

RESEARCH REPORT

COMPLIANCE WITH BEST PRACTICE GOVERNANCE SYSTEMS BY NATIONAL SPORTS FEDERATIONS OF SOUTH AFRICA

by

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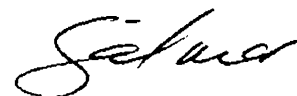
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Declaration

I, Sálmar Burger, herewith declare that the language of this research report has been edited by Mrs Maria Prozesky and Miss Thandi Meets.



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Executive summary

The introduction of the 2002 King Report on Corporate Governance for South Africa has placed new emphasis on companies to attain higher and more consistent standards of governance. Based on widely recognised and supported governance frameworks it also inspired a rising expectation of accountability and transparency across every aspect of society and also other types of organisations. Through the establishment of the guidelines found in the King II Report the doors have been opened to sport and its various bodies to draw from the experience of corporations and to make use of some of these guidelines in the development of their own guidelines aimed at their own respective needs and purposes. The sports industry and especially its governing bodies need guidelines for proper governance due to the raised level of interest and impact of sport lately. As a result of the corporatisation of sport and increased professionalism, a greater need for proper business management and governance models within sport becomes apparent.

The government has also placed renewed emphasis on the need for sport to become more professional in the manner in which it governs itself. If the sports industry cannot achieve this by means of proactive voluntary action and self-regulation, it runs the risk of legislative regulation, which threatens to undermine the sanctity of flexibility and self-regulation which has been central in the development of sport.

This study presents a first attempt to determine the levels of non-adherence by national sports federations of South Africa to the principles of best practice governance, identified as the pillars of good governance. These principles are taken from the King II Report, and also the guidelines developed during the first Governance-in-Sport conference. This, a national study in which all South African national sports federations were approached and asked to participate, carries the support of Sport and Recreation South Africa as well as the South African Sports Commission.

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An extensive literature study has been undertaken in an attempt to ensure that all the relevant areas which may hold implications for sport and the way in which it is governed are covered. However, since sport and the way in which sport governance is structured are vast, it is not deemed feasible to attempt to build a single model to which all sports and its controlling bodies should adhere. Rather, this study identified all the areas of under-performance by the participating federations and attempted to elucidate possible underlying reasons from this. Various recommendations have also been made to achieve greater all round levels of best practices based heavily on recognised principles from existing literature and examples from the corporate environment. This provides sport with the opportunity to display competence in the ability to govern its own industry without outside intervention, by means of the development of individualised principles and structures to attain better levels of adherence to best practice governance systems throughout the industry.

Chapter 1

1 Overview of study

1.1 Introduction

In earlier times, governing sport was less troublesome and complex than it is today. Originally both national and international sports-governing bodies were established to codify rules and organise initial and subsequent events and tournaments. Their role later expanded and they encouraged, promoted and subsequently facilitated international exchange between other sports-governing bodies. However, the rapid globalisation and commercialisation of sport has created a host new of competing interests (Katwala 2000; Australian Sports Commission 1999:1), such as the increasing role of sports agents, the greater impact of media rights, and the increased monetary value of commercial sponsorship rights.

Various stakeholders within the sphere of sport and its activities are now challenging the ability of the sports industry to govern itself as a direct result of the actions of its governing bodies. With special reference to Europe, Jacques Rogge, President of the International Olympic Committee, contends that sporting rules and procedures are increasingly challenged in courts and international institutions, and that several rulings and decisions of these institutions have already impacted on the sporting community and the existence of an international sports arbitration body bears testimony to this (Governance in Sport Working Group 2001:2).

The increased attention sport receives from politicians, legislators and the government reflects a growing recognition of the importance of sport, and also of the impact of sport, and the role it plays in society, culture, the economy and politics. This heightened interest, however, carries the risk of legislative over-regulation. Even though legal intervention is not a risk *per se*, intervention leading to regulatory and statutory compliance requirements as a result of under performance may potentially undermine the principle of flexibility and self-regulation that has been central in the development of sport thus far (Governance in Sport Working Group 2001:3). This does not mean that sport should not adhere to any kind of legislation. In fact any sports governing body must comply through its board with a wide

range of legislation, including legislation on labour, occupational health and safety, basic conditions of employment, trade and taxation, as well as other relevant statutory regulations, common law, and also the Constitution of South Africa. This adherence to national statutory law is also supported by the Australian Sports Commission (1999:5), in which it is emphasised that the board should in fact be aware of the legislative scope, and its relevance to the organisation. This is supported by examples of corporate experiences from the United Kingdom as reported by Gerrard (2003:37).

On the local corporate front, the introduction of the 2002 King Report on Corporate Governance for South Africa (King II Report), in May 2002, has placed new emphasis on companies and organisations in general to attain higher and more consistent standards of governance. Based on widely recognised and supported governance frameworks, the report also inspired a rising expectation of accountability, responsibility and transparency within society and also organisations and industries alike. These aspects are only three of the seven basic principles outlined in the King II Report (Institute of Directors 2002:10-11) as being the cornerstones of good governance. The King II Report is the current international benchmark against which organisations measure their performance in the areas of governance and best practice management.

Through the establishment of guidelines for corporations, such as those found in the King II Report the doors have been opened to sport and its various bodies to draw from the experience of corporations and to make use of some of these guidelines in the development of their own guidelines aimed at its individual needs and purposes. In a general sense, key governance principles developed for corporations are highly relevant to the sports industry and its governing bodies, the national federations (Gaved 2001).

The sports industry and especially its governing bodies need guidelines for proper governance due to the recent increase in the level of interest and impact of sport. With the corporatisation of sport and increased professionalism, a greater need for proper business management and governance models within sport becomes apparent (Australian Sports Commission 1999:1). This is because common business practices have become part of sport today, for example the payment of salaries to players who then become employees,

financial audit requirements and taxation requirements. Long-term success requires that national federations run themselves as businesses, in ways appropriate and relevant to the principles of best practice governance and management. On the local front national federations should be continuously looking to improve the performance of their organisations in the areas of financial administration, organisational structuring and also transparency (Rauter 2001:1).

1.2 Problem statement

A case can be made for the investigation of the levels of compliance of sports governing bodies to best practice governance principles, not limited only in South Africa but also globally. The term 'sports governing bodies' includes all national governing bodies (i.e. national federations), local, regional and provincial bodies (i.e. associations and unions) and also local and regional clubs. It also extends to include regulatory and macro-bodies overseeing and regulating the actions of the various other sports bodies under their respective auspices.

Sport and the governing structures of sport are not above the law. Yet fewer legal rules and requirements are applicable to sports bodies than those applicable to corporate bodies and legal persons. Legislation regulates almost every aspect of a corporate business enterprise, but from a legal point of view sport *per se* remains largely unregulated at this time.

Enhanced stakeholder activism in a global context puts pressure on the principle of self-regulation. Unless sports bodies can demonstrate an ability to competently and responsibly govern themselves, they run the risk of the legislature issuing legislation that may contain a number of new, expensive and even highly cumbersome requirements to be adhered to. Sports bodies should voluntarily comply with best practice standards in terms of governance if they wish to avoid becoming highly legalised and formally regulated. Thus, in order to prevent the necessity of legislation to enforce good governance, sport and its sports bodies must develop their own policies and guidelines for proper governance, based largely on what has already been proved in business to be systems of best practice governance.

Secondly, a business case can be made for adhering to principles of good governance. Viewed in a utilitarian frame of reference, good governance makes good business sense (Naidoo 2002:3). The proven need for long-term sustainability depends on this principle (PricewaterhouseCoopers 2003:1-2; Rossouw 2003:3; Institute of Directors 2002:12; Rauter 2001:1). A major advantage of best practice governance is also the ability of properly managed national federations to attract and retain sponsorship. Van Heerden (2001:349) reiterates the point that it is common sense that sponsors should ultimately require responsible administration and application of their money. Furthermore, adherence to good governance practice aids in an ability to generate additional funds, to implement sustainable growth, and to identify and manage the business and other risks within agreed parameters so as to limit potential liability (PricewaterhouseCoopers 2003:1; Naidoo 2002:3).

The issue of governance in South African sport has received attention on a government level. In a parliamentary media briefing on 12 September 2001 the incumbent Minister of Sport and Recreation, MN Balfour said: “The current state of affairs in a number of national federations is characterised by in-fighting, [and] a perceived lack of unity”. In taking these factors into consideration, “it has become crucial for Government to ensure that these situations are reversed. The amendment to the [Sports Commission] Act is a transparent process whereby Government wants to ensure good governance in South African sport” (Balfour 2001).

Katwala (2000) states that responsible governance with specific reference to sport is increasingly becoming important, given the increasing number of scandals and crises being reported in the media today, as the common thread linking these kinds of controversies is rather questionable application of best practice governance principles, than commercialism. The Salt Lake City Olympic Games controversy, the Tour de France scandal of 1998, the Hansie Cronje investigation, and also the fraud charges and subsequent convictions of officials within South African boxing circles during the eighties support this point. The alleged Rugby racism debacle which appeared in several newspapers just prior to the 2003 Rugby World Cup is another example (Pretorius 2003:1; Van der Berg, Munasamy & Schoonmaker 2003:1; Van der Berg & Padayachee 2003:1).

The Australian Sports Commission (2002b:1) states that the decline in performance experienced by Athletics Australia during the second half of the twentieth century was due to the inability of the Athletics federation of Australia (Athletics Australia) to adapt to increasingly demanding environments. After major changes to its governance systems introduced because of this decline, major improvements were realised in financial performance and business success over a period of five years (1997 - 2002), with a five fold increase of value-in-kind income over a three year period (1999 - 2002).

1.3 Research objectives

The first objective of this study is to indicate the economic relevance of sport. To achieve this, the role and subsequent impact of sport on the South African economy will be investigated. From the identified contribution sport makes to the South African economy and the employment market, the relevance and necessity of proactive adherence to the principles of best practice governance will be elucidated. Corporate governance is primarily concerned with the economic prosperity of corporations within the formal business sector. A business case will be built to substantiate the relevance of this within sport. This will be followed by a historical inquiry into the existence of corporate governance, and the underlying needs and drives from which it evolved. The evolution of the field and its development in South Africa will be discussed following a discussion on its international development. This will be followed by an investigation into the development of governance specifically within sport.

The principles of corporate governance will be the second main focus of this study, and currently recognised best practice governance principles will be listed and described. The focus will be on models and systems used in the field of corporate governance and also those used by sports bodies and organisations. The principles include the seven principles of good governance identified in the King II Report (Institute of Directors 2002:10-11), some of which receive reference in the majority of the literature investigated for this report. Further sources of governance principles specific for sport include the guidelines articulated during the International Governance-in-Sport Conference held in Belgium (Governance in Sport Working Group 2001) and work of the Australian Sports Commission (Australian Sports Commission 1999).

The third main objective of this report is to measure the level of non-adherence to these principles by sports bodies in South Africa. This will be a first attempt to provide a broad overview of the current state of adherence or non-adherence to the identified principles of good governance. A number of guidelines are suggested for implementation by national federations to aid them in achieving higher levels of compliance to principles of best practice governance, by means of structures and mechanisms which are favourable in achieving this. The hope is that this will contribute improved self-regulation, negating a potential need for legislative intervention.

1.4 Limitations of the study

This study is limited to South African national sports federations as defined in the Sport Commission Act 109 of 1998 section 1(x) where a national federation is defined as:

“a national governing body for a code of sport in the Republic of South Africa, recognised as such by the relevant international controlling body and by the [South African Sports] Commission and as the only authority for the administration and control of the relevant code of sport.”

Even though the basic application of governance principles applies to the other regulatory and controlling bodies, as well as other member organisations and associations such as clubs, regional, local and provincial associations and unions, these are not included in this investigation. It is assumed that once these best practice governance principles have been established on a national level they will filter down into provincial, local and club level within the South African sports industry.

Also excluded from this study are national, zonal and local regulatory and macro-bodies overseeing the activities and actions of other sport bodies under their auspices. Specific examples of these include the South African Sports Commission, South African Commonwealth Games Association (SACGA), United School Sports Association of South Africa (USSASA), South African Student Sports Union (SASSU), Masters Games Association of South Africa (MGASA), National Olympic Committee of South Africa (NOCSA) and the like. Disability Sport South Africa is however included as it is considered a national federation by the South African Sports Commission, and was also indicated as such in the list of national federations sourced from the South African Sports Commission.

This empirical study is further limited to measuring perceptions of adherence to the various identified best practice governance principles. This excludes investigating the specific workings and compositions of executive boards and committees, only the average sizes of responding federations are reported. The specific actions, roles, functions, or reporting of committees or the governing board of federations are also not investigated.

Identified avenues of future research include the investigation along similar lines of smaller and similar member associations and also of regulatory umbrella bodies as identified above. The aims of this study could also be applied to incorporated sport in South Africa, i.e. bodies incorporated into a legal entity covered under the Companies Act of South Africa. Finally, a follow-up study could be done in a few years time to determine if a movement towards greater compliance of the identified principles has indeed occurred and the rate at which it has occurred, and reasons sought in the event of an unsatisfactory movement towards complying with these principles. The current composition of executive boards and committees, in terms of make-up, size, functioning, reporting and independence, could also be investigated.

1.5 Research methodology

1.5.1 Description of research design

A qualitative empirical study based on an extensive literature review and data collection forms the foundation of this research report. The research design and methodology were developed with the joint assistance of the University of Pretoria's Center for Leisure Studies and the Centre for Business and Professional Ethics.

1.5.2 Research instrument

The collection of data was done by self-administered questionnaire. This questionnaire was developed specifically for the purpose of this study, as no existing suitable instruments could be found. It includes 13 biographical questions pertaining to the national federation being investigated, followed by 83 questions in a Likert scale format, with a five-point rating which measures perception levels. The intention was to determine the degree of agreement or disagreement with various statements describing on the adherence to governance principles, thus measuring perception of these levels. These statements were

developed and articulated using the seven characteristics or pillars of best practice governance as identified in the second King Report on Corporate Governance for South Africa (PricewaterhouseCoopers 2003:2; Rossouw, de Koker, Marx & van der Watt 2003:3-4; Wilkinson 2003:5; Institute of Directors 2002:10-11; Naidoo 2002:12-13), as well as the sport governance principles developed by the Governance-in-Sport Conference (Governance in Sport Working Group 2001:4-7). The questionnaire was presented to Sport and Recreation South Africa and the South African Sports Commission for input and comments, and letters of endorsement were obtained from both these organisations. The questionnaire was pretested during a biennial general meeting of a large national federation, after which recommendations were analysed and the relevant changes made to the questionnaire.

1.5.3 Data collection

The questionnaire was distributed to the following national federations within South Africa (listed in alphabetical order):

- Action Korfbal South Africa
- Aero Club of South Africa
- Athletics South Africa
- Badminton South Africa
- Basketball South Africa
- Bowls South Africa
- Canoeing South Africa
- Chess South Africa
- Council of Archery Sport
- Darts South Africa
- Disability Sport South Africa
- Judo South Africa
- Jukskei South Africa
- Karate Association of South Africa
- Keep Fit International Foundation
- Kennel Union of South Africa
- Maccabi South Africa

- Martial Arts Authority of South Africa
- Motorsport South Africa
- Netball South Africa
- Pool South Africa
- Powerboat South Africa
- Professional Golfers Association of South Africa
- Roller Sport of South Africa
- Rowing South Africa
- Rugby League
- Snooker and Billiards South Africa
- Snow Sports South Africa
- Softball South Africa
- South African Amateur Fencing Association
- South African Baseball Union
- South African Biathlon Association
- South African Bodybuilding Board
- South African Bridge Federation
- South African Cycling Federation
- South African Dance Sport Federation
- South African Drum Majorette Association
- South African Equestrian Council
- South African Federation Bocce
- South African Figure Skating Association
- South African Football Association
- South African Golf Association
- South African Gymnastics Federation
- South African Handball Federation
- South African Hockey Association
- South African Ice Hockey Association
- South African Indoor Cricket Association
- South African Korfbal Federation
- South African Ladies Golf Union

- South African Lifesaving
- South African Masters Sport Association
- South African Model Powerboat Association
- South African Modern Pentathlon Association
- South African National Amateur Boxing Organisation
- South African National Scrabble Players Association
- South African Orienteering Federation
- South African Polo Association
- South African Powerlifting Federation
- South African Radio Drivers Association
- South African Roller Hockey Federation
- South African Rugby Football Union
- South African Sailing
- South African Schwinger Federation
- South African Sheep Shearing Federation
- South African Shooting Sport Federation
- South African Sport Aerobics and Fitness Federation
- South African Sport Anglers and Casting Confederation
- South African Sport Hunting Federation
- South African Student Sports Union
- South African Table Tennis Board
- South African Taekwondo Federation
- South African Tenniquoits Board
- South African Tennis Association
- South African Touch Rugby Association
- South African Tug of War Federation
- South African Underwater Union
- South African Wargames Union
- South African Water Ski Federation
- South African Waveski Surfing Association
- South African Weightlifting Federation
- South African Wrestling Federation

- Squash South Africa
- Surfing South Africa
- Swimming South Africa
- Tenpin Bowling Association of South Africa
- Transplant Games Association of South Africa
- Triathlon South Africa
- United Cricket Board of South Africa
- United School Sport Association of South Africa
- Volleyball South Africa

These national federations number 90 in total and constitute all the national federations registered with the South African Sports Commission. Contact details for the national federations were obtained from the South African Sports Commission. Letters of support for the study, providing further impetus to the promotion of sound governance and of ethical management of sport in South Africa, were obtained from the Chief Executive Officer of the South African Sports Commission and from the Head of Department of Sport and Recreation South Africa. These letters were appended to the questionnaire.

The questionnaire was sent out by electronic mail. Initial distribution was followed up by bi-weekly reminders, also through electronic mail. Upon request from seven national federations, the questionnaires were sent by facsimile, and two other national federations requested a mailed hard copy, which was sent as registered items via the South African Postal Service.

1.6 Conclusion

The overall structure of this report can be summarised as follows:

Chapter two establishes the economic relevance of sport through the identification of the financial contribution of sport and sport activities to various sectors. The basic premise upon which the South African sports industry is built, is described, followed by the specific contributions it has made to the economy and economic sub-sectors. These contributions are highlighted by reporting firstly on the industry, followed by a discussion on participation levels within sport. Next, the economic contributions of national bodies (national

federations and umbrella bodies), clubs and local authorities respectively are discussed. The aim of this is to indicate how the sport industry impacts on South African society in general and specifically in terms of the economy and so to prove from a point of view of business the potential negative impact that non-adherence to good governance could have for sport. This is particularly true considering the fact that sustainable future investment, both foreign and local, in sport is reliant on trust in the sports industry to effectively and competently govern itself.

Chapter three discusses the history and development of corporate governance from inception to the current situation, focussing on the past eleven years (1992 to 2003) and identifies the key factors behind this development. It gives an overview of the most important governance codes reflecting international development as well as the two King codes on corporate governance reflecting local development. A discussion of some of the more important aspects of the King II Report is also included. The chapter also includes a discussion of the interaction between sport and governance, the specific nature of a sports governing body and the principle of self-regulation of sport and sport bodies. It does not identify those governance principles most applicable to sport, but merely provides an overview over the current codes and guidelines.

Chapter four identifies the principles of best practice governance. The term 'corporate governance' is first clarified, drawing from various available definitions, and the role and functioning of the board of directors of a sports governing body then explained, followed by a discussion of the most relevant identified principles of governance, upon which the notion of best practice governance rests.

Chapter five provides detailed feedback on the data assembled by the survey. It presents findings in terms of frequency distributions, as well as detailed breakdowns of responses for each question measuring the various sub-elements and pillars of good governance. Significant aspects or trends of recorded responses are briefly highlighted. A collective result for each pillar is present at the end of the chapter, in terms of the mean score for each, as well as the overall rate of non-compliance with the principles of best practice governance.

Chapter six concludes the study, through suggested guidelines to by making certain guidelines mentioning the significance of the findings, and where applicable makes suggestion based on the findings and discussions of the previous chapters. It also indicates the managerial implication of this research.

Chapter 2

2 Economic relevance of sport

2.1 Introduction

Sport has a definite role in society, and has discernable effects on the political, social and economic fronts (Katwala 2000). Today, more so than ever before sport is an important force in the world, albeit for good or ill. Katwala (2000) states that:

“Sport can be a tool of dictatorship or a symbol of democratic change - it can help to start wars or promote international reconciliation. Sport can't bring about social change by itself - but it can be a powerful symbol and catalyst for changes in national identity, gender roles and race relations.”

This helps to clarify why numerous national governments commit public funds to sport. Governments across the globe fund the development of sporting infrastructures, due to the perceived potential benefits sport may bring about. These range from preventing crime to improving health and education, creation of employment and unifying diverse cultures (Scholtz 2002:14; Saayman, Steynberg, du Plessis & Uys 2001:9-10; Katwala 2000). Also important is the intangible impact sport has on social cohesion and the nation's image both at home and abroad (Katwala 2000).

Public funds for the development of sport are allocated to national, provincial and local structures. To ensure that sport and recreation activities are not left unprovided for, the South African government has given legal shape to the responsibility of local and municipal councils to establish, conduct and control sport facilities of international standards (Craythorne 1997:416) in the second Amendment Act 97 of 1996 to the Local Government Transition Act.

Today there is widespread support of the five basic functions of sport, originally identified by Stevenson and Nixon in 1972 (in Scholtz 2002:13-14). The most commonly accepted functions of sport are socio-emotional, social, integrative, political and social stratification. That people attach great importance to sport cannot be questioned. If this was not so, why then would schools devote time and money to the development of sport, and also acknowledge achievement within sport? Why would people attend sports events, and

televised news broadcasts carry a special segment devoted to sport, in the same way as they do for issues of economic and political relevance? For example, the South African Springbok rugby team headlined in the print media (August / September 2003) due to allegations of possible prejudice and racism (Pretorius 2003:1). This has led to the appointment of an investigation team into the matter, as reported on an Internet news page, (News24 2003). Katwala (2000) states that: "Sport matters to people - and the competing notions of identity, of internationalisation and national traditions, which are contested within sport matter far beyond it."

Viewed from a business perspective sport is currently highly successful globally. The 2000 Olympic Games, held in Sydney Australia, hosted 10 300 athletes from 200 countries competing in the various Olympic events. Sponsorship expenditure exceeded US \$600 million and spectatorship amounted to 3.7 billion individuals globally (Katwala 2000).

In South Africa sport plays an unquestionable role in the economy, contributing to roughly two percent of the South African gross domestic product (GDP). Figures from 1999 (including capital expenditure on sport) show that the total contribution of sport to the South African GDP is placed at 2.1% or R16 765 million (Sports Information and Science Agency 2000:7). Currently, the most reliable and verifiable figures on the contribution of sport to the national economy are those published in a 2000 report by the Sports Information and Science Agency (SISA) (Sports Information and Science Agency 2000). Updated figures will probably be available towards the end of 2003, but this is too late for inclusion in this research project. The overall figures given above are confirmed by the South Africa yearbook 2002/03 dealing with sport and recreation (Burger 2003:515).

The economic impact of the South African sports industry will now be discussed in terms of the sectors identified in the SISA Report (Sports Information and Science Agency 2000:6-7), to substantiate the relevance of sport and the contribution it makes to the South African economy. Through this a clear business case for sport is made, not only by indicating what the current impact of sport is in terms of its relevance in an economic sense, but also seen from the perspective of the dangers bad governance hold, through loss of investment.

2.2 Structure of the South African sports industry

Van Heerden (2001:10) offers a very useful breakdown of the different segments in which commercial sports and sport-related products are offered. The analysis is done from a marketing perspective, with all the identified offerings viewed as specific products with the assumption that the market demand for such products exists. Van Heerden (2001:10) quotes Pitts and Stotlar in defining the sports industry as: "... the market in which the products (and services) offered to its buyers are sport, fitness, recreation, or leisure related and may be activities, goods, services, people, places or ideas."

Van Heerden's work thus provides a breakdown of these different sports products. For the discussion below, certain items on the author's original list have been expanded for the purpose of clarity, and some additional breakdown as well as new items (products) have been added to this list. This marketing perspective has been chosen to show the relevance of the economic impact of sport.

The sports industry can be divided into 12 product groups:

- **Participation products**, e.g. recreation sports such as club sports participation;
- **Spectator products** which offer entertainment, e.g. a specific sporting event;
- **Promotional items and merchandising of goods** used in the promotion of sport and sports activities, including licensed apparel of popular teams, supporter items and miscellaneous team merchandise;
- **Facilities** used in the physical production of the sport product, i.e. the physical infrastructure and environment wherein or upon which the activities usually take place, e.g. tracks, fields, arenas, stadiums and halls;
- **Personal sports equipment, goods and apparel** required for participation in one or more specific sports activities, including commercial items such as balls, rackets, clubs and bats. This product group refers to goods and articles purchased by the individual for the purpose of personal participation in sports activities;
- **Other equipment** required for or used during participation or to facilitate participation. In this case specifically, multiple individuals make use of these items during their participation in the various activities. Examples include goal posts, gymnastics and athletics equipment, equipment used in fighting and combat sports,

such as mats (martial arts) and boxing rings;

- **Specialised services** such as repairs of personal sports goods and equipment, as well as the cleaning and maintenance thereof, including for example tennis racket stringing and golf club cleaning;
- Closely related to the previous category is **professional repair and maintenance** of nonpersonal equipment, typically done by equipment suppliers. Companies involved in this are skilled in the supply, repair and maintenance of fixed equipment in stadiums and sport facilities;
- **Recreation activities** such as hiking, cycling, fishing and camping;
- **Complete management and marketing of a sports event** as can be offered by specialised sports marketing and management companies;
- **Specialised and professional services** offered in the area of the financial, legal, contractual and promotional administration of sports bodies as well as of professional athletes; and
- **Media**, including mass media as well as regular and specialised media content pertaining to specific sports activities and sports in general.

Meek (in Van Heerden 2001:10), divides the sports industry into three main sectors, namely:

- Products and services in the sports industry such as design, testing, manufacturing and distribution of equipment, clothing and instruments;
- Sport entertainment and recreation such as events, teams and individuals who participates, sport and other related recreation activities, and also expenditure by sport association and bodies; and
- Sport support service organisations such as law firms and marketing organisations.

The division of the industry in terms of the 12 segmented products is preferred as it is more closely matched to the way in which contributions are reported in terms of the report by the Sports Information and Science Agency (SISA Report) (Sports Information and Science Agency 2003:6).

Van Heerden (2001:10) proposes that this 12-point classification shows the multiple opportunities which exist in the field of sports sponsorship. This view supports the notion that the sports industry, with all its derived activities, provides a wide commercial application base.

2.3 Size and scope of the South African sports market

In commercial, or more specifically monetary terms, the South African sports industry is quite substantial. According to the SISA Report the South African sports industry contributed an estimated R15 913 million to the national economy in 1999. Furthermore, it reports that the industry supported an estimated 34 325 full-time positions in the labour market, with a further 6 140 part-time positions. It also reports that an estimated 8 000 volunteer workers were active in this industry during 1999 (Sports Information and Science Agency 2000:6).

The total South African GDP in 1999 was R795 billion. This would imply that the sports industry accounted for roughly 2.0% of the total figure, compared to the same calculations for the 1997 financial period, when sport contributed only 1.9% of the country's GDP (Sports Information and Science Agency 2000:7) or R11 200 million. This figure is already an increase on the 1996 figure of R8 900 million; employment has also increased from the estimated 31 450 direct labour positions in 1996 (Van Heerden 2001:13).

When analysing the 1999 figures, inclusive of capital expenditure amounting to a figure of R 852 million, the total contribution of sport to the South African GDP rises to 2.1% or R16 765 million (Sports Information and Science Agency 2000:7)

No reliable or conclusive figures could be obtained for the period succeeding 1999.

The following breakdown of figures can be made, based on the figures of the SISA Report (Sports Information and Science Agency 2000:7-18) in combination with those of Van Heerden (2001:13-15).

Table 2.1 – Breakdown of contribution to GDP per industry sector for 1999

Sector	Contribution	Estimated contribution (R million)		
		Expenditure	Capital Expenditure	Total
Sports goods & equipment		6 564	30	6 594
Participants		3 479	-	3 479
Spectators		980	-	980
Commercial		2 291	-	2 291
Sports bodies		747	260	1 007
Clubs		1 424	242	1 666
Local authorities		428	320	748
TOTAL		15 913	852	16 765

Table 2.2 – Contribution per year by industry sector for the years 1996, 1997 and 1999

Sector	Contribution	Absolute contribution (R million)		
		1996	1997	1999
Sports goods & equipment		3 100	4 630	6 564
Participants		2 155	2 766	3 479
Spectators		701	895	980
Commercial		1 133	1 662	2 291
Sports bodies		423	512	747
Clubs		690	1 217	1 424
Local authorities		297	341	428
TOTAL		8 499	12 023	15 913

Table 2.3 – Relative contribution of each industry sector for the years 1996, 1997 and 1999

Sector	Contribution	Relative contribution (%)		
		1996	1997	1999
Sports goods & equipment		36.47	38.51	41.25
Participants		25.36	23.01	21.86
Spectators		8.25	13.82	6.16
Commercial		13.33	10.12	14.40
Sports bodies		4.98	7.44	4.69
Clubs		8.12	4.26	8.95
Local authorities		3.49	2.84	2.69

Table 2.4 – Indicated growth per sector from 1997 to 1999

Sector	Contribution	Indicated growth per sector		
		1997 (R million)	1999 (R million)	Growth (%)
Sports goods & equipment		4 630	6 564	41.77
Participants		2 766	3 479	25.78
Spectators		895	980	9.50
Commercial		1 662	2 291	37.85
Sports bodies		512	747	45.90
Clubs		1 217	1,424	17.01
Local authorities		341	428	25.51
TOTAL		12 023	15 913	32.35

As can be seen from Table 2.4 an overall industry growth of 32.35% occurred over the period from 1997 to 1999. However, it should be kept in mind that two major capital expenditure projects (The 7th All Africa Games and the Pakisa Motor Raceway for which exact amounts could not be established) contributed and are included in this amount. Nonetheless, this still remains considerable increase. The same breakdown is provided for employment by sector or group.

Table 2.5 – Breakdown of formal employment per industry sector in 1999

Sector	Contribution	Number of employees		
		Full-time employees	Part-time employees	Total
Sports goods & equipment		9 950	500	10 450
Commercial		1 132	100	1 232
Sports bodies		1 899	2 458	4 357
Clubs		14 882	420	15 302
Local authorities		6 462	2 662	9 124
TOTAL		34 325	6 140	40 465

Table 2.6 – Employment provided by each industry sector for periods indicated

Sector	Contribution	Number of employees	
		1996	1999
Sports goods & equipment		9 500	10 450
Commercial		950	1 232
Sports bodies		1 760	4 357
Clubs		8 000	15 302
Local authorities		6 100	9 124
TOTAL		26 310	40 465

Table 2.7 – Relative contribution to employment for the periods indicated.

Sector	Contribution	Relative number of employees (%)	
		1996	1999
Sports goods & equipment		36.11	25.82
Commercial		3.61	3.04
Sports bodies		6.69	10.77
Clubs		30.41	37.82
Local authorities		23.18	22.55

Notes:

A number of important points need to be clarified with regard to the figures given above:

- The indicated number of employees is exclusive of the volunteers involved in the industry, so that inclusion of these would take the total number of people working within the industry past a figure of 48 000;
- These figures furthermore exclude horse racing, in terms of both contribution to GDP and other monetary terms, as well as the impact on employment; and
- Capital expenditure is very dynamic and fluctuates from one year to the next, due mainly to the various projects undertaken in sport. These indicated figures are inclusive of the capital expenditure projects as a result of the construction of the housing projects for the 7th All Africa Games as well as the Pakisa Motor Raceway in Welkom. The report states that these projects are responsible for the involvement of 20 000 additional workers.

A more detailed breakdown of the various sectors will be given, followed by a short discussion on each.

2.3.1 Sports goods and equipment

This section discusses expenditure by the sport participants in the purchase of sports footwear, clothing and attire, as well as other personal equipment used during individual participation in sport. Included additionally are the manufacturing and distribution facilities of these suppliers. All quantification were done at retail level, in order to avoid double-counting errors.

Table 2.8 – Estimated contribution of the sports goods market to the South African economy in 1999

Sector	Contribution	Expenditure (R million)
Total expenditure on goods (at retail value)		6 564
Full-time employees		9 950
Part-time employees		500
Capital expenditure		30
TOTAL		17 044

In terms of the sport industry, this sector of the market represents the largest single segment, and shows the contributions made by both adult and child products retailed. However, horse racing and motor racing were excluded from the compilation of these figures.

The most prolific contributors to this segment of the industry are represented by the following sports codes (in alphabetical order), which collectively accounted for roughly 75% of the total expenditure on sporting goods within South Africa during 1999 (individual figures not available):

- Athletics;
- Cycling;
- Cricket;
- Golf;
- Gymnasium or weight training and aerobic exercises within a gymnasium or health club setting;
- Netball;
- Road running;
- Rugby;
- Soccer;
- Squash;
- Tennis and
- Walking and hiking.

Important points highlighted in the report include the following (Sports Information and Science Agency 2000:9):

- Growth trends show a strong correlation between market growth and relative success of the respective codes;
- High growth trends can be attributed to increased participation levels by the country's citizens, which is to a great extent prevalent amongst previously disadvantaged communities. These communities show expanding participation patterns from more traditional sport activities into a wider ranging sphere of formal sporting activities, mainly due to increased accessibility. This phenomenon is expected to continue to positively stimulate industry growth over the medium term;
- A large number of local manufacturers and importers of goods and equipment is active within the industry, making it highly competitive in terms of rallying for market share by major brands;
- Competition in relation to other western markets takes place within a relatively small market; and
- Above average growth of this market in comparison to GDP is expected over the short and medium term. This growth stands in direct correlation to the growth in participation in and followership of sport.

2.3.2 Sport participants

Participation in advanced levels of sport brings about certain expenses and higher levels of participation incur raised levels of expenditure. This becomes especially obvious in the shift from provincial participation to national level participation. Major sources of expenditure according to the SISA Report include the following (Sports Information and Science Agency 2000:12):

- Regular travel: Travel expenses incurred in the regular attendance of training sessions;
- Event travel: Additional travel expenses incurred in the attendance of events, especially major events such as national championships which may be located in various larger centres of the country;

- **Dietary needs:** Supplements, foods and drinks which could include energy drinks, vitamin supplements and specially formulated foodstuffs required to cope with increased levels of physical activity;
- **Medical:** Pharmaceutical, medical and rehabilitatory expenses in the treatment of injury and injury rehabilitation; and
- **Training:** Fees and monies associated with gymnasium access, training programmes and professional and other coaching fees.

These various components amount to an estimated figure of R3 479 million. Table 2.9 below shows the breakdown (Sports Information and Science Agency 2000:10):

Table 2.9 – Breakdown of contribution of expenditure on sport participation to the South African economy in 1999

Sector	Contribution	Expenditure (R million)
Regular travel expenses		312
Event travel (sports tourism) expenses		857
Expenditure on dietary needs and requirement		995
Medical expenses		301
Coaching and training expenses		1 014
TOTAL		3 479

Some important issues raised in the discussion of this breakdown in the SISA Report are as follows (Sports Information and Science Agency 2000:11):

- Participation in sport amounts to only 33% of the adult South African population, which is indicative of the growth potential. The report supports this notion by stating that there are still great disparities between previously disadvantaged and advantaged groups, and that over the medium to longer term this slack will lessen;
- Participation by children in sport is estimated at 60%;

- In terms of gender distribution in sport, male participation amounts to 43%, in contrast to a figure of only 23% for female participation. Again, previous historical precedence and discrimination are accountable for this discrepancy. If the anticipated trends proposed in the SISA Report (Sports Information and Science Agency 2000:11) are realised in terms of growth, the identified areas represent a major area of future growth in contribution to the economy of the country; and
- Due to increased pressure to achieve and attain success placed on competitive sports people, the markets for specialised dietary supplements and nutritional enhancers, as well as pharmaceutical products, are experiencing a high growth phase. This trend is also linked to medical needs, due to a higher number of injuries as a result of heightened participation, especially so amongst children of school-going age.

Henceforth, a breakdown of participation according to population group will be presented. This is reflected in Table 2.10 below:

Table 2.10 – Adult sport participation in South Africa in 1999 according to population group

Group	Active sport participation within the South African population (%)
White	63
Indian	41
Coloured	29
Black	27
AVERAGE	33

2.3.3 Sport spectators

Sport spectators constitute one of the major components or groups within the economics of sport as shown in literature on sport tourism (Gammon & Robinson 2003:23; Kurtzman & Zauhar 2003:40; Scholtz 2002:61; Turco, Riley & Swart 2002:3-22; Green & Chalip 1998:276). This point is expanded further in the SISA Report (Sports Information and Science Agency 2000:7) which proposes that some 85% of the South African spectator population follow televised sport, with the remaining 15% engaging in physical attendance

of such events in the form of event spectators. The current trend is however leaning more towards television spectators as opposed to physical attendance.

The different codes that attracted the largest number of spectators in 1999 (Sports Information and Science Agency 2000:13) include (in alphabetical order, as individual figures are not available):

- Athletics,
- Basketball,
- Boxing,
- Cricket,
- Dance sport,
- Golf,
- Horse racing,
- Karate,
- Motor racing,
- Netball,
- Road running,
- Rugby,
- Soccer, and
- Tennis.

An estimated 27 million spectators were in physical attendance at events cumulatively for all sport in South Africa in 1999.

There was an impact on the expenditure profile, as an estimated 8 000 temporary employment opportunities are created due to spectatorship and attendance of sport events (Sports Information and Science Agency 2000:12). However, auxiliary functions supporting the needs of spectators should not be included in this summation. This applies particularly to hotel staff, transport providers and shop owners and employees as these do not exist solely for the support of sport, thereby contributing only indirectly to its economic impact.

Table 2.11 below provides a breakdown of the total contribution of R980 million made by sport spectators in 1999.

Table 2.11 – Contribution of expenditure of sport spectators to the South African Economy in 1999

Sector	Contribution	Expenditure (R million)
Snacks and food		353
Drinks and beverages		207
Accommodation expenses		155
Fuel expenses		97
Merchandise and souvenirs		86
Taxi		42
Public transport (bus / train)		26
Other		14
TOTAL		980

2.3.4 Commercial sector

This part comprises the contribution by the private or corporate sector to the sports industry and represents direct expenditure by companies. This involvement comes as a result of direct involvement in sport, composed of the following contribution categories:

- Sport sponsorship and sponsorship-related expenditure;
- Sport management and sponsorship management firms;
- Company hospitality spending; and
- Stadium signage and advertising.

Figures for this contribution are shown in Table 2.12 below.

Table 2.12 – Contribution of the commercial sector to the South African economy in 1999

Sector	Contribution	Estimated expenditure (R million)	Employment provided	
			Full-time	Part-time
Direct sponsorship expenditure		1 049	645	65
Back-up promotion and advertising		852		
Other commercial inputs		390	487	35
TOTAL		2 291	1 132	100

Key issues emerging from the report (Sports Information and Science Agency 2000:17-18)

- The South African sponsorship market is growing at an annual compound rate of roughly 23%. The significance of this lies in the fact that it exceeds the rate of inflation as well as the rate of growth in expenditure on traditional advertising means.
- This is a global industry trend and there are an estimated 1 000 different companies engaging in sponsorship with more than 80 different codes of sport benefiting from this.
- The sports and sponsorship management industry has shown positive growth over the past five to ten years. This is coupled to a realisation by sponsoring companies that the expertise of these professional management companies are valuable in assuring maximised return on investment in sponsorship. It is reported that growth is anticipated for these types of companies over the short and medium term and possibly some consolidation. The result will be the emergence of stronger companies with significant international links and greater depth of expertise.
- Significant growth was also experienced in the sector of stadium signage over this period. This specific sector is composed of traditional advertising boards, electronic scoreboards, rotating signs, as well as logo's and emblems on playing areas and playing fields. It is reported that this market in itself accounts for an annual expenditure of over R60 million.

As can be clearly seen from these points raised little doubt can be cast over the commercial value of sport, and even more so in this segment of sport expenditure. Given the existing and projected growth rates over the short to medium term, a significant future contribution to the South African economy can be expected.

2.4 Sports governing bodies

This sector is of course the subject of this study. It is a contributor to the sport industry, and according to the SISA Report contributed R 747 million to the economy in 1999, a figure inclusive of macro, national, provincial and regional controlling bodies of the different sports codes (Sports Information and Science Agency 2000:14). Expenditure is mainly in the areas of administration and also promotion of respective sports codes under the auspice of these governing bodies. In addition to this, capital expenditure amounted to R260 million, which includes expenditure on the 7th All Africa Games. One very significant aspect with regard to employment can be seen for this sector in both Tables 2.5 and 2.13, namely that part-time employees outnumber full-time employees. Upon closer examination, it can be seen that this is only true on the regional and provincial levels, not nationally. However, when taking into account the fact that there are roughly one hundred controlling bodies at national level (national federations and macro-bodies combined) there are roughly four full-time employees per organisation. This shows that voluntarism must be very prevalent within this segment of the sport industry.

Table 2.13 – Contribution of sports governing bodies to the South African economy in 1999

Sector	Contribution Expenditure (R million)	Capital Expenditure (R million)	Contribution to Employment	
			Full-time	Part-time
Macro-bodies / national federations	431	125	432	48
Provincial / regional bodies	316	135	1 467	2 410
TOTAL	747	260	1 899	2 458

Two of the key points of relevance in the SISA Report (Sports Information and Science Agency 2000:14):

- There is ever increasing pressure on the various sports governing bodies of sport to administer their sports in a professional manner. The new insistence on professionalism is necessitated by higher demands from the sector of sponsorship and advertising. There is increasing pressure from participants for facilities and coaching, as well as increased demands for transparency in management, a notion also supported by Van Heerden (2001:349) in calling for greater professionalism. It is further known and supported that the various sports codes and sports activities compete against one another within the industry and various industry markets for the attention of potential sponsors, participants and spectators alike (Mullin, Hardy & Sutton 2000:7-8)
- Due to these pressures, budget requirements are ever increasing, placing additional monetary pressure on the way that sport is managed and administrated. To aid in overcoming this, it is necessary to continuously strive to find sponsorship, which further impacts on the need for professionalism and best practice governance.

At the time of this research report there are 90 national federations registered with the South African Sports Commission, from a current total estimate of 140 different codes of sport being practised within South Africa (Scholtz 2002:67). The 2000 SISA report (Sports Information and Science Agency 2000:14) puts this figure at 138 national sports codes during 1999. It is estimated that more than 160 different sports are practised globally (Scholtz 2002:90). Some of these codes are consolidated under the umbrella of a single international and also national federation, which explains this discrepancy. For example, under the banner of the South African Gymnastics Federation, the codes of Men's Artistic Gymnastics, Women's Artistic Gymnastics, Rhythmic Gymnastics, Sports Aerobics, Acro Sport, Acrobatic Dance, Trampoline, Tumbling and General Gymnastics are accommodated. These disciplines have different events and championships of international importance. Also, four of these nine disciplines will feature as separate events during the 2004 Athens Olympic Games (*Fédération Internationale de Gymnastique* 2003).

It is further estimated that there are more than 1000 regional and provincial sports governing bodies in the country (Sports Information and Science Agency 2000:14). Again in the instance of the South African Gymnastics Federation, there are currently 15 regional bodies controlling these nine disciplines on a local or regional level (South African Gymnastics Federation 2003:2-5) For the period 1995 to 2002 the federation had 16 regional controlling bodies. (South African Gymnastics Federation 2002:3-5, 2001:3-5).

2.5 Clubs

Clubs form the basis of sport in South Africa, and are the base level where participation takes place within the tiered model of sport participation (Sport and Recreation South Africa 1999:9,11). Table 2.14 provides a breakdown of the different contributions of clubs to the sport industry segment. Figures contained in Table 2.14 are exclusive of part-time coaches or employees who possesses full-time employment elsewhere outside of the sport industry. Also, capital expenditure is inclusive of the construction of the Pakisa Motor Raceway in Welkom.

Table 2.14 – Contribution of clubs to the South African economy 1999

Sector	Contribution Expenditure (R million)	Capital Expenditure (R million)	Contribution to Employment	
			Full-time	Part-time
Clubs	1 424	242	14 882	420

Important relevant issues emerging from the report are:

- Club expenditure may vary considerably based on the scope and size of the club. Specific reference is made to golf clubs which operate on budgets exceeding R4 million, as opposed to small home-based clubs whose budgetary requirements are less than R5 000 annually.
- During the ten year period preceding the SISA Report in 2000, major growth was shown in the area of multipurpose and multi-sport complexes as well as technologically advanced gymnasiums.

- Local club growth and also establishment of new clubs is dependant upon factors such as growth within the respective sport code and also availability and access to funding for the erection of new facilities. A very strong seasonality factor is also coupled to this as well as significant growth in numbers after international events, as was experienced after the conclusion of the 1996 Atlanta by clubs in the United States (Normile 1996:42). The same trend was visible in South Africa during the two years after the 2000 Sydney Olympic Games. The number of registered gymnasts with the South African Gymnastics Federation increased from 9 645 individuals in 2000 to 12 343 in 2001, and decreased again to 10 933 in 2002. (South African Gymnastics Federation 2002:12).

2.6 Local authorities

The task of providing and maintaining public sport facilities falls to municipalities and local or metropolitan councils. Expenditure on construction of new facilities therefor forms a major component of the contribution made by this segment. Erecting new facilities is undertaken as part of the responsibilities of local authorities as imposed upon them in Section 2, Section 14 of the Local Government Transition Act – Second Amendment Act 97 of 1996 (Sports Information and Science Agency 2000:16; Sport and Recreation South Africa 1999:9; Craythorne 1997:416).

Table 2.15 – Estimated sport related expenditure by local authorities in 1999

Contribution Sector	Maintenance & Operational Expenditure (R million)	Capital Expenditure (R million)	Contribution to Employment	
			Full-time	Part-time
Local authorities	428	320	4 642	2 662

One important point raised in the SISA Report is the growing financial strain upon local authorities during the time of the SISA Report (Sports Information and Science Agency 2000:16). Prioritisation falls upon projects of health, housing, education, welfare and security. Sport does not have precedence in terms of budgetary allocations for the provision of new facilities, or even the maintenance of existing facilities, creating a situation where usage of public facilities are increasingly levied for maintenance. Yet there is an ever growing demand for new and better facilities, due to the increased rates of growth in participation levels, as described in section 3.3.2.

2.7 Business case for good governance in sport

As shown above, sport makes a significant contribution, both monetary and in terms of labour, to the South African economy. This involves the management of quite substantial amounts of funds either from government grants or sponsorships. The total contribution by the commercial sector to sport as shown in Table 2.12, amounts to R2 291 million in 1999.

As the section dealing with the commercial contribution of sport to the industry (section 2.3.4) mentioned, the commercial sector wishes to maximise its return on investment in the sports industry. The inability of sport to ensure at least an acceptable return for the investor may lead to withdrawal, and loss of substantial and much relied on funding for sport. This is clearly evident in the case of Athletics South Africa (ASA) which has within a period of five months lost its two main sponsors, namely ABSA Bank (The Editor 2003) and Engen, a South African petroleum company (Rakhale 2003c). Rakhale (2003c) reports in an Internet article that Engen's reasons for discontinuing its sponsorship were "a need for the company to focus more on Corporate Social Investment initiatives and pressure on existing sponsorship to demonstrate return on investment. Presumably the ASA sponsorship was not delivering on Engen's objectives".

As already pointed out a major advantage of a well governed sport body is its ability to attract and retain sponsorship in a sustainable fashion (Van Heerden 2001:349). This has the effect that adherence to best practice governance principles further aids in attracting additional funding, ensuring longer-term sustainability and identifying and managing

inherent risks of the organisation and its operating environment. The significant growth in the commercial sector over the period 1996 – 1999, discussed in section 2.3.4 above, only enforces the need for ensuring adequate return in investment to capitalise on this trend. The increasing demand for such returns made by the sponsorship and advertising sector is also adding impetus to a growing professionalism in the functioning of sports controlling bodies, a facet highlighted from the SISA Report in section 2.4.

Another example of the recent withdrawal of sponsorship, presumably because of insufficient investment return, is shown in the announcement of the global technology company Xerox, which indicated that it would not renew its worldwide sponsorship of the International Olympic Committee when due for renewal in December 2004. The Xerox company has been partnered with the Olympic Movement since 1964 and became a worldwide Olympic sponsorship partner in 1994 (Rakhale 2003b).

Good governance also aids in limiting potential future liability and exposure to future risk, as reported by Naidoo (2002:3) and PricewaterhouseCoopers (2003:1). The risk of lost sponsorship may also result from a lack of sufficient high-level management attention being given to non-financial matters. This point is illustrated by a recent article in the media in response to the alleged South African rugby racism media debacle just prior to the 2003 Rugby World Cup. The article, headlined “Boks: Sponsor concerned” reports that the main sponsor of the Springbok rugby team expressed concern about the developments around the racism allegations (News24 2003). The article further states that the sponsor has “requested the South African Football Union to handle matters in a proper and professional manner” (News24 2003). This further demonstrates the growing power of sponsors to insist on better management principles.

Financial loss and even total financial collapse pose another major risk for any organisation, including a sports body. Rakhale (2003a) reports in an internet article that the Bush Bucks, an Eastern Cape soccer club, were relegated from the Castle Premiership and placed under provisional liquidation due to liabilities amounting to R14 million and that financial ruin seemed immanent.

Finally, there is an ever-present danger of legislative intervention. As indicated in chapter one, government intervention in the form of legislation also may be imposed if national federations do not demonstrate competence in self-regulation.

In the case of South African boxing, legislation was imposed as a result of the national governing body's failure to properly manage its financial matters:

“Two years ago [2000] the activities of Boxing South Africa were suspended following financial mismanagement which rendered the organisation dysfunctional. The new legislation, signed into law by President Thabo Mbeki, has paved the way for the establishment of a body that is expected to administer boxing with a greater degree of professionalism.”
(The Editor 2002).

2.8 Conclusion

As highlighted at the start of this chapter, sport today plays a significant role in the South African Economy, not only through its direct contribution to the South African GDP but also indirectly in its effect in other sectors, for example employment opportunities created through sport and also the economic stimulation of regional areas through event hosting. As shown in this chapter the industry is certainly not stagnant, and the rate of growth within certain segments of the industry is pronounced. This demonstrates the importance of sport in the South African economy and therefore the need for implementation of best practice governance principles as a reflection of professionalism in sport. This ideal is supported by the Sports Information and Science Agency (2000:14). The International Governance in Sport Conference proceedings (Governance in Sport Working Group 2001:3) states that:

“it is undeniable that some sports at some levels now generate substantial revenues through broadcasting rights, sponsorship, ticket revenues and other sources. Nevertheless that remains a small part of sport and should not be allowed to detract from the fact that the main objective of responsible sporting bodies is to promote their sport generally and increase participation at all levels.”

Interest in sport and sport bodies should go beyond on-field performances, or achievement measured in terms of medals won. Long-term sustainability, profitability and growth should also be associated with sport, especially in the way that it is governed, and there is no room for only focussing on short-term goals such as medals. The 2002 King Report on Corporate Governance for South Africa (King II Report) advocates long-term sustainability through concepts like stakeholder engagement, integrated sustainability and triple bottom line

reporting. Long-term success on all fronts requires that the way in which sports controlling bodies run their business follow sound business practices, including principles of good governance and responsible management. This view is supported by Rauter (2001:1) who states that sports controlling bodies should consistently be searching for ways to improve the performance of their organisations in the broadest sense. Table 2.3 (section 2.3) shows that in 1999 the commercial sector was the third largest financial contributor (14.4%) to the sports industry, which in itself was responsible for contributing 2.0% to the South African GDP. Improved performance should therefore encompass improved commercial performance.

Those individuals placed into governing positions of a sports organisation, by means of election or appointment, are responsible to the organisation's members, and to society at large for proper and diligent governance and running of the organisation. It is vital to ensure that incumbents execute and implement appropriate actions for the long-term benefit of the entire organisation, and of society at large. They must have the necessary governance skills and attributes, and also the opportunity to acquire these further.

Chapter three discusses the history of the development of corporate governance. The examination begins with an overview of global development, then narrowed to development within South African, and finally focussed on the development of special governance issues within sport.

Chapter 3

3 History and development of good governance

3.1 Introduction

Globally, corporate governance has received growing interest over the past decade. Within the business world several authoritative statements on governance principles have appeared (Foreman 2001:2). Within the international sports industry itself, the notion of governance has surfaced, and in February 2001, the first international conference on sports governance took place in Brussels, Belgium. Following the release of the Cadbury Committee Report on the financial aspects of corporate governance in the United Kingdom during December 1992, the King Committee on Corporate Governance was formed in South Africa in 1993 under the auspices of the Institute of Directors, with the aim of considering the notion of corporate governance in the South African context (Wilkinson 2003:3). This was of course spurred on to a great extent by the increased interest the subject was receiving globally. The formation and subsequent work of the King Committee also coincided with the social and political transformation experienced by South Africa in the early 1990's.

This chapter focusses mainly on the history and development of the various codes of corporate governance as well as discussing some of the guidelines and recommendations made by them. The focus at international level falls almost entirely on the British models and codes of corporate governance development, because South African company law for the most part follows the British model. The development of South African company law has been based on British Company and areas of South African common law which fails to deal with specific issues have been supplemented by reference to the English. (Company Law Review Steering Committee 2001:ix; Cilliers, Benade, Henning, Botha, & De La Rey 1982:19) Current South Africa Company Law is also highly influenced by Australian company law, which off course also has its roots in the British system due to Australia's colonial history. This may account for the fact that the majority of literature on good governance and sport originates from these two countries.

3.2 Development of corporate governance

During the last ten years some significant changes in the administration of company governance have taken place globally, and especially in Britain (Gaved 2001) and South Africa (King 2003:7). These developments have not always been received favourably, at least initially, yet, some major improvements in the control and governing of businesses by company boards and chief executive officers alike, can be identified according to Gaved (2001). Improvements have been most noticeable in the areas of accountability and performance, and are coupled to the introduction of higher and more uniform governance standards based on widely recognised and supported principles of ethical and fair behaviour. These principles take the form of a framework for good governance or pillars of governance (Rossouw *et al.* 2003:3-4; Wilkinson 2003:5; Institute of Directors 2002:10-11; Naidoo 2002:12-13, 157). These also tie into the perceived rise in expectations of accountability and transparency across every aspect of society (Gaved 2001).

The development and formalisation of corporate governance noticed over the last decade, had in practical terms a single starting point, the formation of the Committee on the Financial Aspects of Corporate Governance in the United Kingdom chaired by Sir Andrew Cadbury during the early 1990's (Gaved 2001). The subsequent publication of the Cadbury Committee Report in December 1992 provided a governance model and framework on which to build for many other countries, and also formalised the induction of the whole corporate governance trend in the different companies and markets of the world (Gaved 2001; Reed 2000:1). Since then the report's findings have been used by the Organisation for Economic Co-operation and Development (OECD) and the World Bank in an attempt to create global standards and benchmarks (Gaved 2001).

The institutionalisation of corporate governance in South Africa came about with the publication of the first King Report on Corporate Governance in November 1994 (Wilkinson 2003:3). This specific code exceeded financial and regulatory aspects of corporate governance, and furthermore advocated an integrated approach to governance principles in the interest of wide ranging stakeholders through practices of good financial, ethical, social and environmental behaviour (Wilkinson 2003:3). Rossouw *et al.* (2003:3) describe two distinct models of corporate governance, an inclusive and an exclusive model.

The exclusive model focusses on company shareholders only, while the inclusive model is identified as including all stakeholders within its scope. The King Report on Corporate Governance (King I Report), in this classification provided an inclusive model.

Gaved (2001) explains that the resulting changes that have taken place in the governance of corporations are part of a much broader shift that is taking place in society. Expectations of increased accountability and transparency are having an impact on companies, governments and public organisations across Europe and around the world. Faster communications are playing an important role in this process, but so too is a growing intolerance of organisations and individuals who fail to demonstrate that they consistently follow the high standards that are expected of them.

The experience of the corporate sector is that in a fast changing climate it is far better to be proactive than reactive, but that the creation of a widely recognised and supported framework is only part of the process. For individual organisations, improving standards of governance is most certainly not a once off exercise that can be completed and then forgotten. Instead, a continuing process of review and renewal needs to drive real changes across all sectors of an organisation. The opportunity is huge but the challenge and commitment required should not be underestimated (Gaved 2001).

The new global and local focus on corporate governance has lead to efforts to codify various principles and policies. The key drivers for this requirement in improved performance, according to Foreman (2001:6) are threefold:

- Firstly, the trend of globalisation of business which transcends the inherent national and indigenous laws and regulations of a country (Foreman 2001:6), causing a greater need for universally accepted business practice: Gaved (2001) also supports this notion and states that the resulting changes that have come about in the way that corporations are governed form part of a much broader societal shift that is taking place;

- Secondly, the increasing pressure placed by the ageing western population on pension and superannuation plans to achieve superior returns: Specifically Foreman (2001:6) makes reference to major equity investors in the United States, United Kingdom and also Australia as reported on by Dunlop in Foreman (2001:6); and
- Lastly continuous growth in activism by shareholder and stakeholders alike (Foreman 2001:6). This is in recognition of the proactive stance many shareholders and stakeholders are taking as to a requirement for sustainable corporate performance and corporate social responsibility. The California Public Employees Retirement System (CalPERS) is a leader in the field of shareholder activism. A regularly published list containing the names of best and worst performing boards of Fortune 500 companies within the United States is compiled by CalPERS. They have also shown initiative in publishing Global Corporate Governance Principles in 1996 which according to Foreman (2001:6) was the only shareholder driven statement on governance at the time.

These three driving forces stand in close relation to increased public expectations of accountable and transparent behaviour from companies, governments and public organisations across the western world, and the growing intolerance of failure to consistently adhere to expected high standards of performance in this regard. Within this highly dynamic climate, the corporate sector has come to the realisation that a proactive anticipatory approach is superior and more sustainable than a reactive approach (Gaved 2001). However, this is only possible through the creation, adoption or adherence to a governance framework which is widely recognised and supported, as part of this process.

A comprehensive list of corporate governance codes and guidelines will provide an indication of the universality of best practice governance. This list was compiled by consolidating work by Gregory and Simmelkjaer (2002:1-106), Commonwealth Association for Corporate Governance (1999:19-90), Gregory (No date:20-23), and the European Corporate Governance Institute website.

Table 3.1 – International governance codes

Origin	Governance Code
Australia	Corporate Governance: A guide for fund managers and corporations. Investment & Financial Services Association Limited, December 2002.
	Horwath 2002 Corporate Governance Report: Research conducted by Associate Professor Jim Psaros and Michael Seamer. University of Newcastle Business School.
	Corporate Governance: A guide for investment managers and corporations. Investment & Financial Services Association Limited, July 1999.
	Corporate Governance - Volume One: in Principle; Volume Two: In Practice. The Audit Office of New South Wales.
	Performance Audit Report: Public Sector Corporate Governance.
	AIMA Guide & Statement of Recommended Practice (Corporate Governance Statements by Major ASX Listed Companies). Investment & Financial Services Association, July 1995.
	Bosch Report. Australian Institute of Company Directors; Australian Society of Certified Practicing Accountants; Business Council of Australia; Law Council of Australia; The Institute of Chartered Accountants in Australia; and The Securities Institute of Australia, 1995.
Austria	Austrian Code of Corporate Governance. [<i>Österreichischer Corporate Governance Kodex</i>]. Österreichischer Arbeitskreis für Corporate Governance, September 2002.
Belgium	Director's Charter, Directors Foundation [<i>Fondation des Administrateurs</i>], January 2000.
	Guidelines on Corporate Governance Reporting. November 1999.
	Banking and Finance Commission Report. Commission Bancaire et Financière, December 1998.

Table 3.1 – International governance codes

Origin	Governance Code
Belgium (continued)	Merged Code. Belgian Corporate Governance Commission (an initiative of the Brussels Stock Exchange) and the Commission Bancaire et Financière, December 1998.
	Cardon Report. Belgian Corporate Governance Commission, 1998.
	Corporate Governance Principles. Federation of Belgian Companies, 1998
Brazil	Corporate Governance Recommendations [<i>Recomendações sobre Governança Corporativa</i>]. Comissão de Valores Mobiliários (CVM), June 2002.
	Code of Best Practice. Instituto Brasileiro de Governança Corporativa (IBGC), May 1999, revised April 2001.
	Brazilian Code of Best Practices Preliminary Proposal. Top Management Summit, Itú, Brazil, April 1997; IBCA translation, September 1997
Canada	Proposed New Disclosure Requirement and Amended Guidelines. Toronto Stock Exchange, draft March 2002.
	Beyond Compliance: Building a governance culture (Saucier Report). Joint Committee on Corporate Governance, November 2001.
	Five Years to the Dey. Toronto Stock Exchange and Institute of Corporate Directors, June 1999.
	Corporate Governance Standards. Pension Investment Association of Canada (PIAC), September 1993, revised March 1997, updated June 1998.
	Responsible Corporate Disclosure: A search for balance. Toronto Stock Exchange Commission on Corporate Disclosure, March 1997.
	The Toronto (Dey) Report. December 1994.

Table 3.1 – International governance codes

Origin	Governance Code
Comparative studies	Comparative Study of Corporate Governance Codes relevant to the European Union and its Member States. European Commission Internal Market Directorate General, March 2002.
	International Comparison of Board Best Practices: Investor Viewpoints. Gregory, H.J., 2001.
	International Comparison of Corporate Governance: Guidelines and Codes of Best Practice in Developed Markets, Gregory, H.J., 2001.
	International Comparison of Corporate Governance: Guidelines and Codes of Best Practice in Developing and Emerging Markets. Gregory, H.J., 2000.
	Global Corporate Governance Codes, IRRG.
Cyprus	Corporate Governance Code. Cyprus Stock Exchange, March 2003.
Czech Republic	Revised Corporate Governance Code (Based on the OECD Principles). Czech Securities Commission, February 2001.
Denmark	The Nørby Committee's report on Corporate Governance in Denmark. Copenhagen Stock Exchange, December 2001.
	Guidelines on Good Management of a Listed Company (Corporate Governance). Danish Shareholders Association, February 2000.
	Ministry of Trade & Industry Guidelines. Ministry of Trade and Industry, November 2000.
Finland	Guidelines for Handling Corporate Governance Issues in State-Owned Companies and Associated Companies. Ministry of Trade and Industry, November 2000
	Corporate Governance Code for Public Limited Companies. Central Chamber of Commerce and the Confederation of Finnish Industry and Employers, February 1997

Table 3.1 – International governance codes

Origin	Governance Code
France	Pour un meilleur gouvernement des entreprises cotées: Rapport du groupe de travail présidé par Daniel Bouton, président de la Société Générale, Mouvement des Entreprises de France (MEDEF) & Association Française des Entreprises Privées (AFEP-AGREF), September 2002.
	Recommendations on Corporate Governance (Hellebuyck Commission Recommendations). Commission on Corporate Governance [<i>Association Française de la Gestion Financière – Association des Sociétés et Fonds Français d'Investissement (AFG-ASFFI)</i>], June 1998, amended 2001.
	Report of the Committee on Corporate Governance (Vienot II Report). MEDEF [formerly Conseil National du Partonat Français (CNPFF)] & Association Française des Entreprises Privées (AFEP), July 1999.
	Regulation No. 98-01 – 98-10. Stock Exchange Operations Commission, March 1999
	Marini Report. CNPF & AFEP, 1996.
	Stock Options: Mode d'Emploi pour les Entreprises. CNPF & AFEP, 1995.
	The Board of Directors of Listed Companies in France (Viénot I Report). CNPF and AFEP, July 1995.
	Germany
German Corporate Governance Code [<i>Deutscher Corporate Governance Kodex</i>]. Government Commission German Corporate Governance Code [<i>Regierungskommission Deutscher Corporate Governance Kodex</i>], December 2001.	
Baums Commission Report [<i>Bericht der Regierungskommission Corporate Governance</i>], July 2001.	

Table 3.1 – International governance codes

Origin	Governance Code
Germany (continued)	Corporate Governance Rules for German Quoted Companies [<i>Grundsatzkommission Corporate Governance</i>]. German Panel on Corporate Governance, January 2000, updated July 2000.
	German Code of Corporate Governance (GCCG). Berlin Initiative Group [<i>Berliner Initiativkreis</i>], June 2000.
	DSW Guidelines. Deutsche Schutzvereinigung für Wertpapierbesitz e.V., June 1998.
	Gesetz zur Kontrolle und Transparenz im Unternehmensbereich (KonTraG). German Ministry of Justice, March 1998.
	Drittes Finanzmarktförderungsgesetz. April 1998
Greece	Principles of Corporate Governance. Federation of Greek Industries, July 2001.
	Principles on Corporate Governance in Greece: Recommendations for its competitive transformation. Committee on Corporate Governance in Greece (under the coordination of the Capital Market Commission), October 1999.
Hong Kong	Model Code for Securities Transactions by Directors of Listed Companies: Basic principles. Hong Kong Stock Exchange Listing Requirements: Appendix 10, June 2001.
	Corporate Governance Disclosure in Annual Reports. Hong Kong Society of Accountants, March 2001.
	Code of Best Practice. Hong Kong Stock Exchange Listing Requirements: Volume 2 Appendix 14, February 1999.
	The Listings Rules & Listing Agreements: Appendices 7a, b and i to the Listings Rules. Stock Exchange of Hong Kong, 1999.
	New Corporate Governance Guide on Formation of Audit Committees. Hong Kong Society of Accountants, January 1998.
	A Guide for the Formation of an Audit Committee, Hong Kong Society of Accountants, December 1997.

Table 3.1 – International governance codes

Origin	Governance Code
Hong Kong (continued)	Guide for Directors of Listed Companies, Stock Exchange of Hong Kong, September 1997.
	Guide for Directors of Listed Companies. The Stock Exchange of Hong Kong, July 1995.
India	Report of the Kumar Mangalam Birla Committee on Corporate Governance. Committee Appointed by the Securities and Exchange Board of India (SEBI) on Corporate Governance under the Chairmanship of Shri Kumar Mangalam Birla, February 2000.
	Desirable Corporate Governance in India: A code. Confederation of Indian Industry. No Date.
	Draft Report of the Kumar Mangalam Committee on Corporate Governance. SEBI, September 1999.
Indonesia	Code for Good Corporate Governance. National Committee on Corporate Governance, March 2001.
	Code for Good Corporate Governance. National Committee on Corporate Governance, March 2000.
Ireland	Corporate Governance, Share Option and Other Incentive Schemes (IAIM Guidelines). Irish Association of Investment Managers (IAIM), March 1999.
	Corporate Governance and Incentivisation Guidelines. IAIM 1993/1994, updated October 1998.
	Statement of Best Practice on the Role and Responsibilities of Directors of Public Limited Companies. IAIM, 1992.
Italy	Corporate Governance Code [<i>il Codice di Autodisciplina delle società quotate rivisitato</i>]. Committee for the Corporate Governance of Listed Companies, Borsa Italiana, revised July 2002.

Table 3.1 – International governance codes

Origin	Governance Code
<p style="text-align: center;">Italy (continued)</p>	<p>Report & Code of Conduct [<i>Preda Code</i>]. Committee for the Corporate Governance of Listed Companies [<i>Comitato per la Corporate Governance delle Società Quotate</i>], October 1999.</p>
	<p>The Proposals of the Draghi Commission [<i>Le Proposte della Commissione Draghi</i>]. Il Sole 24 Ore On Line, July 1998.</p>
	<p>Law Reform based on Draghi Commission Proposals [<i>Testo Unico sulle disposizioni in materia di intermediazione</i>], February 1998.</p>
	<p>Report of the Draghi Committee [<i>Audizione Parlamentare, Prof. Mario Draghi, Direttore Generale del Tesoro</i>]. Ministry of the Italian Treasury, December 1997.</p>
<p style="text-align: center;">Japan</p>	<p>Revised Corporate Governance Principles. Japan Corporate Governance Forum, October 2001.</p>
	<p>Report of the Pension Fund Corporate Governance Research Committee: action guidelines for exercising voting rights. Pension Fund Association [<i>Kosei Nenkin Kikin Rengokai</i>]. June 1998.</p>
	<p>Corporate Governance Principles: A Japanese view. Corporate Governance Forum of Japan, October 1997, revised May 1998.</p>
	<p>Urgent Recommendations Concerning Corporate Governance. Japan Federation of Economic Organisations [<i>Keidanren</i>]. September 1997.</p>
<p style="text-align: center;">Kenya</p>	<p>Principles for Corporate Governance in Kenya and a Sample Code of Best Practice for Corporate Governance. Private Sector Initiative for Corporate Governance, November 1999.</p>
	<p>Sample Code of Best Practice for Corporate Governance, Private Sector Corporate Governance Trust.</p>
<p style="text-align: center;">Kyrgyzstan</p>	<p>Model Charter of a Shareholding Society of Open Type. Prime Minister's Office of the Kyrgyz Republic & Department of Economic Sectors Development, July 1997.</p>

Table 3.1 – International governance codes

Origin	Governance Code
Kyrgyzstan (continued)	Civil Code for the Public Company (formerly Handbook on Best Practice). Civil Code of Kyrgyzstan, 1996/1997.
Malaysia	Malaysian Code on Corporate Governance. Securities Commission Malaysia, March 2000.
	The Malaysian Code on Corporate Governance. High Level Finance Committee Report on Corporate Governance, February 1999.
Malta	Principles of Good Corporate Governance. Malta Stock Exchange, October 2001.
Mexico	Code of Best Corporate Practice [<i>Código de Mejores Prácticas Corporativas</i>]. Mexican Stock Exchange; the Mexican Bankers' Association; the Mexican Institute of Finance Executives & Mexican Institute of Public Accountants, July 1999.
The Netherlands	SCGOP Handbook of Corporate Governance. The Foundation for Corporate Governance Research for Pension Funds [<i>Stichting Corporate Governance Onderzoek voor Pensioenfondsen (SCGOP)</i>], August 2001.
	Government Governance: Corporate governance in the public sector, why and how? The Netherlands Ministry of Finance Government Audit Policy Directorate (DAR) November 2000.
	Ten Recommendations on Corporate Governance in the Netherlands (VEB Recommendations). Association of Shareholders [<i>Vereniging van Effectenbezitters</i>], 1997.
	Peters Report & Recommendations, Corporate Governance in the Netherlands. Committee on Corporate Governance, June 1997.
Pakistan	Revised Code of Corporate Governance. The Securities and Exchange Commission of Pakistan, March 2002.
	Stock Exchange Code of Corporate Governance. The Securities and Exchange Commission of Pakistan, 4 March 2002.

Table 3.1 – International governance codes

Origin	Governance Code
Pan-European	EASD Principles and Recommendations. European Association of Securities Dealers Corporate Governance Committee (EASD), May 2000.
	Corporate Governance Guidelines 2000. European Shareholders Association, February 2000.
	Sound Business Standards and Corporate Practices: A set of guidelines. European Bank for Reconstruction and Development (EBRD), September 1997.
	Corporate Governance in Europe. Report of a CEPS Working Party, June 1995.
	<i>[Principios de Buen Gobierno para las Sociedades Peruanas. Comisió Nacional Supervisora de Empresas y Valores (CONASEV)], July 2002.</i>
	Draft Statement of good Governance Principles for Sport Governing Bodies. Governance in Sport Working Group, February 2001.
	The Rules of the Game - Conference Report & Conclusions. Governance of Sport Working Group, February 2001.
Perú	<i>[Código de Buen Gobierno Corporativo para Empresas Emisoras de Valores. Centro de Estudios de Mercado de Capitales y Financiero], November 2001.</i>
Poland	Best Practices in Public Companies in 2002. The Best Practices Committee at Corporate Governance Forum, 4 July 2002.
	The Corporate Governance Code for Polish Listed Companies (final proposal). The Polish Corporate Governance Forum, June 2002.
Portugal	Recommendations on Corporate Governance. Securities Market Commission <i>[Comissão do Mercado de Valores Mobiliários]</i> , November 1999.

Table 3.1 – International governance codes

Origin	Governance Code
Romania	Corporate Governance Code in Romania. Russian Institute of Directors.
	Corporate Governance Initiative for Economic Democracy in Romania: Corporate Governance Code. International Center for Entrepreneurial Studies: University of Bucharest, June 2000.
Russia	The Russian Code of Corporate Conduct. The Co-ordination Council for Corporate Governance, April 2002.
Singapore	Code of Corporate Governance. Corporate Governance Committee, Council on Corporate Disclosure and Governance (CCDG), March 2001.
	Listing Manual and Best Practices Guide. Stock Exchange of Singapore, amended 1999
Slovakia	Corporate Governance Code (Based on the OECD Principles). Bratislava Stock Exchange (Prepared with the assistance of The British-Slovak Action Plan & DFID), September 2002.
South Africa	2002 King Report on Corporate Governance for South Africa. Institute of Directors in Southern Africa, March 2002.
	King Report on Corporate Governance. The Institute of Directors of Southern Africa, November 1994.
South Korea	Code of Best Practice for Corporate Governance. Committee on Corporate Governance, September 1999.
Spain	<i>[Informe de la Comisión Especial para el Fomento de la Transparencia y Seguridad en los Mercados y en las Sociedades Cotizadas]</i> , January 2003.
	Olivencia Report <i>[Código de Buen Gobierno, Special Commission to Consider a Code of Ethics for Companies' Boards of Directors appointed by the Spanish Cabinet]</i> , February 1998.
	<i>[Círculo de Empresarios]</i> , October 1996.

Table 3.1 – International governance codes

Origin	Governance Code
Sri Lanka	Code of Best Practice: report of the committee to make recommendations on matters relating to financial aspects of corporate governance. The Institute of Chartered Accountants of Sri Lanka, December 1997.
Sweden	Corporate Governance Policy: guidelines for better control and transparency for owners of companies quoted on the Swedish stockmarket. The Swedish Shareholders' Association [<i>Sveriges Aktiesparares Riksförbund</i>], October 2001.
	Good Boardroom Practice. Swedish Academy of Directors, March 1994.
Switzerland	Corporate Governance Directive. SWX Swiss Exchange, July 2002.
	Corporate Governance: Swiss Code of Best Practice. Swiss Business Federation, 25 July 2002.
Thailand	The Roles, Duties and Responsibilities of the Directors of Listed Companies. The Stock Exchange of Thailand (SET), December 1997 revised October 1998.
United Kingdom	Smith Report: Audit Committees - Combined Code Guidance. Report and proposed guidance by a Financial Reporting Council appointed group chaired by Sir Robert Smith.
	Review of the Role and Effectiveness of Non-executive Directors. Department of Trade and Industry, January 2003.
	The Responsibilities of Institutional Shareholders and Agents - Statement of Principles. Institutional Shareholders' Committee (Association of British Insurers; the Association of Investment Trust Companies; the National Association of Pension Funds; and the Investment Management Association), October 2002.
	Hermes Principles. Hermes Pensions Management Limited, October 2002.

Table 3.1 – International governance codes

Origin	Governance Code
United Kingdom (continued)	Review of the role and effectiveness of non-executive directors: Consultation paper. Department of Trade and Industry, June 2002.
	Code of Good Practice (AUTIF Report). Association of Unit Trusts and Investment Funds (AUTIF), January 2001.
	The Combined Code: Principles of Good Governance and Code of Best Practice, Derived by the Committee on Corporate Governance from the Committee's Final Report and from the Cadbury and Greenbury Reports. Committee on Corporate Governance, May 2000.
	NAPF Corporate Governance Code, June 2000.
	The KPMG Review Internal Control: A Practical Guide. KPMG Audit Committee Institute, October 1999.
	Turnbull Report: Internal Control: Guidance for Directors on the Combined Code. Institute of Chartered Accountants in England and Wales (ICAEW), September 1999.
	Corporate Governance Pocket Manual. National Association of Pension Funds (NAPF), 1999
	PIRC Shareholder Voting Guidelines. Pensions Investment Research Consultants (PIRC), 1993; revised 1996, 1999, March 2001
	Company Directors: Regulation Conflicts of Interests and Formulating a Statement of Duties. Law Commission, September 1999.
	International Corporate Governance Principles. Hermes Pensions Management Ltd., December 1999.
	Hermes Statement on Corporate Governance and Voting Policy. Hermes Pensions Management Ltd., July 1998.
Hampel Report: The Combined Code, London Stock Exchange, June 1998.	

Table 3.1 – International governance codes

Origin	Governance Code
United Kingdom (continued)	Hampel Report (Final). London Stock Exchange; Confederation of British Industry; Institute of Directors; the Consultative Committee of Accountancy Bodies; the National Association of Pension Funds; and Association of British Insurers, January 1998.
	Standards for the Board: Good Practice for Directors. Institute of Directors, 1995
	Greenbury Report. Study Group on Directors' Remuneration set up by the CBI, July 1995.
	The CISCO Guide: The financial aspects of corporate governance - guidance for smaller companies. The City Group for Smaller Companies, 1994
	Good Boardroom Practice: a code for directors and company secretaries. Institute of Chartered Secretaries and Administrators, 1995
	Cadbury Report: The Financial Aspects of Corporate Governance. Committee set up by the Financial Reporting Council; the London Stock Exchange; and accountancy profession, December 1992.
	Institute of Chartered Secretaries & Administrators Code. Institute of Chartered Secretaries & Administrators, February 1991
	Institutional Shareholders Committee Statement of Best Practice. Institutional Shareholders Committee, April 1991
United States of America	Findings and Recommendations Part 2: corporate governance, the conference board. Commission on Public Trust and Private Enterprise, January 2003.
	Corporate Governance Rule Proposals: Reflecting recommendations from the NYSE Corporate Accountability and Listing Standards Committee. New York Stock Exchange (NYSE) Board of Directors, August 2002.

Table 3.1 – International governance codes

Origin	Governance Code
United States of America (continued)	Principles of Corporate Governance. Business Roundtable, May 2002.
	Core Policies, General Principles, Positions & Explanatory Notes. Council of Institutional Investors, March 1998, revised March 25, 2002.
	Principles of Corporate Governance: Analysis & recommendations. American Law Institute, 1994, revised 2002.
	Report of the NACD Blue Ribbon Commission on Director Professionalism. National Association of Corporate Directors (NACD), November 1996, reissued 2001.
	Core Policies, General Principles, Positions & Explanatory Notes. Council of Institutional Investors (CII), March, 1998; revised March, 1999 & March, 2000
	TIAA-CREF Policy Statement on Corporate Governance. Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), March 2000.
	Report of the NACD Blue Ribbon Commission on Improving the Effectiveness of Corporate Audit Committees. New York Stock Exchange, December 1998.
	Corporate Governance Market Principles. California Public Employees Retirement System (CalPERS), April 1998.
	Report of the NACD Blue Ribbon Commission on CEO Succession. NACD, July 1998.
	Core Policies. Council of Institutional Investors, March 1998.
	Statement on Corporate Governance. Business Roundtable, September 1997.

Table 3.1 – International governance codes

Origin	Governance Code
United States of America (continued)	GM Board of Directors Corporate Governance Guidelines on Significant Corporate Governance Issues. General Motors (GM) Board of Directors, January 1994, revised August 1995, June 1997, March 1999, June 2000.
	California Public Employees Retirement System (CalPERS), CalPERS Corporate Governance Site, Various dates.
International Codes	Corporate Governance: Principles and Recommendations. European Association of Securities Dealers (EASD), April 2000
	EASDAQ Rule Book. European Association of Securities Dealers Automated Quotations (EASDAQ), January 2000, 3rd edition.
	CACG Principles of Best Business Practice for the Commonwealth. Commonwealth Association for Corporate Governance (CACG), November 1999.
	ICGN Statement on Global Corporate Governance Principles. International Corporate Governance Network (ICGN), July 1999.
	OECD Principles of Corporate Governance. Organisation for Economic Co-operation and Development (OECD), May 1999.

The overarching aim of the majority of these codes is to ensure responsible and accountable long-term and short-term operations by organisations. These codes have evolved to describe the governance of organisations by broadly advocating the pursuit of the following actions:

- Creation of best practices to ensure accountability for actions, responsibility by the organisation, and transparency for its broader societal stakeholders; This will lead to the greater propensity for assuring that organisations comply with legal and regulatory obligations;
- Creation and monitoring of checks and balances to ensure that the exercise of power within an organisation is balanced; and

- Creation of a mechanism whereby risks are identified which threaten the sustained existence of an organisation within the accepted parameters.

The purpose of corporate governance has been identified as improving the manner in which companies are managed through adherence to the abovementioned actions. In a global sense, therefore, corporate governance and corporate governance models are based on acknowledged principles of accountability through transparency, though a single set of rules and guidelines in the format of a universally applicable model is not possible (Naidoo 2002:12-13).

Some of the more influential codes will be identified in terms of historical significance, comprehensiveness and universal applicability of principles it contains, and their guidelines discussed. The discussion will focus first on the development of corporate governance from its inception in the first codes, namely the Cadbury Committee Report, Greenbury Report and Hampel Report from the United Kingdom. The second focus will be the development of corporate governance within South Africa concentrating on the first and second King Reports.

3.2.1 The Cadbury Report

After a number of large corporate scandals in the United Kingdom (King 2003:7) the London Stock Exchange joined by a number of other professional bodies, established a committee under the leadership of Sir Adrian Cadbury. Other incidents which supported this mobilisation included a series of highly publicised company failures, rapid growth in executive remuneration and conflicts of interest between directors and shareholders (Steele 1999:1). The Cadbury committee was formed in May 1991 (Dine 1995:1). One of its objectives, as stated in the introduction of the 1992 Report of the Committee on the Financial Aspects of Corporate Governance (The Cadbury Report) under point 2.8, was “to help to raise the standards of corporate governance and the level of confidence in financial reporting and auditing by setting out clearly what it sees as the respective responsibilities of those involved and what it believes is expected of them”. This notion is also supported in the research of Dine (1995:1).

The Cadbury Committee undertook an extensive consultation process with companies, a process not involving lawyers, regulators or legislators, though these parties might have been called upon had efforts at self-regulation failed. This approach was chosen because, as experience gained in the United States shows, litigious and adversarial confrontation between shareholders and organisation is not conducive to the voluntary creation and acceptance of more encompassing and systematic improvements (Gaved 2001). (This also supports the favouring of self-regulation over legislative regulation in the case of sport as explained in the problem statement of this report in section 1.2).

The Cadbury Committee Report was the first to touch upon and subsequently define certain key governance concepts, such as the board, its composition and responsibilities, the responsibilities of the chairman, and the audit and remuneration committees (Steele 1999:3). It also stressed the importance of creating and building support for general principles of best practice and good governance, while remaining not overly detailed or prescriptive. In fact, its conciseness has proved to be one of its great strengths over the last ten years. A critical factor in the success of the Cadbury Committee Report was the clarity of thinking and the avoidance of compromise contained within it, providing a framework on which companies could build in adapting to their own circumstances. This led to greater acceptance by companies and boards, but also provided a footing for further development of codes of governance (Gaved 2001). (By following a similar rationale, the identification of fundamental principles (pillars of good governance) the King II also Report aims to achieve similar success.) This approach also makes the report valuable for sport, in that it identified broad principles rather than gave specific requirements for adherence. Guidelines can thus be developed based on the identified principles by keeping adherence to the ideals of self-regulation.

The Cadbury Committee Report also mentioned the importance of internal controls, and made recommendations about the separation of the roles of chairperson of the board and of chief executive officer of the organisation (Reed 2000:1; Gaved 1999). Substantial work has been done further since the initial Cadbury Committee Report in the United Kingdom.

3.2.2 The Greenbury Report – 1995

The publication of this report was prompted by increasing public concern in the growth of remuneration for members of the executive, and even more so with regard to departing directors and also for directors of privatised utilities (Steele 1999:3). Concern was high among the general public and shareholders alike, as this was a period of general price increases and numerous redundancy declarations of employees. The Greenbury Report endeavoured to develop a code of practice with special emphasis on the areas of accountability and transparency. In response to the public concerns, much of the report dealt with the role of the remuneration committee and with the disclosure of information pertaining to remuneration within the Annual Report (Steele 1999:3).

3.2.3 The Hampel Report – 1998

The Hampel Committee on Corporate Governance reviewed both the Cadbury Committee Report and Greenbury Reports (Reed 2000:1; Steele 1999:3) with the intention of combining and producing a more inclusive code of corporate governance. It reiterated the emphasis on responsible behaviour by company directors towards shareholders, containing a greater emphasis on shareholder value. Over-rigid interpretations of the Cadbury and Greenbury codes had caused “the corporate sector [to complain] that a ‘box-ticking’ approach had been adopted by many investors, with insufficient account being taken ‘of the diversity of circumstances and experience among companies, and within the same company over time’” (Stapledon 1998:409). This according to Steele (1999:3) is often a major criticism of codified governance principles and corporate governance codes. The Hampel report therefore avoided prescriptive measures, which can be compared to giving effect to a culture likened to ‘box ticking’, and included recommendation for directors to be made responsible for monitoring non-financial risks and controls as well as financial risks and controls (Reed 2000:1).

Originally the Hampel Committee was requested and mandated to perform the following functions (Stapledon 1998:409):

- “Review the operation of the Cadbury Committee’s Code of Best Practice and make recommendations for changes if necessary”;
- “Pursue any matters arising from the Greenbury Committee’s Report” as well as the “Code of Best Practice”;
- “Keep under review the role of executive and non-executive directors”;
- “Address the role of shareholders in corporate governance”;
- “Address the role of auditors in corporate governance”; and
- “Deal with any other relevant matters.”

The resulting report of the Hampel Committee has a much wider scope than its predecessors and is organised in such a way to cover the following broad areas (Committee on Corporate Governance 1998:1-57):

- Corporate governance and principles of corporate governance,
- Role of directors,
- Director’s remuneration,
- Role of shareholders,
- Accountability and audit, and
- Recommendations.

When reviewing the Hampel Report, it becomes evident that it covers and deals with certain aspects specifically (Steele 1999:3-4). Specific issues referred to here include:

- Board performance,
- Roles of chairman and chief executive,
- Role of the audit committee,
- Role of the nomination committee,
- Role of the remuneration committee,
- Directors’ contracts,
- Remuneration,

- Disclosure of information,
- Conduct of AGM's, and
- Training.

According to Stapledon (1998:4.12) the Hampel Report endorsed the majority of the recommendations in the Cadbury Committee Report and Greenbury Report, and in some instances took an even firmer stance. Some criticism was levelled against the Hampel Report due to an apparent lack of universal applicability, and other complaints which concerned the make-up of the committee (Steele 1999:4).

In June 1998 (Steele 1999:4) the key recommendations from the Hampel Report (and thus the Cadbury Committee Report and Greenbury Report) were incorporated into the London Stock Exchange's Combined Code on Corporate Governance. This provided a means of self-regulation for best practice governance without the need for legislative intervention or regulation. This is also the case in South Africa with the listing requirements of the JSE Securities Exchange (Naidoo 2002:13). Companies have no formal obligation to abide by the code, but under the London Stock Exchange Listing Rules, and JSE Securities Exchange listing requirements, companies must prove compliance with recommendations in the respective Codes, as part of their annual reports.

When the Combined Code on Corporate Governance (the Code) was published, the Institute of Chartered Accountants in England and Wales (ICAEW) agreed with the London Stock Exchange that it would provide guidance to assist listed companies to implement the requirements of the Code relating to internal control (Institute of Chartered Accountants in England and Wales 1999:3).

3.2.4 King Committee Reports

Naidoo (2002:11) and Wilkinson (2003:3) state that Corporate governance was first institutionalised in South Africa through the publication in November 1994 of the first King Report on Corporate Governance, which exceeded the financial and regulatory aspects described in many other international counterparts (Wilkinson 2003:3).

In 1993 the King Committee, lead by Justice Mervyn King was formed at the insistence of the Institute of Directors of Southern Africa (Wilkinson 2003:3; Naidoo 2002:11). The purpose of the committee's work was to consider "*inter alia* issues of financial reporting and accountability, good practice concerning the responsibilities of directors and auditors, and a code of ethical conduct for South African enterprises" (Naidoo 2002:11). The committee's investigations coincided with the democratisation process in South Africa at the time. Even though the Reports are likened to the Cadbury Committee Report (see 2.2.1) their terms of reference are wider (Naidoo 2002:11).

The King I Report, referred to as 'King I' or 'The Code' published in November 1994 advocated an integrated approach to good governance serving the interests of a wider stakeholders audience. It embraced fundamental principles of good governance through touching on the dimensions of financial, social, ethical and environmental practices of good governance. King I adopted a participative corporate governance system of "enterprise with integrity" (Wilkinson 2003: 3). This reiterated the need for organisations to recognise that they are not free from society and its environment in which they operate. Their very existence is contingent on acknowledging the interacting roles the various dimensions play in this relationship. (Wilkinson 2003:3).

The work done by the King Committee and subsequent publication of both the first and second King Codes remains the definitive standard in 'Corporate Governance' in both South Africa and globally (Naidoo 2002:11).

3.2.5 King Report on Corporate Governance (1994)

The King I Report (Naidoo 2002:10-12) codified standards for the conduct of organisational management boards and its directors for an array of companies, organisations and other defined entities. Specifically these included companies listed on the main board of the JSE Securities Exchange, large public entities as defined by the Reporting by Public Entities Act No. 93 of 1992 definition, banks and other financial and insurance companies, and large unlisted public corporations with shareholders equity in excess of R50 million. Even though the Code was not statutorily enforced a number of post-1994 amendments were made to the original Companies Act No. 61 of 1973 (Naidoo 2002:10-12). The Code required this

identified group of enterprises to include in their financial statements declarations on their level of compliance, and also explanations on areas of non-compliance (Naidoo 2002:11). Even though the King I Report did not specifically deal with non-affected companies this group was used to benchmark and judge the robustness of corporate governance practices all types of organisations, and many felt that all companies should ideally have aspired to be measured against this yardstick (Naidoo 2002:2).

A number of recommendations contained in King I have received legislative impetus, the Labour Relations Act 66 of 1995, the Basic Conditions of Employment Act 75 of 1997 and the Employment Equity Act 55 of 1998 as being some of the more significant examples (Naidoo 2002:11-12). The King II Report incorporates, and also revises, certain of the King I Report recommendations (Institute of Directors 2002:17; Naidoo 2002:12).

3.2.6 King Report on Corporate Governance for South Africa (2002)

The 2002 King Report on Corporate Governance for South Africa, (King II Report), was published in March 2002. According to Naidoo (2002:12) the report is founded on the notion that any contextual manifestation of governance should reflect the societal value system on which it is based.

The King II Report moved away from the approach espoused in the King I Report in taking the view that a need exists for the provisor of a uniquely African, and even more importantly South African, business culture. This culture is different from that of American and British (European) business, as it incorporates African value systems, which according to Naidoo (2002:13) emphasise:

“the collective over the individual good; the principles of mutual interdependence and co-existence; the spirit of humanity (*ubuntu*), which is based on the premise that the individual is entitled to respect only because of his cordial coexistence with others; a hierarchical political ideology, but one based on an inclusive system of consultation at various levels; a preference for consensus over dissension; and a mentality of inherent trust and belief in the fairness of human beings.”

Specific areas covered by King II Report are expansions of the King I Report of 1994. Apart from the abovementioned incorporation of African values and ideals of *ubuntu*, additional concepts such as integrated sustainability, organisational integrity, stakeholder engagement, and triple bottom line reporting have been added to the earlier guidelines (Institute of Directors 2002:5-10).

As already mentioned, the work of Rossouw *et al.* (2003:3) states that corporate governance codes differ in terms of their focus, and that two distinct models can be identified, the inclusive and exclusive models. King II is widely regarded as the most progressive inclusive model globally, including not only company shareholders but all stakeholders in its scope (Rossouw *et al.* 2003:3). In this sense the King II Report recognises that while company shareholder interests are of major importance, additional focus is needed in terms of long-term sustainability (Rossouw *et al.* 2003:3-4).

Rossouw *et al.* (2003:4) highlights some underlying reasons for an inclusive approach. The first has to do with the social power and influence of corporations within society. This principle applies when looking not only at the economic impact of sport (as discussed in chapter two of this report), but also the impact sport has as a social construct. A second reason concerns underlying South African societal value systems, specifically the *ubuntu* or African humanism value system, signifying commitment to consensus, consultation and coexistence. With these reasons in mind, the following important sections of the King II Report have been identified for their particular interest. These are highlighted in terms of their content in the King II Report and discussions in PricewaterhouseCoopers (2003:69), Rossouw *et al.* (2003:4-7), and Naidoo (2002:55-138).

3.2.6.1 Boards and directors

The first section of the King II Report (Institute of Directors 2002:46-74) deals with and provides principles pertaining to a company's board and its directors. Adherence to these principles aids in the effective management of company functions and operations with the underlying premise that a well-managed board is better able to direct, control and competently manage the organisation. Core principles identified in this section include the board's ultimate accountability and responsibility for organisational performance and

affairs.

This is extended to the appropriate management of both risks (threats) and opportunities. In order to do this full and effective control over all organisational affairs is required. Yet, it stands to reason that governing boards of large, diversified and sophisticated company models cannot directly exercise all management powers themselves, and thus the delegation of power arises. It is thus incumbent upon the management board of an organisation to determine which core powers to retain and which to delegate to management and other “functionaries”. The principle contained in the King II Report is that delegation of powers should be done in writing and monitored and evaluated continuously (Rossouw *et al.* 2003:4).

The board should ensure that it possesses the required expertise, independence and diversity in order to govern effectively, and that there is a clear division of responsibilities at the highest level of management. This should ultimately lead to the assurance of an appropriate balance of power and so “prevent an individual from having unfettered powers of decision-making” (Rossouw *et al.* 2003:4). This also ties in with the principles of balance and fairness when viewed from the perspective of the pillars of good governance.

Another highlighted aspect is the separation of the roles and functioning of chief executive officer of the company and of the board chairperson. To further the ideals of good governance, companies are encouraged to separate these positions (PricewaterhouseCoopers 2003:72; Rossouw *et al.* 2003:4; Institute of Directors 2002:53; Naidoo 2002:103).

Further areas dealt with include a balance of executive and nonexecutive directors. The guideline given is that the majority of the director contingent should be composed of nonexecutive directors sufficient in number and independent of management (Institute of Directors 2002:60-63). This implies that independent nonexecutive directors are free from any business and other relationships with the company that could be viewed as potentially interfering with future independent behaviour (PricewaterhouseCoopers 2003:74; Rossouw *et al.* 2003:4; Naidoo 2002:158). The board chairperson accordingly should also be an independent nonexecutive director (PricewaterhouseCoopers 2003:73; Rossouw *et al.*

2003:4; Institute of Directors 2002:53; Naidoo 2002:61).

The King II Report also deals with recommendations on the procedures for board appointment and states that such procedures should be formal and transparent. It further deals with the workings of a nomination committee in this regard (Rossouw *et al.* 2003:4; Institute of Directors 2002:65-66). Additional areas dealt with include board member empowerment in terms of their functioning, director's remuneration, board meetings, the role of the company secretary, and individual board member duties and responsibilities. It also indicates the requirements in terms of disclosure of information pertaining to the aforementioned areas (Rossouw *et al.* 2003:4).

3.2.6.2 Risk management

Unlike the King I Report the King II Report addresses risk management as a fundamental element of corporate governance, rather than only covering internal control as an area of risk. "The King commission points out that corporate governance can, in part, be viewed as a company's strategic response to the need to assume prudent risks, appropriately mitigated, in exchange for measurable rewards" (Rossouw *et al.* 2003:5). One of the more important recommendations dealt with in the code is the proposition that the obligation for risk management lies with the board and its directors (PricewaterhouseCoopers 2003:79; Institute of Directors 2002:79-81; Naidoo 2002:117). Specifically this implies the role of the board in taking it upon them to ensure that the total process of designing, implementing and monitoring risk management is taken care of. Thus in practice the board is required to set risk strategy policies (PricewaterhouseCoopers 2003:79-80; Rossouw *et al.* 2003:5; Institute of Directors 2002:86-89; Naidoo 2002:119).

The King II Report (Institute of Directors 2002:78) states that this process can only be effective once it is integrated into the daily running and activities of the organisation. Effective risk management can only succeed in a company "if the risk strategy is incorporated into the language and culture of the company" (Rossouw *et al.* 2003:5).

The ultimate deliverables of such a risk strategy are:

- A demonstrable system of risk identification;
- Commitment by management to this process;
- A demonstrable system of risk mitigation activities;
- A system of documenting the cost of noncompliance as well as losses;
- A documented system of internal control and risk management;
- Alignment of assurance of efforts to the risk profile; and
- A register of key risks and risk areas that could affect shareowner and stakeholder interests (Rossouw *et al.* 2003:5).

Examples of identifiable areas of risk include that of operations, human resources, technology, business continuity and disaster recovery, credit and the market, and noncompliance risks. Furthermore, the King II Report points out that risk should not only be viewed from a negative perspective, nor does it attempt to detract from the inherent company orientation towards risk and risk averseness, but acknowledges that differences exist between various companies in this area. Full disclosure of this is pointed out as a requirement in assuring that duties of risk management is fulfilled, and guidelines are given for the purpose of disclosure (Institute of Directors 2002:79-81).

3.2.6.3 Internal audit

One of the mechanisms according to Rossouw *et al.* (2003:5) of assuring that the necessary checks and balances are in place is that of internal audit. The purpose of this is for protection of assets, effectivity of system operation and proper recording, and validations of transactions. The most important recommendations in the King II Report in terms of internal audit, highlighted by Rossouw *et al.* (2003:5) and include *inter alia* the specification that organisations should have an effective internal audit function. Should the board abstain from this, full disclosure for the underlying reasons must be provided in the annual report. In addition to this, disclosure must also be made of how effective internal control processes and systems will be achieved alternatively.

The ultimate goal of an internal audit function is to provide the company with the assurance that management processes are adequate to identify and monitor not only risk, but also effectiveness in the establishment of internal controls, credibility in feedback of these processes and objective information exchanges to and from management (Rossouw *et al.* 2003:5).

3.2.6.4 Integrated sustainability reporting

The explicit assumption proposed by this section of the King II Report is that non-financial issues carry significant financial implications, referring specifically to areas of social, environmental and ethical matters and the impact that negating these areas can have on the future sustainability of the organisation (Rossouw *et al.* 2003:6). The King II Report states that “social, ethical and environmental issues can no longer be regarded as secondary to more conventional business imperatives” (Institute of Directors 2002:97), and therefore encourages so-called ‘triple bottom line’ reporting.

The King II Report contains very specific guidelines and recommendations about these three areas, social, ethical and environmental. In doing so, a distinction is made between internal and external social responsibilities and obligations, in which internal guidelines suggest acts to enhance and protect the sanctity of employee health and safety. There is special emphasis, as supported by Rossouw *et al.* (2003:6) on the role of the board in managing the future impact of HIV / AIDS within and on the company. In chapter five of section four, the report discuss issues of employment equity, diversity management, black economic empowerment and social investment. Chapter six of the same section deals with human investment and the role it plays in attracting, unlocking and retaining human capital.

On the issue of responsible environmental governance the King II Report recommends that “environmental management be integrated into the normal business processes of the company” (Rossouw *et al.* 2003:6). Boards should see to it that companies adhere to environmental regulations and follow management practises that are beneficial to the environment at a cost acceptable to their stakeholders.

3.2.6.5 Accounting and auditing

The next section of the King II Report, section 5 (Institute of Directors 2002:133-153) deals specifically with external auditing by auditing firms. The Report proposes certain recommendations in this regard, such as approval by shareholders of auditor appointments. It further suggests consultation and co-ordination between the external and internal auditing role-players of the company. Rossouw *et al.* (2003:6) describes this as aiming for “efficient audit processes using external auditors in combination with the internal audit function”. Numerous technical reporting and auditing guidelines and recommendations pertaining specifically to financial aspects are included under section five of the Report. The report further advocates that details of reporting on non-financial aspects subjected to external validation should be included in the annual report. Also, information dissemination should be through a broad range of communication channels, including the internet (Rossouw *et al.* 2003:6).

The King II Report also elaborates on the specific make-up of the audit committee and the specific functions and role it has to fulfil, and on disclosure of its work, make-up, responsibilities and activities (Institute of Directors 2002:137-141).

3.2.7 Current status of the 2002 King Report on Corporate Governance for South Africa

In terms of its current status, the recommendations of the King II Report serve only as guides to an ideal state of good governance in organisations and companies falling outside the Report’s jurisdiction. It does however, constitute prescribed practice for a group of identified companies similar to that of the 1994 King I Report, most notably public companies listed on the JSE Securities Exchange, and also banks and other financial and insurance entities. Also covered are some public sector enterprises, albeit that these are self-regulating and not currently supported by attendant criminal sanctions, similar to sport. Succeeding the publication of the King II Report, the JSE Securities Exchange reviewed listing requirements to require specific adherence to a number of issues pertaining to disclosures about company directors (Naidoo 2002:13).

It is not feasible to expect National Sport Federations, or any membership association for that matter, to adhere to or aspire to all of the recommendations of the King II Report, which embodies in the archetypical corporate governance standard. This is because the physical structuring of membership associations differs from that of corporate enterprises making some guidelines not applicable. There are also differences in the makeup of ownership as reported by Foreman (2001:13). (These differences are discussed under 3.5.1).

However, the King II Report is built on certain fundamental principles, which have been described as “pillars of good governance” that carry universal applicability (PricewaterhouseCoopers 2003:2; Rossouw *et al.* 2003:3-4; Wilkinson 2003:5; Institute of Directors 2002:10-11; Naidoo 2002:12-13, 157). These principles find universal applicability and hold the same inherent value for corporate enterprise and sport federation alike. These pillars of governance will be discussed in section 4.3.

3.2.8 Corruption in South Africa

In April 2003, the South African Department of Public Service and Administration in conjunction with the United Nations Office on Drugs and Crime published a Country Corruption Assessment Report for South Africa. This report states in the preface that the aim is to provide a “comprehensive overview of the evidence available on the incidence and nature of corruption as well as the anti-corruption mechanisms put in place or envisaged for South Africa.” (Department of Public Service and Administration 2003:preface).

The Country Corruption Assessment Report (Department of Public Service and Administration 2003:7) also identifies a three pronged approach to fight corruption, namely prevention, investigation and prosecution, and education. This study on compliance with governance systems in sport stands in line with two of these approaches, namely education and prevention. Through the aims of good governance systems, progress is being made towards the prevention of various types of mismanagement and also prevention of crime. Even though a non-criminal tone is taken in the report being presented here with regard to the need for good governance, crime and corruption is a real possibility within South African sport. The assistance that adherence to good governance principles provides in diminishing this problem should not be discounted nor is it inferior in any way to the other

benefits already indicated.

Some points from the Country Corruption Assessment Report (Department of Public Service and Administration 2003:96), can be highlighted, as they stand in close relationship to the content of this study. Firstly, the Report found that 41.1% of respondent households perceive a high level of corruption in South Africa, and through this and that this is one of the most serious problems currently facing the country.

Secondly, in terms of perception on transparency and accountability within the public sector (Department of Public Service and Administration 2003:97), the highest rating over four different surveys was 59% success in maintaining transparency and accountability. South Africa ranks 36th out of 102 countries in terms of the rankings of Transparency International (TI) Perception Indices (a poll on the perception of business people and country analysts both resident and non-resident on the relative corruption of a country). Also, an integrity score of 4.8 was achieved out of a possible 10, whilst it is indicated in the Country Corruption Assessment Report (Department of Public Service and Administration 2003:104) that a score of less than 5 is deemed problematic.

The final point of interest in the Report is the fact that 1.3% of all uncovered corruption within state sectors manifested in sport. Sport is ranked 18th out of 22 state sectors in this index, ranked from highest levels (14.2%) to the lowest (0.4%) (Department of Public Service and Administration 2003:120).

24% of listed companies in South Africa does not adhere to the JSE Securities Exchange listing requirement in terms of having a documented code of ethics. This is according to a study undertaken by the Ethics Institute of Southern Africa (EthicsSA), reported by Brand (2003:2).

3.2.9 Sports governance code

In reviewing the various existing best practice governance codes and guidelines, it is clear that the majority of these are aimed at governance within the corporate or commercial sector, with a number specialising within specific corporate sectors, such as investment, insurance or auditing. Yet, within sport there has been an attempt to codify principles of good governance. In February 2001 a conference aimed specifically at discussing the issues of governance in sport was held in Brussels and a draft document titled “Statement of good Governance Principles for Sports Governing Bodies” was issued (Governance in Sport Working Group 2001). The conference report states that sport is increasingly attracting attention from politicians, legislators and courts in Europe, with the accompanying risk of legislative or judicial intervention which could potentially undermine the flexibility of self-regulation within sport in general, as mentioned before (Governance in Sport Working Group 2001:2-3).

The Report furthermore states that the European Council Declaration at Nice reaffirmed support towards the independence of sports controlling bodies and the right to self-regulation. Such support, however, was conditioned upon the premise that these governing bodies observe principles of democracy, transparency and solidarity across the industry and also adhere to a code of ethical conduct. Sport, thus must earn the benefit of having its “specificity recognised” (Governance in Sport Working Group 2001:3). Failure to do so will pressurise legislators nationally and internationally to intervene through statutory acts regulating sports bodies in a similar fashion to that of commercial enterprises. Furthermore, the conference concluded that the substantial revenue-generating ability of sport through broadcasting rights, sponsorship and gate revenue should not distract sports governing bodies from the fact that the main objective of their existence is still founded in their primary obligation to promote their sport and increase participation at all levels. However, this implies the need for long-term sustainability, which is an inherent requirement of best practice governance. Through the gaining of insight into these simple principles, and others identified by the conference, the fundamentals of best practice become evident.

In applying the principles articulated at the conference, insight is gained into the benefits this holds for sport and the sports industry alike. The conference particularly proposed the following specific benefits:

- A checklist for responsible behaviour by sports governing regulating bodies;
- Defending against legislative intervention by acting in a responsible manner towards identified stakeholders; and
- Demonstrating that there is virtue in self regulation for sport, and that sport can competently govern itself without legislative intervention.

In terms of the first point relating to the creation of a checklist, sport should steer clear of such an attempt, as experiences in the corporate sector have already proven this to be less successful than instilling basic principles upon which to build. Specific mention was made in section 3.2.3 to the 'box-ticking' mind-set of codified governance principles and codes as per the work of Steele (1999:3). The point statement above pertaining to defence against legislative intervention, has been defended in the discussion of the business case for sport in section 2.7 of this report. As for the final point, there has been proof from the corporate sector that adherence to good governance principles can demonstrate an ability to self-regulate, as shown in the discussion of the working of the Cadbury Committee (Gaved 2001) and the exclusion of legislators from this process in section 3.2.1.

The conference Report contains a set of guidelines specifically aimed at international and national sport regulating and governing bodies. These guidelines need to be discussed in reasonable detail due to their relevance to the topic of this research report.

3.2.9.1 Role of the governing body

The role of the governing body is described as including the responsibility to codify and regulate the sport, as well as to develop and promote it to widen popularity and support. This includes acting on behalf of individuals and groups involved as well as the sport *per se*. Fully performing this role will require best practice governance, with adherence to the principles of democracy, fairness, independence, solidarity and transparency. Ultimately the power to govern is vested within and directly or indirectly exercised by governing bodies through a system of representation. The report accentuates the fact that governing

bodies should thus acknowledge that the power they hold is given to them as trustees to govern the sport (Governance in Sport Working Group 2001:4).

3.2.9.2 Structure, responsibility and accountability

This section deals with sports organisations and governing bodies at all levels, and states that they hold similar roles and responsibilities to those of corporate boards, governments and judiciaries, a state of shared characteristics explained in terms of examples like the need for legitimacy through accountability and transparency displayed towards members and stakeholders alike. There is also a plea for the clear separation of certain functions, including those of codifying and amending playing rules. This is seen as a primary legislative function, which pertains to the primary driving forces in the development and evolution of sports bodies. Further to this, sports bodies, and more specifically their governing bodies, are seen as responsible to make and review decisions in the area of financial and organisational management and also that of events. A more recent development elucidated is that of arbitrator in the case of a dispute declaration (Governance in Sport Working Group 2001:4).

3.2.9.3 Membership and size of the governing body

Attention is given to technical aspects of governing structures, in terms of size, composition and workings. This section identifies requirements such as publication of names of governing officials, as well as certain biographical information relevant to the role fulfilled as member of the governing body. It also set out certain criteria and guidelines, specifically of relevance to candidates and incumbents alike, in terms of pre- and post-electoral procedures.

It further highlights the need for informed decision-making which necessitates taking account of the diverse interests of different role-players and stakeholders. This basically implies board membership in a state of equilibrium, resulting from a trade-off between the desire to take decisions from a fully informed position and the need to keep membership of such bodies to a manageable size able to achieve an adequate level of organisational efficiency (Governance in Sport Working Group 2001:4-5).

3.2.9.4 Democracy, elections and appointments

In no uncertain terms this section explicitly states the need for representatives to be chosen and elected to office through free, fair and standardised procedures. This should not be a foreign concept in any democracy. There should be no ambiguity about voting rights and member eligibility. Election procedures should be documented and communicated to all members with legitimate voting rights. For the sake of best practice governance, entry of new persons to the governing body should be facilitated and encouraged. Thus all key positions should be subject to a fixed office term of which the relevant period must be documented (Governance in Sport Working Group 2001:5).

3.2.9.5 Transparency and communication

This section holds that the way in which a governing body communicates with its members is a key indicator of the quality of its governance processes. Key aspects of this include a clear statement of the governing body's approach to governance and the articulation of its responsibilities towards members, through regular communication with members on policy decisions, elections and other matters. Also outlined here is a direct two-way communication system thereby providing channels for communication and feedback. It proposes that the governing body be compelled to regularly report formally to its membership about its activities, including summarising its financial affairs and activities. It also advocates frequent reports targeted at the needs of specific groups of members, and advocates the usage of the Internet (Governance in Sport Working Group 2001:6).

3.2.9.6 Decisions and appeals

This deals with the requirement for substantiating actions and decisions by means of sufficient reasoning. Furthermore, it suggests the implementation of a procedure for resolving differences, which could include access to internal or external appeals or to arbitration. In all cases procedural fairness, transparency, accessibility and efficiency should be central to this process. Of further importance is the point that no individual in a decision-making capacity on an arbitration or appeal board or panel should have any interest or stake in the outcome of the dispute. It also stresses the importance of not hindering a party from seeking remedy under the judiciary system of the country, or other regulating structures which exist for this purpose (Governance in Sport Working

Group 2001:6).

3.2.9.7 Conflict of interests

Acknowledgement is given to the fact that governing bodies may become involved in competing commercial aspects of sport, causing conflicts of interest where the wider interests of the sport may not necessarily be reconcilable with specific commercial objectives. This section helps to explain the causes of this through example and suggests demarcation of the governance function on the one hand and commercial involvement on the other by the management structures of sports bodies. This demarcation can be achieved by allocating various roles to different committees or bodies of the governing body. This requires each committee or body to adhere to clearly defined responsibility and reporting lines. Procurement is also a topic of discussion here, and receives attention through consideration of the appropriateness of an open tender system for contract engagement. It also discusses maximum contract life and contract exclusivity (Governance in Sport Working Group 2001:6-7).

3.2.9.8 Solidarity

Here the notion of solidarity as a key concept in the development of sport is debated, and the argument put forward that sports governing bodies need to recognise that fair and effective distribution of financial revenues from the sale of commercially valuable rights related to sport events encourages the development of talent and contributes to balanced and attractive competitions. A case is made for the ideals of equitable distribution of funding.

Commercialism and the resulting regulatory and political scrutiny of the structures and organisations of sport are examined, and are found to give impetus for a clear policy of redistribution of income. General principles are identified as guidelines for redistribution based on solidarity (between all levels of the sport), while adhering to governmental and other regulatory guidelines. These policies must pursue aims of objectivity and justification through effective communication on all levels. Also touched upon are administration of redistribution mechanisms and the requirements of transparency, accountability and objectivity (Governance in Sport Working Group 2001:7).

3.2.9.9 Recognition of other interests

In addition to the accountability to stakeholders and members alike, national federations should identify other interest groups, which are likely to be affected by their decisions and actions. The interests of these groups must be taken into account as far as possible (Governance in Sport Working Group 2001:7).

3.3 Other governance codes in sport

Other codes dealing with sport and issues of good governance include a number of publications by the Australian Sports Commission, and the University of London based Football Governance Research Centre. These will be briefly discussed in terms of their inherent value and relevance to sport in general.

3.3.1 Publications by the Australian Sports Commission

The Australian Sports Commission's contribution to the existing literature includes the identification of various principles of good governance in specific sport in Australia. Publications include a document on the role of the board and CEO, as well as two case studies within Australian sport.

3.3.1.1 Governing Sport – The Role of the Board and CEO

This document is the most prolific and valuable source found in this study's literature survey of the work by the Australian Sports Commission. It deals specifically with issues pertaining to the governing board of a sports body and also to the role of the CEO. It identifies various board duties which need to be carried out as part of the primary responsibility of stewardship and trusteeship on behalf of the stakeholders, in direct alignment with the notion of the fiduciary duties identified in other sources dealing with sport governance, most notable Foreman (2001:14) and the Governance in Sport Working Group (2001:4). It discusses the issue of stakeholder relationships with the sports body and the notion of distinguishing primary accountability towards legal owners and secondary accountability towards moral owners, and as such distinguishes between legal, moral and business stakeholders. This notion is discussed in greater detail in the following chapter, section 4.4.4.

While discussing legal owners, the code also reviews various legal issues pertaining to company legal formats, setting out an overview of director's and officers insurance and moral issues, as well as various governance structures. Various policy-related issues specific to the strategic management of the company are discussed but not in any great detail. The bulk of the recommendations relate to board functioning, role and responsibilities. This also includes the areas of board meetings, board committees, the role of the chairperson and the relationship of the board with the CEO, and extends to include various aspects involving the CEO, in particular appointment, and decision-making power delegated to the position by the board. In this regard performance and performance evaluation of both the board and the CEO are touched upon.

The final significant aspects included in the code relate to organisational risk assessment and financial responsibilities of both the board and the CEO. The value of this lies in the identification of certain sport specific-roles to be handled by the board. These are identified and discussed in chapter four section 4.4 in conjunction with recommendations and guidelines from other sources on this.

3.3.1.2 Case studies

The Australian Sports Commission has also published two case studies on governance issues in two Australian sports bodies. The first (Australian Sports Commission 2002a) deals with the introduction of governance education in Surf Life Saving in Australia, and in particular the methodology followed in the implementation thereof. The second (Australian Sports Commission:2002b) deals with the institutionalisation of changes within Athletics Australia in terms of management being converted into a 'corporate board'. The subsequent result of this change was increased financial performance through increased revenue and sponsorship income.

3.4 Publications by the Football Governance Research Centre

The Football Governance Research Centre of Birkbeck, University of London, deals specifically with issues of professional British football and Premier League Football Clubs and is therefore under regulation of various football authorities, including the Football Association (FA), the FA Premier League or the Football League, *Fédération Internationale*

de Football Association (FIFA) and Union of European Football Associations (UEFA). Regulation by the football authorities takes the form of terms and conditions of membership and associated codes of conduct (Hamil, Michie, Oughton & Shailer 2002:7).

Football clubs in Britain take various organisational forms, from Private Limited Companies, to Public Limited Companies listed on the London Stock Exchange, to Members' Societies (Binns, Hamil, Holt, Michie, Oughton, Shailer & Wright 2002:2; Hamil *et al.* 2002:5), and all of them are subject to British legislation. Adherence to company law is enforced through the judicial system. Furthermore, competition law also plays a role in the governing of these organisations and bodies through measures to control monopolies, mergers, policies and restrictive practices, such as price fixing. Additional legislative control is provided through consumer law which sets requirements for consumer protection and labour law regulating labour contracts, such as player contracts, and employment rights (Hamil *et al.* 2002:5).

The Football Governance Research Centre investigates and makes certain recommendations on issues of governance pertaining specifically to British football. Three reports by the Football Task Force were published and submitted to the Minister for Sport in England. These include:

- Eliminating racism from football (Football Task Force 1998a);
- Improving facilities for disabled supporters (Football Task Force 1998b); and
- Football: commercial issues (Football Task Force 1999).

Two research papers have also been published:

- The state of the game: the corporate governance of Football clubs 2001 (Hamil *et al.* 2002); and
- The state of the game: the corporate governance of Football clubs 2002 (Binns *et al.* 2003).

The overwhelming majority of the work contained in the reports concentrates specifically on issues of British football, and reverse extrapolation to sport in general is difficult, particularly in a report such as this which uses the method of identification of general

principles, which are then applied to a specific scenario.

3.5 Relationship between governance and sport

The majority of discussions on corporate governance throughout the world has been focussed more on the determination of good governance principles within the corporate environment (Foreman 2001:7). However, the experience gained in the corporate world provides valuable lessons for sport as it attempts to develop higher and more consistent standards of governance because the principles inherent in best practice governance are as applicable to sport and sports governing bodies as they are to corporate enterprise (Gaved 2001). Foreman (2001:5) suggests that this is only legitimate as far as it can be proved that sport bears some relationship to the corporate world of business, for example similarities in an increased focus on financial viability, and business practices such as marketing and strategic planning.

Taking a utilitarian view, good corporate governance makes good business sense (Naidoo 2002:3). More specifically Rauter (2001:3) states that in the first instance long-term sustainability depends on this principle, and that effective governance is not a voluntary action but an integral part of any successful organisation, sports industry and sports bodies included. Focussing on the Australian situation, it follows that as sport in Australia “rises to the next level of sophistication, governance practices that encourage sustainable performance will take the lead” (Rauter 2001:3). However, to both successfully and effectively attain this, management will be required to review at regular intervals the purpose and goals of their organisation to ascertain any deviation in the stated vision and long term objectives, a point stressed by Rauter (2001:1).

A major advantage of best practice governance is the ability of a properly managed national federation to attract and retain sponsorship in a sustainable fashion (Van Heerden 2001:349). It stands to reason that sponsors should ultimately require responsible administration of their money. Furthermore, adherence to good governance practice aids in an ability to generate additional funds, to implement sustainable growth which is prerequisite for survival, and to identify and manage the business and other risks within agreed-upon parameters and so limit potential liability (Naidoo 2002:3).

A key issue seems to be continued financial viability of the sports body, be it at a club, regional, provincial, national or international level, while still dispelling a growing perception among supporters that they are being disenfranchised in favour of corporate interests held by the sponsors and the media (Foreman 2001:10).

Good governance can thus be seen as focussed attention and commitment in striving towards continuous improvement. This notion of continuous improvement is also an inherent quality of sport. It is so integral, in fact, that is embodied into the Olympic motto "*Citius, Altius, Fortius*" which translates into "swifter, higher, stronger". Is it not simply fair towards the athletes who constantly strive for improvement to expect the same from the officials who govern their sports organisations?

3.5.1 Nature of sports governing bodies

Traditionally formed as amateur organisations and managed by volunteer office bearers, some national and international sport governing bodies have become organisations run and managed by professional administrators trained in sports management. These organisations have annual turnovers reaching multimillion rand figures. They are mostly governed by a board of elected directors who are in turn accountable to the members of the organisation (Katwala 2000; Foreman 2001:3; Gaved 2001; Hamil *et al.* 2002:8-12), in accordance with their constitutions.

Foreman (2001:10) reports one point where a significant difference used to exist between many sports organisations and other profit-seeking business enterprises, and traces this back to the evolution of sports organisations from their social roots. The difference is that, in elite sport in Australia especially, clubs though chronically under-funded, are not driven by financial constraints but rather by the emotional expectations of parochial club members, creating a situation where market forces are ignored (Foreman 2001:11). However, a trend is reported whereby sports clubs and even governing bodies are moving away from this traditional format of membership associations. Examples of these are English Premier League clubs, clubs of the Australian Football League (AFL), clubs and teams of the American National Football League (NFL), National Hockey League (NHL), Major League Baseball (MLB) and National Basketball Association (NBA) (Hamil *et al.*

2002:3-6; Foreman 2001:11; Mullin, Hardy & Sutton 2000:144-146). These sports bodies now have the ability to attract world-class players, command a global television following and rally global followership and support for their sport. In the case of the English Premier League club's there are public companies which own and run these clubs, which are accountable to legitimate owners of these enterprises, namely the shareholders, and must ensure transparent and accountable corporate governance. (Hamil *et al.* 2002:3, 8; Foreman 2001:11; Gaved 2001; Football Task Force 1999:16).

At the time of this report there are globally as in South Africa still a number of fundamental differences between sports governing bodies and corporate companies. Gaved (2001) states that, generally speaking, these differences can potentially ease the development of a general governance framework for sports and governance specific practices for individual sport codes. Gaved identifies three general differences, considered to be the most important:

- Members of sports bodies are not comparable in terms of ownership to corporate shareholders of corporate business enterprises. Membership of a sports body is not a tradable commodity, as share ownership constitutes a legal construct. Membership associations as in the case of sports bodies are essentially a collection of people associating for the purpose of sharing a common interest in:
 - the broad development and funding of their sporting interests / concerns;
 - training and participating;
 - competitions and events; and
 - the codification and application of rules.

Shareholders interests do have common elements, mostly based on return for invested capital, but are seldom as broad in scope as that of sport membership.

- Sports body membership is limited to natural persons, typically belonging only to a single organisation. Shareholding is not limited to natural persons, and in fact most share options are held by competing financial institutions with diversified company ownership interests.
- Commercial activities do not constitute the fundamental right to existence of most sports bodies, even though commercialism and commercial intent has grown dramatically over the past few years. On the other hand, corporate boards and

shareholders are strongly focussed on commercial activities and company's financial and strategic performance, and alignment of activities to shareholder interests plays an important role.

3.5.2 Principle of self-regulation

Governing bodies of sport are traditionally independent and autonomous. A fundamental goal of sport and its governing bodies is the protection of inherent autonomy and power of self-determination. However, for some this has the implication that sport in a global sense cannot be reformed, and that oligarchic self-interest will prevail at the end of the day. Katwala (2000) states that sports governing bodies can be described as “wedded to an absolutist conception of their own sovereignty” clinging to “the last vestiges of unaccountable power.”

The Australian Sports Commission (2002a:5) also recognises the importance of pro-active self-regulation and supports this in favour of enforced alignment with cumbersome regulatory obligations.

Currently there is no specific legislation governing sport *per se*, in terms of the running and administration of the sport. This is enforced by section 12 of the Sports Commission Act 109 of 1998, which states that the South African Sports Commission is obliged to respect the autonomy of national sports bodies in the administration of their respective sports codes. However, through the promulgation of the South African Institute for Drug-free Sport Act 14 of 1997 the requirement for ethics and fair play has to a great extent been given new status. This is said as certain remedial actions, including life banning from competitive participation of athletes and members of the sporting fraternity may be instituted against transgressors.

3.6 Conclusion

In South Africa, the global move towards corporatisation of professional sport is also becoming noticeable. This can be seen when investigating the activities of sports organisations within the ranks of the Professional Soccer League (PSL) and even among provincial rugby teams (Simpson & Dore:2002; Dorrian 1998:174-180). Director's remuneration in rugby for example does not compare unfavourably with that of directors in the public sector, and even exceeds salaries of the directors of certain public corporations. In the news media the South African Rugby Football Unions' managing director was reported to earn R2.4 million annually "for his duties in leading the national body" (Nel 2003:1). In the article it is also stated that this amount "is more than twice that of President [Thabo] Mbeki", State President of South Africa of the day (Nel 2003:1). On the same day another article indicated that the Group Executive of the South African Broadcasting Corporation's annual remuneration totalled R1.932 million (Mittner 2003:1). These media reports also indicate the growing trend towards a more corporate professional nature for sport, a notion supported by the NSW Department of Sport and Recreation (2002) and Foreman (2001:11). Sports Australia (in Foreman 1999:11) states that "clubs which continue to operate as traditional members' clubs or associations are increasingly being seen as out of step with the new order of professional sport." The intention of this study is not to investigate the corporatising of sport but merely to point out the importance of timely and proactive steps to ensure that if and when sport finds itself even more closely matched to corporate enterprise than is currently the case, the need to adhere to requirements of good governance is not imposed by law, but rather voluntarily attained through responsible self-regulation. This ideal is supported by the Commonwealth Association for Corporate Governance (1999:1) which points out that good governance practices have already become a necessity in every country and organisation, and it is no longer incumbent only on public corporations listed in various security and stock exchanges to adhere to these requirements.

The specific attributes of good governance and principles of accountable, responsible and transparent governance will now be identified, by searching the available literature for the most recognised and supported principles. Those principles and recommendations judged to be the most beneficial for the governance of sport and sport governing bodies as they

stand in relation to the pillars of governance espoused in the King II Report (Naidoo:157) will be identified and discussed in the light of sport's uniqueness. Various definitions of corporate governance are discussed, from which the foundation of those principles identified as pillars of good governance are thoroughly examined, and then adapted to the specific requirements of the governance of sports bodies in general and national federations in particular and where applicable.

Chapter 4

4 Best practice governance systems

4.1 Introduction

The board of directors of an organisation has the responsibility of assuring good governance (Commonwealth Association for Corporate Governance 1999:6) which is essentially about governance through leadership, and more specifically, the responsible leadership of a company's management or board (Wilkinson 2003:6; Naidoo 2002:1). This implies leadership that is transparent, answerable and accountable to the organisation's stakeholders, through the creation of equilibrium between economic, social, individual and collective goals (Commonwealth Association for Corporate Governance 1999:3-8). It strives towards close alignment between individual, organisational and broad societal interests. In essence thus, governance in any contexts reflects the societal value systems of which it is part and in which it operates (Wilkinson 2003:3, 5).

As discussed in section 3.2.9 most best practice governance codes are aimed at governance within the corporate or commercial sectors. In sport also there has been an attempt to codify principles of good governance, namely the International Conference on Governance in Sport. According to the conference report the European Council Declaration at Nice reaffirmed support towards the independence of sport controlling bodies and the right to self-regulation (Governance in Sport Working Group 2001:3). Such support however, was conditioned upon the premise that these governing bodies observe principles of democracy, transparency and solidarity. This ties in directly with the pillars of good governance proposed in the King II Report (Institute of Directors 2002:10-11). The 2002 King Report on Corporate Governance for South Africa is the current definitive global standard for corporate governance. The International Conference on Governance in Sport Report (Governance in Sport Working Group 2001) is the only source dealing specifically with governance on this level in the sports industry. These two documents form the framework in which principles applicable to South African national sport federations will be identified. These principles are discussed after the establishment of an intention of governance through studying the various definitions of governance and best practice governance.

4.2 Defining corporate and best practice governance

The issue of governance, and more specifically the term ‘corporate governance’ has succeeded in attracting widespread public interest in most developed economies over the past decade. This can be attributed to the apparent importance attached to the economic health of the organisations and companies within society in general. Corporate governance has been defined in various initiatives (Hampel Report 1998; Directorate for Financial, Fiscal and Enterprise Affairs 1998:2) roughly as being the relationship between management, the board of directors who have been appointed by owners to oversee the management of the company on their behalf and the shareholders themselves (Foreman 2001:2; CACG Guidelines 1999).

However, the concept of ‘corporate governance’ is poorly defined because its scope is too broad in terms of the number of distinct economic phenomena it includes. Also, the different application fields of management and business shade the interpretation given to the concept in those respective fields differently. This leads to yet more definitions being developed. Foreman (2001:3) proposes that contemporary use of the term “governance” relates to the role of the board in performing its oversight function of management. This is seen as a more pro-active function to ensure sustainable performance for the legitimate owners.

In order to define exactly what constitutes best practice governance systems, various sources on this subject must be examined. An overview of the relevant sources reveals the following definitions of “corporate governance”:

- “The simplest, most generally-accepted definition of governance is the responsibility and accountability for the overall operation of an organisation” (Bohen in Taylor 2000:109).
- “Corporate governance is the system by which companies are directed and controlled” (International Definitions of Corporate Governance 2003; Cadbury 1992:15; <http://www.encycogov.com/WhatIsGorpGov.asp>).

- “Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals ... the aim is to align as nearly as possible the interests of individuals, corporations and society” (Cadbury Committee Report, in Institute of Directors 2002:5).
- “The system by which companies are directed and controlled for the benefit of shareholders” (Steele 1999:2).
- “The responsibility and accountability for the overall operation of an organisation” (Bohen, in Taylor 2000:109).
- OECD Principles of Corporate Governance (1999) - International organisation
“[C]orporate governance . . . involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and [this] should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently” (Ad Hoc Task Force on Corporate Governance 1999).
- “Corporate governance encompasses the system of laws, codes and regulations that govern the way in which corporate organisations - including football clubs - behave and operate. The system of corporate governance defines the rights and roles of different participants in an organisation - the shareholders, the board of directors, employees and other stakeholders - and the relationships between them”. (Hamil, *et al.* 2002:3).
- “Corporate governance is the system [by which] corporate entities (which include nearly all sporting bodies) are directed or managed and controlled” (NSW Department of Sport and Recreation 2002).

Additional definitions, not covered in the above, are obtained from the Oslo Børs Informasjon AS on their website (International Definitions of Corporate Governance 2003):

- Peters Report (1997) - Netherlands: “[The] concept of corporate governance has been understood to mean a code of conduct for those associated with the company ... consisting of a set of rules for sound management and proper supervision and for a division of duties and responsibilities and powers effecting the satisfactory balance of influence of all the stakeholders”.
- Cardon Report (1998) - Belgium: “‘Corporate governance’ refers to the set of rules applicable to the direction and control of a company”.
- Berlin Initiative Code (2000) - Germany: “Corporate governance describes the legal and factual regulatory framework for managing and supervising a company”.
- Nørdby Report & Recommendations (December 2001) - Denmark: “[Corporate governance includes the] goals, according to which a company is managed, and the major principles and frameworks which regulate the interaction between the company’s managerial bodies, the owners, as well as other parties who are directly influenced by the company’s dispositions and business (in this context jointly referred to as the company’s stakeholders). Stakeholders include employees, creditors, suppliers, customers and the local community.”

The Encyclopaedia about Corporate Governance provides the following additional five definitions (<http://www.encycogov.com/WhatIsGorpGov.asp>):

- “Corporate governance is a field in economics that investigates how to secure/motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organisational designs and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure/motivate that the corporate managers will deliver a competitive rate of return”.

- “Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment”.
- “Corporate governance ... can be defined narrowly as the relationship of a company to its shareholders or, more broadly, as its relationship to society”.
- “Corporate governance is about promoting corporate fairness, transparency and accountability”.
- “Some commentators take too narrow a view and say it (corporate governance) is the fancy term for the way in which directors and auditors handle their responsibilities towards shareholders. Others use the expression as if it were synonymous with shareholder democracy. Corporate governance is a topic recently conceived, as yet ill-defined, and consequently blurred at the edges ... [which must be understood] as a subject, as an objective, or as a regime to be followed for the good of shareholders, employees, customers, bankers and indeed for the reputation and standing of our nation and its economy”.

Even though most of these definitions are focussed on corporations with a commercial interest, the principles of responsible, transparent, fair and accountable management toward all stakeholders central to this theme apply globally to all types of organisations, including sports organisations.

For the purpose of this research report the King II Report (Institute of Directors 2002) as well as the statement of principles from the International Governance in Sport Conference (Governance in Sport Working Group 2001) will form the foundation on which national sport federations will be assessed. The abovementioned two documents are the most relevant and recent attempts at providing guidance in this regard.

4.3 Pillars of best practice governance

Gaved (2001) reports, as stated earlier, that improvements have been identified in the governance of organisations by boards and CEO's alike, due to the new impetus in the requirement of boards to act in an accountable manner towards its stakeholders. These improvements are directly coupled to the introduction of higher and more uniform governance standards based on widely recognised and supported principles of ethical and fair behaviour in the form of governance frameworks, "pillars of governance" or principles of good governance (PricewaterhouseCoopers 2003:2; Rossouw *et al.* 2003:3-4; Wilkinson 2003:5; Naidoo 2002:12-13, 157). These so-called pillars are built largely on expectations of increased accountability and transparency across every aspect of society (Gaved 2001). Furthermore, there is a growing intolerance of organisations and individuals who fail to demonstrate that they consistently follow the high standards that are expected of them (Gaved 2001). This new global and local focus on these most basic principles has led to efforts to codify various listed policies and codes. Through the identification of these codes, these principles or pillars have also been expanded to include themes of responsibility, sustainability fairness and social responsibility (Foreman 2001:10-14). This point is highlighting by Rossouw *et al.* (2003:3) who conclude that currently:

"corporate governance hinges on four cardinal values: fairness, accountability, responsibility and transparency. Recommendations about board composition, directors' duties, risk management, internal audit and so on are merely mechanisms for assuring that corporations adhere to these four cardinal values."

This proves the inherent values which society sees as sacred and upon which governance through the actions and behaviour of management should be based. These four 'cardinal values' along with the three additional principles or pillars identified in the King II Report (Institute of Directors 2002:10-11) will form the basis of investigation into the relevance of these to ensure good governance in sport. The chosen pillars of governance are accountability, responsibility, transparency, social responsibility, independence, fairness and discipline.

4.3.1 Accountability

The need for accountability receives attention from the Gerrard (2003:37), Rossouw *et al.* (2003:3), Wilkinson (2003:5), DiPiazza (2002:4), Hamil *et al.* (2002:8), Foreman (2001:14), Gaved (2001), Taylor (2000:114), Australian Sports Commission (1999:3), Football Task Force (1999:17), Institute of chartered accountants in England and Wales (1999:6) and Committee on Corporate Governance (1998:49). Attention is also given to accountability as a principle of indispensable for good governance by several codes and organisations (Institute of Directors 2002:10-11; NSW Department of Sport and Recreation 2002; Governance in Sport Working Group 2001:4; Committee on Corporate Governance 2000:4,9; Directorate for Financial, Fiscal and Enterprise Affairs 1999:23-24; Committee on Corporate Governance 1998:7-8; King I 1994; Cadbury Committee Report 1992:11; European Corporate Governance Institute). The need for accountability specifically pertaining to sport is identified and discussed by Ryan (2002:2), Gaved (2001), Foreman (2001:3), Rauter (2001:2) and Katwala (2000).

As reported by Katwala (2000), informal sports governing structures coupled with closed cultures have largely resisted the impetus to change and adapt to modernised views of the world and governance even though the sports industry is experiencing a decreased ability to cope with increasing corporatisation and commercialisation of globalized sport and also with the new found pressures of accountability and transparency (Ryan 2002:2; Foreman 2001:11; Gaved 2001; Rauter 2001:4; Katwala 2000).

A second element in this field is the creation of a culture of accountability (DiPiazza 2002:3-4). Mere provision of information is not sufficient. There should be an inherent commitment accompanying the act of accountability amongst the stakeholders and role players alike in the administration of sport and its governing bodies. This, according to DiPiazza (2002:4) implies taking responsibility, which can only occur in the presence of an ethos that values, understands and supports accountability. Rauter (2001:2) adds that accountability and responsibility are linked, as individuals responsible for actions or outcomes are held accountable for them. However, accountability in this sense then also proposes that those individuals or role players delegating tasks or actions are also accountable for the actions and outcomes of the acting parties. Only the responsibility to physically perform the

actions can be delegated, and not the accountability for these actions. This, if it were to happen, would constitute an abdication of accountability.

In this regard the board of a sports body, according to the Australian Sports Commission (1999:4), is accountable to its legal and moral owners. It has accountability thus to those with whom the organisation has a business relationship, as well as a fiduciary (Foreman 2001:10; Governance in Sport Working Group 2001:4; Australian Sports Commission 1999:4) and moral duty towards members and broad stakeholders. This further implies ultimate overall accountability for all organisational matters as well as actions by the legal incumbents of the organisation's management. This view is also supported by the Australian Sports Commission (1999:5).

Thus in conclusion, accountability ultimately lies with those parties who make decisions, take actions and implement measures on specific issues. Not only must mechanisms to ensure thus exist, they should also be effective in allowing for accountability. This provides a means to query and assess the actions of the governing officers and committees (Institute of Directors 2002:10-11; Naidoo 2002:56-57; Commonwealth Association for Corporate Governance 1999:11; Cadbury Committee Report 1992:48). It lays on the board the duty to justify its actions willingly, but acknowledges that "effective two-way communication and engagement with stakeholders is a prerequisite for accountability" (Rossouw *et al.* 2003:3).

4.3.2 Responsibility

Responsibility in the same manner receives attention from the Rossouw *et al.* (2003:3), Wilkinson (2003:4), DiPiazza (2002:2), Foreman (2001:7), Taylor (2000:114), Australian Sport Commission (1999:7), Football Task Force (1999:17), Directorate for Financial, Fiscal and Enterprise Affairs (1999:23-25) and Committee on Corporate Governance (1998:11). In terms of sport governance specifically, there are authors who identify this requirement: Ryan (2002:2), Foreman(2001:10), Gaved (2001), Rauter (2001:3), and Katwala (2000). The majority of governance codes do not distinguish between the concepts of accountability and responsibility, the assumption being that these are inextricably linked. Indeed the term 'responsibility' is sometimes used interchangeably with 'accountability', implying that the two terms mean the same thing. The King Report II (2002) however,

makes a clear distinction between accountability and responsibility in terms of the qualities these values propose, as do Naidoo (2002:2) and Rossouw *et al.* (2003:3).

A description of the meaning of responsibility is offered by the Australian Sports Commission (1999:5) in proposing that each member of the governing board is responsible for all decisions taken by the board. This implies that board members share a common liability and they could be held legally liable both individually and collectively in the event of an alleged failure by the board to properly exercise its 'duty of care'.

Ryan (2002:1) suggests that principles of effective governance should lead to a guarantee that the roles and responsibilities of role-players and members of the sport body are clearly delineated so that individuals can work in closer harmony and achieve greater efficiency. This is necessary to ensure that resources are put to the best use for the sport. Rossouw *et al.* (2003:3) states that responsibility refers to "the obligation of the board to take good care of the assets" of the organisation. This involves both investments and stakeholder interests, and that the responsible board will protect the organisation's material assets and reputation from damage. These two concepts should be further seen as the obligation of the board to ensure that structure of the federation is beneficial to efficient management and control.

Naidoo (2002:157) proposes that with respect to management, the King II Report describes responsibility as behaviour that allows for corrective action as well as penalisation of mismanagement. Responsible management would when necessary introduce actions to direct the organisation onto the correct path. Rossouw *et al.* (2003:3) puts this as providing stakeholders with recourse mechanisms in the event of sustaining harm through the actions and behaviour of the organisation. While the board is accountable to the organisation it must act responsively and with responsibility towards all stakeholders (Institute of Directors 2002:5; Naidoo 2002:2, 157). Accountability, as discussed above also implies a responsibility to respond to critics according to Katwala (2000). This is said not just to protect the values of the sport and the governing body *per se*, but also sustainability as achieved through sustainable profitability and growth. This is in line with the explanation given by the King II Report (in Naidoo 2002:157).

4.3.3 Transparency

The need for transparency is identified by PricewaterhouseCoopers (2003:43), Rossouw *et al.* (2003:3), Wilkinson (2003:4), DiPiazza (2002:3), Institute of Directors (2002:10), Naidoo (2002:157), NSW Department of Sport and Recreation (2002), Ryan (2002:2), Foreman (2001:11), Gaved (2001), Governance in Sport Conference Report (2001), Rauter (2001:2), Commonwealth Association for Corporate Governance (1999:8), Institute of chartered accountants in England and Wales (1999:9), and Directorate for Financial, Fiscal and Enterprise Affairs (1999:8). Some discussions of governance codes include the principles of communication and disclosure either implicitly or explicitly with that of transparency. Essentially these terms are encompassed by the notion of transparency within the context of this discussion.

One view on transparency and disclosure of information and decision-making is that of Rauter (2001:2) who describes the ideal governance system as unconcealed to the relevant stakeholders in terms of strategy, decision-making and decision-making principles and reporting on financial and operational performance.

Transparency and communication are identified by Gaved (2001) as being key components in establishing legitimacy within an organisation. Effective communication requires great clarity in terms of the message being communicated, including provision of information in ways that are relevant and meaningful to the intended audience, and includes the key values openness and timelessness.

Commitment to such communication must manifest in three visible ways in the organisation, which can be examined to gauge the extent of this commitment:

- The general framework and principles that the organisation in its communication processes;
- The extent to which these have been developed and transformed to reflect the needs of the organisation along with its members; and
- The physical implementation of these principles within the organisation.

In the absence of the final point specifically, issues of governance run the risk of being viewed as theoretical or academic without any practical benefit of relevance (Gaved 2001).

The way in which a governing body communicates with its members is a key indicator of the quality of its governance processes. Key aspects of communications, according to the guidelines established by the Governance in Sport Working Group (2001:6), include:

- A clear statement of the governing body's approach to governance and articulation of its responsibilities towards members;
- Regular communication with members on policy decisions, elections and other matters (executive, legislative, judicial, commercial); and
- Direct two-way communication providing channels for feedback from members.

Also, the governing body is compelled according to these guidelines to regularly report formally to its membership-holding constituents about its activities, including a summary of the governing body's finances and financial activities. Frequent reports targeted at the needs of specific groups of members may be deemed appropriate in this regard. The Internet could be a most valuable instrument for this purpose to make information readily available to members, stakeholders and interested parties.

The initial benefit of a transparent reporting system is to expose "political machinations, corruption and the bumbling amateurism of delegates" in the words of Katwala (2000), thereby allowing all decisions made by governing agencies to be scrutinised. This is important not only on the big scale, for example in awarding of the Olympic Games to a country, but also the smaller more localised and smaller scale issues such as team selections and awarding of colours by national and even provincial sports governing bodies. Transparency is nonnegotiable: clear and transparent selection criteria, in the case of team selections, must be communicated in a timeous and efficient manner to avoid any disputes during or after the actual selection process, given that the published guidelines are adhered to. Despite this principle sports bodies sometimes tend to view these inquiries from directly involved or more distant stakeholders and in particular the media, as illegitimate, for example FIFA President Sepp Blatter's response to allegations of bribery: "The referee has blown his whistle. The players have left the field. The game is over" (Katwala 2000).

In conclusion, incorporating the views of Wilkinson (2003:4), Institute of Directors (2002:10), Naidoo (2002:157) and Rauter (2001:2) transparency (inclusive of the term disclosure) can be defined as the ease with which an outsider is able to make meaningful analysis of the organisation's actions, its economic management fundamentals, and the non-financial aspects pertinent to that organisation. This is in essence a measure of the success with which management makes the necessary and important information available in a candid, accurate and timely fashion - not only the audit data but also general reports and press releases. It reflects ease in the ability to obtain a true picture of what is happening inside the organisation.

4.3.4 Social responsibility

Post, Lawrence and Webster (2002:58) explain corporate social responsibility to mean: "that a corporation should be held accountable for any of its actions that affect people, their communities, and their environment". Social responsibility receives a lot of attention within literature in comparison to the other identified pillars of good governance. This manifests in a reference to terms such as 'recognition of other's interests' (NSW Department of Sport and Recreation 2002; Hamil *et al.* 2002:3; Governance in Sport Conference 2001; Korac-Kakabadse, Kakabadse, & Kouzmin 2001:29; Brown 2000:147; Katwala 2000; and CACG Guideline 1999), the realisation of 'social responsibility' (Rossouw *et al.* 2003:6; Wilkinson 2003:4; Institute of Directors 2002:11; Naidoo 2002:127-128; Ward, Borregaard & Kapelus 2002:2; Brown 2000:139, 143; and Thibault & Harvey 1997:46) and 'stakeholder interests and needs' (Hamil *et al.* 2002:3-4; Branston, Cowling & Sugden 2001:12; Foreman 2001:6; Gaved 2001; Rauter 2001:2; Australian Sports Commission 1999:4; Commonwealth Association for Corporate Governance 1999:11; Directorate for Financial, Fiscal and Enterprise Affairs 1999:18; and Thibault & Harvey 1997:46).

Korac-Kakabadse, Kakabadse & Kouzmin (2001:24) report the notion that organisations are social entities and as such actors in the broader society, and are therefore also responsible to act in the best interests of their social constituencies. This indirectly proposes that the ideals of best practice governance necessitate that the interests of such social and political constituents be fully appreciated and adequately addressed. However, understanding of this concept of 'corporate social responsibility' or 'corporate citizenship'

differs between different geographical settings (Ward, Borregaard & Kapelus 2002:2), implying that location and socio-political circumstances should always be considered.

The authors further state that these terms are often associated with (Ward, Borregaard & Kapelus 2002:2):

“unwelcome paternalism as distinct from a more ‘partnership-based’ approach to engagement between companies and organisations that might otherwise be viewed simply as beneficiaries of philanthropy.”

Thus, response to these concepts when used by authors and in codes of good governance will vary.

The actual practical understanding and implementation of terms also varies. This lies on a continuum of mere acknowledgement of the existence of different stakeholders, to recognition of stakeholders and various stakeholder interest and needs, to action to improve or assist in the attainment of stakeholders interests and needs. The King II Report (Institute of Directors 2002:6) states that an organisation is likely to:

“experience indirect economic benefits such as improved productivity and corporate reputation by taking those factors into consideration”.

The same holds true for any organisation, or in this case a sports body or national sports federation. This view is also strongly supported by Ward, Borregaard and Kapelus (2002:3,5). However, recognition of benefits of social responsibility is largely absent in current literature.

The term ‘stakeholder’ refers to those groups or individuals who are either directly or indirectly interested in the affairs of the federation, and include those who have a direct interest in its financial success as well as those who are indirectly affected by the federation’s activities, e.g. government and the surrounding community. The Australian Sports Commission (1999:4) defines stakeholders as:

“those groups and individuals who benefit in some material way from the existence of the organisation.”

This however, negates responsibility for actions and behaviours which negatively impact on the community or the environment. A similar stance is taken by the Football Task Force (1999) in limiting the scope of responsibility to only those who are voluntarily involved, or who stand to gain some benefit from their involvement. This is in contrast to the ideals proposed by the King II Report (Institute of Directors 2002:5-6,11), which was the first instance of the broader definition stated above, appearing in an official published document.

Support for this definition can be found: Naayab (in Ward, Borregaard & Kapelus 2002:2), describes social responsibility as being the:

“...concept that an enterprise is accountable for its impact on all relevant stakeholders.”

This could be further expanded to include the notion of fair and responsible behaviour towards relevant stakeholders (Ward, Borregaard & Kapelus 2002:2) and the prevention of damage to quality of life of individuals affected by the operations of the organisation. The term ‘corporate citizenship’ has a similar meaning (Ward, Borregaard & Kapelus 2002:2). However, these definitions risk being considered only applicable to corporate enterprises, thereby again failing to provide impetus for change in sports bodies.

Ward, Borregaard and Kapelus (2002:3-5) examine the idea further. There is a need to make a case for responsible behaviour, since faster acceptance of this principle can be expected when coupled with the perceived expectation of better sustained or even enhanced strategic and financial performance. This is also indirectly implied in an article by Thibault and Harvey (1997:58) about the benefits of creating of inter-organisational links between sport and various role players in the community. Yet, without a clear view of the promise such a case holds for sustained or improved success, this notion is in danger of not being readily or applied as a principle of good practice. These problems notwithstanding, the concept of social responsibility still inherently incorporates both a social and an economic dimension.

The National Sport and Recreation Act 110 of 1998 states in Section 10 (1e) that funding of sport and recreation, and in particular funding provided to national federations, is given under certain terms, including a demand for “acceptable standards of administration from recipients of government funding”. Section 10(3) further states that funding is dependent on the practice and exercise of social responsibility, and the practice of discrimination may forfeit this benefit. Thus, exclusion of certain groups based on discriminatory reasons render an organisation ineligible of receiving government funding. This leads to a truer realisation of the meaning of social responsibility: sports bodies are not called on to act responsibly to prevent negative effects to social or environmental facets within their sphere of influence, but must pro-actively participate in programmes and institute actions to promote social and environmental needs and priorities. Sports governing bodies must in addition recognise and pursue the aims of cultural and social cohesion through their sports. In particular, adherence to Section 9 of the Constitution of the Republic of South Africa No. 108 of 1996 should play a central role. Section 9 state that:

- “(1) Everyone is equal before the law and has the right to equal protection and benefit of the law.
- (2) Equality includes the full and equal enjoyment of all rights and freedoms. To promote the achievement of equality, legislative and other measures designed to protect or advance persons, or categories of persons, disadvantaged by unfair discrimination may be taken.
- (3) The state may not unfairly discriminate directly or indirectly against anyone on one or more grounds, including race, gender, sex, pregnancy, marital status, ethnic or social origin, colour, sexual orientation, age, disability, religion, conscience, belief, culture, language and birth.
- (4) No person may unfairly discriminate directly or indirectly against anyone on one or more grounds in terms of subsection (3). National legislation must be enacted to prevent or prohibit unfair discrimination.
- (5) Discrimination on one or more of the grounds listed in subsection (3) is unfair unless it is established that the discrimination is fair.”

This does however not detract from sport participation and playing laws, rules and regulation pertaining to gender differentiation in participation.

During the International Governance in Sport Conference (Governance in Sport Working Group 2001:7) proposals were made that in addition to accountability to stakeholders and members alike, national sport federations should identify other interest groups likely to be affected by their decisions and actions in a broader social context, and the interests of

these groups taken into account as far as possible. This, seen against the backdrop of best practice with respect to governance, implies that well-managed organisations are aware of and successfully respond to external and internal social issues, and place a high priority on adherence to ethical standards. A good socially responsive and responsible entity is increasingly seen as one that is non-discriminatory, non-exploitative and responsible with regard to environmental and human rights issues, and includes principles of black economic empowerment, affirmative action and skills development amongst other. Another very topical issue is that of HIV / AIDS in sport. This discussion not only pertains to social responsibility in terms of discrimination against those with the disease, but also to risk management in protecting those in danger of involved from contracting the disease. Sankaran, Volkwein and Bonsall (1999:40) write that:

“with risk management being a hot topic in today’s corporate and professional society, it is only a matter of time until those who organise and conduct recreational and competitive sports events feel the need to inform all persons involved with event management about universal precautions.”

Environmental awareness is also included under this discussion. Standeven and De Knop (1999:241) states that has been a movement from indoor sport participation to outdoor participation since the 1970's across the sports industry. Furthermore little reference was initially made to “a critical ecological view on practising sports in the open air”. However, this increase in outdoor sports participation led to local conflicts between participants and environmental activists and protectionists. Strasdas (in Standeven and De Knop 1999:249) report that “the quantitative development of outdoor sports expresses itself in an increase in the number of activities and of participants, the time spent on these activities, as well as the rising costs of equipment”. The increased popularity of these outdoor sports leads to two distinct phenomena. Firstly a huge concentration of participants in some areas resulting in intensified infrastructure to support participants’ activities, and secondly outdoor activities that are practised more widely and frequently due to increased individualism and “back to nature” trends (Schemel and Erbguth in Standeven and De Knop 1999:242). Thus, to ensure sustainability of resources and increased participation trends, sports bodies need to realise that environmental issues are as applicable to sport as it is to corporate enterprise, and that a proactive stance must be taken. Environmental protections also receives legal impetus in the National Sport and Recreation Act 110 of

1998 (South Africa 1998b:8) which states in section 12 that all sport and recreation activities must be conducted in such a way that the environment is not adversely affected. This duty befalls the sports governing body which is to ensure that the necessary rules and guidelines are in place to ensure this according to the act. This is applicable to all organisations who use environmental resources and not limited to only federations who's activities take place outdoors or within the natural environment. Those federations within urbanised areas also have the responsibility to ensure that their electricity and water usage is done in an accountable and responsible manner, for example sports stadia lighting, irrigation and maintenance, and noise pollution.

Specific examples of social issues already investigated and reported on by the Football Governance Research Centre, University of London, includes the Reports on Investing in the Community (Football Task Force 1999:9), Eliminating Racism from Football (Football Task Force 1998 a), and Improving Facilities for Disabled Supporters (Football Task Force 1998 b). In South Africa the Ellis Park stadium disaster is another example of a social issue which received attention through the appointment of a judicial commission of inquiry under the chairmanship of Justice Bernard Ngoepe (Van Stan 2002; contrast.org 2001).

In this final report of the Ngoepe Commission of inquiry identified 11 factors contributing to the incident, including:

- Failure by event organisers to learn from past experiences;
- Failure by role players;
- Failure by the role-players to clearly identify and assign responsibility;
- Corruption amongst certain members of the security personnel; and
- Dereliction of duty.

Some of these contributing factors apply to more areas than just that of social responsibility, eg. accountability and responsibility. However, the impact of the event had severe social implications, and is thus included into the discussion on social responsibility.

In conclusion then, a socially responsible national sports federation, can be described as a well-managed organisation, which is aware of, and successfully respond to, external and internal social issues placing a high priority to the adherence of ethical standards. It is an organisation that is increasingly seen as one that is non-discriminatory, non-exploitative, and responsible with regard to environmental and human rights issues, which stand to experience economic benefits through improved productivity, investment and corporate reputation by taking those factors into consideration. These organisations (sports governing bodies) should in addition to the accountability to stakeholders and members alike, identify other interest groups, which are likely to be affected by its decisions and actions, and recognise and pursue the aims of cultural and social cohesion through their sports.

4.3.5 Independence

Here, as with social responsibility, different terms are used to imply similar intentions. However, not as much literature could be found on independence. Independence (Rossouw *et al.* 2003:6; Institute of Directors 2002:10; Naidoo 2002:157; Rauter 2001:2; Australian Sports Commission 1999:5; CACG Guideline 1999) here refers to the extent to which measures and mechanisms have been introduced to minimise or avoid potential conflicts of interest that may arise. These mechanisms may range from the board composition to committee appointments by the board and appointment of external parties e.g. auditors. Any decision taken about the establishment of internal processes should be objective in nature and free from undue influence. Governing bodies do from time to time become involved in one or more of the commercial aspects of sport. However, this may cause conflicting interests where the wider interests of the sport may not necessarily be reconcilable with the specific commercial objective. White (2003:50-56) cites various examples of this experienced in English football (soccer) circles.

To prevent this, the International Conference on Governance in Sport (Governance in Sport Working Group 2001:7-8) recommends that there should therefore be a clear demarcation between the governing body's governance function and any commercial activities or involvement. This demarcation can be achieved by allocating various roles to different committees or bodies within the governing body.

In such a case each committee or body must have clearly defined duties, obligations, methods of accomplishing these and reporting lines. The committee or body with commercial responsibilities must whenever appropriate consider an open tender system for all contracts, commercial or otherwise. These contracts should be no longer in duration and no more exclusive or restrictive than is demonstrably essential. Rauter (2001:1) holds the view that independence implies “independent views and opinions, objective assessment and freedom from constraints of internal and external influence”.

The financial auditing process is also important in this sense as it is integral to ensure confidence in disclosure, thereby enhancing transparency and limiting corruption. In the corporate environment this is an inherent requirement for financial markets to operate effectively. In this specifically, the requirement is for every public company to be audited annually by a firm of independent accountants. Crises involving the integrity of the audit and oversight process of such companies as Enron, WorldCom, Xerox, Cendant, Adelphia, and Tyco has placed renewed focus and attention to this requirement. Public trust, which include investors, insurers, and creditors, is essential for the confidence that formal and informal capital markets require, and this is a function of the ability of audited financial statements to provide an accurate picture of the finances of the organisation (The Conference Board 2003:29). This would also apply equally to the sports governing body.

Reported allegations of auditing failures associated with the recent corporate scandals as named above is a major eroding force in the required level of trust. The United States’ Sarbanes-Oxley Act of 2002, is just one of the proposed measures, along with the proposed New York Stock Exchange listing standards, and the NASDAQ corporate governance proposals, which focusses on structural reforms *inter alia* to improve the independence of outside auditors (The Conference Board 2003:29). Consistency, quality and completeness of financial reporting and disclosure is becoming part of the basic principles of corporate governance, and the emergence of International Financial Reporting standards bears testimony to this (Ernest & Young 2002:2).

Furthermore, governing bodies must be able to substantiate by means of sufficient reasoning all of their actions and decisions. They must ensure that procedures exist for resolving differences. Such procedures might include access to internal or external appeals, or access to arbitration (whether *ad hoc* or through a recognised body such as the South African Sports Commission), or a combination of such procedures. In all cases procedural fairness, transparency, accessibility and efficiency should be central to the process. No individual in a decision-making capacity on an arbitration or appeal board or panel should have any interest or stake in the outcome of the dispute.

In addition to providing access to such procedures the governing bodies must do nothing to hinder a party from seeking remedy under the present judiciary system of the country.

4.3.6 Fairness

Reference to the value of fairness can be found in the work of Hamil *et al.* (2001:6, 15, 45), Institute of Directors (2002:11), Naidoo (2002:157), Brown (2000:137, 141), Australian Sports Commission (1999:7), CACG Guideline (1999), and Directorate for Financial, Fiscal and Enterprise Affairs (1999:23). The main notion flowing from these works is that there should be a balance created by the systems existing within the organisation to take account of all those stakeholders with a legitimate claim in the interests and future of the organisation. Various stakeholder rights should be acknowledged and respected.

Section 13 of the National Sport and Recreation Act No 110 of 1998 states that the Sports Commission is entitled to take action should uncertainty exist about the standards of management. In particular, the Commission may implement actions or take steps to ensure adherence to the principles of discipline and fairness is adhered to (South Africa 1998b:10).

The board of a sports governing body has a moral obligation as reported by the Australian Sports Commission (1999:7) to consider all matters on the basis of equity and transparency and in the interests of the sport as a whole, and not in preference to any one or more classes of stakeholder.

The preceding two paragraphs should be seen in context with representation of members of the board, and more specifically, the ideals of democracy through free and fair elections. This implies assurance that due consideration is given to all organisational stakeholders through a system in which parties find adequate representation of their needs and requirements within the governing structures of the sports body. This should ultimately be achieved by electing to office their choice of representative. This is discussed further in section 4.4.2.

A slightly different angle is the inclusion of the idea of solidarity in the 2001 International Governance in Sport Conference's statement of good governance principles (Governance in Sport Working Group 2001:7). Solidarity is described along with independency as a key concept in the development of sport (Governance in Sport Working Group 2001:3; Brown 2000:141). Internationally, sports governing bodies recognise that fair and effective distribution of financial revenues from the sale of commercially valuable rights related to sports events encourage the development of talent and contributes to balanced and attractive competitions. This should also be the case in national and regional sports bodies. In the light of increasing commercialisation and the resulting regulatory and political review of the structures and organisation of sport a clear equitable policy for the redistribution of income is essential. Sports governing bodies should therefore adhere to the following general principles as guidelines for redistribution of revenue:

- Redistribution must be based on principles of solidarity (between all levels of the sport), while adhering to governmental and other regulatory guidelines;
- Redistribution policies must pursue aims that are objective and justifiable;
- Effective communication through all levels of a sport is essential; and
- Administration of redistribution mechanisms must be transparent, accountable and objective.

Fairness at the level of a national federation thus implies giving due consideration to the interests of all stakeholders of the national federation, not just those who stand to gain from involvement, but also those who are in danger of being disenfranchised without direct contact and relation with the sports body. Rossouw *et al.* (2003:4) state that an unbalanced

make-up of board executives may lead to decisions favouring the inherent biases of the majority of representatives. For example, in sport if a board is composed mainly of technical training personnel such as coaches, decisions relating to long-term sustainability might be renounced in favour of short-term goals of on-field performance. A similar situation is described in the case study of Athletics Australia presented by the Australian Sports Commission (2002b:1-3). The principle of fairness of course also extends to race and gender.

4.3.7 Discipline

This represents a commitment by the senior management of the organisation on behalf of its members to adhere to behaviour that is universally deemed correct, acceptable and proper (DiPiazza 2002:4; Institute of Directors 2002:10; Naidoo 2002:157; CACG Guideline 1999). This encompasses an awareness of, and commitment to, the underlying principles of best practice governance, particularly at a senior management level. And, as was the case under the principle of fairness, the South African Sports Commission is entitled in terms of Section 13 of the National Sport and Recreation Act No 110 of 1998, to implement action or take steps to ensure adherence to this principle (South Africa 1998b:10).

A further expansion on this includes the view expressed by Rauter (2001:1), Kikulis (2000:314) and Australian Sports Commission (1999:8) that there should be implicit commitment by the board to the creation and implementation of a suitable structure for management.

According to Gaved (2001), in the context of sport governing bodies, issues pertaining to accountability and structure encompass inter alia:

- Role definition of the governing body as well as the identification of its goals;
- Demarcation and separation of responsibilities between the governing body, its board and other parts of the organisation;
- The wider structure and also organisation of the governing body and the sport;
- Selection and appointment of members to the governing body; and
- Limitation of terms for elected representatives.

4.4 Institutionalisation of sport specific best practice governance principles

This report argues that best practice governance hinges on these seven identified pillars of best practice governance systems. The following discussion places these principles at the centre of the working of a sports governing body. It discusses the structure, responsibility and accountability of a sport governing body, its membership and size, and also democracy, elections and appointments of officials. These are seen as extensions of the identified pillars of good governance. Rossouw *et al.* (2003:3) explicitly state that the guidelines contained in the King II Report, represent mechanisms for assuring adherence to those values or principles. Therefore, as the board is duty-bound to ensure that the pillars of governance is institutionalised with the organisation, it is important to ensure a conducive board structure for this. Guidelines pertaining specifically to board composition is discussed in sections 4.4.3 and 6.2.2.

4.4.1 Governing legitimacy

From a traditional perspective the role of the governing body should be to draw up and codify the rules of the sport, to develop and promote it to widen popularity and support, and also to represent those involved as well as the sport *per se* (Foreman 2001:3; Governance in Sport Working Group 2001:4; Australian Sports Commission 1999:7; South Africa 1998a:8). Achieving this requires best practice governance by assuring that the principles of democracy, fairness, independence, solidarity and transparency are adhered to (Foreman 2001:5-6; Gaved 2001; Governance in Sport Working Group 2001:4).

As stated the ultimate power to govern is vested within and directly or indirectly exercised by members of the sport through a system of representation. Governing bodies should thus acknowledge that the power they hold is given to them as trustees to govern the sport, and a clear statement should be drawn up, which indicates the roles and functions to be performed, and which ultimately supports the members and other stakeholder groups who hold a legitimate interest in the activities of the sport and the governing body. The following therefore are sport-specific manifestations identified as embodying the values of the identified pillars of good governance.

4.4.2 Democracy, elections and appointments

The principles identified by the Governance of Sport Conference Report (2001:5) stresses that no ambiguity should exist in terms of voting rights and eligibility of members. These members should elect to office their choice of representatives by means of democratic election.

Election procedures must be set out in writing and communicated to all members eligible to vote. For the sake of best practice governance, entry of new persons to the governing body should be facilitated and encouraged. Thus all key positions should be subject to a fixed office term of which the relevant period must be documented.

The governing body (Governance in Sport Working Group 2001:4-5) should publish:

- The number of serving officers and identity of each;
- Biographical information about the officers, including associations with other sports organisations and commercial interests in the sport;
- The dates on which each member was elected or appointed to the governing body (including previous appointments if not continuous), dates of re-election or reappointment and the date on which their current term will expire; and
- Management rules directing matters such as voting procedures, voting rights of the chairperson and the delegated power of sub-committees.

Decisions must be made from an informed position taking into account the diverse interests of different role-players and stakeholders. This implies that board membership must reach an equilibrium resulting in a trade-off between the need to include representatives of all interested parties and the necessity of keeping the board at a size able to achieve an adequate level of organisational efficiency.

4.4.3 Board composition

Rauter (2001:3) suggests that the board should be of “sufficient size”. Upon initial encounter this is a very ambiguous statement. However, the meaning becomes clearer, that the size of the board should be appropriate for the organisational size of the sports body. The author suggests that the number of serving officials should be between five and

seven individuals, for small to large organisations respectively, for if board size exceeds a member compliment of seven a 'lost board' situation can arise. This is characterised by a position where decision-making is hampered by the involvement of too many individuals. The composition as well as the number of individuals on the board is dependant on the range of skills required, and that these skills should be consistently aligned with the strategic goals, direction, opportunities, threats and problems of the particular organisation.

With this rationale of skill selection in mind, it follows that inputs given by experienced and suitably qualified board members will lead to improved decision quality and enhanced long-term sustainability, an idea supported by Rauter (2001:3) and the Australian Sports Commission (1999:14). Furthermore, these skill levels and abilities should be set at an appropriate level to provide the organisation with a competitive advantage within its operational environment.

The chair of the board should be occupied by an independent, an ideal also extending to other members of the board (Rauter 2001:3). This notion of independence is central to the identified pillars of governance, specifically referring to the requirement of independence. Non-adherence to this principle could lead to a situation where conflicting interests would detract from assuring that decisions are made in the collective best interest of all stakeholders. This ideal is support by Ryan (2002:2) who states that the board and its leadership should exercise its duties with integrity and good judgement, and continuously act in the best interests of the organisation and its stakeholders as a unitary system. This implies adhering to the notions of transparency, accountability and responsibility.

Available positions should be based on the required skills to manage the sports governing body in the new commercialised age and not merely on representation alone. Representation in this instance implies representivity of the various stakeholder groups and does not relate to representation in terms of race gender and the like. It is the view of the researcher that this implies that the organisation should have access to those individuals with the skills best suited to the strategic intent of the organisation as to ensure longer-term sustainable profitability and growth. This is also supported by Rauter (2001:3) as apposed to a model based purely on representation.

4.4.4 Role of the elected board

The role of the board receives general attention from the various sources (Australian Sports Commission 1999:3; Commonwealth Association for Corporate Governance 1999:7; Institute of chartered accountants in England and Wales 1999:11), which can be applied directly to sport. The board directors or members are seen as sharing a common fiduciary duty towards the stakeholders of the sports governing body, and to act in the best interests of these stakeholders (Foreman 2001:14; Governance in Sport Working Group 2001:4-5; Australian Sports Commission 1999:3,14). The fulfilment of this duty must be demonstrated through visible action to achieve set goals and outcomes, ensure long-term financial security for the organisation, and display moral and social responsibility to the members and the community at large. Other specific obligations of the board identified by various authors fall under the definition of the pillars of good governance, and have been discussed under these headings e.g. the board's duty to give a clear statement of its approach to governance, described in the guidelines of the Governance in Sport Working Group (2001:6), falls under transparency, and is discussed in section 4.3.3.

Dunlop (in Foreman 2001:7) identifies and categorises board responsibilities in terms of four functions:

- Strategy:** to participate with management in setting goals, strategies and performance targets for the enterprise and to provide resources (Australian Sports Commission 2002b:2; 1999:12);
- Performance:** to monitor the performance of the enterprise against its business strategies and targets, with the objective of enhancing its prosperity over the long term (Australian Sports Commission 1999:22-25);
- Conformance:** to ensure there are adequate processes to conform to legal requirements and corporate governance standards, and that risk exposures are adequately managed (Australian Sports Commission:1999:2,5); and

Accountability: to report progress to the shareholders as their appointed representatives, and to seek to align the collective interests of shareholders, boards and management (Australian Sports Commission 1999:4; Commonwealth Association for Corporate Governance 1999:8-11)

This takes a shareholder-centred view of accountability, but this could be extended to all stakeholders of the sports body, and should not be limited to only those parties with direct financial interests.

The Australian Sports Commission (1999:2-24) identifies several roles to be fulfilled by a sports governing body. In this the primary responsibility is identified as one of stewardship and trusteeship on behalf of organisational stakeholders or constituents, thereby assuring adherence to the requirement of organisational survival through sustainable long-term profitability and growth. Thus, in essence the board remains ultimately accountable for all organisational matters and to all legitimate stakeholders.

Boards of sports governing bodies, according to the Australian Sports Commission (1999:4), typically have three key stakeholder groups. In a general sense stakeholders are those groups and individuals who benefit in some material way from the existence of the organisation. The three key stakeholder groups are:

Legal owners: members, as identified in the constitution. They have the right to make changes to the constitution, to appoint or elect board members, and in extreme cases to terminate the continued existence of the sports body;

Moral owners: individuals for whom the organisation exists but who cannot exercise the same rights as members, and may include unregistered of recreational participants, fans and supporters or others involved with or having an interest in the sport; and

Business Partners: those individuals, organisations or entities linked to the organisation through the existence of a contractual relationship. This may include staff, funding bodies (sponsors and grant-making agencies), suppliers and supporters as paying customers.

In order to ensure organisational survival through sustainable long-term profitability and growth, the following nine functions must be fulfilled by the board. (Rauter 2001:3; Australian Sports Commission 1999:3; Commonwealth Association for Corporate Governance 1999:7):

- Establishing strategic direction and priorities through strategy formulation and implementation;
- Interaction with key stakeholders to inform them of achievements and also to ensure that they provide input into the determination of the strategic goals and direction;
- Monitoring organisational performance monitoring and strategic results evaluation;
- Reporting to stakeholders at annual and biennial general meetings;
- appointing a CEO;
- Setting performance targets to evaluate the performance of the appointed CEO so that appropriate action can be taken to reward or penalise;
- Monitoring compliance of the CEO and the organisation with statutory and legislative requirements of the various legal and governing constituents, as well as internal organisational policies;
- Advising and guiding CEO decision-making when requested or required;
- Assessing risks and installing risk management plans as well as monitoring compliance; and
- Evaluating inherent board effectiveness.

The Australian Sports Commission (1999:3) identifies three additional tasks, above and beyond these nine functions to be fulfilled by the board:

- Regular scanning of the external environment to ensure suitability and feasibility of the set strategic direction;

- Establishing of a governing policy framework to act as foundation for the development of future operational policies and actions; and
- Identifying key relationships between organisation and stakeholder groups.

4.4.5 Structure, responsibility and accountability

The Australian Sports Commission (1999:2-5) as well as the Governance in Sport Working Group (2001:3-4) agree that sports organisations and governing bodies at all levels have similar roles and responsibilities to those of corporate boards, governments and judiciaries. As these bodies share a number of characteristics e.g. the need for legitimacy through accountability and transparency to members and stakeholders alike (Commonwealth Association for Corporate Governance 1999:8).

In addition there is a requirement for clear separation in the roles of:

- Making and amendment of sporting rules as the primary legislative function;
- Making and review of executive decisions with regards to financial management, organisational management and management of events; and
- Dispute resolution between the various affected parties.

In a written document, the relative positions, roles and responsibilities of all assemblies, committees, commissions and other groups which constitute the governing body must be set out. A clear chain of accountability and responsibility must be shown to exist between each.

4.5 Identified principles of best practice governance within sport

Table 4.1 – Summary of identified principles

Pillar of Good Governance	Sub-elements	Source
Accountability	Accountability	King II Report (2002)
	Structure, responsibility and accountability	Rules of the Game (2001)
Responsibility	Responsibility	King II Report (2002)
	Structure, responsibility and accountability	Rules of the Game (2001)
Transparency	Transparency	King II Report (2002)
	Transparent communication	Rules of the Game (2001)
	Website efficacy	Rules of the Game (2001)
Social responsibility	Social responsiveness	King II Report (2002)
	Recognition of other interest	Rules of the Game (2001)
Independence	Free from outside influence	King II Report (2002)
	Objectivity	Rules of the Game (2001)
	Decisions and appeals	Rules of the Game (2001)
	Conflicting interests	Rules of the Game (2001)
Fairness	Fairness	King II Report (2002)
	Democracy, elections and appointments	Rules of the Game (2001)
	Solidarity	Rules of the Game (2001)
Discipline	Discipline	King II Report (2002)
	Ethical policy	King II Report (2002)

It is clear that a great number of principles can be found in the literature, as shown above. This makes distinguishing the principles most relevant for sport, which is one of the aims of this study most difficult. However, this is necessary for achieving the ideals proposed in the problem statement, namely guarding against legislative intervention and over-regulation, and ensuring full economic benefit to be gained from good governance. Table 4.1 represents a summarised view of the principles identified as holding the most value for sport and the sport industry, and the original principles they have been derived from. The first column contains the identified pillar of best practice governance. The next column (sub-elements) indicates the sub-elements as described under each pillar or

dimension. The last column (source) indicates from where the principle described in the first column was sourced, i.e. either the King II Report (Institute of Directors 2002), or Rules of the Game – Conference report and conclusions (Governance in Sport Working Group 2001).

4.6 Conclusion

Pressure on National federations is mounting to ensure that there is a system of strong governance principles in place not only to protect the long-term stability and survival of the organisation (Rauter 2001:1; Australian Sports Commission 1999:1) but also to maintain an equitable balance between international development and adherence to the way in which the local participation is managed. The same point is reiterated by Mellor (1999). Adhering to a clearly defined set of governance principles, specifically in sport carries the following benefits (International Governance in Sport Working Group 2001:3):

- It is useful in determining responsible behaviour towards members and other legitimate stakeholders;
- It demonstrates that all actions and decisions are properly motivated and subjected to appropriate checks and balances; and
- By exhibiting self-regulation virtues, inhibiting legislative interference into the matters of sport can be minimised.

A well-managed sport organisation must be aware of, and respond to, social issues, and place a high priority on ethical standards. This requires recognition of all relevant stakeholders associated with the National Sport Federation which are likely to be affected by decisions and actions. This embodies the recognition and pursuit of cultural aims and social cohesion through sport, also through the adherence to Section 9 of the Constitution South Africa 1996) in terms of equality. The National Sport Federation should be increasingly seen as non-discriminatory, non-exploitative and responsible with regard to environmental and human rights issues. The indirect benefits of good governance such as improved productivity and corporate reputation to National Sport Federations have been justified by the King II Report (Institute of Directors 2002:6), and other researchers such as Naidoo (2002:3) and Van Heerden (2001:349), and the Governance in Sport Working Group (2001:3).

Chapter 5

5 Research findings

5.1 Introduction

The total universum of 90 South African national sports federations registered with the South African Sports Commission was included in the study. In response to the request 36 questionnaires were returned representing 21 different federations. A response rate of 23.33% was thus obtained ($n=21$) that makes the results valid (Thomas & Nelson 1996). Unresponsive federations were reminded by electronic mail but yielded no further completed questionnaires. However, the sports code and federation represented by one of the respondents are unknown but assumed to be different to others received, as none of the demographic information contained in the questionnaire can be matched to the other respondents. Sports codes could complete more than one questionnaire. The non-responsiveness may give an early indication of the overall status of best practice governance in South African sport in terms of the discipline and commitment to the process of good governance (see 5.4.7). However, the majority of responding federations gave senior management or board level attention to this, as can be seen by the number of board members completing the questionnaires (see 5.2). Results of the questionnaire survey are presented and discussed according to the questionnaire framework in the subsequent paragraphs of this chapter.

5.2 Respondent profile

Best practice governance should be facilitated and maintained by officials on all levels of the sports federations. Individual respondents were therefore asked to categorise themselves into one of six categories pertaining to their involvement with the national federation (Table 5.1):

- a. **Ordinary individually registered member.** This, for example includes an athlete, a coach, an official or a registered supporter;
- b. **Member of executive board / management board or executive committee.** The term 'management' was defined in the questionnaire as referring to "elected officials responsible for the management and running of the federation thereby constituting the legal governing executive board or committee. In this sense 'management'

includes the various manifestations of management committees, including but not limited to titles such as senior management, board, executive, executive committee, ExCo, executive board and alike.”;

- c. **Member of another committee.** This comprises technical committees, administrative committees and financial committees responsible for various specialised tasks delegated to them by the management or executive board of the national federation;
- d. **Part-time paid employees** or part-time staff members of the national federation;
- e. **Full-time paid employees** or staff members of the national federation; and
- f. **Volunteers.**

Table 5.1 – Respondent profile

Respondent position within federation	<i>n</i>	%
a. Member of executive board / management board / executive committee	16	44.44
b. Full-time paid employee / staff member of national federation	12	33.33
c. Ordinary individually registered member (eg. Athlete/coach/official/supporter)	6	16.67
d. Part-time paid employee / staff member of national federation	2	5.56
e. Member of other committee (eg. Technical / administrative / financial)	0	0
f. Volunteer	0	0
TOTAL	36	100

The majority (44.44%) of respondents classified themselves as members of the executive or management board with the respective national federation. The second largest respondent group was that of full-time paid employees. This group contributed 33.33% of the respondent make-up. This was followed by ordinary members, composed of registered participants, officials, coaches, trainers and other similar individuals who contributed 16.67% to the respondent profile. As respondents were required to provide a subjective opinion on the statements, the influence of members of executive or management boards (as formulators and implementors of good governance principles) on the mean value of each statement, must be noted.

5.3 Demographic information of national federations

5.3.1 Federation size

5.3.1.1 Individual membership of national sport federations

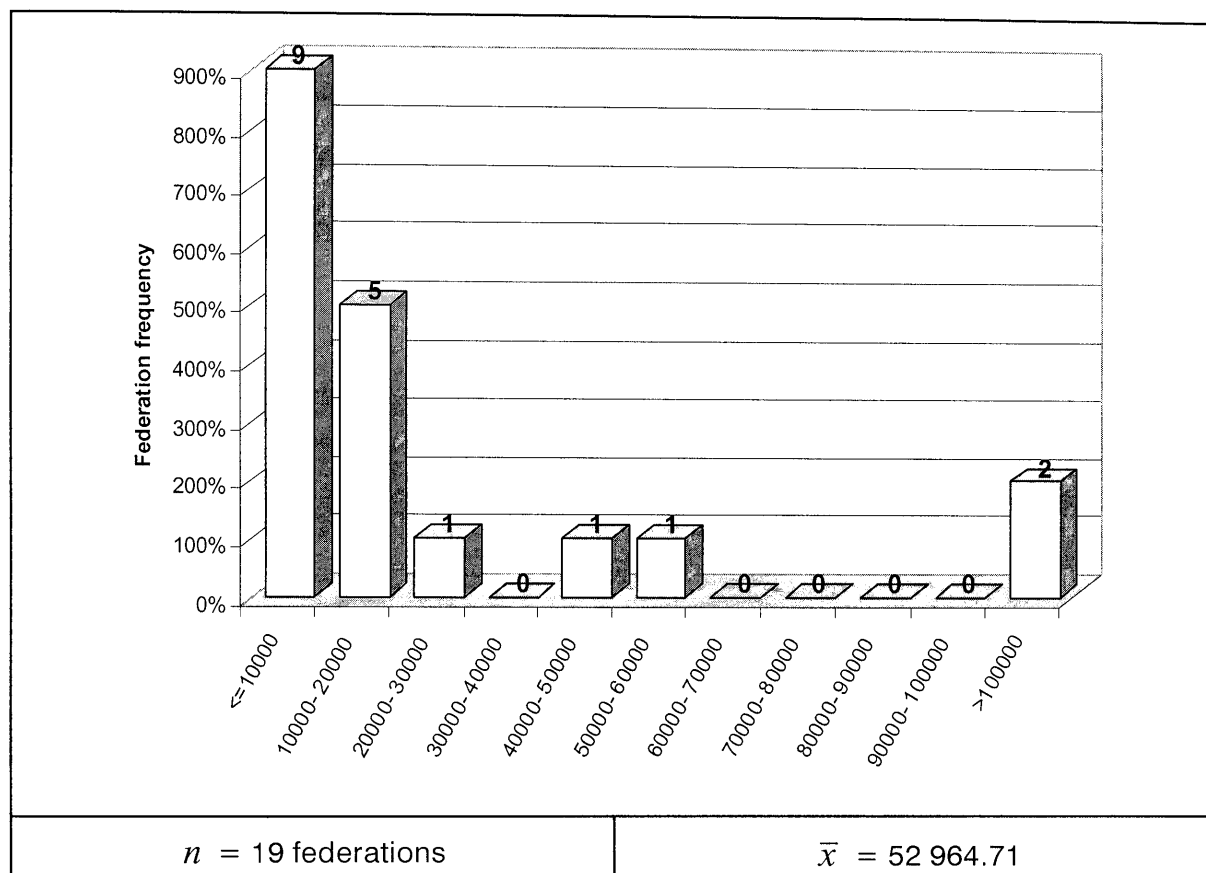


Figure 5.1 – Individual membership profile

Figure 5.1 displays a breakdown of federation membership totals. Only 19 of the 21 sports federations could provide information regarding their membership. The average number of members per sporting code amounted to 52 964.71 in a membership band between 300 (minimum) and 700 000 (maximum). From this it is clear that the majority of federations within the sample have less than 10 000 members. The term ‘member’ was defined within the questionnaire as an individual person associated, affiliated, registered or otherwise connected to and/or engaging in those activities which reside under the auspices of the national federation. Within this distribution nine federations indicated a membership total of less than 10 000 members. Furthermore, only two federations indicated membership figures of 100 000 or more. No federation fell in the frequency between 60 000 and 100 000 members. This profile should not be seen as representative of South African national

sports federations, but merely as a summary of the respondent profile.

Due to the concentrated distribution found in the membership frequency of less than 10 000 members, a more detailed breakdown is deemed appropriate. Figure 5.2 provides this additional breakdown of membership for respondent federations with a total membership of less than 10 000 members. Again only 19 federations provided information with an average membership of 4 783.33 in the band 300 (minimum) to 10 000 (maximum).

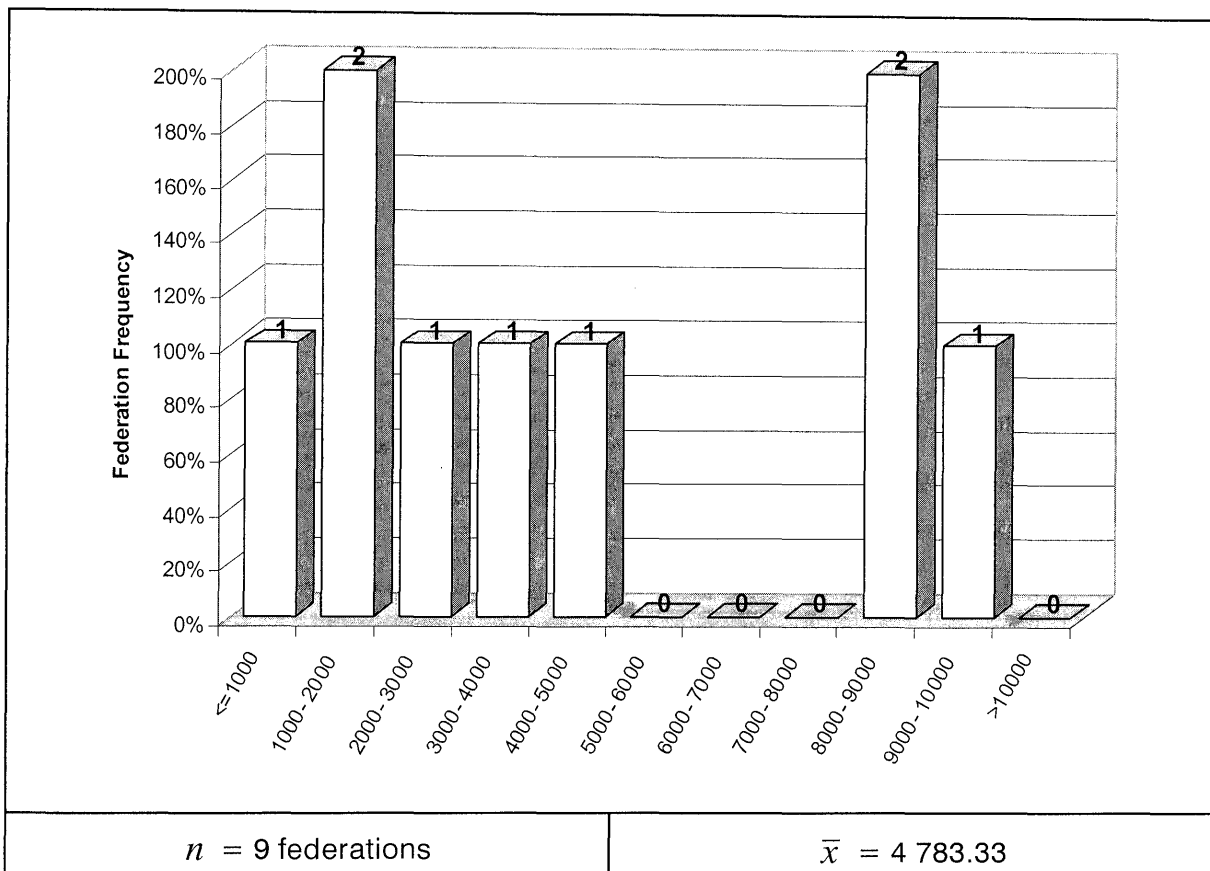


Figure 5.2 – Individual membership profile for less than 10 000 members

5.3.1.2 Regional / provincial membership

Figure 5.3 indicates the composition of the number of regional or provincial bodies found within the respondent federations ($n=19$). The average (\bar{x}) number of regional associations per national federation amounts to 10.62 within a band of 0 (minimum) to 30 (maximum). There seems to be a fairly even distribution in terms of the number of regional or provincial bodies associated with the respondent federations.

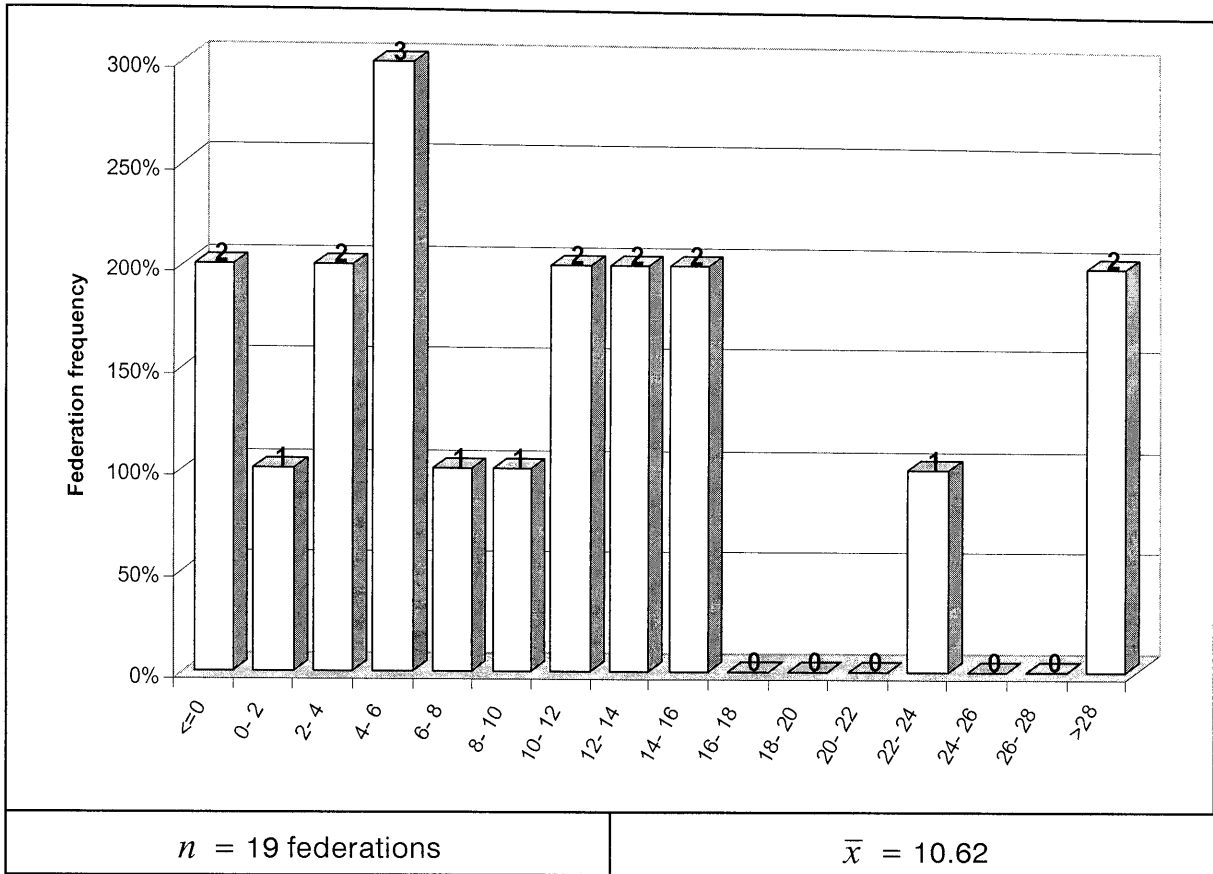


Figure 5.3 – Number of regional associations

5.3.2 Internet presence

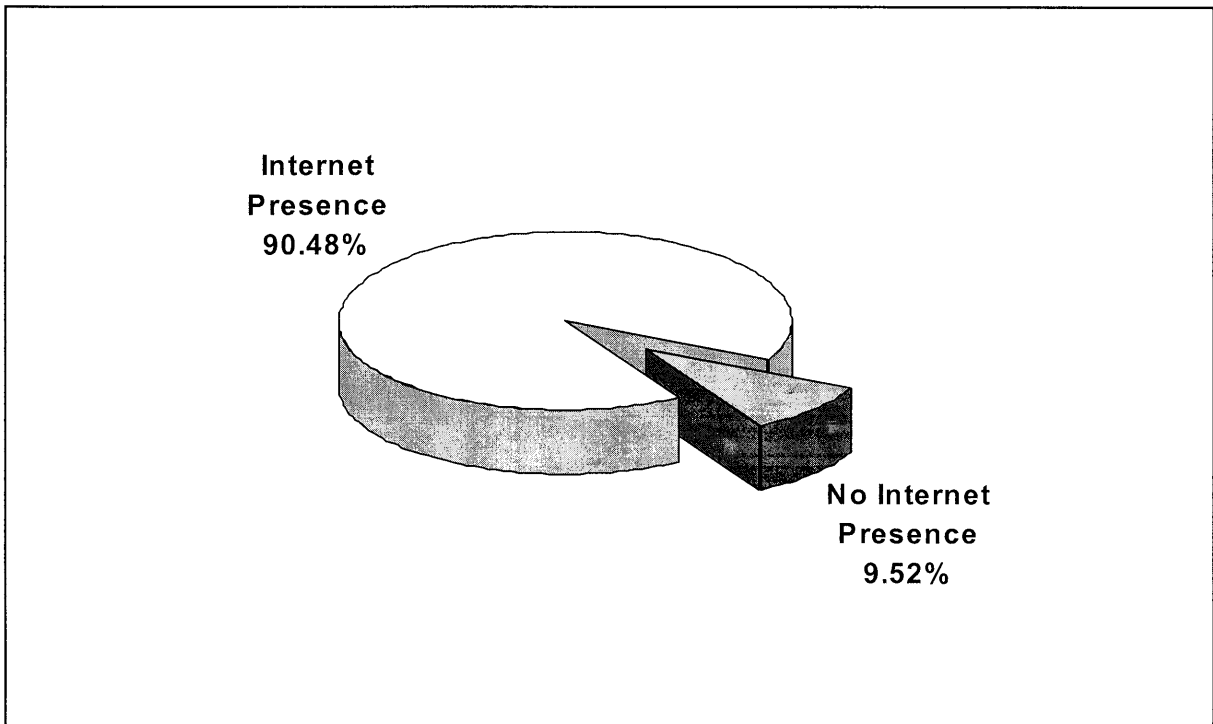


Figure 5.4 – National federations with an Internet presence ($n=21$)

As shown in Figure 5.4, the majority of national federations (90.48%) have indicated that they do have an Internet presence. Only two (9.52%) of the twenty-one national federations in the population have indicated they do not currently maintain an Internet website.

5.3.3 Code of ethics

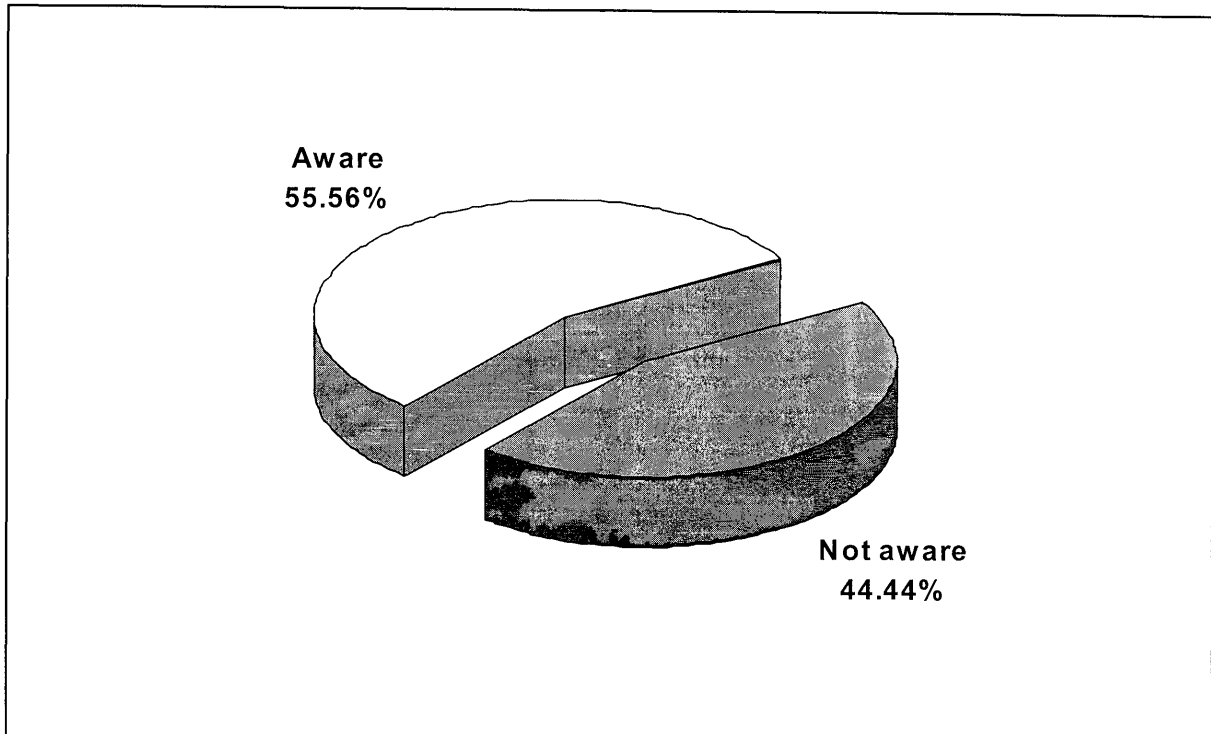


Figure 5.5 – Overall respondents awareness of the existence of a documented code of ethical conduct ($n=36$)

Figure 5.5 indicates that 44.44% of all respondents are not aware of the existence of a documented ethics policy or code of ethics. However, the intention is not to do a quantitative determination of the actual existence of a policy document. The relevance of this assessment rather lies in the perception of the respondents of the existence of such a document. Implications of this is discussed further under section 5.4.3.

5.3.4 Board composition

Measurements of board sizes were made and the frequency distribution is given in Figure 5.23. The mean (\bar{x}) governing board size of the respondent federations ($n=21$) was 10.29. The minimum size was four, and a maximum was 25. The majority of federations (23.81%) indicated executive board size to be composed of between five and seven members. This

is in line with the suggestions of Rauter (2001:3) which proposes that the board should be of sufficient size, elaborating further that this implies that the size should be relative to the size of the sports governing body as discussed under 4.4.6. Rauter (2001:3) does further continue to recommend that in this regard a minimum of five and a maximum of seven seems to be ideal for effective decision-making.

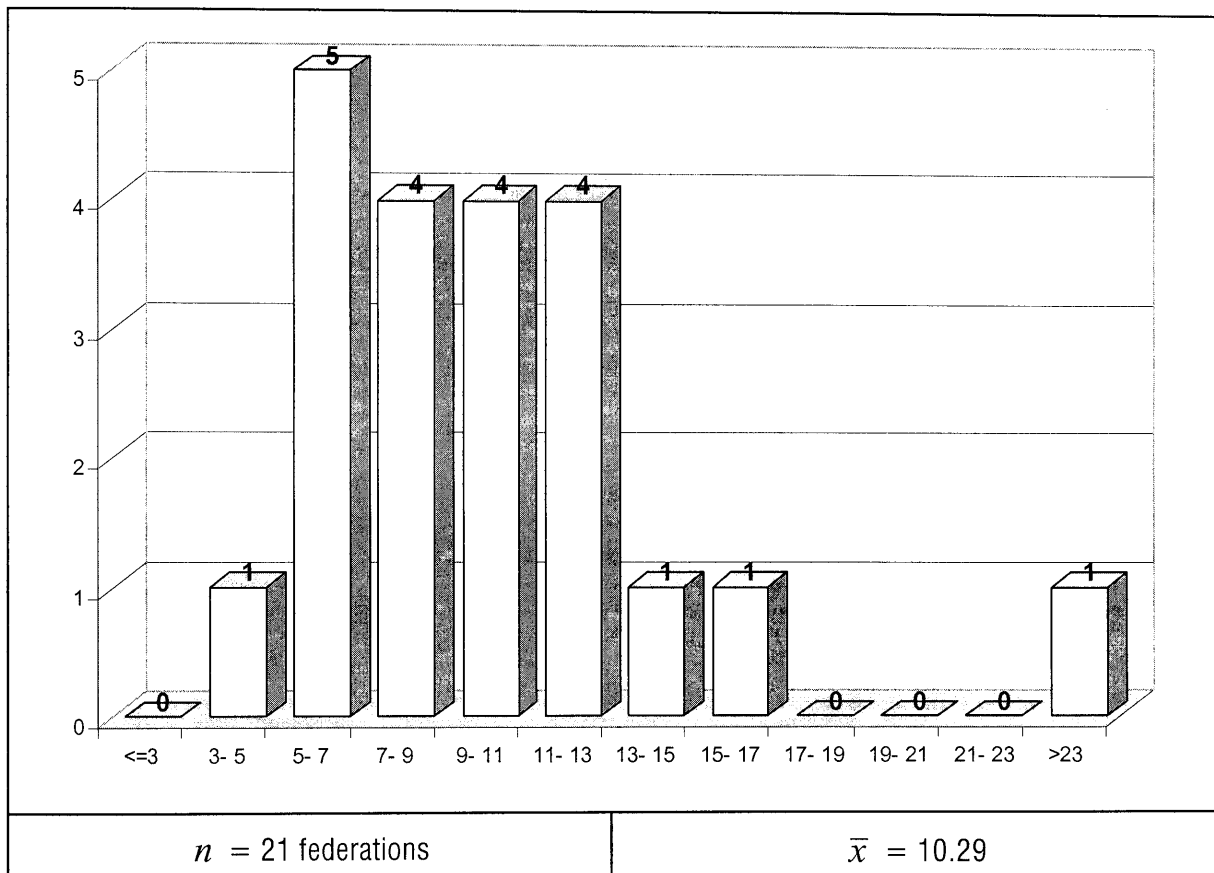


Figure 5.6 – Federation board size

As can be seen in Figure 5.6 board size of seven to nine, nine to eleven, and eleven to thirteen are equally prominent in each case, with a frequency of four federations within each distribution. Also, there are boards which exceed this suggested board membership size, and three federations have indicated board membership in excess of 13 members. Implications of this is discussed in 5.4.7.

5.3.5 Summary of biographical results

In reviewing the acquired biographical data, the following summary is presented. A large number of federations ($n=69$) chose not to participate in the study, despite letters of support from both the South African Sports Commission and Sport and Recreation South Africa, requesting their cooperation. These letters also indicated the importance and relevance of such a study for sport in South African in general. Letters are attached in appendix B.

Respondents were asked to indicate their type of involvement with the federation according to six predefined categories. 44.44% of respondents represented executive management members as defined in 5.2(b), i.e. management board or executive committee. A number of federations submitted multiple replies. In terms of membership size of the federations, a membership distribution was obtained that might not be representative of actual membership size of sport in South Africa, but merely a reflection of the respondent profile. Membership size ranged from 300 to 700 000. Membership of the national bodies were on average distributed across 10 to 11 regions within South Africa ($\bar{x} = 10.62$). 90.48% of the federations had an Internet presence, however, only 55.56% of federations in the sample had documented codes of ethical conduct.

Part two of the questionnaire dealt with South African national sports federations' compliance to the seven identified pillars of good governance, as shown in both Table 4.1 and 5.2. Results presented in the following sections of this chapter, thus aim to present a first attempt at determining the percentage of federations that currently do not adhere to the identified sub-elements and pillars of good governance.

5.4 Pillars of good governance

Table 5.2 presents the identified pillars of good governance, the sub-elements of each, as well as the number of statements used to measure adherence to these sub-elements as defined in Table 4.1.

Table 5.2 – Pillars, sub-elements and assessment statements

Pillar of good governance	Sub-element	Number of statements measuring sub-element
Accountability	Accountability of board members	4
	Organisational structure, responsibility and accountability	3
Responsibility	Delineation of responsibility and roles of board members	4
	Recourse measures and organisational structure	4
Transparency	Transparency of policy statements	11
	Transparent communication systems	
	Website existence and efficacy	3
Social responsibility	Social responsiveness	8
	Recognition of broader stakeholder interests	4
Independence	Decisions and actions free from outside influence	5
	Objectivity of decisions	4
	Decisions and appeals procedure	7
	Handling of conflicting interests	4
Fairness	Fairness in representation on board	5
	Democracy, elections and appointment procedures	10
	Solidarity with stakeholders	2
Discipline	Disciplined commitment to governance	4
	Ethical policy	1
		<i>n</i> = 83

A key aspect of best practice governance is adherence to the pillars of good governance as discussed in chapter four (PricewaterhouseCoopers 2003:2; Rossouw *et al.* 2003:3-4; Wilkinson 2003:5; Institute of Directors 2002:10-11; Naidoo 2002:12-13, 157). This questionnaire elucidated the seven pillars by formulating a total of 83 statements assessing

each sub-element thereby contributing to the respective pillar or dimension. Three of the original statements were excluded from the results, as there are some doubts as to the interpretation of these. All three these statements (16, 59, 78) measure the role of the governing body, as a sub-element of discipline. Sub-elements were tested by means of positive statements of adherence or compliance. Respondents were asked to express their opinion on the statements on a five-point rating scale where a response of 1 indicates strong disagreement with the statement and 5 a strong agreement. High scores (maximum = 5) would thus indicate strong adherence to or application of the seven pillars of good governance whilst lower scores (minimum = 1) would point to the opposite situation. Mean values (\bar{x}) for each of the statements were calculated and are shown in Table 5.3, (questions are sorted in descending order of mean values).

Table 5.3 – Average values (\bar{x}) for statements

Question Number	Statement assessing the pillars of good governance	\bar{x}
86	The appointed auditors are independent and unbiased.	4.412
25	There is a commitment by Management to adhere to behaviour that is universally deemed correct, acceptable and proper.	4.306
19	This Federation acts in a non-discriminatory and non-exploitative manner towards people within society in general.	4.306
88	Administration of funds is transparent, accountable and objective.	4.200
13	The Federation fulfills a corporate social responsibility (CSR) towards society.	4.200
14	Management is committed to principles of good governance.	4.194
60	Relevant information regarding the Federation is shared with all stakeholders.	4.114
24	Management has an acute awareness of, and commitment to the underlying principles of good governance.	4.111
81	Decisions are taken in the best interests of the Federation as a whole.	4.111
91	Different committees have been established with clearly defined responsibilities in terms of performing various organisational functions.	4.086

Table 5.3 – Average values (\bar{x}) for statements

Question Number	Statement assessing the pillars of good governance	\bar{x}
87	Decisions are not biased towards any specific interest, stakeholder or member grouping.	4.057
52	The interests of all members and stakeholders are taken into account when decisions are made.	4.056
33	Elections of Management members are conducted in a free and fair manner.	4.056
36	Management remains accountable for the financial success of the Federation.	4.053
26	No stakeholder group can exercise enough power to influence the objectivity of decisions taken by Management.	4.029
89	Existing procedures to resolve differences, adhere to the requirements of procedural fairness.	4.029
28	Clear accountability can be assigned to those who make decisions.	4.029
73	During Management decisions, objectivity is sought to ensure that no discrimination of any kind prevails.	4.028
62	Policies, decisions, election results and other matters are regularly communicated to members and stakeholders.	4.028
63	Formal election procedures are set out in writing and communicated in advance to all members eligible to vote during Federation elections.	4.028
37	Management is available to answer any questions and queries from all legitimate stakeholders.	4.000
74	General reports on the state of the organisation are made available in a candid, accurate and timely fashion to stakeholders.	4.000
58	There is regular communication on the state of the Federation's finances and financial activities to members and other stakeholders.	4.000
66	A clear chain of responsibility and accountability exists within the hierarchical structure of the organisation.	4.000
72	All members are treated equally within the Federation.	3.972
42	The Federation is managed in a financially responsible manner.	3.972
32	Management accepts full accountability for failed actions or decisions.	3.972

Table 5.3 – Average values (\bar{x}) for statements

Question Number	Statement assessing the pillars of good governance	\bar{x}
71	All members have the same legitimate rights within the Federation.	3.972
50	There is a general high level of adherence to ethical standards within the Federation.	3.972
47	Principles of good governance are consistently enforced.	3.971
22	All decisions and actions taken, can be substantiated by means of sufficient reasoning (justified and reasoned to be in the best interest of the Federation and its members).	3.971
27	Decisions are taken with cognisance of the effect it will have on all interest groups.	3.971
70	Management ultimately assumes responsibility for the Federation and its members.	3.971
18	Roles and responsibilities of all assemblies, committees and commissions (eg. disciplinary committees / financial oversight committee etc) have been taken up into a written document.	3.943
95	The Federation owns a website which is regularly updated.	3.943
43	There is no ambiguity in terms of voting rights and eligibility of members.	3.943
34	A written statement of the Federation's responsibilities is readily available to members.	3.917
44	A large percentage of information within the Federation is not deemed confidential.	3.914
92	All members are treated with the same level of respect and tolerance.	3.914
40	Fund distribution is done in an objective and justifiable manner.	3.912
90	Directives with regard to voting rights and procedures are clearly communicated to all members.	3.857
23	Accountability is not abdicated by various role players (e.g. Management accepts accountability for poor administration of the Federation's affairs).	3.857
29	A direct and open communication channel exists between Management and all individual Federation members (individuals have a direct and open way to communicate with Management).	3.829
84	The organisation responds well to internal social issues.	3.829

Table 5.3 – Average values (\bar{x}) for statements

Question Number	Statement assessing the pillars of good governance	\bar{x}
15	Outsiders can easily obtain a true picture of the current state of affairs of the Federation.	3.806
82	Mismanagement by a member of Management is adequately penalised.	3.806
76	Frequent reports aimed at the needs of specific stakeholders (e.g. Government or Sponsors) are made available.	3.800
85	The current structure of the Federation contributes to effective management of the Federation.	3.800
55	Decisions taken by Management are highly objective.	3.778
45	Management regularly makes information and data available to the press and general public.	3.778
35	Management assumes responsibility for failed actions and mismanagement.	3.778
75	Existing measures and mechanisms are sufficient to avoid potential conflicts of interest.	3.778
69	The Federation has a responsibility to act responsibly towards environmental issues.	3.771
80	The current structure of the Federation facilitates effective management.	3.771
61	Responsibility for the entire Federation and its members, ultimately lies with Management.	3.743
98	The duration of the serving term of elected officials is documented.	3.714
65	Differences as described above can be easily resolved through external appeals or arbitration.	3.714
77	Clear guidelines exist for the handling of all legitimate stakeholders (eg. activists and media) and members interests.	3.706
46	Management does not interfere when a dispute between a member and the Federation is referred for arbitration.	3.686
68	Existing procedures to resolve differences adhere to the requirements of transparency.	3.667
54	Details such as the identity and qualifications of each serving Management member, are readily available to members and outside stakeholders.	3.667

Table 5.3 – Average values (\bar{x}) for statements

Question Number	Statement assessing the pillars of good governance	\bar{x}
17	Existing procedures to resolve differences are easily accessible by members of the Federation.	3.639
83	The organisation responds well to external social issues.	3.611
64	A procedure is in place for resolving differences between either management, management and members or between members <i>per se</i> .	3.600
79	A clear statement of the Federation's formal approach to governance has been communicated to members and other stakeholders.	3.583
38	Decisions and policies are free from undue outside influences.	3.583
67	The Federation's corporate social responsibility is well defined.	3.571
31	There is a clear distinction made between the Federation's formal Management function versus the pursuit of activities for financial gain, to ensure that a conflict of interest does not arise.	3.514
41	Existing procedures to resolve differences are efficient.	3.500
39	Regard for environmental and human rights issues will lead to economic and monetary benefits for the Federation.	3.486
57	The details of nominated individuals are made available well before elections take place.	3.457
49	Sound procurement policies are in place and well documented.	3.455
30	Contingency plans exist (and will be implemented) to keep the Federation on course if necessary.	3.429
56	Decisions taken by non-management committees are highly objective.	3.353
53	Committee / Management members seldom find themselves in a position where a conflict of interest could arise.	3.278
96	The Federation's website contains all relevant information which pertains to the daily running and management of the Federation.	3.257
21	Information on the Federation and its managerial and financial activities are available on the company website (if the Federation does not have website, circle 1).	3.250
51	Rights and benefits are given to members and stakeholder groups according to their relative level of influence and importance.	3.176

Table 5.3 – Average values (\bar{x}) for statements

Question Number	Statement assessing the pillars of good governance	\bar{x}
97	The Federation has a comprehensive and detailed ethical policy which deals with most or all possible matters pertaining to ethical conduct that might arise.	3.176
48	An open tender system is in place and documented.	3.129
94	The maximum duration any individual can serve on the executive board is fixed.	3.000
93	There are examination procedures to assess the accuracy and truthfulness of nominated individuals' curriculum vitae.	2.943
20	The maximum duration any individual can serve on any non-executive committee is fixed.	2.500

5.4.1 Accountability

The first pillar of good governance, accountability, is described as being incumbent upon those parties and individuals who make decisions, take actions and implement measures on specific issues pertaining to the management of the federation. Accountability therefore requires mechanisms to effectively provide for a means to query and assess the actions of the governing officers and committees (Institute of Directors 2002:5,10-11; Naidoo 2002:2, 157; Commonwealth Association for Corporate Governance 1999:8-11; Cadbury Committee Report 1992:48). It also implies the ability of a board to willingly justify its actions (Rossouw *et al.* 2003:3). Accountability as a pillar of good governance is composed of two sub-elements (Table 4.1). The first being accountability and secondly structure, responsibility and accountability. (see Table 5.4). Recorded results for these two sub-elements are given in Table 5.4 and Table 5.5.

5.4.1.1 Accountability as sub-element of overall accountability

Table 5.4 - Recorded responses to statements measuring accountability as sub-element of accountability

Question	Description	1		2		3		4		5	
		%	n	%	n	%	n	%	n	%	n
23	Accountability is not abdicated by various role players.	17.14	6	5.71	2	5.71	2	17.14	6	54.29	19
28	Clear accountability can be assigned to those who make decisions.	14.29	5	2.86	1	5.71	2	20.00	7	57.14	20
32	Management accepts full accountability for failed actions or decisions.	16.67	6	0.00	0	5.56	2	25.00	9	52.78	19
37	Management is available to answer any questions and queries from all legitimate stakeholders.	11.11	4	8.33	3	2.78	1	25.00	9	52.78	19

Question 23 (Table 5.4) recorded responses which show that in 22.85% of cases, management of the federation does not assume accountability for their actions. This could manifest by either placing the blame for failed actions on other individuals, groups or to external factors which impact on the organisation. Alternatively it could point to failure to assume initial accountability for actions. This is a likely situation as question 32 (Table 5.4) indicates that in 16.67% of cases, management fails to accept responsibility for failed actions, which may support the notion that no clear initial accountability is identified for actions and decisions. In reference to the results of question 28 (Table 5.4) this is further supported as 17.15% of cases do not have a clear line of accountability. Question 37 (Table 5.4) supports both these propositions in that 19.44% of responses show that management is not available to answer queries, as a result of shifting of accountability for failure or negating to accept accountability in the first place.

5.4.1.2 Structure, responsibility and accountability as sub-element of overall accountability

Table 5.5 - Recorded responses to statements measuring structure, responsibility and accountability as sub-element of accountability

Question	Description	1		2		3		4		5	
		%	<i>n</i>	%	<i>n</i>	%	<i>n</i>	%	<i>n</i>	%	<i>n</i>
36	Management remains accountable for the financial success of the Federation.	8.33	3	5.56	2	11.11	4	19.44	7	55.56	20
42	The Federation is managed in a financially responsible manner.	13.89	5	0.00	0	11.11	4	25.00	9	50.00	18
66	A clear chain of responsibility and accountability exists within the hierarchical structure of the organisation.	15.98	5	0.00	0	9.59	3	28.76	9	45.67	18

Table 5.5 contains the recorded responses to statements on structure, responsibility and accountability as a collective sub-element of the pillar of accountability. In this, respondents indicated that management does not assume accountability for the financial success (or failure) of the federation in 13.89% of the cases, as reported in question 36 (Table 5.5). Responses to question 42 (Table 5.5) propose that in 13.89% of cases federations are not managed financially responsible. Again, as was the case in question 28 (Table 5.5), it shows that in the case of question 66 (Table 5.5), 15.98% of respondent federations do not have formal hierarchical structures for responsibility and accountability in the organisation. This is indicative of the commitment with which management gives attention to best practice governance principles, and also influences the discipline with which this is enforced as discussed in 5.4.7.

5.4.1.3 Overall accountability

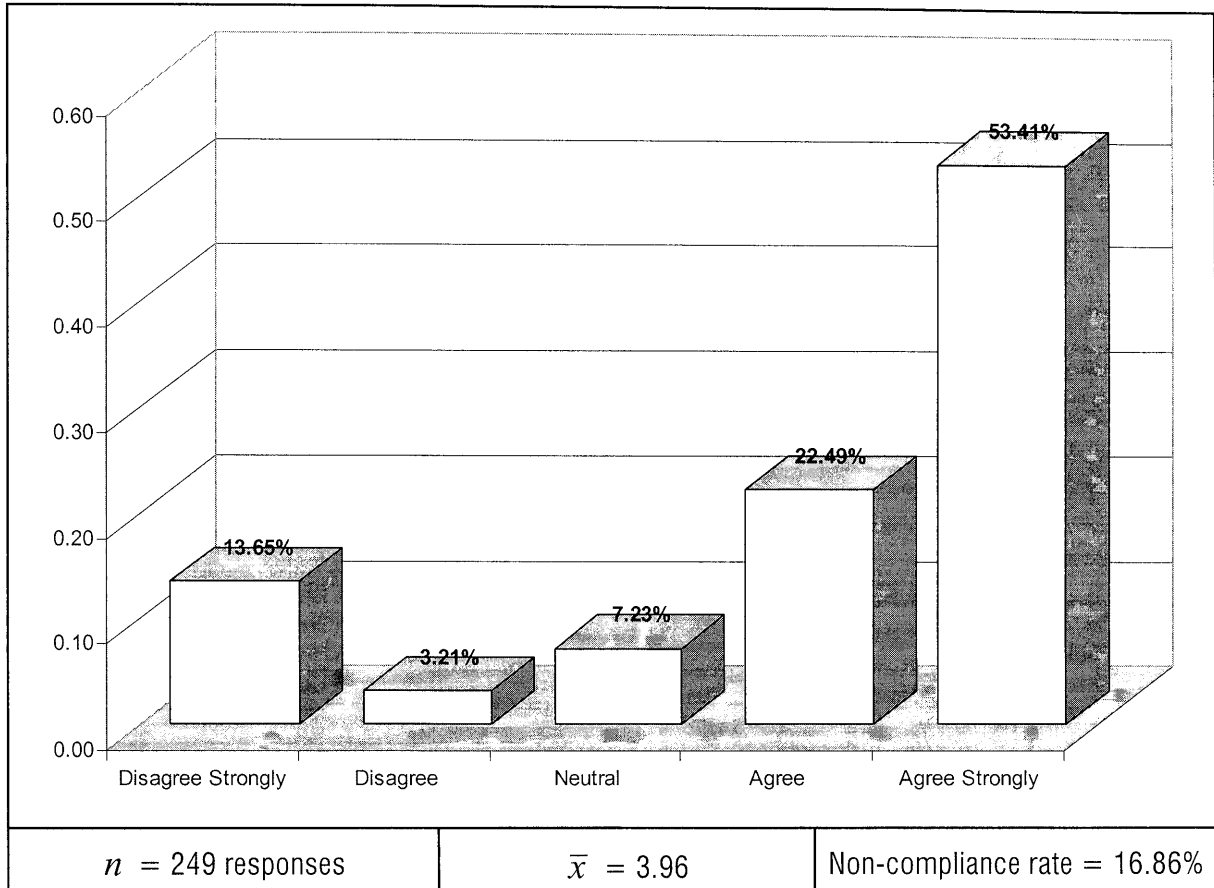


Figure 5.7 – Perceived adherence to overall accountability by national federations

Based on overall recorded responses ($n=249$), 16.86% of federations fail to accept accountability for their actions and also fail to act in a manner which is accountable (Figure 5.7). This is a matter of concern as it is shown in literature that providers of funds are placing ever higher emphasis on the responsible and accountable management of funds. Not only does adherence to the need for accountability help to reduce potential liability, it also aids in the risk management process by identifying and limiting potential future risk (PricewaterhouseCoopers 2003:1; Naidoo 2002:3). Accountability also impacts on the other pillars and are impacted on by the other pillars. In this sense accountability is a visible outflow or manifestation of good governance principles, as this is a result of a commitment to principles of good governance through discipline. Discipline in itself is a pillar of good governance, which implies the commitment to adhere to these principles by accepting the overall obligation to ensure that the federation is managed and run in an accountable and responsible manner.

5.4.2 Responsibility

The second pillar of best practice governance is that of responsibility. Again this is composed of different sub-elements (Table 4.1). Responses that measured the first sub-element of responsibility (Questions 30, 61, 70 and 82) are shown in Table 5.7.

5.4.2.1 Responsibility as sub-element of overall responsibility

Table 5.6 - Recorded responses to statements measuring responsibility as sub-element of responsibility

Question	Description	1		2		3		4		5	
		%	n	%	n	%	n	%	n	%	n
30	Contingency plans exist (and will be implemented) to keep the Federation on course if necessary.	20.00	7	0.00	0	25.71	9	25.71	9	28.57	10
61	Responsibility for the entire Federation and its members, ultimately lies with Management.	17.14	6	2.86	1	11.43	4	25.71	9	42.86	15
70	Management ultimately assumes responsibility for the Federation and its members.	5.71	2	14.29	5	5.71	2	25.71	9	48.57	17
82	The current structure of the Federation facilitates effective management.	12.86	4	9.64	3	16.07	5	25.72	8	35.71	16

Question 30 (Table 5.6) reveals that in 20.00% of cases contingency plans either do not exist, or are not executable if required to correct or realign the organisation to the decided on and documented strategic path. Alternatively, the recorded response can imply that even if all federations had the necessary contingency plans in place, it would only be implemented in 54.28% of cases. When viewed with the results of question 70 (Table 5.6), this notion is supported, as it reveals that in 20.00% of recorded cases management fails to assume responsibility. Furthermore, 20.00% of respondents believe that federations' management does not have to assume responsibility for the entire federation and members (question 61, Table 5.6). Again, this should be a concern as management must indeed assume this overall responsibility to ensure the survival of the organisation (Rossouw *et al.* 2003:5). This implies the willingness to institute action in the case of failure to realign the organisation with its chosen strategic course (Institute of Directors in Naidoo 2002:157) and provides stakeholders with a mechanism of recourse in cases where required (Rossouw *et al.* 2003:5). Results of question 82 (Table 5.6) indicates that the way in which management is to assume responsibility is hampered by the management structure in

22.50% of respondent's federations. This implies that in 22.50% of cases the current management structure does not facilitate responsible behaviour if parties were required to do so. This result would obviously also impact on the accountability of management boards (as discussed under 5.4.1) as structure and accountability are so closely linked (Rauter 2001:2). Good governance principles as well as the various pillars are closely linked and interrelated and a lack of accountability would ultimately lead to a decrease in the responsibility taken by management.

5.4.2.2 Structure, responsibility and accountability as sub-element of overall responsibility

Table 5.7 - Recorded responses to statements measuring structure, responsibility and accountability as sub-element of responsibility

Question	Description	1		2		3		4		5	
		%	n	%	n	%	n	%	n	%	n
18	Roles and responsibilities of all assemblies, committees and commissions have been taken up into a written document.	11.43	4	8.57	3	14.29	5	20.00	7	45.71	16
35	Management assumes responsibility for failed actions and mismanagement.	8.57	3	11.43	4	11.43	4	14.29	5	54.29	19
80	The current structure of the Federation facilitates effective management.	16.67	6	2.78	1	11.11	4	25.00	9	44.44	16
85	The current structure of the Federation contributes to effective management of the Federation.	11.43	4	11.43	4	5.71	2	31.43	11	40.00	14

Responses recorded for structure, responsibility and accountability as it impacts collectively on responsibility as a pillar of good governance are given in Table 5.7. Responses to question 18 (Table 5.7) reveal that in 20.00% of recorded cases the various roles and responsibilities have not been documented. Also, as shown in question 35, (Table 5.7) management fails to assume responsibility for failed actions and mismanagement in 20.00% of recorded cases. This may be due in part to the lacking formalisation of responsibilities and roles and also duties as revealed in question 18 (Table 5.7). Another reason for failure may be due to an inadequate organisational structure as was indicated in question 80 (Table 5.7). A corresponding tendency was obtained, taken in question 85 (Table 5.7), that found organisational structures unfavourable in 22.86% of responses. Possible explanations for this may be due to too many committees charged

with various functions. Owing to the existence of multiple committees, a situation may arise where it becomes increasingly difficult to clearly establish the lines of responsibility and accountability, leading to a situation where certain actions and decisions are not accounted for as a result of the inability to assign ultimate responsibility.

5.4.2.3 Overall responsibility

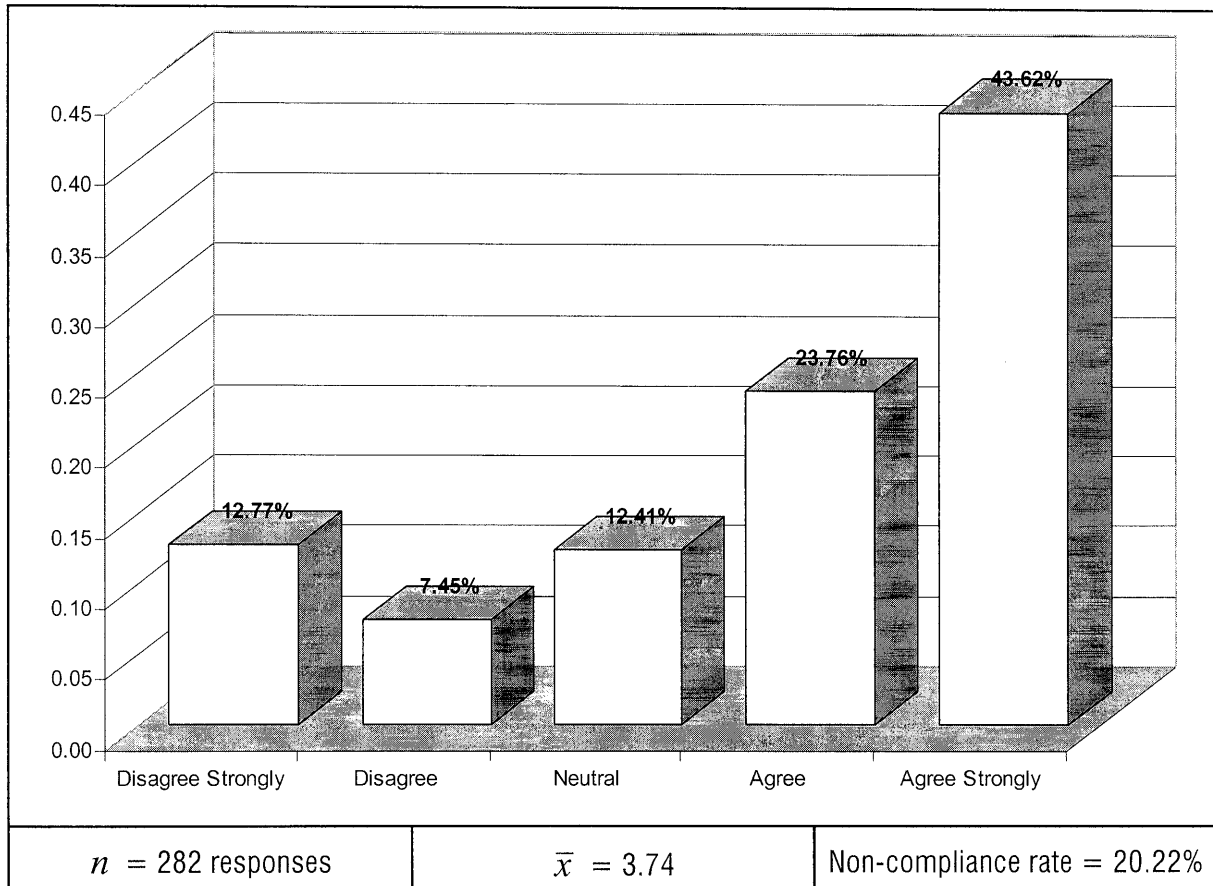


Figure 5.8 – Perceived adherence to overall responsibility by national federations

Figure 5.8 indicates that overall non-compliance to the principle of responsibility is shown to be 20.22% of respondent federations. This implies that in the event of mismanagement, members of the federation and its management have limited recourse to ensure that the future sustainability of the federation is secure. Measures should be in place to ensure that through the physical structuring of the federation and its management, responsive and responsible actions can be instituted in situations when needed. As described by Naidoo (2002:157), responsibility pertains to behaviour that allows for corrective action as well as penalisation of mismanagement. Responsive and responsible management in this sense

would introduce measures to direct the organisation to a state of corrective action as soon as possible. Rossouw *et al.* (2003:3) concurs in stating that this can be seen as providing stakeholders with recourse mechanisms in the event of mismanagement. However, it stands to reason that this is subject to the acceptance and recognition of potential failure and ensuring that systems are in place and instituted as remedy that ultimately points back to accountability and discipline. Whilst the executive board members remain accountable to the national federation and its membership constituents as indicated above, it is incumbent upon them to continuously act responsively and with responsibility towards all stakeholders. Accountability, as discussed above also proposes a responsibility to respond to critics according to Katwala (2000), in order to protect the values of sport as well as sustainability through sustainable profitability and growth.

5.4.3 Transparency

Transparency is composed of three sub-elements as defined in Table 5.2. These are transparency, transparent communications and the effective use of a website. Given that transparency and the sub-element transparent communications are so closely linked, results are combined for the purpose of this discussion and shown in Table 5.8.

5.4.3.1 Transparency and communication as sub-elements of overall transparency

Table 5.8 – Recorded responses to statements measuring transparency

Question	Description	1		2		3		4		5	
		%	n	%	n	%	n	%	n	%	n
15	Outsiders can easily obtain a true picture of the current state of affairs of the Federation.	13.89	5	2.78	1	16.67	6	22.22	8	44.44	16
29	A direct and open communication channel exists between Management and all individual Federation members.	17.14	6	0.00	0	11.43	4	25.71	9	45.71	16
34	A written statement of the Federation's responsibilities is readily available to members.	8.33	3	8.33	3	16.67	6	16.67	6	50.00	18
44	A large percentage of information within the Federation is not deemed confidential.	8.57	3	14.29	5	5.71	2	20.00	7	51.43	18
45	Management regularly makes information and data available to the press and general public.	8.33	3	8.33	3	16.67	6	30.56	11	36.11	13
58	There is regular communication on the state of the Federation's finances and financial activities to members and other stakeholders.	11.11	4	2.78	1	11.11	4	25.00	9	50.00	18
60	Relevant information regarding the Federation is shared with all stakeholders.	11.43	4	0.00	0	8.57	3	25.71	9	54.29	19
62	Policies, decisions, election results and other matters are regularly communicated to members and stakeholders.	8.33	3	8.33	3	5.56	2	27.78	10	50.00	18
74	General reports on the state of the organisation are made available in a candid, accurate and timely fashion to stakeholders.	11.11	4	2.78	1	11.11	4	25.00	9	50.00	18
76	Frequent reports aimed at the needs of specific stakeholders (e.g. Government, Sponsors) are made available.	8.57	3	5.71	2	22.86	8	22.86	8	40.00	14
79	A clear statement of the Federation's formal approach to governance has been communicated to members and other stakeholders.	11.11	4	8.33	3	25.00	9	22.22	8	33.33	12

In Table 5.8 questions 45, 58, 60, 62, 74, and 76 are related as they contribute to measuring general effectiveness in reporting on the federations' affairs. Specifically, question 45 (Table 5.8) indicated a lack in regularity of information availability in 16.66% of recorded responses. Question 58 (Table 5.8) measured the regularity of reporting by federations on their financial matters, and found this to be lacking in 13.89% of recorded responses.

In addition, question 60 (Table 5.8) found that information shared with stakeholders lacks relevance in 11.43% of recorded cases and that details relating to policies, decisions and election results are not communicated in 16.66% of recorded cases, as measured in question 62. Recorded responses in question 74 (Table 5.8) show that general reports lack accuracy and currentness in 13.89% of cases. Other findings point out that frequent reports aimed at the needs of specific stakeholders are not available in 14.28% of cases as

shown in question 76 (Table 5.8). Question 44 (Table 5.8) indicates that nearly one quarter of all information (22.86%) is deemed or treated as confidential. Federations are traditionally membership associations with a composition different to that of a commercial enterprise (see point 3.5.1). Even though there will always be a need for confidentiality of certain information, the reported percentage (22.86%) is questionable, given that membership associations are owned and indirectly governed by members through a system of representation. This necessitates a need to be informed and a right to have information readily available.

Question 15 (Table 5.8) measured the ease with which an outsider can achieve clarity on the affairs of the federation and was found to be insufficient in 16.67% of recorded responses. Reasons for this can be ascribed to the classification of the information as being confidential, as shown in the results of question 44 (Table 5.8) above (22.86% of recorded cases), or mere failure by management to make information available as reported in question 45 (16.66% of recorded cases in Table 5.8). Question 60 (Table 5.8) suggested that in cases where information is shared, it is not relevant in 11.43% of recorded cases, and question 74 (Table 5.8) showed that general reporting on the state of the organisation was not accurate, candid and timeous in 13.89% of cases. All the above elements were shown to be fundamental requirements in the discussion on transparency in section 4.3.3, and even a small degree of non-compliance to this principle should be a matter of concern to federations.

The Governance in Sport Working Group (2001:6) states that in order to promote transparency and communication, the sports governing body should have a clear and documented policy of its approach to governance as well as its responsibilities towards members and disclose it to members. This not only enhances transparency, but also aids in establishing accountability and responsibility through commitment and dedicated actions. It further reflects the discipline displayed by management to adhere to higher levels of good governance practices. Regular communication with members on the various matters related to the management of the federation by means of an open and direct two-way communication system, is imperative to good governance.

Communication is thus a key element in the strive towards the achievement of transparency (Rauter 2001:2). Gaved (2001) states that both transparency and communication are required in establishing legitimacy for the federation. Question 29 (Table 5.8) revealed that in 17.14% of cases direct and open communication systems do not exist. An inability to communicate unhampered may be a result of complex and cumbersome communication lines created within federations that might be related to the previously indicated inadequate organisational structures perceived by respondents (5.4.2.2). Traditionally reporting and communication lines follow hierarchical membership structures and affiliation tiers. This implies that queries of individual members have to be sent via a club structure, through a regional or provincial body to the national federation. In turn queries are relayed to the respective committee or party and returned along the same path (Oberholzer 2003). This is a cumbersome and time-consuming process that is not beneficial to the advancement and ideals of transparency and communication within the federation. This type of system adds no value, as it merely acts as a relay process between the inquiring and responding parties. Direct communication should be encouraged. Question 34 (Table 5.8) along with question 79 (Table 5.8) measure the degree to which the federation has documented certain aspects relating to governance. The results obtained for questions 34 and 79 (Table 5.8) show that federations fail in these two areas in 16.66% and 19.44% of cases respectively. This indicates insufficient emphasis given to ensuring that members and outsiders are kept informed on the various aspects and matters of the sports governing body, including details of the financial affairs of the organisation.

5.4.3.2 Website efficacy as sub-element of overall transparency

Table 5.9 – Recorded responses to statements measuring website efficacy as sub-element of transparency

Question	Description	1		2		3		4		5	
		%	n	%	n	%	n	%	n	%	n
21	Information on the Federation and its managerial and financial activities are available on the company website.	18.18	6	6.06	2	21.21	7	24.24	8	30.30	10
95	The Federation owns a website which is regularly updated.	3.13	1	3.13	1	18.75	6	31.25	10	43.75	14
96	The Federation's website contains all relevant information which pertains to the daily running and management of the Federation.	12.50	4	6.25	2	31.25	10	21.88	7	28.13	9

Table 5.9 reports on website efficacy of federations as sub-element of transparency as pillar of good governance. Website efficacy is achieved by making information available in a candid and undisguised manner, presenting required information and assuring that information provided is current. Those national federations without a website were excluded from the measurement and results thus only apply to 90.48% of the total responses ($n=32$) with an active Internet website (refer to 5.3.2). Question 21 (Table 5.9) indicates that information relating to federation finances and management matters are available in 54.54% of cases, and that in 50.01% of cases (question 96 in Table 5.9) information pertaining to the day-to-day managerial matters are available. Again this points to lacking transparency within federations when viewed in terms of the results of question 95 (Table 5.9), that reports that in 75.00% of cases, websites are in fact updated regularly. Thus, if a federation website is reported to be kept current and up to date, federations are simply failing to include the information required to adhere to the principle of transparency.

Possible reasons why federations do not actively pursue maximised Internet utilisation, which could be interpreted by respondents as under-performance, could include the inability to directly sell the service they provide to customers. National federations might not be aware of the use of the Internet as a proactive tool in promoting itself and the service it offers, and merely utilise it as an opportunity to provide an index of contact details, nullifying the active pursuit of online marketing and consumer targeting strategies. It can be argued further that federations do not realise that the services they offer need to be 'sold' to members as customers of the federation. However, the latter deduction remains untested and unproven within this study. It seems as if other avenues of Internet usage that are not explored in this sense by federations are online sale of merchandise and licenced apparel. As reported in chapter two, the industry sector which constitutes the largest proportion (41.25%) of the total contribution of sport to the South African GDP is the sale of sport goods and equipment as shown in Table 2.3. Future investigations might therefore include an inquiry into the percentage of these sales conducted by national federations as well as the proportion of sales made by federations over the Internet.

5.4.3.3 Overall transparency

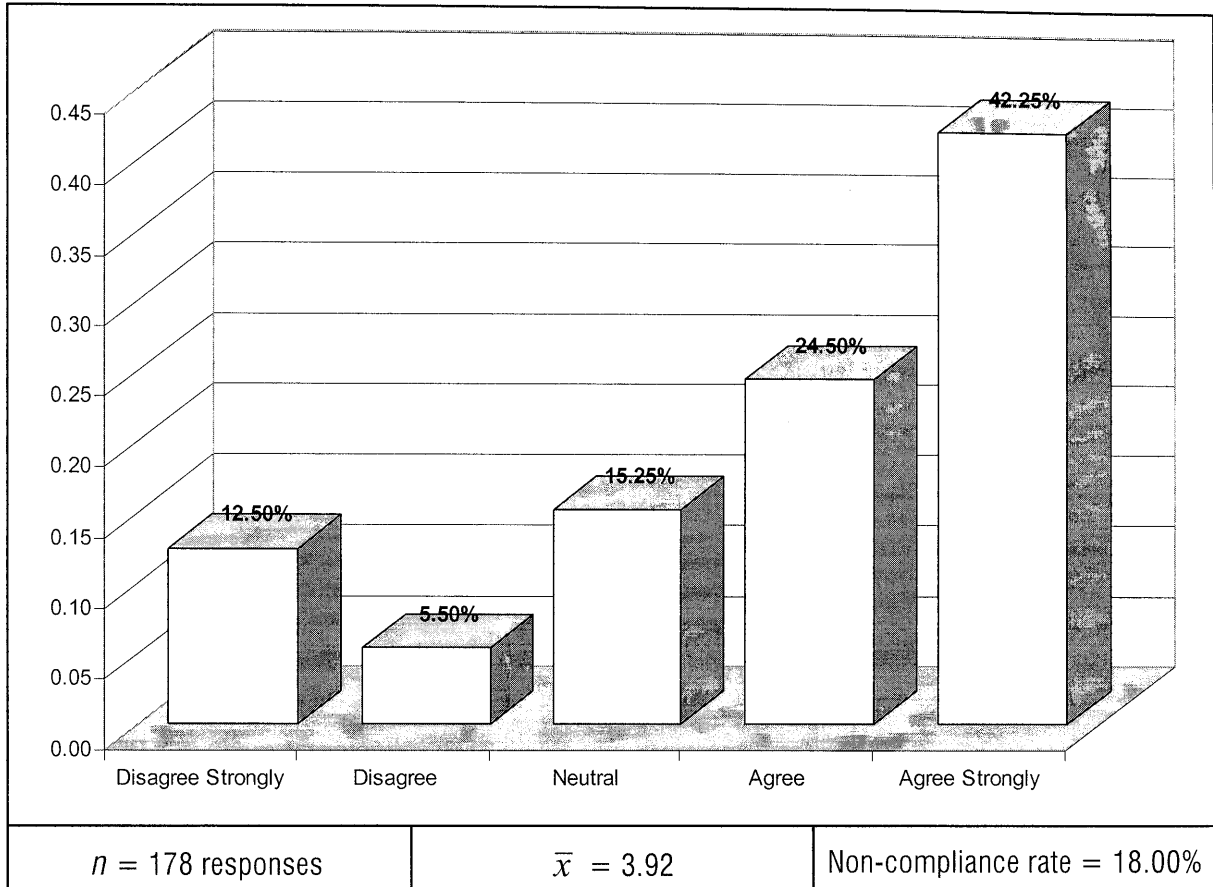


Figure 5.9 – Perceived adherence to overall transparency by national federations

It can be concluded that transparency is not satisfactory in 18.00% of cases, based on the overall results displayed in Figure 5.9. Chapter 4 (section 4.3.3) defines transparency as the ease with which outsiders and stakeholders are able to make meaningful analyses of the organisation’s actions, its economic management fundamentals, and the non-financial aspects pertinent to that organisation. This is in essence a measure of the success with which management makes appropriate information available in a candid, accurate and timely manner. It reflects the ability to obtain a true picture of what is happening inside the company or sports federation. Failure to do so hampers a federation’s ability to prove accountable and responsible management of funds, that in turn will impact on the ability of the federation to obtain outside funding (Van Heerden 2001:349).

In order to qualify for funding from national government, federations are obliged to provide annual audited financial statements to the Sport and Recreation South Africa (SRSA). These should also be made available to all members voluntarily and also be available on organisational websites. Adherence to the requirement of audited financial statements does not *per se* ensure transparency. If current data on the financial standing are not available to inquiring members to assess the current standing of the federation, transparency is not enhanced. If financial reporting is done merely for the purpose of complying with statutory requirements, it provides for nothing more than a mechanism to ensure that historic financial reporting has been done in accordance with principles of universally accepted and acknowledged standards of accounting. It is an inherent practice of good management that financial reporting be done in this manner, however, as Garrison and Noreen (2000: 8) state: “financial reporting provides assurance that reporting has been done in accordance with some common set of rules, which enhances comparability and shall reduce fraud and misinterpretation. It does not contribute to increased transparency *per se*.” The relevance of financial auditing and its implications for independence are discussed further in section 5.4.5.

5.4.4 Social responsibility

A socially responsive and responsible national federation is perceived as an organisation that is non-discriminatory, non-exploitative and responsible with regard to environmental, social and human rights issues (as described in section 4.3.4). This implies responsible behaviour towards all stakeholders of a sports body. As previously pointed out, stakeholders refer to those groups or individuals directly or indirectly interested in the affairs of the federation and include those who have a direct interest in its financial success as well as those who are indirectly affected by the federation’s activities.

5.4.4.1 Social responsiveness as sub-element of overall social responsibility

Table 5.10 – Recorded responses to statements measuring social responsiveness as sub-element of social responsibility

Question	Description	1		2		3		4		5	
		%	n	%	n	%	n	%	n	%	n
13	The federation fulfills a corporate social responsibility (CSR) towards society.	2.86	1	5.71	2	14.29	5	22.86	8	54.29	19
19	The federation acts in a non-discriminatory and non-exploitative manner towards people within society in general.	5.56	2	8.33	3	5.56	2	11.11	4	69.44	25
39	Regard for environmental and human rights issues will lead to economic and monetary benefits for the federation.	17.14	6	8.57	3	17.14	6	22.86	8	34.29	12
50	There is a general high level of adherence to ethical standards within the federation.	13.89	5	0.00	0	8.33	3	30.56	11	47.22	17
67	The federation's corporate social responsibility is well defined.	8.57	3	11.43	4	25.71	9	22.86	8	31.43	11
69	The Federation has a responsibility to act responsibly towards environmental issues.	5.71	2	11.43	4	17.14	6	31.43	11	34.29	12
83	The organisation responds well to external social issues.	11.11	4	8.33	3	22.22	8	25.00	9	33.33	12
84	The organisation responds well to internal social issues.	5.71	2	8.57	3	17.14	6	34.29	12	34.29	12

Table 5.10 shows recorded results on social responsiveness as a sub-element of overall social responsibility. Question 13 (Table 5.10) shows that in 8.57% of cases, the respondent federations do not fulfill a corporate social responsibility towards the greater society. Results of question 67 (Table 5.10) indicate that in 20.00% of cases, federations do not have a well defined view of their social responsibility.

Question 83 (Table 5.10) indicates that federations fail to deal with external social issues in 19.44% of recorded cases and fail in a similar manner dealing with internal social issues in 14.28% of cases as shown in question 84 (Table 5.10). Failure to take account of these issues indirectly implies negated stakeholder needs. Even though this may carry financial implications as shown in the literature overview in section 4.3.4 (Institute of Directors 2002:6; Ward, Borregaard and Kapelus 2002:3,5), federations seem oblivious to this fact given responses to question 39 (Table 5.10), where 25.71% of respondents do not believe that human rights and environmental issues may impact the federation economically. Specifically in terms of the former, federations fail to act non-discriminatory and non-

exploitative towards people in society (question 19 in Table 5.10) in 13.89% of cases. In terms of the environmental issues, federations fail in 17.14% of cases (question 69 in Table 5.10). This finding seems to indicate that federations are less aware of their roll in taking account of environmental issues despite the fact that this is a requirement put to national federations by the National Sport and Recreation Act 110 of 1998 (South Africa 1998b:8). Failure to take cognisance of this may have two distinct implications. The first being lost opportunities in realising economic benefit. Federations that act responsibly in this regard may enhance their long term sustainability through proactive environment protection and management policies. Rossouw (2003:4) indirectly contends that increased investment may also result in direct response to responsible proactive social and environmental management strategies. Failure in this regard may leave the federation open to lost resources in the future, either through limitations in the availability of resources through greater control and protection policies and measures, or the depletion of resources. Irresponsible usage, negligence or a lack of awareness of the importance of this may also increase legal risk through penalisation (De Koker 2003:4).

5.4.4.2 Recognition of others' interests as sub-element of overall social responsibility

Table 5.11 – Recorded responses to statements measuring recognition of others interests as sub-element of social responsibility

Question	Description	1		2		3		4		5	
		%	n	%	n	%	n	%	n	%	n
27	Decisions are taken with cognisance of the effect it will have on all interest groups.	14.29	5	5.71	2	2.86	1	22.86	8	54.29	19
52	The interests of all members and stakeholders are taken into account when decisions are made.	13.89	5	2.78	1	5.56	2	19.44	7	58.33	21
73	During Management decisions, objectivity is sought to ensure that no discrimination of any kind prevails.	11.11	4	5.56	2	8.33	3	19.44	7	55.56	20
87	Decisions are not biased towards any specific interest, stakeholder or member grouping.	11.43	4	2.86	1	8.57	3	22.86	8	54.29	19

Table 5.11 relates to the findings on the recognition of others interests. Questions 27, 52 and 87 (Table 5.11) measure whether all interest group interests are taken into account during management decision-making. Results obtained reveal that national federations fail to do this in 20.00% (question 27 in Table 5.11), 16.67% (question 52 in Table 5.11) and

14.29% (question 87 in Table 5.11) of recorded cases. Furthermore, question 73 (Table 5.11) reveals that in 16.67% of cases objectivity cannot be maintained in order to avoid discrimination. The implicated conclusion of this is that federations do not continuously maintain objectivity, nor do they take into account the interests of all those stakeholders that are recognised by the federations. Again, as with environmental issues, the federation that fails to take account of this, run the risk of being financially disadvantaged as identified in the King II Report (Institute of Directors 2002:6). The results obtained here do however, not give insight into the percentage of actual stakeholders respondent federations do recognise.

5.4.4.3 Overall social responsibility

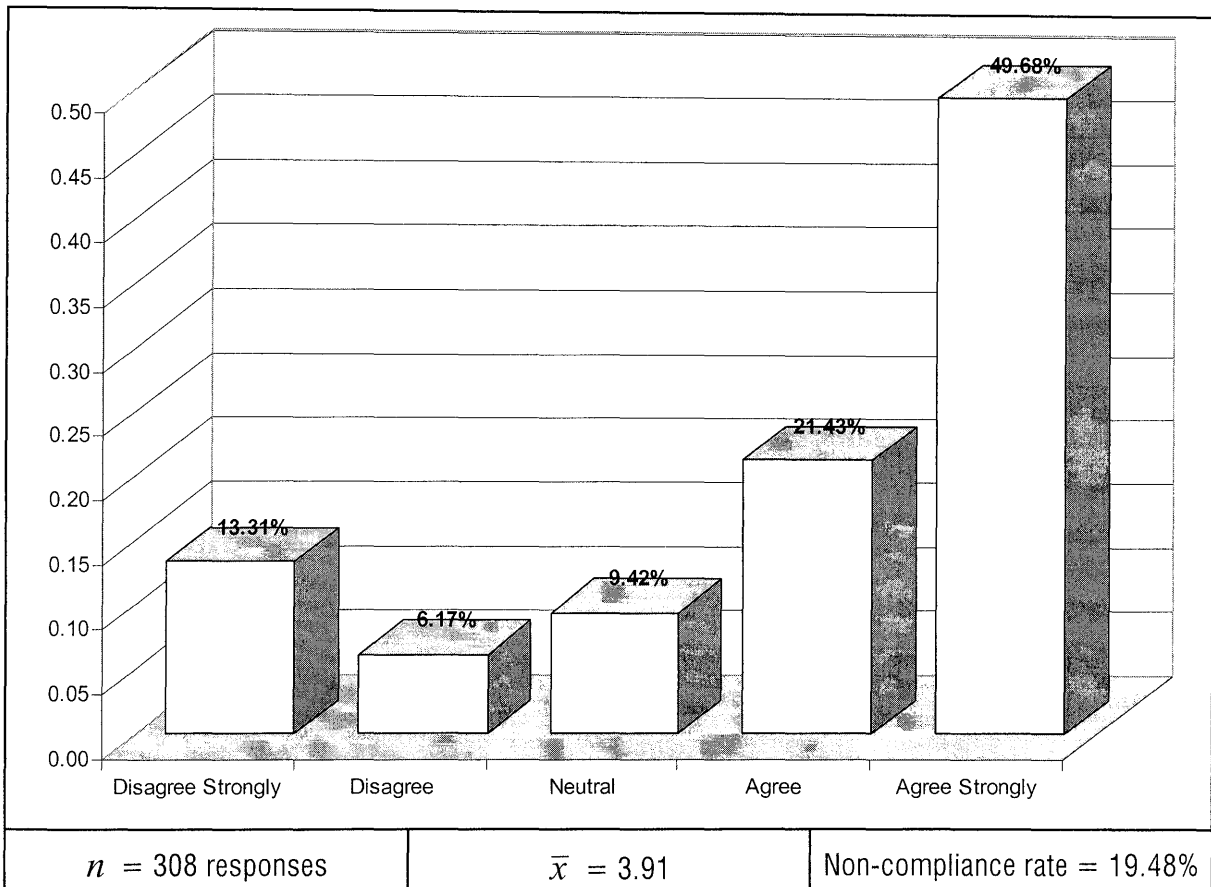


Figure 5.10 – Overall adherence to social responsibility by national federations

Overall a non-adherence rate of 19.48% was shown by respondent federations in measurements of adhering to the ideals of social responsibility in Figure 5.10. Failure to adhere to this exposes the organisation to lost investments. Rossouw (2003:4) states that

there is a strong trend towards investments in organisations that meet criteria for socially responsible investment, i.e. organisations with a record of environmentally sound technologies, healthy working conditions, safe products and so forth. De Koker (2003:4) states that delictual risks may also expose the organisation to legal liability. This includes acting, or failing to act, in a way that causes another party to suffer damages whether intentional or negligent and is frowned upon by society. However, this requires the federation to identify the risk, as well as the potentially affected stakeholders. Fair and responsible behaviour towards relevant stakeholders (Ward, Borregaard & Kapelus 2002:2) and the prevention of damage to quality of life of individuals affected by the operations of the organisation are implied.

In conclusion it is argued that overall recognition of all possible interest groups and environmental and social issues may not be fully realised at this time, and remains unmeasured in this study. It is proposed that the findings may not be a true reflection of reality, and in fact, non-compliance is suspected to be greater due to the extent with which stakeholders are identified as actual stakeholders. This might manifest in situations where actual stakeholder groups are not recognised as such due to ignorance of the relationship with stakeholder groups and influence of the sport body's actions on these groups. Potentially this may result in an overemphasised recording of compliance levels as respondents may not realise that certain stakeholder groups remain unaccounted for. It should be reasonable to assume that if a certain stakeholder or stakeholder groups remain unrecognised a perception of low adherence to a social responsibility might not be registered. This might lead to selective social responsibility. Groups that are acknowledged as legitimate stakeholders may in fact receive fair to high levels of recognition and attention due to their direct importance to the national federation and sports governing body alike. It is therefore suggested that future studies determine the holistic stakeholders profile of federations and subsequently the level of importance these stakeholder groups enjoy.

5.4.5 Independence

Independence is measured in terms of four distinct elements. The degree of freedom the federation enjoys from outside influence in the manner in which the federation conducts its business; objectivity; independence of decisions and appeals and issues dealing with conflicts of interest. Table 5.12 presents the findings on freedom from outside influence.

5.4.5.1 Freedom from outside influence as sub-element of overall independence

Table 5.12 – Recorded responses to statements measuring freedom from outside influence as sub-element of independence

Question	Description	1		2		3		4		5	
		%	n	%	n	%	n	%	n	%	n
26	No stakeholder group can exercise enough power to influence the objectivity of decisions taken by Management.	5.71	2	5.71	2	11.43	4	34.29	12	42.86	15
38	Decisions and policies are free from undue outside influences.	16.67	6	2.78	1	16.67	6	33.33	12	30.56	11
53	Committee / Management members seldom find themselves in a position where a conflict of interest could arise.	16.67	6	11.11	4	22.22	8	27.78	10	22.22	8
75	Existing measures and mechanisms are sufficient to avoid potential conflicts of interest.	13.89	5	5.56	2	8.33	3	33.33	12	38.89	14
86	The appointed auditors are independent and unbiased.	2.94	1	2.94	1	11.76	4	14.71	5	67.65	23

Question 53 (Table 5.12) holds that in 27.78% of cases situations arise where a conflict of interests can occur as a result of outside influences. Question 75 (Table 5.12) shows that in 19.45% of cases existing mechanisms are not sufficient to avoid such potential situations where outside influence may cause conflict of interests. Furthermore, in 19.45% of cases decisions are taken and policies are made in the presence of such outside influence or conflicting interests as shown in question 38 (Table 5.12). Question 26 (Table 5.12) reveals that in 11.42% of cases, outside influence in the form of stakeholder groups are powerful enough to influence the impartiality and objectivity of management decisions. Lacking independence influences the balance of power that ultimately influences decision-making. Independence and impartiality are the assurances that outside influences do not unjustly influence decision-making. It can be achieved through mechanisms such as board composition and representation that minimises or negates outside influence. Achieving independence and impartiality leads to fairness of decisions, that is advantageous to the

federation and its members as a whole over the long-term. Stricter controls and systems are needed to ensure that outside forces do not influence the decision-making process and result in decisions that are not in the long-term best interest of the entire federation.

Another important aspect revealed in question 86 (Table 5.12) is that in 5.88% of cases the appointed auditors are not independent. The audit process is of cardinal importance to ensure confidence in disclosure, thereby enhancing transparency and limiting corruption. The submission of audited financial statements is a primary eligibility requirement for funding of national federations as contained in the funding policy of Sport and Recreation South Africa (Sport and Recreation South Africa 2002). As was also shown in the literature overview it seems as if sport in South Africa is not free from corruption (Department of Public Service and Administration 2003:120).

5.4.5.2 Objectivity as sub-element of overall independence

Table 5.13 – Recorded responses to statements measuring objectivity as sub-element of independence

Question	Description	1		2		3		4		5	
		%	n	%	n	%	n	%	n	%	n
22	All decisions and actions taken can be substantiated by means of sufficient reasoning (justified and reasoned to be in the best interest of the Federation and its members).	11.43	4	5.71	2	2.86	1	34.29	12	45.71	16
55	Decisions taken by Management are highly objective.	13.89	5	0.00	0	19.44	7	27.78	10	38.89	14
56	Decisions taken by non-management committees are highly objective.	8.82	3	8.82	3	38.24	13	26.47	9	17.65	6
81	Decisions are taken in the best interests of the Federation as a whole.	11.11	4	5.56	2	5.56	2	16.67	6	61.11	22

Table 5.13 reports on the level of objectivity of federations. Objectivity implies an ability to view, perceive or describe something without being influenced by personal emotions or prejudices and also to remain impartial, detached, independent, neutral and fair in one's actions and intentions. It is the ability to withstand influencing factors that may alter or hinder the perception of reality, thereby affecting independent and impartial acts and decisions. In the case of sport specifically, it implies to be fair in one's views and to take into consideration all the relevant facts that may or may not pertain to specific issues at

hand. Influencing factors should be considered equally to determine if it represents benefit or detriment to the future existence of the federation and the impact on its members, i.e. the quality of being accurate and independent of individual perceptions.

Recorded responses for question 55 (Table 5.13) show that 13.89% of decisions taken by management are perceived to be not objective. In comparison, question 56 (Table 5.13) revealed that non-management committee decisions lack objectivity in 17.64% of cases. Objectivity may be impaired due to a lack of independence of board members and committee members alike, as discussed above. Nonetheless, objectivity remains important to ensure that decisions taken, are in the best interest of the federation as a whole, proving the most benefit to the greatest number of members over the long-term. The lack of independence and objectivity inevitably impacts on decisions taken as is evident in the results from question 22 (Table 5.13), in which 17.14% of these cases, fail the test of sufficient reasoning resulting in decisions that are not necessarily taken in the best interest of the federation as a whole. Similar findings are reported by question 81 (Table 5.13) where 16.67% of respondents claim that decisions are not in the best interest of the federation.

5.4.5.3 Decisions and appeals as sub-element of overall independence

Table 5.14 – Recorded responses to statements measuring decisions and appeals as sub-element of independence

Question	Description	1		2		3		4		5	
		%	n	%	n	%	n	%	n	%	n
17	Existing procedures to resolve differences are easily accessible by members of the Federation.	13.89	5	8.33	3	11.11	4	33.33	12	33.33	12
41	Existing procedures to resolve differences are efficient.	16.67	6	8.33	3	11.11	4	36.11	13	27.78	10
46	Management does not interfere when a dispute between a member and the Federation is referred for arbitration.	8.57	3	8.57	3	20.00	7	31.43	11	31.43	11
64	A procedure is in place for resolving differences between either management, management and members or between members <i>per se</i> .	22.86	8	0.00	0	14.29	5	20.00	7	42.86	15
65	Differences as described above can be easily resolved through external appeals or arbitration.	14.29	5	5.71	2	20.00	7	14.29	5	45.71	16
68	Existing procedures to resolve differences adhere to the requirements of transparency.	16.67	6	2.78	1	13.89	5	30.56	11	36.11	13
89	Existing procedures to resolve differences adhere to the requirements of procedural fairness.	11.76	4	5.88	2	2.94	1	26.47	9	52.94	18

Table 5.14 reports on decisions and appeals and adherence to principles of best practice in terms of conflict resolution. The National Sport and Recreation Act 110 of 1998 states, under section 13, that every sports governing body should include measures for conflict resolution within its constitution, to deal with disputes that may arise amongst members or with the body itself. In the event where such measures fail, or in the event that a member or sports governing body feels aggrieved, a dispute may be declared with the South African Sports Commission for arbitration, who in turn is charged with the duty to give a decision that best serves the interests of the sport and its members. Question 64 (Table 5.14) shows that in 22.86% of recorded cases conflict resolution mechanisms are not in place. This result may be exacerbated by members who are unaware of existing procedures. However, this still implies that conflicting mechanisms are unavailable to members due to being uninformed, resulting from lacking transparency and communication, as discussed under point 4.3.3 and 5.4.3 respectively.

Question 17 (Table 5.14) shows that in those federations where procedures are present, they are not easily accessible in 22.22% of recorded cases. Communication procedures might again be a contributing factor. Questions 41, 68 and 89 (Table 5.14) measured the efficiency of conflict resolution procedures. Procedures were found to be lacking in terms of efficiency in 25.00% of cases (question 41 in Table 5.14), lacking in transparency in 19.45% of cases (question 68 in Table 5.14), and lacking in procedural fairness in 17.64% of cases (question 89 in Table 5.14). These results are in sharp contrast to the requirements put to federations in terms of section 13 of the National Sport and Recreation Act 110 of 1998 (South Africa 1998b:10), as highlighted in the preceding paragraph.

Question 65 (Table 5.14) revealed that in 20.00% of recorded cases, differences could not easily be referred to external arbitration as provided for in the Sports and Recreation Act (South Africa 1998b:10), and that in 17.14%, of cases management boards of governing bodies are suspected to interfere in the process (question 46 in Table 5.14).

When conflicts are not easily resolved through internal processes and mechanisms, legal recourse might be sought, which ultimately lengthens the time to resolution, increases the expenses incurred in the process and impacting seriously on the credibility of the federation and its management.

5.4.5.4 Conflicting interests as sub-element of overall independence

Table 5.15 – Recorded responses to statements measuring conflicting interests as sub-element of independence

Question	Description	1		2		3		4		5	
		%	n	%	n	%	n	%	n	%	n
31	There is a clear distinction made between the federation's formal management function versus the pursuit of activities for financial gain, to ensure that a conflict of interest does not arise.	17.14	6	11.43	4	14.29	5	17.14	6	40.00	14
48	An open tender system is in place and documented.	25.81	8	3.23	1	29.03	9	16.13	5	25.81	8
49	Sound procurement policies are in place and well documented.	18.18	6	9.09	3	18.18	6	18.18	6	36.36	12
91	Different committees have been established with clearly defined responsibilities in terms of performing various organisational functions.	0.00	0	14.29	5	5.71	2	37.14	13	42.86	15

Table 5.15 shows recorded results pertaining to the degree in which there is freedom from conflict of interests. This specifically implies the degree to which mechanisms exist and also their efficacy in ensuring that conflict of interests do not occur in the decision-making process. Conflict of interests are prevented through the demarcation of the sport body's governing function and or commercial endeavour and involvement (Governance in Sport Working Group 2001:6-7). Question 31 (Table 5.15) shows that in 28.57% of recorded cases conflict of interests do occur as there is no clear distinction between the formal management function and the pursuit of the activities for financial gain (commercial function). In terms of procurement practises, procurement policies are lacking in 27.27% of the cases (question 49 in Table 5.15) and in 29.04% of cases no open tender system is in place (question 48 in Table 5.15). This leaves the sports federation vulnerable to goods and service purchases that do not necessarily provide the best value for money, that might have been obtained at a lower cost or better quality or do not meet the required quality and performance levels. Such events can lead to situations where suppliers also serve on the management committee of a sports governing body or has an influence in the purchasing decision and stand to benefit financially, as is shown to be likely in terms of the results of question 48 (Table 5.15). Conflicting interests also impact negatively on both objectivity of management and recognition of others' interests.

5.4.5.5 Overall independence

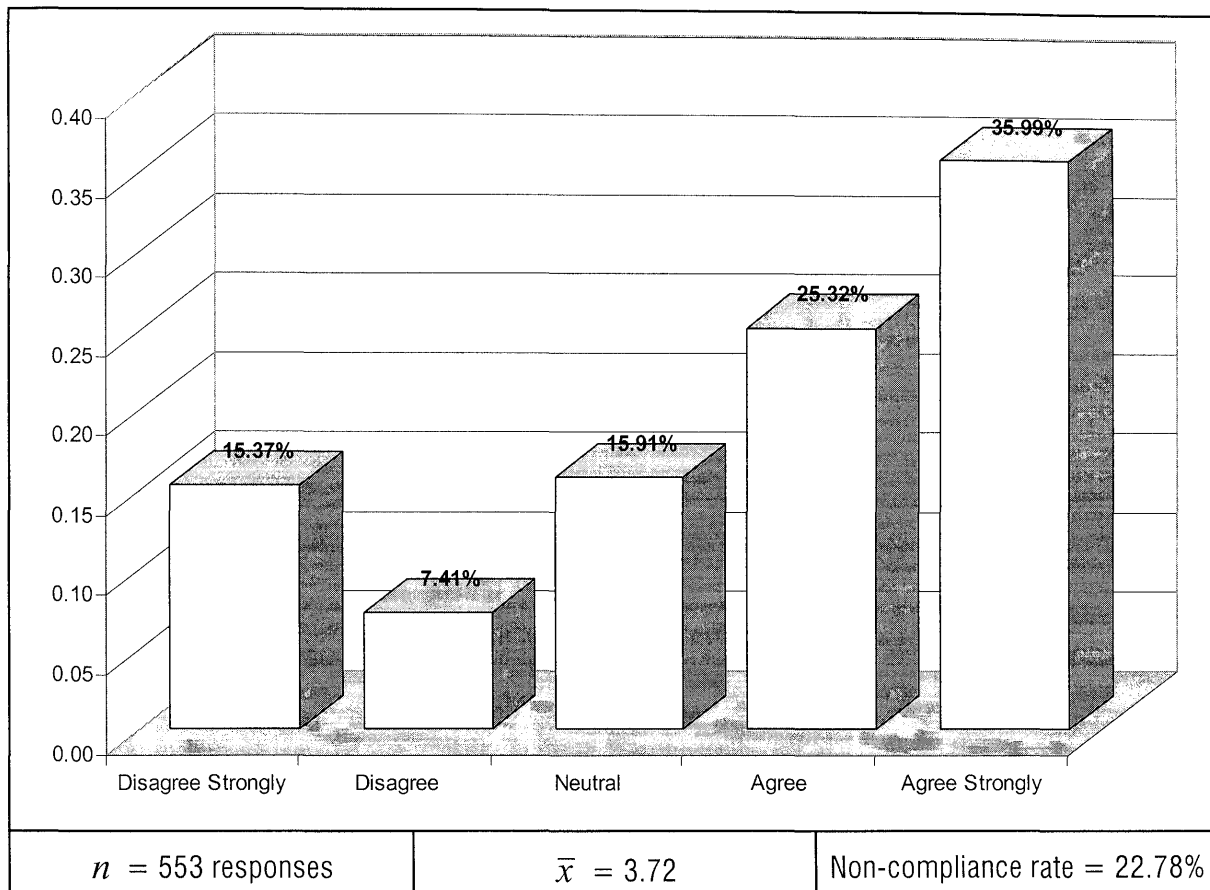


Figure 5.11 – Adherence to overall independence by national federations

According to Figure 5.11 the overall rate of non-compliance is measured at 22.78%, which implies that 22.78% of those federations included in the study do not adhere to the requirement of overall independence.

Conflict of interests manifest at different levels and in different ways. A hypothetical example is used to explain a situation in which a sports governing body may come under pressure to change rules of the sport to benefit a sponsor. These changes might not be beneficial for the sustained growth of the sport over the long run but in return offers financial rewards in the form of sponsorship. The resulting conflict is in contrast to the long-term sustainability of the sport. Hypothetical changes could hinder the long-term development and growth of the sport but also endanger the sustainability of holding the interest of the sponsor if not implemented. The danger exists that insufficient or diminishing return on the investment made by the sponsor (i.e. sponsorship) may accrue

in the future. The future sustainability and survival of the federation must be weighed up against the short-term financial rewards gained through accommodating the needs of the sponsor.

An overall non-compliance rate of 22.78% (Figure 5.11) provides proof that situations do arise where conflict of interests manifest and might point to a lack of existing measures to prevent and effectively handle such situations if and when they do arise.

5.4.6 Fairness

Fairness relates to the balance with which account is taken of all stakeholders with a legitimate claim in the future and interest of the national federation. Fairness also extends to acknowledgement and respect with which these stakeholder-rights are viewed. Moral obligation (Australian Sports Commission 1999:7), to consider all matters on the basis of equity and transparency with the interest of sport, plays a central role in good governance. Fairness proposes due cognisance and equal consideration of all internal and external stakeholders' interests as well as representative board composition.

5.4.6.1 Fairness as sub-element of overall fairness

Table 5.16 – Recorded responses to statements measuring fairness as sub-element of fairness

Question	Description	1		2		3		4		5	
		%	n	%	n	%	n	%	n	%	n
51	Rights and benefits are given to members and stakeholder groups according to their relative level of influence and importance.	14.71	5	23.53	8	17.65	6	17.65	6	26.47	9
71	All members have the same legitimate rights within the Federation.	11.11	4	5.56	2	8.33	3	25.00	9	50.00	18
72	All members are treated equally within the Federation.	13.89	5	2.78	1	5.56	2	27.78	10	50.00	18
77	Clear guidelines exist for the handling of all legitimate stakeholders (e.g. activists, media) and members interests.	5.88	2	14.71	5	17.65	6	26.47	9	35.29	12
92	All members are treated with the same level of respect and tolerance.	14.29	5	8.57	3	2.86	1	20.00	7	54.29	19

Table 5.16 provides a breakdown of recorded responses in respect of fairness as sub-element of fairness as pillar of good governance. Questions 51, 71, 72, 77 and 92 in Table 5.16, measure the general fairness with which members as well as stakeholders are treated. It seems as if different levels of influence by stakeholder groups lead to different rights and benefits. This observation is deduced from the results obtained in question 51 (Table 5.16) where in 44.12% of cases, rights and benefits are awarded to members and stakeholder according to their level of influence. This obviously goes against the notion of independence and freedom of influence discussed above under point 5.4.5. In 16.67% of measured cases it is shown that all members neither hold the same legitimate rights (question 71 in Table 5.16) nor receive equal treatment in 16.67% of cases as measured in question 72 (Table 5.15). Further investigation of question 92 (Table 5.15) indicated that equal treatment in terms of tolerance and respect is absent in 22.86% of recorded responses. This might be ascribed to insufficient guidelines and principles on the rights and status of stakeholders and members of the federation and indeed confirmed by the results obtained in question 77 (Table 5.16) indicating that such guidelines do not exist in 20.59% of cases.

As reported in section 4.3.6, section 13 of the National Sport and Recreation Act No 110 of 1998 entitles the South African Sports Commission to take action and intervene to ensure adherence to the principles of fairness and equal treatment of constituents (South Africa 1998b:10). According to the Australian Sports Commission (1999:5), a sports governing body's board has a moral obligation to consider all matters on the basis of equity and transparency and in the interests of the sport as a whole and not to give preference to any one or more stakeholder groups. The recorded results obtained in this sub-element stand in clear contrast to the governmental guidelines and principles to respective national sports commissions. Failure to adhere to these guidelines provides additional impetus for statutory regulation of sport through legislation.

5.4.6.2 Democracy, elections and appointments as sub-element of overall fairness

Table 5.17 – Recorded responses to statements measuring democracy, elections and appointments as sub-element of fairness

Question	Description	1		2		3		4		5	
		%	n	%	n	%	n	%	n	%	n
20	The maximum duration any individual can serve on any non-executive committee is fixed.	36.11	13	19.44	7	22.22	8	2.78	1	19.44	7
33	Elections of Management members are conducted in a free and fair manner.	11.11	4	8.33	3	5.56	2	13.89	5	61.11	22
43	There is no ambiguity in terms of voting rights and eligibility of members.	14.29	5	8.57	3	2.86	1	17.14	6	57.14	20
54	Details such as the identity and qualifications of each serving Management member, are readily available to members and outside stakeholders.	16.67	6	5.56	2	11.11	4	27.78	10	38.89	14
57	The details of nominated individuals are made available well before elections take place.	22.86	8	8.57	3	8.57	3	20.00	7	40.00	14
63	Formal election procedures are set out in writing and communicated in advance to all members eligible to vote during Federation elections.	11.43	4	8.57	3	5.71	2	14.29	5	60.00	21
90	Directives with regard to voting rights and procedures are clearly communicated to all members.	8.57	3	14.29	5	5.71	2	25.71	9	45.71	16
93	There are examination procedures to assess the accuracy and truthfulness of nominated individuals' curriculum vitae.	28.57	10	14.29	5	11.43	4	25.71	9	20.00	7
94	The maximum duration any individual can serve on the executive board is fixed.	28.57	10	11.43	4	17.14	6	17.14	6	25.71	9
98	The duration of the serving term of elected officials is documented.	20.00	7	5.71	2	8.57	3	14.29	5	51.43	18

Table 5.17 reflects recorded responses in terms of democracy, elections and appointments. As reported earlier, the principles identified by the Governance in Sport Working Group (2001:5) stressed that no ambiguity should exist in terms of voting rights and eligibility of members. Members should elect to office their choice of representatives by means of democratic election. Question 57 (Table 5.17) however, indicated that in 31.43% of recorded responses, details of nominated individuals were not made available prior to the election. Question 93 (Table 5.17) showed similar irregularities in that 42.86% of cases there were no vetting processes to assess the accuracy of the curriculum vitae of nominated individuals. This results in a situation where skills, abilities and qualifications to fulfill the necessary functions cannot be validated and leaves the federation open to the election of individuals who do not necessarily meet the requirements and obligations of the respective position. Question 54 (Table 5.17) also indicates that information of current

serving members are not available to members and outsiders in 22.23% of cases. This finding is related to the lack of transparency in some federations identified in section 5.4.3. The influence of insufficient communication and transparency is reflected in the lack of directives, with regard to voting rights and procedures where recorded responses to question 90 (Table 5.17) show that this is not adhered to in 22.86% of cases. A similar tendency was found in question 43 (Table 5.17), that assessed the level of ambiguity of voting rights and eligibility. This might be the result of a lack of awareness of aspects such as voting rights, election procedures, nominations, voting eligibility and other aspects of elections. It is partly confirmed by the findings of questions 63 and also 90 and 43 (Table 5.17) all of which may be symptomatic of inadequate communication and information distribution systems. Question 63 (Table 5.17) reports that in 20.00% of cases, formal election procedures are not set out in writing and communicated in advance to all members who are eligible to vote and supports the deduction of inadequate information and communication systems.

Question 20 (Table 5.17) identified that the maximum duration any individual may serve on a non-executive committee seems to be fixed in only 22.22% of cases. In the case of serving on the management board of the federation, results of question 94 (Table 5.17) found the serving term to be fixed in only 42.85% of recorded cases. This undesirable situation is further exacerbated by the fact that 25.71% of respondents indicated that the duration of the serving terms are not documented, as reported in question 98 (Table 5.17). Again these findings are in contradiction to the guidelines proposed by the Governance in Sport Working Group (2001:5), which contends that election procedures must be documented and communicated to all members prior to the elections. Furthermore, all key positions must be subject to a fixed office term of which the relevant period should be set out in writing. Non-adherence to these guidelines ultimately impacts on the state and validity of the elections in terms of conducting these in a free and fair manner. The results obtained in question 33 (Table 5.17) indeed indicated that elections held are not free and fair in 19.44% of cases.

5.4.6.3 Solidarity as sub-element of overall fairness

Table 5.18 – Recorded responses to statements measuring solidarity as sub-element of fairness

Question	Description	1		2		3		4		5	
		%	n	%	n	%	n	%	n	%	n
40	Fund distribution is done in an objective and justifiable manner.	17.65	6	0.00	0	5.88	2	26.47	9	50.00	17
88	Administration of funds is transparent, accountable and objective.	11.43	4	5.71	2	2.86	1	11.43	4	68.57	24

Table 5.18 shows the recorded results to statements on solidarity as a sub-element of fairness. The Governance in Sport Working Group (2001:7) includes solidarity as a primary principle of fairness in their guidelines. In this document it is proposed that sports governing bodies recognise that fair and effective distribution of funds is essential to ensure the development of talent in their sport, indirectly contributing to the sustainability of the sport. Funding allocation should be documented in a clear policy, based on principles of solidarity reflecting objective and justifiable governmental and other regulatory guidelines. Effective communication is essential to ensure that the administration process is transparent, thereby contributing to greater levels of accountability and objectivity and ultimately fairness.

Responses to question 40 (Table 5.18) indicated that 17.65% of respondent federations do not adhere to the principles of objective and justifiable fund distribution. Furthermore, question 88 (Table 5.18) suggests that in 17.14% of cases the administration of this process is not handled in a transparent and accountable manner, thus doubting the objectivity thereof. Funding administrators as well as the funding process, must be subject to the requirements of independent financial auditing to enhance trust and prevent decreased availability of funding.

5.4.6.4 Overall fairness

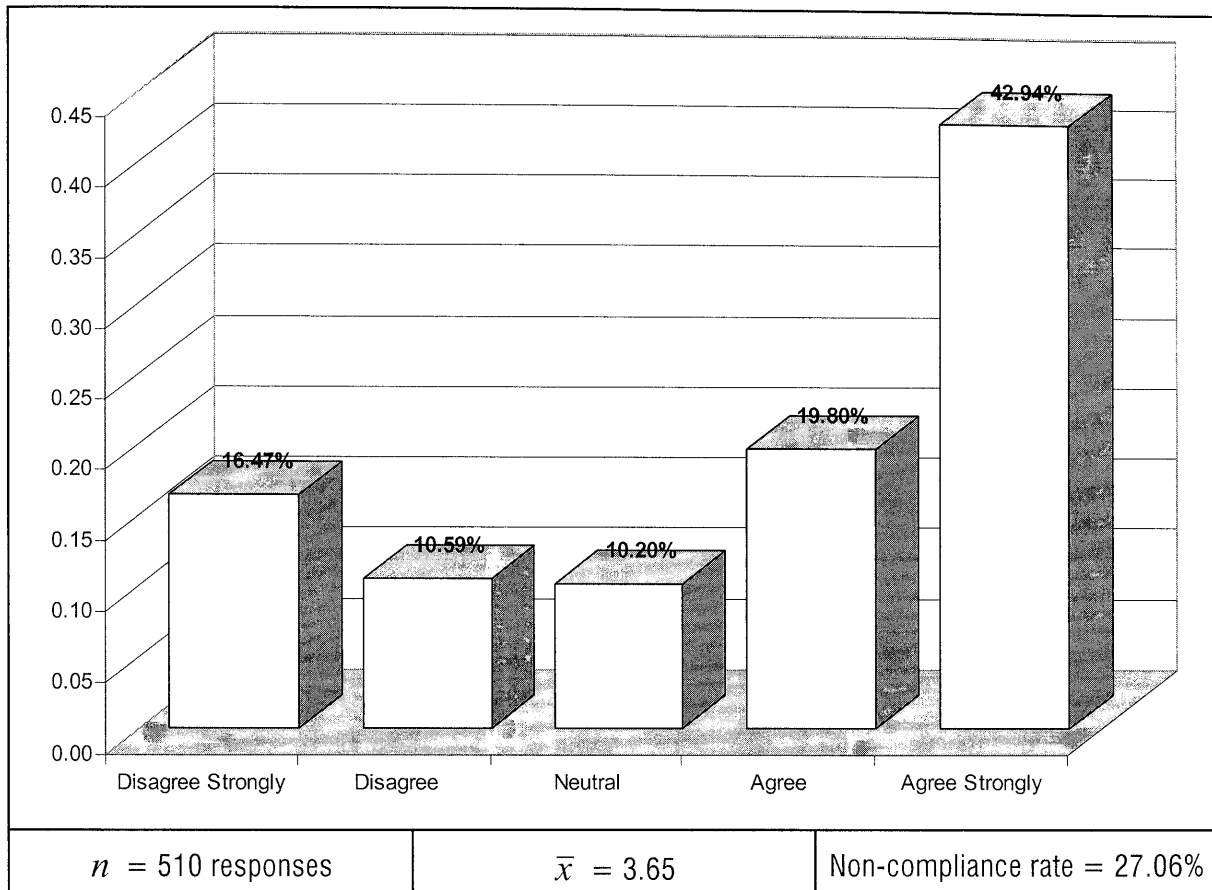


Figure 5.12 – Overall adherence to fairness by national federations

Figure 5.12 shows that 27.06% of national sports federations do not adhere to fairness as a pillar of good governance. Fairness inevitably also implies non-discriminating behaviour towards all stakeholders and inevitably links with social responsibility. Failure to act in a fair manner towards all stakeholders holds the same implications as stakeholder neglect. Furthermore, unequal treatment of members may also constitute a criminal act if it were to be found to transgress the rights afforded to people through the South African Constitution (South Africa 1996), more specifically in terms of section 9. It also holds financial implications as future funding is dependent on adhering to section 10(3) of the National Sport and Recreation Act 110 of 1998 in which the practice and exercise of social responsibility is set as a fundamental requirement. Discrimination against any stakeholder may forfeit this benefit of receiving future governmental funding. Section 13 of the Act commands adherence to the principles of discipline and fairness. In the absence of this, the South African Sport Commission may implement actions or take steps afforded to them

by the Act. The practice and participation of sport is ultimately vested in the principles of fair play and sportsmanship, applying equally to the administration and governance of sport.

5.4.7 Discipline

Discipline is the last of the identified pillars of good governance and according to the King II Report (Institute of Directors 2002:10) represents “a commitment by a company’s senior management to adhere to behaviour that is universally recognised and accepted to be correct and proper. This encompasses a company’s awareness of, and commitment to, the underlying principles of good governance, particularly at senior management level”. As stated under point 4.3.7 the South African Sports Commission is entitled to take steps and implement actions to ensure adherence to this pillar by national federations, as identified in section 10(3) of the National Sport and Recreation Act No 110 of 1998 (South Africa 1998b:8).

5.4.7.1 Discipline as sub-element of overall discipline

Table 5.19 – Recorded responses to statements measuring discipline as sub-element of discipline

Question	Description	1		2		3		4		5	
		%	n	%	n	%	n	%	n	%	n
14	Management is committed to principles of good governance.	8.33	3	5.56	2	8.33	3	13.89	5	63.89	23
24	Management has an acute awareness of, and commitment to the underlying principles of good governance.	13.89	5	2.78	1	5.56	2	13.89	5	63.89	23
25	There is a commitment by Management to adhere to behaviour that is universally deemed correct, acceptable and proper.	8.33	3	2.78	1	8.33	3	11.11	4	69.44	25
47	Principles of good governance are consistently enforced.	14.29	5	2.86	1	8.57	3	20.00	7	54.29	19

Table 5.19 reflects the recorded responses to statements measuring the sub-elements of discipline. Discipline implies the continuous commitment by management to adhere to the principles of good governance. Question 14 (Table 5.19), shows that 13.89% of respondent federations are not committed to the principles of good governance. From question 24 (Table 5.19) recorded responses show that 16.67% of management lack an awareness of

and also a commitment to the principles of good governance. It is reasonable to expect overall adherence to good governance principles to be lacking where there is a lack of awareness and also commitment to the principles. This expectation is supported by the findings of question 25 (Table 5.19), indicating that in 11.11% of cases management lacks a commitment to adhere to universally acceptable behaviour. Question 47 (Table 5.19) proposes that principles of good governance are not consistently enforced in 20.15% of respondent federations. If management does not continually promote good governance principles, it is reasonable to expect less than acceptable levels of good practice principles to be displayed by the majority of employees, members and stakeholders of the sports body. Enforcement of these principles is the primary obligation of current management of the organisation.

As indicated in Figure 5.5 in section 5.3.3, 44.44% of the respondents are not aware of the existence of a documented ethics policy. Unfamiliarity with such a code might indicate either a lack of enforcement of guidelines or principles contained in such a document or an overall lack of adherence to established and / or required guidelines of ethical behaviour throughout the organisation. This might manifest in insufficient promotion of principles contained in such a document or alternatively a complete absence of such a document *per se*. Non-adherence to or non-existence of an ethics policy might be the first step towards unfair and discriminatory practices as well as decreased social responsibility.

The above result becomes significant when compared to the survey by Ethics South Africa (EthicsSA) reported on in a newspaper article in October 2003 (Brand 2003:2). The survey concluded that only 75% of the corporate companies surveyed adhered to the requirement of a documented ethics policy. The result of only 55.56% pertaining to sports federations therefore indicates that sport lags behind that of the greater corporate environment in South Africa. Furthermore, priority seven of the White Paper on Sport and Recreation (Sport and Recreation South Africa 1999:21), the government emphasises the development of a code of ethics for sport in South Africa. However, if adherence to this priority is currently placed at 55.56%, government might consider intensified attention to this issue, even possibly through the promulgation of legislation. Such actions could fast track the adherence by federations to “ethical considerations around fair play [which] are integral to all sports

bodies, with particular reference to doping and discipline” (Sport and Recreation South Africa 1999:21).

5.4.7.2 Ethical policies as sub-element of overall discipline

Table 5.20 – Recorded responses to statements measuring ethical policies as sub-element of discipline

Question	Description	1		2		3		4		5	
		%	n	%	n	%	n	%	n	%	n
97	The Federation has a comprehensive and detailed ethical policy which deals with most or all possible matters pertaining to ethical conduct that might arise.	5.00	1	10.00	2	25.00	5	10.00	2	50.00	10

As shown in Figure 5.5 (section 5.3.3) 44.44% of respondents were not aware of a formal written ethics policy. A second aspect measured, was the comprehensiveness with which such a policy deals with potential situations and matters which may arise, in suggesting the most appropriate actions and conduct in such a situation. These responses are recorded in Table 5.20. Respondents who were unaware of the existence of such a document ($n=16$) were excluded from the responses recorded for this measurement ($n=20$). In 15.00% of the remaining responses, it is indicated that the ethical behaviour policy lacked comprehensiveness. The importance of such a document has been justified in preceding paragraphs. Furthermore, it must be detailed and relevant enough to ensure fair behaviour during potential matters of conflict and situations of ethical concern. If this is not the case, the comprehensiveness of the document needs further consideration.

5.4.7.3 Board size as sub-element of overall discipline

Figure 5.23 (see point 5.3.4) indicates that 71.43% of respondent federations have executive or management boards that exceed the recommended size of five to seven members. Rauter (2001:3) suggests that board sizes in excess of seven may result in a ‘lost board’ situation that impacts on the decision-making efficiency of the board. Furthermore, this may have financial implications should board composition be based on representivity through election. Board members may then typically find themselves geographically dispersed, incurring greater expenses for the federation. Measurements on board sizes were excluded from the calculation on compliance rates.

5.4.7.4 Overall discipline

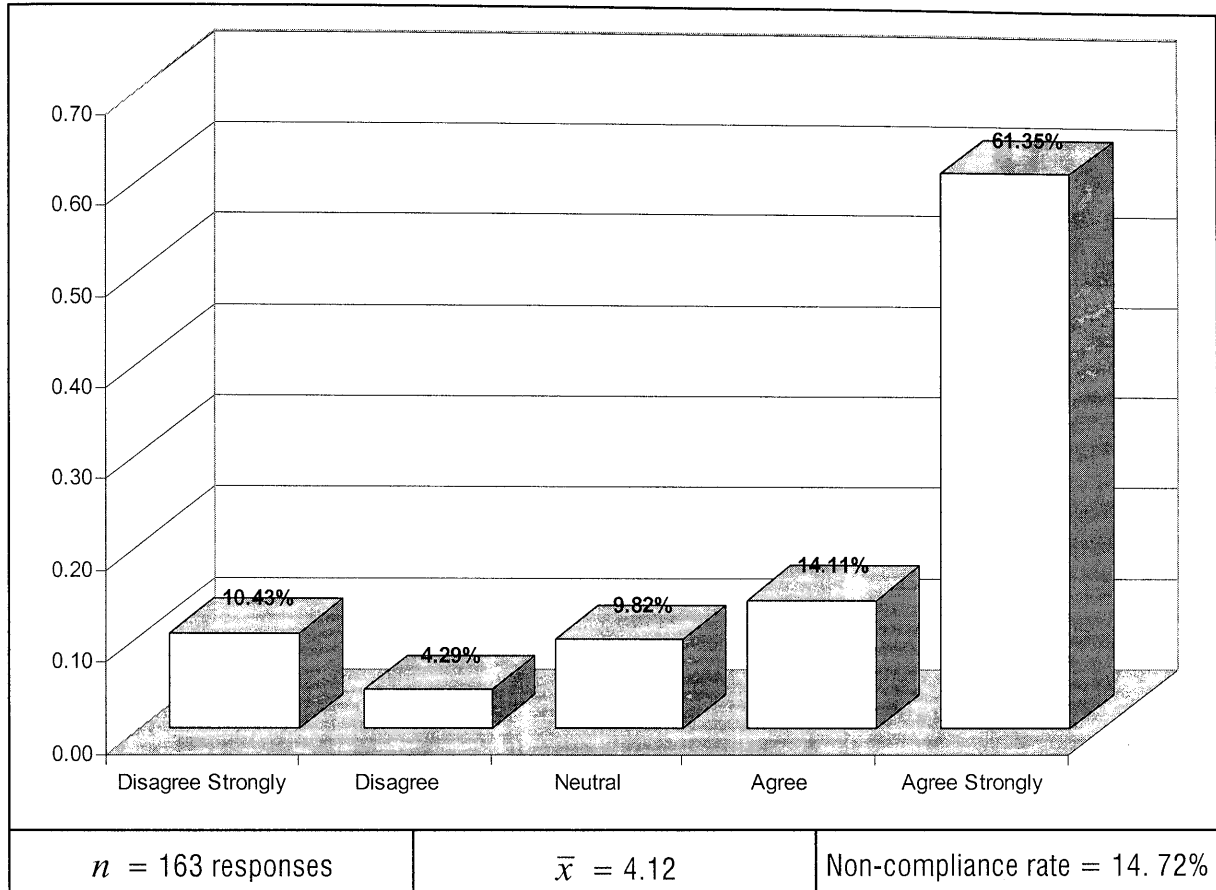


Figure 5.13 – Overall adherence to discipline by national federations

Out of the 163 responses, non-compliance is recorded at 14.72% of respondent federations in Figure 5.13. In 5.4.7 above, discipline was defined as a commitment by the organisation's management to adhere to behaviour that is recognised and accepted universally as proper and correct, encompassing an awareness and commitment to good governance. Kikulis (2000:314) and the Australian Sports Commission (1999:8-25) agree that there should be an implicit commitment by the board to the creation and implementation of a suitable structure for management in order to ensure good governance.

It has already been shown in the results of questions 82 (Table 5.6), 80 and 85 (in Table 5.7) that not all sports federations have suitable management structures. This, coupled with inadequate organisational structures, will seriously impact on the good governance pillars of accountability and responsibility.

5.5 Summary of findings

Table 5.21 – Average value (\bar{x}) for sub-elements and pillars

Pillar of Good Governance	Sub-element	Mean (\bar{x}) for each sub-element	Mean (\bar{x}) for each pillar	Overall rate of non-adherence (%)
Accountability	Accountability	3.91	3.96	16.86%
	Structure, responsibility and accountability	4.02		
Responsibility	Responsibility	3.66	3.74	20.22%
	Structure, responsibility and accountability	3.82		
Transparency	Transparency	3.92	3.84	18.00%
	Transparency and communication	3.86		
	Website efficacy	3.66		
Social responsibility	Social responsibility	3.84	3.91	19.48%
	Recognition of other interest	4.03		
Independence	Free from outside influence	3.81	3.72	22.78%
	Objectivity	3.81		
	Decisions and appeals	3.69		
	Conflicting interests	3.56		
Fairness	Fairness	3.75	3.65	27.06%
	Democracy, elections and appointments	3.51		
	Solidarity	4.06		
Discipline	Discipline	4.15	3.54	14.72%
	Ethical policy	2.93		

Table 5.21 provides the mean values (\bar{x}) of compliance for each sub-element, followed by the mean value for each pillar or dimension. Although the overall rates of adherence to the pillars of good governance may seem satisfactory, the influence of management and executive board members responses (refer to 5.2) must again be mentioned. Executive board members and senior management are in most cases responsible for the execution of the manifestations of good governance and it is highly unlikely that they would rate their own performance as inadequate. From this study it is evident that national sports federations in South Africa still need to give particular attention to the dimensions of

responsibility, independence and fairness. Increased discipline and thorough commitment seems to be the key to achieving greater overall levels of compliance. In the case of transparency especially, it holds great importance for sports federations' future ability to attract and retain sponsorship in general. Sponsors, as well as government, increasingly require greater transparency and openness regarding the application of their funding. If sports bodies cannot competently prove responsible and transparent behaviour, they stand the chance of losing additional income sources. The relative low compliance with independence, as overall pillar of good governance, manifests in the inability to take autonomous and fair actions. It also impacts on the transparency of fund administration, which again endangers the future sustainability of existing revenue sources. As was shown in chapter 2, many sports federations rely heavily on sponsorship and the inability to demonstrate responsible and accountable administration of these, as well as providing the sponsor with at least a minimal level of return, ultimately places the federations long-term survival at risk.

From incidents occurring in the South African sports industry it seems as if federations and governing bodies in South African sport are not as objective as they should be, nor are they free from conflicting interests. This implies that decisions and actions may not always reflect the best interest of the federation, or that long-term implications of short-term actions are not adequately considered.

Formalised guidelines, as suggested by the King II Report, may be required to assist South African sports federations in the transition from amateur sport to professional sport governance. If sport is to avoid future regulation attention must be given to the implementation of systems to ensure that principles of good governance are more prevalent within federations.

5.6 Conclusion

The paradigm of sport participation as well as sport management in South Africa has shifted from amateur level to a professional level. Sport now operates in the business (commercial) environment as an economic entity and as such is subject to the performance criteria of good governance. The results of the questionnaire, in adherence to pillars of good governance as presented in chapter five, provided a theoretical compliance profile. At first glance this theoretical profile seems to be above average. Yet high profile examples and incidents in the South African sport industry presents a contrasting reality. The President of the South African Rugby Football Union's reaction on critique from his board members, casts a serious shadow on the principles of transparency and democracy in South African sport. At the same time the Bafana Bafana soccer coach's suspension because of his inability to take cognisance of all his players' (as stakeholders) health and fitness levels reflects on the compliance of soccer to its social responsibility. Although seven pillars of good governance are identified and analysed in literature, they are all intertwined, and sub-standard compliance in one pillar will undoubtedly spill over on the negative manifestations of other pillars.

If sport is to avoid future regulation and compulsory adherence to criteria attention must be given to the implementation of systems to ensure that principles of good governance are more prevalent within federations.

Pressure on National Federations is mounting to ensure that there is a system of strong governance principles in place, not only to protect the long-term stability and survival of the organisation (Australian Sports Commission 2002b:1; Rauter, 2001:1; Australian Sports Commission 1999:1), but also to maintain an equitable balance between international development and adherence to the way in which local participation is managed.

A well-managed sports organisation must be aware of, and respond to, social issues, and place a high priority on ethical standards. It requires recognition of all relevant stakeholders associated with the national sports federation that are likely to be affected by decisions and actions. This embodies the recognition and pursuit of cultural aims and social cohesion through sport, also through the adherence to the Humans Rights Bill in

terms of equality. South African sports federations should be increasingly seen as non-discriminatory, non-exploitative, and responsible with regard to environmental and human rights issues. These ethical imperatives yield significant benefits in terms of improved productivity and corporate reputation, which in turn result in increased investor confidence and sponsorships. Good governance should therefore be a firm priority of all South African sports federations.

Chapter six discusses certain guidelines and principles to aid in the implementation of and provision for good governance principles, as well as a discussion on the implications this holds for management of sports federations.

Chapter 6

6 Managerial implications

6.1 Introduction

Given the results in chapter five, it can be argued that sport still has some way to go before being classified as fully compliant to the needs of the modern sports industry. Proactive and dedicated action is needed by all sports bodies, irrespective of the level at which they operate. However, national federations should take the lead in the display of proactive action, to ensure that the principles of flexibility and self-regulation remain unchallenged. National sports federations should take the initiative to develop the necessary policies and structures to ensure that better levels of compliance can be attained. This will in turn provide the provincial, regional and clubs levels with clear guidelines to ensure that good governance is instilled throughout the industry. The following discussion attempts to provide some guidelines, justified by literature, to enhance overall levels of best practices in South Africa. A broad overview of possible areas of managerial improvement is provided that might afford the specific sports governing body the opportunity to develop and instill its own best practices based on the principles of best practice governance as backbone.

6.2 Governance Structure

Traditionally the sports governing body is a membership association governed through a system of representation. Appointment to a governing position is achieved through the direct or indirect exercising of members' rights to democratically elect to power their choice of representative. Governing bodies should thus acknowledge that the power they hold is given to them as trustees to govern the sport, and a clear statement in this regard should be drawn up, that clearly delineates the roles and functions to be performed. Governance structures should ultimately support the members and other stakeholder groups, who hold a legitimate interest in the activities of the sport and the governing body.

The successful exercising of the right and duty to govern involves a number of key issues. The first concerns the extent to which the sports organisation institutes a suitable strategic direction, coupled with applicable goals and objectives to attain the strategic direction, and the degree to which this is achieved. This is subject to how well the sports governing

body's management board monitors and directs the performance of the organisation to ensure it achieves these strategic goals. It will ultimately ensure that the board acts in the best interest of the members, ensuring the long-term prosperity and sustainability through continued and sustainable profitability and growth as visible manifestations of good governance.

The Australian Sports Commission (2002c:1-2) states that:

“effective sports’ governance requires leadership, integrity and good judgement. Additionally, effective governance will ensure more effective decision making, with the organisation demonstrating transparency, accountability and responsibility in the activities undertaken and resources expended.”

It has been debated in literature that organisational governance structures have a significant impact on the performance of a sporting organisation (Australian Sports Commission 2002c:2; Governance in Sport Working Group 2001:4). Under-performance of sports bodies and also national federations has various causes. The Australian Sports Commission (2002c:2) confirms that director inexperience, a conflict of interests, failure to manage risk, inadequate or inappropriate financial controls, and generally poor internal business systems and reporting, may compound under-performance. Ineffective practices of good governance principles not only impact on sport on the field of play but also erode the overall confidence of the broader societal stakeholders.

Sports governing bodies and national federations alike are being subjected to increasing levels of performance scrutiny. In responding to these challenges, the Australian Sports Commission (2002c:2) advocates the implementation of “strengthening structures that support good leadership and decision-making and ensure sound and effective governance”, thereby facilitating sports governing body's board members to operate and enact their roles of administrators and leaders of sport.

6.2.1 Key positions in the governance structure

Not all sports governing bodies share the same business model or governance structure. It was stressed that the adoption of a single model is not feasible. However, the need to conform to a structure that allows for the clear delineation of accountability and responsibilities of the respective office bearers is unquestionable, irrespective of the business model or physical structuring of the sports governing body. For the sake of clarity in accountability and duty, this structure should be clearly documented and communicated to all members and legitimate stakeholder groups and individuals. This lessens the possibility of an overlapping in power and accountability and responsibility abdication by members of management (Australian Sports Commission 2002c:3; Governance in Sport Working Group 2001:4).

The Australian Sports Commission (2002c:3) identifies two distinct roles in this regard. For the purpose of this discussion, these shall be identified as follows:

Governing role: The governing role concerns the work and duties of the executive board of the sports governing body under the chairmanship of a president or chairperson. It further includes any board or other committees specifically charged with certain duties.

Managerial role: This concerns the position of CEO (or similar) and the full time staff employed by the organisation.

There should be a clear separation of powers and duties between the governing role and that of management. The separation applies to the various board and management committees, and equally to the following areas (Governance in Sport Working Group 2001: 4):

- Making and amending of sporting rules as primary legislative function;
- Making and reviewing executive decisions with regards to the financial management, organisational management and that of events; and
- Dispute resolution between the various affected parties.

An important point in this regard is raised by the Australian Sports Commission (2002c:3) in stating that the:

“governance structure should also recognise that individual directors, the CEO (or similar), his/her staff, board committees and management meetings hold no authority to act on behalf of the organisation by virtue of their position alone. All authority rests with the board, which may delegate authority to any person or committee. Each such delegation should be clearly documented in a delegations manual or similar. Normally there shall be significant delegations to the CEO.”

6.2.1.1 Governing role

The most prolific identified aspect of the role of the board members is a commonly shared fiduciary duty towards the stakeholders of the sports governing body. This requires them to act in the best interests of these stakeholders (Foreman 2001:14; Governance in Sport Working Group 2001:4; Australian Sports Commission 1999:3). Dunlop (in Foreman 2001:7) identified and categorised board responsibilities in terms of four distinct functions, namely strategic management, performance management, conformance management and accountability that were discussed in detail in section 4.4.4.

The fulfilment of its duty must be demonstrated through visible actions to achieve set goals and outcomes, ensuring long-term financial security for the organisation, and displaying moral and social responsibility to the members and the community at large. In keeping with this, guidelines proposed by the Conference Board (2003:10) have been adopted that are also applicable to sports governing bodies. It is therefore recognised that in order for a sport executive management board to exercise its duties most effectively, directors should:

- Exercise objectivity and autonomy to make independent, informed decisions;
- Develop the knowledge and expertise to provide effective board oversight;
- Display the character, integrity, and will to assert their points of view, and demonstrate loyalty exclusively to the organisation and its members, without causing harm to the relevant legitimate stakeholders of the sports body;
- Devote the time necessary to fulfill the legal, regulatory and fiduciary requirements and duties imposed upon them by the position; and
- Have the ability to retain advisors and independent staff support.

From a traditional perspective the role of the sports governing body should be to draw up and codify the rules of the specific sport, to develop and promote the sport, and also to represent those involved as well as the sport *per se* (Governance in Sport Working Group 2001:4; Australian Sports Commission 1999:7). The Australian Sports Commission (1999:3) identified several roles to be fulfilled by a sports governing body. The primary responsibility is identified as one of stewardship and trusteeship on behalf of organisational stakeholders or constituents thereby assuring adherence to the requirements of organisational survival through sustainable long-term profitability and growth. Thus, in essence the board remains ultimately accountable for all organisational matters to all legitimate stakeholders.

The board is not responsible for the day-to-day management of the organisation. This duty befalls the management role identified above. However, the board is accountable for this role and duty-bound to fill it through the institution of a strategic management leadership position such as a CEO or managing director. The focus of this appointment should be on someone with the required business skills, specifically in terms of the financial and strategic management, to steer and direct the sports governing body into the future given the ever increasing commercial and competitive nature of the sports industry. Furthermore, the board may be called upon to dismiss the CEO, if and when necessary.

The following specific guidelines for the board are proposed, as summarised, consolidated and amended from the work of the Australian Sports Commission (2002c:3-5; 1999:3), Rauter (2001:3), and the Commonwealth Association for Corporate Governance (1999:7):

- Assuming overall accountability for the organisation's long-term survival through the establishment of a broad strategic direction to ensure the sustainability;
- Appointing a CEO to implement the identified organisational strategy;
- In consultation with the CEO and key stakeholders, set and refine the specific strategic direction and priorities through strategy formulation and implementation;
- Monitoring the financial and strategic performance of the organisation by setting performance targets to evaluate the CEO's performance;

- Taking appropriate action to reward or penalise the appointed CEO in terms of the performance evaluation;
- Monitoring compliance of the CEO and the organisation with regards to statutory and legislative requirements of the various legal and governing constituents as well as internal organisational policies;
- Advising and consulting with the CEO in decision-making when requested or required;
- Establishing a governing policy framework to act as foundation for the development of future operational policies and actions; and
- Assessing risks and installing risk management plans as well as monitoring compliance.

In this it proposed that the board legitimises and establishes its governance role through the development, adoption and review of governance policies that leads to a need for the board to have in place, a process that ensures that the policies are applied. This view is supported by the Australian Sports Commission (1999:10-11) that further contends that the development of these policies should be to such an extent that it provides confidence, and that users of the policy will be able to adequately interpret the policy in order to achieve the intended outcome.

In terms of developing, adopting and reviewing governance policies, the following guidelines are proposed, some of which are adopted from the work of the Australian Sports Commission (1999:11):

- The board is required to develop its own governance policies;
- Board committees or working groups can be delegated with the responsibility to carry out the groundwork or research leading to the development of a governance policy;
- Only the board can approve or adopt a governance policy that bounds all members of the board, allowing the board to speak with one voice;

- Policies must be initiated, altered or removed by the board as required, but only as far as it holds long-term benefits to the sport and the federation and its members. Long-term success should not be sacrificed in favour of short-term gains in this regard;
- In striving to achieve the goals of the preceding points raised, there should be a regular and systematic review of all policies, to ensure currency and relevance to the external and internal operating environments of the organisation.

6.2.1.2 Management role

In consultation with the board and with the inputs of the relevant stakeholders, a broad strategic direction for the organisation should be established. It is the duty of the CEO (or similar position) to refine this broad direction into specific goals and objectives for the organisation as a whole. This includes articulation of the organisation's purpose, core values and the ethical framework, as well as key objectives, financial and strategic performance measures.

In order to achieve objectives, the CEO must take overall responsibility for the federation's financial and strategic success, through the development and implementation of operational policies and plans. These should be designed specifically to ensure that the overall goals and objectives of the sports governing body are fulfilled. Thus, once the governance policies are established by the board, the CEO is responsible for developing operational policies that complement governance policies and carry out the actions or achieve the results stated in governance policies. It should be emphasised as indicated by the Australian Sports Commission (1999:11) that while operational policies are the work of the CEO, these must be aligned with the governance policies developed by the board. The board in this sense does not have the obligation to adopt or approve operational policies, merely to provide input in order to feel satisfied that the proposed operational policies are appropriate and in accordance with the overall long-term strategic direction of the organisation as a whole. The CEO's ability to articulate, implement and amend operational policies should not be hampered or delayed by a need for board approval. The Australian Sports Commission (1999:12) confirms this in stating that "all operational planning designed to achieve the K[ey] R[esult] A[rea]s is the responsibility of the CEO".

In conclusion, the CEO should have the freedom to achieve the goals of the board at own accord but remains responsible and accountable for success and failure in this regard. Ultimate accountability still lies with the board and it is thus the duty of the board to ensure the appointment of a person with the necessary skills and abilities into the position of CEO. It is also the responsibility of the board to take the necessary action in the case of failure of the CEO to realise these goals.

6.2.2 Board composition

As indicated previously, board size plays an important role in the efficiency of its working. Rauter (2001:3) suggests that in order to prevent a 'lost board' situation as a result of hampered decision-making by the involvement of too many individuals, the board should be of a size appropriate to the size of the sports body. Rauter (2001:3) suggests that the number of serving officials should be between five and seven individuals for small to large sports governing bodies respectively. The Australian Sports Commission (2002c:4) suggests that the number of serving officials should be between five and nine and that the number of directors should reflect the size and level of activity of the organisation. Rauter (2001:3) further suggests that the composition as well as the number of individuals on the board are dependent on the range of skills required. These skills should be consistently aligned with the strategic goals, direction, opportunities, threats and problems of the particular organisation.

With this rationale of skill selection in mind, it follows that inputs given by experienced and suitably qualified board members will lead to improved decision quality and enhanced long-term sustainability. Furthermore, these skill levels and abilities should be set at an appropriate level to provide the sports organisation with a competitive advantage within its external and internal operating environment. Boards with member complements of between seven and nine should base the need for additional members to assist in the duties of the board on necessity and not for the sake of representivity (Australian Sports Commission 2002c:4). It seems that very few South African national sports federations have sufficient membership numbers, and hence activity levels to justify the need for more than seven serving members. The excessively large board complements reported on in chapter five (section 5.3.2) is proof of limitations, identified in terms of the inadequate

structures of the responding federations.

The person in the position of board chairperson should be independent, an ideal also extending to other members of the board (Rauter 2001:3). The notion of independence is central to the identified pillars of governance. A lack of independence could ultimately lead to conflicting interests that may or may not influence decisions, which should be made in the collective best interest of the sports governing body, its members and stakeholders. This ideal is supported by Ryan (2002:2) who states that the board and its leadership should exercise its duties with integrity and good judgement and continuously act in the best interests of the organisation and its stakeholders as a unitary system.

Available positions on the board should be based on skills and not on representation. Thus, sports federation should have access to those individuals with the skills best suited to the strategic intent of the organisation, as to ensure long-term sustainable profitability and growth, and should not be based on a system of representation. This is also supported by Rauter (2001:3). The Australian Sports Commission (2002c:4) supports the former proposition. It suggests a sufficient blend of expertise and skills necessary to effectively carry out its role, i.e. “a board with the necessary skills to carry out its governance role rather than a representative board”. It states further that the board should be:

“broadly reflective of the organisation’s key stakeholders, but not at the expense of board skills mix. When directors do represent a constituency, they must never allow representation to become advocacy at the expense of the organisation as a whole.”

In order to compensate for areas of skill deficiency, external appointments should be considered, however, this should be a limited option. The board has a social responsibility to develop individuals into these roles thereby ensuring continuity and long-term prosperity for the overall organisation. The Australian Sports Commission (2002c:4) advocates that the governing structure should reflect both the constituency it represents, and the complex environment in which the modern sporting organisation operates. Specific guidelines identified in this regard include a staggered rotation system for board members with a maximum serving term. The purpose of this is to “encourage board renewal while retaining corporate memory”.

Decisions must be taken from an informed position, taking into account the diverse interests of different role-players and stakeholders. It implies that board membership must reach an equilibrium resulting in a trade-off between the need to include representatives of all interested parties and the necessity of keeping the board at a size able to achieve an adequate level of organisational efficiency.

6.2.3 Elections

As stated in chapter four, the ultimate power to govern is vested within, and directly or indirectly exercised through, a system of representation by members of the sports federation. Thus in theory, elected members are the representatives of the members as decided upon through majority vote. To ensure that this remains true, elections and election procedures must be free and fair. As stated previously, there should be no ambiguity in terms of the voting rights and eligibility of members, according to the principles identified by the Governance in Sport Working Group (2001:5). By implication this proposes that members should choose and elect to office their choice of representatives by means of democratic election. Achieving this also entails that election procedures be set out in writing and communicated to all those members eligible to vote. It is also acknowledged, as described in chapter four, that for the sake of best practice governance, entry of new persons to the governing body should be facilitated and also actively encouraged. Thus all key positions should be subject to a fixed office term of which the relevant period must be documented.

The nomination process should deal with issues such as the identity and qualifications of nominated individuals for positions on the board, the timeous availability of such personal and other relevant information, voting rights and procedures of members, and examination procedures to assess the accuracy and truthfulness of nominated individuals' curriculum vitae. As pointed out in section 5.4.6.3, in 42.86% of the recorded responses of this study there were no vetting processes to assess the accuracy of the curriculum vitae of nominated individuals. The Australian Sports Commission (2002c:4) was quoted in preceding paragraphs in identifying the need for "a board with the necessary skills to carry out its governance role".

To enhance the principles of democracy, fairness and independence, specific guidelines with regard to nominations have to include the publication of the number of positions in the board structure, the details of current serving officers and the nominated individuals standing in an election for each possible position. Biographical information about the officers, including associations with other sports organisations and commercial interests in the sport, should also be revealed for the purpose of enhanced transparency and improved trust. This includes dates on which each member was elected or appointed to the governing body (including previous appointments if not continuous), dates of re-election or reappointment and the date on which their current term will expire. As already stated, serving terms should be fixed. The term should also be identified in the nominations which are to accompany the voting procedures.

Voting procedures, voting rights and other matters pertaining to principles of good practice in terms of democracy, should be communicated timeously to all members, or at least to those with voting eligibility. This information should also include details of nominations and voting rights of the chairperson and the delegated power of sub-committees (Governance in Sport Working Group 2001:4-5).

6.3 Code of Ethics

A code of ethics helps individuals understand which actions are acceptable and which are not. However, no ethics or values initiative should begin without the explicit and disciplined commitment by the board in order to ensure the long-term success of the process. Broadly defined, ethics in this sense are the principles and standards that guide the day-to-day activities and relationships with internal and external stakeholders, in accordance with the established organisational and corporate values (Naidoo 2001:140).

An overall lack of commitment to ethical behaviour, as well as lacking ethical values within any organisation may lead to the proliferation of unethical behaviour and actions by most of the individuals within the sports federation. As such, business and sports federation ethics are no longer a matter of personal ethics. Ethics are an aspirational objective, which represent intrinsic cultural and societal values in which the sports federation finds itself. As such, no universal model of good ethical behaviour can be defined. The King II Report

recommended that every organisation defines a code of ethics that commits it to the highest standards of behaviour (Naidoo 2001:140).

The White Paper on Sport and Recreation (1999) has identified in priority seven the need for the development of a code of ethics within sport. This implies the adoption of similar codes by all federations. Such actions could fast track the adherence by federations to “ethical considerations around fair play [which] are integral to all sports bodies, with particular reference to doping and discipline” (Sport and Recreation South Africa 1999:21).

A Code of ethics should be defined in sufficient detail to give clear guidance to employees on acceptable conduct. Examples of ethical values cited by Naidoo (2001:140) that could be contained in such a document include trustworthiness, responsibility and accountability, honesty, respect, the pursuit of excellence, law-abiding behaviour and protection of the environment. The board of directors holds the duty of defining the code of ethics and its content, whilst the individual placed in the management role, i.e. CEO, has the duty to implement the code within the organisation.

Benefits of a code of ethics as identified by Naidoo (2001:140-141) include:

- Maintaining a moral course during times of fundamental change, cultivate strong teamwork and productivity, and support growth of members;
- Ensuring that policies and procedures are legal and ethical. It aids in the timeous detection of potential ethical issues and violations;
- Managing values that are associated with quality management, strategic planning and diversity management, and promote a strong public image of the organisational endeavours and workings; and
- Legitimising managerial actions, strengthen the coherence of the organisation’s culture, improve trust in stakeholder relationships, supporting greater consistency in standards and quality of services the organisation provides, and cultivating greater sensitivity to and awareness of the organisational vision and values.

Ideally a code of ethics should address two main areas of concern according to Naidoo (2001:141):

Managerial mischief: Illegal, unethical, or questionable practices of individuals in positions of power, as well as the causes of such behaviours and required remedies if such were to occur or to discourage them. More often business ethics relates to situations that hold no clear right or wrong.

Moral mazes: The numerous ethical dilemmas faced by organisations on a daily basis, such as corruption, bribery, dishonesty, potential conflicts of interest, wrongful use of resources, mismanagement of contracts and agreements or financial interest.

The South African Ethics and Compliance Custodian Organisation (2003:1) suggests the following best practice guidelines with respect to codes of ethics:

- Employee input should be sought during the development, thereby enhancing acceptance and compliance with the content;
- The code should contain and reflect the organisation's values and behavioural guidelines;
- The code must be distributed to all internal and external stakeholders;
- Employees and members must be made aware and trained on the content and the values underpinning the inherent stipulations;
- Awareness of the code must be sustained, and it must be freely and easily accessible to all constituents ; and
- Codes must be linked to disciplinary processes and other policies within the organisation.

Naidoo (2001:141-142) proposes as a guideline in the establishment of a code of ethics, that in the first instance a review of the values required by legislation and statute should be done. The organisation should identify the top three or four values, which the organisation holds as sacred, to be seen as a highly ethical and successful organisation. Values to address current issues within the internal environment of the organisation and top ethical

values that might be prized by stakeholders must subsequently be identified. From these, the top five to ten ethical values are collected that will reflect the priorities of the organisation.

In order to ascertain the current *status quo*, the sports federation should undertake a self-assessment or introspection and identify the necessary steps to address any areas which may be of concern. Within this context it is necessary to establish organisational rules to manage ethical behaviour and define the core operating values of the sports governing body. It can be in the form of a list of do's and don'ts or it may be through a more generalised expression of the core values of the organisation. However, it is important to ensure that the code be a 'living document' suited to the organisation's specific needs. It should not be static, but a dynamic document that grows with the needs of the organisation, to facilitate pertinent revisions and refinements to accommodate changing factual and moral standards.

It is imperative to clarify and inform employees, new board inductees, members and stakeholder of the ethical values contained in the code thereby enhancing the ethical awareness. This also aids in the ability to make better decisions that are closely aligned with the values espoused in the document. Continuous communication of the code is very important in this regard and should be supported by consistent and uniform enforcement of the code. It links to the idea of the organisation living its code of ethics and aids in consistency of application across all levels. An awareness of and sensitivity to ethical values are thus developed and integrates ethical guidelines into decision-making.

6.4 Auditor independence

Results of the study have caused doubt as to the independence of auditors (section 5.4.5). The Conference Board (2003:34) has made suggestions of auditor rotation within the corporate environment that provides a useful tool in building confidence in the integrity of the audit and of the organisation's financial statements. These suggestions could be equally applicable to the sports industry.

Advantages obtained could include a fresh look by the incoming firm at the financial standings of the organisation, accounting practices and prior audits. This would also reduce financial incentives for external auditors to compromise their judgment on borderline accounting issues, especially in instances where the auditor or auditing firm has some vested interest in the sports body, for example in taking the role of a sponsor (The Conference Board 2003:34).

6.5 Conflict of interests

Handling potential conflict of interests could be done through the inclusion of a proviso within the code of ethics that require the following:

- Members of the board, CEO, staff or any other working committee members, must disclose actual/potential conflict of interests;
- The process for disclosure of real or potential conflict of interests;
- A process that governs a director's involvement in any decisions with which she/he has a conflict of interests;
- A register of ongoing interest to provide a record of all potential conflicts; and
- Directors should not hold any other official position at state, regional, club level or corresponding administrative position that is in competition or may interfere with the position on the board.

Through the disclosure of potential conflict of interests, members are made aware of the potential pitfalls of such situations. It is ultimately in their own best interest to declare these types of situations upfront, decreasing the possibility of allegations of wrongdoing at a later stage. It also informs other members of such possibilities affording them the opportunity to investigate the *bona fide* nature of actions and decisions.

6.6 Conclusion

This study uncovered various areas and levels of non-compliance in terms of identified principles of best practice governance in South African sports federations. The intention of the guidelines identified above, is not to provide a checklist according to which sports federations should operate. Rather, it should be seen as a management guide in the development of own principles which is suited to the specific situations and scenarios of the individual sports federation. Through the establishment of a governance structure which is conducive to the development and enhancement of best practices, greater levels of attainment of these should pose no problem.

Given the uniqueness of sport, and even more so the unique composition and situational factors presented to each individual sports governing body, it is not possible to build a single uniform model of best practice governance. Sport and its constituents must assume the duty to pro-actively adhere to higher levels of compliance through the development of systems and structure to aid this, through voluntary adherence to the basic principles of good governance.

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Appendix A

Questionnaire

Questionnaire Instructions

This questionnaire has 12 questions on general biographical federation information, followed by 86 questions aimed at determining the level of adherence to the principles of good governance.

Please have the following individuals complete this questionnaire:

- *1 Member of Management of the Federation (as defined below)*
- *1 Paid employee of the Federation*
- *1 Ordinary individual member of the Federation*

Term Definition

“Federation” refers to a National governing body of a sport code within the Republic of South Africa, recognised and treated as such by the respective international controlling body as well as the South African Sports Commission. It includes the terms such as National Federation, Sport Organisation, Sport Body, Governing Body, and Sport Association. However, the term only refers to a National controlling sport body, regional or provincial are excluded from this study, and should not be considered when completing the questionnaire.

“Stakeholder” refers to those groups or individuals who are either directly or indirectly interested in the affairs of the federation, and include those who have a direct interest in its financial success as well as those who are indirectly affected by the federation’s activities, e.g. government and the surrounding community.

“Management” refers to the elected officials responsible for the management and running of the Federation, and thereby constituting the legal governing executive board or committee. In this sense “Management” include the various manifestations of management committees, including but not limited terms such as “Senior Management”, “Board”, “Executive”, “Executive Committee”, “ExCo” “Executive Board” and alike.

“Member” refers to any individual person associated, affiliated, registered or otherwise connected to and/or engaging in those activities which reside under the auspice of the Federation, as defined above.

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Respondent Number

WRITE ONLY IN THE SHADED BLOCKS

1. Official name of National Sport Federation

2. What is your current position within the Federation

(Circle an appropriate number in the shaded blocks below - circle one option only)

a. Ordinary individually registered member (eg.	1
b. Member of Executive Board / Management Board / Executive	2
c. Member of other committee (eg. Technical / Administrative / Financial)	3
d. Part-time paid employee / Staff Member of National Federation	4
e. Full-time paid employee / Staff member of National Federation	5
f. Volunteer	6

3. Estimated number of people participating in sport

4. Number of Members serving on Executive Board / Committee

5. Did the Federation have an election to elect new Management members during the past 24 months?	Yes	1
	No	2

6. Number of Management sub-committees dealing specifically with technical/sport and or training related matters (ie coaching / high performance etc)?

7. Total number of individuals collectively serving on committees identified in 6. (total number of people on these committees combined)?

8. Number of Management sub-committees dealing specifically with non-technical matters (ie financial / marketing / CSR etc.)?

9. Total number of individuals collectively serving on these non-technical committees combined number of people of all non-technical committees)?

V1 1-3

V2 4-8

V3 9

V4 10-14

V5 15-16

V6 17

V7 18-19

V8 20-22

V9 23-24

V10 25-27

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10. How many provincial or regional bodies / association are registered or affiliated to Federation?	<input style="width: 100%;" type="text"/>
--	---

11. Does the Federation have a Website?	Yes	1
	No	2

12. Does the Federation have a formal written ethics policy	Yes	1
	No	2

V11	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>	28-29
V12	<input style="width: 100%;" type="text"/>		30
V13	<input style="width: 100%;" type="text"/>		31

Please indicate your level of agreement with the following statements.

1 = I strongly disagree 5 = I strongly agree

Select an appropriate answer by CIRCLING either a 1, 2, 3, 4 or 5 in the shaded blocks below



13. The Federation fulfills a corporate social responsibility (CSR) towards society	1	2	3	4	5
14. Management is committed to principles of good governance.	1	2	3	4	5
15. Outsiders can easily obtain a true picture of the current state of affairs of the Federation	1	2	3	4	5
16. The role of the Federation is only to draw up and codify the rules of the sport	1	2	3	4	5
17. Existing procedures to resolve differences are easily accessible by members of the Federation	1	2	3	4	5
18. Roles and responsibilities of all assemblies, committees and commissions (eg disciplinary committees / financial oversight committee etc) have been taken up into a written document	1	2	3	4	5
19. This Federation acts in a non-discriminatory and non-exploitative manner towards people within society in general	1	2	3	4	5
20. The maximum duration any individual can serve on any non-executive committee is fixed	1	2	3	4	5
21. Information on the Federation and its managerial and financial activities are available on the company website (if the Federation does not have website, circle 1)	1	2	3	4	5
22. All decisions and actions taken can be substantiated by means of sufficient reasoning (justified and reasoned to be in the best interest of the Federation and its members)	1	2	3	4	5
23. Accountability is not abdicated by various role players (eg Management accepts accountability for poor administration of the Federations affairs)	1	2	3	4	5
24. Management has an acute awareness of, and commitment to the underlying principles of good governance	1	2	3	4	5
25. There is a commitment by Management to adhere to behaviour that is universally deemed correct, acceptable and proper	1	2	3	4	5

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V14	<input style="width: 100%;" type="text"/>	32
V15	<input style="width: 100%;" type="text"/>	33
V16	<input style="width: 100%;" type="text"/>	34
V17	<input style="width: 100%;" type="text"/>	35
V18	<input style="width: 100%;" type="text"/>	36
V19	<input style="width: 100%;" type="text"/>	37
V20	<input style="width: 100%;" type="text"/>	38
V21	<input style="width: 100%;" type="text"/>	39
V22	<input style="width: 100%;" type="text"/>	40
V23	<input style="width: 100%;" type="text"/>	41
V24	<input style="width: 100%;" type="text"/>	42
V25	<input style="width: 100%;" type="text"/>	43
V26	<input style="width: 100%;" type="text"/>	44

Please indicate your level of agreement with the following statements.

1 = I strongly disagree

5 = I strongly agree

Select an appropriate answer by CIRCLING either a 1, 2, 3, 4 or 5 in the shaded blocks below



26. No stakeholder group can exercise enough power to influence the objectivity of decisions taken by management	1	2	3	4	5
27. Decisions are taken with cognisance of the effect it will have on all interest groups	1	2	3	4	5
28. Clear accountability can be assigned to those who make decisions	1	2	3	4	5
29. A direct and open communication channel exists between Management and all individual Federation members (individuals have a direct and open way to communicate with Management)	1	2	3	4	5
30. Contingency plans exist (and will be implemented) to keep the Federation on course if necessary	1	2	3	4	5
31. There is a clear distinction made between the Federation's formal management function versus the pursuit of activities for financial gain, to ensure that a conflict of interest does not arise	1	2	3	4	5
32. Management accepts full accountability for failed actions or decisions	1	2	3	4	5
33. Elections of Management members are conducted in a free and fair manner	1	2	3	4	5
34. A written statement of the Federation's responsibilities is readily available to members	1	2	3	4	5
35. Management assumes responsibility for failed actions and mismanagement	1	2	3	4	5
36. Management remains accountable for the financial success of the Federation	1	2	3	4	5
37. Management is available to answer any questions and queries from all legitimate stakeholders	1	2	3	4	5
38. Decisions and policies are free from undue outside influences	1	2	3	4	5
39. Regard for environmental and human rights issues will lead to economic and monetary benefits for the Federation	1	2	3	4	5
40. Fund distribution is done in an objective and justifiable manner	1	2	3	4	5
41. Existing procedures to resolve differences are efficient	1	2	3	4	5
42. The Federation is managed in a financially responsible manner	1	2	3	4	5
43. There is no ambiguity in terms of voting rights and eligibility of members	1	2	3	4	5
44. A large percentage of information within the Federation is not deemed confidential	1	2	3	4	5
45. Management regularly makes information and data available to the press and general public	1	2	3	4	5

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V27		45
V28		46
V29		47
V30		48
V31		49
V32		50
V33		51
V34		52
V35		53
V36		54
V37		55
V38		56
V39		57
V40		58
V41		59
V42		60
V43		61
V44		62
V45		63
V46		64

Please indicate your level of agreement with the following statements.

1 = I strongly disagree

5 = I strongly agree

Select an appropriate answer by CIRCLING either a 1, 2, 3, 4 or 5 in the shaded blocks below



46. Management does not interfere when a dispute between a member and the Federation is referred for arbitration	1	2	3	4	5
47. Principles of good governance are consistently enforced	1	2	3	4	5
48. An open tender system is in place and documented	1	2	3	4	5
49. Sound procurement policies are in place and well documented	1	2	3	4	5
50. There is a general high level of adherence to ethical standards within the Federation	1	2	3	4	5
51. Rights and benefits are given to members and stakeholder groups according to their relative level of influence and importance	1	2	3	4	5
52. The interests of all members and stakeholders are taken into account when decisions are made	1	2	3	4	5
53. Committee / Management members seldom find themselves in a position where a conflict of interest could arise	1	2	3	4	5
54. Details such as the identity and qualifications of each serving management member, are readily available to members and outside stakeholders	1	2	3	4	5
55. Decisions taken by Management are highly objective	1	2	3	4	5
56. Decisions taken by non-management committees are highly objective.	1	2	3	4	5
57. The details of nominated individuals are made available well before elections take place	1	2	3	4	5
58. There is regular communication on the state of the Federation's finances and financial activities to members and other stakeholders	1	2	3	4	5
59. The Federation is responsible only for those individuals directly involved in the sport	1	2	3	4	5
60. Relevant information regarding the Federation is shared with all stakeholders	1	2	3	4	5
61. Responsibility for the entire Federation and its members, ultimately lies with Management	1	2	3	4	5
62. Policies, decisions, election results and other matters are regularly communicated to members and stakeholders	1	2	3	4	5
63. Formal election procedures are set out in writing and communicated in advance to all members eligible to vote during Federation elections	1	2	3	4	5
64. A procedure is in place to resolving differences between either management, management and members or between members per se	1	2	3	4	5
65. Differences as described above can be easily resolved through external appeals or arbitration	1	2	3	4	5

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V47		65
V48		66
V49		67
V50		68
V51		69
V52		70
V53		71
V54		72
V55		73
V56		74
V57		75
V58		76
V59		77
V60		78
V61		79
V62		80
V63		81
V64		82
V65		83
V66		84

Please indicate your level of agreement with the following statements.

1 = I strongly disagree

5 = I strongly agree

Select an appropriate answer by CIRCLING either a 1, 2, 3, 4 or 5 in the shaded blocks below



66.	A clear chain of responsibility and accountability exists within the hierarchical structure of the organisation	1	2	3	4	5
67.	The Federation's corporate social responsibility is well defined	1	2	3	4	5
68.	Existing procedures to resolve differences adhere to the requirements of transparency	1	2	3	4	5
69.	The Federation has a responsibility to act responsibly towards environmental issues	1	2	3	4	5
70.	Management ultimately assumes responsibility for the Federation and its members	1	2	3	4	5
71.	All members have the same legitimate rights within the Federation	1	2	3	4	5
72.	All members are treated equally within the Federation	1	2	3	4	5
73.	During Management decisions, objectivity is sought to ensure that no discrimination of any kind prevails	1	2	3	4	5
74.	General reports on the state of the organisation are made available in a candid, accurate and timely fashion to stakeholders	1	2	3	4	5
75.	Existing measures and mechanisms are sufficient to avoid potential conflicts of interest	1	2	3	4	5
76.	Frequent reports aimed at the needs of specific stakeholders (eg Government, Sponsors) are made available	1	2	3	4	5
77.	Clear guidelines exist for the handling of all legitimate stakeholders (eg activists, media) and members interests	1	2	3	4	5
78.	The sole responsibility of the Federation is the development and promotion of the popularity and support of the sport	1	2	3	4	5
79.	A clear statement of the Federation's formal approach to governance has been communicated to members and other stakeholders	1	2	3	4	5
80.	The current structure of the Federation facilitates effective management	1	2	3	4	5
81.	Decisions are taken in the best interests of the Federation as a whole	1	2	3	4	5
82.	Mismanagement by a member of Management is adequately penalised	1	2	3	4	5
83.	The organisation responds well to external social issues	1	2	3	4	5
84.	The organisation responds well to internal social issues	1	2	3	4	5
85.	The current structure of the Federation contributes to effective management of the Federation	1	2	3	4	5

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V67		85
V68		86
V69		87
V70		88
V71		89
V72		90
V73		91
V74		92
V75		93
V76		94
V77		95
V78		96
V79		97
V80		98
V81		99
V82		100
V83		101
V84		102
V85		103
V86		104

Please indicate your level of agreement with the following statements.

1 = I strongly disagree

5 = I strongly agree



Select an appropriate answer by CIRCLING either a 1, 2, 3, 4 or 5 in the shaded blocks below

86.	The appointed auditors are independent and unbiased	1	2	3	4	5
87.	Decisions are not biased towards any specific interest, stakeholder or member grouping	1	2	3	4	5
88.	Administration of funds is transparent, accountable and objective	1	2	3	4	5
89.	Existing procedures to resolve differences adhere to the requirements of procedural fairness	1	2	3	4	5
90.	Directives with regard to voting rights and procedures are clearly communicated to all members	1	2	3	4	5
91.	Different committees have been established with clearly defined responsibilities in terms of performing various organisational functions.	1	2	3	4	5
92.	All members are treated with the same level of respect and tolerance	1	2	3	4	5
93.	There are examination procedures to assess the accuracy and truthfulness of nominated individuals' curriculum vitae	1	2	3	4	5
94.	The maximum duration any individual can serve on the executive board is fixed	1	2	3	4	5
95.	The Federation own a website which is regularly updated	1	2	3	4	5
96.	The Federation's website contains all relevant information which pertains to the daily running and management of the Federation	1	2	3	4	5
97.	The Federation has comprehensive and detailed ethical policy which deals with most or all possible matters pertaining to ethical conduct that might arise	1	2	3	4	5
98.	The duration of the serving term of elected officials is documented	1	2	3	4	5

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V87		105
V88		106
V89		107
V90		108
V91		109
V92		110
V93		111
V94		112
V95		113
V96		114
V97		115
V98		116
V99		117

Appendix B

Letter of Support – South African Sports Commission



SOUTH AFRICAN
SPORTS COMMISSION

3 June 2003

TO WHOM IT MAY CONCERN

The South African Sports Commission have been informed about a sport research study to be conducted by Mr Salmar Burger at the University of Pretoria. As part of the study information is required from National Federations and other identified sporting structures. This information will be gathered by means of a questionnaire that Mr Burger will forward to the identified Federations.

We kindly request the Federations that receive this questionnaire to co-operate with this research study as we are of the opinion that the results could contribute in identifying certain short comings in the administration of our sporting bodies.

Any requests or questions regarding the research should be directed to Mr Burger at the details provided by him.

CHIEF EXECUTIVE OFFICER
SOUTH AFRICAN SPORTS COMMISSION

Appendix C

Letter of Support – Sport and Recreation South Africa



**SPORT AND RECREATION
SOUTH AFRICA**

Private Bag X896, Pretoria, 0001, Republic of South Africa
Tel: (012) 334 3100 Fax: (012) 321 6187

TO WHOM IT MAY CONCERN
RESEARCH PROJECT : MR SALMAR BURGER

I have met with, and listened to a presentation by Mr Salmar Burger on a research project that he is involved with as part of an MBA Programme. The projects deals with good governance standards in National Sports Organizations.

I am convinced that the insights gained from the research will be of great benefit to South African Sport and would, accordingly, like to implore you to give your full support to Mr Burger in doing the research by providing him with the information that he is seeking.

I have agreed with Mr Burger that he will make a copy of the (results) of his dissertation available to SRSA to enable us to seek ways of implementing his recommendations, should we find them useful.

2/...

Moreover, we shall strive to distribute the recommendations to interested stakeholders.

Yours sincerely



PROF DJ HENDRICKS

HEAD OF DEPARTMENT