

NGO GOVERNANCE: THE KING IV REPORT ON CORPORATE GOVERNANCE  
AS A SERVANT LEADER

by

KATHLEEN YVONNE MARAIS

STUDENT NUMBER: 2014188284

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SUPERVISOR: Dr TANIA COETZEE

## **DECLARATION**

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**February 2020**

## **ABSTRACT**

The 2016 Life Esidimeni tragedy, which claimed the lives of more than 140 mental health care patients in South Africa's Gauteng province, was a "wake-up call" for civil society to reform and improve the sector (USAID 2018: 210). The Life Esidimeni tragedy highlighted the lack of governance in civil society organisations and specifically in NGOs that operate in the health sector, where a people-centred approach is crucial. The aim of the study was to investigate the link between ethical leadership and good governance in the NGO sector by comparing the traits of servant leadership with the principles of the King IV Report on Corporate Governance with the aim of demonstrating how the traits of servant leadership are embedded into the King IV Report, thus linking leadership and good governance in one practical instrument that could assist NPOs operating in the health sector in establishing and maintaining a record of good governance while at the same time keeping a people-centred approach. The analysis was conducted at the hand of five themes found in the structure of the King IV Report, and the conclusion was reached that the main traits of servant leadership intersect with the principles the King IV Code in a manner that could ensure improved governance in the non-profit sector, which in turn could broaden democracy in South Africa.

**Key words:** governance; corporate governance; the King IV Report; servant leadership; civil society; non-profit sector; Ubuntu; stakeholders; ethical leadership; ethical culture

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## LIST OF ACRONYMS

ACCA	Association of Chartered Certified Accountants
ACGN	African Corporate Governance Network
ADRI	Anti-Director Rights Index
AGM	Annual General Meeting
AU	African Union
CAC	Corporate Affairs Commission
CACG	Commonwealth Association on Corporate Governance
CAMA	Companies and Allied Matters Act 1990
CEO	Chief Executive Officer
CIPC	Companies and Intellectual Property Commission
CIVICUS	Global Alliance of Civil Society Organisations
CGQ	Corporate Governance Quotient
CSO	Civil Society Organisation
DSD	Department of Social Development
ECGI	European Corporate Governance institute's
EU	European Union
FBO	Faith based community organisations
FCPA	Foreign Corrupt Practices Act of 1976
FRA	Financial Reporting Act
FRC	Financial Reporting Council
G20	Group of Twenty is an international forum for the governments and central bank governors from 19 countries and the European Union (EU)
G-Index	Corporate Governance Index
GRI	Global Reporting Initiative
IoDSA/IoD	Institute of Directors in Southern Africa
International <IR>	International Integrated Reporting Framework
ICNL	International Centre for Not-for-Profit Law
IIAG	Governance index in Africa
IIRC	International Integrated Reporting Council
ILO	International Labour Organisation
IRRC	Investor Responsibility Research Centre

ISA	Investment and Securities Act 1999 no10
ISS	Institutional Shareholder Services
JSE	Johannesburg Stock Exchange - JSE Securities
King Committee	King Committee on Corporate Governance in South Africa
KING I	King I Report on Corporate Governance for South Africa,1994
KING II	King I Report on Corporate Governance for South Africa,2002
KING III	King I Report on Corporate Governance for South Africa,2009
KING IV	King I Report on Corporate Governance for South Africa,2016 It refers to the complete document
KING IV Code	Part 5 of the King IV Report
KING IV Report	King IV Report on Corporate Governance
LSE	London Stock Exchange
MACOSS	Mauritius Council of Social Services
NDP	National Development Plan
NEDs	Non-Executive Directors
NGO	Non-governmental Organisation
NPC	National Planning Commission
NPC	Non-profit Company
NPO	Non-profit Organisation
Non-Profit Organisation	Non-profit Organisation Act, No 71 of 1997
OECD	Organisation for Economic Co-operation and Development
SANGOCO	The South African NGO Coalition
SECA	Security and Exchange Act
Sector Supplements	Part 6 of the King Report
SOX	Sarbanes-Oxley Act of 2002
TICPI	Transparency International Corruption Perception Index
UN	United Nations Organisation
UNHRC	High Commissioner for Human Rights at the UN
WB	World Bank
WGI	World Governance Index

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## **CHAPTER 1: INTRODUCTION TO THE STUDY**

### **1.1 INTRODUCTION**

The tone for this study on leadership and good governance in the NGO sector is set by comments made by South Africa's former Public Prosecutor, Thuli Madonsela during the 2019 Archbishop Thabo Makgoba Lecture Series on Integrity and Leadership at the University of the Western Cape. In reference to a country marred by poor administration and corruption through political scandals such as state capture, the failure of public enterprise organisations such as SAA, Eskom, the SABC and Prasa as well as the 2016 Life Esidimeni tragedy, Madonsela (2019: n.p.) called on President Cyril Ramaphosa to appoint ethical leaders to the sixth Cabinet of South Africa.

On 29 May 2019, President Cyril Ramaphosa (2019: n.p.) announced the sixth Cabinet of South Africa. In his closing remarks he stated that, “[a]ll of us who will be on the 6th administration of South Africa has been called upon to serve the people of our country and we intend to become servant leaders, serving our nation to the best of our ability and ensure that we put our people first.”

Ethical leadership is a multi-dimensional concept that applies at both the individual and organisational level. Ethical leadership is demonstrated through the manner in which an individual applies values, beliefs and standards to everyday situations and challenges. Corporate organisations in turn are governed by the Companies Act, the King IV Report on Corporate Governance and the Competition Commission of South Africa, among others. In fact, King IV specifically refers to leadership, ethics and corporate citizenship (Esau 2019: n.p.)

Civil society plays a meaningful role in the maturing South African democracy, assisting the government in addressing the needs of vulnerable communities and individuals. In recognising the distinctive role of the non-profit sector, it is important for the government to create an empowering environment for the support and creation of NGOs within the South African constitutional human rights culture (DSD 2016: 6). In fact, the crucial role civil society plays in sustaining democracy was articulated in a speech by then Deputy President Ramaphosa more than two decades ago in 1998 at the Inter-Parliamentary Union in Geneva soon after the dawn of democracy in South Africa:

The existence of a large, vocal, independent and varied sector of non-governmental organisations can play a profound role in anchoring any

democracy. In South Africa, NGOs played a central role in bringing about the end of apartheid and creating a democratic culture among the country's people. With the creation of the democratic state, these NGOs have been hampered by a lack of resources and dwindling capacity. It is a matter of concern to the South African government that the NGO sector is facing such problems currently, as it relies on this section of civil society to broaden and enrich the process of empowering ordinary citizens (Ramaphosa 1998: 79).

For civil society to thrive it is vital for non-governmental organisations to strike a fine balance between legal compliance, economic long-term sustainability and an ethical leadership style that creates a conducive working environment that encourage vision and growth directed towards the cause it is mandated to serve (OHCHR 2015: 4-5).

The intricate balancing act required between leadership and governance becomes clear with the following statement by Lynn McGregor (2000: 3) in the book *The human face of governance* namely that prosperity cannot be commanded. "People, teamwork, leadership, enterprise, experience and skills are what really produce prosperity. There is no single formula to weld these together, and it's dangerous to encourage the belief that the rules and regulations about structure will deliver success," writes McGregor (2000: 3).

This balancing act between governance and a leadership best summarised by Lao Tzu (600 BC), the Chinese philosopher to whom the leadership style of servant leadership is widely attributed. Lao Tzu had the following to say about servant leadership:

A leader is best when people barely know that he exists, not so good when people obey and acclaim him, worst when they despise him. 'Fail to honour people, they fail to honour you'. But of a good leader, who talks little, when his work is done, his aim fulfilled, they will all say, 'We did this ourselves.' (Lao Tzu, in Spears 1995: 242).

The ethical leadership and good governance challenges in civil society is reflected by the Life Esidimeni tragedy. USAID (2018: 210), in the 2017 USAID CSO Sustainability Index Report on South Africa, considers this tragedy to be a wake-up call for civil society to seek effective engagement with government and effective legislative frameworks to reform and improve this sector.

The 2016 Life Esidimeni tragedy, which claimed the lives of more than 100 mental health care patients in South Africa's Gauteng province, is an example of the result of a total disregard for both leadership and governance. Lack of leadership and poor governance in both the provincial health care system as well as the health care NGO sector led to the human rights of mentally compromised patients being denied and ultimately resulted in their deaths.

Judge Dikgang Moseneke in his arbitration award in the Life Esidimeni hearings on 19 March 2018 concluded that “[i]t is now undisputed that as a result of their move out of Life Esidimeni facilities after 1 October 2015, 144 mental health care users died and 1418 were exposed to trauma and morbidity, amongst other results, but survived. Of the known survivors, the State informs that the whereabouts of 44 mental health care users remain unknown” (Moseneke 2018: 2).

This study seeks to articulate that both ethical leadership and good corporate governance are important aspects of the success of any organisation. However, these two aspects do not always combine well. Some leadership styles might lead to a disregard of good governance, which could be regarded as simply rules and regulations. In other instances, an over-emphasis on governance might cause the organisation to lose its “heart” with little regard for the people who are the organisation.

This study investigates the link between ethical leadership and good governance in the NGO sector by comparing the traits of servant leadership with the principles of the King IV Report on Corporate Governance with the aim of demonstrating how the traits of servant leadership are embedded into the King IV Report, thus linking leadership and good governance in one practical instrument that, when implemented in a civil Society organisation, could address some of the issue surrounding ethical leadership and good corporate governance.

## **1.2 BACKGROUND AND MOTIVATION**

This section provides the background against which the results of this study is to be interpreted as well as a motivation for the study. It serves to demonstrate the important role that civil society organisations play in sustaining democracy and provides an overview of the current state of this sector in South Africa.

### **1.2.1 The role of civil society organisations in sustaining democracy**

Civil society organisations (CSOs) play a leading role in advocating constitutional accountability and preventing governmental and legislative misconduct such as corruption. Putnam (1993, in UI Hag 2016: 4) states that civil society promotes long-term democratic advancement and continued institutional achievement and concludes that active citizenry is vital for the success of democracy.

The American political scientist Robert D. Putnam (1993) in his book *Making democracy work* suggests that as early as 1830, Alexis de Tocqueville noted that voluntary organisations served as breeding grounds for the teaching and internalising of democratic principles in civil society. Putnam writes that government performs at its best where civil society is active.

Diamond (1994, in Kastrati 2016: 67) expands the list of functions of CSOs to include curbing state domination by controlling the abuse of state power through corruption and undemocratic practices such as vote rigging, thus assisting the transformational democratic process to develop fully-fledged democracies. Civil society creates other channels for voicing support for specific local issues. Community-based organisations pressure government to legislate the protection of human rights for the vulnerable sections of society while CSOs train and create platforms for future political leaders. They are protecting democracy by monitoring voting processes, informing society on specific issues through advocacy and activism, encouraging economic reform and developing an ethical societal culture to support a developing democratic state.

Fischer (2004: 510, in Dragonmir 2008: 1) defines accountability in civil society organisations as a process of fostering relations between institutions and sharing service delivery responsibilities while controlling state power and broadening democracy. Both parties, government and civil society, hold each other accountable, with government through legislative measures ensuring that CSOs are well-governed.

The current state of civil society organisations in South Africa is best reflected by the 2019 Freedom House Report on Freedom in the World. This report indicates that South Africa scored 4 out of 4 for the freedom of CSOs with specific reference to organisations working in the field of human rights and governance (Freedom House 2019: n.p.). The Freedom of the World Report is published annually by Freedom House, an independent international watchdog organisation monitoring freedom and democracy. The organisation's purpose is

to empower civil society to uphold human rights and broaden democracy (Freedom House 2019: n.p.). The 2019 report indicates a decline in democracy in 68 countries with only 50 countries improving the state of their civil society. The report on South Africa shows improvement from 2018 as a result of the resignation of former president Jacob Zuma and the creation of the special anti-corruption Zondo Commission tasked with investigating state capture (Freedom House 2019: n.p.). The Freedom of the World Report highlights the role civil society plays in partnership with the media in exposing corruption and government's failure to deliver services. The CSO Sustainability Index for Sub-Saharan Africa (2017) confirms the point that democracy and a strong, sustainable, engaged NGO sector go hand in hand.

However, the CIVICUS State of Civil Society Report (2019) that tracks civic spaces reports that the civic space in South Africa has narrowed. This raises concern regarding the strengthening of democracy where there is a decline in freedom of speech and the right to freely assemble. Community demonstrations are increasing as the security forces become more brutal in the suppression of civil actions (CIVICUS 2019: 12). South Africa was ranked second in the Freedom of the World Report, while achieving first place on the CSO Sustainability Index. This serves as evidence that despite governance challenges South Africa is still a leader in terms of the sustainability of civil society organisations in Africa. Table 1.1 provides a comparison of the CSO Sustainability Index for Sub-Saharan Africa (2017) and the Freedom in the World Report (2019).

**TABLE 1.1 CSO SUSTAINABILITY INDEX FOR SUB-SAHARAN AFRICA (2017) VS FREEDOM IN THE WORLD (2019)**

CSO Sustainability index for Sub-Saharan Africa (2017) vs Freedom in the World (2019)					
Country	Freedom in the World 2019 rating	Freedom in the World rank in Sub-Saharan Africa 2019 Grey = Same ranking as CSO Index Green = better ranking as CSO index Red = Poorer ranking as CSO index	CSO Sustainability 2017 rating	CSO Sustainability rank in Sub-Saharan Africa 2017	CSO Sustainability 2014 Grey = Same ranking as 2017 Green = better ranking in 2017 Yellow = Poorer ranking than 2014
Ghana	1,5	1	4,2	3	4,2
South Africa	2	2	3,6	1	3,6
Benin	2	3	4,2	4	
Botswana	2,5	4	4,3	7	4,2
Namibia	2,5	5	4,3	8	

Senegal	2,5	6	4,3	9	4,3
Sierra Leone	3	7	4,7	15	4,8
Liberia	3	8	4,8	16	4,8
Malawi	3	9	5,2	23	5,2
Burkina Faso	3,5	10	4,2	5	
Madagascar	3,5	11	4,4	11	
Kenya	4	12	4	2	3,9
Mali	4	13	4,3	10	4,4
Nigeria	4	14	4,5	13	4,6
Zambia	4	15	4,6	14	4,6
Mozambique	4	16	4,8	17	4,7
Niger	4	17	4,8	18	
Cote d'Ivoire	4	18	4,9	21	
Tanzania	4,5	19	4,2	6	4,1
The Gambia	4,5	20	5,2	24	5,5
Guinea	4,5	21	5,3	25	5,5
Zimbabwe	5	22	4,8	19	4,8
Uganda	5,5	23	4,4	12	4,2
Angola	5,5	24	5,7	30	5,8
Rwanda	6	25	4,8	20	4,6
Gabon	6	26	5,5	26	5,4
Ethiopia	6	27	5,7	31	5,6
DRC	6,5	28	5,1	22	5,1
Burundi	6,5	29	5,6	27	5,3
South Sudan	7	30	5,6	28	5,5
Sudan	7	31	5,6	29	5,4

Sources: USAID (2017: 285) & Freedom House (2019: n.p)

Given that South African government departments struggle to ensure proper service delivery to all its citizens, Volkhart Finn Heinrich as far back as 2001 raised the issue that it is crucial for state and other stakeholders to create a space to work together. Heinrich states that the role of CSOs in strengthening the foundations of South African democracy has been largely unnoticed. He writes that civil Society supports democracy through advocacy and activism. This creates an informed, active citizenry which holds government accountable, but in turn government must professionalise this sector by implementing legal compliance frameworks (Heinrich 2001: 13).

### 1.2.2 Challenges facing CSOs with reference to the Life Esidimeni tragedy

CSOs in South Africa are under pressure as a result of a combination of challenges such as the external political and socio-economic environment as well as internal organisational

constraints. Externally, CSOs have growing challenges with government clamp-downs on democratic principles and the narrowing of the civic space, which impact on their ability to seek funding and fulfil their vision, mission and objectives. This includes relationships with government departments and municipalities as highlighted by the International Labour Organisation (ILO) (2013: 7). In its report on the potential of non-profit organisations in the Free State to adopt a social enterprise approach the ILO states that connections between NPOs and provincial and local government are poor. This report found that the main challenge was at grassroots level, where ward councillors, their committee and community development workers did not work together for the greater good of the community (ILO 2013: 7)

Given the above it is clear that there are several challenges that CSOs must overcome as a result of the unique environment that they operate in. In 2005, the Department of Social Development (DSD 2005: 42) stated that good governance is affected by poor ethical leadership, causing financial constraints which in turn leads to high staff turnover. High staff turnover affects capacity vacuums and loss of valuable institutional memory which results in poor performing programmes of action.

In an article published on 13 March 2013 on the Sangonet Pulse website under the headline “South African NPO crises – Time to join hands”, NPO law specialist Ricardo Wyngaardt raised the alarm after more than 23 000 NPOs were deregistered and an additional 35 000 NPOs were pronounced as non-compliant by the Directorate for NPOs within the Department of Social Development (Wyngaardt 2013: n.p.).

In February 2017 the International Centre for Not-for-Profit Law highlighted that where NPOs struggle to maintain their registration status due to a lack of capacity and good governance the impact will be immense on civic freedom in South Africa. This means that these organisations stand the risk of losing their donor funding and will cease to exist, adding to unemployment in the sector and to a growing burden on government to deliver services and achieving their development goals (ICNL 2017: n.p.).

The Life Esidimeni tragedy had a significant impact on the perception of NGOs’ practice of good governance principles. After the publication of the Makgoba Report, Boichoko Dithake of Sangonet stated that this tragedy has tainted the good work done by many NGOs across the country. Dithake (2018: n.p.) wrote that in the wake of the tragedy a mistrusting

community remained regarding the role civil society organisations play in uplifting vulnerable communities. Dithake (2018: n.p.) then went on to ask, “[h]ow do we repair this damage and rebuild the trust of NGOs within our communities?”.

Raborife (2017: n.p.) also wrote that the Life Esidimeni tragedy exposed a sad example of a government that is unable to deliver basic services and then puts pressure on civil society organisations to fulfil this duty on its behalf. Rakane (2018: n.p.) argues that the lack of good governance and the generally poor performance of NGOs, of which the Life Esidimeni tragedy is evidence, is part of an even bigger problem within the public health sector in South Africa. In 2017 the Lancet Commission on Mental Health released a global mental health report condemning the failure of the state and civil society to avert this tragedy (www.medicalbrief.co.za 2018: n.p.).

The Health Ombudsman’s report on the Life Esidimeni tragedy (the Makgoba Report) refers to the poor governance of most of the 27 NGOs involved, stating that governance and management structures were poorly organised, incapacitated, not dedicated to the care of the patients and uncompliant to legal and governmental service level agreements (Makgoba 2017: 39).

The Makgoba Report (2017) lists the following NGO challenges as the main contributors to the tragedy such as incapacity of staff lacking special skills to care for the mentally challenged patients. Incompetence of Management to manage the patients and the facilities. Due to the lack of proper planning by government this created financial burdens on these organisations who was due to a lack of financial resources unable to pay for specialist caring staff for the mentally challenged. The accreditation processes were not based on skills, competency, and proper facilities. NGOs were allowed to operate without proper licenses to run specialised facilities. The lack of funds and maladministration lead to labour issues at some of the NGOs with staff not paid stipends regularly.

The public health care sector is governed by the South African Constitution’s Bill of Rights (1996). In Chapter 2 Section 27 (1a) it is stated that “everyone has the right to have access to healthcare services”, followed by “the state must take reasonable legislative and other measures within its available resources to achieve progressive realisation of these rights” (Constitution of South Africa 1996: 13). It must be mentioned that the South African government is not completely ignorant of its responsibilities. The National Development Plan

(NDP) identifies public health as a strategic priority and core element to achieve the following objectives by 2030, namely uniting South Africans of all races and classes around a common programme to eliminate poverty and reduce inequality, encouraging citizens to be active in their own development, in strengthening democracy and in holding their government accountable, promoting economic growth through promoting exports and reducing unemployment through job creation, empowering citizens and the country to grow and thrive through skills development, improved infrastructure, better social security, strong public institutions and growth partnerships with the public sector locally and internationally, contributing to building a capable and developmental state where a strong leadership in public, private and civil society work together to solve problems (National Planning Commission 2011).

The impact on the South African government's commitment to improving its track record after Life Esidimeni was substantiated by Minister Susan Shabangu at the launch of the South African statement to the introduction of South Africa's baseline report to the United Committee of the Rights of Persons with Disabilities in August 2018. Shabangu stated that the National Development Plan articulates South Africa's roadmap to human rights-based inclusive development which can assist with improved governance within the NPO sector through governmental support (Shabangu 2018: n.p.).

The challenges facing non-governmental organisations in South Africa can be summarised as follows:

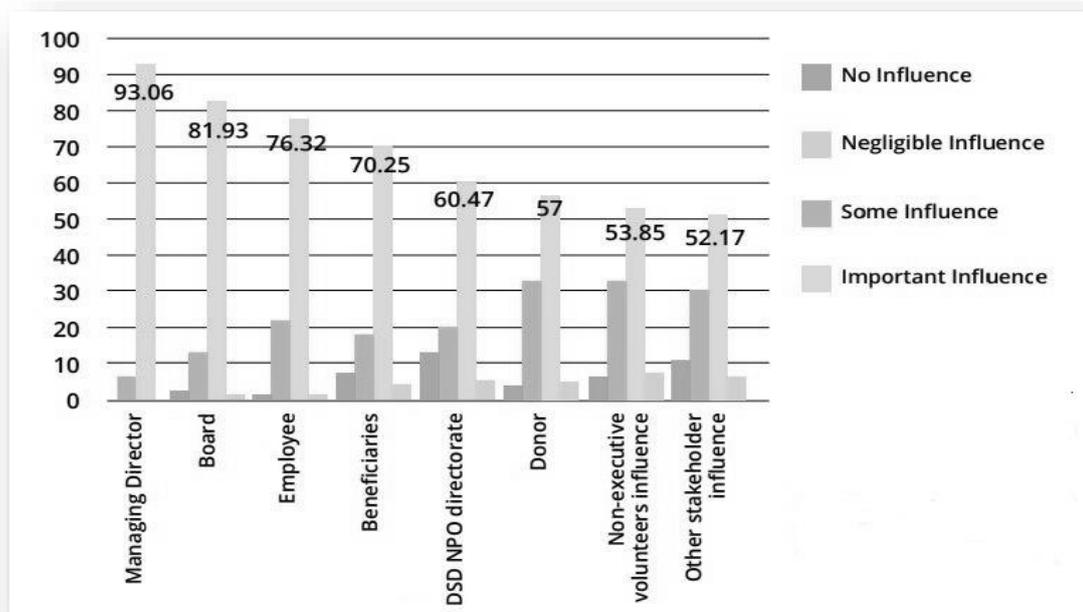
*Financial constraints:* Towards the end of 2019, 225 870 NPOs were registered with the Department of Social development, with a further 1925 applications in process (npo.gov.za 2019: n.p.). This is a significant increase from the 44 222 registered NPOs in March 2007. A 2013 ILO report on non-profit organisations in the Free State indicates that 40-50% of organisations' income are from the department of Social Development and Health and the National Lottery. The report suggests that NPOs look to income generation through social enterprises to become more sustainable (ILO 2013: 11-13). The findings from the 2015 NPO Job-loss and Service Cuts Report by Greater Capital indicate a sector that is functioning but that is vulnerable as a result of financial constraints. The findings include:

- 58% of organisations reported that they have experienced funding cuts in the last 12 months;
- 47% of the organisations said that the environment is worse but that they are surviving, while 12% stated that they are facing closure;

- This resulted in 38% of the organisations reducing their services to beneficiaries and 36% having to retrench employees (greatercapital.co.za 2015: 2).

*Lack of good governance and ethical leadership:* It is important that CSOs self-govern in a professional, ethical and accountable manner. This will ensure that the sector remains credible and legitimate to attract governmental and other stakeholder support. The most important remains financial support in order to ensure long-term sustainability to deliver services to beneficiaries (Camay & Gordon 2004, in Hendrickse 2008: 77). The 2017 NPO Accountability Report by the University of Stellenbosch identified a crucial issue in the move to the sector becoming more professional, accountable and showing ethical leadership. According to this report, findings indicate that organisations run by founder executives are less likely to excel due to openness to progressive change, lower skill levels and lack of compliance to legal requirements and these organisations therefore report a lower income than organisations with professional managers that are run without founder executives. The report indicates that in the sample group 70% of the NPOs are managed by founder executives. The impact of this phenomenon, known as “Founder’s syndrome”, is illustrated in figure 1.1. The findings show the strongest influencer is the managing executive (93.06%), followed by the board (81.93 %) and then the employee corps (76.32%).

**FIGURE 1.1 STAKEHOLDER INFLUENCE**



Source: Burger et al. (2017: 15)

Founder's syndrome (Block & Rosenberg 2002: 354) refers to a phenomenon in the non-profit sector where the founding executive yields the most authority and control. This leads to a situation where unhealthy organisational conduct take place due to the founder serving egotistical needs. There could be a lack of organisational infrastructure as the founder executive struggles to make decisions that serve the organisation and not personal interests. When internal and or external pressure force the organisation to transform the founder executive might struggle to take on a new professional management style. This usually becomes evident in the lack of succession planning. Control is protected in the hands of the founder executive by appointing executive staff members and board members who support the founder executive rather than leading the mission. When professional new staff and management are appointed, they may find it difficult to resolve challenges, as the founder acting as the CEO enforce their own opinions and decisions. If they challenge the founder executive, it can lead to unfair labour practices and bullying. The founder executive will become the brand identity instead of the organisational objectives. If this is not addressed by the organisation's board the operational environment can become reactive instead of positive and proactive (Block & Rosenberg 2002: 366-353).

Each of these symptoms listed above describes a breakdown in the governance standing of the organisation. Even if the founder is removed, a toxic corporate culture will remain. As indicated by Schmidt (2017: n.p.) the best solution is to place control in the hands of the board using a clearly defined corporate governance framework such as the King IV Code of Corporate Governance to restore board integrity, good governance and ethical leadership.

*Competition for capable, well-qualified staff and management:* Due to financial constraints NPOs are not always able to pay market-related salary packages and thus struggle to maintain competent staff. NPOs must therefore be creative in order to attract the right staff who will actively contribute and be loyal to the organisation through other incentives like study opportunities, flexi work hours and longer vacation periods (Cohen 2010: n.p.). The challenges identified above could in part be addressed through a holistic stakeholder-inclusive approach as advocated by the King IV Report in collaboration with the National Development Plan that seek to strengthen active citizenry within society through leadership and capacity-building, leading to improved accountability and governance in civil society (National Planning Commission 2011).

### 1.3 PROBLEM STATEMENT

From the discussion above, it is clear that there are challenges to good governance in the NGO sector in South Africa, specifically those operating in the health sector (the Life Esidimeni tragedy is an example). Given the fact that people and their health and wellness needs are the core focus of work done in this sector, it is important that processes and systems in this sector reflect the people-centred focus. This focus not only alludes to the “clients” of these NGOs but also the staff and especially the large number of volunteers working for these NGOs.

Finding people-centred solutions to the issues surrounding good governance logically flows from the identification of this problem. The reality of the South African society is that the need for ethical leadership in the NGO sector is stronger than ever. Julie (2020: 9) writes in an article titled *The roots of the NGO crisis in South Africa – A look beyond the surface* that the crisis is manifesting itself as a funding crisis, lack of resources and lack of capacity:

My view is that this is simply the external and outward manifestation of a deeper crisis – a crisis of leadership. Empirical evidence suggests that this crisis of leadership does not of course only related to the NGO sector but to all sectors of society. We could argue that this leadership crisis is a result of a leadership discontinuity that took place within the sector over a period of about 35 years.

Focusing on leadership could suggest possible solutions for long-term NGO sustainability regardless of the current challenges in this sector in South Africa (Heskett 2013: n.p.). The website *Accounting Weekly* (2017), as part of a discussion of the application of the King IV Report in NGOs, states it will be beneficial for any organisation or social enterprise registered under the terms and conditions of the NPO Act to apply voluntarily the sector supplements of the King IV Report.

In the aftermath of the Life Esidimeni tragedy, the Chairperson of the Life Healthcare Group, Mustaq Brey (2017: 18) stated in the Life Healthcare Integrated Report that

Life Healthcare’s approach to quality remains stringent, as service quality and clinical outcomes are directly related to the health of our patients, sustainability and efficiency. To reflect this, we established clinical governance, quality, and safety sub-committee of the board with a mandate to oversee and monitor clinical and quality indicators throughout the Group. We will align our practices

and disclosure to King IV to ensure our governance culture and processes support our value-creation activities in the years to come.

However, as stated in the introduction of this chapter, a balance between ethical leadership and governance is required. In South Africa, the King IV Report is seen as the benchmark of good governance in will thus form the basis of this study in terms of an instrument to enact good governance in the NGO sector.

#### **1.4 AIMS AND OBJECTIVES**

This primary aim of this study is to investigate the link between leadership and good governance in the NGO sector by comparing the main traits of servant leadership with the principles of the King IV Report on Corporate Governance with the purpose of demonstrating how the characteristics of servant leadership are embedded into the King IV Report, thus providing one possible leadership/governance balance that can provide a more people-focused environment for NGOs to become more sustainable.

The objectives of the study are:

- to provide a theoretical framework for the study against which to interpret the findings;
- to discuss servant leadership as a leadership theory;
- to discuss the principles of the King IV Report;
- to compare the main traits of servant leadership with the principles of the King IV Report;
- to demonstrate how the main traits of servant leadership are embedded in the King IV Report and thus how the King IV Report presents NGOs with the opportunity to implement an instrument that provides both a people-centred leadership approach and ensures good governance.

In terms of the value of the research it is important to refer to an article on NGO performance research published in academic journals between 1996 and 2008 by Roselyn Kareith (2012). Kareith writes that, since 1996 research articles on NGOs' performance showed significant growth but that the limited number of studies needs to be increased. Kareith's (2012) research specifically identifies a need for examining constraints impacting on NGO operations and states the importance of escalating and strengthening research and researchers in the field of NGO performance, not only in South Africa as well in Africa.

## **1.5 RESEARCH METHODOLOGY**

The aim of research according to Coetzee (2017, citing Davis 2014: 72) is that research is an ever-developing process or system that constantly changes as different decisions are made with goal of the research grounded in the discipline and research tradition of the specific field of interest. This study will be conducted from the perspective of the qualitative research approach as it ties in with the study of governance in the NGO sector and the role leadership plays in this regard.

According to Babbie (2010: 394), qualitative analysis is defined as “the nonnumeric examination and interpretation of observations, for the purpose of discovering underlying meanings and patterns of relationships”. This study will be conducted in the tradition of interpretivism, which seeks to verify and understand and analyse the research conducted.

Babbie (2010: 394) writes that social research can serve many purposes but the three most frequently used are exploration, description and explanation. This study is a combination of the explorative and descriptive purposes of social research as it aims to provide a better understanding of possible solutions through the theory of servant leadership using the King IV Report as a guiding instrument.

The focus will be on the operationalising tradition, taking the different concepts and turning them into an empirical, tangible issue (Squire et al. 2014: 116). The cognitive focus of the research will be to create knowledge through empirical-analytical interests.

A literature review will be conducted to gather information through the study of books, journal articles, newspaper articles, scholarly theses and dissertations, study guides, electronic resources, online information, government publications and policy documents.

In terms of the specific methodology as applied to this study, the characteristics of servant leadership (Greenleaf 1970; Delphi study 2015) and the principles of the King IV Report on Corporate Governance (IoDSA 2016) will be analysed in order to demonstrate similarities between these sets of principles.

## **1.6 LAYOUT OF THE STUDY**

### **Chapter 1: Introduction**

Chapter 1 introduces the study, contextualising the background of the challenges and clarifying the motivation for the study. It also includes the aim and objectives and provides an overview of the research methodology and layout of the mini dissertation.

## **Chapter 2: Theoretical framework**

Chapter 2 present the theoretical framework of the study. At the hand of a literature overview the chapter defines, conceptualises and presents insight into the concepts of civil society, corporate governance and ethics. The development of civil society as a concept is explained through a historical analysis of different political philosophers from the classical period to the 20<sup>th</sup> century. The chapter then shifts focus to corporate governance, discussing how good governance can play a valuable role in strengthening civil society. The discussion on governance theories uses Doornbos as a departure point. Governance theories that are discussed include agency, stewardship and stakeholder theories. Chapter 2 concludes with a discussion on business ethics theory, virtue ethics theory, feminist ethics theory, discourse ethics theory and postmodern ethics theory.

## **Chapter 3: Main discussion: Servant leadership**

This chapter discusses the development of leadership philosophies leading to the concept of servant leadership as developed by Robert Greenleaf (1970). The historical background summarises the Eastern roots of the servant leadership philosophy by Lao Tzu and Chanakya-Arthashastra, tying it to the Western classical philosophical origin of servant leadership through philosophic thinkers on leadership during the Middle Ages, Renaissance and Early Modern World (1100-1700 AD), Quakerism and the Enlightenment period and 19<sup>th</sup> century developments (1700 – 1900), the emergence of the African philosophy of Ubuntu and finally the 20<sup>th</sup> century lead-up to the development of the concept of servant leadership. The chapter also provides an overview of servant leadership as a leadership theory as well as critique levelled against the theory. The chapter concludes with a detailed discussion of the 12 primary traits of servant leadership as well as a brief look at servant leadership in action in the South African context.

## **Chapter 4: The King IV Report**

Chapter 4 discusses corporate governance and the King IV Report. The chapter starts with a broad outline of corporate governance as well as different corporate governance models and their impact on stakeholders. The chapter also presents an overview of the debate on voluntary versus legal compliance, specifically as it pertains to the NGO sector. The main

discussion of this chapter focused on the King IV Report. The principles of the King IV Report are discussed and the chapter also includes a discussion on the supplement for the NPO sector (Part 6 of the King IV Report).

### **Chapter 5: Evaluation, assessment and interpretation**

This chapter constitutes the data analysis of the study, comparing the traits of servant leadership with the principles of the King IV Report in order to demonstrate how the servant leadership traits are embedded in the King IV Report, thus providing NGOs with an instrument that provides both a people-centred leadership approach and ensures good governance.

### **Chapter 6: Conclusion and recommendation**

This chapter provides a summary of the findings, a conclusion, and the application of the findings as well as recommendations for future study.

## **CHAPTER 2: THEORETICAL FRAMEWORK**

### **2.1 INTRODUCTION**

This chapter provides a theoretical framework against which the results of the study is to be interpreted. The chapter starts out by defining civil society and its conceptual development throughout history. It then moves to a definition of corporate governance, discussing the importance of good governance for civil society with the governance theory of Doornbos (2001) as departure point. This is followed by a brief overview of relevant governance theories, namely agency theory, stewardship theory, stakeholder theory, resource dependency theory, transaction cost theory and political theory. Applicable corporate governance theories and models are also discussed. The chapter concludes with a discussion on ethical leadership and the role of ethical leadership in corporate governance and reference is made to applicable ethics theories, namely business ethics theory, virtue ethics theory, feminist ethics theory, discourse ethics theory and postmodern ethics theory. The philosophy of Ubuntu is also discussed. The theoretical framework is expanded upon on chapter 3 with the main discussion of servant leadership as well as chapter 4, that focuses on the corporate governance framework and the King IV Code.

### **2.2 CIVIL SOCIETY**

#### **2.2.1 Definitions of non-profit organisations, civil society organisations and civil society**

The challenge when conducting research in the field of the non-governmental sector is the struggle to clearly define the different units that form part of civil society. For the purpose of this study the following broad definitions are used:

*NPO – Non-profit organisation, non-business entity, not-for-profit institution or non-profit institution:* The United Nations define these organisations as any type of organisation that focuses on a social concern or challenge without gaining income, profit or financial reward (UN Stats 2008: 455). NPOs aim to deliver services, practice activism and advocacy in the support of individuals, households, groups, other organisations, corporations and government.

In the South African context, the recognised term is non-profit companies (NPC) that are registered by the Companies and Intellectual Property Commission (CIPC). These NPCs may voluntarily register with the Directorate for Non-Profit Organisations and apply to be exempted from income tax. The CIPC defines NPCs as “entities that are set up to help

people, protect the environment or to lobby for some good cause. They could include churches, charity organisations and cultural organisations. The primary objective of an NPC is to benefit the public, not to make profit” (DSD 2019: n.p.).

*CSO - civil society organisations:* These types of organisations is described by the Organisation for Economic Co-operation and Development (OECD) as non-governmental organisations (NGO). An NGO is an organisation constituted to achieve specific goals and ethical standards within a geographical or national state or global area outside governmental control with a profitless, charitable, philanthropic purpose. This can include a variety of organisational set-ups, such as charitable foundations, co-operative societies, trade unions, and ad-hoc entities set up to serve a specific societal need (OECD 2018: 1).

According to the European Union the term civil society organisation has become the more recognised term for non-profit organisations. The EU defines civil society organisations as “all forms of social action carried out by individuals or groups who are neither connected to, nor managed by, the State”. The EU lists a broad variety of organisational set-ups as examples, including NPOs, CSOs and NPOs that have a specific programme of action and are legally registered organisations, social movements, social media online groups with virtual structures and events mostly for the purpose of online activism and advocacy, faith based community organisations, community media and electronic media with the focus on information and community activism (www.eur-lex.europa.eu 2019: n.p.).

*Civil society:* The EU defines civil society as a structure focused on adhering to the rule of law, broadening democracy, serving the public, playing a mediation role, advocating on behalf of citizens with government, or vice versa (www.eur-lex.europa.eu 2019: n.p.). Civil society is defined by Seligman (1995, in Kastrati 2016: 64) as an advocating layer of structure governance between the state and its subjects whose aim it is to solve issues through mediation.

Similarly, Cohen and Arato (1992: 122, in Kastrati 2016: 64) write that civil society is an ethical part of the social order whose purpose it is to reconcile conflict between groups and individual interests and social good, or the space where interaction takes place between economy and state.

Figure 2.1 provides a visual representation of the interaction between the private and public sector in relation to civil society as well as the different intersections (Edwards 1989: 52).

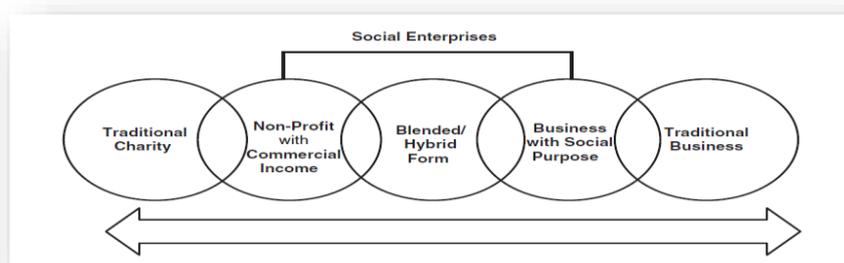
**FIGURE 2.1 CSOs IN RELATIONS TO PUBLIC AND PRIVATE SECTOR**



Source: Quarter, Mook & Armstrong (2009, cited by Carranza n.p.)

According to figure 2.1, the social economy is seen as a reconciling bridge for civil society organisations with a focus on resolving societal issues. It can form an important part of positive interaction between civil society and the public and private sector for the benefit of all stakeholders (Quarter, Mook & Armstrong 2009: 4). Figure 2.2 provides an overview of the types of social enterprises that can form part of civil society organisations, namely traditional charity, non-profit enterprises with commercial income (NPCs), blended or hybrid forms, businesses with a social purpose or social entrepreneurial ventures and traditional businesses. These may include structured corporate social responsibility programmes and organisations (Addae 2018: n.p.).

**FIGURE 2.2 TYPES OF SOCIAL ENTERPRISES**



Source: Addae (2018: n.p)

## 2.2.2 Development of the civil society concept

It is important to explore the development of the concept of civil society to understand the dynamic role it plays in defining and supporting sociological and political aspects underpinning democracy such as rule of law, good governance, freedom, justice and equality. Civil society is outlined by two concepts (Kastrati 2016: 64) namely:

- The theoretical role creating the concept of civil society by illustrating the scope of society's values with its civilians and civil organisations as key actors; and
- The normative role regarding the civilian's motivation to organise, create and establish structures.

Civil society theory was introduced in the writings of Cicero (106 BC – 43 BC) as the concept of *societas civilis*, conceptualising the idea of a good society contributing towards peaceful co-existence and political order with the focus of the commitment of society to come together voluntarily for a prevalent cause (Pèrez-Diaz 2001: 1).

The evolving definition of civil society (table 2.1) shows the impact of historical periods, the worldviews of different political philosophers and the influence of the church on the state and society in the Middle Ages through to the impact of the development of capitalism and socialism on what defines civil society (Kastrati 2016: 64).

**TABLE 2.1 CONCEPT DEFINITION OF CIVIL SOCIETY BY POLITICAL PHILOSOPHERS THROUGH THE AGES**

Period, political philosopher and timeline	Concept definition of civil society
<b>The classical period</b> Socrates 470 BC - 399 BC	Refers to civil society as nothing but political association. Civil society restrains citizens from engaging in social conflicts. The tool for resolving social conflict is discourse (Kastrati 2016: 64).
Plato 428 BC – 347 BC	Describes the ideal state where the philosopher-king's role is to ensure the well-being of citizens while they aspire to practice virtues by doing common good (Edwards 2013: 6).
Aristotle 384 BC - 322 BC	Refers to <i>koinonia politikè</i> where the polis (city-state) was divided in different sectors with different goals and civil society ( <i>eudaimonia</i> ) or citizens were to practice virtue of character and ethics for the welfare of society (Edwards 2013: 6).
<b>Middle Ages</b> Saint Augustine 354 AD - 430 AD	St Augustine states in his book <i>City of God</i> that a life based on faith, submitting to God rather than reason, is necessary to reduce the pain and suffering of humans. This thought forms the basis of civil society during the feudal era (Burt 1963: 21).
Thomas Aquinas 1225 – 1274	Aquinas refers to the writings of Aristotle and conciliates the aspect of reason with faith by aligning the laws of nature with the sacred laws of Christianity, focusing on ethical value and the important guiding principle to love you neighbour. This is the foundation for a civil society where people live in harmony when their rights are

	respected and they live in equality (O'Brien 1999: 2).
Martin Luther 1483 – 1546  John Calvin 1509-1564	The founders of the Protestant faith protest the Catholic church which they view as unethical and have issues with the separation of church and state. Their viewpoint is that civil society will not replace the state but contribute where the people have freedom to choose their own religious bearing and live this ethos through service and charity to others (O'Brien 1999: 2).
<b>Age of Reasoning</b> Thomas Hobbes 1588 – 1679	Hobbes states that people will compete for resources which limit their ability to live in a moral and ethical manner. The role of the state is vital to ensure peace and secure the rights of all the citizens and protecting everyone's interests equally (O'Brien 1999: 3).
John Locke 1632 - 1704	Locke, in his book <i>Two Treatises</i> advocates that the political power of the state should be curbed by dividing it into three functional components. Civil society should have authority over government as civil society's authority is established through the people and its leadership. Locke's ideas help to form the US Declaration of Independence (O'Brien 1999: 3).
<b>Age of Enlightenment</b> Jean Jacques Rousseau 1712 – 1778	Rousseau argues against Locke's and Hobbes' ideas, stating that there is a too strong emphasis on the rights of the individual and that this can lead to greater material gain of one group exploiting workers. He advocates for a new order where civil society will provide equal opportunities and freedom for all the citizens. Citizens should contribute to society by helping others and ordinary people should participate in the process of creating laws to prevent exploitation and promote common trust and parity. Some researchers argue that Rousseau is the father of civil society (Matravers 2019: n.p.).
David Hume 1711 – 1776	Hume summarises his concept of civil society in <i>Treatise on Human Nature</i> in that humanity sets its intention based on ethics but uses reason to achieve this. This means that the citizen will follow the rules of the land in accordance with their own self-interest, not necessarily to contribute to the benefit of society but more to serve their interest in a civilised way (O'Brien 1999: 4).
Adam Ferguson 1723 – 1816  Adam Smith 1723 – 1790	Smith, the father of capitalism, concludes that society would thrive if the state does not intervene in the economy. Both these political theorists argue that the main principle of civil society is that a person's ethical values when recognised by others will enforce contribution to the greater good of society and others (O'Brien 1999: 4).
Immanuel Kant 1724 – 1804	Kant is the first to argue that a serviceable civil society will operate separate from the state. He states that moral and ethics will guide humanity's behaviour to the benefit of other after their self-interest is served first (O'Brien 1999: 4).
<b>19th century</b> GWF Hegel 1770 -1831	Hegel writes that civil society is a non-political sphere of a society, differentiated from the state. In the framework of civil society, individuals freely realise their private interests by means of uniting in social communities. Civil society is also a self-regulating system consisting of numerous elements harmonised with one another. The priority in civil society is self-actualisation of a person with several rights, freedoms and obligations (Ershova 2015: 34).
Alexis de Tocqueville 1805 – 1859	De Tocqueville is the first political thinker to discuss the paradox of civil society in depth. He describes it as free organisations that exist outside the scope of the state where the citizen could exercise moral and ethical obligations without government intervention. Through this process they truly exercise their freedom and equality outside the state's framework. De Tocqueville reasons that the state has a tendency to become an autocratic regime so a strong civil society can strengthen democracy and political freedom (Woldring 1998: 363).
Karl Marx 1818 -1883	Karl Marx agrees with Hegel's definition of civil society. However, he argues against the positive view Hegel held about the role of the state and civil society to solve societal issues. He views the state and civil society as part of the economy class whose power will decrease when the working class become the ruling class (Draper 1977: 5).
<b>20th century</b> Jurgen Habermas 1929 –	Habermas views civil society as a part of society where financial exchange and charity labour take place, as opposed to the public sector which includes government as a part of the political domain. In his argument Habermas see these two domains as opposites. When economic transformation happens civil society

	regardless of its non-economic aspect can change its role and became more political and challenge the state. Habermas sees civil society as the space where rational – critical discourse is held (Habermas <i>et al.</i> 1974: 55).
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Forbrig (2002, cited in Kastrati 2016: 66) writes that there five specific democratic functions through which civil society strengths democracy:

*Lockean function:* A focus on controlling the power of the state through the watchdog role of civil society to ensure the rights of the individual and the rule of law and to ensure that institutional checks and balances are in place.

*Hegelian function:* Seeks to mediate the different stakeholders' interests, while focusing on the social interests of the different stakeholder groups and mediation where the interests of the different groups are in conflict.

*Pluralist function:* Seeks integration of the different social needs, focusing on the different social groups and the need to integrate and create social cohesion.

*Non-profit function:* Provides service to society and vulnerable communities, focusing on the combined input and output of both social and political systems to improving society.

*Tocquevillian function:* Provides political freedom and integration of the different stakeholders, focusing on the relationship between civil society and the political regime and the attitude towards the rule makers and the strength of democratic values of both parties.

From the above it is difficult to describe the complex nature of civil society as it functions in a contested space. Critics of the positive role of civil society such as Antonio Gramsci (1891-1937), the Marxist political philosopher, argue that civil society and some of its elements support capitalists to dominate the rest of society. Gramsci advocates that the following three dimensions can influence civil society to change the hegemony, namely the impact of economic issues and economic pressure groups to change the direction of available capital; political and juridical reforms of the function of the state; and the political changes by pressure groups designed to change the status quo in finding ethical alternatives to reconstruct society as a whole (Gramsci 1999: 445- 449).

### **2.3 CORPORATE GOVERNANCE**

Doornbos (2004: 372) maintains that in the past good governance was a tool to gauge a

country's performance before donor funding could take place. Good governance functions as a yardstick to receive funding support (Doornbos 2004: 373). It is important to note that in his 2004 article "The pliability of the policy concepts" Doornbos widens the scope of the relationship to include any organisation that is dependent on funding from a donor body, concluding that good governance is an important measurement for any donor recipient relationship (Doornbos 2004: 375).

Corporate governance is a multi-dimensional concept stemming from different disciplines, including political science, business management, public administration, corporate law and sociology. Bevir (2009: 1) writes that governance is a key concept in the social sciences, with governance referring to all types of institutions, from governments, corporations and private sector organisations to non-governmental organisations forming civil society.

According to Levi Faur (2012: 32) governance can adopt different forms. As a structure it refers to the specific organisations involved. As a process it defines the functions through which policy is developed. As a strategy it refers to the design of the organisation with the goal to influence choices.

Rosenau (1992, cited by Asaduzzaman & Virtanen 2016: 2) writes that the theoretical framework of governance is difficult to define. This author argues that government and governance are not synonyms as government refers to legal and constitutional authority in action while governance refers to the process through which government action is supported by citizens and civil society who do not have authority or the power to develop and execute legislation. According to Rosenau (Asaduzzaman & Virtanen 2016: 2-4) governance therefore includes civil society's formal and informal organisations and structures.

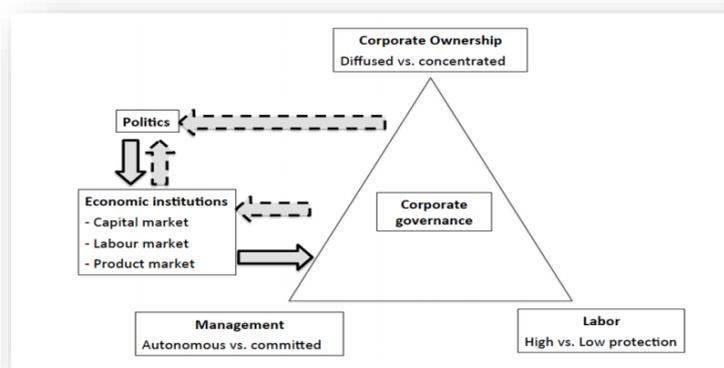
Halfani et al. (1994, cited by Asaduzzaman & Virtanen 2016: 2) views governance as a government system consisting of accountable units concentrating on effective and accountable constitutional institutions that uphold democratic principles such as the rule of law and democratic electoral voting processes. This differentiates the study of governance from the study of government. The main aspect of this definition is the relationship between the state and civil society, with civil society ensuring the state's legitimacy (Asaduzzaman & Virtanen 2016: 3). Fischer (2004: 510, cited by Dragonmir 2008: 1) defines accountability as cementing relations between different state actors and private and civil society sectors,

delineating responsibilities, controlling power, enhancing legitimacy and ultimately promoting democracy.

The father of corporate governance codes, Sir Adrian Cadbury, in the corporate governance overview for the World Bank Report in 1999 defines corporate governance as the balance between economic and social goals and between individual and communal goals. The aim of corporate governance is to balance all the stakeholders' interests from individuals, organisations and society as influenced by economic institutions operating in a political environment. The governance principles of fairness, transparency and accountability are universal applied (World Bank Report 1999: v).

The OECD compiled the first set of governance principles in 1999. These six corporate governance principles are used internationally when developing governance codes and are aimed at creating an effective operational corporate governance framework seeking to protect the rights of shareholders and establish key ownership functions to ensure a fair and balanced treatment of shareholders while not negating the vital role of stakeholders. This places additional emphasis on comprehensive disclosure and transparency and ensures that the responsibilities of the board are clearly defined (OECD 2019: n.p.). This corporate governance definition is illustrated by figure 2.3, which shows how corporate governance functions within a triangle between corporate ownership, management and the labour or workforce, influenced by the economy and political environment within a specific country, region or internationally (Roe & Vatiero 2015: 9).

**FIGURE 2.3 TRIANGLE OF POLITICAL THEORY AND CORPORATE GOVERNANCE**



Source: Roe & Vatiero (2015: 9)

Sale (2004, cited by Wells 2009: 1252) defines corporate governance as balancing power between the internal individuals in an organisation, including shareholders, board members and executive management. Sale (2004: 260) writes that good corporate governance is where executive decisions are made informing shareholders about the activities with the objective to ensure that shareholders' rights are protected while the long-term sustainability of the organisation is served.

Lynn McGregor (2000), in her book *The human face of corporate governance*, defines governance as a development where executives in control of an organisation make decisions that have the impact to build, maintain or ruin organisational systems, structures and processes (McGregor 2000: 11). For the purpose of this study with its focus on non-profit organisations within civil society all references to governance will be made from this perspective.

Corporate governance in the NGO sector as defined by Wyngaard (2017: 2), in his book *NGO matters: Governance for non-profit boards*, states that it is "involving the board using its authority to steer the organisation towards its destination (vision)".

Corporate governance is vital for any civil society organisation. As mentioned elsewhere, the NPO Act governs non-profit organisations. To be formally recognised as an NGO the following guidelines must be met, namely that the organisation must be established to serve a public purpose and the financial income and assets of the organisation may not be distributed to its members except for payment if services are rendered. There should be a clear separation between the organisation and the state, with the state having no rights to property or assets of the organisation. Intermediary NGOs may work with international donor organisations, while another NGOs can function as distribution channels for funding to other local NGOs. These organisations may provide individuals, groups or communities with training and specialist advice in operational matters such as proposal writing, fundraising, project design and evaluation (Hudock 1999).

Mumtaz and Wegelin (2001: 28) consider the following factors as important to increasing the status of corporate governance in society, namely a commitment to an ethical leadership approach to governance, implementing change in public, private and civil society organisations by putting pressure on leaders to act in an ethical manner, and creating an overall organisational environment where all stakeholders adhere to ethical values through

institutional culture that values ethical behaviour, effectiveness and efficiency.

Farazmand (2015: 350), in an article titled “Governance in the age of globalisation” suggests that the concept of “sound governance” replace good governance. Farazmand (2015: 356) differs from Rosenau (1992), arguing that sound governance refers to more than government, governing and good governance. It is an inclusive term used to describe the changing national and international environment focusing on interaction and active participation between the state, constitutional legislative framework, the private sector and the active citizenry within civil society in an unlimited global structure.

This research is supported by Keping (2017: 1-8) in the article “Governance and good governance: A new framework for political analysis”, where he refers to Stoker (1999: 16-23) in terms of the challenges connected to each proposition:

- Governance refers to institutions and stakeholders from all sectors including government but also beyond government, creating a divide between decision-making and explaining government.
- Governance identifies the blurring of boundaries of the different sectors and whose responsible for resolving societal, political and economic challenges which can lead to shifting responsibly and scapegoating.
- Governance states the interaction and dependence between the different actors create a lack of government action.
- Governance refer to self-governance by networks of actors resulting in unaccountability.
- Governance recognises the ability to instigate action and government loses power and authority leading to governance failure. This highlights the balance between government and civil society actors to deal with issues and resolve them.

Keping (2017: 1-8) warns that new governance theories with a focus on sharing and cooperation between civil society and the state can have positive significance but this may lead to nation-state boundaries becoming blurred and creating opportunities for superpowers and multinationals to interfere with the autonomy of the state in some countries.

The issue of civil society governance in Africa was highlighted as early as 2004 by Kumi

Naidoo, CEO of CIVICUS World Alliance for Citizen Participation, in his article “The end of blind faith? Civil society and the challenge of accountability, legitimacy and transparency”. Naidoo writes that government should embrace the role civic society plays in assisting government in ensuring that service delivery takes place to vulnerable communities, specifically where government is unable to assist. However, the debate about civil society accountability, main issues regarding governance and public distrust and growing voter apathy play a growing concern regarding corporate governance in the relationship between civil society and government (Naidoo 2004: 14-15).

The importance of good governance in terms of a country’s civil society and specifically NGO organisations is illustrated by table 2.2, which shows that there are comparisons between the ranking for governance and civil society participation as per the IAG Governance Index in Africa.

**TABLE 2.2 COMPARISON BETWEEN GOVERNANCE AND CIVIL SOCIETY PARTICIPATION**

<b>Comparison between governance and civil society participation (IIAG Governance Index in Africa (2017))</b>			
<b>Country</b>	<b>Governance rank</b>	<b>2017 score/100</b>	<b>Civil society participation rank</b>
<b>Mauritius</b>	1	79.5	3
<b>Seychelles</b>	2	73.2	5
<b>Cabo Verde</b>	3	71.1	1
<b>Namibia</b>	4	68.6	9
<b>Botswana</b>	5	68,5	8
<b>Ghana</b>	6	68,1	2
<b>South Africa</b>	7	68.0	13
<b>Rwanda</b>	8	64.3	36
<b>Senegal</b>	10	63.3	7
<b>Sao Tome</b>	12	59.2	4
<b>Benin</b>	13	58.7	6

Source: IIAG Governance Index in Africa (2017)

The information from the IIAG Governance Index in Africa (2017) illustrates the declaration on the website of the office of the High Commissioner for Human Rights at the United Nations (2016), linking corporate governance and human rights as the one reinforces the other. Human rights principles provide a valuable guide for governments and political and societal stakeholders. The state of human rights is an important yardstick to gauge the accountability and democratic performance of the different actors. The standards listed for corporate governance include transparency, accountability, participation and

responsiveness (to the needs of the people) (UNHRC 2016: n.p.).

## **2.4 GOVERNANCE THEORIES**

Governance theories that inform this study are agency theory, stewardship theory, stakeholder theory, resource dependency theory, political theory and transactional cost theory. The origin and development of concept of corporate governance is highlighted by the following milestones on the road to developing fully fledged governance theories.

One of the first known references to proper governance can be traced back to Adam Smith's *An inquiry into the nature and causes of the wealth of nation* (1776). Smith (1723 – 1790) was an 18<sup>th</sup> century Scottish philosopher and economist, popularly known as the father of economics or capitalism. In this document, Smith analyses the dissolution of the East India Company in 1773 due to a lack of proper governance. Smith's argument is that business is best served where there is ownership by the owners, management and staff. This results in the business' growth by increasing its financial assets and gains. Smith writes that this manner of conducting business serves society as you provide goods, create jobs for other workers and in the process creates wealth, benefits and value for the whole society (Smith 1776: 686).

The origin of executive accountability can be traced back to when the United States Congress passed a legislative bill in 1909 that formed the basis of the 1916 amendment that passed into law corporate taxation of profits (Dragonmir 2008: 3).

Following the stock market crash in 1929, Berle and Means (1932), in *The modern corporation and private property*, wrote about the fiducial or stewardship duties of the company, separating power and control of a company. Most researchers concur that this was the first time that the challenge of separation of ownership and control was addressed. Wells (2009), in the article *The birth of corporate governance*, argues that William Z. Ripley's *Main Street and Wall Street* (1927) and his campaign for better corporate governance was the actual start of the campaign to put control in the hands of corporate managers and not owners of organisations and corporations.

### **2.4.1 Agency theory**

Agency theory deals with the issue of the gap between ownership and management control. It was first described in Berle and Means' (1932) work *The modern corporation and private*

*property*. It focuses on the need to separate control and ownership and create more operational transparency through voting rights of principals and accountability of management (Abid et al. 2014: 167).

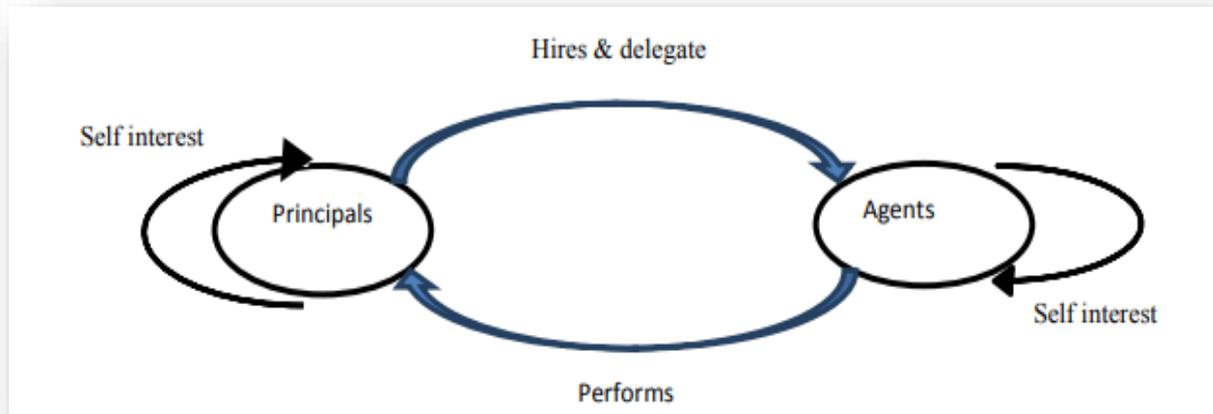
A number of researchers in the field of governance theories looked into ways to solve governance challenges between various stakeholders. Michael, Jensen and Meckling (1976) in *Theory of the firm: Managerial behaviour, agency costs and ownership structure* explain the challenge between the interests of the principals and the managers. Fama (1980) and Fama and Jensen (1983) clarified this relationship in terms of contractual obligations and the frameworks to support this relationship. Eisenhardt (1989) critically examined two parts of agency theory, namely positivist agency theory, which seeks to analyse the owner and executive management's interactions in major corporations, and principal – agent theory, which seeks to understand the dynamics of smaller and family businesses. The Tyson Report (2003) stresses the importance of acknowledging the different stakeholders in expanding boardroom diversity by including heterogeneous board members. The development of the South African Corporate Governance Code, known as the King Reports (1994; 2002; 2009; 2016), represented a turning point in the international agenda for corporate governance reform from a shareholder focus towards shareholder inclusivity, encouraging companies to act responsibly towards their diverse stakeholders.

This is evidence that corporate governance research is a dynamic field that is constantly challenging researchers and practitioners to develop better models and frameworks to improve corporate governance accountability. This involves a gradual move from agency theory and stewardship theory towards stakeholder theory, starting with the traditional elements of accountability, namely board of directors' compilation, financial reporting process, governance frameworks and regulations and compilation of audit committees and moving towards a more focused approach including diversification of the board of directors, environmental sustainability and governance factors in institutional investments (Initiative 2015: 3).

Agency theory deals with the relationship and opposing interests of principals (shareholders, directors or owners) and the agents (management and staff of an organisation). The challenge is that agents may capitulate to self-interest or unprincipled behaviour and fail the shareholders/principals who expect profitable returns on their investment. The role of the agents (management) is to monitor and control. The primary feature of this theory is that

ownership and control are in separate hands, as illustrated by figure 2.4 (based on Abdallah 2009, cited in Yusoff & Alhaji 2012: 54)

**FIGURE 2.4 THE AGENCY MODEL**



Source: Abdallah (2009: 90)

### 2.4.2 Stewardship theory

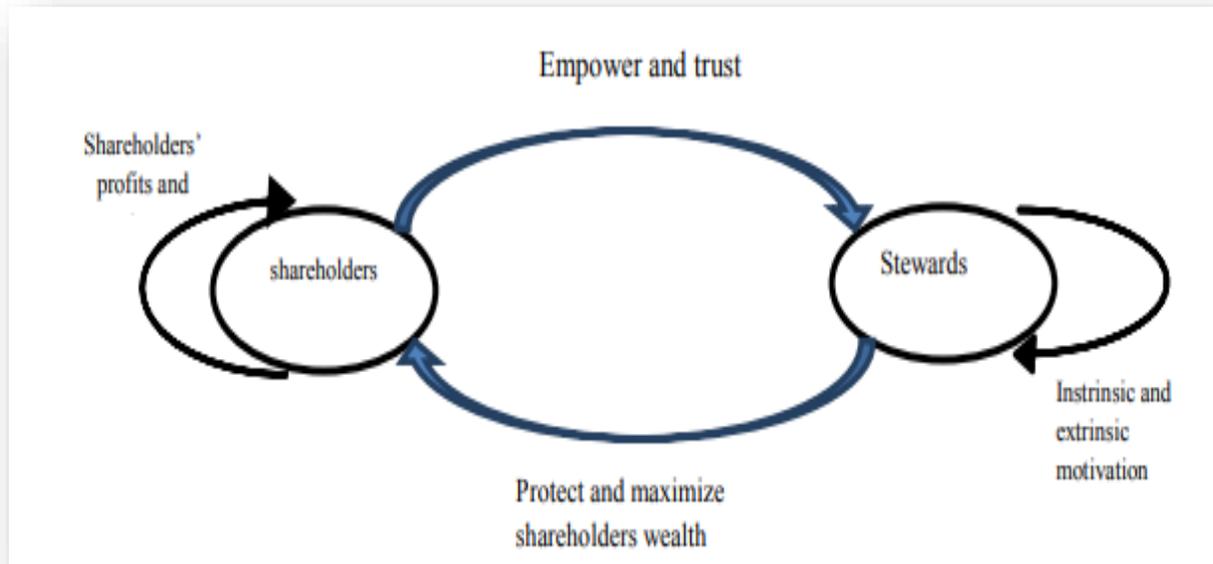
The stewardship theory as described by Caldwell et al. (2008: 154) states that agents (management) act as stewards working towards maximising and protecting the principals' (shareholders) wealth by seeking the optimal performance of the organisation. In other words, management (as stewards) acts to maximise profit or in the case of a non-profits performance and rendering of services. Management and staff are driven by a higher-order, intrinsic ethical need for organisational success and performance. They are highly motivated and take ownership of their duties. The relationship between principals and agents are based on trust and not control as with agency theory (Caldwell et al. 2008: 154).

Stewardship theory shares many similarities with the so-called Insider Model practiced in Japan, where the insider (the executive board and management of an organisation) takes ownership in a way that serves the organisation and all its stakeholder. Cornelius (2005: 12) writes that "corporate governance can be defined as the stewardship responsibility of corporate directors to provide oversight for the goals and the strategies of a company and foster their implementation".

Research on stewardship theory include work done by O'Connell (2007) who termed the phase "stewardship reporting", as well as Roberts et al. (2005), who challenged the

dominance of agency theory and called for greater theoretical pluralism in studying the dynamic processes of accountability in the boardroom (Brennan & Solomon 2008: 1-8).

**FIGURE 2.5 THE STEWARDSHIP THEORY MODEL**



Source: Abdallah (2009: 91)

Figure 2.5 illustrates how management and shareholders create an environment based on trust. The stakeholders operate with a higher-order psychological mechanism as described by Maslow. The executive seeks to reduce risk by empowering staff through training and motivation, leading to an organisation that functions pro-actively, which in turn leads to increased security and maximised wealth and profits.

Table 2.3 provides a summary of the differences between agency theory and stewardship theory.

**TABLE 2.3 AGENCY THEORY VS STEWARDSHIP THEORY**

Behavioural differences	
Agency theory	Stewardship theory
Agent is acting as a manager	Manager acting as a steward
Materialistic approach to governance	Sociological and psychological approach to governance
Motivated by self-serving, individualistic and opportunistic behaviour	Motivated by collective and pro-organisational thinking

Agents focus on materialistic objectives	Agents are motivated by principals' goals
Agent and principals' interest differ	Agents and principals' interest unite them
Management role is to plan monitor and control Principal-agent relationship is based on control	Management strive to empower and facilitate growth Principal-agent relationship is based on trust
Principals' attitude is to avoid risks	Principals' attitude is to avoid risks
<b>Psychological mechanisms</b>	
Motivation – lower order needs on Maslow Internal needs-based	Motivation – higher order needs on Maslow External needs-based
Social comparison is between peers	Social comparison is between principals (equals)
Little connection with organisation	Definite connection with organisation
Power rests with organisation or institution	Power rests with management and staff
<b>Situational mechanisms</b>	
Control-oriented management philosophy	Involvement-orientated management philosophy
In managing risk this theory focuses on greater controls and more supervision	In managing risk this theory focuses on more training and empowering people, motivating staff through challenging their capacity
Short-term planning orientation	Long-term planning orientation
Focus on controlling costs	Focus on improved performance
Challenge due to individualism and power distance	Less challenging due to collective thinking and small power distance

Source: Monks & Minow (2004)

### 2.4.3 Stakeholder theory

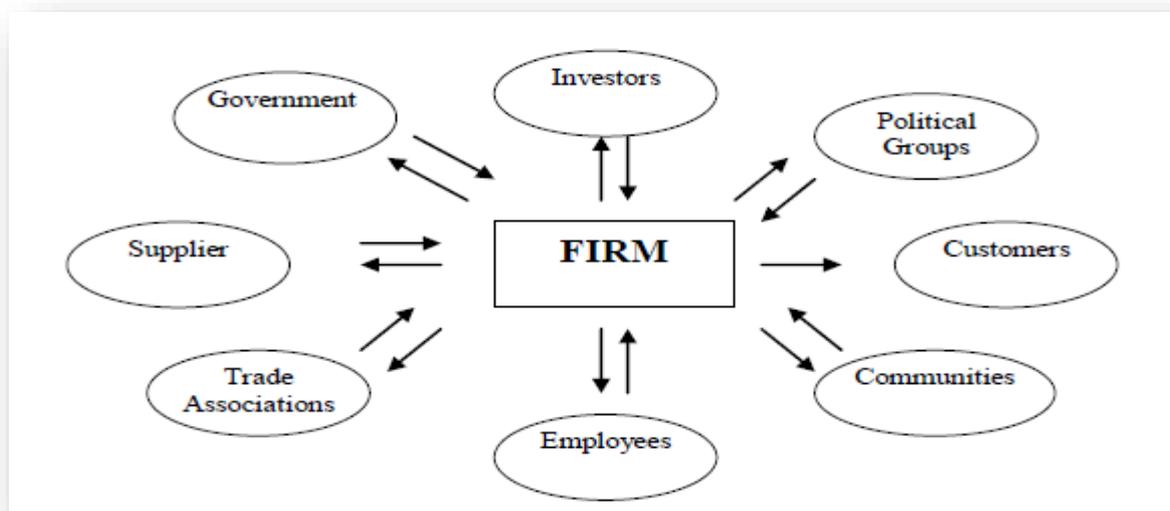
The word “stakeholder” in an organisational context was first mentioned in 1963 in an internal memorandum of the Stanford Research Institute (Anheier & Toepler 2009 :7). Milton Friedman, in his 1970 article in The New York Times titled “The social responsibility of business is to increase its profits” concludes that social responsibility is when the company uses its operational resources in such a manner that it increases profits, stays within the legal compliances, operates in a competitive free market system in a transparent manner and without fraudulence or deceitfulness (Friedman 1970: n.p.).

R. Edward Freeman is the father of stakeholder theory. His 1984 publication *Strategic management: A stakeholder approach*, as illustrated in figure 2.6, shows how internal and external stakeholders function collectively for the benefit of the organisation, society and individuals. The purpose is to create wealth for all to share with a long-term sustainable future view. This corporate governance theory proposes the utilisation of capitalism for the

benefit of society. It seeks not only to enrich shareholders but also make valuable contributions to other stakeholders through social responsibility programmes and support to non-profit organisations serving specific vulnerable communities. Additional research strived to address ethical and moral values in the management of an organisation, with corporate social responsibility becoming a key part of stakeholder theory (Yusoff & Alhaji 2012: 55-56).

Stakeholder theory gained prominence in the field of business ethics, encouraging strong representation of stakeholders' interests and rights and less focus on shareholders' gains. Wheeler et al. (2002) argue that stakeholder theory is less of a unified theory and more based on broad scientific research incorporating "philosophy, ethics, political theory, economics, law and organizational science" (Wheeler et al. 2002, cited by Abdallah 2009: 91). Critics of stakeholder theory such as Phillips et al. (2003: 483) in the article "What stakeholder theory is not" caution against managerial opportunism, specifically in civil society organisations where the founder executive and the board can collude to focus on their own personal interests and not the vision, mission and goals of the organisation.

**FIGURE 2.6 THE FREEMAN STAKEHOLDER THEORY MODEL (1984)**



Source: Donaldson & Preston (cited by Addullah 2009: 92)

#### 2.4.4 Other relevant governance theories

Other fundamental governance theories that play a role in corporate governance include:

*Resource dependency theory:* This theory's focus is on the executive management and board of directors' role to provide access to resources needed by the organisation. This

plays an important role in civil society organisations where directors are co-opted for their access to funding in order to render a service to society for a specific need in as cost effective a manner as possible. The directors have close links to other organisations in the organisation's external environment. This also includes their own specific professional skills such as accounting or a legal background. According to this theory, directors can be classified into four categories, namely societal influencers, highly skilled business professionals, support specialists and sectoral insiders (Abdallah 2009: 92). Toms and Filatotchev (2004: 629) investigated the evolution of the United Kingdom's cotton sector in order to develop a theoretical model in management accountability in terms of resource dependency.

*Transaction cost theory:* This theory's focus is on the process where an organisation has and internal or external service provider contract through which it generates either services of income. Where the cost is occurred by using an external partner this is referred to as transactional cost. If the company is unable to find a cost-effective external service provider, the organisation may decide to deliver the service internally (Abdallah 2009: 92).

*Political theory:* The basic premise is that shareholders seek to influence government to create a more viable economic environment for the organisation to function in. This happens through interaction between the organisation and government. This include lobbying inside the organisation to get shareholders to support specific needs or lobbying government to change restrictive policies or, in the case of most non-profits, to secure government contracts to support government in service delivery to the communities (Abdallah 2009: 92).

Table 2.4 combines the distinct features of the different corporate governance theories. Abid et al. (2014: 172-173) conclude the article "Theoretical perspective of governance theories" by arguing that agency gives a restrictive view of governance and specifically in the case of civil society organisation operating from a non-profit perspective additional theoretical perspective must be investigated. These authors stress that each corporate governance theory assists in grasping the accountability and preventing misuse of corporate governance policies, codes and legislative framework.

**TABLE 2.4 TAXONOMY OF CORPORATE GOVERNANCE THEORIES**

<b>Cultural suitability</b>	High power distance	Mixed	Low power distance	Low power distance	Mixed
<b>Model of man</b>	Economic man	Economic man	Self-Actualizing man	Self-Actualizing man	Economic man
<b>Motivated by</b>	Self-objectives	Self-objectives	Principal's objectives	Shareholder and other stakeholder's objectives	
<b>Motivation</b>	Extrinsic	Extrinsic	Intrinsic	Intrinsic as well as extrinsic	Intrinsic as well as extrinsic
<b>Structure</b>	Monitor and Control	Monitor and Control	Facilitation and empowerment	Facilitation and empowerment	Monitor and Control
<b>Need</b>	Economic need(lower order)	Economic need(lower order)	Growth, achievement (higher order)	Economic and long term firm growth	Economic and long term firm growth
<b>Principal and agent interest</b>	Diverge	Diverge	Converge	Converge-Liaison	Converge
<b>Management philosophy</b>	Control oriented	Control oriented	Involvement oriented	Involvement with all stakeholders	Control oriented
	Control mechanism	Control mechanism	Trust mechanism	Trust mechanism	Control mechanism
<b>Attitude towards risk</b>	Risk aversion	Risk aversion	Risk propensity	Risk propensity	Risk aversion
<b>Power</b>	Institutional base	Institutional base	Personal base	Institutional base	Institutional base
<b>Commitment</b>	Low level commitment	High level (shared) commitment	High level (shared) commitment	High level (shared) commitment	High level (shared) commitment
<b>Relationship</b>	Contract base relationship	Contract base relationship	Trust base relationship	Trust base relationship	Contract base relationship

<b>Basis</b>	<b>Agency</b>	<b>TCE</b>	<b>Stewardship</b>	<b>Stakeholders</b>	<b>RDT</b>
<b>Focus</b>	Reciprocity (Self-interest)	Transactional costs	Shareholder's interest	Stakeholder's interest and Relationship building	Firm resources and power
<b>Objective</b>	Minimize agency cost	Reduce transaction cost	Maximize Productivity	Long term relationship	Acquire & exploit resources
<b>Base</b>	Normative	Classical idea	Classical idea	Normative	Classical idea
<b>Model</b>	Individualistic	Individualistic	Collectivistic	Collectivistic	Collectivistic
<b>Time horizon</b>	Short term view	Long term view	Long term view	Long term view	Long term view
<b>Rooted</b>	Economics	Micro-Economics	Law	Management	Sociology and management
<b>Behavior</b>	Opportunistic	opportunistic	Pro-organizational	Pro-social	Pro-organizational
<b>Approach</b>	Economic	Economic	Sociological and psychological	Societal Level	Strategic
<b>Main theme</b>	Goal congruence	Goal alignment	Goal alignment	Goal alignment	Goal congruence

Source: Abid et al. (2014: 172-173)

## 2.5 CORPORATE GOVERNANCE MODELS

The Organisation for Economic Co-operation and Development supports good governance practices internationally by providing the benchmark for corporate governance through the *G20/OECD Principles of Corporate Governance*. While researchers agree that a universal governance code is not a solution, the OECD does provide general guidelines. The OECD's six guidelines for corporate governance codes were published in 2019 (OECD 2019: 11):

- ensuring the basis of 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.

The OECD refers to two models of corporate governance, namely an insider model focused on stakeholders with reference to the Japanese and German insider models that function with the goal to optimise shareholders' investments but not at the cost of stakeholders' welfare and development of long-term stakeholder relationships; and an outsider model focused on profits and maximising shareholders' investment controlled by executive management (Lu & Batten 2001: 49).

Weimer and Pape (1999) state that four different systems of governance codes are used globally. These are the Anglo-Saxon, Germanic (Continental European), Japanese and Latin models (Weimer & Pape 1999: 4).

Table 2.5 provides a taxonomy of the different governance code systems, highlighting the different concepts of the organisation, board systems, major stakeholders, importance of the stock market in the national economy, ownership concentration and timeframe of the economic relationship.

**TABLE 2.5 TAXONOMY OF SYSTEMS OF CORPORATE GOVERNANCE**

<i>Market/network-oriented System of corporate governance</i>	Market-oriented	Network-oriented		
<i>Country class</i>	Anglo-Saxon	Germanic	Latin	Japan
<i>Countries (GDP 1995 × US\$ 1,000,000,000; GDP per capita × US\$ 1 at current prices and exchange rates). Source: IMF for GDP, OECD for GDP per capita</i>	USA (7,246; 25,512) UK (1,107; 17,468) Canada (569; 18,598) Australia (349; 18,072)	Germany (2,259; 25,133) the Netherlands (396; 21,733) Switzerland (287; 36,790) Sweden (246; 22,389) Austria (233; 24,670) Denmark (175; 28,181) Norway (147; 28,434) Finland (126; 19,106)	France (1,567; 22,944) Italy (1,119; 17,796) Spain (574; 12,321) Belgium (264; 22,515)	Japan (4,961; 36,732)
<i>Concept of the firm</i>	Instrumental, shareholder-oriented	Institutional	Institutional	Institutional
<i>Board system</i>	One-tier (executive and non-executive board)	Two-tier (executive and supervisory board)	Optional (France), in general one-tier	Board of directors; office of representative directors; office of auditors; <i>de facto</i> one-tier
<i>Salient stakeholder(s)</i>	Shareholders	Industrial banks (Germany), employees, in general oligarchic group	Financial holdings, the government, families, in general oligarchic group	City banks, other financial institutions, employees
<i>Importance of stock market in the national economy</i>	High	Moderate/high	Moderate	High
<i>Active external market for corporate control</i>	Yes	No	No	No
<i>Ownership concentration</i>	Low	Moderate/high	High	Low/moderate
<i>Performance-dependent executive compensation</i>	High	Low	Moderate	Low
<i>Time horizon of economic relationships</i>	Short term	Long term	Long term	Long term

Source: Weimer & Pape (1999)

### 2.5.1 The Anglo-American model

The Anglo-American model of corporate governance focuses on the shareholders' rights and protection of their assets. Shareholders control the selection of the members of the board and the board instructs the executive management of the organisation to ensure that the shareholders' rights are recognised and given importance. Some of the features of this model are illustrated in figure 2.7.

**FIGURE 2.7 ANGLO-AMERICAN UNITARY BOARD MODEL (ANGLO SAXON)**



Source: Mostepaniuk (2017: 10)

**2.5.2 The German Model**

This is also called the European Model. The focus is on the workers and the management of the organisation. This is an inclusive system where the workers participate actively in the management of the organisation. The corporate governance is carried out through two boards, known as the two-tier board model. These boards include the employees through the supervisory board and the management board who are elected by the supervisory board (Mostepaniuk: 2017: 10). The focus in this system moves from the shareholders to a more inclusive self-governing fiscal unity representing the interests of the different stakeholders including the owners, executive management, workers and other role-players to ensure the organisation is sustainable (Moerland 1995, cited by Weimer & Pape 1999: 157).

**FIGURE 2.8 THE GERMAN MODEL**

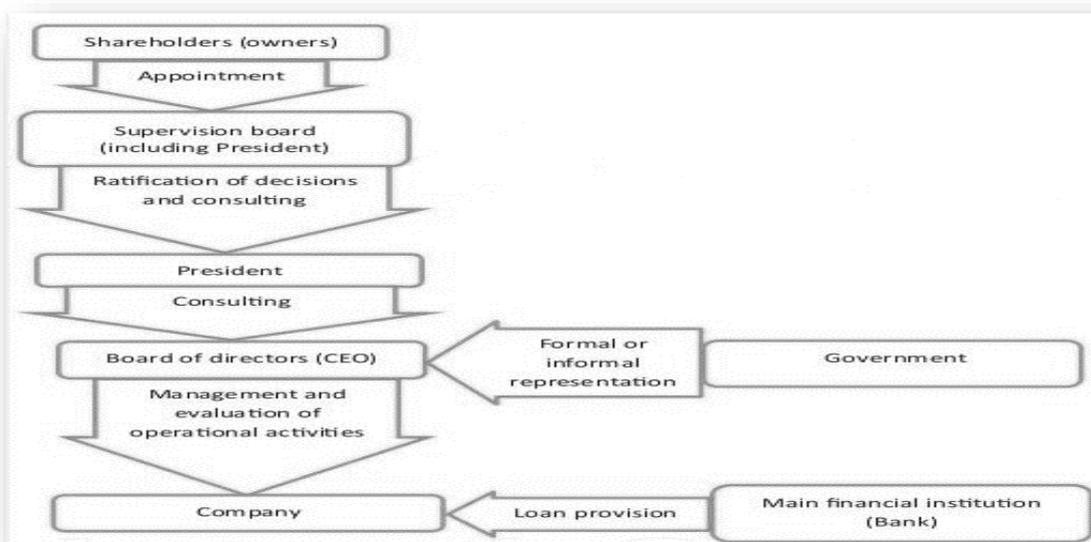


Source: Mostepaniuk (2017: 11)

### 2.5.3 The Japanese Model

Japanese economy is based on organisations raising working capital through financial institutions and banks. The system includes these financial institutions in the management decisions of the companies. They also participate in the appointment of the board of directors and its president. In this model, along with the shareholders, the interest of lenders is recognised (Mostepaniuk 2017: 13). The defining principle in this model is ethical and moral behaviour of the organisation and all the stakeholders. The US Occupation during the Second World War (1945 – 1952) aligned the Japanese model more towards the Anglo-Saxon model (Harrison 1997, cited by Weimer & Pape 1999: 160). This model is based on a focus on long-term sustainable relationships as the stock market plays an important role in the economy. The concept of the firm is institutional and important stakeholders are the financial institutes and employees (Harrison 1997, cited by Weimer & Pape 1999: 160).

**FIGURE 2.9 THE JAPANESE MODEL**



Source: Mostepaniuk (2017: 13)

### 2.5.4 The Latin model

Latin countries' system of governance codes is a combination of the Anglo Saxon and Germanic codes. State control in an oligarchy system is mostly in place in Latin countries. The board systems are one-tiered with major stakeholders being financial institutions, the state and family-owned business. Long-term sustainability is encouraged as this model is mostly based on family businesses passed on from the one generation to the next in a local community context (Weimer & Pape 1999: 160).

### **2.5.5 The Social Control model**

This corporate governance model focuses on full-fledged stakeholder representation on the board. The model advocates that the stakeholders board has precedence over the board of directors. This allows for an improvement in the internal control systems of corporate governance. The stakeholders board consists of representation from shareholders and other stakeholders such as labour, supplies and funding organisations' employees (Mostepaniuk 2017: 15).

## **2.6 ETHICAL LEADERSHIP**

### **2.6.1 The role of ethical leadership in corporate governance**

The importance of ethical leadership in private, public and civil society in South Africa is underpinning this study. In the introduction of this study reference is made to comments about ethical leadership by Thuli Madonsela and Cyril Ramaphosa. Ethical leadership is the basis of the characteristics defining servant leadership. Ethical leadership is also the first fundamental corporate governance concept of the King IV Report. The King IV Report defines corporate governance as the act of exercising ethical and effective leadership by the governing body towards the achievement of the following four governance outcomes, namely contributing to an ethical organisational culture by leading through ethical leadership underpinned by integrity and competence; ensuring the organisation perform at its best to contribute to its and society's growth; ensuring that the executive team members exercise effective control and accountability for the organisation to reach its vision, mission and objectives; and ensuring that all compliance standards set by government and other compliance agencies are met. In short, corporate governance equals ethical leadership, which correlates with servant leadership, a leadership approach that is built on moral and ethical traits.

### **2.6.2 Definition of business ethics**

Ethical leadership and good corporate governance frameworks are crucial in CSOs where accountability plays a leading role in determining funding by stakeholders. Business ethics as defined by Rossouw (2002) in his book *Business ethics in Africa* consists of three universal features of economic activity. These are the systemic or macro aspect, which is the wide policy framework on national level, the institutional or meso aspect, which refers to interaction between organisations, the state, civil society and individuals, and lastly the micro or intra-organisational aspect which focuses on the actions of the individual within the

organisation (Rossouw 2002: 2).

Rossouw also refers to six definite theoretical positions in the execution of ethics in organisations:

The *social scientific position* is defined by Trevino and Weaver (1994, cited by Rossouw 2002) as the act of studying business ethics to obtain objective social scientific knowledge of the ethical aspect of economic activity.

The *managerial position* is defined by Enderle (1996, cited by Rossouw 2002) as a position where business ethics supports management in discharging their duties and dealing with ethical challenges in a practical manner. The mentoring and training of management in practical business ethics application is vital.

The *organisational interest position* is defined by Binns (1994) and Halachmi and Bouckaert (1994) as the process of aligning ethics with operational goals in a manner that it is not seen as a hindrance but rather an opportunity to guarantee long-term sustainability and financial success.

The *ethical guidance position* is defined by Spence and Lozano (2000) as how ethical standards of ethical business conduct are set up to add to economic gains. Rossouw (2002) explains that ethics should never be conceded or compromised for the benefits of financial reward and that it should be exposed when it happens.

The *ethical control position* is defined by Kaler (2000, cited by Rossouw 2002) as normative ethical theories that guide economic activity analysis. Rossouw (2002) writes about the importance of either internal or external controls to prevent ethical failures that can impact on the long-term sustainability of an organisation. External control can be in the form of regulations, legal enactments or civil society pressure. Internal control is through compliance to policies and procedures based on governance frameworks, whether voluntarily or by legal compliance as with the King Code of Corporate Governance.

The *ethical development position* is defined by Pearson (1995, cited by Rossouw 2002) as a position that describes the importance of the character or traits of the persons involved in the organisation.

### **2.6.3 Business ethics theories**

Business ethics theories that function along with corporate governance theories as good corporate governance are not based on a single theory but rather a combination of theories focus on the protection of the interests of stakeholders. Three general ethics theories guide discussions on business ethics theories, namely Aristotle's Virtue theory, which also underpins servant leadership and states that ethical behaviour is related to the integrity of an individual's character; Kant's deontological theory, which states that an individual's behaviour cannot be guided by their own needs or experiences but rather through obeying standards and norm set out through ethical guidelines and codes of ethics (such as the King IV Report); and Mill's utilitarian theory, which states that actions take place as promoted by the deontological theory but with a focus on the benefit for society. This also relates to stewardship theory in the sense that actions are taken with the purpose of adding value through a caring, long-term, sustainable approach (Rossouw 2002: 45 – 61).

Business ethics theory is the study of morality and how an organisation makes decisions based on a moral code and belief system. Decisions made must be responsible and to the benefit of the individuals and society without advantaging or prejudicing (Crane & Matten 2007, cited by Abdullah & Valentine 2009: 93-94).

Virtue ethics theory focuses on an incorruptible, strong character and righteousness. Aristotle described this as knowing how to act and make the right decision. Virtue is based on emotional intelligence and can be developed through education. Virtue ethics is focused on ingraining moral, proactive behaviour in the corporate culture (Crane & Matten, 2007 cited by Abdullah and Valentine 2009:93 -94).

Feminist ethics or care ethics theory's key features are empathy, care and prevention from harm for the individual and the organisation. It advocates a stronger focus on society's benefit rather than a profit-driven company (Casey 2006, cited by Abdullah and Valentine 2009:93 -94). Robin Dillon observes that, "care ethics was for some time the dominant approach in feminist ethics and so feminist discussions of virtue" (Dillon 2017: 574).

Discourse ethics theory is a way to establish ethical truths as a starting point for any engagement. The focus is on the facts and not the personalities. It is also called argumentation ethics and is concerned with the peaceful settlement of conflicts. Settlements reached must be to the benefit of openness and rationality (Habermas 1996, cited by

Abdullah & Valentine 2009: 93-94). Postmodern ethics theory is an holistic approach beyond the superficial value of morality, employing inner feeling. The organisation makes achieving goals their priority (Balasubramaniam 1999, cited by Abdullah & Valentine 2009: 93-94). Abdullah and Valentine conclude that corporate governance in a holistic manner and not as a single theory but a convergence of all the theories and frameworks.

An ethical vision of the organisation's leaders should guide the moral development for the staff and possible future leaders of the organisation. Vander Walt et al. (2016: 1) write that South Africa has become one of the countries with the highest level of unethical governance both in public, private sector and civil society. This is confirmed by Internal Auditors SA (IIA SA) in partnership with UNISA who referred to the 2018 Corporate Governance Index Report's ranking on ethics, compliance and assurance which dropped by 6.6% since 2018. The impetus of organisational ethics is to encourage ethical leadership development and identify ways to promote this (Rossouw 2002: 5-9).

Ethical traits are the main feature of servant leadership as described in chapter 3. Servant leadership shows similarities with Aristotle's virtue theory as discussed in chapter 3.1.2 with references to Patterson's "Servant leadership: A theoretical model" (Patterson 2003: 2). This supports evidence that servant leadership within an ethical governance framework such as the King IV Report can offer an option to an organisation to create a more viable operational environment to the benefit of society and all stakeholders.

In conclusion it is important to note that ethical codes have a reputation for being ambiguous, and special effort must be made to ensure the code is implemented and that practice and compliance are monitored. Ethical codes have limitations such as issues of mindless compliance which do not promote moral self-application. Although an ethical code provides practical guidance, training and development of individuals must be fostered to create an ethical organisational culture. Ethical codes can be counterproductive when there is a difference between declared and actual behaviour (Rossouw 2002: 133-134).

#### **2.6.4 African Ubuntu ethics**

The King IV Report (2016) is underpinned by concepts such as stakeholder inclusivity and approaching the organisation as an integral part of society. This is a departure from the first three King Reports that had a strong focus on the Anglo-American model with the primary focus of shareholder protection. This departure brings into focus a people-centred approach

similar to the philosophy of Ubuntu where asset sharing by the community is a main feature. Ubuntu views people not as individuals living in a state of independence but as part of a community, living in relationships and interdependence. Corporate governance frameworks should regard an organisation as a community and not just as a collection of individuals (Lutz 2009: 313).

## **2.7 CHAPTER SUMMARY**

This chapter together with chapters 3 and 4 form the theoretical framework for this study. In this chapter the concepts, background, theories and models of civil society, corporate governance and ethics were discussed. It is to be read together with the main discussion in chapter 3 on ethical leadership as described in the servant leadership organisational approach and the application of the King IV Report in chapter 4.

In this chapter civil society was defined and supported by concept definitions through the different ages by political philosophers. The important role civil society plays in broadening democracy and the challenges this study seeks to address were also discussed. The definition of corporate governance, the importance of good governance and ethical leadership for a well-governed civil society, using the governance theory of Doornbos (2001) as departure point, were also discussed. This was followed by an overview of different governance theories relevant to this study, namely agency theory, stakeholder theory, stewardship theory, resource dependency theory, political theory and transaction cost theory. The chapter concluded with an overview of business ethics theory, virtue ethics theory, feminist ethics theory, discourse ethics theory and postmodern ethics theory and mention of Ubuntu ethics.

## CHAPTER 3: MAIN DISCUSSION: SERVANT LEADERSHIP

### 3.1 SERVANT LEADERSHIP AS ORGANISATIONAL APPROACH

#### 3.1.1 Background and development of the concept of servant leadership

Servant leadership as a modern management leadership theory has its origins in 1970 when Robert Greenleaf published *The servant as a leader*, in which his basic premise is that “the servant leader is a servant first”. This discussion refers to some leadership philosophies that led to this leadership style and the development of the leadership theory. As will become clear, servant leadership could be considered a “bridge between ancient wisdom and modern corporate management” (Smith 2005: 1).

In the introduction of his doctoral thesis titled *The origins of servant leadership*, Valeri (2007) refers to a well-known quote attributed to Isaac Newton: “If I can see so far ahead, it is because I stand upon the shoulders of giants” (Valeri 2007: 6). Similarly, the current study acknowledges the historical roots of Robert Greenleaf’s philosophy from both Eastern, Western and African leadership philosophies from ancient to modern times.

This background synopsis on servant leadership is viewed through the lens of various worldviews. This is important for any study that claims to investigate a phenomenon or concept. Nash (cited in Wallace 2007: 117) writes that the word “worldview” has its origin in the German word “weltanschauung”, which means “investigate the world”. It refers to how a person relates and interprets the world through a framework of concepts and theories that form a universal definition through which society views the world and relates to it. This includes different classes of worldviews which can be attitudinal, ideological, philosophical and religious, or a combination of classes (Wallace 2007: 117).

This main discussion is centred on research done on servant leadership as a theory with reference to critique on the status of the leadership style as a theory. As the main feature of the servant leadership is the traits that describe this leadership in action, a thorough analysis was conducted of all available research that refers to the traits of servant leadership. Following this analysis, the Focht and Ponton Delphi study (2015) titled *Identifying primary characteristics of servant leadership* was selected as representative of the 12 primary traits of servant leadership. These traits were used as part of the comparison with the principles of the King IV Report on Corporate Governance (in chapter 5).

### 3.1.2 Eastern origins of servant leadership

Servant leadership as an approach to leadership has been practiced for many centuries and in many cultures. In terms of its Eastern roots it can be traced back to the Chinese philosopher Lao Tzu (600 BC) (Heskett 2013: n.p.). Lao Tzu was from the area of Ch'u in China and worked as a court sage for one of the ruling princes. In his book of platitudes, *Tao Tê Ching*, Lao Tzu describes the principle of Tao as “what happens of itself, it's the art of living, which is more like steering a boat than struggling with an opponent”. Lao Tzu's most famous quote on leadership reads as follows:

A leader is best when people are hardly aware of his existence, not so good when people praise his government, less good when people stand in fear, worst, when people are contemptuous. Fail to honour people, and they will fail to honour you. But of a good leader, who speaks little, when his task is accomplished, his work done, the people say, 'We did it ourselves' (Heskett 2013: n.p.).

The essence of Taoist thought is that the inner thoughts and actions of a leader will play out in his subjects. If the leader has little credence and trust so will the subjects. In practice, this will mean that the leader must emulate how the followers are expected to act. This means that an ethical leader will motivate his or her followers to act ethically while the lack of ethical behaviour will be reflected in an unethical governance system.

Lao Tzu's fundamental principle of government can best be described as governance by non-action. He argued that if governance principles are in place institutional stability and sustainability will be maintained, which underlines the fact that leadership is crucial to the quality of governance in a system (Adair 2002: 43-44).

The Indian teacher and philosopher Chanakya (Kautilya, 375 BC) summarise his political thoughts on a variety of topics in his book *Arthashastra*. Translated it means “the science of material gains”. On the topic of leadership, he wrote that the leader must strive for goodness, not to please himself but to please his subjects. He refers to the king as a paid servant who enjoys the resources of the kingdom with his subjects. This is described by many scholars is aligned with Lao Tzu's *Tao Tê Ching* and is a combination of Confucianism and legalism. (Ally 2013: 5).

The leadership style of the father of Buddhism, Siddhārtha Gautama Buddha (563/480 – c.

483/400 BC), according to Wallace (2007: 123), can be described as servant leadership in action as his main aim in life was not to be a leader but to help people in his society. He put the needs of his followers first. Siddhartha was focused on the act of empathy for his followers. The main concept of Buddhism is to serve others in order to achieve the goal of enlightenment. This shows similarities with the idea that servant leaders act to serve others (Kriger & Seng 2005: 783). Buddhism's values can also be aligned with Patterson's (2003) virtue approach, in which the leader acts in a virtuous manner for the follower to follow. In contradiction to Patterson, Wallace argues that there are significant contradictions in Buddhism to servant leadership but does not rule out the practice of this leadership style through this worldview (Wallace 2007: 127).

It is important to note that according to Alam (2018: 37), Hermann Hesse wrote a fictional book *Siddhārtha* in 1922, ten years before *Journey to the East* (1932), which is acknowledged as an influence on the father of modern servant leadership, Robert Greenleaf. The philosophical fictional book refers to the guiding principles of Buddhism and influenced the later work that led to Greenleaf's exploration of the concept of servant leadership. According to Wallace (2007: 123) this indicates that "values flow from a philosophic position or worldview. When only values are considered, each religion reveals some level of agreement with servant leadership."

### **3.1.3 Western classical philosophical origins of servant leadership**

Valeri (2007 :8) maintains that servant leadership's origins can be found in ancient Greek and Roman civilisation 2500 years ago. He acknowledges the following political philosophers who wrote about leadership, referring specifically to the leader serving the needs of his followers.

Socrates (470-399 BC) is credited as the first Western philosopher to refer to morality and ethical leadership, while his students Xenophon and Plato through their writings showed that they understood servant leadership. Xenophon (431 BC – 354BC), in *Anabasis*, refers to leaders being elected through a democratic process to plan and work for their followers. Xenophon states that a leader's actions must be focused on the interests of his followers and that his purpose is to serve his followers. He also describes how to lead by example, referring to the role of ethics (Valeri 2007: 17). In terms of Plato (428-347 BC), an early version of the concept of servant leadership is described in *The Republic*. Plato writes that the philosopher kings' main aim was to ensure the welfare of their followers (Valeri 2007:

17).

Aristotle (384-322 BC), a student of Plato, is known as the father of modern philosophy. Aristotle is credited by Patterson (2003) to be the first philosopher to create a methodical approach to virtues and their association with each other. Arjoon (2000: 161), in the article "Virtue theory as a dynamic theory of business" references Aristotle's Nicomachean Ethics as the origin of virtue theory.

Cicero (106-43BC), in his book *De Officiis*, testifies to his comprehension of the aspect of leadership that entails altruistic service and responsible trusteeship, or governance. He refers to Plato when stating that those who govern must always protect their followers' interest, ensuring that they strike a balance and serve all the stakeholders and society and not only the interests of a few. The administration of government must be conducted for the benefit of society and not for the benefit of the administrators (Fuller 2000: 29).

Plutarch (46-120 AD), an authority on leadership, wrote a concise analysis of the lives of 46 leaders of ancient Greece and Rome in his series of biographies. He focused on their strengths, weaknesses and character and is credited with coining the phrase "character is destiny", stating that their moral character determined their success as leaders and not their status in society (Valeri 2007: 20).

Sendjaya and Sarros (2002: 59) write that one notable leader of this period is Christianity's Jesus of Nazareth (4 BC-AD33). These authors consider him to be the creator and ideal personification of a servant leader and refer to the concrete ways of teaching servant leadership such as washing his disciples' feet (Sendjaya & Sarros 2002: 59).

Winston (2011: 27) refers to Jesus' Sermon on the Mount in his article "The Beatitudes as leadership virtues" and views this as a summary of his teaching of virtues. Winston argues that the seven beatitudes in the Book of Matthew in the Bible (Matthew 5) are similar to Aristotle's definition of a virtue. The virtues are poor in spirit (attitude of humility), concerned for others in being caring and empathetic, controlled discipline in ensuring agreement and that rules are implemented and upheld, seeking what is right, displaying emotional intelligence in the act of deciding between right and wrong, being merciful by forgiving others their trespasses, being pure in heart and instinct that cannot be taught, being the maker of peace through uniting people rather than creating division (Winston 2011: 27).

Kilroy et al. (2013: 7), in the article “Seven scales to measure the seven Beatitudes in leaders”, refer to the original research done by Winston (2002) to demonstrate through Cronbach alpha reliability coefficients that there are positive correlations for all scales with servant leadership, thus providing evidence of a correlation between Jesus of Nazareth’s moral teachings and modern servant leadership.

### **3.1.4 Leadership during the Middle Ages, Renaissance and Early Modern world**

It is important to acknowledge that during the Middle Ages, the Islamic culture transcended the Western culture through the leadership of Sultan Saladin (1137-1193) of Egypt and Syria when he and his Saracens entered Jerusalem during the crusades showing clemency to the inhabitants of Jerusalem after they tortured his followers (Reston 2001: 85, cited in Valeri 2007: 21).

The first notable philosopher and theologian from this period writing about leadership is Saint Thomas Aquinas (1225-1274). He reintroduced Aristotle’s teachings and integrated these with Christian doctrine in order to validate the old world’s trust in the virtue of man. This trust is part of the foundation of servant leadership (Valeri 2007: 21).

Political theorist Christine de Pizan (1364-1430), in *Book of Three Virtues*, convey the importance of being humble and benevolent and how noble women of this period can exercise substantial civic influence (Valeri 2007: 21). It is important to note that De Pizan was an outsider as a female political writer striving to educate the ruling classes on leadership, and how to rule themselves and their followers (Forhan 2017: 9).

Niccoló Machiavelli (1469-1527), often credited as the father of modern political philosophy and political science, in his lesser-known work *Discourse on Livy* (1517) emphasises the traits a just leader should possess. Researchers view Machiavelli as an absolute realist who understood the influence of power on men and posed the question of whether humanity, if not completely principled and righteous, will be able to exercise servant leadership (Valeri 2007: 21-22).

Thomas Hobbes (1588-1679), the English political philosopher, shared Machiavelli’s view of leadership. Hobbes wrote that his understanding of human nature and its morality forestall the possibility of servant leadership as it requires freedom and autonomy. This is one of the

possible reasons that the 16th century is referred to by historians as the start of the age of dissent (Valeri 2007: 23). The German-American philosopher Hannah Arendt, in her book *The origins of totalitarianism*, refers to Hobbes as a “philosophical scoundrel who promoted a philosophy of war as his social theory maintaining that individuals are driven to amass power to advantage only themselves through using and abusing the trust of the masses to achieve their own selfish goals without any interconnection or solidarity with humanity” (Arendt 1951, cited by Simon 2019: n.p.).

### **3.1.5 Quakerism, the Enlightenment period and 19<sup>th</sup> century developments**

The printing of the Gutenberg Bible in 1455 had a significant impact on philosophical thinking and encouraged society to become more literate. It also led to growth in scepticism towards religion and politics, with a growing interest in rational inquiry. This resulted in a group of people in the Netherlands and England becoming so-called “Seekers”. It was through their leader George Fox (1624-1691) that Quakerism came into existence.

This religion would later form the spiritual basis for Greenleaf which would influence his development of servant leadership. Greenleaf joined the Religious Society of Friends (the Quakers) in 1935. Boyum (2006: 2) writes that this philosophical and religious commitment is clear throughout his body of work and at the Greenleaf Centre catalogue. The writings of a prominent Quaker and early abolitionist of slavery in America, John Woolman (1720-1772), was an important influence on Greenleaf, who considered Woolman’s work as a personification of servant leadership (Valeri 2007: 25).

The enlightenment period produced gifted political philosophers that remain unparalleled to this day (Berlin 2013: 8). Valeri (2007) asserts the thinkers of this era reasoned on the values of rationality, progress, happiness, liberty and equality of opportunity. In opposition to Hobbes’ rather cynical view of humanity stands the English philosopher and father of liberalism, John Locke (1632-1704). Locke is credited with the principle that the people dictate societal and political rights. Valeri (2007) argues that Locke understood that the government should serve the people, which supports the notion of servant leadership.

David Hume (1711-1776), a Scottish enlightenment philosopher through his writings *A treatise on human nature* (1740) and *Essays: Moral and Political* (1741), shared his vision for a constitutional and statutory government where there is space for a monarchy with an active civil society where governance takes place in harmony through a pact based on

consent of the followers (Wren 2004: 214, cited by Valeri 2007: 27).

Another Enlightenment thinker who shared this sentiment was the French philosopher Denis Diderot (1713-1784), who concluded that “the good of the people must be the great good of the government. Bylaws of nature and of reason, the governors are invested with power to the end. And the greatest good of the people is liberty. It is to the state what health is to the individual” (Bazun 2000: 373, cited by Valeri 2007: 28).

Political philosophers in the late 16<sup>th</sup> century to early 18<sup>th</sup> century all focused on the importance of leaders who exercise moral and ethical leadership to gain their followers’ respect to be able to govern effectively. Important contributions were made by Charles-Louis Montesquieu (1689-1755), a French judge, political philosopher and the father of the theory of the separation of powers; Jean Jacques Rousseau (1712-1788), Genevan philosopher whose ideas were popular among the Jacobin Club during the French revolution; Adam Smith (1723-1790), the Scottish moral philosopher; American founding fathers John Adams (1735-1826), Benjamin Franklin (1705-1790), Thomas Jefferson (1743-1826) and Thomas Paine (1737-1798) whose philosophy on liberty helped create the American Declaration of Independence (Valeri 2007: 28-32).

19<sup>th</sup> century American essayist and philosopher Henry David Thoreau (1817-1862) came to the conclusion that “the individual is a higher and independent power from which all it’s (the state’s) own power is derived”. Thoreau argued that the citizen can be both the leader and the follower, which culminated in his book on civil disobedience which placed power in the hands of the citizens to resist actions of an unjust state (Thoreau 1993: viii).

According to Ronald Dworkin, who analysed Thoreau’s concept, there are three types of civil disobedience, namely:

- Integrity-based civil disobedience, which occurs when a citizen contravenes or defies an unjust law which is unethical.
- Justice-based civil disobedience, which occurs when a citizen contravenes or defies a law that denies their basic human rights.
- Policy-based civil disobedience, which occurs when a citizen breaks the law to change an unjust law. An example in this regard is the Pass Law campaigns in the 1950s and 1960s in South Africa (Dworkin 1970: n.p.). In South Africa before 1994 civil society used this to great effect, starting with the civil disobedience campaign

called the “Satyagraha” (truth and firmness) led by Mahatma Gandhi in 1906 to highlight the plight of the civil rights of the Indian immigrants (Power 1969: 144).

Georg Hegel (1770-1831) continued with his writings to contribute to the advancement of the servant leadership idea when he referred to the idea of voluntary servitude and subordination (Wren, cited by Valeri 2007: 36).

Ralph Waldo Emerson (1803-1882), an American philosopher who studied Xenophon and Plutarch, wrote various essays on the topic of leadership. His most important, “Character” (1844) affirms that character is the moral order seen through the medium of an individual nature. (Emerson 1983: 498, cited by Valeri 2007: 37).

The British philosopher and political economist John Stuart Mill’s (1806-1873) idea of liberty focused on the freedom of the individual and the importance of the role of active participative followers in whose interest and benefit chosen representatives must govern well.

The preceding overview of centuries of thinking on governance and leadership points to a body of work that focuses on a just and moral theory based on virtues where followers of leaders who aspire to become servants of the people are envisioned to be more positive, ethical, productive and liberated as a result of a servant leader’s leadership. (Valeri 2007: 39)

However, it is also important to note that some of the philosophers emphasised that not all humans possess the qualities to become servant leaders (Adair 2002: 74). In fact, Valeri (2007) points to Thomas Hobbes’ view that humanity by its very nature is unable to act as servant leaders.

### **3.1.6 Ubuntu and servant leadership**

Given the context of African governance of this study, is it important to discuss the struggle between Western ideas of leadership and the African philosophy of Ubuntu (“Umuntu ngumuntu ngabantu”, meaning “a person is a person through other persons”) that naturally resonates with servant leadership.

The earliest reference to the word Ubuntu in literature is found in 1846. According to Gade (2011), in his article “The historical development of the written discourse on Ubuntu”, this

was in a publication by Hare et al. titled *I-Testamente entsha yenkosi yetu Ka-Yesu Kristu* (translated as the New testament of our Lord Jesus Christ) from a missionary group calling themselves the Ambassadors. This was followed by reference to the word in 1859 in *The Isizulu: A grammar of the Zulu language* by Grout.

Gade refers to Ubuntu from an analysis of literature before 1950 as a human quality and later more comprehensively as “African humanism, an ethic, philosophy and worldview” (Gade 2011: 303). Gade refers to his literature review of the word and lists the following findings:

- “Human nature” (Appleyard 1850: 106; Perrin 1855: 120; Colenso 1855: 7; Colenso 1861: 354; Roberts 1880: 107; Grout 1893: 290; Roberts 1895: 133; McLaren 1955: 25; Bryant 1963: 232; Callaway 1969: 22)
- “Humanity” (Callaway 1926: 395; Wilson 1936: 555; Doke 1945: 60; Walker 1948: 220; Van Sembeek 1955: 42; McLaren 1955: 25; Malcolm 1960: 163; Doke et al. 1967: 54; Rodegem 1967: 129; Callaway 1969: 22; Thompson 1969: 129; Epstein 1967: 379; Pauw 1973: 89; Thompson & Butler 1975: 158 & 160; Clarke & Ngobese 1975: 34; Livingston 1979: 128).
- “Humanness” (Egenbrecht 1962: 22; De Vries 1966: 121; Thompson & Butler 1975: 158; Samkange 1975: 96; Lissner 1976: 92; Ziervogel et al. 1976: 58; Krige et al. 1978: 152; Du Plessis 1978: 48; Biko 1979: 214).

Gade (2011: 307-308) analysed the characteristics of Ubuntu through a thorough literature review that aligns almost completely with the characteristics of servant leadership as listed in most of the writings on the topic of servant leadership (see table 3.1). These include “goodness of nature” (Colenso 1861: 354), “good moral disposition” (Colenso 1861: 354), “virtue” (McLaren 1918: 332), “the sense of common humanity” (Barnes 1935: 46), “true humanity” (Callaway et al. 1945: 11), “true good fellowship and sympathy in joy and in sorrow” (Callaway et al. 1945: 11), “reverence for human nature” (Callaway et al. 1945: 29), “essential humanity” (Shepherd & Paver 1947: 41), “the kindly simple feeling for persons as persons” (Brookes 1953: 20), “liberality” (Kagame 1956: 53), “a person’s own human nature” (Read 1959: 149; Read 1968: 80), “generosity” (Kimenyi 1979: 75), “human feeling” (Jabavu 1960: 4), “humaneness” (Prideaux 1925: 269; Vilakazi 1962: 60; Nyembezi 1963: 47; Nyembezi 1970: 16), “good disposition” (Nyembezi 1963: 47), “good moral nature” (Nyembezi 1963: 47), “personhood” (Reader 1966: 175), “politeness” (Rodegem 1967: 129), “kindness” (Rodegem 1967: 129; Callaway 1969: 22), “real humanity” (Sabra Study Group

of Fort Hare 1971: 121), “human kindness” (Jordan 1973: 228), “the characteristic of being truly human” (Pauw 1975: 117), “greatness of soul” (Thompson & Butler 1975: 213), “a feeling of human wellbeing” (Clarke & Ngobese 1975: 61) and “capacity of social self-sacrifice on behalf of others” (Hetherington 1978: 68). Gade’s research provides a link between the traits of servant leadership and the philosophy of Ubuntu and assists in aligning this with an Africa-centred leadership and governance approach.

Apart from Gade’s (2011) work there are other researchers in an African and South African context that wrote on the intersection of servant leadership and Ubuntu. Nelson (2003) highlights the perspective of an African leadership stance. Nelson (2003: 4), in an exploratory study on the acceptance and application of servant leadership amongst black leaders in South Africa, found that there is an acceptance but not necessarily a practice of servant leadership. Nelson notes that the black South African leaders who participated in the qualitative research he undertook, stated that adopting or following a servant leadership style is challenging among black leaders in the current organisational environment in South Africa (Nelson 2003: 92).

In the article “Exploring Ubuntu and the African renaissance” Creff (2004) also explores the concept of servant leadership from an African perspective. The study focused on interviews with prominent South African leaders to gain insight into the African concept of Ubuntu and leadership. Creff (2004: 4) suggests that the principles of Ubuntu provide a platform to connect this African philosophy and servant leadership to support institutional and organisational interventions and to support future partnerships and investment in the continent. Creff (2004:4) concludes that most leaders revert to an oppressive leadership style, ensuring that subordinates understand their place. The assumption is that servant leadership might be considered a weakness by followers. A self-serving leadership approach seeking power and gain would further complicate the adoption of servant leadership as a leadership model in South African conditions.

Winston and Bekker’s (2004: 7) article “Similarities between Ubuntu and servant leadership: Building a platform for servant leadership in South Africa” highlights the similarity of values and characteristics identified by Patterson’s (2003:3) model and Ubuntu. The research explores the values and characteristics from the follower rather than the organisational perspective, focusing on the followers practicing humility, altruism, trust, empowerment and commitment to the leader and the organisation. The extent and importance attributed to

values shared by Ubuntu and servant leadership are significant.

The challenge Winston and Bekker (2004: 7) identified as per Nelson's (2003: 4) study was that although the leaders identified with the connection between Ubuntu and servant leadership as described in Patterson's servant leadership model (2003), the respondents were repudiating the application in the South African management environment, naming the following factors: low organisational trust, need for better leadership capacity and empowerment of managers, and the semantic barrier of the word "servant". They conclude that the preferred leadership style in South Africa at the time of the study (2000-2003) was a dictatorial paternalistic leadership style relying on command and control actions (Winston & Bekker 2004: 7).

Spears (2004) writes that servant leadership as a leadership theory is gaining international credibility. In the South African context, many researchers delved into this phenomenon. Dannhauser and Boshoff (2006), in the article "Structural equivalence of the Barbuto and Wheeler (2006) Servant Leadership Questionnaire on North American and South African samples", found that understanding of the idea of servant leadership was well-entrenched in South African culture. The study used the Servant Leadership Questionnaire (SLQ) developed by Barbuto and Wheeler (2006) and applied it to 417 salespersons from 100 dealerships operated by an automobile retailer in South Africa. For the purpose of the current study it is important to note that the findings regarding the understanding of servant leadership in South African context applies to a sample group outside the scope of civil society organisations.

Mumley (2007:1) found that acceptance and adoption of the servant leadership theory was popular with management leaders in South Africa because of the correlation between this theory and the traditional South African practice of Ubuntu.

Similarly, Metz (2011), in the article "Ubuntu as a moral theory and human rights in South Africa" found that this African philosophy's ethical and moral principles have been applied in certain South African governance policies and practices, for example in politics such as the Constitution, with specific reference to an African Renaissance; in business through community building, collective learning and in the establishment of rural community cooperatives; in corporate governance through the King IV Code by providing a comprehensive framework to ensure a fair and accountable society through public and

private institutions and organisations; and in restorative justice by seeking justice through the Truth and Reconciliation Commission (Metz 2011: 532- 559).

In the article “Practising Ubuntu and leadership for good governance” Nzimakwe (2014) argues that the Ubuntu principles as a leadership philosophy can advance leadership and good governance in any type of organisation. In reference specifically to governance challenges recently, Nzimakwe (2014: 38) states that because the Ubuntu philosophy focuses on morality and the character and behaviour of a person it can counteract the manner of behaviour that is prevalent today and improve service delivery and as a result return to principles of “Batho Pele” (translated as “people first”) and good governance.

Significant research in the broader African context was done by Hale and Fields (2007) in the study “Exploring servant leadership across cultures: A study of followers in Ghana and the USA”. This study analysed servant leadership by comparing the two regional contexts and found that Ghanaians experienced servant leadership behaviour less than the North Americans (Hale & Fields 2007: 397).

Koshal (2005) explored Patterson’s servant leadership theory within the Kenyan leadership and organisational setting. The study concluded that the Patterson model was easy to implement in different organisations and NGOs (Koshal 2005: 1).

Brubaker (2013: 116) investigated the application of servant leadership theory and Ubuntu leadership in the post-genocide Rwandan non-governmental sector. The study compared the relationship between servant leadership actions with Ubuntu-related leadership actions in correlation to organisational effectiveness (Brubaker 2013: 116).

Ubuntu provides an important framework within which to understand the African philosophy on ethics, leadership and governance (Metz 2011: 559). South African President Ramaphosa evoked the spirit of servant leadership in his 16 February 2018 State of the Nation Address by quoting the lyrics of the Hugh Masekela song “Thuma Mina” (meaning “send me”) and highlighting the theme of self-sacrifice, a cornerstone of the servant leadership theory. This is a continuing theme repeated in several significant speeches by Ramaphosa (Maluleke 2018: n.p.).

### 3.1.7 20th century lead-up to the development of servant leadership

At the beginning of the 20th century, specifically after the two world wars, democracy was the main world ideology and it brought about a different idea, moral standards and leadership theories. In 1939 academics Kurt Lewin, Ronald Lippert and Ralph White developed the benchmark theory on autocratic, democratic and laissez faire leadership with reference to Aristotelian concepts. This was the beginning of the study of leadership styles (Billig 2015: 9).

In 1954 Abraham Maslow published his book *Motivation and Personality* in which he discussed the hierarchy of needs, an important framework in leadership and management training. Greenleaf, in reference to Maslow’s theory, agreed that people are unable to serve if their basic needs are not met. Greenleaf in his later work would focus on the duty of the servant leader in the act of serving his followers to include motivation and meeting their basic needs so they are able to grow and move up the levels of the hierarchy (Hayden 2011: 16).

Other relevant research was done by Ralph Stogdill in his writing on trait theory and leadership behaviour (1948), which made it easier to understand leadership as an extension of personality and ability related to traits. This paved the way for James MacGregor Burns (1918 – 2014), a political scientist and authority on leadership studies, who wrote on leadership by analysing leadership styles of major political leaders such as Lenin, Hitler, Roosevelt and Gandhi. Burns concluded in his analysis of transforming leadership that it is vital to increase the level of moral and ethical behaviour from both leaders and followers (Forester et al. 1978: 19-20, cited by Valeri 2007: 44). Before moving on to a detailed discussion of Greenleaf’s servant leadership theory, table 3.1 provides a comparison of the primary traits of servant leadership with Aristotle’s virtues, the Beatitudes and Ubuntu’s primary characteristics in order to illustrate the similarities.

**TABLE 3.1 COMPARISON BETWEEN ARISTOTLE’S VIRTUES, THE BEATITUDES, UBUNTU’S PRIMARY CHARACTERISTICS AND SERVANT LEADERSHIP**

ARISTOTLE’S VIRTUES (Hutchison 2015, cited by Broadie 2015: 396-398)	THE BEATITUDES (Winston 2011: 27)	UBUNTU Gade (2011: 307-308)	SERVANT LEADERSHIP (Focht & Pontoon 2015)
Intellectual contemplation		Greatness of soul	Learning and collaboration
Courage - bravery and valour	Pure in heart	The characteristic of being truly human	Service
Temperance – self-control and restraint	Controlled discipline	Reverence for human nature	Listening

Liberality – big-heartedness, charity and generosity	Peacemaker	Liberality and generosity	Agape love/unconditional love
Magnificence – radiance, joie de vivre		A feeling of human wellbeing and essential humanity	
Properly ambitious and proud – self-satisfaction for others		Virtue, a person's own human nature and personhood	Empowering
Honour – modest, respect, reverence, admiration	Poor in spirit (Attitude of humility)	Reverence for human nature and human kindness	Humility
Good temper – witty, friendly, equanimity, level-headedness	Merciful	The goodness of nature and good disposition	Caring
Truthful	Seeking what is right	Good moral disposition and good moral nature	Integrity and trust
Righteously indignant (pained by others' undeserved good fortune)	Concerned for others	Capacity of social self-sacrifice on behalf of others, true good fellowship and sympathy in joy and sorrow and the kindly simple feeling for persons as persons	Serving others' needs before their own and valuing people

### 3.2 SERVANT LEADERSHIP THEORY

#### 3.2.1 Robert Greenleaf and the concept of servant leadership

As mentioned before, Robert Greenleaf (1904–1990) is the founder of the modern servant leadership approach. He first introduced the term servant leader in a document he authored and circulated to colleagues in 1966 (Boyum 2006: 3). Greenleaf credited author Herman Hesse's book *Journey to the East* (1956) as the origin of his idea of the servant leader. He proposed, "The great leader is seen as servant first, and that simple fact is the key to his greatness" (Greenleaf 1970: 21).

In Hesse's story, the narrator goes on a pilgrimage. He is fascinated by Leo, a servant who takes care of the group. As the story continues the group moves in different directions. Many years later the narrator contacts the group again to find that Leo was, in fact, the leader of the group (Smith 2005: n.p.). Greenleaf initially only printed 200 copies of his essay which he personally handed out to friends and business leaders. The response encouraged him to reorder printing for the essay. According to Smith (2005: n.p.), by 2005 more than 500 000 copies were distributed worldwide in different languages. Greenleaf had a prolific publishing career, but this 35-page essay remains his most authoritative work.

It is important to emphasize that Greenleaf's concept of servant leadership is based on the notion that servant leadership has several religious origins. Apart from philosophers and authors mentioned earlier in this chapter, Greenleaf also acknowledged the influences of

Albert Camus, Ralph Waldo Emerson and Paulo Freire. In acknowledging Camus' influence, Greenleaf wrote that each person must confront the specific terms of their existence. This is in reference to the philosophical essay by Camus on the mythical character Sisyphus, who must force a boulder up a hill for all eternity (Valeri 2007: 48).

Most leadership theorists agree that Greenleaf was responsible for popularising the concept of servant leadership over the last five decades in the field of leadership and management (Koshal 2005: n.p.).

The concept of a servant leader was described by Greenleaf in 1970 in his seminal essay "The servant as the leader". This concept was later expanded in other major writings which include:

- *Servant leadership* (1977)
- *Servant, leader and follower* (1978)
- *Teacher as servant: A parable* (1979)

Posthumously the following writings in collaboration with the Robert K. Greenleaf Centre for Servant Leadership were published ([www.greenleaf.org](http://www.greenleaf.org)):

- *Seeker and servant* (1996)
- *On becoming a servant leader: The private writings of Robert K. Greenleaf* (1996)
- *The power of servant leadership* (1998)
- *Negotiating across cultures* (2000)
- *Servant leadership: A journey into the nature of legitimate power and greatness* (2002)
- *The servant leader within a transformative path* (2003)
- *Creating and changing mind sets: Movies of the mind: Strategies for long-term impact upon change and acts of achievement, motivation and relationship* (2005)
- *Servant: Retrospect and prospect* (2013)

Greenleaf found the nature, use or abuse of power interesting (Frick 2004: 158). Other publications that expand on his vision of servant leadership as an individual leadership concept that evolved into a leadership theory and the into an organisational leadership model include *The institution as the servant* (1972) and *Trustees as servants* (1974).

Northhouse (2013: 220) writes that Greenleaf was interested in how institutions functioned,

intrigued by issues of power and authority and how society could be better served by leadership. In 1964 he established the Centre for Advanced Ethics which become the Greenleaf Centre for Servant Leadership after his death in 1990. However, Northhouse contends that servant leadership is an idealistic view of leadership and observes that it lacks theoretical depth (Northhouse 2013: 249).

Greenleaf (1970:15) believes the best test for servant leadership is if the followers of a servant leader grow and as a result become healthier, wiser, freer and more autonomous. He also investigates the effect on the least privileged in society and how they benefit as a result of servant leadership. Greenleaf confirmed that in becoming a servant leader, the leader uses less power vested in the institution while moving more authority to the followers. This creates the opportunity for the followers to encounter interconnection, affiliation, dignity, appreciation, trust and individual growth. Greenleaf (1977: 13, cited in Focht & Ponton 2015: 47) writes that servant leadership is the “only form of leadership that place service before the leadership and that the servant leader must first meet the criteria of a servant before they can meet the criteria as a servant leader”.

**FIGURE 3.1 GREENLEAF’S BEST-TEST OUTCOMES MODEL**



Source: Hayden (2011: 16)

Larry Spears, Director of the Greenleaf Centre for Servant Leadership from 1990 – 2007, has identified ten key characteristics of servant leadership from the writings of Greenleaf. According to Spears (1994: 2, cited by Laub 1999: 15) the servant leader:

- listens receptively to what others have to say;
- accept others and has empathy for them;
- has foresight and intuition;

- is aware and perceptive;
- has highly developed powers of persuasion;
- has an ability to conceptualise and to communicate concepts;
- has an ability to exert a healing influence upon individuals and institutions;
- builds community in the workplace;
- practices the art of contemplation; and
- recognises that servant leadership begins with the desire to change oneself. Once that process has begun, it then becomes possible to practice servant leadership at an institutional level.

### 3.2.2 Servant leadership as a leadership theory

The main challenge with servant leadership as a concept is that there is no conclusive definition of what it is. In fact, servant leadership is better defined by its main traits or by describing what it is not. Greenleaf (1977: 13) provided the definition most often used, namely that “servant leadership begins with the natural feeling that one wants to serve first. Then the conscious choice brings one to aspire to lead.”

In 1991 J.W Graham was the first to publish an attempt to define servant leadership more clearly by identifying its most important characteristics. This was followed by Du Pree in 1992, who listed 12 characteristics of servant leadership focusing on the “position of servanthood” (Du Pree 1992: 220). In 1999 Laub pointed out that there was still no conclusive definition of or academic framework for servant leadership. Laub (1999: 2) then listed a summary of servant leadership characteristics using the initial clustering of traits and their authors by using the Delphi research method. Laub’s list is presented in table 3.2.

**TABLE 3.2 LAUB’S (1999) SERVANT LEADERSHIP CHARACTERISTICS**

TRAIT	AUTHORS
Listening	Greenleaf (1977); Spears (1994); DuPree (1989, 1992, 1997); Kiechel (1992); Hawkins (1990); Holden (1988); Lee (1993); Tice (1994); Blanchard (1995); Campbell (1997); Walker (1997)
People first; a high view of people; values people; acceptance and empathy with people; affirms others; believes in people; respects people; skilled in relationships; encourages; develops people	Greenleaf (1977), Spears (1994), DePree (1989,1992,1997), Millard (1994,1995), Kiechel (1992), Jahner (1993), Kezar (1996), West (1996), Hawkins (1990), Hagstrom D. (1992), Holden (1988), Lee & Zemke (1993), Covey (1994), Blanchard (1995), Senge (1997), Melrose K. (1996), Hansel T. (1987), Zinkler L.C. (1990)
Intuition/foresight; vision; sees the future	Greenleaf (1977); Spears (1994); DuPree (1989, 1992, 1997); Sims (1997); Kouzes and Posner (1993, 1995); Kezar (1996); Schwartz (1991); Lee and Zemke (1993); Covey (1994); Blanchard (1995); Zinkler (1990); Walker

	(1997); Green (1996)
Awareness/perception; lifelong learner; asks questions; creates a learning environment/experiences; learns from others	Greenleaf (1977); Spears (1994); DuPree (1989, 1992, 1997); Sims (1997); Kouzes and Posner (1993, 1995); Covey (1994); Sarkus (1996); Hagstrom (1992); Tice (1994); Campbell (1997); Melrose (1996); Walker (1997)
Uses persuasion vs coercion	Greenleaf (1977); Spears (1994); Sims (1997); Walker (1997)
Healing	Greenleaf (1977); Spears (1994); DuPree (1989, 1992, 1997); Sarkus (1996); Millard (1994, 1995); Kiechel (1992)
Love/unlimited liability; compassion	Greenleaf (1977); DuPree (1989, 1992, 1997); Millard (1994, 1995); Sims (1997); Kouzes and Posner (1993, 1995); Spears (1994); Kezar (1996); Larkin (1995)
Ethical use of power and authority; not coercive; shared power; release control; does not rely on positional authority; empowers others; enables people; shared decision-making; shared leadership	Greenleaf (1977); DuPree (1989, 1992, 1997); Sims (1997); Kouzes and Posner (1993, 1995); Spears (1994); Sarkus (1996); Hatcher (1997); Santos (1997); Jahner (1993); Kezar (1996); Hagstrom (1992); Schwartz (1991); Lee & Zemke (1993); Covey (1994); Senge (1997); Campbell (1997); Melrose (1996); Stott (1986); Ward (1996); Nouwen (1996); Walker (1997); Larkin (1995)
Self-reflective; looks within first; spiritual journey; contemplative	Greenleaf (1977); Spears (1994); Sarkus (1996); Hatcher (1997)
Builds community; team; collaborative; inclusive partnership; "we" vs "I"; work with vs apart from	Greenleaf (1977); Spears (1994); DuPree (1989, 1992, 1997); Covey (1994); Sims (1997); Kouzes and Posner (1993, 1995); Sarkus (1996); Hatcher (1997); Millard (1994, 1995); Jahner (1993); Kezar (1996); Holden (1988); Schwartz (1991); Tice (1994); Campbell (1997); Walker (1997)
Laughter/humour	Greenleaf (1977); DuPree (1989, 1992, 1997); Spears (1994)
Risk-taking	Greenleaf (1977); DuPree (1989, 1992, 1997); Kouzes and Posner (1993, 1995); Spears (1994); Walker (1997)
Models behaviours; leads by example	Millard (1994, 1995); DuPree (1989, 1992, 1997); Sims (1997); Kouzes and Posner (1993, 1995); Hatcher (1997); Kezar (1996); Zinkler (1990); Walker (1997)
Develops familiarity; open to being known; open, honest, transparent; vulnerable; integrity; admits limitations/mistakes; authentic; accountable; denies self; unpretentious; not focused on own image; open to criticism/challenge; humble; credible; open communication	Millard (1994, 1995); DuPree (1989, 1992, 1997); Sims (1997); Kouzes and Posner (1993, 1995); Spears (1994); Hatcher (1997); Kezar (1996); West (1996); Holden (1988); Covey (1994); Ward (1996); Nouwen (1996); Walker (1997); Larkin (1995)
Encourages individuality; diversity; inclusive	Millard (1994, 1995); DuPree (1989, 1992, 1997); Hansel (1987)
Builds a trusted environment; trusts other	DuPree (1989, 1992, 1997); Kouzes and Posner (1993, 1995); Spears (1994); Hatcher (1997); Holden (1988); Lee and Zemke (1993); Melrose (1996); Ward (1996)
Ethical; moral	DuPree (1989, 1992, 1997); Sarkus (1996); Hatcher (1997); Walker (1997)
Initiates action; moves out ahead; action-oriented	DuPree (1989, 1992, 1997); Sims (1997); Kouzes and Posner (1993, 1995); Spears (1994)
Hospitality	Jahner (1993); Larkin (1995)
Facilitating	Hagstrom (1992); Blanchard (1995); Green (1996)

Source: Laub (1999)

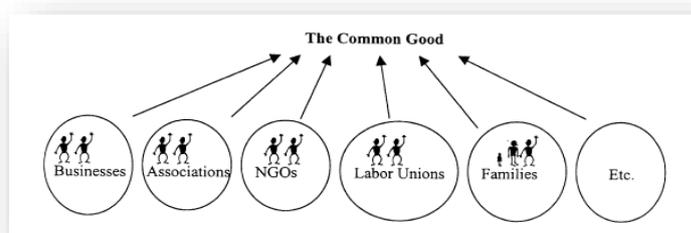
Farling, Stone and Winston (1999) concur with Laub that Greenleaf construed the servant leadership concept in indefinite terms and more based on construed logic, while Sendjaya

and Sarros (2002: 57) maintain that limited research information exists to support the academic understanding of servant leadership. Russell and Stone (2002: 153) write that one of the challenges of servant leadership theory, as highlighted by most researchers since Graham's (1991) study, is that servant leadership theory, although somewhat undefined can be considered a valid model for a modern organisational leadership approach.

Key research in servant leadership as a theory was done by Patterson (2003: 7), who concludes that servant leadership is a viable theory. However, it could also be considered a plausible extension of transformational leadership theory. Patterson refines the framework of servant leadership and defines servant leaders as "those leaders who lead an organization by focusing on their followers, such that the followers are the primary concern and the organizational concerns are peripheral" (Patterson 2003: 5). He poses the question of what exactly servant leadership theory is and continues to explain it by referring to virtuous theory and addressing the need "to do the right thing in a particular situation". As discussed in chapter 2, virtue theory focuses on moral character. It is the oldest Western philosophical tradition, tracing back its origins to Aristotle's original cardinal virtues, namely prudence (practical wisdom), temperance (self-control); courage (referring to morality in exercising courage) and justice (with a focus on what is good for the community) (Arjoon 2000).

Patterson (2003), referring to Arjoon (2000: 164-167), maintains that virtue theory is valuable to leadership as it focuses on the general wellbeing of the team rather than optimising profits. This link with what Arjoon refers to as the common good, as a concept that is difficult to define, which is best recognised when practiced or when not present. The common good is a unifying concept when discussing servant leadership in well-governed civil society organisations through a governance code with a stakeholder inclusive approach.

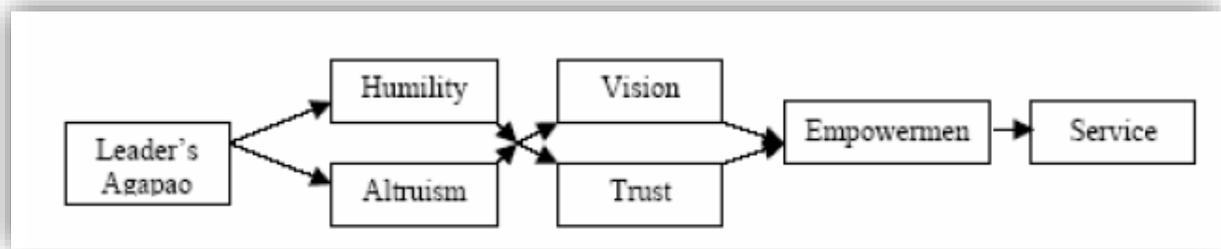
### FIGURE 3.2 COMMON GOOD IN SOCIETY AND CULTURE



Source: Arjoon (2000: 164)

Patterson (2003 :2) uses the seven virtuous constructs, namely *agapao* love, humility, altruism, vision, trust, empowerment and service working in a processional pattern, as seen in figure 3.3. The model details Patterson’s servant leadership constructs working together from *agapao* love to service.

**FIGURE 3.3 PATTERSON’S (2003) SEVEN VIRTUOUS CONSTRUCTS**



Source: Patterson (2003: 7)

According to Stone, Russell and Patterson (2003: 349) servant leadership defines itself in that it is about focus, specifically the focus of the leader on the followers or team members. This is also the key point on which servant leadership differs from transformational leadership. In the case of transformational leadership, the focus of the leader is on the organisation. Servant leadership distinguishes itself in the sense that it stands alone as a leadership model with a follower focus (Stone, Russell & Patterson 2003: 349).

Patterson, a thought leader in the field of servant leadership, writes that more research is required to understand fully the phenomenon of servant leadership. Patterson refers to work done by Winston (2003) that focuses on the follower’s viewpoint. Hale and Fields (2007: 398) also conducted research focuses on servant leaders who place their followers first and concluded that the development of the followers must take precedence over the leader’s self-interest.

Van Dierendonck (2011: 1229) writes that “despite its introduction four decades ago and empirical studies that started more than ten years ago there is still no consensus about a definition and theoretical framework of servant leadership”. According to Van Dierendonck (2011: 1231) in his “Servant leadership: A review and synthesis”, the most influential servant leadership models were developed by Spears (1995), Laub (1999), Russell and Stone (2002) and Patterson (2003). Additional features of servant leadership were identified by

Buchen in 1998, Farling et al. in 1999, Russell in 2000, Sendjaya in 2003, Barbuto and Wheeler in 2006 and Irving and Longbotham in 2007 (Focht & Ponton 2013: 46).

In the 2012 article “Systematic literature review of servant leadership theory in organisational contexts” Parris and Peachey (2012: 378) write that “over the years, some leadership scholars have called attention to the implicit connection between ethics and leadership. A burgeoning new research area and leadership theory that has been linked to ethics, virtues, and morality is servant leadership” (Graham 1991; Lanctot & Irving 2010; Parolini et al. 2009; Russell 2001; Whetstone 2002, cited by Parris & Peachey 2012: 378).

Parris and Peachey (2012) emphasize that servant leadership theory focuses on serving the followers of leaders, whether they are political, societal figureheads or as an organisational leader. An important organisational or institutional role is to develop people who can add value to the organisation and society with a future vision. They maintain that servant leadership is a developing management trend in both public and non-profit institutions, however there is still a lack of research in this field regarding the theoretical framework. The article does acknowledge research done on a theoretical framework by Russell and Stone (2002), Barbuto and Wheeler (2006) and Van Dierendonck (2011).

A comprehensive analytical literature review conducted by Parris and Peachey (2012) on servant leadership examined 39 studies to provide an evidence-based (empirical) explanation for how servant leadership works. These authors also report that servant leadership is being studied in many contexts and cultures and that servant leadership is a legitimate theory that can help followers develop, with results suggesting that characteristics of servant leadership vary in their importance depending upon the culture.

Parris and Peachey (2012) conclude their article by stating three important facts about the study, namely that the research was done by way of a systematic literature review, that empirical research on this theory is done in a variety of disciplines and that the information is used to build on existing theory, including the specific field they used for the study of servant leadership. The study confirms that servant leadership is acknowledged as a theory by scholars and that it is a feasible leadership theory which can provide an ethical leadership framework to give managerial guidance for facing 21<sup>st</sup> century challenges (Parris & Peachey 2012: 390).

Table 3.3 provides an overview Parris and Peachey’s literature review of research conducted on servant leadership, divided in terms of focus on characteristics, measurement and theoretical framework development.

**TABLE 3.3 SYSTEMATIC LITERATURE REVIEW ON SERVANT LEADERSHIP BY PARRIS AND PEACHEY (2013)**

CHARACTERISTICS	MEASUREMENT DEVELOPMENT	THEORETICAL FRAMEWORK DEVELOPMENT
Spears 1998 Laub 1999 Patterson 2003	Page & Wong 2000 Ehrhart 2004 Dennis & Bocarnea 2005 Barbuto & Wheeler 2006 Liden et al 2008	Russel & Stone 2002 Barbuto and Wheeler (2006) Van Dierendonck 2011

Source: Parris and Peachey (2013)

As a leadership theory, servant leadership focuses on the interaction between the leader and the followers rather than on the actions of the leader as with other leadership theories. Northhouse (2013: 219) writes that “servant leadership put followers first, empower them and help them develop their full personal capacities ... they are ethical and serve the greater good of the organisation, community and society at large” (Northhouse 2013: 219).

Researchers present competing definitions of servant leadership and propose several different behaviours and characteristics of leaders. Makuwira and Haines (2014: 152), researchers in the field of leadership theory, acknowledge the contribution Greenleaf made through what they describe as a leadership philosophy and the potential it presents for moral and ethical leadership in society. However, they also write that servant leadership as a theory needs more theoretical research and grounding to ensure that it is firmly based in principles, characteristics and practices within a theoretical framework (Makuwira & Haines 2014: 152).

The current state of servant leadership as a theory is best summarised by an article on the subject by Eva et al. (2019: 111). In the article “Servant leadership: systematic review and call for future research” the authors state that their research has demonstrated that the servant leadership field has made progress in the last 20 years, however, the field of servant leadership still has its critics. “There are still questions regarding the conceptual and empirical overlap between servant leadership and transformational, ethical and authentic leadership and there are criticisms about how much the existing research in this field can tell us, as it is restricted by its own limitations in research design” (Eva et al. 2019: 111).

### 3.2.3 Servant leadership within an organisation

Parris and Peachey (2021: 390) write that servant leadership researchers and management practitioners who are disillusioned by the view that societal, political and organisational leaders have become self-centred, greedy and egocentric should embrace servant leadership as a feasible leadership theory that can contribute to the sustainable leadership and governance challenges of the 21<sup>st</sup> century.

McGee-Cooper & Looper (2001, cited by Kosec 2013) in the article “The essentials of servant leadership: Principles in practice” are of the opinion that servant leadership offers several benefits for any organisation or institution. They argue that servant leadership is a leadership style that is beneficial to organisations as it awakes, engages and develops employees. Servant leaders achieve this by emphasising the goals of the organisation, its role in society and the separate roles of the employees. People are well-informed about the strategy & a culture is created with opportunities to learn, yet also to make mistakes. Decisions are made in a process of information gathering and taking time for reflection. Thus, employees feel safe to use their knowledge and are focused on continuous development and learning. Servant leaders focus maintaining strong interpersonal relationships within the organization (McGee-Cooper & Looper 2001, cited by Kosec 2013: 6).

Kosec (2013) highlights the benefits for organisations that embrace servant leadership as follows: benefits from employees’ institutional and experiential knowledge and employee ownership; creating a supportive team who work interdependently, focusing on a sustainable future by meeting all stakeholders’ needs, making positive progressive decisions for the greater good of the organisation and valuing an organisational culture of constructive debate in a respectful environment (Kosec 2013: 6-9). The impact of servant leadership is best illustrated through a comparison between the actions of a traditional power-based leader and a servant as a leader (see table as highlighted in table 3.4) (Kosec 2013: 5).

**TABLE 3.4 POWER-BASED LEADER VS SERVANT LEADER**

<b>POWER-BASED TRADITIONAL LEADER</b>	<b>SERVANT AS LEADER</b>
Begins with a personal drive to achieve the top position of power.	Begins with a desire to serve others from any place in the organisation.
Operates in a highly competitive manner; possesses an independent mind set; finds it important to receive personal credit for the achievement.	Operates in a highly collaborative and interdependent manner; knows that all can gain by working together to create win/win/win solutions; gives credit to others.
Uses personal power, fear and intimidation to get	Uses personal trust, respect and unconditional love to

what s/he wants.	build bridges and do what is best for the “whole”.
Focuses solely on fast action.	Focuses on gaining understanding, input and buy-in from all parties on essential issues. Understands that faster is often slower because people support what they help create.
Relies only on facts, logic and proof.	Uses intuition and foresight to balance facts, logic and proof.
Controls information in order to maintain power.	Shares big-picture information; coaches others by providing context and asking thoughtful questions to help them come to decisions by themselves.
Spends more time telling and giving orders than listening.	Listens deeply and respectfully to others, especially to those with dissenting views.
Derives a sense of confidence and personal worth from building his or her own talents and abilities.	Derives a sense of fulfilment from mentoring, coaching and growing collaboratively with others.
Sees supporters as a power base; uses perks and titles to signal to others who have power.	Develops trust across constituencies and sees the ability to facilitate interdependent solutions as a core value; breaks down needless barriers caused by the hierarchy.
Speaks first and believes that his or her ideas are the most important; often dominates the conversation and intimidates opponents.	Listens first; values others’ input; invites others into the conversation and can build strength through differences.
Understands internal politics and uses them for personal gain.	Is sensitive to what motivates others and balances what is best for the individual with what is best for the group.
Views accountability as assigning blame.	Views accountability as creating a safe environment for learning; ensures that lessons learned from mistakes are shared.
Uses negative humour (often put-downs and sarcasm) to control, ridicule or exclude others.	Uses inclusive humour to lift others and make it safe to learn from mistakes; is the first to let themselves become vulnerable.

Source: Kosec (2013)

Eva et al. 2019: 113 highlight the relation between ethical leadership and servant leadership and maintain that servant leadership focuses on incorporating stewardship as an essential part of effective leadership. The long-term sustainable focus is to include all stakeholders where ethical leadership has a more structured, prescriptive character to ensure ethical rules are followed. Servant leadership is flexible and less rigid with a focus on the follower and the organisational context (Eva et al. 2019: 113).

This is supported by Kgatle (2017: 40) in the article “An urgent style for the current political leadership in South Africa”, where the author comes to the conclusion that there should be a distinct change in approach to servant leadership management and governance to make it more principled and answerable to followers. Eva et al. (2019: 113) write that the act of servant leadership within an organisation creates an organisational culture where followers would also seek to become servant leaders.

In summary, servant leadership can be practiced on a moral or ethical level by individuals, but it is difficult to implement on an operational level. Research on the practice of servant leadership through the primary characteristics demonstrates its benefits, however, critics of

this leadership theory argue that it requires a viable governance framework to ensure successful implementation. This study therefore proposes the King IV report as such as viable governance framework.

### **3.2.4 Critique on servant leadership as leadership theory**

Some the challenges around servant leadership specifically as a leadership theory have already been mentioned in earlier discussion. In addition to these, researchers have also identified other concerns and criticisms.

More than two decades ago, Laub (1999) has already raised concern about the fact that servant leadership has been researched and practiced since the 1970s yet still lack a systematic research process. Greenleaf's (1977) writings were not based on research or even what he called "conscious logic", rather most of his ideas were based on the experiences of individuals as they function in their different institutions.

Larry Spears (1999), whose work is considered to be some of the most respected in the field of servant leadership, countered Laub's argument by stating that it is important not to define servant leadership with a rigid set of specifications but rather to adopt a mind set to broaden the definition of this leadership theory.

Focht and Ponton's (2015: 48) Delphi study on servant leadership highlights that Greenleaf never provided a clear definition of servant leadership. In their view, this has created the opportunity for other scholars to develop more clearly defined definitions and theoretical frameworks. The Focht and Ponton Delphi study is discussed in more detail in the next section as it forms the basis for the analysis in this study.

## **3.3 FOCHT AND PONTON DELPHI STUDY (2015)**

### **3.3.1 Importance of the Focht & Ponton Delphi study (2015)**

From previous discussions there are a variety of viewpoints on servant leadership and specifically the traits that are or should be associated with this leadership style. Following the literature review that was reported on in the first part of this chapter, the researcher chose to use the Focht and Ponton Delphi study (2015), titled "Identifying primary characteristics of servant leadership: Delphi study", as this is one of the most widely-cited studies in this field.

Focht and Ponton conducted a systemic literature review of research on the traits that define a servant leader. Of these the most far-reaching was a study by Sendjaya (2003) who classified 101 characteristics into six dimensions and 22 sub-dimensions which makes it difficult to implement in a practical organisational management situation.

Focht and Ponton acknowledge that servant leadership as defined by Greenleaf (1977) is only a concept which formed the foundation and starting point for the following scholars to conducting research on the theory of servant leadership:

- Russell & Stone (2002)
- Patterson (2003)
- Barbuto and Wheeler (2006)
- Van Dierendonck (2011).

The biggest challenge, according to Focht and Ponton (2013), was that so many scholars have contributed towards a description of the primary characteristics of servant leadership. A brief list of some of the major articles published in the field also provides a broad overview of the type of topics covered in terms of servant leadership (Focht & Ponton 2015: 3):

- Greenleaf (1977) "Servant leadership"
- Graham (1991) "Servant leadership in organisations: Inspirational and moral"
- Du Pree (1992) "Leadership jazz"
- Spears (1995) "Tracing the growing impact of servant leadership"
- Laub (1999) "Assessing the servant organisation: Developing the servant organisation leadership assessment instrument"
- Buchen (1998) "Servant leadership: A model for future faculty and future institutions"
- Farling, Stone and Winston (1999) "Servant leadership: Setting the stage for empirical research"
- Russell (2002) "Exploring the values and attributes of servant leadership"
- Russell and Stone (2002) "A review of servant leadership attributes: Developing a practical model"
- Barbuto and Wheeler (2002) "Becoming a servant leader: Do you have what it takes?"
- Patterson (2003) "Servant leadership: A theoretical model"
- Dennis (2004) "Servant leadership theory: Development of the servant leadership assessment instrument"

- Barbuto and Wheeler (2006) “Scale development and construct clarification of servant leadership”
- Irving and Longbottom (2007) “Team effectiveness and six essential servant leadership themes: A regression model based on items in the organisational leadership assessment”
- Wong and Davey (2003) “Best practices in servant leadership”
- Sendjaya, Sarros and Santora (2008) “Defining and measuring servant leadership behavior in organisations”
- Liden et al. (2008) “Servant leadership: Development of a multidimensional measure and multi-level assessment”
- Van Dierendonck and Nuijten (2011) “The servant leadership survey: Development and validation of a multidimensional measure”
- Sendjaya and Cooper (2011) “Servant leadership behaviour scale: A hierarchical model and test of construct validity”
- Focht and Ponton (2015) “Identifying primary characteristics of servant leadership: Delphi study”

The Delphi research method was developed by Norman Dalkey and Olaf Helmer during the 1940s and 1950s while working on secret military projects for the Rand Corporation. It was developed as a remote brainstorm application without the challenge of psychological interference of face-to-face confrontations and has since become a popular research instrument (Dalkey & Helmer 1963: 2). Yousuf (2007: 80) describes the Delphi technique as follows:

A group process involving an interaction between the researcher and a group of identified experts on a specified topic, usually through a series of questionnaires. Delphi has been used to gain a consensus regarding future trends and projections using a systematic process of information gathering. This technique is useful where the opinions and judgments of experts and practitioners are necessary.

The benefit of using the Delphi technique, according to Focht and Ponton (2015: 49), is that it produces an “expert consensus” of what should be the primary characteristics of servant leadership, taking into account most of the prominent research in the servant leadership

theory field focused on the primary characteristics of servant leadership.

As mentioned above, Sendjaya's study (2003: 4) has confirmed that more than 100 traits or characteristics of servant leadership have identified in various academic research projects. (Sendjaya, 2003, p. 4). Table 3.5 provides a summary of the 85 traits collectively identified by servant leadership trait studies by Greenleaf (1977), Spears (1996), Laub (1996), Patterson (2003) and Focht and Ponton.

**TABLE 3.5 SUMMARY OF PRIMARY TRAITS OF SERVANT LEADERSHIP**

<b>SERVANT LEADERSHIP CHARACTERISTICS - DELPHI STUDY (2015)</b>						
<b>Trait (number of instances in brackets)</b>	<b>Authors</b>	<b>Green-leaf (1977)</b>	<b>Spears (1995)</b>	<b>Laub (1996)</b>	<b>Patter-son (2003)</b>	<b>Focht &amp; Ponton (2015)</b>
Accountability (1)	Van Dierendonck & Nuijten (2011)					
Agape love; Love; Unconditional Love (3)	Patterson (2003); Dennis & Bocarnea (2005); Focht & Ponton (2015)				*	
Altruistic calling (1)	Patterson (2003)				*	
Appreciation of others (1)	Russell (2000)					
Authenticity; Authentic self; Authentic display (4)	Laub (1996); Sandjays, Barros & Santora (2008); Sendjays & Cooper (2011)			*		
Autonomy (1)	Graham (1991)					
Awareness; Awareness of human spirit (4)	Greenleaf (1977); Spears (1992); Du Pree (1992) & Barbuto (2002)	*	*			
Behaving ethically (1)	Liden (2008), Wayne, Zhou & Henderson					
Breath (1)	Du Pree (1992)					
Calling (1)	Barbuto & Wheeler (2002)					
Capacity for reciprocity (1)	Buchen (1998)					
Caring (1)	Focht & Ponton (2015)					
Collaboration (1)	Focht & Ponton (2015)					
Comfort with ambiguity (1)	Du Pree (1992)					
Commitment to growth; Commitment to growth of people (3)	Greenleaf (1977); Spears (1995); Barbuto & Wheeler (2002)	*	*			

Communication (1)	Russell & Stone (2002)					
Building community; Community; Community-building (4)	Greenleaf (1977); Spears (1995); Laub (1996); Barbuto & Wheeler (2002)	*	*	*		
Competence (1)	Russell & Stone (2002)					
Conceptual skills; Conceptualisation; Conceptualise (4)	Greenleaf (1977); Spears (1995); Barbuto & Wheeler (2002); Liden, Wayne, Zhou & Henderson (2008)	*	*			
Consulting and involving others (1)	Wong & Davey (2007)					
Courage; Courage relationships (2)	Du Pree (1992); Van Dierendonck & Nuijten (2011)					
Covental relationship (agreement between people) (2)	Sendjays, Sarros & Santora (2008); Sendjays & Cooper (2011)					
Creating value for the community (1)	Liden, Wayne, Zhou & Henderson (2008)					
Credibility (1)	Farling (1999); Russell & Stone (2002)					
Delegation (1)	Russell & Stone (2002)					
Developing people (1)	Laub (1996)			*		
Discernment (1)	Du Pree (1992)					
Emotional healing (1)	Barbuto & Wheeler (2006)					
Empathy (3)	Greenleaf (1977); Spears (1995); Barbuto & Wheeler (2002)	*	*			
Empowering (6)	Russell (2000); Patterson (2003); Dennis & Bocarnea (2005); Liden, Wayne, Zhou & Henderson (2008); Van Dierendonck & Nuijten (2011); Zocht & Ponton (2008)				*	
Emulation of leaders (1)	Graham (1991)					

Encouragement (1)	Russell & Stone (2002)					
Engage in honest self-evaluation (1)	Liden, Wayne, Zhou & Henderson (2008)					
Foresight (2)	Greenleaf (1977); Spears (1995)	*	*			
Forgiveness (1)	Van Dierendonck & Nuijten (2011)					
Fostering collaboration (1)	Irving & Longbottom (2007)					
Healing (3)	Greenleaf (1977); Spears (1995); Barbuto & Wheeler (2002)	*	*			
Helping subordinates first (1)	Liden, Wayne, Zhou & Henderson (2002)					
Honesty (1)	Russell (2000)					
Humility and selflessness (6)	Graham (1991); Patterson (2003); Dennis & Bocarnea (2005); Wong & Davey (2007); Van Dierendonck & Nuijten (2011); Focht & Ponton (2015)				*	
Influence; Inspiring and influencing others (4)	Farling (1999); Russell & Stone (2002); Wong & Davey (2007); Sendjays, Sarros & Santora (2008)					
Integrity (3)	Du Pree (1992); Russell (2000); Focht & Ponton (2015)			*		
Intellectual energy and curiosity (1)	Du Pree (1992)					
Leadership (1)	Laub (1996)					
Learning (1)	Focht & Ponton (2015)	*				
Listening (3)	Greenleaf (1977); Russell & Stone (2002); Focht & Ponton (2015)					
Modelling integrity and authenticity (1)	Russell (2000); Wong & Davey (2007)					

Moral development of followers (1)	Graham (1991)					
Organisational stewardship (1)	Barbuto & Wheeler (2006)					
Persuasion & Persuasive mapping (5)	Greenleaf (1977); Spears (1995); Russell & Stone (2002); Barbuto & Wheeler (2002, 2006)	*	*			
Pioneering (1)	Russell (2000)					
Predictability (1)	Du Pree (1992)					
Preoccupation with the future; Respect for future (2)	Du Pree (1992); Buchen (1998)					
Presence (1)	Du Pree (1992)					
Provide accountability (1)	Irving (2007)					
Regard for the present (1)	Du Pree (1992)					
Relational power (1)	Graham (1991)					
Relationship building (1)	Buchen (1998)					
Resourcing (1)	Irving & Longbottom (2007)					
Responsibility morality (2)	Sendjays, Sarros & Santora (2008); Sendjays & Cooper (2011)					
Self-identity (1)	Buchen (1998)					
Sense of humour (1)	Du Pree (1992)					
Service; Service as a behavioural component; Serving and developing others; Serving others before own (5)	Farling (1999); Russell (2000); Patterson (2003); Wong & Davey (2007); Focht & Ponton (2015)				*	
Sharing (1)	Laub (1996)			*		
Standing back (1)	Van Dierendonck & Nuijten (2011)					
Stewardship (4)	Greenleaf (1997); Spears (1995); Barbuto & Wheeler (2002); Van Dierendonck & Nuijten (2011)	*	*			
Support (1)	Irving & Longbottom (2007)					
Teaching (1)	Russell & Stone (2002)					
Transcendental spirituality; Transcendental	Sendjays, Sarros & Santora (2008);					

spirituality influence (2)	Sendjays & Cooper (2011)					
Transforming; Transforming influence (2)	Sendjays, Sarros & Santora (2008); Sendjays & Cooper (2011)					
Trust; Trust as a relational component (5)	Farling (1999); Russell (2000); Patterson (2003); Dennis & Bocarnea (2005); Focht & Ponton (2015)				*	
Understanding of the past (1)	Du Pree (1992)					
Valuing; Valuing people (2)	Laub (1996); Focht & Ponton (2015)			*		
Visibility (1)	Russell (2002)					
Vision (3)	Farling (1999); Russell (2000); Dennis & Bocarnea (2003)				*	
Voluntary subordination (2)	Sendjaya, Sarros & Santora (2008); Sendjaya & Cooper (2011)					
Vulnerability (1)	Du Pree (1992)					
Wisdom (1)	Barbuto & Wheeler (2006)					

Sources: Greenleaf (1977); Spears (1996); Laub (1996); Patterson 2003; Focht & Ponton (2015)

After three rounds of analysis, Focht and Ponton (2015: 44) identified 12 primary traits of servant leadership, namely:

- Valuing people
- Humility
- Listening
- Trust
- Caring
- Integrity
- Service
- Empowering
- Serving others' needs before their own
- Collaboration
- Love/unconditional love
- Learning

Focht and Ponton (2015: 57) conclude their study by stating that the outcome of the Delphi study will assist the academic research community to focus on the major characteristics of servant leadership and to distinguish servant leadership theory from other leadership theories by focusing on the characteristics that are service-focused and specific to servant leadership specific.

### **3.3.2 Critique of the Delphi research method**

It is important to note that Yousuf refers to a study by Linstone and Turoff (1976) which highlights five general drawbacks in using the Delphi research technique. These include pre-empting viewpoints from the participants and not allowing for the contribution of other viewpoints; not considering the importance of direct communication can reflect poorly on the results; not exploring the disagreements respondents may have and therefore coming to an untrue conclusion of consensus; and participants finding a Delphi study tedious and time-consuming and feel that respondents should be compensated for their time and effort. However, the value of deliberation and mutual agreement among experts following several rounds of feedback still provides the researcher with valuable, in-depth insights. (Linstone & Turoff 2011: 1713).

## **3.4 THE 12 PRIMARY TRAITS OF SERVANT LEADERSHIP**

The twelve primary characteristics were identified through an analysis of 20 major servant leadership research studies which referred to 147 characteristics or traits that were identified. Some researchers referred to the same traits so in conclusion 78 unique traits were identified. After the process was finalised Focht and Ponton (2015) identified twelve traits that could be considered the main traits of a servant leader. The following sections provides more detail on each trait. It includes a denotative (dictionary) definition of each as well as the operation definition provides by Focht and Ponton (2015).

### **3.4.1 Valuing people**

In the context of servant leadership, valuing people is defined as “truly valuing people for who they are, not just for what they give to the organization. Servant leaders are first and foremost committed to people, particularly to their followers” (Focht & Ponton 2015: 50). The word “value” is defined as “to think that somebody/something is important” and the word originated from the old French word *valoir* meaning “be worth” (Oxford Advanced Learner’s Dictionary 2019).

Considering the weight attached to this trait by researchers such as Laub (199) as well as the consensus regarding its importance reached by the Delphi study it is clear that valuing people is at the core of servant leadership, with participants clearly indicating that people must be placed before the organisation. Laub (1999), who also conducted a Delphi study, considers valuing people to be the most important characteristic of servant leadership. Laub (1999: 83) interpreted valuing people as “believing in them, serving others’ needs before one’s own, and listening”. This links to Greenleaf’s (1977) and Spears’ (1995) commitment to the growth of the people, Russell’s (2000) appreciation of people and Wong and Davey’s (2007) consulting and involving others.

### **3.4.2 Humility**

Focht and Ponton (2015: 50) define humility as that “servant leaders do not promote themselves; they promote others, put others first. They are truly humble, not humble as an act. Servant leaders understand it is not about them but that things happen through others; exemplary servant leaders know they cannot do it alone.” Humility, originally from the French word *humilite* or “lowly, from the ground”, is defined as “the quality of not thinking that you are better than other people; the quality of being humble” (Oxford Advanced Learner’s Dictionary 2019).

Researchers who consider humility to be an important trait of servant leadership include Graham (1991), Patterson (2003), Dennis and Bocarnea (2005), Wong and Davey (2007) and Van Dierendonck and Nuijten (2011). Sendjaya (2008) considers humility “as a prerequisite for serving others and gaining satisfaction from the service” and that “humility drives servant leaders” (Sendjaya 2008: 410, cited by Focht & Ponton 2013: 52). Irving and Longbottom (2007: 107; cited by Focht and Ponton 2015: 52).

### **3.4.3 Listening**

Listening is another key trait of the servant leaders, who “listens receptively and nonjudgmentally. Are willing to listen because they truly want to learn from others; to understand follower/associates, they must listen deeply. Seek first to understand. Like discernment enables one to know when or where service is needed,” summarise Focht and Ponton (2015: 50). The Oxford Advanced Learner’s Dictionary (2019) defines listening as “to pay attention to somebody/something that you can hear”. The word originated from the old English word *hlysnan*, which means “pay attention to”.

Authors including Greenleaf (1977) and Russel and Stone (2000) consider listening as a key trait of servant leadership. Participants in the Delphi study explained listening's importance in terms of service, stating that "to serve requires understanding others who need listening". In servant leadership, listening is a vital part of serving others. Barbuto and Wheeler (2006: 319) write that listening is in fact a key skill of all effective leadership styles. Listening was listed by Spears (1995) as the number one servant leadership trait, emphasising it to be the "ultimate accomplishment in the discipline of servant leadership" (cited in Senge 1995: 229).

#### **3.4.4 Trust**

Focht and Ponton (2015: 50) define trust as that "servant leaders give trust to others. They are willing to take risks to serve others well. Servant leaders are trusted because they are authentic and dependable." The Oxford Advanced Learner's Dictionary (2019) defines trust as "the belief that somebody/something is good, sincere, honest, etc. and will not try to harm or trick you". The word's original meaning can be traced back to the Old Norse word *traustr*, which means "strong".

Researchers who place trust high on the list of servant leadership traits include Farling (1999), Russell (2000), Patterson (2003) and Dennis and Bocarnea (2005). The Delphi study concluded that trust is of the utmost importance for service to be able to take place. Patterson (2003: 22) emphasises the importance of the service aspect of trust within servant leadership theory as "a belief in the unseen potential of the followers, believing they can accomplish goals".

#### **3.4.5 Caring**

The people-centred focus of servant leadership is exemplified by the trait of care. "Servant leaders truly have the people and the purpose in their heart. They display kindness toward others and a concern for others. As the term implies, they are there to serve others and not to be served by others. Servant leaders care more for the people than for the organization", write Focht and Ponton (2015: 50). The Oxford Advanced Learner's Dictionary (2019) defines caring as "kind, helpful and showing that you care about other people". The word has a Germanic origin, with *chara* meaning "grief lament".

The participants in the Focht and Ponton Delphi study (2015: 53) defined caring in a leadership context as "a kindness toward others and a concern for others" and "servant

leaders care more for the people than for the organization”. This highlights the fact that in order to serve their followers’ needs servant leaders need to care for them.

### **3.4.6 Integrity**

According to Focht and Ponton (2015: 50) servant leaders are “honest, credible, and can be trusted”. They explain further that “integrity is knowing what your values are, developing a set of shared values with the people you serve, and then remaining true to those values. This provides clarity and drives commitment. Servant leaders need to be first in ensuring that their behaviours are consistent with their values and with the shared values they develop with others. This includes the categories of engaging in honest self-evaluation, inner consciousness, and spirituality.” In terms of a dictionary definition, the Oxford Advanced Learner’s Dictionary (2019) defines integrity as “the quality of being honest and having strong moral principles”. The word originated from late middle English and has a French root, namely *integrite* or “intact or to touch”.

Authors such as Du Pree (1992) and Russell (2000) place a high premium on integrity as a trait of servant leadership. Russel and Stone (2002: 148) call integrity a vital part of good leadership and consider it to be one of the best qualities of “real leaders”. Du Pree (1992: 220) lists integrity first on his list of traits, defining it as the “linchpin of leadership ... lose integrity and a leader will suddenly find herself [sic] in a directionless organization going nowhere”. Other participants stated that without integrity servant leadership is rendered meaningless. Comments include “knowing what your values are, developing a set of shared values with the people you serve” as well as “remaining true to those values” (Focht & Ponton 2015: 53).

### **3.4.7 Service**

Focht and Ponton (2015: 50) define service as that “the servant leader is a servant first”. The Oxford Advanced Learner’s Dictionary (2019) defines service as “work that continues for a long time or is admired very much”. The original French word *servise* means “to be of service”.

Service is considered an important trait of servant leadership by authors such as Farling (1999), Russell (2000), Patterson (2003) and Wong and Davey (2007). Although the meaning of the word is relatively clear, participants did comment on the lack of a clear operational definition in previous studies. This criticism was also levelled at the other 11

traits of the Delphi study (Focht & Ponton 2015: 53).

### **3.4.8 Empowering**

Empowering as described as that “servant leaders empower others and expect accountability” (Focht & Ponton 2015: 50). The Oxford Advanced Learner’s Dictionary (2019) defines empowering as “to give the power or authority to do something”, with the Old French root meaning “power and ability”.

Empowering as a trait is discussed in a number of studies, including Russel (2000), Patterson (2003), Dennis and Bocarnea (2005), Liden et al. (2008) and Van Dierendonck and Nuijten (2011). Russell (2000: 84) and Russell and Stone (2002: 152) define empowerment as the “central element in excellent leadership”. Patterson (2003: 23) calls empowerment the most important characteristic of servant leadership, emphasising that “without the sharing of power, there cannot be servant leadership and empowering people, with the best interest of those served in mind, is at the heart of servant leadership”. Similarly, Russell (2000: 23), Russell and Stone (2002: 7) and Sendjaya (2003: 4, cited by Focht & Ponton 2015: 54) state that “empowerment for the servant leader involves effective listening, making people feel significant, putting an emphasis on teamwork, valuing love and equality, entrusting workers with authority and responsibility, and allowing them to experiment and be creative without fear”.

### **3.4.9 Serving others’ needs before their own**

Focht and Ponton (2015: 50) define serving others’ needs before their own as that “servant leaders serve others before self. This is foundational to what it means to be a servant leader. Put others’ interests before our own.” Serving others’ needs before their own should not be confused with the trait of service. Although many participants linked these two traits, Laub (1999) highlights that “servant leaders value their people by serving other’s needs before their own. Although this characteristic shares similarities with service and valuing people, the participants in this study ranked them differently.” (Focht & Ponton 2015: 54). The emphasise in this case is the needs of others, while service could be seen as having a broader focus.

### **3.4.10 Collaboration**

Collaboration refers to the fact that “servant leaders reject the need for competition and

putting people against each other. They bring people together. Because servant leadership is about pursuing a higher purpose for the good of the whole and because leadership is a collaborative process, skilled collaboration is an essential characteristic of a servant leader. This includes categories of accountability, awareness, building community, courage in relationships, empathy, and listening. Servant leaders do not go it alone; they work together with others in collaborative endeavours that serve the needs of followers and their organization” (Focht & Ponton 2015: 51). The Oxford Advanced Learner’s Dictionary (2019) defines collaboration as “the act of working with another person or group of people to create or produce something”. The word originated from mid-19th century Latin, with *collaboratio* meaning “to work together”. Irving and Longbottom (2007: 108) describe collaboration as that “the servant leader’s role of nurturing a collaborative work environment is essential in effective team leadership”.

#### **3.4.11 Love/unconditional love (agape love)**

Focht and Ponton (2015: 51) writes that Love/Unconditional love is a “strong phrase with Christian overtones, so it might be better to call it acceptance or appreciation, but it is a radical and powerful starting point for servant leadership because it becomes the primary motivator for the way you treat other people. If you start with a posture of unconditional love (believing that every person is as worthy and valuable as you are and committing to dealing with them in the most loving way possible in every circumstance), it transforms how you treat them and how you understand your higher purpose. This category includes acceptance, acknowledging, appreciation of others, equality, trust, and vulnerability. The ultimate motive to serve.” The Oxford Advanced Learner’s Dictionary (2019) defines love as “a strong feeling of affection for somebody or a thing or activity that you like very much”. The Old English meaning of the root word *lufu* has a Germanic origin, with *libet* meaning “it is pleasing”. Participants in the Focht and Ponton (2015) study described these traits as “focusing on, valuing, and serving followers flows from love” and “love is at the peak of wanting to serve”, concluding that love and service are intricately linked (Focht & Ponton 2015: 54).

#### **3.4.12 Learning**

The twelfth trait of servant leadership is learning. Focht and Ponton (2015: 51) writes that “this includes learning from those below them in the organization. Servant leaders are learners. They truly want to learn from others. They know that they do not know it all, so they are willing to learn from all directions in the organization. Great leaders never rest when it

comes to learning about future trends and opportunities, the perspectives of their multiple internal and external stakeholders, the emergence of new ideas and technologies related to their business, and the art and science of leadership itself. Learning is the master skill that leads to growth, personally, relationally, organizationally, and in broader society. This includes comfort with ambiguity and intellectual energy and curiosity.

The Oxford Advanced Learner's Dictionary (2019) defines learning as "the process of learning something or knowledge that you get from reading and studying". The word originated from Old English, with *leornung* meaning "study, action of acquiring knowledge" or "knowledge acquired by systematic study, extensive literary or scientific culture". Participants in the study defined learning as that "great leaders never rest when it comes to learning". Learning is linked to humility in that servant leaders "learn from those below them in the organization". The participants also highlighted that servant leaders are willing to learn from everyone in their organisations, which is linked to growth and modelling the way for others to grow and maximise their potential.

### **3.5 SOUTH AFRICAN SERVANT LEADERS IN ACTION**

The similarities between the main traits of servant leadership and the African philosophy of Ubuntu were established earlier in this chapter. Nzimakwe (2014: 37, citing Regine 2009:17) writes about the link between Ubuntu and leadership and argues that Ubuntu will produce the great leaders of the 21st century:

Leaders acting guided by the Ubuntu philosophy will recognize their interconnectedness and understand if they fail society fail. They will acknowledge that society and others' success is also their success. The philosophy of Ubuntu seeks to unite through recognizing sameness. The spirit of Ubuntu leads to being cooperative and collaborative in organizational environments. People are encouraged to work as a team by supporting one another. Ubuntu-inspired leaders regardless of their position seek to create relationships based on mutual interest, mutual need, and mutual respect (Nzimakwe 2014: 37).

South Africa have produced some of the greatest servant leaders of the modern age. Among these are four Nobel Peace Prize winners, namely Chief Albert Luthuli (1960), Emeritus Archbishop Desmond Tutu (1984), Nelson Mandela and FW De Klerk (1993). Also noteworthy is Mohandas "Mahatma" Karamchand Gandhi (1869-1948) who was nominated

five times in 1937, 1938, 1939, 1947 and 1948 but never received a Nobel Peace Prize (Nobel Peace Prize 2019).

As this study is focused on NGOs in the health sector it is important to refer to the work done by a lesser-known South Africa servant leader, Nontsikelelo Albertina Sisulu (1918-2011). Downing and Hastings-Tolsma (2018: 214), in their article “An integrated review of Albertina Sisulu and Ubuntu”, aim to interpret Sisulu’s work within the Ubuntu philosophy as a theoretical framework for developing the discipline of nursing. Using the Whitemore and Knafl (2005) integrative review method, a systematic search and analysis was done on articles written about Sisulu, nursing and Ubuntu. The article reports that there is a strong reference to Sisulu’s dedication to creating a culture of caring and Ubuntu. This supports the fact that a combination of Sisulu’s values and beliefs with those of Ubuntu can create a practical framework for guiding good nursing practices and the implication for directing public policy and improving governance in the healthcare sector that may include NGOs (Downing & Hastings-Tolsma 2018: 225).

The article concludes that “caring, inspired by Sisulu and Ubuntu, could form the cornerstone for change in healthcare delivery and evaluation of nursing services”. This could assist in future research and studies in this field and influence better leadership and governance in civil society organisations tasked with the support and care of vulnerable groups related to healthcare (Downing & Hastings-Tolsma 2018: 226).

### **3.6 CHAPTER SUMMARY**

The purpose of this chapter was to provide an in-depth analysis of servant leadership as a leadership theory. A historical background was sketched, with references to major research conducted in the field of servant leadership since 1977. Similarities were also drawn between the primary traits of Aristotle’s Virtues, the Beatitudes, Ubuntu and servant leadership. The chapter then provided a short summary of each of the twelve primary traits of servant leadership as identified by the Focht and Ponton Delphi study (2015). These traits will be used in chapter 5 in order to investigate how these traits are embedded in the principles of the King IV Report. The chapter concludes with a brief discussion on South African servant leaders in action, with specific reference to the work of Albertina Sisulu. The relevance of Sisulu as a servant leader is evident when considering the context of the study, namely NGOs operating in the health sector.



## **CHAPTER 4: THE KING IV REPORT**

### **4.1 INTRODUCTION**

This chapter provides an overview of the King IV Report on Corporate Governance, its origins, applications, sectoral principals and the utilisation of the guiding principles to support governance structures in NPOs to implement servant leadership in civil society organisations. The theoretical background discussed in chapter 2 forms the foundation for this discussion, specifically the different corporate governance models. In this chapter background to the King IV Report is provided by discussing governance measurement indexes and whether adherence to governance codes should be a process of voluntary or legal compliance.

### **4.2 GLOBAL GOVERNANCE CODES, INDEXES AND COMPLIANCE**

Internationally the first governance code was compiled by the Committee on the Financial Aspects of Corporate Governance, better known as the Cadbury Committee, in December 1992 in the United Kingdom. This was followed by an amendment to the listing rules of the London Stock Exchange in April 1993 to include proof of compliance with the Cadbury Code (Dragonmir 2008: 4). In South Africa, this was followed by the publication of the King I Code on Corporate Governance in 1994 (Dragonmir 2008: 5).

This laid the foundation for the King IV Code on Corporate Governance (2016), which, according to Marius Meyer, CEO of the South African Board for People Practices, is known as a “world-class blueprint for corporate governance” (Meyer 2017: n.p.). The King IV Report was published on 1 November 2016. It outlines 17 principles supported by 215 practices to achieve governance outcomes in organisations that choose to comply voluntarily with this code. The King IV Report encourages mindful consideration and application of these 17 principles and 215 practices. The practices’ purpose is to achieve an optimum level of corporate governance. The practices can be adapted taking into consideration the size, available organisational resources, intricacy and complexity each organisation in order that the principles are applied, and good corporate governance is attained (IODSA 2016: 3-7).

The King IV Report is the first code that is outcomes-based, which allows the industry to see benefits if implemented accurately. According to Judge Mervyn King it moves away from the “mindless compliance” approach and rather strives for an ethical culture with ethical leadership underpinned by integrity and competent, good performance to ensure the organisation contributes to its and society’s growth through the implementation of effective

control measures. This ensures effective and accountable executive team members who lead the organisation, so it reaches its vision, mission and objectives. The legitimacy of the organisation is vital for its growth and continued existence and therefore must ensure all compliance standards set by the government and other compliance agencies are met (IODSA 2016: 3-7).

#### 4.2.1 Global governance codes

Corporate governance is an important aspect of any organisation’s growth and long-term sustainability. It is important for the success of any organisation, including the social welfare of all the stakeholders and communities in which these organisations operate. Colossal corporate failures ignited the need for improved and reformed corporate governance at the end of the 20th century (Dibra 2016: 284). Specifically, the failure of Enron in 2001 as a result of poor corporate governance and unethical business practices led to a comprehensive revision of corporate governance practices and the development of corporate governance codes (Munzig 2003: 54-55).

Globally organisations and countries focus on raising their corporate governance standards with a variety of efforts to develop governance codes in established, developing and emerging markets. According to the European Corporate Governance Institute’s 2019 list, there are 609 governance codes available worldwide, listed per region in table 4.1 (ECGI 2019: n.p.).

**TABLE 4:1 GLOBAL GOVERNANCE CODES PER REGION**

Africa	45
Americas and the Caribbean (excluding the USA)	43
Asia	87
Australasia	34
International, UN and Commonwealth codes	24
Middle East	33
Europe	253
United Kingdom	68
United States of America	22
Total	609

Source: ECGI (2019: n.p.)

#### 4.2.2 Corporate governance measurement indexes

Internationally there are several governance indexes that assist investors to rate organisations and countries in terms of their governance compliances. The main indexes are the following:

The *World Governance Index (WGI)* was designed by the Forum for a New World Governance in collaboration with the World Bank (2008). The goal is to provide an annual measure of world governance. It combines six indicators with 13 sub-indicators, each drawn from 37 indexes. The six main concepts are voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption.

The *Corporate Governance Index (G-Index)* was designed by the Investor Responsibility Research Centre (IRRC) and consists of 24 provisions to measure proper governance, including corporate by-laws, charters, annual reports and filings.

The *Governance Matrix International (GMI Ratings)* includes 600 variables, including board accountability, financial disclosure, internal controls, corporate social responsibility and shareholder rights. Data is gathered through publicly available information, including media releases, regulatory filings, news articles, company websites, company policies, company documents as well as board and management interviews (El-Helaly 2018: 374.)

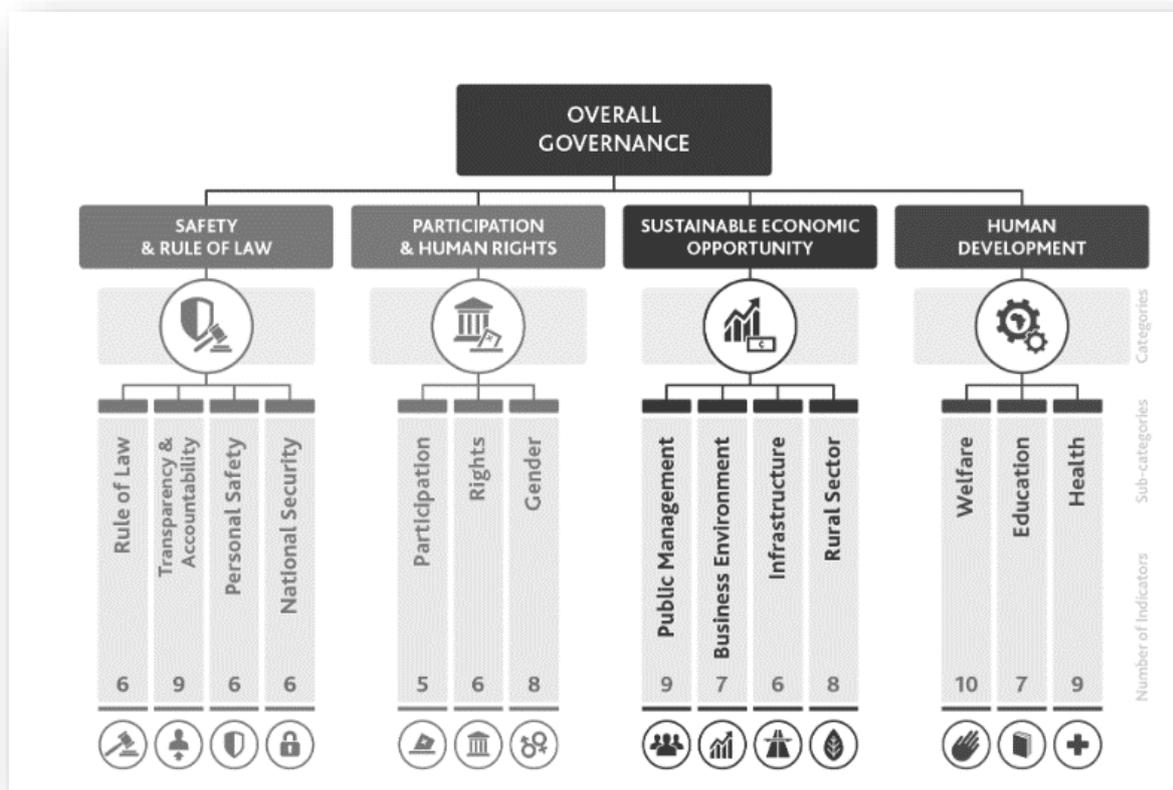
The *Corporate Governance Quotient (CGQ)* was developed by the Institutional Shareholder Services (ISS). This quotient uses over 50 criteria in seven broad categories to rate corporate governance. Internally these include board of directors, audits, charters, by-laws, laws of the state, executive compensation, qualitative factors, ownership and director education while externally these include public information, regulatory filings, websites and media releases (Bhagat, Bolton & Romano 2008: 1809).

The *Anti-Director Rights Index (ADRI)* is a measurement index in terms of shareholder protection that was designed by La Porta (1998). This index has determined that shareholder protection is higher in countries governed by common rather than civil law. It also indicated that where there is poor corporate governance the exchange rate drops significantly as in the Asian financial crisis of 1997–1998 (La Porta et al. 1998: 1113).

It measures six components of which three impact shareholder voting and three that look at minority shareholder protection, preventive rights, potential and judicial remedies (La Porta et al. 1998: 1113).

The Mo Ibrahim Foundation was established in 2006. It is responsible for the *Ibrahim Index of African Governance (IIAG)*, which is a tool that evaluates, tracks and monitors the level of governance in 54 African countries using 102 indicators informed by 35 independent sources.

**FIGURE 4.1 KEY COMPONENTS OF THE IBRAHIM INDEX OF AFRICAN GOVERNANCE**



Sources: Mo Ibrahim Foundation (2019: n.p.)

The IIAG's 2019 report focuses on the correlation with Agendas 2063 and 2030 regarding governance. Overall South Africa was ranked 7th out of 54 on overall governance with the country's civil society participation ranked 13th out of 54. The only two countries in the top ten governance ranking that do not also rank under the top ten in civil society participation are South Africa at 13 and Rwanda at 36 (Mo Ibrahim Foundation 2019: n.p.).

Locally the *IIA SA's Corporate Governance Index* of 2017 includes the opinions of 281 chief audit executives (CAEs). The main purpose of this index is to reflect on corporate governance in South Africa and it includes 11 sectors, namely national government, provincial government, municipalities (metro, district and local), state-owned companies, public-held companies, private companies, SMMEs, non-profit companies and professional services firms. The 2017 CGI Survey Questionnaire was changed to include the principles of the King IV Report. The research methodology focused on a quantitative approach and measured seven governance concepts, namely ethics, compliance, leadership, risk management (operational and external risks), performance and internal audit.

All these indexes assist shareholders and stakeholders to make informed decisions regarding the institution, organisation or region they would like to contribute to. This is especially important for civil society organisations who rely on external support as these decisions are informed by the organisation's capacity to govern (World Bank 2019: n.p.).

#### 4.2.3 NPO governance code compliance debate: voluntary vs legal

The debate on voluntary versus legal compliance in terms of corporate governance in the NGO sector is a prominent theme throughout the literature reviewed. Reference is made to this debate by Shelagh Gastrow of the Inyathelo Institute and Ricardo Wyngaard in the foreword to *Governance for non-profit boards* (Wyngaard 2017: 5).

In theory the adoption of voluntary or legal compliance within the sector is guided by four ideal types of governance in which compliance to corporate governance can take place. This will differ from sector to sector based on characteristics and properties. It is also influenced by interaction between public and private role-players (Knill & Lehmkuhl 2002: 47-49).

**FIGURE 4.2 FOUR IDEAL TYPES OF GOVERNANCE**

		Governance Capacity of Public Actors	
		Low	High
Governance Capacity of Private Actors	Low	Interfering Regulation	Interventionist Regulation
	High	Private Self-Regulation	Regulated Self-Regulation

Source: Knill & Lehmkuhl (2002: 49)

**FIGURE 4.3 FOUR IDEAL TYPES OF COOPERATION**

		Cooperation of public and private actors	
		Low	High
Degree of legal obligation	High Low	Interventionist regulation Private self-regulation	Regulated self-regulation Co-regulation

Source: Knill (2004: 357)

The four types of constellations of private and public governance are:

*Interventionist regulation* is based on limited governance capacity of the public sector organisation with reference to civil society organisations. It therefore requires hierarchical layers of government (state) intervention. It is important to adjust this perspective in terms of development, moving from interventionist states to regulatory states. This process results in privatisation of government, creating opportunities and challenges where service is provided to and on behalf of the state (Knill & Lehmkuhl 2002: 47-52).

*Regulated self-regulation* is based on high levels of governance capacity in both the public and private sectors, which creates a more cooperative pattern of interaction between the two. The civil society sector can participate in policymaking and implementation of policies, competencies may be delegated, and service delivery may be done on behalf of the state by these organisations. This can result in public private partnerships. However, responsibility of service delivery is still in the hands of the state who is ultimately responsible should there be governance failures. In this regard CSOs can fill service delivery gaps, however proper governance should be in place in order to ensure that CSOs deliver these services at an acceptable level. The circumstances surrounding the Life Esidimeni tragedy are a case in point. (Knill & Lehmkuhl 2002: 47-52).

*Private self-regulation* is based on the delivery of services dependent on the public sector's capacity for provision of public goods. This can lead to the public sector taking the lead in resolving conflicts and challenges where the state lacks the ability to perform according to its mandate. A key feature is that the state no longer has the capacity to intervene or provide the service (Knill & Lehmkuhl 2002: 47-52).

*Co-regulation or Interfering regulation* is based on high levels of public and private capacity

which is the best scenario for delivery of public services which can be influenced should capacity lack. Government can still use its hierarchical power to interfere in the matters of the private sector. Globalisation has an impact in that the private sector can circumvent government intervention but in general relationship are mutually beneficial to the benefit of society.

If this theory is applied to an organisation following a servant leadership approach it would imply low cooperation of stakeholders based on private self-regulation whereas if the organisation applies the King IV Report it will be high cooperation in the form of co-regulation to ensure compliance to governance codes. In the case of civil society organisations this will increase the competitiveness in their sector to access available funding (Knill & Lehmkuhl 2002: 47-52).

### **4.3 AFRICAN CORPORATE GOVERNANCE CONTEXT**

#### **4.3.1 Corporate governance codes in Africa**

Since the publication of the Cadbury Report (1992) on good governance there has been a drive to develop governance codes across the globe. The European Corporate Governance Institute 2019 report mentioned earlier confirms that the following African countries have governance codes: Algeria, Botswana, Egypt, Ghana, Kenya, Malawi, Maldives, Mauritius, Morocco, Nigeria, Oman, Rwanda, Sierra Leone, South Africa, Swaziland, Tunisia and Yemen (ECGI 2019: n.p.).

Corporate governance in the civil sector in Africa as discussed by Gugerty (2010: 1092-1095) in the article “the Emergence of non-profit self-regulation in Africa” shows the importance of self-regulation. Self-regulation of this sector in Africa was a result of either a response to a threat of increased government regulation or in more liberal political countries initiatives to operate in better cooperation with government.

Table 4.4 illustrate in chronological order the establishment of the main CSO associations in the listed African country. South Africa is only listed 18TH out of a list of 21 countries, indicating that the country was relatively late in adopting regulations in 1995 at the start of the new dispensation. This despite that fact that an active civil society was instrumental in ending apartheid. This is an indication of the importance of a strong civil society in which the organisations are well-governed to ensure it can fulfil the important role of sustaining and broadening democracy as mentioned in chapter 1.

**TABLE 4.2 EMERGENCE OF CSO GOVERNANCE SELF-REGULATION IN AFRICA**

Country	Main CSO association(s)	Year established	Name of self-regulation programme, if any	Type of self-regulation	Year of self-regulation established
Zimbabwe	National Association of NGOs (NANGO)	1962	Code of Ethics; NGO Corporate Governance Manual	Code of conduct	2006
Kenya	The National Council of NGOs	1963	NGO Code of Conduct	National self-regulation	1993
Ethiopia	Christian Relief and Development Association (CRDA)	1973	NGO Code of Conduct	Code of conduct	2001
Zambia	National Council for Social Development (NCSD)	1974			
Ghana	Ghana Association of Private Voluntary Organisations in Development (GAPVOD)	1980	Ghana Standards for Excellence	Voluntary club	In progress
Senegal	Conseil des Organisations d'Appui au Développement (CONGAD)	1982	CONGAD code of ethics	Code of conduct	Not clear
Gambia	The Association of NGOs (TANGO)	1983	NGO Code of Conduct	National self-regulation	Not clear
Mali	Comite De Coordination Des Actions Des ONG Au Mali (CCA-ONG)	1983			
Malawi	Council for Nongovernmental Organisations (CONGOMA)	1985			
Rwanda	Conseil de Consertacion des Organizations d'appui des initiatives de base (CCOAIB)	1987			
Tanzania	Tanzania Association of NGOs (TANGO)	1 988	National NGO Code of Conduct (in progress)	National self - regulation	
Lesotho	Lesotho Council of NGOs (LCN or Lecongo)	1990	Code of conduct of LCN	Code of conduct	In progress
Namibia	Namibia Non-Governmental Organisations Forum (NANGOF)	1991	NANGOF code of conduct for NGOs	Code of conduct	2003

Nigeria	Nigeria Network of NGOs (NNGO)	1992	NNGO code of conduct	Code of conduct	Not unclear
Botswana	The Botswana Council of NGOs (BOCONGO)	1995	NGO Code of Conduct	Code of conduct	2001
South Africa	South African National NGO Coalition (SANGOCO)	1995	SANGOCO code of ethics	Code of conduct	1997
Benin	Organisation de la Société Civile Béninoise	2000	Charte des Organisations de la Société Civile du Bénin (provisional)	National self-regulation	2008
Burkina Faso	Civil Society Organisation Network for Development (RESOCIDE)	2002			
Togo	National Congress of the Civil Society in Togo (CNCS)	2002			
Mozambique	No data available				
Uganda			Quality Assurance Mechanism (QuAM)	Voluntary club	2006

Source: Gugerty (2010: 1092-1095)

#### 4.3.2 Comparison between South Africa and Rwanda's corporate governance

Rwanda was ranked as the best performer by the 2019 World Bank's Doing Business Report (Kayihura 2013: 25). Rwanda is currently a leading developing economy in Africa, growing its GDP in 2019 with 7.8% and rated 48 out of 180 countries on Transparency International's Corruption Perception Index.

Since good governance is a pillar in economic development it makes sense to compare Rwanda and South Africa in terms of corporate governance in an African context. Kayihura (2013: 20) in the article "The shareholder versus the stakeholder: The case of Rwanda", writes that Rwanda as a result of its political and corporate legal history implemented the Guiding Code of Corporate Governance in 2009.

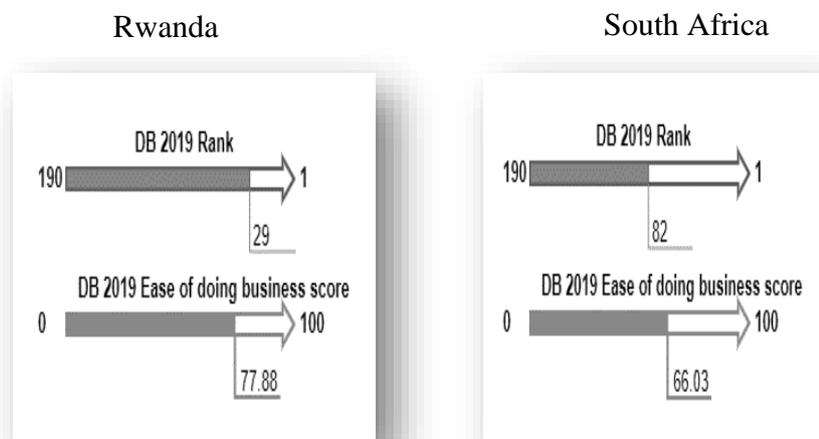
This code is a hybrid system leaning toward the Germanic system with a focus on stakeholder value. If Rwanda's GDP growth of 7.8% is compared to South Africa's GDP growth of 0.7% in 2019 and a ranking of 78 out of 180 countries on the Transparency International Corruption Perception Index, it becomes clear that corporate governance that

focuses on stakeholder value (the Germanic /Continental Europe governance code system) can contribute towards growth through improved governance (Transparency International 2019: n.p.). Ho (2010: 59, cited in Muswaka 2013: 6) is of the opinion that Rwanda’s (2009) Guiding Code of Corporate Governance and its stakeholder value-orientation supports African societal norms and will work well in the African context. There was a move from stakeholder’s short-term interests to a more long-term sustainable approach.

Markkanen (2015: 3) in the article “Corporate governance in Africa: A comparative study” writes that African countries should have their own unique codes and not simply copy Anglo-Saxon (shareholder focus) or Continental European (stakeholder focus) codes but codes that focus on African values such as Ubuntu (communal values), corruption and protection of minority rights. This ties in with the discussion on touchpoints between Ubuntu and servant leadership in chapters 2 and 3.

Markkanen (2015: 3) argues that African countries with corporate governance codes are better at rooting out corruption than those who do not have codes. Initial criticism against the first three King codes included an overreliance on the Anglo-Saxon model (shareholder focus). However, this was changed in the King IV Report, which is characterised by a stakeholder inclusive approach (Markkanen 2015: 3). Figure 4.3 provides a comparison between Rwanda and South Africa in terms of the 2019 World Bank Doing Business Report.

**FIGURE 4.4 2019 WORLD BANK DOING BUSINESS REPORT: RWANDA VS SOUTH AFRICA**



Source: World Bank Doing Business Report (2019)

## **4.4 KING REPORTS ON CORPORATE GOVERNANCE**

### **4.4.1 A regulatory framework for the NPO sector before the King Codes**

To understand the role of the King IV Report (2016) and specifically the sector supplements in this report, it is important to explore the regulatory frameworks that applied to the NPO sector before the King Codes. Compliance to governance codes is supported by the legal framework of non-profit organisations operating in South Africa. The International Centre for Non-Profit Law (ICNL) describes five legal types of NPOs in South Africa:

The *voluntary association*, the most common legal form, which is a product of common law and not regulated by any statute.

*Non-profit trusts (NPTs)* are governed by Trust Properties Control Act and common law. They do not have a separate legal personality and liability is vested in the trustees.

*Non-profit companies (NPCs)* are governed by the South African Companies Act of 2008 and have a separate legal personality.

*Registered non-profit organisations (NPOs)* are governed by the NPO Act of 1997. Registration is voluntary and is governed by the Directorate for Non-profit Organisations in the Department of Social Development. Yearly submissions of a narrative and financial report are required to remain registration and an NPO stands to lose funding if it is deregistered.

Approved *Public benefit organisations (PBOs)* must comply to the Income Tax Act. Regulation states that it must be a non-profit company or trust formed under the Companies and Income Tax acts with the restriction that activities are carried out in a non-profit manner with nominal income generated to cover costs for services rendered (www.cof.org 2019: n.p.)

The NPO Act was signed into effect with the purpose of ensuring that an enabling environment was created for the non-profit sector to excel. This includes creating a regulatory environment for the sector, encouraging NPOs to maintain a satisfactory level of governance, accountability and transparency and ensuring that a stakeholder inclusive environment within the NPO sector is created between government, the private sector and civil society. The NPO Act's main contribution was establishing a non-profit directorate within the Department of Social Development (DSD 1997: n.p.).

The NPO Act (1997) was enacted as government's attempt to provide a regulatory framework for the sector. Voluntary governance codes applicable to the non-profit sector followed, including SANGOCO's Code of Ethics for Non-profit Organisations (1997), the Department of Social Development's Code of Good Practice for South African Non-profit Organisations (2001) and the Independent Code of Governance and Values for Non-profit Organisations in South Africa (2012).

In South Africa, the King Reports on Corporate Governance are generally accepted as the source documents for what constitutes sound governance. The first report was published in 1994 with a focus on companies registered on the Johannesburg Stock exchange, excluding civil society organisations operating on a non-profit basis. The King II Code followed in 2002, with the King III Code published in 2009.

Criticism against these codes was that they lacked NPO sectoral specifics. In August 2010 at a civil society consultative forum the sentiment was expressed that CSOs felt aggrieved that the King III Code was developed without any consultation with civil society organisations. The meeting concluded that the implementation of the corporate governance code presented a threat as the values and the ethos of the NPO sector was not considered. The result was that a process was initiated to outline a draft document with sector-specific governance values and principles (Rosenthal 2012: iii).

In 2012, after a two-year consultative process, the Independent Code of Governance for the NPO Sector in South Africa was finalised. It included eight fundamental values, six leadership principles and five fiscal and legal principles ([www.governance.org.za](http://www.governance.org.za) 2012).

This was a developmental process that paved the way for the King IV Report that includes NPO sectoral specifics that focus on four governance outcomes, namely ethical culture, good performance, effective control and legitimacy (Wyngaard 2017: 2-4).

Wyngaard (2017: 5) states that focus on governance globally is gaining impetus. In order to secure much need international and local funding compliance to the King IV Report will become important to ensure the non-profit sector's long-term sustainability and to overcome other challenges facing organisations within this sector. In addition, it will ensure that CSOs are competitive on a global scale as measured by corporate governance measurement

indexes (Wyngaard 2017: 5).

#### **4.4.2 Background to the King I Code (1994)**

The King reports had their origin in July 1993 when Judge Mervyn Eldred King, senior counsel and retired judge of the Supreme Court of Appeal was requested by the Institute of Directors in South Africa to chair a corporate governance committee that also included Phillip Armstrong, Nigel Payne and Richard Wilkinson (Hendrikse & Hendrikse 2003: 339).

This was “in response to the increasing concern over corporate failures and the perceived need for a formal code of corporate governance” (Walker & Meiring 2010: 1). King is internationally revered for his work and influence in the field of corporate governance and serves on the World Bank’s private sector advisory board on corporate governance. He also served as chairperson of the International Integrated Reporting Council (IIRC) ([www.mervynking.co.za](http://www.mervynking.co.za) 2019). According to its website, the IIRC is a “global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The coalition is promoting communication about value creation as the next step in the evolution of corporate reporting.” ([www.integratedreporting.org](http://www.integratedreporting.org) 2019 n.p.).

King is also Chairperson Emeritus of the Global Reporting Initiative, an organisation founded in 1997 to “help businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance, and social well-being. This enables real action to create social, environmental and economic benefits for everyone. The GRI Sustainability Reporting Standards are developed with true multi-stakeholder contributions and rooted in the public interest.” ([www.governance.org](http://www.governance.org) 2019: n.p.).

The gravitas of King contributed to the fact that the King Reports on Corporate Governance have been referred to as “the most effective summary of best international practices in corporate governance”. The copyright of the King Report on Corporate Governance and the King Code of Corporate Governance is owned by the Institute of Directors of South Africa (IoDSA) while it is issued by the King Committee on Corporate Governance (Smart & Creelman 2013: 221).

As the global economic milieu progresses it necessitates regular revision of the King reports to include the changing global environment and new challenges in the field of corporate

governance in South Africa. It is also important to note that in King I, II and III the governance code and the report were two separate documents where with the King IV Report it is one document and framework (King 2002: 2).

In 1994 the King I Report was introduced. It incorporated a Code of Corporate Practices and Conduct with the focus to create a guideline to advance the highest standards of corporate governance in South Africa. It stipulated a financial and regulatory corporate governance framework but was ground-breaking as it championed an integrated good governance approach with the purpose to protect and promote the interests of the institute or organisation's role players (King 2006: 17-18).

According to West (2009) in his article "The ethics of corporate governance: A (South) African perspective" the first King Report's main aim was to protect and strengthen the foundation of a capitalistic corporate system in an atmosphere of political unpredictability to align with international corporate governance codes. It was during this period that the South African Institute of Chartered accountants initiated their "Harmonisation and improvement project with International Accounting Standards" (West 2009: 2).

Rossouw (2009, citing West 2009) writes that in Africa, South Africa took the lead in the field of governance, followed by the rest of Africa except for Nigeria. This properly developed framework ensured that the interests of all role-players were served. According to Rossouw (2009) this approach is enlightened by the African philosophy of Ubuntu and the merits of "the importance of community, coexistence, and inclusion". He concludes that the developmental agenda of African countries and the prevalent presence of state-owned enterprises also played an important role to follow social and economic objectives.

Rossouw highlights that South Africa was the first country in Africa to establish a corporate governance code. Rossouw writes that in Africa "there is a lack of political commitment to comply with external governance codes, so most organisations are committed to ensuring that they voluntarily comply internally". African national codes on good corporate governance are issued with the onus resting on companies to comply most on a comply-or-explain basis (Rossouw 2009: 45).

The code applied to the following organisations and institutions according to the Code of Corporate Practices and Conduct (1994): companies listed on the main board of the

Johannesburg Stock Exchange, large public entities as defined in the Public Entities Act, banks, financial and insurance entities as defined in the various Financial Services Acts and large unlisted public companies (total shareholders' equity greater than R50 million).

Compliance with the code was voluntary but the Institute of Directors of South Africa encouraged companies to adhere to the code. The code included sections that relate to the board of directors' structure, regulations regarding the appointment of directors, guidelines regarding the remuneration of directors, a framework for board meetings, professional advice, reporting (annual reports) and communication by the board, auditing guidelines, implementation of an affirmative action programme and implementation of a code of ethics (King 2006: 17-18).

Although the King I Code (as well as the subsequent King codes and reports) was not legally enforceable, compliance is necessary for companies wishing to be listed on the Johannesburg Stock Exchange.

The three main philosophies of the code are good corporate citizenship to ensure that the organisation serves society and all relevant stakeholders; ethical leadership to ensure that the board, executive management and worker group act ethically; and long-term sustainability focused on making decisions that ensure long-term prosperity for the company by managing all resources equitably (King 2002: 2).

The focus of the King Code is principled ethical leadership and good governance which is considered non-negotiable. King views good corporate governance as an essential aspect of any institution, business or organisation through constructive moral and ethical leadership. Any organisation's leadership's goal should be to achieve long-term sustainability as a result of their unwavering ethical economic future vision in the 21st century. Reference to the sustainability of an organisation is based on the code referring to the corporate citizenship of an organisation as a juristic person as stipulated by the South African constitution (Smart & Creelman 2013: 221).

#### **4.4.3 Background to the King II Code (2002)**

Richard Wilkinson, executive director of the Institute of Directors of South Africa, at the release of the King II Code and Report in 2002 emphasised that at the time this report was released the South African business environment was placing much more ethical pressure

on boards and that corporate citizenship and corporations' reputations have become just as important as companies' share prices. The failure of organisations such as Leisure-net and Saambou also influenced public opinion that proper governance of companies was just as important as governmental governance (King II 2002: 7).

While the King I Code was at the forefront of economic transformation after 1994, with the King II Code it was important to consider legislation that was passed in the eight years after the new economic dispensation to accommodate political and socio-economic transformation. Legislation that was passed after the release of the first King Code included the Labour Relations Act (No. 66 of 1995), the Basic Conditions of Employment Act (No. 75 of 1997), the Employment Equity Act (No. 55 of 1998), the National Environmental Management Act (No. 107 of 1998), the listing requirements of the JSE Securities Exchange South Africa (formerly Johannesburg Stock Exchange) (these were revised in 1995 and 2000), amendments to the Companies Act (No. 61 of 1973), the Banks Act (No. 94 of 1990), introduction of the Insider Trading Act (No. 135 of 1998), the Public Finance Management Act (No. 1 of 1999) and the Policy Framework for State-Owned Enterprises by the Department of Public Enterprises in August 2000 to ensure improved governance within state-owned enterprises.

The regulatory framework and statutory landscape have thus changed significantly, requiring revision of the King I Code. For the revision of the King I Code the following four guiding principles were established, namely to review the King I Report to ensure that the King II Report is up to date with the latest trends and developments in corporate governance internationally; to adopt an inclusive approach for long-term sustainability; to take non-financial issues into account, including social and ethical financial accounting practices and adherence to new health and safety workplace requirements; and to ensure the new code compliance can be measured using a balanced scorecard approach (King 2002: 16).

Smart and Creelman (2013: 221) in their analysis of the King II Code concluded that the main principles of this code were focused on director responsibilities, risk management, internal auditing, integrated sustainability reporting and auditing practices. They write that the focus of this code was to ensure internal checks and balances are in place to ensure stakeholder security (Smart & Creelman 2013: 221).

#### **4.4.4 Background to the King III Code (2009)**

The Institute of Directors in Southern Africa (IoDSA) launched the King Code of Governance Principles and the King Report on Governance (King III) at the Sandton Convention Centre in September 2009. The King III Code was implemented from 1 March 2010 to align with the Companies Act (No. 71 of 2008), which was implemented on 1 May 2011.

The main principles of the code include director responsibility, risk management, internal auditing, integrated sustainability reporting, auditing practices, shareholders' approval of non-executive directors' payment structure, directors' performance evaluations, stakeholder and compliance relationship, business rescue, fundamental and affected transactions, its governance and alternative dispute resolution (Smart & Creelman 2013: 221). The King III Code persisted with the voluntary comply or explain premise despite the global debate that governance codes should be compulsory (King III 2009: 5).

Muswaka (2013: 6) argued that the King III Code was shareholder value-orientated and questioned whether this was the best approach for the developing economy of South Africa. It is also important to note that according to Langeni (2018: 195) the King III Code's main contribution was providing the main governance framework for discussion, not only for business but for the community and society as a whole, shifting towards a bigger stakeholder value-orientation. In terms of shortcomings the King III Code was a refinement of the King II Code, providing very little on new emerging governance code trends and practices, once more focusing more on shareholder protection even if inroads were made towards stakeholder inclusion (Langeni 2018: 196).

#### **4.5 THE KING IV REPORT (2016)**

##### **4.5.1 Overview of the King IV Report (2016)**

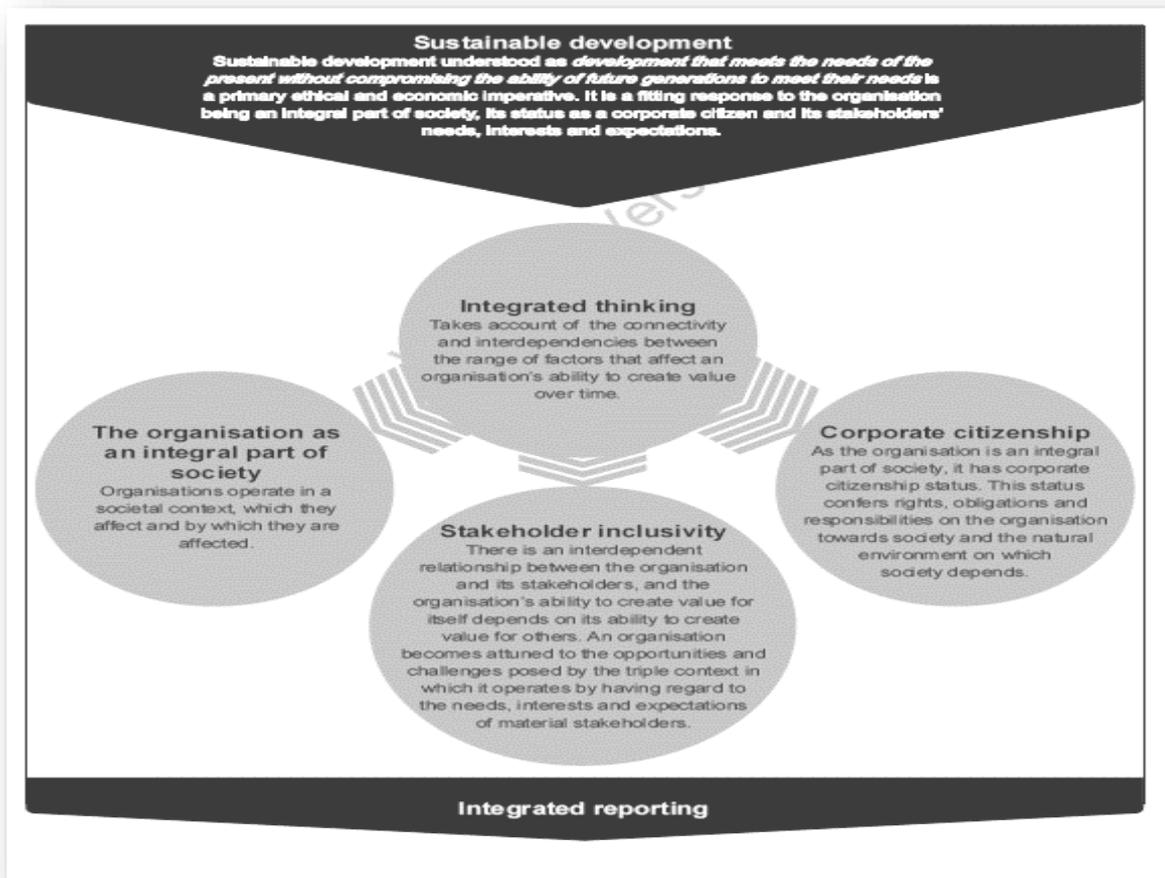
At this point in the discussion it is important to note that the Institute of Directors in South Africa NPC owns all copyright and titles to the King IV Report on Corporate Governance for South Africa (2016) in its entirety, inclusive of all parts, sections, chapters and supplements that make up the King IV Report. Therefore, specific wording related to the principles and practices must be used verbatim.

In the foreword to the King IV Report, King (2016) writes that several challenges in the 21<sup>st</sup> century influenced the report, namely global financial crises and instability such as the impact of Britain leaving the European Union (Brexit), the growing impact of climate change, the impact of the Fourth Industrial Revolution resulting in radical transparency through social media that does not allow an organisation to conceal uncomfortable truths, the disruption of existing business models, advances in robotics and artificial intelligence and the preference of the Millennial Generation towards sustainable environmentally friendly organisations who have integrated the six capitals (financial, manufactured, human, intellectual, natural and social relationship capital) combined with a growing focus of stakeholders' expectations in terms of civil society activism and push-back from shareholders (IoDSA 2016: 5-7).

The six foundational stones are underpinned by three connected paradigm shifts in the corporate world, namely shifts from financial capitalism towards inclusive capitalism, short-term capital markets towards long-term sustainable capital markets and silo reporting to integrated reporting (IoDSA 2016: 5-6). The King IV Report (2016: 5-6) therefore recognises that fact that leading organisations have already transformed their operations to improve stakeholder management, embrace new technology, specifically its governance and security, and broadening strategy to include good cooperate citizenship (IoDSA 2016: 5-6).

It is important to note that the King IV Report does not diverge from the King III Code's concepts but rather expands and improve on the underpinning philosophies, namely sustainable development, integrated thinking, corporate citizenship, stakeholder inclusivity and the organisation as part of society (see Figure 4.5). The most important aspect of the King IV Report is that the focus shifted to the role of the stakeholder, which means that the report is a more hybrid governance model geared towards an African approach.

**FIGURE 4.5 UNDERPINNING PHILOSOPHIES OF THE KING IV REPORT**



Source: IoDSA (2016: 23)

Another important aspect of the King IV Report (2016: 7) is that this document seeks to include all organisations from public to private, whether for-profit or non-profit, through the sectoral supplements, which include municipalities, non-profit organisations, retirement funds, small and medium enterprises and state-owned entities. Other changes are the move from an apply-or-explain approach to an apply-and-explain outcome-based approach where 16 of the 17 principles can be applied to any organisation. There is also a significant reduction from the 75 compliance principles in the King III Code to the 17 compliance principles in the King IV Report.

The key to the mindful application of the King IV Report is to understand the important connection between the four governance outcomes, namely ethical culture, good performance, effective control and legitimacy in reference to the six capitals (financial, manufactured, human, intellectual, natural and social relationship) (Blue Apple 2017: n.p.).

One of the King IV Report's key objectives is the renewed focus on integrated reporting, a concept that was introduced in the King III Report. It is important to note that when drafting the King IV Report, the Integrated Reporting Committee of South Africa adopted the International <IR> Framework as best practice (IoDSA 2016: 28). Integrated reporting within an organisation is supported by the seven principles guiding organisations on which content should be considered, namely strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness and consistency and comparability (Blue Apple 2017: n.p.). This is supported by the eight content elements guiding the organisation in terms of how the integrated report should be compiled, namely organisational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance and outlook (Blue Apple 2017: n.p.).

The most important aspect of the King IV Report is the application of the 17 good corporate governance principles which are basic and fundamental in the drive towards good governance and achieving the governance outcomes. The principles are underpinned by 215 practices to ensure the implementation of each principle, giving direction and action to the principles (IoDSA 2016: 40). (See **appendix A** for comprehensive practice guideline). The driving force towards ensuring implementation, growth and sustainability by achieving the corporate governance outcomes is the governing body executives whose purpose it is to steer and set strategic direction, approve policy and planning, oversee and monitor the process and ensure ultimate accountability on behalf of the organisation and its stakeholders.

The 17 principles of the King IV Report form the core focus of this study as the aim is to look for touchpoints between these principles and the 12 traits of servant leadership as discussed in chapter 3, thus putting forward an argument that the traits of servant leadership are embedded in the principles of the King IV Report. In the structure of the King IV Report the 17 principles are divided into five themes.

#### **4.5.2 Theme 1: Leadership, ethics and corporate citizenship**

*Principle 1 - Leadership:* "The governing body should lead ethically and effectively." This includes three recommended practices focusing on the characteristics of the governing body that include integrity, competence, responsibility, accountability, fairness and transparency (IoDSA 2016: 43-44).

*Principle 2 - Organisational ethics:* “Govern the ethics of the organisation in a way that supports the establishment of an ethical culture.” This includes seven recommended practices focusing on ethical standards and code of conduct (IoDSA 2016: 44-45).

*Principle 3 - Responsible corporate citizenship:* “The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.” This includes five recommended practices focusing on corporate citizenship and compliance with the constitution and legal framework of South Africa (IoDSA 2016: 45-46).

#### **4.5.3 Theme 2: Strategy, performance and reporting**

*Principle 4 - Strategy and performance:* “The governing body should appreciate that the organisation’s core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.” This includes eight practices focusing on steering and driving strategy towards a positive result on the six capitals (IoDSA 2016: 47-48).

*Principle 5 - Reporting:* “The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation’s performance, and its short, medium and long-term prospects.” This includes seven practices focusing on the integrity of all the reporting frameworks and documents (IoDSA 2016: 48).

#### **4.5.4 Theme 3: Governing structures and delegation**

*Principle 6 - Primary roles and responsibilities of the governing body:* “The governing body should serve as the focal point and custodian of the corporate governance in the organisation.” This includes five practices focusing on the leadership and functioning of the governing body (IoDSA 2016: 49).

*Principle 7 - Composition of the governing body:* “The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity, and independence for it to discharge its governance role and responsibilities objectively and effectively.” This includes 33 practices under four subheadings, namely composition, nomination, election and appointment of members to the governing body, focusing the manner in which the governing body is arranged and discharges its duties in such a manner that it contributes to the good governance of the organisation (IoDSA 2016: 50 -53).

*Principle 8 - Committees of the governing body:* “The governing body should ensure that its arrangements for delegation within its own structures promote independent judgment and assist with balance of power and the effective discharge of its duties.” This includes 32 practices under six subheadings, namely general, audit committee, committee responsible for nominations of members of the governing body, committee responsible for risk governance, committee responsible for remuneration and social and ethics committee (IoDSA 2016: 54 -57).

*Principle 9 - Evaluation of the performance of the governing body:* “The governing body should ensure that the evaluation of its own performance and that of its committees, its chair, and its individual members support continued improvement in its performance and effectiveness.” This includes five practices focusing on the process to evaluate the performance of the governing body and its chair and its members (IoDSA 2016: 58).

*Principle 10 - Appointment and delegation to management:* “The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and effective exercise of authority and responsibilities.” This includes 24 practices under three subheadings, namely CEO appointment and role, delegation and professional corporate governance services to the governing body (IoDSA 2016: 58-60).

#### **4.5.5 Theme 4: Governance functional areas**

*Principle 11 - Risk governance:* “The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.” This includes nine practices focusing on how the governing body manages risk with the aim to protect governance and ensure long-term financial sustainability (IoDSA 2016: 61-62).

*Principle 12 - Technology and information governance:* “The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.” This includes eight practices focusing on how the governing body manages technology and information through compliance, integration and monitoring in a visionary manner (IoDSA 2016: 62-63).

*Principle 13 - Compliance governance:* “The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that it

supports the organisation being ethical and a good corporate citizen.” This includes eight practices focusing on how the governing body manages legislative and regulatory compliance with the aim to protect governance and ensure long-term organisational and financial sustainability (IoDSA 2016: 63-64).

*Principle 14 - Remuneration governance:* “The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in short, medium and long-term.” This includes 14 practices under three subheadings, namely remuneration policy, remuneration report and voting on remuneration (which is only applicable to companies) (IoDSA 2016: 64 -67).

*Principle 15 - Assurance:* “The governing body should ensure that assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision-making and of the organisation’s external reports.” This includes 22 practices under three subheadings, namely combined assurance, assurance of external reports and internal audit (IoDSA 2016: 68-70).

#### **4.5.6 Theme 5: Stakeholder relationships**

*Principle 16 - Stakeholders:* “In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder–inclusive approach that balances the needs, interests, and expectations of material stakeholders in the best interests of the organisation over time.” This includes 19 practices under two subheadings, namely stakeholder relationships and relationships within a group of companies. The first five practices apply to all organisations while the rest apply only to companies and companies within a group focusing on the inclusive stakeholder approach to ensure long-term organisational sustainability (IoDSA 2016: 71-73).

*Principle 17 - Responsibilities of institutional investors:* “The governing body of an institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote the good governance and the creation of value by the companies in which it invests.” This includes six practices focusing on responsible investment management by the governing body of the institutional investor organisation (IoDSA 2016: 73).

#### **4.6 SECTORAL GUIDELINES FOR NON- PROFIT ORGANISATIONS**

As mentioned earlier in this chapter, the run-on towards including the supplement for non-profit organisations in the King IV Report started in 1997 when the NPO Act (No. 71 of 1997) was signed into effect with the purpose to ensure an enabling environment is created for the non-profit sector to excel. This included creating a regulatory environment for the sector, encouraging NPOs to maintain a satisfactory level of governance, accountability and transparency through a self-regulation framework. The purpose was to create a conducive environment within the NPO sector between government, stakeholders and the NPOs, including establishing a non-profit directorate within the Department of Social Development (DSD 1997)

With the specific change in the application regime of the King IV Report to apply-and-explain more pressure is applied to compliance, although this is still voluntary and not legal compliance. However, the debate regarding compliance since the publication of the Cadbury Report (1992) on good governance globally is still continuing. In the civil society sector, there has been a drive to create voluntary compliance governance codes since 1992. Here it is important to include reference to the state of self-regulation NGO sector governance codes in Africa as articulated by Gugerty (2010: 1092 -1095) in table 4.3 earlier in this chapter.

The introduction of the King IV Report's NPO sectoral supplement refers to the World Bank document "The role of non-profit organisations in development: The experience of the World Bank" (1991). The importance of the non-profit sector's contribution to society is articulated in the following roles, namely providing services to specific vulnerable communities or groups that are not met by government or the private sector; supporting government in meeting the UN Sustainable Development Goals as part of the National Development Plan; assisting citizens to lobby policymakers to find better regulatory alternatives protecting the rights of marginalised groups and broadening democracy regarding freedom of associations and speech and assisting government and specifically local government to be accountable and transparent in their dealings with its citizens (IoDSA 2016: 87).

The scope of the King IV Report's NPO supplement for non-profit organisations (Part 6 of the King IV Report) includes "non-profit companies, charitable trusts, voluntary associations, clubs and funds with a non-profit business model". All the principles of the King IV Report apply except for principle 17 which refers to the responsibility of institutional investors (IoDSA 2016: 88 -94).

The purpose of the supplement is to illustrate how the recommend practices can be adapted to or customised for the needs and requirements of NPOs. Given the fact the NPOs can vary in size from large organisations to micro organisations, the NPO supplement also provides for proportionality considerations. The supplement describes these considerations as that “differences in the implementation of corporate governance are accomplished through proportionality ... adapting the practices according to where the organisation is in its growth cycle and its size” (IoDSA 2016: n.p.) The supplement also cautions that “implementing governance practices is not an end in itself and [that] NPOs should ensure that corporate governance is harnessed for achieving strategic objectives and overall positive outcomes in terms of effects and impacts on the capitals.

*Accounting Weekly* (2017) encourages the NPO sector to implement the King IV Report, stating several benefits including: increasing the impact of the NPO’s programme of action and advocacy through stronger stakeholder relationships and more effective operational processes; improved governance will result in better access to funding, grants, and loans on better terms; solving the issue of limited expertise by making it more lucrative to volunteer or work in this sector; the issue of corruption will be addressed through stricter control measures to prevent fraud; enforcing succession planning for the executive leadership on the board and in the management structures; and addressing the issue of NPO closure and limiting staff and reduction of services rendered through improved planning processes to support business continuity even in a struggling economy.

All of these serve as an incentive for NPO organisations to implement the King IV Report. Most important is the fact that it provides a practical roadmap for these organisations to implement ethical leadership and the governance of ethics which seek to serve the internal and external stakeholders (*Accounting Weekly* 2017 n.p.).

#### **4.7 CHAPTER SUMMARY**

The purpose of the chapter was to provide a broad outline of corporate governance by looking at milestones in the development of corporate governance, the different international governance codes and their establishment. Reference was made to various indexes used to measure governance on a regional or institutional basis. The main discussion in this chapter is on the King IV Report. It refers to the background and history of the King reports, including the first three King Codes.

The King IV Report is discussed at the hand of its underpinning philosophies, application approach as well as differences from the first three King codes. The focus is on the 17 principles and 215 practices that is the practical application of King IV Report. The chapter provided a summary of the 17 principles at the hand of the five themes provided by the structure of the King IV Report, namely leadership, ethics and corporate citizenship (theme 1), strategy, performance and reporting (theme 2), governing structures and delegation (theme 3), governance functional areas (theme 4) and stakeholder relationships (theme 5). The chapter concludes with a discussion the King IV Report's sectoral guidelines for non-profit organisations.

## **CHAPTER 5: EVALUATION, ASSESSMENT AND INTERPRETATION OF RESULTS**

### **5.1 INTRODUCTION**

This chapter provides the evaluation, assessment, and interpretation of the results of the study. It should be read within the context of the theoretical framework (chapter 2) as well as the discussions of servant leadership (chapter 3) and the King IV Report (chapter 4).

### **5.2 AIMS AND OBJECTIVES**

As stated in chapter 1, the primary aim of this study is to investigate the link between leadership and good governance in the NGO sector by comparing the main traits of servant leadership with the principles of the King IV Report on Corporate Governance with the purpose of demonstrating how the characteristics of servant leadership are embedded into the King IV Report, thus providing one possible leadership/governance balance that can provide a more people-focused environment for NGOs to become more sustainable.

As stated in chapter 1, the objectives of the study are:

- to provide a theoretical framework for the study against which to interpret the findings.
- to discuss servant leadership as a leadership theory.
- to discuss the principles of the King IV Report.
- to compare the main traits of servant leadership with the principles of the King IV Report.
- to demonstrate how the main traits of servant leadership are embedded in the King IV Report and thus how the King IV Report presents NGOs with the opportunity to implement an instrument that provides both a people-centred leadership approach and ensures good governance.

### **5.3 EVALUATION, ASSESSMENT AND INTERPRETATION OF RESULTS**

#### **5.3.1 Units of analysis**

This section summarises the 12 main traits of servant leadership as discussed in chapter 3 as well as the 17 principles of the King IV Report as discussed in chapter 4, as these 29 elements (12 traits and 17 principles) form the basis of the analysis. As mentioned in chapter 3, this evaluation will make use of the 12 main traits of servant leadership as identified by the Focht and Ponton (2015) Delphi study.

For a summary of all the traits identified by various servant leadership researchers, see table 3.5 in chapter 3, which lists all 85 servant leadership traits used to conduct the Focht and Ponton Delphi study. For the purpose of this discussion, each of the 12 main traits is briefly defined below using the definitions provided by Focht and Ponton (2015: 50):

*Trait 1 - Valuing people:* Servant leaders value people for who they are as individuals and not simply as employees. This speaks of a commitment to people and therefore presents a holistic view of individuals. Employees are valued as assets and not only through what they can do for the organisation

*Trait 2 - Humility:* Servant leaders seek to promote others and not themselves. They are humble in acknowledging that achievements are the result of the contributions of various people.

*Trait 3 - Listening:* Servant leaders listen receptively and in a non-judgemental manner. The purpose is to understand and to learn from others.

*Trait 4 - Trust:* Servant leaders can trust other persons. This allows them to be able to support and serve others. Authenticity and dependability are key values.

*Trait 5 - Caring:* Servant leaders truly have the people and the purpose in their hearts. They display kindness toward others and a concern for others. Serving other people is what sets them apart. Servant leaders can put employees before the requirements of the organisation.

*Trait 6 - Integrity:* Servant leaders are honest, credible and can be trusted. Integrity refers to knowing your own values and developing a set of shared values with those you serve. This provides clarity and drives commitment. Servant leaders need to be first in ensuring that their behaviour is consistent with their values and with the shared values they develop with others. This includes the categories of engaging in honest self-evaluation, inner consciousness, and spirituality.

*Trait 7 - Service:* The servant leader is a servant first. This speaks to the heart of this approach to leadership. The servant leader has an outward focus and the servant leader becomes the steward of those whom he or she leads.

*Trait 8 - Empowering:* Servant leaders empower others and expect accountability.

*Trait 9 - Serving others' needs before their own:* Servant leaders serve others before themselves. This is foundational to what it means to be a servant leader. This trait is not to be confused with the trait of service. In the case of serving other's needs before their own the focus is on putting the needs of others first.

*Trait 10 - Collaboration:* Servant leaders bring people together. Because servant leadership is about pursuing a higher purpose for the good of the whole and because leadership is a collaborative process (it requires collaboration between leaders and followers), skilled collaboration is an essential characteristic of a servant leader. This includes categories of accountability, awareness, building community, courage in relationships, empathy and listening.

*Trait 11 - Agape love/unconditional love:* This category includes acceptance, acknowledging, appreciation of others, equality, trust and vulnerability. The ultimate motive to serve.

*Trait 12 - Learning:* This includes learning from everyone in the organisation. Servant leaders are life-long learners who are aware of their limitations and strive to expand their knowledge. They seek a perspective from both internal and external stakeholders.

As the aim of this study is to link the traits of servant leadership with the principles of the King IV Report, a brief summary of the 17 principles of King IV is provided below (IoDSA 2016):

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

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

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

*Principle 4 - Strategy and performance:* The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model,

performance and sustainable development are all inseparable elements of the value creation process.

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

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

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

*Principle 8 - Committees of the governing body:* The governing body should ensure that its arrangements for delegation within its own structures promote independent judgment and assist with the balance of power and the effective discharge of its duties.

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

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

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

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

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

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

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

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

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

As discussed in chapter 4, each of the 17 principles of the King IV Report includes several recommended practices (see appendix A) that sets out actions or behaviour aimed at achieving or adhering to that specific principles. There are 215 practices in total, set out as follows:

Theme 1: Leadership, ethics and corporate citizenship (principles 1-3; 15 practices)

Theme 2: Strategy, performance, and reporting (principles 4-5; 15 practices)

Theme 3: Governing structures and delegation (principles 6-10; 99 practices)

Theme 4: Governance functional areas (principles 11-15; 61 practices)

Theme 5: Stakeholder relationships (principles 16-17; 25 practices)

In addition, each theme also relates to an outcome, which is set out as follows:

Theme 1: Leadership, ethics and corporate citizenship

Outcome: Ethical culture

Theme 2: Strategy, performance, and reporting

Outcome: Performance and value creation

Theme 3: Governing structures and delegation

Outcome: Effective control

Theme 4: Governance functional areas

Outcome: Effective control

Theme 5: Stakeholder relationships

Outcome: Trust, good reputation and legitimacy

As the purpose of this study is to investigate how the traits of servant leadership are embedded in the principles of the King IV Report, the five main themes of the King IV Report (IoDSA 2016) will form the framework for the analysis.

The discussion of the five themes will include mention of some of the practices that form part of that theme as an illustration of actions or behaviour expected from a governing body that corresponds with actions or behaviour expected from a servant leader.

### **5.3.2 Theme 1: Leadership, ethics and corporate citizenship**

Theme one focuses on principles 1-3 of the King IV Report, namely leadership (principle 1), organisational ethics (principle 2) and responsible corporate citizenship (principle 3). The outcome of theme 1 is an ethical culture. Table 5.1 provides a summary of the servant leadership traits that share similarities with these three principles.

**TABLE 5.1 THEME 1: LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP**

King IV principles		Servant leadership traits (T1-T12)
1	Leadership: “The governing body should lead ethically and effectively.”	T1: Valuing people T4: Trust T6: Integrity T8: Empowering T9: Serving others’ needs above your own T12: Learning
2	Organisational ethics: “Govern the ethics of the organisation in a way that supports the establishment of ethical culture.”	T3: Listening T5: Caring T6: Integrity T9: Serving other needs’ above your own
3	Responsible corporate citizenship: “The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.”	T1: Valuing people T6: Integrity T8: Empowering T9: Serving others’ needs before your own T11: Agape Love T12: Learning

Sources: Focht & Ponton (2015) & IoDSA (2016)

Principle 1 states that the governing body should lead to ethically and effectively. In terms of servant leadership, traits 1, 4, 6, 8, 9 and 12 speak to a similar ethical leadership style. Principle 2 refers to the manner in which the ethics of the organisation should be governed namely to support the establishment of an ethical culture. Servant leadership traits 3, 5, 6, and 9 also speaks to ethics and ethical governance. Principle 3 addresses responsible corporate citizenship, both internally and externally. This act of responsibility is reflected in servant leadership traits 1, 6, 8, 9, 11 and 12.

Theme one, therefore, presents the leader (or governing body) as responsible and ethical. In the supplement for non-profit organisations (Part 6 of the King IV Report) this ethical responsibility is placed in the hands of the governing body by “setting an example through its own character and behaviour”. Members of the governing body should start with a focus on their own individual and collective character and behaviour.

Brown and Trevino (cited by Eva et al. 2019: 113) write that servant leadership relates to ethical leadership as it naturally leans towards stewardship. The first governance outcome of the King IV Report (2016: 20) is an ethical culture underpinned by ethical leadership. Ethics and ethical leadership are identified as the main challenges in civil society organisations.

From the perspective of a board or governing body, this means acting in good faith and in the best interest of the organisation (principle 1), which also refers to the concepts of the theory of stewardship (Caldwell et al. 2008). Caldwell et al. (2008: 154) write that leaders (management teams, individuals, governing bodies) should act as stewards of the organisation, with ownership and trust as valued attributes and actions motivated by collective and pro-organisational thinking. Servant leadership trait 9 refers directly to this pro-organisational thinking by stating that a servant leader serves others' needs before their own.

Ethics also play an important part in this regard. If trait 9 is rephrased, it reads that servant leaders should not place their own needs first. In the supplement for NPOs in the King IV Report, direct reference is made to conflict of interest, for example community members who are beneficiaries of the output of the NPO and also serve on the NPOs executive or governance structures, the appointment of relatives and friends as employees or paid consultants or suppliers.

From the above, caring – about individuals or the organisation as a whole – is the key to theme one. If you care for an individual, you will act in a responsible and ethical manner towards that person. This is the basis of trait 12 of servant leadership, which refers to acceptance or appreciation of the other. Focht and Ponton (2015: 50) call this “the ultimate motive to serve.” This align with care ethics theory that advocates a focus on society's benefit rather than a profit-driven company (Casey 2006, cited by Abdullah & Valentine 2009: 93 -94).

Caring is an act of interdependency as both parties benefit from the trust relationship. If translated to the King IV Report, serving the organisation and its stakeholders is the core of corporate governance as well. One of the fundamental concepts underpinning the King IV Report is that the organisation is an integral part of society and that “one person benefits by serving another” (IoDSA 2016: 24).

Acting in what the King IV Report refers to as the “triple context” (the economy, society and the environment) means that the governing body should, therefore, care about, or “love”, all three contexts. This ties to political theory, as mentioned in chapter 2, which proposes that corporate governance functions within a triangle between corporate ownership,

management and labour influenced by the economy and political environment within a specific region.

With reference to the non-profit sector, the NPO supplement of the King IV Report states that NPOs act as a collective voice and hold others responsible and thus are an integral part of the societal dynamic, which also relates to the servant leadership trait of love (trait 11) in the sense of compassion.

### 5.3.3 Theme 2: Strategy, performance, and reporting

Theme two focuses on principles 4-5 of the King IV Report, namely strategy and performance (principle 4) and reporting (principle 5). The outcome of theme two is performance and value creation. Table 5.2 provides a summary of the servant leadership traits that show similarities with these two principles.

**TABLE 5.2 THEME 2: STRATEGY, PERFORMANCE AND REPORTING**

King IV principles		Servant leadership traits (T1-T12)
<b>4</b>	Strategy and performance: "The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process."	T1: Valuing people T4: Trust T7: Service T8: Empowering T9: Serving others' needs before your own T10: Collaboration
<b>5</b>	Reporting: "The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects."	T1: Valuing people T3: Listening T6: Integrity T8: Empowering T9: Serving others' needs before your own T10: Collaboration

Sources: Focht & Ponton (2015) & IoDSA (2016)

Principle 4 states that the governing body should appreciate the organisation's core purpose, risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process. Servant leadership traits 1,4, 7, 8, 9 and 10 similarly contain elements of this appreciation of the business, an employee or a person as a holistic entity as well as the interrelatedness of the various aspects of the organisation.

Principle 5 requires the governing body to ensure that reports enable stakeholders to make informed assessments of the performance and prospects of the organisation. Servant

leadership traits 1, 3, 6, 8, 9 and 10 also address elements of leadership that speak to obtaining and sharing information in a manner that allow the other (stakeholders or employees) to make informed decisions.

At the heart of theme two lies the duty to provide a strategy to allow either the organisation as a whole or the individual employee to reach their goal in terms of purpose, performance, and achievement. From a servant leadership perspective, this refers to the leader's duty to allow the other person the freedom to discover his or her purpose and then to guide them to act in a manner that will allow them to perform and achieve.

Servant leadership trait 10 (collaboration) is embedded in both principle 4 and principle 5 and refers to the responsibility of the leader to bring people together. Collaboration lies at the core of performance as it requires the various strengths of all those involved to work together to achieve a goal.

Recommend practices for principle 4 include that the governing body assume this responsibility for steering and setting the direction for realising the organisation's core purpose and values (principle 4 – recommended practice 1) as well as the delegation of functions to management and other staff in order to implement the organisations strategy (principle 4 – recommended practices 2, 5). In other words, it is the governing body as leader's purpose to ensure collaboration (trait 10) within the organisation.

Creating value, whether for an individual or an organisation, is the primary aim. Leading or governing in a manner that allows for creating value is, therefore, the duty of both the servant leader and the governing body. Similarly, stakeholder theory (discussed in chapter 2) is aimed at creating wealth and long-term sustainability for internal and external stakeholders (Yusoff & Alhaji 2012: 55- 56).

This theory also holds that value (in this instance wealth) is only created through a collaborative process (trait 10; principle 4), acknowledging that all involved must participate within a framework (an organisational strategy) in order to achieve the primary aim.

Theme two can thus be summarised as the responsibility to provide an action plan (strategy) in order to allow participants (employees, etc.) to work together to create value (performance), with the additional duty of reporting, or providing access to information (an

element of stewardship).

Financial viability is often a challenge for non-profit organisations due to their reliance on donor funding. In this regard, the King IV report recommends that the board of an NPO takes care to ensure the long-term sustainability of the NPO by having clarity about its strategy and business model. Such clarity would rest upon knowledge, which is gained through learning (trait 12), specifically, as Focht and Ponton (2015: 51) writes, “learning from all directions in the organization”.

### 5.3.4 Theme 3: Governance, structure and delegation

Theme three focuses on principles 6-10 of the King IV Report, namely the primary role and responsibilities of the governing body (principle 6), the composition of the governing body (principle 7), committees of the governing body (principle 8), evaluations of the performance of the governing body (principle 9) and appointment and delegation to management (principle 10). The outcome of theme 3 is effective control. Table 5.3 provides a summary of the servant leadership traits that correlate to these five principles.

**TABLE 5.3 THEME 3: GOVERNANCE, STRUCTURE AND DELEGATION**

King IV principles		Servant leadership traits (T1-T12)
6	Primary roles and responsibilities of the governing body: “The governing body should serve as the focal point and custodian of the corporate governance in the organisation.”	T2: Humility T3: Listening T4: Trust T5: Caring T6: Integrity T9: Serving others’ needs above your own
7	Composition of the governing body: “The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.”	T1: Valuing people T4: Trust T6: Integrity T7: Service T9: Serving others’ needs above your own T10: Collaboration T12: Learning
8	Committees of the governing body: “The governing body should ensure that its arrangements for delegation within its own structures promote independent judgment and assist with balance of power and the effective discharge of its duties.”	T1: Valuing people T4: Trust T6: Integrity T7: Service T9: Serving others’ needs above your own T10: Collaboration T12: Learning
9	Evaluation of the performance of the governing body: “The governing body should ensure that the evaluation of its own performance and that of its committees, its chair, and its	T1: Valuing people T2: Trust T6: Integrity

	individual members, support continued improvement in its performance and effectiveness.”	T7: Service T10: Collaboration T12: Learning
<b>10</b>	Appointment and delegation to management: “The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and effective exercise of authority and responsibilities.”	T4: Trust T6: Integrity T7: Service T10: Collaboration

Sources: Focht & Ponton (2015) & IoDSA (2016)

Principle 6 holds that the governing body should serve as the focal point and custodian of corporate governance in the organisation. Servant leadership traits 2, 3, 4, 5, 6 and 9 also relate to the responsibility of the leader in terms of being entrusted with the stewardship of other individuals.

Principles 7 and 8 (traits 1, 4, 6, 7, 9, 10, 12) focuses on the composition of the governing body and its committees. Principle 7 alludes to the fact that key “characteristics” of a governing body include knowledge, skills, experience, diversity, and independence. Principle 8 adds independent judgment to this list of characteristics, while principle 9 adds the ability to evaluate effectively and principle 10 includes the duty of delegation.

The comprehensive number of practices (99 in total) that is recommended for theme three in the King IV Report serve not so much as an indication of the importance of this theme but rather to the teamwork or collaboration (trait 10) required (steps to be taken, allocation of responsibility, delegation, etc.) for a strategy to be implemented, monitored, evaluated and thoroughly reported on. The social control governance model focuses on full-fledged representation of stakeholders on the board (Mostepaniuk 2017: 15). This model is incorporated through the activities of the social and ethics committee as highlighted by practices 68-70. The King IV Report’s general focus on stakeholders also links to the social control governance model.

The effective servant leader similarly must provide a “leadership package” that includes these characteristics in order to serve the needs of the individual. The “composition” of the servant leader’s set of values and skills is the key to successful leadership. In order to obtain the desired “composition”, learning (trait 12) is required.

The skilled servant leader learns “from all directions” in an organisation (Focht & Ponton 2015: 51). The knowledge gained from learning is used to adapt, whether in reference to actions, plans, approaches or strategies. The situational mechanisms of stewardship theory

(Monks & Minow 2004) also refer to training, empowerment and capacity-building as ways to create ownership.

From the above discussion theme three is focused on the responsibility of the leader or governing body to “compose” itself in a manner that will provide stakeholders with guidance that is based on knowledge gained from continuous learning and planning. Given the resource challenges faced by NPOs, finding the best people for a governing body, management team or staff composition might be challenging. In this regard the NPO supplement of the King IV Report suggests that NPOs should collaborate (trait 10) with professional bodies in order to contract the services of experienced professionals who are prepared to serve their communities through serving on the board of an NPO for little or no compensation. In order to serve the needs of others (trait 9) NPOs should expand their ranks with community members who are willing to serve the needs of others.

### 5.3.5 Theme 4: Governance of functional areas

Theme four focuses on principles 11-15 of the King IV Report, namely risk governance (principle 11), technology and information governance (principle 12), compliance governance (principle 13), remuneration governance (principle 14) and assurance (principle 15). The outcome of theme four is like that of theme three, namely effective control. Table 5.4 provides a summary of the servant leadership traits that correlate to these five principles.

**TABLE 5.4 THEME 4: GOVERNANCE FUNCTIONAL AREAS**

King IV principles		Servant leadership traits (T1-T12)
<b>11</b>	Risk Governance: “The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.”	T4: Trust T5: Caring T6: Integrity T8: Empowering T10: Collaboration T12: Learning
<b>12</b>	Technology and information governance: “The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.”	T4: Trust T5: Caring T6: Integrity T7: Service T8: Empowering T10: Collaboration T12: Learning
<b>13</b>	Compliance governance: “The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes, and standards in a way that it supports the organisation being ethical and a good corporate citizen.”	T4: Trust T5: Caring T6: Integrity T7: Service T8: Empowering T10: Collaboration

		T12: Learning
<b>14</b>	Remuneration governance: “The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in short, medium and long term.”	T1: Valuing People T4: Trust T5: Caring T6: Integrity T9: Serving others’ needs above your own T11: Agape Love
<b>15</b>	Assurance: “The governing body should ensure that assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision making and of the organisation’s external reports.”	T4: Trust T6: Integrity T7: Service T10: Collaboration

Sources: Focht & Ponton (2015) & IoDSA (2016)

Principle 11 structures the governance of risk through nine practices. Servant leadership traits 4, 5, 6, 8,10 and 12 also relate to managing an organisation’s risk.

Principle 12 relates to the governance of technology, and information, ensuring strategic objectives are reached using eight practices. Servant leadership traits 4, 5, 6, 7, 8, 10 and 12, also relate to responsible management of information.

Principle 13 refers to governing the organisation’s compliance with legislative rules, codes and standards to ensure corporate citizenship using eight practices. Servant leadership traits 4, 5, 6, 7, 8,10 and 12 also relate to accountability and corporate citizenship.

Principle 14 governing the organisation's remuneration to achieve strategic objectives through remuneration policy, reports, the process of voting for remuneration in companies through implementing this principle through the application of fourteen practices. Servant leadership traits 1, 4, 5, 6, 9 and 11 also relate to how remuneration can fulfil long term sustainability.

Principle 15 addresses the governance of the organisation’s assurance and functionality to enable a controlled organisational environment to support the integrity of internal decision-making and external reports by combining assurance through the organisation, the external reports and internal audits. This principle is implemented through 22 recommended practices. Servant leadership traits 4, 6, 7 and 10 are also informed by assurance.

The key to principle 11 is risk and the management of risk through the governance of functional areas. For example, recommended practice 6 (principle 11) requires the

governing body to assess risks and opportunities emanating from the triple context in which the organisation operates and the capitals that the organisation uses and affects. This includes assessment of dependence on resources and relationships, risk responses, reaction to volatility and withstanding and recovering from acute shocks. Again, bridge between the King IV Report and servant leadership is that of stewardship, of taking responsibility for caring for the organisation/team members. The servant leader, in caring (trait 5) for his or her followers as their steward, has to serve their needs (trait 9) through service (trait 7) and empowerment (trait 8). In addition, the servant leader has to use the information gained in this process to create a learning organisational culture (trait 12).

This ability to learn is also reflected in recommended practice 14 of principle 12, which refers to the leveraging of technology and information to sustain and enhance the organisation's intellectual capital (an "asset" that is built through learning).

Principles 13-15 set the boundaries within which the organisation performs, including compliance to various statutory, policy and other frameworks, remuneration governance as well as assurance. Similarly, the servant leader as part of the act of leading has to guide his or her followers, which would include setting boundaries or at least assist in identifying challenges that could result from taking a specific course of action (similar to the guiding role of a parent). This includes acting with integrity (trait 6) as well as being able to trust (trait 4) followers to adhere to guidelines. In a governance context the governing body guides (principles 13-15) through integrity (principle 15, trait 6), which means that staff members can trust the governing body. But at the same time the governing body must be able to trust management to execute delegate functions in terms of, for example, compliance (principle 13, trait 4).

These traits and principles allude to stakeholder theory (Caldwell et al. 2008: 154) in terms of the internal and external responsibilities of the organisation through (servant) leadership of the governing body. Eva et al. (2019: 13) highlight the relation between ethical leadership and servant leadership and maintain that servant leadership focuses on incorporating stewardship as an essential part of effective leadership. The Ubuntu philosophy based on the premise of "I am my brother's keeper" also refers to stewardship.

### **5.6.5 Theme 5: Stakeholder relationships**

Theme five focuses on principles 16-17 of the King IV Report, namely stakeholders (principle

16 and the responsibilities of institutional investors (principle 17). Although principle 17 only applies to institutional investors (and therefore not non-profit organisations), it is included in the analysis as it contains elements of servant leadership. The outcome of theme five is trust, good reputation and legitimacy. Table 5.5 provides a summary of the servant leadership traits that correlate to these two principles.

**TABLE 5.5 THEME 5: STAKEHOLDER RELATIONSHIPS**

King IV principles		Servant leadership traits (T1-T12)
<b>16</b>	Stakeholders: “In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder–inclusive approach that balances the needs, interests, and expectations of material stakeholders in the best interests of the organisation over time.”	T1: Valuing people T3: Listening T4: Trust T5: Caring T6: Integrity T9: Serving others’ needs above your own T12: Learning
<b>17</b>	Responsibilities of Institutional Investors: “The governing body of an institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote the good governance and the creation of value by the companies in which it invests.”	T4: Trust T5: Caring T6: Integrity T7: Service

Sources: Focht & Ponton (2015) & IoDSA (2016)

Principle 16 deals with stakeholder relationships and consists of 19 recommend practices. Servant leadership traits 1, 3, 4, 5, 6, 9 and 12 also relates to decision-making in the best interest of all stakeholders/team members. Principle 17 deals with institutional investor relationships and consists of six recommended practices. Servant leadership traits 4, 5, 6 and 7 relate to creating value for those involved in any situation with a shared goal.

These principles relate back to stakeholder theory, which gained prominence in the field of business ethics through encouraging strong representation of stakeholders’ interests and rights instead of gains. The King IV Report deals with all these relationships in a stakeholder-inclusive approach. The Tocquevillian function as described by Forbrig (2002, cited in Kastrati 2016: 66) refers to integration of the different stakeholders, focusing on the relationship between civil society and the state as to strengthen the democratic values of both parties. However, critics of this theory warn against executives’ opportunism, specifically in the NPO sector where the founder executive and the board can collude, focusing on their own personal interests and not the vision, mission and goals of the organisation, thus not serving the needs of others (trait 9).

The key outcome of this theme is trust. In terms of servant leadership there are two sides to trust, namely integrity (trait 6), which refers to acting in a manner that invites others to trust you, and trust (trait 4), which in a servant leadership context refers to the leader trusting (putting faith in) his or her followers. In other words, trust is a reciprocal relationship (give and take), which links back to the stakeholder approach of the King IV where the primary focus, as with servant leadership, is on people.

## 5.4 INTERPRETATION OF THE RESULTS

This section will deal with the interpretation of the findings against the argument put forward by this study, namely that servant leadership traits are embedded in the principles of the King IV Report, which provides NPOs with the opportunity to implement a governance code with a people-centred approach. Table 5.6 provides a summary of the findings and analysis of the study.

**TABLE 5.6 OVERVIEW OF ANALYSIS**

Similarities between King IV Corporate governance principles and Servant Leadership Characteristics														
Servant Leadership Traits	S	S	S	S	S	S	S	S	S	S	S	S	KING IV Principles related to SL	
	L 1	L 2	L 3	L 4	L 5	L 6	L 7	L 8	L 9	L 10	L 11	L 12	SL	
KING IV Theme 1 : Leadership, Ethics and Corporate Citizenship	P1	X			X		X		X	X			X	6
	P2			X		X	X			X				4
	P3	X					X		X	X		X	X	6
KING IV Theme 2: Strategy ,performance & Reporting	P4	X			X			X	X	X	X			6
	P5	X		X			X		X	X	X			6
KING IV Theme 3: Governing Structures & Delegation	P6		X	X	X	X	X			X				6
	P7	X			X		X	X		X	X		X	7
	P8	X			X		X	X		X	X		X	7
	P9	X			X		X	X			X		X	6
	P10				X		X	X			X			4
KING IV Theme 4 : Governance functional structures	P11				X	X	X		X		X		X	6
	P12				X	X	X	X	X		X		X	7
	P13				X	X	X	X	X		X		X	7
	P14	X			X	X	X			X		X		6
	P15				X		X	X			X			4
KING IV Theme 5 : Stakeholder relationships	P16	X		X	X	X	X			X			X	7
	P17				X	X	X	X						4
Servant Leadership Traits	SL1	SL2	SL3	SL4	SL5	SL6	SL7	SL8	SL9	SL10	SL11	SL12		
TOTAL	9	1	4	14	8	16	9	7	10	10	2	9	TOTAL	
Servant Leadership Traits	Valuing People	Humility	Listening	Trust	Caring	Integrity	Service	Empower	Service others above self	Colla- boration	Love/ Agape	Learning		

The servant leadership trait that is embedded in most of the principles of the King IV Report is integrity (trait 6), which can be tied to 16 of the 17 principles. This is followed by trust (trait 4), which is linked to 14 of the principles. As mentioned before, integrity and trust from two sides of the same coin in terms of servant leadership (to trust and to be trusted). Trust and integrity are also cornerstones of ethical behaviour. In terms of the outcomes of the King IV report, an ethical culture and trust could therefore both be related to servant leadership. The prominence of these to traits in relation to the principles of the King IV Report thus validates the main argument of this study.

Five servant leadership traits could be linked to either 10 (traits 9 and 10) or 9 (traits 1, 7 and 12) of the principles. Traits 9 (serve the needs of others) and 10 (collaboration) as well as traits 1 (valuing people), 7 (service) and 12 (learning) could be linked to another outcome of the King IV Report, namely good performance. All five the above-mentioned traits are core characteristics of leadership and teams. All expect for learning (trait 12) are embedded in the principles that form part of theme 2, which as good performance as its outcome.

Trait 1 (valuing people) can be linked to nine principles: two in theme 1, two in theme 2, three in theme 3, one in theme 4 and one in theme 5.

Trait 2 (humility) can be linked to one of the principles, namely principle 6 in theme 3.

Trait 3 (listening) can be linked to four principles: one in each theme except for theme 4, where there were not occurrences.

Trait 4 (trust) can be linked to 14 principles: one in theme 1, one in theme 2, five in theme 3, five in theme 4 and two in theme 5. In terms of themes 3-5 trust was linked to all the principles in these themes.

Trait 5 (caring) can be linked to eight of the principles: one in theme 1, one in theme 3, four in theme 4 and two in theme 5.

Trait 6 (integrity) can be linked to 16 principles. The only exception was principle 4 in theme 2.

Trait 7 (service) can be linked to nine principles: one in theme 2, four in theme 3, three in theme 4 and one in theme 5.

Trait 8 (empowering) can be linked to seven principles: two in theme 1, two in theme 2 and three in theme 4.

Trait 9 (serving the needs of others before your own) can be linked to ten principles: three in theme 1, two in theme 2, three in theme 3, one in theme 4 and one in theme 5.

Trait 10 (collaboration) can be linked to ten principles: two in theme 2, four in theme 3 and four in theme 4.

Trait 11 (love) can be linked to two principles: one in theme 1 and one in theme 4.

Trait 12 (learning) can be linked to nine principles: two in theme 2, three in theme 3, three in theme 4 and one in theme 5.

## **5.5 CHAPTER SUMMARY**

This chapter provided an evaluation, assessment and interpretation of the results of the study. An analysis of the 12 main traits of servant leadership and the 17 principles of the King IV Report was conducted in order to determine similarities. The findings were discussed at the hand of the five themes found in the structure of the King IV Report, namely leadership, ethics and corporate citizenship (theme 1); strategy, performance and reporting (theme 2); governing structures and delegation (theme 3); governance functional areas (theme 4) and stakeholder relationships (theme 5).

## **CHAPTER 6: CONCLUSION AND RECOMMENDATIONS**

### **6.1 INTRODUCTION**

This chapter provides an executive summary of the study by way of an overview of the preceding chapters as well as the analysis and interpretation of the findings in order to contextualise the conclusion.

### **6.2 SUMMARY OF CHAPTERS**

Chapter 1 presented the context for this study by way of the problem statement, aim and objectives as well as the methodology followed in order to investigate the problem. The argument put forward in chapter 1 was that servant leadership traits are embedded in the principles of the King IV Report, which provides NPOs with the opportunity to implement a governance code with a people-centred approach. The purpose of the study was then to demonstrate through an analysis the similarities between the traits of servant leadership and the principles of the King IV Report. The chapter highlighted the role civil society plays in sustaining democracy, with reference to De Tocqueville's notion that civil society teaches individuals democratic principles through their participation in CSOs (Putnam 1993: 53).

Chapter 1 also presented an overview of the current state of South African civil society at the hand of the results of the Freedom in the World 2019 Report and the Civil Society Organisation Index for Sub Saharan Africa. Challenges facing CSOs in South Africa were discussed in order to highlight the importance of ethical leadership, good corporate governance, organisational capacity and long-term financial sustainability, with reference to the findings of the Makgoba Report (2017) into the Life Esidimeni tragedy. Good governance is important for a strong civil society to be able to contribute to the National Development Plan in alignment with the United Nation's Sustainable Development Goals 2030 and the African Union Agenda 2063.

Chapter 2 presented the theoretical framework of the study. At the hand of a literature overview the chapter defined, conceptualised and presented insight into the concepts of civil society, corporate governance and ethics. The development of civil society as a concept was explained through a historical analysis of different political philosophers from the classical period to the 20<sup>th</sup> century. Civil society's contribution to democracy was explained by referring to the different democratic functions, namely Lockean, Hegelian, pluralist, non-profit and Tocquevillian (Kastrati 2016: 67).

A discussion on internal challenges facing CSOs focused on financial constraints, the lack of good governance and the lack of ethical leadership with reference to Founder's Syndrome and the challenge to capable staff and management. The chapter then shifted focus to corporate governance, discussing how good governance can play a valuable role in strengthening civil society. The role of ethical leadership in corporate governance was discussed at the hand of six theoretical positions in executing ethics in organisation, including social sciences, managerial, organisational interest, ethical guidance, ethical control and ethical development (Rossouw 2002: 5 -9).

The discussion on governance theories used Doornbos as a departure point in terms of his statement that good governance is a tool to measure a country or organisation's performance before funding can take place (Doornbos 2004: 372). Governance theories that were discussed include agency, stewardship and stakeholder theories. The purpose of the discussion was to show the development from agency theory with its focus on the gap between ownership and management control (Berle & Means 1932) to stewardship theory, which deals with optimal performance of the organisation (Caldwell et al. 2008:1 54). Stakeholder theory shows how external and internal stakeholders work together for the benefit of the individuals, groups and the organisation (Yusoff & Alhaji 2012: 55-56). The theory posits that a strong focus on internal and external stakeholders presents one way to counter managerial opportunism in the CSO sector, where the board and management can collude to serve their own rather than the organisation's or stakeholders' interest (Phillips et al. 2003: 483).

Chapter 2 concluded with a discussion on business ethics theory, virtue ethics theory, feminist ethics theory, discourse ethics theory and postmodern ethics theory. The point made is that ethical leadership and governance is not the result of a single theory but rather a convergence (Abdullah & Valentine 2009: 93-94).

Chapter 3 focused on servant leadership as a leadership theory. The discussion focused on the historical background of servant leadership by way of a comprehensive literature review of the major research done in the field of servant leadership since 1977. Reference was made to similarities in the primary traits of servant leadership, Aristotle's virtues theory, Jesus of Nazareth's Beatitudes and the African philosophy of Ubuntu.

The chapter then went on to discuss the various definitions of servant leadership, with the main discussion focused on the 12 main traits of servant leadership as identified through the Focht and Ponton Delphi study (2016). The chapter concludes with reference to servant leaders in action in the South African context with specific reference to how this is done through Ubuntu which is how servant leadership could be practiced in African context. The section specifically looks at Nontsikelelo Albertina Sisulu's work in the NGO sector.

Chapter 4 discussed corporate governance and the King IV Report. The chapter started with a broad outline of corporate governance, looking at milestones in the development of corporate governance as well as the different international governance codes and indexes. Different corporate governance models and their impact on stakeholders were discussed as well. The chapter also presented an overview of the debate on voluntary versus legal compliance, specifically as it pertains to the NGO sector. The main discussion of this chapter focused on the King IV Report (2016). It referred to the background and history of the King reports and the characteristics of the first three King Codes, and how the King IV Report differs from these in terms of its clear stakeholder approach. The 17 principles of the King IV Report were discussed at the hand of the framework presented by the King IV Report, namely leadership, ethics and corporate citizenship (principles 1-3), strategy, performance and reporting (principles 4-10), governance functional areas (principles 11-15) and stakeholder relationships (principle 16-17). The chapter also included a discussion on the supplement for the NPO sector (Part 6 of the King IV Report). Reference was made to the state of self-regulation amongst NGOs in Africa by way of examples from more than 20 African countries. Other codes of good governance for the NGO sector in South Africa were mentioned as well.

The chapter also demonstrated the link between the philosophies underpinning the King IV Report and the philosophy of servant leadership and how these bear similarities to Ubuntu in terms of the "idea of interdependency between organisations and society". Ubuntu implies that there should be a common purpose to all human endeavours (including corporate endeavours) which is based on service to humanity. Service whether to humanity, society, stakeholders or team members is also the key to servant leadership and the King IV Report. All these relate back to the stewardship theory discussed in chapter 2.

Chapter 5 presented the findings of the study, which will be summarised and contextualised in the next section.

### **6.3 INTERPRETATION OF FINDINGS IN CONTEXT OF THE PROBLEM STATEMENT**

The problem statement that informed this study was presented in chapter 1. It was framed by the Life Esidimeni tragedy, which highlighted the lack of governance in civil society organisations in South Africa and specifically in NGOs that operate in the health sector, where a people-centred approach is crucial given the fact that people's health and wellness needs are often the focus of NGOs in this sector. From this it became clear that corporate governance has a significant impact on civil society organisations, especially when taking into account global future aspirations such as the United Nations' 2030 Agenda and the Sustainable Development Goals, the African Union's Agenda 2063 as well as South Africa's National Development Plan 2030. Long-term sustainability lies at the heart of all these plans and agendas and the golden thread to achieving these goals is ethical leadership (AUC 2015: 5).

The challenges facing non-governmental organisations in South Africa were summarised as follows:

*Financial constraints:* A 2013 ILO report on non-profit organisations in the Free State indicates that 40-50% of organisations' income is from the department of Social Development and Health and the National Lottery. The report suggests that NPOs look to income generation through social enterprises to become more sustainable (ILO 2013: 11-13). The findings from the 2015 NPO Job-loss and Service Cuts Report by Greater Capital indicate a sector that is functioning but that is vulnerable as a result of financial constraints (greatercapital.co.za 2015: 2).

*Lack of good governance and ethical leadership:* It is important that CSOs self-govern in a professional, ethical and accountable manner. This will ensure that the sector remains credible and legitimate to attract governmental and other stakeholder support. The most important remains financial support in order to ensure long-term sustainability to deliver services to beneficiaries (Camay & Gordon 2004, in Hendrickse 2008: 77). The 2017 NPO Accountability Report by the University of Stellenbosch identified a crucial issue in the move to the sector becoming more professional, accountable and showing ethical leadership. According to this report, findings indicate that organisations run by founder executives are less likely to excel due to openness to progressive change, lower skill levels and lack of compliance to legal requirements and these organisations therefore report a lower income than organisations with professional managers that are run without founder executives. This

phenomenon is known as Founder's Syndrome (Block & Rosenberg 2002: 354) and is characterised by founding executive yielding the most authority and control in NPOs. As indicated by Schmidt (2017: n.p.) the best solution is to place control in the hands of the board using a clearly defined corporate governance framework such as the King IV Code of Corporate Governance to restore board integrity, good governance and ethical leadership.

*Competition for capable, well-qualified staff and management:* Due to financial constraints NPOs are not always able to pay market-related salary packages and thus struggle to maintain competent staff. NPOs must therefore be creative in order to attract the right staff who will actively contribute and be loyal to the organisation through other incentives like study opportunities, flexi work hours and longer vacation periods (Cohen 2010: n.p.).

The findings of the study, presented in chapter 5, demonstrate the link between the 17 principles of the King IV Report and the 12 main traits of servant leadership. This implies that an NPO that implements the King IV Report as a governance framework will by extension also implement servant leadership as leadership approach in the organisation. The findings were presented at the hand of the five themes that form the structure of the King IV Report.

#### *Theme 1: Leadership, ethics and corporate citizenship*

Theme one focuses on principles 1-3 of the King IV Report, namely leadership (principle 1), organisational ethics (principle 2) and responsible corporate citizenship (principle 3). The outcome of theme 1 is an ethical culture. Theme one presents the leader (or governing body) as responsible and ethical. In the supplement for non-profit organisations (Part 6 of the King IV Report) this ethical responsibility is placed in the hands of the governing body by "setting an example through its own character and behaviour". Members of the governing body should start with a focus on their own individual and collective character and behaviour. Caldwell et al. (2008: 154) write that leaders (management teams, individuals, governing bodies) should act as stewards of the organisation, with ownership and trust as valued attributes and actions motivated by collective and pro-organisational thinking. With reference to the non-profit sector, the NPO supplement of the King IV Report states that NPOs act as a collective voice and hold others responsible and thus are an integral part of the societal dynamic, which also relates to the servant leadership trait of love (trait 11) in the sense of compassion.

### *Theme 2: Strategy, performance, and reporting*

Theme two focuses on principles 4-5 of the King IV Report, namely strategy and performance (principle 4) and reporting (principle 5). The outcome of theme two is performance and value creation. At the heart of theme two lies the duty to provide a strategy to allow either the organisation as a whole or the individual employee to reach their goal in terms of purpose, performance, and achievement. From a servant leadership perspective, this refers to the leader's duty to allow the other person the freedom to discover his or her purpose and then to guide them to act in a manner that will allow them to perform and achieve. Financial viability is often a challenge for non-profit organisations due to their reliance on donor funding. In this regard, the King IV report recommends that the board of an NPO takes care to ensure the long-term sustainability of the NPO by having clarity about its strategy and business model. Such clarity would rest upon knowledge, which is gained through the servant leadership trait of learning, specifically, as Focht and Ponton (2015: 51) writes, "learning from all directions in the organization".

### *Theme 3: Governance, structure and delegation*

Theme three focuses on principles 6-10 of the King IV Report, namely the primary role and responsibilities of the governing body (principle 6), the composition of the governing body (principle 7), committees of the governing body (principle 8), evaluations of the performance of the governing body (principle 9) and appointment and delegation to management (principle 10). The outcome of theme 3 is effective control. Theme three is focused on the responsibility of the leader or governing body to "compose" itself in a manner that will provide stakeholders with guidance that is based on knowledge gained from continuous learning and planning. Given the resource challenges faced by NPOs, finding the best people for a governing body, management team or staff composition might be challenging. In this regard the NPO supplement of the King IV Report suggests that NPOs should collaborate with professional bodies in order to contract the services of experienced professionals who are prepared to serve their communities through serving on the board of an NPO for little or no compensation. In essence, in order to serve the needs of others, NPOs should expand their ranks with community members who are willing to serve the needs of others.

### *Theme 4: Governance of functional areas*

Theme four focuses on principles 11-15 of the King IV Report, namely risk governance (principle 11), technology and information governance (principle 12), compliance governance (principle 13), remuneration governance (principle 14) and assurance (principle

15). The outcome of theme four is similar to that of theme three, namely effective control. The traits and principles that form part of theme 4 allude to stakeholder theory (Caldwell et al. 2008: 154) in terms of the internal and external responsibilities of the organisation through (servant) leadership of the governing body. Eva et al. (2019: 13) highlight the relation between ethical leadership and servant leadership and maintain that servant leadership focuses on incorporating stewardship as an essential part of effective leadership. The Ubuntu philosophy based on the premise of “I am my brother’s keeper” also refers to stewardship.

#### *Theme 5: Stakeholder relationships*

Theme five focuses on principles 16-17 of the King IV Report, namely stakeholders (principle 16 and the responsibilities of institutional investors (principle 17). Although principle 17 only applies to institutional investors (and therefore not non-profit organisations), it is included in the analysis as it contains elements of servant leadership. The outcome of theme five is trust, good reputation and legitimacy. The key outcome of this theme is trust. In terms of servant leadership there are two sides to trust, namely integrity, which refers to acting in a manner that invites others to trust you, and trust, which in a servant leadership context refers to the leader trusting (putting faith in) his or her followers. In other words, trust is a reciprocal relationship (give and take), which links back to the stakeholder approach of the King IV where the primary focus, as with servant leadership, is on people.

From the brief descriptions of the five themes above the King IV Report as governance instrument and infused with the philosophy of servant leadership provides an NPO with an opportunity to address a challenge such as financial constraints. Based on Doornbos’ (2004: 373) notion that good governance is the measurement for donors interested in supporting an organisation, the implication is that an NPO with demonstrable good governance will attract more donor funding. For example, theme two presents clear and proper strategy as a way of ensuring good governance. This ability to envision a clear path – whether for an organisation or a team member – is also linked to servant leadership.

Another challenge faced by NPOs is the lack of good governance and ethical leadership. Ethical leadership is the cornerstone of the King IV Report as well as servant leadership. This is a thread that runs through all five themes and is in fact the overarching philosophy underpinning this study. It requires a holistic approach which should include the quantifiable checks and balances of a governance code such as the King IV Report combined with the

less tangible traits of servant leadership. This could provide a solution for the need for ethical leadership, especially after the Life Esidimeni tragedy, which was described as a “wake-up call for civil society” in the US AID CSO Sustainability Index Report on South Africa (USAID 2018: 210).

The issue of finding and maintaining capable, well-qualified staff and management to work in the NPO sector is the third challenge that could be addressed through a combination of the King IV Report as governance framework and servant leadership as leadership approach. One of the key traits of servant leadership is that the leader should serve the needs of others before his or her own. This is also implied by the King IV Report that places the needs of stakeholders, both internally and externally, in the hands of the governing body. This is also the essence of the difference between agency theory (focused on gains) and stewardship theory (focused on interests or needs).

#### **6.4 CONCLUSION**

The underlying goal of this study was to identify an instrument that could assist non-profit organisations operating in the health sector in South Africa in establishing and maintaining a record of good governance while at the same time keeping a people-centred approach (or “human face”) to its activities. When drawing all the above together one can conclude that the main traits of servant leadership intersect with the principles the King IV Code in a manner that could ensure improved governance in the non-profit sector, which in turn could broaden democracy in South Africa.

#### **6.5 RECOMMENDATIONS FOR FURTHER STUDIES**

This section presents recommendations for further studies in the field of corporate governance in civil society organisations, servant leadership and practical guidelines to ensure successful implementation of the sectoral guidelines of the King IV Report.

The biggest challenge for smaller civil society organisations remains a lack of capacity. More research is necessary to develop guidelines based on the recommended practices of the King IV Report’s supplement for NPOs combined with servant leadership to assist the sector to improve overall governance levels and therefore access funding through government and other stakeholders.

Research done by the University of Stellenbosch for the 2017 NPO Accountability Report has indicated that 70% of the sample group was run by founder executives. Given the impact of the so-called Founder’s Syndrome on the long-term sustainability of an NPO (as discussed in chapter 1), further research on this topic could contribute to a more professional NPO sector.

Although the focus of this study was on the civil society sector, the apparent link between servant leadership and Ubuntu could also benefit from further study. The Batho Pele framework has become a forgotten concept as levels of service delivery by the government have dropped significantly. If the concept is internalised by government officials in terms of a practical application underpinned by Ubuntu and servant leadership, it could assist in government officials becoming servant leaders. This is an ideal expressed by President Cyril Ramaphosa at the announcement of the 6<sup>th</sup> administration of South Africa. The comparison is best illustrated in Table 6.2.referring to the eight Batho Pele principles as first published in the White paper on transforming Public Service delivery (1997)

The eight Batho Pele principles were first introduced by a White paper on transforming public service delivery (Republic of South Africa 1997: 16–22). The principles are listed in table 6.1 and show similarity with the principles of Ubuntu (Gade 2011: 307-308) and the 12 main traits of servant leadership as identified by the Focht and Ponton Delphi study (2015: 49-50).

**TABLE 6.1 SUMMARY OF THE PRINCIPLES OF BATHO PELE, UBUNTU AND SERVANT LEADERSHIP**

	<b>BATHO PELE</b> (White paper on transforming Public Service delivery 1997)	<b>UBUNTU</b> Gade (2011: 307-308)	<b>SERVANT LEADERSHIP</b> (Focht & Ponton 2015: 49-50)
1	Consultation: Citizens should be consulted about the level and quality of the public services they receive and, wherever possible, should be given a choice about the services that are offered.	Politeness (Rodegem 1967: 129) The kindly simple feeling for persons as persons (Brookes 1953: 20)	Valuing people Listening
2	Service standards: Citizens should be told what level and quality of public service they will receive so that they are aware of what to expect.	Kindness (Rodegem 1967: 129; Callaway 1969: 22) Reverence for human nature (Callaway et al. 1945: 29)	Service Agape Love / Unconditional Love
3	Access: All citizens should	The kindly simple feeling for	Empowering

	have equal access to the services to which they are entitled.	persons as persons (Brookes 1953: 20)	
4	Courtesy: Citizens should be treated with courtesy and consideration.	The capacity of social self-sacrifice on behalf of others (Hetherington 1978: 68)	Caring Humility
5	Information: Citizens should be given full accurate information about the public services they are entitled to receive.	Virtue (McLaren 1918: 332)	Learning
6	Openness & Transparency: Citizens should be told how national and provincial departments are run, how much they cost and who is in charge.	Liberality (Kagame 1956: 53) Good moral disposition (Colenso 1861: 354)	Trust
7	Redress: If the promised standard of service is not delivered, citizens should be offered an apology, a full explanation, and a speedy and effective remedy; and when complaints are made, citizens should receive a sympathetic, positive response.	Human kindness (Jordan 1973: 228) True good fellowship and sympathy in joy and in sorrow (Callaway et al. 1945: 11)	Serving others' needs before your own Collaboration
8	Value for money: Public services should be provided economically and efficiently in order to give citizens the best possible value for money.	Generosity (Kimenyi 1979: 75) Reverence for human nature (Callaway et al. 1945: 29)	Integrity

A possible future study in the field of corporate governance could involve a Delphi study conducted in order to reach consensus on the links between servant leadership traits and the King IV Report principles.

In the aftermath of the Life Esidimeni tragedy more research can contribute to government's and civil organisations' understanding of care ethics theory through a comparative study on Ubuntu philosophy and servant leadership traits linked to the Downing and Hastings-Tolsma study (2018) on the life of Albertina Sisulu as a case study.

## 6.5 FINAL WORDS

Due to the nature of the civil society sector, CSOs in this area require a people-centred approach to its activities, including leadership and management. As discussed in chapter 3, servant leadership offers such a people-centred approach to leadership as a result of its strong focus on the individual. As the findings of this study indicate, there are similarities

between servant leadership and the King IV Report, which could indicate a shared philosophical approach. This implies that a civil society organisation, specifically in the health sector could, by implementing and adhering to the principles of the King IV Report, to a large extent also embody the spirit of servant leadership. This could provide a more concrete and structured strategy for implementing a people-centred approach to leadership, while at the same time strengthening governance, increasing donor funding and finally contributing to the growth of democracy.

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# PART 5

## KING IV CODE ON CORPORATE GOVERNANCE

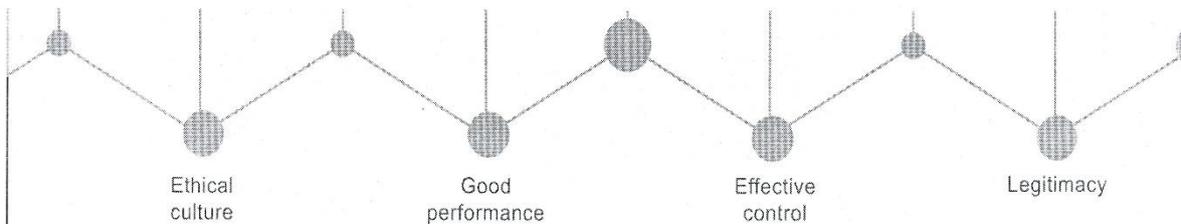
**Part 5.1:** Leadership, ethics and corporate citizenship

**Part 5.2:** Strategy, performance and reporting

**Part 5.3:** Governing structures and delegation

**Part 5.4:** Governance functional areas

**Part 5.5:** Stakeholder relationships



# » KING IV CODE ON CORPORATE GOVERNANCE

## PART 5.1: LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP

### Leadership

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

#### RECOMMENDED PRACTICES

1. Members of the governing body should individually and collectively cultivate the following characteristics and exhibit them in their conduct:

##### a. Integrity:

- i. Members of the governing body must act in good faith and in the best interests of the organisation.
- ii. Members of the governing body should avoid conflicts of interest: In cases where a conflict cannot be avoided, it should be disclosed to the governing body in full at the earliest opportunity, and then proactively managed as determined by the governing body and subject to legal provisions.
- iii. Members of the governing body should act ethically beyond mere legal compliance.
- iv. Members of the governing body should set the tone for an ethical organisational culture.

##### b. Competence:

- i. Members of the governing body should take steps to ensure that they have sufficient working knowledge of the organisation, its industry, the triple context in which it operates, the capitals it uses and affects as well as of the key laws, rules, codes and standards applicable to the organisation.
- ii. Members of the governing body must act with due care, skill and diligence, and take reasonably diligent steps to become informed about matters for decision.
- iii. Members of the governing body should continuously develop their competence to lead effectively.

##### c. Responsibility:

- i. Members of the governing body should assume collective responsibility for steering and setting the direction of the organisation: approving policy and planning; overseeing and monitoring of implementation and execution by management; and ensuring accountability for organisational performance.
- ii. Members of the governing body should exercise courage in taking risks and capturing opportunities, but do so in a responsible manner and in the best interests of the organisation.
- iii. Members of the governing body should take responsibility for anticipating, preventing or otherwise ameliorating the negative outcomes of the organisation's activities and outputs on the triple context in which it operates, and the capitals that it uses and affects.
- iv. Members of the governing body should attend meetings of the governing body and its committees, and devote sufficient time and effort to prepare for those meetings.

##### d. Accountability:

Members of the governing body should be willing to answer for the execution of their responsibilities, even when these were delegated.

## KING IV CODE ON CORPORATE GOVERNANCE CONTINUED

### **e. Fairness:**

- i. Members of the governing body should adopt a stakeholder-inclusive approach in the execution of their governance role and responsibilities.
- ii. Members of the governing body should direct the organisation in such a way that it does not adversely affect the natural environment, society or future generations.

### **f. Transparency:**

Members of the governing body should be transparent in the manner in which they exercise their governance role and responsibilities.

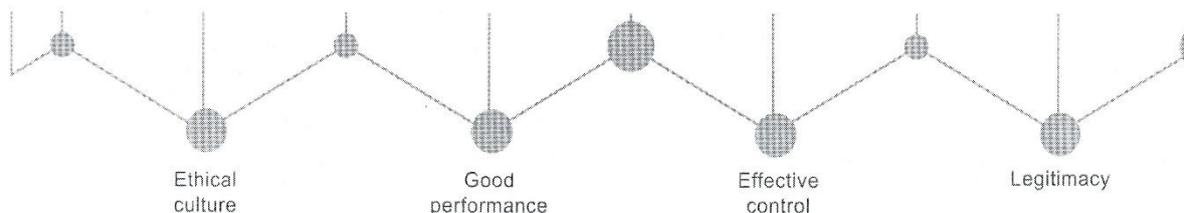
2. The governing body should embody the above ethical characteristics in order to offer effective leadership that results in achieving strategic objectives and positive outcomes over time.
3. The arrangements by which the members of the governing body are being held to account for ethical and effective leadership should be disclosed. These arrangements would include, but are not limited to, codes of conduct and performance evaluations of the governing body and its members.

## Organisational ethics

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

### RECOMMENDED PRACTICES

4. The governing body should assume responsibility for the governance of ethics by setting the direction for how ethics should be approached and addressed by the organisation.
5. The governing body should approve codes of conduct and ethics policies that articulate and give effect to its direction on organisational ethics.
6. The governing body should ensure that codes of conduct and ethics policies:
  - a. encompass the organisation's interaction with both internal and external stakeholders and the broader society; and
  - b. address the key ethical risks of the organisation.
7. The governing body should ensure that the codes of conduct and ethics policies provide for arrangements that familiarise employees and other stakeholders with the organisation's ethical standards. These arrangements should include:
  - a. publishing the organisation's codes of conduct and policies on the organisation's website, or on other platforms or through other media as is appropriate;
  - b. the incorporation by reference, or otherwise, of the relevant codes of conduct and policies in supplier and employee contracts; and
  - c. including the codes of conduct and ethics policies in employee induction and training programmes.
8. The governing body should delegate to management the responsibility for implementation and execution of the codes of conduct and ethics policies.



9. The governing body should exercise ongoing oversight of the management of ethics and, in particular, oversee that it results in the following:
  - a. Application of the organisation's ethical standards to the processes for the recruitment, evaluation of performance and reward of employees, as well as the sourcing of suppliers.
  - b. Having sanctions and remedies in place for when the organisation's ethical standards are breached.
  - c. The use of protected disclosure or whistle-blowing mechanisms to detect breaches of ethical standards and dealing with such disclosures appropriately.
  - d. The monitoring of adherence to the organisation's ethical standards by employees and other stakeholders through, among others, periodic independent assessments.
10. The following should be disclosed in relation to organisational ethics:
  - a. An overview of the arrangements for governing and managing ethics.
  - b. Key areas of focus during the reporting period.
  - c. Measures taken to monitor organisational ethics and how the outcomes were addressed.
  - d. Planned areas of future focus.

## Responsible corporate citizenship

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

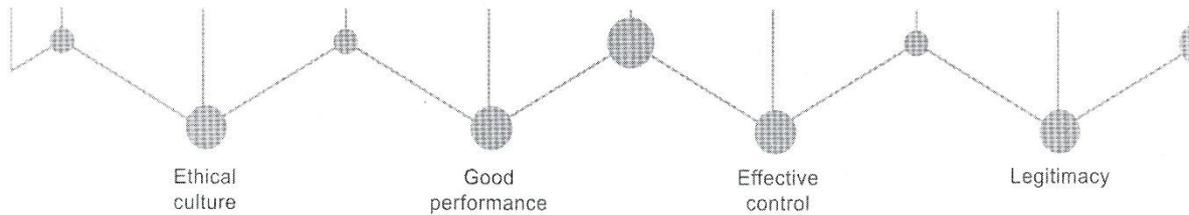
### RECOMMENDED PRACTICES

11. The governing body should assume responsibility for corporate citizenship by setting the direction for how it should be approached and addressed by the organisation.
12. The governing body should ensure that the organisation's responsible corporate citizenship efforts include compliance with the Constitution of South Africa (including the Bill of Rights), the law, leading standards, and adherence to its own codes of conduct and policies.
13. The governing body should oversee that the organisation's core purpose and values, strategy and conduct are congruent with it being a responsible corporate citizen.
14. The governing body should oversee and monitor, on an ongoing basis, how the consequences of the organisation's activities and outputs affect its status as a responsible corporate citizen. This oversight and monitoring should be performed against measures and targets agreed with management in all of the following areas:
  - a. Workplace (including employment equity; fair remuneration; and the safety, health, dignity and development of employees).
  - b. Economy (including economic transformation; prevention, detection and response to fraud and corruption; and responsible and transparent tax policy).
  - c. Society (including public health and safety; consumer protection; community development; and protection of human rights).
  - d. Environment (including responsibilities in respect of pollution and waste disposal; and protection of biodiversity).

## KING IV CODE ON CORPORATE GOVERNANCE CONTINUED

15. The following should be disclosed in relation to corporate citizenship:
- a. An overview of the arrangements for governing and managing responsible corporate citizenship.
  - b. Key areas of focus during the reporting period.
  - c. Measures taken to monitor corporate citizenship and how the outcomes were addressed.
  - d. Planned areas of future focus.

Website Version  
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## PART 5.2: STRATEGY, PERFORMANCE AND REPORTING

### Strategy and performance

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

#### RECOMMENDED PRACTICES

1. The governing body should assume responsibility for organisational performance by steering and setting the direction for the realisation of the organisation's core purpose and values through its strategy.
2. The governing body should delegate to management the formulation and development of the organisation's short, medium and long-term strategy.
3. The organisation's short, medium and long-term strategy as formulated and developed by management should be approved by the governing body. When considering the proposed strategy for approval, the governing body should challenge it constructively with reference to, among others, the following:
  - a. The timelines and parameters which determine the meaning of short, medium and long term respectively.
  - b. The risks, opportunities and other significant matters connected to the triple context in which the organisation operates.
  - c. The extent to which the proposed strategy depends on the resources and relationships connected to the various forms of capital.
  - d. The legitimate and reasonable needs, interests and expectations of material stakeholders.
  - e. The increase, decrease or transformation of the various forms of capitals that may result from the execution of the proposed strategy.
  - f. The interconnectivity and inter-dependence of all of the above.
4. The governing body should ensure that it approves the policies and operational plans developed by management to give effect to the approved strategy. These should include the key performance measures and targets for assessing the achievement of strategic objectives and positive outcomes over the short, medium and long term.
5. The governing body should delegate to management the responsibility to implement and execute the approved policies and operational plans.
6. The governing body should exercise ongoing oversight of the implementation of strategy and operational plans by management against agreed performance measures and targets.
7. The governing body should oversee that the organisation continually assesses, and responsibly responds to, the negative consequences of its activities and outputs on the triple context in which it operates, and the capitals which it uses and affects.
8. As part of its oversight of performance, the governing body should be alert to the general viability of the organisation with regard to its reliance and effects on the capitals, its solvency and liquidity, and its status as a going concern.

## KING IV CODE ON CORPORATE GOVERNANCE CONTINUED

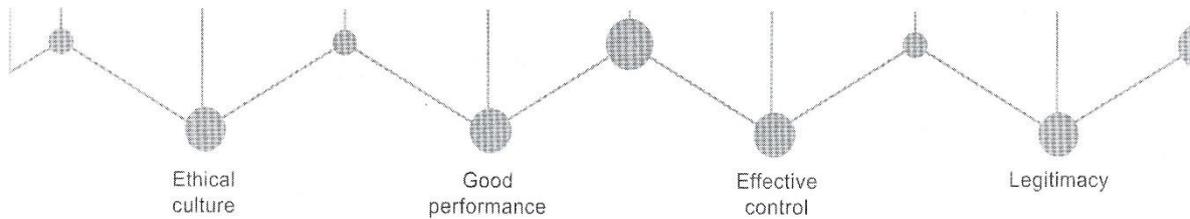
In respect of disclosure on strategy and performance, refer to Reporting below.

### Reporting

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

#### RECOMMENDED PRACTICES

9. The governing body should assume responsibility for the organisation's reporting by setting the direction for how it should be approached and conducted.
10. The governing body should approve management's determination of the reporting frameworks (including reporting standards) to be used, taking into account legal requirements and the intended audience and purpose of each report.
11. The governing body should oversee that reports such as the annual financial statements, sustainability reports, social and ethics committee reports, or other online or printed information or reports are issued, as is necessary, to comply with legal requirements, and/or to meet the legitimate and reasonable information needs of material stakeholders.
12. The governing body should oversee that the organisation issues an integrated report at least annually, which is either:
  - a. a standalone report which connects the more detailed information in other reports and addresses, at a high level and in a complete, concise way, the matters that could significantly affect the organisation's ability to create value; or
  - b. a distinguishable, prominent and accessible part of another report which also includes the annual financial statements and other reports that must be issued in compliance with legal provisions.
13. The governing body should approve management's bases for determining materiality for the purpose of deciding which information should be included in external reports.
14. The governing body should ensure the integrity of external reports as provided for in Part 5.4, Assurance of External Reports.
15. The governing body should oversee that the following information is published on the organisation's website, or on other platforms or through other media as is appropriate for access by stakeholders:
  - a. Corporate governance disclosures required in terms of this Code (refer to Part 3: *King IV Application and Disclosure* for more detail).
  - b. Integrated reports.
  - c. Annual financial statements and other external reports.



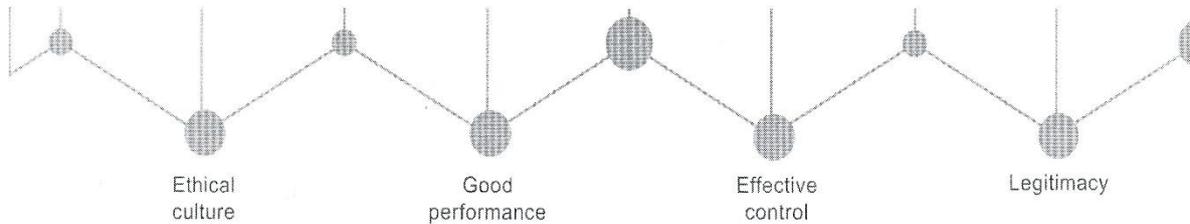
## PART 5.3: GOVERNING STRUCTURES AND DELEGATION

### Primary role and responsibilities of the governing body

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

#### RECOMMENDED PRACTICES

1. The governing body should exercise its leadership role by:
  - a. steering the organisation and setting its strategic direction;
  - b. approving policy and planning that give effect to the direction provided;
  - c. overseeing and monitoring of implementation and execution by management; and
  - d. ensuring accountability for organisational performance by means of, among others, reporting and disclosure.
2. The governing body should ensure that its role, responsibilities, membership requirements and procedural conduct are documented in a charter which it regularly reviews to guide its effective functioning.
3. The governing body should approve the protocol to be followed in the event that it or any of its members or committees need to obtain independent, external professional advice at the cost of the organisation on matters within the scope of their duties.
4. The governing body should approve the protocol to be followed by its non-executive members for requisitioning documentation from, and setting up meetings with, management.
5. The following should be disclosed in relation to the primary role and responsibilities of the governing body:
  - a. The number of meetings held during the reporting period, and attendance at those meetings.
  - b. Whether the governing body is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period.



***Nomination, election and appointment of members to the governing body***

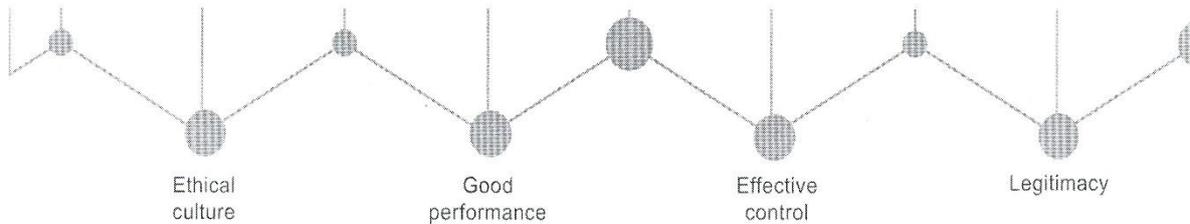
14. The nomination of candidates for election as members of the governing body should be approved by the governing body as a whole.
15. The processes for nomination, election and ultimately, the appointment of members to the governing body should be formal and transparent.
16. Before nominating a candidate for election, the governing body should consider the following:
  - a. The collective knowledge, skills and experience required by the governing body.
  - b. The diversity of the governing body.
  - c. Whether the candidate meets the appropriate fit and proper criteria.
17. Nomination for re-election of an incumbent of the governing body should be considered by the governing body on the basis of that member's performance, including attendance at meetings of the governing body and its committees.
18. A candidate for election as a non-executive member of the governing body should be requested to provide the governing body with details of professional commitments and a statement that confirms that the candidate has sufficient time available to fulfil the responsibilities as member of the governing body.
19. Prior to their nomination for election, candidates' backgrounds should be independently investigated, and their qualifications should be independently verified.
20. A brief professional profile of each candidate standing for election at the annual general meeting (AGM), including details of existing professional commitments, should accompany the notice of the AGM, together with a statement from the governing body confirming whether it supports the candidate's election or re-election.
21. Upon election, the terms and conditions for serving as a member of the governing body should be formalised in a letter of appointment.
22. The governing body should ensure that incoming members are inducted to enable them to make the maximum contribution within the shortest time possible.
23. Members of the governing body with no or limited governance experience should be provided with mentorship and encouraged to undergo training.
24. A programme of professional development and regular briefings on legal and corporate governance developments, and risks and changes in the external environment of the organisation, should be provided for members of the governing body.

***Independence and conflicts***

25. Subject to legal provisions, each member of the governing body should submit to the governing body a declaration of all financial, economic and other interests held by the member and related parties at least annually, or whenever there are significant changes.
26. At the beginning of each meeting of the governing body or its committees, all members should be required to declare whether any of them has any conflict of interest in respect of a matter on the agenda. Any such conflicts should be proactively managed as determined by the governing body and subject to legal provisions.
27. Non-executive members of the governing body may be categorised by the governing body as independent if it concludes that there is no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making in the best interests of the organisation.

## KING IV CODE ON CORPORATE GOVERNANCE CONTINUED

28. The governing body should consider the following and other indicators holistically, and on a substance-over-form basis, when assessing the independence of a member of the governing body for purposes of categorisation. The member of the governing body:
- a. is a significant provider of financial capital, or ongoing funding to the organisation; or is an officer, employee or a representative of such provider of financial capital or funding;
  - b. if the organisation is a company, participates in a share-based incentive scheme offered by the company;
  - c. if the organisation is a company, owns securities in the company, the value of which is material to the personal wealth of the director;
  - d. has been in the employ of the organisation as an executive manager during the preceding three financial years, or is a related party to such executive manager;
  - e. has been the designated external auditor responsible for performing the statutory audit for the organisation, or a key member of the audit team of the external audit firm, during the preceding three financial years;
  - f. is a significant or ongoing professional adviser to the organisation, other than as a member of the governing body;
  - g. is a member of the governing body or the executive management of a significant customer of, or supplier to, the organisation;
  - h. is a member of the governing body or the executive management of another organisation which is a related party to the organisation; or
  - i. is entitled to remuneration contingent on the performance of the organisation.
29. A non-executive member of the governing body may continue to serve, in an independent capacity, for longer than nine years if, upon an assessment by the governing body conducted every year after nine years, it is concluded that the member exercises objective judgement and there is no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making.
30. The following should be disclosed with regards to the composition of the governing body:
- a. Whether the governing body is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence.
  - b. The targets set for gender and race representation in the membership of the governing body, and progress made against these targets.
  - c. The categorisation of each member as executive or non-executive.
  - d. The categorisation of each non-executive member as independent or not and, when a non-executive member of the governing body has been serving for longer than nine years, a summary of the views of the governing body on the independence of the member.
  - e. The qualifications and experience of members.
  - f. Each member's period of service on the governing body.
  - g. The age of each member.
  - h. Other governing body and professional positions held by each member.
  - i. The reasons why any members of the governing body have been removed, resigned or retired.



**Chair of the governing body**

31. The governing body should elect an independent non-executive member as chair to lead the governing body in the objective and effective discharge of its governance role and responsibilities.
32. The governing body should appoint an independent non-executive member as the lead independent to fulfill the following functions:
  - a. To lead in the absence of the chair.
  - b. To serve as a sounding board for the chair.
  - c. To act as an intermediary between the chair and other members of the governing body, if necessary.
  - d. To deal with shareholders' concerns where contact through the normal channels has failed to resolve concerns, or where such contact is inappropriate.
  - e. To strengthen independence on the governing body if the chair is not an independent non-executive member of the governing body.
  - f. To chair discussions and decision-making by the governing body on matters where the chair has a conflict of interest.
  - g. To lead the performance appraisal of the chair.
33. The chair's role, responsibilities and term in office, as well as that of the lead independent, should be documented in the charter of the governing body or elsewhere.
34. The CEO of the organisation should not also chair the governing body, and the retired CEO should not become the chair of the governing body until three complete years have passed after the end of the CEO's tenure.
35. In order to determine whether the chair is able to perform the duties of this office effectively, the chair, together with the governing body, should determine the number of outside professional positions that the chair is allowed to hold, taking into account the relative size and complexity of the organisations involved.
36. When determining which of its committees the chair of the governing body should serve on, either as member or chair, the governing body should consider how this affects the overall concentration and balance of power on the governing body. Generally, the following should apply:
  - a. The chair should not be a member of the audit committee.
  - b. The chair may be a member of the committee responsible for remuneration but should not be its chair.
  - c. The chair should be a member of the committee responsible for nominations of members of the governing body and may also be its chair.
  - d. The chair may be a member of the committee responsible for risk governance and may also be its chair.
  - e. The chair may be a member of the social and ethics committee but should not be its chair.
37. The governing body should ensure there is succession planning in place for the position of chair.
38. The following should be disclosed in relation to the chair:
  - a. Whether the chair is considered to be independent.
  - b. Whether or not an independent non-executive member of the governing body has been appointed as the lead independent, and the role and responsibilities assigned to the position.

## KING IV CODE ON CORPORATE GOVERNANCE CONTINUED

### Committees of the governing body

Principle 8: The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.

#### RECOMMENDED PRACTICES

##### *General*

39. The governing body should determine if and when to delegate particular roles and responsibilities to an individual member or members of the governing body, or to standing or *ad hoc*-committees. The exercise of judgement by the governing body in this regard, is subject to legal requirements and should be guided by what is appropriate for the organisation and achieving the objectives of the delegation.
40. In the event that the governing body determines not to delegate all or some of the responsibilities dealt with in this Code as part of the responsibilities of a specific committee, the governing body should ensure that it fulfils those responsibilities itself.
41. Delegation to an individual member or members of the governing body should be recorded in writing and approved by the governing body. The record should set out the nature and extent of the responsibilities delegated, decision-making authority, the duration of the delegation, and the delegates' reporting responsibilities.
42. Delegation to committees should be recorded by means of a formal terms of reference that should be approved and reviewed annually by the governing body.
43. The terms of reference should, at a minimum, deal with the following:
  - a. The composition of the committee and, if applicable, the process and criteria for the appointment of any committee members who are not members of the governing body.
  - b. The committee's overall role and associated responsibilities and functions.
  - c. Delegated authority with respect to decision-making.
  - d. The tenure of the committee.
  - e. When and how the committee should report to the governing body and others.
  - f. The committee's access to resources and information.
  - g. The meeting procedures to be followed.
  - h. The arrangements for evaluating the committee's performance.
44. The governing body should consider the allocation of roles and associated responsibilities and the composition of membership across committees holistically, so as to achieve the following:
  - a. Effective collaboration through cross-membership between committees, where required; coordinated timing of meetings; and avoidance of duplication or fragmented functioning in so far as possible.
  - b. Where more than one committee has jurisdiction to deal with a similar matter, the specific role and positioning of each committee in relation to such matter are defined to ensure complementary rather than competing approaches.
  - c. A balanced distribution of power in respect of membership across committees, so that no individual has the ability to dominate decision-making, and no undue reliance is placed on any individual.

## KING IV CODE ON CORPORATE GOVERNANCE CONTINUED

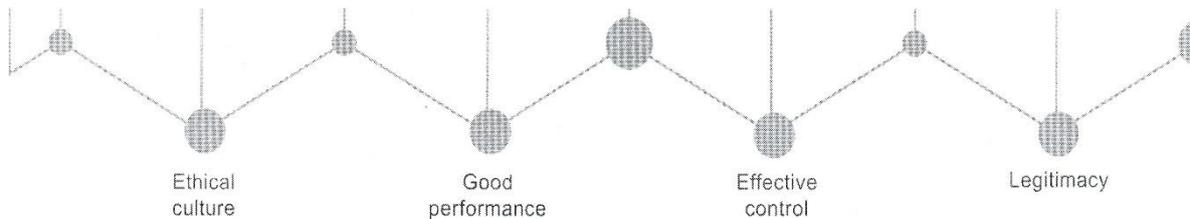
### Committees of the governing body

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#### RECOMMENDED PRACTICES

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  - a. The composition of the committee and, if applicable, the process and criteria for the appointment of any committee members who are not members of the governing body.
  - b. The committee's overall role and associated responsibilities and functions.
  - c. Delegated authority with respect to decision-making.
  - d. The tenure of the committee.
  - e. When and how the committee should report to the governing body and others.
  - f. The committee's access to resources and information.
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  - a. Effective collaboration through cross-membership between committees, where required; coordinated timing of meetings; and avoidance of duplication or fragmented functioning in so far as possible.
  - b. Where more than one committee has jurisdiction to deal with a similar matter, the specific role and positioning of each committee in relation to such matter are defined to ensure complementary rather than competing approaches.
  - c. A balanced distribution of power in respect of membership across committees, so that no individual has the ability to dominate decision-making, and no undue reliance is placed on any individual.



45. The governing body should ensure that each committee, as a whole, has the necessary knowledge, skills, experience and capacity to execute its duties effectively.
46. Each committee should have a minimum of three members subject to legal provisions, where applicable.
47. Members of the executive and senior management should be invited to attend committee meetings either by standing invitation or on an *ad hoc*-basis to provide pertinent information and insights in their areas of responsibility.
48. Every member of the governing body is entitled to attend any committee meeting as an observer. However, unless that member is also a member of the committee, the member is not entitled to participate without the consent of the chair; does not have a vote; and is not entitled to fees for such attendance, unless payment of fees is agreed to by the governing body and shareholders.
49. Any delegation by the governing body of its responsibilities to a committee or a member of the governing body member will not by or of itself constitute a discharge of the governing body's accountability. The governing body should apply its collective mind to the information, opinions, recommendations, reports and statements presented by the committee or the member.
50. The following should be disclosed in relation to each committee of the governing body:
  - a. Its overall role and associated responsibilities and functions.
  - b. Its composition, including each member's qualifications and experience.
  - c. Any external advisers or invitees who regularly attend committee meetings.
  - d. Key areas of focus during the reporting period.
  - e. The number of meetings held during the reporting period and attendance at those meetings.
  - f. Whether the committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

**Audit committee**

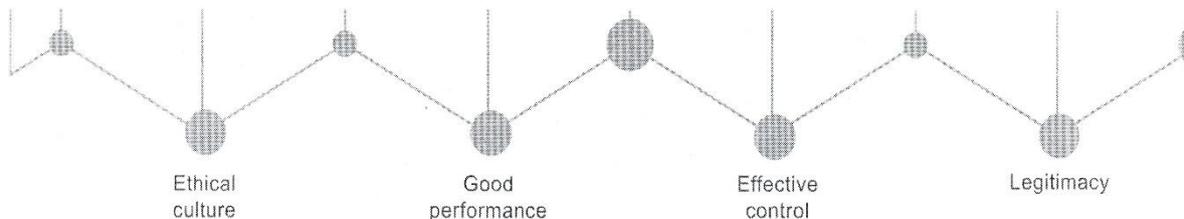
51. The establishment of an audit committee is a statutory requirement for some organisations. As a matter of leading practice, the governing body of any organisation that issues audited financial statements should consider establishing an audit committee, the role of which should be to provide independent oversight of, among others:
  - a. the effectiveness of the organisation's assurance functions and services, with particular focus on combined assurance arrangements, including external assurance service providers, internal audit and the finance function; and
  - b. the integrity of the annual financial statements and, to the extent delegated by the governing body, other external reports issued by the organisation.
52. A statutory audit committee has the power to make decisions regarding its statutory duties, and is accountable for its performance in this regard. In addition to its statutory duties, the governing body may delegate other responsibilities to the audit committee, such as the approval of the annual financial statements, but the governing body remains ultimately accountable for such delegated responsibilities.
53. If the governing body delegates risk governance to the audit committee, the audit committee should satisfy itself that it dedicates sufficient time to this responsibility.
54. Whether or not the governance of risk is delegated to the audit committee, the audit committee should oversee the management of financial and other risks that affect the integrity of external reports issued by the organisation.

## KING IV CODE ON CORPORATE GOVERNANCE CONTINUED

55. The members of the audit committee should, as a whole, have the necessary financial literacy, skills and experience to execute their duties effectively.
56. All members of the audit committee should be independent, non-executive members of the governing body.
57. The governing body should appoint an independent, non-executive member to chair the audit committee.
58. The audit committee should meet annually with the internal and external auditors respectively, without management being present, to facilitate an exchange of views and concerns that may not be appropriate for discussion in an open forum.
59. In addition to required statutory disclosure and the disclosures recommended in paragraph 50, the following should also be disclosed in relation to the audit committee:
- a. A statement as to whether the audit committee is satisfied that the external auditor is independent of the organisation. The statement should specifically address:
    - i. the policy and controls that address the provision of non-audit services by the external auditor, and the nature and extent of such services rendered during the financial year;
    - ii. the tenure of the external audit firm and, in the event of the firm having been involved in a merger or acquisition, including the tenure of the predecessor firm;
    - iii. the rotation of the designated external audit partner; and
    - iv. significant changes in the management of the organisation during the external audit firm's tenure which may mitigate the attendant risk of familiarity between the external auditor and management.
  - b. Significant matters that the audit committee has considered in relation to the annual financial statements, and how these were addressed by the committee.
  - c. The audit committee's views on the quality of the external audit, with reference to audit quality indicators such as those that may be included in inspection reports issued by external audit regulators.
  - d. The audit committee's views on the effectiveness of the chief audit executive and the arrangements for internal audit.
  - e. The audit committee's views on the effectiveness of the design and implementation of internal financial controls, and on the nature and extent of any significant weaknesses in the design, implementation or execution of internal financial controls that resulted in material financial loss, fraud, corruption or error.
  - f. The audit committee's views on the effectiveness of the CFO and the finance function.
  - g. The arrangements in place for combined assurance and the committee's views on its effectiveness.

### ***Committee responsible for nominations of members of the governing body***

60. The governing body should consider allocating the oversight of the following to a dedicated committee, or adding it to the responsibilities of another committee as is appropriate for the organisation:
- a. The process for nominating, electing and appointing members of the governing body.
  - b. Succession planning in respect of governing body members.
  - c. Evaluation of the performance of the governing body.



61. All members of the committee for nominations should be non-executive members of the governing body, and the majority should be independent.

Refer to paragraph 50 for the recommended disclosures in relation to the committee responsible for nominations.

**Committee responsible for risk governance**

62. The governing body should consider allocating the oversight of risk governance to a dedicated committee, or adding it to the responsibilities of another committee as is appropriate for the organisation.

63. If the committees for audit and risk are separate, the governing body should consider for one or more members to have joint membership of both committees for more effective functioning.

64. The committee for risk governance should have executive and non-executive members, with a majority being non-executive members of the governing body.

Refer to paragraph 50 for the recommended disclosures in relation to the committee responsible for risk.

**Committee responsible for remuneration**

65. The governing body should consider allocating oversight of remuneration to a dedicated committee, or adding it to the responsibilities of another committee as is appropriate for the organisation.

66. All members of the committee for remuneration should be non-executive members of the governing body, with the majority being independent non-executive members of the governing body.

67. The committee for remuneration should be chaired by an independent non-executive member.

Refer to paragraph 50 for the recommended disclosures in relation to the committee responsible for remuneration.

**Social and ethics committee**

68. For some companies, the establishment of a social and ethics committee is a statutory requirement. The governing body of any organisation not so obliged should consider allocating oversight of, and reporting on, organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships to a dedicated committee, or adding it to the responsibilities of another committee as is appropriate for the organisation.

69. The responsibilities of the social and ethics committee should include its statutory duties (if applicable) and any other responsibilities delegated to it by the governing body.

70. The social and ethics committee should, subject to legal provisions, have executive and non-executive members, with a majority being non-executive members of the governing body.

Refer to paragraph 50 for the recommended disclosures in relation to the social and ethics committee.

## KING IV CODE ON CORPORATE GOVERNANCE CONTINUED

### Evaluations of the performance of the governing body

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

#### RECOMMENDED PRACTICES

71. The governing body should assume responsibility for the evaluation of its own performance and that of its committees, its chair and its individual members by determining how it should be approached and conducted.
72. The governing body should appoint an independent non-executive member to lead the evaluation of the chair's performance if a lead independent is not in place.
73. A formal process, either externally facilitated or not in accordance with methodology approved by the governing body, should be followed for evaluating the performance of the governing body, its committees, its chair and its individual members at least every two years.
74. Every alternate year, the governing body should schedule in its yearly work plan an opportunity for consideration, reflection and discussion of its performance and that of its committees, its chair and its members as a whole.
75. The following should be disclosed in relation to the evaluation of the performance of the governing body:
  - a. A description of the performance evaluations undertaken during the reporting period, including their scope, whether they were formal or informal, and whether they were externally facilitated or not.
  - b. An overview of the evaluation results and remedial actions taken.
  - c. Whether the governing body is satisfied that the evaluation process is improving its performance and effectiveness.

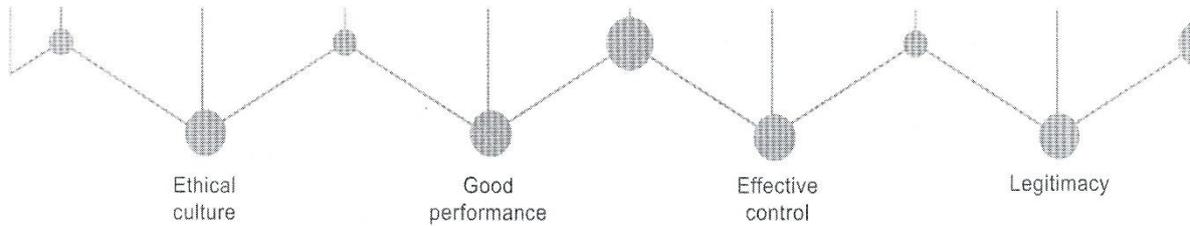
### Appointment and delegation to management

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

#### RECOMMENDED PRACTICES

##### *CEO appointment and role*

76. The governing body should appoint the CEO.
77. The CEO should be responsible for leading the implementation and execution of approved strategy, policy and operational planning, and should serve as the chief link between management and the governing body.
78. The CEO should be accountable, and report to, the governing body.
79. The CEO should not be a member of the remuneration, audit or nomination committees, but should attend by invitation any meeting, or part thereof, if needed to contribute pertinent insights and information.



80. The CEO and the governing body should agree on whether the CEO takes up additional professional positions, including membership of other governing bodies outside the organisation. Time constraints and potential conflicts of interest should be considered and balanced against the opportunity for professional development.
81. The governing body should satisfy itself that there is succession planning for the CEO position in place to provide continuity of executive leadership. Succession planning should be reviewed periodically, and should provide for both succession in emergency situations and succession over the longer term.
82. The governing body should formally evaluate the performance of the CEO against agreed performance measures and targets at least annually.
83. The following should be disclosed in relation to the CEO:
- a. The notice period stipulated in the CEO's employment contract and the contractual conditions related to termination.
  - b. Other professional commitments of the CEO, including membership of governing bodies outside the organisation.
  - c. Whether succession planning is in place for the CEO position.

**Delegation**

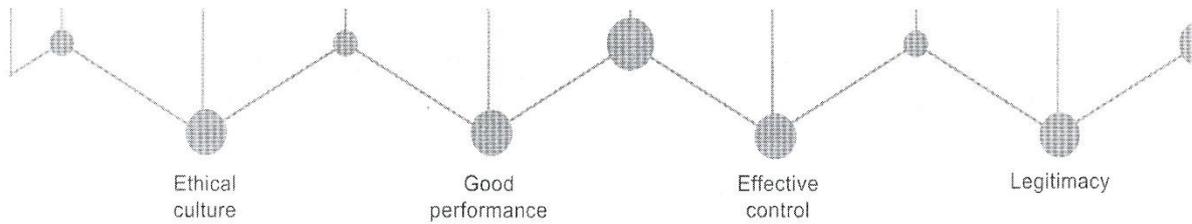
84. The governing body should set the direction and parameters for the powers which are to be reserved for itself, and those that are to be delegated to management via the CEO.
85. The governing body should approve a delegation of authority framework that articulates its set direction on reservation and delegation of power.
86. The governing body should ensure that the delegation of authority framework addresses the authority to appoint executives who will serve as *ex officio*-executive members of the governing body and to make other executive appointments.
87. The governing body should oversee that key management functions are:
- a. headed by an individual with the necessary competence and authority, and
  - b. adequately resourced.
88. The governing body should satisfy itself that there is succession planning in place for executive management and other key positions to provide continuity of leadership. Succession planning should be reviewed periodically, and provide for both succession in emergency situations and succession over the longer term.
89. A statement by the governing body on whether it is satisfied that the delegation of authority framework contributes to role clarity and the effective exercise of authority and responsibilities should be disclosed.

**Professional corporate governance services to the governing body**

90. The governing body should ensure that it has access to professional and independent guidance on corporate governance and its legal duties, and also that it has support to coordinate the functioning of the governing body and its committees.
91. For some companies, the appointment of a company secretary is a statutory requirement. In respect of those companies, the company secretary provides professional corporate governance services. The governing body of an organisation not so obliged should, as a matter of leading practice, consider appointing a company secretary or other professional, as is appropriate for the organisation, to provide professional corporate governance services to the governing body.

## KING IV CODE ON CORPORATE GOVERNANCE CONTINUED

92. The governing body should approve the arrangements for the provision of professional corporate governance services, including whether to outsource them to a juristic person, or to make a full-time or part-time appointment.
93. Regardless of the arrangements it has approved, the governing body should ensure that the office of the company secretary or other professional providing corporate governance services, is empowered and that the position carries the necessary authority.
94. The governing body should approve the appointment, including the employment contract and remuneration of the company secretary or other professional providing corporate governance services. The governing body should oversee that the person appointed has the necessary competence, gravitas and objectivity to provide independent guidance and support at the highest level of decision-making in the organisation.
95. The governing body should have primary responsibility for the removal of the company secretary or other professional providing corporate governance services.
96. The company secretary or other professional providing corporate governance services should have unfettered access to the governing body but, for reasons of independence, should maintain an arms-length relationship with it and its members; accordingly, the company secretary should not be a member of the governing body.
97. The company secretary or other professional providing corporate governance services should report to the governing body via the chair on all statutory duties and functions performed in connection with the governing body. Regarding other duties and administrative matters, the company secretary or other professional providing corporate governance services should report to the member of executive management designated for this purpose as is appropriate for the organisation.
98. The performance and independence of the company secretary or other professional providing corporate governance services should be evaluated at least annually by the governing body.
99. The arrangements in place for accessing professional corporate governance services and a statement on whether the governing body believes those arrangements are effective should be disclosed.



## PART 5.4: GOVERNANCE FUNCTIONAL AREAS

### Risk governance

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

#### RECOMMENDED PRACTICES

1. The governing body should assume responsibility for the governance of risk by setting the direction for how risk should be approached and addressed in the organisation. Risk governance should encompass both:
  - a. the opportunities and associated risks to be considered when developing strategy; and
  - b. the potential positive and negative effects of the same risks on the achievement of organisational objectives.
2. The governing body should treat risk as integral to the way it makes decisions and executes its duties.
3. The governing body should approve policy that articulates and gives effect to its set direction on risk.
4. The governing body should evaluate and agree the nature and extent of the risks that the organisation should be willing to take in pursuit of its strategic objectives. It should approve in particular:
  - a. the organisation's risk appetite, namely its propensity to take appropriate levels of risk; and
  - b. the limit of the potential loss that the organisation has the capacity to tolerate.
5. The governing body should delegate to management the responsibility to implement and execute effective risk management.
6. The governing body should exercise ongoing oversight of risk management and, in particular, oversee that it results in the following:
  - a. An assessment of risks and opportunities emanating from the triple context in which the organisation operates and the capitals that the organisation uses and affects.
  - b. An assessment of the potential upside, or opportunity, presented by risks with potentially negative effects on achieving organisational objectives.
  - c. An assessment of the organisation's dependence on resources and relationships as represented by the various forms of capital.
  - d. The design and implementation of appropriate risk responses.
  - e. The establishment and implementation of business continuity arrangements that allow the organisation to operate under conditions of volatility, and to withstand and recover from acute shocks.
  - f. The integration and embedding of risk management in the business activities and culture of the organisation.
7. The governing body should consider the need to receive periodic independent assurance on the effectiveness of risk management.
8. The nature and extent of the risks and opportunities the organisation is willing to take should be disclosed without compromising sensitive information.

## KING IV CODE ON CORPORATE GOVERNANCE CONTINUED

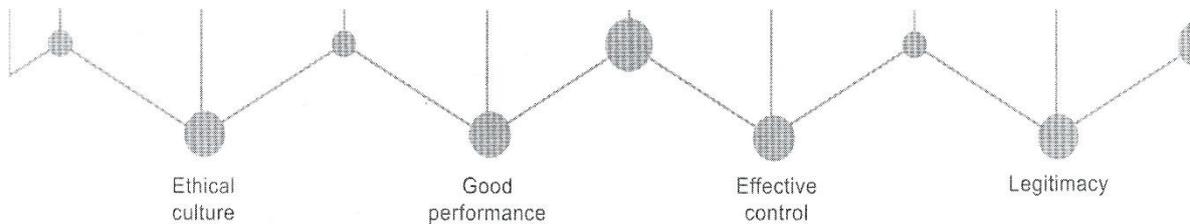
9. In addition, the following should be disclosed in relation to risk:
- a. An overview of the arrangements for governing and managing risk.
  - b. Key areas of focus during the reporting period, including objectives, the key risks that the organisation faces, as well as undue, unexpected or unusual risks and risks taken outside of risk tolerance levels.
  - c. Actions taken to monitor the effectiveness of risk management and how the outcomes were addressed.
  - d. Planned areas of future focus.

### Technology and information governance

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

#### RECOMMENDED PRACTICES

10. The governing body should assume responsibility for the governance of technology and information by setting the direction for how technology and information should be approached and addressed in the organisation.
11. The governing body should approve policy that articulates and gives effect to its set direction on the employment of technology and information.
12. The governing body should delegate to management the responsibility to implement and execute effective technology and information management.
13. The governing body should exercise ongoing oversight of technology and information management and, in particular, oversee that it results in the following:
  - a. Integration of people, technologies, information and processes across the organisation.
  - b. Integration of technology and information risks into organisation-wide risk management.
  - c. Arrangements to provide for business resilience.
  - d. Proactive monitoring of intelligence to identify and respond to incidents, including cyber attacks and adverse social media events.
  - e. Management of the performance of, and the risks pertaining to, third-party and outsourced service providers.
  - f. The assessment of value delivered to the organisation through significant investments in technology and information, including the evaluation of projects throughout their life cycles and of significant operational expenditure.
  - g. The responsible disposal of obsolete technology and information in a way that has regard to environmental impact and information security.
  - h. Ethical and responsible use of technology and information.
  - i. Compliance with relevant laws.



14. The governing body should exercise ongoing oversight of the management of information and, in particular, oversee that it results in the following:
  - a. The leveraging of information to sustain and enhance the organisation's intellectual capital.
  - b. An information architecture that supports confidentiality, integrity and availability of information.
  - c. The protection of privacy of personal information.
  - d. The continual monitoring of security of information.
15. The governing body should exercise ongoing oversight of the management of technology and, in particular, oversee that it results in the following:
  - a. A technology architecture that enables the achievement of strategic and operational objectives.
  - b. The management of the risks pertaining to the sourcing of technology.
  - c. Monitoring and appropriate responses to developments in technology, including the capturing of potential opportunities and the management of disruptive effects on the organisation and its business model.
16. The governing body should consider the need to receive periodic independent assurance on the effectiveness of the organisation's technology and information arrangements, including outsourced services.
17. The following should be disclosed in relation to technology and information:
  - a. An overview of the arrangements for governing and managing technology and information.
  - b. Key areas of focus during the reporting period, including objectives, significant changes in policy, significant acquisitions and remedial actions taken as a result of major incidents.
  - c. Actions taken to monitor the effectiveness of technology and information management and how the outcomes were addressed.
  - d. Planned areas of future focus.

## Compliance governance

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

### RECOMMENDED PRACTICES

18. The governing body should assume responsibility for the governance of compliance with applicable laws and adopted, non-binding rules, codes and standards by setting the direction for how compliance should be approached and addressed in the organisation.
19. The governing body should approve policy that articulates and gives effect to its direction on compliance, and that identifies which non-binding rules, codes and standards the organisation has adopted.

## KING IV CODE ON CORPORATE GOVERNANCE CONTINUED

20. The governing body should delegate to management responsibility for implementation and execution of effective compliance management.
21. The governing body should exercise ongoing oversight of compliance and, in particular, oversee that it results in the following:
  - a. Compliance being understood not only for the obligations it creates, but also for the rights and protections it affords.
  - b. Compliance management taking a holistic view of how applicable laws and non-binding rules, codes and standards relate to one another.
  - c. Continual monitoring of the regulatory environment and appropriate responses to changes and developments.
22. The governing body should consider the need to receive periodic independent assurance on the effectiveness of compliance management.
23. The following should be disclosed in relation to compliance:
  - a. An overview of the arrangements for governing and managing compliance.
  - b. Key areas of focus during the reporting period.
  - c. Actions taken to monitor the effectiveness of compliance management and how the outcomes were addressed.
  - d. Planned areas of future focus.
24. Material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations, whether imposed on the organisation or on members of the governing body or officers should be disclosed.
25. Details of monitoring and compliance inspections by environmental regulators, findings of non-compliance with environmental laws, or criminal sanctions and prosecutions for such non-compliance should be disclosed.

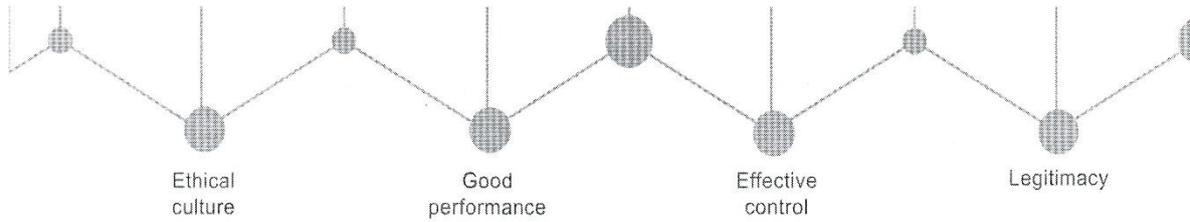
### Remuneration governance

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

#### RECOMMENDED PRACTICES

##### *Remuneration policy*

26. The governing body should assume responsibility for the governance of remuneration by setting the direction for how remuneration should be approached and addressed on an organisation-wide basis.
27. The governing body should approve policy that articulates and gives effect to its direction on fair, responsible and transparent remuneration.



28. The remuneration policy should be designed to achieve the following objectives:
- To attract, motivate, reward and retain human capital.
  - To promote the achievement of strategic objectives within the organisation's risk appetite.
  - To promote positive outcomes.
  - To promote an ethical culture and responsible corporate citizenship.
29. The remuneration policy should address organisation-wide remuneration and include provision for the following specifically:
- Arrangements towards ensuring that the remuneration of executive management is fair and responsible in the context of overall employee remuneration in the organisation.
  - The use of performance measures that support positive outcomes across the economic, social and environmental context in which the organisation operates; and/or all the capitals that the organisation uses or affects.
  - If the organisation is a company, the voting by shareholders on the remuneration policy and implementation report, and for the implementation of related responding measures as outlined under Voting on Remuneration below.
30. All elements of remuneration that are offered in the organisation and the mix of these should be set out in the remuneration policy, including:
- base salary, including financial and non-financial benefits;
  - variable remuneration, including short and long-term incentives and deferrals;
  - payments on termination of employment or office;
  - sign-on, retention and restraint payments;
  - the provisions, if any, for pre-vesting forfeiture (*malus*) and post-vesting forfeiture (*claw-back*) of remuneration;
  - any commissions and allowances; and
  - the fees of non-executive members of the governing body.
31. The governing body should oversee that the implementation and execution of the remuneration policy achieves the objectives of the policy.

**Remuneration report**

32. The governing body should ensure that remuneration is disclosed by means of a remuneration report in three parts:
- A background statement.
  - An overview of the main provisions of the remuneration policy.
  - An implementation report which contains details of all remuneration awarded to individual members of the governing body and executive management during the reporting period.

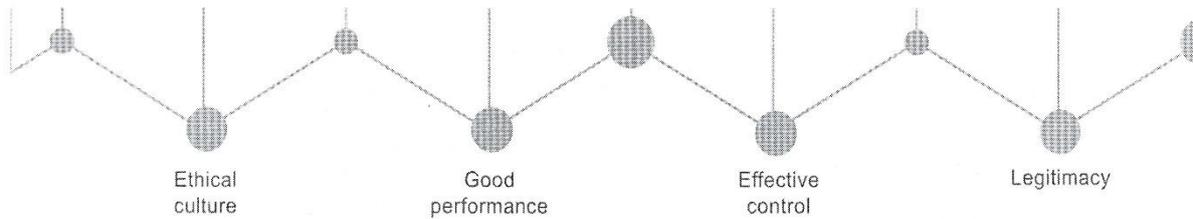
## KING IV CODE ON CORPORATE GOVERNANCE CONTINUED

### *Background statement*

33. The background statement should briefly provide context for remuneration considerations and decisions, with reference to:
- a. internal and external factors that influenced remuneration;
  - b. the most recent results of voting on the remuneration policy and the implementation report and the measures taken in response thereto;
  - c. key areas of focus and key decisions taken by the remuneration committee during the reporting period, including any substantial changes to the remuneration policy;
  - d. whether remuneration consultants have been used, and whether the remuneration committee is satisfied that they were independent and objective;
  - e. the views of the remuneration committee on whether the remuneration policy achieved its stated objectives; and
  - f. future areas of focus.

### *Overview of remuneration policy*

34. The overview of the main provisions of the remuneration policy should address the objectives of the policy and the manner in which the policy seeks to accomplish these. The overview should include the following:
- a. The remuneration elements and design principles informing the remuneration arrangements for executive management and, at a high level, for other employees.
  - b. Details of any obligations in executive employment contracts which could give rise to payments on termination of employment or office.
  - c. A description of the framework and performance measures used to assess the achievement of strategic objectives and positive outcomes, including the relative weighting of each performance measure and the period of time over which it is measured.
  - d. An illustration of the potential consequences on the total remuneration for executive management, on a single, total figure basis, of applying the remuneration policy under minimum, on-target and maximum performance outcomes.
  - e. An explanation of how the policy addresses fair and responsible remuneration for executive management in the context of overall employee remuneration.
  - f. The use and justification of remuneration benchmarks.
  - g. The basis for the setting of fees for non-executive directors.
  - h. A reference to an electronic link to the full remuneration policy for public access.



*Implementation report*

35. The implementation report, which includes the remuneration disclosure in terms of the Companies Act, should reflect the following:

- a. The remuneration of each member of executive management, which should include in separate tables:
  - i. a single, total figure of remuneration, received and receivable for the reporting period, and all the remuneration elements that it comprises, each disclosed at fair value;
  - ii. the details of all awards made under variable remuneration incentive schemes in the current and prior years that have not yet vested, including the number of awards; the values at date of grant; their award, vesting and expiry dates (where applicable); and the fair value at the end of the reporting period; and
  - iii. the cash value of all awards made under variable remuneration incentive schemes that were settled during the reporting period.
- b. An account of the performance measures used and the relative weighting of each, as a result of which awards under variable remuneration incentive schemes have been made, including: the targets set for the performance measures and the corresponding value of the award opportunity; and for each performance measure, how the organisation and executive managers, individually, performed against the set targets.
- c. Separate disclosure of, and reasons for, any payments made on termination of employment or office.
- d. A statement regarding compliance with, and any deviations from, the remuneration policy.

***Voting on remuneration (only applicable to companies)***

36. In terms of the Companies Act, fees for non-executive directors for their services as directors must be submitted for approval by special resolution by shareholders within the two years preceding payment.
37. The remuneration policy and the implementation report should be tabled every year for separate non-binding advisory votes by shareholders at the AGM.
38. The remuneration policy should record the measures that the board commits to take in the event that either the remuneration policy or the implementation report, or both have been voted against by 25% or more of the voting rights exercised. Such measures should provide for taking steps in good faith and with best reasonable effort towards the following at a minimum:
  - a. An engagement process to ascertain the reasons for the dissenting votes.
  - b. Appropriately addressing legitimate and reasonable objections and concerns raised, which may include amending the remuneration policy, or clarifying or adjusting remuneration governance and/or processes.
39. In the event that either the remuneration policy or the implementation report, or both were voted against by 25% or more of the voting rights exercised, the following should be disclosed in the background statement of the remuneration report succeeding the voting:
  - a. with whom the company engaged, and the manner and form of engagement to ascertain the reasons for dissenting votes; and
  - b. the nature of steps taken to address legitimate and reasonable objections and concerns.

## KING IV CODE ON CORPORATE GOVERNANCE CONTINUED

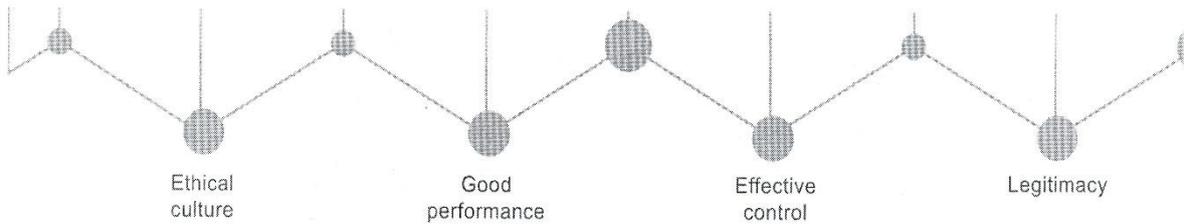
### Assurance

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

#### RECOMMENDED PRACTICES

##### *Combined assurance*

40. The governing body should assume responsibility for assurance by setting the direction concerning the arrangements for assurance services and functions. The governing body should delegate to the audit committee, if in place, the responsibility for overseeing that those arrangements are effective in achieving the following objectives:
  - a. Enabling an effective internal control environment.
  - b. Supporting the integrity of information used for internal decision-making by management, the governing body and its committees.
  - c. Supporting the integrity of external reports.
41. The governing body should satisfy itself that a combined assurance model is applied which incorporates and optimises the various assurance services and functions so that, taken as a whole, these support the objectives for assurance.
42. The governing body should oversee that the combined assurance model is designed and implemented to cover effectively the organisation's significant risks and material matters through a combination of the following assurance service providers and functions as is appropriate for the organisation:
  - a. The organisation's line functions that own and manage risks.
  - b. The organisation's specialist functions that facilitate and oversee risk management and compliance.
  - c. Internal auditors, internal forensic fraud examiners and auditors, safety and process assessors, and statutory actuaries.
  - d. Independent external assurance service providers such as external auditors.
  - e. Other external assurance providers such as sustainability and environmental auditors, external actuaries, and external forensic fraud examiners and auditors.
  - f. Regulatory inspectors.
43. The governing body and its committees should assess the output of the organisation's combined assurance with objectivity and professional skepticism, and by applying an enquiring mind, form their own opinion on the integrity of information and reports, and the degree to which an effective control environment has been achieved.



**Assurance of external reports**

44. The governing body should assume responsibility for the integrity of external reports issued by the organisation by setting the direction for how assurance of these should be approached and addressed.
45. The governing body's direction in this regard should take into account legal requirements in relation to assurance, with the following additional considerations:
- a. Whether assurance should be applied to the underlying data used to prepare a report, or to the process for preparing and presenting a report, or both.
  - b. Whether the nature, scope and extent of assurance are suited to the intended audience and purpose of a report.
  - c. The specification of applicable criteria for the measurement or evaluation of the underlying subject matter of the report.
46. The governing body should satisfy itself that the combined assurance model is effective and sufficiently robust for the governing body to be able to place reliance on the combined assurance underlying the statements that the governing body makes concerning the integrity of the organisation's external reports.
47. External reports should disclose information about the type of assurance process applied to each report, in addition to the independent, external audit opinions provided in terms of legal requirements. This information should include:
- a. a brief description of the nature, scope and extent of the assurance functions, services and processes underlying the preparation and presentation of the report; and
  - b. a statement by the governing body on the integrity of the report and the basis for this statement, with reference to the assurance applied.

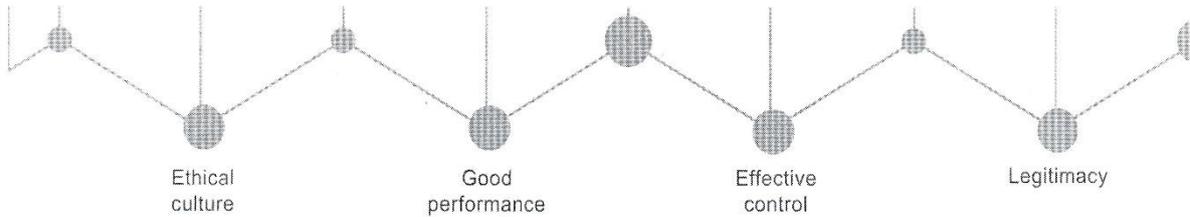
Refer to Part 5.3: *Audit committee* for recommended disclosures by the audit committee concerning the organisation's application of combined assurance.

**Internal audit**

48. The governing body should assume responsibility for internal audit by setting the direction for the internal audit arrangements needed to provide objective and relevant assurance that contributes to the effectiveness of governance, risk management and control processes. The governing body should delegate oversight of internal audit to the audit committee, if in place.
49. The governing body should approve an internal audit charter that defines the role and associated responsibilities and authority of internal audit, including addressing its role within combined assurance and the internal audit standards to be adopted.
50. The governing body should ensure that the arrangements for internal audit provide for the necessary skills and resources to address the complexity and volume of risk faced by the organisation, and that internal audit is supplemented as required by specialist services such as those provided by forensic fraud examiners and auditors, safety and process assessors, and statutory actuaries.
51. If a chief audit executive (CAE) position is provided for in the arrangements for internal audit, the governing body should ensure that the position is set up to function independently from management who designs and implements the controls that are in place, and that the position carries the necessary authority.
52. The governing body should approve the appointment of the CAE, including the employment contract and remuneration of the CAE, and ensure that the person who fills the position has the necessary competence, gravitas and objectivity.

## KING IV CODE ON CORPORATE GOVERNANCE CONTINUED

53. For reasons of independence, the CAE should have access to the chair of the audit committee.
54. For reasons of independence, the CAE should not be a member of executive management, but should be invited to attend executive meetings, as necessary, to be informed about strategy and policy decisions and their implementation.
55. Where internal audit services are co-sourced or outsourced, the governing body should ensure that there is clarity on who fulfils the role of CAE.
56. The CAE should report to the chair of the audit committee on the performance of duties and functions that relate to internal audit. On other duties and administrative matters, the CAE should report to the member of executive management designated for this purpose as appropriate for the organisation.
57. The governing body should have primary responsibility for the removal of the CAE.
58. The governing body should monitor on an ongoing basis that internal audit:
- a. follows an approved risk-based internal audit plan; and
  - b. reviews the organisational risk profile regularly, and proposes adaptations to the internal audit plan accordingly.
59. The governing body should ensure that internal audit provides an overall statement annually as to the effectiveness of the organisation's governance, risk management and control processes.
60. The governing body should ensure that an external, independent quality review of the internal audit function is conducted at least once every five years.
61. The governing body should obtain confirmation annually from the CAE that internal audit conforms to a recognised industry code of ethics.
- Refer to Part 5.3: *Audit committee* for recommended disclosures by the audit committee concerning internal audit arrangements and the internal control environment.



## PART 5.5: STAKEHOLDER RELATIONSHIPS

### Stakeholders

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

#### RECOMMENDED PRACTICES

##### *Stakeholder relationships*

1. The governing body should assume responsibility for the governance of stakeholder relationships by setting the direction for how stakeholder relationships should be approached and conducted in the organisation.
2. The governing body should approve policy that articulates and gives effect to its direction on stakeholder relationships.
3. The governing body should delegate to management the responsibility for implementation and execution of effective stakeholder relationship management.
4. The governing body should exercise ongoing oversight of stakeholder relationship management and, in particular, oversee that it results in the following:
  - a. Methodologies for identifying individual stakeholders and stakeholder groupings.
  - b. Determination of material stakeholders based on the extent to which they affect, or are affected by, the activities, outputs and outcomes of the organisation.
  - c. Management of stakeholder risk as an integral part of organisation-wide risk management.
  - d. Formal mechanisms for engagement and communication with stakeholders, including the use of dispute resolution mechanisms and associated processes.
  - e. Measurement of the quality of material stakeholder relationships, and appropriate responses to the outcomes.
5. The following should be disclosed in relation to stakeholder relationships:
  - a. An overview of the arrangements for governing and managing stakeholder relationships.
  - b. Key areas of focus during the reporting period.
  - c. Actions taken to monitor the effectiveness of stakeholder management and how the outcomes were addressed.
  - d. Future areas of focus.

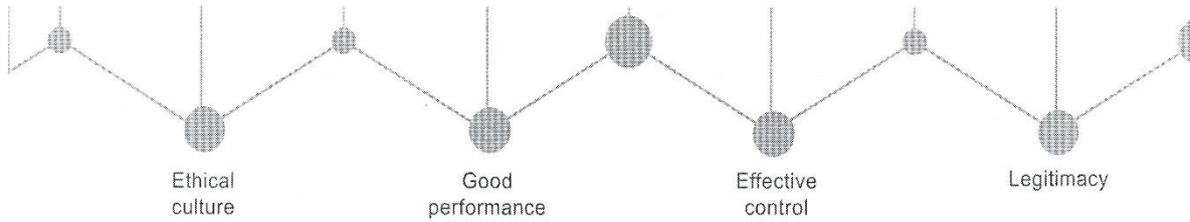
## KING IV CODE ON CORPORATE GOVERNANCE CONTINUED

### **Shareholder relationships** (Applicable to companies only)

6. The board should oversee that the company encourages proactive engagement with shareholders, including engagement at the annual general meeting (AGM) of the company.
7. All directors should be available at the AGM to respond to shareholders' queries on how the board executed its governance duties.
8. The board should ensure that the designated partner of the external audit firm attends the AGM.
9. The board should ensure that shareholders are equitably treated, and that the interests of minority shareholders are adequately protected.
10. The minutes of the AGMs of listed companies should be made publicly available.

### **Relationships within a group of companies** (Applicable to companies within a group)

11. The board of the holding company should assume responsibility for governance across the group by setting the direction for how the relationships and exercise of power within the group should be approached and conducted.
12. The board should approve a group governance framework that articulates and gives effect to its direction on relationships and the exercise of authority across the group.
13. The adoption and implementation of the policies, structures and procedures of the holding company is a matter for consideration and approval by the board of the subsidiary company as a separate legal entity. The board of the holding company should therefore ensure that the boards of its subsidiaries are included in the development of the group governance framework.
14. The board of the holding company should ensure that the group governance framework does not conflict with the memoranda of incorporation, delegations of authority, shareholder agreements, board charters, board committee terms of reference, and related policies and agreements within the group.
15. The board of the holding company should ensure that the group governance framework recognises each subsidiary within the group as a separate and independent juristic person to whom its directors owe fiduciary duties.
16. The board of the holding company should ensure that the group governance framework addresses governance matters as is appropriate for the group, including the following:
  - a. Delineation of the rights and role of the holding company.
  - b. If applicable, delegation of certain responsibilities by the board of a subsidiary to a board committee of the holding company, without abdicating accountability, and subject to agreed reporting and information-sharing arrangements.
  - c. The extent to which governance and operational policies of the holding company have been adopted by subsidiary companies in the group.
  - d. Engagement by the holding company with the board of a subsidiary company before the holding company exercises its rights to elect directors to the board of the subsidiary.
  - e. Arrangements to address the risk of breaching legal duty in relation to the use of information obtained while acting as director of one company in the group for the purposes of another company in the group.



17. The board of the holding company should ensure that the agreed group governance framework is implemented across the group.
18. The holding company should disclose an overview of the group governance framework that is implemented across the group.
19. The subsidiary company should disclose what responsibilities it has delegated to board committees of the holding company and the extent to which it has adopted the policies and procedures of the holding company.

### Responsibilities of institutional investors

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

#### RECOMMENDED PRACTICES

20. The governing body of an institutional investor should assume responsibility for governing responsible investing by setting the direction for how it should be approached and conducted by the organisation.
21. The governing body should approve policy that articulates its direction on responsible investment. This policy should provide for the adoption of a recognised responsible investment code, principles and practices.
22. The governing body should delegate to management, if in place, or alternatively, to the outsourced service provider if investment decisions and investment activities are outsourced, the responsibility to implement and execute its policy on responsible investment.
23. Where the institutional investor outsources investment decisions or investment activities to custodians, nominees, consultants or other service providers, the governing body should oversee that the outsourcing is regulated by formal mandate which reflects and gives effect to its responsible investment policy.
24. The governing body should ensure that service providers are held accountable for complying with the formal mandate.
25. The responsible investment code adopted by the institutional investor and the application of its principles and practices should be disclosed.