the research questions being asked" (Goulding, 2002:11). This was achieved by ensuring that the interviewer had a set of questions that were asked of all the interviewees, with different follow-up questions being asked if deemed appropriate or necessary.

**Table 1.2: Research design and methods**

| **SAMPLING** | |
|---|---|
| Target population | Males and females who had had experience with both King II and King III within the context of a company |

| | |
|---|---|
| | listed in South Africa. The profile of the interviewees was selected from executive directors, non-executive directors, chairpersons of boards, and a company secretary |
| Sampling method | Non-probability, purposive sampling |
| Sample size | 10 people |
| Units of analysis | Interview responses |
| **DATA COLLECTION AND ANALYSIS** | |
| Data collection methods | Face-to-face semi-structured interviews |
| Data collection and storage | The researcher asked questions which were recorded electronically. The electronic (digital) recordings were stored in the researcher's computer |
| Data analysis | The responses were first transcribed and tabulated in an Excel spreadsheet; later, themes were identified (thematic analysis). |

*Source:* Möllmann , C (2013)

## 1.5 BENEFITS OF THE STUDY

It has been observed that a significant amount of corporate governance research conducted between 1995 and 2015 focused largely on developed economies (Mans-Kemp et al, 2016). Corporate governance in developing economies became a focus area for investors following the Asian and Russian market collapses of the 1997/1998 period (Oman, 2003). There is now an increase in research that considers corporate governance in emerging markets and economies (Armitage, Hou, Sarkar and Talaulicar, 2017).

Despite the work and research conducted thus far on corporate governance, there are certain gaps in the literature, namely the definition of 'value' of corporate governance, the cost or quantification of the contribution of corporate governance to companies and the board, the extent to which corporate governance is embraced by non-investors or shareholders/stakeholders, and the direct impact of some of the new requirements included in King III. These gaps do provide an opportunity for a separate study that could investigate some of the reasons for these gaps.

It is hoped that this study will add to the body of corporate governance research being conducted in South Africa. It is also hoped that this research will unearth the reasons and factors that have contributed to the perceived value decline in King III compared with King II, which would consequently advance knowledge on the value of corporate governance in SA. This study is likely to add to the body of knowledge within the South African context in the following ways:

- Investigating and understanding the "value of corporate governance"
- Establishing the extent to which King II and III are seen as valuable codes of governance, providing value to the SA corporate sector
- Understanding reasons for the perceived decline in value of corporate governance in King III compared with King II
- Providing a better context and narrative about the benefits of corporate governance
- Providing a view of some perceptions and expectations about King IV
- Research evidence to provide a user's perspective and first-hand account on suggestions to improve the value of corporate governance in general

## 1.6 STRUCTURE OF THE RESEARCH REPORT

This study is made up of seven chapters, annexures and tables. The brief outline of each chapter is provided below:

**Chapter 1: Introduction**

This chapter provides an introduction to corporate governance, an overview of the research study, an overview of the basis of this research study (a report by Jansen van Vuuren and Schulschenk, 2013), research questions and the research methodology.

**Chapter 2: The journey of corporate governance**

The chapter provides a perspective on the agency theory, which has played a key role in the need for and evolution of corporate governance. This chapter also serves as an introduction to Chapter 3 and Chapter 4, which discuss the various corporate governance codes and practices in greater depth.

### Chapter 3: International systems of governance

Chapter 3 explores the various corporate governance systems that have been adopted in the US, UK, Brazil, Malaysia and Nigeria. It also considers the evolution of corporate governance within each country and its benefits.

### Chapter 4: The evolution of the King Codes

Chapter 4 exclusively considers the King Codes and corporate governance within the South African context and environment. The reasons for and principles of King I, II, and III are discussed at length; the value of each to corporate governance locally is also explored.

### Chapter 5: Research methodology

This chapter details the research methodology employed in the collection and the analysis of data.

### Chapter 6: Results

This chapter considers to a limited extent the data analysis employed, it also provides a window on the views of the ten participants interviewed on the value of corporate governance. The interpretation of the results is also provided; a further comparison is made against the findings in the report authored by Jansen van Vuuren and Schulschenk (2013), which forms the basis of this research study.

### Chapter 7: Conclusions and Recommendations

This final chapter presents the conclusions and recommendations based on the findings of the research. It also provides some outcomes and suggests possible future topics that could be investigated in the desire to expand the body of corporate governance knowledge within the context of South Africa.

# CHAPTER 2
# The journey of corporate governance

## 2.1 BACKGROUND AND INTRODUCTION

Chapter 2 provides some historical context and background of the architecture of corporate governance. This background primarily focuses on the various definitions of corporate governance (CG), the need for corporate governance, the main role players in CG, the theoretical basis for CG and the value/benefit of CG.

There are many views expressed in the literature that support the topical nature and relevance of CG. One view, expressed by John and Senbet (1998), is that CG remains topical because of continuing debates about the relevance and efficiency of existing CG practices in advanced economies (such as the UK and US) and questions about which of the CG models (outsider and/or insider) enhance CG.

Rossouw (2002) posits that some of the reasons that have ensured that corporate governance remains topical and relevant include the agency problem (mainly in the developed world), investor activism, and the need to attract foreign investment, together with gaining standing and recognition among international markets and investors. Another view is that corporate governance is a response to the large number of corporate scandals which have occurred due to unsound corporate practices and lack of oversight (Solomon, 2009).

According to Berle and Means (in Brezeanu and Stanculescu, 2008), examination or CG has a long history, as the first foray was undertaken in the 1930s; in a study that analysed the value created by the separation of the control and management of a firm. Concern over corporate governance has evolved over time, starting with the issue of the Cadbury Report (1992) in the UK, SOX (2002) in the US, the Malaysian Code on CG (2000), the introduction of Norvo Mercado stock exchanges in Brazil (2000), the Code of CG in Nigeria (2003) and the influential South African King Codes: I, II, III and IV in 1994, 2002, 2009 and 2016 respectively. The evolution, impact and value of CG in the UK, US, Brazil, Malaysia and Nigeria, is discussed in greater detail in Chapter 3 of this study. The evolution, impact and value of CG in South Africa is discussed in extensive detail in Chapter 4 of this study.

## 2.2 WHAT IS CORPORATE GOVERNANCE?

There are numerous definitions of CG, some provided below: “Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders….objectives and monitoring performance are determined” (OECD, 2004). The first King Report on corporate governance in South Africa, issued in 1994, defined corporate governance as: “the system by which companies are directed and controlled” (IoDSA, 1994: 1).

Shleifer and Vishny (1997: 773) give the following meaning and definition to corporate governance: “Corporate governance deals with the agency problem: the separation of management and finance”. A narrow definition of CG speaks more to the return that funders receive as a return on their investment (Shleifer and Vishny, 1997).

Nunez and Oneto (2015:109) argue that CG practices assist with decision making and reduce the agency problem. John and Senbet (1998: 372) define CG as follows: “Corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected”. According to Hua and Zin (2007: 33), the Malaysian High Level Finance Commission defined CG as: “a process and structure used to direct and manage the business affairs of the company towards…taking into account the interest of stakeholders”.

Fairness, accountability, responsibility and transparency have been highlighted as the main tenets of corporate governance (Jamali, Safieddine and Rabbath, 2008; Rossouw, 2002; Esser, 2009; Grove, 2009; Brink, 2009). In agreement, Vaughn and Ryan (2006: 506) in quoting the King Report, observed that the seven key characteristics of good corporate governance are “discipline, transparency, independence, accountability, responsibility, fairness and social responsibility”. These tenets are further reinforced by J. Wolfensohn, President of the World Bank, who said that "Corporate governance is about promoting corporate fairness, transparency and accountability" (Heritage Institute, 2007). These cornerstones of CG place a great obligation on the agents of the company (management and boards) to ensure that their actions are driven by what is in the best interests of the company rather than their self-interest.

## 2.3 THE REASONS AND MAIN DRIVERS OF CORPORATE GOVERNANCE

Hua and Zin (2007) point out that the 1997/1998 market crisis that crippled Asian economies like Thailand provided an added impetus for nations like Malaysia to embark upon and accelerate corporate governance reforms.

A report by the OECD lists oversight as a key driver of good CG practices; due to the important role companies play in the economy, and the increased investment of personal and retirement savings by institutional investors in companies (OECD, 2004). Claessens and Yurtoglu (2012) note privatisation, advances in technology, liberalisation of financial markets and the reduction in trade barriers as other drivers that are leading the application of CG. Hua and Zin (2007) observe that numerous corporate scandals which have led to global financial crises have also contributed to the drive to instil CG practices. Nunez and Oneto (2015) also believe that the CG provisions found in SOX, the Dodd-Frank Act and the Basel provisions for financial institutions are a direct response to corporate scandals of 2000 and 2007 which led to the global financial crisis.

### 2.3.1 Why is corporate governance important?

There are a few arguments presented below which support the importance of and need for sound CG. Bebchuck and Weisbach (2010) hold the view that the importance of CG is reflected in the extensive studies undertaken and the increased interest shown in the subject.

The importance of CG lies in ensuring that the evolving rules, regulations, laws and contracts that govern companies do protect shareholder rights and ensure alignment of manager and stakeholder interests, allow for transparency and drive the firm's growth and value creation (Jamali et al, 2008: 444). According to Abdullah and Valentine (2009), CG has become necessary to help restore investor trust in financial markets and to increase company market values. Kang, Cheng and Gray (2007) agree that guidance on CG was required to boost investor confidence following the numerous accounting scandals and the fall of major entities across the globe. Jensen (2004) advises that CG is required to limit value destruction caused by overvalued equities, which contributed to the demise of Enron.

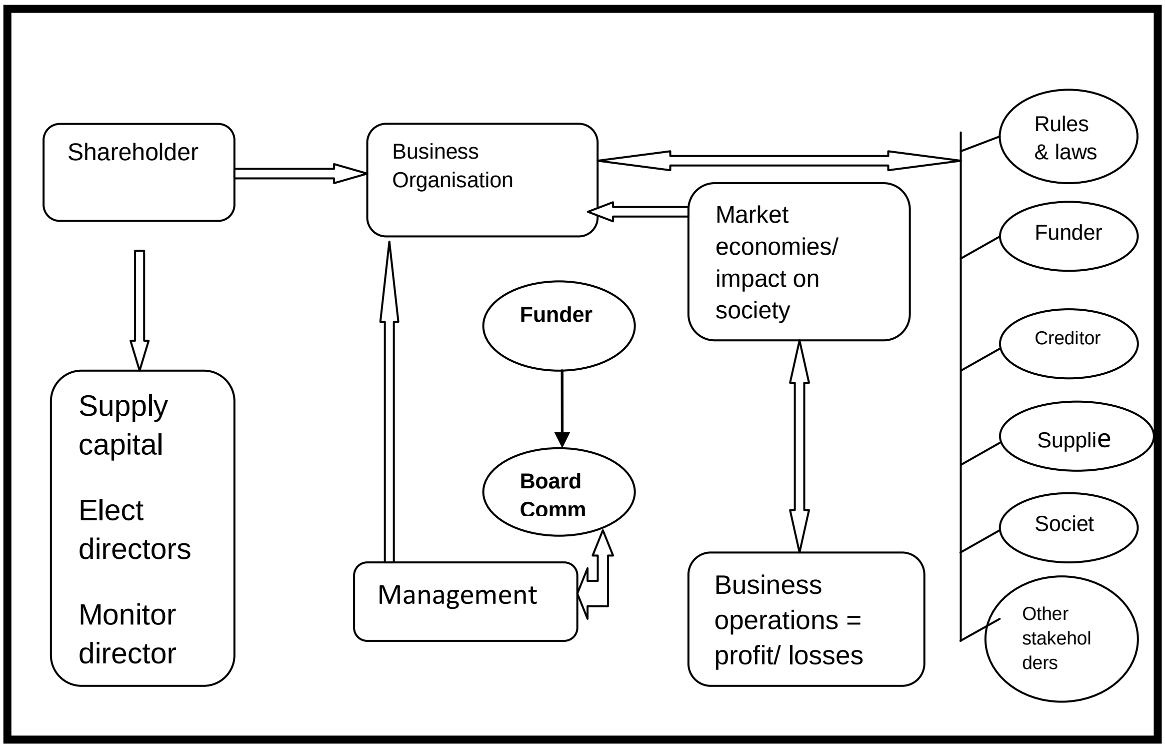
CG is said to enhance the relationship between shareholders and managers; improve the co-existence between majority and minority shareholders and to increase the disclosure of information to creditors, to enable them to make informed decisions about the state of a firm (Nunez and Oneto, 2015). Nunez and Oneto (2015) believe that CG provides rules and guidelines which serve to reduce actions that benefit directors/management (agents) at the expense of maximising value for shareholders (principals). John and Senbet (1998), with Hua and Zin (2007) in agreement, submit that CG was needed to deal with the agency problem, which is a result of the separation of ownership and control in a firm.

The benefits of instituting sound CG practices include access to capital, the reduction of the cost of capital, succession planning, external market pressure, balancing of different shareholder interests, firm sustainability and improved operating results (IFC, 2009). Solomon (2009) remarks that corporate governance failures and scandals are directly correlated with poor corporate governance practices. Bebchuk and Weisbach (2010) submit that CG is required to avert the negative consequences of poor governance, such as the inability of firms to integrate into the global economy or the difficulty for firms to attract foreign and local capital, which hampers economic growth. Other noted impacts of weak or poor CG practices include underperforming markets, high cost of capital and increased market volatility, translating to stunted or stuttering economic growth (Claessens and Yurtoglu, 2012).

### 2.3.2 Who are the main role players in corporate governance?

Figure 2.1 provides a graphic overview of key CG role players (shareholder, managers, funder and the board) in a business organisation.

**Figure 2.1: Key corporate governance role players in a firm**




*Source*: Hua and Zin (2007)

## 2.4 CORPORATE GOVERNANCE MODELS

There are two CG models that will be briefly discussed: the insider (UK and US) model; and the outsider (Germany, Japan) model. The characteristics, benefit and advantages of each of the models are briefly outlined in Table: 2.1

**Table 2.1: Types of corporate governance models**

| | **Outsider model** | **Insider model** | **Insider model** |
|---|---|---|---|
| Country | - Anglo-Saxon –UK and US | - Japan | - Germany |
| Characteristics | - Focus on shareholder interest<br>- Internal governance mechanisms - board of directors, employee | - Concentration of ownership<br>- Closer management control by banks and large shareholders | - Concentration of ownership<br>- Partnership between capital and labour |

| | | | |
|---|---|---|---|
| | compensation<br>- External mechanisms -market for corporate control, monitoring by financial institutions, competition in product and input market<br>- Reliance on legal mechanisms to protect shareholder rights<br>- Conflict of interest between strong managers (agents) and owners (shareholders)<br>- Dispersed ownership, weaker shareholder<br>- No management participation in shareholder decision-making | - Formal role of large and almost entirely executive boards – single-tier board<br>- Historical roots of the Keiretsu network interlocking business relationships<br>- Existence of significant cross-holdings and interlocking-directorships,<br>- Lifetime employment system plays role in corporate policy<br>- Market share maximisation over shareholder value maximisation<br>- Long term perspective | - Social cooperation<br>- Two-tier board structure<br>- Cross-shareholding in financial and industrial groups<br>- Role of banks as major shareholders<br>- Primary sources of capital – retained earnings and loans |
| Benefits | - High share liquidity<br>- | - More effective monitoring of management<br>- Reduced agency problem | - More effective monitoring of management<br>- Reduced agency problem |
| Disadvantages | - Short-term focus and relationship between company and investor<br>- High management turnover<br>- High agency problem<br>- | - Conflict between controlling and minority shareholders<br>- Low liquidity<br>- Reduced risk diversification<br>- Low board independence | - Low liquidity<br>- Reduced risk diversification<br>- Low board independence<br>- |

*Sources:* Hua and Zin (2007), Maher and Andersson (1999) and Mcube (2010)

Table 2.1 demonstrates the distinct difference between the outsider and insider models. It does also show the similarities between the German and Japan insider models, while highlighting some of the unique features and differences of each.

## 2.5 THE THEORETICAL BASIS FOR CORPORATE GOVERNANCE

This section provides a description of the various CG theories. Irving (2013) makes mention of five CG theories, namely the agency, stakeholder, new institutional, stewardship and shareholder theories. Abdullah and Valentine (2009) also include in their list of CG theories the resource dependency theory, transactional theory and political theory. Of these theories, the key focus here will be on the agency, stakeholder and stewardship theories of CG.

### 2.5.1 Agency theory

This section will consider the various definitions of the agency theory, the factors that have given rise to the agency theory, the tools available to minimise its impact and the relationship between CG and the agency theory.

There are numerous definitions of the agency theory. That provided by the IoD (IoDSA 2002: 9) is: "corporate governance principles were developed, *inter alia,* because investors, with the era of the professional manager, were worried about the excessive concentration of power in the hands of management. This protection against greed could encourage the sins of sloth and fear, with an erosion of enterprise and an encouragement of subservience". The definition by Abdullah and Valentine (2009: 89) is: "the relationship between the principals, such as shareholders and agents, such as the company executives and managers". These definitions speak about two players, owners (shareholders) and managers (agents); and highlight the conflict of interest that might arise as a result of agents pursuing their own personal agenda.

According to Pande (2011), the 'agency theory', which originated in the 1930s, is based on the Anglo-Saxon CG model, which has its roots in the Economics discipline. Abdullah and Valentine (2009) hold the view that Adam Smith discovered the agency theory in the 18th century. Fama and Jensen (in Mcube (2010: 17) cite Jensen and Meckling (1976), one of the classics in the field of finance, and Adam Smith (1776), who noted that the directors in a joint stock company could not be expected to be as vigilant and careful with other people's money as they are with their own.

It was these developments which set the basis for the agency theory and the stage for its role players, managers and shareholders (Styhre, 2016). These developments also led to the acknowledgement that agents (employees or managers) in a firm may act in self-interest (Abdullah and Valentine, 2009). Nunez and Oneto (2015) remark that there are two scenarios in which the 'agency' issue can arise. The first is when there is a transfer of responsibilities of the firm's decision making from the principal (shareholder) to agents (management/ board of directors); the second is the conflict between minority and controlling shareholders. Pande (2011) and Maher and Andersson (1999) share the view that the separation of ownership and management is at the heart of the agency problem.

John and Senbet (1998) declare that the 'agency problem' is not limited to the shareholder/board and management perspective but stretches across the stakeholder universe, which includes providers of capital (shareholders and bondholders), employees and society. Jansen and Smith (1985) also believe that the agency problem exists between equity and bondholders (debt) due to a conflict of interest that might arise, hinting that a firm's capital structure might have added to the agency problem. The agency problem is broader than the principal/agent conflict; they posit that it also extends to the conflict of interest between capital providers (debt/equity) and agents (management and board), as the owners/investors in a firm do not manage the business they own, and need to procure the services of managers and the board (agents) to do this on their behalf (Hua and Zin, 2007). Nunez and Oneto (2015) argue that in the principal/agent relationship, the agency problem arises when managers opt to maximise value for themselves at the expense of shareholders.

Brezeanu and Stanculescu (2008) remark that the conflict between agents and principals has the most significant impact on corporate performance and the value of a firm.

*Corporate governance and the agency theory*

Some authors including Nunez and Oneto (2015); Jamali et al (2008); John and Senbet (1998); Hua and Zin (2007) highlight the role played by CG in the agency problem.

Grant (2003) observes that corporate governance, which seeks to ensure alignment between managers and shareholders' desires; evolved from the agency theory, which refers to the transfer of power and decisions in an entity from its owners or shareholders to managers. However, while Judge (2009) concurs with the view that modern corporate governance emanates from the agency theory, he expresses strong reservations about the theory; given what it implies about human nature and the shortcomings of management/shareholder practices in the Anglo-Saxon and emerging world.

The relationship between the agency problem and corporate governance is illuminated by Claessens and Yurtoglu (2012: 13), who characterise corporate governance as "a set of mechanisms through which firms operate when ownership is separated from management". Oyarzún (2011) also observes that corporate governance was developed to solve the agency dilemma. This arises when there is separation of ownership and control of entities; which occurs when the owners of the entity, its shareholders, give power to the managers of the entity (the board and managers), who might be driven by self-interest in the decisions they make.

It is said that the complexity of the agency theory in modern times is largely due to the rapid change in ownership of entities, as a result of ownership being largely held by institutional investors who hold many other securities across the world (Cadbury, 1992). This has led to managers and boards becoming more powerful than owners (shareholders); a situation further exacerbated by the difficulty in identifying owners of companies, as the bulk of shareholders are institutional investors. Maher and Andersson (1999) also posit that in a principal-agent relationship, management is more powerful, as it has greater access to information than shareholders. Claessens and Yurtoglu (2012) observe that the geographic spread of investments has meant that the institutional investors must delegate to the management the control of the firms they have invested in. In partly addressing the issue of geography, Cumming, Filatotchev, Knill, Reeb and Senbet (2007) posit that formal and informal institutions must play a key role in governance and addressing the agency issues. Rossouw

(2002), in calling the board of directors the steward of corporate governance in an organisation, indirectly calls on boards to apply the values of corporate governance in their management of the company. CG is expected to ensure that companies and their managers act in the best interests of the broader stakeholder grouping and not only shareholders (owners) (Rossouw et al, 2002).

Within the ambit of the agency theory, CG plays a key role in limiting management discretion and in ensuring accountability by management (Maher and Andersson, 1999). CG reduces the agency problem by reducing sub-optimal behaviour through the monitoring of management behaviour, which results in improved company performance (Renders, Gaeremynck and Sercu (2010).

A key reason advanced for the need to reduce or resolve the agency problem is its negative impact on the efficient operation of a firm, as a result of a change in optimal investment strategies, possibly leading to adverse economic growth and development (John and Senbet, 1998). Maher and Andersson (1999) believe that the agency problem, if left unchecked, could result in opportunistic management behaviour, leading to management's becoming entrenched in an organisation and rent extraction. The remedies for the agency problem have been suggested to be (Maher and Andersson, 1999):

- An increase in rights of shareholders
- Enhanced monitoring of management
- The use of external market mechanisms, such as the. labour market and corporate control like takeovers
- Ensuring alignment between shareholders and management through appropriate executive compensation.

Executive incentives, the external managerial labour market, external board members and the takeover market are some of the mechanisms which have been positively used to reduce the agency problem in the Anglo-Saxon model (Yoshikawa and Phan, 2001). Other CG mechanisms which are said to address the agency problem are internal control mechanisms through the appointment of the board; and external control mechanisms that monitor and discipline management (Hua and Zing, 2007).

Claessens and Yurtoglu (2012) submit that corporate governance positively reduces the agency problem, as it increases the information available to shareholders, thus reducing the shareholder-manager information gap. Ntim, Opong and Danbolt (2012) believe that CG reduces the agency problem by enhancing alignment between managers and owners.

*Impact of the agency problem*

The agency problem has been identified as a source of high agency costs, which lead to the under-pricing of a firm (Chahine and Saade, 2011). Maher and Andersson (1999) list under-investment in employees and suppliers and incomplete contracts as some of the negatives of the agency effect. Renders et al (2010) identify the causes of transactional costs to be suboptimal strategies, the manipulation of performance measures, resisting of takeovers, and the expropriation of value from owners (shareholders). Chahine and Saade (2011) also conclude that a reduction in the agency problem leads to a drop in transactional costs.

Brezeanu and Stanculescu (2008) warn against a prolonged agency problem, as it weakens corporate governance, thus contributing to the restriction of current firm activity; reduction of profitability and granting of dividends; decrease in the stock price for listed shares; excessive mobility of staff, potential bankruptcy and liquidation of the enterprise.

*Conclusion regarding the agency theory*

The researcher has observed that some of the key principles that underpin recent corporate governance principles, like SOX, the UK Code and King Codes, do include some measures to reduce the agency problem. These measures are: the non-executive director role, the requirement for more independent non-executive directors to serve on the board, the role played by board committees like the audit and remuneration committees, the requirement for auditors to be independent of management and the requirement for a separate Chairman/CEO role. These mechanisms, which are discussed in greater detail in Chapter 3 (global overview of governance systems) and Chapter 4 (King Codes) do point to a need to ensure that there is an oversight/monitoring layer that is answerable to the owners (shareholders) with respect to how the managers have been conducting business and to ensure that managers act in a manner consistent with advancing shareholder and not personal interests.

### 2.5.2 Stakeholder theory

This section will consider the various definitions of the stakeholder theory, the factors that have given rise to it, its benefits and impact and a conclusion.

Freeman (1994: 41) defines stakeholders as: "groups or individuals who benefit from or are harmed by, or whose rights are violated or respected by, corporate actions”. The stakeholder model describes the network of formal and informal relations involving the corporation (Maher and Andersson, 1999). Goodpaster (1991) believes that the term ‘stakeholder’, which became popular in the 1960’s, was crafted to demonstrate that there are interest groups other than shareholders who have a vested interest in the affairs and behaviours of a corporation.

The ‘stakeholder theory’ has its roots in the management discipline, with its year of origin from the 1970s onwards (Pande, 2011). Abdullah and Valentine (2009) submit that Freeman (1984) was instrumental in further developing this theory by adding accountability to a broader range of stakeholders. Pande (2011) also lists Ansoff’s (1987) thinking in the 1960s, Michael Porter’s (1980) conceptions of industry analysis in the 1980s and the work of Kaplan and Norton (1992) on balanced scorecards in the 1990s as other contributors to this theory. Boatright (2006) shares the view that Donaldson and Preston (1995) together with Jones and Wicks (1999) were advocates of stakeholder theory.

An assumption that underlies the stakeholder theory is that values are intractably linked with doing business; it rejects the separation thesis, which presupposes that economics and ethics can be separated (Freeman, Wicks and Parmar, 2004: 364). According to Freeman (1994), the question of who benefits from the firm and for whose benefit the firm should exist underpins this theory.

Brezeaunu and Stanculescu (2008) remark that this model has been adopted in Southeast  Asia, and gives due weight and consideration to each stakeholder without one being preferred to another. The basis of this theory is for a firm to be socially responsible and managed in the public's interest; which is also underscored by the performance criteria, which include employment levels, market share, growth in relationships with suppliers and clients, and, lastly, financial performance (Maher and Andersson, 1999). The stakeholder theory is largely applied with regard to corporate social responsibility (Saint and Triphathi, 2006).

Abdullah and Valentine (2009) stress that the difference between the agency and stakeholder theories is that while in the agency theory managers are working and serving shareholders/stakeholders, in stakeholder theory managers serve a broader nexus of relationships such as suppliers, employees and business partners; which are seen to be more important than the owner-manager-employee. The mandate of the firm, in this model, reaches beyond shareholders to other stakeholders – employees, creditors, suppliers, customers, the environment, government and society and more (Maher and Andersson, 1999). "Stakeholders groupings (beyond stockholders) are employees, suppliers, customers, creditors, competitors, governments and communities", (Goodpaster, 1991: 54).

Freeman, Rusconi, Signori and Strudler (2012: 1) opine that stakeholder theory; "provide tools that managers can use to better create value for the range of their constituents, tools that constituencies can use to improve their dealings with managers, and tools that theorists can use to better understand how value creation and trade take place.

*Corporate governance and the stakeholder theory*

Stakeholder theory compliments the current system of CG, as it is underpinned by the desire to benefit all stakeholder groupings (Boatright, 2006). According to Esser and Delport (2017; 98): "a basic element of the duties of directors is that directors must act in the interest of the company", this according to these authors extends to present and future stakeholders.

According to Dartnal, Kleyn and van Zweel (2017), King IV has a stronger stakeholder focus than compared to all previous King Codes; it also encourages companies to focus more on stakeholder considerations than previously espoused.

Dartnal et al (2017) believe that the increased focus and elevation of the Social and Ethics Committee in King IV, further entrenches the stakeholder focus of King IV.

*Impact and benefits of the stakeholder theory*

Friedman (1970) who is seen as the 'father' of shareholder theory, submitted that corporate social responsibility, a key tenet of the stakeholder theory model, is a tax on shareholders that undermines returns due to shareholders as funds are deployed for purposes other than the maximising of profits for the benefit of a shareholder. The relevance of corporate social responsibility (CSR) in stakeholder theory is evident in the work of Bosch-Badia, Montllor-Serrats and Tarrazon (2013) who support the view that CSR is a 'value driver' of the stakeholder theory.

The impact of stakeholder theory as espoused by Freeman, Wicks, and Parmar (2004) is its impact and positive influence on the behaviour of management as it tasks management with the responsibility to balance the interests of all stakeholders and not only one grouping. Freeman et al (2004) further advance that stakeholder theory assists in reducing a conflict that might arise between different stakeholder groups as a result of decisions that are made by management decision which might impact one group over another.

Freemen et al (2012) advance that stakeholder theory encourages ethical behaviour in business as it integrates business with ethics, thus reducing the perceived conflict between business and ethics. This view is contrary to that shared by Goodpaster (1991) who does not believe that there is sufficient evidence to link stakeholder theory with ethical business practices. Goodpaster (1991) considers stakeholder theory within the ambit of ethically responsible management, where it is suggested that shareholder and broader stakeholder interests inform decision making.

Boatright (2006) cites one of the benefits of the stakeholder theory as a need for a company and its management to engage all stakeholder groupings which is said to have a positive spin-off on the business and shareholder returns.

*Conclusion*

“Stakeholder theory pushes managers to embrace the pragmatic and pluralistic approach and recommends we avoid the philosophical and single theory approach”, Freeman, Wicks, and Parmar, 2004: 365).

Goodpaster (1991) believes that whilst stakeholder theory is relevant, management of a corporate have a different relationship with shareholders, one which can be deemed to be obligatory as they make promises to shareholders which they do not necessarily make to the other stakeholder grouping i.e. a promise of a return. Goodpaster (1991) further states that such an obligation is consistent with that expected of a private institution and does not undermine the rights of the non-shareholder stakeholder groupings.

Boatright (2006: 17) believes that: “the fundamental mistake of stakeholder management is a failure to see that the needs of each stakeholder group, including shareholders, are different and that different means best meet these needs”.
Donalson and Preston (1995: 3) observed that despite numerous literature written on stakeholder theory “concepts stakeholder, stakeholder model, stakeholder management, and stakeholder theory are explained and used by various authors in very different ways and supported (or critiqued) with diverse and often contradictory evidence and arguments.”

### 2.5.3 Stewardship theory

The ‘stewardship theory’ has its roots in the psychology discipline, with its year of origin from the 1990s onwards (Pande, 2011). The stewardship theory is similar to the insider model practised in Japan, where the insider assumes the role of steward and takes ownership of the jobs and works at them diligently (Abdullah and Valentine, 2009).

The maximisation of shareholder wealth is a result of firm performance that is driven by the stewards of the firm, whose success is derived from the good performance of the firm (Abdullah and Valentine, 2009). Mcube (2010) notes that this theory presupposes that managers are trustworthy, and will discharge their duties for the greater good of the firm. Stewards, who are company executives and managers, work and make profits for the shareholders, and are guided by structures which empower them, while they are motivated by organisational success and not personal aspiration (Abdullah and Valentine, 2009). A limitation of the stewardship theory is that directors see their roles as being stewards of particular interest groups only (Pande, 2011).

### 2.5.4 Shareholder theory

Maher and Andersson (1999: 6) provide a narrow definition of the shareholder model, "a formal system of accountability of senior management to shareholders". It has been said that the motive in the shareholder theory is to maximise profits and wealth of shareholders, by maximising revenue, minimising cost, and reducing risk (Saint and Tripathi, 2006).

Healy, Henderson, Moss, and Ramanna (2015) believe that Milton Friedman is the father of the 'shareholder theory', following from the publication of his article in the New York Times in 1970. According to Friedman (1970:1), "In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to their basic rules of the society, both those embodied in law and those embodied in ethical custom."

Friedman (1970) advises that the appointment of a corporate executive by shareholders confirms that the corporate executive is appointed to advance the interests of his or her employers, being the shareholders, without doing anything that undermines ethics nor the rules of society. In support of this view, Boatright (2006) submitted that as CG is more focussed on shareholders; it was not designed to embrace the principles of the stakeholder theory which advocate for the consideration of other stakeholder groupings other than shareholders.

This theory is largely used in business schools and in the majority of businesses operating under the capitalist system (Saint and Tripathi, 2006). The shareholder theory also recognises that business ethics and stakeholder relations can have an impact on the reputation and long-term success of a company (Maher and Andersson, 1999). The importance of ethical conduct by the managers of the firm is also advanced by Friedman, Friedman (1970).

## 2.6 WHY IT COULD BE ARGUED THAT THE AGENCY THEORY IS THE MOST IMPORTANT CORPORATE GOVERNANCE THEORY

There are a number of views that are expressed in this chapter about the history of corporate governance and its impact on the agency problem.

In support of the researcher's assertion that the "agency theory" has the most impact on CG, Mcube (2010: ii) states, "many scholars have recognised the predominance of agency theory compared to the others. The literature demonstrates that the agency theory is substantially more established in practice, with limited discussions and debate around other two theories". The researcher's experience validates this, as the bulk of the literature and research done on CG theories, and the link between CG and its theories, focuses more on the 'agency theory' than the others. Despite this observation, there is a substantial body of work that discusses the stakeholder and stewardship theories, albeit not to the same degree and extent.

It is evident from some of the arguments presented above that there are numerous factors that have given rise to the need for corporate governance. Much of the literature in this study discusses the adverse impact that the agency problem can have on CG practices, as well as the performance of a firm. From a review of the stakeholder and stewardship theories, they do not do not appear to exert a similar degree of influence. It is largely for this reason that the researcher, having considered the body of literature, holds the view that the agency dilemma or problem is the reason that corporate governance codes have come into being. This view is also supported by Pande (2011), who remarks that historically, corporate governance evolved as a mechanism to deal with the consequences of the agency problem.

## 2.7 WHAT ARE THE REQUIREMENTS FOR EFFECTIVE CORPORATE GOVERNANCE?

The most important requirements for effective CG are a recognition of the rights of shareholders and debt holders; a developed legal system that has enforcement capability; sound leadership underpinned by ethical practices; effective protection of minority shareholders from exploitation by controlling shareholders; transparency; information disclosure; and equitable treatment of all shareholders (Hua and Zin, 2007).

Bubcheck and Weisbach (2010) add that a board of directors that is independent and has access to all relevant information (not only publically available information) is key to ensuring effective CG.

## 2.8 BENEFITS AND VALUE OF CORPORATE GOVERNANCE

The vast amount of research that has been conducted in the field of CG has been primarily on the relationship between corporate governance and value (Monda and Giorgino, 2013). Numerous quantitative studies have been undertaken to deepen the understanding of the value of corporate governance and the factors that affect such value. Some of these studies were undertaken by Nguyen and Nielsen (2013); Coles, Lemmon and Meschke (2011); Mc Connell, Searvaes and Lins (2008); La Porta et al (2008); Kaplan and Minton (2006); and Yermack (1997). In understanding some of the factors that impact on the value of CG, the impact of country rules and laws on the value of corporate governance was considered in studies undertaken by Klapper and Love (2004) and La Porta et al (2002), among others.

Of interest, however, is that there seems to be no common understanding of the concept of “value” of CG.The value and need for CG is supported by the conclusion reached in earlier studies conducted by Lombardo and Pagano (2000); Klapper and Love (2004); La Porta et al (2002); and Gompers et al (2002); which found strong support for the value of corporate governance to companies.

The value of good corporate governance has been shown to be an improvement in the quality of earnings, driven by changes introduced in accounting standards, leading to a more conservative application of accounting standards and reporting requirements (Sivaramakrishnan and Yu, 2008). Boytsun, Deloof and Matthyssens (2011) submit that transparency in the application of and adherence to corporate governance practices is associated with greater firm performance in jurisdictions that have adopted the Anglo-Saxon model of governance (UK, US, etc.).

Some of the benefits associated with good corporate governance, such as increased shareholder involvement, shareholder influence on key governance matters and an upswing in support for director election and director compensation, were noted in the US due to transparency and full disclosure of information to stakeholders (Ernst & Young, 2013).

Firms that follow high governance standards are perceived to be investor friendly, thus boosting investor confidence in the firm, leading to higher market valuations (IFC, 2009). Armstrong (2004) lists investor attractiveness and access to capital (bond and equity markets) as a benefit of sound corporate governance practices. The ability to access external capital at a lower cost significantly influences a company's decision to adopt corporate governance (Klopper and Love, 2004).

The importance of corporate governance in investment decision making should not be underestimated. Corporate governance practices are a criterion used by investment managers and investors when making investment decisions (Nxumalo, 2016; OECD, 2004). The same sentiment has been echoed: "corporate governance has moved to the heart of investment decisions" (McKinsey survey, 2002: 1). Investors making investments in foreign jurisdictions are likely to rely heavily on corporate governance practices of the said institutions, given their lack of local, business and cultural know-how and exposure (Chahine and Tohme, 2009).

The OECD reports bring to the fore the positive impact corporate governance measures have on domestic investor confidence and the cost of capital and in ensuring stable sources of funding (OECD, 1999, 2004). Financial market stability, investment and economic growth, improved economic efficiency and confidence in the market economy are some of the benefits of corporate governance (OECD, 2004). Improved micro-economic efficiencies, an influence on resource allocation, positive economic growth and the ability to compete for capital are the benefits attributed to CG (Maher and Andersson, 1999: 4). Hua and Zin (2007: 33) believe that the benefit or value of CG lies in:

- The efficient use of resources within the firm
- A boost in local and international investor confidence, which leads to a lower cost of capital
- The use of corporate assets in the manner agreed, irrespective of whether capital is debt or equity
- Increased firm attractiveness to investors

Ntim et al (2012), in their study that observed the King II corporate governance disclosures of 169 South African listed companies between 2002 and 2007, concluded that firms who disclose their corporate governance practices and are transparent about them are rewarded with a higher firm value and an improved valuation. Oman (2003: 11) acknowledges the key role of corporate governance in emerging economies like South Africa, Brazil and Russia as "helping both to increase the flow of financial capital to firms in developing countries and to enhance those countries' financial development as a whole".

## 2.9 CONCLUSION

The key elements covered in this chapter included the outline of the theoretical frameworks that underpin CG, the reasons for CG, its role players and its value.

The researcher holds the view, based on the literature, that the agency theory and its impact on CG is the most important underlying theoretical framework for CG. A key element emerging from the literature review was the need by companies to adopt CG practices to ensure that the agency-principal dilemma, which underpins the agency theory, does not undermine the performance of the firm, and concomitantly does not have an adverse impact on the firm's stakeholders, including its shareholders. The agency theory thus has more bearing and influence on CG than either the shareholder or stakeholder theories. It is the researcher's view that the agency problem, or theory, or dilemma, is the main reason for corporate governance's having come into being.

The researcher believes that CG has a bearing on the performance of a company, though the link is not always easy to quantify or identify. It is also the researcher's assertion that the value of CG lies in its ability to foster trust between companies, their managers, the board, investors and society at large. Its value is about investors and other stakeholders being able to use the governance standards of the world or jurisdiction to make a determination on whether a firm is behaving or making decisions as it should. CG is an objective instrument that can be used to compare firms in the same jurisdiction or in other parts of the world, it is a standard of measure that those charged with governance (managers, boards) must consistently and constantly refer to and use as their compass. The true value of CG lies in its push for disclosure and transparency, which is a constant reminder that decisions made will need to be answered for. The value of CG, while not tangible, should be seen as a guide for firms, stakeholders and its stewards as they make day-to-day decisions.

CG has played a key role in South Africa, not only in terms of providing South African entities with a CG framework that has been used as a basis of other CG practices; but also because of the transformative role it played in changing the way and manner in which SA corporate bodies behave and how business is conducted in SA.

The value of CG in SA should not be underestimated, considering the role it has already played in advancing corporate reform and in highlighting the need for transformation from a closed to a more open and inclusive business society. In the light of the significant impact of the King Codes, it is therefore of great importance to investigate any drop in value in such codes. The results of such a study or analysis could provide invaluable insights to those who compile any future versions of codes on governance in South Africa. A key consideration for them is to ensure that the value of corporate governance remains at a high level and continues to contribute to the effectiveness of CG.

The body of research in this study hopes to assist in providing some answers and thoughts on the value of CG and the reasons/factors that have resulted in a perceived drop in the value of King III compared with that of King II.

# CHAPTER 3:
# International Systems of Governance

## 3.1 INTRODUCTION

This chapter focuses on the evolution of CG in the United Kingdom (UK), United States (US), Brazil, Malaysia and Nigeria.

Shleifer and Vishny (1997) argue that the UK, US, Japan and German corporate governance models stand out globally as the most respected. The selection of the US in the corporate governance debate in this chapter is axiomatic, a view underscored by Shleifer and Vishny) (1997).The US corporate governance practices are respected because it was the first country across the globe that legislated on some key aspects of corporate governance compliance, culminating in the enactment of the Sarbanes Oxley Act ("SOX") in 2002.

The UK has been selected in this chapter because of its long history with corporate structures, as well as governance in general. It is worth noting that the first formal code on governance was the UK-authored Cadbury Report, released in 1992 (Cadbury, 1992). To underscore the importance of the UK in the corporate governance debate, Rayton and Cheng (2004) suggest that the principles that underpin the Cadbury Code are "used by most countries that have a Unitary Board in structuring sub-committees".

The researcher's selection of Brazil, Nigeria and Malaysia was due to their significant size and role in their respective emerging market regions. According to the World Bank (2012), an improved corporate governance environment has immeasurable benefits for emerging market economies, including the reduction of the cost of capital, the development of capital markets, improved investment confidence and increased external investment.

Table 3.1, compiled by Naidoo (2009), highlights the various systems of governance, bases of compliance, year of enactment or application and the entities the various codes of governance apply to. Shleifer and Vishny (1997)) argue that the importance of research into corporate governance lies not only in practicality, but also the disparate views about the various corporate governance models adopted worldwide. The difference in the manner in which corporate governance is applied across these jurisdictions is shown in Table 3.1.

**Table 3.1: International systems of governance**

| Country | Board model | Governance Code revision | Basis of Compliance | Application |
|---|---|---|---|---|
| Australia | - Unitary board | - Yes, 2008 | - If not, why not | - Listed companies |
| Austria | - 2 tier model<br>- Management and supervisory boards | - Yes, 2007 | - Voluntary<br>- Comply/explain | - Listed and associated group of companies |
| Brazil | - Unitary | - Yes | - Voluntary | - All companies |
| Europe (OECD countries) | - Unitary board and<br>- 2 tier board structures | - Yes,<br>- different adoption dates | - Largely comply/explain | - Listed companies in the main |
| Germany | - 2 tier board | - Yes, 2008 | - Comply/explain | - Listed companies |
| India | - Unitary board | - Yes, 2000 | - Some mandatory | - Listed companies and SOEs |
| Japan | - A business network model | - Yes | - N/A | - Listed companies |
| Malaysia | - Unitary | - Yes from 2000 | - 2012 Code is Voluntary | - Listed companies to comply |
| **South Africa** | - **Unitary** | - **Yes, 2016** | - **Voluntary**<br>- **Apply or explain** | - **All companies and SOEs** |
| UK | - Unitary | - Yes, 2012 | - Comply/explain | - Listed companies |
| US | - Unitary | - Yes, SOX | - Legislated | - Listed companies |

*Source:* Adapted from Naidoo (2009): 304–314

### 3.1.1 Conclusion

It is evident from Table 3.1 that large parts of the world subscribe to certain codes of corporate governance. The theme emerging from this table is that the majority of the countries concerned, with the exception of the US, have opted for a voluntary approach to corporate governance compliance rather than legislated compliance.

The system of a unitary board with a majority of independent directors has also been widely adopted as good practice (with the exception of Austria and Germany, who have opted for a two-tier governance model). Without exception, all the governance codes referred to above apply to listed companies as a minimum standard. Another observation is that around the year 2000, following the financial crisis of the late 1990s, there was greater focus on codes for corporate governance. Numerous other updates followed as a result of the 2008 global financial crisis.

The rest of the chapter provides detail on the approach to corporate governance, the evolution of corporate governance and the impact of corporate governance on the US, UK, Malaysia, Brazil and Nigeria. These countries were selected due to their contribution to the research on corporate governance, contribution to the advancement of corporate governance practices, economic size and influence within their various geographies.

## 3.2 UNITED STATES

According to Grant (2003), the US was pioneering the establishment of corporations limited to public enterprises as early as the start of the nineteenth century, evolving into profit-making entities later in the nineteenth century. This evolution, which occurred primarily between 1880 and 1930, was largely driven by a change in ownership patterns of enterprises, from private ownership to outside ownership, due mainly to the need to raise capital during the industrialisation of the US economy.

### 3.2.1 Approach to corporate governance

Grant (2003) declares that historically the US aimed for a legislative approach to protect shareholders, regulate the behaviour of corporate America and ensure confidence in its markets and companies as a whole. This was evidenced by the enactment of the Securities Act of 1933 and its update in 1934, as well as the establishment of the Securities Exchange Commission (SEC) in 1934. The same legislative approach was followed in the enactment of the Sarbanes-Oxley Act (SOX) in 2002. As advanced in SOX (2002), and supported by Grant (2003), SOX was legislated to improve business ethics by raising the bar on executive awareness and accountability, restore confidence into financial markets and protect investors.

### 3.2.2 Evolution of corporate governance

According to Clark (2005), the sweeping reforms in corporate governance standards and practices applicable to US corporations did not come all at once, or from one standard-setting source, but came from numerous angles – from the enactment of SOX in 2002 and the revision of listing requirements for companies listed on the New York Stock Exchange, to increased reliance on governance rating agencies and reduced judicial tolerance of poor corporate behaviour.

Vancea (2003) believes that the Sarbanes-Oxley Act was a response by legislators to the Enron, WorldCom, and other corporate scandals. This view is also shared by Cohn (2012), who goes further to argue that over and above the corporate scandals it was also the demise of Arthur Andersen which drove the need for corporate governance reform in the US. Lin and Wu (2006) believe that corporate failures were to a large extent driven by dishonesty and unreliable information from management. Sivaramakrishnan and Yu (2008) comment on the desired impact that SOX was expected to have on improved financial reporting, better corporate governance and enhancing the independence of auditors. Lin and Wu (2006) further report a greater improvement in risk management across the enterprise.

Table 3.2 below provides an overview of the key legislation enacted in the US from 1933 to 2012 aimed at ensuring and improving market practices, protecting investors and enhancing corporate governance practice.

**Table 3.2: Corporate legislation reform in the US**

| Legislation | Purpose | Result |
|---|---|---|
| Securities Act of 1933 | - ensure that the information published with respect to the sale of stocks was free of bias, misinterpretation, error and fraud<br>- ensure that potential investors were privy to the relevant financial information | - Registration of securities to be sold to the public |
| Securities Exchange Act of 1934 | - provide for and prohibit certain conduct in the market<br>- give the SEC the power to regulate stock exchanges in the US | - Creation of the SEC and the introduction of insider trading regulations |
| Trust Indenture Act of 1939 | - response to the increase in funds managed by third parties | - An agreement between the issuer of bonds and the bondholder, to precede sale to the public |
| Investment Company Act of 1940 | - regulate mutual funds<br>- deal with conflict of interest in the trading of funds | - Disclosure of financial standing and investment strategies |
| Investment Advisors Act of 1940 | - regulate the activities of investment advisors<br>- ensure that advisors were registered with the SEC<br>- ensure that advice provided was within the stipulated regulation | - Registration of advisors that had a certain quantum of funds under management |
| Sarbanes-Oxley Act (SOX) of 2002 | - reforms to enhance corporate responsibility, enhance financial disclosure and combat corporate and accounting fraud | - Creation of the "Public Company Accounting Oversight Board," (PCAOB),<br>- Overhaul of governance practices |
| Housing and Economic Recovery Act of 2008, | - allow the Director of the Federal Financing Agency access to information given by the PCAOB at the discretion of the SEC | - Increased regulatory oversight and reach |
| Dodd-Frank Wall Street Reform and Consumer Protection Act of | - pass legislation focusing on consumer protection, trading restrictions, credit ratings, regulation of financial products, corporate governance, disclosure, and transparency | - Update of some of the provisions in SOX<br>- Enhanced protection of whistle-blowers |

| | | |
|---|---|---|
| 2010 | | |
| Jumpstart Our Business Start-ups (JOBS) Act of 2012 | - minimise regulatory requirements for companies looking to raise funds from the public | - An exemption to emerging growth companies |

*Source*: Adapted from SEC (Securities Exchange Commission)

### 3.2.3 The impact of improved governance

Table 3.3 provides an overview of the material changes and benefits of SOX; including some observations about SOX. The reason for focusing on the impact of SOX, despite other legislation that has been passed, is the significant change it brought to the corporate governance landscape in the US.

**Table 3.3: Impact of SOX**

| Key material changes | Key benefits | Key observations |
|---|---|---|
| - The limitation of the number of directorships held by Non-Executive Directors (NEDs)<br>- Debate on director stock ownership to continue<br>- Boards to disclose "corporate governance guidelines" and "codes of business conduct and ethics"<br>- Boards' self-assessment and evaluation<br>- Disclosure of "Off-balance sheet" items<br>- Critical accounting policies to be identified and discussed in 10-K Reports<br>- Disclosure of related party transactions<br>- Tighter reporting filing for quarterly earnings and insider transactions | - Requirement to appoint an audit committee<br>- Expansion of disclosure requirements<br>- Adding a certification requirement to the veracity of internal controls<br>- Strengthening auditor independence<br>- Prohibiting loans to executives<br>- Strengthening criminal and civil penalties for violations of securities laws<br>- Structural shift away from the dual CEO/chairmanship roles<br>- Increased institutional ownership<br>- Higher bond ratings and lower bond yields<br>- Improved governance due to greater board | - Increased focus on reporting on internal controls has not increased the detection of fraud.<br>- The cost benefit of reporting on internal controls remains unproven.<br>- There is little evidence to suggest that the curbing of audit v. non audit services has resulted in an improvement in audit quality.<br>- There have been increased restructuring and merger and acquisition activities by the companies.<br>- Shareholder wealth has been enhanced.<br>- Poorly performing CEOs have been removed and there has been an increase in the appointment of |

| | | |
|---|---|---|
| - Expensing of stock options<br>- The establishment of the independent oversight of public company audits by the Public Company Accounting Oversight Board (PCAB) | independence<br>- Enhanced corporate disclosure<br>- Enforcement provisions<br>- Improved corporate responsibility<br>- Improved levels of confidence in capital markets<br>- Restoration of investor confidence<br>- Improvements in both audit quality and corporate governance | external CEO candidates. |

*Sources*: Clark (2005), Clark (2012), Cohn (2012) and Vancea (2003)

Some shortcomings of SOX, as observed by different authors listed below, are:

- There is more focus on board independence than empowering shareholders to initiate major transactions like mergers, sales of control or corporate distributions (Clark, 2005).
- Mandatory reports on internal controls by management and auditors, as set out in Section 404, are unlikely to provide the requisite assurance (Lin and Wu, 2006).
- There is a lack of belief that Section 404 will improve governance and deal with some of the internal control shortcomings (Tysiac, 2012).
- The Foreign Corrupt Practices Act of 1976 (FCPA) was included in SOX without further enhancement or amendment.

### 3.2.4 Conclusion

As SOX ended self-regulation, it brought with it a major overhaul in the sphere of governance. The magnitude of the reforms brought about by SOX is also supported by Clark (2005), who shares the view that the reforms stressed the importance of the independence of boards, the value of having key board committees overseeing audits, and executive compensation, together with nomination committees composed entirely of independent directors. Tysiac (2012) also supports the view that a notable accomplishment of SOX and its regulation has been bolstering the role of independent audit committees in ensuring strong corporate governance practices.

## 3.3 UNITED KINGDOM

According to Grant (2003), the model of today's corporate governance has its origin in the UK, which evolved from having institutions built for the public good, which provided public services like hospitals, schools and others in the seventeenth century, to companies that evolved to become trading companies.

### 3.3.1 Approach to corporate governance

Rayton and Cheng (2004) believe that the key tenet in the establishment of the various committees on corporate governance was the desire to ensure that the trust and belief that people, investors and other stakeholders had in the integrity of the UK financial system remained intact.

Unlike SOX, which was legislated, the UK code on governance was more of a 'light-touch regulation'; as evident in the principles of the Cadbury Code (Cadbury, 1992), which promoted the efficacy of self-regulation in its adoption of the 'comply or explain' principle of corporate governance. Jordan (2012) believes that the continued support for the Cadbury Report's 'comply or explain' principle underpins the UK system's belief that accountability and proper governance can thrive as a result of 'voluntary' compliance.

### 3.3.2 Evolution of corporate governance

Barker (2008) argues that the origin of corporate governance in the UK was largely as a result of corporate scandals in the UK in the late 1980s and early 1990s. Cadbury (1992) also supports this view, arguing that the advent of the Cadbury Report was a result of the collapse of BCCI Bank and Polly Peck and the Robert Maxwell pension fund scandal; which were primarily driven by a lack of financial reporting and accountability.

Cadbury (1992) supports the view that the Cadbury Report was penned during difficult times, as company reports and financial statements were being scrutinised in the wake of the massive financial scandals. Jones and Pollit (2003) agree that the decision to set up the Cadbury Committee was also a direct response to the collapse of key companies across the globe. Rayton and Cheng (2004) remark that the collapse of companies resulted in public concern about the integrity of company management, boards of directors and auditors. These views are also shared by the Financial Reporting Council (FRC) (2006), which fingers corporate failures as the catalyst for the issuing of corporate governance codes.

The aim of the Cadbury Code, as shared by Cadbury (1992), was to assist UK companies to raise corporate governance standards, restore confidence to investors by clarifying duties of directors, shareholders and auditors, deal with director independence and restore public trust in corporate UK. Jones and Pollit (2003), who in their report outline the pivotal role played by committees set up in the UK to tackle corporate governance issues, hold the strong view that the Cadbury Report continues to be the basis and foundation of corporate governance practices in the UK.

Table 3.4 provides a brief outline of some of the key corporate governance changes the UK has undergone in the hope of ensuring an improved and better functioning market and governance system.

**Table 3.4: Key corporate governance changes in the UK**

| Report: Name and date | Focus area | Outcome |
|---|---|---|
| Cadbury Report (1992) | - Financial aspects of corporate governance | - Recommendations on company boards and accounting systems to mitigate corporate governance risks and failures |
| Greenbury Report (1995) | - Directors' remuneration | - Greater transparency and disclosure to shareholders on the remuneration of executive directors |
| Hampell Report (1998) | - Review of the Cadbury Code and its original intent | - No requirement to radically change any of the recommendations |
| The Combined Code (1998) | - Recommendations of the Cadbury and | - A corporate governance system that combined and harmonised the |

| | | |
|---|---|---|
| | Greenburg reports | Cadbury and Greenburg recommendations. |
| Turnbull Report (1999) | - Internal control: guidance for directors on the combined code | - Adoption of a risk-based approach to establishing a system of internal control and reviewing its effectiveness. |
| Myners Report (2001) | - Institutional investment in the UK | - Established a best-practice approach to investment decision by pension funds, life companies, private equity and pooled funds |
| Higgs Report (2003) | - The role and effectiveness of non-executives and the audit committee | - Additional provisions with more stringent criteria for the board composition and evaluation of independent directors |
| Smith Report (2003) | - Independence of auditors post the accounting scandals | - New regulation regulating auditors |
| Corporate Governance Codes (2003) | - Update of the Codes of 1998 | - Incorporation of recommendations from the Higgs and Smith Reports |
| Corporate Governance Codes (2012) | - Leadership, effectiveness, accountability, remuneration, interaction with shareholders | - Greater attention paid to the 'spirit' and letter of the code;<br>- Greater expected role by shareholders in monitoring the code;<br>Advent of the UK Stewardship Code, which provides guidance on good practice for investors. |

*Source*: Wikipedia, FRC (2006), FRC (2012) and the various codes

### 3.3.3 The impact of improved governance

According to the FRC (2006), the UK holds the view that corporate governance has the ability to assist the board in the better management of a company while ensuring that the board remains accountable to shareholders. The impact of corporate governance in the UK is best shown in Table 3.5, which provides an overview of the impact of the UK codes and the key issues covered.

**Table 3.5: The impact of UK codes**

| Key issues covered | Impact of the various codes |
|---|---|

| | |
|---|---|
| - Separation of the chairman and CEO role<br>- The requirement for majority Non-Executive Directors (NEDs) to serve on the board<br>- Adoption of report on reporting and best practice on international controls<br>- Application of the comply/ explain principle<br>- The study of the structure and responsibilities of the board<br>- The review of audit effectiveness analysis of the relationship between shareholders, directors and auditors<br>- Recommendations on directors' remuneration<br>- Broadening the role of NEDs and the audit committee<br>- Assumed responsibility, publishing and monitoring the code, including minor changes to the code | - Boosting confidence in boards, auditors and financial reports<br>- Assisting boards to gain support and acceptance of their strategies<br>- Ensuring effective capital markets<br>- Strengthening business confidence<br>- Increased board independence and decision making<br>- Addition of critical governance committees like the remuneration, audit and nominations committees, and changes in composition thereof<br>- Improvement in the number of nominations committees<br>- Independent oversight of auditors and financial reports<br>- Introduction of more independent non-executive directors<br>- Scrutiny of the chairman's leadership |

*Source*: Adapted from Baker (2008) and Cadbury (1992)

While the positive impact of the various codes is illustrated in Table 3.5, based on the principles adopted and refined, some of the shortcomings of the codes, as advanced by Jordan (2012) and FRC (2006), are:

- The codes being applicable to listed companies only
- The absence of government in leading corporate governance changes, which have been in the main led by the private sector

### 3.3.4 Conclusion

It is evident from the literature sources cited above that the UK has played a leading role in not only driving corporate governance reform but also the evolution of companies and corporate law in general. The continuous corporate governance reforms undertaken by the UK demonstrate that it is committed to improving corporate governance practices.

Jordan (2012) questions whether the benefit of the 'comply or explain' principle still remains valid in the light of the numerous financial crises, corporate scandals and director malfeasance over the past two decades. In response to such concerns raised about this 'light touch' approach, both a report authored by the FRC (2006) and Baker (2008) have observed that the self-regulated rather than rules-based code of governance adopted by the UK has achieved the introduction of practices underpinned by regulation designed to improve governance without constraining business practice and innovation and adding an extra layer of unnecessary costs.

## 3.4 NIGERIA

Adegbite (2012) submits that as a former British colony, Nigeria's legal and corporate law framework is drawn largely from British laws. This view is echoed by Ofo (2013), who argues that the Companies Act 1968, the main company law legislation in Nigeria pre-1990, is modelled on the UK's Companies Act.

Iyaniwura and Iyaniwura (2014) put forward the view that Nigeria's independence from Britain in 1960 resulted in a change of ownership within the economy: from ownership held primarily by foreigners to ownership owned by Nigerians and the state. They advance the view that independence resulted in the need to revisit the legal system as part of political and economic reform. Tsegba and Wilson (2013) agree that the government's indigenisation programme was a key driver of the change of the ownership profile in Nigeria in the 1960s.

### 3.4.1 Approach to corporate governance

Oso and Semiu (2012) believe that the discussion on corporate governance in Nigeria has, as with most parts of the world, received greater impetus as a result of significant failures in the banking sector in Nigeria. At the time of the release of the voluntary codes of best practice in corporate governance, the Stock Exchange Commission Nigeria (NSEC) believed that the codes would usher in a new era of internationally compliant corporate governance standards in Nigeria.

The Stock Exchange Commission (SEC) Codes of 2003 are applicable to all listed public companies, companies seeking to raise capital from capital markets and all other public companies. Daniel (2015) states that, like the UK, Nigeria had also adopted the 'voluntary' approach to corporate governance. Oso and Semiu (2012) point out that while compliance is 'voluntary' for public companies, there are compulsory corporate governance provisions that banks need to comply with, as contained in the Companies and Allied Matters Act (CAMA), 1990, the Banks and Other Institutions Act (BOFIA), 1991, the Investment and Securities Act (ISA), 1999 and the Security and Exchange Act (SECA), 1988.

### 3.4.2 Evolution of corporate governance

Ejuvbekpokpo and Esuike (2013) acknowledge that Nigeria's corporate governance reform has evolved over the years, in a quest to be in line with corporate governance principles espoused by the Organization for Economic Co-operation and Development (OECD). Despite this, the need for the overhaul of the Nigerian corporate governance practices was confirmed, according to Oso and Semiu (2012), by the result of a survey conducted by the Nigerian SEC in 2003, which showed compliance to be at a 'rudimentary stage', with only 40% of listed companies providing evidence of compliance.

Adegbite (2012), in support of Ejuvbekpokpo and Esuike (2013), submits that the *Report on the Observance of Standards and Codes* (ROSC), published in 2004, confirmed poor adherence to internationally recognised standards and codes in the sphere of regulation in Nigeria. According to Sanusi (2010) recognition by the Nigeria Stock Exchange Commission that a weak system of corporate governance was a key contributor to corporate failure in Nigeria prompted action to further enhance corporate governance.

Table 3.6 provides timelines on the corporate governance changes that have been undertaken in Nigeria from 2003 to the release of its most recent Code of Governance in 2011.

**Table 3.6: Timelines of corporate governance changes in Nigeria**

| Period | Name of Act/ Code | Legal focus | Governance focus |
|---|---|---|---|
| 1968 | Companies Act 1968 | - Applied to all public companies | - None |
| 1990 | Companies and Allied | - Followed the repeal of | - None |

| | | | |
|---|---|---|---|
| | Matters Decree No. 1 of 1990 | the Companies Act 1968 | |
| 2000 | Artedo Peterside Committee established | - Set up by the SEC and the Corporate Affairs Commission (CAC) | - Mandated to develop the Code of Best Practice |
| August 2003 | Code of Corporate Governance for Banks and Other Financial Institutions (BOFI) | - Voluntary code Issued by the Banker's Committee and not the Central Bank<br>- Applied to all banks and financial institutions | - Focused on the board of directors, separation of CEO/chairman roles, risk management, financial disclosure, relations with shareholders and the audit committee. |
| October 2003 | Code of Best Practice for public companies in Nigeria (Codes) | - Applies to all public companies<br>- Issued by the SEC | - Focused on the CEO/ chairman separation, tenure of directors, directors' remuneration, internal audit, rotation of auditors, risk management and meetings of boards. |
| 2004 | Companies and Allied Matters Act (CAMA) | - Replaced the Decree of 1990<br>- Main Company Law<br>- Championed by the Nigerian Law Reform Commission<br>- Applies to all companies | - Focused on powers of shareholders, audit committee requirements, provision of financial statements, election of directors, functions and duties of directors, company incorporations and dissolutions. |
| March 2006 | Code of Corporate Governance for Banks | - Issued by the Central Bank of Nigeria (CBN)<br>- Compulsory for all Banks<br>- drawn from OECD Principles and Basel | - Focused on directors' dealings, conflict of interest, creative accounting.<br>- |
| September 2008 | Establishment of a National Committee | - Reviewed the 2003 Code of Corporate Governance | - Focused on identifying weaknesses and constraints to good |

| | | | |
|---|---|---|---|
| | | - | corporate governance; examining and recommending ways of effecting greater compliance. |
| 2008 | Issue of Corporate Governance Codes by the pension and insurance industries | - Compulsory for pension fund administrators and custodians<br>- Compulsory for all insurance and re-insurance companies | - n/a |
| 2011 | Code of Corporate Governance | - Issued by the SEC<br>- Replaced the 2003 Code<br>- | - Dealt with board evaluations, board skills, roles of external and internal auditors, data integrity, risk management. |
| | Financial Reporting Council (FRC) of Nigeria | - Enacted by the Federal Government<br>- Resulted in the Directorate of Corporate Governance for the FRC | - Covered corporate governance standards, practices and awareness. |

*Source*: Daniel (2015)

It is evident from Table 3.6 that Nigeria has released numerous codes and acts in its bid to improve its corporate governance standards. However, some of the observed shortcomings are:

- A weak, inefficient and inadequate legal and regulatory framework for enforcing and monitoring compliance with the CAMA and the corporate governance codes in Nigeria as the main challenges to corporate governance reform (Enyioko and Onwusoro, 2014)
- High levels of corruption, as argued by Adegbite (2012) and Enyioko and Onwusoro (2014)
- CAC's inability to impose sanctions and penalties (Oserogho, 2003)
- Lack of institutional support to ensure good governance practices (Apampa, 2014)

- Ineffectiveness of regulatory bodies due to their close relationship with companies and executives (Afolabi, 2015).

### 3.4.3 The impact of improved governance

While numerous challenges to corporate governance have been cited, Ejuvbekpokpo and Esuike (2013) believe that the most significant change within the corporate governance space in Nigeria was greater transparency and reporting of financial scandals. This view is also shared by Apampa (2014), who notes a change in the manner in which wrongdoing was being sanctioned.

While some authors, as reflected above, are optimistic about improved governance in Nigeria, Ofo (2013) disagrees with this view, as he believes that Nigeria has a distorted and confusing history of corporate governance. This view is shared by Daniels (2015), who argues that the Nigerian corporate governance environment is complex, due to the multiple codes, together with numerous acts of legislation that govern governance. Adegbite (2015), in support of this view, believes that the conflict inherent in the many corporate governance codes in Nigeria has played a hand in their poor application.

### 3.4.4 Conclusion

Nigeria has over the last decade or so undergone changes in its corporate governance landscape. The journey in Nigeria does not, however, seem to have kept pace with international governance reform as expected. The single-minded focus on the regulation of banks will need to be extended to companies that operate in other industries to ensure a more entrenched culture of governance.

As advocated in SEC (2011), corporate governance in Nigeria would be best served if the provisions of the code applied to all companies; and not public or listed companies only. Adegbite (2015) has suggested that a key driver of successful corporate governance in Nigeria would be for the government to ensure that the agencies tasked with the oversight of governance, namely the SEC, CBN, Nigerian Stock Exchange (NSE) and FRC, have the monitoring capabilities befitting a body that is charged with this task. As advanced in SEC (2011), a stronger legal system, a regulatory framework, well capacitated institutions and strong institutional arrangements are the main requirements to ensure strong corporate governance in Nigeria. Agedbite (2015) holds the view that poor institutional capacity and lack of political will rather than a 'lack of laws' undermine Nigeria's ability to enforce the national code of conduct.

## 3.5 MALAYSIA

A vast amount of change happened in the Malaysian political, business and economic spheres after Malaysia's independence in 1963. As with most countries that gained independence, the Malaysian economy was characterised by considerable dominance and intervention by the government. Hua and Zin (2007) point out that the ownership of most listed companies was concentrated in the hands of a few families; thus heightening issues of conflict of interest. Rachagan (2011) argues that Malaysia had historically dealt with proper governance through the Malaysian Companies Act, 1965, which was enacted to ensure fiduciary disclosure by companies. Zulkalfi, Samad and Ismail (2005), on the other hand, believe that the corporate governance journey in Malaysia started with the establishment of the High Level Finance Committee on Corporate Governance in 1998/1999, represented by the public and private sector under the Ministry of Finance. Abidin and Ahmad (2007) have explained the mandate of the committee as providing recommendations on how to improve corporate governance and to identify key weaknesses in corporate governance practices in Malaysia.

### 3.5.1 Approach to corporate governance

According to Hua and Zin (2007), the board, appointed to mitigate the agency theory, is key to ensuring proper corporate governance. The corporate governance approach adopted in the Malaysian Code of Corporate Governance (MCCG), as stated in MCCG (2012), is similar to that adopted in the UK, SA and Europe, among others, in that compliance with the code is voluntary. A clear distinction claimed in the MCCG (2000) is that it has adopted a 'hybrid approach' as espoused by the UK Hampel Report, which advocates voluntary application and mandatory disclosure of application of the code. PriceWaterhouseCoopers (PwC) (2012) also supports this view and adds that while adoption was voluntary, companies were still under the obligation to explain compliance in their annual reports.

### 3.5.2 Evolution of corporate governance

Ponnu (2008) declares that the Asian financial crisis of 1997 was the key event that resulted in most of the countries in Asia driving market reform by strengthening their corporate governance practices, adopting transparency and improving disclosure levels. According to Abidin and Ahmad (2007), the crash of 1997 alerted the public to the vulnerable state of corporate governance practices in Malaysia. Zulkafli et al (2005) agree that the Asian financial crisis of 1997 gave rise to discussion on corporate governance in Malaysia and other countries in Asia. MCCG (2012) equally believes that the 1997/1998 financial crises dented public confidence in Malaysian markets. Rachagan (2011) has highlighted the concentrated corporate ownership structure, which he believes fed conflict of interest; corporate abuse; and a poor legal system as the key contributors to market failure and abuse.

According to Zulkalfi et al (2005), the 2000 Code is largely derived from the UK's Combined Codes on Corporate Governance. The Securities Commission (SC) (2012) listed the issue of the MCCG in March 2000 as the first step in the evolution of corporate governance in Malaysia. Ponnu (2008) posits that the MCCG is the main cornerstone of the corporate governance reforms agenda in Malaysia. According to Hua and Zin (2007), the Codes of 2000, which were effective from 2001, focused largely on the board and added additional responsibilities of risk management, internal audit and the appointment of non-executive directors.

As outlined in the SC (2012), the Blueprint of 2011 was a response to the global financial crisis of 2008/2009, which led to the publication of the MCCG in 2012. According to the SC (2012), the codes were revised "after taking into account changing market dynamics, international developments and the need to continuously recalibrate and enhance the effectiveness of the corporate governance framework".

A report by PwC (2012) states that the MCCG of 2012 came into effect on 31 December 2012 and superseded the MCCG 2007. The report by PwC (2012) further explains that the MCCG 2012 sets out broad principles and specific recommendations on structures and processes that companies should adopt in making good corporate governance an integral part of their business dealings and culture. The SC (2012) lists the primary focus of the MCCG 2012 as strengthening board structure and composition and recognising the role of directors as active and responsible fiduciaries, while also encompassing board sub-committees, adequate disclosure, risk management, internal controls and shareholder participation.

Table 3.7 below outlines the corporate governance journey undertaken by Malaysia from 1998 to 2012.

**Table 3.7: Corporate governance evolution in Malaysia**

| Period | Action taken | Purpose |
|---|---|---|
| 1993 | - Establishment of the Malaysian Securities Commission (MSC) under the Securities Commission Act 1993 | - To investigate and enforce the legislation; its primary function is to protect investors. It governs and supervises exchanges, clearing houses and central depositories |
| 1997 | - Malaysian Accounting Standards Board (MASB) | - To improve accounting practices under the Financial Reporting Act (FRA) 1997 |
| 1998/1999 | - Establishment of the High Level Finance Committee on Corporate Governance | - Culminating in the issue of the Malaysian Code on Corporate Governance in March 2000 |
| 1999 | - Amendment of the Securities Industry Act 1983 and the Take-over Code (TOC) | - None |
| 2000 | - Creation of the Malaysian Institute of Corporate Governance and the Minority Shareholder Watchdog Group (MSWG) | - To inculcate an improved culture on corporate governance |
| 2000 | - MCCG 2000 | - To set out principles and best practices on structures and processes that companies may use in their operations towards achieving the optimal governance |

| | | |
|---|---|---|
| | | framework. |
| 2001 | - Bursa Malaysia (BM) enhancement of Practice Notes | - To improve corporate governance practices, with focus on related party transactions and conflict of interest, amongst others |
| 2001 | - Launch of the Capital Market Master Plan and the Financial Master Plan | - To enhance corporate governance compliance |
| 2002 | - Malaysian Companies Commission of Malaysia (CCM) Corporate Director Training Programmes (CDTP) | - To assist directors to understand their duties and responsibilities |
| 2007 | - MCCG 2007 | - First corporate governance Code of Malaysia |
| 2011 | - Corporate Governance Blueprint (Blueprint) | - To outline strategic initiatives aimed at strengthening self and market discipline, and promote good compliance and a corporate governance culture |
| 2012 | - MCCG 2012 | - To focus on improved board composition and structure, together with improving corporate governance through market reform |

*Source*: Adapted from Hua and Zin (2007), PwC (2012) and SC (2012)

It is evident from Table 3.7 that Malaysia has since 1993 added measures to enhance governance and compliance.

### 3.5.3 The impact of improved governance

Hua and Zin (2007) and Rachagan (2011) have noted the following improvements in governance:

- A change in the remuneration of CEOs from a fixed basic pay structure to one that is also incentive driven
- Posting of reliable and timely information
- Improved disclosure of executive remuneration
- Improvement of the laws that govern related party transactions
- The appointment of independent non-executive directors

- Widening the net of transactions governed by the listing requirements

Despite some of the corporate governance improvements cited above, Rachagan (2011) cites continued poor disclosure and concerns about genuine commitment by Malaysian companies and regulators to enforcing improved corporate governance standards as a threat to sustainable improvement.

### 3.5.4 Conclusion

It is evident from the research conducted that Malaysia has done much to raise awareness of corporate governance and to put in place codes that will assist all companies to improve their corporate governance practices. These good intentions might not materialise if the concerns raised by Abidin and Ahmad (2007) about the 'close relationship between business and politics' are not addressed.

## 3.6 BRAZIL

According to the World Bank (2012), Brazilian civil law is to a large extent drawn from the US legal framework. The growth in the Brazilian market, increase in significance of state-owned entities in the economy and the advent of private-sector listings, as stated by Pargendler (2012), were key drivers of the updating of Company Law. Rabelo and Coutinho (2001) also hold the view that the privatisation in the 1990s, coupled with greater institutional involvement and advocacy and with rising foreign investment in Brazilian markets, played a role in advancing corporate governance.

### 3.6.1 Approach to corporate governance

The International Comparative Legal Guised (ICLG) (2016) states there are two primary corporate laws in Brazil: the Brazilian Federal Law No. 6,404 of 15 December 1976 (Corporations Law) and the Brazilian Federal Law No. 6,385 of 7 December 1976 (the Securities Law). ICLG (2016) notes that the Corporations Law governs matters related to financial statements and records and the authority, rights and duties of managers and shareholders, while the Securities Law governs the registration, offering and trading of securities in Brazil. As noted in the *Comissão de*

*Valores Mobiliários* (CVM) (2017), the responsibilities of the CVM are enshrined in these two laws.

According to the Filardi and de Luca Junior (2017), the Corporations Law regulates corporate governance practices in Brazil across public and private companies. ICLG (2016) also makes reference to the Brazilian Civil Code (Law No. 10,406 of January 2002), which provides basic corporate governance rules for other alternative structures, like limited liability companies.

As stated by Filardi and de Luca Junior (2017) and ICLG (2016), Brazil has adopted a ‘voluntary’ application of corporate governance practices. Despite concerns about the voluntary nature of the practices, Oliveira (2013) holds the view that the private sector has played a defining role in advancing corporate governance in Brazil.

As outlined by the World Bank (2012), the Brazilian Association of Publicly-Traded Companies (ABRACSA) introduced a Code of Self-regulation and Good Practices for Publicly-Traded Companies in August 2011. The code introduced the first ‘apply or explain’ approach with respect to rules that members of ABRACSA may choose to adopt or not to adopt. As stated in ICLG (2016), moves are afoot by main corporate governance advocacy groups in Brazil, ABRACSA, IBGC and AMEC (the Brazilian Capital Market Investors Association) with the support of the CVM; to collaborate in the drafting of one corporate governance code, applicable to all listed companies, underpinned by the ‘comply or explain’ principle.

### 3.6.2 Evolution of corporate governance

Rabelo and Coutinho (2001) believe that the evolution of the Brazilian market and corporate governance journey was revamped on the introduction of new stock exchanges, the New Market, with more stringent corporate governance requirements in 2000. Black, De Carvalho and Sampaio (2013) argue that Brazil addressed its lack of poor governance standards, often cited by investors as a stumbling block to investment, with the establishment of the New Market (*Nível 1, Nível 2, Novo Mercado* and *BOVESPA Mais*).

Pargendler (2012) holds the view that some of the corporate law amendments in 1997 during privatisation, which dispensed with minority shareholder protection and compromised corporate governance, played a key role in reducing the attractiveness of Brazil as an investment destination. Goncalves, Lima, De Oliveira, De Oliveira and Queiroz (2012) argue that the need for corporate and governance reform was driven by external factors, which included the change in the global economic climate and the introduction of SOX, as well as changes in the Brazil macro environment like privatisation. Park (2012) submits that the financial crisis in the 1990s, which led to significant changes to the macroeconomic and financial environments, led to emerging economies increasing their focus on developing domestic capital markets.

The main players in the corporate governance reform have been *Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais,* the Brazilian Financial and Capital Markets Association (ANBIMA), CVM, the Brazilian Corporate Governance Association (IBCG) and the BM&FBovespa. Fazio (2013) remarks that the CVM has played a major role as a regulator in ensuring corporate law reform, which has advanced and improved corporate governance practices in Brazil. The World Bank (2012) also commends the critical role played by the CVM in ensuring that Brazilian companies maintain high corporate governance standards. The CVM, as stated in ANBIMA (2016) and by Oliveria (2013), is tasked with ensuring a functioning securities' market and application of good corporate governance practices by listed companies.

Table 3.8 below outlines the corporate governance journey undertaken by Brazil from 1976 to 2011.

**Table 3.8: Corporate governance evolution in Brazil**

| Period | Action taken | Purpose |
|---|---|---|
| 1976 | - Establishment of the Comissão de Valores Mobiliários (CVM), the Securities' Exchange Commission | - Established under Law 6.385/76 ("Securities Law")<br>- Regulate the function of the securities' market and provide protection to investors from fraudulent acts<br>- Discipline, standardise and supervise the |

| | | |
|---|---|---|
| | | activities of several members of the securities' market. |
| 1976 | - Corporations Law enacted | - Provided for the establishment of general fiduciary duties, which included a provision that controlling shareholders shall attend to the interests of all stakeholders (employees, the community, and even the national economy) and not only shareholders |
| 1990 | - Brazil's National Denationalization Program (Programa Nacional de Desestatização (PND)), enacted into law | - Specified the procedures to be followed in the event of a privatization. |
| 27 November 1995 | - Brazilian Institute of Board Members (IBCA) established | - Formed by 36 individuals from business, academia<br>- The primary goal was to support company boards as a source of guidance, supervision and control. |
| 1997 | - Amendment of the Corporation's Law | - To enhance the existing legislation and introduce new provisions |
| 1999 | - IBCA renamed the Brazilian Institute of Corporate Governance (IBGC) | - A non-profit organization, is Brazil's main centre for the development of best Corporate Governance practices. |
| 1999 | - The first IBGC Code of Governance, known as the BPCG Code was published | - Provided recommendations on the best CG practices for Brazilian companies and organizations |
| 2001 | - Launch of the Novo Mercado, Level 1 and Level 2 exchanges | - Provide investors in Brazil with a special listing segments of the Brazilian stock exchange, BM&F BOVESPA that requires a higher level of corporate governance compliance |
| 2001 | - Issue of the updated BPCG Code | - The issue of a revised and expanded version of the BPCG featured<br>- The revisions included recommendations |

| | | |
|---|---|---|
| | | that applied to ownership, board of directors, management, external auditors, supervisory board, conduct and conflicts of interest. |
| 2004 | - Further revisions on the BPCG Code issued | - Included new topics such as corporate responsibility, family board, free float and audit committees<br>- Included more responsibilities for the board as a result of the passing of the Sarbanes-Oxley Act in 2002 |
| May 2005 | - Launch of the Company's Circle | - A voluntary 14 member companies' network of public officials, investors, non-governmental institutes, stock exchanges and associations and those interested in advancing CG<br>- Brings together a group of Latin American companies to drive CG and to ensure input by the private sector |
| 2007 and 2009 | - Passing of laws (#11.638/2007 and #11.941/2009) within the framework of Brazilian corporate law | - introducing changes in accounting rules focused on the convergence from Brazilian accounting practices to internationally accepted accounting standards (IAS/IFRS) |
| 2009 | - A new BPCG Code of governance published | - A further enhancement of the CG Codes<br>- Incorporated new practices such as proxy voting and poison pills, access to the agenda, transparency of minutes of meetings, and board efficiency. |
| 2011 | - Updating of the regulations of its three special listing segments: "New Market" / "Novo ercado" by the BM&F Bovespa | - Harmonize the Brazilian capital market with current CG trends and offer investors greater assurance<br>- To ensure that market practices are aligned with the practices adopted on advanced markets Ensured greater clarity and detail |

*Source*: IBGC (2017), IFC (2009), Oliveira (2013), Pargendler (2012)

Table 3.8 which outlines the changes made in Brazil to improve corporate governance since 1976, demonstrates the measures undertaken and added to enhance corporate governance and to improve compliance.

### 3.6.3 The impact of improved governance

According to Rhee (2013), the introduction of these highly governance-focused markets restored investor confidence in Brazilian markets. Park (2012) also comments that the introduction of the *Novo Mercado* (“New Market”) meant the adoption of enhanced corporate governance practices, increased transparency, and minority shareholder rights. Pargendler (2012) adds that the extension of tag-along rights to minorities further advanced governance.

According to Fazio (2013), the impact of the changes in the corporate governance practices has been some legal reform and a consolidation of institutions, reduced concentration of power and control in listed companies, an increase in active minority shareholders, and higher shareholder expectations of professional, independent and transparent management bodies, as well as greater shareholder say in key decisions such as changes to the capital structure.

The World Bank, as outlined in a World Bank Report (2012), believes that the significant improvements in corporate governance have been in the areas of shareholder rights, better treatment of shareholders, the formation of corporate governance advocacy groups, and the mandatory adoption of IFRS from 2005 to improve disclosure and transparency. Rhee (2013) believes that the greatest impact on governance has been on board independence, board procedures, greater shareholder rights, increased Initial Public Offering (IPO) activity and disclosure.

Black et al (2013) believe that the allure and standing of the New Market was evidenced by a surge in new listings, as well as an improvement in governance practices. Goncalves et al (2012), in support of this view, observe that new listings on the New Market increased from 69 in 2009 to 109 in 2012. The World Bank report (2012) agrees, noting the increase in the influence of the New Market in 2011 in terms of the high share of listing it commands and its lion's share of the market capitalisation of companies listed on Brazilian exchanges.

The World Bank report (2012) made the following recommendations as a way for Brazil to further bolster its improvement on its corporate governance practices:

- Greater legal protection for minority investors
- Board practices to follow international standards of board effectiveness by including board independence and strong board members
- Making the formation of audit committees a mandatory requirement
- Improving listing standards for traditional listed companies
- Updating the CVM regulations to be better aligned with OECD principles
- Increasing resources to CVM to improve corporate governance oversight
- Updating the Corporation Law

### 3.6.4 Conclusion

According to Fazio (2013), self-regulation and legal reform of corporate law have improved Brazil's corporate governance environment. Based on the research done, it can be concluded that the introduction of an exchange with higher corporate governance and associated requirements was a material boost for the Brazilian economy and was a change that was well received by most entities. However, while a lot has been done to improve corporate governance practices in Brazil, according to the World Bank (2012), the Brazilian legal system and courts continue to be a challenge in ensuring shareholder redress.

It is evident from the corporate governance reforms implemented in Brazil that Brazil has been single-minded in ensuring improved corporate governance practices across its various exchanges. The success of these initiatives is evident in the buoyed listed markets and the improved credibility enjoyed by listed companies on Brazil bourses. It must, however, be noted that improved governance still lags behind in the smaller, more SM-focused markets. The World Bank (2012) reports that the improvements in governance practices described in this section have resulted, in some instances, in Brazil's leapfrogging peer countries in Asia, namely India, Thailand and Malaysia.

## 3.7 CONCLUSION

Global companies' journeys to enhance corporate governance, having started in the nineteenth century, have progressed significantly. It is evident from the literature that developed nations like the US and UK have been the leaders in driving corporate governance practices and reform, albeit using different tools.

The literature review illustrates the various forms of corporate governance practices applied by the United Kingdom (UK), United States (US), Brazil, Malaysia and Nigeria. It is also evident from the literature that while there is some convergence in the standards applied; the basis of application and area differ according to country. Further, it is evident that the various countries have had to undergo different journeys to arrive at the point of embracing and advocating for corporate governance practices.

It does seem that despite the best legislation, in the end it is those charged with governance – the boards of companies – that have the greatest role to play in ensuring that confidence in governance and companies is restored. It is also evident that there is a need for the continuous introduction and updating of legislation and/or guidelines that are aimed at dealing with the evolutionary nature of companies.

### 3.7.1 Approach to corporate governance

The US system of corporate governance remains the only one among these countries that is enshrined in legislation; whereas all the other countries in this review have opted for the 'voluntary compliance' model of corporate governance. It does seem that no particular basis of application can be deemed more suitable or reliable than another, as both the rules-based and principle-based approaches still, in 2008, fell victim to corporate failure post introduction and enactment.

Adegbite (2012) argues that in formulating corporate governance regulatory strategies, countries must account for their specific circumstances; and position their regulatory systems to tackle the particular challenges they face. This view seems to justify the different applications and regimens adopted by the various countries under review.

Another observation relates to the different ways in which each of the various countries either adopts or enforces the principles of corporate governance. What is evident is that the principles adopted by each country empower regulators and government to act in a manner they believe will be of benefit to their country. That said, the evaluation of compliance with principles across these selected countries does in the main suggest that while countries have the right to implement the principles in a manner most suited to them, there are also ‘best practice standards’ that they are evaluated against and must meet.

### 3.7.2 Evolution of corporate governance

The evolution of corporate governance practices in the various jurisdictions has been driven in the main by corporate failures and the need to improve access to capital. The recurring themes over time that have driven the desire to enact legislation and improve corporate governance have been the desire to protect investors and the requirement for companies and their leaders to act in a responsible, honest manner. It does, however, appear that had it not been for fraud, corporate transgressions and accounting and corporate scandals, together with the global financial crisis, corporate governance reform might not have taken centre stage across the globe.

### 3.7.3 The impact of improved governance

This chapter has, under each of the countries, cited evidence of the positive impact of corporate governance. The positive sentiment has, however, been met with scepticism in some jurisdictions, for various reasons cited in the body of this chapter. A question that remains is whether more directive and prescriptive principles would have been a better response to the economic and financial failures caused by the lack of good corporate governance principles and application.

Based on the literature in this chapter, it is also quite encouraging to note the emergence and acceptance of corporate governance within the emerging world, as characterised by its evolution in Brazil, Malaysia and, to a lesser extent, Nigeria.

### 3.7.4 The value of corporate governance

Rabelo and Coutinho (2001) hold the view that improved corporate governance could result in greater efficiency in the allocation of resources and reduce inappropriate capital allocation. Following from the literature review, the value of corporate governance in the US, UK, Brazil, Nigeria and Malaysia can be summarised as providing:

- Greater focus on practices to improve the behaviour of companies, their boards and management
- Increased focus on and awareness of the impact that poor application of corporate governance has on firms, economies, investor confidence and society
- Recognition that the norms and practices that are applied in business need to constantly evolve and improve to take into account existing and future dynamics
- Increased levels of awareness and expectation of accountability by those in positions of decision making and stewardship
- Boosting of investor confidence and a positive impact on attracting of investment capital.

# Chapter 4:
# The evolution of King Codes in South Africa

## 4.1 INTRODUCTION

Chapter 4 provides a limited overview of corporate governance, as well as the progression of King I, II and III, the three corporate governance codes that have been in effect in South Africa since 1995. Furthermore, an attempt is made to give insight into the changes that have occurred within the corporate governance recommendations and practices in South Africa.

Chapter 4 follows on from Chapter 3, which dealt with the overview of selected governance systems across the globe, namely in the US, the UK, Malaysia, Brazil and Nigeria. It also flows from Chapter 1, which provided greater detail on corporate governance, as well as an overview of the study by Jansen van Vuuren and Schulschenk (2013), which has formed the basis of this research study.

The study of the various King Codes of Corporate Governance in South Africa provides a basis for chapters 6 and 7 which, when dealing with the findings of this study, refer to the question of King II being perceived to have a higher value than King III.

### 4.1.1 The journey of the King Codes of Governance

The Institute of Directors in Southern Africa (IoDSA, henceforth IoD) established the King Committee on Corporate Governance in 1992, with the support of the South African Chamber of Business, the Chartered Institute of Secretaries, the South African Institute of Chartered Accountants, the Johannesburg Stock Exchange ("JSE") and the South African Institute of Business Ethics. The King Committee was established under the leadership of Judge Mervyn King, who served as Chairman of King I, II, III and the most recently published King IV.

According to Hendricks and Wyngaard (2010), one of the main reasons for the establishment of the King Committee in 1992 was to investigate and recommend appropriate corporate governance practices in South Africa. This view was supported by the IoD report (2002), which stated that the formation of the King Committee was key, as a result of the events occurring globally in the ambit of corporate governance, as well as the social and economic transformation that South Africa was undergoing at the time. As outlined in the IoD report (2002), the King Committee expressed the view that an inclusive approach to business and social transformation in South Africa was an imperative, not only for economic reasons but also as part of the greater transformation journey being undertaken by the country following its democratic transition.

Understanding and proper contextualisation of the journey of corporate governance in South Africa would not be complete without consideration of the change in company legislation from the Companies Act 61 of 1973 to the Companies Act 71 of 2008, which is said in the Companies Act (2008) to have been influenced by King I.

## 4.2 COMPANIES ACT 71 of 2008

The new Companies Act 71 of 2008, which replaced the Companies Act 61 of 1973, was first published in 2009, following the decision by the Corporate Regulation Division of the Department of Trade and Industry (dti) in 2003 to review a number of corporate laws in SA. This included the review of the Companies Act 61 of 1973, the Close Corporation Act 69 of 1984, related common law practices, existing securities legislation, corporate structures and applicable local corporate governance practices. The review was followed in 2004 by the publication of *South African Company Law for the 21st century: Guidelines for corporate law reform, a* policy document that outlined pending corporate law reform in SA. The approval of the Companies Bill of 2008 in September 2008 by the Trade and Industry Portfolio Committee paved the way for the amendment of the Companies Bill by the Portfolio Committee in December 2008, leading to the Companies Act 71 of 2008 coming into law on 1 July 2010, while Companies Regulations became effective on 1 May 2011.

According to Moloi (2008), one of the key factors that contributed to the need to redraft the 1973 legislation was the advent of democracy, which resulted in South Africa's adopting a constitution underscored by the Bill of Rights, and the release of King I in 1994 and King II in 2002. Esser (2009) submits that another reason for undertaking the legal review was the need to protect stakeholders other than shareholders, namely employees and creditors, amongst others. Walker and Meiring (2010) hold the view that the rewriting of the South African Companies Act was a pivotal and defining development for directors and officers in South Africa, as this included law duties of directors, a common-law principle to the act, the extension of directors' duties to officers of the company, duly named prescribed officers, the liability of directors, and instances where directors were protected for having taken advice on the proviso that they had performed due care and skill in the execution of their duty.

One of the reasons which were cited for redrafting the legislation, as stated by Moloi (2008), was to allow for the removal of clauses in legislation which were an obstacle to transformation, like Section 38 of the Companies Act, together with drafting of legislation that was to ensure a regulatory framework that promoted growth, innovation, stability, good governance, confidence and international competitiveness.

## 4.3 THE KING CODES

The sections below provide an overview of the progression of King I, II and III. The presentation of each of the Codes (King I, King II and King III) will be done under headings that discuss the reasons for the new or revised code (Reason); the approach adopted in each code (Approach); the entity each code applies to (Applicability); the impact of the code; the value; and a conclusion regarding each of the codes.

## 4.4 KING I

King I was the first King Report to be issued by the King Committee on Corporate Governance for South African companies. According to a report penned by Cliffe

Dekker (2002), King I came into effect on 29 November 1994, applying first to companies whose year-end commenced after 30 June 1995 (IoDSA, 1994).

### 4.4.1 Reasons for King I

There are numerous reasons that have been cited for the advent of King I; this section, will however, concentrate on some of the reasons which the researcher believes to be relevant for this study.

King I, which came two years after the release of the Cadbury Report, the authoritative UK report on corporate governance drafted under the leadership of Sir Cadbury in 1992, was heavily influenced by the Cadbury Code (IoDSA, 1994). The report by the African Corporate Governance Framework (ACGN) (2016) highlights the fact that the influence of UK corporate governance on South Africa's governance architecture should not be a surprise, given the close historical relationship between SA and the UK, which dated back to colonial days.

Walker and Meiring (2010) believe that King I was written as a response to global corporate failures and scandals, and a need for companies to be provided with some business operational compass and a formal corporate governance framework. Armstrong, Segal and Davis (2005) advance a contrary view, as they believe that South Africa was to an extent fortunate in that corporate governance reform was not primarily driven by corporate scandals, as in other parts of the world, as detailed in Chapter 2. A report by the ACGN (2016) states that the change of the political order in 1994, which led to the end of economic isolation, has been identified as a primary driver in South African businesses' decision to introduce internationally sound corporate governance practices.

Another reason for King I, put forward in the IoD report (2002), and shared by Esser (2009), was to ensure that South Africa also applied the most stringent and internationally recognised corporate governance standards. In addition to the sentiments expressed in the IoD report (2002) and by Esser (2009), Andreasson (2011) advanced the theory that a key driver in the drafting of King 1 was South Africa's desire to demonstrate to the global village its capability, desire and ability to embrace good corporate governance practices, despite years of isolation from the global stage as a consequence of its racially discriminatory practices. Mans-Kemp, Erasmus and Viviers (2016) agree that concerns raised by international investors about companies listed on the JSE having inefficient structures, as a result of years of isolation from the international arena, prompted the response by key stakeholder groups to act with speed in the crafting and adoption of corporate governance codes. Armstrong, Segal and Davis (2005) argue that the requirement for South Africa to adopt internationally accepted corporate governance practices in 1994 was also to correct some of the ill-considered corporate culture which had taken root in an economic system that was dominated by a few mining houses and financial institutions, as well as conglomerates which had adopted poor disclosure and transparency practices.

### 4.4.2 Approach

King I, as articulated in the IoD report (1994) has its foundation on a 'voluntary' principle, resulting in a high element of self-regulation by local companies. The voluntary principle adopted by King I was in line with the voluntary principle advocated in the 1992 Cadbury Report on UK Governance. Cadbury (1992) believed that the voluntary principle allows a company the discretion to apply principles that are relevant to it, while the company has a reciprocal obligation to make a statement in its annual report, acknowledging its support for and compliance with the prescribed code, as well as any departures from the application thereof. The view of Cadbury (1992) was consistent with that applied by the JSE, which required listed companies to adopt the King Code (IoDSA, 1994).

### 4.4.3 Applicability

Companies to which King I should apply, as detailed in the IoD report (1994) were companies listed on the main board of the JSE, large public entities as defined in the Public Entities Act, banks, financial and insurance entities as defined in the various Financial Services Acts, and large unlisted public companies.

#### 4.4.4 Impact of King I

The impact of King I, as cited in the IoD report (1994), was strengthened by the decision by the JSE to adopt King I as a listing requirement for companies listed on the Main Board from 1995.

Another widely accepted impact of King I was its influence on the revised Companies Act 2008 (Companies Act, 2008). Some of the key recommendations in King I which were later incorporated as statutory requirements in the revised Companies Act of 2008 included:

1. Permitting companies to obtain liability insurance cover indemnifying their directors and officers
2. Compelling disclosure of the identity of beneficial owners of shares held by nominees
3. Making the appointment of a company secretary mandatory for public companies with a share capital base of a defined quantum

#### 4.4.5 Value of King I

According to Barrier (2003), King I challenged the status quo of a country and economy whose economic system had been driven by racial and political legislation. As outlined in the IoD report (1994) and supported by Armstrong et al (2005), King I went beyond the financial and regulatory aspects of corporate governance by advocating an ‘inclusive approach’ to good governance in the interests of a broader range of stakeholders and showing regard for the fundamental principles of good financial, social, ethical and environmental practice.

This, as argued by Barrier (2003), was different from the influential Cadbury Report of 1992, which had primarily focused on the financial aspects of corporate governance. In support, Andreasson (2011) advances the argument that King I was instrumental in companies’ acknowledging that companies do not exist in isolation but are a key part of the ecosystem in South Africa, and such need to be accountable to the broader South African society and not only the traditional stakeholder, their shareholders. This meant that decision makers in South African companies were required for the first time to consider a broader impact matrix of their actions and decisions than only financial parameters and a shareholder base.

A notable value of King I was South African businesses' ability to demonstrate to the world that despite many years of isolation, the country had the ability to draft, and subsequently adopt, internationally acclaimed governance principles that set it apart from some of its emerging market peers that were outlined in Chapter 2. Another valuable benefit of King I for corporate governance in South Africa has been the evolution to a formalised approach to governance, which has also influenced legislation. Moyo (2010: 50) submits that "King I served as a reference point for policy makers in the examination and development of legal and regulatory frameworks for corporate governance".

It is Walker and Meiring's (2010) assertion that King I was crafted, amongst other reasons, to empower and assist directors of companies to employ and exercise sound corporate governance principles. The importance of schooling directors is underscored by Muswaka (2015), who elaborates on the important role played by boards of directors in South Africa, given their role as the party that gives effect and will to the actions of a company. An additional value of King I, as stated by Armstrong et al (2005), was highlighting and bringing attention to the significance of a well functioning board, and raising awareness about good governance for both the private and public sectors in South Africa.

### 4.4.6 Conclusion

The advent of King I provided South African entities, which had been isolated from the world, with their first set of corporate governance practices. King I not only focused on the South African context, but took into account some of the learnings and new standards that were being adopted internationally, as evidenced by the inclusion of some principles drawn from the Cadbury Report and SOX.

Meinie (2011) argues that King I was a ground-breaking code on corporate governance across the globe as, unlike other codes on governance, King I looked beyond the traditional regulatory and financial focus of governance to one that was more inclusive. This was achieved by King I's advocating a governance model that considered a broader stakeholder base than shareholders of a company. Solomon and Maroun (2012) hold the view that the need for social change in South Africa, following from the political democratic transition of 1994, necessitated corporate governance's adoption of a stakeholder-centric model.

## 4.5 KING II

King II, which replaced King I, was the second King Report to be issued by the King Committee on Corporate Governance for South African companies. This was to some extent also driven by the provision in King I which foresaw and made allowance for the need to update the code, as advanced in the IoD report (1994).

### 4.5.1 Reasons for King II

Ample reasons have been advanced for the revision of King I to King II. This section, will, however, concentrate on some of the reasons which the researcher believes to be the most pertinent to this study.

According to the IoD report (2002), the main factors that necessitated the revision of King I were:

1. Significant changes in legislation designed to ensure social and political transformation that had taken place between 1994 and 2002
2. The poor scoring received by SA companies with respect to the 'disclosure and transparency" component of its corporate governance practices
3. Significant advances and changes in the information technology and communication landscape, which meant that certain areas not previously considered in King I needed to be considered and included in the King II Report.

Walker and Meiring (2010) believe that corporate governance changes across the globe, together with the revision of the Companies Act 61 of 1971, which was under way at the time, were a key catalyst in the revision of King I. A pressing need for the revision of King I, from a JSE perspective, was that the JSE had overhauled some of its listings requirements in 1995 and again in 2000 to ensure that listing requirements remained in step with international best practice.

### 4.5.2 Approach

King II, like King I, was based on 'voluntary' compliance. A major difference, as highlighted by the IoD reports of 2002 and 2009, was that King II incorporated the 'comply or explain' principle, which had also been adopted by the UK, as outlined in Chapter 2. According to Oyarzun (2011), a consideration for the adoption of the 'comply or explain' principle by the UK was its flexibility, which makes allowance for companies to apply the codes as and when they are suitable in respect of that entity. The reason for the support for the comply or explain principle in King II, as explained in the IoD report (2002), was that directors would need to ensure that they had adhered to the best corporate governance standards that were applicable at that time, as the decision not to comply with certain practices would need to be explained in the annual financial statements, which would be read by a wide range of stakeholders.

While self-regulation has found support, as detailed above, Andreasson (2011) espouses a contrary view, citing continued 'self-regulation' as one of the areas of concern around the ability of King II to improve the level of governance in South Africa. Armstrong (2004), however, holds the view that the support for self-regulation which underpins King II is based on the acknowledgement that sound corporate governance practices are underpinned by a strong legislative framework and principles, meaning that any sanctions for non-compliance or breach will be found in the governing legislation.

### 4.5.3 Applicability

The scope of companies that were required to apply King II, as detailed in the IoD report (2002), was broadened to include listed companies, banks, and financial and insurance entities, as defined in the various pieces of legislation regulating the South African financial services sector, public sector enterprises and agencies that fall under the Public Finance Management Act and the Local Government: Municipal Finance Management Act.

Esser (2009) holds a contrary view, and believes that the language used in reference to the application of King II suggested that its applicability was mandatory only for companies referred to in the paragraph above, with applicability by other companies at their discretion.

### 4.5.4 Impact of King II

Esser (2009) states that the key corporate governance principles identified in King II: discipline, transparency, independence, accountability, responsibility, fairness and social responsibility, have had a positive impact on corporate governance. According to Rossouw (2002), the amplification of the role of the board and its responsibilities, as advanced in King II, has brought to the fore greater responsibility placed on the boards to ensure improved social, ethical and environmental performance of corporations. Young (2010) argues that King II brought greater attention and focus on ethics, including the requirement for companies to audit and benchmark their ethical performance against a universe of other companies and countries.

Brink (2009) has highlighted corporate citizenship, ethics and the broader stakeholder-centric model as some of the key contributions of King II. As advanced in the IoD report (2002), King II advocated, as part of corporate governance, the ‘triple bottom line’ approach, which requires a company, when making decisions, to consider the economic, environmental and social aspects of its activities.

### 4.5.5 Value of King II

The value of the adoption of King II by the JSE as a listing requirement, as outlined in the IoD report (2009), meant that listed companies now had to state in their annual reports how they had complied with the principles of King II, which placed a greater obligation on boards to ensure compliance with King II practices. A key value ascribed to King II was the adoption of the ‘comply or explain’ principle, which moved beyond the mere application of governance standards, placing an obligation to either comply with the principles or explain deviations therefrom.

The value of King II, as advanced by Armstrong (2004: 13) was its recommendations to regulators and authorities on possible legislative and/or regulatory enhancements. A key feature of King II, as submitted by Andreasson (2011), was the drafting of a Code of Corporate Practices and Conduct (“the Code”), which provided all the qualifying entities with recommended King II practices as well as draft board and sub-committee charters. The ACGN report (2016) cites a value of King II to have been the role King II played in advancing the prominence of corporate integrity, which was adopted in the JSE listing requirements and banking sector regulations. Esser (2008) posits that King II brought more formality and focus to principles of governance relating to boards and directors, risk management, internal audit, the integrated sustainability report, and accounting and auditing, as well as shareholder communication.

Another value of King II, as submitted by Rossouw (2002), was the elevation of accountability for ethics within the organisation to the board of directors, which was further enhanced by the introduction of Integrated Sustainability Reporting, which speaks to social, ethical and environmental matters of the entity.

Moyo (2010: 50) advances the argument that “The second King Report focused more on the qualitative rather than quantitative aspects of good corporate governance in that it extended beyond the existing legal and regulatory framework, and sought to identify key areas of good corporate governance practice which would be voluntarily and effectively applied by companies and directors”. This statement can be interpreted to mean that instead of a ‘tick-box’ approach to the application of the code, it was about the material impact and benefit of application of the codes.

The IoD report (2009) in recognising the broader mandate given to boards as a result of King II, flagged the additional burden that corporate governance practices can place on entities. The advice provided in the IoD report (2009) is the requirements for companies to practice corporate governance whilst ensuring that a company is financially sound and sustainable in the long term.

While much has been written about the impact of King II, Rossouw (2002; 414), unlike many commentators, has questioned whether the adoption of the King II model of governance in South Africa “is far sighted and should therefore be taken seriously in at least other developing economies, or whether it is a futile approach that does not warrant serious attention". The reason why Rossouw (2002) posed the question was his belief that the principles of King II, which advocate an inclusive stakeholder approach, are at odds with the corporate governance principles largely espoused by the capital-rich Western world, which has a shareholder-centred approach.

Rossouw (2002), quoting Chernoff (1999:2), who believes that nations adopt good corporate governance standards "to compete for capital in a global market", holds the view that South African corporate governance would need to lean more towards North American and European (Western world) corporate governance principles to improve the prospect of SA companies' accessing Western capital. This 'shareholder supremacy model', as observed by Oyarzun (2011), places the UK codes to some extent contrary to those of the SA code, which drives a 'stakeholder inclusive' approach.

#### 4.5.6 Conclusion

The section above does illustrate the extent to which King II has been amended to not only take into account local legislative changes, but also to take on board the lessons and experiences from across the globe. It is evident from the literature that King II added a significant dimension to corporate governance practice in South Africa, starting with the change in the approach from just applying King principles to either complying or explaining. This development meant that companies had to think more deeply about their application of the principles and the underlying reasons for opting not to apply them.

## 4.6 KING III

The third instalment on Corporate Governance, King III, again chaired by Judge Mervin King, was first released for comment on 25 February 2009, was launched on 1 September 2009 and came into effect on 1 March 2010 (Nienaber, 2013).

A report by PwC (2009: 5) highlights the evolutionary impact of King III and the opportunities it affords entities who embrace its principles. This view is further supported in a report by EY (2016: 4), which records that "King III provided a firm foundation for world-class corporate governance", which underscored the importance of the genesis of the King Codes, as well as the positive impact such application would have on entities that applied it.

As outlined in a report by PwC (2016), and as with previous King Codes, King III was also adopted as a listing requirement by the JSE, making it mandatory for listed companies to apply or explain their application of the King III principles.

#### 4.6.1 Reasons for King III

While many reasons have been put forward which support the revision from King II to King III, this section will concentrate on some of the reasons which the researcher believes to be relevant for this study.

A report by PwC (2009) lists the expected changes in the Companies Act of 2008 and changing trends in international governance as two of the reasons for revising King II to King III. De Beer and Du Toit (2015) agree that the drafting of King III was a response to the introduction of the Companies Act of 2008, together with the changes in the global corporate governance landscape.

#### 4.6.2 Approach

The principle adopted in King III, as detailed in the IoD report (2009), was the 'apply or explain' principle, which followed the unique example set by the Netherlands. This principle, as stated in the IoD (2009) report, is derived from the 'comply or explain' principle already adopted by 56 members of the Commonwealth and 27 EU states. In a report drafted by KPMG (2009), it is submitted that King III sets an international benchmark with an 'apply or explain' approach, which means that entities need not comply with the code if they can justify their non-compliance. Grove (2009) notes that the 'apply or explain' tone of the King III Code acknowledges that each entity is unique and that there is no uniform approach to governance. The report by PwC (2009) also gave support to self-regulation and the revised principle, equally recognising that a ‘one-size-fits-all’ approach would not be appropriate, as entities are not homogeneous, thus further allowing companies to adopt the principles that are appropriate for their size, type and complexity.

Walker and Meiring (2010) also believe that the change from the King II principle of comply or explain to the King III principle of apply or explain means that companies can deviate from the prescripts of King III while still complying with King II principles of “fairness, accountability, responsibility, and transparency”. Grove (2009) further argues that the “apply or explain principle empowers entities to determine areas where applying principles of King III will not be in the best interest of the entity”. Brink (2009) asserts that the “apply or explain” principle of King III means companies are required to explain the adoption of a different practice. The IoD report (2009) puts forward the view that complying for the sake of complying, or adopting a ‘tick-box’ approach to compliance with King Codes, is less useful than considering how the principles and recommendations of King III can be applied.

De Beer and Du Toit (2015) submit that while there was no legal sanction for non-compliance with King III as it was a ‘voluntary’ code, a possible consequence of non-compliance by a company could be reputational damage. Meyer, Roodt and Robbins (2011: 3), quoting a study conducted by Ernst and Young, submit that “reputation makes up as much as 50% of a company’s share price”. To illustrate this point, they cite the adverse impact that the Valdez oil spill had on the share price of Exxon Mobil.

### 4.6.3 Applicability

The report by PwC (2009: 2) states that King III “applies to all entities regardless of the manner and form of incorporation or establishment”. This view is reinforced by Nienaber (2013: 7), who claims that King III “applies to all entities regardless of their form or manner of incorporation”. The report by the IoD (2009) further explains that applicability is not limited only to listed or private companies but also applies to public and non-profit sector companies, a material departure from King I and King II. Esser (2009) agrees that while King III’s language might seem to speak more to the private sector, its underlying principles can be applied to all entities, which means applicability to the public sector.

Hendricks and Wyngaard (2010) hold a dissenting view, as they believe that certain requirements in King III that are seen as practice of good corporate governance standards, like the establishment of audit committees and remuneration committees, are not practical for the Non-Profit Organisation NPO space. Grove (2009) also states that while the King III Code’s application goes beyond the ambit of the private sector and large entities, it is still tailored to the large corporates, raising the question of whether King III is necessarily applicable to the public sector.

### 4.6.4 Impact of King III

In a report by KPMG (2009) it is stated that while it might be easy to conclude at first sight that King III appears to be similar to the King II Report, there are significant differences, which have practical implications for boards, directors, management, assurance providers and stakeholders. The extra impact of King III is best illustrated in the recommendations penned by the King Committee, as outlined in the IoD report (2009) and the PwC (2009) report:

- The introduction of a Sustainability Report, which integrates social, environmental and financial information into one report
- The requirement for greater involvement in the management of company affairs by institutional shareholders
- The use of Alternative Dispute Resolution (ADR) as a starting point for expediting the resolution of disputes, unlike lengthy legal processes
- A risk-based internal auditing approach, with a greater focus on evaluating the effectiveness of internal controls in managing risks identified by the enterprise
- The introduction of the ‘non-binding advisory vote’ by shareholders at the general meeting with respect to executive director remuneration
- Recognition of the importance of Information technology (IT) governance, with focus thereon moving to the board from business units
- The inclusion of provisions for Business Rescue, largely driven by its inclusion in the new Companies Act of 2008

- Greater director focus and awareness of duties and responsibilities in the consideration of fundamental and affected transactions like mergers, acquisitions and amalgamations, amongst others
- A change in the manner of board evaluation from an annual performance to one that determines whether such should be undertaken internally or externally
- The importance of the Combined Assurance Model, which underscores the need for internal and external assurance providers to work together

#### 4.6.5 Value of King III

King III introduced many new recommendations, as outlined in the body of this chapter, the most conspicuous of these being the change in the voluntary application from 'comply or explain', adopted in King II, to 'apply or explain'. The 'apply or explain' principle adopted by King III further supports the self-regulation doctrine espoused by King Codes.

One of the main evolutions in the King Reports, as cited by Hendricks and Wyngaard (2010), was that King I and King II evolved from not making any mention of non-commercial entities to King III boldly declaring itself as the custodian of good corporate governance practices across all entities. King III, as submitted by Meinie (2011), brought social transformation issues to the fore of the boardroom table, thus ensuring a broader discussion on corporate governance than financial matters. Another of the values of King III, as advanced by Meyer et al (2011), was King III's focus on risk in an organisation.

Some of the key benefits of King III, as articulated by De Beer and Du Toit (2015), are:

1. Its emphasis on ethics, which acts as an ethical and moral compass for employees and directors of an organisation

2. Its ability to assist in the identification and eventual mitigation of risk, given its emphasis on risk management

3. Ensuring that a transparent process is followed with respect to the appointment of directors and employees

A key difference in focus between King II and King III, as observed by Mans- Kemp, Erasmus and Viviers (2016), was that King II focused on sustainability reporting, which led to focus on the 'triple-bottom-line', while King III focused on integrated reporting, which advocated the integration of financial and non-financial information in annual reports as sustainability took centre stage.

A notable value of King III, as stated in the ACGN report (2016), was its ability to raise the level of company accountability by integrating economic, social and environmental information and to use that information to explain to the broader stakeholder base the influence of those economic, social and environmental decisions.

### 4.6.6 Conclusion

The 'apply or explain' approach adopted in King III was a progression from the comply or explain approach advocated by King II. The change from complying to applying can to some extent be seen to be slightly more prescriptive. The requirement to apply or explain brings about a new nuance that forces companies to also provide reasons for applying or not applying the codes, a material departure from King II.

Esser (2009) also believes that King III is a better code than King II, as it provides directors with better guidance on how they should act in the consideration of interests of different parties that are part of an entity, emphasising the point that directors must act in the best interests of shareholders, but must also consider the best interests of other stakeholders.

## 4.7 KING IV

King IV, the fourth instalment of Corporate Governance issued by the IoD, was issued on 1 November 2016 (PwC, 2016). The report by the IoD (2016) states that King IV applies to *all* organisations, be they public/private, large/small, for-profit/non-profit.

A report by Deloitte (2016) submits that King IV has made significant strides, as it is based on principles and outcomes but also considers the realities of the day, and not only principles. A report by auditing firm EY (2016: 4), states that “King IV shifts the focus to selecting and implementing governance practices to achieve overarching governance goals”. This could to a large degree be achieved, as the number of principles, as noted in the IoD report (2016) and the Deloitte report (2016), have been reduced from 75 to 17. A report by PwC (2016) compares the differences and similarities between King III and King IV™. In its report, Nkonki (2016: 1) argues that “King IV aims to reinforce good corporate governance principles, practices and governance outcomes”, philosophies and principles that have underpinned the other King Codes.

In reports compiled by Werksmans (2016) and KPMG (2016), some of the reasons suggested for the revision of King III include:

- Material changes in the regulatory and corporate governance landscape, as well as experience, since King III was published in 2009
- Difficulties experienced by some public entities, private companies and non-profit organisations in the adoption of King recommendations and principles
- The need to address some of the criticism levelled against King III
- Aligning King Codes with shifts in the approach from capitalism towards inclusive, integrated thinking across the six capitals

### 4.7.1 Conclusion

As it might be difficult to discern the impact of and challenges that might be faced by the King IV Code on Corporate Governance, in view of its having been unveiled only in November 2016, a report by EY (2016) warned that the implementation of King VI, and meeting its disclosure requirements, will be somewhat challenging for organisations.

## 4.8 THE KING CODE GENESIS

The progression and the different focus areas of King I, II, III and IV are displayed in Table 4.1 below. The aim of the table is also to show the distinct differences and change of focus in the various King Codes.

**Table 4.1: Summary of Key King Report Codes**

| | King I | King II | King III | King IV |
|---|---|---|---|---|
| Boards | - Unitary board<br>- Separate CEO/ Chairman roles<br>- Limits of authority re acquisitions, disposals<br>- Meetings once a quarter<br>- Equal NED to ED representation, minimum of 2 each | - Diversity of skills, , experience and background<br>- Succession planning and appointing the CEO<br>- Unrestricted access to all company information<br>- Developing a conflict-of-interest policy<br>- Board effectiveness in terms of size, diversity and<br>- demographics<br>- Identifying key risk areas and KPIs<br>- Identifying and monitoring key non- | - Acting in the best interests of the company<br>- Ensuring the application of corporate governance principles<br>- Majority of independent NEDs<br>- Minimum of 2 executives (CEO and CFO/FD)<br>- Separate CEO and Chairman roles<br>- | - Emphasis on independence for executive and non-executive directors<br>- All directors to act in the best interest of the company |

| | | | | |
|---|---|---|---|---|
| | | financial aspects<br>- Encouraging AGM attendance, and board to be present<br>- Providing information on directors standing at AGM in the AGM notice<br>- Disclosing the board charter in the annual report<br>- Ensuring separate meeting of NEDs | | |
| Board appointments | - Fair selection, no tokenism and cronyism<br>- To be made by the entire board<br>- Executive contracts not to exceed 5 years | - Balance of executive and NEDs<br>- Ensuring majority of independent NEDs<br>- Appointments to be formal, transparent<br>- Staggered director rotation | - Review of independence of NEDs with greater than 9 years on the role<br>- A minimum of 1/3 of NEDs to rotate annually | - The requirement for disclosure and setting of targets about racial and gender composition of the board |
| Sub Committees | - No support for Nominations Com. (Nomco) | - Nomco to assist with board appointments<br>- Nominations Committee to | - No additions | - Greater emphasis on a holistic approach on sub-committees<br>- Focus on |

| | | | | |
|---|---|---|---|---|
| | | constitute majority independent NEDs<br>- Proper delegation of authority to sub committees<br>- Sub coms in the main to be chaired by an NED<br>- Annual board performance of appraisal<br>- Disclosure of composition, mandate etc. on the annual report<br>- Each board to have a Remco and Audit Com at a minimum | | enhanced collaboration, effectiveness, and less overlap and duplication of work undertaken or considered by sub-committees |
| Remuneration Committee (Remco) | - Formation of Remco to consider NED and ED remuneration<br>- Majority of Remco members to be independent NEDs | - Disclosure of Remco membership in annual report<br>- Remco chairman to attend AGM<br>- Share options to be granted to NEDs to be approved by shareholders<br>- Full disclosure | - Chairman not to be chairman of Remco | - Emphasis on improved disclosure and accountability<br>- Greater say given to shareholders in the form of a non-binding advisory vote on the remuneration policy and the implementation report |

| | | | | |
|---|---|---|---|---|
| | | of individual executive and NED remuneration<br>- Executive directors' fixed term contract NOT to exceed 3 years<br>- Key in succession planning<br>- NED fees to be approved by shareholders at AGM<br>- Fair remuneration<br>- Consideration of remuneration frameworks etc.<br>- Either entirely or majority independent<br>- Disclosure of Remco membership in annual report<br>- Remco chairman to attend AGM to answer questions<br>- Share options to be granted | | - The requirement for engagement with shareholders in the event of 25% or more voting against the remuneration policy<br>- Broadening measures that determine remuneration to not only be focussed on financial performance but on the six capitals<br>- Disclosure of the performance measured and targets that form the basis of variable remuneration<br>- Emphasis on responsible remuneration and practices<br>- The requirement for attention to the paid to the low-end and high salary gaps |

| | | | | |
|---|---|---|---|---|
| | | to NEDs to be subject to shareholder approval<br>- Full disclosure of individual executive and non-executive director remuneration<br>- Executive director's fixed-term contract not to exceed 3 years<br>- Consideration of NED fees | | |
| Audit Committee | - Audit Com to be chaired by an NED<br>- | - Consideration of an interim report audit review by Audit Com<br>- Minute assumptions and facts used to arrive at the going-concern assertion<br>- Going-concern assertion to be considered at interim and year end<br>- Statement in the annual report of the inclusion of | - Statutory requirement of the Companies Act of 2008<br>- To have at least 3 members,<br>- All members independent NEDs<br>- Chairman of Audit Com must not be the same as the Chairman of the Board<br>- Members to have appropriate skills and experience | - Requirement for the disclosure of significant matters considered as part of the audit and annual financial statements<br>- The requirement to provide views on the quality of the audit and audit indicators |

| | | | | |
|---|---|---|---|---|
| | | non-financial aspects of reporting to be subject to external validation<br>- Broad and timely distribution of critical financial information to all shareholders<br>- Majority independent and financially literate members<br>- Independent Chairman<br>- Chairman not to be Chairman of the Board<br>- To have Terms of Reference dealing with membership, authority, responsibilities, etc.<br>- Disclosure in the annual report on the adoption of terms, adherence thereto, | - Minimum no of meetings twice per year<br>- Must be advised of reported irregularities<br>- Provide information in the Integrated Report of the workings and composition of the committee | |

| | | | | |
|---|---|---|---|---|
| | | - Disclosure of membership of the Audit Com in the annual report.<br>- The chairman to attend the AGM<br>- | | |
| Auditors | - To be independent<br>- To attend Audit Com meetings | - Appointment of external auditors and members of Audit Com to be made by shareholders<br>- Encourage consultation between external and internal auditors<br>- Parameters to be set by the Audit Com for use of the external auditor for non-audit services | - No additions | - Further recommendation made on auditor independence including tenure |
| Internal Audit | - Establishment of an Independent internal audit function<br>- Support from board and management<br>- The Head to attend all | - As per King I<br>- NEDs to assess management<br>- NEDs can meet separately outside of management to discuss | - Overseen by the Audit Com<br>- An independent and objective function<br>- Functionally reports to the Audit Com | - Remains a pivotal part of furthering corporate governance<br>- Is seen as a value contributor and partner to the business |

| | | | | |
|---|---|---|---|---|
| | Audit Com meetings<br>- Unrestricted access to the Audit Com Chairman | issues<br>- Review of effectiveness of systems and procedures to company's internal systems | | |
| Risk management | - n/a | - Proper delegation of authority to sub-committees to be done<br>- Must be transparent and disclose fully to the board<br>- Should in the main be chaired by an NED<br>- Performance should be evaluated annually<br>- Disclosure of composition, mandate etc. on the annual report<br>- Each board to have a Remco and Audit Com at a minimum | - Minimum of 3 board members<br>- Meetings at least once per year<br>- Consider the risk management policy and plan<br>- Monitor the risk management process<br>- Compliance risk key to the company's risk management process | - Recognises the traditional reference to risk and the opportunities that arise from risks<br>- Recommendation for majority of members to be NEDs<br>- Evolution of the combined assurance model introduced in King III |
| IT Governance | - n/a | - n/a | - Responsibility of the board, | - A clear distinction is made between |

| | | | | |
|---|---|---|---|---|
| | | | supported by the Audit and Risk Committees<br>- To be aligned with the performance and sustainability objectives of the company | Information and Technology<br>- Great emphasis on the role played by technology to transform businesses, products, services etc |
| Ethics | - Code on Ethics to be adopted by each company | - Engagement of all stakeholders in determining a company's standards of ethical behaviour<br>- Proper systems, reporting, communication and training, oversight of compliance with Ethics Code<br>- Statement by directors on the adherence to the Ethics Code | - No additions | - Expands on the role of the Social and Ethics Committee (SEC) as outlined in the Companies Act<br>- Change in the composition of the SEC with more NEDs appointed<br>- Code encourages all companies to establish an SEC, even if not required by law |
| Compliance with all laws and regulations | - To establish a 'closed period dealing policy'<br>- JSE notification with respect to director | - Responsibility of the board to ensure compliance<br>- Formal dealing policy implemented | - Responsibility of the board | - Responsibility of the board<br>- Great emphasis on holistic understanding and acceptance of compliance |

| | | | | |
|---|---|---|---|---|
| | dealings | by the Company Secretary to be in place<br>- Prohibition of dealings during closed/ sensitive periods to employees and directors | | than it being viewed as an obligation<br>- Requirement for the board to regularly monitor compliance with regulations |
| Stakeholder engagement/ communication | - Relevant, prompt, accurate and useful information<br>- Reports to include non-financial aspects such as the environment, employment policies etc.<br>- Balanced reports, showing positive and negative aspects of a company's activities | - Responsibility of the board<br>- A balanced and understandable assessment of the company's position in reporting to stakeholders.<br>- Information to be of openness and substance over form.<br>- Reports to address material matters of significant interest and concern to all stakeholders<br>- Reports and communication to also include non-financial | - Consideration of organisation reputational impact<br>- Delegation of stakeholder engagement to management<br>- Achieving an appropriate balance between its various stakeholder groupings, in the best interests of the company<br>- Ensuring equitable treatment of shareholders<br>- Ensuring transparent and effective communication with | - Emphasis on stakeholder engagement given the stakeholder-centric nature of King IV |

| | | | | |
|---|---|---|---|---|
| | | matters<br>- Reporting on circumstances of the communities in which the company operates.<br>- A directors' report in the annual report, noting directors' responsibility statement, the auditor's responsibility statement, internal controls and risk management, accounting policies used, adherence to accounting standards, conformation of the going-concern assertion, and adherence to the Code of Corporate Practices and Conduct. Reasons and explanations to be provided for any | stakeholders<br>- Ensuring that disputes are resolved effectively, efficiently and expeditiously | |

| | | | | |
|---|---|---|---|---|
| | | deviations from the above. | | |
| Shareowner relationships | - n/a | - Constructive engagement with institutional shareholders<br>- Consideration of poll votes in relation to special business, or where contentious issues arise<br>- Publication of results of all decisions taken immediately at the end of the meeting<br>- Institutional shareholders to consider corporate governance arrangements<br>- Each item of special business included in the notice of AGM must be accompanied by a full explanation of the effects of the proposed | - No additions | - Greater emphasis on the role that shareholders can play in advancing corporate governance<br>- Advocacy for responsible investments and investment decisions by institutional shareholders and their governance bodies |

| | | | | |
|---|---|---|---|---|
| | | resolution | | |
| Integrated report | - n/a | - Annual company report on social, transformation, ethical, safety, health and environmental management policies and practices | - Responsibility to oversee the Integrated Report resting with the board<br>- To be prepared annually<br>- To convey adequate information regarding the company's financial and sustainability performance<br>- Focus on substance over form.<br>- Sustainability reporting to be integrated with financial disclosure of the company and to be independently assured | - Is seen as an outcome of integrated thinking<br>- Fashioned on the International [IR] Framework as issued by the International Integrated Reporting Council<br>- Can be a standalone report or one that incorporates financial statements and other key reports that deal with legal requirements and compliance |
| Company Secretary | - To be appointed by the board | - Should be subjected to "fit and proper" tests similar to those of new directors | - No additions | - Considered a key resource even for companies that do not need to appoint one |
| Dispute resolution | - | - | - Introduction of the alternative | - No significant changes<br>- Focus enhanced |

| | | | | |
|---|---|---|---|---|
| | | | dispute resolution mechanism | - The need to ensure that dispute resolution processes form part of stakeholder relationship management |
| Tax | - | - | - | - Tax compliance and good citizenry in this regard is seen as the responsibility of the governing body<br>- Emphasis on compliance with tax regulations |

[*Source*: Adapted from IoD (1994), IoD (2002), IoD (2009), IoD (2016)

In Table 4.1, the progression from King I to II to III is highly evident. The King Codes evolved from focusing more on the board of governance, emphasising the need for independent directors on the board, to the inclusion of reports that cover more than the financial aspects of a business.

### 4.8.1 Conclusion

In considering the differences between the King Codes, the researcher has made a number of observations, which are detailed below.

King II added to the key principles of King I by introducing more accountability, transparency on matters related to executive remuneration, greater independence of the audit committee, a focus on risk management and the elevation of ethics, and the introduction of the sustainability report. King II, unlike King I and King III, also dwelt more on the role of the board, its composition and the sub-committees. The increased focus on boards in King II could be a result of the events (corporate scandals) that had unfolded prior to King II being finalised. It does seem that the focus on board composition, appointment and independence was to ensure that boards were more effective and more objective in the manner in which they dealt with key issues.

King III, on the other hand, added a new focus and dimension to corporate citizenry with the introduction of an integrated report, the elevation of IT governance and risk management in the organisation. It is evident from Table 4.1 that, given the coverage on governance provided by King II, King III was to some extent limited to the role of a refiner rather than a ground-breaker.

## 4.9 CONCLUSION

The evolution of governance in South Africa from King I to King IV does demonstrate the importance that South Africa and its regulators place on governance. Despite the concerns of differing views about governance, there is an overwhelming support for its intent, purpose and benefit.

A material aspect of the corporate governance genesis in South Africa, as articulated in this chapter, has also been the extension of the requirement to apply corporate governance practices to entities that operate outside of the private sector and for profit. The adoption of certain aspects of corporate governance principles into the revised Companies Act of 2008 attests to the importance that regulators place on governance and the clear link between governance and the law.

The overriding theme within the local corporate governance space has not only been limited to reflections on South African experiences and society but has also incorporated the changes to the international corporate governance landscape. This provides reassurance that South Africa continues to consider other international trends and practices in order to stay relevant.

However, despite the overwhelming support for the adoption of sound corporate governance in South Africa, a report by the African Institute of Corporate Citizenship

(AICC) (2006) does raise concern about the pace and sophistication with which South Africa has adopted international corporate governance standards and practices. Two areas that could be adversely affected, as noted in the report by the AICC, are the possible negative impact on small to medium enterprises (SMEs), which have been identified as weak in the report when compared with other countries, and the retention of non-executive directors. Young (2010) believes that while South African companies hold corporate governance in high regard, this is to an extent undermined by the profit maximisation motive of most corporates.

Armstrong et al (2005) equally, while acknowledging the critical role played by the King Codes in raising corporate governance standards and practices in South Africa, do question whether South Africa has the institutional architecture to give true meaning and effect to the self-regulatory nature of the corporate governance codes.

Notwithstanding these concerns, it is difficult to argue against the benefits of good corporate governance standards, two of which Armstrong (2004) lists as being making the country an attractive investment destination for investors, and access to capital (bond and equity markets). The importance of good corporate governance principles is supported by Young (2010: 136) who, in quoting Armstrong (2003) lists the following positive contributors of corporate governance: increased economic success of the country; enhanced corporate responsibility and an improvement in the reputation of organisations; attraction of foreign investors; and serving as a potential deterrent to corruption and unethical business practices. A further positive contribution is cited to be its ability to drive market discipline and transparency.

Nevertheless, a report by the ACGN (2016) identifies certain practices that could hamper the sustainable implementation and adoption of sound corporate governance practices. Some of the challenges identified include an escalation in corruption in both the private and public sectors, inadequate enforcement of laws and regulations, and a limited pool of competent and independent directors in South Africa, as well as the concern that the application of the King Codes could be more a 'tick-box' exercise rather than proper compliance with governance.

In summary, in the light of some of the insights that support the implementation of corporate governance practices, South Africa, as a country competing for global capital, had no option but to adopt standards that would place it ahead of the pack. Despite the long road travelled, there is a need for South Africa to also constantly ensure that its environment continues to support strong corporate governance. Andreasson (2011) argues that emerging markets stand to be the most negatively affected by poor corporate governance practices, unlike developed markets, where corporate governance practices are more institutionalised. Mans- Kemp and Viviers (2016: 5), who view corporate governance as a key business enabler, have cited improved company reputation, sustained growth and a greater possibility of long-term value and wealth creation as some of the advantages of sound corporate governance practices.

# Chapter 5: Research Methodology

## 5.1 INTRODUCTION

Chapter 3 of this dissertation provided the literature review on the various principles and codes of corporate governance applied in the US, UK, Brazil, Nigeria and Malaysia, and Chapter 4 those of South Africa.

Chapter 5 provides an overview of the methodology that has been applied in conducting the research for this study: the problem statement, research design and applicable philosophies of research. This is followed by discussion on the research approach adopted for this study, research methods used to select the sample, ethical considerations and limitations of the study.

An exploratory, qualitative, interpretive study, which falls under the interpretive epistemological tradition, was conducted to explore "the drop in the perceived value of King III compared with that of King II" (Jansen van Vuuren and Schulschenk, 2013). This research study seeks to consider in greater detail the results of a study conducted by these authors in 2013. The main finding of the study was "the decrease of the perceived value of add of King III to 65%, compared with a previously reported perceived value add of King II of 82%" (Jansen van Vuuren and Schulschenk, 2013).

It is this perceived drop in the value of King III when compared with King II that this research study seeks to unpack. The main research question and sub-questions which are to be answered by this study are listed below.

**Primary research question:**

"What are the reasons behind the decline in the value of King III in comparison with King II, as perceived by listed companies in South Africa?"

**Research Sub-questions:**

— Can the perceived decline in the value of King III compared with King II be related to the timing of the surveys conducted?

— Have economic circumstances at the time that King III and King II were released played a role in diminishing the perceived value of King III when compared to King II?

— Has the difference in the content and emphasis of King II relative to King III had an impact in the perceived drop in the value of King III when compared to King II?

— Is the decline in the perceived value, as concluded in the study, a reflection on the decline in the value of King III or a decline in the value of corporate governance?

— How can the findings of this study add value to the discussion on the possible publication of King 1V?

## 5.2 RESEARCH TRADITIONS

This part of the chapter attempts to provide some perspective on the research traditions which could assist the researcher in answering questions posed by Thiétart (2001: 14): "What is the nature of the knowledge we can generate through our research?"; "How can we generate scientific knowledge?" and "What is the value and status of this knowledge?"

Ontology and epistemology have been described by Farquhar (2012) as key areas that have a significant bearing on the research approach chosen. Ontology, epistemology and methodology are said by Eriksson and Kovalainen (2008) to be key concepts within the social science's philosophical foundations. This view is echoed by Neuman (2014), who observes that ontology and epistemology are the key foundations of research, irrespective of the view held by a researcher. Eriksson and Kovalainen (2008) further believe that there is a close relationship between epistemology and methodology, with the former more focused on how we gain knowledge about the world, while the latter is concerned with the practical aspect of how such knowledge is gained.

### 5.2.1 Ontology

According to Byrne (2016), “ontology”, is derived from the Greek words *ontos*, meaning “being”, and *logos*, which can mean “study”; so ontology is the study of being or reality. Ritchie, Lewis, Nicholls and Ormston (2013) believe that ontology is about how the world is viewed and the realities of it. Neuman (2014: 94) advances the view that ontology “concerns the issue of what exists, or the fundamental nature of reality.” Neuman (2014) further identifies two key views that are relevant to ontology, namely realism and nominalism.

**Realists** are said by Neuman (2014:94) to believe that reality is “out there” and “exists independently of humans and their interpretations of it.” Realists believe that the world is what it is, irrespective of how it can be perceived or viewed by people. This implies a significant element of objectivity and independent thinking in the shaping of reality.

**Nominalists,** according to Neuman (2014), believe that reality is formed based on human subjective perceptions and interpretations, meaning that what is perceived as reality is greatly influenced by culture and experiences, among other factors. This implies that partiality is embedded in one’s perception of reality.

A key ontological question raised by Ritchie et al (2013) is whether or not reality exists outside of personal/human conceptions and interpretations. Walliman (2006) submits that the researcher’s view of reality, which is associated with the ontology tradition, has a material bearing on how research questions are formulated and how the research is conducted. Walliman (2006), citing Bryman (2004), points out that objectivism and constructionism are ontological traditions.

### 5.2.2 Epistemology

Byrne (2016) points out that epistemology is a derivative of the Greek words *episteme* and *logos*, which mean “knowledge” and “study” respectively. There are various ways in which epistemology is defined. Thiétart (2001: 13) defines epistemology as “the study of knowledge, and so of science: the study of its nature, its validity and value, its methods and its scope… questioning is vital to serious research, as through it researchers can establish the validity and legitimacy of their work." Farquhar (2012) defines epistemology as the study of the nature, sources and limits of knowledge; in epistemology concern is about the correctness of such knowledge, for example that the world is a sphere. Neuman (2014) states that epistemology is about our knowledge of the world around us, the ways we use to acquire such knowledge, and how such knowledge can be used to arrive at what is true in a scientific manner.

Ritchie et al (2013) further comment that a key debate in epistemology is how such knowledge is acquired. Walliman (2006) believes that with respect to epistemology, knowledge can either be acquired in an empirical or rational manner; empirical knowledge is acquired using inductive reasoning, while rational knowledge is knowledge gained by using deductive reasoning.

In the next part of this section, the three research traditions that can be used to approach research, namely positivism, interpretivism and critical theory, will be discussed.

## 5.3 RESEARCH PARADIGMS

The two traditions mainly associated with epistemology, as submitted by Walliman (2006), are positivism and interpretivism. Girod-Séville and Perret (2001) state that paradigms are frameworks applied in research. Farquhar (2012: 16) notes that paradigms "comprise an accepted set of theories and methods which researchers tend to follow, as they give the research coherence". Burke (2007: 477), quoting Kuhn (1962), identifies paradigms as "a 'disciplinary mix', a means of identifying and therefore sharing assumptions about core values and beliefs".

Neuman (2014: 96) submits that the three relevant approaches which "offer different ways to observe, measure, and understand social reality" are positivism, the interpretive tradition and critical theory. Byrne (2016), supported by Jones (2014), has observed that positivism and interpretivism are the main paradigms (philosophical foundations) that are the basis of social science research, as well as being the two main epistemological positions. Eriksson and Kovalainen (2008) submit that positivism, post-positivism, critical theory and constructivism/interpretivism are the paradigms used extensively in the field of social science and business research.

### 5.3.1 Positivism

Positivism is associated with quantitative research methods, with the purpose of establishing causes and effects. Cassel and Symon (2004) remark that the quantitative research approach is underpinned by a positivist, normative or functionalist paradigm. Girod-Séville and Perret (2001:14) remark that the positivist paradigm, whose aim is to explain reality, is dominant in organisational science, but they add that the constructivism or interpretivism paradigms are also becoming increasingly influential among researchers working in organisational science.

Neuman (2014) states that positivism is the oldest and best regarded paradigm in social research. Goulding (2002) agrees that positivism, which still dominates research, was largely influenced by German philosophers in the 1920s and 1930s and is steeped in the scientific, observable orientation, with conclusions only to be drawn from what has been observed, and not deduced. Johnson and Duberley (2000: 12) argue that positivism is still key in management epistemology, despite contrary views being expressed about its relevance.

Jones (2014) states that positivism supports a more scientific basis of research, which follows a hypothetico-deductive approach. Burke (2007) identifies the objective instrument as the main point of reference of positivism, as being more scientific in its approach. Burke (2007:480) further states that positivism, working on "facts [that] are clearly defined and measurable", has traits that are in keeping with the scientific approach and tradition, thus highlighting and supporting impartiality as the cornerstone of this approach.

Kelemen and Rumens (2008: 38) put forward three underlying assumptions of positivism which back the assertion that it is more linked to the scientific approach:

- Positivism assumes an objective social reality that exists independently of our interpretations (ontological assumptions).
- Positivism holds the investigator and the investigated object as independent entities (epistemological assumptions).

- Positivism states hypotheses which are then tested by various means.

Quantitative research is associated with the positivism tradition, as it is associated with an occurrence or phenomenon that is precise and real, measurable and free of bias, all characteristics of quantitative research (Farquhar, 2012). Goulding (2002: 14), in support, lists “occupational definitions, objectivity, replicability, causality” as characteristics identified with positivism that are found in quantitative research. Willig and Stanton-Rogers (2008) also agree that quantitative research is generally associated with scientific or positivist paradigms.

### 5.3.2 Interpretivism (Interpretive tradition)

Farquhar (2012) remarks that researchers who embrace interpretivism have a desire to engage closely with their study, and the conclusions they draw are likely to be influenced by values and interpretations, lending themselves to being potentially influenced, thus biased. Walliman (2006) submits that the interpretive tradition aims to unearth interpretations and meaning. According to Jones (2014:17), interpretivism does not support a scientific basis for research, as it supports inductive research methods “that seek to engage with the way that social actors interpret their world”. Burke (2007) holds the view that the interpretative approach does not only look at data in a vacuum, as it makes provision for the context of the research at the time that data is collated and analysed. He also believes that interpretivism is the most appropriate approach in research that deals with people and culture.

Labaree (2017) observes, however, that as the interpretive tradition focuses more on “subjective knowledge”, or knowledge gained from a participant and not through scientific means, there is a need to cast a closer eye on the interpretation of variables.

Within the context of research traditions, qualitative research is associated with the interpretive tradition; as the interpretive group of methods is focused on understanding phenomena in a comprehensive, holistic way by considering more the ‘why, how or what’, based on their interaction with the phenomena (Labaree, 2017). Pope and Mays (2006) submit that the association of qualitative research with the interpretive tradition is due to the interpretation of the social phenomena through interactions or behaviour of the participants. Willig and Stanton-Rogers (2008) also agree that qualitative research is typically associated with interpretive or constructivist paradigms.

### 5.3.3 Critical Theory

According to Steinvorth (2008), critical theory became popular 30 years ago, as an approach that had its roots in the Frankfurt School of Horkheimer and Adorno. Burke (2007: 480) terms critical theory the "radical humanist approach", as it seeks to look beyond the now, or what is present, by looking at the past with a view to assisting us to view in an objective manner the things within our lives and past that would or might have had a bearing on our reaching our potential and achieving our goals.

Alvesson and Deetz (2000) submit that critical theory is more about questioning and challenging what is accepted in an effort to contribute to more independence and the ability to challenge or question perceptions or findings. Creswell (2014) refers to it as the transformative worldview, whose research agenda is driven primarily by ensuring change in the workplace, political environment and social strata, among many other areas.

Steinvorth (2008), who submits that critical theory lacks the natural science property of objectivity, states that critical theory is materially different from positivism, which is associated with the natural sciences. Kelemen and Rumens (2008:22) agree that the difference between positivism and critical theory is that "the social world could not be studied in the same way as the natural world", which was at the heart of critical theorists disputing the assertion of the researcher as an objective instrument who had all the knowledge.

**Table 5.1: A synopsis of different research traditions**

| | **Positivism** | **Interpretivism** | **Critical Theory** |
|---|---|---|---|
| What each tries to do | - Determine<br>- Predict | - Understand<br>- Acknowledge multiple participant meanings | - Emancipate |
| Basis of investigation | - Cause and effect | - The subject matter investigated by the natural sciences is different from that of | - Aims to transform society to address inequality<br>- Political |

| | | | |
|---|---|---|---|
| | | the social sciences; people and not objects interpret the environment and themselves | |
| Main tools | - Empirical observation and measurement<br>- Reductionism<br>- Theory verification<br>- Aims to quantitatively measure and objectively predict relationships between variables | - Recognition that the researcher and the participant's unique interpretations of the world or the situation will influence the research (Social and historical construction)<br>- Need for the researcher to be open to the attitudes and values of the participants and overcome for that time prior cultural assumptions | - The goal of the research is to actively challenge interpretations and values to drive change<br>- Change-oriented<br>- Collaborative<br>- |
| Main criticism | - The assumption that the researcher can be divorced from what is being researched.<br>- The expectation that a researcher can observe without being influenced by their values or interests | - Does not allow for generalisations, due to the small sample used, which is hard to apply to the whole population | - It tends to support a political agenda<br>- Power and justice oriented |
| Research methods | - Experiments and tests | - Focus groups, interviews, research diaries, | - Interviews and group discussions |

*Sources*: Kelemen and Rumens (2008), Creswell (2014), Vine (2009)

Table 5.1 sets out the differences between the three research traditions which were instrumental in determining the most appropriate research approach to undertake for this study. As the research problem to be investigated for the study was based on the participants' views about the perceived value of King III compared with that of

King II, the interpretive tradition was the most appropriate research approach to employ.

Unlike some of the authors quoted in the study, who refer to the qualitative approach as part of the interpretivist tradition, and quantitative as part of the positivist tradition; Cassel and Symon (2004:2) posit that the "quantitative method might be underpinned by a positivist, normative or functionalist paradigm, while qualitative methods might be informed by all possible epistemological positions, including those traditionally associated with quantitative methods".

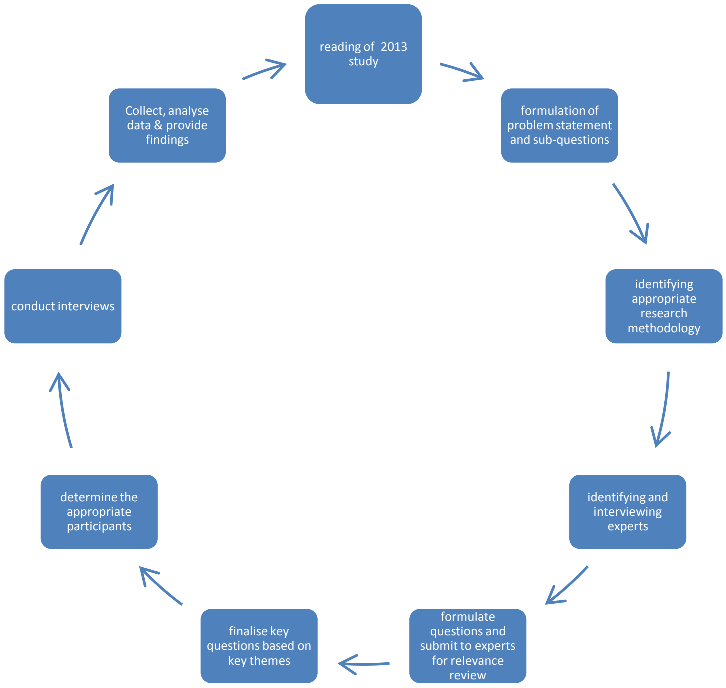
The synopsis of the various research traditions provided in Table 5.1 does, however, demonstrate that the interpretive tradition was the most appropriate, this being supported by what the study tries to understand as listed in the problem statement together with applicable research methods.

## 5.4 RESEARCH PROCESS

The topic being explored in this research was based on a study conducted by Jansen van Vuuren and Schulschenk in 2013, titled *Perceptions and practice of King III in South African companies*. The main objective of the study was to identify any changes in the application of King III and any changes in the perception of King III. The conclusion reached by the researchers, after the comparison of two surveys undertaken in 2006 and 2012, is that there was a perceived decline in the value add of King III when compared with the value add of King II. The result reached was based on the responses given by the 183 survey participants. Greater detail on the research study conducted by Jansen van Vuuren and Schulschenk (2013) has been presented in Chapter 1 of this research paper.

The researcher's interest was piqued, as the conclusion was somewhat surprising given the high endorsement King III had garnered across the globe and the overwhelming application of King III by companies listed on the JSE. This realisation led to the formation of the problem statement that is articulated, together with its associated questions, later in this chapter. Figure 5.1 below outlines the research process undertaken by the researcher.

**Figure 5.1: The research process outline**




*Source*: Researcher

The research outline, as presented in Figure 5.1, is a synopsis of the route employed by the researcher in the conduct of the study.

The steps followed in this research process were:

Step 1– Reading and analysis of the research study conducted by Jansen van Vuuren and Schulschenk (2013)

Step 2 – Formation of the problem statement and the identification of associated questions

Step 3 – Identification of and subsequent discussions with independent experts on corporate governance in South Africa

Step 4 – The drafting of a list of questions that would assist in answering the problem statement

Step 5 – The compilation of the list of participants, which is illustrated in greater detail in Figure 5.2.

Step 6 – The ethical clearance process and the request to interview each of the participants, which is included in Annexure B.

Step 7 – The commencement of interviews

Step 8 – The analysis of the primary data gathered, which included the collation of all interviews, transcribing the interviews and the identification of key themes

Step 9 – The review of findings and recommendations

Step 10 – The final leg of the research study, which has culminated in the research report.

The experts identified by the researcher are authorities in the field of corporate governance; one from academia, one from the private sector, one from the public sector and two who are associated with the Institute of Directors. All of the experts have published research in the field of corporate governance. A meeting was held with two of these experts where the research topic was discussed. The discussion with the experts in Step 3 culminated in the researcher sending a list of questions to the experts, who had been interviewed with the aim of refining the final list of questions to be asked. Each of these experts provided a ranking of the questions that had been compiled by the researcher according to relevance to the study as outlined in Chapter 1. The rankings used were 'high', 'average' and 'poor'.

The research was of the opinion that views from additional experts were required to ensure a more representative list of questions. An additional two experts were also sent the same list of questions compiled by the researcher and requested to rank according to relevance. This process enabled the researcher to further refine the list of questions and group each under Themes as detailed in Annexure E. The Themes emerged out of the key areas that have an impact on governance and the study. Only those questions which were ranked 'high' by the experts formed part of the interview list of questions.

This process of interview–refine–interview is said by Wilson (2013) to assume that the expert has a broad understanding of the work process and can provide information that will enhance the research. This process culminated in the researcher's drafting a list of questions that would assist in answering the problem statement. The engagement in Step 4 was also important in ensuring that the researcher focused on key issues that are relevant to corporate governance locally.

## 5.5 RESEARCH APPROACH

Roberts (2007: 5) refers to research as “the study of substantive issues and theoretical questions by the application of one or more research methods, and the interpretation and dissemination of findings”. This study seeks to answer questions posed in Chapter 1. The conclusions will be provided in greater detail in Chapter 7 of this study.

Booth, Colomb and Williams (2009) state that research is undertaken when information is required to answer a problem, to understand something better, to discover something new or to answer a question that arises. Neuman (2014) observes that research is undertaken for numerous reasons, the ultimate aim being able to provide society with a greater understanding of certain phenomena.

In determining the current research design, the first step was to consider the two available research methods, namely qualitative or quantitative research. Thietart (2001) states that one of the considerations when determining a methodological approach is the purpose of the research. Creswell (2014) points out that a feature of qualitative research is the use of words, while that of quantitative research is its use of numbers. Eriksson and Kovalainen (2008) state that qualitative approaches are focused on interpretation and understanding, while quantitative approaches are focused on explanation, testing of hypotheses, and statistical analysis.

According to Patton and Cochran (2002), the following questions need to be considered when determining the most suitable research methodology:

- What is the question that you want to answer?
- Has this research already been done?
- Is this a problem that research can address?
- Is it appropriate to use qualitative research?

These questions were considered at the time that the researcher made the decision to pursue this qualitative study. The researcher was of the view that while extensive research had been done on King II and King III in the past; none of that research, save for that done by Jansen van Vuuren and Schulschenk (2013), had considered the “perceived drop in quality in King III as compared with that of King II”.

### 5.5.1 Reasons for choosing Qualitative Research

Qualitative research was chosen as the most suitable research approach, as the aim of the research was to unearth underlying reasons and opinions about the perceived difference in the value of King III when compared with that of King II. Wyse (2011) submits that qualitative research is an approach used when there is a desire to understand the problem/phenomenon more deeply and to gain greater insight into the reasons that underlie that view or views.

According to Desai and Potter (2006), qualitative methods have their origins in the humanities: sociology, anthropology, geography and history. Creswell (2014: 32) defines qualitative research as “an approach for exploring and understanding the meaning individuals or groups ascribe to a social or human problem”. Wyse (2011) has observed that qualitative research is primarily exploratory, as it seeks to gain a deeper meaning and understanding of what is already known, by also unearthing new trends, thoughts and opinions.

According to Ritchie et al (2013), there is no single, accepted way of carrying out qualitative research, as undertaking such research is dependent upon a range of factors, including the researcher’s beliefs about the nature of the social world (ontology), the nature of knowledge and how it can be acquired (epistemology), the purpose and goals of the research, the characteristics of research participants, the audience for the research, the funders, and the positions and environments of the researchers themselves.

Have (2004 :5) submits that a key feature of qualitative research ”is to ‘work up’ one's research materials, to search for hidden meanings, non-obvious features, multiple interpretations, implied connotations, unheard voices”. Alvesson and Deetz (2000: 70), quoting Van Maanen (1988: 9), describe qualitative methods as “an array of interpretive techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world”. Bryman (2006) believes that the result of the open-ended approach applied in qualitative research "produces surprises, changes of direction and new insights." Wyse (2011), in agreement, argues that qualitative research assists in discovering new trends and opinions and enables a far greater interrogation of the problem or phenomenon.

Nigel King (2004: 32) believes that a distinct aim of qualitative research is "to see the research topic from the perspective of the interviewee, and to understand how and why they come to have this particular perspective". Alvesson and Deetz (2000) believe that the increase in the use of qualitative research techniques has been driven to some extent by dissatisfaction with quantitative studies.

Ormston, Spencer, Barnard and Snape (2013) hold the view that there is no single preferred, correct or uniform way of performing qualitative research. They believe that the approach chosen by researchers is driven by a number of factors, such as ontology, epistemology, the objective of the research and the researcher.

Cassel and Symon (2004) hold the view that qualitative methods might be informed by all possible epistemological positions. Alvesson and Deetz (2000) state that social sciences like Management Studies are better suited to a qualitative approach, given their anthropological leaning.

Pope and Mays (2006) believe that as qualitative research endeavours to interpret social events and occurrences it is seen as interpretative research. Interpretivism is aligned to qualitative research because its purpose is to reveal interpretations and meanings (Walliman, 2006). Farquhar (2012) agrees that qualitative research adopts the interpretive approach to research. In the light of the interpretive nature of qualitative research, there is a need for careful analysis of data and ensuring of objectivity in arriving at findings. Labaree (2017) observes that interpretive methods of research, under which qualitative research falls, mean more focus on analytically disclosing the meaning-making practices of human subjects (the why, how, or by what means people do what they do), while showing how those practices can be used to generate observable outcomes.

Some of the criticisms of qualitative research, as advanced by Patton and Cochran (2002), include the difficulty of being able to apply results to the general population, given the typically small sample size which might not be deemed to be representative of the population, the belief that the findings lack vigour and the challenge in determining the level of bias or influence by the researcher on the opinions of the participants. Thiétart (2001) also highlights the inability to generalise as one of the limitations of qualitative research. Cresswell (2007: 19) remarks that the "procedures of qualitative research, or its methodology, are characterized as inductive, emerging, and shaped by the researcher's experience in collecting and analyzing the data." This does highlight the possibility of bias and misinterpretation of the views of the participants.

The other criticism levelled at qualitative research is said by Horsburgh (2003) to be the assumption that a qualitative approach to research is without the 'scientific' rigour and credibility associated with traditionally accepted quantitative methods. According to Goulding (2002), positivist researchers question the veracity of qualitative research, as they deem it to be less scientific and subjective.

### 5.5.2 Reasons for rejecting Quantitative Research

Creswell (2014: 32) defines quantitative research as "an approach for testing objective theories by examining the relationship among variables". Have (2004) notes that as quantitative data is presented in numeric form, its key focus is on statistical explanations. Sibanda (2009: 2) in her paper defines quantitative research as "research that focuses on gathering numerical data and generalizing it across a group of people". Quantitative research has been defined by Alvesson and Deetz (2000: 56) as "research aiming at reducing ambiguity through transforming perceptions into pre-structured, quantifiable categories".

Cassel and Symon (2004) point out that "quantitative method might be underpinned by a positivist, normative or functionalist paradigm". This view is shared by Farquhar (2012: 17), who remarks that quantitative research is a result of adopting the positivist approach to research and is about measurement. Bryman (2006) claims that the rigid and methodical approach of quantitative research does not prevent it from discovering new insights and findings. Humanists or interpretive researchers, on the other hand, see quantitative research as dated and inflexible, with little reference to realities (Goulding, 2002).

The definitions of quantitative research above stress the reliance of quantitative research on numbers and statistics, which would not provide the desired insights in the current research study. This is because the purpose of the study is to gather more information and gain more insight into the topic. The use of numbers and statistics would not add to the body of information already available, as it would not reflect a user or practitioner's perspective. Furthermore, the tools used in quantitative research, namely surveys and questionnaires, do not allow for any flexibility or probing in answering, making it an unsuitable research methodology**.**

Table 5.2 lists the differences between qualitative and quantitative research. These differences were a key determinant in choosing which of the two research approaches to employ for this study. The University of Minnesota (2014), in its paper titled, "Qualitative v Quantitative research", lists the differences between qualitative and quantitative research in the manner tabulated below.

**Table 5.2: Differences between qualitative and quantitative research**

| | **Qualitative** | **Quantitative** |
|---|---|---|
| What is it? | - Study of subjects<br>- Constructs social reality, cultural meaning and is hard to quantify<br>- Focused on the individual<br>- Detail and description is important<br>- Authenticity the key factor | - Emphasises measurement and analysis of causal relationships between variables, not processes<br>- Research starts with a hypothesis<br>- Uses numbers and objective data to explain the hypothesis<br>- Pre-determined<br>- Reliability a key factor |
| Research tradition | - Interpretivism<br>- Critical theory | - Positivism |
| Type of questions | - Open-ended questions | - Instrument based questions<br>- Closed questions |
| Data collection method | - Interviews, observations or recording behaviour, diaries, | - Questionnaire, surveys, computers, experiments, census |
| Type of data | - Narrative (words), pictures or objects | - Numerical (numbers) or statistics |
| Sample size | - Small, inductive | - Large, deductive |

| | | |
|---|---|---|
| Research design | - Flexible and evolving e.g., qualitative | - Structured and well tested e.g., quantitative |
| Data interpretation and analysis | - Themes, patterns interpretation<br>- Text and image analysis | - Statistical analysis<br>- Statistical interpretation |
| What does it seeks to answer | - What? Why? | - How many? |
| Setting | - Natural – home, office | - Controlled – laboratory |
| Data presentation | - Quotes, pie charts, line graphs | - Pie charts, statistic and graphs |

*Sources*: Creswell (2014), Neuman (2014), University of Minnesota (2014)

It is evident from Table 5.2 that a study which seeks to understand a human phenomenon, as expressed in the problem statement, qualifies as a qualitative study. Thus a qualitative study was deemed to be the most appropriate approach, as the researcher needed to engage more deeply with participants to understand their perception of the value of King III compared with that of King II. Eriksson and Kovalainen (2008), quoting Gharri and Gronhaug (2005), remark that qualitative research, given its more flexible approach, is useful in discovering new and deeper insights, particularly on a topic that has been researched in limited scope.

While quantitative research has been discarded as a methodology for this study, there is a chance that it could be useful as part of a follow-up of the initial study once greater understanding and depth of the topic has been formulated. In line with this, there is potential for another future researcher to conduct a survey using some of the questions formulated to provide a different perspective to the study currently being undertaken.

Despite qualitative research having been chosen as the most appropriate approach for this study, the cautions of Patton and Cochran (2002) discussed earlier should be kept in mind: concern that the small sample size might not be adequately representative of the broader population; the difficulty in making generalisations; and the concern about the adverse impact of the researcher’s bias on the findings of the study.

## 5.6 RESEARCH DESIGN

Once the decision to conduct a qualitative study had been taken, the next step was to consider the research design that would adequately answer the research questions posed in Chapter 1. Research design is the framework used in research to determine the research structure, the methodology (data collection, data analysis among others), all combined to answer the research question (Trochim, 2006). The importance of research design is underscored by Sibanda (2009), who explains that choosing the correct study design is imperative to ensure validity of results. Goulding (2002:11) states that “The single most important element in constructing a research design is the consistency of the method with the research questions being asked.” In this study this was achieved by ensuring that the researcher had a set of questions that were asked to all the participants, with different follow-up questions being asked if deemed appropriate or necessary.

An exploratory study was undertaken, given the limited literature or studies that have explored “the drop in the perceived value of King III when compared with that of King II”, despite there being ample research and studies that have considered the corporate governance principles of King II and King III. The aim of this qualitative, exploratory study was to advance further reasons for this perceived value gap, and to explore and investigate further factors or circumstances that could explain the significant decrease in the perceived value of King III when compared with that of King II. Exploratory research, as explained by Neuman (2014), is undertaken when there is little known about a particular subject, with the benefit of undertaking the research being the uncovering of new facts and perspectives.

Interviews were undertaken because they allow the researcher to probe more deeply, thus providing access to more personal experiences and getting the participant’s own view of the issue (Brinkmann and Kvale, 2005). Kvale (2007) defines interviews as “an interchange of views between two persons conversing about a theme of common interest”. Kvale (1983) lists the main characteristics of an interview as being qualitative, descriptive, specific to the subject, without presuppositions, focused on certain themes and entirely focused on the interviewee’s world.

The researcher was satisfied that conducting a qualitative study, using interviews as the means of gathering the views of participants, would provide key new insights that would assist in answering the main research question and its sub-questions. The key focus of the interviews would be on gaining the participants' perspective on the perceived value of King III when compared with that of King II; understanding the reasons behind the drop in the perceived value of King III when compared with that of King II; establishing factors that could have had an impact on the different ways in which the value add of King III is perceived in relation to King II, increasing the understanding of the meaning of the "value of corporate governance" and confirming or refuting the findings of the study conducted by Jansen van Vuuren and Schulschenk, as outlined in Chapter 1.

## 5.7 RESEARCH METHODS

### 5.7.1 Data Collection

Pope and Mays (2006) believe that the research methods chosen to gather data about a social phenomenon are determined by the research strategy, research design, how the social world can be studied and how validity of the work undertaken and data collation can be achieved.

The primary methods which have been identified with collecting information/data in qualitative research are listed by Cassel and Symon (2004) as interviews (structured, semi-structured and unstructured), participant observation (joining in) and the analysis of documents (reading text or documents). Nigel King (2004) states that interviews continue to be the most common way of conducting qualitative research. Have (2004) also observes that interviews are the most widely used instrument for collecting information in a qualitative study. Kvale (2007) adds that an interview is another refreshing way of gaining a more in-depth and detailed insight on the topic under investigation, while also providing a different and unexplored perspective. Kvale (1983) explains that qualitative research interviews are more about themes than individuals or personalities, with both the participant and researcher engaging in themes of mutual interest and importance.

Thus in this study the primary data-collection instrument applied was face-to-face interviews. Jones (2014) believes that interviews are a more cost-effective method of gathering data; in this study this was also enhanced by the fact that all participants and the researcher were based in the same geographic area. When taking part in qualitative research interviews, the participants were able to describe their experiences and feelings in their own words, which has enabled the researcher to gain a more in-depth understanding of their views on King II and King III and how they perceive the value of King III compared with that of King II.

A combination of structured and semi-structured interviews was conducted with all participants. Wilson (2013) views semi-structured interviews as a hybrid between formal interviews with a structure (structured interviews) and informal interviews without a predetermined set of questions and agenda (unstructured interviews). Trochim (2006) observes that unstructured interviews not only provide an opportunity for the researcher to engage with the participant, but offer the researcher the flexibility to probe deeper and ask follow-on questions when required. Kvale (2007) believes that the manner in which an interviewer engages with his or her subject is likely to result in "obtaining thoroughly tested knowledge". The observation by Opdenakker (2006) that face-to-face in-depth interviews are the most dominant interview technique in the field of qualitative research also guided the researcher's decision. This view is also supported by Kvale (2007), who remarks that interviews are the preferred manner of data collection used by anthropologists and sociologists when engaging with their various subjects.

### 5.7.2 The interview approach

Structured questions were asked at the commencement of the interview, as 'ice-breakers' and to ensure that the same key questions were answered by all participants. The semi-structured interview format used during the interview involved asking similar questions while having the ability to probe and explore the topic and responses. In choosing semi-structured interviews as a preferred data collection method, the researcher relied on Wilson (2013), who contends that semi-structured questions enable the researcher to use questions to gather information on the topic under investigation, while using other techniques like probing to explore in greater depth emerging issues and the topic under discussion.

In terms of the interview process, the researcher met with each participant face to face once, either at the interviewer's office or the office of the participant. Participants were not provided with the interview questions in advance; the interview style allowed for both open and closed questions, which were presented in the same order, to improve reliability of results and enable proper analysis and comparison. All the interview data was kept in a confidential location in the researcher's office, with the researcher the only person with access to the data. The names of the participants have not been disclosed, in line with the confidentiality provisions of ethical research. No comment in the research has been attributed to any particular participant. No participant had access to another participant's comments.

The time for each interview varied from 30 minutes to 120 minutes. The qualitative interviews were transcribed verbatim, to ensure that none of the nuances communicated by the participant was lost. This step was followed by thematic data analysis, used to identify the patterns and emerging themes within the data collated. This is the analysis that has resulted in the researcher's being able to represent the findings of the study in chapters 6 and 7.

The data that informs this research was collected over several months, a few years after both King II and III had become the entrenched corporate governance codes in South Africa, both in terms of acceptance and application. The timing of the research was important, as the questions asked required the participants to have each been exposed to the corporate governance standards of both King II and King III for relatively long periods. The relevance of this is that the study by Jansen Van Vuuren and Schulschenk in 2013 considered the responses of the 2006 survey on King II and the 2012 survey on King III, With respect to this study, a two-staged approach was used in collecting data.

According to Jones (2014), using interviews as a source of gathering data has its limitations, namely that the participant might be influenced by the researcher; the participant's ability to recollect accurately might be compromised, especially if events were in the past; interviews might be incorrectly transcribed; and participants might not be able to clearly articulate their views and feelings. In this study, this was to some extent mitigated by the sample of participants chosen, who were highly articulate, together with being very familiar with a topic that they dealt with frequently, as these were serving non-executive directors of companies. The researcher, despite noting some of the challenges of conducting an interview, chose this method of data collection as interviews continue to enjoy widespread support in qualitative research (Opdenakker, 2006).

Data was collected in the form of words and recordings, as opposed to the numbers and statistics required by quantitative methods, which again emphasises the qualitative nature of the study (Myers, 2013: 7).

### 5.7.3 Data Sample

A preferred research approach has a significant bearing on the sampling methodology applied. Bloor and Wood (2006) explain that sampling shows a link between studying a selected population and the ability to apply a general statement to a greater population.

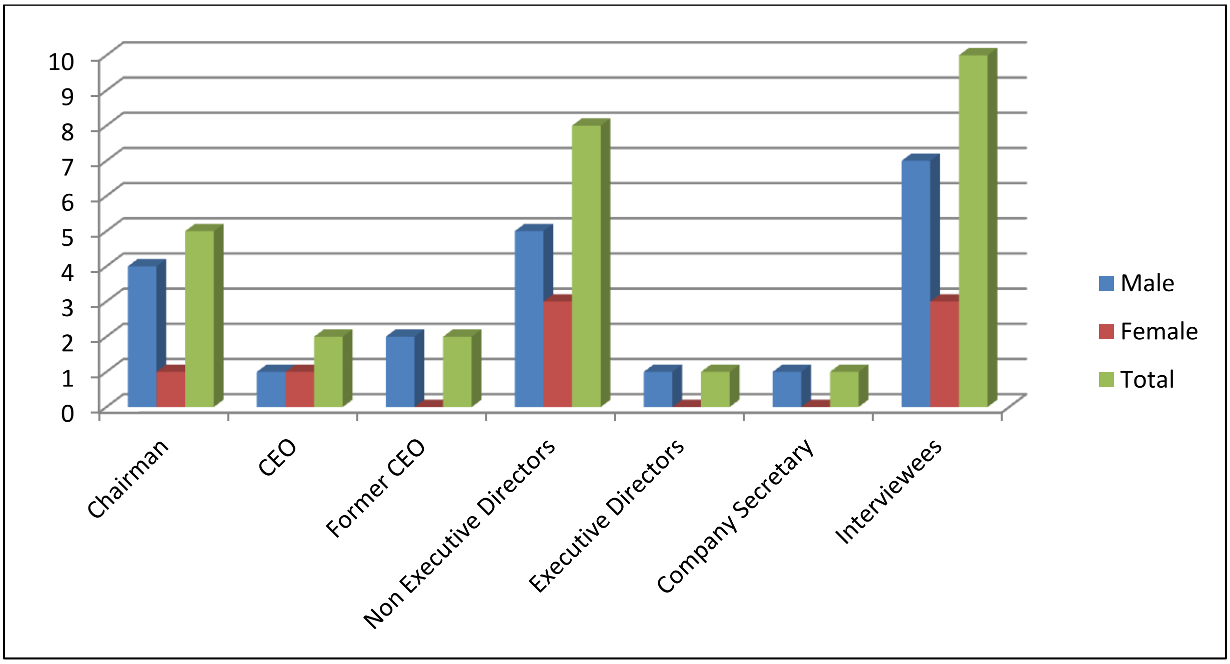
Trochim (2006) and Patton and Cochran (2002) argue that there are two ways of selecting a sample, using either non-probability or probability sampling techniques. Non-probability sampling represents a non-random selection of the sample, bringing into question the ability to apply the findings to the general population. Patton and Cochran (2002) define the properties of probability sampling as random selection, with a high level of representation of the said population.

With respect to qualitative research, non-probability, purposive sampling is driven by the researcher's having a deliberate hand in selecting a sample that will allow for maximum engagement of the topic and will ensure that the selected sample will assist in generating useful information, which is in line with a qualitative research approach, as articulated by Patton and Cochran (2002). The quantitative approach, on the other hand, favours selection of a random sample, with a higher representation of the population to ensure a higher confidence level during statistical analysis (Trochim, 2006).

Horsburgh (2003: 5), quoting Popay et al (1998: 346), believes that when choosing a sample when using the qualitative approach to research, "randomness and representativeness are of less concern than relevance ... Does the sample produce the type of knowledge necessary to understand the structure and processes within which the individuals or situations are located?" This is the basis on which the researcher decided to choose a smaller sample.

The sample size of ten (10) was purposefully selected by the researcher. Wyse (2011), supported by Patton and Cochran (2002), observes that a small sample size is a characteristic of qualitative research, making this researcher's choice of sample size consistent with a qualitative study. A non-probability, purposive sampling method was applied in stages 1 and 2. Expert sampling was used in Phase 1. These experts were engaged because of their knowledge of corporate governance in general and South Africa in particular. The other purpose was to ensure validity of the study (Trochim, 2006). The breakdown of the purposive sample in Stage 2 is provided in Figure 5.2; it deals with the sample demographics and the like.

**Figure 5.2: Interview sample breakdown**




*Source:* Researcher

Figure 5.2 shows that the chosen sample represents the various governance layers that would have had constant and close engagement with the principles of both King

II and King III. The majority of participants were directors of companies listed on the JSE Securities Limited. The average number of listed board seats of the participants was approximately three, each having served on boards between 2002 and 2009, the dates when King II and King III respectively were adopted as the corporate governance codes in South Africa. Another factor considered in the selection of the sample was that each participant served on at least one sub-committee. The gender profile was three female participants and four male participants; the greater number of male participants in the study is reflective of the current gender composition of boards on the JSE. The age profile ranged from 40 years to 60+ years, while the minimum market capitalisation of the companies they served was R3 billion. The industry breakdown is shown in Table 5.3 below. The total exceeds 10 participants, as each participant on average serves as a director in companies that are in more than one sector.

**Table 5.3: Interview sample by industry breakdown**

| Industry | Number of participants |
|---|---|
| - Financial services | - 6 |
| - Industrial | - 6 |
| - Motor | - 2 |
| - Retail | - 2 |
| - Mining | - 3 |
| - Leisure | - 2 |

*Source*: Researcher

In choosing the sample, a key focus was on having knowledge of King II and III, being an NED who served on more than one board (to cover a voice that represented a greater number of companies), and ensuring diversity in terms of board tenure, gender, race and sector, as well as size of entity. Choosing the sample in this way did ensure that the small sample of ten people selected did not result in only a certain view being presented but enabled voicing of many different views. O'Reilly and Parker (2013) argue that the correct sample size is determined more by the answers that will be gathered in order to answer the research question.

So the purposive sampling was appropriate (Trochim, 2006), as the deliberate selection allowed the researcher to select a group in which each participant being interviewed had exposure across a few companies and industries at board level. Hedrick, Bickman and Rog (1993) remark that some of the benefits of sampling include reducing the resources necessary to do a study, and ensuring greater probing of the subject, as the researcher only needs to concentrate attention on fewer cases. The researcher believes that choosing a small sample was useful in ensuring that there was sufficient time to engage in depth with each participant on the topic. To further justify the appropriateness of the sample size of ten, it became evident as the interviews were being conducted that there was a high similarity in the responses provided by the participants, implying that interviewing a greater number of people might not have resulted in different findings than those outlined in Chapter 6.

O'Reilly and Parker (2013) observe that data saturation is reached when nothing new or further can be learnt from the data being collected. Fusch and Ness (2015: 1408, citing O'Reilly and Parker (2012), Walker (2012), and Guest, Bunce and Johnson (2006) state that "data saturation is reached when there is enough information to replicate the study, when the ability to obtain additional new information has been attained, and when further coding is no longer feasible". The sample size of ten was adequate and reached a point of data saturation, meaning that additional interviews were not going to yield any further insights or perspectives.

### 5.7.4 Data analysis and Interpretation

Flick (2014) submits that data analysis is important in qualitative research, as it is the analysis and interpretation of such data that guide the results of a qualitative study. Maxwell and Chmiel (2014) posit that there is no theory about the process of actually analysing qualitative data (i.e. the 'how'), despite much being said about the requirement to analyse such data.

There are numerous definitions of qualitative data analysis. Flick (2014: 5) defines qualitative data analysis as the classification and interpretation of linguistic (or visual) material to make statements about implicit and explicit dimensions and structures of meaning-making in the material and what is represented in it.

Gibson and Brown (2009), quoting Marshall and Rossman (2006:154), define qualitative data as “a search for general statements about relationships and underlying themes”. Sullivan (2012: 8) remarks that qualitative data analysis “is about interpreting what people say and do”. The common themes and words used to define qualitative analysis include words, interpretation and the subject.

Hardy and Bryman (2004) argue that the ability to analyse data hinges on the researcher’s being able to reduce the significant amount of data gathered during the data-collecting exercise into something manageable. In this study, this was done through creating a spreadsheet that identified key themes that had emerged from the interviews according to the questions asked.

Thus the approach to data analysis used in this study was the identification of themes, or thematic analysis. Thematic analysis is identifying and analysing the patterns and themes represented in the data. Guest, MacQueen and Namey (2012) submit that thematic analysis requires more involvement and interpretation from the researcher, as it is not about what is said but the themes that emerge from what has been said. In this case deductive reasoning was applied, as the conclusion is based on the experiences of the various participants (Gibbs, 2007), which have shown elements of both commonality and difference. No software- or computer-assisted technique was used in the analysis of this data.

Figure 5.3 illustrates the process followed by the author in the analysis of data collected during interviews.

**Figure 5.3: Data analysis steps**

| Prepare & organise data | Describe, interpret and classify | Data representation |
|---|---|---|
| • transcribe the digital interviews into words | • reduce data into themes or categories<br>• by coding and condensing codes | • present data in tables, as figures or as a document |

*Source:* Cresswell (2007)

The steps employed by the researcher in the analysis of data are explained in greater detail below:

- The study by Jansen van Vuuren and Schulschenk was considered by the researcher; in particular, the results that pertained to the drop in the perceived value of King III compared with that of King II being isolated as the main point to be investigated. The objective of the research is to clarify and amplify the reasons that might have contributed to the perceived drop in the value of King III compared with that of King II.

- The interviews were recorded electronically and later transcribed verbatim into text as an MS Word document.

- The interviews were listened to more than once to validate that what had been transcribed was what was said by the participant. This also made sure that all participants were asked the same questions, to allow for comparison of all answers presented.

- An Excel spreadsheet was created and used to organise the data, according to the responses to the questions asked. The summarised responses are shown in Annexure D.

- A response block was created for each respondent, noting each answer for each question, to allow for better analysis of the answers to each question.

- A separate MS Word spreadsheet was created, which identified key words and sentiments expressed by each respondent per question, leading to the identification of emergent patterns or themes from all the responses per question posed.
- Themes/patterns were tabulated, grouped together and later analysed for meaning and interpretation.
- The result of this analysis is presented in Chapter 6 as findings of this study, with the conclusions and recommendations presented on Chapter 7.

The use of tables in the presentation of data is in line with the views of Leedy and Ormrod (2005: 143), who submit that researchers can use tabulations to interpret the data as they reflect on the problem which they are investigating.

The thematic data analysis techniques applied in this study were intended to assist the researcher to uncover the reasons and circumstances that have contributed to the perceived drop in value of King III as compared with that of King II. The analysis is expected to give rise to findings which are expected to shed further light on the value of corporate governance and to help answer some of the sub-questions posed in Chapter 1.

## 5.8 VALIDITY AND RELIABILITY

As validity and reliability are key to ensuring the integrity of research, reliability of data was aimed at by maintaining a complete set of records of the interviews, how they were conducted, and the questions asked (Patton and Cochran, 2002). Hardy and Bryman (2004) remark that the data analysis methodology employed is key to being able to validate research.

To ensure validity of the results of the study, the researcher, during the course of the interviews, summarised the main points raised by the participant under each theme. This approach was taken to provide the participant with an opportunity to confirm or refute what had been summarised by the researcher. Horsburgh (2003) believes that validity of qualitative interviews depends on this part of the interview process, when the researcher interprets or summarises and reflects back the view expressed by the participant to ensure that the participant's perception and experience has been properly captured.

Cho and Trent (2006) remark that validity in qualitative research is largely about determining whether the researcher's claims about what has been established in the study is consistent with the reality of what has been experienced by the participants regarding the research topic. Hendrick et al (1993) hold the view that a credible research design accentuates validity, as it gives a clear explanation of the phenomenon under study and controls all possible biases that could influence or change the research findings.

The purposeful selection of a diverse sample of interview participants, in terms of board size, gender, race, type of sector, size of company and geography, has to a large degree ensured that the views espoused can be tested across the non-executive director population. Hedrick et al (1993) emphasise the importance of the selection of the research population and geography; they believe that these considerations are related to external validity issues, as they could impact on the ability to generalise the research results.

The transcript of the interviews was not sent to the participants for review, as the researcher felt it could result in participants modifying their initial responses. Horsburgh (2003) does not believe that sending the interview back to the participant for validation would be beneficial.

## 5.9 LIMITATIONS OF THE RESEARCH

One limitation of using exploratory research, as advanced by Labaree (2017), is the inability to apply the findings to a general population, given the small sample used and the unavailability of subjects. Some other main limitations of such research, as listed by Roberts (2011), include researcher bias, which can impact on the study, difficulties in finding funding for the study, availability of participants and time pressures. In this study these were to a large extent mitigated in the following manner:

- The interviews were recorded and transcribed verbatim, leaving little room for expressing the researcher's view.

- The research study was based on a small sample size, located in the same geographical area, and the research was conducted by the researcher alone, which meant that funding of the cost of research was minimal.
- All the participants were available as agreed, though this could to some extent be a result of the networking of the researcher in the director space and some association with those interviewed. The risk that might be raised with relationships is that some participants could have provided the "acceptable" answers. This was further mitigated by the seasoned and independent nature of those interviewed.
- The participants selected had extensive board experience, serving on at least two boards each, with skill and experience that extended over more than three industries per participant. To get different perspectives, the sample of participants covered a spectrum of executive, non-executive and independent non-executive directors. The companies from which the participants came ranged from small and medium to large companies.

While Horsburgh (2003) believes that it is not possible for a researcher to remain objective, as he or she is a key participant in the research process in this study, in this study this was mitigated by the researcher's not being close to the participants, not asking leading questions, minimising her personal views and input and not straying far from the interview questions prepared.

## 5.10 ETHICAL ISSUES

Ethical issues have become an important consideration in the conduct of research (Gibbs, 2007). Desai and Potter (2006) state that as all researchers are at least to some extent dependent on the enthusiasm and cooperation of respondents in conducting their research, ethical issues are practically and morally central to the research process. Patton and Cochran (2002) state that researchers have an obligation and responsibility in the conduct of their research to their participants and the research community. Orb, Eisenhauer and Wynaden (2001) remark that an ethical consideration only applicable to qualitative research is how the researcher has access to those being studied and in what way the research or the researcher will have an impact on the subjects.

The researcher, as advanced by Brinkmann and Kvale (2005), is key in ensuring that the environment during the interview is conducive to allow for an open, confidential and constructive narration by the participant without interference, with the researcher ensuring that the balance between acquisition of knowledge, further probing and ensuring of ethical conduct is maintained. Patton and Cochran (2002) cite the four principles to be considered in ethical research as advanced by Beauchamp and Childress (1983). These are: autonomy – respecting the rights of the individual; beneficence – doing good; non-malfeasance – not doing harm; and justice – researchers' taking care how the questions are asked and what questions they choose to ask.

The two issues considered with respect to ethics in this research study are those of consent and confidentiality.

### 5.10.1 Consent

Every person who was interviewed participated of their own free will, without being coerced or forced into participation. The importance of this, as articulated by Patton and Cochran (2002), is that those who were interviewed were aware of the nature of the study and what it entailed. The chosen participants were invited to participate through a formal letter sent to each proposed participant, which was followed by a telephone call to provide any clarity and answer any questions. A copy of the consent letter is attached as Annexure B. Of the sample drawn, none refused to participate in the interview process.

### 5.10.2 Confidentiality

All the interviews have been treated in a confidential manner. This has been achieved by ensuring that the interview recordings are protected, as they were recorded in a device that required a password. As an additional security measure, they were also accessible to the researcher only. To ensure additional confidentiality, no information gathered during the interview process was ascribed to a particular participant. Further, the thesis has not listed the individual names of the participants;

however, a breakdown is included of their board experience and positions as part of Annexure C.

Participants were made to feel free to respond in any way; there was no pressure placed on them to respond in a particular way. No incentives were provided to participants as an inducement to participate in the study or espouse a particular view.

## 5.11 CONCLUSION

This chapter was designed to demonstrate how the research methodology assisted the researcher to answer the main research question and sub-questions that follow. The chapter provided an outline of the research methodology, research process research traditions and paradigms and the research design. The research design section provided a detailed account of the sampling, the data collection methodology and the methods employed in the analysis of data. The conclusions and recommendations presented in Chapter 7 are based on the analysis of data gathered in this qualitative, exploratory study, the findings of which are presented in Chapter 6. The design of this research has ensured that this study passes the tests of validity and reliability and answers the questions posed, as well as shedding light on the problem questions.

# Chapter 6: Findings

## 6.1 INTRODUCTION

Chapter 5 provided an outline of the research methodology undertaken by the researcher. This included the basis for selection of a qualitative study, the data collection method and the research methodology that was used. The focus of Chapter 6 is on the findings drawn from the ten interviews conducted.

### 6.1.1 Primary research question

“What are the reasons behind the decline in the value of King III in comparison with King II, as perceived by listed companies in South Africa?”

Sub-questions:

— Can the perceived decline in the value of King III compared with that of King II be related to the timing of the surveys conducted?

— Have economic circumstances at the time that King II and King III were released played a role in diminishing the perceived value of King III when compared to King II?

— Has the reason in in the content and emphasis of King II and King III had an impact in the perceived drop in the value of King III when compared to King II?

— Is the decline in the perceived value, as concluded in the study, a reflection on the decline in the value of King III or a decline in the value of corporate governance?

— How can the findings of this study add value to the discussion on possible publication of King 1V?

To aid this investigation, the 2012 survey data and findings of the 2013 report authored by Jansen van Vuuren and Schulschenk were reviewed. In answering the research question, the aim was to:

- Explore and investigate in greater detail the factors or circumstances that explain the significant decrease in the perceived value add of King III to 65%, compared with a previously reported perceived value add of King II of 82%.
- Establish whether these factors could have had an impact on the different way in which the value of King III is perceived in relation to King II.
- Increase the understanding of the meaning of the value of corporate governance.

### 6.1.2 Problem statement

- According to Jansen van Vuuren and Schulschenk (2013), there has been a decline in the perceived value of King III to 65%, compared with 82% for King II. There is need to explore this result to better understand the reasons for the perceived decline in the value of King III when compared to the value of King II whilst understanding any possible factors that could have contributed to such a decline.
- There is not sufficient understanding of what constitutes value in corporate governance.

As this study followed a qualitative research approach, this chapter presents findings from 10 interviews conducted. The responses from the participants are presented under six themes, namely the board of directors, King II and King III, King IV, shareholders' role in corporate governance, corporate governance in general, and the value of corporate governance. The grouping of the questions into themes followed the engagement with the experts on the various items key to the value of Corporate Governance (CG), and was to allow for a deeper exploration and discussion on each theme. The themes are relevant in ensuring that the author answers the main research question, being the reasons behind the perceived decline in value of King III when compared with that of King II. Different questions were asked under each theme. To ensure consistency in the methodology, participants were asked the same questions in the same sequence.

The questions posed to the participants under each theme were broader than the main and the sub-questions referenced in Chapter 1, 6 and 7 of this study. This was prompted by the researcher's view that the absence of questions which enquire about the importance of CG, the key role players in CG as outlined in Chapter 2 and those that make reference to the definitions of CG would not provide proper context to this study. Further, the design of the interview questions took into account some of the key areas of focus in the 2013 study conducted by Jansen van Vuuren and Schulschenk. Further, the questions posed were designed to get a better understanding of participants' views of the King Codes (King I, King II, King III and King IV) as well as corporate governance and its practices in general. This was relevant given Chapter 3 and 4 which made reference to the international and South African corporate governance practices and their respective evolution.

The material changes between the King Codes where new governance practices were introduced were a key determinant in driving the perception of value between King II and King III. It was thus on this basis that the researcher felt that the absence of broader questions which covered key changes and elements of King II and King III would not assist in getting to a useful conclusion that is supported by views from participants and in understanding the reasons that could have led to the perceived decline in value of King III when compared to King II.

The structured approach to the interview commenced with the researcher's introducing the topic, providing some background on the study that piqued interest and advising participants on the reason for undertaking the research. The semi-structured nature of the interviews allowed the researcher to probe further on certain answers provided by participants to ensure clarity and enhance the depth of understanding of responses provided.

The responses from the participants have been grouped under themes to ensure that related information is collated under each relevant theme. Detailed answers by participants and the questions posed appear in Annexure A of this research report.

The answers to the questions will form the basis for answering the main research question, providing findings, proposing recommendations and possible future areas of research, which will be presented in Chapter 7.

The interpretation of the answers by participants was based on majority, supporting and outlier views. The *majority* view was the view expressed in the answers by the most participants, the *supporting* view being the second most commonly shared view expressed by the participants; and lastly, the outlier view being the minority view expressed by some of the participants.

## 6.2 THEME 1 – BOARD OF DIRECTORS

Theme 1 considers the board of directors in terms of its characteristics, size and composition. The interview questions sought to understand the structure of a board to determine the role it plays in ensuring that CG practices are adopted. The questions covered the characteristics, size and composition of boards. The questions asked were:
*Question 1- What are the two main characteristics of a well-functioning board?*
*Question 2 - Do you share the view that board composition, size, ownership and shareholding at board level have an impact on the value of corporate governance in a firm? Explain.*
*Question 3 -What role does the board play in increasing the value of CG?*

The participants’ answers to each of these questions are provided below.

**Question 1 – What are the two main characteristics of a well-functioning board?**

The majority of the respondents believed that independence and functionality are key characteristics of a well-functioning board. The term *independence* was used in the context of independence of mind, thought, opinion, and the ability of members to raise issues even if they are difficult and might cause discomfort. This was further distilled to mean that such members of the board form their own opinions, without being influenced by other board members or feeling the need to conform to a general or 'accepted' view.

Some of the quotes that supported the theme of independence evident in the majority view were:

> 'A strong board that isn't there to do what the directors want'
>
> 'A board that questions'
>
> 'Having people who are willing to speak up at a meeting; say what they think, share their worries and concerns'

Some of the main supporting views expressed by participants were: the need for a balance of non-executive directors (NEDs) and executive directors on the board; the appointment of board members with high levels of integrity; the requirement for diversified skills, experience and knowledge from different sectors, industries, companies; a board that is properly constituted – in terms of the members' expertise and competence; a board that pulls together, holds differing views but is united in its approach about what is in the best interests of the company; board members who clearly understand the separate roles played by NEDs and executives; a board with members who are broadminded and open to ideas and who look at things from a holistic rather than a narrow perspective. These factors were said to be key in enabling a board to play a supportive and advisory role to management.

Some of the quotes that supported the theme of diversity of knowledge, the characteristics of those appointed to the board and the role played by the board were:

> 'Each individual upholding the principles of integrity and being aware of what it means to be a director.'
>
> 'You need to have a good mix [at board] that will bring a different perspective, which is important for the business.'

> ‘In a board that is not diverse as evident across all entities, you get people who think the same, don’t question as they should because they have sat for too long and think the same.’

It is evident from the majority responses that in the absence of a board that is independent, one that questions and functions effectively, the value of CG would be undermined and difficult to assess. As greater focus on the independence and functionality of a board was evident in King II than King III; King II’s perceived value in this regard is greater than that of King III. At the same time, it must be noted that there are no provisions in King III that undermine the independence and effectiveness of a board.

**Question 2 – Do you share the view that board composition, size, ownership and shareholding at board level have an impact on the value of corporate governance in a firm? Explain**

The majority of the participants believed that board composition, size, ownership and shareholding at board level have an impact on the value of CG.

The majority view was that independence and diversity are key components in the composition of a board. Participants felt that a board that has these characteristics enhances the value of CG. Some of the quotes supporting the theme of independence and diversity evident in the majority view were:

> ‘When it comes to recruiting and selecting board members, chairmen and CEOs should state that different perspectives are needed on the board.’

> ‘Have quality people on the board’

> ‘The correct composition is essential to ensure that the board can address all issues that have to be considered by it. It also determines the ability of the board to function as a unit.’

The majority view was that size had to be optimal, meaning that it should neither be too small nor too big. The numbers mentioned were between 6 and 12 board members. Some of the quotes that supported the theme of a smaller board were:

> 'Too big a board leads to a lack of accountability and an inability to make useful decisions.'

> 'An optimum size makes for an effective and focused, value-adding board. If it is too big it can end up being unwieldy.'

> 'I would say the ideal board should have 12 people.'

The majority of the participants believed that shareholder and ownership participation at board level enhances the value of CG. This was said to be due to their perspectives, the experience they bring to the table and the alignment with the interests of other shareholders. Some of the quotes that supported the theme of shareholder participation at board level were:

> 'I think shareholder representatives enhance the functioning of the board as long as you've got a balance of independents.'

> 'I am not too much of a King fan in respect to separation of management/ shareholding / executive and board interest.'

> 'Shareholder directors are good for a business because they will make sure that value is created.'

Despite these positive views, it was also acknowledged that an element of conflict might arise between what is desired by shareholders and what is good for the company: 'People can never divorce themselves from their interests'.

It is evident from the majority responses that a board has to be diverse, independent, have the correct composition and be of optimal size to have a positive impact on CG. The presence of shareholders and owners at board level is said by the majority to impact on the value of CG positively. The practices outlined in King II dealt extensively with the concept of the independence of a board, the need for diversity and the focus on the composition of the board. This suggests that King II has added more value to the composition, independence and functionality of the board than King III. There is however, nothing to suggest that King III undermined the independence, diversity and optimal composition of a board.

**Question 3 – What role does the board play in increasing the value of CG?**

According to the participants, the role that the board can play in increasing the value of CG is influenced by people (board members) that serve on the board, together with the role assumed by the board. The majority view was that a board that is characterised by independence and diversity plays a key role in enhancing CG. Another prominent role played by the board is in acting as the sounding board for management and providing guidance to management. The majority of the participants believed that the board's role in acting as the 'keeper' or custodian of CG enhanced the value of CG, as it ensured that CG practices were followed and applied. The last sentiment expressed was that the board plays an important role in ensuring an ethical culture within the company.

Some of the quotes that supported the theme of independence, diversity, guidance and the moral compass role played by the board in enhancing CG were:

> 'The board is the keeper of governance.'
>
> 'The board ensures that the structures and procedures with which the board interacts with management and the way that management runs the different business units conform to what has been approved.'

Some of the supporting views expressed included that a board enhances the value of CG by ensuring that it is independent, focuses on long term sustainability of the business and that the agenda makes provision for the discussion of all business issues, be they financial, non-financial, environmental or focused on society. Some of the quotes that supported the theme of sustainability and a broader focus by the board in enhancing CG were:

> ‘Non-executive board members are there to add to that governance, sustainability and social awareness.’

> ‘Board members must be in a position where they can add functional value; they have a broad perspective, they have an understanding of the business, they can assist management on envisioning the future, they can provide strategic input, but at the same time they should have the courage of their convictions, and ensure that business is done the right way.’

The board’s role is at the centre of ensuring that the value of CG is increased. Both King II and King III strongly emphasised the role that is played by the board in enhancing CG – through its independence, composition and the roles and responsibilities it assumes. While King II was highly focused on independence, diversity and the composition of the board; King III tended to focus in more detail on ethics, sustainability and the need for a broader discussion, other than a financial discussion, at board level. It is evident that both King II and King III have added equally to the value that the board plays in enhancing CG, albeit from different perspectives.

### 6.2.1 Conclusion

It is evident from Theme 1, which focused on the characteristics of a well-functioning board – board composition, size, ownership and shareholder representation at board level, and the role played by a board in advancing CG – that the board is at the epicentre of CG.

The responses from the participants, as expressed by the majority and supporting views, clearly give unequivocal support to the role played by the board in advancing CG and in ensuring that a company plays a meaningful and positive role in society. The responses further affirm the key role that has been played by King II and King III in advancing CG. What is equally agreed is that King II set the tone in ensuring that the board plays a leading and integral role in inculcating and advancing CG, and that King III, by adding new dimensions, has ensured the continued relevance and importance of a board in CG.

## 6.3 THEME 2 – KING II AND KING III

Theme 2 deals primarily with various aspects that pertain to King II and King III. The questions asked were:

*Question 1 -What has been the impact and value of King II on CG?*

*Question 2 -What has been the impact and value of King III on CG?*

*Question 3 -Which had a bigger impact, between King II and King III? If so, why?*

*Question 4 -What value have King II and King III added to corporate governance as a whole in SA?*

*Question 5 -How can the current governance practice (King III) be improved?*

The participants' answers to each of these questions are provided below.

**Question 1 - What has been the impact and value of King II CG?**

King II was said by the majority of participants to have been ground-breaking and a game changer. The majority view was that the impact and value of King II was its enhancement of the quality of CG in South Africa; its role in elevating SA's standing globally in terms of competitiveness and CG stature. King II was also said by the majority of participants to have enhanced the level of CG compliance and application.

Supporting views were that it brought an element of formality to the things that were being reported to the board; it enhanced assurance provided to the NEDs about CG and the governance of the company; it is said to have enhanced compliance with CG. An admission made was that while some participants knew about King II, they could not remember it as a stand-alone code but recognised it more as part of the codes and continued evolution of CG.

Some of the quotes that supported the view of King II as a game changer and ground-breaking were:

> 'King II had a major impact on the quality of governance because it provided an appropriate and practical framework.'
>
> 'It elevated governance structures in place for SA business; it elevated the importance of governance.'
>
> 'King II really took South Africa near the top of the pile worldwide in governance practices. The only comparable one in my view is Cadbury in the UK.'

It is evident from the majority responses that the perception of the value of King II is very high. The use of phrases like 'game changer', 'ground-breaking' describe the revolutionary element in CG introduced by King II.

**Question 2 - What has been the impact and value of King III on CG?**

King III was said by the majority to have been a refinement of King II. It was also said by the majority to have introduced new trends such as IT governance, integrated reporting and dispute-resolution mechanisms.

Some supporting views were that it played a role in improving the quality of CG, broadened the focus of CG and board discussion from profit to social, environmental and other factors. It was also said to have influenced the change in discussion and focus from only shareholders to broader stakeholders, which include customers, suppliers, and employees, among others. An observation made was that while some participants knew about King III, they could not remember it as a stand-alone but recognised it more as part of the codes and continued evolution of CG.

Some of the quotes that supported the view of King III as a contributor to CG were:

‘King III was more of a refinement. It is like sharpening a pencil that is already sharp.’

‘King III has enhanced the quality of governance and has given rise to much greater stakeholder sensitivity than what used to be the case.’

‘It is starting to affect the value systems of organisations; it’s starting to affect organisational culture.’

It is evident from the majority responses that King III has added value to CG; however, as much as it has added value, it was found that the perception of the value of King III is lower than that of King II for most participants.

**Question 3 - Which is more valuable and impactful, King II or King III? If so, why?**

King II was said by the majority of participants to have been ground-breaking and a game changer. The majority view is that the impact and value of King II was its enhancement of the quality of CG in South Africa; its role in elevating SA’s standing globally in terms of competitiveness and CG stature. King II was also said by the majority of participants to have enhanced the level of CG compliance and application.

Supporting views were that King II brought an element of formality to the elements that were being reported on to the board; it enhanced assurance provided to the NEDs about CG and the governance of the company. It was also said to have enhanced compliance with CG. Another supporting view was that while some participants knew about King II, they could not remember it as a stand-alone but recognised it more as part of the codes and continued evolution of CG.

Some of the quotes that supported the majority and supporting views that King II was more impactful and valuable than King III were:

‘King II was more impactful and valuable because there was a void.’

> ‘King II itself was ground-breaking.’
>
> ‘King III is an improvement on King II; most of the core/key principles are defined and articulated and embedded in King II.’
>
> ‘King II was probably more of a game changer, because in my mind that’s when a lot more things came on the radar, things that we weren’t doing or we were doing informally.’

It is evident from the majority responses that King II is seen to have added more value to CG than King III. It is also evident from the majority responses that King III has added value to CG; however, as much as it has added value, it was nevertheless found that the perception of the value of King III was lower than that of King II for most participants.

**Question 4 - What value have King II and King III added to corporate governance as a whole in SA?**

The majority of participants hold the view that King II and King III have provided SA with a strong foundation for CG; the codes have also improved CG for listed companies. It is also said to have raised SA’s global standing.

The supporting view shared by participants was that both King II and King III, by changing their application from just listed companies to all entities, respectively, have allowed for the same CG practices and standards to be applied to all entities, irrespective of whether they are private, public, profit, non-profit, listed or unlisted. Another benefit of the value of King II and King III has been the drive to improve transparency by organisations through greater communication to shareholders and the adoption of the integrated report in King III.

Some of the quotes shared by participants which support the value of King II and King III were:

> ‘King Codes are a guide for boards about how they should conduct themselves and what they should do, what their responsibilities should be.’

> ‘The benefit of King II and King III has been the governance of companies, the reduction of risk and the enhancement of shareholder wealth through those processes.’

> ‘King III has raised the bar, but King II was the foundation. King I started it but didn’t go far enough; both King II and King III have ensured greater focus in doing the right things.’

It is evident from the majority responses that both King II and King III have added value to CG, and have added value to CG in SA in general.

**Question 5 - How can the current governance practice (King III) be improved?**

The majority of participants believed that one of the key ways of improving current CG practices (King III) was to change the perception of King III as being onerous and as being seen as a tick-box exercise.

Supporting views were for King III to be adopted by a company as part of its business operating model and organisational culture and not seen as a stand-alone practice. The need for improved monitoring and oversight was also raised as a way of enhancing the value of King III.

Some of the views expressed were:

> ‘King III went too far. I think it has made reporting to stakeholders too cumbersome, and the responsibility of sustainability reporting is not a responsibility that can be defined for different types of organisations in one document.’

> ‘Governance needs to be intertwined with business practices and not be on the side or thought about only during board meetings or AGMs.’

It is evident from the majority responses that there is need and scope to improve King III practices to ensure that they do not undermine the value of CG. Judging by the perception of King III and what is required to change that perception; it is also evident from the majority responses that King III has added less value to CG than King II for most participants.

### 6.3.1 Conclusion

Theme 2 focused on the impact and value of King II and King III on CG, whether King II or King III had a bigger impact on CG, the value added by King II and King III on CG, and how some of the King III practices can be improved.

It is evident from the responses from the participants that both King II and King III have played a tremendous role in driving and advancing CG, not only in South Africa but also globally. With that said, it has also transpired that the participants have a higher regard for the impact and value that King II has contributed to CG than has King III. Participants also believe that there is need to change the perception of King III, to improve its relevance in the CG debate.

Participants believe that despite the contribution made by King III, King III has a lower perceived value than King III.

## 6.4 THEME 3 – KING IV

Theme 3 considers the expected value of King IV and what participants would have said to the members of the King IV Committee as they drafted and considered the provisions of King IV. At the time that the interviews were conducted, King IV was still under way, without a draft having been published. The questions were also posed to consider some of the key touch points and areas that might need to be considered by the King IV Committee from the perspective of the users of the codes.

This section also shows the constant evolution that underpins CG, starting from the introduction of King I to King III.

The relevance of this theme was in showing the possible impact of the expectation of King IV on the value of CG. It must be noted that very little time was dedicated to considering King IV at the time the interviews were undertaken, as the study on which the research was based focused on the perceived value of King III compared with King II; furthermore, King IV was still being drafted and had not been published. It must also be noted that greater focus on King IV would not have added any benefit to the research, nor to answering the primary question posed earlier in this chapter.

**Question 1 - What advice would you give the King IV Committee if you were to make a representation?**

It is important to note that all the interviewees held very strong views about King IV. The majority of respondents believed that their advice to the King IV Committee would be for King IV to be a refinement of King III and be a simpler version of the codes. There was less resistance to the possible introduction of King IV; it is unclear whether this is because the drafting of King IV was under way and accepted as a *fait accompli*, or if there was another reason for such lack of resistance.

Some of the quotes attributed to the participants under this theme were:

> 'King IV must not be just about CG but the value of CG.'
>
> 'King IV is not needed unless there is significant simplification.'
>
> 'A solid foundation exists, King IV must add some refinement based on practical case studies.'
>
> 'King IV must be sensitive to the possibility of overwhelming boards in terms of CG requirements.'

King IV is expected to further add to CG and address some of the shortcomings of King III, while including some of the learnings that have been a result of the failures of CG, especially in 2008 and 2010.

### 6.4.1 Conclusion

Theme 3 focused on King IV. It is evident from the responses of the participants that there are strong feelings about King IV. It will be important for King IV to address the shortcomings of King III for it to be perceived to be valuable and relevant.

Gauging the impact of King IV on CG and determining whether it has addressed some of the comments raised by participants will only be possible about two years after the implementation of King IV.

## 6.5 THEME 4 – SHAREHOLDER ROLE IN CORPORATE GOVERNANCE

Theme 4 considers the role of shareholders in corporate governance. The interview questions sought to understand how shareholders add to the value of CG, their importance in the CG debate and how they are able to play their role in advancing CG. The questions asked were:

*Question 1- How do shareholders add to the value of corporate governance?*

*Question 2 -How important are institutional shareholders and analysts in ensuring sound CG?*

*Question 3 – What role can analysts and institutional shareholders play in advancing CG ?*

The participants' answers to each of these questions are provided below.

**Question 1 - How do shareholders add to the value of corporate governance?**

The majority view was that shareholders add value to CG by engaging with the company and its management about various issues; ranging from what they expect companies to do to either attract or retain them as shareholders, to addressing matters of concern with companies between Annual General Meetings (AGMs). This engagement falls within the realm of shareholder activism, where shareholders are seen to be assisting the company navigate a certain path without being passive bystanders, be it to engage the company proactively on its strategy, or to raise other matters that might have an impact on the company's perceived value.

Another majority view expressed was that such engagement by shareholders happens at the AGM, when shareholders vote on matters such as the appointment of directors to the board, the appointment of auditors, the approval of annual financial statements, and financial assistance for the company. Another majority view on how shareholders add value to CG is in how they vote for the matters that form part of the resolutions presented for approval at the AGM.

Supporting views expressed were that shareholders added value to CG by voting in favour or against proposed board appointments, a vote which has a material impact on board composition of the company. A different but supporting view shared was that shareholders do not add value to CG as they do not engage with companies, with some participants expressing the sentiment that shareholders do find it difficult to engage with companies, thus not adding value to CG through such engagements.

Some quotes from the participants were:

> 'I am sure that they all think it [shareholder engagement] is important, but I don't think I have had one discussion with key shareholders.'

> 'Companies from the United States in particular scrutinise companies and how they do business; because they know that investing in companies who do certain things will result in them losing their shareholder base and funds.'

> 'South African institutional shareholders, on the other hand, can go to an AGM and say nothing; however, when there are issues, they will attend the AGM and ask questions and insist on certain actions.'

While participants shared insights and views on how shareholders could play a role in advancing CG; which underscores the importance of their role in ensuring CG so as to add value to CG, there is little to suggest that they do. Based on the interviews, nothing suggests that the provisions of King III and King II have resulted in shareholders playing a greater role in advancing CG. Despite this, it must be noted that King III does to a limited extent speak about the importance of shareholders in advancing CG and the role they should be playing.

**Question 2 - How important are institutional shareholders and analysts in ensuring sound corporate governance?**

The majority view was that institutional shareholders and analysts were very important in ensuring sound CG. The participants believed that this should be done by shareholders and analysts asking questions about CG, especially if it is perceived to have value.

Supporting views, while also acknowledging the importance of institutional shareholders and analysts to CG, also referred to shareholders and analysts not playing their roles to the extent expected. The view was that they are not very active in SA, and in some instances they do not engage the company on CG or ask any questions related to CG.

Some of the views expressed were:

> 'Institutional shareholders are investing other people's monies and must make sure that they business in which they are invested are not reckless and lose their money. It is therefore important that they ensure that the governance of the companies that they invest in is good.'

> 'The bigger analysts and the bigger shareholders should be more involved in, I suppose they are approving the board structure but they don't give you feedback.  But then you don't want them interfering either.'

> ‘They should, but they are all chasing targets. Analysts when they sit down, they wanting to know what’s going to kill the share price, what’s going to kill the profits.’

The acknowledgement of the role that Institutional investors and analysts ought to play in advancing CG is undermined by the perception that they are not seen to be driving CG practices and advancing CG. Certain provisions of King III require shareholders to vote on certain aspects of CG, which places greater responsibility and an onus on them to play a greater role in advancing CG. While King III therefore has a higher perceived value in this regard than King II, the lack of interest by most institutional shareholders in this regard undermines the impact of King III.

**Question 3 – What role can analysts and institutional shareholders play in advancing CG?**

The majority of participants believed that institutional shareholders and analysts could have played a greater role in CG by asking more questions, asking questions that are probing and relevant; asking questions outside of financial performance, engaging the company in far more detail and at closer intervals than at an AGM.

Supporting views were that shareholders could have played their role by ensuring that the company appointed the right people to its board, and by having voted at the AGM in support and against resolutions or proposals that would not advance CG, as well as by having held the board to account.

Some of the sentiments expressed which support the views shared were:

> ’They [analysts and institutional shareholders] can hold the board and management to account during their interactions.’
>
> ‘Voting with their money and voicing their dissatisfaction’
>
> ‘A different set of questions being asked at AGMs outside of remuneration, growth and financial performance’
>
> ‘Talking to non-executive directors and governance professionals to gauge the governance culture, assessing the reputation of directors on the board’

Provisions of King II and King III need to be firmer on the expectation, responsibilities and roles of shareholders in advancing CG. Neither King II nor King III have been successful in ensuring that analysts and shareholders play a meaningful role in advancing CG.

### 6.5.1 Conclusion

Theme 4 focused on the role of institutional shareholders and analysts in advancing and ensuring CG.

It is evident from the responses from the participants that there is a clear and critical role that both analysts and shareholders should play in advancing CG. The responses also demonstrate that while shareholders and analysts seem aware of this responsibility, there is a dearth of such engagement and guidance from them. In a nutshell, South African institutional investors and analysts are not seen to be advancing CG.

There is little to suggest that either King II or III have improved the role that shareholders and analysts play in advanced CG, despite King III’s making reference to the role of shareholders on governance. There is no perceived value that has been added by either King II or King III in this regard.

## 6.6 THEME 5 – CORPORATE GOVERNANCE: ETHICS, REPUTATION

Theme 5 considers corporate governance in general by considering ethics, reputation, legal and other frameworks and financial performance. The interview questions sought to understand these aspects and their relationship and impact on CG more deeply. The questions asked were:

*Question 1 - How important are perceptions of corporate governance to the reputation of an organisation?*

*Question 2 - What are the influences of the legal framework, culture of society and its traditions on CG?*

*Question 3 - How central or related are ethics to good governance?*

The participants' answers to each of these questions are provided below.

**Question 1 - How important are perceptions of corporate governance to the reputation of an organisation?**

The majority view is that the perceptions of CG are very important to the reputation of an organisation.

Some of the views expressed in support of this majority view are:

> 'Given that society is moving in a direction where it wants to be civilised, where it wants the have respect for human rights, reputation becomes key and central to CG.'
>
> 'Reputation is more important, particularly to foreign investors.'
>
> 'If you have outside shareholders and you are listed on the JSE, it is probably number one, because the first tick is what I believe they evaluate you on.'

**Question 2 – What are the influences of the legal framework, culture of society and its traditions on CG?**

The majority of participants believe that the legal system, the culture and traditions of society impact extensively on CG.

The sentiments expressed in support of this majority view were:

> 'The legal system ensures that a business is conducted in a lawful manner and part of corporate governance is to ensure that the business operates with the required laws.'
>
> 'Yes, they [legal framework, culture of its society and traditions] do affect CG. The societal eye is key.'

‘Culture and tradition have a greater impact, as they partly determine what is considered good governance and drive application of those standards that are aligned with the prevailing culture.’

It is the existence of laws and regulations that has made governance a necessity to ensure compliance.’

**Question 3 - How central or related are ‘ethics’ to good corporate governance?**

All the participants believe that ethics are central to good CG.

Some of the sentiments expressed that support this view are:

’There can never be good governance where the businesses are not run in an ethical manner.’

‘I don’t think you can have good CG without proper value being attached to good ethics. It’s part of the fabric, it’s part of the DNA of good CG; it’s not a separate thing.’

‘Where there is good governance, there has to be good ethics.’

‘One could also argue that good ethics also come with a well-run business, but I think more than that we practice ethics because we believe in ethics being central to CG.’

### 6.6.1 Conclusion

Theme 5 focused on the importance of CG to the reputation of an organisation, understanding the influences of the legal framework, culture of society and its traditions on CG and determining the importance of ethics to good governance.

It is clear from the responses by the participants that the reputation of a firm and its ethical culture has a significant bearing and influence on CG. The increased role of ethics and consequently reputation was more evident in the provisions introduced in King III. While King II introduced the need for ethics charters and the like, King III raised the level of accountability for ethics to the board. As both King II and King III focused extensively on ethics and its impact on CG; both have added equal value to this aspect.

Both King II and King III were influenced by the existing and pending legal framework of South Africa at the time of being drafted. King III was more affected by the legal framework, as it included new provisions of the revised Companies Act of 2008. The impact of the legal framework had the greatest impact on King III.

King II and King III were also influenced by the transforming culture of South African society, which was moving towards inclusivity; a theme that was first evident in King I. The drive towards inclusive and diverse boards, as strongly supported by King II, is an example of this. The transforming culture and changing societal focus was evident in the manner in which King III advocated for a broader business mandate than one focused on financial performance and one stakeholder, the shareholder.

The perception of value added by King III is higher in this regard than that added by King II.

## 6.7 THEME 6 – VALUE OF CORPORATE GOVERNANCE

Theme 6 considers the value of corporate governance. The interview questions were crafted to allow the respondents to share their view of the value of corporate governance. The questions asked were:

*Question 1 - What do you believe to be the value of corporate governance?*

*Question 2 - What do you believe is the most effective way of measuring the value of corporate governance? Explain.*

*Question 3- What are risks to good corporate governance?*

*Question 4 - Do you believe that financial performance and corporate governance are mutually exclusive? Explain.*

*Question 5 - Has the practice of requiring listed companies to disclose their King III application added to the value of corporate governance and the company?*

*Question 6 - In your experience, have your corporate governance standards and practices added operational value to the business? Please explain.*
*Question 7 - Have the practice and application of corporate governance overshadowed the management of the business at your board? If yes, explain.*

The participants' answers to each of these questions are provided below.

**Question 1 – what do you believe to be the value of CG?**

All participants provided positive responses about the value of CG, despite there being no majority view about what exactly constitutes the value of CG.

Some of the participants agreed that the value of CG is its ability to allow the board and business to reflect and discuss matters that are broader than profitability. It was also said to encourage the board and the business to be more focused on the long-term sustainability of the business. The other value of CG was said to be its role as an organisation's compass and guide.

Other views shared about CG by participants were:

> 'It provides a framework for the board and company.'
>
> 'CG impacts behaviour of executives, companies and boards.'
>
> 'CG is intended to increase the accountability in the company and to avoid massive disasters before they happen.'

The respondents shared positive views about the value of CG, despite not sharing a common definition of the value of CG. The fact that the participants believe that CG has many benefits further supports the importance and relevance of CG in a business.

It did emanate from the discussions that King II was perceived to have added more value in this regard than King III.

**Question 2 – What do you believe is the most effective way of measuring the value of corporate governance?**

The majority view was that the measuring and evaluation of CG does not get performed by companies and is difficult to perform.

Some comments shared by the participants in support of this view were:

> 'The market doesn't evaluate CG because it is largely seen as box ticking.'
>
> 'Evaluation doesn't always happen'; 'very difficult to accurately measure.'
>
> 'The only way you can measure it is by the outcomes of the value you are delivering to your key stakeholders.'

It is evident that without CG being evaluated and measured, its value is questionable. Both King II and King III, however, require that companies should perform a board evaluation at least once a year. It could therefore be stated that both King II and King III emphasise that the value of CG is dependent on regular evaluation, with neither making a stronger claim on this than the other. It can also be concluded that neither King II nor King III have in practice added value in this regard.

**Question 3 – What are the risks to good corporate governance?**

Though many views were expressed about the risks to CG, there was no single risk identified and shared by all participants. The many views expressed demonstrate that there are numerous risks to CG which board members and companies need to be aware of and play a role in mitigating.

The supporting views on the risks to CG centred on people, buy-in, and over-compliance. Some participants said the following:

> 'Celebrated companies being found to have transgressed CG practices'
>
> 'Lip-service being paid by some companies and board members'

'Values of individuals on the boards and executive management will dictate their views on how things should be done.'

'Too many rules'

There is a need for companies to identify and mitigate some of the risks of CG. The perception of King III as being cumbersome, onerous and adding an additional burden of CG to companies and business as a whole could potentially lead to non-compliance with CG practices, thus adding an additional risk to CG. It is evident from the majority responses that King III has added more risks to CG, to the extent that it has adversely affected the perception of value. Based on this, it was found that the perception of the value of King III is lower than that of King II for most participants.

**Question 4 -Do you believe that financial performance and corporate governance are mutually exclusive? Explain.**

The majority of participants do not believe that financial performance and CG are mutually exclusive. Essentially, they do not believe that you can only have the one and not the other.

Some of the sentiments expressed which support the majority view are:

'You cannot make good decisions which impact on financial performance in the absence of CG, given that CG is a key part of a company's ethos and operational compass.'

'I think they [CG and financial performance] work hand in hand.'

'Decisions made without following correct governance processes could later also damage the reputation of the business.'

There was no link between the perceived loss of value in King III compared with that of King II and the belief that financial performance and CG are mutually exclusive.

**Question 5 - Has the practice of requiring listed companies to disclose their King III application added to the value of corporate governance and the company?**

The majority of participants believe that this practice does add value to CG and to the company. The positive responses show the value of King III and the role it has played in improving the application of CG by firms.

Some responses provided in support of its positive impact were:

> ‘It drives the right behaviour because it makes the company concentrate on the different items within King.’

> ‘Disclosure makes sure that the company actively applies its mind to how decisions are made in their business.’

> ‘It forces boards and executives to intellectually engage with their responsibilities and to honestly account.’

> ‘It helps your board debate whether you want to be the kind of company that does not want to comply with a number of things.’

The requirement for companies to explain their application of King III as part of the JSE listed requirements has enhanced the perceived value of King III compared with that of King II, since this was not a requirement for King II.

**Question 6 - In your experience, have your corporate governance standards and practices added operational value to the business? Please explain**

The majority of participants believe that CG standards and practices have added operational value to the business.

Participants expressed the value of CG on operations as follows:

> ‘It assists management to look at things differently; heightens the awareness of right and wrong.’

> ‘If CG is top of mind in a business, insisting that information is made available in a transparent manner enables boards to make well-considered decisions.’

> ‘Reporting, for instance, leads to greater transparency and this enables peer comparison.’

There was nothing to indicate whether the perceived loss in the value of King III compared with that of King II was a result of the impact of CG standards and practices on the operational value of the business; as the question addressed CG in general and was not specific to either King III or King II.

Both King II and King III have added equal value in this regard.

**Question 7 - Have the practice and application of corporate governance overshadowed the management of the business at your board? If yes, explain.**

The majority view was that the application of CG had not overshadowed the management of the business at board level. Though the majority response was in the affirmative, the same participants did record that there was a possibility of this occurring if discussions were not well managed.

Participants shared the views that:

> ‘Once good CG principles are embraced and become part of how we do business, then it’s not an effort. It becomes part of just how the business operates.’

> ‘It can happen, but that’s the Chairman’s job … balance is required; at times executives don’t want to focus too much on CG.’

The loss in the perceived value of King III compared to that of King II is not a result of the practices and applications of King III overshadowing the management of a business.

### 6.7.1 Conclusion

Theme 6 focused on the value of CG, the most effective way of measuring the value of CG, the risks to CG, the impact of CG on the financial and operational performance of the business, and lastly the benefit of disclosing King III practices.

Based on the responses by the participants, the value of CG seems to outweigh the risks of CG. Furthermore, CG is seen by participants to be a key driver of performance, improved disclosure and encouraging increased transparency around CG practices. The participants believe there has been a benefit to companies disclosing their King III practices. In this regard, King III is perceived to have added more value than King II.

## 6.8 CONCLUSION

The six themes showed the dependence and reliance of CG on the board; the relevance of King II and King III to CG; the factors that can impact on CG; and the other key role players that have a bearing on CG. The use of themes further allowed the researcher to consider the extent to which King II, King III or both have added to the perceived value of CG or not.

Theme 1 provided an overview of the importance of the board of directors to CG; based on the findings of the interviews, the board plays a critical role in advancing governance. The overall conclusion for Theme 1 was that King II was perceived to hold greater value than King III.

Theme 2 showed the importance and value of King II and King III to CG. Based on the findings of the interviews, while both King II and King III have played a meaningful and impactful role in CG, King II is held in greater regard. The overall conclusion for Theme 1 was that King II was perceived to hold greater value than King III.

Theme 3 considered the impact of and participants' expectations of King IV. Based on the findings from the interviews, King IV would need to address some of the shortcomings of King III to be seen to add value to CG.

Theme 4 demonstrated the importance of shareholders in CG and how a lack of clear guidance by both King II and King III have meant that shareholders and analysts have fallen short of playing their key role in driving and advancing CG. The overall conclusion of theme 4 was that both King II and King III were not perceived to have added sufficient value in this regard.

Theme 5 dealt with some of the factors that need to be considered in the perception of the value of King III compared with that of King II. Based on the findings of the interviews, while both King II and King III have played a meaningful and impactful role in CG, King II is held in greater regard. The overall conclusion for Theme 5 was that King II was perceived to hold greater value than King III.

Finally, what emanated from Theme 6, which considered the value of CG, was that there is overwhelming support for the need for CG and its value, despite some of the risks associated with it. Based on the findings of the interviews, while King II has had an impact on the areas discussed under this theme, King III is perceived to have added more value than King II.

In conclusion, the researcher holds the view that it would not have been possible to answer the main research question, and to determine the reasons that could have contributed to the perceived loss in value of King III when compared with King II by listed companies, without of understanding the role players in CG, the factors that affect CG and how CG can be enhanced.

Chapter 7 will use the findings from this chapter to provide conclusions and recommendations, answer the main research question and suggest future areas of research.

# Chapter 7:
# Conclusions and Recommendations

## 7.1 INTRODUCTION

In this final chapter, the researcher will present views on the '"reasons behind the decline in the value of King III in comparison with King II, as perceived by listed companies in South Africa". The views expressed were informed by the responses gleaned from the interviews with the participants.

Chapter 1 provided a brief introduction to the study and identified the research questions; it also provided insights on the study by Jansen van Vuuren and Schulschenk (2013) which motivated this study. The literature review in Chapter 2, dealt extensively with the purpose, role and players in the corporate governance arena. Whilst Chapter 2 covered the history that has driven the need for CG as well as the events which have resulted in the changes in CG practices across the globe; Chapter 3 and 4 were more specific, considering the genesis of CG in the UK, US, Nigeria, Malaysia, Brazil and South Africa respectively.

Chapter 5 dealt with the methodology, whilst Chapter 6 was a report on the results emanating from the interviews. Chapter 7 seeks to answer the primary and sub-questions first mentioned in Chapter 1 and covered in Chapter 6, by linking the findings in Chapter 6. The final part of Chapter 7, addresses recommendations, remedial actions and also suggest possible future studies which will add to this perceived loss of value and further enhance the understanding of the value of CG within a South African context. Chapter 7 also includes brief elements of literature which deal with the material areas around the value of corporate governance, the role of the board, shareholders; whilst providing some support for the findings that have emanated from this study. The Findings below support the integral role played by the board in supporting CG and assist in determining as to which between King II and King III was perceived to have provided more value to CG.

The context provided by these Chapters is important in meeting the research objective of exploring and investigating factors or circumstances that explain the significant decrease in the perceived value of King III to 65%, compared with the previously reported perceived value of King II of 82% (Jansen van Vuuren and Schulschenk, 2013).

### 7.1.1 Primary research question:

"What are the reasons behind the decline in the value of King III in comparison with King II, as perceived by listed companies in South Africa?"

### 7.1.2 Research Sub questions:

— Can the perceived decline in the value of King III compared with King II be related to the timing of the surveys conducted?

— Have economic circumstances at the time that King II and King III were released played a role in diminishing the perceived value of King III when compared to King II?

— Has the difference in the content and emphasis of King II relative to King III had an impact in the perceived drop in the value of King III when compared to King II?

— Is the decline in the perceived value, as concluded in the study, a reflection on the decline in the value of King III or a decline in the value of corporate governance?

— How can the findings of this study add value to the discussion on possible publication of King 1V?

### 7.1.3 Problem statement

- According to Jansen van Vuuren and Schulschenk (2013), there has been a decline in the perceived value of King III to 65%, compared with 82% for King II. There is need to explore this result to better understand the reasons for the perceived decline in the value of King III when compared to the value of King II whilst understanding any possible factors that could have contributed to such a decline.

- There is not sufficient understanding of what constitutes value in corporate governance.

### 7.1.4 Research objectives

The objective of this research is to explore and investigate factors or circumstances that explain the significant decrease in the perceived value of King III to 65%, compared with the previously reported perceived value of King II of 82% (Jansen van Vuuren and Schulschenk, 2013).

In answering the research question, the purpose will be to achieve the following:

- Explore and investigate in greater detail the factors or circumstances that explain the significant decrease of the perceived value of King III to 65% compared with a previously reported perceived value of King II of 82%.
- Establish whether these factors could have had an impact on the different way in which the value of King III is perceived in relation to that of King II.
- Increase the understanding of the meaning of the value of "corporate governance".

The last two paragraphs of this chapter (section 7.3) will provide the overall conclusion, which also answers the main question and the sub-questions, as well as suggesting possible future studies.

## 7.2 RESEARCH FINDINGS

The findings are segmented according to themes, to show the relationship between each theme, the questions asked within each theme and the relevance of the responses to the main and sub-questions.

Each theme has been organised to cover the findings emanating from Chapter 6, the recommendations for improving the value of CG and the conclusion, which addresses the main question.

### 7.2.1 THEME 1 – BOARD OF DIRECTORS

Theme 1 determined the role played by the board in adding to the value of CG. Other aspects covered included the impact of board composition and size, ownership and shareholding at board level on the value of CG and the elements that contribute to a functional board. This theme was essential in establishing the key role played by the board in enhancing CG and was the basis for determining the perception of value between King II and King III, as determined by the extent to which each of the codes focused on boards. OFO (2013) observed that in the definition and model of corporate governance, great responsibility is placed on the board of directors in the management of the company's business and business affairs.

#### 7.2.1.1 Findings

- The board is the custodian of CG and ethics of an organisation and sets the tone for CG and ethics.
- There is no universal view about the characteristics of a well-functioning board or an 'optimal' size of a board.
- Boards rely on many facets: i.e. people, diversity, skills, and purpose to be able to function optimally.
- The value of CG is enhanced when a board is independent, diverse and focuses on a broader mandate (employees, society, sustainability, the environment, etc.)
- Board members must possess certain attributes such as integrity, credibility, ethics and trustworthiness.
- Shareholder involvement at board level enhances CG as it brings a different perspective to the board which can enhance decision making; this should be augmented by ensuring that a majority of independent non-executive directors serve on the board.

#### 7.2.1.2 Conclusion

The board plays a fundamental role in increasing the value of CG by ensuring the appropriate board composition, independence, diversity in members; has a balance of independent non-executive directors and executive directors, and considers the business of a company in a holistic manner and not by focusing only on its financial performance. CG could be compromised if people who serve on the board have the same set of skills, are part of the same social or business network and do not value CG.

The role of the board, the importance of independence and diversity are also supported by literature. Monda and Giorgino (2013) list the actors in corporate governance as the board of directors, authorities and regulators, markets, management, shareholders and stakeholders (creditors, employees, communities, financiers, etc.). Kang et al (2007) highlight the pivotal role played by the board in ensuring proper corporate governance (CG). The argument for an independent board as a tool for enhancing CG effectiveness and for ensuring the value of CG, was echoed by Venture Capitalists who concluded that the appointment of independent and professional board members enhanced the level of governance resulting in improved firm performance, (Chahine and Saade, 2011). Chahine and Saade (2011) further submitted that an independent and diverse board is a tool for enhancing CG effectiveness and for ensuring the value of CG. A diversified board has a positive impact on shareholder value, as a result of increased understanding of the marketplace, creativity, innovation and problem solving (Carter, Simkins and Simpson, 2003).

The provisions of King II, King III and King IV dealt extensively with the role and responsibilities of the board of directors, as shown in Table 4.1 (Chapter 4). Table 4.1 (Chapter 4) adequately demonstrates that King II provided more guidance in terms of composition of the board, its structure, operations and those of its sub-committees, than King III. King III, on the other hand, added certain new measures that needed to be applied by the board, but still lacked clarity in comparison with King II.

Based on the above findings related to Board of Directors, the conclusion reached is that King III was perceived to have a lower value than King II in this regard.

### 7.2.2 THEME 2 – KING II AND KING III

Theme 2 dealt primarily with various aspects that pertain to King II and King III, as outlined in Chapter 6. This theme was also essential in determining the perception of value between King II and King III; as supported by their value and impact on CG.

#### 7.2.2.1 Findings

- Both King II and King III have added value to CG, though the impact of each on CG was different.
- King II and King III have ensured that SA retains its strong, globally recognised and award-winning CG practices.
- King II and King III have elevated SA's placing in global CG rankings, enhancing SA's governance reputation and attractiveness.
- King II is recognised globally as a leading CG standard and practice.
- King II is considered to be ground breaking, adding new dimensions to CG standards in SA.
- In the absence of King II and King III, boards would have struggled to make a continued and meaningful impact on CG.
- King III is a refinement of King II, as the introduction of King III did not result in the same level of overhaul that followed the introduction of King II.
- Some of the new trends introduced by King III, such as integrated reporting and dispute resolution have further enhanced CG in SA. However, integrated reporting is at risk of becoming irrelevant, as the report is, by and large, overly voluminous.
- Some of the provisions of King III have placed a greater onus on shareholders to play an active role in improving and ensuring better CG practices.
- CG practices can be time consuming, cumbersome and costly

#### 7.2.2.2 Conclusion

The introduction of King II and King III (King Codes) has enhanced the governance environment in South Africa. The value of CG could be further enhanced by undertaking research that could identify the shortcomings of King III and recommend how this could be remediated in King IV or subsequent codes, ensuring that any new codes on CG must be value adding, tailored for the South African environment and provide greater guidance

It is acknowledged that both King II and King III added value to CG; it must, however, also be noted that King II added more value to CG in South Africa than King III, given the extensive new provisions introduced by King II. The acknowledgement that King III was a refinement of King II, despite introducing new trends; does further support the view of the greater value contributed by King II.

Based on the above findings related to King II and King III, the conclusion reached is that King III has a lower perceived value than King II, as it did not add as much to CG as King II had done.

### 7.2.3 THEME 3 – KING IV

Theme 3 considered the expected value of King IV; it also provided a glimpse into what practitioners of governance would seek the King IV Committee to consider at the time of drafting King IV. Having a better understanding of expectations of King IV will inevitably shed light on the shortcomings of King III. At the time that the interviews were conducted, King IV was still under way, without a draft having been published. This has changed, as King IV was launched in November 2016 and became effective from April 2017. This theme assisted in determining the perception of value between King II and King III, by providing a perspective on how King III is perceived.

#### 7.2.3.1 Findings

- King IV should only be introduced if there are significant new trends proposed.
- Practices and principles embedded in King IV must build from King III and not add more rules and complexity without addressing some of the shortcomings of previous codes.
- King IV must be a refinement of King III and be a simpler version of King III.
- The introduction of new and advanced CG standards could compromise SA companies' competitiveness compared with that of other emerging market peers.

There is a need to be circumspect about the necessity for new standards and additional CG codes. Consideration needs to be given to their role in possibly hindering the growth of new market entrants and smaller enterprises and in driving access to capital.

- King IV must assist in embedding the culture of CG and advancing understanding of CG.
- CG practices should be principles-driven and less compliance-driven
- There is need for more focused training on the principles of CG.
- A survey should be undertaken to determine the impact and value of King IV on CG. This could be done about two years after the introduction of King IV.

#### 7.2.3.2 Conclusion

In order to advance the value of CG, CG practices must be crafted in a manner that does not create the perception of SA being a complex and difficult emerging market environment compared with its peers. A peer review of other emerging market CG practices should be considered prior to undertaking King V or a new CG standard.

There is an expectation that King IV should address some of the shortcomings of King III. King III was viewed as having been complex, onerous and without having provided too much guidance on assisting companies and boards to better understand and implement its practices. The emphasis that King IV should only come into being if there is a material addition to existing provisions, points to some fatigue with the continuous addition of new standards and the additional requirements they impose on the business. There is a risk that onerous application and requirements of King IV could further diminish the value of CG.

The perception of King III as having being onerous and complex, is one that has not been shared about King II. The expectation that King IV should be simpler and assist in improving the understanding and implementation of its practices, does point to King III being perceived to have a lower value than King II.

### 7.2.4 THEME 4 – SHAREHOLDERS AND CORPORATE GOVERNANCE

Theme 4 focused on understanding the role institutional shareholders and analysts play in advancing CG. This theme was also essential in determining the perception of value between King II and King III, as determined by the role played by institutional investors and analysts in advancing CG.

#### 7.2.4.1 Findings

- Institutional shareholders and analysts have the power to affect and improve CG. A shareholder vote is a powerful instrument that can be used to drive change and ensure sound CG practices.
- Shareholders are reluctant at times to engage with companies on CG related matters and wait until things have gone wrong before intervening.
- Shareholders focus more on the financial performance of a business and its remuneration practices than on other CG matters and practices.
- There is little evidence on the role that shareholders play in the advancement and improvement of CG within a company
- There is need for greater transparency and disclosure from institutional shareholders on their application of CG and how they vote on matters at an AGM.
- Institutional investors should engage the services of external CG advisors to enhance their CG valuation tools and to benchmark the application of CG practices by their investee companies.
- CG standards must provide greater clarity and guidance on the responsibilities shareholders have, together with the role they should play in advancing and ensuring CG.

#### 7.2.4.2 Conclusion

The perception of the lack of will by institutional shareholders and analysts to tackle corporate governance related matters is of grave concern and undermines the improvement of CG. There is a need for increased pressure from clients, their investors, society, government or industry for institutional shareholders and analysts to take the lead as advocates of CG. These are some of the measures that will support the advancement of CG.

The reluctance by shareholders to focus on CG practices other than company performance and remuneration matters means that companies will focus more on those, to the detriment of other important CG-related conversations like the environment and other stakeholders. The IoD report of 2009, mentions complacency and lack of involvement by institutional shareholders in company governance-related matters as a key contributor to market failures (IoDSA, 2009). Nguyen and Nielsen, (20130 advocate that shareholders must exercise oversight and use their proxy power to effect change by 'voting on their feet'. Disclosure by institutional investors of their voting patterns during a period would add to transparency, provide some measure of CG compliance and ensure best practice amongst companies, (Vaughn and Ryan, 2006).

King III had more pointed provisions that spoke to the role and responsibility of shareholders than King II; a case in point being the non-binding advisory vote that shareholders must vote on with respect to a company's remuneration policies. King II and King III have failed to meaningfully and publicly improve the role shareholders play in advancing CG. Despite this admission, it can nevertheless be said that in this regard King III contributed more to the value of CG than King II. This is also supported by the increase in shareholder votes since the introduction of the advisory vote in King III.

### 7.2.5 THEME 5 – CG AND ETHICS, REPUTATION, LEGAL AND OTHER FRAMEWORKS AND FINANCIAL PERFORMANCE

The purpose of Theme 5 was to determine the importance of CG to the reputation of an organisation: its influence on legal frameworks, organisational culture, broader society and understanding the importance of ethics. This theme was also essential in determining the perception of value between King II and King III. Rossouw, Watt and Rossouw (2002) charged that the role of ethics and ethical conduct falls on the shoulders of the board.  The role of the board is also to ensure that ethics are institutionalised and permeate every aspect of a company including its strategy, operations and other areas, (Rossouw, 2005).

#### 7.2.5.1 Findings

- Good governance is not possible without the practice of good ethics.
- Ethics, culture, society and the legal framework have a significant impact on CG.
- It is the people who are appointed to serve on the board who determine the success and failure of application of CG practices.
- The board is the custodian of a company's ethical compass.
- There is a positive correlation between CG practices, ethics and reputation.
- Once a reputation has been damaged, it takes a lifetime to restore.
- The reputation of a company, its ethics and CG practices, have an impact on its ability to recruit and retain talented individuals.
- People with questionable reputations/ethical conduct should not be appointed to the board.

In order to improve the value of CG, companies should conduct ethics surveys to determine the ethics culture of the organisation and to assess the extent of ethical practice and gaps, if any. Companies should have regular training sessions aimed at educating employees on ethics and the applicable legal and regulatory framework, together with an understanding of the damage to reputation that non-compliance or circumvention of laws could have on the company.

#### 7.2.5.2 Conclusion

The legal framework, culture of society and its traditions have a tremendous impact on CG; despite this, instances of wrongdoing do occur, as evidenced in the Enron saga. Ethics are a cornerstone of governance and are crucial to ensuring a sustainable company that is a responsible corporate citizen.

Boytsun et al (2011) submit that directors' and shareholders' personal beliefs, cultural orientation and values play a greater role in the application and adherence to corporate governance practices. Rossouw et al (2002) state that the role of ethics and ethical conduct falls on the shoulders of the board. This view is also supported by Rossouw (2005) who opined that the role of the board is also to ensure that ethics are institutionalised and permeate every aspect of a company including its strategy, operations.

The appointment of specific board members has a bearing on CG practices, reputation and the ethical culture of the organisation. The researcher observed that the extent to which governance is applied and embraced is a function of how those entrusted with it view it and consider its impact and value. Haldar *et al.* (2016) stressed that the 'spirit of governance' is greater than meeting the letter of the law; is in most instances is embedded in the values of the organisation, those charged with its stewardship and its community. King III focused extensively on ethics and the role played by the board in driving an ethical culture within the organisation more so than King II. King III therefore added greater value to CG in this regard than King II.

### 7.2.6 THEME 6 – THE VALUE OF CORPORATE GOVERNANCE

The purpose of Theme 6 was to determine the value of CG, understand the most effective way of measuring the value of CG, identify the risks to CG, determine the impact of CG on financial performance, business focus and operations and determine the benefits derived by companies through their application of King III. This theme was also essential in determining the perception of value between King II and King III.

#### 7.2.6.1 Findings

- King II and King III have contributed to CG's playing a key role in enhancing a company's operational and financial performance, decision making, long-term sustainability outlook and corporate citizenship.
- Neither King II nor King III provide a uniform definition nor understanding of the value of CG. The lack of a common or accepted definition of value of CG could potentially make it difficult to actually determine the value of CG, let alone how to measure such value.
- The difficulty in measuring and assessing the effectiveness of CG could delay or result in reluctance to adopt CG principles.
- CG only has value if it can be measured and evaluated; there is no provision for this either in King II or King III.
- CG allows the company and the board to be more holistic in their approach, views and responsibilities.

- Leading and globally recognised CG practices (such as King Codes on CG) enhance the strategic positioning of a company and/or country and sets it apart from its peers and competitors.
- Application of CG standards is a key consideration when investors seek to make investments in a company or a country.
- Companies must explain the application of CG practices to their stakeholders to enhance transparency, informing stakeholders about the value a company places on CG.
- The disclosure of CG practices dispels the notion that CG is only about ticking boxes without adding value to a company.
- CG needs to evolve and to continuously improve to retain its relevance and value.
- The existence of many risks to CG (e.g. compliance costs, perception of being a tick-box exercise, increased governance requirements) could potentially diminish the perceived value of CG.
- Lack of knowledge of or acknowledgement of risks to CG could mean that certain aspects could be undetected, thus undermining the value of CG.
- Good reporting on CG does not equate to good governance and good practices

#### 7.2.6.2 Conclusion

In order to improve the value of CG, there is need for improved oversight, active monitoring of application of King III (and subsequent codes) at board level and raising the levels of accountability. It is necessary to adopt a principles-based approach and move away from the CG checklist approach, as it detracts from the ethos and spirit of CG practices and the ability to use CG principles as an early detector of practices that could potentially undermine the sustainability of the business and lead to corporate failure. Rossouw (2005) remarked that the “one size fit all model” does not apply to corporate governance. The findings support the importance of CG, acknowledge that it has value, understands that the spirit of its application trumps laws and rules and recognises that it is universally accepted as something that is required.

There is undeniable value in CG, especially in terms of business performance, decision making, organisational structure and culture, board performance and transparency. The introduction of CG practices in South Africa has boosted the country's profile as an investment destination, further supporting the value of CG. Despite a universal acceptance of its importance and need; corporate governance is not viewed in a universal way, with many different views around its effectiveness still common, (Shleifer and Vishny, 1997).

Despite the benefits of CG, there are equally numerous risks and factors which have the potential to undermine the value of CG. These include the inability to measure CG, the lack of a uniform definition of the value of CG, and the costs and risks associated with CG. Mans-Kemp, Erasmus and Viviers (2016) cite director over-boardedness (director serving on multiple boards), high compliance costs and a 'tick - box' disclosure mentality, as some risks on CG that need to be managed. These risks were also highlighted in this study. Rossouw (2005) cautioned that overburdening companies with too much governance related legislation or regulation could lead to the spirit of corporate governance being undermined, resulting in corporate governance being seen as a 'tick-box' exercise, thus diminishing its value.

It was difficult to ascertain from this theme whether King II or King III had added greater value to CG. However, it is evident that both King II and King III have contributed tremendously to the value of CG, not only in South Africa but also internationally. It can be concluded that the adoption of CG practices has been a positive development for South Africa.

## 7.3 CONCLUSION

The section that follows provides a summary of the benefits and shortcomings of King II and King III. The latter part of this section will answer the main and supporting research questions.

**"What are the reasons behind the decline in the value of King III in comparison with King II, as perceived by listed companies in South Africa?"**

The researcher holds the view that King II and King III have both played a defining role in driving the value of CG. In an attempt to come to a final conclusion on the reason for the perceived drop in value from King II to III, a brief outline of some of the benefits and shortcomings of King II and King III is shown below.

**Table 7.1: Comparison of King II and King III contributions**

| **King II: contributions** | **King III: contributions** |
|---|---|
| • Providing boards and managers with a framework that guides the "how" and the "what" in terms of responsibilities<br>- Increasing the level of awareness around the need for independence and the separation of roles of executive and non-executive directors.<br>- Allowing for increased transparency, independence<br>- Enhancing the composition of the board and making it a more formal process<br>- Broadening the pool of directors by requiring a change in the traditional composition<br>- Forcing business to engage in key discussions shaping and affecting the country as a whole, such as broad-based transformation and building a more sustainable future<br>- Paying greater attention to board composition, principles of independence, diversity, the roles and responsibilities of boards and their operation.<br>- Placing greater importance on board structure than King I and King III.<br>- Spelling out in far greater detail the roles and responsibilities of the board and its sub-committees, introducing the importance of ethics, signifying the importance of external auditor independence, bringing greater focus | - Providing a framework that supports more in-depth discussions and debates on key matters concerning the business, the community and society as a whole.<br>- Having resulted in business embracing its role as a key role-player and material contributor to society through the elevation of sustainability considerations, increased corporate citizenship and the desire to 'do good' and 'act right'.<br>- Having demystified the belief that CG is only for and of benefit to large listed companies.<br>- Having added greater accountability and provided shareholders and other stakeholders with additional comfort<br>- Having added to the foundation built by King II by also introducing newer trends such as business rescue, integrated reporting and IT governance, among others. |

| | |
|---|---|
| on internal audit, and others<br>- King II was perceived by the majority of participants to have had a greater impact on CG than King III. | |

**Table 7.2: Shortcomings of King II and King III**

| King II: shortcomings | King III: shortcomings |
|---|---|
| - Failure to eradicate wrongdoing, unethical, irresponsible, dishonest practices by some entities and their leaders | - The inability to place greater pressure on institutional shareholders to play their part in monitoring and ensuring effective application of CG<br>- The discussion in the boardroom, which having evolved, is still highly focused on financial returns and not other non- financial areas such as the environment, society, sustainability.<br>- The codes are considered in some quarters as a compliance requirement or a 'tick-box' exercise, rather than a value-enhancing tool.<br>- Perception of being burdensome and costly.<br>- The lack of guidance in King III, inadequate focus on 'principles' and greater focus on compliance.<br>- King III fell short of addressing some of the reasons that resulted in the failure of CG that led to the global financial crisis in 2008, such as greater sanctioning of reckless directors.<br>- King III, despite placing greater responsibility on shareholders as drivers of CG, failed to provide sanctions in instances where shareholders do little to address shortcomings in CG with the board and management.<br>- King III, unlike King II, provided very limited new trends and additions to CG practices.<br>- King III was seen more as a refinement of King II |

There are numerous arguments that could be presented to justify or account for the more measured, sombre and less enthusiastic reception and view about King III when compared with King II. Alternatively, it could be argued or suggested that the base set in King II was so compelling and advanced that King III would always have been a bolt-on rather than an evolutionary standard, as the bulk of the framework was built in King II.

While many accolades had been showered on King II, this does not in any way take away from the important role that King III has played in advancing the gains made by King II and ensuring that SA remains at the cutting edge of corporate governance practice and reform. Yet it does appear that King III is seen as more of a refinement of King II than a game changer.

What the researcher believes is lost from some of the responses is the acknowledgement that King III came at a time when South Africa had a more robust, resilient and effective governance structure than before. The view of King III more as a continuation is also a positive development which validates the ground-breaking nature of King II and the foresight inherent in the practices advocated.

The researcher has reached a conclusion that King II has a higher perceived value than King III. This view concurs with the conclusion reached in the report by Jansen Van Vuuren and Schulschenk (2013), which found that there was a perceived drop in the value of King III compared with that of King II.

**Can the perceived decline in the value of King III compared with King II be related to the timing of the surveys conducted?**

The introduction of too many CG codes within a short space of time has added to the perception of CG as a burden to companies. Not giving companies adequate time to properly implement and embed CG practices within the business could result in lower compliance levels, which would undermine the value of CG. King II was introduced at a time when CG was at its infancy, almost a decade after the publication of the ground-breaking Cadbury Report of 1992. The launch of King III relatively shortly after the launch of King II, which had led to an overhaul of South African governance practices, might have contributed to the lower perceived value of King III.

**Have economic circumstances at the time that King II and King III were released played a role in diminishing the perceived value of King III when compared to King II??**

In addition, King II was launched in 2002, two years after the 2000 global financial crisis, which was a result of accounting and corporate scandals in the US. The 2000 global financial crisis was preceded by the routing of Asian tigers in the 1997/1998 crisis. King III was launched in 2009, a year after the 2008 global financial crisis.

However, given that both King II and King III were launched shortly after major global economic events; it is the researcher's opinion that economic circumstances have not played a role in diminishing the perceived value of King III when compared with King II.

**Has the difference in the content and emphasis of King II relative to King III had an impact in the perceived drop in the value of King III when compared to King II??**

King II is perceived to have helped to fill a certain void and provided structure and formality at a time when investor confidence had been shaken. The content and emphasis of King III were more progressive, given the foundation that had been laid by King II.

Numerous references to King III as being seen to be a refinement of King II give credence to the perception that the emphasis and context of King II were more relevant. Overall, however, the ground-breaking nature of King II is also a function of its content and focus. Judging from the responses, it is fair to conclude that the emphasis and context of both King II and King III played a key role in the perception of their respective value.

**Is the decline in the perceived value, as concluded in the study, a reflection on the decline in the value of King III or a decline in the value of corporate governance?**

There were no responses from participants which specifically noted a decline in the perceived value of CG overall. The view was that CG has continued to be highly valued and is seen as a key contributor of business.

It can be concluded that the perceived decline in the value of King III specifically relates to King III and not to corporate governance.

**How can the findings of this study add value to the discussion on possible publication of King IV?**

The concerns raised by participants about the timing of publishing King IV, does indicate to those drafting codes on governance to be weary of overkill. Findings from this study should to some degree direct the drafting of future codes by ensuring that there is a limit to new rules and regulations added and greater focus on governance practices that are supported by sanctions and enforcement. The findings also support retaining the current status quo: a voluntary approach to compliance with corporate governance standards in South Africa, unlike the legislative approach adopted in the US.

The impact and value of King IV will only begin to be measurable from 2018, as JSE-listed companies who will issue results or their integrated reports after 1 October 2017 will have to have adopted King IV.

## 7.4 FUTURE RESEARCH

Future studies could focus on determining the value for and impact of King IV on CG in South Africa in comparison with King III. Another study could investigate the extent to which compliance with King IV leads to better financial performance. This could be done by comparing a set of companies that fully apply 100% of CG practices with another set that partially applies CG practices.

Another study could test whether the composition of the board and its independence has any effect on CG practices; the last being the extent to which CG has impacted on the principal-agency issue.

Lastly, a study could be done to determine the impact and value of King IV on CG reform in South Africa.

# REFERENCES


Abdullah, H. & Valentine, B. 2009. Fundamental and ethics theories of corporate governance. *Middle Eastern Finance and Economics*, 4. [Online] Available from: http://citeseerx.ist.psu.edu/viewdoc/summary?doi=10.1.1.320.6482. [Accessed: 2017-23-06].

Abidin, A.Z & Ahmad, H.N. 2007. Corporate governance in Malaysia: the effect of corporate reforms and state business relation in Malaysia. *Asian Academy of Management Journal,* 12(1): 23-24. [Online] Available from: http://web.usm.my/aamj/12.1.2007/aamj%2012-1-2.pdf. [Accessed: 2015-01-16].

Adegbite, E. 2012. Corporate governance regulation in Nigeria*. Corporate Governance*, 12(2): 257-276. [Online] Available from: https://doi.org/10.1108/14720701211214124. [Accessed: 2017-02-06].

Adegbite, E. 2015 “Good Corporate Governance in Nigeria: Antecedents, Propositions and Peculiarities,” *International Business Review*, 24(2), pp. 319–330. [Online] Available from: https://doi.org/10.1016/j.ibusrev.2014.08.004. [Accessed: 2017-09-27]

Afolabi, A. 2015. Examining corporate governance practices in Nigerian and South African firms. *European Journal of Accounting Auditing and Finance Research,* 13(1): 10 -29. [Online] Available from: http://www.eajournals.org/wp-content/uploads/Examining-Corporate-Governance-Practices-in-Nigerian-and-South-African-Firms.pdf. [Accessed: 2017-02-06]

African Corporate Governance Network (ACGN). 2016. *State of corporate governance in Africa: An overview of 13 countries*. ACGN. [Online] Available from: https://www.afcgn.org/wp-content/uploads/2016/03/ACGN-Corporate-Governance-Report-Feb-2016.pdf. [Accessed: 2017-04-28].

African Institute of Corporate Citizenship (AICC). 2006. *South African technical report on corporate governance.* AICC. [Online] Available from: http://www.aprmtoolkit.saiia.org.za/component/docman/doc_view/98-atkt-south-africa-technical-report-corporate-gov-2007-en. [Accessed: 2017-04-28].

Alvesson, M. & Deetz, S. 2000. The critical tradition: critical theory and postmodernism, In: *Doing critical management research*, edited by M Alvesson and S Deets. Sage. [Online] Available from: http://dx.doi.org/10.4135/9781849208918. [Accessed: 2017-04-05].

ANBIMA (Brazilian Financial and Capital Markets Association). 2016. *Consultative document: Proposed policy recommendations to address structural vulnerabilities from asset management activities.* [Online] Available from: http://www.fsb.org/wp-content/uploads/Brazilian-Financial-and-Capital-Markets-Association-ANBIMA1.pdf. [Accessed; 2017-02-26]

Andreasson, S. 2011. Understanding corporate governance reform in South Africa: Anglo-American divergence, the King Reports, and hybridization*. Business & Society,* 50(4): 647–673. [Online] Available from: DOI: 10.1177/0007650309332205. [Accessed: 2017-04-24].

Apampa, S. 2014. *Corporate governance in Nigeria is evolving.* Ethical Boardroom. [Online] Available from: http://ethicalboardroom.com/activism/corporate-governance-nigeria-evolving/. [Accessed: 2017-02-06].

Armitage, S., Hou, W., Sarkar, S. & Talaulicar, T. 2017. Corporate governance challenges in emerging economies. *Corporate Governance: An International Review*, 25(3): 148–154. [Online] Available from: http://onlinelibrary.wiley.com.uplib.idm.oclc.org/doi/10.1111/corg.12209/full. [Accessed: 2017-06-01].

Armstrong, P. 2004. *Corporate governance in South Africa: A perspective from an emerging market.* Presentation to the 5th Eurasian Corporate Governance Round table, Kiev, Ukraine, May.IFC.

https://www.ifc.org/wps/wcm/connect/c33da480444e391687808fc66d9c728b/Indonesia_Media_Jun14+PAA.pdf?MOD=AJPERES.06-

Armstrong, P., Segal, N. & Davis, B. 2005. *Corporate governance South Africa: A pioneer in Africa.* The South African Institute of International Affairs. [Online] Available from:
http://dspace.africaportal.org/jspui/bitstream/123456789/32581/1/SAIIA%20CORPORATE%20GOVERNANCE%20-%20REPORT%201%20-%202005.pdf?1.
[Accessed: 2017-04-28].

Baker, R. 2008. *The UK model of corporate governance: An assessment from the midst of a financial crisis.* [Online] Available from: https://www.bl.uk/collection-items/uk-model-of-corporate-governance-an-assessment-from-the-midst-of-a-financial-crisis#. [Accessed: 2017-09-27]

Barrier, M. 2003. Mervyn King: Principles, not rules. *The Internal Auditor: Journal of the Institute of Internal Auditors,* 60(4): 68. [Online] Available from:
http://search.proquest.com.uplib.idm.oclc.org/docview/202747688?OpenUrlRefId=info:xri/sid:wcdiscovery&accountid=14717. [Accessed: 2017-04-27].

Beauchamp, T. L. & Childress, J. F. 1983. Principles of biomedical ethics. 2nd ed. New York: Oxford University Press.

Bebchuk, L.A. & Weisbach, M.S. 2010. *The state of corporate governance research*. NBER. [Online] Available from:
https://fisher.osu.edu/supplements/10/10821/BebchukWeisbachRFS2010.pdf.
[Accessed: 2016-11-28].

Bhagat, S. & Black, B. S. 2002. The non-correlation between board independence and long-term firm performance*. Journal of Corporation Law*, . *27:.:: 231-273.*
[Online] Available from: https://ssrn.com/abstract=313026. [Accessed: 2017-09-23]

Black, B.S., De Carvalho, A.G. & Sampaio, J.O. 2013. *The evolution of corporate Governance in Brazil*. Harvard Law School Forum on Corporate Governance and Financial Regulation, 28 January. [Online] Available from: http://corpgov.law.harvard.edu/2013/01/28/the-evolution-of-corporate-governance-in-brazil/. [Accessed: 2015-09-14].

Bloor, M. & Wood, F. 2006. Keywords in qualitative methods. Sage. [Online] Available from: http://dx.doi.org.uplib.idm.oclc.org/10.4135/9781849209403. [Accessed: 2016-07-24].

Boatright, J.R. 2006. What's Wrong—and What's Right—with Stakeholder Management. *Journal of Private Enterprise* 22(2). [Online] Available from: https://www.researchgate.net/profile/John_Boatright/publication/253392653_What's_Wrong-and_What's_Right-_with_Stakeholder_Management/links/54d4f7750cf246475806b133/Whats-Wrong-and-Whats-Right-with-Stakeholder-Management.pdf. [Accessed: 2017-11-17].

Booth, W.C., Colomb, G.G. & Williams, J.M. 2009. The craft of research, 3rd e3rded. University of Chicago Press. [Online] Available from: http://ebookcentral.proquest.com.uplib.idm.oclc.org/lib/pretoria-ebooks/detail.action?docID=432155#. [Accessed: 2017-03-28].

Bosch-Badia, M.T., Montllor-Serrats, J. and Tarrazon, M.A. 2013. Corporate Social Responsibility from Friedman to Porter and Kramer. [Online] Available from: https://file.scirp.org/pdf/TEL_2013061813184987.pdf. [Accessed: 2017-11-18].

Boytsun, A., Deloof, M. & Matthyssens, P. 2011. Social norms, social cohesion, and corporate governance. *Corporate Governance: An International Review*, 19(1): 41–60. [Online] Available from: http://onlinelibrary.wiley.com.uplib.idm.oclc.org/doi/10.1111/j.1467-8683.2010.00829.x/full. [Accessed: 2017-05-31].

Brezeanu, P. & Stanculescu, A. 2008. Corporate governance models. *Annals of the University of Petrosani Economics*, viii (1): 15–18. [Online] Available from: https://UnivofPretoria.on.worldcat.org/oclc/6605919217. [Accessed 2017-06-24].

Brink, A. 2009. Corporate governance and the Companies Act. *Management Today*, 25(9): 6-19. [[[Online] Available from:
: http://journals.co.za/content/mantod/25/9/EJC71075. [Accessed: 2016-09-06].

Brinkmann, S. & Kvale, S. 2005. Confronting the ethics of qualitative research. *Journal of Constructivist Psychology*, 18(2): 157-181. [Online] Available from: http://web.b.ebscohost.com.uplib.idm.oclc.org/ehost/pdfviewer/pdfviewer?vid=1&sid=aed77974-8bcd-49a5-8b34-1c5210587825%40sessionmgr104. [Accessed: 2017-04-02].

Bryman, A. 2006. Integrating quantitative and qualitative research: How is it done? *Qualitative Research,* 6(1): 97–113. [Online] Available from: http://www.socsci.uci.edu/~castellj/fieldstudies/webdocs/W-Readings/IntegratingQualandQuant.pdf. [Accessed: 2017-04-08].

Burke, M.E. 2007. Making choices: Research paradigms and information management: Practical applications of philosophy in IM research. *Library Review,* 56(6): 476-484. [Online] Accessed from: https://doi.org/10.1108/00242530710760373. [Accessed: 2017-09-28]

Byrne, D. 2016. *Methodology, philosophy of research*. Sage. [Online] Available from: http://dx.doi.org.uplib.idm.oclc.org/10.4135/9781526408495. [Accessed: 2017-04-08].

Cadbury, A. 1992. *Report of the Committee on the Financial Aspects of Corporate Governance.* London: GEE. [Online] Available from: http://www.ecgi.org/codes/documents/cadbury.pdf. [Accessed: 2016-09-26].

Carter, D.A., Simkins, B.J. & Simpson, W.G. 2003. Corporate governance, board diversity, and firm value*. Financial Review,* 38: 33-53. [Online] Available from:

https://www.researchgate.net/profile/Betty_Simkins/publication/4990531_Corporate_Governance_Board_Diversity_and_Firm_Value/links/5422c0950cf26120b7a465b3.pdf. [Accessed: 2017-01-07].

Cassel, C. & Symon, G. 2004. *An essential guide to qualitative methods in organisational resear*ch*.* Sage. [Online] Available from: https://smpncilebak2011.files.wordpress.com/2011/11/essential-guide-to-qualitative-in-organizational-research.pdf. [Accessed: 2017-03-30].

Chahine, S. & Saade, S. 2011. Shareholders' rights and the effect of the origin of venture capital firms on the underpricing of US IPOs. *Corporate Governance: An International Review*, 19(6): 601–621. [Online] Available from: doi/10.1111/j.1467-8683.2011.00857.x. [Accessed: 2017-05-31].

Chahine, S. & Tohme, N.S. 2009. Is CEO duality always negative? An exploration of CEO duality and ownership structure in the Arab IPO context. *Corporate Governance: An Internal Review*, 17(2): 123-141. [Online] Available from: http://onlinelibrary.wiley.com.uplib.idm.oclc.org/doi/10.1111/j.1467-8683.2008.00724.x/full. [Accessed: 2016-11-19].

Cho, J. & Trent, A. 2006. *Validity in qualitative research revisited*. Sage. [Online] Available from: http://journals.sagepub.com.uplib.idm.oclc.org/doi/pdf/10.1177/1468794106065006. [Accessed: 2017-04-02].

Claessens, S. & Yurtoglu, B. 2012. *Corporate governance and development: An update*. IFC. [Online] Available from: https://www.ifc.org/wps/wcm/connect/518e9e804a70d9ed942ad6e6e3180238/Focus10_CG%26Development.pdf?MOD=AJPERES. [Accessed: 2014-01-13].

Clark, K.N. 2012. The effects of Sarbanes-Oxley on current financial reporting standards. Honors Program Thesis: Liberty University. [Online] Available from: http://digitalcommons.liberty.edu/cgi/viewcontent.cgi?article=1303&context=honors. [Accessed: 2015-09-26].

Clark, R.C. 2005. *Corporate governance changes in the wake of the Sarbanes-Oxley Act: A morality tale for policymakers too*. Harvard. [Online] Available from: http://www.law.harvard.edu/programs/olin_center/papers/pdf/Clark_525.pdf. [Accessed: 2015-09-26].

Cliff Dekker Attorneys. 2002. *King Report on Corporate Governance for South Africa: What it means to you.* [Online] Available from: https://www.mervynking.co.za/downloads/CD_King2.pdf. [Accessed: 2016-05-23].

Cohn, M. 2012. SOX improved corporate governance and audit quality*. Accounting Today* [Online] Available from: http://www.accountingtoday.com/news/sarbanes-oxley-audits-corporate-governance-ernst-young-63261-1.html. [Accessed: 2015-09-26].

Coles, J.L., Lemmon, M.L. & Meschke, J.F. 2011. Structural models and endogeneity in corporate finance: The link between managerial ownership and corporate performance. *Journal of Financial Economics (JFE)* 103(1): 149-168. [Online] Available from: http://dx.doi.org/10.2139/ssrn.423510 . [Accessed: 2017-09-23].

Creswell, J.W. 2007. *Qualitative inquiry and research design: Choosing among five approaches*. Sage. [Online] Available from: https://charlesbickenheuserdotcom.files.wordpress.com/2015/03/creswell_2007_qualitative_inquiry_and_research_design__choosing_among_five_approaches__2nd_edition.pdf. [Accessed: 2017-04-28]**.**

Creswell, J. W. 2014. *Educational research: Planning , conducting and evaluating quantitative and qualitative research*. 4th ed. Harlow, Essex: Pearson. [Online] Available from: https://univofpretoria.on.worldcat.org/oclc/858075886. [Accessed: 2017-09-23] [2007???}

Cumming, D., Filatotchev, I., Knill, A., Reeb, D.M. & Senbet, L. 2017. Law, finance, and the international mobility of corporate governance. *Journal of International Business Studies*, 48(2):):): 123–147. [Online] Available from: http://download.springer.com.uplib.idm.oclc.org/static/pdf/454/art%253A10.1057%252Fs41267-016-0063-7.pdf?originUrl=http%3A%2F%2Flink.springer.com%2Farticle%2F10.1057%2Fs41267-016-0063-7&token2=exp=1496269125~acl=%2Fstatic%2Fpdf%2F454%2Fart%25253A10.1057%25252Fs41267-016-0063-7.pdf%3ForiginUrl%3Dhttp%253A%252F%252Flink.springer.com%252Farticle%252F10.1057%252Fs41267-016-0063-7*~hmac=2cf0395cc249c2670ea12de319aba8389aa1fecc546164d027ebb62c991c3c51. [Accessed: 2017-05-31].

Daniel, N.I. 2015. Corporate governance in Nigeria: legal and regulatory regime simplified. *The Nigerian Lawyer*. [Online] Available from: http://thenigerialawyer.com/corporate-governance-in-nigeria-legal-and-regulatory-regime-simplified/. [Accessed: 2017-02-06].

Dartnal, S., Kleyn, R., van Zweel, Y. 2017. King IV™: The Rise of the Stakeholder. BDO. [Online] Available from: https://www.bdo.co.za/en-za/insights/2017/king-iv/king-iv-the-rise-of-the-stakeholder. [Accessed: 2017-11-19].

De Beer, F. & Du Toit, D.H. 2015. Human resources managers as custodians of the King III Code. *South African Journal of Economic and Management Sciences* NS, 18(2): 206-217. [Online] Available from: http://search.proquest.com.uplib.idm.oclc.org/docview/1686876711?OpenUrlRefId=info:xri/sid:wcdiscovery&accountid=14717. [Accessed: 2017-04-27].

Deloitte. 2016. *King IV: Bolder than ever*. Deloitte. [Online] Available from: https://www2.deloitte.com/content/dam/Deloitte/za/Documents/governance-risk-compliance/DeloitteZA_KingIV_Bolder_Than_Ever_CGG_Nov2016.pdf. [Accessed: 2017-03-05].

Desai, V. & Potter, R.B. 2006. *Doing development research.* Sage. [Online] Available from: http://dx.doi.org.uplib.idm.oclc.org/10.4135/9781849208925. [Accessed; 2016-07-24].

Donaldson, T. & Preston, L.E. 1995. The Stakeholder Theory of the Corporation: Concepts, evidence and implications. *Academy of Management Review,* 20 (1): 65-91. [Online] Available from: https://www.jstor.org/stable/pdf/258887.pdf. [Accessed: 2017-11-18].

Ejuvbekpokpo, S.A. & Esuike, B.U. 2013. Corporate governance issues and its implementation: The Nigerian experience*. Journal of Research in International Business Management,* 3(2): 53-57. [Online] Available from: http://www.interesjournals.org/full-articles/corporate-governance-issues-and-its-implementation-the-nigerian-experience.pdf?view=inline. [Accessed: 2015-01-15].

Enyioko, N.C. & Onwusoro, C. 2014. Corporate governance reforms in Nigeria: A study of shareholders' right of entry*.* [Online] Available from: http://ssrn.com/abstract=2397377. [Accessed: 2015-01-15].

Eriksson, P. & Kovalainen, A. 2008. *Qualitative methods in business research*. Sage. [Online] Available from: http://dx.doi.org.uplib.idm.oclc.org/10.4135/9780857028044. [Accessed: 2016-07-16].

Ernst & Young. 2013. *Key developments of the 2013 proxy season.* EYGM. [Online] Available from: http://www.ey.com/Publication/vwLUAssets/Key_developments_of_the_2013_proxy_season/$FILE/Key-developments-of-the-2013-proxy-season.pdf . [Accessed: 2013-07-08].

Esser, E. 2009. The protection of stakeholder interests in terms of the South African King III Report on Corporate Governance: an improvement on King II? *SA Mercantile*

*Law Journal/SA Tydskrif vir Handelsreg*, 21:188–201. [Online] Available from: http://journals.co.za.uplib.idm.oclc.org/docserver/fulltext/ju_samlj/21/2/ju_samlj_v21_n2_a4.pdf?expires=1496478845&id=id&accname=57715&checksum=ADFEAB8CF8002A87CE0FC5F59550DD06. [Accessed: 20167-09-05].

Esser, I. & Delport, P. 2017. The protection of stakeholders: The South African social and ethics committee and the United Kingdom's enlightened shareholder value approach: Part 1. *De Jure* 97-110. [Online] Available from: http://dx.doi.org/10.17159/2225-7160/2017/v50n1a6. [Accessed: 2017-11-19].

EY 2016. *Are you ready to implement King IV ™? A shift of focus: The King IV Report on Corporate Governance*. EY. [Online] Available from: http://www.ey.com/Publication/vwLUAssets/ey-governance-with-king-iv-2016/$FILE/ey-governance-with-king-iv-2016.pdf. [Accessed: 2017-03-05].

Farquhar, J. 2012. *Case study research for business*. Sage. [Online] Available from: http://dx.doi.org.uplib.idm.oclc.org/10.4135/9781446287910.n1. [Accessed: 2017-04-08].

Fazio, S. 2013. *Corporate governance standards in Brazil: Is the country winning the confidence of international investors?* Chadbourne & Parke LLP. [Online] Available from: http://www.lexology.com/library/detail.aspx?g=6400406c-62db-45fe-b444-3e01ccc1236e. [Accessed: 2017-02-08].

Filardi, G. & De Luca Junior, J.C. 2017. *Brazil. Latin Lawyer*. [Online] Available from: http://latinlawyer.com/jurisdiction/1003079/brazil. [Accessed: 2017-09-28].

Financial Reporting Council (FRC). 2006. *The UK approach to corporate governance*. FRC. [Online] Available from: https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/The-UK-Approach-to-Corporate-Governance-(1).pdf. [Accessed: 2017-02-06].

Financial Reporting Council (FRC). 2012. *The UK Corporate Governance Code.*

FRC. [Online] Available from: https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.aspx. [Accessed: 2017-02-06].

Flick, U. 2014. *The Sage handbook of qualitative data analysis*. London: Sage. [Online] Available from: http://dx.doi.org.uplib.idm.oclc.org/10.4135/9781446282243. [Accessed: 2017-05-16].

Freeman, R.E. 1994. Stakeholder theory of the modern corporation. *General Issues in Business Ethics.* [Online] Available from: https://businessethics.qwriting.qc.cuny.edu/files/2012/01/Freeman.pdf. [Accessed: 2017-06-24].

Freeman, R. E., Rusconi, G., Signori, S., and Strudler, A. 2012. Stakeholder Theory(ies): Ethical Ideas and Managerial Action. *J Bus Ethics :*109:1–2. [Online] Available from: DOI 10.1007/s10551-012-1374-7 https://link.springer.com/content/pdf/10.1007%2Fs10551-012-1374-7.pdf. [Accessed: 2017-11-17].

Freeman, R.E., Wicks, A.C. & Parmar, B. 2004. Stakeholder theory and "the corporate objective revisited". *Organization Science,* 15(3): 364–369. [Online] Available from: http://pubsonline.informs.org/doi/pdf/10.1287/orsc.1040.0066. [Accessed: 2017-06-24].

Friedman, M. 1970. The Social Responsibility of Business is to Increase its Profits. The New York Times Magazine. [Online] Available from: http://umich.edu/~thecore/doc/Friedman.pdf. [Accessed: 2017-11-17].

Fusch, P.I. & Ness, L.R. 2015. Are we there yet? Data saturation in qualitative research. *Qualitative Report*, 20(9): 1408–1416. [Online] Available from: http://search.proquest.com.uplib.idm.oclc.org/docview/1721368991?OpenUrlRefId=info:xri/sid:wcdiscovery&accountid=14717. [Accessed: 2017-05-21].

Gibbs, G. 2007. *Analyzing qualitative data.* London: Sage (Sage Qualitative Research Kit). [Online] Available from:http://dx.doi.org.uplib.idm.oclc.org/10.4135/9781849208574#sthash.WyT9mgLC.dpuf. [Accessed: 2017-05-21]

Gibson, W.J. & Brown, A. 2009. *Working with qualitative data*. London: Sage. [Online] Available from: http://methods.sagepub.com.uplib.idm.oclc.org/book/working-with-qualitative-data. [Accessed: 2017-05-21]

Girod-Séville, M. & Perret, V. 2001. Epistemological foundations, In *Doing management research*, edited by R-A Thietart. Sage.

Gompers, P.A., Ishii, J.L. & Metrick, A. 2003. Corporate governance and equity prices*. Quarterly Journal of Economics,* 118(1): 107-155. [Online] Available from: http://www.corporategovernanceadvisory.com/uploads/4/0/9/3/40931365/cg_and_equity_prices_-_gim.pdf. [Accessed: 2013-12-27].

Gonçalves, T.A., Lima, N.C., Walter Borges De Oliveira, S.V., Mattos Borges De Oliveira & Queiroz, J.V. 2012. Corporate governance in financial strategy of companies listed in Bovespa. *International Journal of Business and Commerce,* 2(1): 24-39. [Online] Available from: http://www.ijbcnet.com/2-1/IJBC-12-2109.pdf. [Accessed: 2015-09-14].

Goodpaster, K.E. 1991. Business Ethics and Stakeholder Analysis. *Business Ethics Quarterly* 1 (1): 53-73. Cambridge University Press. [Online] Available from: https://www.jstor.org/stable/3857592?seq=2#page_scan_tab_contents. [Accessed: 2017-11-19].

Goulding, C. 2002. The qualitative turn in management research, In: *Grounded theory*, by C Goulding. Sage. Available from: http://dx.doi.org.uplib.idm.oclc.org/10.4135/9781849209236.n1. [Accessed: 2017-04-05].

Grant, G.H. 2003. The evolution of corporate governance and its impact on modern corporate America. *Management Decision,* 41(9). [Online] Available from: https://doi.org/10.1108/00251740310495045. [Accessed 2016-11-19].

Grove, M. 2009. King III: *Will it strengthen corporate governance*? Deloitte. [Online] Available from: http://reference.sabinet.co.za.uplib.idm.oclc.org/webx/access/electronic_journals/imfo/imfo_v10_n1_a12.pdf. [Accessed: 2016-09-05].

Guest, G., MacQueen, K.M. & Namey, E.E. 2012. *Applied thematic analysis*. Los Angeles: Sage.

Hardy, M.A. & Bryman, A. 2004. *Handbook of data analysis.* London: Sage.

Have, P. 2004. ***Understanding qualitative research and ethnomethodology*.** Sage.

Healy, P., Henderson, R., Moss, D & Ramanna, K. 2015. A Crisis in the Theory of the Firm. [Online] Available from: http://www.hbs.edu/faculty/conferences/2015-crisis-in-theory-of-firm/Documents/Crisis%20in%20the%20Theory%20November%202015.pdf. [Accessed: 2017-11-18].

Hedrick, T.E., Bickman, L. & Rog, D.J. 1993. Selecting a research design, In: *Applied Research Design* [Online] Available from: http://dx.doi.org.uplib.idm.oclc.org/10.4135/9781412983457.n3. [Accessed: 2017-04-02]

Hendricks, P.S.A & Wyngaard, R.G. 2010. South Africa's King III: A commercial governance code determining standards of conduct for civil society organisations. *International Journal of Not-For-Profit Law*, 12(2). [Online] Available from: https://www.google.com/search?q=South+Africa%E2%80%99s+King+III:+A+commercial+Governance+Code+Determining+Standards+of+Conduct+for+CSOs [Accessed: 2016-09-26].

Heritage Institute. 2007. Corporate Governance Definitions. [Online] Available from: http://www.heritageinstitute.com/governance/definitions.htm. [Accessed: 2015-09-04]

Hermalin, B.E. 2005. Trends in corporate governance. *The Journal of Finance*, 60(5): 2351-2384. [Online] Available from: doi/10.1111/j.1540-6261.2005.00801.x/pdf. [Accessed: 2017-06-24].

Hermalin, B.E. & Weisbach, M.S. 1998. Endogenously chosen boards of directors and their monitoring of the CEO. *American Economic Review* 88(1): 96-118. [Online] Available from http://u.osu.edu/weisbach.2/files/2015/01/hwaer98-14vy1a4.pdf. [Accessed: 2017-09-23].

Horsburgh, D. 2003. Evaluation of qualitative research. *Journal of Clinical Nursing*, 12: 307–312. [Online] Available from: http://www.fctl.ucf.edu/researchandscholarship/sotl/creatingsotlprojects/implementingmanaging/content/evaluation%20of%20qualitative%20research.pdf. [Accessed: 2017-03-27].

Hua, L.L. & Zin, R.H.M. 2007. Corporate governance: Theory and some insights into the Malaysian practices. *Akademika* 71 (July)*: 31-60.* [Online] Available from: ISSN 0126-5008. [Accessed 2015-04-09].

ICLG (International Comparative Legal Guised). 2016. Brazil corporate governance. ICLG. [Online] Available from: https://www.iclg.co.uk/practice-areas/corporate-governance/corporate-governance-2016/brazil. [Accessed: 2017-02-8].

IBGC (Instituto Brasileiro de Governanca Corporativa). 2017. [Online] Available from: http://www.ibgc.org.br/index.php/governanca/origens-da-governanca/principais-modelos. [Accessed: 2017-11-17].

International Finance Corporation (IFC). 2009. *Practical guide to corporate governance experiences from the Latin American Companies Circle*. IFC OECD Global Corporate Governance Forum (GCGF). http://www.oecd.org/daf/ca/corporategovernanceprinciples/43653645.pdf. [Accessed: 2015-09-14].

IoDSA. 1994. *The King Report on Corporate Governance*. [emailed copy from the IoD, 2016]

IoDSA. 2002. *King Report on Corporate Governance for South Africa*. [Online] Available from: http://library.ufs.ac.za/dl/userfiles/documents/Information_Resources/KingII%20Final%20doc.pdf. [Accessed: 2014-11-06].

IoDSA. 2009. King III: Report on Governance for South Africa – 2009. [Online] Available from: https://www-mylexisnexis-co-za.uplib.idm.oclc.org/Index.aspx. [Accessed 2014-06-18].

IoDSA. 2016. *King IV Report for Corporate Governance in South Africa*. IoDSA. [Online] Available from: https://c.ymcdn.com/sites/iodsa.site-ym.com/resource/collection/684B68A7-B768-465C-8214-E3A007F15A5A/IoDSA_King_IV_Report_-_WebVersion.pdf. [Accessed: 2017-03-05].

Irving, E. 2013. *An overview of corporate governance*. Cavehill School of Business. [Online] Available from: https://www.slideshare.net/chunchirving/an-overview-of-corporate-governance. [Accessed: 2017-06-23].

Iyaniwura, S. & Iyaniwura, W. 2014. The nature of shareholding in Nigeria: Evidence from the banking crisis. *Global Journal of Management and Business Research: B: Economics and Commerce*, 13(5). [Online] Available from: https://globaljournals.org/GJMBR_Volume14/4-The-Nature-of-Shareholding.pdf. [Accessed: 2017-02-08].

Jamali, D., Safieddine, A.M. & Rabbath, M. 2008. Corporate governance and corporate social responsibility synergies and interrelationships. *Corporate Governance*, 16(5): 443-459. [Online] Available from: http://s3.amazonaws.com/academia.edu.documents/42267600/Oct_28_corporate_governance_and_csr.pdf?AWSAccessKeyId=AKIAIWOWYYGZ2Y53UL3A&Expires=1498254000&Signature=gHz31JUmT3YfqdHsvT%2FUiWVr2qY%3D&response-content-disposition=inline%3B%20filename%3DCorporate_Governance_and_Corporate_Socia.pdf. [Accessed: 2017-06-23].

Jansen, M.C. & Smith, C.W. 1985. *Stockholder, manager, and creditor interests: Applications of agency theory.* Dow-Jones Irwin. [Online] Available from: https://www.researchgate.net/profile/Michael_Jensen9/publication/228138310_Stockholder_Manager_and_Creditor_Interests_Applications_of_Agency_Theory/links/02e7e51c39cbcd5a90000000.pdf. [Accessed: 2017-06-24].

Jansen van Vuuren, C. & Schulschenk, J. 2013. *Perceptions and practice of King III in South African companies*. IoDSA and the Albert Luthuli Centre for Responsible Leadership, University of Pretoria. [Online] Available from https://www.iodsa.co.za/resource/collection/DD8B591E-3D00-48D5-B2E9-663FEDCFF131/Perceptions_and_practice_of_King_III.pdf. [Accessed: 2016-05-23].

Jensen, M.C. 2004. *Agency costs of overvalued equity*. European Corporate Governance Institute, Finance Working Paper No. 39/2004. [Online] Available from: http://pruss.narod.ru/OverVal.pdf. [Accessed: 2017-09-27]

John, K. & Senbet, L.W. 1998. Corporate governance and board effectiveness. *Journal of Banking & Finance* 22: 371– 403. [Online] Available from: http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.461.8236&rep=rep1&type=pdf. [Accessed: 2017-09-23]

Johnson, P. & Duberley, J. 2000. *Understanding management research: an introduction to epistemology*. Sage.

Jones, M. 2014. *Researching organizations: The practice of organizational fieldwork*. Sage.

Jones, I. & Pollit, M. 2003. *Understanding how issues in corporate governance develop: Cadbury Report to Higgs Review.* ESRC Centre for Business Research, University of Cambridge Working Paper No. 277. [Online] Available from: http://www.cbr.cam.ac.uk/fileadmin/user_upload/centre-for-business-research/downloads/working-papers/wp277.pdf. [Accessed: 2017-09-23]

Jones, T.M. & Wicks, A.C. 1999. Convergent Stakeholder Theory. *The Academy of Management Review*, 24(2): 206-221. [Online] Available from: http://www.jstor.org/stable/259075. [Accessed: 2017-11-19].

Jordan, C. 2012. *Cadbury twenty years on*. Center for Transnational Legal Studies. Research Paper No. 12-136. [Online] Available from: http://scholarship.law.georgetown.edu/cgi/viewcontent.cgi?article=1003&context=ctls_papers. [Accessed: 2017-09-23]

Judge, W. 2009. Toward a global theory of corporate governance. Corporate Governance*: An International Review*, 17(2): iii-iv. [Online] Available from: http://onlinelibrary.wiley.com.uplib.idm.oclc.org/doi/10.1111/j.1467-8683.2009.00736.x/full. [Accessed: 2016-11-19].

Kang, H., Cheng, M. & Gray, S.J. 2007. Corporate governance and board composition: diversity and independence of Australian boards. *Corporate Governance: An International Review*, 15(2). [Online] Available from:

https://www.researchgate.net/publication/4745970_Corporate_Governance_and_Board_Composition_Diversity_and_Independence_of_Australian_Boards. [Accessed: 2017-01-07].

Kaplan, S.N. & Minton, B.A. 2006. *How has CEO turnover changed? Increasingly performance-sensitive boards and increasingly uneasy CEOS.* Working Paper 12465. [Online] Available from: http://www.nber.org/papers/w12465. [Accessed: 2017-09-23]

Kelemen, M.L. & Rumens, N. 2008. *An introduction to critical management research.* Sage.

King, N. (2004) 'The qualitative research interview, In *Essential guide to qualitative methods in organisational research*, by C. Cassell and G. Symon. 4th ed. [Online] Available from: https://smpncilebak2011.files.wordpress.com/2011/11/essential-guide-to-qualitative-in-organizational-research.pdf. [Accessed:2017-09-23]

Klapper, L.F. & Love, I. 2004. Corporate governance, investor protection, and performance in emerging markets. *Journal of Corporate Finance*, 10(5): 703–728. [Online] Available from: https://doi-org.uplib.idm.oclc.org/10.1016/S0929-1199(03)00046-4. [Accessed: 2017-05-31].

KPMG. 2009. Corporate Governance & King III. [Online] Available from: https://home.kpmg.com/za/en/home/insights/2009/09/corporate-governance---king-3.html. [Accessed: 2017-09-23]

KPMG. 2016. *King IV summary guide*. KPMG. [Online] Available from: https://assets.kpmg.com/content/dam/kpmg/za/pdf/2016/11/King-IV-Summary-Guide.pdf. [Accessed: 2017-03-05].

Kvale, S. 1983. The qualitative research interview: A phenomenological and hermeneutical mode of understanding. *Journal of Phenomenological Psychology,* 14(1): 171-196. [Online] Available from: http://search.proquest.com.uplib.idm.oclc.org/docview/1308101567?OpenUrlRefId=info:xri/sid:wcdiscovery&accountid=14717. [Accessed: 2017-04-02].

Kvale, S. 2007. Introduction to interview research, In: *Doing interviews,* edited by S.Kale. Sage. [Online] Available from: http://dx.doi.org.uplib.idm.oclc.org/10.4135/9781849208963. [Accessed: 2016-07-16].

Labaree, R.V. 2017. *Research Guides.* University of Southern California. [Online] Available from: http://libguides.usc.edu/writingguide/purpose. [Accessed: 2017-03-30].

La Porta, R., Lopez-de-Silanes, F. & Shleifer, A. 2008. The economic consequences of legal origins. *Journal of Economic Literature* 46(2): 285– 332. [Online] Available from: https://scholar.harvard.edu/files/shleifer/files/consequences_jel_final.pdf. [Accessed: 2017-09-23]

La Porta, R., Lopez-de-Silanes, F., Shleifer, A. & Vishny, R. 2002. Investor protection and corporate valuation. *Journal of Finance,* 57(3): 1147–1170. [Online] Available from: doi:10.1111/1540-6261.00457. [Accessed: 2014-04-09].

Leedy, P.D. & Ormrod, J.E. 2005. *Practical research: Planning and design*. 8th ed. Upper Saddle River, N.J: Pearson/Merrill Prentice Hall.

Lin, H. & Wu, F.H. 2006. How to manage Section 404 of the Sarbanes-Oxley Act : What is wrong with Section 404 of the Sarbanes-Oxley Act? *Journal of Accounting and Corporate Governance*, 3:1-16. [Online] Available from: http://jacg.rd.fcu.edu.tw/dl/3201.pdf. [Accessed: 2014-04-21].

Lombardo, D. & Pagano, M. 2000. *Legal determinants of the return on equity*. [Online] Available from:

https://www.academia.edu/29384168/Legal_Determinants_of_the_Return_on_Equity]. [Accessed: 2016-09-26]

Maher, M. & Andersson, T. 1999. *Corporate governance: effects on firm performance and economic growth*. OECD. [Online] Available from: https://www.oecd.org/sti/ind/2090569.pdf. [Accessed 2016-11-28].

Makiwane, T.S. & Padia, N. 2013. Evaluation of corporate integrated reporting in South Africa post King III release South Africa: an exploratory enquiry. *Journal of Economic and Financial Sciences,* 6:421–438. [Online] Available from: http://journals.co.za.uplib.idm.oclc.org/docserver/fulltext/jefs/6/2/jefs_v6_n2_a9.pdf?expires=1496479444&id=id&accname=guest&checksum=EC52B3D58BBF58B367DB219D902D45BF. [Accessed: 2017-06-03].

Malaysian Security Commission (MCCG). 2012. *Malaysian Code on Corporate Governance 2012*. MSC. [Online] Available from: http://www.sc.com.my/wp-content/uploads/eng/html/cg/cg2012.pdf . [Accessed: 2015-01-19].

Mans-Kemp, N., Erasmus, P. & Viviers, S. 2016. Measuring corporate governance in South Africa: Developments, concerns and suggestions. *Southern African Journal of Accountability and Auditing Research*, 18(1): 93–104. [Online] Available from: http://journals.co.za.uplib.idm.oclc.org/docserver/fulltext/sajaar/18/1/sajaar_v18_n1_a7.pdf?expires=1496477631&id=id&accname=57715&checksum=E4E4A37A13B71E848F303F6A12B97CC0. [Accessed: 2017-06-03].

Maxwell, J.A. & Chmiel, M. 2014. *Notes toward a theory of qualitative data analysis*. London: Sage

McConnell, J.J., Servaes, K. & Lins, K.V. 2008. *Changes in insider ownership and changes in the market value of the firm*. [Online] Available from: http://faculty.london.edu/hservaes/jcf2008.pdf. [Accessed: 2017-09-27]

Mcube, H. 2010. *The prevalence of corporate governance theories in the South Afrian platinum mining industry*. Unpublished MBA thesis. GIBS: University of Pretoria. [Online] Available from: https://UnivofPretoria.on.worldcat.org/oclc/956373549. [Accessed: 2017-06-24].

McKinsey.2002. *Global investor opinion survey: Key findings*.
McKinsey & Company. [Online] Available from:
http://www.eiod.org/uploads/Publications/Pdf/II-Rp-4-1.pdf. [Accessed: 2017-06-03].

Meinie, D. I. 2011. *The Determinants of CEO Compensation from a governance framework: The case of South African firms*. Unpublished Master's thesis. University of Agder. [Online] Available from: https://brage.bibsys.no/xmlui/bitstream/handle/11250/135630/Nepali%2C%20Munindra.pdf?sequence=1. [Accessed: 2017-04-24].

Meyer, M., Roodt, G. & Robbins, M. 2011. Human resources risk management: Governing people risks for improved performance. *SA Journal of Human Resource Management/SA Tydskrif vir Menslikehulpbronbestuur*, 9(1). [Online] Available from: http://www.sajhrm.co.za/index.php/sajhrm/article/viewFile/366/368. [Accessed: 2017-04-24].

Möllmann, C. 2013. *Potential market barriers for voluntary climate change mitigation mechanisms in the South African private sector.* M Com thesis, University of Pretoria. [Online] Available from:
https://repository.up.ac.za/bitstream/handle/2263/24647/dissertation.pdf;sequence=1. [Accessed: 2016-11-28]

Moloi, S.T.M. 2008. *Assessment of corporate governance reporting in the annual reports of South African listed companies.* Unpublished Master's thesis. Unisa, Pretoria. [Online] Available from http://uir.unisa.ac.za/bitstream/handle/10500/1308/dissertation.pdf. [Accessed: 2016-09-17].

Monda, B. & Giorgio, M. 2013. *Corporate governance and shareholder value in listed firms: An empirical analysis in five countries* (France, Italy, Japan, UK, USA). [Online] Available from: http://mpra.ub.uni-muenchen.de/45429/.
*MPRA Paper No. 45429*, 22. [Accessed: 2014-01-13].

Moyo, N. J. 2010. *South African principles of corporate governance: Legal and regulatory restraints on powers and remuneration of executive directors.* L.LB thesis, Unisa, Pretoria. [Online] Available from: http://uir.unisa.ac.za/bitstream/handle/10500/4254/dissertation_moyo_n.pdf?sequence=1&isAllowed=y. [Accessed: 2016-05-23].

Muswaka, L. 2015. Shareholder value versus stakeholders' interest: a critical analysis of corporate from a South African perspective. *Journal of Social Science*, 43(3): 217-225. [Online] Available from: http://krepublishers.com/02-Journals/JSS/JSS-43-0-000-15-Web/JSS-43-3-2015-Abst-PDF/JSS-43-3-217-15-1832-Muswaka-L/JSS-43-3-217-15-1832-Muswaka-L-Tx[6].pdf. [Accessed: 2017-04-24].

Myers, M. D. 2013 *Qualitative research in business & management*. 2nd ed. London: Sage. [Online] Available from: https://univofpretoria.on.worldcat.org/oclc/820779892. [Accessed: 2017-09-23].

Naidoo, R. 2009. *Corporate governance: An essential guide for S.A. companies*. 2nd edition. Lexis Nexus.

Neuman, W. 2014. *Social research methods: Qualitative and quantitative approaches*. Pearson Education.

Nguyen, B.D. & Nielsen K.M. 2013. *When blockholders leave feet first: Do ownership and control affect firm value?* Rochester, NY: Social Science Electronic Publishing.

Nienaber, R. 2013. *Reward governance*. South African Reward Association (SARA). [Online] Available from:

http://www.sara.co.za/sara/file%20storage/Documents/Conference2013/Ronel%20Nienaber%20Reward%20governance.pdf. [Accessed: 2016-05-23]

Nkonki Inc (Nkonki). *King IV Report: Getting to grips with King IV*. Nkonki Inc. 2016. [Online] Available from: http://www.nkonki.com/images/insights/Corporate_Governance/King-IV-Report/150411_Nkonki_Inc._King_IV_Report_Alert__2016_April.pdf. [Accessed: 2017-03-05].

Ntim, C.G., Opong, K.K. & Danbolt, J. 2012. The relative value relevance of shareholder versus stakeholder corporate governance disclosure policy reforms in South Africa. *Corporate Governance: An International Review*, 20(1): 84–105. [Online] Available from: doi: 10.1111/j.1467-8683.2011.00891.x. [Accessed: 2017-02-06].

Nunez, G. & Oneto, G. 2015. *Corporate governance in Brazil, Chile, Colombia, Mexico and Peru. The determinants of risk in corporate debt issuance.* United Nations - Economic Commission for Latin America and the Caribbean (ECLAC). [Online] Available from: http://repositorio.cepal.org/bitstream/handle/11362/37721/4/S1420667_en.pdf. [Accessed: 2015-09-13].

Nxumalo, S. 2016. Prioritising good *corporate governance*: Investing. *Money Marketing*, 7 October. [Online] Available from: http://journals.co.za.uplib.idm.oclc.org/docserver/fulltext/nm_monm/2016/10/nm_monm_oct_2016_a12.pdf?expires=1496481634&id=id&accname=57715&checksum=08BA900DABA610328CD2B41FF31584C1. [Accessed: 2017-06-03].

OECD Organisation for Economic Co-operation and Development::: Ad-Hoc Task Force on Corporate Governance. 1999. *OECD principles of corporate governance*. OECD. [Online] Available from: http://www.ecgi.org/codes/documents/principles_en.pdf . [Accessed: 2015-09-18].

OECD. 2004. *OECD principles of corporate governance*. OECD. [Online] Available from:
https://www.oecd.org/corporate/ca/corporategovernanceprinciples/31557724.pdf. [Accessed: 2014-01-13].

OECD. 2005. *OECD principles of corporate governance*. OECD. *E-Journal,* 183(216). [Online] Available from:
http://www.ejournal.unam.mx/rca/216/RCA21609.pdf. [Accessed: 2015-09-18].

OECD. 2008. Using the OECD principles of corporate governance: A boardroom perspective. OECD. [Online] Available from:
http://www.oecd.org/corporate/ca/corporategovernanceprinciples/40823806.pdf. [Accessed: 2015-09-18].

OECD. 2014. *Corporate governance factbook*. OECD. [Online] Available from: http://www.oecd.org/daf/ca/CorporateGovernanceFactbook.pdf. [Accessed: 2015-09-26].

Ofo, N. 2013. *Historical development of corporate governance in Nigeria.* The Corporate Prof. [Online] Available from:
http://thecorporateprof.com/historical-development-of-corporate-governance-in-nigeria/. [Accessed: 2017-02-06].

Oliveira, M.C. 2013. *Review of the implementation status of corporate governance disclosures: Brazil*. Paper presented to the United Nations Conference on Trade and Development: Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, 30th Session, 6-8 November, Palais des Nations, Geneva. [Online] Available from: http://unctad.org/meetings/en/Presentation/ciiisar30_811_2BrazilReport.pdf. [Accessed: 2015-04-09].

Oman, C. 2003. *Corporate governance in development: The experiences of Brazil, Chile, India, and South Africa*. OECD Development Centre, CIPE. [Online] Available from: http://www.oecd-ilibrary.org.uplib.idm.oclc.org/development/corporate-governance-in-development_9789264106598-en. [Accessed: 2017-06-02].

Opdenakker, R. 2006. Advantages and disadvantages of four interview techniques in qualitative research. *Forum: Qualitative Social Research (FQS)* 7(4) Art. 11 – September. [Online] Available from: http://www.qualitative-research.net/index.php/fqs/article/viewArticle/175/391&sa=U&ei=FdsJTdDCGYOnrAer0YjVDg&ved=0CP4BEBYwXg&usg=AFQjCNEsC2J0wlLvNuH7LEhQaA2znBkKvw. [Accessed: 2017-09-23]

Orb, A., Eisenhauer, L. & Wynaden, D. 2001. Ethics in qualitative research. *Journal of Nursing Scholarship*, 33(1): 93-96. [Online] Available from: http://onlinelibrary.wiley.com.uplib.idm.oclc.org/doi/10.1111/j.1547-5069.2001.00093.x/epdf. [Accessed: 2017-04-02].

O'Reilly, M. & Parker, N. 2013. 'Unsatisfactory saturation': A critical exploration of the notion of saturated sample sizes in qualitative research. *Qualitative Research*, 13(2): 190–197.
[Online] Available from: http://journals.sagepub.com.uplib.idm.oclc.org/doi/abs/10.1177/1468794112446106?journalCode=qrja&volume=13&year=2013&issue=2. [Accessed: 2017-05-20].

Ormston, R., Spencer, L., Barnard, M. & Snape, D. 2013. *The foundations of qualitative research: A guide for social science students and researchers.* Sage. [Online] Available from: http://jbposgrado.org/icuali/Qualitative%20Research%20practice.pdf. [Accessed: 2017-09-25]

Oserogho, E.O. 2003. *Corporate governance In Nigeria? Are there laws & principles*? Oserogho & Associates. [Online] Available from: http://www.oseroghoassociates.com/articles/126-corporate-governance-in-nigeria-are-there-laws-principles#sthash.WitnOoBB.dpuf. [Accessed: 2017-06-02].

Oso, L. & Semiu, B. 2012. The concept and practice of corporate governance in Nigeria: The need for public relations and effective corporate communication. *J Communication*, 3(1): 1-16. [Online] Available from: http://www.krepublishers.com/02-Journals/JC/JC-03-0-000-12-Web/JC-03-1-000-12-Abst-PDF/JC-03-1-001-12-039-Oso-L/JC-03-1-001-12-039-Oso-L-Tt.pdf. [Accessed: 2017-02-06].

Oyarzún, C.A. 2011. Institutional shareholders and corporate governance: Do institutional shareholders have an active participation in preventive governance in the United Kingdom? And if so, how? *Revista Chilena de Derecho*, 38(1): 9-32. [Online] Available from: http://www.jstor.org.uplib.idm.oclc.org/stable/pdf/41614303.pdf. [Accessed: 2016-09-17].

Pande, S. 2011. *The theoretical framework of corporate governance*. Paper presented at the 2011 International Conference on Gandhian Values: Sustainability & Corporate Governance, Bangalore, 8 October. [Online] Available from: https://www.slideshare.net/spande1952/the-theoretical-framework-for-corporate-governance. [Accessed: 2017-06-23].

Pargendler, M. 2012. State ownership and corporate governance. *Fordham Law Review*, 80(6). [Online] Available from: http://ir.lawnet.fordham.edu/cgi/viewcontent.cgi?article=4812&context=flr. [Accessed: 2015-04-09].

Park, J. 2012. *Brazil's capital market: Current status and issues for further development.* International Monetary Fund (IMF). [Online] Available from: https://www.imf.org/external/pubs/ft/wp/2012/wp12224.pdf. [Accessed: 2017-02-26].

Patton, M. & Cochran, M. 2002. *A guide to using qualitative research methodology.* [Online] Available from: www.alnap.org/pool/files/qualitative-research-methodology.pdf. [Accessed: 2016-07-16].

Ponnu, C.H. 2008. Corporate governance structures and the performance of Malaysian public listed companies. *International Review of Business Research Papers,* 4(2): 217-230. [Online] Available from: http://www.abstract.y-lib.info/sc-economy/212449-1-international-review-business-research-papers-vol.php. Accessed: 2015-01-16].

Pope, C. & Mays, N. 2006. *Qualitative methods in health research.* [Online] Available from: http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.456.9024&rep=rep1&type=pdf. [Accessed: 2017-03-27].

PwC. 2009. *King III at a glance.* PwC. [Online] Available from: https://www.saica.co.za/Portals/0/documents/PWC%20SteeringPoint%20KingIII.pdf. [Accessed: 2017-03-05].

PwC. 2012. *Malaysian Code on Corporate Governance* 2012. PWC. [Online] Available from: http://www.pwc.com/en_MY/my/assets/publications/pwcalert103-cg.pdf. [Accessed: 2015-01-16].

PWC. 2016. *A summary of the King IV Report on Corporate Governance™ for South Africa, 2016*. PWC. [Online] Available from: https://www.pwc.co.za/en/assets/pdf/king-iv-steering-point.pdf. [Accessed: 2017-03-05].

Rabelo, F.M., & Coutinho, L. 2001. *Corporate governance in Brazil.* OECD Development Centre. [Online] Available from: http://www.ppge.ufrgs.br/Giacomo/arquivos/gov-corp/coutinho-rabelo-2001.pdf. [Accessed: 2017-02-26].

Rachagan, S. 2011. Protecting minority shareholders in Malaysian public listed companies against conflicts of interest by related parties: Some important developments. *Corporate Ownership & Control, 8(4).* [Online] Available from: http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=9&cad=rja&uact=8&ved=0CFUQFjAI&url=http%3A%2F%2Fwww.researchgate.net%2Fprofile%2FSh

anthy_Rachagan%2Fpublication%2F256667355_Protecting_Minority_Shareholders_in_Malaysian_Public_Listed_Companies_Against_Conflicts_of_Interest_by_Related_PartiesSome_Important_Developments%2Flinks%2F0deec52395a15aad63000000.pdf&ei=oLMmVdvKN4yQ7Aa3sYGYDA&usg=AFQjCNHloYHpKwAWKu7uLisJZAp7GOcJqg&bvm=bv.90491159,d.ZGU. [Accessed: 2015-04-09].

Rayton, B.A. & Cheng, S. 2004. *Corporate gov*ernance in the United Kingdom: *Changes to the regulatory template and company practice from 1998-2002.* University of Bath School of Management Working Paper Series 2004.13*.* [Online] Available from: http://www.bath.ac.uk/management/research/pdf/2004-13.pdf. [Accessed: 2017-09-23]

Renders, A., Gaeremynck, A. & Sercu, P. 2010. Corporate-governance ratings and company performance: A cross-European study. *Corporate Governance: An International Review*, 18(2): 87–106. [Online] Available from: http://onlinelibrary.wiley.com.uplib.idm.oclc.org/doi/10.1111/j.1467-8683.2010.00791.x/full. [Accessed: 2017-05-31].

Rhee, J. 2013. *The evolution of corporate governance in Brazil.* HLS Forum on Corporate Governance and Financial Regulation, 28 January. [Online] Available from: https://corpgov.law.harvard.edu/2013/01/28/the-evolution-of-corporate-governance-in-brazil/. [Accessed: 2017-02-18].

Ritchie, J., Lewis, J., Nicholls, C.M. & Ormston, R. 2013. *A guide for social science students and researchers.* [Online] Available from: http://jbposgrado.org/icuali/Qualitative%20Research%20practice.pdf. [Accessed: 2017-09-23]

Roberts, B. (Ed.) 2007. *Getting the most out of the research experience*. Sage. [Online] Available from: http://dx.doi.org/10.4135/9781849209212.n2. [Accessed: 2017-03-28].

Roberts, B. 2011. *Interpretation in research; getting the most out of the research experience*. Sage. [Online] Available from: http://dx.doi.org/10.4135/9781849209212]. [Accessed: 2017-28-03].

Rossouw, G.J. 2002. Business ethics and corporate governance in the Second King Report: Farsighted or futile? *Koers,* 67(4): 405-419. [Online] Available from: http://reference.sabinet.co.za.uplib.idm.oclc.org/webx/access/electronic_journals/koers/koers_v67_n4_a3.pdf. [Accessed: 2016-09-05].

Rossouw, G.J. 2005. Business ethics and corporate governance: A global survey. *Business & Society*, 44(1): 32–39. [Online] Available from: http://search.proquest.com.uplib.idm.oclc.org/docview/199388436?OpenUrlRefId=info:xri/sid:wcdiscovery&accountid=14717. [Accessed: 2017-06-03].

Rossouw, G.J., Van der Watt, A. & Rossouw, D.P.M. 2002. Corporate governance in South Africa. *Journal of Business Ethics*, 37(3): 289–302. [Online] Available from: doi: 10.1023/A:1015205511601. [Accessed: 2016-12-27].

Saint, D.K. & Tripathi, A.N. 2006. *The shareholder and stakeholder theories of corporate purpose.* Samatvam Academy. [Online] Available from: http://www.knowledgeworkz.com/samatvam/newsletter/The%20Shareholder%20and%20Stakeholder%20Theories%20of%20Corporate%20Purpose.pdf. [Accessed: 2017-06-24].

Sanusi, L.S. 2010. *The Nigerian banking industry: What went wrong and the way forward*.Text of the Convocation Lecture by Mr Sanusi Lamido Sanusi, Governor of the Central Bank of Nigeria, to mark the Annual Convocation Ceremony of Bayero University, Kano. [Online] Available from: http://www.bis.org/review/r100419c.pdf. [Accessed: 2017-09-27]

Securities & Exchange Commission. 2011. *Code of Corporate Governance for Public Companies in Nigeria*. [Online] Available from: https://www.cscsnigeriaplc.com/documents/1118035/CODE%20OF%20CORPORATE%20GOVERNANCE.pdf. [Accessed: 2017-09-27].

Securities and Exchange Commission Brazil (CVM). 2017. *Brazilian financial sector regulatory structure*. Securities and Exchange Commission Brazil (CVM). [Online] Available from: http://www.cvm.gov.br/subportal_ingles/menu/about/jurisdiction.html. [Accessed: 2017-02-26].

Securities Commission Malaysia (MCCG). 2000. *Malaysian Code on Corporate Governance*. [Online] Available from: http://www.ecgi.org/codes/documents/mccg_mar2000.pdf. [Accessed: 2015-01-19]

Securities Commission (SC) Malaysia. 2012. *Malaysian Code on Corporate Governance.* [Online] Available from: https://www.sc.com.my/malaysian-code-on-corporate-governance-2012/. [Accessed: 2015-01-19].

Securities Exchange Commission (SEC) 2013. *The laws that govern the securities industry.* [Online] Available from: https://www.sec.gov/answers/about-lawsshtml.html. [Accessed: 2015-09-23]

Shleifer, A. & Vishny, R.W. 1997. A survey of corporate governance. *Journal of Finance* 52( 2): 737-783. [Online] Available from: https://scholar.harvard.edu/files/shleifer/files/surveycorpgov.pdf. [Accessed: 2015-04-07].

Sibanda, N. 2009. *Quantitative research.* Victoria University, Wellington. [Online] Available from: http://ais.utm.my/researchportal/files/2015/02/Quanti-Res-Method.pdf. [Accessed: 2014-03-12].

Sivaramakrishnan, K. & Yu, C. 2008. *On the association between corporate governance and earnings quality*. Northern Illinois University. [Online] Available from: http://unpan1.un.org/intradoc/groups/public/documents/apcity/unpan033869.pdf. [Accessed: 2015-09-26].

Solomon, J.F. 2009. *Directions for corporate governance.* The Association of Chartered Certified Accountants (ACCA). [Online] Available from:

http://www.iago.org.ar/comercio29/html/502244939Directions%20for%20Corporate%20Governance%20tech-tp-dcg.pdf. [Accessed 2014-01-13].

Solomon, J.F. & Maroun, W. (2012). *Integrated reporting: the influence of King III on social, ethical and environmental reporting.* The Association of Chartered Certified Accountants (ACCA). [Online] Available from: http://www.accaglobal.com/content/dam/acca/global/PDF-technical/integrated-reporting/tech-tp-iirsa.pdf. [Accessed: 2017-04-22].

Solomon, J.F. & Warren, M. 2012. *Reporting pre- and post-King III: what's the difference?* London*:* (ACCA). [Online] Available from: http://www.accaglobal.com/content/dam/acca/global/PDF-technical/integrated-reporting/tech-tp-wtd.pdf. [Accessed: 2017-03-18]

South Africa (Companies Act). 2008. Companies Act 71 of 2008, as amended by the Companies Amendment Act 3 of 2011. [Online] Available from: http://c.ymcdn.com/sites/www.iodsa.co.za/resource/collection/CB7E5DC1-E790-4BED-9693-9F8AA33E0032/Companies_Act_2008_(as_amended).pdf. [Accessed: 2016-09-11]

Steinvorth, U. 2008. On critical theory. *Analyse & Kritik* 30(2): 399–423. [Online] Available from: http://www.analyse-und-kritik.net/2008-2/AK_Steinvorth_2008.pdf. [Accessed: 2017-04-22].

Stock Exchange Commission Nigeria (NSEC). 2012. *Code of Corporate Governance for Public Companies in Nigeria*. SEC Nigeria. [Online] Available from: http://www.sec.gov.ng/code-of-corporate-governance-.html. 15 Jan 2015-01-15. [Accessed: 2015-01-15].

Styhre, A. 2016. Trust versus contracts in corporate governance: Agency theory, contractual theory and the fortification of shareholder welfare governance. *Management and Organizational History*, 11(3): 276–297. [Online] Available from: doi: 10.1080/17449359.2016.1150859. [Accessed: 2017-06-24].

Sullivan, P. 2012. *Qualitative data analysis using a dialogical approach*. London: Sage. [Online] Available from: http://dx.doi.org.uplib.idm.oclc.org/10.4135/9781446268391. [Accessed: 2016-05-23].

Thietart, R. 2001. *Doing Management Research.* Sage. [Online] Available from: http://dx.doi.org.uplib.idm.oclc.org/10.4135/9781849208970. [Accessed: 2017-04-05].

Trochim, W. M. 2006. The research methods knowledge base 2nd ed. [Online] Available from: http://www.socialresearchmethods.net/kb/. [Accessed: 2016-07-16].

Tsegba, I.N. & Wilson, E.H. 2013. Ownership structure and firm performance in Nigeria. *Research Journal of Finance and Accounting,* 4(5). [Online] Available from: ISSN 2222-2847 [Accessed: 2017-02-08].

Tysiac, K. 2012. Corporate governance best practices 10 years after SOX. *Journal of Accountancy* July. [Online] Available from: http://www.journalofaccountancy.com/issues/2012/jul/20125177.html. [Accessed: 2015-09-26].

United States of America (SOX). 2002. *Sarbanes-Oxley Act of 2002*. US Congress. 116 Stat. 745 Public Law 107–204—JULY 30, 2002. [Online] Available from: https://www.sec.gov/about/laws/soa2002.pdf. [Accessed: 2015-05-04].

The University of Minnesota. 2014. Qualitative vs. Quantitative research. [Online] Available from: https://www.academia.edu/6180410/Side-by-Side_Comparison_Chart_Qualitative_Quantitative. [Accessed: 2017-09-27]

Vancea, M.D. 2003. Exporting U.S. corporate governance standards through the Sarbanes-Oxley Act: Unilateralism or cooperation? *Duke Law Journal* 53(833): 833-874. [Online] Available from: http://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=1211&context=dlj. [Accessed: 2013-12-01].

http://documents.worldbank.org/curated/en/481251468016231440/pdf/810270ROSC0Bra0Box0379826B00PUBLIC0.pdf. [Accessed: 2015-04-09]

Vaughn, M. & Ryan, L.V. 2006. Corporate governance in South Africa: A bellwether for the continent? *Corporate Governance: An International Review*, 14(5): 504–512. [Online] Available from: http://onlinelibrary.wiley.com.uplib.idm.oclc.org/doi/10.1111/j.1467-8683.2006.00533.x/full. [Accessed: 2017-06-03].

Vine, R. 2009. *Research paradigms: Positivism, interpretivism, critical approach and poststructuralism.* [Online] Available from: http://rubyvine.blogspot.co.za/2009/10/research-paradigms-positivism.html. [Accessed: 2017-09-23]

Walker, D. & Meiring, I. 2010. *King Code and developments in corporate governance.* Werksmans. [Online] Available from: http://www.companylaw.uct.ac.za/usr/companylaw/downloads/legislation/WLB_2010-09_King_Code_and_Corporate_Governance.pdf. [Accessed: 2016-09-26].

Walker, J. L. 2012. The use of saturation in qualitative research. *Canadian Journal of Cardiovascular Nursing, 22*(2), 37-46. [Online] Available from: https://www.ncbi.nlm.nih.gov/pubmed/22803288. [Accessed: 2017-09-28]

Walliman, N. 2006. Research strategies and design, In: *Social research methods*, edited by H.R. Bernard. Sage. [Online] Available from: http://dx.doi.org.uplib.idm.oclc.org/10.4135/9781849209939.n4. [Accessed: 2017-04-02].

Werksmans. 2016. *A review of The King IV Report on Corporate Governance*. Werksmans. [Online] Available from: http://www.werksmans.com/assets/pdf/061741%20WERKSMANS%20king%20iv%20booklet.pdf. [Accessed: 2017-03-05].

Willig, C. & Stainton-Rogers, W. 2008. The Sage handbook of qualitative research in Psychology. Sage.

Wilson, V. 2013. *Research methods: Mixed methods research*.

[Online] Available from: http://dx.doi.org/10.18438/B8801M. [Accessed: 2017-09-23]

World Bank. 2012. Report on the observance of standards and codes (ROSC). Corporate governance country assessment –Brazil. World Bank. [Online] Available from:
http://documents.worldbank.org/curated/en/481251468016231440/pdf/810270ROSC0Bra0Box0379826B00PUBLIC0.pdf. [Accessed: 2015-04-09]

Wyse, S.E. 2011. *What is the difference between qualitative research and quantitative research?* SnapSurveys. [Online] Available from:
http://www.snapsurveys.com/blog/what-is-the-difference-between-qualitative-research-and-quantitative-research/. [Accessed: 2016-07-16].

Yermack, D. 1997. Good timing: CEO stock option awards and company news announcements. *Journal of Finance* 52(2): 449–476. [Online] Available from: DOI: 10.1111/j.1540-6261.1997.tb04809.x. [Accessed: 2017-09-26]

Yoshikawa, T. & Phan, P.H. 2001. Alternative corporate governance systems in Japanese firms: Implications for a shift to stockholder-centered corporate governance. *Asia Pacific Journal of Management*, 18(2): 183–205. [Online] Available from: https://UnivofPretoria.on.worldcat.org/oclc/5649098336. [Accessed: 2017-06-24].

Young, J. 2010. Corporate governance and risk management: A South African perspective. *Corporate Ownership & Control*, 7(3). [Online] Available from: http://www.virtusinterpress.org/IMG/pdf/Paper25.pdf. [Accessed: 2017-04-28].

Zulkafli, A.H.B., Samad, M.F. bt, Ismail, A. & Ismail, M.I. 2005. *Corporate governance in Malaysia.* [Online] Available from:

http://www.gomalaysiatour.com/administrator/admin/pdf/4dcf82cb5b8dc.pdf.
[Accessed: 2015-01-19].

## ANNEXURE A - Jansen van Vuuren and Schulschenk 2012 survey questions

**STATEMENT**

**1.1 This organisation applies the King Code of Governance Principles as contained in the King III report.**

Completely In the majority In the minority No implementation

**1.2 Application of King III has added value to the organisation that outweighs the effort and resources that application required.**

Strongly agree Agree Neutral Disagree Strongly disagree

**1.3 The main reasons for the application of King III are:**

Please rank the three most important reasons:

1.3.1 We wanted to demonstrate commitment to corporate governance to external stakeholders.
1.3.2 It was easier to apply than to explain why it was not applied.
1.3.3 We wanted improved efficiency and effectiveness within the organisation.
1.3.4 The board wanted application as a means to enhance confidence in the performance of the organisation.
1.3.5 We wanted to improve values throughout the organisation.
1.3.6 We wanted to attract foreign direct investment.
1.3.7 We wanted to strengthen the sustainability of our business.
1.3.8 We wanted to improve the reliability of integrated reporting of our business.
1.3.9 If there were other significant reasons for the application of King III, please list them in the field provided below.

**1.4 The King III Report:**

1.4.1 Was issued in a user friendly format.
Strongly agree Agree Neutral Disagree Strongly disagree
1.4.2 Was drafted in unambiguous and simple language.
Strongly agree Agree Neutral Disagree Strongly disagree
1.4.3 Made use of sufficient practical examples.

Strongly agree Agree Neutral Disagree Strongly disagree

1.4.4 Contributed to the organisation's understanding of the value of governance.

Strongly agree Agree Neutral Disagree Strongly disagree

(Comments):

______________________________________________________________________
________________________
______________________________________________________________________
________________________
______________________________________________________________________
________________________

**2. Effect**

**2.1 This organisation benefits from the corporate governance commitment of other companies within our supply chain and partnerships.**

Strongly agree Agree Neutral Disagree Strongly disagree

**2.2 The effect of application of King III was that it:**

2.2.1 Improved the quality of board deliberations and decisions.

Strongly agree Agree Neutral Disagree Strongly disagree

2.2.2 Improved organisational integrity and ethics.

Strongly agree Agree Neutral Disagree Strongly disagree

2.2.3 Improved the risk management processes.

Strongly agree Agree Neutral Disagree Strongly disagree

2.2.4 Improved the effectiveness of the internal audit function.

Strongly agree Agree Neutral Disagree Strongly disagree

2.2.5 Improved quality of integrated sustainability reporting.

Strongly agree Agree Neutral Disagree Strongly disagree

2.2.6 Improved the transparency of accounting and auditing practices.

Strongly agree Agree Neutral Disagree Strongly disagree

2.2.7 Improved the confidence of the board that the organisation is compliant with applicable legislation and regulations.

Strongly agree Agree Neutral Disagree Strongly disagree

2.2.8 Improved the effectiveness of dispute resolution activities of our business.

Strongly agree Agree Neutral Disagree Strongly disagree

2.2.9 Please include any other significant effects in the field below:

______________________________________________________________________

______________________________

______________________________________________________________________

______________________________

______________________________________________________________________

______________________________

**2.3 The effect of application of King III was that it contributed significant value to our board's deliberations and decisions, especially in terms of the following areas:**

2.3.1 Enhanced leadership by the board in providing strategy and direction.

Strongly agree Agree Neutral Disagree Strongly disagree

2.3.2 The exercising of control, and monitoring of management which enabled the board to discharge its accountability.

Strongly agree Agree Neutral Disagree Strongly disagree

2.3.3 The delegation of authority enabling the board to function effectively and efficiently while retaining adequate control.

Strongly agree Agree Neutral Disagree Strongly disagree

2.3.4 An appropriate board composition which resulted in increased effectiveness and efficiency.

Strongly agree Agree Neutral Disagree Strongly disagree

2.3.5 Enhanced confidence in the quality of its decisions.

Strongly agree Agree Neutral Disagree Strongly disagree

2.3.6 Please include any other significant effects in the field below:

______________________________________________________________________

______________________________

______________________________________________________________________

______________________________

______________________________________________________________________

______________________________

**2.4 The application of King III has had the following effect on the organisation's reputation:**

2.4.1 Attracted and retained quality employees.

Strongly agree Agree Neutral Disagree Strongly disagree

2.4.2 Increased access to capital at competitive terms and rates.

Strongly agree Agree Neutral Disagree Strongly disagree N/A

2.4.3 Reduced or maintained directors' and officers' insurance premiums.

Strongly agree Agree Neutral Disagree Strongly disagree

2.4.4 Enjoyed favourable media coverage.

Strongly agree Agree Neutral Disagree Strongly disagree

2.4.5 Experienced share price stability and/or positive organizational growth.

Strongly agree Agree Neutral Disagree Strongly disagree

2.4.6 Please include any other significant effects in the field below:

______________________________________________________________________________
__________________________

______________________________________________________________________________
__________________________

______________________________________________________________________________
__________________________

**2.5 How did good governance and specifically application of King III generally improve your relationships and association with other companies within the same group or organizations within the supply chain?**

2.5.1 Increased flow of meaningful, timely and transparent information from the other companies/ organisations to our
organization.

Strongly agree Agree Neutral Disagree Strongly disagree

2.5.2 Improved confidence that these other companies/ organisations exhibit equivalent values to ours.

Strongly agree Agree Neutral Disagree Strongly disagree

2.5.3 Increased confidence in how these other companies/ organisations manage their risk.

Strongly agree Agree Neutral Disagree Strongly disagree

2.5.4 Greater visible commitment to transformation issues by these other companies/ organisations.

Strongly agree Agree Neutral Disagree Strongly disagree

2.5.5 Greater visible commitment to corporate social investment by these other companies/ organisations.

Strongly agree Agree Neutral Disagree Strongly disagree

2.6 This organisation will only invest in or support another company that can demonstrate its commitment to corporate
governance:
Strongly agree Agree Neutral Disagree Strongly disagree
2.7 In my experience the South African economy benefited from adherence to King I, King II and King III.
Strongly agree Agree Neutral Disagree Strongly disagree

**3. Impacts on board deliberation and decision-making Application of King III has resulted in our board demonstrating:**

3.1 Independence of thought by all directors.
Strongly agree Agree Neutral Disagree Strongly disagree
3.2 Adequate reflection on strategic direction.
Strongly agree Agree Neutral Disagree Strongly disagree
3.3 Integration of strategy, risk, performance and sustainability
Strongly agree Agree Neutral Disagree Strongly disagree
3.4 Constructive interrogation of information provided by management to the board.
Strongly agree Agree Neutral Disagree Strongly disagree
3.5 Regular formal and informal self-assessments of its own effectiveness.
Strongly agree Agree Neutral Disagree Strongly disagree
3.6 A disciplined approach to meeting preparation.
Strongly agree Agree Neutral Disagree Strongly disagree
3.7 An awareness that the board is ultimately accountable to stakeholders.
Strongly agree Agree Neutral Disagree Strongly disagree
3.8 The successful balance between corporate governance standards and the need to embark on enterprise for profit.
Strongly agree Agree Neutral Disagree Strongly disagree
3.9 Long-term sustainability is continually considered.
Strongly agree Agree Neutral Disagree Strongly disagree
3.10 More effective management of ethics in the business.
Strongly agree Agree Neutral Disagree Strongly disagree
3.11 Enhanced ethical leadership by the board
Strongly agree Agree Neutral Disagree Strongly disagree

**4. Assurance**

**The board obtains assurance on the quality of governance in the organisation through:**

4.1 Internal self-assessment.

Yes No

4.2 Independent assurance by a third party, such as consultants or the internal auditor.

Yes No

4.3 A combined assurance model with assurance being provided by management, internal and external assurance
providers, with an appropriate scope allocated to each ny the audit committee.

Yes No

**5. Implementation**

**The following is true of corporate governance at this organization:**

5.1 Senior management is responsible for oversight of corporate governance structures and processes.

Strongly agree Agree Neutral Disagree Strongly disagree

5.2 The cost of ensuring application of corporate governance measures has been budgeted for.

Strongly agree Agree Neutral Disagree Strongly disagree

5.3 Continued formal learning on corporate governance takes place at board level.

Strongly agree Agree Neutral Disagree Strongly disagree

5.4 The value of good corporate governance is understood and integrated at all levels in the organization.

Strongly agree Agree Neutral Disagree Strongly disagree

**6. Stakeholder Communication**

6.1 The organisation regularly engages with the broader stakeholder community.

Strongly agree Agree Neutral Disagree Strongly disagree

6.2 There is a clear understanding that the sustainability of this organisation is influenced by the views of the stakeholder
community.

Strongly agree Agree Neutral Disagree Strongly disagree

6.3 Communication with stakeholders is meaningful and transparent and is of paramount importance:

Strongly agree Agree Neutral Disagree Strongly disagree

**7. Enablers and Obstacles**

7.1 The following has enabled the application of King III.

7.1.1 Support and training by organisations such as the IoDSA and JSE.

Strongly agree Agree Neutral Disagree Strongly disagree

7.1.2 Advice by external corporate governance consultants.

Strongly agree Agree Neutral Disagree Strongly disagree

7.1.3 The visible demonstration by the board that it embraced the principles of corporate governance.

Strongly agree Agree Neutral Disagree Strongly disagree

7.2 The following has prevented application of King III

7.2.1 Financial cost.

Strongly agree Agree Neutral Disagree Strongly disagree

7.2.2 Lack of knowledge.

Strongly agree Agree Neutral Disagree Strongly disagree

7.2.3 Lack of general commitment.

Strongly agree Agree Neutral Disagree Strongly disagree

7.2.4 King III is considered not to be relevant to this organisation.

Strongly agree Agree Neutral Disagree Strongly disagree

7.2.5 Lack of resources.

Strongly agree Agree Neutral Disagree Strongly disagree

**8. IT Governance**

The Governance of Information Technology (IT) has:

8.1 Improved the alignment of IT with the performance objectives of the business.

Strongly agree Agree Neutral Disagree Strongly disagree

8.2 Improved the quality of strategic decision-making.

Strongly agree Agree Neutral Disagree Strongly disagree

8.3 Improved overall risk management procedures.

Strongly agree Agree Neutral Disagree Strongly disagree

8.4 Improved the management of information assets of the business.

Strongly agree Agree Neutral Disagree Strongly disagree

**9. Integrated Reporting**

9.1 The board understands that strategy, risk, sustainability and performance are all integrated.

Strongly agree Agree Neutral Disagree Strongly disagree

9.2 This organisation has identified its value drivers and dependencies

Strongly agree Agree Neutral Disagree Strongly disagree

9.3 This organisation understands what is meant by integrated reporting

Strongly agree Agree Neutral Disagree Strongly disagree

9.4 There is sufficient guidance on integrated reporting

Strongly agree Agree Neutral Disagree Strongly disagree

**10. Recommendations and Suggestions**

The following would be our main recommendations/suggestions for King IV:

# ANNEXURE B –Letter of Consent

1 Vdara Suite
1st Floor
41 Rivonia Road
Sandhurst
2146

13 November 2014

Dear Mr Participant

By email: participant@afropulse.**co.za**

**RE - M COM BUSINESS MANAGEMENT RESEARCH:**

**THE VALUE OF CORPORATE GOVERNANCE: A COMPARISON BETWEEN THE PERCEIVED VALUE OF KING III AND KING II**

I am an M Com Business Management student at the University of Pretoria's, The Albert Luthuli Centre for Responsible Leadership; my supervisor is Professor Derick De Jongh. My research proposal is based on the findings of a report titled "Perceptions and practice of King 111 in South African Companies" compiled by Cloete Jansen van Vuuren and Jess Schulschnenk in March 2013.

This document was a joint publication of the Institute of Directors in Southern Africa (IoDSA) and the Albert Luthuli Centre for Responsible Leadership University of Pretoria. A key finding emanating from this report, was the significant decrease of the perceived value of add of King 111 to 65% compared to a previously reported perceived value add of King 11 of 82%. My study will focus primarily on corporate governance practices in South Africa, and secondary across Europe, the US, Malaysia, Brazil and to a lesser extent Nigeria, to name but a few.

It is my wish to conclude a series of interviews with selected participants in the first two months of 2014. Given your wealth of experience, in the field of corporate governance; your contribution would be invaluable to the field of study I have undertaken, and will provide me with much needed insight which I hope will contribute positively towards my understanding of the field, achieving my research objectives and ultimately obtaining my M Com degree.

I would appreciate up to one and a half hours of your time for the interview; which I wish to have recorded.  I will follow up with a telephone call or email to ascertain your availability within the next few days.

I thank you for taking the time to read my correspondence and look forward to your response. If you have any queries or questions on this study, feel free to contact my supervisor, Professor De Jongh, on +27 (0)12 420 3386 (Office) or send an email to Derick.DeJongh@up.ac.za.

Kind regards,

Phumzile Langeni
M Com (Business Management) student (2013/2014)
The Albert Luthuli Centre for Responsible Leadership
University of Pretoria
November 2014

## ANNEXURE C -The participants' board experience and positions

| PARTICIPANT | EXPERIENCE |
|---|---|
| 1 | - Current company Secretary of a listed company.<br>- Previously company secretary of a listed company<br>- Sectors: mining, industrials |
| 2 | - Chairman of numerous listed companies<br>- CEO of a listed company<br>- Sectors: financial services, investment holdings |
| 3 | - CEO of an unlisted company<br>- Non executive director of listed and unlisted companies<br>- Sectors: industrial, services, waste management, education |
| 4 | - CEO of an unlisted company<br>- Chairman of unlisted companies<br>- Non executive director of listed and unlisted companies<br>- Sectors: financial services, hospitality, investment holdings |
| 5 | - Former CEO of a listed entity<br>- Non executive director of listed companies |
| 6 | - Chairman of listed companies<br>- Non executive director of listed and unlisted companies<br>- Sectors: industrial, hospitality, private equity |
| 7 | - Non executive director of listed and unlisted companies<br>- CEO of an unlisted company<br>- Sectors: construction, financial services, industrial, property |
| 8 | - Former CFO of a listed company<br>- Non executive director of unlisted companies |
| 9 | - Chairman of listed and unlisted companies<br>- CEO of listed and unlisted companies<br>- Sectors: financial services, mining, mining related, public, pharmaceuticals |
| 10 | - Chairman of listed companies<br>- Former CEO of a public unlisted entity<br>- Former director of listed companies |

## ANNEXURE D– Interview Results Summary

| THEME 1 –BOARD OF DIRECTORS | | | |
|---|---|---|---|
| | **Majority** | **Supporting** | **Outlier** |
| Q1<br>What are characteristics of a well functioning board? | - Independence<br>- Functional –works well, properly constituted board | - Board composition - Balance of NEDs and executives<br>- Integrity<br>- Experience and knowledge<br>- Board that pulls together - Trust and unity, common purpose<br>- Clear understanding of NED and executive role<br>- Broad minded boards<br>- Diversity –skills, outlook etc | - Quality of information<br>- Timely information<br>- Robust discussion<br>- Strong, courageous NEDs<br>- Common sense<br>- Openness and transparency<br>- Robust discussions<br>- Hard working and involved |
| Q2<br>Do you share the view that board composition, size, ownership and shareholding at board level have an impact on the value of corporate governance in a firm? | - Yes, board composition has an impact<br>  - Board diversity is required<br>  - Independence is vital<br>- Yes, board size has an impact<br>  - An optimal size is required<br>  - A sufficient pool of directors to choose from<br>  - Company size and complexity to be considered<br>  - Functionality and effectiveness key<br>- yes, ownership and shareholding at board level has an impact: | - Board size is not an issue | - Shareholder representation at board doesn't add to governance |

| | | | |
|---|---|---|---|
| | - possible conflicts of interest<br>- positive, means larger board and independent NEDs required<br>- contributes to shareholder alignment<br>- People related | | |
| Q3<br>What role does the board play in increasing the value of CG? | - Solid board composition<br>- Provide guidance to management<br>- Act as keeper/ custodian of CG<br>- inculcate a culture of ethical conduct | - Independence<br>- Discussion of all issues (financial, non financial, political, 'soft' etc)<br>- sustainability focus<br>- Diversity | - Objective<br>- Courageous<br>- Objective<br>- Courageous<br>- Champion of company values<br>- limiting shareholder representatives<br>- broader perspective than just shareholder interest or value<br>- Ensuring openness |

| THEME 2: KING II AND KING III COMPARISON | | | |
|---|---|---|---|
| | **Majority** | **Supporting** | **Outlier** |
| Q1<br>What has been the impact and value of King II on CG? | - Enhanced quality of CG<br>- enhanced SA's global competitiveness and rankings in terms of CG<br>- ground breaking/ game changer<br>- Enhanced the level | - Not much studying of King II<br>- Added formality to CG and what was being done<br>- Greater assurance for NEDs | - Raised SA's attractiveness as an investment destination<br>- Brought in emerging trends<br>- Provided a common approach for all companies<br>- clearer role |

| | | | |
|---|---|---|---|
| | of compliance | | clarification between NEDs and executives<br>- Did not stop poor or bad behaviour like Enron<br>- Increased director accountability<br>- Increased continuity<br>- Improved CG awareness for smaller companies<br>- Better positioned to affect governance trends |
| Q2<br>What has been the impact and value of King III on CG? | - Refinement of King II<br>- Introduced emerging trends (integrated reporting, IT governance etc) | - Broadened the focus beyond just shareholders<br>- Not something I know well<br>- Broadened focus beyond just profits<br>- Improved the quality of CG | - Increased accountability and responsibility for the board and NEDs<br>- Improved the quality of CG<br>- Haven't stop poor or bad behaviour<br>- Raised the bar<br>- Provided a consistent platform for all organisations<br>- Some unsuitable requirements<br>- Broadened application to listed and unlisted companies<br>- Added to the burden of compliance |
| Q3<br>Which had a | - King II had a bigger impact than King III | - No supporting view expressed | - King III had a bigger impact than |

| | | | |
|---|---|---|---|
| bigger impact and value between King II and King III? If so, why? | - King II was more drastic<br>- King III came as a bit of a refinement,<br>- King II required more<br>- King II was ground breaking<br>- we realised we had to do a whole lot more | | King II<br>- Easier to adapt to King III as an executive because it wasn't something new<br>- King III due to bringing accountability to all companies, listed, unlisted and SOE's<br>- The impact of King II and King III was the same |
| Q4<br>What value have King II and King III added to CG as a whole in SA? | - Provided a strong foundation for CG in SA<br>- Improved the CG of companies<br>- Advanced SA's global standing | - Have standardised governance structures across businesses and sectors.<br>- Increased transparency | - Reduced shareholder risk<br>- Enhanced shareholder wealth<br>- Increased focus on doing things correctly<br>- Assisted internal and external users of information and stakeholders |
| Q5<br>How can the current governance practice (King III) be improved? | - King III is seen as less onerous<br>- King III is seen as less of a tick-box exercise | - CG becomes integrated in the business as part of its DNA<br>- Increased monitoring and oversight of application and adherence | - Balance between continuous improvement and being burdensome<br>- Consider previous failures<br>- More tailored for different companies<br>- Increased accountability<br>- Change perceptions about the cost of King III |

| THEME 3: KING IV | | | |
|---|---|---|---|
| | **Majority** | **Supporting** | **Outlier** |
| Q1<br>What advice would you give the King IV Committee if you were to make a representation? | - Refinement/ simplification<br>- Respond to short comings<br>- Relevant | - Less rules<br>- Practical/ pragmatic<br>- Must not be a tick box exercise<br>- Ensure competitiveness of companies is not lost | - Business focus to continue<br>- Is it needed?<br>- Increase accountability<br>- Cost effective<br>- Address previous shortcomings and learnings<br>- Mustn't deter investment in SA<br>- Mustn't deter listings<br>- Increase monitoring<br>- More risk based approach to business<br>- Only implement if adding to King III |

| THEME 4: CG AND SHAREHOLDERS | | | |
|---|---|---|---|
| | **Majority** | **Supporting** | **Outlier** |
| Q1<br>How do shareholders add to the value of corporate governance? | - Engagement with companies and shareholder activism<br>- Participation at AGM's and voting | - Board composition and appointments<br>- This is not happening/ it is difficult to determine | - No outlier views expressed |
| Q2<br>How important are institutional shareholders and analysts in ensuring sound CG? | - They are very important in ensuring sound CG and play that role<br>- Very important,<br>- They ask about CG if it is perceived to be of value<br>- they do try | - They are very important in ensuring sound CG but do not play that role to the extent expected<br>- Not as active in SA unless there is a crisis | |

| | | | |
|---|---|---|---|
| | | - no CG related question have been asked | |
| Q3<br>What role can analysts and institutional shareholders play in advancing CG? | - Asking questions<br>- Engage the company more | - Board composition<br>- Exercise their vote at the AGM<br>- Increased board accountability | - No outlier views expressed |

| THEME 5 –CG AND ETHICS, REPUTATION, LAWS | | | |
|---|---|---|---|
| | **Majority** | **Supportive** | **Outlier** |
| Q1<br>To what extent do you believe corporate governance is impacted upon by the legal system, the culture and traditions of that society? Explain | - CG is highly impacted upon by the legal system, culture and traditions of that society.<br>- Laws and regulations have made CG a necessity<br>- Transgressions of laws will lead to legal sanction<br>- The legal system guides business conduct<br>- The impact differs from company to company | - No supporting view expressed | - The legal system, culture and traditions of a society have a small impact on CG<br>- Rules, regulations and laws do not always help<br>- A complex legal and regulatory environments is negative |
| Q2<br>How central or related are 'ethics' to good CG? | - Ethics are very central to good CG<br>- Very key<br>- Very central, especially in this transparent world | - No supporting view | - No outlier view |

| | | | |
|---|---|---|---|
| Q3<br>How important is the perception of corporate governance to the reputation of an organisation? Explain | - Perceptions of CG are very important to the reputation of an organisation.<br>- Permanent damage from loss of reputation<br>- Very important, especially if you are listed<br>- Loss of reputation results in scrutiny<br>- Part of some shareholder checklist<br>- More important than actual CG | - No supporting views expressed | - The importance of the perception of reputation on an organisation is not a given<br>- There are mixed views in some stables on this |

| THEME 6 :VALUE OF CG | | | |
|---|---|---|---|
| | **Majority** | **Supporting** | **Outlier** |
| Q1<br>What is the value of C.G? | - No majority views expressed | - Focus moves beyond profit<br>- Sustainability focus<br>- Organisational compass and guide | - Reduced shareholder risk and surprise<br>- Affirms board role<br>- Demarcation of roles<br>- Accountability<br>- Pro-activity<br>- Enhances decision making<br>- Provides guidance<br>- Shareholder protection<br>- Protection of value<br>- Impacts behaviour<br>- Ethics<br>- Different views<br>- independence<br>- increased awareness<br>- openness and transparency |

| | | | |
|---|---|---|---|
| | | | - business leadership and operation<br>- measurement standard |
| Q2<br>Effective measurement and evaluation | - Measurement and evaluation of board does not get performed and is difficult to judge | - Performance e.g. higher share price or PE ratio, profitability,<br>- Company decisions<br>- Board composition | - director reputation and experience<br>- IoD checklist or similar tools<br>- Financial performance<br>- Stakeholder value add<br>- Governance track record<br>- Disclosure in annual financial statements<br>- Business improvement<br>- Independence<br>- Quality of board engagements<br>- Quality of value creation |
| Q3<br>Risks to CG | - No majority views expressed | - People<br>- Lack of commitment or buy-in of CG<br>- Over compliance/ tick box approach<br>- Onerous/ distracting, costly | - culture of an organisation<br>- society<br>- it overtakes the focus on the business<br>- too many rules<br>- treating it as gospel<br>- too much focus on financial issues<br>- economic factors<br>- the board<br>- culture<br>- management pressure<br>- poorly structured agenda<br>- deters listing thus less companies under scrutiny<br>- economic factors |
| Q4<br>Do you believe that financial | - No, they are not<br>- Improved financial performance | - Yes, they are<br>- Lack of proper CG practices | - Sometimes they are |

| | | | |
|---|---|---|---|
| performance and corporate governance are mutually exclusive? Explain | - Ensured a more long term performance outlook<br>- Enhances perception of share value if listed<br>- Positive for the business<br>- CG is a NEDs primary role | increases risk of fraud and errors | |
| Q5<br>Has the practice of requiring listed companies to disclose their King III application added to the value corporate governance and the company? | - Yes, it has added value to CG<br>- improving the application of CG<br>- improvement in the disclosure<br>- assist in driving behaviour<br>- leads to debate<br>- improved accountability<br>- 'fit-for-purpose' application<br>- Good peer pressure | - No supporting views were expressed | - No, it has not added value to CG<br>- doesn't always enhance the application of CG<br>- drives the tick-box mentality |
| Q6<br>In your experience have your corporate governance standards and practices added operational value to the business? Please explain | - Yes, it has added operational value<br>- If CG is being practiced<br>- Ensures availability of information<br>- Enhanced decision making<br>- Improved transparency<br>- About balance between strategic | - Sometimes, it has added operational value | - No, it has not added operational value<br>- Adds to the tick-box mentality |

| | | | |
|---|---|---|---|
| | and operational matters | | |
| Q7<br>Has the practice and application of corporate governance overshadowed the management of the business at your board? If yes, explain | - No, though it can happen at times<br>- Balance required<br>- Easier once CG part of DNA | - No supporting view provided | - Yes, business requirements have been overshadowed by CG<br>- Negatively affects decision making<br>- True in some sectors with high compliance requirements e.g. insurance, banks |

# ANNEXURE E -Interview questions

## THEME 1 – THE BOARD OF DIRECTORS

Question 1: What are the characteristics of a well functioning board?

Question 2: Do you share the view that board composition, size, ownership and shareholding at board level have an impact on the value of corporate governance in a firm?

Question 3: What role does the board play in increasing the value of CG?

## THEME 2 – KING II AND KING III

Question 1: What has been the impact and value of King II on corporate governance?

Question 2: What has been the impact and value of King III on corporate governance?

Question 3: Which had a bigger impact, between King II and King III? If so, why?

Question 4: What value have King II and King III added to corporate governance as a whole in SA?

Question 5: How can the current governance practice (King III) be improved?

## THEME 3 - KING IV

Question 1: What advice would you give the King IV Committee if you were to make a representation?

## THEME 4 - SHAREHOLDER ROLE IN CORPORATE GOVERNANCE

Question 1: How do shareholders add to the value of corporate governance?

Question 2 -How important are institutional shareholders and analysts in ensuring sound CG?

Question 3 – What role can analysts and institutional shareholders play in advancing CG?

## THEME 5 - CORPORATE GOVERNANCE: ETHICS, REPUTATION

Question 1 - How important are perceptions of corporate governance to the reputation of an organisation?

Question 2 - What are the influences of the legal framework, culture of society and its traditions on CG?

Question 3 - How central or related are ethics to good governance?

## THEME 6 - VALUE OF CORPORATE GOVERNANCE

Question 1 - What do you believe to be the value of corporate governance?

Question 2 - What do you believe is the most effective way of measuring the value of corporate governance? Explain.

Question 3- What are risks to good corporate governance?

Question 4 - Do you believe that financial performance and corporate governance are mutually exclusive? Explain.

Question 5 - Has the practice of requiring listed companies to disclose their King III application added to the value of corporate governance and the company?

Question 6 - In your experience, have your corporate governance standards and practices added operational value to the business? Please explain.

Question 7 - Have the practice and application of corporate governance overshadowed the management of the business at your board? If yes, explain.