A FRAMEWORK FOR ORGANISATIONAL GOVERNANCE MATURITY: AN INTERNAL AUDIT PERSPECTIVE

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A framework for organisational governance maturity: an internal audit perspective

The concept of organisational governance has been researched and debated by many. However, the concept of organisational governance maturity and what exactly this entails has received significantly less attention. It is beneficial for an organisation to understand how far they have progressed with implementing the various governance elements, as this will enable them to implement the most appropriate and necessary next steps, while taking corrective actions in becoming more mature in respect of organisational governance. This will furthermore aid the internal audit activity to provide more effective internal audit services, as knowledge of the level of organisational governance maturity enables them to more accurately determine which service they should deliver – either an assurance (organisation is mature) service or a consulting (organisation is not mature) service.

The question now arises: how does an organisation, and the internal audit activity in particular, determine the level of organisational governance maturity without a benchmark of some sort that details the structures, systems and processes required to support governance at various levels of maturity? Published maturity frameworks/models can be used for this, however, there is very little that pertains specifically, comprehensively and holistically to organisational governance. This created the opportunity for the development of an organisational governance maturity framework.

The main objective of this study is to develop a framework that can be used for assessing the level of organisational governance maturity within South African private sector organisations. Firstly, a comprehensive literature review was conducted where eight governance-related maturity models were used to produce a preliminary organisational governance maturity framework for the private sector in South Africa. Secondly, interviews were conducted with key governance stakeholders at the selected organisation to obtain input in the preliminary framework. The research findings, which resulted from the data

analysed, were used as a means to refine the preliminary framework developed from the literature. No significant amendments were made to the preliminary framework and input obtained during the interviews supported the relevance and contribution of the framework developed from the literature.

DECLARATION

I declare that this dissertation, which I hereby submit for the degree of MCom in Internal Auditing at the University of Pretoria, is my own work and has not previously been submitted by me for a degree at another university. Where secondary material is used, this has been carefully acknowledged and referenced in accordance with university requirements.

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ABBREVIATIONS

ASX	Australian Securities Exchange
CACG	Commonwealth Association for Corporate Governance
CBOK	Common Body of Knowledge
CFIA	Competency Framework for Internal Auditors
CMM	Capability Maturity Model
CMMI	Capability Maturity Model Integration
COBIT	Control Objectives for Information and related Technology
COSO	Committee of Sponsoring Organizations of the Treadway Commission
ECGI	European Corporate Governance Institute
FRC	Financial Reporting Council
GAI	Governance Assessment Instrument
GCM	Governance Capability Maturity
IA-CM	Internal Audit Capability Model
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
IoD	Institute of Directors
IPPF	International Professional Practices Framework
ISACA	Information Systems Audit and Control Association
ISA	International Standards on Auditing
IT	Information Technology
JSE Ltd.	Johannesburg Stock Exchange Limited
MFMA	Municipal Finance Management Act
MMM	Modes of Managing Morality
NACD	National Association of Corporate Directors
NAO	National Audit Office
N.d.	Not dated
OCEG	Open Compliance and Ethics Group
OECD	Organisation for Economic Co-operation and Development
PA	Practice Advisories

PFMA	Public Finance Management Act
PWC	PricewaterhouseCoopers
RIMS	Risk and Insurance Management Society
SA	South Africa
SAICA	South African Institute of Chartered Accountants
SAP	Systems Applications and Products in data processing
SAPA	South African Press Association
SOX	Sarbanes-Oxley Act
SEI	Software Engineering Institute
Standards	International Standards for the Professional Practice of Internal Auditing
UK	United Kingdom
USA	United States of America

CHAPTER 1

INTRODUCTION AND BACKGROUND TO THE STUDY

1.1   INTRODUCTION

Governance is a term with which most individuals within business are now familiar. Over the past few decades the responsibility of organisational leaders towards the shareholders, the environment, society and various other stakeholders in respect of how organisations are governed has increased significantly. Other factors which have played their roles in driving this increased interest in organisational governance include the continuing global financial crisis, a general lack of confidence in leadership of organisations, stakeholders demanding more information and transparency, and the change in investors' requirements (Markham 2006:547; Solomon 2007:109-116; Bahrman 2011(a):1-3). Numerous studies supporting governance's growing importance indicate that a strong and positive correlation exists between governance and an organisation's valuation (Rose 2003:17; Core, Guay & Rusticus 2006:655-687; Bebchuk, Cohen & Ferrel 2009:783-827; Amman, Oesch & Schmid 2010:36-55). As a result responsible leaders are challenged to govern their organisations more effectively, focusing on the institutionalisation of values and principles by choosing a governance approach and a best-practice framework through which to achieve governance maturity, and ultimately sustainable business success.

The opportunity therefore exists for the development of an organisational governance maturity framework which will assist organisations in defining their current positions and then in pursuing improved levels of maturity. The concept of organisational governance maturity refers to the extent to which the organisation has established adequate governance structures, systems and processes, as well as the board's, management's and employees' implementation of and adherence to these structures, systems and processes (Gramling & Hermanson 2006:38; IIA 2006:4-5; Marks 2007:31).

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A further benefit of an organisational governance maturity framework is the assistance it will provide to internal auditing, as one of the key role-players within the field of governance. With the growing importance of organisational governance, the role of internal auditing has changed significantly (Hermanson & Rittenberg 2003:58; Leung, Cooper & Robertson 2003:1-124; Gramling, Maletta, Schneider & Church 2004:240; Sears 2005:8-11; Gramling & Hermanson 2006:37-39; IIA 2006:4-6; Allen 2008:1-4; Ernst & Young 2008:1-5; Güner 2008:21-33; IoD 2009:93-98; IIA 2010:15). Due to this change, currently, a key focus area for internal auditing is organisational governance (Ernst & Young 2008; Coetzee 2010; IIA 2010; PWC 2010; Allegrini, D'Onza, Melville, Sarens & Selim 2011:xi-xiii; Anderson & Svare 2011:xi-xiii; Chen & Lin 2011:xi-xiii; PWC 2011(a); PWC 2012), where internal auditing can play one of two roles.

In the first instance, internal auditing can be part of the organisational governance framework. This relates to internal auditing being seen as a cornerstone of sound governance principles (CACG 1999:1-7; Spencer Pickett 2003:47-59; De Castro 2005:12-14; Marx 2008:97-205). In the second instance, internal auditing can provide internal audit services on organisational governance by performing an assurance engagement or by improving the organisational structure based on having provided guidance arising from a consulting engagement (Gramling & Hermanson 2006:38; IIA 2006:4; Marks 2007:31; IIA 2010).

However, before internal auditing can perform either of these two activities, the level of maturity of the organisation first has to be determined. This could be done by means of, *inter alia*, an organisational governance maturity framework. Once the level of maturity is known, internal auditing then has to decide what type of service should most appropriately be rendered, being either assurance or consulting services. When the organisation is relatively mature in terms of their governance structures and the implementation of systems and processes, internal auditing will usually provide assurance on the structures, systems and processes that have been implemented by management (Gramling & Hermanson 2006:38; IIA 2006:4; Marks 2007:31; IIA 2010:55-56; Marks 2012(b):39-42). When the organisation's governance structures, systems and processes are

either non-existent or under-developed, internal auditing will usually opt to provide consulting services, providing recommendations for the development and/or improvement of these governance structures, systems and processes (Gramling & Hermanson 2006:38; IIA 2006:4; Marks 2007:31; IIA 2010:55-56; Marks 2012(b):39-42). It therefore appears that the organisation and internal auditing would benefit from using an organisational governance maturity framework and additionally, that the development of such a framework would have numerous benefits to various important role-players within the field of governance.

The rest of this chapter addresses, firstly, the need for this study by discussing concepts of organisational governance. Secondly, the evolving role of internal auditing in respect of its governance role is briefly debated. Thirdly, the availability of relevant governance-related maturity frameworks/models is discussed, and the need to develop a governance-specific maturity framework is elaborated on. Fourthly, the problem statement, research paradigm, methodology, design and method that will be used to address the research problem are explained. Thereafter, the importance and benefits of the study are presented, and the limitations and assumptions identified. Finally, the layout of the study is presented.

However, before the above can be discussed, it is important to clarify the difference between a maturity *framework* and a maturity *model*, as these terms are not interchangeable, and failure to make this distinction might create some confusion at a later stage. Therefore, before these concepts can be examined in any more detail, it is important to understand their meaning and context within this study. For the purpose of this study:

- A maturity *framework* indicates a broader/more inclusive and overview approach to measurement and is general in nature. A framework typically would be a broad measurement tool that has not yet been tested to determine its 'accuracy' and usefulness (Simpson 2005:xiv; Solomon 2007:1-30; Anonymous 2013(a):1-2; Answers Corporation 2014:1-2).

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- A maturity *model*, on the other hand, contains more detail, has a more specific approach to measurement, and would normally include some form of detailed indicators, scores and/or previously determined outcomes against which to measure the current organisation. A model typically would be a measurement tool that has been subjected to testing in a specific practical scenario or industry (Chapman 2009; Coetzee 2010:205-209; SEI 2010; Anonymous 2013(a):1-2; Answers Corporation 2014:1-2).

Credible literature on the difference between a framework and a model is very limited. It was furthermore noted that these two concepts are used interchangeably by some authors and, as a result, the authors' intended meanings seem to differ quite widely. Taking the abovementioned definitions into consideration, together with the purpose of this study, a framework (broad overview) will be developed and not a model. The development of a model is, however, an area for future research, and the framework developed in this study can be used as the basis for the development of a model. This model can subsequently be refined for various different sectors such as banking, mining and retail, to mention a few.

Going forward, the following distinctions are made to avoid confusion:

- If reference is made to maturity measurement in general, the term 'frameworks/models' will be used.
- If reference is made to a specific instrument (framework, model, tool or guidance document) to measure maturity, the specific term used by the author(s) in their discussion of that instrument will be used.
- If reference is made to the organisational governance maturity framework which will be developed, the term 'framework' will be used.

1.2   ORGANISATIONAL GOVERNANCE

The concept of organisational governance and what it entails needs to be understood to enable the development of an adequate organisational governance maturity framework. As a result the concept, approaches, developments, challenges, guidance and role-players relating to the field of governance are presented in this section to illustrate its importance and relevance to this study.

1.2.1   Concept of organisational governance

The broad concept of organisational governance is explained by means of the various definitions available. A search of the literature revealed a vast number of definitions available – refer to section 2.2.1 on p.44 for a detailed discussion. Some definitions are more comprehensive than others, but in general they all include similar important issues. In short, organisational governance can be defined as the system by which companies are directed and controlled, but specifically taking into account the four principles of good governance (responsibility, accountability, fairness and transparency) in dealing with all stakeholders (Cadbury 1992; Solomon 2007:14; IoD 2009:20).

Another important aspect to consider, apart from defining corporate governance, is the use of various terms that might create confusion. Publications from the Institute of Internal Auditors (IIA) acknowledge the fact that the terms 'corporate governance', 'organisational governance' and 'governance' are used interchangeably to describe the same concept (Hermanson & Rittenberg 2003:26-28; IIA 2006:3-4). It appears that the term 'organisational governance' (or governance) is the most inclusive term, as it implies that the focus is on the governance of any type of organisation and not only corporate/private or publicly listed companies.

1.2.2 Approaches to organisational governance

Organisational governance is usually approached from either a rules-based perspective or a principles-based perspective, and there are numerous arguments (which are discussed in detail in section 2.2.2 on p.47) both for and against these two approaches (Barrier 2003:71-73; Jackson 2004:58; Simpson 2005:xvi; Deloitte 2009; IoD 2009:7). Under a rules-based regime, organisations are encouraged to comply with a specific set of rules - basically a checklist of what to do and what not to do in various circumstances. In contrast, the principles-based approach focuses mainly on the end-result and doing the 'right thing' or what is best for the organisation. In addition, it is argued that the rules-based approach is applied in regulated, complex areas in which the public interest is high, whereas a principles-based approach is applied in areas that are seen as flexible, less complex and in which public interest is low. Arguments against the rules-based approach include statements that rules are easier to circumvent, and in order to ensure compliance one is forced to do something, regardless of whether it is true and fair. Arguments against the principles-based approach are limited, but include statements that a lack of standardisation may result in information being presented in a variety of formats that are not always understandable to all stakeholders. However, in an interview with the Internal Auditor journal Mervin King, the founder of the King Report and the South African custodian of governance , unequivocally stated that principles are more effective than rules (Barrier 2003:71). Another factor which also influences the decision as to which approach to use stems from the country in which an organisation operates. For example, in the United States of America (USA) organisations generally follow a rules-based approach whilst organisations within the United Kingdom (UK) and Europe tend to be advocates of the principles-based approach (Jackson 2004:57-61; Green & Gregory 2005:50-54).

It appears that the approach preferred in the South African private sector (Barrier 2003:68-73) is the principles-based approach. This is substantiated by the fact that both the second King Report on Corporate Governance (King II) and the third

King Report on Governance (King III), the latter being the governance code now being applied by a large number of South African business organisations, are based on the governance principles of responsibility, accountability, fairness and transparency – all fundamental principles of sound governance and corporate citizenship (IoD 2002:12; IoD 2009:7-8).

As a rules-based approach usually does not allow for much flexibility, a principles-based approach, which is more flexible, may especially benefit from an organisational governance maturity framework perspective as it would provide management with a stepping-stone approach to guide them in implementing effective governance structures, systems and processes.

1.2.3 Organisational governance: development, importance and challenges

Over the past three decades organisational governance has developed to a significant extent and received much attention along the way, which appears to have intensified from the early 2000s. Global developments as well as developments specifically related to South Africa are discussed in detail in sections 2.3.1 and 2.3.2 starting on p.70. To demonstrate the growing importance of organisational governance, a study performed by the McKinsey Consulting Group (Rose 2003:17) reported that 73% of investors are willing to pay a premium of between 23% and 28% for shares of an organisation that is well-governed. In addition, various authors and guidance documents have recognised the growing importance of organisational governance and hence have discussed the meaning of this concept at great length (Cadbury 1992; Friedman 1993; Shleifer & Vishny cited in Vives 2000; Hermanson & Rittenberg 2003; IFAC 2004; FRC 2005; IIA 2006; Lipman & Lipman 2006; West 2006; Solomon 2007; Monks & Minow 2008; IoD 2009; Rossouw & Van Vuuren 2010). As a result of the continuous development of the concept of governance, a need for more structure supporting the adequate and effective implementation of the governance concept within organisations has arisen. In response to this trend, the development of the

organisational governance maturity framework, which is the main aim of this study, could assist a great deal.

Although organisational governance has received and continues to receive much attention, the implementation of sound governance principles has received its fair share of challenges. One of the most important challenges relating to organisational governance has been the repeated occurrence of corporate scandals – different organisations but essentially the same breakdown of often *ad hoc* systems of governance. Although corporate scandals, fraud and corruption are the main factors fuelling organisational governance's prominence in the business landscape in recent years, governance continues to enjoy a love/hate relationship amongst those required to implement and oversee it. This is due to the fact that even in organisations where organisational governance is well-embedded, corporate scandals, fraud and corruption still occur (Spencer Pickett 2003:37-45; IFAC 2004:13-19). In the USA, one of the most well-known corporate failures was Enron, followed shortly thereafter by WorldCom (Spencer Pickett 2003:42-43; O'Brien 2005:205-206; Markham 2006:49-376; Cooper 2008; Williams 2008:471-473). In South Africa, three of the most well-known corporate scandals were LeisureNet in 2001 (SAPA 2007(a)), Fidentia in 2007 (SAPA 2007(b)) and Sharemax in 2010 (Pauw 2011). As recognised by the International Federation of Accountants (IFAC), the main reasons why specifically the USA companies failed were due to mismanagement (not the right 'tone at the top' in terms of ethical behaviour), an inadequate system of internal control and risk management and, most importantly, inadequate and ineffective monitoring of the aforementioned functions (IFAC 2004:13-14). These five and other scandals, and how they have affected organisational governance, specifically in the USA and South Africa, are discussed in more detail in section 2.3.3.2 on p.79.

Sound organisational governance principles may not prevent corporate scandals from occurring, but the argument can be made that without all the guidance in terms of codes and legislation, many other corporate scandals could have occurred. A measurable level of organisational governance can furthermore assist in determining the degree of implementation of and adherence to

organisational governance codes and/or legislation – and hence its acceptability and appropriateness for the task. The organisational governance maturity framework can assist in this regard as the status of the implementation process of organisational governance within the organisation can then be determined, which in turn might be an indicator as to the extent of compliance (or non-compliance) relative to specific codes and/or legislation.

1.2.4 Governance codes and legislation

It is important, in the context of this study, to recognise the significance of the development of codes and legislation regarding governance as it provides more insight into the evolution of the concept over the past few decades.

The development of organisational governance resulted in many codes being developed and issued by a number of influential organisations, and the promulgation of much legislation throughout the world. To this extent the European Corporate Governance Institute (ECGI) maintains a list of the codes which have been adopted around the world, in order to provide organisations with guidance on the available guidance codes (ECGI n.d.). The continuous updating and revision of governance codes drives the evolution of the concept of organisational governance.

In South Africa, the concept of organisational governance came to the fore with the issuing of the first King Report on Corporate Governance during 1994 (IoD 1994), the second King Report on Corporate Governance during 2002 (IoD 2002) and the third King Report on Governance during 2009 (IoD 2009). King III now requires all organisations to 'apply or explain' their adherence to the requirements indicated in the report. As indicated by Marks (2010), a well-known organisational governance expert in the USA, King III is seen as one of the leading codes in the field of organisational governance, globally.

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Preliminary research conducted for this study revealed a list of approximately 18 codes that were instrumental in the development of organisational governance globally (CACG 1999:1-7; Spencer Pickett 2003:47-59; De Castro 2005; Marx 2008:97-205; ECGI n.d.). It appears that guidance for implementing the various organisational governance codes (relevant codes are discussed in section 2.2.3.1 on p.51) is quite extensive and updated on a regular basis. On the other hand, guidance as to how to implement the requirements of legislation that compels the implementation of guidance (which is briefly elaborated on in section 2.2.3.3 on p.58) seems to be more limited. Some of the better-known corporate scandals such as Enron and WorldCom initiated the development of legislation in the field of organisational governance in the USA. In South Africa after the publication of the first King Report (IoD 1994), the government realised that having an effective corporate governance strategy could have many advantages, especially in terms of the effective management of an organisation. This lead to the development of the Public Finance Management Act (SA – No 1 of 1999 as amended by Act No 29 of 1999), hereafter referred to as the PFMA. The most pertinent legislation relating to governance, which has been enacted in South Africa and the USA are briefly discussed next. The inclusion of the USA is regarded as relevant as the Global IIA (the 'governors' of the profession) has its headquarters situated in the USA. All formal and informal guidance pronouncements relating to internal auditing are issued through the Global IIA in the USA. As a second operational tier the Global IIA has various regional chapters throughout the world. The IIA South Africa is one of these regional chapters. As this study is set in a South African context, more attention is therefore given to developments in organisational governance from a South African perspective.

One of the most prominent consequences of the recent corporate scandals in the USA has been the USA Congress' passing of the Sarbanes-Oxley Act of 2002 (USA 2002), hereafter referred to as SOX. SOX was promulgated in an attempt to limit the reckless and negligent way in which some organisations were being managed and controlled, largely at the expense of the stakeholders. SOX establish various rules supporting auditor independence as part of a wide range of efforts to improve corporate responsibility and financial disclosure (USA 2002).

SOX is not law in South Africa; however certain South African organisations (including public sector organisations) have formal links through shareholding or business contracts with USA organisations, which means that SOX is an important factor that South African organisations must consider in terms of the quality of their organisational governance (USA 2002). The Dodd-Frank Act (USA 2010) was also implemented as a means of promoting financial stability within the USA, with a special focus on putting mechanisms in place so as to minimise the negative impact should a major financial crisis occur again.

In South Africa, public sector governance is driven by the requirements of the PFMA (SA – No 1 of 1999 as amended by Act No 29 of 1999) and the Municipal Finance Management Act (SA – No 56 of 2003), hereafter referred to as the MFMA. The PFMA, which applies to national and provincial government organisations, promotes the overall objective of achieving good financial management in order to maximise service delivery through the effective and efficient use of limited resources. The MFMA's overall objective is to secure sound and sustainable management of the financial affairs of all local government organisations. Both the PFMA and MFMA therefore promote and enforce the establishment of and adherence to sound organisational governance principles. In similar vein, the new Companies Act (SA – No 71 of 2008) was promulgated on 9 April 2009 and came into operation on 1 May 2011. The new Companies Act is a step in the right direction in terms of enhancing the importance of organisational governance, for example, the Act now requires that companies appoint audit committees – a key component of sound governance principles (refer to section 2.2.3.3 on p.58 for an in-depth discussion).

Organisational governance codes are mostly principles-based whilst legislation in respect of organisational governance is mostly rules-based. Throughout this study, where ever possible, the private sectors in South Africa and the USA are compared as these two countries have implemented the two contrasting approaches (principles-based or rules-based) to organisational governance and are therefore more relevant to the study than some of the European situations.

1.2.5 Role-players

Organisational governance's key role-players are the board of directors, senior management, internal auditing, external auditing, the audit committee, the risk committee, other board committees and shareholders (Monks & Minow 2008; IoD 2009). Of these role-players, the board of directors is the focal point of governance within an organisation (OECD 2004; IoD 2009; ASX Corporate Governance Council 2010; FRC 2010). In addition, internal auditing and certain board committees are also identified as playing an important role in governance. When developing an organisational governance maturity framework, it is important to understand who the key role-players are and how they should be assisting the board of directors in the execution of their governance responsibilities. These role-players might also be the future users of the framework and hence should have an interest in the development of the framework. The two roles fulfilled by internal auditing, as well as those of the other role-players, are debated in more detail in section 2.2.5 on p.63.

1.2.6 Conclusion

The concept of organisational governance has developed quite significantly over the last few decades with a continuum of definitions being available describing this evolving concept. As the importance of organisational governance has increased within the global business community, more guidance in terms of codes (principles-based approach) and legislation (rules-based approach) have been issued. Corporate scandals have also contributed to the development of formal guidance in the field of organisational governance. In addition, some key role-players have also been identified as having important roles and responsibilities in the governance arena. Internal auditing is one of these key role-players, whose evolving role specifically relating to governance is important to consider.

1.3   THE ROLE OF INTERNAL AUDITING

Internal auditing has a very important role to play in organisational governance. In order to understand the role that internal auditing should play the rapid evolution of internal auditing is identified as an important contributing factor to the responsibility internal auditing has for ensuring effective organisational governance.

1.3.1   Evolution of internal auditing

During 1999 the internal audit profession, through the IIA, anticipated a change within the profession by issuing a new definition of internal auditing. This has had an influence on the formal guidance, the competency framework and the Common Body of Knowledge (CBOK) (IIA Research Foundation 2007; IIA 2010; Allegrini *et al.* 2011:xi-xiii; Anderson & Svare 2011:xi-xiii; Chen & Lin 2011:xi-xiii). Differing materially from the previous definition, this current definition makes provision for the role of internal auditing in governance, which makes it relevant to this study. In addition, the financial crisis during 2008/2009 resulted in the profession of internal auditing expanding the bouquet of services they are rendering, as well as how these services are rendered (Steffee 2011). Various other studies also acknowledge the evolving role of internal auditing and highlight the growing importance of internal auditing's role (Ernst & Young 2008; Coetzee 2010; IIA 2010; PWC 2010; Allegrini *et al.* 2011:xi-xiii; Anderson & Svare 2011:xi-xiii; Chen & Lin 2011:xi-xiii; PWC 2011(a); PWC 2012). Organisations are beginning to understand the value that internal audit activities can add and, in turn, stakeholders are starting to expect more from the business and ultimately from the internal audit activities (PWC 2010; PWC 2011(a); PWC 2012).

The increased importance of the role of internal auditing necessitates that the internal audit activity plays a more strategic role within the organisation by focusing its efforts on business and process improvement (Ernst & Young 2008). According to King III (IoD 2009:96), the various changes within the world of

business in recent years, which includes factors such as organisational changes and expanding complexities within business systems, as well as regulatory changes, have caused organisations to re-examine the role of internal auditing. The end-result is that organisations require their internal audit activities to be supremely competent and effective. In addition, one of the key responsibilities of internal auditing now is to assist the board and/or its committees to fulfil their governance responsibilities (Sears 2005:9; Marks 2007:31-32; IoD 2009:96).

All the abovementioned studies in respect of the evolving role of internal auditing are underpinned by one general theme: internal auditing can add value to an organisation's governance structures, systems and processes. According to Allen (2008:1-4), internal auditing is the ideal function or mechanism through which to monitor governance matters within the organisation and, in her view, internal auditing should become a stronger player in the governance team. A study conducted by KPMG (2007) also elaborated on the fact that internal auditing's mandate and strategic value positions it in such a manner that the role of internal auditing can easily be expanded to make provision for the services they can render in respect of organisational governance. This expanded role of internal auditing in terms of organisational governance is discussed next.

1.3.2 The role of internal auditing with specific focus on organisational governance

As mentioned previously, the role of internal auditing with specific focus on organisational governance has expanded greatly over the past few years. Numerous studies and other published reports recognise and support this expanding role specifically in respect of organisational governance (Hermanson & Rittenberg 2003:58; Leung *et al.* 2003:1-124; Gramling *et al.* 2004:240; Sears 2005:8-11; Gramling & Hermanson 2006:37-39; IIA 2006:4-6; Allen 2008:1-4; Ernst & Young 2008:1-5; Güner 2008:21-33; IoD 2009:93-98; IIA 2010:15).

To formalise this role in respect of governance, the IIA regularly issues formal guidance through the International Professional Practices Framework (IPPF). The IPPF has elements that are mandatory and others which are strongly recommended (IIA 2010:i-iii). One of the mandatory elements is adherence to the International Standards for the Professional Practice of Internal Auditing (hereafter referred to as the Standards). One of the strongly recommended elements is the practice advisories, which is an extension of the Standards. Another strongly recommended element which is relevant to this study is the position papers that are issued periodically.

Standard 2100 emphasises the fact that the internal audit activity should improve the governance process of the organisation by making appropriate recommendations (IIA 2010:15). It should be mentioned that in January 2009, the IIA identified the role of internal auditing in respect of organisational governance as such an important concept that the sequence in which the sub-standards of Standard 2100 are presented were amended to reflect this. In the revised Standard 2100 governance is now the first sub-standard dealt with, and is followed by risk management and control (IIA 2010:15). In addition, in an attempt to recognise the increased importance of the governance role of internal auditing, the IIA issued new practice advisories during April 2010. These practice advisories highlight the fact that the internal audit activity should perform governance assessments and evaluate the adequacy and effectiveness of the organisation's governance framework (IIA 2010:52-56).

The IIA (2006) also issued a position paper (Organisational governance: guidance for internal auditors) to complement the Standards and the practice advisories. This position paper identifies the participants in organisational governance, and discusses their roles within the organisation. As mentioned in section 1.1 on p.1, internal auditing's role can follow one of two approaches. The first is for internal auditing to be part of organisational governance, whilst the second requires that the internal audit activity provides internal audit services (essentially assurance and consulting services) relating to organisational

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governance. The importance of these two roles is debated in detail in section 3.3 on p.106.

An organisational governance maturity framework can provide valuable assistance to internal auditing when providing assurance and/or consulting services. When providing assurance services (where an organisation is more mature in respect of governance), the organisational governance maturity framework can be used by internal auditing to evaluate the adequacy and the effectiveness of the relevant governance structures, systems and processes already in place. The organisation can then determine where they are currently in respect of governance maturity, and where they aim to be. When providing consulting services (where an organisation is immature in respect of governance), the organisational governance maturity framework can be used by internal auditing to assist management of the organisation to improve those governance structures, systems and processes they have already implemented.

1.3.3 Conclusion

The role of internal auditing overall, and more specifically in respect of organisational governance, is evolving rapidly. It appears that the aforementioned two aspects (assurance provider and consultant) are intertwined and that the new role internal auditing has to play is as a result of the ever-changing business environment as well as the evolvement of organisational governance. One aspect that is underlined in formal guidance, academic studies and debates is that the role that internal auditing can play in promoting quality organisational governance could be enhanced by guidance such as an organisational governance maturity framework.

1.4   MATURITY FRAMEWORKS/MODELS

To derive a well-formulated organisational governance maturity framework, various governance-related maturity frameworks/models had to be reviewed to

determine their relevance, comprehensiveness and adequacy. This section introduces the concept of governance maturity and its importance and relevance to this study. Thereafter the governance-related maturity frameworks/models which will be used during the development of the preliminary organisational governance maturity framework are introduced, and their relevance and limitations are briefly examined.

As discussed in section 1.1 on p.1, the focus of this study is to develop an organisational governance maturity framework, and not a model. It is therefore necessary to keep the difference between a framework and a model in mind and for this purpose it is suggested that readers refer back to section 1.1 on p.1 where this difference is explained in detail.

1.4.1   Organisational governance maturity

Due to the increased importance of organisational governance over the past few decades brought about by corporate collapses and the demands of legislation and guidance, organisations and investors have started to recognise the importance of implementing sound governance principles. This increased curiosity of what exactly organisational governance entails and how organisations should attempt to implement and adhere to these sound governance principles has led to organisations establishing their own governance structures, systems and processes to assist them to reach higher levels of organisational governance maturity (Hermanson & Rittenberg 2003:58; IFAC 2004:4-8; IIA 2006:4-6; Lipman & Lipman 2006:3-4; West 2006:433-448; Solomon 2007:31-47; Monks & Minow 2008:351-410; IoD 2009:5-18; Rossouw & Van Vuuren 2010:205-211; Wilkinson & Plant 2012:19-31). Although some maturity frameworks/models do exist, which could be used by organisations in determining their level of organisational governance maturity, they attempt to address only certain aspects of governance maturity. The lack of a framework/model measuring governance maturity holistically was identified as a substantial hindrance to the development of governance.

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The concept of organisational governance maturity (discussed in detail in section 4.2.1 on p.121) refers to the extent to which the organisation has established adequate governance structures, systems and processes, as well as the degree to which the board, management and employees have implemented and continue to adhere to these structures, systems and processes (Gramling & Hermanson 2006:38; IIA 2006:4-5; Marks 2007:31; Wilkinson & Plant 2012:19-31). In other words, organisations can be ranked according to different levels of maturity based on their degree of implementation of governance structures, systems and processes (Gramling & Hermanson 2006:38; IIA 2006:4-5; Marks 2007:31; Wilkinson & Plant 2012:19-31). However, this ranking would be extremely difficult to execute without having some sort of measuring tool, such as an organisational governance maturity framework. Such a framework could be used to determine the organisation's current level of governance maturity. The framework could also assist the organisation to identify its current level of maturity and/or to determine what the required level of maturity is/should be. It is important to note that an organisation does not necessarily need to be at the highest level of maturity, as its governance processes might be deemed adequate for that specific type of organisation at that specific point in time. Not being at the highest level of maturity is not necessarily an indication that the organisation is failing in respect of the implementation of governance structures, systems and processes.

Another important aspect to consider when dealing with organisational governance maturity is the organisation's assessment of its own maturity. If an organisation assess itself as mature, this does not necessarily imply that the governance structures, systems and processes implemented are adequate and functioning effectively. The question then arises: when organisations evaluate their maturity or their implementation of sound governance principles, are they merely 'ticking-off' a list of requirements or are they successfully and thoughtfully implementing the governance structures, systems and processes? This is debated in more detail in section 4.2.1 on p.121.

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1.4.2 Development of maturity frameworks/models

The concept of maturity frameworks/models is well-known and accepted within the business environment as organisations realise that maturity frameworks/models can be of great value, especially when benchmarking organisational performance (Hillson 1997:35-36). One of the main reasons for the development of maturity frameworks/models has been the fact that these frameworks/models are used by organisations to provide road maps for performance improvement (SEI 2010).

Most literature on maturity frameworks/models identifies the development of the Capability Maturity Model (CMM) by the Software Engineering Institute (SEI) of the Carnegie Mellon University in the USA (MacRae 2010:68; SEI 2010) as the catalyst which lead to the development of various other maturity frameworks/models (De Bruin, Freeze, Kaulkarni & Rosemann 2005; Paulk 2009:5-19; Magdaleno, De Araujo & Werner 2011:106).

Preliminary research conducted (and discussed in detail in section 4.3.1 on p.131) revealed that maturity frameworks/models are usually presented in a matrix and contain the following elements (Chapman 2009; Coetzee 2010; Wilkinson & Plant 2012:19-31):

- Attributes or characteristics of the business area covered in the model.
- Various stages or levels of maturity.
- Criteria describing the desired capabilities, and the links between the levels of maturity development and the attributes.

It therefore seems possible to apply the concept of a maturity framework/model to the governance environment, by identifying specific attributes applicable to organisational governance, developing a hierarchy of maturity levels, and developing the criteria desired at each level of each attribute.

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1.4.3 Governance-related maturity frameworks/models

A comprehensive literature search indicated the availability of only a few governance-related maturity frameworks/models (Rossouw & Van Vuuren 2003; RIMS 2006; OCEG & NACD 2007; IIA Research Foundation 2009; Coetzee 2010; ISACA 2012). Furthermore, only one governance maturity model (Bahrman 2011 (a) & (b)) specifically focussing on the holistic concept of organisational governance, could be found. It is possible that other governance-related maturity frameworks/models do exist, but for the purposes of this study these were the frameworks/models that related most closely to the topic of governance. A brief introduction to each of these frameworks/models follows, in which their relevance to the study as well as their respective limitations are identified. With regard to the governance-related maturity frameworks/models, these tend to focus on one or two governance topics at most.

The modes of managing morality (MMM) model was developed in 2003 by Rossouw and Van Vuuren as an evolutionary model of managing ethics in organisations (Rossouw & Van Vuuren 2003). This model was included to a limited extent despite its narrow focus on ethics, since ethical leadership plays an important role in applying governance effectively throughout an organisation (IoD 2009:20-27). The Open Compliance and Ethics Group (OCEG) developed the OCEG corporate governance maturity model in 2007 in collaboration with the National Association of Corporate Directors (NACD). This model was developed in pursuit of the NACD's mission, which is to serve the governance needs of directors and boards and to ultimately achieve improved organisational governance through better board practices (OCEG & NACD 2007). This model's attributes mainly focus on decision-making, with only a very limited and overview discussion of capability, processes, structures, information technology (IT) and performance management. This model was included to a limited extent as decision-making is an important governance responsibility for the board of directors and executive management (IoD 2009:19-54). The IIA Research Foundation has conducted extensive research into the concept of capability or maturity and has developed an Internal Auditing Capability Model (IA-CM) which

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was published in 2009. This model is based on the CMM model referred to earlier and was developed to assist internal auditors and other internal audit stakeholders to identify the fundamentals needed for an effective internal audit activity within a government structure and within the broader public sector (MacRae 2010:68). The IA-CM is included in the study to a limited extent because the internal audit activity is regarded as one of the pillars of organisational governance, regardless of the economic sector (Gramling *et al.* 2004:194-195; Gray 2004:17-19; Marks 2007:32; IoD 2009:93). The Risk and Insurance Management Society (RIMS) maturity model is a comprehensive risk maturity model which was developed as a generic tool to assist organisations to manage risks more effectively. This model was adapted by Coetzee (2010) so as to be useful in a South African context. The RIMS model (taking into account Coetzee's suggestions) is also therefore included in the study, again to a limited extent, because of the desirability of having an effective risk management framework as part of the organisational governance framework (IoD 2009; Coetzee 2010).

The only model specifically focussing on the holistic concept of governance and which was used more extensively than the previously mentioned frameworks was the Governance Capability Maturity (GCM) model developed by Bahrman (2011 (a) & (b)). The GCM model was developed with the objective of assisting the organisation in defining the criteria to use in evaluating the organisational governance structures, systems and processes. Two significant limitations of this model are, however, that it was developed within and for the USA's business context (which impacts the usefulness of the original model in a South African context), and that certain specific attributes, recognised by other organisations as important and relevant for the purposes of developing the organisational governance maturity framework, are not dealt with in sufficient detail, if at all (e.g. internal auditing). Despite these limitations, the model was included in the study as it is the only governance-specific model that could be found.

Although King III (IoD 2009) is not a governance maturity framework/model, but rather a comprehensive code based on sound governance principles and

recommendations, it was also decided to include King III in the comparison of governance maturity frameworks/models. In addition, given the fact that despite its South African roots King III is highly regarded throughout the world as a guidance document (Marks 2010), and because this study is intended to address governance in a South African context, the relevance of King III could not be underestimated.

Another measurement tool related to governance is the Control Objectives for Information and related Technology (COBIT) model which was developed in 2007 by the IT Governance Institute. It has subsequently been revised, updated and adapted as the IT environment changes and improves. COBIT is an IT governance-supporting toolset that allows managers to bridge the gap between control requirements, technical issues and business risks by making use of certain IT governance focus areas (ISACA 2012). This model is included in the study, also to a limited extent, due to the increased awareness and importance of IT governance within organisations (Ramamoorti & Weidenmier 2003; Ernst & Young 2008; IoD 2009; ISACA 2012).

Other measurement tools were also identified but were not deemed relevant for this study. The analysis and evaluation of the comprehensiveness, adequacy and relevance of the maturity frameworks/models and measurement tools are presented in section 4.3.2.1 on p.137. In addition, a detailed discussion of the practical application of these maturity frameworks/models is presented in section 4.2.3 on p.126.

The development of the organisational governance maturity framework is dealt with and explained in detail in section 4.3 on p.130. The benefits of such a framework are also argued in section 4.2.4 on p.129 and from these arguments it appears beneficial for an organisation to have such a framework in place.

1.4.4 Conclusion

The use of maturity frameworks/models can be beneficial to organisations, especially when benchmarking organisational performance. Although various maturity frameworks/models are in existence, only a few governance-related maturity frameworks/models and one governance-specific maturity model could be found. As such, it appears that a need exists for the development of an organisational governance maturity framework that could form the basis for the development of an organisational governance maturity model. The development of a model, as mentioned previously, is an area for future research. The development of an organisational governance maturity framework (the objective of this research study) could assist organisations in improving their implementation of organisational governance and ultimately invigorate their efforts to reach higher levels of maturity.

1.5 PROBLEM STATEMENT

This section provides detail on the problem statement. It includes the research problem which builds a case to enable the formulation of research objectives.

1.5.1 Research problem

The concept of organisational governance has been researched and debated by many authors (refer to section 1.2 on p.5). However, the concept of organisational governance maturity and what exactly this entails has received significantly less attention (refer to section 1.4.1 on p.17). It is beneficial for an organisation to understand how far they have progressed with implementing the various governance elements as this will enable them to implement the most appropriate and necessary next steps, while taking corrective actions on their journeys to becoming more mature in respect of organisational governance. This will furthermore aid the internal audit activity to provide more effective internal

audit services as knowledge of the level of organisational governance maturity enables them to more accurately determine which service they should deliver – either an assurance (organisation is mature) service or a consulting (organisation is not mature) service. The question now arises: how does an organisation, and the internal audit activity in particular, determine the level of organisational governance maturity without a benchmark of some sort that details the structures, systems and processes required to support governance at various levels of maturity? Published maturity frameworks/models can be used for this but, as noted earlier (refer to section 1.4.2 on p.19), there is very little that pertains specifically, comprehensively and holistically to organisational governance.

Thus, as indicated previously (refer to section 1.4.2 on p.19), while literature on maturity frameworks/models in general does exist, and while literature on governance-related maturity frameworks/models is available, a comprehensive search revealed that literature on maturity frameworks/models which explicitly focus on governance as a holistic concept is very limited.

The research problem can therefore be formulated as follows:

Information on organisational governance maturity is limited. Organisations are in need to determine their maturity in respect of organisational governance. Internal auditing also needs to understand their organisation's governance maturity level to determine their role(s). No comprehensive organisational governance maturity tool exists currently to assist the organisation and/or internal auditing.

The aforementioned research problem can be divided into the following three focus areas:

• The concept of organisational governance is well-known and has been researched by many authors, but knowledge and published research on the concept of organisational governance maturity is limited (refer to sections 1.2 on p.5 and 1.4.1 on p.17).

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- Currently, a comprehensive governance maturity framework/model to assist organisations to improve their organisational governance does not exist (refer to sections 1.1 on p.1 and 1.4 on p.16).
- Internal audit activities are not able to render an appropriate service (either assurance or consulting) without the use of a governance framework/model against which to benchmark the organisation's level of governance maturity (refer to section 1.3 on p.13).

1.5.2 Research objectives

Stemming from the research problem the primary objective of this study is to develop a framework that can be used for assessing the level of organisational governance maturity within South African private sector organisations.

The secondary objectives in support of the achievement of this primary objective are the following:

- To obtain an understanding of the concept of 'organisational governance' (refer to Chapter 2 on p.42).
- To obtain an understanding of the two capacities in which the internal audit activity can be involved in organisational governance; in other words, either being part of the organisational governance framework or providing internal audit services in respect of organisational governance (refer to Chapter 3 on p.86).
- To determine how the developed framework can assist the internal audit activity in rendering these services (refer to Chapter 3 on p.86).
- To obtain an understanding of the concept of 'organisational governance maturity' (refer to Chapter 4 on p.119).
- To determine the availability and adequacy of frameworks/models capable of assessing the level of governance maturity (refer to Chapter 4 on p.119).

- To develop a preliminary framework for assessing the level of organisational governance maturity based on existing governance-related maturity frameworks/models (refer to Chapter 4 on p.119 and Annexure C on p.234).
- To refine the developed framework by obtaining input from various governance stakeholders (refer to Chapter 5 on p.155 and Annexure F on p.244).

1.6   RESEARCH PARADIGM, METHODOLOGY AND DESIGN

This section provides arguments supporting the research paradigm, methodology and design chosen.

1.6.1   Research paradigm

The term 'research paradigm' refers to the researcher's worldviews that are inspired by beliefs that guide action. It is important to establish the philosophical worldview of the researcher as this sets the tone for the rest of the study (Creswell 2009:5-11).

The paradigm which underpins this study is the interpretivist/constructivist approach. Using this approach the researcher relies on the "participants' views of the situation being studied" and acknowledges the impact the researcher's background has on the study (Mackenzie & Knipe 2006:1-11; Cresswell 2009:5-11). Saunders, Lewis and Thornhill (2007:113) furthermore recognise that an interpretivist/constructivist approach is ideal when one wants to understand the world we live in, or more specifically, a concept and the complexities surrounding this concept.

With reference to this study it was important to obtain an understanding of various concepts (refer to section 1.5.2 on p.25) and their associated complexities. This enabled the development of the organisational governance maturity framework. In addition, the inputs of the key stakeholders had to be

obtained in order for the preliminary framework to be refined. The background and the experiences of the researcher were also considered as they had an impact on the study and on the roles the researcher played during the process. In respect of the experiences of the researcher the following should be noted:

- The researcher has more than seven years' experience within an internal audit consulting environment.
- During these seven years the researcher came across numerous scenarios where it appeared that the organisation's implementation of and adherence to good governance principles was little more than a 'ticking off' of items on a list so as to demonstrate minimum compliance.
- This influenced the researcher to conduct this study and to develop the framework from a standpoint of integrity, to ensure significantly more than minimum adherence to imperfectly understood concepts, while also focussing on how the governance principles are implemented in the process of ensuring effectiveness.
- The researcher therefore attempted to develop a descriptive framework and during the interviews explained this stance to the key stakeholders.

1.6.2 Research methodology

There are essentially two research methodologies that can be used to obtain answers in response to the research question. These are quantitative methodologies, and qualitative methodologies; and often researchers find it more effective to use a mixed-method approach, combining and alternating elements of both (Mouton 2001:144; Saunders *et al.* 2007:132-134). Qualitative research entails exploring the meaning and obtaining an understanding of a certain concept. It involves, amongst other processes, collecting data in the participant's setting and making inferences using an inductive style. This methodology supports and acknowledges the complexity of the situation or concept (Creswell 2009:4).

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As governance is a very broad and sometimes complicated concept, made somewhat more challenging by the absence of a universally accepted technical vocabulary, using the qualitative methodology assisted in the execution of the empirical study as it acknowledges the complexity of the concept, as mentioned above. Data were collected by conducting interviews at the physical premises of a selected organisation. The interviews were guided by the use of a semi-structured questionnaire, comprising open-ended questions, and where the interviewer was also able to provide descriptive narrative explaining the concepts of governance maturity, governance structures, systems and processes (Mouton 2001:105; Saunders *et al.* 2007:145).

1.6.3 Research design

In selecting the research design for this study it was imperative to give due consideration to the research problem and supporting questions in order to determine which design would be the best fit in answering the research questions. The research design of the study entails a literature review and a case study. These are discussed next.

1.6.3.1 Literature review

According to Mouton (2001:179), a literature review provides an overview of the knowledge gathered so far in respect of a certain concept, through reference to various analyses. It is furthermore argued that a comprehensive and well-integrated literature review should be part of any type of academic or research study (Mouton 2001:180). In addition, Mouton (2001:90-91) further states that a literature review should attempt to cover most of the main aspects of the study; it should be topical and not necessarily influenced by the dates of publication of the studies referred to and it should be well-organised and easy for the reader to understand and follow.

There are various benefits to performing literature reviews. The following key benefits were identified by various authors (Mouton 2001:87; Leedy & Ormrod 2005:64-65; Saunders *et al.* 2007:57-58). A literature review:

- Provides new ideas, perspectives and approaches to the study.
- Provides more clarity on the research problem and objectives.
- Provides more information on how other researchers have dealt with similar studies.
- Assists with interpreting research findings.
- Introduces sources which were previously unknown to the researcher.
- Identifies other areas for possible research.

In respect of this study, the objectives of the literature review were to explore the concept of organisational governance, to obtain an understanding of the roles of internal auditing in respect of organisational governance, and to explore the concepts of organisational governance maturity, governance-related maturity frameworks/models and the use thereof to assess organisational governance maturity. This review assisted in the development of the preliminary organisational governance maturity framework, the primary objective of this study.

The results of the literature review, conducted from the abovementioned perspective, are detailed in Chapters 2, 3 and 4. It is, however, important to note that the detailed research plan followed while conducting the literature review specifically for the development of the preliminary framework is documented in section 4.3 on p.130. An extensive and rigorous literature review, consisting of three specific phases, was conducted in pursuit of the development of the preliminary governance maturity framework.

1.6.3.2   Case study

After completing the literature review and developing the preliminary framework, an empirical investigation was performed to obtain inputs from key stakeholders within the field of governance, in order to refine the first edition of the framework. Empirical studies were conducted in order to obtain responses to certain research phenomena, in this case the preliminary framework developed from the literature (Mouton 2001:144; Saunders *et al.* 2007:132-134). After careful consideration it was decided that the empirical study would be performed using the case study research design, as it was believed to be best-suited to provide answers to the research questions. The reasons for selecting the case study design are stated below.

Firstly, according to Baxter and Jack (2008:544-559) the constructivist paradigm (explained in section 1.6.1 on p.26) supports the case study research design as there needs to be close and regular interaction between the researcher and the participants, so that the researcher can encourage the participants to provide their (unvarnished) views. This supports the ultimate purpose of the research, being that the researcher should obtain a better understanding of the concepts. Secondly, a case study research design can provide valuable input while addressing the research questions by focussing on the issues of 'how', 'why' and 'what' (Leedy & Ormrod 2005:135-136; Saunders *et al.* 2007:139-140; Baxter & Jack 2008:545; Yin 2009:8-14). Thirdly, if the desire is to obtain a thorough and in-depth understanding of a certain concept, then a case study research design can be used to provide the appropriate answers (Leedy & Ormrod 2005:135-136; Saunders *et al.* 2007:139-140; Baxter & Jack 2008:545; Yin 2009:8-14).

As the development of the organisational governance maturity framework was a substantial part of this study, and this required a fairly rigorous process be followed in the form of an extensive literature review, it was decided that a single case (one organisation) would be selected for the empirical study. The rationale for selecting a single case was firstly that the study aimed to make a significant contribution to knowledge-building by obtaining information from an organisation

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judged best-suited to provide this (also referred to as the "critical case"). The organisation that was chosen had to be reasonably mature in respect of its governance (Yin 2009:47). Secondly, the study aimed to obtain information which represented scenarios closely linked to 'everyday business life' (also referred to as the "typical case") – this involved obtaining relevant and useful input in respect of governance structures, systems and processes (Yin 2009:48).

There are, however, some limitations to implementing a case study research design. Firstly, this design is not always perceived to be a popular empirical study vehicle, mainly because of the ease with which researchers can circumvent many of the procedures that need to be followed when planning and executing a case study (Yin 2009:14). Secondly, it may prove difficult, especially when selecting a single case, to generalise from the research findings. However, Yin (2009:15) argues that findings may be generalised if they refer to a theoretical concept (e.g. governance maturity), and not to a physical population (e.g. of humans). Thirdly, a case study may prove to be quite complex and difficult to plan and execute. As such the process of selecting the case (organisation) needs to be carefully planned and if, at any time, there is an indication that the case selected is not what was originally expected, another case should be selected (Yin 2009:15).

Apart from being a single case, the specific type of case study selected is referred to as 'instrumental'. This type of case study is best-suited to research questions requiring insight into a specific concept, such as governance maturity. The case (legal entity in this situation) is of secondary interest as it facilitates a supportive role in understanding the concept (Baxter & Jack 2008:549). Inferences made from the research findings may or may not be regarded as typical of other cases; this is the choice of the researcher (Baxter & Jack 2008:549). In summary and for clarity purposes, the case refers to the selected organisation, the unit of analysis refers to the concept of organisational governance, and the variables refers to the various areas within governance or the governance structures, systems and processes (Crafford 2014:37-42).

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1.7   RESEARCH METHOD

A brief overview of the methods used to collect and analyse data are provided next.

1.7.1   Selection of case

The study was limited to the private sector within South Africa. The main reason why only the private sector was used during the empirical study, and that the public sector was excluded, is that anecdotal evidence suggests public sector organisations are not yet as mature in terms of the implementation of their organisational governance structures, systems and processes as the researcher needed the case to be (Erasmus, Barac, Coetzee, Fourie, Motubatse, Plant, Steyn & Van Staden 2014:2). This is supported by Prinsloo and Pieterse (2009/10:55) as they elaborate further to indicate that various national government departments still find it challenging to comply with the PFMA, as is apparent from the annual audit reports issued by the Auditor General of South Africa. In addition they list various challenges encountered when attempting to implement King III in the public sector. This assumption is further supported by a study by Coetzee (2010:304), which indicated that as at 18 June 2009 not one of the national government departments had been identified as being 'risk mature'. This assessment rested on the fact that risk management frameworks are recognised as an important element of organisational governance, and their presence or absence may therefore also be used as an indicator of whether the organisational governance frameworks have been implemented at these departments (IoD 2009:72-80; Coetzee 2010:153). This is, however, an area that has been identified for future research.

The following three aspects were used as criteria for evaluation purposes prior to selecting the population and relevant case (discussed and justified in detail in section 5.2 on p.155):

- Risk maturity of the organisation (Coetzee 2010:477-478).

- Integrated reporting quality and standards (Ernst & Young 2013).

- Presence on the Johannesburg Stock Exchange Limited (JSE Ltd.) top 40 (JSE 2013(a)).

A consolidated list was compiled from the top 10 organisations ranked for each of these three aspects. The top five organisations which achieved the highest scores in aggregate for the three criteria were then selected as the population. One of the top five organisations was selected as the case. The cases from which the selection was performed had to be carefully chosen as the availability and willingness of key stakeholders to participate in the study was also of great importance and could have a meaningful influence on the success of the empirical study. To this extent, professional judgement had to be applied. In the event of an organisation not being available for the empirical study, the next organisation on the list of top five would have been selected. Using this technique is best suited where cases which are particularly informative have to be selected in order to answer the research question (Saunders *et al.* 2007:226-233). The aforementioned statement was held to be true for this study and an organisation which appears, based on the aforementioned three criteria, to be mature in respect of organisational governance, was selected to assist the researcher to arrive at a meaningful framework. A limitation of this technique, however, is that it may not appear to be representative of the population (Saunders *et al.* 2007:226-233).

Further details in respect of how the case was selected are discussed in section 5.2 on p.155 and Annexures D.1 and D.2 starting on p.240.

1.7.2 Interviews and Atlas.ti

The use of personal interviews, guided by the use of semi-structured questionnaires, was selected as the method of data collection most likely to provide the valuable results required to refine the preliminary framework.

Saunders *et al.* (2007:611) define semi-structured interviews as a "wide-ranging category of interview in which the interviewer commences with a set of interview themes but is prepared to vary the order in which questions are asked and to ask new questions in the context of the research situation." This definition accurately describes how the interviews in the empirical study were approached. In addition, various situations supporting the use of semi-structured interviews as a form of data collection relevant to this study were identified. These include (Saunders *et al.* 2007:314-317):

- The purpose of the research – if interviewees have to explain in further detail the reason for their responses, a semi-structured interview is the best form of obtaining this information.
- The significance of establishing personal contact – interviewees, especially senior executives, are more likely to devote some of their valuable time to a personal interview on a topic relevant to their daily work as opposed to completing an 'impersonal' questionnaire.
- The nature of the questions – if the questions asked are open-ended and the concept may be construed as complex, then an interview is the best method to use to ensure that no misinterpretation takes place.

The details of the process followed in planning and conducting the interviews are presented in section 5.3.1 on p.157. The qualitative research tool Atlas.ti was used to analyse the data obtained from the interviews. A brief discussion of how Atlas.ti was used and how this tool assisted in analysing the data is provided in section 5.3.2 on p.159. The results of the empirical study are documented in section 5.3.3 on p.159.

1.8 IMPORTANCE AND BENEFITS OF THE STUDY

With the growing recognition of the importance of organisational governance (refer to section 1.2.3 on p.7), the use of a framework to assess the level of organisational governance maturity could be beneficial to an organisation. In the

case of an organisation that is perceived to be mature in respect of organisational governance, the framework could be used to maintain that specific level of governance maturity. On the other hand, organisations that are not yet perceived as mature in terms of organisational governance can use the findings of this study to implement the necessary action plans to improve their governance structures, systems and processes. In other words, such a framework could provide guidance to assist these organisations to methodically identify and reach the desired maturity levels.

Other role-players in respect of organisational governance could also benefit from this framework/model. Within the organisation, role-players such as internal auditing (as one of the assurance providers) could benefit as the services they provide could be more accurately identified, and thus rendered in a more efficient and effective manner. By using the framework the internal audit activity can determine the level of governance maturity of the organisation, and thereafter decide what type of services can most effectively be rendered that will add the most value to the organisation. The audit committee could also make use of the framework to obtain an understanding of the status of implementation of organisational governance within the organisation. In addition, the framework could assist shareholders in keeping up-to-date with the organisation's governance efforts, requiring the use of this framework (or the results thereof) as an assessment measure of how important the organisation deems organisational governance to be, especially if the organisation reports on their governance efforts based on the organisational governance maturity framework. Furthermore, the study will make a valuable contribution as it builds on the current body of knowledge that is available in respect of organisational governance maturity frameworks. The study could benefit the IIA in providing relevant information on the role of internal auditing in organisational governance. This information could be used by the IIA to develop guidance for distribution to its members. In addition, the Institute of Directors (IoD) could also incorporate the framework as an annexure to be read and applied with King III.

One of the key benefits of the framework described in the study is that it is not merely a 'compliance check-list' in respect of the elements required to be present within organisational governance. The aim of this research study was to develop a framework that will add on-going value and provide more insight as to the effectiveness of the elements present within an organisation's governance structures.

1.9   LIMITATIONS AND ASSUMPTIONS

The assumptions on which this study and the framework are based are as follows:

- The extent to which the framework will be applied (and is appropriate) depends on the size, nature and complexity of each organisation. The more complex the nature of the organisation's business and the bigger the size of the organisation in respect of its income and expenditures, the more likely the organisation is to benefit from implementing more of the elements within the framework. In this situation fewer elements of the framework would need to be adapted to the specifics of the company. For a smaller and less complex organisation the framework might have to be adapted more extensively. A smaller and less complex organisation might not have the need for the robust governance structures that are required for bigger organisations. It is recognised that a 'one-size-fits-all' framework would be very difficult to establish.
- Effectiveness, for purposes of this framework, refers to the actions, decisions and deliberations in support of the achievement of organisational objectives. In other words, the more effective a function or activity appears to be the greater the rating of maturity of that function or activity would be within the organisational governance maturity framework.
- The specific indicators, scores or outcomes (both quantitative and qualitative) needed to determine the different modes and levels of governance maturity are not explicitly described in this study but are an area for future research. Since the focus of this study is to develop a framework

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and not a model (as discussed in detail in section 1.1 on p.1), there is no need for specific indicators, scores or outcomes at this point.

- The selected organisation that was used to refine the preliminary framework for the empirical study needed to be fairly mature in respect of organisational governance, as this provided more credibility to the input into the framework as it was being developed.

In addition to the abovementioned assumptions, this study has the following limitations:

- Only a governance maturity framework is being developed and not a model (refer to section 1.1 on p.1).
- The study only focuses on the private sector within South Africa and therefore the preliminary framework being developed will be appropriate for this context (refer to section 1.7.1 on p.32).
- In developing the preliminary framework for assessing the level of organisational governance maturity (refer to section 4.3 on p.130 for a detailed discussion), only those frameworks/models will be used that relate to the concept of organisational governance. (Refer to table 4.3 on p.138 for a summary and detailed discussion justifying reasons for and the extent to which the relevant maturity frameworks/models and other tools will be used.)

1.10 LAYOUT OF THE STUDY

The study consists of six chapters, which are briefly outlined below.

Chapter 1 – Introduction and background to the study
The first chapter provides an introduction to and overview of the study. It investigates relevant background information by means of elaborating on the literature available. This leads to statements of the research problem, where-after research objectives are formulated in order to address the problem and

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questions. This is followed by a brief discussion of the research methodology, design and data-gathering methods that need to be followed.

Chapter 2 – Organisational governance

In this chapter the broad concept of organisational governance is elaborated on. The following aspects are dealt with:

- Achieving a common definition;

- Approaches to organisational governance;

- Codes and legislation;

- Theories underlying organisational governance; and

- Role-players.

The increased importance of organisational governance as well as developments and changes in this field are explored and discussed.

Chapter 3 – The role of internal auditing in organisational governance

In Chapter 3 the evolving role of internal auditing is explored, especially in respect of governance. One of the key aspects of this revised role of internal auditing is the nature and extent of services that are rendered in respect of organisational governance. The two capacities in which internal auditing are involved in organisational governance are investigated. The value of an organisational governance maturity framework to internal auditing is highlighted, emphasising how this framework can assist internal auditing in determining what their role should be regarding governance-related issues.

Chapter 4 – Organisational governance maturity framework

This chapter elaborates on the concept of organisational governance maturity, the development of maturity frameworks/models in general, and various governance-related maturity frameworks/models relevant to this study. These governance-related maturity frameworks/models are compared and analysed to determine their relevance for inclusion in the proposed organisational governance maturity framework. Three specific aspects were considered in the development of the framework. These are: the elements present in an ideal measurement tool; comparison of governance-related maturity frameworks/models, from which the

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third aspect emerges – the establishment of a list of essential attributes and criteria for inclusion in the framework. The benefits of such a framework to the organisation are also highlighted and discussed.

Chapter 5 – Research findings of the empirical study: refining the organisational governance maturity framework

In this chapter, the results of the empirical study performed are provided and discussed. The preliminary organisational governance maturity framework developed from the literature is used as the basis for discussion, and a semi-structured questionnaire is used when conducting the interviews with key stakeholders from the selected organisation. The stakeholders' inputs are used to refine and finalise the framework.

Chapter 6 – Conclusions and recommendations

Based on the findings in Chapter 5 conclusions are reached and recommendations are provided on the use of the organisational governance maturity framework that has been developed. Areas for further research are identified and a final conclusion is drawn from the accumulated data and discussion.

1.11   CONCLUSION

The literature supporting the need for this study has been introduced under three broad headings: organisational governance; the role of internal auditing in organisational governance; and maturity frameworks/models in general and in respect of governance. These three broad concepts are summarised in the next three paragraphs.

The concept of organisational governance seems very broad and includes an array of important aspects. The development and importance of organisational governance has seen tremendous growth over the past few decades. This, in turn, has resulted in the development and issuance of more guidance in the form

of codes (principles-based approach) and legislation (rules-based approach). Corporate scandals have also contributed to the development of more guidance documents in the field of governance. The increased awareness of the importance of organisational governance has resulted in organisations reaching varying levels of organisational governance maturity. To adequately determine the level of organisational governance maturity an organisational governance maturity framework could be used. Such a framework could be beneficial to internal auditing when determining which type of internal audit services to provide, in respect of organisational governance, as this is one of the two roles internal auditing can fulfil.

The evolving role of internal auditing includes an important focus on organisational governance, which is supported by formal and informal guidance issued by the IIA. Two basic roles have been identified by internal auditing with regard to organisational governance. The first role sees internal auditing as part of organisational governance. This relates to internal auditing being a cornerstone of sound governance principles. The second role entails providing internal audit services in respect of organisational governance. In this instance two types of services can be rendered, being either assurance or consulting services. In deciding which services to render, internal auditing needs to determine the level of organisational governance maturity within the organisation. The organisational governance maturity framework can be used to determine the level of maturity.

Various governance-related maturity frameworks/models have been identified and will be scrutinised in later chapters to determine their relevance to the development of an organisational governance maturity framework. For the purpose of this study, only a framework will be developed, and not a model. Various existing frameworks/models will, however, be used to arrive at a best-practice framework. Such a framework could provide guidance to assist organisations to progress to their desired maturity levels. Various assurance providers will also benefit from such a framework as the services they provide

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could be more accurately identified and thus rendered in an effective and efficient manner.

The above discussion enabled the problem statement to be presented, and this was followed by the research problem and the research objectives. The research paradigm, research methodology, and research design (literature review and case study) were discussed next. The broad research plan that was followed was then documented, after which a brief overview of the research method used to collect and analyse data was provided. Finally, the importance and benefits of the study, its limitations and assumptions, as well as the layout of the study were presented. In the next chapter the first broad concept, namely organisational governance, is explored.

CHAPTER 2

ORGANISATIONAL GOVERNANCE

2.1   INTRODUCTION

Organisational governance is a concept which has been much debated and researched over the past few decades. The increased attention which it received can mainly be attributed to the developments in the business environment during recent years, the most important aspect being various corporate scandals that occurred (IFAC 2004:9; Yuksel 2008:101; Bahrman 2011(a):1-3). On the one hand, various studies support this growing importance by indicating that a strong and positive correlation exists between governance and an organisation's valuation (Rose 2003:17; Core, Guay & Rusticus 2006:655-687; Bebchuk, Cohen & Ferrel 2009:783-827; Amman, Oesch & Schmid 2010:36-55). To this extent the study conducted by Amman et al. (2010:36-55) investigates the relationship between governance and firm valuation by surveying over 2 300 companies in 22 developed countries over a five-year period (2003-2007). The study concludes that sound governance practices may result in higher market values and shareholders ultimately being prepared to pay more for the shares in an organisation which appears to be well-governed. On the other hand, some studies (IFAC 2004:5; Alexakis et al. 2006:682; Aluchna 2009:195) indicate that the implementation of sound governance principles does not necessarily encourage investors to invest in an organisation.

As organisational governance is such a broad concept, and because it can be interpreted in diverse ways by various parties, it needs to be properly defined in order to examine it in a meaningful way. Many authors have tried to explain this rather complicated concept. In short, organisational governance is the process of ensuring that an organisation is well-managed in accordance with a predetermined, credible set of sound governance principles (Cadbury 1992; IoD 1994:1; IoD 2002:19; OECD 2004:11; Solomon 2007:14; IoD 2009:20). Other factors which also play a role in exploring the concept of organisational

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governance are the approaches followed (principles-based or rules-based) resulting in certain codes and legislation being complied with, theories being developed as well as key role-players influencing the governance structures, systems and processes by the roles they fulfil.

Developments in the field of organisational governance contributed to the increased importance. Firstly, various prominent authors and internationally recognised institutions' guidance documents elaborated on the growing importance of this concept (Cadbury 1992; Friedman 1993; Shleifer & Vishny cited in Vives 2000; Hermanson & Rittenberg 2003; IFAC 2004; FRC 2005; IIA 2006; Lipman & Lipman 2006; West 2006; Solomon 2007; Monks & Minow 2008; IoD 2009; Rossouw & Van Vuuren 2010). Secondly, the occurrence of corporate scandals played an important role, not only in the development of organisational governance in general, but also in respect of the development of guidance in terms of codes and legislation (IFAC 2004:9; Yuksel 2008:101; Bahrman 2011(a):1-3; ECGI n.d.). Finally, other motivating factors (Markham 2006:547; Solomon 2007:109-116; Bahrman 2011(a):1-3) include the continuing global financial crisis, a general lack of confidence in leadership of the organisation, stakeholders demanding more information and transparency as well as the change in investors' requirements.

In this chapter, organisational governance is explored in a very broad sense, as the purpose of this chapter is only to provide an introductory overview of this complicated concept. Thereafter, the importance of organisational governance, and on-going developments and challenges in respect of organisational governance is discussed. Finally, the chapter concludes with a summary of the aspects that are relevant to this particular study.

2.2   ORGANISATIONAL GOVERNANCE

In this section the broad concept of organisational governance is introduced by examining various definitions of organisational governance. Thereafter the two

approaches to organisational governance (rules- or principles-based) are explored, the leading codes and legislation are examined, the relevant theories underlying organisational governance are discussed, and the importance of the roles played by certain key role-players is highlighted.

As was indicated in section 1.2.1 on p.5 in more detail, before organisational governance can be defined it is necessary to acknowledge the fact that organisational governance as a concept is referred to by a variety of other terms and phrases. It was decided that the term organisational governance or governance would be most appropriate for the purposes of this study.

2.2.1 Developing a common definition

To define the concept of organisational governance succinctly seems to be a complicated task. A search of the most relevant literature reveals almost as many definitions as there were authors consulted (Cadbury 1992; IoD 1994:1; IoD 2002:19; OECD 2004:11; Solomon 2007:14; IoD 2009:20). However, from these seemingly unique definitions two broad trends can be identified. Trend one covers definitions with a very narrow, specific focus on the organisations and their relationship with and responsibility toward their shareholders. Trend two comprises broader definitions which expand the accountability of these organisations to include their other stakeholders.

The narrow perspective on organisational governance (also referred to as the exclusive approach) implies that the focus is only on organisations' relationships with and responsibility toward their shareholders (Friedman 1993:162; Solomon 2007:1). This perspective is supported by various studies and researchers acknowledging that the only two relevant parties to which organisational governance relates are management and the shareholders. Furthermore, the relationship between these two parties is purely financial in nature: in other words, the main objective of the organisation is to maximise profits (Friedman

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1993:162; Shleifer & Vishny cited in Vives 2000:1; Parkinson cited in Solomon 2007:13).

The broader perspective on organisational governance (also referred to as the inclusive approach) also has an array of variant definitions. This broader perspective maintains that a relationship does not exist merely between the management of an organisation and its shareholders, but adds other stakeholders such as employees, customers and suppliers, to the mix, whose best interests should also be considered and by whom the organisation should also be held accountable (Freeman & Evan 1993:76; Solomon 2007:12; IoD 2009:5-18).

Applying the aforementioned broad concepts, the following definitions and descriptions address and explain the most widely recognised components of the concept of organisational governance. The list is in chronological order starting with the most recent publication date, and shows amongst other things, the development of the concept over time:

> "… the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations." (ASX Corporate Governance Council 2010:3)

> "… the set of responsibilities and practices exercised by the board and executive management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that the organisation's resources are used responsibly." (IFAC 2009:6)

> "… governance is essentially about effective, responsible leadership. Responsible leadership is characterised by the ethical values of responsibility, accountability, fairness and transparency." (IoD 2009:20)

"… the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity." (Solomon 2007:14)

"Corporate 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." (OECD 2004:11)

"Corporate governance is essentially about leadership." (IoD 2002:19)

"Corporate governance is the system by which companies are directed and controlled." (Cadbury 1992:par.2.5)

The latter definition is also recognised by the first King Report on Corporate Governance (IoD 1994:1) and the United Kingdom (UK) Corporate Governance Code (FRC 2010:1).

From the abovementioned it appears that while some definitions are more comprehensive than others, they all address the following important issues:

- Organisational governance has two important dimensions, namely conformance (compliance) and performance (strategy and value creation).
- These two dimensions need to be balanced in an organisation to ensure effective organisational governance.
- Effective responsible leadership is key in directing an organisation, which implies that the board and senior management have important responsibilities to ensure the effective implementation of organisational governance.

- The broader approach to organisational governance comes to the fore as the ethical values of responsibility, accountability, fairness and transparency underpin leadership and ultimately form the basis for sound organisational governance.

- Organisational governance focuses on much more than the financial aspects of an organisation.

- Organisational governance recognises the importance of the organisation's relationship with all its stakeholders. For an organisation to merely have a relationship with its shareholders is not adequate.

Hence, for the purpose of this study, organisational governance will be defined as the system by which companies are directed and controlled, specifically taking into account the four principles of good governance (responsibility, accountability, fairness and transparency) in dealings with all stakeholders.

2.2.2 Approaches to organisational governance

Apart from the numerous definitions available for organisational governance, the debate as to which approach to organisational governance is the best, rules-based or principles-based, has been argued for many years and the arguments will most probably continue for many years to come (Jackson 2004:58). Under a rules-based regime organisations are encouraged to comply with a specific set of rules, basically a checklist of what to do and what not to do. In contrast, the principles-based approach focuses mainly on the end-result and doing the 'right thing' or what is best for the organisation. There are various arguments for and against both approaches, as acknowledged by certain governance experts and institutional guidance documents (Barrier 2003:71-73; Jackson 2004:58; Simpson 2005:xvi; Deloitte 2009; IoD 2009:7). Table 2.1 presents an overview of the arguments for and against both approaches.

Table 2.1: Arguments for and against the rules-based and principles-based approaches

Rules-based organisational governance		Principles-based organisational governance	
Arguments for	**Arguments against**	**Arguments for**	**Arguments against**
Organisations' results and information is more comparable and standardised, giving confidence to stakeholders.	Rules are easier to circumvent.	Seen as qualitative governance which implies that more value is added to the business.	A lack of standardisation may result in information being presented in various formats not understandable to all stakeholders.
Rules-based regimes works best in areas which are regulated, complex and where public interest is high.	In order to ensure compliance, audit departments can be forced to perform activities that do not add value.	Organisations may present data and information as they see fit.	This approach may be confusing at first, leaving compliance thereto open to interpretation.
	Too many rules may become confusing.	Principles-based regimes works best in areas which are seen as flexible, less complex and where public interest is low.	
	Entrepreneurship could be inhibited/restricted.	Could, if properly managed, result in good returns for organisations.	
	Organisations can become overly risk- and governance-averse.	Promotes openness and transparency in decision-making processes.	
	Organisations follow rules without understanding why these rules exist or the underlying principles.	Organisations understand the environment they operate in better and have a clear picture of what is 'right' and 'wrong'.	

Source: Barrier (2003:68-73); Jackson (2004:57-61); Simpson (2005:xvi); Deloitte (2009); IoD (2009:7).

Although admirable steps have been taken over the last few years to improve organisational governance, the above information highlights areas of concern about both approaches. These are briefly elaborated on next.

The rules-based approach may provide more confidence to stakeholders, but at what cost? Following a rules-based approach may force an organisation to apply

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certain governance rules without necessarily understanding the intention of the rule and, more importantly, the underlying principle or 'spirit' in which the rule should be applied (Baker 2004:15-17; Waring 2006:35-37). This implies that although organisations may have rules that are clear and not open to any interpretation that may cause confusion for role-players, such as the board, management and employees, who are required to apply these rules on a daily basis, the embedding of governance within the organisation might result in the risk of becoming a 'tick-box' exercise.

Although applying a principles-based approach implies that more value is added to the business, the application of this approach is more open to the individual interpretation of the various role-players (Barrier 2003:68-73; Jackson 2004:57-61). This could pose a risk for the organisation as different individuals may interpret a specific principle differently, and as a consequence there may not be organisation-wide consistency in the application of the relevant principle. The flexibility under which an organisation operates may also lead to the misuse of the freedom granted by the principles-based approach. This is illustrated by the Parmalat scandal where management was of the opinion that the internal control system in the organisation was adequate and effective, and that an internal audit activity was therefore not necessary (Sverige 2004). Under the principles-based approach, management only had to explain and justify why they do not need an internal audit activity. As mentioned in table 2.1, the principles-based approach may have numerous benefits for an organisation, but only if properly managed. Once again, the effectiveness of organisational governance, using a principles-based approach, is dependent on the 'spirit' with which governance is applied and interpreted by the various role-players. The ethical values and principles of fairness, transparency, responsibility and accountability promoted by King III (IoD 2009:21) play an important role when applying the principles-based approach, and the various role-players should have a clear understanding of what these principles require of them and how to effectively apply them.

In deciding which approach to follow, organisations may weigh the arguments depicted in table 2.1 and analyse the advantages and disadvantages of each

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approach for their organisation. Another factor which also influences which approach to use is determined by the country in which an organisation operates. The United States of America (USA) follows a rules-based approach, given the fact that legislation such as the Sarbanes-Oxley Act (SOX) (USA – 2002) drives governance within these organisations. In addition, there is the Dodd-Frank Act (USA – 2010) which was approved by Senate and signed by President Obama during 2010. This Act was drafted to regulate the USA financial services industry. The main purpose of this Act is to promote financial stability and to enhance accountability and transparency in the financial system. In contrast the private sector in the UK, Europe and South Africa lean more towards a principles-based approach and therefore embrace the concept of 'apply or explain' (Barrier 2003:68-73; Jackson 2004:57-61; Green & Gregory 2005:50-54; IoD 2009:7). To this extent, King III clearly states that all decisions should be based on the four principles (fairness, transparency, responsibility and accountability) underpinning good governance (IoD 2009:20). The Organisation for Economic Co-operation and Development (OECD) recognises these four principles in their 2004 publication, and after extensive consultations with various relevant interest groups within the organisational governance field, it was conclusively argued that irrespective of different structures, traditions, cultures and legal frameworks, an effective organisational governance framework had to incorporate these four principles (OECD 2004:1-66; Simpson 2005:xi-xx; Luo 2007:244-252; Solomon 2007:335-337; Monks & Minow 2008:351-410).

From the abovementioned discussions it is clear that each approach has various advantages and disadvantages, but an important aspect emphasised by Sir Adrian Cadbury (cited in Jackson 2004:59) is that the focus should not necessarily be on the approach chosen for organisational governance, but rather its quality. In other words, the question is not what approach to organisational governance an organisation follows, but rather the manner and effectiveness in which these guidelines are implemented. At all times substance should take precedence over form (Jackson 2004:60). Some literature (Barrier 2003:68-73; Baker 2004:15-17; Jackson 2004:57-61; Simpson 2005:xvi; Waring 2006:35-37) furthermore indicates that a combination of both approaches may be most

beneficial to some organisations, as a 'one-size-fits-all' solution is difficult to find. This is the case, especially in instances where organisations in South Africa have to conduct business with organisations in the USA. South African organisations are more likely to follow a principles-based approach, as required by King III, whilst organisations in the USA tend to follow a more rules-based approach, as required by SOX (Barrier 2003:73; Baker 2004:15-17; Jackson 2004:59; Waring 2006:35-37). The approach followed by an organisation furthermore plays an important role in defining the relevant code(s) and/or legislation (which are discussed next) which the organisation will comply with.

2.2.3 Governance codes and legislation

Numerous governance codes have been developed globally over the past few decades in pursuit of flawless organisational governance. The development of legislation has, however, not been as successful. The European Corporate Governance Institute (ECGI) lists codes adopted globally, and updates this list regularly (ECGI n.d.). A brief overview of the codes listed by the ECGI reveals that as on 22 May 2014, there were over 100 countries and six *ad hoc* bodies that developed more than 140 codes in the past seven years (from 2008). This confirms that the world of organisational governance is constantly changing and that organisations cannot afford to lag behind: pro-active development of responses to the deluge of codes and legislation in respect of organisational governance is a constant process. In sections 2.2.3.1 and 2.2.3.2 governance codes and other guidance is examined, and in section 2.2.3.3 a brief overview of the limited legislation is provided.

2.2.3.1 Codes

Most countries have some type of formal organisational governance code (contained either in legislation or under the auspices of professional bodies) and this appears to be the preferred type of guidance for organisational governance (Coetzee 2010:90; ECGI n.d.). As mentioned above there are many

organisational governance codes in existence and being developed throughout the world, but since the aim of this study is to develop a framework that can be used for assessing the level of organisational governance maturity within South African private sector organisations, only codes directly impacting South Africa's private sector will be examined. King III (IoD 2009), the organisational governance code used in South Africa, will be used as the point of departure for the development of the framework and, as a result, this code needs to be studied and used as a basis for comparison with selected international codes. Another aspect which supports the importance of King III is that all companies listed on the Johannesburg Stock Exchange Limited (JSE Ltd.) are now required to comply with King III (JSE 2013(b)). Two other codes that are internationally recognised as definitive and pivotal in the development of organisational governance (Marks 2010; Marks 2012(a); ECGI n.d.), and therefore relevant to this study, are the UK Corporate Governance Code (FRC 2010), revised in 2010 by the Financial Reporting Council (FRC), and the Australian Corporate Governance Principles and Recommendations, revised in 2010 by the Australian Securities Exchange (ASX) Corporate Governance Council (ASX Corporate Governance Council 2010). Another important concept to recognise is that King III, as well as both of these codes, follows the principles-based approach to organisational governance, which is a key element in this study's development of the organisational governance maturity framework.

The UK Corporate Governance Code and the Australian Corporate Governance Principles and Recommendations were compared in broad terms to King III. The objective was to determine whether the main areas addressed in King III is covered in sufficient detail by the other two codes, as well as attempting to identify any areas that King III does not deal with, but which the other two codes do address. It is believed that the results of this comparison will be helpful in identifying some of the important areas to be included in the development of the organisational governance maturity framework (refer to section 4.3 on p.130). The results are summarised in table 2.2. The chapters in King III were used to determine the relevant areas which should be considered, and was used in table 2.2 as a benchmark against which to compare the UK and Australian codes. Note

that only the governance elements were used in this comparison, and not all the principles as their comprehensiveness would have made this study excessively cumbersome.

Table 2.2: Comparison of King III, UK code and Australian code

Relevant area	King III (governance element) (IoD 2009)	UK code (FRC 2010)	Australian code (ASX Corporate Governance Council 2010)
Ethical leadership and corporate citizenship	• Responsible leadership	• Covered in code.	• Covered in code.
	• Board's responsibilities	• Covered in code.	• Covered in code.
	• Ethical foundation	• Not covered in code.	• Covered to a limited extent.
Boards and directors	• Role and function of the board	• Covered in code.	• Covered in code.
	• Composition of the board	• Covered in code.	• Covered in code.
	• Board appointment process	• Covered in code.	• Covered in code.
	• Director development	• Covered in code.	• Not covered in code.
	• Company secretary responsibilities	• Not covered in code.	• Not covered in code.
	• Performance assessment	• Covered in code.	• Covered in code.
	• Board committees	• Covered in code.	• Covered in code.
	• Group boards	• Not covered in code.	• Not covered in code.
	• Remuneration of directors and senior executives	• Covered in code.	• Covered in code.
Audit Committees	• Membership and resources	• Covered in code.	• Covered in code.
	• Responsibilities	• Covered in code.	• Covered in code.
	• Internal assurance providers	• Covered to a limited extent.	• Covered to a limited extent.
	• External assurance providers	• Covered to a limited extent.	• Covered to a limited extent.
	• Reporting	• Covered in code.	• Covered in code.
The governance of risk	• Responsibility of the board	• Covered to a limited extent.	• Covered to a limited extent.

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Relevant area	King III (governance element) (IoD 2009)	UK code (FRC 2010)	Australian code (ASX Corporate Governance Council 2010)
	• Responsibility of management	• Covered to a limited extent.	• Covered to a limited extent.
	• Risk assessment	• Not covered in code.	• Not covered in code.
	• Risk response	• Not covered in code.	• Not covered in code.
	• Risk monitoring	• Not covered in code.	• Not covered in code.
	• Risk assurance	• Not covered in code.	• Not covered in code.
	• Risk disclosure	• Covered to a limited extent.	• Covered to a limited extent.
The governance of information technology (IT)	• Principles listed, not governance elements.	• Not covered in code.	• Not covered in code.
Compliance with laws, codes, rules and standards	• Principles listed, not governance elements.	• Not covered in code.	• Not covered in code.
Internal Audit	• Need for and role of internal audit	• Covered to a limited extent.	• Covered to a limited extent.
	• Approach and plan	• Not covered in code.	• Not covered in code.
	• Dispute resolution	• Not covered in code.	• Not covered in code.
	• Status in the company	• Not covered in code.	• Not covered in code.
Governing stakeholder relationships	• Principles listed, not governance elements.	• Covered to a limited extent (mentions shareholders).	• Covered to a limited extent (mentions shareholders).
Integrated reporting and disclosure	• Transparency and accountability	• Covered to a limited extent (only mentions annual report).	• Covered to a limited extent (only mentions annual report).

Source: Refer to the individual columns of the table.

It is clear from table 2.2 that King III seems to be the most comprehensive organisational governance code of the three documents. It also appears that the UK code and the Australian code do not have any other additional elements than the elements specified in broad by King III. According to Norman Marks (2010), vice-president of Systems Applications and Products in data processing (SAP) and well-known governance expert, King III is currently one of the leading and most comprehensive organisational governance codes in the world. The decision to use King III as the point of departure in developing the organisational

governance framework would then seem to be appropriate given the fact that the aim of this study is to develop a 'best-practice' governance maturity framework for the private sector in South Africa. However, a factor to consider is whether such a comprehensive code is really necessary for all types of organisations and whether it adds value to the effective implementation of governance principles within an organisation. A code that is comprehensive does not necessarily imply that the most relevant areas are dealt with in an effective or efficient manner, and the application of such a code may become an administrative nightmare and a costly exercise for an organisation. These are all aspects which will be considered when developing the organisational governance maturity framework in section 4.3 on p.130.

The UK Corporate Governance Code was revised during 2010, mainly in response to the financial crisis of 2008/2009, a crisis which required many countries and organisations to re-appraise their current governance codes and systems. Two key conclusions reached by the FRC in reviewing the code were that more attention needs to be given to following the 'spirit' of the code, and that interaction between the shareholders and boards of organisations needs to be enhanced (FRC 2010:2). As a result the main principles of the code, which are leadership, effectiveness, accountability, remuneration and relations with shareholders, were amended to ensure that the expanded roles of boards are adequately dealt with (FRC 2010:2-7). As illustrated in table 2.2, various other areas did not receive as much attention: for example, the governance of risk, IT, internal auditing, stakeholder relationships, integrated reporting and compliance with laws, codes, rules and standards remained unchanged or unaddressed. The governance of risk and internal auditing are dealt with under the accountability principle, but the UK code merely states that such structures should be in place and does not elaborate any further, in striking contrast to King III. The governance of IT and compliance with laws, codes, rules and standards are not dealt with at all. Stakeholder relationships are briefly dealt with but only to emphasise the relationship between the organisation and its shareholders, and not to specifically identify any other stakeholders. Integrated reporting is dealt with, to a limited extent, as only the annual report is elaborated on. The

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importance of drafting an integrated report, focussing on areas of sustainability is not dealt with at all (FRC 2010:9-37).

The Australian Corporate Governance Principles and Recommendations as revised during 2010 seem to be more comprehensive than the UK Corporate Governance Code and therefore more in line with King III. The Australian code consists of eight principles and a number of recommendations for the implementation of each. According to Norman Marks (2012(a)), this revised code includes information that is very useful to any individual attempting to understand and improve organisational governance structures. However, as with the UK Corporate Governance Code, the governance of risk, IT, internal auditing, stakeholder relationships, integrated reporting and compliance with laws, codes, rules and standards does not receive much attention. The governance of risk and internal audit is dealt with under principle 7 (recognise and manage risk), but the code merely states that companies should create sound systems of risk management and internal control by establishing an internal audit activity and a risk committee, but unlike King III, it does not elaborate any further as to what is expected from risk management and internal auditing. The governance of IT and compliance with laws, codes, rules and standards is not dealt with at all. Stakeholder relationships are briefly dealt with but this code mostly emphasises the relationship between the organisation and its shareholders, whilst mentioning only briefly other stakeholders. Similar to the UK Corporate Governance Code, integrated reporting is dealt with, to a limited extent, as a sub-section of the discussion of the annual report. The importance of drafting an integrated report, focussing on areas of sustainability is not dealt with at all (ASX Corporate Governance Council 2010:1-41).

2.2.3.2   Other relevant guidance

Apart from the codes, other guidance documents are also used when it comes to implementing effective organisational governance. These include the Treadway Commission's Committee of Sponsoring Organisations (COSO) internal control –

integrated framework (1992; 2013), the Commonwealth Association for Corporate Governance (CACG) guidelines (1999), the OECD Principles of Corporate Governance (2004), the COSO enterprise risk management – integrated framework (2004) as well as the Control Objectives for Information Technology (COBIT) framework (ISACA 2012) on IT governance, to mention a few. As the aim of this chapter is only to introduce the concept of organisational governance in a broad sense it was decided that the OECD and CACG principles were sufficiently representative of the category of 'other' guidance, as these documents are global in nature and focus specifically on the broad concept of organisational governance (Coetzee 2010:164). They are briefly discussed in this section.

- **OECD principles**

The OECD Principles of Corporate Governance (2004) were initially developed by the OECD ministers in 1999 and revised by a steering group in 2004. This international organisation of 30 countries recognises the fact that an adequate system of organisational governance provides financial market stability, increased investment and economic growth (OECD 2004:3). This document is seen as an international benchmark by various governance role-players and has been applied internationally by many countries and organisations. Aspects covered are as follows: ensuring the basis for an effective corporate governance framework; the rights of shareholders and key ownership functions; the equitable treatment of shareholders; the role of stakeholders in corporate governance; disclosure and transparency; and the responsibilities of the board.

- **CACG principles**

The CACG was established in April 1998 with the aim of promoting effective and efficient organisational governance in the commonwealth, of which South Africa is a member country. The CACG guidelines (1999) consist of 15 principles derived from various organisational governance codes and other guidelines, and deals with various organisational governance topics. The topics covered are as

follows: leadership; board appointments; strategy and values; company performance; compliance; communication; accountability to shareholders; relationships with stakeholders; balance of powers; internal procedures; board performance assessment; management appointments and development; technology; risk management; and annual review of future solvency (CACG 1999:7).

2.2.3.3   Legislation

As mentioned previously, the development of legislation relevant to organisational governance for the private sector has not received as much attention. This may be attributed to the fact that legislation supports a rules-based approach to organisational governance and, therefore, may be an approach which is not as flexible and therefore not as attractive to private sector organisations as the principles-based approach (as mentioned in section 2.2.2 on p.47).

The development of legislation that has had a global impact on the field of organisational governance is the Sarbanes-Oxley Act of 2002 (USA – 2002). As mentioned in section 2.2.2 on p.47, the USA Congress wanted to limit the reckless and negligent way in which some organisations were managed and controlled, usually at the expense of stakeholders, and with this in mind SOX was promulgated. As this legislation's provisions took precedence over all other organisational governance codes and protocols, SOX was not received well by organisations which were now compelled to implement this Act (Wagner & Dittmar 2006:1-2; Coates 2007:91-92). However, during later years the benefits of this Act as a mechanism to improve the overall governance framework within an organisation became clearer. Some of the common benefits experienced across a wide cross-section of industries and organisations include (Wagner & Dittmar 2006:1-2; Coates 2007:91-92):

- Strengthening the control environment – a strong control environment is a key indicator of an adequate organisational governance framework.

- Improving documentation – especially with the attestation that needs to take place in terms of sections 302 and 404 concerning internal control.

- Increasing audit committee involvement – an effective audit committee is one of the important governance structures within an organisation.

- Standardising processes – by means of the uniform application of SOX rules.

- Reducing complexity – also by means of the uniform application of SOX rules.

As mentioned in section 2.2.2 on p.47, the Dodd-Frank Act (USA – 2010) was also legislated mainly in reaction to the financial crisis of 2008/9. This Act regulates the financial services industry in the USA and aims to restore public confidence in the financial system. Its further objective is to prevent another financial crisis from occurring, or at least to put in place mechanisms that would improve preparedness if a further crisis should occur (Skadden, Arps, Slate, Meagher & Flom LLP & Affiliates 2010).

In South Africa, recent legislation relevant to the field of organisational governance has taken the form of the Public Finance Management Act (PFMA) (SA – No 1 of 1999 as amended by Act No 29 of 1999), the Municipal Finance Management Act (MFMA) (SA – No 56 of 2003) and the Companies Act (SA – No 71 of 2008), covering both private and public sectors of the economy. Given the fact that this study only focuses on the private sector the PFMA and MFMA will not be discussed any further. In respect of legislation impacting on the private sector, the Companies Act does provide guidance on organisational governance. Chapter 2 part F sections 57-78 of the Companies Act deals with the governance of companies. These sections discuss, amongst others, governance arrangements impacting shareholders and shareholder meetings, boards and directors, board committees, board meetings and various other pertinent issues. In addition, Chapter 3 part D section 94 discusses audit committees and requires

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that all companies should appoint audit committees – an important governance structure within an organisation.

From the abovementioned it is clear that promulgating legislation as a form of guidance for implementation of organisational governance has some benefits. However, legislation may still be perceived as too prescriptive, costly and rigid (as mentioned in table 2.1 on p.48) to effectively implement governance in all forms of organisations.

2.2.4 Theories underlying organisational governance

Various sources of literature record the evolution of theories underlying organisational governance (Turnbull 1997:180-205; Solomon 2007:16-30; Letza, Kirkbride, Sun & Smallman 2008:17-32; Abdullah & Valentine 2009:88-96). This state of perpetual evolution can be attributed to the fact that organisational governance in the private sector is part of the search for competitive advantage over industry peers. These practical solutions and their underlying theories are the point of departure for developing relevant organisational governance frameworks, and they furthermore assist in explaining and analysing the concept of organisational governance. From the literature mentioned above the four fundamental theories identified are the following:

- Agency theory.
- Transaction cost theory.
- Stakeholder theory.
- Stewardship theory.

These theories, as well as whether they are in support of the practice of sound organisational governance or not, are briefly discussed next.

- Agency theory

As recognised and further developed by Jensen & Meckling (1976:305-360), the agency theory, also known as the shareholder theory, describes the relationship between the principals or the shareholders and the agents or management of an organisation. To this extent the shareholders, now effectively removed from the day-to-day management of the organisation, expect management to manage the business and to make decisions which are in the shareholders' best interests. In other words, the main purpose of this theory is to align the goals and objectives of management with those of the shareholders (Solomon 2007:16-30; Abdullah & Valentine 2009:89-90). This is an important aspect when an organisation wants to implement adequate governance practices. However, the separation of ownership and control may be a hindrance and prevent an organisation from practising sound governance, as the theory leans towards a very individualistic approach which, in turn, creates the risk that parties may succumb to decision-making based purely on self-interest. Another limitation may be that the only relationship which is focused on when using this theory is that between the shareholders and management, and any relationships with other stakeholders are not recognised.

- Transaction cost theory

Described in more theoretical detail by Williamson (1996), the transaction cost theory is inter-disciplinary and acknowledges that the organisation is comprised of individuals with different views and objectives. This theory further suggests that managers are opportunists and may manipulate transactions to further their own personal interests. Clearly, this concept does not support the practice of sound organisational governance. The principles and ethical values of fairness, transparency, accountability and responsibility as recognised by King III (IoD 2009:21) would prove difficult to implement and uphold when using this theory. This may also be the reason why academic authors (Solomon 2007:16-30; Abdullah & Valentine 2009:89-90) do not elaborate much on this theory.

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- Stakeholder theory

The stakeholder theory seems to be the theory that is supported by most of the literature (Donaldson & Preston 1995:65-91; Turnbull 1997:180-205; Solomon 2007:16-30; Letza *et al.* 2008:17-32; Abdullah & Valentine 2009:88-96). Originally developed by Freeman (1984), the stakeholder theory stems from the fact that key organisations today are so large and complex and have such a significant impact on society, that it is necessary for the management of these organisations to be held accountable to more interest groups than solely their shareholders (Freeman 1984). King III furthermore recognises the importance of stakeholders by devoting a whole chapter to describing how this relationship can be effectively managed, since a stakeholder is seen as anyone that has a 'stake' in the business and can affect the organisation in some significant manner (Freeman & Evan 1993:76; Donaldson & Preston 1995:65-91; West 2006:433; Solomon 2007:23-26; IoD 2009:110-127). Unlike the agency theory, which only recognises the relationship between the shareholders and management, the stakeholder theory suggests that managers have a network of relationships to serve, such as suppliers, investors, customers, communities, trade associations, employees, government and political groups (Freeman & Evan 1993:76; Donaldson & Preston 1995: 65-91; Abdullah & Valentine 2009:88-96). The consideration of all relevant stakeholders' interests would seem to be in the best interests of the organisation which, in turn, assists in promoting sound organisational governance.

- Stewardship theory

The stewardship theory's essence is that stewards or managers of the organisation are required to protect and maximise the wealth of shareholders by taking ownership of the work that needs to be done and by performing their duties diligently (Solomon 2007:16-30; Abdullah & Valentine 2009:90). In other words, shareholders empower and trust their managers, who, in turn, are motivated when organisational success is attained, thereby protecting and

maximising shareholders' wealth. For these two parties to operate in such a manner to achieve a common goal, supports sound organisational governance and would certainly benefit any organisation.

Whilst both the stewardship and agency theories' main purpose is to align the goals of management and shareholders and to maximise shareholders' wealth, there is a slight difference in their respective approaches. In terms of the stewardship theory management is satisfied when organisational success is attained, thereby promoting coherent group dynamics within the organisation. In contrast, the agency theory promotes individualism and management of the organisation may be more inclined to act in terms of self-interest to attain the necessary results, which may not be in the best interest of the organisation.

Other theories do exist, but the theories elaborated on above were deemed to be most relevant for the purposes of this study, as this chapter only provides a broad introduction to the concept of organisational governance. The theories discussed above relate more directly to the overall management of the organisation in its efforts to ensure the implementation of adequate governance practices.

2.2.5 Role-players

Different parties play a role in organisational governance. Not only do these role-players have important responsibilities, but over the past few decades their roles have evolved to take into account the rapid changes within the organisational governance field. Only the most important role-players having a direct impact on the development of an organisational governance maturity framework are discussed next, along with the importance of their roles in organisational governance.

2.2.5.1   The board of directors

Leading guidance documents (OECD 2004; IoD 2009; ASX Corporate Governance Council 2010; FRC 2010) identify this role-player as the focal point of governance within an organisation.

According to Pangas (2007), organisational governance will only be successfully applied in an organisation if the board of directors is involved, and understands that as individuals and a collective they have the ultimate responsibility for the oversight of the organisation's affairs. This is supported by King III (IoD 2009:10-11,29) in that the board of directors is perceived to be the custodian of governance within the organisation and therefore should direct and control the affairs of the organisation in such a way that the success of the organisation is ensured. In other words, the role of the board of directors is of a pivotal, strategic nature, where strategy-setting, value creation and effective leadership based on ethical values are at the core of the responsibilities they enjoy. Although the board of directors, individually and collectively, has numerous responsibilities and roles to play in respect of organisational governance, some of the responsibilities are delegated either to senior management or to board committees. However, the accountability still remains with the board, which must ultimately report back to the various stakeholders. As a result, boards are becoming more assertive and require senior management to report to them before any action is taken on decisions that may affect the organisational governance structures, systems and processes (Adamec, Leinicke, Ostrosky & Rexroad 2005:42-45; Pangas 2007; Carcello 2009:11-18).

2.2.5.2   Management

As mentioned in section 2.2.5.1, responsibilities in respect of organisational governance are delegated by the board of directors to senior management (Adamec *et al.* 2005:42-45; Carcello 2009:11-18). There are some instances in which senior management has to provide the board of directors with assurance

on the implementation of suggested organisational governance practices, hence fulfilling the role of an assurance provider according to the combined assurance model suggested by King III (IoD 2009:62). The main difference between the roles of the board of directors and senior management is that whilst the board of directors is responsible for overall governance within an organisation, at a strategic level senior management performs a more operationally focused role (Pangas 2007; IoD 2009). In contrast to the board of directors, senior management's responsibilities mostly entail the implementation of board decisions, and day-to-day control and monitoring of activities relating to organisational governance. Senior management has to ensure that all relevant strategies, plans, *et cetera* are implemented and adhered to, and that compliance is verified and reported back to the board of directors and the stakeholders.

2.2.5.3   Assurance providers

The two key assurance providers in respect of organisational governance, and relevant to this study's objective of developing an organisational governance maturity framework, are internal auditing and external auditing.

- Internal auditing

Over the past few decades internal auditing's role in respect of organisational governance has come strongly to the fore, as numerous studies and other literature sources indicate (Hermanson & Rittenberg 2003:58; Leung, Cooper & Robertson 2003:1-124; Gramling, Maletta, Schneider & Church 2004:240; Sears 2005:8-11; Gramling & Hermanson 2006:37-39; IIA 2006:4-6; Allen 2008:1-4; Ernst & Young 2008:1-5; Güner 2008:21-33; IoD 2009:93-98; IIA 2010:15). Internal auditing's involvement in organisational governance is usually two-fold. In the first instance, internal auditing is seen as part of the organisational governance framework: this role relates to internal auditing being a cornerstone of sound governance principles. The second role relates to providing internal

audit services in respect of organisational governance. What these roles entail and the importance thereof is debated in the next chapter (section 3.3 on p.106).

- External auditing

Although not as important as internal auditing, given the context of this study, external auditing is one of the cornerstones of organisational governance and also has a role to play (Adamec *et al.* 2005:42-45; Carcello 2009:11-18). Being accountable to the shareholders, external auditing is required to audit the preparation and presentation of the financial statements and to render an audit opinion confirming that the financial statements fairly represent the financial affairs of the organisation (SAICA 2013/14:ISA200-2). The limitation of external auditing's role as a cornerstone of organisational governance is that its focus is primarily on performing financial audits, thereby providing financial assurance, whereas internal auditing focuses on a diversity of business and management issues within the organisation. In addition, external auditing may rely on the work of internal auditing as far as the assessment of the internal control environment is concerned (IIA 2010:8; SAICA 2013/2014:ISA610-4,5), which is one of the key aspects of organisational governance to be evaluated (COSO 2013).

2.2.5.4 Other role-players

Numerous other role-players and board committees can be identified within the broad concept of organisational governance. Shareholders and stakeholders such as customers, suppliers and employees all have some role to play within the parameters of organisational governance. Board committees such as the audit committee and risk committee, amongst others, also have an important interest in the governance of an organisation. As the aim of this study is to develop an organisational governance maturity framework for private sector organisations in South Africa, only the most relevant other role-players and board committees, which may have a direct impact on the development of the framework is discussed. King III's views are used as the point of departure in this discussion.

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- Audit committee

The audit committee's key role in respect of organisational governance is most accurately presented in King III (IoD 2009:55-71) as mainly to oversee the financial reporting process, the system of internal control, the audit process and compliance with laws and regulations. This is clearly an increased burden of responsibilities which requires individuals serving on the audit committee to be committed to ensuring that the organisation practices sound governance principles. The audit committee as role-player should furthermore ensure that adequate monitoring of and feedback on the relevant processes takes place in an effective and efficient manner as the audit committee ultimately needs to report back to the board of directors on the fulfilment of their responsibilities (Adamec *et al.* 2005:42-45; Marx 2008; Carcello 2009:11-18).

- Risk committee

The risk committee should evaluate the risk management policy and plan, as well as monitor the entire risk management strategy of the organisation. This includes, but is not limited to, reviewing the risk maturity of the organisation, the effectiveness of risk management activities, and identifying key risks and the responses to these risks (IoD 2009:75). It is clear from the aforementioned list of responsibilities that the risk committee should consist of members who are knowledgeable on the subject of risk and who will add value to the organisation's risk management strategy (Eggleston & Ware 2009:54-55). The importance of the risk committee's governance role has escalated over the past few years as boards demand risk advice from a competent risk committee to ensure any future opportunities and threats are properly managed (Bugalla, Kallman, Mandel & Narvaez 2012:6-10). As such, more and more organisations are realising the importance of establishing effective, independent risk committees and not necessarily transferring this responsibility to the audit committee anymore.

- Other board committees

The board can establish various committees to assist with its governance responsibilities. As it is the board's decision as to which committees should be appointed, not all organisations will have the same committees in place. In smaller organisations a need for the establishment of most of the committees seen in larger organisations may not exist or may not make sense from a practical perspective, as individual board members can fulfil these duties (Bahrman 2011(a):36). Apart from the audit committee and risk committee, the most common committees in place appear to be the remuneration committee and the nominations committee (IoD 2009:46; Bahrman 2011(a):39-40). Where the remuneration committee is generally concerned with monitoring the remuneration of the organisation's executives and senior management, the nominations committee monitors the appointment of board members. In South Arica, these two committees seem to play an important and prominent role as part of the governance structures (IoD 2009:46). It seems that organisations within the USA are gradually also becoming aware of the important roles that these two committees can play in promoting effective governance and as a result are beginning to establish such committees (Bahrman 2011(a):39).

As indicated by King III (IoD 2009:46) and Bahrman (2011(a):42-46), organisations are starting to establish various other committees in the pursuit of enhancing governance within the organisation: such committees cover IT steering, sustainability, disclosure, ethics/compliance, investment, strategic development and governance. The most common, however, still remain the audit committee and the risk committee.

- Shareholders

To a lesser extent, shareholders may also have a role to play in respect of organisational governance. As shareholders have a direct financial interest in the performance of the organisation, senior management and the board of directors are ultimately responsible to the shareholders (amongst other stakeholders).

Although shareholders may not have the power to initiate significant corporate strategies and plans within the organisation, when organisations do implement and report on these plans and their progress to shareholders (Adamec *et al.* 2005:42-45; Pangas 2007; Carcello 2009:11-18), adequate governance within an organisation is enhanced. For potential investors, the governance efforts of the organisation could be an important aspect when considering whether to invest or not. Organisations, therefore, realise that sound governance practices plays a role in pursuit of keeping current shareholders satisfied and to attract new shareholders.

As indicated, the aforementioned role-players and the dynamics of their relationship with each other as well as towards the organisation and its governance structures, systems and processes, had an important impact on the development of organisational governance – which is discussed next, amongst others.

2.3 ORGANISATIONAL GOVERNANCE: DEVELOPMENTS, IMPORTANCE AND CHALLENGES

This section provides an overview of the importance of organisational governance as well as recent developments globally and in South Africa which are relevant to this study. As the aim of this study is to develop an organisational governance maturity framework for the private sector in South Africa, only global and South African developments which may have an impact on the development of the framework were reviewed and included. This section concludes by exploring and debating the challenges that may prevent the successful implementation of governance principles within organisations.

2.3.1 World-wide developments and importance

Although practiced for many years (since the existence of corporate entities), the concept of organisational governance was not talked about much or discussed within the business environment before the 1980s. By the late 1980s boards were dominated by powerful executive directors which created numerous problems in effectively managing the organisation. This shifted the focus of attention to organisational governance (Tricker 2000).

The 1990s saw a surge in the development of guidance documents in respect of organisational governance. In the UK Sir Adrian Cadbury lead the way with the Cadbury Report (1992). Other countries including France, South Africa, Canada, Australia and the Netherlands, to mention a few, quickly followed suit and developed guidance specifically relating to their own countries and the local governance requirements. Not satisfied with the available guidance in respect of organisational governance, the UK developed numerous codes from the mid-1990s through the early 2000s, including the Greenbury Report, Hampell Report, Combined Code and the Turnbull Report, to mention only the most important guidance documents of the period (Tricker 2000; Kingston City Group n.d.).

As indicated on the list of codes published by the ECGI, most other countries saw the importance of producing 'up-to-date' guidance in respect of organisational governance, hence the numerous codes (refer to section 2.2.3 on p.51) developed to date (ECGI n.d.). Apart from the aforementioned global developments, certain *ad hoc* bodies such as the OECD, were also instrumental in the development of organisational governance practices. As a result of the abovementioned developments, organisational governance received more attention, which contributed to the importance of this concept.

As indicated in section 2.1 on p.42, various authors and guidance documents recognised the growing importance of organisational governance (Cadbury 1992; Friedman 1993; Shleifer & Vishny cited in Vives 2000; Hermanson & Rittenberg

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2003; IFAC 2004; FRC 2005; IIA 2006; Lipman & Lipman 2006; West 2006; Solomon 2007; Monks & Minow 2008; IoD 2009; Rossouw & Van Vuuren 2010). As a result, the study of organisational governance has become a prominent trend in the changing landscape of this concept over the past few years (Deloitte 2011:1). A study performed by Yuksel (2008:101-102) emphasises the fact that organisational governance has become one of the most important topics of discussion in today's business environment. Various reasons can be attributed to the growing importance of organisational governance. Some of the more important reasons are briefly discussed next.

Firstly, the most fundamental contributing factor is the repeated occurrence of corporate scandals (IFAC 2004:9; Yuksel 2008:101; Bahrman 2011(a):1-3). The importance of the corporate scandals in motivating the development of organisational governance and the challenges that may arise is discussed in section 2.3.3.2 on p.79.

Secondly, the change in investors' requirements also played an important role. On the one hand, the increased complexity and growth of corporate organisations resulted in investors being more careful when investing (Markham 2006:547; Solomon 2007:109-116). In support of this argument, some studies (IFAC 2004:5; Alexakis *et al.* 2006:682; Aluchna 2009:195) conclude that the implementation of sound governance principles does not necessarily encourage investors to invest in an organisation. The fact that an organisation has organisational governance best practices in place is not necessarily a contributing factor to the success or good business performance of the organisation. Evidently investors now take this into account and would be more careful before making any decisions in respect of whether to invest or not. On the other hand, proof that good governance principles are important to the market does exist, as research results indicate that investors are willing to pay a premium for the shares of a well-governed organisation as well as the fact that a positive correlation exists between organisational governance and an organisation's valuation (Rose 2003:17; Core *et al.* 2006:655-687; Bebchuk *et al.* 2009:783-827; Amman *et al.* 2010:36-55).

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Finally, other relevant factors worth mentioning as driving this increased interest in organisational governance are the financial crisis, a general lack of confidence in the leadership of the organisations, and stakeholders demanding more information and transparency (Bahrman 2011(a):1-3).

2.3.2 Organisational governance in South Africa

Although initially excluded from the world economy due to political views, South Africa did not lag behind the rest of the world when it comes to developments in organisational governance. Within the private sector as well as the public sector to a lesser extent, codes and legislation in respect of organisational governance were developed in line with the rest of the world. These are discussed next.

Within the private sector the Institute of Directors in South Africa (IoD) commenced with the reform of governance by commissioning and issuing the first King Report on Corporate Governance (IoD 1994) on 29 November 1994. This was followed by the second report, issued on 1 March 2002 (IoD 2002), and finally the third report issued on 1 September 2009 (IoD 2009). To a certain extent the new Companies Act (SA – No 71 of 2008) which came into operation on 1 May 2011, contributed to enhancing the importance of organisational governance as the Act now requires all companies to appoint audit committees (see Chapter 3 part D section 94). Apart from this, the Companies Act furthermore discusses the governance of companies in Chapter 2 part F sections 57-78, as mentioned in section 2.2.3.3 on p.58. Given the fact that governance is such a broad concept and may be interpreted differently by different organisations, it should be acknowledged that the development of various other legislation affecting specific parts of the private sector may also be relevant and applicable. Discussions with governance specialists furthermore highlighted that specific sectors may additionally be governed by different legislation: for example, within the banking sector relevant banking legislation covers governance issues not pertinent to the mining sector (Beukes 2012; Du Bruyn 2012; Kajee 2012). The Companies Act does, however, remain the primary and

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overarching legislation which is applicable across the entire private sector in South Africa, and since the aim of this study is to develop a governance maturity framework for the private sector in South Africa, other legislation were not taken into account as it would add unnecessary complexity to the context of the study. Apart from the legislation, the leading governance code in South Africa, King III (IoD 2009), will also play an important role in the development of the framework. As indicated previously, another aspect which supports the importance of King III is that all companies listed on the Johannesburg Stock Exchange Limited (JSE Ltd.) are now required to comply with King III (JSE 2013(b)).

Whilst King I (IoD 1994) and King II (IoD 2002) were only applicable to certain organisations, King III (IoD 2009) applies to all organisations, irrespective of the manner and form of incorporation. This is a step in the right direction for South Africa as the implementation of sound governance principles should not be restricted to any one type of organisation. Although King I may not have had the desired effect - the enhancement of business in general in South Africa - the report made relevant parties more aware of organisational governance, its importance and the benefits to the organisation when adequate governance principles are implemented and adhered to. The purpose of King I was to promote the highest standards of governance in South Africa at that stage. The follow-up, King II, was primarily developed with the following in mind (IoD 2002:16):

• The report should assess the relevance and applicability of the principles presented in King I.
• The inclusive approach to organisational governance should receive more attention. The inclusive approach includes the consideration of all relevant stakeholders in managing the organisation.
• More emphasis should be placed on non-financial issues such as social and ethical accounting, auditing and reporting, and health and safety matters.
• The measurement of compliance and success of the organisation should be clearly stated.

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The report was furthermore based on seven characteristics of sound governance: discipline, transparency, independence, accountability, responsibility, fairness and social responsibility.

The development of King III saw some fundamental changes. Throughout the report the importance and relevance of the four ethical values (responsibility, accountability, fairness and transparency) that form the basis of sound organisational governance is emphasised (IoD 2009:21). The need for a report such as King III was almost palpable due to the constant development of not always congruent codes throughout the world. It was furthermore one of the objectives of the King Committee to be at the forefront of governance internationally, which appears to have been achieved, as King III is currently seen as one of the world's leading codes in governance (IoD 2009:21; Marks 2010).

The key aspects on which the report focuses are leadership, sustainability and corporate citizenship (IoD 2009:10-11). Under sustainability the importance of the inclusive stakeholder approach and integrated reporting is emphasised (IoD 2009:13). Some of the more important new trends now emerging, and mentioned in King III (which has relevance to this study as it may influence the development of the framework) are risk-based internal audit and IT governance (IoD 2009:15-16). King III requires use of the 'apply or explain' principle and therefore supports the principles-based approach to organisational governance, in contrast to the rules-based approach that underpins SOX.

From a South African perspective, various studies and reports have been published in response to King III and related concepts in governance over the past few years (Marx 2008; KPMG 2008/9; SAICA 2009/10; Coetzee 2010). Studies addressing audit committee effectiveness (Marx 2008) and risk-based internal auditing (Coetzee 2010) have made numerous relevant arguments supporting the increased awareness of the importance of organisational governance and especially King III in a South African context. Reports issued by KPMG (2008/9) and SAICA (2009/10) have alluded to the fact that King III may require organisations to have a deeper understanding of the concept of

governance in order to decide how exactly the principles should be applied – a challenge all organisations in South Africa should by now be aware of.

Within the public sector, the equivalent legislation includes the PFMA (SA – No 1 of 1999 as amended by Act No 29 of 1999) and MFMA (SA – No 56 of 2003) which were promulgated during the late 1990s and early 2000s. Unfortunately, and despite the large volume of research that has been published in the 2000s, no updated versions have been issued. This may be due to the fact that the public sector within South Africa is politically highly charged which, in turn, may prevent the on-going development and updating of organisational governance guidance and legislation (Rossouw, Van der Watt & Malan 2002:289-302; Newsome 2004:26-31; West 2006:433-448). Taking into account the objectives of the PFMA and MFMA, both these Acts promote and enforce the establishment of and adherence to sound organisational governance principles. The fact that certain aspects of organisational governance are mandatory under legislation may cause some affected organisations to have a negative attitude towards organisational governance and, therefore, to miss out on the benefits of implementing and adhering to a system of good governance principles. As this study only focuses on the private sector, developments in the South African public sector were not investigated any further.

2.3.3 Challenges

The development of organisational governance did not take place without some challenges being experienced. These challenges, with specific focus on corporate scandals are elaborated on next.

2.3.3.1   General challenges

Various challenges face the successful implementation of governance principles within organisations. These range from organisational governance being seen as a concept that is too broad in scope to address specifics in an organisation or industry, through creating complications and confusion when organisations are compelled to implement and comply with relevant guidelines, to sound organisational governance practices not necessarily leading to good performance.

Firstly, the many published definitions and theories describing the concept, when compared with what organisational governance in practice entails, may be the key to identifying the confusion in respect of the scope of this concept (Cadbury 1992; IoD 1994:1; IoD 2002:19; OECD 2004:11; Solomon 2007:14; IoD 2009:20). As a result, organisational governance appears to have different meanings to different individuals, and once this happens, the application and embedding of this concept is likely to take on different forms within different organisations.

Secondly, it is furthermore acknowledged that the establishment of an international 'one-size-fits-all' governance framework is very difficult and challenging as countries have different cultures, legal systems and financial systems, amongst other considerations (Bhasa 2004:5-17; Jackson 2004:57-61; Davies & Schlitzer 2008:532-539; Monks & Minow 2008:351-410). To accommodate these matters, each country has developed their own organisational governance codes and legislation which are either primarily rules-based or principles-based, as national proclivities dictate (ECGI n.d.). This however, does not alleviate the problem and is illustrated by means of the following scenario. In South Africa, the leading organisational governance code is King III, which applies to all organisations, whether in the private or the public sector (IoD 2009). Overall King III was positively received by the private sector business community. However, the same cannot be said for the public sector (Prinsloo & Pieterse 2009/10:55). Operating in an environment which is politically

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charged and influenced by legislation, the attempted adherence to King III has created some challenges. A study conducted by Erasmus, Barac, Coetzee, Fourie, Motubatse, Plant, Steyn & Van Staden (2014:2) at 33 South African national departments with the main purpose of determining the status of and demand for internal audit services within the national departments, indicated that most respondents (chief audit executives, chairpersons of audit committees, and accounting officers, chief financial officers or chief operating officers) acknowledged that governance strategy is mostly driven by the PFMA, which may be outdated being promulgated in 1999, and Treasury Regulations and not King III. King III mentions effective leadership which, in turn, requires the appropriate skills and experience, which, regrettably may not yet be readily available (Erasmus *et al.* 2014) within the public sector. Another key issue: Who actually represents the 'board' in government is as yet unanswered and will require further debates and discussions (Prinsloo & Pieterse 2009/10:55). The efforts to apply current legislation (PFMA and MFMA) may be a factor that further inhibits the public sector from applying King III as these two Acts are very prescriptive, rigid and comprehensive. For public sector organisations to now attempt to implement another guidance document (which is not compulsory) may well be a task that is not going to add value nor substantially improve the performance of the organisation. In addition, smaller organisations within the private sector may also not see the benefit of complying with a comprehensive organisational governance code such as King III, as the costs may far outweigh the benefits derived from implementing the code.

Thirdly, the application of the 'comply or explain' and the 'apply or explain' approaches may create additional challenges. Most countries follow this principles-based approach to organisational governance (ECGI n.d.). Although widely used and endorsed by leading international bodies such as the OECD, the application of this approach may create some problems. Should an organisation be of the opinion that a specific principle cannot be applied (or is too costly to contemplate applying), it would seem fairly easy to explain and to justify why the principle cannot be complied with, as opposed to doing all the groundwork to ensure compliance (Barrier 2003:71-73; Jackson 2004:58; Simpson 2005:xvi;

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Deloitte 2009; IoD 2009:7). This may create a precedent for organisations to use this as a loophole when it seems too difficult to ensure compliance in certain areas. Management may also be tempted to follow this method of explaining when a certain principle is not fully understood or if management wants to commit fraud, for example the Parmalat scandal (refer to section 2.3.3.2 on p.79). The main reason why organisations may be in a position to explain their weaknesses without addressing them is attributed to the fact that codes supporting the principles-based approach do not necessarily have serious consequences when organisations do not comply with the principles.

Fourthly, the costs of implementation of sound governance principles may be seen as a hindrance in the successful implementation thereof. Organisations may be of the opinion that the costs of implementing a certain principle exceed the benefits that could be derived, and as a result, then decide not to implement these principles (Barrier 2003:71-73; Jackson 2004:58; Simpson 2005:xvi; Deloitte 2009).

Finally, sound organisational governance practices do not necessarily lead to acceptable business performance of the organisation. Many studies reveal a negative correlation between an organisation's governance rating and its performance (Alexakis *et al.* 2006:682; Aluchna 2009:195). Various case studies performed by the International Federation of Accountants (IFAC) supported the aforementioned statement, frequently reaching the conclusion that good governance is not necessarily a key factor for business success (IFAC 2004:5). This does not imply that good organisational governance practices are not relevant for the success of the organisation. It merely suggests that the success of the organisation relies on a variety of factors, and good organisational governance practices are but one of them. However, many investors use this as an indication of whether to invest in a certain organisation or not (Rose 2003:17; Core *et al.* 2006:655-687; Bebchuk *et al.* 2009:783-827; Amman *et al.* 2010:36-55). It provides investors with a sense of security about the credibility and sustainability of the organisation.

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2.3.3.2   Corporate scandals

Corporate scandals are not a new phenomenon within the business community. As a result of a number of major corporate scandals over the last 20 years the concept of organisational governance has received increased attention and resulted in, amongst others, the development of various codes and legislation in on-going efforts to improve this area. The main reason for the occurrence of the most well-known corporate scandals is that although these organisations were aware of sound governance principles, they failed to implement these principles.

• Global scandals

According to a study conducted by Mardjono (2005:281-282), both Enron and HIH Insurance (Australia) recognised the importance of having an adequate governance framework (structures, systems and processes) in place, however, these organisations failed to implement and adhere to the frameworks' key principles. Solomon (2007:42-46) endorses this observation when concluding his analysis of the reasons for the failures of Enron and Parmalat.

In only eight months Enron went from being number 7 on the Fortune 500 list of companies to filing for bankruptcy (O'Brien 2005:205-206; Markham 2006:49-142). The collapse of Enron was mainly due to mismanagement and unethical behaviour, and not only resulted in one of the largest companies in the USA filing for bankruptcy, but thousands of jobs were also lost along with millions of dollars of investors' money.

In a manner almost identical to Enron, WorldCom committed accounting fraud by overstating their cash flows by approximately $3.9 billion. As WorldCom's share price decreased dramatically from 1999 they had to find 'creative' ways of reducing costs and enhancing revenues (Kuhn & Sutton 2006:61-62; Markham 2006:311-376; Cooper 2008). Once again, many jobs were lost as well as investor money.

Parmalat, the 'Enron of Europe', in similar fashion, set-up shell companies to generate fake profits (Sverige 2004). The key governance failures at Parmalat included a board as well as board committees manned by inadequately skilled members, and an inadequate rotation of external auditors. As a result of this scandal, 36 000 employees in 30 countries lost their jobs, and investors' stocks and bonds were rendered basically worthless (Anonymous 2004:6).

Another common aspect in these scandals, identified by Gupta & Leech (2006:28), which was absent in these organisations' governance frameworks was a reliable system of internal controls. This lack of internal controls created the ideal environment in which fraud could be perpetrated fairly easily. Sections 302 and 404 of the Sarbanes-Oxley Act were drafted in direct response to this situation. These sections of SOX not only required organisations' financial statements to be certified but also mandated that external auditors (independently of management) should provide an opinion on the effectiveness of the organisation's system of internal controls.

A study conducted by IFAC (2004:13-17) in respect of 27 corporate failures identified the following key aspects as significant contributing factors:

- Mismanagement: chief executives were dominant and boards of directors did not fulfil their oversight duties.
- Absence of the right 'tone at the top' in respect of ethical behaviour.
- A weak internal control and risk management system.
- Inadequate and ineffective monitoring of the abovementioned aspects.

This implies that the attitude and intent behind the application of the organisational governance principles is of great importance, irrespective of the adequacy and comprehensiveness of an organisation's existing governance framework. If organisational governance is seen as a set of checklist items to be 'ticked-off', as opposed to an instrument which could assist in improving governance practices within an organisation, scandals will keep on occurring. Organisations face many challenges when attempting to apply good governance

principles and, as discussed above, various corporate scandals have occurred due to the organisation either not being fully aware of these challenges and the risks they pose, or because the organisation wilfully ignored these challenges, to the benefit of certain individuals.

Similarly, the banking crisis in the USA, which ultimately resulted in the global financial crisis commencing in 2007, cannot be ignored as a form of corporate scandal. Numerous investigations have been performed and articles published surrounding this catastrophic sequence of events, and the ripple effect of this crisis can still be felt by businesses around the world (Baily & Elliott 2009:1-26; Marshall 2009:1-55; Gorton 2010:1-17; Murphy n.d.:1-15). The crisis started (Phillips & Grocer 2011) with the plunging of the housing market in 2007, and reached a peak during 2008/9 with the collapse of several large financial institutions in the USA, which subsequently lead to the collapse of significant financial institutions in other countries. The collapse of the housing market was only the beginning. The Federal Reserve and Treasury in the USA uncovered a complex web of financial instruments during 2008/9 when they initiated their bail-out programme for large financial institutions such as Fannie Mae, Freddie Mac and Bear Stearns. Realising the severity and complexity of this problem the Federal Reserve and Treasury made a decision not to bail out the investment bank Lehman Brothers. This resulted in this bank filing for bankruptcy, with its liabilities topping $600 billion in 2008. This decision was taken by the government to show markets that they were not in a position to rescue every troubled financial institution. Having established this precedent, the financial crisis caused a total number of 386 USA banks to fail between January 2008 and August 2011 (Phillips & Grocer 2011), which is clearly an indication that the financial crisis had a serious impact.

To a lesser extent, several financial institutions in the UK have also felt the effect of the financial crisis as the Bank of England and the UK government have had to make several bail-outs of large financial institutions such as Northern Rock, Bradford and Bingley, and Halifax Bank of Scotland, to mention a few (University of Liverpool n.d.). During July 2012 the Barclays 'rate-rigging' scandal sent

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shockwaves through the business world as it was revealed that Barclays submitted misleading figures regularly between 2005 and 2009 in an attempt to manipulate the London Interbank Offered Rate (Libor), which is the rate at which banks in the UK lend money to each other. As a result Barclays was fined $450 million and a parliamentary investigation was launched. The manipulation of the interest rate is thought to have already impacted 250 000 UK borrowers (Wilson 2012).

• South African scandals

During 2011 the perceived levels of public sector corruption in 183 countries were measured (Transparency International 2011). On a scale of 0 (highly corrupt) to 10 (no corruption), South Africa achieved a score of 4.1. During 2013, 177 countries were measured and South Africa was ranked as number 72 with a score of 4.2 (Transparency International 2014). In addition, a global economic crime survey performed and issued by PWC (2011(b):17) indicated that South Africa is one of the territories that reported high levels of fraud (40% or more). This is an indication that South Africa has its fair share of fraud and corruption incidents, as will be discussed next.

Three of the most well-known corporate scandals are LeisureNet in 2001 (SAPA 2007(a)), Fidentia in 2007 (SAPA 2007(b)) and Sharemax in 2010 (Pauw 2011). In October 2000 LeisureNet (operator of the Health & Racquet gymnasiums) was provisionally liquidated, with liabilities of R1.2 billion and assets of only R302 million. The main reason for the group filing for bankruptcy was the string of fraudulent business deals devised and executed by the two chief executives, Peter Gardener and Rod Mitchell. This is an example of management not setting the right 'tone at the top', which resulted in the company going under (SAPA 2007(a)).

Fidentia was a strategic player in the financial services industry from 2005 and went from strength-to-strength under the management of its chief executive, Arthur Brown, assisted by senior management team member, Graham Maddock.

Once again, as a result of fraudulent business deals initiated by the aforementioned individuals, Fidentia was placed under curatorship on 27 March 2007, after R680 million of almost R2 billion of assets could not be traced by the investigators (SAPA 2007(b); Steenkamp 2007:iv).

More recently the scandal of the property group and investment company Sharemax was brought to light (Pauw 2011). Under the leadership of managing director, Willie Botha, and marketing manager, André Brand, Sharemax contravened the Banks Act and illegally collected deposits from investors. The Reserve Bank had no choice but to put Sharemax under statutory management in September 2010 and ordered Sharemax to repay its investors, which the company was unable to do. Subsequent investigations by a forensic auditor, Mr Prakke, revealed that irregularities including money laundering, theft and fraud had occurred. The bankruptcy of Sharemax affected approximately 40 000 investors who invested an estimated R5 billion over the past decade (Pauw 2011).

The cases discussed above clearly indicate that management is capable of abusing their powers and of ignoring whatever good governance principles the organisation might have had in place. Corporate scandals may therefore never be eradicated, and will remain one of the most harmful threats to effective and honest organisational governance.

2.4   CONCLUSION AND RELEVANCE TO THE STUDY

Organisational governance is a concept that received an increasing amount of attention over the past few years within business as well as from government and the academic field. Defining organisational governance seems to be a challenging task. Various definitions were developed over the years, with two main themes emerging: the narrow perspective (only focusing on shareholders), and the broad perspective (focusing on all stakeholders). After an organisation has established what it understands by the term organisational governance, the

choice of approach is between principles-based or rules-based governance. Various arguments for and against both approaches were made. Whether an organisation chooses to comply with a specific code or piece of legislation may be influenced by the approach selected. Globally, over the last few decades, numerous codes, and to a far lesser extent, pieces of national legislation, were developed with the intention of ensuring that countries do not lag behind when it comes to demonstrating effective organisational governance within their statutory and private sector enterprises.

The implementation of the organisational governance concept and the development of various theories underlying this concept go hand-in-hand. It is acknowledged that these theories (agency theory, transaction cost theory, stakeholder theory and stewardship theory) have an important influence on the development of this broad concept. The changes and developments globally and in South Africa created some significant challenges to the successful implementation of governance principles within organisations: probably the greatest impetus for change has come from the recent corporate scandals.

The key areas relevant to the study that were discussed in this chapter are the following:

- Organisational governance is a broad concept which has many definitions and can be interpreted in many ways. As such the narrow perspective only focuses on the relationship between shareholders and management whereas the broader perspective focuses on the relationship between management and all relevant stakeholders. The broader perspective seems more encompassing in describing this complicated concept.
- The choice of approach, whether principles-based or rules-based, used by organisations in respect of organisational governance seems to be influenced by the codes and legislation in force in the country in which the organisation operates. In addition, the arguments for and against each approach also need to be weighed to establish which approach will best suit the needs of the organisation.

- The growing importance of organisational governance resulted in numerous codes and legislation being developed. The three leading codes identified for purposes of this study (implemented in South Africa, Australia and the UK) appear to support a principles-based approach to governance, whereas SOX, which is mostly applied by organisations in the USA, appears to support a rules-based approach.

- Certain key role-players (such as the board of directors, certain assurance providers and certain board committees) were identified, all having important responsibilities when it comes to organisational governance. It seems that the evolving role of these parties continues to be influenced by changes taking place in the organisational governance field.

- Various factors contributed to the increased importance of organisational governance, including the occurrence of corporate scandals, the change in investors' requirements, the global financial crisis and the fact that stakeholders are demanding more information and transparency.

- The successful implementation of sound governance practices within organisations does not come without their own challenges. These include the costs of implementation, compared with the financial benefits generated (or not). However, the most dramatic challenges faced by many industries over the past decade have come about as the world's governments and professional bodies have rushed to promulgate corrective legislation and codes of conduct in response to some spectacular corporate scandals. If nothing else, these scandals (globally and in South Africa) played a huge part in increasing the attention focussed on the concept of organisational governance.

As organisational governance is such a rapidly evolving concept, the importance of certain key role-players and the definition of the roles they fulfil is another important consideration when attempting to explain the development of organisational governance. One of these key role-players is internal auditing, and as such, the dynamic relationship between internal auditing and organisational governance, as well as the roles internal auditing can fulfil within an organisation, is discussed in the next chapter.

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CHAPTER 3

THE ROLE OF INTERNAL AUDITING IN ORGANISATIONAL GOVERNANCE

3.1 INTRODUCTION

The evolution of internal auditing over the past decade can be attributed to factors such as the changing business environment, the international financial crisis, globalisation, and developments in information technology (IT), to mention a few (Allegrini, D'Onza, Paape, Melville & Sarens 2006:845-852; Ernst & Young 2008:2; Deloitte 2010(a):3-14; PWC 2012:3-38). As a result of the changing demands on the profession, one of the areas relevant to the study, and which internal auditing now spends much of its effort on, is organisational governance (Hermanson & Rittenberg 2003:58; Leung, Cooper & Robertson 2003:1-124; Gramling, Maletta, Schneider & Church 2004:240; Sears 2005:8-11; Gramling & Hermanson 2006:37-39; Allen 2008:1-4; Ernst & Young 2008:1-5; Güner 2008:21-33; IoD 2009:93-98).

The most recent definition of internal auditing, issued during 1999, recognises the key role internal auditing plays in respect of governance (IIA 2010). This role sees internal auditing as a strategic role-player and a business partner that should add value to an organisation by evaluating and improving the effectiveness of governance processes, amongst others (Nagy & Cenker 2002:130; Ramamoorti 2003:12; Allegrini *et al.* 2006:845-852; Anderson & Dahle 2009:12).

This expanding role is supported by the Institute of Internal Auditors (IIA) through publication of its formal guidance such as the International Professional Practices Framework (IPPF), as well as other guidance issued by the IIA Research Foundation (IIA 2006; IIA 2010:15,52-56). The results of the 2010 Common Body of Knowledge (CBOK) study (Report V: Imperatives for change) revealed that

89.2% of respondents either agreed or strongly agreed that it is important for internal auditing to focus its efforts on governance. When asked to predict and to rank areas where internal auditing will spend most of its time in the next five years, 23% of the respondents anticipated that governance reviews will be conducted. It was furthermore suggested that risk management, internal control and governance will become important focus areas of the profession (Anderson & Svare 2011:4). In addition, most participants in a research study conducted by Coetzee, Barac, Erasmus, Fourie, Plant, Steyn & Van Staden (2010:viii,73) perceived the role of the internal audit activity to be significant in respect of enhancing organisational governance. This study was conducted at 30 large listed South African companies where the perceptions of the internal audit activity held by chief audit executives, chairpersons of audit committees, chief executive officers, chief financial officers and/or chief operating officers were sought.

In this chapter, the evolution of the internal audit profession, with specific reference to organisational governance, is briefly investigated. The two key roles internal auditing can fulfil (either being part of the governance framework of the organisation, or providing internal audit services relating to organisational governance), are elaborated on, thereafter the value of a governance maturity framework to internal auditing is discussed.

3.2   EVOLUTION OF INTERNAL AUDITING

This section elaborates on the changes within the internal audit profession, focusing on certain key aspects that evolve to the developments in respect of organisational governance, and briefly investigates how the profession has evolved with reference to organisational governance.

3.2.1 General changes within the internal audit profession

In this section general changes which appear to have made an important impact on the evolution of internal auditing are discussed. Firstly, the definition of internal auditing (including the changes to the definition) is discussed, as it is the foundation on which the profession is built. Secondly, professional guidance issued by the IIA in support of the most recent change in the definition, is discussed. Where applicable, the revisions to the professional guidance with respect to organisational governance are also examined.

3.2.1.1 Definition of internal auditing

The changes in the parameters of the internal audit profession during the early 1990s necessitated a change in the definition of internal auditing. As a result, during 1999 the IIA's board of directors approved a revised definition (Krogstad, Ridley & Rittenberg 1999:27-33) of internal auditing, formalising all the changes that occurred within the profession to date (IIA 2010):

> "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

When compared with the previous definition, this definition of internal auditing presents in various ways a changed and improved image of the profession:

- Internal auditing is not only independent, but embraces the concept of objectivity.
- Internal auditing provides both assurance and consulting services.

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- Internal auditing adds value and improves risk management, control and governance processes.

Each of these aspects is now briefly discussed.

Whereas in terms of the previous definition the internal audit activity was required to perform verification and information-gathering tasks at the instruction of management, the addition of the word 'independent' refers to the new standing of the internal audit activity within the organisation, and to the fact that this activity may now decide the scope of its work without interference from any other party. It is however still important for the internal audit activity to be respected by management (reporting as it now does to the audit committee and the board) and to have their professional support, as audit engagements relating to organisational governance are strategic in nature, and internal auditors have to work closely with their organisation's senior management (Gramling & Hermanson 2006:37-39; Marks 2007:31-32; Marks 2012(b):39-42). A working relationship built on mutual respect and trust appears axiomatic if the internal audit activity wants to provide quality services. The addition of the word 'objective' in the current definition refers to the frame of mind of an internal auditor, which is perceived as being a defining characteristic of an ability to provide internal audit services. The current definition furthermore choses to use the word 'activity' rather than 'function', indicating that internal auditors do not need to be employed by the organisation they are auditing. This recognises the fact that more and more organisations are making use of outsourced internal audit services as an alternative to providing their own, in-house quality internal audit services (Ramamoorti 2003:12; Anderson & Dahle 2009:12).

Whilst the previous definition only focussed on assurance services, the current definition explicitly embraces the consulting role of internal auditing. This recognises the value-adding service internal auditing can provide in improving risk management, control and governance processes. With regard to internal auditing, consulting services generally include, but are not limited to, providing counsel and advice to management on various aspects of the business, by

drafting policies, providing assistance, and providing training in areas such as internal control (IIA 2010:4). Various researchers and practitioners are of the opinion that in today's business environment the focus of internal auditing should be on (and is in fact already shifting away from assurance services) providing more consulting services, as stakeholders are demanding pro-active and pre-emptive professional advice rather than having to deal with audit findings after the (possibly negative) event has occurred (Nagy & Cenker 2002:130; Ramamoorti 2003:12; Allegrini *et al.* 2006:845-852; Anderson & Dahle 2009:12; Bolger 2011:11-12). During 2010 the IIA Research Foundation conducted a study - Stakeholder's perceptions on internal auditing - (an additional component of the 2010 CBOK study) where stakeholders making use of internal audit services were asked for their impressions of the internal audit profession, and what the possible areas for improvement might be (Bolger 2011). The stakeholders surveyed and interviewed all held positions of audit committee chairperson, audit committee member, board chairperson, chief executive officer, and chief financial officer (or the person to whom the chief audit executive reported administratively). One of the areas addressed by the survey was the perceived importance of the consulting role of internal auditing (Bolger 2011:11-12). All respondents either agreed or strongly agreed that internal auditing should be used as a consulting resource, assisting the organisation to reach its goals in terms of efficiency, growth and profitability, and did not see internal auditing as being limited to providing only the services of a 'traditional' internal auditor.

The current definition, furthermore, recognises the importance of the value-adding role of internal auditing, and its proposals to initiate improvements to various processes within the organisation (KPMG 2007:5-7; Deloitte 2010(a):5; Bolger 2011:11-12). Apart from internal auditing providing consulting services (which add value to an organisation, as mentioned above), internal auditing can also provide assurance services as part of their value-adding role (IIA 2010:4). When providing assurance services two aspects are focussed on, namely evaluating the adequacy and the effectiveness of the processes in place. The value-adding concept plays a specific role when internal auditing evaluates the

adequacy of current processes, and proposes certain changes in pursuit of more efficient processes within the organisation. Typically, thereafter, the effectiveness of processes deemed adequate will be evaluated (IIA 2010). The study conducted in 2008 (Coetzee *et al.* 2010:38-49) also addressed the value-adding concept: the research was intended to determine the value currently added by the internal audit activity (both in-house and outsourced), as well as the perceived future value added. A list of eight activities (which included governance) was presented, and respondents were asked to rate the value of each on a five-point scale. The results for most respondents indicated that in respect of governance, although much value is currently being added, more value can still be added by the in-house internal audit activity. It appears, however, that the outsourced internal audit activities have significantly more work to do in the area of governance as the results indicate that only 'average' to 'reasonable' value is currently being added (Coetzee *et al.* 2010:38-49). In addition, although not a focus area of the IIA Research Foundation study, the conclusion reached by the stakeholder's perceptions survey conducted by the IIA Research Foundation in 2010 indicated that one of the important challenges faced by internal auditing is how to become more relevant and valuable to the organisation: in other words, how can they add more value to the organisation through the services they provide (Bolger 2011:17).

The current definition recognises the key role that internal auditing plays in addressing risk management, internal control and governance processes whereas the previous definition only focussed on internal auditing's responsibilities in respect of control activities. This highlights the importance of internal auditing having sufficient knowledge of all the processes within the business, as well as of the business strategies, to enable it to fulfil its role in assisting management of the organisation to reach management's objectives (Anderson & Dahle 2009:12). The importance of internal auditing's role in risk management and governance is equally recognised by studies such as CBOK, PWC and the study conducted by Coetzee *et al.* (2010). (Internal auditing's expanded role, especially in respect of governance, is addressed in section 3.2.2.2 on p.103, where the 2006 and 2010 CBOK studies as well as various

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PWC studies' results are also discussed.) In respect of the study conducted by Coetzee *et al.* (2010:51), most respondents were of the opinion that a 'very important' or a 'significant' contribution was being made by the internal audit activity to the assessment, management and communication of risk. In respect of governance all respondents indicated their satisfaction with the contributions being made by the internal audit activity, and acknowledged the fact that internal auditing has a significant role to play in enhancing the governance of an organisation (Coetzee *et al.* 2010:61,73).

Although the current definition encapsulates the broadened role and pro-active stance of the profession, closer examination of the definition reveals issues that are potentially damaging to the profession.

Firstly, the inclusion of the consulting aspect of internal auditing seems to be a true reflection of the current *status quo* (IIA Research Foundation 2007; Bolger 2011:11-12), but the fact remains that clients still need internal auditors to provide assurance services and this important part of their work should not be overlooked: the provision of assurance services undoubtedly adds value, as mentioned in the discussion above.

Secondly, providing consulting services, in addition to assurance services, poses a threat to the independence of the internal audit activity, and should be a point for considerable reflection for every internal auditor before providing professional services. At this point it is necessary to refer to the discussion at the beginning of this section on the importance of independence in the context of conducting organisational governance audit engagements for the internal audit activity. The IIA recognised this risk and has issued formal guidance (IIA 2010:8) which directs that internal auditors performing a consulting activity are not allowed to provide assurance services on that activity for the next year. With the increased pressure on business in general to stay within expenditure budget, while still performing profitably, this is an area where internal auditing should exercise great caution, and should critically evaluate the exact nature of the type of services they provide

to their clients, so as not to contravene any of the Standards simply for the sake of attracting more business.

Thirdly, the broadened role of internal auditing, by also focussing on risk management and governance processes in addition to internal control, may place an increased burden in respect of the proficiency of internal auditors. This places an important responsibility on internal auditors to ensure that they have the required knowledge and skills in the relevant areas, when providing professional services.

Finally, although the current definition is an improvement, the fact that stakeholders' requirements and expectations may change as new developments take place within the business environment should not be disregarded. The definition of internal auditing should be evaluated on a regular basis to ensure its relevance.

3.2.1.2   Professional guidance

The IIA issues formal guidance through the IPPF, comprising both mandatory and strongly recommended elements. These elements, as they relate to organisational governance, will be discussed briefly, with reference to their importance to this study, and any changes that appear appropriate will also be identified.

• Definition of internal auditing (mandatory) – this is seen as the umbrella concept which addresses all elements of the profession, and states the purpose, nature and scope of internal auditing (IIA 2010). The definition is discussed in section 3.2.1.1 on p.88.

• Code of ethics (mandatory) – the purpose of the code of ethics is to promote an ethical culture in the internal audit profession (IIA 2010:i). It consists of principles and rules of conduct that describe the behaviour required of internal auditors. The code applies to all internal auditors rendering internal

audit services, regardless of the industry and the dynamics of the business environment.

- Standards (mandatory) – the Standards are the minimum requirements to which internal auditing should adhere (IIA 2010). The criteria within the Standards are those against which internal audit activities are measured and evaluated. They have been restructured and aligned with the current definition of internal auditing. The Standards makes provision for the broadened role of internal auditing, and pay special attention to internal auditing's governance role (IIA 2010:15); this is elaborated on in section 3.2.2 on p.99.

- Practice advisories (strongly recommended) – although not mandatory, the practice advisories (PA) assist internal auditors in the practical application of the IPPF, and include recommended approaches, considerations and methodologies to be used by internal auditing (IIA 2010). Three new practice advisories were issued during 2010 dealing specifically with governance (IIA 2010:52-56). These practice advisories are discussed in section 3.2.2 on p.99.

- Position papers (strongly recommended) – these documents enable various stakeholders (not only internal auditors) to understand the roles and responsibilities of internal auditing in respect of specific topics (IIA 2010). As on 23 May 2014 the IIA issued only one position paper (which is discussed in section 3.2.2 on p.99) in respect of organisational governance (IIA 2006).

- Practice guides (strongly recommended) – the practice guides provide detailed guidance on specific internal audit topics, and include educational products, research studies, and other pertinent material such as practical examples of deliverables, tools and techniques already being successfully used, effective approaches to be followed, and detailed blueprints of approved processes and procedures (IIA 2010). The IIA Research Foundation has recognised the increased importance of the role of internal auditing in governance, and as a result has initiated a few research projects in this area. To this extent, a practice guide on assessing organisational governance for the private sector was issued in July 2012, specifically aimed at assisting chief audit executives. These practice guides are,

however, only available to IIA members (Bahrman, Manchanda, Roth & Mendes 2012:1-26).

The IIA also issues, on a regular basis, other guidance and informative documentation, such as the various CBOK studies conducted between 1999 and 2010. These studies provide important insights into the evolution of the profession, as these research initiatives were instituted by the IIA Research Foundation specifically to obtain an understanding of how internal auditing was being practiced in various countries throughout the world (IIA Research Foundation 2007:1). CBOK was initially developed in 1972 as a means to ensure that internal auditors were kept up to date with the developments in the profession. While the IIA conducted various additional studies (notably during 1972, 1985 and 1992), these studies were not focussed on in this research as history appears to have rendered them significantly less relevant than the more recent CBOK studies conducted during 1999, 2006 and 2010 .

During 1999 an updated Competency Framework for Internal Auditors (CFIA) was issued largely as a result of data obtained through the CBOK study. In this study the internal audit profession was evaluated from several perspectives, including the profession's global presence, internal audit knowledge, the future of the profession, best practices, competency, and competency assessment (McIntosh 1999:1). The main sections of the 1999 CFIA are tools and techniques, knowledge areas, internal audit standards, theory and methodology, and interpersonal skills. These sections contain the minimum requirements in respect of the knowledge and skills needed by internal auditors to perform professional internal audit services. Subsequently, in 2013, the IIA Global issued a new version of the CFIA titled 'The IIA's Global Internal Audit Competency Framework' (IIA 2013:1-17). The framework consists of the following 10 core competencies: professional ethics; internal audit management; application of IPPF; application of governance, risk and control; business acumen; communication; persuasion and collaboration; critical thinking; internal audit delivery; and improvement and innovation.

During 2006 the IIA Research Foundation launched another CBOK project with the main aim of developing a comprehensive database reflecting the global state and nature of the internal audit profession (IIA Research Foundation 2007:1). The study collected information concerning perceptions of compliance with the Standards, the state of the internal audit activity, staffing, skills, and competencies, as well as the nascent and recently emerging roles of the internal audit activity. As indicated by Burnaby & Hass (2009:813-834), the outcome of the study was indicative of the dynamic role internal auditing plays as a value-adding activity that assists an organisation with risk management and governance. During 2010 the most comprehensive CBOK study to date was conducted, titled the IIA's Global Internal Audit Survey. The main aim of this study was to record, on a global scale, the current perspectives and opinions of practicing internal auditors, internal audit service providers and academics, of the nature and scope of assurance and consulting services being performed by the profession worldwide. Over 107 countries were surveyed (responded) and 13 582 usable responses were received. Five reports were produced (intended to provide useful information for decision-making purposes to various stakeholders), on issues such as staffing, career development, training, compliance with the Standards, and current and future competencies, as well as the emerging roles of the internal audit activity (Alkafaji, Hussain, Khallaf & Majdalawieh 2010:xi-xiii; Bailey 2010:xi-xiii; Allegrini, D'Onza, Melville, Sarens & Selim 2011:xi-xiii; Anderson & Svare 2011:xi-xiii; Chen & Lin 2011:xi-xiii).

Table 3.1 summarises the major findings of the three most recent CBOK surveys, as they relate to the evolution of the profession and the changing role of the internal audit activity.

Table 3.1: Major findings from the 1999, 2006 and 2010 CBOK studies in respect of the evolution of the profession and the role of the internal audit activity

CFIA 1999 (McIntosh 1999)	- Role of internal auditing driven by global and organisational change. - Focus is on identification and evaluation of risk exposures and controls. - Internal auditing should be seen by management as a

	value-adding activity.
	• Change in the structure of the internal audit activity – flat structure with specialised teams.
	• Emphasis on being pro-active rather than re-active.
CBOK 2006 (IIA Research Foundation 2007) (Burnaby & Hass 2009)	• Increase in the types of audit engagements being performed – risk management and governance audit engagements ranked as leading, whilst areas of fraud prevention and regulatory compliance also receive more attention.
	• Consulting services are more in demand by clients.
	• Increase in number and change in quality/depth of the skills and competencies needed to cope with the changing business environment.
CBOK 2010	Report I (Alkafaji *et al.* 2010)
	• Types of audit engagements performed will significantly change in the next five years – governance, enterprise risk management, ethics, and migration to International Financial Reporting Standards (IFRS) are seen as the focus areas.
	Report II (Bailey 2010)
	• Many of the most important competencies, knowledge areas, and tools and techniques relate to risk-based auditing.
	• Increased emphasis on problem solving and judgment skills, as well as conflict resolution and negotiation skills.
	Report III (Chen & Lin 2011)
	• Independence and objectivity are viewed as key factors for the internal audit activity and prerequisite to adding value. (Refer to section 3.2.1.1 on p.88 for a discussion on independence and objectivity).
	• Contribution of internal audit activity to risk management and governance is not adequate, especially when compared with its contribution to controls – improvement is needed.
	Report IV (Allegrini *et al.* 2011)
	• Role of internal audit activity in risk management and governance will continue to increase.
	• Skills needed by internal auditors will change as a result of the changing types of audit engagements performed.
	• Role of internal audit activity more strategic in nature – training audit committee members; involvement in strategy development; complexity of audit engagements increasing.
	Report V (Anderson & Svare 2011)
	• Emphasis on risk management and governance.
	• Key stakeholder priorities, such as the internal audit activity's relationship with the audit committee, should be addressed.
	• Internal audit resources should be optimised by recruiting top talent and enhancing training programmes.
	• Technology should be used effectively when performing audits.

Source: Refer to the individual columns of the table.

The information in the table above is indicative of the changing landscape of the profession of internal auditing. The findings from the CFIA (McIntosh 1999) issued in 1999 appears to support the current definition of internal auditing, as most of the findings relate to the new and the improved areas of focus that are addressed by the current definition. For a detailed discussion on the current definition refer to section 3.2.1.1 on p.88. From the CBOK 2006 study (IIA Research Foundation 2007; Burnaby & Hass 2009) a further change can be seen in expectations stakeholders have of the services internal auditing provides. Commensurate with the increase in the types of audit engagements being performed are the skills and competencies required from internal auditors when performing these audit engagements. It appears that audit engagements addressing governance (52.2% of respondents) and risk management (66.6% of respondents) are two of the top-five ranked emerging roles of internal auditing (out of a list of 21 emerging roles). The respondents indicated that currently their internal audit activity performs numerous audit engagements in these areas, and they are expecting to increase the number of audit engagements performed in these two focus areas in the near future. This place an important responsibility on internal auditing as the type of skills and competencies required to perform these audit engagements is probably going to differ from what was required in the past. The study furthermore indicates that respondents are of the opinion that, on average, understanding the business and risk analyses are two of the most critical technical skills to possess, whilst confidentiality and objectivity are rated as important behavioural skills for internal auditors to possess (IIA Research Foundation 2007:279-300).

The reports generated from analyses of data from the CBOK 2010 study (Alkafaji *et al.* 2010:xi-xiii; Bailey 2010:xi-xiii; Allegrini *et al.* 2011:xi-xiii; Anderson & Svare 2011:xi-xiii; Chen & Lin 2011:xi-xiii) all identify the increased importance of governance and risk management audit engagements, as these focus areas are identified as key findings for most of the reports. Once again, the skills and competencies required from internal auditors seem to be more advanced than the majority appear to possess. As the role of the internal audit activity becomes more strategic in nature internal auditors are increasingly required to interact with

senior management and to perform audit engagements that are more complex. The internal audit activity's ability to maintain independence and objectivity, which is discussed in section 3.2.1.1 on p.88, appears to have been recognised as playing an important role when it comes to adding value.

From the preceding discussion it seems that familiarity with and competence in auditing the area of governance has become one of the most important focal points for internal auditing if it wants to be seen as a strategic role-player within the organisation. This evolution of internal auditing in respect of organisational governance is discussed next.

3.2.2 Evolution of internal auditing with reference to organisational governance

The evolution of internal auditing, with reference to organisational governance, has been observed and is occurring within two main areas, namely the professional guidance issued by the IIA, as well as what the internal audit activity is experiencing in practice. The evolution within these two areas is now briefly discussed.

3.2.2.1   Evolution in respect of professional guidance

The IIA provides formal guidance pronouncements regarding internal auditing's role with respect to organisational governance, through various guidance documents such as the Standards, practice advisories, position papers and other documents issued by the IIA and the IIA Research Foundation (Hermanson & Rittenberg 2003; Ruud 2003; IIA 2006; IIA 2010:15,52-56). Table 3.2 depicts the extent to which the relevant professional guidance documents have addressed (if at all) organisational governance over a period of time, thus describing the evolution of this concept. Thereafter, the most important aspects within these documents as well as their contributions to the evolution of internal auditing with reference to organisational governance are briefly discussed.

Table 3.2: Extent to which organisational governance is addressed by professional guidance documents

Standards & Practice advisories		
Issued before 1999 (IIA 1998)	**Issued in 2001 & revised in 2004 (IIA 2004)**	**Issued in 2009 & revised in 2010 (IIA 2010)**
• Governance is not addressed in the Standards. • Practice advisories (PA) do not exist.	• Governance is addressed in Standard 2130. • One practice advisory (PA 2130-1) is issued.	• In 2009, governance (previously Standard 2130) is moved to be the first sub-standard (now Standard 2110) addressed in Standard 2100 – Nature of work. • No practice advisories relating to governance were issued in 2009, and PA 2130-1 was removed. • In 2010, three new practice advisories relating to governance were issued (PA 2110-1, PA 2110-2 & PA 2110-3).
Position paper (IIA 2006)		
• The first and only position paper dealing with the role(s) internal auditing plays in respect of organisational governance was issued in 2006.		
Other IIA guidance (Hermanson & Rittenberg 2003; Ruud 2003)		
• The IIA Research Foundation issued a document in 2003 indicating internal auditing's evolving role in respect of organisational governance, and acknowledged that this was an important area when conducting research. • Some research projects linking internal auditing with organisational governance are currently being conducted through the IIA Research Foundation.		

Source: Refer to the individual columns of the table.

• Standards and practice advisories

Table 3.2 above is indicative of the fact that governance was not perceived as an important focus area before 1999, as Standards issued before 1999 did not address governance at all (IIA 1998). However, the current definition (issued in 1999), as well as the revised Standards in 2001 (and subsequently revised in 2004), identified the area of governance as a priority for internal auditing, and included this area in Standard 2100 – Nature of work (IIA 2004:17). Thereafter, in 2009, with the issuance of the revised international Standards, the importance of governance as a priority area for internal auditing was highlighted: governance became the first sub-standard (Standard 2110) addressed in Standard 2100 – Nature of work (IIA 2010:15). From the aforementioned information the evolution of the concept of governance over the past two decades, as well as the importance thereof for internal auditing, is clear and obvious. Standard 2110

emphasises the requirement that the internal audit activity must improve the governance process of the organisation by making appropriate recommendations (IIA 2010:15). The areas that appear to be of importance and which should specifically be focused on are: ethics and values; organisational performance management and accountability; communication of risk and control information; coordination of activities and information flow amongst the board, external and internal auditing, and management; and finally IT governance (IIA 2010:15). The information depicted in table 3.2 on p.100, as well as the content of Standard 2110, may well be indicative of the fact that the nature of the work of the internal auditor has transformed in response to the type of services that clients now require. This is where the strategic role that internal auditing need to play becomes more important than ever (Allen 2008:1-4). The areas in which internal auditing should provide recommendations seem more complex than the normal business processes that are usually audited, and therefore may require internal auditing to enhance their knowledge and skills, specifically in the area of organisational governance, to provide value-adding services. In support of this fact other researchers and authors have indicated that management relies now, more than ever, on internal auditing to provide useful recommendations in pursuit of improving governance processes within the organisation (Brune 2003:19; Whitley 2005:21-22; PWC 2013; PWC 2014).

Revised Standards were issued in 2001, but only one practice advisory relating to governance was introduced, namely PA 2130-1: role of the internal audit activity and internal auditor in the ethical culture of an organisation (IIA 2004:243-247). This practice advisory did not, however, deal with the concept of governance to the extent now seen as necessary, as the internal auditor's responsibility in respect of ethics within an organisation was the main focus. During 2009 PA 2130-1 was removed and in April 2010 three new practice advisories were issued, all in response to and acknowledging the importance of the evolving role of internal auditing in respect of organisational governance (IIA 2010:52-56). PA 2110-1 elaborates on the definition of governance and acknowledges that various definitions of this concept have been published (also refer to section 2.2.1 on p.44 where governance is defined for purposes of this study). The most important

section within this practice advisory describes how the chief audit executive, the board and management defines and interprets governance for that specific organisation (IIA 2010:52-53). As organisations differ, the governance frameworks implemented within organisations may also differ, and this, in turn, influences what internal auditing includes in their scope of work when evaluating organisational governance. It is therefore very important for internal auditing, the board and management to agree on what governance entails (how it is defined), to avoid any unnecessary disagreements at a later stage in the audit process. PA 2110-2 elaborates on the importance of governance's relationship with risk and control (IIA 2010:54). It is important for internal auditing to have a clear understanding of the interrelationship between governance, risk and control, as the chief audit executive should use these relationships when planning governance audit engagements. An important consideration for internal auditors, when conducting governance engagements, is the scope of such an engagement. Controls within governance processes normally manage multiple risks across the organisation. These multiple risks should be considered by the internal auditors, as well as the results of other audit engagements, if it is deemed that the controls relate to the governance process of the organisation (IIA 2010:54). PA 2110-3 elaborates on internal auditing's responsibility when governance assessments or audit engagements are conducted. This is dealt with in section 3.3.2 on p.110 where internal auditing's role in providing internal audit services relating to organisational governance is discussed.

• Position paper

The IIA issued a position paper in 2006 dealing with organisational governance issues relating to the internal auditors' roles when providing internal audit services (IIA 2006). Once again, the evolving role of internal auditing is recognised by the placing of emphasis on the fact that the profession is moving away from performing traditional process audits to providing internal audit services on a more strategic level within the organisation, on various aspects of the business, including governance (Gramling & Hermanson 2006:38; IIA 2006:4-10; Marks 2007:31). Internal auditing's role(s) when providing internal audit

services is discussed in section 3.3.2 on p.110 and is therefore not elaborated on at this point.

• Other IIA guidance

The IIA Research Foundation published a document in 2003 directing researchers to opportunities in internal auditing. The evolving role of internal auditing in respect of organisational governance was prominently acknowledged in the document (Hermanson & Rittenberg 2003; Ruud 2003). The fact that the expanding role of internal auditing in respect of organisational governance was already recognised more than a decade ago is an indication of the accuracy of the current (1999) definition in acknowledging growth directions within the profession. In addition, the IIA recognises the importance of internal auditing's role in respect of organisational governance, as various research projects focusing on governance are currently being conducted through the IIA Research Foundation.

3.2.2.2   Evolution in practice

Apart from the guidance issued by the IIA, various other literature recognises internal auditing's evolving role in respect of organisational governance, and furthermore acknowledges that internal auditing has become one of the key strategic role-players within an organisation by providing professional, value-added services (Hermanson & Rittenberg 2003:58; Leung *et al.* 2003:1-124; Gramling *et al.* 2004:240; Sears 2005:8-11; Gramling & Hermanson 2006:37-39; IIA Research Foundation 2007:339-357; Allen 2008:1-4; Ernst & Young 2008:1-5; Güner 2008:21-33; Burnaby & Hass 2009:813-834; IoD 2009:93-98; Alkafaji *et al.* 2010:26-27; PWC 2010:9; Allegrini *et al.* 2011:12; Anderson & Svare 2011:4,29). Table 3.3 on p.104 briefly summarises the extent to which organisational governance evolved over the past decade, especially taking into account its link with internal auditing and conducting governance audit engagements. The CBOK studies conducted, as they have been over an extended period of time, and

which have had similar objectives, also seem (collectively) to be a good indicator of the arrival and evolution of organisational governance. Similarly, the PWC studies also indicate internal auditing's tendency to move more towards conducting governance audit engagements.

Table 3.3: Extent to which organisational governance has evolved in practice

CBOK studies	
CBOK 2006 (IIA Research Foundation 2007:339-357; Burnaby & Hass 2009:813-834)	**CBOK 2010**
• 6 704 respondents predicted a 63.2% increase in governance audit engagements over the next three years (ranked second out of five types of audit engagements).	Report I (Alkafaji *et al.* 2010:26-27) • Ranked first from a list of 25 activities, respondents indicated that governance audit engagements are the most popular activity that will be performed in the next five years. Report IV (Allegrini *et al.* 2011:12) • Respondents predicted a 65% increase in governance audit engagements over the next five years (ranked third out of five types of audit engagements). Report V (Anderson & Svare 2011:4,29) • Ranked first out of six audit engagements, respondents indicated that internal auditors expect to spend most of their time conducting governance audit engagements within the next five years. • Ranked fourth from a list of eight technical skills, respondents indicated that governance, risk and control tools and techniques will be in high demand within the next five years.

PWC studies			
PWC (2008)	**PWC (2009)**	**PWC (2010)**	**PWC (2011(a)); (2012); (2013); (2014)**
• No mention is made of governance. • Attention is focused on one area of governance – risk management and internal auditing's responsibility in providing assurance.	• No mention is made of governance. • Study concludes that too much internal audit effort and time is still spent on routine financial and compliance audit engagements.	• Governance is acknowledged as a strategic issue. • Internal auditing's role in governance is explored and the importance thereof is acknowledged.	• Governance is mentioned in respect of internal auditing's role in risk management.

Source: Refer to the individual columns of the table.

- CBOK studies

As the 1999 CBOK study (refer to table 3.1 for major findings) was performed before the inclusion of organisational governance in the definition of internal auditing, only the 2006 and 2010 CBOK studies are therefore pertinent for this research. When comparing the results of the 2006 CBOK study to those of the 2010 CBOK study, the evolution and importance of governance as a focus area for internal auditing becomes evident. In 2006, 63.2% of respondents predicted an increase in governance audit engagements within the next three years (governance audit was ranked second out of five types of audit engagements) (IIA Research Foundation 2007:339-357; Burnaby & Hass 2009:813-834), whilst by 2010 this percentage had increased to 65%, ranking governance audit engagements at third out of five types of audit engagements (Allegrini *et al.* 2011:12). In addition, Report I of the 2010 CBOK study indicated that governance audit engagements were ranked first, from a list of 25 activities, as the activity that will be performed most frequently in the next five years (Alkafaji *et al.* 2010:26-27). Report V of the 2010 CBOK study concluded that internal auditors expect to spend most of their time (ranked first out of six possible audit engagements) conducting governance reviews in the next five years, and it is predicted that governance and risk management processes will become the most important cornerstones of the internal audit profession (Anderson & Svare 2011:4). Ranked fourth from a list of eight technical skills, respondents were of the opinion that governance, risk and control will be one of the most important technical skills required by internal auditors in the next five years (Anderson & Svare 2011:29). It appears that governance and internal auditing cannot be separated any longer, as three of the five reports issued during the 2010 CBOK study indicate the evolving role of internal auditing in respect of organisational governance and the increased importance thereof.

- PWC studies

For each of the last seven years PWC conducted a 'State of the Profession' study, which tracks current and emerging trends within the internal audit

profession. Governance, it appears, increased in importance over this period as a focus area for internal auditing, especially in the context of internal auditing's existing responsibility in respect of risk management (PWC 2008; PWC 2011(a); PWC 2012). In 2010 the strategic importance of internal auditing's role in respect of governance was first acknowledged explicitly (PWC 2010:9). The 2010 study, which drew responses from more than 2 000 internal auditors from over 50 territories around the world, asked respondents which governance activities they currently performed in support of their organisation's board and its audit committee. The three governance activities that were ranked the highest were: risk management assurance; assessing ethics and adherence to the code of conduct; and IT governance. From 2010 onwards, the governance role internal auditing plays, in a risk management context, are re-iterated by these studies (PWC 2010; 2011(a); 2012; 2013; 2014).

These results are based on the perceptions and expectations of the future held by various important stakeholders within the organisations surveyed, and allude to the fact that governance and the role internal auditing has to play in improving its effectiveness and efficiency cannot be ignored by internal audit activities. Given the fact that governance appears to be a priority focus area when conducting internal audit engagements, it is necessary to understand the role internal auditing can play in respect of organisational governance. Section 3.3 elaborates on these two important roles.

3.3   INTERNAL AUDITING'S ROLE IN RESPECT OF ORGANISATIONAL GOVERNANCE

In this section a broad overview of the two roles internal auditing can fulfil in organisational governance is provided. These are either as part of the organisational governance framework, or by providing internal audit input in respect of assurance and consulting services.

3.3.1 Role as part of the organisational governance framework

The first role internal auditing can fulfil in respect of organisational governance is to be part of the organisational governance framework. In order to fulfil this role internal auditing is required to demonstrate its adherence to sound governance principles within its own activity, and then to assist the organisation (individuals, departments and management) to achieve similar levels of commitment (CACG 1999:1-7; Spencer Pickett 2003:47-59; De Castro 2005:12-14; Corporate Governance Code Monitoring Committee 2008:57; Marx 2008:97-205; IoD 2009:96-102). An important aspect of this role is to demonstrate the effectiveness of the internal audit activity. For internal auditing to be perceived as a cornerstone of governance requires that the internal audit activity functions effectively and contributes value to the governance structures, systems and processes. It is furthermore argued by Ruud (2003:77) that the internal audit activity can only promote sound governance when functioning effectively. This argument is supported by King III (IoD 2009:93), which requires that an effective internal audit activity is established in pursuit of adequate governance. The obvious next question is: what factors play a role in determining the effectiveness of an internal audit activity? Various authors of published literature on the subject debate this issue, as it is a sensitive and complicated concept. A brief discussion of key issues follows (Gramling *et al.* 2004:194-240; Carcello, Hermanson & Raghunandan 2005:69-81; Corbin 2005:29-31; Sass 2005:14-18; Rittenberg & Anderson 2006:51-54; Mihret & Yismaw 2007:470-482; Ernst & Young 2008:28-31; Arena & Azzone 2009:43-60; Coetzee 2010:131-132; PWC 2010:8):

• Organisational status of the internal audit activity – to remain independent the internal audit activity should report to the appropriate authorities within the organisation; functionally this is the audit committee and the board of directors, and administratively to the chief executive officer. Furthermore, no limitation should be placed on the scope of activities performed by the internal audit activity, as this could negatively influence the independence of the internal audit activity.

- Relationship with the external auditors – the degree of reliance external auditing places on the work of internal auditing may be an important indicator of the quality of work of the internal audit activity. Regular communication between internal and external auditing, and the coordination of activities between these two parties, also needs to take place in pursuit of minimising costs and increasing overall audit effectiveness.

- Relationship with management – although remaining independent, internal auditing should be seen as an extension of management, thus facilitating management's buy-in and support when it comes to resolution of findings, acceptance of recommendations, and realising the value that can be added by implementing internal auditing's recommendations.

- Standing of the chief audit executive – the chief audit executive should be afforded an open-door by the audit committee and the board of directors in respect of reporting any significant discrepancies to them. The chief audit executive should have the ability to demonstrate his/her professionalism to all relevant stakeholders, and to obtain their buy-in, should have the ability to establish an internal audit activity staffed by high-quality internal auditors, and should have the necessary qualifications, skills and experience to adequately fulfil his/her role.

- Internal audit staff – employment of high-quality staff with the necessary qualifications (including professional qualifications), experience, skills and competencies, as well as ethical orientation and values. Staff should undertake continuous training and development activities, as well as being subjected to regular performance appraisal.

- Performance of internal audit activity – evaluation factors which may be included here are: the number of audits completed (was the internal audit plan completed); the results from client satisfaction surveys; acceptance rates of findings presented in reports, as well as percentage of recommendations implemented (ascertained when conducting follow-up reviews). It is furthermore argued that performance is dependent on the internal audit activity having the necessary resources (funding, staff, salaries and technology) to adequately perform their work.

- Communication – internal audit reports, should be issued to people within the organisation who can affect the necessary change, and who can give the findings due consideration.

From the above mentioned it can be deduced that establishing an effective internal audit activity may not be an easy task, as a wide variety of factors need to be considered, however, it is important to understand that internal auditing can only be seen as a cornerstone of governance when functioning effectively. To this extent, the results of the study conducted by Coetzee *et al.* (2010) (refer to sections 3.1 and 3.2 starting on p.86 where more information is provided on the study) can be used as an indication that internal auditing is a profession moving in the right direction, and recognising the importance of establishing an effective internal audit activity. Various areas affecting the status of the internal audit activity were investigated: identifying key attributes that the internal audit activity should possess; the nature of the value added currently, and in future; successful implementation of recommendations made by internal auditing; reliance placed by external auditing on the work of internal auditing, and coordination of efforts between these two parties; and the perceptions of the chief audit executive, chief executive officer and audit committee chairperson on the status of internal auditing (Coetzee *et al*. 2010:37-49). Most of the respondents were of the opinion that these focus areas were being addressed sufficiently by internal auditing, and were perceived as important in the establishment of an effective internal audit activity, and in enhancing the status of the internal audit activity (Coetzee *et al*. 2010:71-72).

In addition to the aforementioned, and in support of the new value proposition where internal auditing is relied upon to provide objective assurance and insight on governance, risk management and internal control processes, the IIA Research Foundation launched a research project during 2008 with the objective to measure various stakeholders' and chief audit executives' views of insight delivery by internal auditing (Miller & Smith 2011:v). Participants in the research project included 358 respondents (33 board members, 66 executives and 259 internal auditors in senior positions) from 39 countries. As indicated by the

research report (Delivering value to stakeholders) that emerged, it appears that the concept of insight delivery can be linked, to a certain extent, to the effectiveness of the internal audit activity, as the majority of the participants indicated a high expectation for internal auditing to deliver insight. One of the best ways in which to achieve this is to have an effective internal audit activity in place (Miller & Smith 2011:39-41).

It therefore appears that the importance of internal auditing playing a key role as part of the organisational governance framework should not be underestimated, especially if the profession wants to be taken more seriously as a strategic role-player within the business environment.

3.3.2 Providing internal audit services

The second role internal auditing can fulfil in respect of enhancing organisational governance is to provide internal audit services relating to organisational governance. This entails rendering one of two services, namely either providing assurance or consulting services when performing internal audit engagements. The type of service rendered will mainly depend on the organisation's governance maturity, but other factors also play a role (IIA 2006:4). Governance maturity as a concept is discussed in greater detail in section 4.2 on p.121. Another important aspect to keep in mind when performing internal audit services is the potential impairment to independence and objectivity. When rendering assurance and/or consulting services, internal auditing should always consider the impact this may have on their independence and objectivity, a concern addressed in Standard 1130 (IIA 2010:8). The roles to be fulfilled by internal auditing should be critically evaluated prior to every governance audit engagement, and should be approved by the chief audit executive, the board, and senior management, before the audit engagement commences.

The first type of service that internal auditing can provide is assurance services. Assurance services entail the objective evaluation of evidence to reach an

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assessment of the process being investigated (in this case the governance structures, systems and processes) (IIA 2010:4). If the governance structures, systems and processes within the organisation are well-established, this implies that the organisation is relatively mature in respect of implementing governance (Gramling & Hermanson 2006:38; IIA 2006:3-4; Marks 2007:31). In such a scenario the internal audit activity will render assurance services, as management's main concerns would be to ensure that the structures, systems and processes currently in place are adequate and effective. Internal auditing may be involved in activities such as evaluating the governance elements; analysing the effectiveness of reporting within the governance structure; comparing the structures with governance's best practices; assessing compliance with relevant governance codes; and assessing whether governance policies and practices are appropriate to the organisation's needs (IIA 2006:5; Marks 2012(b):41).

When providing assurance services in a governance context it is necessary to obtain an understanding of the thought processes underlying governance audit engagements. Professional guidance from the IIA and other literature sources allude to the fact that conducting governance audit engagements is no easy task, as they are usually perceived to be politically charged, because internal auditing is required to deal with the plans and processes initiated by the senior management team of an organisation (Gramling & Hermanson 2006:37-39; IIA 2006:3-18; Marks 2007:31-32; IIA 2010:55-56; Marks 2012(b):39-42). Furthermore, it is required that the chief audit executive exercises care and skill in selecting the right individuals to conduct the audit engagements. Although governance is such a broad concept, after reviewing the most relevant literature it appears that a step-by-step approach to governance audit engagements has yet to be published. Similarly, it appears that studies of issues pertaining to the performance of governance audit engagements have also not yet been concluded. The need to develop and provide a succinct summary of this thought process therefore became a priority, and the result is provided below (Gramling & Hermanson 2006:37-39; IIA 2006:3-18; Marks 2007:31-32; IIA 2010:55-56; Marks 2012(b):39-42):

- Step 1: The term 'governance' should be defined and agreed upon in consultations between the chief audit executive, the board, and senior management. This definition should be communicated to the internal audit activity.

- Step 2: The internal audit activity should understand the organisation's governance structures, systems and processes. This is where the governance maturity of the organisation becomes apparent. It is important for the internal audit activity to understand that it may be acceptable for an organisation not to be at the highest level of maturity, and that the organisation might well be satisfied with their current level of maturity. The relationship between governance, risk, and control should also be clearly understood by the internal audit activity.

- Step 3: The internal audit plan should be developed based on the risk assessment conducted. All governance structures, systems and processes should be considered and the internal audit plan should ideally include the higher risks in respect of these governance structures, systems and processes indicated by the board and senior management as requiring attention.

- Step 4: After approval of the detailed internal audit plan the individual governance audit engagements can be planned. Based on the governance maturity of that specific governance risk (assessed in step 2), and the governance structures, systems and processes in place to manage the risk (determined in step 3), the internal audit activity can decide on the type of service to be rendered - either assurance or consulting, or both.

- Step 5: The scope of the governance audit engagement should be defined. The internal audit activity needs to decide whether to address specific governance activities, in isolation, or if the governance framework as a whole will be audited. As governance is not necessarily viewed as a separate process, but often as a process which may be integrated into various risks and controls within the organisation, this is an important planning consideration for the engagement.

- Step 6: The chief audit executive should assemble an internal audit team that has the necessary skills, competencies and experience to conduct the

engagement, while simultaneously considering the team's probable interactions with senior role-players, as well as the sensitivity of the information that is to be dealt with.

- Step 7: Regular communication should take place, in a professional manner, given the sensitivity of governance audit engagements.

The second type of service that internal auditing can provide is consulting services. Consulting services also include advisory-type services which should add value and improve an organisation's processes (IIA 2010:4). Should the governance structures, systems and processes be developed to a lesser extent, resulting from a relatively unstructured governance framework or the organisation having no framework in place at all, it would be an indication that the organisation is not governance-mature. In this scenario the internal audit activity would render consulting services, as management's main concern would be to establish or to improve the governance framework currently in place. Typically, the internal audit activity would provide advice on achieving optimal governance structures, systems and processes, and implementing improved practices. The process would include comparing the current governance structure (if applicable) to relevant regulations and to other compliance requirements (IIA 2006:4-5). Once again, the value added when providing consulting services becomes apparent as internal auditing facilitates change that results in process improvements for the organisation.

From the foregoing discussion it should be apparent that it is imperative for internal auditing to be aware of the level of governance maturity of the organisation they are auditing, as only then will internal auditing be in a position to determine which services (assurance and/or consulting), to render. Depending on the phase of implementation of governance that has been achieved within the organisation, internal auditing can be required to render both types of services, as the organisation may have reached different stages of implementation of various governance structures, systems and processes within the greater governance framework. The establishment of an organisational governance maturity framework, which can be used to determine the level of maturity of the

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structures, systems and processes, would benefit internal auditing, enabling it to decide how best to meet the needs of the organisation in respect of internal audit services relating to governance. The value of maturity frameworks to internal auditing is discussed next.

3.4 VALUE OF A MATURITY FRAMEWORK TO INTERNAL AUDITING

An extensive search of the most recent and relevant literature revealed very few sources that address the value of maturity frameworks to internal auditing. Authors and researchers usually describe the development of the maturity framework/model, but do not necessarily identify the benefits of using such maturity frameworks/models (refer to sections 1.3 and 1.4 starting on p.13). Those few authors who have identified the benefits of the relevant maturity framework/model are the ones referred to in this research, and provide the basis upon which conclusions have been reached in respect of the value a framework holds for internal auditing.

In the first instance, internal auditing bases the type of service they render on the processes currently in place within the organisation (IIA 2010:4). (Refer to section 3.3.2 on p.110 for a detailed discussion on what assurance and consulting services entail, and how internal auditing makes use of the level of maturity in determining which services to render.) As mentioned previously, the implementation of a maturity framework could assist internal auditing to determine to what extent certain structures, systems and processes have been implemented for the area under review, which, in turn, would guide the internal auditor to identify the type of service that would add the most value to the organisation (Bahrman 2011(b):41-42).

In the second instance, a maturity framework can be used by internal auditing to obtain ideas and to provide value-adding recommendations intended to advance the organisation to the next level of maturity within the framework. In other words, internal auditing can make use of the information and criteria within the

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framework to advise management on the best possible way to reach the next level of maturity (RIMS 2006:4; IIA Research Foundation 2009:vii; Bahrman 2011(b):41-42).

In the third instance, internal auditing can use the maturity framework for benchmarking the organisation against best practices both globally and within its industry, with the objective of refining and improving the organisation's current framework (RIMS 2006:4; IIA Research Foundation 2009:vii; Bahrman 2011(b):41-42).

In the fourth instance, a maturity framework would be a reliable source of general information about the company's background, and the structures, systems and processes currently in place within the organisation. This can be used by internal auditing to obtain an overview understanding of how these structures, systems and processes functions and the relationships of the elements involved, which can then be used in the planning of any audit engagement (RIMS 2006:4; IIA Research Foundation 2009:vii; Bahrman 2011(b):41-42).

Finally, a maturity framework can help define the criteria to use when assessing any structures, systems and processes. This will enable internal auditing to conduct an audit engagement in a more efficient and effective manner, as the criteria established within the framework can be used as key points of evaluation whilst conducting the audit engagement (RIMS 2006:4; IIA Research Foundation 2009:vii; Bahrman 2011(b):41-42).

From the above discussion it should be clear that the value of a maturity framework to internal auditing should not be underestimated, and that such a framework can materially assist internal auditing in various ways when providing professional services to the auditee.

3.5   CONCLUSION AND RELEVANCE TO THE STUDY

Numerous changes have taken place over the past two decades within the internal audit profession, commencing with an improved definition being approved and published during 1999. This revised definition made provision for the changes already taking place within the profession, by highlighting certain key aspects such as internal auditing being an independent and objective activity which provides assurance and consulting services in pursuit of adding value and improving the operations of an organisation in respect of governance, risk management and control processes.

In addition to the changes to the official definition, various professional guidance documents issued by the IIA have also been regularly updated since 1999. The Standards and practice advisories were revised, including the revision of the sequence of the sub-standards for Standard 2100, resulting in governance (Standard 2110) becoming the first sub-standard (of particular pertinence to this research). In addition, three new practice advisories relating to governance were issued during 2010, acknowledging the increasing importance of the role internal auditing plays in respect of organisational governance. Unfortunately, to date only one position paper has been issued pertaining to governance. However, various research projects in respect of organisational governance are currently being undertaken by the IIA Research Foundation. The issuing of other, more informal guidance, such as the various CBOK studies (especially those conducted from 1999 to 2010), is a further indication of the continuing evolution of the profession. Through these studies a competency framework for internal auditors has been developed and issued in 1999, thus acknowledging that different skills and competencies are required to fulfil their additional role as strategic business partners. In addition, during 2013, the IIA Global issued yet another updated competency framework, recognising the importance of the role of internal auditing and the skills internal auditors should have.

Another outcome of the CBOK studies (and also supported by the PWC studies and the study conducted by Coetzee *et al.* (2010)) has been the increased importance of internal auditing's role in respect of organisational governance. Internal auditing can be involved in organisational governance in one of two ways. In the first instance, internal auditing can be part of the organisational governance framework, which suggests that internal auditing is seen as one of the cornerstones of governance. This places an important responsibility on the internal audit activity, requiring it to ensure that it functions effectively within the organisation, and not simply existing to demonstrate nominal compliance with statutory governance requirements. In the second instance, internal auditing can provide certain services to enhance the organisational governance framework by providing either assurance or consulting services, or a combination of both. The type of services rendered will depend on the governance maturity of the organisation; mature organisations normally require assurance services, whereas less mature organisations tend to require consulting services from internal auditing.

There are various benefits for internal auditing when making use of a maturity framework, and it appears that the value of a maturity framework should not be underestimated when providing professional services.

The key areas relevant to the study that were discussed in this chapter are the following:

- One of the most important changes taking place within internal auditing is its evolving role in respect of organisational governance. Literature available on this topic recognises this fact, and it is acknowledged that this could be an area where internal auditing can add value to an organisation.
- Internal auditing can be involved in the governance of an organisation by playing one of two distinct roles. The first role entails internal auditing being part of the governance framework of the organisation, whilst the second role is for internal auditing to provide internal audit services relating to organisational governance.

- When internal auditing provides internal audit services relating to organisational governance, they can render either assurance or consulting services, or both, depending on the governance maturity of the organisation. It would therefore be beneficial for internal auditing to know the level of governance maturity of the organisation. This can be achieved by using an organisational governance maturity framework, to assess the needs of the organisation, and to provide it with the most appropriate services.

It therefore appears beneficial for internal auditing to make use of an organisational governance maturity framework to determine the governance maturity of the organisation, and from that to establish the most appropriate types of service that should be rendered. As no such framework has been developed for South Africa's private sector yet, the next chapter will present an organisational governance maturity framework for this sector of the business community.

CHAPTER 4

ORGANISATIONAL GOVERNANCE MATURITY FRAMEWORK

4.1   INTRODUCTION

In the previous chapter it was concluded that internal auditing can derive various benefits from the use of an organisational governance maturity framework. Furthermore, it appears that the concept of organisational governance maturity, and the measurement thereof, is formally not well-defined within the business community, thus making the task of using these concepts more difficult. The limited literature that is available suggests that organisational governance maturity refers to the extent to which the organisation has established an adequate governance framework (e.g. has formally defined its structures, systems and processes), and an assessment of the relative success it achieved in the implementation of and adherence to this framework (Gramling & Hermanson 2006:38; IIA 2006:4-5; Marks 2007:31; Massie (n.d.)). It is important for an organisation to understand the concept of organisational governance maturity as this will enable the organisation (with the assistance of a framework) to determine their current status, as well as to implement plans for achieving continuous improvement (RIMS 2006:4; Bahrman 2011(b):41-42; Donnellan, Sheridan & Curry 2011:40).

Apart from the fact that organisational governance maturity seems to be a concept that did not receive much attention as an area for academic research globally, it was noted that an organisational governance maturity framework able to provide a holistic view of businesses in a South African context, has not been developed to date. A search of published literature (and some unpublished sources) revealed only a few governance-related maturity frameworks/models which are listed in section 4.2.3 on p.126 (Rossouw & Van Vuuren 2003; RIMS 2006; OCEG & NACD 2007; IIA Research Foundation 2009; IoD 2009; Coetzee 2010; Bahrman 2011 (a) & (b); ISACA 2012). This situation therefore presented itself as an opportunity for the development of such a framework, as the various

benefits that can be derived from the implementation of the framework are significant. Organisations will be able to determine their current levels of implementation of statutory and best-practice organisational governance practices, as well as to identify the criteria required to advance to the next level of maturity. The framework can also be used for benchmarking exercises and, most importantly, the framework can assist with instilling a culture of good governance within the organisation, embraced by all employees. From an internal audit perspective this framework may prove to be a very helpful tool as it can assist the internal audit activity to render services in a more efficient and effective manner.

From the aforementioned it seems evident that the value of an organisational governance maturity framework, both from a practical and an academic perspective, cannot be denied. This chapter therefore has as its main objective the development of a preliminary organisational governance maturity framework, derived from and inspired by the literature that is available. The layout of this chapter is as follows: Firstly, the concept of organisational governance maturity is explored. This entails obtaining an understanding of what organisational governance maturity entails, the measurement of governance maturity, the history and evolution of maturity frameworks/models and their practical application. The benefits of an organisational governance maturity framework for an organisation are also discussed. Secondly, the preliminary organisational governance maturity framework is developed. This was achieved by conducting research to identify and subsequently analyse the core elements that should be present in an ideal measurement tool; various governance-related maturity frameworks/models were compared to determine the common attributes that should be included in the framework; the specific maturity levels were determined, based on analysing relevant maturity frameworks/models; and the criteria per attribute and each attribute's corresponding level of maturity, were determined.

Pursuing the abovementioned enabled the development of the preliminary organisational governance maturity framework which is presented in full as Annexure C on p.234.

4.2   ORGANISATIONAL GOVERNANCE MATURITY

Unlike the much-debated concept of organisational governance, organisational governance maturity is a concept that is not easily defined nor explained, as the available literature seems to be limited. This section, based on the limited literature that is available, elaborates on what organisational governance maturity entails and the importance of the measurement thereof. Furthermore, the history and evolution of maturity frameworks/models is discussed, as are relevant examples of the practical measurement of maturity in respect of governance. Finally, this section presents the benefits of an organisational governance maturity framework for organisations.

4.2.1   What is organisational governance maturity?

Before the concept of organisational governance maturity can be explored, it is first necessary to review certain aspects that underpin the importance of organisational governance, as the evolution of organisational governance resulted in organisations realising the necessity of having adequate governance structures, systems and processes in place which enables them to identify their levels of maturity.

As discussed in sections 2.2 and 2.3 starting on p.43, organisational governance is a concept that has been debated and discussed to great lengths within the literature and, as a result, organisational governance gained prominence as a point of discussion in board and other senior management meetings (Yuksel 2008:101-102). Research (discussed in detail in section 2.3.1 on p.70) has furthermore identified various factors that have contributed to the increased importance of organisational governance, such as the occurrence of corporate scandals, the change in investors' requirements, the financial crisis, stakeholders demanding a better quality of information, and the consequences of leadership of organisations not meeting the demands of stakeholders. With this increase in the perceived importance of organisational governance, organisations became more

aware of what this concept entails and how the organisation should attempt to implement and adhere to sound governance principles. As a result, the gradual implementation of governance-related maturity frameworks/models within organisations began to occur, with organisations reaching varying levels of maturity within the different spheres of organisational governance (Turnbull 1999:1-5; Hermanson & Rittenberg 2003:58; IFAC 2004:4-8; IIA 2006:4-6; Lipman & Lipman 2006:3-4; West 2006:433-448; Solomon 2007:31-47; Monks & Minow 2008:351-410; IoD 2009:5-18; Rossouw & Van Vuuren 2010:205-211; Wilkinson & Plant 2012:19-31).

Due to the fact that organisational governance is such a broad concept and may be defined or interpreted differently by different organisations, defining the concept of organisational governance maturity is also likely to prove to be difficult. A study of the literature revealed that organisational governance maturity refers to the extent to which an organisation established adequate governance structures, systems and processes, and the degree to which the board, management and employees implemented and adhered to these governance structures, systems and processes (Gramling & Hermanson 2006:38; IIA 2006:4-5; Marks 2007:31; Massie (n.d.)). The following two examples explain the interpretation of the definition of organisational governance maturity (Gramling & Hermanson 2006:38; IIA 2006:4-5; Marks 2007:31; Wilkinson & Plant 2012:19-31):

- If an organisation has either not established any form of governance framework (structures, systems and processes), or are only in the beginning stages of establishing the framework, it would be an indication that the organisation may not be seen as mature in respect of organisational governance.
- If an organisation has a well-established and operational framework (structures, systems and processes) in place, which all relevant parties are aware of and which is truly embedded within the organisation, this would be an indication of an organisation that is mature in respect of organisational governance.

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An important consideration not to lose sight of when attempting to understand what organisational governance maturity entails, is whether or not the organisation actually implements and adheres to the activities recorded in the governance framework (structures, systems and processes), as this would be the determining factor when assessing the maturity of the organisation in respect of organisational governance. The more elements that are present and that have been implemented in respect of organisational governance, the more mature the organisation would be. It should therefore be obvious that for an organisation to have best-practice governance structures, systems and processes in theory, but not to have implemented these structures, systems and processes or truly embed it within the organisation, would render the exercise meaningless.

As a result, some practical challenges are faced when attempting to determine the governance maturity of an organisation (Newsome 2005:12-13). The first challenge is to evaluate the adequacy of the governance structures, systems and processes. In other words, theoretically, do the governance structures, systems and processes meet the needs of the organisation as well as the requirements prescribed by the relevant governance codes and laws? In evaluating the adequacy of the governance structures, systems and processes, an array of activities/areas needs to be considered. Due to the fact that organisational governance is such a broad concept and may be defined or interpreted differently for different organisations, the activities/areas included in an organisational governance maturity framework may differ from organisation to organisation (Bahrman 2011(b):41-59). This, in turn, may hinder the development of a 'one-size-fits-all' organisational governance maturity framework, and additionally complicate the process of evaluating the adequacy of the framework. The second challenge is to determine whether the elements of the various governance structures, systems and processes have actually been embedded within the organisation, as opposed to merely being some sort of 'tick-box' compliance checklist process, as was the case with most of the organisations involved in the recent corporate scandals discussed in section 2.3.3.2 on p.79.

Apart from the challenges faced when determining the governance maturity of an organisation, the importance and benefits of measuring organisational governance, and hence establishing the maturity thereof, is also a debated issue (Hermanson 2004:37-40; Newsome 2005:12-13). Firstly, the presence of accepted governance structures, systems and processes promotes the importance of sound governance within the organisation. Secondly, chief executives and their management teams are likely to respond to this measurement process and strive to advance to the next maturity level through a continuous process of improvement. Thirdly, the accumulating body of knowledge on governance maturity creates opportunities for more specifically focused research on the topic, with the ultimate result being a growing body of increasingly useful academic literature and applied knowledge.

After obtaining an understanding of the concept of organisational governance maturity and what it's adoption entails, it is necessary to provide a brief overview of the development of maturity frameworks/models in general.

4.2.2 History and evolution of maturity frameworks/models

The evolutionary nature of maturity frameworks/models is evident from a study of the proliferation of these frameworks/models within various fields of specialisation over the past three decades. Although various literature sources examine the history and development of maturity frameworks/models, it was noted that most of these sources identify the development of the Capability Maturity Model (CMM is a process maturity model that assists organisations in improving their software processes) as an important milestone influencing the development of maturity models in other fields of specialisation. As such, it is pertinent and appropriate to provide a brief overview of the development of the CMM next (De Bruin, Freeze, Kaulkarni & Rosemann 2005; Paulk 2009:5-19; Magdaleno, De Araujo & Werner 2011:106).

Based on the frameworks/models developed by Nolan in 1973, to identify stages of growth within an information technology (IT) environment, and Crosby in 1979, developing a quality management capability grid, the Software Engineering Institute (SEI) developed the first version of the CMM during the late 1980s (Paulk 2009:5-19; SEI 2010). The CMM was originally developed in response to a request to provide the Department of Defence in the United States of America (USA) with a tool to assess the capabilities of their software contractors (Paulk 2009:5-19). During the 1990s and 2000s the CMM was progressively improved, updated and adapted for other specific areas within the information technology environment, such as business management, process management and project management, to mention a few (De Bruin *et al.* 2005). The CMM, which focussed broadly on software processes, evolved into the Capability Maturity Model Integration (CMMI), integrating specific areas within the information technology environment (refer to table 4.1 for a brief discussion of the evolution). The end result was that maturity could then be measured more accurately in these respective areas (Paulk 2009:5-19).

The evolutionary development of the CMM, and leading to the CMMI, is illustrated in the brief summary provided in table 4.1.

Table 4.1: Evolutionary development of the CMM/CMMI

Late 1980s	1990s	2000s
• 1987 – Development of software process maturity framework.	• 1991 – CMM version 1.0 was released after updating the model of 1987.	• 2000 – CMMI version 1.0 was launched as a project to integrate the various maturity models.
	• 1993 – CMM version 1.1 was released after using and updating the model of 1991. Version 1.1 was used for more than 10 years.	• 2002 – CMMI version 1.1 was released.

	• 1998 – CMM version 2.0 developed but withdrawn as a result of the development of various other maturity models.	• 2006 – CMMI-DEV 1.2 was released which makes provision for the following areas:
		  o Product and service development;
		  o Service establishment, management and

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Late 1980s	1990s	2000s
		delivery; ○ Product and service acquisition; ○ Security; ○ Risk; and ○ Systems design.

Sources: De Bruin *et al.* 2005; Kneuper 2008; Paulk 2009.

As indicated in table 4.1, during the 1980s and 1990s the CMM evolved mainly in respect of software processes and its ability to measure maturity in respect of these processes. The development of maturity frameworks/models in other fields of specialisation during the early 2000s necessitated the integration of the CMM into more specific areas and processes within the information technology environment, which advanced the process that resulted in the formalisation of the CMMI.

It appears that the development of the CMM and subsequently the CMMI inspired other areas of specialisation to follow suit, as these disciplines realised the value that could be derived from using maturity frameworks/models. This, in turn, resulted in the gradual practical application of maturity frameworks/models to organisational management. Models related to organisational governance and their practical application are discussed in the next section.

4.2.3 Practical application of governance-related maturity frameworks/ models

As indicated in section 1.4.3 on p.20, a search was conducted to discover the existence of governance-related maturity frameworks/models. The final search was conducted on 17 October 2013 and revealed only a few governance-related maturity frameworks/models, of which only one was found to focus extensively on the holistic concept of governance. The following maturity frameworks/models were identified (introduced in section 1.4.3 on p.20):

- Modes of Managing Morality (MMM) model specialising in ethics (Rossouw & Van Vuuren 2003).

- Open Compliance and Ethics Group (OCEG) model specialising in decision-making from a governance perspective (OCEG & NACD 2007).

- Internal audit Capability Model (IA-CM) specialising in internal auditing (IIA Research Foundation 2009).

- Risk maturity model specialising in risk (RIMS 2006; Coetzee 2010).

- Governance Capability Maturity (GCM) model specialising in governance within a USA business context (Bahrman 2011 (a) & (b)).

Note that the CMMI is not listed as a governance-related maturity framework/model as it only focuses on information technology software processes. However, as it is regarded as the foundation of almost all maturity frameworks/models, the CMMI will be included in the discussion of the development of the preliminary organisational governance maturity framework.

Whilst conducting the search, other measurement tools related to governance were found, this included the King III maturity dashboard (Deloitte 2010(b)) inspired by King III (IoD 2009), the Governance Assessment Instrument (GAI) (IoD 2012) and the Control Objectives for Information Technology (COBIT) 5 model (ISACA 2012).

Following up on the above results, a further search was conducted to ascertain whether these governance-related maturity frameworks/models, as well as their associated measurement tools, were being applied in practice. The results of this search revealed the following:

- MMM model (Rossouw & Van Vuuren 2003) and OCEG model (OCEG & NACD 2007) – no specific examples could be found of the practical application of these models. However, information presented within the OCEG model does indicate that the model was validated (tested in practical business situations), but no specific details are provided to substantiate this.

- IA-CM (IIA Research Foundation 2009) – this model was applied successfully at the United Kingdom's (UK) Ministry of Defence (MacRae 2010:69; MacRae 2012:18), and by the National Audit Office (NAO) (2012:24) as a self-assessment tool evaluating internal audit capability. The model was also tested by Janse van Rensburg & Coetzee (2011) in respect of the support provided by South African legislation and guidance to incorporate the various aspects of the model in the South African public sector organisations.

- Risk maturity model (RIMS 2006; Coetzee 2010) – although no specific examples could be found of the practical application of the Risk and Insurance Management Society (RIMS) model, information related to this model suggests that it is available on-line from the RIMS website, and may be used by any organisation (after payment of a fee) to assess their risk maturity. In addition, a study conducted by Coetzee (2010) used the RIMS model as a basis from which a model was developed for the South African business environment. The risk maturity model developed by Coetzee (2010) was applied successfully and was used to measure the risk maturity of organisations within the private and public sectors in South Africa.

- GCM model (Bahrman 2011 (a) & (b)) – no specific examples could be discovered of the practical application of this model. However, Bahrman (2011 (a) & (b)) does state that this model was applied successfully in a USA context.

Measurement tools that, while not specifically fulfilling the requirements of a maturity framework/model, are currently being applied in the area of governance, especially in South Africa, are the King III maturity dashboard developed by Deloitte (2010(b)), the GAI developed by the IoD (2012), and the COBIT 5 model developed by ISACA (ISACA 2012).

Considering the information discussed above, it seems that the practical application of maturity frameworks/models is slowly starting to occur, in line with the fact that these frameworks/models were developed with the aim of assisting

organisations practically and effortlessly to measure their maturity in a specific area of specialisation.

4.2.4 Benefits of an organisational governance maturity framework for organisations

Sources of literature seem to be limited when searching for research recording the benefits of maturity frameworks for organisations in general. The general sources of literature (although limited), as well as literature on governance-related maturity frameworks/models were therefore used, as far as they could be applied, as a basis from which to reach conclusions in respect of the benefits of a governance maturity framework for organisations.

Firstly, such a framework provides an organisation with a snapshot of the current status of their organisational governance regime. In other words, it identifies the governance structures, systems and processes that the organisation currently has in place (RIMS 2006:4; Bahrman 2011(b):41-42). It should also be reasonably obvious that if an organisation is not aware of the current status of its organisational governance, it would prove fairly difficult to advance to the next level.

Secondly, the framework would provide the organisation with the criteria that need to be adhered to and/or implemented in order to advance to the next level of maturity. As a result, some of the current risks and inefficiencies are likely to be addressed, and this should provide for the improvement of organisational governance at the enterprise level, or within individual governance processes (RIMS 2006:4; Bahrman 2011(b):41-42; Donnellan *et al.* 2011:40).

Thirdly, the maturity framework can be used for benchmarking an organisation against similar industries globally, with the objective of refining and improving the framework currently in place within the organisation (RIMS 2006:4; Bahrman 2011(b):41-42).

Finally, such a framework can help to embed a governance culture within the organisation so that it can aspire to an end result of being earmarked as a leader in respect of organisational governance. It can assist in planning, organising, evaluating, managing and monitoring the complex and diverse field of competencies that is organisational governance, thereby attempting to make this concept less complicated (RIMS 2006:4; Bahrman 2011(b):41-42; Donnellan *et al.* 2011:40).

The value that can be added by implementing an organisational governance maturity framework cannot be denied, however, the success of such a framework lies in the attitude with which it is implemented, and that leads to its being embedded within the organisation.

Having obtained an understanding of the literature related to the concept of organisational governance maturity and the related models, the next step is to commence with the development of the organisational governance maturity framework itself.

4.3 DEVELOPMENT OF THE PRELIMINARY ORGANISATIONAL GOVERNANCE MATURITY FRAMEWORK

This section presents in more detail the development of the preliminary organisational governance maturity framework. Three aspects are dealt with in pursuit of the development of the framework. The aspects are presented in sections 4.3.1, 4.3.2 and 4.3.3 starting on p.131. For each of the three aspects one or more question(s) is (are) posed. For each of the objectives established, the steps executed detailing how these objectives will be achieved are presented, together with the findings reached. The study conducted by Wilkinson & Plant (2012:19-31), which explored the need and motivation for the development of such a framework, was used as the point of departure.

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4.3.1 The elements present in an ideal measurement tool

In this section the first aspect of the development of the preliminary organisational governance maturity framework is elaborated on and analysed. This entails answering the question: what does an ideal business-related maturity measurement tool typically consist of? The objectives, as well as the steps executed in order to answer this question are presented, thereafter the findings are discussed and a conclusion reached from these findings.

The following objectives were established in order to answer the question stated above:

- Determine the elements commonly found in relevant maturity frameworks/models.
- Obtain an understanding of how these elements can be defined, and explain them briefly.
- Evaluate the adequacy of the selected maturity frameworks/models as measurement tools (listed in table 4.2 on p.132), based on the business elements they comprise or address.
- Provide an outline of the ideal measurement tool.

The steps executed in order to achieve the abovementioned objectives were as follows:

- Pertinent maturity frameworks/models (listed in table 4.2) were selected after reviewing the literature. The frameworks/models were selected because of their comprehensiveness in measuring maturity as well as their relevance to the field of governance.
- Thereafter the maturity frameworks/models were evaluated in respect of their adequacy as measurement tools, based on the elements present.
- An understanding of each of the elements was obtained, specifically focusing on their ability to measure levels of maturity.

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- Conclusions were then reached in respect of which elements should be present in an ideal measurement tool that was intended to underpin maturity frameworks/models focussing on organisational governance-related aspects of business.

4.3.1.1 Findings

Table 4.2 provides a summary of the common elements found whilst reviewing the relevant literature. This information is then briefly discussed and interpreted.

Table 4.2: Common elements used in maturity frameworks/models

Maturity framework/model	Area of specialisation	Common elements		
		Attributes	Maturity levels	Criteria
CMMI (SEI 2010)*	Software processes	• Present in model but described as common features which also contain key practices.	• Present in model.	• Each maturity level has several key process areas linked to the attributes.
		• Five common features are specified containing several key practices.	• Five levels of maturity are specified.	
MMM model (Rossouw & Van Vuuren 2003)	Ethics	• Present in model but described as dimensions of comparison.	• Present in model.	• Present in model and links attributes with maturity levels.
		• Four dimensions of comparison are specified.	• Five levels of maturity are specified.	
OCEG model (OCEG & NACD 2007)	Corporate governance limited to decision-making	• Present in model.	• Present in model.	• Present in model and links attributes with maturity levels.
		• Five attributes are specified.	• Five levels of maturity are specified.	

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Maturity framework/model	Area of specialisation	Common elements		
		Attributes	Maturity levels	Criteria
IA-CM (IIA Research Foundation 2009)	Internal auditing	• Present in model but described as elements.	• Present in model.	• Present in model and described as key process areas linking the elements with the capability levels.
		• Six elements are specified.	• Five levels of maturity are specified and described as capabilities.	
Risk maturity model (RIMS 2006; Coetzee 2010)	Risk	• Present in model(s).	• Present in model(s).	• Present in model(s).
		• RIMS specifies seven attributes. • Coetzee specifies eight attributes.	• Five levels of maturity are specified.	
GCM model (Bahrman 2011 (a) & (b))	Governance (generic in a USA context)	• Present in model but described as elements.	• Present in model.	• Present in model but described as characteristics linking the attributes with the maturity levels.
		• Ten groups of elements are specified.	• Five levels of maturity are specified.	
Other measurement tools related to governance				
King III maturity dashboard (Deloitte 2010(b))	Governance - King III compliance	This tool does not make use of any attributes or levels of maturity and was mainly designed for self-assessment purposes in evaluating compliance with King III.		
GAI (IoD 2012)	Governance - King III compliance	This tool does not make use of any attributes or levels of maturity and was mainly designed for self-assessment purposes in evaluating compliance with King III.		
COBIT 5 model (ISACA 2012)	Information Technology (IT)	This model does not make use of any attributes or levels of maturity but is regarded as a tool which assists in ensuring compliance with relevant IT governance aspects deemed important.		
Other guidance related to governance (in South African context)				
King III (IoD 2009)	Governance - King III compliance	This guidance document does not make use of any attributes or levels of maturity. King III was drafted as a guidance document prescribing certain principles which should be complied with.		

Source: Refer to the individual columns of the table.

*Note: Although CMMI is not a governance-related framework/model it was included here as it is regarded as a leader in the field of maturity frameworks/models.

Firstly, although different terminology may be used, it appears from the information presented in table 4.2 that a measurement tool requires three core

elements, namely, the attributes of each maturity level, the levels of maturity or development, and the assessment criteria.

Secondly, whilst reviewing the literature on the frameworks/models presented in table 4.2 it became obvious that the three core elements can be summarised as follows:

- Attributes – refers to the characteristics or qualities that can be associated with the relevant area of specialisation.
- Levels of maturity – refers to the stages of maturity or implementation that can be associated with the relevant area of specialisation.
- Criteria – links the levels of maturity to the attributes by describing what is expected for that attribute at that specific level of maturity.

Thirdly, analysing the number of attributes per maturity framework/model listed in table 4.2, it can be concluded that an ideal measurement tool should consist of approximately seven attributes. The maturity frameworks/models (listed in table 4.2) made use of between four (the minimum) and ten (the maximum) attributes, thus an average of seven. Using fewer than four attributes may be an indication that the specific area of specialisation is not adequately covered, while having more than ten attributes may result in overcomplicating the maturity framework/model or adding attributes that do not add any real value.

Fourthly, it was noted that all maturity frameworks/models had identified five levels of maturity, and that these levels could be meaningfully combined as they address the same concepts, despite the sometimes different choice of terminology. It was deemed necessary to understand what each of the levels of maturity entails, as they are important elements of the process of measuring maturity. After reviewing the maturity frameworks/models listed in table 4.2 on p.132 it was possible to present a consolidated list of the main aspects addressed in the five levels of maturity. These aspects are summarised as:

- Level 1 recognises that the organisation is totally immature in respect of the specific attributes and does not see the value thereof, or is unaware of these attributes and their importance.

- Level 2 recognises that the organisation is in the process of becoming aware of the existence and importance of the relevant attributes, but if implemented, these attributes may still be questioned and/or ignored.

- Level 3 recognises that the organisation has implemented the relevant attributes to the extent that it ensures compliance with minimum requirements related to its area of specialisation.

- Level 4 recognises that the organisation realises the importance of pro-active implementation of and adherence to the relevant attributes. The concept of moving beyond compliance is being encouraged and as such, the organisation increasingly recognises the value that could be added by institutionalising these attributes, and attempts to improve their implementation.

- Level 5 recognises that the organisation is mature and the value that can be added by the pro-active implementation of and adherence to the relevant attributes. The importance of these attributes is recognised by all stakeholders and considerable effort is made in the effective institutionalisation of, adherence to and reporting on these attributes.

In conclusion, from the information listed in table 4.2 on p.132, as well as the information subsequently discussed, it appears that the ideal measurement tool should consist of the following elements:

- Approximately seven attributes addressing important areas that have an important impact on the area of specialisation.

- Five levels of maturity that indicate the stages of maturity or implementation for a specific attribute within each area of specialisation.

- Criteria linking the levels of maturity to the attributes by means of specific indicators.

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4.3.2 Comparison of governance-related maturity frameworks/models

In this section the second aspect in the development of the preliminary organisational governance maturity framework is elaborated on and analysed. As the elements of an ideal measurement tool were identified in section 4.3.1 on p.131, the next task is to determine which governance-related maturity frameworks/models are relevant for the development of the preliminary organisational governance maturity framework, as well as which attributes should be included in such a framework. This was achieved after comparing the selected governance-related maturity frameworks/models. Section 4.3.2 follows the same format as was used in section 4.3.1 on p.131.

The following are the questions that will be addressed in this section:

- Which maturity frameworks/models (or other sources) should be considered in the development of the preliminary organisational governance maturity framework?
- What are the attributes common to these maturity frameworks/models that should be included in the preliminary organisational governance maturity framework?

The following objectives were established in order to answer the questions stated above:

- Determine which maturity frameworks/models (and/or other sources) should be considered for inclusion when developing an organisational governance maturity framework.
- Evaluate the adequacy of the selected maturity frameworks/models (and/or other sources) in respect of their relevance in the field of governance.
- Determine which common attributes are relevant to a governance-related maturity framework/model (or other sources).
- Decide which attributes should be included in the preliminary organisational governance maturity framework.

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The steps executed in order to achieve the abovementioned objectives were as follows:

- Relevant maturity frameworks/models (and/or other sources) were selected after reviewing the literature.
- The selected maturity frameworks/models (and/or other sources) were compared to determine which of these models address the three core elements identified in section 4.3.1 on p.131.
- These frameworks/models (and/or other sources) were subjected to further evaluation in respect of their comprehensiveness and relevance to the field of governance.
- The results from the comparison were used to determine which common attributes should be included in the preliminary organisational governance maturity framework, and conclusions as to their likely effectiveness were reached.

4.3.2.1   Findings

In pursuit of an answer to the first question stated, table 4.3 provides a summary of the maturity frameworks/models and other sources considered for inclusion in the development of the preliminary organisational governance maturity framework. The information in the table addresses the following questions:

- What is the area of specialisation of the maturity framework/model?
- Are the three core elements of an ideal measurement tool (attributes, levels of maturity and criteria) present in this framework/model?
- Is the framework/model relevant to the field of governance, and should it be considered in the development of the preliminary organisational governance maturity framework? Reasons for these answers are also provided.

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Table 4.3: Comparison of maturity frameworks/models

Maturity framework/model (or other sources)	Area of specialisation	Three elements present (Y/N)	Is framework/model relevant? (Y/N)	Reason(s) (also refer to detail discussions below)
CMMI (SEI 2010)	Software processes	Yes	No	Focus mainly on software processes.
MMM model (Rossouw & Van Vuuren 2003)	Ethics	Yes (refer to Annexure A)	Yes – limited use	Ethics plays an important role in applying governance principles effectively.
OCEG model (OCEG & NACD 2007)	Corporate governance (limited to decision-making)	Yes (refer to Annexure A)	Yes – limited use	Focuses on governance as far as it relates to decision-making.
IA-CM (IIA Research Foundation 2009)	Internal auditing	Yes (refer to Annexure A)	Yes – limited use	Internal auditing is regarded as one of the pillars of governance.
Risk maturity model (RIMS 2006; Coetzee 2010)	Risk	Yes (refer to Annexure A)	Yes – limited use	Risk plays an important role in the field of governance.
GCM model (Bahrman 2011 (a) & (b))	Governance (generic in a USA context)	Yes (refer to Annexure A)	Yes – extensive use	Only model that focuses extensively on governance.
Other measurement tools related to governance				
King III maturity dashboard (Deloitte 2010(b))	Governance - King III compliance	No	No	Tool measures governance compliance and not necessarily maturity.
GAI (IoD 2012)	Governance - King III compliance	No	No	Tool measures governance compliance and not necessarily maturity.
COBIT 5 model (ISACA 2012)	Information Technology(IT)	No (refer to Annexure A)	Yes – limited use	Increased importance of IT governance world-wide.
Other guidance related to governance (in South African context)				
King III (IoD 2009)	Governance - King III compliance	No (refer to Annexure A)	Yes – extensive use	One of the world's leading governance codes and relates closely to the context of this study.

Source: Refer to the individual columns of the table.

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The comprehensiveness, adequacy and relevance of the maturity frameworks/models and other sources are briefly explained in the context of the study, namely the development of an organisational governance maturity framework.

- CMMI (SEI 2010)

In recent years the development of the CMM and CMMI (refer to section 4.2.2 on p.124) has lead the world's thinking about measuring maturity (MacRae 2010:68; SEI 2010). Although initially developed to measure software process maturity, the model appears to be comprehensive and contains details and guidance on how software process maturity should be measured (Paulk, Curtis, Chrissis & Weber 1993; SEI 2010). When unpacking the model, numerous aspects are discovered that are important to this study.

Firstly, the model has several key process areas that indicate the elements which should be addressed in order to achieve a set of goals considered to be important prerequisites for reaching the next level of maturity. These key process areas are organised into five common features, which are attributes indicating whether the implementation of a key process area was effective. Secondly, the common features contain key practices describing each key process area in terms of infrastructure, such as policies, procedures and activities. Thirdly, the model has five maturity levels indicating the stage of maturity within each level in respect of the software processes implemented. It ranges from 'initial', which is indicative of an immature software process, to 'optimising', which is indicative of a mature software process. In measuring maturity, an organisation would therefore explore each of the elements mentioned above to the extent that it applies to their software processes, in order to obtain an understanding of where on the maturity scale they are currently plotted.

Although this is a very comprehensive model and is seen as the leader in the field of maturity frameworks/models or measurement tools, the content of this model is specifically focussed on software processes and the IT environment.

Organisational governance includes IT governance but not IT processes. As a result it was decided not to include the model in the development of the preliminary organisational governance maturity framework.

- MMM model (Rossouw & Van Vuuren 2003)

The MMM model deals with the very pertinent aspect of managing ethics within organisations. The model consists of three core elements and is summarised in Annexure A on p.218. Although this model is lacking in comprehensive coverage of the governance concept as a whole, the importance of adequate and effective ethics management should not be underestimated. As such, this model was considered relevant and therefore included in the development of the preliminary organisational governance maturity framework, as ethical leadership plays an important role in applying governance effectively throughout the organisation (IoD 2009:20-27).

- OCEG model (OCEG & NACD 2007)

The OCEG model is one of the models which were identified as being closely related to the field of organisational governance, and as such it is considered as a relevant source when developing the organisational governance maturity framework. Although relevant to the field of organisational governance, a limitation that should be kept in mind is that the model may not be very comprehensive when it comes to dealing with aspects which should be considered in organisational governance. These limitations are indicated in the summary provided in Annexure A on p.218. The criteria within the model mainly focus on leadership's decision-making in respect of leadership, organisational structures, processes, information and technology, and in performance measurement. This model was developed to serve the specific governance needs of directors and boards, which explains its particular focus. As decision-making by senior role-players seems to be an important aspect of successfully implementing governance within an organisation (Adamec *et al.* 2005:42-45;

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Carcello 2009:11-18), this model has therefore been used to the fullest extent possible in the development of the framework.

- IA-CM (IIA Research Foundation 2009)

The IA-CM was developed in 2009 as a tool to implement and embed effective internal auditing in the public sector. This model can be used as a tool to measure the capability of an internal audit activity, based on various elements and key process areas (IIA Research Foundation 2009:5-25; MacRae 2010:68-69). The comprehensive coverage in respect of various aspects surrounding internal auditing (refer to Annexure A on p.218 for a summary) makes the IA-CM one of the leading (if not the only) maturity models that identifies the fundamentals needed for an effective internal audit activity within the public sector (MacRae 2010; MacRae 2012). As the internal audit activity is regarded as one of the pillars of organisational governance (refer to section 3.3.1 on p.107), it seems only fitting to include this model, to the extent necessary, in the development of the preliminary organisational governance maturity framework (Gramling, Maletta, Schneider & Church 2004:194-195; Gray 2004:17-19; Marks 2007:32; IoD 2009:93).

- Risk maturity model (RIMS 2006; Coetzee 2010)

In a study conducted by Coetzee (2010), a risk maturity model for internal audit engagements was developed based on the RIMS model (RIMS 2006). The RIMS model was developed as a generic tool to assist organisations in managing risks more effectively. As the RIMS model was used as a basis for the development of Coetzee's model, the RIMS model is not elaborated on or dealt with any further in this study. Adapted for South Africa, and making provision for relevant South African governance guidance and legislation, Coetzee's risk maturity model (Coetzee 2010:300-374) attempts to measure the risk maturity of organisations in South Africa (refer to Annexure A on p.218). Coetzee's model may be inadequate for the purpose of developing an organisational governance maturity framework in that it lacks comprehensive coverage of organisational governance, but in

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respect of measuring risk maturity this model appears to present best-practice in a South African context. The effectiveness of the risk management framework plays an important role in any organisational governance framework and as such is a relevant area to consider in the development of the preliminary organisational governance maturity framework (IoD 2009; Coetzee 2010).

• GCM model (Bahrman 2011 (a) & (b))

Bahrman (2011(b):41-57) developed a generic governance capability maturity model during 2011. This GCM model was developed with the objective of assisting the organisation in defining the criteria to use in evaluating the organisational governance framework (structures, systems and processes). As indicated in Annexure A on p.218, the GCM model is by far the most comprehensive and relevant model that could be found in respect of organisational governance in that it covers an array of important organisational governance aspects with some limitations. It was found that many of the elements covered in the GCM model are also dealt with in the individual chapters of King III. This is an important aspect to consider, and as a result of its comprehensiveness and relevance, the GCM model was included in the development of the preliminary organisational governance maturity framework. However, some limitations were identified: no evidence could be found relating to the method and sources used to develop the model, therefore potentially diminishing its scientific credibility; the model was developed to be used generically in a USA context, and it appears that the model does not recognise the relevance and importance of certain specific attributes (i.e. internal auditing).

• King III maturity dashboard (Deloitte 2010(b))

Acknowledging that organisations find assessing their compliance with King III to be a very complex task, Deloitte developed the King III maturity dashboard. This tool enables an organisation to perform a self-assessment of their current governance practices and to compare it to the recommendations in King III

(Deloitte 2010(b)). The tool was designed to address all nine chapters as well as the principles contained in King III.

The dashboard uses a 4-point rating scale ranging from key 1: principles of King III have not been adopted, to key 4: full adoption of King III. Organisations should review the principles and use the 4-point rating scale to determine their current governance maturity and to identify the desired state of the organisation. Based on the ratings obtained the organisation should be in a position to identify areas for improvement.

The King III maturity dashboard seems to be a step in the right direction when it comes to assessing governance maturity. However, it appears that the development of this tool was performed from an auditing/accounting practice point-of-view and therefore does not necessarily support the conducting of rigorous scientific research in pursuit of developing a best-practice framework/model. Although a very useful tool for organisations to evaluate their governance structures, systems and processes, the question still remains: does mere compliance with a code (King III in this instance) truly define organisational governance maturity? Furthermore, although the maturity dashboard includes a form of maturity levels, evidenced by the 4-point rating scale, it does not include all the core elements which should be present in an ideal measurement tool, and therefore it has not been included in the development of the preliminary organisational governance maturity framework.

• GAI (IoD 2012)

In response to certain challenges being faced with the implementation of King III, such as the absence of a national benchmark to measure governance performance, the Institute of Directors in South Africa (IoD) developed the GAI. Apart from various other benefits, the main purpose of the GAI is to assist with the implementation and continuous assessment of adherence to King III (IoD 2012:2). Different modules have been developed for various industry sectors within the private and public sectors and the GAI addresses the following

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categories: board composition; remuneration; governance office bearers; board role and duties; accountability; board committees; group boards, and performance assessment (IoD 2012:3).

For each of the categories mentioned above an assessment is performed by using a series of weighted statements, based on the recommendations contained in King III. The weight per statement is determined by taking into account the risk associated with failure to apply the relevant recommendation represented by the statement. An overall score, as well as a score per category (mentioned above), is calculated indicating the level of compliance with King III. A 6-point scale ratings key is used, and presents the score as ranging from highest application (AAA) to lowest application (L).

Although a very useful tool, the GAI appears to have some shortcomings. It appears that the development of the GAI was also performed from an auditing/accounting practice point-of-view, and is therefore not necessarily supported by scientific research in pursuit of developing a best-practice framework/model. The categories addressed by the GAI seem to be lacking when compared with King III in respect of the chapters contained in the report. When using this tool organisations may run the risk of completing a 'tick-box' exercise in the pursuit of compliance, as opposed to actually embracing and applying the principles within King III. In addition, although this instrument recognises a form of maturity levels evidenced by the rating scales, it does not include all of the core elements which should be present in an ideal measurement tool, and as such has not been included in the development of the preliminary organisational governance maturity framework.

- COBIT 5 model (ISACA 2012)

The COBIT 5 model, as indicated in Annexure A on p.218, is another model which does not address the three core elements normally found in an ideal measurement tool. This model merely states the IT governance principles and enablers, and does not make use of any attributes or levels of maturity. Despite

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the aforementioned fact, it was decided that this model is still relevant and that it would be used as a point of departure for the IT governance-related issues in the development of the preliminary organisational governance maturity framework. Increasingly organisations are becoming aware of the importance of IT governance, and the fact that this is a relevant area to consider for any organisation (Ramamoorti & Weidenmier 2003; Ernst & Young 2008; IoD 2009; ISACA 2012). In addition, in respect of the IT governance field, the COBIT 5 model is regarded as one of the most comprehensive frameworks available, as it was designed to be applied by enterprises of all sizes in any economic sector (ISACA 2012:13).

• King III (IoD 2009)

It is acknowledged that King III is not a maturity framework/model but only a code based on governance principles and recommendations (refer to Annexure A on p.218 for a summary), but the fact that King III is perceived to be one of the world's leading governance codes (Marks 2010) makes it relevant for consideration in the development of the preliminary organisational governance maturity framework. In addition, since the study was conducted within the private sector in South Africa, the importance of King III cannot be ignored. Furthermore, the comparison between King III, the UK Corporate Governance Code and the Australian Corporate Governance Principles and Recommendations (see section 2.2.3.1 on p.51), which revealed that King III is the most comprehensive guidance document of the three, compels its inclusion.

In light of the abovementioned over-view comparison and discussion it appears that some maturity frameworks/models and other sources are more relevant than others, and will therefore add more value in the development of the preliminary organisational governance maturity framework. These maturity frameworks/models and other sources are summarised in Annexure A on p.218. Whilst the other maturity frameworks/models and other sources were used to a limited extent, given their broader scope and breadth, the GCM model and King III were used more extensively in the development of the preliminary

organisational governance maturity framework. The GCM model appears to be the only maturity model derived from a holistic concept of organisational governance. This is important as the successful embedding of governance principles throughout the entire organisation is dependent on covering all relevant areas, and not on selectively focusing only on a few areas such as boards. King III is regarded as relevant and important to this study as the preliminary organisational governance maturity framework will be developed within a South African context. Apart from the fact that King III is recognised world-wide as one of the leading guidance documents in respect of governance (Marks 2010), it is also used extensively as a governance benchmark within the private sector in South Africa.

In pursuit of answering the second question stated on p.136, Annexure B on p.230 provides a holistic view of the various attributes addressed by the governance-related maturity frameworks/models selected and elaborated on in Annexure A on p.218. The information provided in Annexure B on p.230 was analysed to determine which attributes are shared by the frameworks/models, and can therefore be included in the preliminary organisational governance maturity framework. Whilst analysing the attributes one should not lose sight of the fact that an ideal measurement tool should consist of approximately seven attributes, as determined on p.134. The attributes on the left-hand side of the table in Annexure B on p.230 were listed alphabetically per area to prevent any bias in selecting attributes.

The frequency of occurrence of the attributes listed in Annexure B on p.230 indicates that the GCM model (Bahrman 2011 (a) & (b)) and King III (IoD 2009) are the most relevant when considering which attributes should be included in the preliminary organisational governance maturity framework. The aspect of frequency of occurrence was considered whilst comparing the attributes of the various maturity frameworks/models. It was furthermore noted that many of the attributes addressed the same concepts (despite slightly different names). The fact that some of the attributes did not relate to organisational governance resulted in these attributes being discarded. The remaining part of this section will

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therefore discuss which attributes can be combined (indicated by the numbers provided on the left-hand side of the table in Annexure B on p.230), and based on these results, suggestions will be made as to which attributes should be included in the preliminary organisational governance maturity framework.

- **Attributes: 1.1, 2.1, 2.2, 3.1, 5.5 and 6.1**

These attributes all refer to the ability to lead and govern, and highlight the importance of proper delegation of authority as well as of the assigning of roles and responsibilities in the process of ensuring that the leaders of the organisation are held accountable for the decisions they make. The ethical culture ('tone at the top') instilled by the leaders of the organisation also plays an important role, and thus this is also highlighted within these attributes. Effective ethical leadership is based on an ethical foundation. All the deliberations, decisions and actions of the leaders are based on the ethical values of responsibility, accountability, fairness and transparency (IoD 2009:21) and have an important influence on the governance practices of the organisation.

In conclusion, it is suggested that the attribute to be included in the preliminary organisational governance maturity framework should be identified as: **leadership which includes decision-making, ethical foundation and culture.**

- **Attributes: 1.2, 1.4, 2.3, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 4.2, 4.3, 4.4, 5.1, 5.6, 6.2, 6.4 and 6.7**

These attributes describe the mechanisms required to support the governance structures, systems and processes, and include an effective board and board sub-committees, amongst others. As identified by both the OCEG model and King III, if an organisation does not have the necessary strategies and structures in place, informed decision-making might not take place. In addition, the GCM model emphasizes how the establishment of appropriate strategies and structures will support governance strategies, thus enabling improvement and increased adherence to governance practices within the organisation. The

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relevant strategies and structures highlighted in the preliminary framework are those mentioned in King III as well as the GCM model. The organisation that has these strategies and structures in place is most likely to achieve its objectives. It is furthermore important to keep in mind that the size, nature and complexity of an organisation will determine the strategies and structures implemented.

In conclusion, it is suggested that the attribute to be included in the preliminary organisational governance maturity framework should be identified as follows: **strategies and structures which consist of governance strategies and structures, board committees, information technology, risk, internal audit activity as well as laws and regulations.**

- **Attributes: 1.3, 1.5, 2.3, 2.4, 3.8, 3.10, 3.11, 4.1, 5.2, 5.3, 5.4, 6.3, 6.4, 6.5 and 6.6**

These attributes relate to the key processes supporting the concept of governance within an organisation. As indicated by the OCEG model, processes should be well-defined, consistently applied throughout the organisation, and continuously monitored. To this end, the implementation of a performance management process is deemed very important. The GCM model also recognises the value and importance of embedding within the organisation an ethics management process, a control framework, and a risk management process. The importance of stakeholders' expectations and the management of stakeholder relationships also come to the fore at this point. The MMM model also identifies the importance of an effective and embedded ethics management strategy for the organisation, and acknowledges the challenges faced in implementing such an ethics management process. Equally, King III recognises ethics management as a key governance process, and emphasises the importance of the risk management process as well as that of managing stakeholder relationships. The existence, degree of implementation and long-term adherence to these processes collectively appears to be a good indicator of the importance of effective governance for an organisation.

In conclusion, it is suggested that the next attribute to be included in the preliminary organisational governance maturity framework should be identified as follows: **processes which consist of the risk management process, the internal control process, the ethics management process, performance management and performance measurement as well as the stakeholder relationship management process.**

- **Attributes: 3.9 and 6.8**

These attributes address the communication and reporting taking place within the organisation, and refer to the organisation's ability to transfer information regarding governance issues to all the relevant parties, in a transparent manner. Transparency and effective communication appear to go hand-in-hand according to the GCM model. It is furthermore important to note that reports should include indicators that are measureable (as far as possible), to enable the organisation to determine whether targets/goals were met. King III also elaborates on the importance of integrated reporting, which includes representation of the organisation's performance in both financial and sustainability terms to internal and external stakeholders.

In conclusion, it is suggested that the next attribute to be included in the preliminary organisational governance maturity framework should be identified as follows: **communication and reporting.**

The analysis performed using the information provided in Annexure B on p.230 revealed only one attribute (4.5) that was not considered appropriate for the framework. The underlying reason for this attribute not being considered is that it appears to be vague and could not be related to organisational governance in a meaningful manner.

From the information discussed above it is therefore suggested that the following four attributes are included in the preliminary organisational governance maturity framework:

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- Leadership, including decision-making, ethical foundation and culture.
- Strategies and structures including:
  - governance strategies and structures;
  - board committees;
  - information technology;
  - risk;
  - internal audit activity; and
  - laws and regulations.
- Processes including:
  - risk management process;
  - internal control process;
  - ethics management process;
  - performance management and performance measurement; and
  - stakeholder relationship management process.
- Communication and reporting.

4.3.3 Establishment of criteria for the preliminary organisational governance maturity framework

In this section the final aspect required for the development of the preliminary organisational governance maturity framework is explored. This entails establishing the criteria used to link the various attributes to the levels of maturity for the preliminary organisational governance maturity framework. As with sections 4.3.1 and 4.3.2, the objective as well as the steps executed to answer the question posed is presented first, where after the findings are presented in detail in Annexure C on p.234 in the form of the preliminary organisational governance maturity framework.

The question that will be addressed in this section is: what are the criteria that should be established per attribute, and what are the corresponding levels of maturity for the preliminary organisational governance maturity framework?

The following objectives were established in order to answer the question stated above:

- List the attributes and levels of maturity (in matrix format) that should be included in the preliminary organisational governance maturity framework.
- Critically evaluate the adequacy of the criteria established in Annexure A on p.218 in the context of the above attributes and levels of maturity.
- Use the results of the abovementioned evaluation to derive suggested criteria for the preliminary organisational governance maturity framework.
- Provide a preliminary organisational governance maturity framework in matrix format which includes attributes, levels of maturity and criteria.

The steps executed in order to achieve the abovementioned objectives were as follows:

- The attributes (derived from Annexure B on p.230) proposed in section 4.3.2 on p.136 were used as a point of departure.
- Five levels of maturity (as suggested in section 4.3.1.1 on p.132) were considered and used.
- The abovementioned attributes and levels of maturity provided an 'outline' for the preliminary organisational governance maturity framework.
- The individual criteria and levels of maturity shown in Annexure A on p.218 were analysed and critically evaluated (refer to section 4.3.2 on p.136) to determine adequacy.
- The 'outline' was used in conjunction with the criteria presented in Annexure A on p.218 to derive at the suggested criteria for the preliminary organisational governance maturity framework.
- A preliminary organisational governance maturity framework in matrix format, including attributes, levels of maturity and criteria, was constructed and presented in Annexure C on p.234.

4.3.3.1   Findings

The findings (the preliminary organisational governance maturity framework) are presented in Annexure C on p.234. It should be noted that these findings were influenced by the assumptions made by the researcher, and the limitations identified whilst developing the framework. These were addressed in section 1.9 on p.36.

4.4   CONCLUSION AND RELEVANCE TO THE STUDY

Literature in respect of organisational governance maturity, as well as the measurement thereof, seems to be limited as these are concepts which are relatively new, both within the business world and in academia. This creates challenges when attempting to understand and define these concepts as there is as yet no generally accepted or widely available information or agreement on terminology upon which to build. A search did, however, reveal that organisational governance maturity refers to the extent to which the organisation has established an adequate governance framework (structures, systems and processes), as well as the implementation of and adherence to this governance framework by affected and participating stakeholders. In respect of the measurement of maturity it was noted that it can take on as many forms as there are types of organisation. However, three core elements were identified which are present in most maturity frameworks/models. These elements are: attributes; maturity levels indicating the stages of maturity or development; and criteria, linking the levels of maturity to the attributes.

A comparison of governance-related maturity frameworks/models revealed that although much progress has been made in establishing and developing these frameworks/models, an organisational governance maturity framework which brings the relevant areas together in a single framework with a holistic view, especially within a South African context, does not yet seem to exist. As a result, various governance-related maturity frameworks/models were considered and

evaluated in respect of their comprehensiveness and relevance. From this evaluation a preliminary organisational governance maturity framework was derived which will assist organisations in various ways when it comes to measuring their organisational governance maturity. The benefits for an organisation by making use of an organisational governance maturity framework cannot be denied, and it appears that any organisation which does not have such a framework in place is likely to struggle to meet stakeholder's expectations in today's business world.

The key areas relevant to the study that were discussed in this chapter are the following:

- It is important for an organisation to understand what organisational governance maturity entails if it wants to successfully apply the concept of an organisational governance maturity framework.
- The measurement of maturity is an important concept and process, and organisations should understand that varying levels of organisational governance maturity can be reached by making use of the governance framework elements already in place.
- Information in respect of organisational governance maturity frameworks/models seem to be limited and scattered through various fields of business and academic specialisation. This posed some challenges in the development of the preliminary organisational governance maturity framework.
- Notwithstanding the above challenges, a comparison and evaluation of governance-related maturity frameworks/models was achieved, which in turn led to the development of a preliminary organisational governance maturity framework for the private sector in South Africa.
- It appears that it would be in the organisation's best interest to make use of some sort of organisational governance maturity framework as the benefits of the self-knowledge that can be derived from the use of such a framework cannot be ignored.

As discussed in detail in section 4.3 on p.130, the preliminary organisational governance maturity framework (more fully presented as Annexure C on p.234) was developed after a thorough study of the relevant literature. This involved examining eight governance-related maturity frameworks/models, which provided a solid basis from which to pursue this research. The next chapter discusses the refinement of the framework through an empirical study which obtained input on its relevance from various important stakeholders at a selected organisation.

CHAPTER 5

RESEARCH FINDINGS OF EMPIRICAL STUDY: REFINING THE ORGANISATIONAL GOVERNANCE MATURITY FRAMEWORK

5.1   INTRODUCTION

In Chapter 4 the preliminary organisational governance maturity framework was developed by conducting an extensive literature review focussing on certain key aspects. The development of the framework consisted of three distinct phases, each with specific objectives and plans followed. In this chapter the preliminary organisational governance maturity framework is refined. This is performed by utilising a case study design where interviews were conducted with key stakeholders identified within the field of governance to obtain their input into the framework. This chapter therefore provides details on the selection of the organisation for empirical study, elaborates on how data was collected and analysed and presents the research findings which lead to the refinement of the organisational governance maturity framework.

5.2   SELECTION OF ORGANISATION FOR EMPIRICAL STUDY

The following aspects played a role and were deemed relevant in the selection of the organisation for the empirical study. Firstly, as indicated in section 1.7.1 on p.32, the study was limited to the private sector in South Africa only. Secondly, it was decided that only one case (organisation) would be used to obtain input in refining the organisational governance maturity framework. Justification for the focus on the private sector and the rationale for studying a single organisation were discussed in sections 1.6.3.2 and 1.7.1 on p.30 and p.32 respectively. Despite conducting an extensive literature study, these reasons remained valid. Thirdly, in selecting which organisation to use for the case study, the following three aspects were considered and used as criteria for evaluation purpose:

- Risk maturity of the organisation – Risk maturity is perceived as a fairly reliable indicator of the governance maturity of an organisation (Coetzee 2010:153-181). Coetzee (2010:477-478) ranked the top 40 organisations listed on the Johannesburg Stock Exchange Limited (JSE Ltd.) as at August 2009 according to their risk maturity.

- Integrated reporting quality and standards – The quality and standard of an organisation's integrated reporting is recognised by King III (IoD 2009:107-111) as one of the most important vehicles for providing evidentiary proof of the degree of implementation of adequate governance practices and principles within the organisation.

- Must be one of the JSE Ltd's top 40 organisations – These are the top private sector organisations in South Africa in respect of financial performance. These organisations tend to be aware of the most recent governance requirements (both statutory and in terms of the JSE Ltd's listing requirements), and it appears to be a widely held perception that by adhering to these governance requirements their reputations are enhanced.

As the aim of this study is to develop a best-practice organisational governance maturity framework, the abovementioned criteria, which are all indicators of governance maturity, were selected. The rationale behind this decision was that an organisation which has a fairly mature profile in respect of governance practices and principles would be most likely to provide the credible input needed to refine the organisational governance maturity framework.

Fourthly, a list of the top 10 (top 11 in this case as some organisations achieved the same score in risk maturity) was compiled from Coetzee's (2010:477-478) risk maturity ranking, Ernst & Young's (2013) list of the top 10 organisations ranked by achievement of excellence awards in respect of integrated reporting, and the JSE Ltd's top 10 organisations (JSE 2013(a)) by market capitalisation (as on 13 August 2013). Organisations were ranked and allocated scores (11 being the highest and 0 being the lowest) based on the abovementioned three criteria. Annexure D.1 and D.2 starting on p.240 contains details on the scoring and combined ranking processes.

Finally, the five organisations which achieved the highest aggregate scores for the three criteria were selected as the population. One of these organisations (refer to Annexure D.2 on p.242) was then selected based on its key stakeholders' availability and willingness to participate in the study.

5.3 DATA COLLECTION AND ANALYSIS, RESEARCH FINDINGS, AND REFINING THE ORGANISATIONAL GOVERNANCE MATURITY FRAMEWORK

This section provides a brief overview of how interviews were used as the method of data collection. The qualitative research tool Atlas.ti is introduced as the means of data analysis. Finally, the research findings are discussed and the refined organisational governance maturity framework is presented in Annexure F on p.244.

5.3.1 Interviews

Various reasons justifying and substantiating the use of semi-structured interviews as the method of data collection for this study were provided in section 1.7.2 on p.33. Formal interviews were conducted with the key stakeholders responsible within the organisation for the specific governance-related areas being addressed in the preliminary framework (refer to Annexure C on p.234). The key stakeholders interviewed were:

- Company secretary (organisation has three company secretaries).
- Chief audit executive.
- Group manager: Compliance.
- Group manager: Risk.
- Executive: Stakeholder relationship management.
- Information technology contracts and administrative manager.

A total of six interviews were held with eight individuals (the three company secretaries participated simultaneously). The interviews were in-depth, with 11 open-ended questions forming the core of the interviews (refer to Annexure E on p.243 for the questionnaire). The questions were drafted during the extensive literature review process, and questions asked were mostly sourced from Chapter 4. After discussion and testing, these questions were deemed appropriate and effective to obtain quality input for the preliminary organisational governance maturity framework. A recording device was used during five of the six interviews to ensure that information provided was accurately captured. One of the individuals interviewed did not feel comfortable with the idea that the interview was to be recorded and politely refused to allow this. For this interview detailed handwritten notes were taken.

A week prior to the interview the questionnaire and the preliminary framework were e-mailed to each of the intended interviewees in order for these individuals to familiarise themselves with the preliminary framework and to prepare for the interview. During each interview the interviewee was guided through the questionnaire and their specialist views and perspectives were obtained. These responses were subsequently used to refine the preliminary organisational governance maturity framework previously developed from the literature reviewed.

It should be noted that the individuals interviewed at the selected organisation were extremely helpful during the interviews and acknowledged the importance of this study and its contribution to the field of academic research as well as its practical contribution to business. The positive and welcoming attitude of the organisation contributed a great deal to ensuring the success of the interview process and the quality of the study's empirical research component.

5.3.2 Research tool used for data analysis

The qualitative research tool Atlas.ti was used to analyse the data, i.e. the input obtained from the interviews. Atlas.ti assisted in extracting, categorising and linking the data captured from the six interviews. It was imperative to use a research tool to analyse the data as the questionnaire was semi-structured and comprised exclusively of open-ended questions. This resulted in the interviewees sometimes answering multiple questions as they elaborate on a specific aspect. The use of Atlas.ti was beneficial to this study as it ensured that all the data was thoroughly analysed and evaluated.

5.3.3 Research findings

This section provides a synthesis of the research findings based on the open-ended questions asked during the formal interviews (the questionnaire appears as Annexure E on p.243). Each of the 11 questions is followed by a discussion of the responses given by the interviewees. Additional information was obtained from the organisation's 2013 integrated report. This report was not included in any in-text references or in the list of references as the anonymity of the organisation selected had to be respected in accordance with relevant ethical requirements.

5.3.3.1 Question 1:

Explain and provide some detail on the governance structures within the organisation. Make specific reference to committees and individuals tasked with the responsibility to manage governance and/or governance-related aspects.

The selected organisation applies King III (IoD 2009), which implies that all prescribed governance structures are in place, including board committees specialising in different areas of governance.

Processes are in place to ensure that the board (including all board committees) comprises members who are qualified and committed. The board and all board committees meet at least on a quarterly basis. The integrated report for 2013 provides ample detail of the governance structures in place. The current board committees are: audit committee; social, ethics and transformation committee; health, safety and environment committee; remuneration committee; risk committee; and nominations and governance committee.

The company secretary (three individuals) has an onerous task and large portfolio when it comes to governance – hence the troika. Apart from guiding the board on discharging their individual and collective responsibilities, the company secretary keeps the board abreast of pertinent changes in legislation and governance best practices. The company secretary furthermore serves as secretary to all board committees, and therefore has a fairly good understanding of the governance structures, systems and processes in place at the organisation.

Although the organisation acknowledges that governance is integral to its success and sustainability, the company secretary realises that governance should not be viewed as a 'tick-the-box' exercise. Governance is furthermore not only the concern of the board and board committees. It is acknowledged to be a very broad concept that should be understood by all in the organisation and applied with integrity. It is of the utmost importance for any organisation to ensure that governance structures and the systems implemented are adhered to, from an integrity point-of-view, and that the effectiveness and efficiency of these structures and systems are continuously evaluated.

5.3.3.2 Question 2:

What is your understanding of organisational governance maturity?

Although governance maturity as a concept is not well-known, all interviewees had a fairly good and similar understanding of what it entails. Their views, furthermore, supported the explanation provided in section 4.2.1 on p.121, which recorded that governance maturity refers to the extent to which the organisation has established an adequate governance framework (structures, systems and processes), as well as the depth and effectiveness of its implementation within the organisation.

The following three important aspects of governance maturity were highlighted:

- The organisation's key decision-makers and leadership should have a thorough understanding of the concept of governance in order to persuade the entire organisation of the value of implementing and adhering to adequate governance practices.
- It is important to note that once the organisation has reached an appropriate level of maturity, it is not acceptable to stagnate: a process of constant improvement needs to be followed.
- As organisations differ it may be acceptable for an organisation to not be at the highest level of maturity for certain (or all) aspects of governance. Valid reasons supporting the below-perfect situation would need to be provided to the board and executive management before being deemed acceptable.

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5.3.3.3 Question 3:

Are you of the opinion that a need exists for the development of an organisational governance maturity framework? Provide reasons for your answer.

All interviewees were of the opinion that a definite need exists within business for the development of such a framework.

Reasons provided in support of the abovementioned statement were as follows:

- The framework will assist organisations to determine their current state of governance maturity, and to decide what measures need to be implemented next, and how these measures need to be implemented to improve their maturity rating.

- After studying the framework interviewees realised that it can be a very useful consulting tool, enabling them to assess the organisation's status within various areas of governance.

- The preliminary framework provides support for the practical application of governance within an organisation. Guidance documents such as King III are perceived to have more of a theoretical approach.

- As responsibility for the implementation of good governance is at present fragmented, this framework, providing a holistic view of governance, will assist in streamlining the process.

- Various codes, tools and other guidance documents exist in respect of governance, but this framework now combines the most important aspects holistically in a comprehensive, yet succinct framework. Interviewees believed that this is what the business community in South Africa needs, as most organisations are aware that governance is required, but are not able to implement it in a practical and uniform manner.

5.3.3.4   Question 4:

What are the benefits of using such a framework for your organisation?

Numerous benefits were identified during the interviews. Apart from the specific benefits mentioned in section 5.3.3.3 on p.162, interviewees were of the opinion that additional benefits that would flow from the implementation of this framework are:

- The framework provides clear guidelines, and this allows organisations to choose where they want to be positioned, identifies the gaps in existing organisational governance implementation, and thus enables them to institute the appropriate measures to advance to the next level of governance maturity.

- The preliminary descriptive framework creates the opportunity for discussion amongst key stakeholders, as each division or department has a different perception of where the organisation is in respect of governance maturity for each specific attribute.

- This framework could be part of the business plan of each department within the organisation, thus enabling them to identify the measures that need to be implemented in respect of governance.

- The framework can assist in developing a business-wide strategic plan and putting it into operation.

- The implementation of the framework will create the opportunity for employees throughout the organisation to obtain a better understanding of the concept of governance, and to become aware of the measures the organisation has already implemented.

5.3.3.5   Question 5:

Does the preliminary organisational governance maturity framework facilitate a user-friendly approach? Provide reasons for your answer.

All interviewees were of the opinion that the framework is very user-friendly, especially as a qualitative tool, because it does not link any scores to the criteria, being more descriptive in nature.

To remain a user-friendly tool the contents and intent of the framework need to be properly explained to the proposed users. After the briefing they should have a clear understanding of all the governance issues addressed by the framework. This should ensure the quality of the output - an assessment of governance maturity.

It is important that the framework is seen as an independent assessment tool, mainly evaluating the governance structures, systems and processes already in place, and that it is not perceived to be a tool to evaluate any individual's performance in a subjective manner. This framework seems to be practical as it covers all governance-related areas, while still managing to remain concise.

5.3.3.6   Question 6:

Do you agree with the five levels of maturity? Provide reasons for your answer.

It was agreed that, based on the background of the study provided to the interviewees, the five levels of maturity seemed adequate and logical. Interviewees' opinions were that more than five levels would in all likelihood complicate the framework. However, it was noted that the organisation has to be aware that when the 'mature' level has been reached for a specific governance attribute, it does not imply 'arrival' and that improvement is no longer needed or achievable. Instead, the organisation should continually strive for improvement,

even if the framework must be revised to accommodate the new goals and evaluation criteria.

Interviewees pointed out that the levels of maturity need to be properly explained in order for the relevant parties to achieve consensus on what the achievement of each level entails. However currently, the naming convention of the five levels adequately describes each stage of maturity and what to expect of the governance practices followed.

A valuable observation made by the interviewees was that there seemed to be a subtle difference between the 'compliant' level and the 'institutionalised' level. As such, organisations may not find it difficult (or costly) to advance from 'compliant' to 'institutionalised'. However, there seemed to be a material difference between implementing the requirements of the 'institutionalised' level and the 'mature' level. As such, organisations would have to carefully consider the cost *versus* the benefits of implementing those measures required to advance to the 'mature' level.

5.3.3.7 Question 7:

Provide your input on the four general attributes listed. Are you of the opinion that any of the attributes should be deleted or other attributes added?

The four general attributes of the framework appeared to the interviewees to be an accurate and succinct grouping of the general aspects in any governance environment for any type of organisation for the following reasons:

- It seemed to be an appropriate starting point.
- It provided a holistic view of governance for any organisation. The organisation may want to review these attributes annually to ensure the framework retains its relevance.

- The four general attributes encapsulated the important general aspects of governance.
- These four attributes were quite comprehensive in terms of their coverage of the topic of governance.
- The grouping of strategies and structures were found to be very relevant to the business, as structure normally follows after the necessary strategies have been implemented.

5.3.3.8   Question 8 and 9:

Question 8 - Provide your input on the specific attributes listed under the four general attributes. Are you of the opinion that any of the attributes should be deleted or other attributes added?

Question 9 - Provide your input on the criteria established. Are you of the opinion that any of the criteria should be amended?

As the input received from the interviewees in response to these two questions overlapped, it was decided that the aspects dealt with in questions 8 and 9 would be presented as a single analysis in this section (5.3.3.8). The order in which the attributes are discussed is based on the refined organisational governance maturity framework and as such it should be read in conjunction with Annexure F on p.244. The amendments to the framework in Annexure F are indicated by the use of *italics*.

- Leadership: Decision-making

Effective decision-making is one of the most important responsibilities of the board and executive management of any organisation. In addition, operational decisions need to be made at the appropriate organisational levels, and relevant parties need to take responsibility for the decisions made. This should already be standard practice at the 'compliant' level. Another important aspect to consider at the 'institutionalised' level is that decisions need to be understood by all

employees within the organisation as this fosters an environment conducive to employee participation and job satisfaction.

- Leadership: Ethical foundation and culture

Ethical leadership and corporate culture are aspects of governance which drive the integrity of the organisation. Without a sound system of ethical leadership and culture any organisation would struggle to survive in today's business environment. Employees are very aware of how the leadership of their organisations practise their stated ethics.

The criteria proposed for this attribute are well-defined and interviewees agreed that they describe the various levels of maturity accurately.

- Strategies and structures: Governance strategies and structures

Well-defined governance strategies and structures need to be implemented for an organisation to position itself in respect of strategic direction. The board and executive management of the organisation should be required to devote a significant portion of their time to considering and evaluating which governance strategies and structures will support and enhance the governance vision of the organisation.

Communication of these governance strategies and structures needs to take place in a pro-active manner. This is important to note as at the 'institutionalised' level employees may not support governance strategies and structures which they do not understand.

- Strategies and structures: Board committees

Board committees are one of the main sets of structures through which the board executes their governance responsibilities. As such the role of the board should be included as a specific attribute.

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It is important for the board and executive management to realise that board committees should not only be established to adhere to minimum governance requirements but that these committees should be active, function effectively and utilise every opportunity to enhance the governance maturity of the organisation. Many organisations have complicated governance structures which include numerous board committees which do not add any value. It is crucial for the board to continuously evaluate the effectiveness of all board committees. As mentioned previously, governance is not only concerned with the activity of boards and their committees; however these are the main structures which inform the attitude with which governance is embraced within the organisation.

• Strategies and structures: Information technology (IT)

IT is of strategic importance, as is recognised by King III (IoD 2009:14-15), and this view is supported by the selected organisation. The fact that the aspect of IT governance was placed under the general attribute of 'strategies and structures' was well-received by the IT department.

IT is now a participant in the development of the strategy of any business, and as such the interviewees' organisation has implemented an IT steering committee, that meets quarterly. Furthermore, from 2012 the head of the IT department has reported to the risk committee on a quarterly basis, so as to ensure that the risk element of IT is acknowledged, reported on and properly dealt with. Reporting to the risk committee has further enhanced the stature of the IT department as a strategic role-player and has ensured that IT governance is an item on the board agenda.

The input received from the IT department mainly focused on the 'institutionalised' and 'mature' levels. At the 'institutionalised' level the approach to implement IT governance is embedded rather than scattered. Motivation provided for the aforementioned was that the organisation, especially the board and executive management, is aware of the strategic importance of IT governance and, as a result, provides their full support to embedding this within

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the organisation. It is important to note that the 'mature' level is the phase where the organisation starts seeing the intent of its IT governance strategy being realised. The value being added through the use of an adequate IT governance framework comes to the fore when maturity is reached.

- Strategies and structures: Risk

The risk department was established in 2008 and reported to the audit and risk committee. However, in 2012 a separate risk committee was established, recognising the increased importance of risk management within the business environment. The view was conveyed by this change that risk management is such an important aspect of the organisation's operations that major project decisions are only made once the risk aspect has been identified and evaluated by the risk committee.

The risk department was of the opinion that the implementation of risk management within organisations can follow either a 'top-down' or 'bottom-up' approach. In rare instances the approach followed may be a combination of both. This may then influence the 'compliant' and 'institutionalised' levels. The preliminary framework (refer to Annexure C on p.234) implies that a 'top-down' approach is followed as the risk management function focused only on strategic risks at the 'compliant' level. The implementation of risk management is cascaded down to the operational areas only at the 'institutionalised' level. This scenario may differ if the organisation uses the 'bottom-up' approach as the implementation of risk management may already be evident within the operational areas. It was agreed that the 'top-down' approach appears to add more value when it comes to risk management, as most organisations follow this approach. In addition, it seems logical for an organisation to roll out risk management at a strategic level first, as the rest of the organisation then has the opportunity to ensure that their operational objectives and risks can be linked to the strategic plans of the organisation.

Based on the discussion above no amendments could be identified for this specific attribute.

- Strategies and structures: Internal audit activity

The internal audit activity of the organisation is mainly concerned with providing assurance regarding the effectiveness of risk management, internal control, and compliance and governance activities. A risk-based methodology is applied for all engagements, which ensures that value is added. Reporting structures and systems are followed, and the specific requirements of the engagements are implemented and complied with.

An important focus area for the internal audit activity is conducting governance reviews. As indicated in section 2.3 on p.69 and section 5.3.3.9 on p.175, the importance of governance has increased significantly over the past few years. The chief audit executive was of the opinion that the internal audit activity faces a tremendous challenge as the way in which governance reviews are approached may differ somewhat from traditional reviews of business processes. In addition, the composition and dynamics of the audit team providing governance services are also unique in that governance reviews requires a strategic mind-set.

The criteria established for the internal audit activity appear to encapsulate the material aspects for any organisation. At the 'institutionalised' level it was motivated that the positioning/stature of the internal audit activity plays an important role in ensuring its independence. It was furthermore noted that at this level risk-based audit engagements were already well-established.

- Strategies and structures: Laws and regulations

Compliance is a holistic concept: whether it is compliance with laws and regulations (external) or compliance with organisational policies and procedures (internal), no distinction should be made. Compliance implies that all laws, regulations, rules, codes, practices, policies and procedures are being complied

with. If a distinction is made between external and internal compliance, then it may appear that the one is more important than the other, which is not the case.

The preliminary framework (refer to Annexure C on p.234) only dealt with external compliance. Interviewees proposed that reference should also be made to internal compliance for the reasons stated above.

Apart from the abovementioned expansion to this aspect, it was also noted that the establishment of a strong compliance culture is very important, and that this goes hand-in-hand with the ethical culture or 'tone at the top' mentioned previously. The board and executive management have the responsibility to ensure that their actions serve as an example for the rest of the organisation.

- Processes: Risk management process

Overall interviewees agreed that the criteria that had been established for a fairly complicated process were very descriptive but that they were also succinct and relevant. At the 'institutionalised' level reference was made to the fact that the internal audit activity assists the risk department by reporting any additional risks identified whilst conducting audit engagements. It would be ideal if this could already be happening at the 'compliant' level, but it was recognised that many organisations are still in the process of identifying risk as something separate from internal auditing.

It should furthermore be noted that a well-established risk management framework (systems, structures, people, *et cetera*) needs to be in place in order for the risk management process to be a success.

No amendments were suggested for this specific attribute.

- Processes: Internal control process

The view of the organisation was that an adequate internal control process assists to a great extent in ensuring that objectives are achieved. As such, the importance of the internal control process to the organisation cannot be overstated. The organisation makes use of control self-assessments which are facilitated by the internal audit activity. It was noted that these assessments assist in enhancing management's appreciation of risks and controls, and as a result the adequacy and effectiveness of internal controls are subject to continuous improvement. In support of this idea a combined assurance forum, which consists of representatives from risk, compliance, legal, external and internal auditing, and the company secretary, was established as a means of enhancing the effectiveness of the internal control process.

In respect of the preliminary framework (refer to Annexure C on p.234), it was argued that at the 'compliant' level the internal control process exists to ensure minimum compliance. At this level it is often found that the organisation does not realise the value that can be added by implementing an adequate and effective internal control process. The organisation merely complies with a perceived statutory or JSE listing requirement. At the 'institutionalised' level, it was argued, continuous improvement of the control environment is a priority, rather than being only 'encouraged'. If continuous improvement is not prioritised it may be perceived as implying that the internal control process is not important, which is not the case.

- Processes: Ethics management process

The existence of a well-defined ethics management process, which is understood and supported by all employees, is of utmost importance. An important aspect which comes to the fore is the punishment (or consequences) of unethical behaviour. Many organisations have best-practice ethical standards in the form of policies, but still have no effective response to unethical behaviour which is either ignored or quietly tolerated. As a result it was suggested that the 'compliant' level

should include the processes and policy associated with punishment of unethical behaviour. The 'institutionalised' and 'mature' levels imply that the organisation should not have a need to punish as unethical behaviour is essentially absent and all or most employees embrace the concept of behaving ethically.

- Processes: Performance management (employees) and performance measurement

The inclusion of this specific attribute as part of the organisational governance maturity framework was vigorously debated by interviewees. Arguments for its exclusion were that performance measurement of processes already takes place as part of each process and therefore cannot be classified as a separate process. In the proposed framework performance measurement of processes has already been included in the form of continuous feedback, pro-active implementation of certain control measures, performing monitoring and follow-up functions, *et cetera*. Performance management of employees was therefore considered not to be such an important aspect of governance as the focus of governance tends to be more on the actions of the board and executive management. The actions of the board and executive management inform what the rest of the organisation's employees do.

In the light of King III and considering that this study's focus is on the private sector in South Africa, the arguments provided above seemed relevant. After careful consideration of the arguments provided it was decided that this specific attribute would be deleted as its concerns are already being addressed within other attributes.

- Processes: Stakeholder relationship management process

It was noted by the Executive: Stakeholder relationship management that the criteria proposed in the framework were quite an accurate reflection of how the organisation experienced the implementation of stakeholder relationship management. For stakeholder relationship management to be a success it has to

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be a pro-active process, where the organisation constantly ensures that the needs of the stakeholders are identified and met before stakeholders recognise their immanent needs. Two-way communication is very important. Sensitivity, relevance and transparency of information communicated are also important.

In respect of the 'institutionalised' level, it should be noted that stakeholders are engaged with to the extent necessary, meeting their requirements.

- Communication and reporting

How information is communicated to the key stakeholders of the organisation plays a very important role in maintaining effective and positive relationships. This is especially challenging when considering the fact that the communication process has to be transparent at all times. Organisations can no longer afford to ignore integrated reporting requirements. In South Africa, an organisation's integrated report provides a snapshot not only of performance, but also of the governance practices followed by the organisation.

Interviewees noted one area of concern: although an organisation may produce an integrated report meeting all the necessary format and category requirements, the risk still exists that governance practices actually followed may not be as 'attractive' as indicated in the integrated report. In addition, an organisation may have all the necessary governance structures, systems and processes in place, but the questions to ask are: are these structures, systems and processes actually functioning effectively, and how does the organisation measure their effectiveness? This statement refers to a recurring theme in this study: does the organisation see governance as a mere 'tick-the-box' exercise or are governance structures, systems and processes truly embedded and functioning effectively? This important aspect, although difficult to define, should be provided for in the framework.

5.3.3.9   Question 10:

Applicable to the internal audit activity only: Are you of the opinion that such a framework will assist in rendering internal audit services in a more efficient and effective manner? Provide reasons for your answer.

The chief audit executive was of the opinion that this is a very important question to raise about a significant aspect of governance. The reasons explaining why an organisational governance maturity framework will assist in rendering internal audit services in a more efficient and effective manner will be briefly discussed next.

Before the question could be answered by the chief audit executive, it was necessary to provide pertinent background information on the challenges identified. During recent years the internal audit activity's involvement in governance matters within the organisation has increased tremendously: the internal audit activity has increasingly been required to provide assurance and consulting services in respect of governance. This has placed a burden on the internal audit activity, as the internal auditors have not necessarily been in possession of the relevant knowledge and skills needed to provide these services. As governance is a very broad and sometimes complicated concept, it was noted that senior-level internal auditors had to be used on these engagements, adding to the cost of the process. Governance furthermore tends to have a strong strategic focus, which requires the internal auditor to operate on a more strategic level. Another challenge was that internal auditors generally find it difficult to provide the organisation with relevant advice while simultaneously deciding what types of services to render, as no guidance framework has yet been developed for this purpose. It should be noted that this potential lack of knowledge and skills increases the need for guidance in the area of governance auditing.

After taking the abovementioned explanation into consideration, the chief audit executive was of the opinion that the preliminary organisational governance maturity framework (refer to Annexure C on p.234) would greatly assist the

internal audit activity to address the challenges identified when it comes to providing governance services. Reasons provided for this opinion included the following:

- The framework can assist internal auditing when obtaining background information for a governance engagement.
- Internal auditing can use the framework to benchmark the organisation against its peers in the industry.
- The framework can be used to guide internal auditing in respect of recommendations provided to the organisation, especially when it comes to value-adding.
- By using the framework, internal auditing can determine, based on the structures, systems and processes currently in place, what type of services (assurance or consulting) could be rendered to provide for an effective and efficient governance engagement. This aspect was viewed as the most important contribution of this framework for internal auditing.

5.3.3.10 Question 11:

Do you want to provide any further general comments?

The interviewees provided many and diverse additional comments when requested at the end of the interviews. However, these comments could mostly be classified as areas for future research. As such, these areas are elaborated on in section 6.4 on p.190.

5.4   CONCLUSION AND RELEVANCE TO THE STUDY

As discussed previously, governance is a broad concept which is not only concerned with the board and board committees. As such, it is imperative that governance is understood and applied with integrity, and that the effectiveness and efficiency of the governance structures, systems and processes are

continuously evaluated. Governance maturity is another related concept which appears to be generally well-understood and the importance thereof is acknowledged. Various reasons substantiating the need for and benefits of an organisational governance maturity framework were provided.

Valuable input was provided by the interviewees regarding the appropriateness and usefulness of the preliminary framework developed from the literature. This enabled the refinement of the preliminary framework. It should be noted that amendments made to the preliminary framework were not significant in number or extent. This is a good indication that the preliminary framework developed from the literature was mostly adequate, relevant and useful for businesses. It is furthermore important to the interviewees that the refined framework not only provides a holistic, comprehensive view of governance but that it is also succinct, user-friendly and practical.

The key areas relevant to the study that were discussed in this chapter are the following:

- Adherence to governance structures, systems and processes should not be viewed as a 'tick-the-box' exercise. Instead, governance should be implemented with integrity, with the board continuously evaluating the effectiveness and efficiency of the structures, systems and processes it has in place.
- Governance maturity should be continuously measured/monitored, as a constant process of improvement needs to be instilled in and followed by the organisation to ensure governance is successfully implemented and continuously yields value to the organisation.
- The need for and benefits of an organisational governance maturity framework were aspects which made business sense to all interviewees. Key benefits identified were:
  o The framework will assist organisations to determine their current status of maturity, and thus allow them to move through the hierarchy of maturity levels in the process of continuous improvement.

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- The framework could be very useful as a consulting tool as it can provide guidance in a very descriptive format that enables the user to not only determine the current status of maturity of the organisation, but to also provide valuable recommendations for improvement.
- The framework provides the impetus for the practical application of governance within an organisation.
- This framework successfully combines the most important governance aspects in a holistic, and comprehensive, yet succinct manner.
- The framework is descriptive and creates opportunities for discussion amongst key stakeholders. This places the organisation in a better position to decide where they want to be placed in respect of their governance maturity.

- The framework's user-friendly design was acknowledged to be a serviceable qualitative tool which is very descriptive and does not ascribe any scores (potential for ranking/blame) to the criteria.

- The five levels of maturity proposed were seen to be sufficient by the interviewees, but the importance of properly explaining what each levels entails was re-iterated.

- The four general attributes proposed encapsulated the important general aspects related to governance and provide a holistic view of the concept.

- One of the most important research findings identified and addressed during the empirical study was the usefulness of the framework to the internal audit activity. The key findings were:
  - The fact that governance reviews are becoming more widespread, and are seen as an area where the internal audit activity should spend their time and effort despite the short term challenges this creates for the internal audit profession. As governance is an area of strategic importance, it requires internal auditors to apply a level of knowledge and skills different from that required for their other duties. Internal auditors are now required to provide value-adding services on a strategic level.
  - The lack of a framework guiding internal auditors in the services they could render was seen as complicating the area of governance even

further. The proposed organisational governance maturity framework provided a solution to most of the challenges already identified and was welcomed by the internal audit activity of the selected organisation.

o Benefits of the framework to the internal activity were as follows: the framework can assist internal auditing to obtain background information pertaining to governance engagements; it can assist with benchmarking the organisation; it can assist internal auditing in providing value-adding advice, and most importantly, it can assist internal auditing in deciding what type of services (assurance or consulting) to render.

It is evident from the results of the empirical study that there is a definite need for such an organisational governance maturity framework, not only from the perspective of management, but also from an internal audit perspective. The literature review reported on in Chapters 2, 3 and 4 furthermore substantiates this view.

In the next chapter conclusions are reached and recommendations are provided based on the literature review, together with the results of the empirical study. Areas for further research are also identified and a final conclusion is made on the quality and appropriateness of the framework.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

In Chapter 5, the key findings emanating from the empirical study were discussed and interpreted, and this culminated in a refined organisational governance maturity framework. In this chapter, the key findings stemming from the literature review conducted in Chapters 2, 3 and 4 are summarised. Thereafter key conclusions and recommendations are made, integrating the constructs emerging from the literature review with the results of the empirical study. Possible areas for future research identified during the study are then presented. The research conclusion (in the context of the research objectives), is presented, and the chapter ends with a final concluding overview.

6.2 KEY FINDINGS AND CONCLUSIONS DERIVED FROM THE LITERATURE REVIEW

Chapters 2, 3 and 4 provided useful information that justified the need for this study in the context of the problem statement (refer to section 1.5 on p.23). The section of the literature review conducted in Chapters 2 and 3 was more specifically concerned with obtaining information to use as the basis and starting point in ensuring the research objectives posed in section 1.5.2 on p.25 are reached. In Chapter 4, an extensive continuation of the literature review consisting of three specific phases was conducted (refer to sections 4.3.1, 4.3.2 and 4.3.3 starting on p.131), specifically aimed at providing input in the development of the preliminary (essentially theoretical) organisational governance maturity framework. Three broad areas were considered whilst conducting the literature review. These were: organisational governance; the role of internal auditing in organisational governance, and currently used governance-

related maturity frameworks/models. The key findings and conclusions from the literature review are briefly listed below:

- In its widest statement, the concept of organisational governance has a variety of definitions and can be interpreted in many ways. The broader perspective of organisational governance, which focuses on the relationship between management of the organisation and all relevant stakeholders, seems to be the most appropriate and inclusive description of this complicated concept. Numerous developments and challenges have subsequently emanated from the interest organisational governance has generated as a topic of research.

- The increased importance of organisational governance can mainly be attributed to the occurrence of corporate scandals worldwide. In response, various regulatory and advisory codes have been developed, and a plethora of legislation has been drafted and promulgated over the past few decades, requiring organisations to adhere to a variety of nationally and/or internationally preferred or enforced governance practices.

- In recent years, organisations have realised that adherence to these governance practices requires substantially more than merely 'ticking off' some list of compliance requirements, as this does not necessarily ensure the success and sustainability of the organisation. The most important aspect of management that indicates the successful implementation of governance practices is the attitude with which governance is practiced: focus is placed on *how* it is implemented, and especially whether governance structures, systems, and processes are functioning effectively, as opposed to simply *what* is being implemented.

- There are essentially two approaches to governance – principles-based, or rules-based. The preferred system is largely determined by the legal and ethical preferences of the country in which the organisation operates. Various arguments both for and against these approaches were identified whilst conducting this research.

- Organisational governance maturity is a concept which does not yet have a universally accepted, formal definition within the business community. The

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limited literature that is available suggests that organisational governance maturity refers to the extent to which an organisation has established adequate governance structures, systems and processes, as well as the degree to which these structures, systems, and processes have been successfully implemented, and are being sustained.

- As a result of the various and ongoing developments in the field of organisational governance, organisations have a need to determine where they currently are in respect of the adoption of governance structures, systems and processes, as well as being able to visualise where they need and aim to be in the immediate and longer term future.

- The increasing importance of governance is furthermore substantiated by the evolving role of internal auditing (and other role-players) in this area. The two distinct roles internal auditing can fulfil are either being part of the governance framework, or by providing internal audit services (assurance and/or consulting) in respect of governance practices already in place.

- With regard to the decision as to which type of service to render, this becomes very challenging if there is no verifiable knowledge of the governance maturity of the organisation. The establishment of an organisational governance maturity framework can assist in addressing this issue, and there are numerous other benefits that can be derived from the use of such a framework by internal auditing.

- Despite the fact that organisational governance is such an apparently well-known concept, the availability of governance-related maturity frameworks/models is very limited. Only one governance-specific maturity model (albeit with some limitations) could be located. A reason for the limited availability of governance-specific maturity frameworks/models might be the fact that organisations are not yet very familiar with the concept of governance maturity.

- The benefits that could be derived from the use of an organisational governance maturity framework seem evident from the perspective of the organisation, especially when considering how cumbersome embedding governance practices can become.

6.3 KEY CONCLUSIONS AND RECOMMENDATIONS

This section re-visits the conclusions drawn from the empirical study, and provides recommendations based on an analysis of aspects of the input received whilst conducting the empirical study. The key aspects of the literature review reported in Chapter 4 that laid the foundation for the preliminary framework, as well as relevant aspects from Chapters 2 and 3, have also been used to inform part of the recommendations. Conclusions and recommendations have been presented according to the four *general* attributes listed in the refined framework in Annexure F on p.244. Recommendations specifically on the use of the framework for the organisation and for internal auditing are provided separately.

6.3.1 General attribute 1: Leadership

Leaders in today's business world face an enormous task in attempting to adequately govern their organisations. This challenge is exacerbated by the fact that they are increasingly being held personally accountable for the actions of their organisations. This can mainly be attributed to the fact that governance is such a popular topic currently, receiving much attention in both industry and popular media, and compounded by the broad spectrum of activities which are included in this concept. To this end, it is a critical responsibility of the board and executive management to practice effective decision-making. This is a concept that includes taking responsibility for the decisions made, as well as ensuring that communications regarding the decisions they have made are clear, timeous, and unambiguous.

Another important aspect is the 'tone at the top', which is set by the leaders of the organisation in respect of their ethical leadership, and their efforts to instil a strong ethical culture throughout the organisation. Effective ethical leadership can only be effected by organisational leaders if they recognise the importance of establishing an ethical culture that is based on and flows from their own integrity, and is then embraced by all employees within the organisation.

Relevant recommendations in respect of this general attribute are as follows:

- Leaders in the organisation should be held accountable for the decisions that are made.
- Wherever possible, a consultative and transparent process should be followed when decisions are made in order to ensure that all employees understand the decisions and how they are affected by them.
- A sound system of ethical leadership and culture should be established within the organisation.
- Once again, leaders should be held accountable for how they practise their stated ethics.

6.3.2 General attribute 2: Strategies and structures

As governance is such a broad and complicated concept, the strategies and structures implemented in support of this concept can become quite cumbersome, if they are not well defined and understood before implementation. As such, the governance strategies and structures that are to be implemented should be organisation-specific, taking into particular account the nature, size and complexity of the organisation.

During the discussion of the research findings in Chapter 5 the contributions that can be made by the board and board committees, by information technology (IT), risk management, the internal audit activity, and by compliance (both internal and external auditing) to the governance structures, came to the fore. Although the importance of the role of the board and its committees cannot be underestimated, governance is the responsibility of every individual within the organisation. This is one of the most important factors contributing to the successful implementation of effective governance practices within an organisation.

Another important aspect identified during the empirical study was the imperative that the governance strategies, structures, systems, and processes function

effectively. If these measures are instituted merely to ensure a bare minimum of compliance, then the organisation runs the risk of ignoring the benefits available from the refined organisational governance maturity framework: using it only as a 'tick-list' exercise, will not add any value.

In respect of the scope of this study, the significance of the internal audit activity as an important role-player in governance was highlighted in detail in Chapter 3 as part of the literature review. Again, in Chapter 5, the importance of the internal audit function's contribution to conducting governance reviews, and how the refined framework can assist this process, was re-iterated.

Relevant recommendations in respect of this general attribute are as follows:

- Governance strategies and structures that are implemented should support the governance vision of the organisation; should be well defined, and should be communicated in a pro-active manner throughout the organisation.
- The effectiveness of the implementation of the governance strategies, structures, systems and processes should be constantly evaluated using the organisational governance maturity framework as a benchmark. Mere ongoing compliance with the measures as initially instituted is insufficient and ineffective in the longer term.
- It should be communicated to all members of staff that governance is the responsibility of each individual within the organisation; it is not the exclusive responsibility of the board and board committee members.

6.3.3 General attribute 3: Processes

Apart from one attribute (performance management and performance measurement) which was subsequently deleted from the preliminary framework, the interviewees all recognised the importance of the rest of the processes suggested for the governance maturity framework. The aim of this attribute was

to ensure that the key processes that support the concept of governance within the organisation remain in clear sight.

Factors that must be present to ensure the successful implementation of key processes are that the processes should be well-defined, consistently applied, and continuously monitored. As with the governance strategies and structures discussed previously, processes should also function effectively and should not be instituted simply for the sake of achieving bare minimum compliance.

Relevant recommendations in respect of this general attribute are as follows:

- Only those processes should be implemented which have been identified as key to supporting the governance practices within the organisation.
- These processes should be well-defined, consistently applied and continuously monitored.
- The effectiveness of the implementation of the key processes should be constantly evaluated relative to the organisational governance maturity framework. Mere ongoing compliance with the measures as initially instituted will not suffice.
- Indicators measuring the performance of each process should be established and thereafter be used to measure the effectiveness of the indicators.

6.3.4 General attribute 4: Communication and reporting

Reporting requirements in respect of the preferred governance practices have expanded quite substantially over the past few years. As a result, organisations' boards of directors and executive management are now held accountable for the achievement of the full spectrum of activities that comprise integrated reporting. To this end, the accessibility and transparency of the information presented during this process is of the utmost importance.

During the empirical study interviewees had very strong opinions on the measurement of the effectiveness and integrity of reporting. Arguments revolved around the fact that an organisation's compliance with integrated reporting requirements (complying with an increasingly prescriptive set of legal and/or business organisation-defined parameters) might not necessarily be a true reflection of the effectiveness of the implementation of individual organisations' governance practices.

Relevant recommendations in respect of this general attribute are as follows:

- Transparent, accessible, and pro-active communication of information is imperative during the reporting process.
- As far as is practical, measures should be instituted to determine the integrity of the governance strategies, structures, systems and processes, and to measure the effectiveness of their application.

6.3.5 Use of the organisational governance maturity framework for the organisation

In Chapter 4 the results of the literature review indicated that no such organisational governance maturity framework had yet been developed. In addition, no other structure appeared to have been created that was capable of providing a holistic view of governance in a South African private sector context. The results of the empirical study conducted (refer to Chapter 5) also confirmed the lack of a comprehensive but practical framework.

That such a framework can provide assistance to the organisation is undisputable. However, the manner in which this framework is structured and implemented is integral to its success, and as such, the following key recommendations are provided for the use of the framework in private sector organisations:

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- The framework should be used as a practical tool to determine the organisation's current state of governance maturity.

- An important aspect to keep in mind is that, as changes take place within the business world, so the framework will need to be updated: this tool requires dynamic management, and must not be allowed to stagnate.

- It is important to be aware that not all organisations need to be at the highest level of maturity. Depending on the nature, size, and complexity of the organisation, it might be more appropriate and acceptable to be at a lower level of maturity.

- The framework can be used to determine the measures that need to be implemented to advance the organisation to the next level of maturity for a specific attribute, should the board and management deem this a necessity.

- The framework can be adapted to support the specific governance vision of the organisation.

- The framework should be used to create the opportunity for discussion in respect of the key stakeholders' differing perceptions of governance practices within the organisation.

- The framework should be used to guide the education of employees with regard to the concept of governance, in order for them to obtain a better understanding of the business and their places in its success.

- The framework will add the most value to those organisations whose main objective is to implement sound governance practices, as opposed to organisations that simply require a framework for some sort of 'tick-list' compliance exercise. The framework was not developed to be a 'tick-list'. It has been developed to be a dynamic tool that enables the measurement of the effectiveness or integrity of the governance practices being implemented by an organisation.

- Most importantly, in order to add value to an organisation, the framework should be used to determine and measure the ongoing effectiveness of governance practices.

6.3.6 Use of the organisational governance maturity framework for internal auditing

A part of this study also investigated the role of internal auditing in governance, looking specifically at how the organisational governance maturity framework could assist internal auditing to provide more effective and efficient services. Chapter 3 examined in detail the two roles of internal auditing in governance, and concluded that such a framework can assist internal auditing a great deal in its efforts to provide assurance and/or consulting services in respect of governance. The results of the empirical study furthermore confirmed that the framework would add much value to internal auditing in its efforts to provide quality services in respect of governance, especially on a strategic level.

Key recommendations which internal auditing should consider while using the framework are as follows:

- The descriptive nature of the framework should be used to obtain the necessary background information relating to the governance practices to be implemented.
- The framework can be used as a benchmarking tool, should the organisation require such an evaluation.
- The framework should be used to determine the current state of governance maturity of an organisation. This will enable internal auditing to determine which type of service is more appropriate to render (assurance and/or consulting) to add the most value. If the organisation is mature in respect of governance, internal auditing can provide assurance on the structures, systems and processes that are being implemented. If the organisation is less mature in respect of governance, internal auditing can provide consulting services, and give advice and assistance in improving the organisation's selection and implementation of governance structures, systems and processes.

- The criteria established for each specific attribute, and the corresponding maturity levels, could be used as points of departure for recommendations arising from having conducted governance reviews.

6.4   AREAS FOR FUTURE RESEARCH

Emerging from the literature reviews and from the results of the empirical study, the following areas for future research have been identified:

- As this study's objective was restricted to developing a framework within which to assess organisational governance maturity, the opportunity therefore exists for the development of an ancillary model, consisting of detailed outcomes (and scores) for each specific attribute and corresponding level of maturity.
- Although independent input was obtained through the formal case study, and the aim of refining the framework was achieved, the framework was not subjected to stringent 'field-testing'. Such an opportunity therefore exists to determine whether this framework can be applied within different private sector organisations.
- The framework was developed specifically for the private sector in South Africa. As internal auditing is a global profession, this framework can be used as a basis for the development of a framework appropriate for the South African public sector, as well as for other countries.
- As the framework was designed to provide a holistic overview of a company, it can be expanded into various detailed sub-frameworks appropriate for individual departments, functions, and divisions within an organisation, thus providing additional guidance on the practical implementation of governance on an operational level.

6.5 RESEARCH CONCLUSION IN THE CONTEXT OF THE RESEARCH OBJECTIVES

One primary objective was identified for this study namely, to develop a framework that can be used for assessing the level of organisational governance maturity within South African private sector organisations. Various secondary objectives were identified in section 1.5.2 on p.25, and following each of these objectives is the chapter reference where the objective has been considered and achieved. It was possible to achieve the primary research objective and all the secondary objectives either during the literature review or on completion of the empirical study.

In addition, numerous benefits accruing both to the organisation and to the internal audit activity were identified. Benefits specifically related to the organisation are provided in section 4.2.4 on p.129, and in sections 5.3.3.3 and 5.3.3.4 starting on p.162. Benefits specifically related to internal auditing are provided in section 3.4 on p.114 and in section 5.3.3.9 on p.175.

The results of the literature review and empirical study indisputably support the need to further develop the organisational governance maturity framework, and the benefits are self-explanatory.

6.6 CONCLUDING REMARKS

The importance of governance has been argued on frequently within this study. The occurrence of numerous corporate scandals has resulted in various governance codes, legislation, guidance documents and control tools being developed in an ongoing attempt to try to manage this broad and complicated concept. Although these measures have been instituted with good intention, they have been put in place despite the almost complete absence of a practical framework that holistically addresses the concept of governance. Responding to the need identified above, an organisational governance maturity framework has

been developed as the main output of this study. Internal auditing, as an important role-player in governance, can also benefit from accessing such a framework, in the pursuit of providing quality services when conducting governance reviews.

To conclude, the contribution of this study was summarised by the Group manager: Compliance of the selected organisation as follows: "Everybody knows what to do, but there are no guidelines of how to do it. You have put everything in a comprehensive succinct model. This is what people need. This is what South Africa needs." (Anonymous 2013(b))

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Summary of governance-related maturity frameworks/models (or other source)

Framework /Model or other source	Attributes	Levels of maturity				
		Immoral mode	**Reactive mode**	**Compliance mode**	**Integrity mode**	**Totally aligned organisation (TAO) mode**
MMM model (Rossouw & Van Vuuren 2003)	**Nature**	Unethical behaviour is tolerated.	Unethical behaviour is still ignored and not punished.	Unethical behaviour is punished and there is a commitment to manage and monitor ethics.	Ethical values and standards are embraced.	Total integration of ethics into the workplace and reporting to stakeholders.
	Purpose	Ethics is not perceived to be important in reaching the bottom line.	Ethics standards do exist but are not enforced.	Ethical reputation is important.	Ethics is strategically seen as important and good ethical behaviour is encouraged.	Ethics is part of the culture, purpose and decision-making processes of organisation.
	Ethics management strategy	No strategy or any interventions.	Ethical values not enforced and not practised.	Systems and codes are in place to manage ethics.	Systems and codes are in place to manage ethics and are enforced and implemented.	Each individual within organisation feels responsible for ethics.
	Challenges	Negative financial consequences to be unethical.	Credibility and ethical reputation seen in a negative light by stakeholders.	Personal moral autonomy and responsibility is undermined and employees cannot properly use ethical discretion.	The discretion granted is abused and leaders undermine ethics.	Can become complacent in terms of ethics which may lead to lack of co-ordination in managing ethics.

Framework /Model or other source	Attributes	Levels of maturity				
		Forming	**Developing**	**Normalised**	**Established**	**Mature**
OCEG model (OCEG & NACD 2007)	**Capability**	Leadership lacks key skills for effective decision-making.	Leadership includes basic decision-making skills but lacks strategic vision.	Leadership is able to determine short-term strategies.	Leadership is able to determine long-term strategies.	Leadership is able to make decisions under uncertain circumstances.
	Structure	Structure not well-defined and decisions are not enforced.	Roles and responsibilities in terms of decision-making not well-defined.	Decisions are made at appropriate levels.	Roles and responsibilities in terms of decision-making is well-defined and understood.	Decisions are made at appropriate levels and are effectively communicated throughout organisation.
	Processes	Processes are not defined.	Basic processes are defined but applied inconsistently.	Strategic processes are defined but applied inconsistently.	Basic processes are well-known and used consistently.	Continuous assessment and improvement of processes.
	Information & Technology	• Information about decisions is not well-known. • Technology maintaining information is isolated and decisions are made without the necessary information.	• Information about decisions is communicated to a limited extent. • Outdated technology which leads to outdated decisions being made.	• Information about decisions is communicated internally only. • Technology ensures that timely and accurate decisions are made.	• Information about decisions is communicated to key stakeholders. • Technology ensures that timely and accurate decisions are made and that adequate feedback is obtained.	• Information about decisions is communicated to broad public. • Technology delivers timely and accurate information and feedback is obtained throughout the decision-making chain.

Framework /Model or other source	Attributes	Levels of maturity				
	Results	No processes in place to measure performance.	Limited measurement of effectiveness and efficiency of decision-making processes.	Methods used to measure the effectiveness and efficiency of decision-making processes is almost adequate.	Consistent methods used to measure the effectiveness and efficiency of decision-making processes.	Effectiveness and efficiency of decision-making processes is measured on a 360 degree basis.
IA-CM (IIA Research Foundation 2009)		**Initial**	**Infrastructure**	**Integrated**	**Managed**	**Optimising**
	Services and role of internal auditing	• *Ad hoc* and unstructured. • Lack of infrastructure.	Compliance auditing performed.	• Advisory services. • Performance audit engagements performed.	Overall assurance on governance, risk management and internal control.	Internal auditing recognised as key agent of change.
	People management	• Limited professional practices. • Isolated single audit engagements. • Funding approved by management when needed.	• Professional development per individual. • Identification and recruitment of skilled personnel.	• Team building and competency. • Professionally qualified staff. • Workforce coordination.	• Internal auditing contributes to management development and supports professional bodies. • Workforce planning.	• Leadership involvement with professional bodies. • Workforce projection.
	Professional practices		• Professional practices and processes framework. • Internal audit plan based on stakeholder priorities.	• Quality management framework. • Risk-based internal audit plans.	Internal audit strategy leverages organisation's management of risk.	• Continuous improvement in professional practices. • Strategic internal audit planning.
	Performance management and accountability		Internal audit operating budget and business plan.	• Performance measures. • Cost information. • Internal audit management reports.	Integration of qualitative and quantitative performance measures.	Public reporting of internal audit effectiveness.

Framework /Model or other source	Attributes	Levels of maturity				
	Organisational relationships and culture		Managing within the internal audit activity.	• Coordination with other review groups. • Important component of management team.	Chief audit executive advises and influences senior management.	Effective and on-going relationships.
	Governance structures		• Unlimited access to organisation's information, assets and personnel. • Established reporting relationships.	• Management oversight of the internal audit activity. • Funding mechanisms.	• Independent oversight of the internal audit activity. • Chief audit executive reports to highest level of authority.	Independence, power and authority of the internal audit activity.
Risk maturity model (RIMS 2006; Coetzee 2010)		*Ad hoc*	**Initial**	**Repeatable**	**Managed**	**Optimised**
	Culture ('tone at the top')	Vision and mission statement.	Values statement.	Values statement includes positive risk-taking.	Annual self-assessment of organisation's culture.	Ongoing self-assessments of organisation's culture.
	Involvement in strategy setting	Annual strategic risk identification.	• Risk identification part of strategic objective setting. • Report significant risks to executive committee(s).	• Risk process triggered when revising strategic objectives. • Significant risks monitored at monthly executive meetings.	• Board decides risk tolerance and indicators. • Monthly management feedback on risks.	Strategic risks part of monthly management information pack.
	Risk management policy setting	Reactive policy for hazards only.	• Need for proactive policy identified. • Risk management in charter of relevant committee.	Proactive policy identifying chief executive officer as owner.	Regular self-assessment of compliance with policy.	Measure principles and values in policy.

Framework /Model or other source	Attributes	Levels of maturity				
	Risk management process or framework	Not formalised and reporting on periodic basis.	Simplified process where executives issue notices on risk to staff.	Organisation-wide framework with risk management committee, annual audit of process and common risk language initiated.	Periodic input from business unit heads on framework and use of common risk language.	• Framework components integrated into strategy and key policies. • Common risk language used across organisation. • Active risk management committee.
	People(staff)	Risk management perceived as finance function.	Need for internal risk champions identified and training given more priority.	• Risk manager role identified and appointed. • Risk management committee provides coordination.	In-house training.	Risk management committee gives training priority and culture encourages active employee participation.
	Risk management performance measures	No measuring, only meeting legislative requirements.	• Internal and external audit findings reduced. • Evidence of improved outcome limited.	• Number of material surprises reduced. • Improved outcome visible.	• Strategic objectives achieved within risk appetite. • Clear evidence of improvement.	• Indicators linked to risk appetite objectives. • Excellent evidence of improvement.
	Internal audit (assurance provider)	No formalised audit of risk management process.	Internal audit activity performs overview of framework.	Internal audit activity performs audit on certain areas of framework.	• *Ad hoc* audit of framework. • Internal audit activity provides input into framework.	• Annual audit of framework. • Internal audit activity provides input into improving framework.

Framework /Model or other source	Attributes	Levels of maturity				
	Reporting and communication	No communication regarding risk management.	Internal communication to relevant parties.	Risk management included in financial statements as sub-section.	Risk management included in financial statements as separate section.	• Risk management included in financial statements as separate section. • Comprehensive reporting on all elements of framework. • Separate risk management communication to external parties.
GCM model (Bahrman 2011 (a) & (b))		**Initial**	**Repeatable**	**Defined**	**Managed**	**Optimised**
	Role of the board	Limited involvement and awareness of governance practices.	• Involved in design and roll-out of governance practices to a limited extent. • Practices not yet coordinated.	• Sets tone and is responsible for governance. • Establishes and reviews documents, processes and practices. • Practices are coordinated, integrated, aligned with external mandatory requirements and communicated to stakeholders.	• Practices are sustained and review on an annual basis for self-assessment purposes. • Alignment between board governance and governance practices within organisation.	• Practices are operating efficiently and effectively. • Board is committed towards effective governance and continuous improvement of practices. • Importance of governance is acknowledged.

Framework /Model or other source	Attributes	Levels of maturity				
	Values, culture, and philosophy	• No ethics policy. • Values and staff accountabilities not defined.	• Ethics and values statement not communicated or applied consistently. • Limited understanding of governance philosophy.	• Ethics and values statement clearly communicated. • Good staff understanding of governance philosophy and consistent application, new staff adequately orientated. • Executive leadership leading by example.	• Measurement of ethics and values and follow-up. • On-going communication and pro-active training. • Zero tolerance towards staff not adhering.	• Organisation recognised as having high standards. • Accountabilities assigned to staff through job descriptions. • Very few violations by staff.
	Structures and arrangements including legal documents, policies, standards and charters	• Not defined. • No established charters, policies or practices.	• Basic structures established. • Only mandatory governance requirements identified. • Awareness exists.	• Comprehensive structures established including risk management, compliance and internal auditing. • Structures support strategies, comply with requirements and are communicated to stakeholders. • Optional governance requirements are considered for adoption. • Written charters and policies exist and approved by board.	• Structures understood throughout organisation and sustainable. • Feedback from stakeholders.	• Relevant structures reviewed on an annual basis. • Key governance elements covered. • Continuous improvement to cater for stakeholder satisfaction and acknowledge-ment as leading practice. • Organisational support. • Positive external validations.

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Framework /Model or other source	Attributes	Levels of maturity				
	Processes, procedures and process management (level below organisation-wide structures)	• Not defined and documented. • No ownership established. • No controls identified. • Employees act intuitively.	• Defined and documented on high-level. • Ownership established. • Control framework adopted. • Inconsistent application.	• Detailed documentation which is accurate, current and readily available. • Ownership responsibilities established. • Control framework adopted. • Understanding of governance practices and rolled-out for relevant new projects or activities.	• Wide knowledge. • Quality assurance through self-assessment. • Control policy adopted and communicated. • Applied consistently.	• Continuous assessment and improvement. • Governance practices embedded within organisation. • Independent validations for confirmation of positive effect.
	Goals, standards, objectives, strategies, plans, risk and control	• No formal goals or objectives. • No risk management process. • Risks not understood as informal risk assessment conducted. • Informal plans and budgets.	• Broad, general goals. • Risk management process partially established as risk is informally considered. • Risks generally understood. • Plans and budgets used to limited extent.	• Goals defined and linked to strategies. • Risk management process established and responsibilities assigned. • Risk tolerance levels set and approved by board. • Risks identified and measured. • Board review of goals, objectives, strategies and plans.	• Goals and objectives embedded throughout organisation. • Formal risk assessments completed and communicated. • Risk mitigation actions monitored by board. • Operating plans and budgets reviewed and amended accordingly.	• Employee goals linked to organisational goals. • Risks properly managed. • Continuous review and update of strategies and plans. • Exposures facing the organisation understood by stakeholders. • Progress toward achievement of goals communicated to stakeholders.

Framework /Model or other source	Attributes	Levels of maturity				
	People, capabilities, accountabilities, behaviours, training, education and awareness	• Limited information on capability needs. • Lack of management skills. • Roles and responsibilities not defined. • Accountabilities not assigned. • Management perceives governance as inhibitor.	• Basic management skills identified. • Roles and responsibilities not formally assigned and inconsistently applied. • Limited job descriptions, training and succession plans. • Accountability understood but not documented.	• Roles, responsibilities and accountabilities assigned. • Formalised job descriptions, development plans and succession plans. • Delegation of authority documented. • Board review of significant investments and expenditures.	• Senior leadership responsibilities assigned. • Pro-active training for all employees. • Delegation of authority communicated.	• Senior management recognises importance of governance. • Fully embedded accountability structure, reviewed periodically. • Clear decision-making exists.
	Metrics, measurement and oversight/monito-ring	Limited or no metrics and monitoring.	• Limited metrics. • Re-active monitoring. • Informal independent validation.	• Oversight practices identified for senior management and board. • Metrics and measurements established. • Monitoring includes some formal validation. • Independent assurance in respect of internal controls. • Monitoring performed in silo groups.	• Targets set for metrics and measurements, reported on periodically. • Compliance to measurements monitored. • Independent formal assurance and validation takes place. • Some coordination between monitoring groups.	• Balanced score card for organisation. • Measurements cover key drivers. • Goals and objectives are met or exceeded. • Integrated assurance plans from all assurance providers. • Governance goal included as part of incentive program.

Framework /Model or other source	Attributes	Levels of maturity				
	Communicate, inform and transparency	• Informal, inconsistent communication. • Information incomplete and not shared. • Transparency is lacking. • Controls to ensure consistency and completeness in disclosure are lacking. • No documentation. • Urgency in reporting is lacking.	• Re-active communication. • Importance of transparency realised. • Reporting is inconsistent. • Limited use of technology.	• Broader distribution of internal communication. • Some standard reporting. • Serious nature of record keeping emphasised. • Technology used to a broader extent.	• Importance of transparency emphasised. • Communication to key stakeholders. • Standard reporting in respect of key aspects. • Making use of technology to compile results.	• Communication to all stakeholders. • Transparency viewed as important governance element. • Comprehensive sustainability reporting in place. • Technology frequently used. • Comprehensive standard reporting requirements and disclosure.
	Results, stakeholders, expectations, compliance, and achievement of objectives	• Stakeholder expectations informally defined. • Degree of compliance not known.	• Decisions made based on stakeholder expectations. • Compliance efforts are re-active.	• Key stakeholder expectations identified, documented and communicated. • Compliance results normally favourable.	• Stakeholder expectations met. • External reviews agree with compliance results. • Board receives regular updates.	• Goals are achieved and results exceed target set. • External sources validate results obtained internally. • Poor governance does not affect organisation significantly.

Framework /Model or other source	Attributes	Levels of maturity				
	Automation (if relevant)	Limited use of technology.	Some use of technology and plans for further development.	Technology relied on when it comes to providing information on governance practices.	Technology used frequently.	Technology used successfully.
			Other measurement tools and guidance related to governance			
King III (IoD 2009)	King III, as with COBIT, does not make use of any 'attributes' or 'levels of maturity', however various key governance principles are focused on. If compared with the other models in this table, these principles can be related to attributes. As King III is seen as the leading guidance document in terms of governance in South Africa, the guidance contained in this report would inspire organisations to reach the highest level of maturity, as indicated below:					
	Ethical leadership and corporate citizenship	Effective leadership is based on an ethical foundation where the board is responsible for implementing an effective ethics management process as well as for ensuring that the organisation is seen as a responsible corporate citizen.				
	Boards and directors	An effective board (consisting of responsible directors), adhering to all responsibilities as indicated in King III, is in place.				
	Audit committees	An effective audit committee, adhering to all responsibilities as indicated in King III, is in place.				
	The governance of risk	An effective risk committee is in place. An organisation-wide risk management framework and process is implemented, applied and monitored.				
	The governance of IT	An IT governance framework supporting the effective governance of IT, as indicated in King III, is implemented, applied and reported on.				
	Compliance with laws, codes, rules and standards	An effective compliance framework, with associated processes, is implemented, applied and reported on.				
	Internal audit	An effective internal audit activity, adhering to the definition of internal auditing as well as fulfilling the requirements for an effective risk-based internal audit, as indicated in King III, is in place.				
	Governing stakeholder relationships	Effective stakeholder relationship management is in place. Stakeholders are identified and engaged with, and relationships are monitored.				
	Integrated reporting and disclosure	Integrated reporting, supported by the values of transparency and accountability, to all relevant stakeholders.				

Framework/Model or other source	Attributes	Levels of maturity
COBIT 5 model (ISACA 2012)	COBIT does not make use of any 'attributes' or 'levels of maturity'. However, COBIT 5 is based on five key principles which enable the organisation to build an effective IT governance framework. The five key principles are summarised below:	
	Meeting stakeholder needs	COBIT 5 is designed to provide for the support of business value creation through the use of IT. COBIT 5 makes provision for translating strategic goals into IT-related goals in order to map processes and practices.
	Covering the enterprise end-to-end	COBIT 5 makes the governance of IT an enterprise-wide task as it integrates the governance of IT into every possible aspect of the organisation.
	Applying a single, integrated framework	Various IT-related standards and frameworks exist, but COBIT 5 integrates all these relevant standards and frameworks on a high level to serve as the overarching framework.
	Enabling a holistic approach	The governance and management of IT requires a holistic approach and as such COBIT 5 defines seven categories of enablers in support of an enterprise-wide IT governance system which are: principles, policies and frameworks; processes; organisational structures; culture, ethics and behaviour; information; services, infrastructure and applications; and people, skills and competencies.
	Separating governance from management	There appears to be a clear distinction between governance and management as these two disciplines serve different purposes.

Source: Refer to the first column (from the left) of the table.

Note 1: Summary produced in a study conducted by Wilkinson & Plant (2012:19-31). This was used as a basis, after being updated with relevant literature sources, for the development of the preliminary organisational governance maturity framework.

Note 2: The maturity frameworks/models referred to in this Annexure were listed according to the date of publication.

Attributes addressed in selected governance-related maturity frameworks/models (or other sources)

Attributes	Selected governance-related maturity framework/model (or other sources)						
	MMM model (Rossouw & Van Vuuren 2003)	**OCEG model (OCEG & NACD 2007)**	**IA-CM (IIA Research Foundation 2009)**	**Risk maturity model (RIMS 2006; Coetzee 2010)**	**GCM model (Bahrman 2011 (a) & (b))**	**King III (IoD 2009)**	**COBIT 5 model (ISACA 2012)**
1. Area: Decision-making and leadership							
1.1 Capability		1			1	1	1
1.2 Structure		2	2		2	2	2
1.3 Processes	3	3	3	3	3	3	3
1.4 Information and technology		2			2	2	2
1.5 Results		3	3	3	3	3	
2. Area: Ethics							
2.1 Nature	1				1	1	
2.2 Purpose	1				1	1	
2.3 Strategy	2&3				2&3	2&3	2&3
2.4 Challenges	3						
3. Area: Governance							
3.1 Ethical leadership, corporate citizenship, values, culture, philosophy, people, capabilities, accountabilities, behaviours, training, education and awareness	1	1	1	1	1	1	1
3.2 Boards, directors and roles, structures and arrangements	2	2	2	2	2	2	
3.3 Audit committees			2		2	2	
3.4 The governance of risk				2	2	2	

Attributes	Selected governance-related maturity framework/model (or other sources)						
	MMM model (Rossouw & Van Vuuren 2003)	OCEG model (OCEG & NACD 2007)	IA-CM (IIA Research Foundation 2009)	Risk maturity model (RIMS 2006; Coetzee 2010)	GCM model (Bahrman 2011 (a) & (b))	King III (IoD 2009)	COBIT 5 model (ISACA 2012)
3.5 The governance of IT		2			2	2	2
3.6 Goals, standards, objectives, strategies, plans, risk and control, compliance with laws, codes, rules and standards	2	2	2	2	2	2	2
3.7 Internal audit			2		2	2	
3.8 Governing stakeholder relationships	3		3		3	3	3
3.9 Integrated reporting and disclosure, communication, inform and transparency		4	4	4	4	4	4
3.10 Processes, procedures and process management	3	3	3	3	3	3	3
3.11 Metrics, measurement, oversight monitoring and results	3	3	3	3	3	3	3

4. Area: Information technology							
4.1 Meeting stakeholder needs		3	3	3	3	3	3
4.2 Covering the enterprise end-to-end							2
4.3 Applying a single, integrated framework					2		2
4.4 Enabling a holistic approach							2
4.5 Separating governance from management							✓

Attributes	Selected governance-related maturity framework/model (or other sources)						
	MMM model (Rossouw & Van Vuuren 2003)	OCEG model (OCEG & NACD 2007)	IA-CM (IIA Research Foundation 2009)	Risk maturity model (RIMS 2006; Coetzee 2010)	GCM model (Bahrman 2011 (a) & (b))	King III (IoD 2009)	COBIT 5 model (ISACA 2012)
5. Area: Internal auditing							
5.1 Services and role			2			2	
5.2 People management			3	3	3		
5.3 Professional practices			3	3	3		
5.4 Performance management and accountability	3	3	3	3	3	3	
5.5 Organisational relationships and culture	1		1	1	1	1	
5.6 Governance structures		2	2	2	2	2	2
6. Area: Risk							
6.1 Culture	1	1	1	1	1	1	1
6.2 Involvement in strategy setting				2	2	2	
6.3 Risk management policy setting				3		3	
6.4 Risk management process or framework				2&3		2&3	
6.5 People(staff)			3	3	3		
6.6 Risk management performance measures				3	3	3	
6.7 Internal audit (assurance provider)			2	2	2	2	
6.8 Reporting/communication	4	4	4	4	4	4	4

Source: Refer to the individual columns of the table.

Note 1: The attributes in the first column from the left is listed alphabetically per area so as to prevent any bias in selecting attributes.

<u>Legends:</u>
The numbers (1-4) are indicative of which attributes overlap and can therefore be combined. For an explanation and justification refer to section 4.3.2.1 on p.137. The suggested general attributes to be included in the preliminary organisational governance maturity framework are as follows:

1: Leadership
2: Strategies and structures
3: Processes
4: Communication and reporting

✓: Not considered whilst conducting the comparison of attributes for inclusion in the preliminary organisational governance maturity framework. Refer to explanation in section 4.3.2.1. on p.137.

Preliminary organisational governance maturity framework

Attributes		Levels of maturity				
General	**Specific**	**Immature**	**Developing**	**Compliant**	**Institutionalised**	**Mature**
Leadership (1.1, 2.1, 2.2, 3.1, 5.5 & 6.1)	**Decision-making (OCEG & NACD 2007; IoD 2009; Bahrman 2011 (a) & (b); ISACA 2012)**	• Leadership lacks key skills for effective decision-making. • Decisions are not enforced.	• Leadership includes basic decision-making skills but lacks strategic vision. • Decisions cannot be substantiated.	• Leadership has a short-term view. • Decisions are made at the appropriate levels.	• Leadership has a long-term view. • Decisions can be substantiated and are understood.	• Informed decision-making takes place at appropriate levels. • Decisions are communicated throughout the organisation in a pro-active and transparent manner.
	Ethical foundation and culture ('tone at the top') (Rossouw & Van Vuuren 2003; RIMS 2006; OCEG & NACD 2007; IIA Research Foundation 2009; IoD 2009; Coetzee 2010; Bahrman 2011 (a) & (b); ISACA 2012)	• Ethical leadership is not perceived to be important. • Ethical culture within organisation is weak or non-existent.	• The importance of ethical leadership is recognised by minority of management. • Ethical culture within organisation remains weak as inadequate communication of ethics and values statement is evident.	• The importance of ethical leadership is recognised by majority of management. • Ethical culture within organisation is adequate as employees recognise the value of adherence and embedding ethics.	• The importance of ethical leadership is recognised by all stakeholders. • Ethical culture within organisation is adequate as constant monitoring and follow-up of ethics and values are performed.	• Effective ethical leadership is based on a strong ethical foundation and culture throughout the organisation. • All the deliberations, decisions and actions of the leaders are based on the ethical values of responsibility, accountability, fairness and transparency.

Attributes		Levels of maturity				
General	Specific	Immature	Developing	Compliant	Institutionalised	Mature
Strategies and structures (1.2, 1.4, 2.3, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 4.2, 4.3, 4.4, 5.1, 5.6, 6.2, 6.4 & 6.7)	**Governance strategies and structures (Rossouw & Van Vuuren 2003; RIMS 2006; OCEG & NACD 2007; IIA Research Foundation 2009; IoD 2009; Coetzee 2010; Bahrman 2011 (a) & (b); ISACA 2012)**	No formal governance strategies and structures in place.	Governance strategies and structures not well-defined.	Basic governance strategies and structures in place.	Well-defined governance strategies and structures which are understood and communicated.	• Governance structures support the vision and strategies of the organisation. • Governance strategies and structures are reviewed on regular basis.
	Board committees (IoD 2009; Bahrman 2011 (a) & (b))	• The role of formal committees is not perceived to be important. • No committees established.	Limited number of established committees and not functioning effectively.	Limited number of established committees to ensure adherence to relevant legislation.	Committees established to align governance practices of board with those of organisation.	Effective committees and committed towards continuous improvement of governance practices.
	Information technology (IT) (OCEG & NACD 2007; IoD 2009; Bahrman 2011 (a) & (b); ISACA 2012)	• Governance of IT not perceived to be important. • IT regarded as support function.	• Commence with the establishment of an IT governance framework. • IT regarded as support function. • IT governance not placed on board agenda.	• Basic IT governance framework in place. • Scattered approach to the implementation of IT governance. • IT governance features on board agenda to limited extent.	• IT governance framework which supports achievement of strategic objectives. • Approach to implementation still scattered. • IT governance is priority item on board agenda.	• IT governance framework includes governance of information and technology. • Enterprise-wide approach. • IT governance framework designed to support business value creation.

Attributes		Levels of maturity				
General	**Specific**	**Immature**	**Developing**	**Compliant**	**Institutionalised**	**Mature**
	Risk (RIMS 2006; IoD 2009; Coetzee 2010; Bahrman 2011 (a) & (b))	• Risk management not perceived to be important. • No risk management function (RMF) established.	• RMF established but not functioning effectively. • Most tasks are outsourced.	RMF established providing limited services on strategic level only to ensure basic compliance with the necessary legislation and company policies and procedures.	• RMF established providing services on strategic level. • Gradual implementation of risk management on operational level.	• Effective RMF established which ensures implementation of risk management framework and process to assist organisation in reaching strategic and operational objectives. • Enterprise-wide embedding of risk.
	Internal audit activity (IAA) (RIMS 2006; IIA Research Foundation 2009; IoD 2009; Coetzee 2010; IIA 2010; Bahrman 2011 (a) & (b))	• IAA not perceived to be important. • IAA unstructured providing *ad-hoc* services or not established at all.	• No formal reporting structure for the IAA. • IAA conducting only compliance audit engagements. • Internal audit plan (IAP) driven by needs of management.	• Reporting structure of IAA inadequate to ensure independence. • Gradual introduction of risk-based and other audit engagements. • IAP taking into account needs of all stakeholders.	• Reporting structure of IAA adequate to ensure independence. • Focus moves towards conducting risk-based audit engagements. • IAP drafted using a risk-based approach.	• IAA regarded as key stakeholder and agent of change assisting organisation in reaching objectives. • Focus includes overall assurance on governance, risk management and internal control.

Attributes		Levels of maturity				
General	Specific	Immature	Developing	Compliant	Institutionalised	Mature
	Laws & Regulations (Rossouw & Van Vuuren 2003; RIMS 2006; OCEG & NACD 2007; IIA Research Foundation 2009; IoD 2009; Coetzee 2010; Bahrman 2011 (a) & (b); ISACA 2012)	Compliance culture is non-existent.	• Compliance culture is weak. • Relevant laws and regulations are recognised but not enforced by means of a compliance framework.	• Establishment of unstructured compliance framework. • Relevant laws and regulations are recognised and enforced to prevent non-compliance.	• Compliance with laws and regulations are incorporated into code of conduct. • Relevant laws and regulations are adhered to and compliance is monitored.	Formal compliance framework including company secretary, compliance division, and checklists to ensure effective compliance and pro-active monitoring.
Processes (1.3, 1.5, 2.3, 2.4, 3.8, 3.10, 3.11, 4.1, 5.2, 5.3, 5.4, 6.3, 6.4, 6.5 & 6.6)	**Risk management process (RIMS 2006; IoD 2009; Coetzee 2010; Bahrman 2011 (a) & (b))**	No formalised risk management process in place.	• Simplified risk management process in place. • Overall risk awareness throughout organisation is lacking.	• Enterprise-wide risk management process is established but not embedded. • Annual audit of process takes place.	• Enterprise-wide risk management process is established and embedded. • Continuous feedback received on adequacy of process. • Any additional loss events identified by the IAA are reported.	• Effective risk management structures. • Enterprise-wide risk management process is implemented, applied and monitored using leading frameworks as guidance.
	Internal control process (IoD 2009; IIA 2010; Bahrman 2011 (a) & (b))	Importance of internal controls is not recognised.	Adherence to basic internal controls is not encouraged.	• Adherence to internal controls is important. • A lack of internal control is addressed to a limited extent.	• Internal control is understood by all employees. • Continuous improvement of control environment encouraged.	Comprehensive framework for internal control is implemented, applied and monitored on a regular basis.

Attributes		Levels of maturity				
General	Specific	Immature	Developing	Compliant	Institutionalised	Mature
	Ethics management process (EMP) (Rossouw & Van Vuuren 2003; IoD 2009; Bahrman 2011 (a) & (b); ISACA 2012)	• Ethics standards non-existent. • Unethical behaviour is tolerated.	• Ethics standards exist but are not enforced or formally managed. • Unethical behaviour is not punished.	A formal EMP is in place to manage ethics but with limited ethics initiatives.	• A formal EMP is in place to manage ethics. • Ethical behaviour is encouraged. • Ethical values and standards are embraced.	• Total integration of ethics within organisation. • Ethics is part of the culture, purpose and decision-making processes of the organisation.
	Performance management (employees) and performance measurement (processes) (RIMS 2006; OCEG & NACD 2007; IIA Research Foundation 2009; IoD 2009; Coetzee 2010; Bahrman 2011 (a) & (b))	• No formal process in place to manage performance of employees. • Performance measurement of processes not deemed important.	• Performance management of employees not applied consistently. • Limited measurement of performance of processes.	• Performance management process is established and complied with. • Methods used to measure performance of processes still inadequate.	• Performance management process contributes to development of employees. • Consistent methods used to measure performance of processes.	• Regular performance management reviews of employees are conducted and regular follow-up takes place. • Performance of processes measured on continuous basis.
	Stakeholder relationship management process (SRMP) (Rossouw & Van Vuuren 2003; IIA Research Foundation 2009; IoD 2009; Bahrman 2011 (a) & (b); ISACA 2012)	The organisation is unaware of its stakeholders and their importance.	Stakeholder relationships are dealt with in a re-active manner.	Stakeholders are identified but not actively engaged with.	Stakeholders are identified and engaged with to a limited extent.	• An effective SRMP is in place. • Stakeholders are identified, engaged with and relationships monitored in a pro-active manner.

Attributes		Levels of maturity				
General	Specific	Immature	Developing	Compliant	Institutionalised	Mature
Communication and reporting (3.9 & 6.8)	**Communication and reporting (Rossouw & Van Vuuren 2003; RIMS 2006; OCEG & NACD 2007; IIA Research Foundation 2009; IoD 2009; Coetzee 2010; Bahrman 2011 (a) & (b); ISACA 2012)**	• Inconsistent communication of information. • No formal reports are issued.	• Communication of information is done in a re-active manner. • Only annual financial statements issued to shareholders.	• Communication of information on a 'need-to-know' basis and to ensure basic compliance. • Annual report issued as required by relevant legislation to interested parties.	• Communication of information to key stakeholders only, but done in a more pro-active manner. • Annual report plus sustainability report issued (to limited extent) to all stakeholders.	• Communication of information to all stakeholders in a pro-active manner and feedback received are followed-up. • Integrated report issued to all stakeholders.

Source: Refer to attributes column and discussion in section 4.3.2.1 on p.137.

Note: Numbers referred to in the general attributes column are derived from the attributes in Annexure B, which are grouped and summarised in section 4.3.2.1 on p.137.

Selection of organisation for empirical study

As indicated in section 5.2 on p.155, the aspects of risk maturity, integrated reporting and market capitalisation or organisational performance were used as the criteria for selecting the relevant organisation for the empirical study. The results are listed below.

Scores were allocated (11 being the highest and 0 being the lowest) to each of the organisations. If an organisation was not listed in respect of a criterion, a score of zero was allocated. The organisations were subsequently ranked in respect of the final scores obtained, where after the top five organisations were used as the basis of selecting a relevant organisation. Refer to Annexure D.2 on p.242 for the ranking of the organisations and scores allocated.

Risk maturity of Coetzee (Population taken from Top 40 – as at August 2009)
1: ABSA Group Limited
2: Impala Platinum Holdings Limited
2: Telkom SA Limited
2: Old Mutual PLC
3: Investec PLC
4: Kumba Iron Ore Limited
4: Remgro Limited
5: Standard Bank Group Limited
5: Nedbank Group Limited
6: MTN Group Limited
6: Gold Fields Limited

1: Gold Fields Limited

2: Truworths International Limited

3: Standard Bank Group Limited

4: Royal Bafokeng Platinum Limited

5: Sasol Limited

6: Vodacom Group Limited

7: Illovo Sugar Limited

8: Nedbank Group Limited

9: Exxaro Resources Limited

10: Liberty Holdings Limited

JSE Top 10 (Population taken from Top 40 – as at 13 August 2013)

1: British American Tobacco PLC

2: SABMiller PLC

3: BHP Billiton PLC

4: Compagnie Financiere Richemont AG

5: MTN Group Limited

6: Naspers Limited

7: Anglo American PLC

8: Sasol Limited

9: Standard Bank Group Limited

10: Vodacom Group Limited

Selection of organisation for empirical study

Organisation	Ranking in respect of:			Total
	Risk maturity	Integrated reporting	JSE Top 10	
Standard Bank Group Limited	4	8	2	14
ABSA Group Limited	11	0	0	11
Gold Fields Limited	1	10	0	11
Impala Platinum Holdings Limited	10	0	0	10
British American Tobacco PLC	0	0	10	10
Sasol Limited	0	6	3	9
Telkom SA Limited	9	0	0	9
Truworths International Limited	0	9	0	9
SABMiller PLC	0	0	9	9
Old Mutual PLC	8	0	0	8
BHP Billiton PLC	0	0	8	8
MTN Group Limited	2	0	6	8
Compagnie Financiere Richemont AG	0	0	7	7
Investec PLC	7	0	0	7
Royal Bafokeng Platinum Limited	0	7	0	7
Kumba Iron Ore Limited	6	0	0	6
Nedbank Group Limited	3	3	0	6
Vodacom Group Limited	0	5	1	6
Naspers Limited	0	0	5	5
Remgro Limited	5	0	0	5
Anglo American PLC	0	0	4	4
Illovo Sugar Limited	0	4	0	4
Exxaro Resources Limited	0	2	0	2
Liberty Holdings Limited	0	1	0	1

Questionnaire for semi-structured interviews

1. Explain and provide some detail on the governance structures within the organisation. Make specific reference to committees and individuals tasked with the responsibility to manage governance and/or governance-related aspects.
2. What is your understanding of organisational governance maturity?
3. Are you of the opinion that a need exists for the development of an organisational governance maturity framework? Provide reasons for your answer.
4. What are the benefits of using such a framework for your organisation?
5. Does the preliminary organisational governance maturity framework facilitate a user-friendly approach? Provide reasons for your answer.
6. Do you agree with the five levels of maturity? Provide reasons for your answer.
7. Provide your input on the four general attributes listed. Are you of the opinion that any of the attributes should be deleted or other attributes added? Provide reasons for your answer.
8. Provide your input on the specific attributes listed under the four general attributes. Are you of the opinion that any of the attributes should be deleted or other attributes added? Provide reasons for your answer.
9. Provide your input on the criteria established. Are you of the opinion that any of the criteria should be amended? Provide reasons for your answer.
10. **Applicable to the internal audit activity only:** Are you of the opinion that such a framework will assist in rendering internal audit services in a more efficient and effective manner? Provide reasons for your answer.
11. Do you want to provide any further general comments?

Refined organisational governance maturity framework

Attributes		Levels of maturity				
General	Specific	Immature	Developing	Compliant	Institutionalised	Mature
Leadership (1.1, 2.1, 2.2, 3.1, 5.5 & 6.1)	**Decision-making (OCEG & NACD 2007; IoD 2009; Bahrman 2011 (a) & (b); ISACA 2012)**	• Leadership lacks key skills for effective decision-making. • Decisions are not enforced.	• Leadership includes basic decision-making skills but lacks strategic vision. • *Decisions are enforced but cannot be substantiated.* • *Responsibility for decisions made is not assigned.*	• Leadership has a short-term view. • Decisions are made at the appropriate levels. • *Responsibility is taken for decisions made.*	• Leadership has a long-term view. • Decisions can be substantiated. • *Decisions made are understood by all employees.*	• Informed decision-making takes place at appropriate levels. • Decisions are communicated throughout the organisation in a pro-active and transparent manner.
	Ethical foundation and culture ('tone at the top') (Rossouw & Van Vuuren 2003; RIMS 2006; OCEG & NACD 2007; IIA Research Foundation 2009; IoD 2009; Coetzee 2010; Bahrman 2011 (a) & (b); ISACA 2012)	• Ethical leadership is not perceived to be important. • Ethical culture within organisation is weak or non-existent.	• The importance of ethical leadership is recognised by minority of management. • Ethical culture within organisation remains weak as inadequate communication of ethics and values statement is evident.	• The importance of ethical leadership is recognised by majority of management. • Ethical culture within organisation is adequate as employees recognises the value of adherence and embedding ethics.	• The importance of ethical leadership is recognised by all stakeholders. • Ethical culture within organisation is adequate as constant monitoring and follow-up of ethics and values are performed.	• Effective ethical leadership is based on a strong ethical foundation and culture throughout the organisation. • All the deliberations, decisions and actions of the leaders are based on the ethical values of responsibility,

Attributes		Levels of maturity				
General	**Specific**	**Immature**	**Developing**	**Compliant**	**Institutionalised**	**Mature**
						accountability, fairness and transparency.
Strategies and structures (1.2, 1.4, 2.3, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 4.2, 4.3, 4.4, 5.1, 5.6, 6.2, 6.4 & 6.7)	**Governance strategies and structures (Rossouw & Van Vuuren 2003; RIMS 2006; OCEG & NACD 2007; IIA Research Foundation 2009; IoD 2009; Coetzee 2010; Bahrman 2011 (a) & (b); ISACA 2012)**	No formal governance strategies and structures in place.	Governance strategies and structures not well-defined.	Basic governance strategies and structures in place.	• Well-defined governance strategies and structures which are understood *by all employees.* • *Strategies and structures should be communicated in pro-active manner to all employees.*	• Governance structures support the vision and strategies of the organisation. • Governance strategies and structures are reviewed on regular basis.
	Role of board (Added after empirical study)	*The role of the board is not perceived as important.*	*A board is established but not functioning effectively.*	*A board is established to ensure minimum adherence to compliance requirements.*	*The board contributes to the achievement of organisational objectives to a limited extent.*	• *An effective board is in place.* • *Pro-active board practices are implemented.* • *Constant feedback from the board to the rest of the organisation.*
	Board committees (IoD 2009; Bahrman 2011 (a) & (b))	• The role of formal committees is not perceived to be important. • No committees established.	Limited number of established committees and not functioning effectively.	Limited number of established committees to ensure adherence to relevant legislation.	Committees established to align governance practices of board with those of organisation.	Effective committees and committed towards continuous improvement of governance practices.

Attributes		Levels of maturity				
General	Specific	Immature	Developing	Compliant	Institutionalised	Mature
	Information technology (IT) **(OCEG & NACD 2007; IoD 2009; Bahrman 2011 (a) & (b); ISACA 2012)**	• Governance of IT not perceived to be important. • IT regarded as support function.	• Commence with the establishment of an IT governance framework. • IT regarded as support function. • IT governance not placed on board agenda.	• Basic IT governance framework in place. • Scattered approach to the implementation of IT governance. • IT governance features on board agenda to limited extent.	• IT governance framework which supports achievement of strategic objectives. • *Approach to implementation is embedded.* • IT governance is priority item on board agenda.	• IT governance framework includes governance of information and technology. • Enterprise-wide approach. • IT governance framework designed to support business value creation. • *Strategic intent of IT becomes visible throughout organisation.* • *Value being added through the use of the IT governance framework becomes visible.*
	Risk **(RIMS 2006; IoD 2009; Coetzee 2010; Bahrman 2011 (a) & (b))**	• Risk management not perceived to be important. • No risk management function (RMF) established.	• RMF established but not functioning effectively. • Most tasks are outsourced.	RMF established providing limited services on strategic level only to ensure basic compliance with the necessary legislation and company policies and procedures.	• RMF established providing services on strategic level. • Gradual implementation of risk management on operational level.	• Effective RMF established which ensures implementation of risk management framework and process to assist organisation in reaching

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Attributes		Levels of maturity				
General	Specific	Immature	Developing	Compliant	Institutionalised	Mature
						• strategic and operational objectives. • Enterprise-wide embedding of risk.
	Internal audit activity (IAA) **(RIMS 2006; IIA Research Foundation 2009; IoD 2009; Coetzee 2010; IIA 2010; Bahrman 2011 (a) & (b))**	• IAA not perceived to be important. • IAA unstructured providing *ad hoc* services or not established at all.	• No formal reporting structure for the IAA. • IAA conducting only compliance audit engagements. • Internal audit plan (IAP) driven by needs of management.	• Reporting structure *and stature* of IAA inadequate to ensure independence. • Gradual introduction of risk-based and other audit engagements. • IAP taking into account needs of all stakeholders.	• Reporting structure *and stature* of IAA adequate to ensure independence. • *Established risk-based audit engagements are conducted.* • IAP drafted using a risk-based approach.	• IAA regarded as key stakeholder and agent of change assisting organisation in reaching objectives. • Focus includes overall assurance on governance, risk management and internal control.
	Internal and external compliance (Compliance with laws, regulations, rules, codes, practices, and organisation policies and procedures) **(Rossouw & Van Vuuren 2003; RIMS 2006; OCEG & NACD 2007; IIA Research Foundation 2009; IoD 2009; Coetzee 2010;**	Compliance culture is non-existent.	• Compliance culture is weak. • Relevant *internal and external compliance structures* are recognised but not enforced by means of a compliance framework.	• Establishment of unstructured compliance framework. • Relevant *internal and external compliance structures* are recognised and enforced to prevent non-compliance.	• *All compliance requirements are incorporated into code of conduct.* • Relevant *internal and external compliance structures* are adhered to and compliance is monitored.	Formal compliance framework including company secretary, compliance division, and checklists to ensure effective compliance and pro-active monitoring.

Attributes		Levels of maturity				
General	Specific	Immature	Developing	Compliant	Institutionalised	Mature
	Bahrman 2011 (a) & (b); ISACA 2012)					
Processes (1.3, 1.5, 2.3, 2.4, 3.8, 3.10, 3.11, 4.1, 5.2, 5.3, 5.4, 6.3, 6.4, 6.5 & 6.6)	**Risk management process (RIMS 2006; IoD 2009; Coetzee 2010; Bahrman 2011 (a) & (b))**	No formalised risk management process in place.	• Simplified risk management process in place. • Overall risk awareness throughout organisation is lacking.	• Enterprise-wide risk management process is established but not embedded. • Annual audit of process takes place.	• Enterprise-wide risk management process is established and embedded. • Continuous feedback received on adequacy of process. • Any additional loss events identified by the IAA are reported.	• Effective risk management structures. • Enterprise-wide risk management process is implemented, applied and monitored using leading frameworks as guidance.
	Internal control process (IoD 2009; IIA 2010; Bahrman 2011 (a) & (b))	Importance of internal controls is not recognised.	Adherence to basic internal controls is not encouraged.	• Adherence to internal controls is important. • *Internal control process is established to ensure minimal compliance.*	• Internal controls are understood by all employees. • Continuous improvement of control environment is *prioritised.*	Comprehensive framework for internal control is implemented, applied and monitored on a regular basis.
	Ethics management process (EMP) (Rossouw & Van Vuuren 2003; IoD 2009; Bahrman 2011 (a) & (b); ISACA 2012)	• Ethics standards non-existent. • Unethical behaviour is tolerated.	• Ethics standards exist but are not enforced or formally managed. • Unethical behaviour is not punished.	• A formal EMP is in place to manage ethics but with limited ethics initiatives. • *Unethical behaviour is punished and perpetrators are*	• A formal EMP is in place to manage ethics. • Ethical behaviour is encouraged. • Ethical values and standards are embraced.	• Total integration of ethics within organisation. • Ethics is part of the culture, purpose and decision-making processes of the organisation.

Attributes		Levels of maturity				
General	Specific	Immature	Developing	Compliant	Institutionalised	Mature
				dealt with accordingly.		
	Performance management (employees) and performance measurement (processes) (RIMS 2006; OCEG & NACD 2007;IIA Research Foundation 2009; IoD 2009; Coetzee 2010; Bahrman 2011 (a) & (b))	• No formal process in place to manage performance of employees. • Performance measurement of processes not deemed important.	• Performance management of employees not applied consistently. • Limited measurement of performance of processes.	• Performance management process is established and complied with. • Methods used to measure performance of processes still inadequate.	• Performance management process contributes to development of employees. • Consistent methods used to measure performance of processes.	• Regular performance management reviews of employees are conducted and regular follow-up takes place. • Performance of processes measured on continuous basis.
	Stakeholder relationship management process (SRMP) (Rossouw & Van Vuuren 2003; IIA Research Foundation 2009; IoD 2009; Bahrman 2011 (a) & (b); ISACA 2012)	The organisation is unaware of its stakeholders and their importance.	Stakeholder relationships are dealt with in a re-active manner.	Stakeholders are identified but not actively engaged with.	• Stakeholders are identified and engaged with *to the extent necessary.* • *Measures are instituted to ensure that stakeholders' requirements are met where ever possible.*	• An effective SRMP is in place. • Stakeholders are identified, engaged with and relationships monitored in a pro-active manner.

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Attributes		Levels of maturity				
General	Specific	Immature	Developing	Compliant	Institutionalised	Mature
Communication and reporting (3.9 & 6.8)	**Communication and reporting (Rossouw & Van Vuuren 2003; RIMS 2006; OCEG & NACD 2007; IIA Research Foundation 2009; IoD 2009; Coetzee 2010; Bahrman 2011 (a) & (b); ISACA 2012)**	• Inconsistent communication of information. • No formal reports are issued.	• Communication of information is done in a re-active manner. • Only annual financial statements issued to shareholders.	• Communication of information on a 'need-to-know' basis and to ensure basic compliance. • Annual report issued as required by relevant legislation to interested parties.	• Communication of information to key stakeholders only, but done in a more pro-active manner. • Annual report plus sustainability report issued (to limited extent) to all stakeholders. • *Organisation commences to institute measures for priority areas in measuring integrity and effectiveness with which strategies, structures, systems and processes are applied.*	• Communication of information to all stakeholders in a pro-active manner and feedback received are followed-up. • Integrated report issued to all stakeholders. • *Measures implemented are expanded for all areas in measuring integrity and effectiveness with which strategies, structures, systems and processes are applied.*

Source: Refer to the individual columns of the table (specific attributes).

Note 1: Amendments are indicated in *italics*. Arguments in support of the amendments are discussed in section 5.3.3.8 on p.166.

Note 2: The specific attribute indicated by means of a ~~strikethrough~~ was deleted based on the arguments provided by the interviewees in section 5.3.3.8 on p.166.