Assessing organisational governance maturity: a retail industry case study

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Abstract

For any business to operate effectively, a governance framework that operates at the relevant maturity level is required. An organisational governance maturity framework is a tool that leadership can use to determine governance maturity. This study aims to determine whether the organisational governance maturity framework (developed by Wilkinson) can be applied to the selected retail industry organisation to assess the maturity of the organisation's governance, limited to the 'leadership' attribute. Firstly, a high-level literature review on ethical leadership, ethical decision-making, ethical foundation and culture ('tone at the top'), and organisational governance and maturity was conducted. Secondly, a Johannesburg Stock Exchange (JSE) listed South African-based company was selected for the empirical part of the study using a single case study research design. The empirical results confirmed that the organisational governance maturity framework can be used to determine the maturity level of organisational governance for the selected attribute of 'leadership'.

Keywords: Corporate Governance, Ethical Leadership, Governance Maturity Assessment, Organisational Governance Maturity Framework

1. Introduction

It is alarming that the ethical failure of leadership is marked, very often, by unethical decisions, immoral action, or policy that has never been questioned. The people in leadership know that they are in the wrong but are prepared to take the chance of performing an unethical act (Price, 2000:177). Such ethical breakdowns of leadership occurred in, for example, WorldCom, HealthSouth, Parmalat, Elan and Andersen (Donaldson, 2007:534). As a result, governments of the world implemented new measures to address the shortcomings of corporate governance (Coffee, 2002:1403; Melis, 2005:478; Rockness and Rockness, 2005:31; Kuhn and Sutton, 2006:61; Barlaup et al., 2009:183). The United States of America (USA) for example, introduced the Sarbanes-Oxley Act of 2002, which widened the sanctions and penalties for management's unethical behaviour. This rules-based approach, however, did not solve the relationship between management behaviour and rewards (Rockness and Rockness, 2005:51). The European Union (EU) countries and South Africa opted for a more principles-based approach to corporate governance, which is reflected in the third King Report on Governance, hereafter King III (Sama and Shoaf, 2005:184; IoD, 2009:5; Wilkinson, 2014:10-11; Wilkinson and Coetzee, 2015:188). The principles-based approach is more end-result orientated or focussed on what is beneficial for the organisation. The embedding of ethical values and principles of fairness, accountability, transparency and responsibility in the organisation's culture is therefore critical when the principles-based approach is followed (Wilkinson, 2014:47).

Allio (2012:8) argues that after the aforementioned governance reforms corporate failures still persisted. For example, Siemens was seen as ticking all the right boxes in terms of corporate governance and ethical behaviour - they had implemented ethics policies and programmes, had an ethics officer, code of conduct, and operated in an environment of the Sarbanes-Oxley Act of 2002, the New York Stock Exchange, and German Corporate Governance rules (Vasile and Croitoru, 2013:1-11; Grant and McGhee, 2014:128). However, management decided to use large scale bribery as a strategy to obtain contracts fraudulently rather than competing for contracts through ethical means. The more recent unethical behaviour from Volkswagen Aktiengesellschaft (VW AG) and Hitachi leaders highlighted the persistence of unethical behaviour by large corporations. VW AG was found to be manipulating test results of diesel engines by the U.S. Environmental Protection Agency and the California Air Resources Board in 2015 (VW AG, 2015). VW AG has provisionally provided 6.5 billion euros for fines and claims that will follow (VW AG, 2015). Hitachi, on the other hand, paid a $19 million fine in 2015 for making improper payments to South Africa's governing party. The U.S. Securities and Exchange Commission issued the fine as part of the violations of the Foreign Corrupt Practices Act. Hitachi paid millions of dollars to a front company of South Africa's governing party to secure contracts to build two power plants. Hitachi has not admitted to the charge placing a question mark on the corporation's ethical values (Donnelly, 2015). Corporate failures and unethical behaviour has lead researchers to search for a solution to the problem by researching the behaviour of the board and not the composition of the board. The focus has moved away from what the board should do, to how the board should operate (Grant and McGhee, 2014:127-129). Leadership was identified as a solution to give the board purpose, become more effective and work with a strategy. Adding value to the business is linked to the purpose of the board, performance function and effective organisational leadership (Erakovic and Overall, 2010:263: Wilkinson and Coetzee, 2015:187). The importance of the board's role therefore is seen as providing leadership in the internal functioning, the organisation's management and the organisation's external stakeholder relationships (Erakovic and Overall, 2010:250-257).

Governance is synonymous with leadership and highlights the multidimensional aspect of this concept (Erakovic and Overall, 2010:263: Wilkinson and Coetzee, 2015:187). Leadership can be either transactional or transformational (Allio, 2012:7). The main difference being that transactional leadership is the normal interaction between leaders and followers. Transformational leadership, on the other hand, is promoting the followers' level of motivation and morale to the optimum level (Allio, 2012:7). Successful leaders have the ability to bring change for better or worse. Great leaders from history vary from Mandela to Hitler. The main difference between these leaders is ethics or the lack there of (Ciulla, 2005:160-161). Ethical behaviour can best be described as 'good' or 'right' behaviour (Ho, 2011:517). What is perceived as 'good' or 'right' varies between countries, cultures, groups and business industries (Resick et al., 2006:349). This makes it difficult to define ethical behaviour that is universally applicable. King III called on business leaders to govern their organisations more effectively. Effective leadership includes the ethical values of responsibility, accountability, fairness and transparency. Moral duties therefore form the basis for effective leadership, which arises from the concept of *Ubuntu* (IoD, 2009:9;Wilkinson and Coetzee, 2015:187). It is evident that leaders in the organisation determine the organisation's ethical foundation (Le Roux, 2010:24-25). Leadership and management use policies and strategies in the organisation to direct management to achieve the organisation's goals or performance (Wilkinson and Coetzee, 2015:188). The aforementioned forms the organisational governance framework (Nienaber and Svensson, 2013:836-851).

For the leader to govern the organisation more effectively and to establish values and principles in the organisation, they need to establish a governance framework for the organisation (Wilkinson, 2014:1). The organisation should establish a governance framework that is agreed upon between the group's board and its subsidiary boards (IoD, 2009:29). As such, governance framework refers to 'embodying certain ideologies' in the organisation (Khomba and Vermaak, 2012:3512). Leaders can use the governance framework as a tool to achieve governance maturity for an organisation and aim to ensure sustainable business practices in so doing (Wilkinson, 2014:119-123; Wilkinson and Coetzee, 2015:190).

One of the pre-requisites to achieve the desired governance maturity in an organisation is continuous measurement. Constant improvements to the governance framework of an organisation should ensure relevance and add value to the organisation, and ultimately lead to an organisation which is mature in respect of governance. Leadership is only effective if the leaders know to what extent the organisation has established governance structures, systems and processes, and if these are sustainable (Wilkinson, 2014:177-178: Wilkinson and Coetzee, 2015:190). Wilkinson (2014:162-244) developed an organisational governance maturity framework which highlights the importance of governance maturity by determining where the organisation wants to be in terms of organisational governance maturity, where the organisation currently is, as well as the measures needed to achieve the optimum governance maturity for the organisation.

In this study the aim is to determine whether 'leadership', the first general attribute of the organisational governance maturity framework developed by Wilkinson (2014: 244-250), can be applied to the selected retail industry organisation - motivation for this sector is provided in the methodology section. By applying the organisational governance maturity framework successfully, evidence is provided that the responsible role- players within the organisation's governance structures can use the framework as a tool to measure and improve the maturity of the relevant governance attributes.

This article is structured as follows: the research objective, methodology and limitations are elaborated on followed by a high-level literature review on ethical leadership and the role it plays in corporate governance and corporate culture as well as some discussions on key concepts in respect of organisational governance and maturity. Finally, the results of the empirical study are presented followed by the conclusion and relevant recommendations regarding the usefulness of the organisational governance maturity framework.

2. RESEARCH OBJECTIVES, METHODOLOGY AND LIMITATIONS

2.1. Research Objective

The research objective of this study was to determine whether the first general attribute of the organisational governance maturity framework developed by Wilkinson (2014:154), namely leadership (Annexure A), can be applied to the selected retail industry organisation to measure governance maturity related to this attribute.

2.2. Methodology

A qualitative research method was overall applied to this study. Using a qualitative method assisted in the execution of the empirical study, as it acknowledges the complexity of the concept of governance. As also indicated by Creswell (2009:4), this method supports and acknowledges the complexity of the situation or concept. To achieve the research objective mentioned above the detail methodology applied was as follows: Firstly, a high-level literature review was performed on relevant aspects, such as ethical leadership, ethical decision-making, ethical foundation and culture ('tone at the top'), and organisational governance and maturity. These aspects closely relate to the first general attribute in the organisational governance maturity framework.

Secondly, a Johannesburg Stock Exchange (JSE) listed South African-based company was selected for the study using a case study research design (Yin, 2009:8-14). The case study research design was deemed appropriate for this study for the following reasons (Yin, 2009:8-14): this design can provide valuable input while focussing on issues of 'how', 'why' and 'what' - which correlates with the type of questions asked during the interview; a case study design can be effectively used to provide answers when a thorough and in-depth understanding needs to be obtained regarding a certain concept - in this case governance and more specifically the aspect of leadership.

The company was selected based on being listed as one of the top 100 JSE listed companies in South Africa and having operations nationally and internationally, making it one of the more 'influential' companies from a South African point- of-view. The company is active in three major areas of mobility, firstly: consumer and industrial logistics, secondly: vehicle import, distribution, dealerships, retail, rental and after markets, and thirdly: vehicle related financial services. The company is active in 29 countries in Africa, Europe, South-America, Australia and the USA. The company operates through five major divisions, which each operate under separate management structures. The company secretary was interviewed using a preformulated questionnaire and a pre-study of the company's Integrated Annual Report. The questions were formulated according to the different criteria used by the organisational governance maturity framework (Annexure A). This was used to determine the level of maturity in respect of the first general attribute of the governance framework. It is deemed important to note at this stage that the level of maturity is influenced by the extent that which the organisation has established adequate governance structures, systems and processes as well as the implementation of and adherence thereto (Wilkinson, 2014:1). An explanation of the five levels of maturity used by Wilkinson (2014:244) being immature, developing, compliant, institutionalised and mature is provided in Annexure A.

2.3. Limitations

As mentioned, the study was limited to the first general attribute of the framework, namely leadership, focusing on decision-making, and ethical foundation and culture ('tone at the top'). It should further be noted that the assessment was done at the company's head office by interviewing only the company secretary, as this person is the best source of information when focussing on governance as a collective aspect.

3. LITERATURE REVIEW

Wilkinson and Plant (2012:19) identified the need to develop a governance maturity framework that can be used by the internal audit function and management to assess the effectiveness of an organisation's governance framework. Thereafter, Wilkinson (2014:244-250) developed an organisational governance maturity framework through studying relevant international leading maturity models relating to governance. The governance maturity framework developed uses desirable attributes of leadership, systems, structures, processes, and communication to stakeholders that should be in place at five different maturity levels (immature, developing, compliant, institutionalised and mature). Wilkinson then refined the governance maturity framework by conducting further literature reviews and interviewing key stakeholders at a selected organisation using a case study research design (Wilkinson, 2014:ii-iii). As mentioned previously, this study's only focus was determining whether part of the framework (only attribute of leadership) developed by Wilkinson (244250) could be applied in a private sector organisation. Hence, the literature review was limited to a high-level review of the concepts of leadership, decision-making, and ethical foundation and culture ('tone at the top') with the inclusion of organisational governance and organisational governance maturity.

3.1. Leadership

This section aims to explain the role of leadership in establishing and maintaining ethical practices in an organisation by means of certain key concepts.

3.1.1. *Ethical leadership*

Leadership is the backbone of governance. According to Caldwell et al., (2010:498) leadership is a process of motivation, change, influencing and inspiring the leaders and followers to obtain organisational objectives. Pimentel et al., (2010:364-365) define ethical leadership further as '...the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships and the promotion of such conduct to followers through two-way communication, reinforcement, and decision making.'

Leadership with ethical values will be inclined to promote ethical practices in an organisation (Trevino and Brow, 2004:80). Studies on leadership found a strong link between leadership style and values, and those values with ethical practices (Hood, 2003:271; Brown and Trevino, 2006:596-597; Mayer et al., 2009:1-2). Hood (2003:263) studied the relationship of chief executive officer (CEO) values, leadership style, as well as ethical practices in organisations. The study also included four categories of values namely, personal, social, competency-based and morality-based in relation to leadership style and ethical practices. He found the four values played a significant role in transformation leadership, and linking transactional leadership related positively to '.morality-based and personal values.', whereas '.laissez-faire leadership negatively related to competency-based values.' (Hood, 2003:263). This implies that transformational leaders are therefore more effective compared to transactional leadership (Shahin and Zairi, 2007:765).

Banerji and Krishnan's (2000:405) imperial investigation on ethical preferences of transformational leaders and followers found it was negatively related to a preference for bribery and favouritism. It was further found that ethical leadership had an indirect effect on forming perceptions of the corporation's ethical climate and organisational commitment. Leadership style therefore, has a significant influence on the ethical climate in the corporation (Othman and Rahman, 2014:361).

3.1.2. *Ethical decision-making*

Decisions can be best described as '...singular, once- off in the moment or the product of many smaller assessments, agreements, and choices.' (McKenzie et al., 2011:404). Shared decision-making in a business is about conversation. The effectiveness of decision-making is diluted when decision-making conversations are uncoordinated and do not come to a mutual conclusion. The role of leadership in decision-making is to be a role model and coach to individuals and groups to ensure the decision-making process is organised and rational (Schwarber, 2005:1086). As a result, ethics plays a role in decision-making and is based on rules or principles. The leader uses their moral base to determine right or wrong in the decision-making process and therefore the level of ethics applied to the decision (Ho, 2011:519).

3.1.3. *Ethical foundation and culture ('tone at the top')*

Organisations want to be seen as businesses of integrity which promote ethical behaviour (Steinmann, 2008:133; Wilkinson, 2014:167). To achieve this, organisations use codes of ethics and social responsibility programmes. The purpose of the code of ethics and social responsibility programmes in the organisation is to guide staff and management into what behaviour is acceptable and to show the level of commitment of management to ethical behaviour. Leadership needs to communicate the code of ethics and social responsibility programmes to all staff in the organisation and the role they play in implementing these codes and programmes. The effectiveness of the leadership communication will determine the level of implementation success and the effectiveness of the codes and programmes (Wells and Spinks, 1996:28).

From the aforementioned it appears that leadership is key to an organisation's ethical culture. Leaders who take stewardship of an organisation's ethical culture are an example of a leader who embodies and communicates ethics and who set an example for others; set goals wider than just economic goals, and maintain long-term views on all stakeholders (Enderle, 1987:658; Ardichvili et al., 2009:446). Ethical leadership should manifest in all levels of an organisation to ensure effective governance. King III connects ethical leadership with effective board leadership provided they are using ethical foundation as a base (IoD, 2009:19). The CEO's ethical orientation in relation to the organisation's ethical practices is critical in understanding an organisation's ethical behaviour (Hood, 2003:263). Management's role in an organisation is therefore to create an ethical environment as directed by the leadership in the organisation (Banerji and Krishnan, 2000:411). Ethical culture's real value lies in reducing pressure on individuals in an organisation to behave unethically (Wimbush et al., 1994:644-645). Wimbush et al. (1994:644-645) found that the ethical climate in an organisation increases ethical behaviour and performance of individuals. The individual's ability to act ethically stems more from the ethical culture of an organisation than the individual's own characteristics or traits (Chen et al, 1997:855).

The big question is, what is ethical behaviour? Factors such as country, region and group culture mostly determine what people perceive as right and wrong. Managers therefore can expect conflict between the norms of the home country and the country an organisation is doing business in. This will impact on an organisation's code of ethics, the type of social responsibility programmes an organisation implements, and the ethics culture an organisation fosters (Resick et al., 2006:349).

3.2. Organisational governance and maturity

Several organisational governance definitions exist, for example Beritelli et al., (2007:96) describes organisational governance as 'the framework used by the organisation of established internal and external system rights, processes, and controls over management to protect the interest of stakeholders.' Wilkinson (2014:47) defines organisational governance 'as a system by which companies are "directed" and "controlled" taking into account the four principles of good governance (responsibility, accountability, fairness and transparency) when dealing with stakeholders.' In order to explore the concept of organisational governance, it was necessary to first obtain an understanding of the different key theories as well as approaches to governance.

3.2.1. Shareholder versus stakeholder

Theorists have different views of what corporate social responsibilities should be. The shareholders theory and the stakeholders theory are normative theories formulated to describe the different views on corporate responsibilities and, by implication, business ethics. The two theories are almost the opposite of each other in respect of what they see is 'right' in the business environment (Letza et al., 2009: 242-243; Wilkinson, 2014:61-63).

The differences between these theories according to West (2006:433) are the way in which they are applied to an organisation. The stakeholder theory originated from Freeman (1994) who defined stakeholder as 'any group or individual who can affect, or is affected by, the achievement of a corporation's purpose.' (Santos and Ansari, 2014:58). The stakeholder theory recognises and incorporates the needs and requirements of the organisation's stakeholders (West, 2006:433). On the other hand, the shareholder theory deems the organisation as a part or extension of the shareholder (Rossouw, 2009:38; Wilkinson, 2014:4563). Managers, as the agency for the owners, must act only within the best interests of the shareholders (Rossouw, 2009:38). A question mark could be placed on the superiority and priority of any of these normative theories in the current business environment. Normative theories refer to how, or the moral way, stakeholders ought to be treated (Freeman, 1999:233; Letza et al., 2008:22). The normative theories fall short in explaining the current workings and complexities of the ever changing corporate business environment (Letza et al., 2009:249). Businesses are operating in imperfect markets and hierarchies which require adaptation to the business environment. Governance therefore needs to be dynamic and will continuously change with choices made and complex context within which it operates (Kennerley and Neely, 2003:213; Letza et al., 2009:154; Wilkinson, 2014:86). Flexible and dynamic governance theories, adaptive to future business environment changes and uncertainties, are required. Radical research in this field will aid management in defining business ethics and corporate responsibilities.

3.2.2. Rule-based versus principle-based

The weaknesses of governance were highlighted by the worldwide scandals of organisations such as Enron, WorldCom, ImClone, and Royal Ahold, to name a few. Governments reacted differently to try and remedy the shortcomings of governance and the prevention of corporate ethical abuse. The use of either rule-based or principle-based approaches to address governance or corporate ethical abuse, however, had different degrees of success

(Sama and Shoaf, 2005:177; Arjoon, 2006:53; Sergakis, 2013:394; Wilkinson, 2014:47; Wilkinson and Coetzee, 2015:187).

The USA opted for the rule-based approach by introducing the Sarbanes-Oxley Act of 2002 (Sama and Shoaf, 2005:179; Wilkinson, 2014:48-50). Rule- based governance uses legislation to direct businesses on business ethics. A major concern is that businesses equate business ethics with the law. Management can therefore feel as long as they follow the law they are not doing anything 'wrong'. This stems from that the rule of law being seen as the minimum norm and standard to conduct business (Sama and Shoaf, 2005:184). What is legal and what is ethical, overlap and can be equated to believing obeying the law is the same as ethical behaviour. The danger with the aforementioned might be that society's ethical ways are not necessarily reflected in the law (Sama and Shoaf, 2005:184).

The EU countries and South Africa opted for a more principle-based approach to governance. They see impartiality, transparency, accountability, responsibility, truthfulness, and respect of rights as more than the law. A business has the obligation to design and develop governance structures to adhere to these principles (Sama and Shoaf, 2005:184). The bottom-line is that the best governance principles and practices might not prevent human mistakes, corporate collapse, and/or changes in the environment. Governance by either a rule- or principle-based approach has both strengths and weaknesses and varies from country to country (Zadkovich, 2007:38-39; Wilkinson, 2014:48-50). It lies with the country's government and stakeholders to determine the optimum corporate governance balance.

3.2.3. *Organisational governance maturity*

Maturity models are widely used to improve organisational performance (Goldenson et al., 2003:20-22; McKenzie et al., 2011:403; Wilkinson, 2014:19-23; Wilkinson and Coetzee, 2015:190). The maturity model's purpose is to identify strengths and weaknesses against benchmarked criteria (Khoshgoftar and Osman, 2009:297). Governance maturity in itself refers to an 'As-Is' position of an organisation relative to governance and allows selecting a 'To-Be' position appropriate for an organisation after analysis of the gaps/shortcomings. A strategy to achieve improvement is then developed to reach the desired level (Guldentops et al., 2001:2; Gramling and Hermanson, 2006:38; IoD, 2009:6-49).

An organisation will not always want to obtain the highest level of maturity for governance (Wilkinson, 2014:78). The higher cost incurred for more mature governance structures forces an organisation to evaluate the best balance between cost and benefits to the stakeholders (Solomon and Bryan-Low, 2004:2-4; IoD, 2009:5; Abdullah et al., 2015:405). Other factors that will influence the choice of an organisation's governance maturity level is the organisation's size, culture and the complexity of the market it is operating in (Licht, 2000:147; Filatotchev et al., 2006:256; Licht, 2014:1-3). Filatotchev et al., (2006:275) also found that governance parameters are influenced by the strategic threshold of an organisation's 'life cycle stage'. An organisation is evolving in its life cycle and the balance changes with wealth protection and wealth creation of governance. The right combination of governance functions may help an organisation to overcome its strategic thresholds. The transition over the threshold is usually accompanied by rebalancing structure and roles of governance within the organisation. The next maturity level in the framework is therefore aimed for by the organisation, as a process of continuous improvement (Wilkinson, 2014:19; Wilkinson and Coetzee, 2015:190-192).

3.3. **Conclusion**

It was established that ethical leadership and decision-making, both attributes of governance, form an integral part of the ethical culture in a company. Ethical leadership should therefore manifest in all levels of an organisation to ensure effective governance. Maturity frameworks are a way that leadership can assess governance maturity in an organisation. It needs to be further noted that the continuous assessment of governance maturity brings an organisation's governance framework to an optimal level for the particular business environment it is operating in.

4. **RESULTS OF THE EMPIRICAL STUDY**

The results of the questions are summarised in Annexure B, accompanied by additional information obtained from the company's 2014 integrated report. This integrated report was not included in any in text references or in the list of references as the anonymity of the company selected had to be respected in accordance with relevant ethical requirements. The secretary of the selected company was interviewed to derive at the interview results. The 'leadership' attribute was assessed against the criteria of the framework (Annexure A) and rated accordingly, using the interview results (Annexure B).

A structured summary of individual maturity level rating results is presented in table 1. The overall maturity level rating for the specific attributes decision-making, and ethical foundation and culture ('tone at the top') was calculated to determine the current maturity level of the company in section 4.1 (table 2). As mentioned previously, an explanation of the five levels of maturity used by Wilkinson (2014:244) being immature, developing, compliant, institutionalised and mature is provided in Annexure A.

Table 1. Structured summary of individual maturity level rating

Criteria	***Level of maturity***
Decision-making	
Who is responsible for the strategic direction and control (leadership) of the company?	Mature
Are the abovementioned individuals/structures also responsible for making the key decisions within the company i.e. do they have the necessary delegation authority?	Institutionalised
Explain the process that is used to ensure that the leadership structure of the company has the necessary skills for effective decision-making.	Compliant
Does the organisation have a long- and short-term strategy in place?	Mature
How are these strategies used (how do they contribute} in the decision-making process?	Institutionalised
Are decisions made at appropriate levels? Please explain.	Institutionalised
Can decisions made be substantiated? Please explain.	Institutionalised
Are decisions made enforced in a positive manner? Please explain.	Institutionalised
Is adequate responsibility assigned for decisions made? Please explain.	Institutionalised
How are decisions made, communicated through the company?	Institutionalised
Ethical foundation and culture ('tone at the top')	
How would you describe the ethical culture within the organisation?	Institutionalised
What board committees are in place? Provide evidence if possible.	Mature
Does the company have any codes of conduct and/or ethics-related policies implemented and to what extent? Provide evidence if possible.	Developing
What is the board's role in building and sustaining an ethical culture in the company?	Developing
What is management's role in building and sustaining an ethical culture in the company?	Developing
Are ethical standards clearly articulated by the board and management to ensure adherence to them in all aspects of the business? Please explain.	Developing
Are the ethical risks and opportunities incorporated in the risk management process?	Institutionalised
Is the internal and external ethics performance aligned around the same ethical standards?	Developing
Are the code of conduct, all ethics programmes, and policies performance assessed, monitored, reported on and disclosed? Please provide detail and evidence if possible.	Developing
What does the company have in place to ensure that each director adheres to the duties of a director?	Institutionalised
What mechanisms are in place to ensure that all employees recognise the importance and value of adhering to the ethical programmes etc. within the company?	Developing
How are any issues of non-compliance (for any level within the company) dealt with? Provide evidence if possible.	Institutionalised
How does the board ensure that the stakeholder-inclusive approach of governance in the organisation is promoted?	Developing
What is the board's role in ensuring that financial performance and the impact of the company's operations on society and the environment are taken into account?	Institutionalised
What is the boards approach to protect, enhance and invest in the well-being of the economy, society and the environment?	Compliant
What measurable corporate citizenship programmes are implemented by the board?	Developing
What is the board's role in ensuring that the company's performance and interaction with its stakeholders is guided by the Constitution and the Bill of Rights?	Institutionalised
Does the board have any collaborative efforts/action in place with stakeholders promoting ethical conduct and good corporate citizenship?	Developing

4.1. Overall maturity level rating per specific attribute

The overall maturity level rating for the specific attributes of decision-making, and ethical foundation and culture ('tone at the top') was calculated by adding each level of maturity obtained per question for these attributes. Table 2 provides a depiction of the results.

Table 2. Overall maturity level rating

Specific Attribute	***Immature***	***Developing***	***Complian***	***Institutionalise***	***Mature***	***Total***
Decision-making	0	0	1	7	2	10
%	0	0	10.00	70.00	20.00	100.00
Ethical foundation and culture ('tone at the	0	10	1	6	1	18
%	0	55.55	5.56	33.33	5.56	100.00

4.1.1. *High-level analysis of the information*

The maturity level assessment results in table 2 were analysed for decision-making, and ethical foundation and culture ('tone at the top'). An interpretation of the results follows:

4.1.2. *Decision-making*

The *'mature' rating* for the company's strategic direction and control (leadership) is found in the public company operating for more than 65 years. The governance structure of the board is well- established with divisional boards and executive committees supporting the board's strategies and approved budgets. The short- and long-term strategic plans reflect the board's leadership and direction for the company.

The company is in a continuous process of acquiring new operations such as pharmaceutical distribution and distribution operations across South African borders. On the other hand the company is selling-off operations, for example in the aviation industry. The continuous change in operations, business cultures and changes in management puts challenges on leadership decisions with regards to the appropriate level of decision-making, assignment of responsibility and the appropriate communication to these operations. The 'institutionalised' rating reflects that leadership is still challenged with what the appropriate level of delegation should be in respect of the different operational units. Past divisional capital expenditure (capex) decisions of the executive resulted in losses to the company and exposure to significant risks being faced by the company. This can be interpreted that lower management does not always fully understand the company's strategies and risk exposures for their decision-making. The organisational governance maturity framework indicated that the company can benefit from moving from 'institutionalised' to the 'mature' level for decision-making.

The assessment for skills and training was rated as *'compliant'.* Training of the executive was identified as lacking and hence as a priority for the board. Training programmes on the lower seniority levels was established and formalised. The organisational governance maturity framework rating indicated, however, that skills need to be addressed for executive management, especially where the company's business units are diversified and operates in different countries and cultures. The complexity of the operations necessitates for executives to be properly trained and well skilled in certain specialised fields.

In conclusion, the company assessment results for 'leadership' and 'decision-making' are rated closely between *'institutionalised'* and *'mature'.* The exceptions that were noted are training of management and the optimising of delegation between different operations. Management needs to focus on the aforementioned two areas to bring them into line with rest of the maturity level for 'leadership' and 'decision-making'.

4.1.3. *Ethical foundation and culture ('tone at the top')*

The ratings were scattered for ethical foundation and culture. The ratings varied from *'developing'* to *'mature'* indicating that the ethical culture is not fully embedded into all the business divisions of the company. The following motivations are presented for the maturity assessment levels:

The company follows the principles of the King III report. The various committees' structures, as suggested in the King III report, were in place and replicated on divisional levels to address the diversity of the divisions. The maturity assessment for board committees used in the company's governance process is rated as '*mature'* for this reason. The effectiveness of the committees was not assessed as it requires a more detailed evaluation that was not included in this assessment. This can affect the rating of the maturity level of the company.

The leadership of the company is committed to improving and maintaining the company's ethical culture. The assessment of the maturity level is rated as 'institutionalised' as the leadership is committed to an ethical way of doing business. The rating is further based on the social and environmental commitments and the measuring thereof is implemented for approved programmes. The company has processes in place to ensure compliance with all laws and regulations of the countries in which they are operational. Furthermore, ethics risks also form part of the company's' risk assessment.

The company's sustainability programmes are mostly limited to South Africa. The organisational governance maturity framework assessment revealed maturity gaps, especially for the lack of implementing sustainability programmes where business units operate outside of South African borders. The assessment of the company's maturity level is therefore rated as 'compliant'.

The board is committed to establish an ethical culture and evidence of this was found in the ethics code and ethics related policies. The 'tone at the top' therefore seems to be set, however the communication of ethics is not always optimally rolled-out to all levels of the business. The organisational governance maturity framework assessment of ‘developing indicated that the company particularly struggled to implement and monitor ethical codes and policies. Business operations outside South African borders in other African countries required special attention for implementing and monitoring ethical programmes. The implementation of ethical policies and programmes therefore varied from well-embedded to basic policy implementation between divisions and operations. Leadership in the company needs to coordinate ethics policy implementation and monitoring, and implement more ethics programmes, keeping up with the company’s growth and diversity of operations. Cultural differences that affect the ethics of the company need more dedicated attention by the leaders of the company. The IIA SA 2015 Corporate Governance surveyed South African organisations on governance which also included ethics. The survey results found the organisations that set ethical ‘Tone at the top’ were not always successful in allowing the ‘tone’ to filter through the whole organisation (IIA SA, 2015:5).

To conclude the assessment of the attribute ‘ethical foundation and culture’ revealed scattered maturity levels. The results indicate ethical codes and programmes were introduced but the ethical culture within the company remains weak as inadequate communication of ethics is evident. Leadership needs focused action from the board to improve the situation to a pre-determined maturity level.

4.2. Summary of the empirical research and limitations noted in applying the framework

The organisational governance maturity framework was successfully used to determine the leadership maturity of a retail industry organisation. The results revealed different levels of maturity for decision-making, and especially for ethical foundation and culture. The company seems to be struggling with the implementation of their ethical codes and sustainability programmes that are not fully embedded in the culture of the organisation. The leadership of the company needs to focus on a more structured approach of implementing ethical codes and programmes.

Whilst applying the first general attribute of the organisational governance maturity framework some limitations were noted, namely:

- The accuracy of assessment is limited to the information provided by the interviewee and the 2014 integrated report of the company.
- The information provided was not audited or verified.
- The complexity of the assessed company’s business units in South Africa and outside South Africa has an impact on the accuracy of assessing the maturity level overall.
- The framework needs to be adjusted for the specific organisation and assessed in terms of size, complexity, *et cetera.*
- The assessment of maturity will become more accurate and a more detailed approach is adopted for example per business unit, division or operation.

The organisational governance maturity framework is however, a useful tool to give a preliminary assessment of the current status of the company’s maturity regarding leadership.

5. CONCLUSION

It has been argued that ethical leadership determines the ethical culture of an organisation. For the leader to establish an ethical culture in an organisation it needs to establish values and principles in the organisation by using, amongst others, a governance framework. It was furthermore established (through the use of the organisational governance maturity framework) that the leadership of the organisation has an important role to play when it comes to improving governance maturity. Leaders need to continuously measure governance maturity to ensure the governance framework the company uses stays relevant, sustainable and optimised for the changing environment the company is operating in.

It is envisaged that the company leaders and other stakeholders can use the organisational governance maturity framework to assess the maturity level of organisational governance structures. Not only can it be used to determine the current maturity level, but it can also determine what the organisation aims to achieve in terms of their organisational governance maturity.

To conclude, this empirical study confirmed that the organisational governance maturity framework (limited to the leadership attribute) can be used successfully to assess a company’s governance maturity level in the business environment it operates in.

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Appendix A

Table A.1. Extract of refined organisational governance maturity framework

Attributes		*Levels of maturity*				
General	*Specific*	*Immatu*	*Developing*	*Compliant*	*Institutionalis*	*Mature*
Leadership	Decision-making (OCEG and NACD, 2007 ; IoD, 2009; Bahrman 2011a and 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. • Responsibili	• 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 proactive and transparent manner.
	Ethical foundation and culture ('tone at the top') (Rossouw and Vuuren, 2003; RIMS 2006 ; OCEG and NACD, 2007 ; IIA Research Foundation, 2009 ; IoD, 2009 ; Coetzee, 2010	• Ethical leadership is not perceived to be important. • Ethical culture within the organisation is weak or non-existent.	• The importance of ethical leadership is recognised by the minority of management. • Ethical culture within the organisation remains weak as inadequate communicati	• The importance of ethical leadership is recognised by the majority of management. • Ethical culture within the organisation is adequate as employees	• The importance of ethical leadership is recognised by all stakeholders. • Ethical culture within the organisation is adequate as constant monitoring and follow-up of ethics	• 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

Source: Wilkinson, 2014:244

Explanation of levels of maturity as indicated by Wilkinson (2014:135):

• 'Immature' 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.

• 'Developing' 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.

• 'Compliant' 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.

• 'Institutionalised' 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.

'Mature' 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.

Annexure B. Questionnaire summary

B.1. Decision-making

Question 1: Who is responsible for the strategic direction and control (leadership) of the company?
The board is responsible for strategic direction, control, and overseeing implementation and management of company policies. The board is well-established and is supported by divisional boards.
Rating: Mature.

Question 2: Are the abovementioned individuals/structures also responsible for making the key decisions within the company, i.e. do they have the necessary delegated authority?
The delegation of authority is to the appropriate level. One exception was noted where capital expenditure approval was not done at divisional level, which could hamper the entrepreneurial side of the business. *Rating: Institutionalised.*

Question 3: Explain the process that is used to ensure that the leadership structure of the company has the necessary skills for effective decision-making.
Training on executive level is not formalised in training programmes. Investment in training is more focused on lower level employees and is lacking on the executive level. The transformation process of the executive level is in the beginning phase and is noted as an area where the company is lacking.
Rating: Compliant.
Question 4: Does the organisation have a long- and short-term strategy in place?
The organisation has a 1, 3 and 5 year strategic plan in place, linked to a budget for these periods.
Rating: Mature.

Question 5: How are these strategies used (how do they contribute} in the decision-making process?
The strategy of the company is to focus on the value chain creation to ensure annuity income from its sectors. The purpose is to reduce the effects of cyclic income from the market of the company's operations. *Rating: Institutionalised.*

Question 6: Are decisions made at appropriate levels? Please explain.
There is a comprehensive delegation of authority based on the type of transaction and amount and the associated risk. One exception was noted where capital expenditure approval was not done at divisional level, which could hamper the entrepreneurial side of the business.
Rating: Institutionalised.

Question 7: Can decisions made be substantiated? Please explain.
The decisions are measured against set criteria and corrective action is taken on appropriate levels if required. Decisions are also linked to performance measurement.
Rating: Institutionalised.

Question 8: Are decisions made to enforce in a positive manner? Please explain.
The leadership encourages creativity and responsiveness, and gives competitive necessity. This is incorporated in governance processes. Authorisation for business expansion is, however, limited to group level.
Rating: Institutionalised.

Question 9: Is adequate responsibility assigned for decisions made? Please explain.
The delegation of authority by the board ensures the relevant responsibility matches assigned decisions at divisional level and operational level.
Rating: Institutionalised.

Question 10: How are decisions made, communicated through the company?
The board,, through its committees, communicate decisions. The board further utilises the CEO, executive management meetings, e-mails, telecommunication *et cetera* to communicate and monitor decision implementation.
Rating: Institutionalised.

B.2. Ethical foundation and culture

Question 11: How would you describe the ethical culture within the organisation?
The board and executive management set the 'tone at the top'. The ethics code explains the ethical values of the group. The company also subscribes to the principles of King III.
Rating: Institutionalised.

Question 12: What board committees are in place? Provide evidence if possible.
Executive committee, Audit committee, Risk committee, Remuneration committee, Social, ethics and sustainability committee, and Asset and liabilities committee. These committees function on group level and are replicated at divisional levels.
Rating: Mature.

Question 13: Does the company have any codes of conduct and/or ethics-related policies implemented and to what extent? Provide evidence if possible.
Ethics policies are in place as well as a code of conduct. Ethics policy implementation varies between operations from very basic to full programmes with continuous monitoring measures.
Rating: Developing.

Question 14: What is the board's role in building and sustaining an ethical culture in the company?
The board sets the 'tone at the top' by implementing policies and creating committees for monitoring. The implementation of the policies, however, is not equally fully implemented throughout the company.
Rating: Developing.

Question 15: What is management's role in building and sustaining an ethical culture in the company? Management's role is to ensure ethical values are implemented in the operations and further to maintain these values. The implementation and monitoring varies between operations, with specific requirements for the type of organisation, operation environment and country requirements.
Rating: Developing.

Question 16: Are ethical standards clearly articulated by the board and management to ensure adherence to them in all aspects of the business? Please explain.
The company operates in 29 countries worldwide. The compliance of ethics varies between operations. It is not standardised for all operations.
Rating: Developing.

Question 17: Are the ethical risks and opportunities incorporated in the risk management process?
Ethical risks are incorporated in the risk management process.
Rating: Institutionalised.

Question 18: Is the internal and external ethics performance aligned around the same ethical standards?
The ethics alignment between internal and external stakeholders is blurry and no structured approach is in place to align ethics between all stakeholders.
Rating: Developing.

Question 19: Are the code of conduct, all ethics programmes, and policies performance assessed, monitored, reported on and disclosed? Please provide details and evidence if possible.
The board has relevant committees in place to assess, monitor, report on and disclose necessary policies and ethics programmes. The committees operate at group and divisional level. The implementation of the policies varies between operations.
Rating: Developing.

Question 20: What does the company have in place to ensure that each director adheres to the duties of a director?
A charter for directors is in place to explain the duties. It forms part of each new director's induction programme. Each director's performance evaluation includes adherence to the charter.
Rating: Institutionalised.

Question 21: What mechanisms are in place to ensure that all employees recognise the importance and value of adhering to the ethical programmes, etc. within the company?
Human resource policies are in place with induction programmes. An ethics policy is in place. Ethics awareness varies between divisions from basic to fully monitored programmes.
Rating: Developing.

Question 22: How are any issues of non-compliance (for any level within the company) dealt with? Provide evidence if possible.
'Tipp-offs' is implemented with processes to deal with each case. Disciplinary processes are in place for non - compliance at all levels.
Rating: Institutionalised.

Question 23: How does the board ensure that the stakeholder-inclusive approach of governance in the organisation is promoted?

The board has identified the stakeholder universe. It further details how to communicate/contact the relevant stakeholders. A formal policy for stakeholders approved by the board is not in place.
Rating: Developing.

Question 24: What is the board's role in ensuring that financial performance and the impact of the company's operations on society and the environment are taken into account?
The company reports on the triple bottom-line accounting framework. The board is not only committed to financial results, but includes social and environmental commitments and the measurement thereof. Six areas were identified for focusing and measuring sustainability. The monitoring of these areas has been in place for more than 6 years.
Rating: Institutionalised.

Question 25: What is the board's approach to protect, enhance and invest in the well-being of the economy, society and the environment?
The board identified and invested in 6 areas of sustainability. The programmes are mostly South African focused.
Rating: Compliant

Question 26: What measurable corporate citizenship programmes are implemented by the board?
Measurable programmes are limited to Africa and countries outside Africa have no or limited programmes. *Rating: Developing.*

Question 27: What is the board's role in ensuring that the company's performance and interaction with its stakeholders is guided by the Constitution and the Bill of Rights?
The company has processes in place to ensure compliance with all laws and regulations of the countries they are operating in.
Rating: Institutionalised.

Question 28: Does the board have any collaborative efforts/action in place with stakeholders promoting ethical conduct and good corporate citizenship? Please explain.
Projects with communities are implemented in South Africa, but in Africa and other countries projects are very limited. Ethical collaboration with stakeholders internally is more mature and formalised than with external stakeholders.
Rating: Developing.