

# **Best corporate governance practices: financial accountability of selected churches in the Free State province**

by

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## **DECLARATION**

I declare that the dissertation hereby handed in for the qualification Magister in Accounting at the University of the Free State is my own independent work and that I have not previously submitted the same work for a qualification at/in another university/faculty.

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## **ABSTRACT**

South Africa's economy tells a daunting story of poverty, economic inequalities, unemployment statistics that have reached an all-time high and the increased threat of receiving a "junk" rating by grading agencies. These realities result in the mounting social and economic ills of society that are amplified by the repercussions of government's poor record in service delivery.

Social services are on the verge of a collapse because they are not properly supported by the government. The insufficient subsidies provided by government, as well as the significant delay or non-payment of subsidies, result in subsidy crises to many social organisations. The aftereffect of the subsidy crises is that some old-age homes, children's homes, orphanages, kids' shelters, welfare homes, care havens, homes for orphaned HIV/AIDS, to name but a few, are battling to survive. This is an untenable situation as millions of vulnerable South Africans, particularly children and elderly people, are dependent on social organisations for their survival.

The shrinking economic resources, the social needs of communities that are left unfilled by government, as well as the reigning subsidy crises, provide fertile soil for churches to be involved in these social challenges. As South Africa is a developing country, the provision of social services by churches are imperative and the government cannot afford to lose the wide range of contributions to social services by churches.

The future of some churches are, however, affected by the unprecedented decline in membership, as well as the negative impact of secularisation and migration. Many churches are facing aging members, youth leaving the church and several church buildings are sold due to the battle for financial survival. The challenges faced by churches are amplified by the media being flooded with reports of scandals ranging from 1) alleged financial misconduct amongst some of the most well-known televangelists in the United States of America, the 2) controversial sex scandals in

the Roman Catholic Church and 3) many instances of misconduct in church finances.

These challenges impose significant threats to the financial sustainability of some churches. In addition, it threatens the sustainable involvement of churches in the provision of social services. The root of all these challenges can be traced back to the concept of corporate governance. As soon as churches have a significant presence and influence in their community, stakeholders will normally take on a role of encouraging and demanding the illustration of sound corporate governance principles by churches.

The term *corporate governance* has evolved to become a mainstream concern amongst all stakeholders in various industries and across the different sectors of the economy. The King Reports have provided, not only in South Africa, but also internationally, the lead in good governance and is generally accepted as the source document for what constitutes sound governance. The abovementioned challenges surrounding churches arouse the concern as to what extent churches should implement sound corporate governance principles, as prescribed by the King Reports.

This study consists of a literature component and an empirical component. The aim of the literature study was to provide 1) an overview of the development of corporate governance, with specific reference to the King Reports, 2) a regulatory framework of non-profit organisations and churches and 3) an overview of the relevance of the principles of corporate governance from the King Reports to all types of organisations, and for the purpose of this study, specifically churches.

The empirical research component was conducted by means of a semi-structured interview. The principles of good governance as prescribed by the King Reports have been used as the main source in the development of the interview schedules. The aim of the empirical study was primarily to analyse the extent to which corporate governance guidelines are implemented by a selected sample of congregations. The congregations were selected from two denominations, namely the Dutch Reformed Church and the Apostolic Faith Mission Church, in the Free State region. The

interviews were used to obtain insight from important role players of the respective congregations. The answers provided by the interviewees enabled the researcher to reach conclusions and make recommendations regarding the implementation of corporate governance principles. The results of this study should assist congregations in enhancing and improving the implementation of corporate governance principles. This should therefore assist congregations in maintaining financial sustainability and in taking up their rightful place in playing an indispensable role in the provision of, amongst others, social services in South Africa.

The study is set out in 5 chapters. Chapter 1 provides the introduction to the study, sketching a few of the scandals that the world and churches are currently faced with as a means to illustrate the importance of corporate governance. This is followed, in Chapter 2, by an overview of the development of corporate governance. The chapter also discuss the development of the different sectors in the economy, with specific focus placed on the non-profit sector, of which churches form part. The chapter concludes with a discussion on the importance and relevance of corporate governance in the non-profit sector.

Chapter 3 provides an overview of the history and establishment of the two denominations as mentioned, in South Africa, coupled with an overview of the governance structures of the denominations. This is followed by an analysis of the findings gathered from the interview schedules in Chapter 4. Chapter 5 finally consists of the conclusions and recommendations for improvement of corporate governance by churches and further research possibilities.

## OPSOMMING

Suid-Afrika se ekonomie vertel 'n uitdagende verhaal van armoede, ekonomiese ongelykhede, die ergste gegewens tans oor werkloosheid en die verhoogde bedreiging om 'n "rommel" gradering van graderingsagentskappe te ontvang. Hierdie realiteite lei tot toenemende sosiale en ekonomiese euwels wat vererger word deur die regering se swak diensleweringrekord.

Maatskaplike dienste is op die rand van 'n ineenstorting aangesien dit nie behoorlik deur die regering ondersteun word nie. Die onvoldoende subsidies wat deur die regering voorsien word, sowel as die beduidende vertraging of nie-betaling van subsidies, lei tot 'n subsidiekrisis vir baie maatskaplike organisasies. Die gevolg van die subsidiekrisis is dat ouetehuse, kinderhuse, weeshuse, welsynhuse, huise vir hawelose mense, huise vir weeskinders van MIV/vigs, om maar 'n paar te noem, sukkel om te oorleef. Dit is 'n onuithoudbare situasie aangesien miljoene kwesbare Suid-Afrikaners, veral kinders en bejaardes, van maatskaplike organisasies vir hul oorlewing afhanklik is.

Die krimpende ekonomiese hulpbronne, die maatskaplike behoeftes van gemeenskappe waaraan nie deur die regering voldoen word nie, sowel as die heersende subsidiekrisis, bied vrugbare grond vir kerke om in hierdie sosiale uitdagings betrokke te wees. Die rol van die kerk het oor die afgelope aantal jaar sodanig verander dat dit nie meer net oor die verkondiging van die Evangelie gaan nie, maar ook oor aktiewe betrokkenheid by die burgerlike samelewing. Aangesien Suid-Afrika 'n ontwikkelende land is, is die verskaffing van maatskaplike dienste deur kerke noodsaaklik en kan die regering dus nie bekostig om die wye verskeidenheid bydraes tot maatskaplike dienste deur kerke, te verloor nie.

Die toekoms van sommige kerke word egter deur die ongekende afname in lidmaatskap, sowel as die negatiewe impak van sekularisasie en migrasie beïnvloed. Baie kerke word deur verouderende lede en die jeug wat die kerk verlaat, in die gesig gestaar, en verskeie kerkgeboue word verkoop in die stryd om finansiële oorlewing. Die uitdagings wat kerke beleef, word verder vererger deur die vloed van

mediaberigte van skandale wat wissel van 1) die beweerde finansiële wangedrag onder sommige van die bekendste tele-evangeliste in die Verenigde State van Amerika, die 2) omstrede seksskandale in die Rooms-Katolieke Kerk en 3) baie gevalle van wangedrag in kerkfinansies. Hierdie uitdagings hou beduidende bedreigings vir die finansiële volhoubaarheid van sommige kerke in. Dit bedreig verder ook die volhoubare betrokkenheid van kerke in die verskaffing van maatskaplike dienste. Die wortel van al hierdie uitdagings kan na die konsep van korporatiewe beheer teruggevoer word. Sodra kerke 'n beduidende teenwoordigheid en invloed in hul gemeenskap het, sal belanghebbendes normaalweg die rol opneem om die implementering van gesonde korporatiewe beheerbeginsels deur kerke, aan te moedig.

Die term *korporatiewe beheer* het tot 'n hoofstroomkommer, onder alle belanghebbendes in verskeie industrieë en oor die verskillende sektore van die ekonomie, ontwikkel. Die King-verslae neem nie net in Suid-Afrika nie, maar ook internasionaal, die voortou in goeie korporatiewe beheer en word algemeen as die brondokument vir wat goeie korporatiewe beheer uitmaak, aanvaar. Die uitdagings wat kerke beleef, wek kommer ten opsigte van die mate waarin kerke gesonde korporatiewe beheerbeginsels, soos deur die King-verslae voorgeskryf, implementeer.

Hierdie studie bestaan uit 'n literatuurkomponent en 'n empiriese komponent. Die doel van die literatuurstudie was om 1) 'n oorsig van die ontwikkeling van korporatiewe beheer, met spesifieke verwysing na die King-verslae te bied, 2) 'n regulerende raamwerk aan nie-winsgewende organisasies en kerke te verskaf, en 3) die toepaslikheid van die beginsels van korporatiewe beheer van die King-verslae in alle vorme van organisasies, en vir die doel van hierdie studie, spesifiek kerke, te oorweeg.

Die empiriese navorsingskomponent is deur middel van semi-gestruktureerde onderhouds gesprekke uitgevoer. Die beginsels van goeie beheer, soos voorgeskryf deur die King-verslae, is as die belangrikste bron in die ontwikkeling van die onderhoudskedules gebruik. Die doel van die empiriese studie was om die mate waarin korporatiewe beheer beginsels deur 'n geselekteerde steekproef van gemeentes

geïmplementeer word, te ontleed. Die gemeentes is uit twee denominasies in die Vrystaat streek, naamlik die Nederduitse Gereformeerde Kerk en die Apostoliese Geloofsending Kerk, gekies. Die onderhoude is gebruik om insig vanaf belangrike rolspelers van die onderskeie gemeentes te verkry. Die terugvoer wat vanaf die onderhoude verkry is, het die navorser in staat gestel om gevolgtrekkings te maak en aanbevelings oor die implementering van korporatiewe beheerbeginsels, te verskaf. Die resultate van hierdie studie behoort gemeentes te help om die implementering van korporatiewe beheerbeginsels te verbeter. Dit behoort gemeentes verder te help om finansieël volhoubaar te wees en hul regmatige plek, om 'n onontbeerlike rol in die voorsiening van maatskaplike dienste in Suid-Afrika te speel, in te neem.

Die studie word in 5 hoofstukke uiteengesit. Hoofstuk 1 verskaf die inleiding tot die studie, waarin 'n paar van die skandale wat die wêreld en kerke tans konfronteer, geskets word met die doel om die belangrikheid van korporatiewe beheer te illustreer. Dit word gevolg, in Hoofstuk 2, deur 'n oorsig van die ontwikkeling van korporatiewe beheer. Die hoofstuk bespreek ook die ontwikkeling van die verskillende sektore in die ekonomie, met spesifieke fokus wat op die nie-winsgewende sektor geplaas word, waarvan kerke deel vorm. Die hoofstuk word afgesluit met 'n bespreking van die belangrikheid en relevansie van korporatiewe beheer vir die nie-winsgewende sektor.

Hoofstuk 3 bied 'n oorsig van die geskiedenis en die vestiging van die twee denominasies soos genoem, in Suid-Afrika, tesame met 'n oorsig van die strukture van die denominasies. Dit word gevolg deur 'n ontleding van die bevindinge van die onderhoudskedules in Hoofstuk 4. Hoofstuk 5 bestaan uit die gevolgtrekkings en aanbevelings vir die verbetering van korporatiewe beheer deur kerke, asook verdere navorsingsmoontlikhede.



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*“Family is not an important thing, it is everything.”*

Michael J Fox

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*Is my lewe vir altyd, en ‘n leeftyd geanker aan jou,*

*By jou, is die plek waar ek rus kry, niemand anders as net jy, sal in alles genoeg wees vir my.”*

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*“The good life is one inspired by love and guided by knowledge.”*

Bertrand Russell

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**Ek is baie baie lief vir Pappa!**

## LIST OF ABBREVIATIONS

AB	Afrikaner Broederbond
AFM	Apostolic Faith Mission
AFMTC	Apostolic Faith Mission Theological College
APC	Arms Procurement Commission
ATS	Auckland Park Theological Seminary
BC	Before Christ
CBO	Community Based Organisations
CEO	Chief Executive Officer
CSO	Civil Society Organisations
CSR	Corporate Social Responsibility
DRC	Dutch Reformed Church
ECFA	Evangelical Council for Financial Accountability
FBO	Faith-Based Organisations
GKSA	Gereformeerde Kerke in Suid-Afrika
HSRC	Human Sciences Research Council
IOD	Institute of Directors
IODSA	Institute of Directors in Southern Africa
JSE	Johannesburg Stock Exchange
NG	Nederduitse Gereformeerde
NGKA	Nederduitse Gereformeerde Kerk in Afrika
NGO	Non-governmental organisations
NGSK	NG Sending vir Kleurlinge
NLF	National Leadership Forum
NP	National Party
NPO	Non-profit organisations
NWU	University of North West
OECD	Organisation for Economic Co-Operation and Development
PBO	Public Benefit Organisations
PTL	Praise the Lord show
PWC	PricewaterhouseCoopers
RCC	Roman Catholic Church

RLF	Regional Leadership Forum
SACC	South African Council of Churches
SAICA	South African Institute of Chartered Accountants
SEC	Securities and Exchange Commission
SOX	Sarbanes Oxley Act
SPE	Special Purpose Entities
UCC	United Church of Christ
UCCSA	United Congregational Church of Southern Africa
UJ	University of Johannesburg
UK	United Kingdom
USA	United States of America
VOC	Vereenigdhe Oost-Indische Compagne
ZAR	Zuid-Afrikaanse Republiek

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# CHAPTER 1 - BACKGROUND AND INTRODUCTION

## 1.1 INTRODUCTION

*“Churches may not underestimate their calling and command in these days. The lives of our children today and tomorrow - and our own future - are at stake.”*

Derek Hanekom

Religion is one of the most pervasive phenomena born and nurtured among many groups of people (Hull and Bold, 1989: 5; Iannaccone, 1998: 271). All societies throughout history engage in religious activity and churches, synagogues, meeting houses and fellowship halls are everywhere and constitute a vast and often perplexing feature of collective life (Bentley, 2002: 24). Scarcely any segment of the South African population is more than a few miles away from a local church or house of worship of one kind or another (Wuthnow, 1990: 4). Religiosity is pervasive in South Africa, especially among Afrikaners (Du Toit, 1984: 631; Mailovich, 2015: 7).

Communities rely on the influence of churches (Mancotywa, 2010: 14; Nkomo, 2007: 9) and are increasingly looking towards churches to meet the social and welfare needs that are left unfilled by government. Governments' inadequate social delivery systems and poor record in social service delivery are widely reported (see Meijer, 2011: 16; Hibbert, 2011: 24; October, 2011: 5; Jonker-Bryce, 2011: 2; Mama, 2011: 13; Jackson, 2011: 3; Strydom, 2012: 13; Beaver, 2012: 2; Dlamini, 2012: 13; Oosthuizen, 2010: 8; Greyling, 2006: 6; Doyer, 2011: 17; Kingma, 1999: 135; Jeavons, 2005: 211; Mancotywa, 2010: 14). In addition, social institutions fight for survival as a result of government's delays in providing subsidies (Kirkland, 2009: 9; loDSA, 2009a; Davids, 2015: 2; Waldeck, 2015: 1), or to provide sufficient subsidies (Umar, 2009: 5), or to pay the promised grants to these organisations (Botha, 2005: 1). The subsidy crises result in a battle for old-age homes, children's homes, kids' shelters, welfare homes, care havens, homes for orphaned HIV/AIDS, to name but a few, to remain sustainable. The following are specific examples from the media reports of the consequences of subsidy crises:

- i. Residents of havens that go hungry (De Jager and Stander, 2012: 10; Halata, 2012: 5);
- ii. Residents of old-age homes with weak elderly residents that go hungry and do not receive the required medicine (Davids, 2015: 2);
- iii. Orphans that do not have a roof over their heads (Mbanjwa, 2002: 2; Barbeau, 2005: 16);
- iv. Children that are sent back to abusive and broken homes (Ndaliso, 2010: 3);
- v. Homes and shelters that cannot fulfil their duties (Van der Merwe, 2013: 4; Schroeder, 2009: 3; Esterhuyse, 2012: 5) with a subsequent cut back on the indispensable social services that they are called to provide (Torera, 2012: 10); and
- vi. Social service organisations that have to shut down and close their doors (Barbeau, 2005: 16; Mbanjwa, 2002: 2; Carlisle, 2002: 3).

The subsidy crises as well as the social needs of communities that are left unfilled by government provide fertile soil for churches to be involved in these social challenges. Over the past several years, the role of the church has changed from only preaching the Gospel, to an organisation that is actively involved in civil society (Buchner, 2005: 14; Harris, 1998: 309) and mobilising valuable social change (Bentley, 2002: 24; Thiemann, 2005: 179). Churches represent one of the major social institutions that transmits spiritual, cultural and social values (Bentley, 2002: 24). They have become a moral and social compass in a society (Altman et al., 2000: 152), with increasing incidence of families with single heads or two working parents and the lack of attention and perceived inability of schools to teach ethical and moral traditions and values (Hodgkinson, 1990: 292; Bentley, 2002: 33; Nkomo, 2007: 9).

An academic debate has unfolded in South Africa that recognises the important role that churches play in the social development of the country (Swart, 2005: 35). In a study conducted by Schoeman (2012: 7), it was affirmed that churches are extensively involved in society and are featuring in the public face as role players for social change to make a significant difference in the provision of social services (Gaum, 2014: 7).

The church is providing a vast portion of social services (Wuthnow and Hodgkinson, 1990: 3) and the general involvement of churches in social service delivery of South Africa is evident from the following examples:

- i. Involvement in job creation programmes, skills training, havens and housing for children and abused women (Koegelenberg, 2003: 10; Krige, 2007: 2);
- ii. Taking care of the poor, helpless and the homeless (Sonile, 2010: 13; Carstens, 2012: 9);
- iii. Provision of youth development, crèches and day care (Krige, 2007: 2);
- iv. Taking the lead in poverty-related issues (Hendriks et al., 2004: 380);
- v. Provision of flood relief to thousands of people in on-going floods, by extending a hand to displaced families housed in church buildings and supplied with donated clothes (Ramela, 2011);
- vi. Involvement in the ever-challenging education system (Jonker-Bryce, 2011: 2);
- vii. Shaping of the value systems of communities (Mancotywa, 2010: 14);
- viii. Assisting victims of sexual and violent crimes (Erasmus and Mans, 2005: 154);
- ix. Provision of HIV/AIDS care (Hendriks et al., 2004: 154; Krige, 2007: 2) and counselling concerning related social problems (Swart, 2005: 28);
- x. Several schools established by churches (Claassen, 2009: 16); and
- xi. 25% of old-age homes are controlled by churches (Perold and Muller, 2000: 89).

The following are specific examples of churches' contribution towards social welfare:

- i. A church in Pretoria transformed its building into a hospital and used wooden notice boards with cloth draped over them to divide the building into different sections. For millions of South Africans, seeing a medical doctor is a privilege, reserved for the rich and those with medical aid. The only alternative to medical aid is to stand in line for hours at clinics and district hospitals before doctors give their patients a referral. This transformed church building was used to provide health services to the community (Bateman, 2007: 4);

- ii. A church in the Northern Cape bought several buildings, renovated the buildings and used these as orphanage homes (Duursema, 2012: 4);
- iii. A church in Ficksburg used its building as a crisis centre for providing food and housing after a tornado had affected 128 families (Kuyler, 2011: 6);
- iv. A church initiated the “Love sandwiches” feeding project whereby food is provided on a daily basis to school children (Hanekom, 2012: 9; Jonker-Bryce, 2011: 2; Makhubu, 2010: 5);
- v. A church in Pretoria provided clothes and new pair of shoes for 600 children during the winter month (Buchner, 2005: 14);
- vi. A church in Durban housed 400 victims of xenophobic attacks (Jones, 2009: 14); and
- vii. The Anglican Church took the lead in an upliftment project when they received a grant of R45 million from a British agency which they used for an HIV/AIDS program that have reached pandemic proportions in South Africa (De Gruchy et al., 2008: 209).

As South Africa is a developing country, the provision of social services by churches is imperative and the government cannot afford to lose the wide range of contributions to social services by churches (Strauss, 2013a: 6; Buttner, 2008: 8; Batley, 2006: 241). This is confirmed by research that indicate that the South African government channels a substantial portion of their social aid through churches (Koegelenberg, 2001: 103). Surveys from the Ecumenical Foundation of South Africa showed that the value of social services that churches contribute on an annual basis amounts to almost R3 billion (Koegelenberg, 2001: 103).

In addition, the government acknowledges that it cannot achieve its goal in the delivering of social services without a partnership with churches (Hendriks et al., 2004: 382; Muthien et al., 2000: 7; Louw and Koegelenberg, 2003: 3). At a secular level, several prominent leaders from government called upon churches to be involved in the social development of South Africa (Erasmus and Mans, 2005: 141). The various representatives of government who have affirmed the importance of churches as a strategic partner in the field of social development include (Swart, 2005: 22; Editor, 2004a: 1):



- i. The previous Director-General of the presidency, Dr Frank Chikane, stated that churches must lead in the social challenges and that “*churches need to make a difference in the lives of communities*” (Dlamini, 2012: 13);
- ii. The previous President, Mr Thabo Mbeki, has called upon churches to assist in the transformation of the country (Hendriks et al., 2004: 382);
- iii. The previous Minister in the Presidency, Mr Trevor Manuel, was posed a question from a church leader during a conference on poverty and education on whether churches still have the authority and power to exert influence in the social challenges that South Africa is facing. Manuel responded that churches “*don’t need to ask anyone’s permission*” to be involved (Hanekom, 2012: 9); and
- iv. The President, Mr Jacob Zuma, publicly acknowledged during the Non-Profit Organisations summit that he himself witnessed the significant contribution by churches in social development (Department of Social Development, 2012a).

Krige (2007: 2) states that churches are the most representative institution in civil society. Hendriks, Erasmus and Mans (2004: 382) confirmed this in a study that churches are the strongest and most influential non-governmental organisation reaching on average 63% of the Christian population weekly. Swart (2005: 35) has been involved in numerous studies regarding churches’ involvement in social development and argues that the widespread media reports on churches’ role in the social challenges (which is also illustrated by the examples listed above) prove that it is imperative for churches to be involved in the social development of South Africa (Sanpath, 2010: 6).

Coupled with the widespread reports on the significant involvement of churches in social development, is the level of trust that is embedded in churches. A study conducted by Botes and Abrahams (2008: 119) revealed that churches have considerable levels of trust invested in them to be involved in the social developments of South Africa (Swart, 2006: 1; Gaum, 2012: 20). Surveys that were conducted by the Human Sciences Research Council (HSRC) recorded that churches earn the highest public trust rate of all social institutions in South Africa (Muthien et al., 2000: 5; Houston and Rule, 2000: 60; Erasmus and Mans, 2005: 141). The surveys were conducted in two consecutive years, in 1999 and 2000

amongst national, provincial, local government, political parties, business and the media. This signifies that churches enjoy a position of significant credibility (Erasmus and Mans, 2005: 141; Hendriks et al., 2004: 141) and is often used by advocates of religion to promote the argument about churches' social strength (Swart, 2006: 1) and capability in the involvement of the social challenges (Elson et al., 2007: 122).

In addition to the church's role in the provision of social services, one cannot fail to notice the coverage of the involvement of religious groups in a variety of controversial issues (Zald and McCarthy, 1998: 24). The church has a powerful, non-partisan voice to address contemporary issues (Makgoba, 2012: 14) and this is illustrated in the following examples:

- i. The President, Mr Jacob Zuma's Nkandla private home came under the spotlight when it was revealed that security upgrades were done at heavily inflated rates of hundreds of millions of rands (Hunter, 2013: 4). The Nkandla saga dominated the media (Editor, 2012: 8) and religious leaders and archbishops (including Archbishop Emeritus Desmond Tutu) voiced the church's concern over this spending and urged the President to reveal the truth about the alleged reckless spending (Williams, 2014: 1; Vecchiatto and Stone, 2014: 1; Editor, 2012: 8). The background of the Nkandla scandal is discussed in more detail in section 2.2.4.3 in Chapter 2.
- ii. The Lonmin/Marikana strike and its aftermath have dominated the South African media during 2012 and have already largely been described as the most tragic episode in the history of post-apartheid South Africa (Lubbe, 2012b: 11; Makgoba, 2012: 14). For long, the stench of blood and gunpowder has lingered over the fields of Marikana in Rustenburg (Coetzee, 2012: 12). The church acted upon this tragedy (Jackson, 2012: 5) and the well-known preacher Angus Buchan held a crusade after the strike to address the problems as a result of the massacre of 36 miners (Coetzee, 2012: 12). The South African Council of Churches (SACC) was viewed as one of the significant role players and referee in the talks in an

attempt to resolve the situation (Makgoba, 2012: 14; Meyer, 2012: 2; Editor, 2012: 14).

Religious organisations have long been major actors in the field of philanthropy (see section 2.6 in Chapter 2 for a discussion on philanthropy) and the provision of social services (Wood, 1990: 255). The commandment (or mandate) to be involved in social services and upliftment have been codified in the memorable dictums and narratives of many religious traditions (Wuthnow and Hodgkinson, 1990: preface, xiii; Bentley, 2002: 23).

One of the main goals that most of the great religions of the world (e.g. Hinduism, Buddhism, Islam, Judaism and Christianity) have in common, is to teach their followers what is right (“acceptable”) and wrong (“unacceptable”) through the concerned religion’s dogma, doctrines and “sacred” writings (Lubbe, 2012b: 117). The essence of what it is to act “well”/“right” towards other people, is formulated in a compelling manner in the so-called “golden rule” that appears in the Bible in Luke 6:31 (New International Version): “*Do to others as you would have them do to you.*” The admonition to love one’s neighbour as oneself found in both the Hebrew and Christian scriptures is also widely known (Wuthnow, 1990: 7; Veldheer and Burger, 1999: 19). The concept of charity existed in early cultures and has formed an important part of the entire Christian tradition.

The widespread perception, however, is that the golden rule is solely a Christian teaching (Lubbe, 2012b: 150). There are well-research case studies on how people from other religions, not limited to the Christian religion, also contributes towards social challenges (Krige, 2007: 12; Wuthnow, 1990: 8; Cnaan et al., 2003: 29). Maxwell (2003: 16) illustrates that there exist a version of the Golden Rule in just about every culture (or religion) with the following table:

**Table 1.1: Variations on the golden rule in different religions**

Christianity	Whatever you want men to do to you, do also to them.
Islam	No one of you is a believer until he loves for his neighbour what he loves for himself.
Judaism	What is hateful to you, do not do to your fellow man. This is the entire Law; all the rest is commentary.
Buddhism	Hurt not others with that which pains yourself.
Hinduism	This is the sum of duty; do not unto others what you would not have them do unto you.
Zoroastrianism	Whatever is disagreeable to yourself, do not do unto others.
Confucianism	What you do not want done to yourself, do not do to others.
Bahai	And if thine eyes be turned towards justice, choose thou for thy neighbour that which thou chooseth for thyself.
Jainism	A man should wander about treating all creatures as he himself would be treated.
Yoruba Proverb (Nigeria)	One going to take a pointed stick to pinch a baby bird should first try it on himself to feel how it hurts.

(Source: Maxwell, 2003: 17)

The focus point of the discussion so far, as well as of the study, has been on role of Christian Churches in the provision of social services, but from the abovementioned

table, it could be derived that all types of religious organisations aim to be involved in social services.

The above discussion illustrates that churches play an important and indispensable role in the provision of social services. Churches, however, face numerous challenges that might potentially threaten the sustainable involvement in social services. The next section gives an overview of a few of these challenges.

## **1.2 THREATS TO THE SUSTAINABILITY OF CHURCHES**

*“If we do nothing to change other people’s lives, change lives in this country – we live in vain. It is not life, but simply existence.”*

Sunday Adelaja

In section 1.1 an overview was provided of the role of churches in providing assistance in the social challenges that the South African community is facing. In this section, a brief overview is provided on the impediments of the church’s sustainable involvement in the mentioned initiatives. Churches face several challenges and for the purposes of this study, only a few of these are addressed, namely the decline in church members, secularisation and migration.

In South Africa, Christianity is regarded as the religion of the majority of people in the country (Mapumulo, 2012: 6; Erasmus and Mans, 2005: 141; Dangor, 1997: 13; Editor, 2007: 5). The census results of 2001 reported that 80% of the South African population is affiliated with the Christian religion (Statistics SA, 2001). Despite the recurring demands from prominent leaders for churches to be involved in the social challenges as discussed in section 1.1, the demographics on the religion of South African citizens were not included in the 2011 census. Statistics South Africa posited that it is not an area prioritised by the users of the census data. In 2012, an international survey released by the Win-Gallup International Religiosity and Atheism Index indicated that the figure of South Africans that form part of the Christian faith dropped from 83% in 2005 to 64% in 2012 (Editor, 2012: 2). This resulted in the statistics of church membership being raised once again on the agenda of church board meetings.

There is an unprecedented interest in the declining membership of churches (Niemandt, 2013: 9; Vlok, 2013: 22,24). The Dutch Reformed Church, one of the mainstream churches in South Africa, is reportedly losing a significant number of members (Mailovich, 2015: 7), allegedly more than 20 000 members per year (Editor, 2012: 2; Janse van Rensburg, 2013: 17; Villiers, 2012: 10; Vlok, 2013: 22,24). The problem with regards to the decline in church members (Erasmus et al., 2009; Oosthuizen, 2014: 7; Hofmeyr, 2013: 17; Vlok, 2013: 22,24) is specifically acute in the smaller churches in the rural areas (Ungerer, 2012: 2; Bacon, 2011: 3; Venter, 2011: 10; Editor, 2009: 2; Jackson, 2009: 7; Oosthuizen and Mouton, 2011: 4; Mailovich, 2015: 7). As church membership is often regarded as the quantitative measure of “success” for churches, this might impose significant challenges to the church (Strauss, 2013a: 6; Hanekom, 2014: 3). In addition, many churches are faced with aging members (Leonard, 2012: 20; Vlok, 2013: 22,24; Mailovich, 2015: 7).

Scholars agree that, in the past, churches played the role of a cultural institution which had significant political influence (Mancotywa, 2010: 14; Schoeman, 2012; Leonard, 2012: 21; Jackson, 2010: 22; Stamoelis, 1985: 14). There were several reasons for accepting church membership and those reasons were not necessarily driven by faith or religion beliefs. The church was an integral part of almost every household and people were born in the church, baptised, grew up in an environment that was strongly influenced by the church and were buried from the church (Van der Watt, 1976: 84; Vlok, 2013: 22,24). Decades ago Afrikaners could hardly get a job without the inclusion of the minister’s reference letter in a job application (Jackson, 2010: 22; Oosthuizen, 2014: 7; Leonard, 2012: 20).

Church leadership has until very recently attributed the decline in membership to low birth rate and emigration of the population (Jackson, 2010: 22; Niemandt, 2013: 9; Vlok, 2013: 22,24; Denny-Dimitriou, 2009: 9; Iannaccone, 1998: 270; Mailovich, 2015: 7; Janse van Rensburg, 2013: 17). Social and religious commentators, however, increasingly ascribe this decline to the negative impact of secularisation and migration (Hodgkinson, 1990: 290; Venter, 2011: 10). According to Walt (2005: 46), secularisation is the unrecognised, but biggest threat to churches (Watson et al., 2008: 174; Scholtz, 2010: 10; Bane et al., 2005: 3). Secularisation results in the post-modern society viewing their own needs as more important than those of the

community and putatively churches are losing their effect in society as a result thereof (Vlok, 2013: 22,24; Wuthnow and Hodgkinson, 1990: 16,17).

A study of the Institute of Race Relations has found that South Africa's urban population continues to grow and that this population has increased from 52% in 1990 to 62% in 2011 (Mkhwanazi, 2013a: 4). This migration to urban areas is increasing amongst the younger generation as better schools, clinics, work opportunities and infrastructure are offered in cities (Van Zyl, 2008: 56).

The detrimental effect of the rapid secularisation on some churches is widely recognised (Villiers, 2012: 10; Van Niekerk, 2012: 10; Bijsterveld, 2001: 60; Niemandt, 2013: 9). Many scholars affirm that secularisation and migration are conceived as an erosion in the level of religious commitment, which causes the church to lose its meaning and power to influence a society and that the effect thereof is evident in the decline of churches' members (Venter, 2011: 10; Watson et al., 2008: 174; Snyman, 2009: 5; Vlok, 2013: 22,24; Wuthnow and Hodgkinson, 1990: 16,17).

The concern regarding the decline in members (Joubert, 2011: 2) and secularisation is portraying a bleak picture of the future of many churches (Hugo, 2007: 11; Snyman, 2009: 5). The crucial challenge for survival is evident as several churches in the city centres and in rural areas have closed their doors due to financial difficulties (Hugo, 2007: 11; Snyman, 2009: 5; Oosthuizen, 2014: 7; Wiegand, 1994: 10; Van Wyk, 2001: 1; Mailovich, 2015: 7). Several churches were compelled to sell their buildings (Denny-Dimitriou, 2009: 9; Brunsdon, 2012: 24; Mckune, 2009: 15; Steele, 2006: 6) and the following are but a few examples of the sale of church buildings:

- i. The sale of the Synod centre of the Free State Dutch Reformed Church in 2013 is part of an ongoing pattern of selling of buildings, which is prevalent across the Dutch Reformed Church in South Africa (Strauss, 2013b: 6). The church was forced to sell the historical building in Bloemfontein due to financial reasons (Vermeulen, 2013: 4);

- ii. A Dutch Reformed Church in the east of Bloemfontein was sold as result of decreasing members (Lourens, 2012: 25);
- iii. A church building that was situated in the city centre of Bloemfontein was the very last building in the city centre that belonged to one of the traditional churches, the Reformed Church, and the building was sold after 85 years (Coetzee, 2012: 7);
- iv. The building of the Dutch Reformed Church in the inner city of Johannesburg, the oldest church in Johannesburg, was sold in 2012 (De Villiers, 2012: 5; Molosankwe, 2012: 6);
- v. One of the historic Dutch Reformed Churches in the central business district of Johannesburg was sold as the congregation could not afford its operational expenses (Denny-Dimitriou, 2009: 9);
- vi. Several Dutch Reformed Church buildings were sold in Durban in 2006 (Fredericks, 2006: 7);
- vii. A church in Olifantsfontein, Johannesburg was sold due to financial reasons (Masombuka, 2008: 6);
- viii. A century-old church in Midlands, Kwazulu-Natal Province was sold in 2012 (Faurie, 2012: 4);
- ix. A Methodist church in Wynberg in Cape Town was sold in 2006 (Steele, 2006: 6);
- x. The Dutch Reformed Church in Western Cape sold their head office and Synod centre in 1997 (Claassen, 1997: 57); and
- xi. Several Synod centres of the Dutch Reformed Church were sold in 2002, including the Synod centre in Pretoria and the Southern Cape (Jackson, 2002: 4).

Burger (2011: 14) states that in traditional countryside towns, churches used to be the biggest and most impressive building right in the middle of town, easy to find and the first building to be spotted. Church buildings, however, especially in the urban areas, do not dominate anymore (Vlok, 2013: 22,24).

The decline in the membership of churches, secularisation and the migration from urban areas indicate a church that is fighting for its right for existence (Editor, 2013: 6) and pose significant threats to the financial sustainability of some churches



(Mailovich, 2015: 7; Oosthuizen, 2014: 7). For the purposes of this study, these threats to sustainability also impact on the scope of the social activities provided by churches. Scholars, however, argue that despite the trend towards increased secularisation, the decline in the membership of churches and the perceived decline in conventional religion, religious authority continues to be valued and churches are significant role players in social development (Strauss, 2012: 6; Joubert, 2011: 2; Inauen et al., 2010: 39; Hanekom, 2014: 3; Wuthnow and Hodgkinson, 1990: preface, xv).

The financial sustainability (as mentioned in the previous paragraph) of some churches is further threatened by the scandals that have surfaced in some churches. The next section provides a brief overview of some of these scandals.

### **1.3 SCANDALS IN CHURCHES**

#### **1.3.1 INTRODUCTION**

The idiom “a few rotten apples can spoil the barrel” seems applicable to the public image of churches that has been tarnished by scandals (Gibelman and Gelman, 2000: 31). The vaulted status of churches makes them more susceptible than other types of organisations to public disillusionment. Salamon (1995: 15) (as cited by Gibelman and Gelman, 2001: 63) commented on the “*myth of the pure virtue*” of churches and that there exist “*a certain romanticism about its inherent purity, about its distinctive virtues*”.

Religious institutions worldwide are renowned for upholding high moral values in society (also see section 1.1 for the levels of trust invested in churches) and for ensuring that people who are believers should act in ways that seek to promote goodwill. The religious fraternity is, however, facing a new challenge posed by churches and church officials who do not live according to their teachings or the dictates of scriptures (Mkhathshwa, 2012: 14). This section provides a concise overview of a few prominent scandals that occurred in churches.

#### **1.3.2 ROMAN CATHOLIC CHURCH**

The twentieth century for the Roman Catholic Church (RCC) was flooded with sex abuse allegations against its priests and clergy, which resulted in a stream of criminal and civil lawsuits (Doyle, 2003: 189). The sex scandals erupted on a global scale with revelations of thousands of victims worldwide, of bishops who covered up for paedophile priests and of Vatican officials who turned a blind eye for decades (Hitchens, 2010: 34). The problem of Roman Catholic priests abusing young children is one that keeps rearing its head, no matter how hard the RCC has tried to talk it down (Makhanya, 2010: 8; Scholtz, 2010: 10).

The sex abuse scandals exploded in the United States of America (USA) in 2002 (SAPA, 2010: 4), which involved at least 176 Catholic priests in 28 states of the USA who have been suspended or have resigned since the scandals surfaced (Allen, 2002: 3). Two prominent examples of sex abuse are:

- i. Britain's most senior Roman Catholic cleric, Cardinal Keith O'Brien, has been accused of committing "inappropriate acts" in his relations with three priests and one former priest that date back to the 1980's (Berkowitz, 2013; Brown, 2013: 27). Keith O'Brien eventually resigned in 2013 (Brown, 2013: 27); and
- ii. Cardinal Bernard Francis Law, the former archbishop of Boston, was forced to quit in late 2002, because of a series of paedophilia scandals (Griffith, 2005: 9; Reuters, 2008: 4; Zeitvogel, 2008: 6).

The revelations of sexual violence by clergy worldwide (including Austria, Australia, Belgium, Canada, Chile, France, Germany, Ireland, Italy, Kenya, Malta, Mexico, the Netherlands, Poland, the USA and elsewhere) demonstrate that the rate of abuse in any one country or diocese is not an anomaly, but part of a much larger pattern and practice (Berkowitz, 2013; Doyle, 2003: 190; Scholtz, 2010: 4). Some observers have estimated that the number of victims of sexual violence since the early 1980's is likely approaching a million and will probably be far more as more situations continue to come to light (Berkowitz, 2013). The Vatican says it continues to receive about 600 claims against abusive priests and sex scandals every year, dating back to the 1960's, 1970's and 1980's (Milasin, 2013: 11).

The controversy over the sex scandals deepened when the former Pope Benedict XVI, Joseph Ratzinger (Israely and Chua-Eoan, 2010: 16), failed to respond to the scandals or to act against the perpetrators (Carlson, 2013: 12). To many faithful Catholics' disenchantment, the pope was silent for too long on the sex scandals and left it to the local clergy to acknowledge the abuses and apologise on behalf of the church (Scholtz, 2010: 4 ; Heneghan, 2010: 6; Frawley-O'Dea, 2004: 11). The RCC is accused of symbolising a church hierarchy that protects priests instead of their victims (Griffith, 2005: 9). The former Pope stunned the world in 2010 with his abrupt decision to end an eight-year reign (Milasin, 2013: 11; Pullella, 2013: 6; Israely and Chua-Eoan, 2010: 16). His papacy was marred by paedophilia scandals, Vatican infighting and a longstanding money-laundering scandal at the Vatican Bank (Milasin, 2013: 11; Scholtz, 2013: 6; SAPA, 2013: 10). His decision was unprecedented as he was the first Pope to resign of his own free will since 1415 in the Middle Ages (SAPA, 2013: 10; Daily Mail, 2013: 1; Pullella, 2013: 6). Even though the Pope declared that he was aging and was too weak to keep up with the modern world (Scholtz, 2013: 6; Daily Mail, 2013: 1; Pullella, 2013: 6), it was clear that he faced serious problems in leading the RCC to properly atone for the stain on its history involving decades of cases of child abuse by priests and cover-ups by their bishops (Israely and Chua-Eoan, 2010: 16).

The RCC's credibility has been seriously affected (Scholtz, 2010: 10; Heneghan, 2010: 6) and the current turmoil generated by the scandal of sexual abuse in the priesthood may be the most serious crisis this church has faced in modern times (Asmal, 2011: 46). The bishops and the broader RCC have paid an extremely high price for these scandals (Jackson, 2010: 15). These scandals resulted in out-of-court financial settlements in the hundreds of billions of dollars (Reuters, 2008: 4; Zeitvogel, 2008: 6), in the demoralization of clergy and laity alike, in the further decline of vocations to the priesthood on the part of healthy, heterosexual young men, and in the tarnishing of the Catholic priesthood's heretofore excellent reputation in society and especially within churches itself (McBrien, 2002: 20). All religious organisations are caught in the spotlight because of such issues as the sex abuse scandals in the RCC (Elson et al., 2007: 122). The task of restoring the reputation of the church is an immense task lying ahead for the RCC (Krause-Jackson and Donahue, 2013: 15).

### 1.3.3 TELEVANGELIST SCANDALS

In recent years, the media has been flooded with news about televangelists (Van Vuuren, 2008: 4). In the late 1980's, Christian televangelism was rocked by a series of sex and financial scandals (Grebb, 2005: 46). Two of these significant scandals involved the leading television preachers from the USA, namely Jim Bakker and Jimmy Swaggart (Editor, 1987: 1163; Televangelism, 2010: 1):

- i. Jim Bakker, a Pentecostal, started the successful Praise the Lord show (hereafter PTL) (Televangelism, 2010: 1). Bakker's lavish lifestyle has attracted media attention, with questions raised about the methods of raising funds and the questionable use of these funds (Editor, 1987: 1163; Grebb, 2005: 46). Bakker was caught in sex scandals (Yu, 1998: 34 34), tax evasion through Heritage USA, PTL's investment arm and money improprieties (Televangelism, 2010: 2). He was subsequently convicted of financial fraud for his mishandling of the PTL Empire (Editor, 1992: 24 ; Editor, 1987: 1163; McNeil and Nugent, 1989: 98; Televangelism, 2010).
- ii. Jimmy Swaggart, a very successful Pentecostal in Baton Rouge, Louisiana, hosted the Jimmy Swaggart Telecast show (Televangelism, 2010). Swaggart was engulfed in a sex scandal that undermined his ministry. The sex scandal was exposed after hiring prostitutes for pornographic purposes and he was eventually defrocked by the Pentecostal Assemblies of God (Smith, 1992: 360; Yu, 1998: 34 ; Grebb, 2005: 46).

These scandals had a damaging impact on televangelism in general. Donations fell sharply, which forced severe cutbacks in numerous ministries (Chronology, 2007: 8).

Following these two scandals, six of the wealthiest televangelists (Jackson, 2007: 16; Van Vuuren, 2008: 4) whose television preaching bankrolled leaders' lavish lifestyles, their personalities and the millions of dollars involved in their operations attracted the attention of the media in 2007 (Kisbahlayish, 2012; Editor, 1987: 1163). The groups were increasingly being questioned by ministry watchdogs and the

media (Kwon, 2011). The televangelists preach what critics call the "prosperity gospel" which teaches that wealth of some form is a sign of God's blessing (Kwon, 2011: 2; Televangelism, 2010). In the USA, Senator Charles Grassley, a member of the senate's finance committee (United States Senate, 2008; Edie, 2010: 25) announced a three year investigation into the alleged financial improprieties of the following six televangelists groups (Jackson, 2007: 16; Van Vuuren, 2008: 4; Kwon, 2011; Barbee, 2007):

1. Creflo Dollar's World Changers Church International;
2. Eddie Long's New Birth Missionary Baptist Church;
3. Kenneth Copeland Ministries;
4. Without Walls International Church;
5. Joyce Meyer Ministries; and
6. Benny Hinn's World Healing Centre Church.

The probe was initiated after Grassley received requests from members of the public to review these ministries for alleged opulent spending and possible abuse of non-profit status (Jackson, 2007: 16; Van Vuuren, 2008: 4). Senator Grassley was a leading and one of the most forceful proponents of change for regulation and oversight of the non-profit sector, including churches (Edie, 2010: 25). The goal of the investigation was to improve accountability and good governance so that tax-exempt groups maintain public confidence in their operations. His aim was to ensure that the tax-exempt organisations are accountable to donors (Barbee, 2007). Refer to section 2.7 in Chapter 2 for a discussion on the regulation and tax status of churches.

At the commencement of these investigations, it was revealed that some of the abovementioned evangelists live in mansions, own private jets, take exotic trips, relax in hotel rooms that cost thousands per night and even own second and third homes (Cohen, 2011; Barbee, 2007). During the investigations, one of the ministries, namely Kenneth Copeland Ministries, which provided an insufficient response to Grassley's office, argued that the inquiry was a violation of religious freedom, an invasion of privacy and a threat to the separation of church and state (Kwon, 2011;

Cohen, 2011). The concept of the separation of church and state is further discussed in section 2.4.2.2 in Chapter 2.

During this investigation into the alleged financial misconduct, the abovementioned ministries and their leaders were involved in further scandals:

- i. Eddie Long has been accused of homosexual relationships with four men (Editor, 2010);
- ii. Without Walls International Church pastoral couple, Randy and Paula White, divorced (which was their second marriage) (Kay, 2007); and
- iii. There was an admitted relationship between two of the televangelists under investigation, Bennie Hinn and Paula White (Silva, 2010).

According to Grassley's report, only two of the six ministries, Joyce Meyer Ministries and Benny Hinn's World Healing Centre Church, fully cooperated with the investigation and even implemented financial reforms (Kwon, 2011; Zoll, 2011). The investigation was concluded after three years with a list of concerns and a call for the formation of a federal advisory committee to ensure that religious organisations comply with laws (Kwon, 2011). An independent commission for churches, the Evangelical Council for Financial Accountability (ECFA) has been formed in the USA to address policy issues raised in respect of religious organisations (Batts, 2012; Zoll, 2011).

### **1.3.4 ALLAN BOESAK**

During the "apartheid" regime, Dr Allan Boesak was one of the most well-known anti-apartheid activists (Sparks, 2008: 9; Editor, 1995: 290; Kgosimore, 2001: 98; Esterhuizen, 2008: 10; Olivier, 1998: 2). Boesak was also a prominent politician and political activist (Schonteich, 2002: 94; Kgosimore, 2001: 98; Wolf, 2011: 148; Van der Rheede, 2009: 11), a member of Parliament (Wolf, 2011: 148) and for a number of years, part of the leadership of the Dutch Reformed Church (Sparks, 2008: 9; De Gruchy et al., 2008: 15). He became a well-known leader in the church (De Gruchy and Ellis, 2008: 15) after being elected as the president of the World Alliance of Reformed Churches (WARC) in 1982 (Robinson and Speck, 1990: 14; Sparks, 2008:

9; Horn, 2006: 18). The WARC, an international organisation, has a long history of involvement in issues concerning economic justice, from the perspective of the Christian faith (Rust, 2008: 1).

Boesak held the position of president of the WARC until 1990 (Horn, 2006: 18). His involvement in churches and politics was surrounded by controversy (Robinson and Speck, 1990: 14) after he resigned from the WARC and as cleric from the Dutch Reformed Church in 1990 (Editor, 1990: 698). His resignation followed after details of an extramarital affair with television presenter Elna Botha emerged (Robinson and Speck, 1990: 14; Editor, 1990: 698). Shortly thereafter, in 1993, fraud charges against Boesak surfaced after the disappearance of donated funds (Schonteich, 2002: 94) destined for the poor during the apartheid years (Kgosimore, 2001: 98; Editor, 1995: 290; Gibelman and Gelman, 2000: 16; Schonteich, 2002: 94). The donated funds, which was meant for development projects of Boesak's Foundation for Peace and Justice, were apparently transferred to a private trust fund (Davis, 2009: 5; Gibelman and Gelman, 2000: 16; Kgosimore, 2001: 98). The bookkeeper of the trust was sentenced to six years in prison for fraud of R1.9 million (Olivier, 1998: 2; Kgosimore, 2001: 101). Although Boesak fought the charges (Bauer, 2005: 58), he was convicted in 1999 on three counts of theft and one count of fraud and sentenced to six years in prison (Gibelman and Gelman, 2000: 16; Bauer, 2005: 58; Kgosimore, 2001: 98) which was reduced to three years on appeal (Sparks, 2008: 9).

Boesak was jailed in 2000 and released in 2001, having served just over one year of his three-year sentence after he was granted a presidential pardon (Bauer, 2005: 58; Mangxamba, 2009: 5). Boesak was reinstated as a cleric in late 2004 and the pardon made him eligible for re-election into Parliament (Wolf, 2011: 135). Subsequently, Boesak was re-elected in 2006, as the moderator of the Cape Synod of the United Reformed Church in Southern Africa (Jackson, 2006: 5). The position of Boesak, however, remained in controversy:

- i. He was accused of abusing churches for political gain (Editor, 2005: 4);

- ii. He was denied access on the pulpit in 2009 after he was nominated as a premier candidate of a political party (Kruger, 2010: 6; Mangxamba, 2009: 5; Africa, 2010); and
- iii. He released a book where he claimed innocence for the fraud of the donated funds (as discussed earlier in this section) and stated that influential politicians received and used the funds for advancement of their political position (Williams, 2009: 5; Davis, 2009: 5).

### **1.3.5 MISCONDUCT IN CHURCH FINANCES**

Over the past years, several newspapers reported fraudulent financial matters in churches (Hall, 2002: 9; Jansen, 2010: 12; Venter, 2012: 13; Prince, 2008: 5; Feni, 2007: 6; Jansen van Rensburg, 2015: 1), the embezzlement of funds (Elson et al., 2007: 122) and the lack of churches to demonstrate financial accountability and transparency of their financial affairs.

The attention of the public was drawn to the financial matters of churches (Lange, 2012: 10) after reports in the media had coverage on the following aspects:

- i. An amount of R40 million from the Evangelical Lutheran Church of Southern Africa went missing (Goba, 2015);
- ii. Allegations of financial maladministration against a prominent church in Pretoria (Molathwa, 2012: 7);
- iii. Allegations of mismanagement of funds and claims of missing millions at churches of the Holy Ghost in Hammarsdale (Mvuyazi, 2011: 5);
- iv. Millions of rands that disappeared in a financial scandal rocked the Anglican Church in the Southern Cape (Eggington, 2010: 6);
- v. A pastor from a congregation in Johannesburg invested in a scheme with church funds (Moselakgomo, 2008: 7);
- vi. A church's general secretary from Durban was subject to probe for allegedly misappropriating church funds (Kubheka, 2012: 5);
- vii. An employee of a church who embezzled more than R500 000 of church's funds in the Cape Province (Witten, 2009: 6);



- viii. An audit revealed that R6 million was missing from church coffers from a congregation in George (Oelofse, 2010: 2);
- ix. One of the oldest churches in the country, the Methodist Church of Southern Africa's officials being involved in alleged theft of R1 million (Kotlolo, 2012: 4); and
- x. KPMG has performed a forensic audit into the financial affairs of the Evangelical Presbyterian Church. The North Gauteng High Court has ordered this investigation after accusations that churches failed to comply with its obligations to promote a system of sound governance regarding the conduct of its financial matters (Lange, 2012: 10).

The scandals as discussed in this section cause damage to the church that is immediate and long lasting, in that contributions plummet (Edwards, 1990: 16-18; Szper and Prakash, 2011: 122), members have distrust (Du Plessis, 2007: 14 ; Rudolph, 2009: 2) and the church's reputation is tarnished (Brumley, 2009). The important questions raised about the accountability of churches may undermine the public confidence in churches and prompt further questions about the legitimacy of the special tax exemption benefits that it enjoys (refer to section 2.7 in Chapter 2 for a discussion on the regulation and tax status of churches (Mueller et al., 2006). Financial transparency should be a small price to pay for remaining tax exempt and it does not interfere with the ability to practice religion (Editor, 2004b: 1).

### **1.3.6 CONCLUSION**

Above are only a few examples of scandals that affected churches over recent years. It is not possible to determine the impact of these examples, and many other scandals, on the financial contributions of members and donators to churches. It is also not possible to establish what the impact of the declining church membership is on churches. It can however, without fear of contradiction, be assumed that it would affect churches.

The occurrence of these scandals in churches can all be traced back to the concept of corporate governance. The ongoing drumbeat of negative stories in the media has ignited the issue of the lack of the implementation of corporate governance principles

by these institutions. The next section provides a brief overview of the need for implementing corporate governance principles. The discussion includes a brief history on the development of corporate governance.

## **1.4 A BRIEF OVERVIEW ON CORPORATE GOVERNANCE**

### **1.4.1 INTRODUCTION**

*“If we had only one rule in this company, it would be the Golden Rule. If we’ve got that one right, no other rules are necessary.”*

Jim Blanchard

As discussed in the preceding sections, churches are perceived as a potentially valuable development agency in civil society and an avenue for mobilising social services (Krige, 2007: 2). The adverse media coverage of church scandals (see section 1.3), secularisation, migration, the decline in church membership (see section 1.2) and the corresponding decline of the finances of some churches (Van der Merwe, 2002: 5) admittedly result in a decreased capacity in mobilising and the actual delivery of social services (Erasmus et al., 2009: 24).

At the centre stage of these challenges that some churches are facing, is the concept of corporate governance. Corporate governance is a phrase that not long ago meant little to all but a handful of scholars and shareholders (Warren, 2003: 54), but has evolved to become a mainstream concern (Van Daelen and Van der Elst, 2010: 1), a staple of discussion in corporate boardrooms, academic debates and policy circles around the globe (Claessens, 2003: 1; Falconer, 2002: 26; Harvey et al., 2006: 2; Biebricher, 2011: 1005). Corporate governance is currently a buzzword (Aras and Crowther, 2008: 434), but the characteristics thereof has “stood the test of time” (Lubbe, 2008: 12; Jordan, 2008: 7). This section provides a brief overview of the development of corporate governance. This section does not engage in a detailed discussion on the development of corporate governance as it will be presented in section 2.3 in Chapter 2. The King Report is generally accepted as the source document in South Africa of what constitutes sound governance (IoDSA,

2013: 3) and therefore the discussion in this section revolve around the King Reports.

#### **1.4.2 BRIEF HISTORY OF CORPORATE GOVERNANCE**

Although it is not the earliest development of governance, the most recent wave of corporate governance began in the 1990's in the United Kingdom (Marx, 2009: 97; Carver, 2006). Corporate collapses and business failures, combined with fraudulent financial reporting practices, stimulated corporate governance developments and gave rise to various corporate governance codes that have been issued (see section 2.2) (Aras and Crowther, 2008: 439). The development of corporate governance codes was in many instances ignited by scandals in the corporate sector, with the result that the codes were perceived to be applicable to the corporate sector only. The discussion in section 2.8.2 in Chapter 2 focuses, amongst others, on the disputation amongst scholars regarding the relevance and applicability of corporate governance codes to organisations, other than those in the corporate sector.

Corporate governance was formalised in South Africa with the issue of the first King Report in 1994 by the Institute of Directors in Southern Africa (IoDSA) (Fisher and Lovell, 2006: 306; Marx, 2009: 175). The King Committee, under the chairmanship of former High Court judge, Professor Mervyn King, successfully formalised the need for companies and other entities to recognise that they no longer act independently from the environment and societies in which they operate (Fisher and Lovell, 2006: 307) and that they have a responsibility towards these stakeholders.

In 2002, the first King Report was updated and a more comprehensive King II Report was introduced (Crous, 2012: 107). King II defined seven principles that are considered to be the characteristics of good corporate governance, namely 1) discipline, 2) transparency, 3) independence, 4) accountability, 5) responsibility, 6) fairness and 7) social responsibility (Tricker, 2012: 132; Marx, 2009: 181). These principles have set the standard for responsible governance by all persons, in a position of trust, whether involved in the public or private sector (Marx, 2009: 177). An explanation on the different sectors of the economy will follow in section 2.4 in Chapter 2. The King II Report

emphasised the role of the board and the importance of structures for transparency and accountability (Monks and Minow, 2004). In addition, the King II Report was one of the first codes of corporate governance to consider the concept of “triple bottom line” reporting, as opposed to the traditional single bottom line of profitability (refer to section 2.3.5 in Chapter 2 for further explanation on the triple bottom line reporting). King II recognised that stakeholders required forward-looking information, considering the economic, environmental and social reality of an entity’s activities (Lubbe, 2012a: 16) and that organisations should report on all three these aspects (from there the reference to triple bottom line).

The King III Report was issued in 2009 and many of the ideas, principles and characteristics of good governance developed in King I and King II remained (Jackson and Stent, 2012: 4/4). In contrast to the King I and II codes which required compliance by entities listed on the Johannesburg Securities Exchange (JSE), King III made recommendations about best practices in corporate governance applicable *to all entities*, regardless of the manner and form of incorporation or establishment and whether in the public, private or non-profit sectors (KPMG, 2012: 17; Crous, 2012: 111; IoDSA, 2009b: 16). Lubbe (2008: 12) rightfully states that any business, institution, government, political party, non-profit organisation, leader and ordinary citizen should use corporate governance. The governance principles of the King Reports are principle based (as opposed to being rule based) (refer to section 2.3.3 in chapter 2 for a discussion on the development of corporate governance in the United States of America that is rule based).

### **1.4.3 CONCLUSION**

The concept of corporate governance, even though it developed in the corporate sector (refer to section 2.3 for a more detailed discussion on the development of corporate governance in the corporate sector) is based on a set of principles. It is evident from this discussion that churches should follow the principles of corporate governance to remain sustainable. The next section will provide the problem statement of this study.

## 1.5 PROBLEM STATEMENT AND RATIONALE FOR THE STUDY

*“When it comes to privacy and accountability, people always demand the former for themselves and the latter for everyone else.”*

David Brin

*“One Sunday morning, a young student preacher from the seminary comes out to a church in tobacco country and preaches a “firebrand” sermon against tobacco. When it comes time for the student preacher to get paid for his sermon, the church treasurer tells him, “You ought to know: this money came from tobacco.” The student preacher takes a look at the money. Then he just puts his hand out and says, “Well, the devil’s had it long enough”.”*

Reverend Ben Poage

Many scholars are of the viewpoint that religion and the church will play an extraordinary role in the future, despite the unremitting prognosis of fading into insignificance due to secularisation, migration and the decline in membership as presented in section 1.2 (Inauen et al., 2010: 39; Hanekom, 2014: 3). The recognition of the continued relevance of religion has reawakened interest in this subject. The dynamics of religious organisations and the interplay of religion within the larger society reasserts itself as a prime topic for scholarly research (Zald and McCarthy, 1998: 25; Inauen et al., 2010: 39). The indispensable role that churches play in the provision of social services (Piewitt et al., 2010: 238) (see section 1.1) and the statistics that the majority of South Africans belong to the Christian religion (see section 1.2), constitute the public and visible face of South African religion (Wuthnow, 1990: 6).

The increased demand for churches to be involved in the delivering of social services pose urgent questions about their compliance with good corporate governance (Hall, 2002: 2; Bane et al., 2005: 4). As soon as churches have a significant presence and influence in their community, stakeholders may take on a role of encouraging and demanding the illustration of sound corporate governance principles (Wooten et al., 2003: 1028; Hall, 2002; Floch, 2004: 4; Greenlee et al., 2007: 691; Waddock, 2004: 3; Rossouw and Van Vuuren, 2010: 37).

The demand for illustrating sound corporate governance principles also originates from the public wariness following the media reports of alleged fraud and scandals in churches as illustrated in section 1.3 (Mueller et al., 2006: 49; Keating and Frumkin, 2003: 3; Painter-Morland, 2007: 515; Editor, 1987: 1163; Piewitt et al., 2010: 238). The media reports place corporate governance under scrutiny (Szper and Prakash, 2011: 119) as the church's perceived lack of accepting responsibility, lack of accountability and transparency stand firmly in the centre of these scandals. The risk is that churches do not live up to the high standards they propagate themselves (Piewitt et al., 2010: 238; Kaldor, 2003: 5; Sloan, 2009: 220; Anheier, 2010: 13; Louche et al., 2012: 301).

The recent scandals and alleged evasion of accountability (Rossouw and Van Vuuren, 2010: 38) pose the risk that the public faith in churches is eroding (Jeavons, 2005: 204). This imposes a significant problem for churches as they depend on the public trust and goodwill for financial support (Jeavons, 2005: 205). The adverse news coverage is likely to make members worry about whether their donations and tithes are utilised properly (Hull and Bold, 1989: 115).

LaShaw (2007a: 3,7) is of the opinion that there should be an obligation on churches to illustrate financial transparency and accountability so that proper stewardship of donations can be demonstrated (Jordan, 2008: 5). It is evident from the discussion in section 1.1 that there are social needs that churches are called upon to meet and donors and members usually want to respond adequately to help churches meet those needs. Members of a church normally want to be assured that the funds they give, many times sacrificially, are being used effectively by churches. In order to achieve this, churches should implement corporate governance principles to ensure that accountability and transparency, amongst others, are achieved regarding its financial matters.

The public is no longer prepared to place blind faith in anyone, not authorities, established institutions or the church (Cramer, 2002: 103). This has led to various stakeholders (including suppliers, employees, members, community stakeholders) to expect inter alia a higher degree of transparency and accountability from churches (Hall, 2002; Floch, 2004: 4). In addition, there is scant evidence of churches adopting

corporate governance principles. Given the significance role of churches, it becomes fundamental to understand the role that good governance play in the future of churches. There is no doubt concerning the growing importance of corporate governance and one can only scan the headlines of professional journals and newspapers for evidence to the contrary (Kearns, 1994: 185). Unless corporate governance principles are implemented by churches, fresh scandals will fill the newspapers, and the public trust in churches will further erode. The challenge that churches face as a shrinking and aging church in a secular society as demonstrated in section 1.2., on the one hand, and an increased demand for the implementation of corporate governance principles on the other hand; this is a call for research in the area of corporate governance of churches and it provides support for the present study.

Scholars seeking an understanding of the extent to which churches implement corporate governance principles do not have a readily identifiable body of literature to draw on. There has been an increase in the research and literature of non-profit organisations (NPO) (Szper and Prakash, 2011: 118; Kaldor, 2003: 5; Booth, 1993: 38; Carman, 2010: 256), but few research studies have claimed the topic of corporate governance within churches and other types of religious organisations (Booth, 1993: 38; Wooten et al., 2003: 343; Perkins and Fields, 2010: 826; Hall, 1998: 99). The results of prior, available research indicate that religious organisations do suffer from inadequate financial reporting and sound governance practices (see Hull and Bold, 1989: 145; LaShaw, 2007b: 113; Hsu, 1997: iv; Wooten et al., 2003: 362). As limited research has been conducted on corporate governance in churches, the current state of affairs is difficult to ascertain (Hui, 2008: 146; Elson et al., 2007: 124; Wooten et al., 2003: 343).

The research problem of this study is addressed by investigating the extent to which selected Afrikaans Christian churches in the Free State region, South Africa, implement sound corporate governance principles. Refer to section 1.7.5 for further explanation on the selection of the churches from the Free State region. The selection of the churches that form part of this study is explained in further detail in section 1.7.

## **1.6 OBJECTIVES OF THE STUDY**

The increased reports on fraudulent practices of churches resulted in an increased demand for accountability and transparency of churches (Farrar, 2008: 454). Coupled with this is the perceived lack of government oversight and authority over churches as illustrated in section 2.7 (Piewitt et al., 2010: 241; Jansen van Rensburg, 2015: 1). These aspects provide a clear indication that there is a need for corporate governance guidelines for churches. The following main objectives will be addressed in the study:

1. To research the existing corporate governance guidelines available to churches;
2. To analyse the extent to which corporate governance guidelines are implemented by the selected sample of churches; and
3. To provide recommendations on how to improve the implementation of governance principles of the selected sample of churches.

## **1.7 RESEARCH OVERVIEW OF THE STUDY**

*“At the beginning of my journey, I was naïve. I didn’t yet know that the answers vanish as one continues to travel, that there is only further complexity, that there are still more interrelationships and more questions.”*

RD Kaplan

### **1.7.1 INTRODUCTION**

The aim of this section is to define certain important aspects relating to research, the literature review, research methodology and empirical research, and the application of these concepts in the study will be clarified. The section also provides an understanding of the research design applied in the study. The research design was developed to address the research problem stated. There are many definitions for research. Some of these definitions are provided below:



- i. Mouton and Marais (1988: 7) define research as "...a collaborative human activity in which social realities is studied objectively with the aim of gaining a valid understanding of it";
- ii. The Oxford dictionary define research as "...the systematic investigation into and study of materials and sources in order to establish facts and reach new conclusions" (Oxford Dictionaries, n.d.);
- iii. Cooper and Schindler (2003: 5,24) explain that research is a "...a systematic inquiry whose objective is to provide information to solve problems";
- iv. Welman and Kruger (1999: 2) view research as "...the process in which scientific methods are used to expand knowledge";
- v. Pellissier (2007: 6) defines research as "...the human, communal study of both natural and cultural phenomena that is paradigm- and theory-dependent and that aims at the systematic and critical understanding of the said phenomena. At the most basic level, research is critical engagement with an intellectual tradition";
- vi. More simplistic, Pellissier (2007: xvi) explains research "...as a search for knowledge or enquiry into some phenomenon to establish facts";
- vii. Kerlinger, a well-respected researcher and author defines research as a "...systematic, controlled, empirical, and critical investigation of natural phenomena guided by theory and hypotheses about the presumed relations among such phenomena" (as cited by Cooper and Schindler, 2003: 13); and
- viii. Coldwell and Herbst (2004: 26) explain research as "...a careful or diligent search, studious inquiry or examination".

The purpose is not to formulate a new encompassing definition for research, but based on the different definitions of the scholars presented, it can be derived that research is an original investigation aimed at the discovery and interpretation of facts, the revision of accepted theories or laws in light of new facts or the practical application of such new or revised theories or laws through the gaining of knowledge.

There are mainly two types of research studies, namely empirical research and non-empirical research. Mouton (2001: xiii,57) explains that empirical research involves the collection of own data or analysing existing data, while non-empirical research is

a philosophical analysis, conceptual analysis, theory building or literature review. This study followed an empirical research approach whereby the candidate collected her own data to address the research problem. An explanation on the data collection method is provided in section 1.7.5, as well as section 4.3.2 in chapter 4. In the next section, a brief overview of the literature review that was conducted in this study, is provided.

### **1.7.2 LITERATURE REVIEW**

Mouton (2001: 86) states that every research project should start with a review of existing literature available. A literature review is important as it provides the researcher with an overview of the scholarly activities in the discipline and it enables the researcher to identify the problem areas or gaps within the discipline (Crous, 2012: 32). In addition, a comprehensive literature study often emphasizes the importance of the research problem as the foundation on which to build an empirical study (Lubbe, 2012a: 28). The purpose of a literature review is to convey what knowledge and ideas have been established on a topic and what their strengths and weaknesses are (Coldwell and Herbst, 2004: 31).

According to Henning, Van Rensburg and Smit (2004: 27), the main purposes of a literature review is to put the study into context, to synthesise the available literature and to engage critically with the literature. Lategan (2008: 53) explains that the literature review provides:

- i. A theoretical framework of the study;
- ii. The parameters for the research design and research methods employed as well as the research instruments such as questionnaires, interview schedules and observations instruments; and
- iii. The insights that inform data analysis and interpretation.

It follows that a literature review does not only provide a theoretical framework which allows researchers to acquaint themselves with a particular topic, but a compilation of the sources on a particular topic may indicate inconsistencies and gaps within a

specific field which may justify further research (Welman and Kruger, 1999: 34; Coldwell and Herbst, 2004: 31).

A good literature review lays the foundation of the research and sets the stage for the research. Scholars concur that it should provide an “authoritative argument” from the voices of previous researchers (Henning et al., 2004: 27) and it should not consist of a mere compilation of separate, isolated summaries of the individual studies of previous research projects (Welman and Kruger, 1999: 35; Coldwell and Herbst, 2004: 35). It should entail a review of the body of accumulated scholarship which represent the most recent, credible and relevant scholarship (Mouton, 2001: 87; Lategan, 2008: 54) based on previous research projects in books, journal articles, congress papers and unpublished research reports (Welman and Kruger, 1999: 17). Mouton (2001: 87) surmises the above views of the scholars and states that a “scholarship review” would be a more accurate term for the review of available literature.

Different scholars provide the following criteria for a sound literature review (Mouton, 2001: 90; Welman and Kruger, 1999: 35; Coldwell and Herbst, 2004: 35) as follows:

- i. Sufficient time should be budgeted and allowed for conducting the literature review;
- ii. It should be organised around and related directly to the research question;
- iii. It should be exhaustive in its coverage of the main aspects of the study;
- iv. It should be fair in its treatment of others;
- v. It should be topical and not dated; and
- vi. It should be well organised.

The literature review of this study was assembled by the candidate to represent a piece of discursive prose, not a list describing or summarising one piece of literature after another. It covers the main themes of the research, namely the context and historical background of corporate governance (see section 2.3.2), international trends in corporate governance (see section 2.3.3 and 2.3.4) and the development of governance principles and/or guidelines within churches (see section 2.8). As presented in section 1.4.1, due to corporate governance becoming a mainstream

concern and focal point around the world, there is not a lack of material on the subject of corporate governance to perform a literature review on.

As part of the literature review, the historical background and the establishment of the selected denominations in South Africa are covered in Chapter 3. The literature review will be followed by the results of the qualitative research, presented in Chapter 4. Mouton (2001: 91,93) list a few methods into which the review of the literature could be organised. For the purposes of this study, and where applicable, the aspects will be organised by theme or construct. This method entails that the literature should be organisation around certain key constructs or central themes as evident from the formulation of the research problem.

The literature review paved the way for the detailed analysis of corporate governance principles implemented by a sample of churches in the Free State by way of interviewing role players (refer to section 1.7.5 for further explanation on interviews used as a data collection strategy).

The literature review of this study assisted the candidate in making the choice concerning the research design and approach to apply for the purposes of this study. The next section provides background on the research design, the research methods and the sampling procedures used to address the problem statement of this study.

### **1.7.3 RESEARCH METHODOLOGY AND DESIGN**

*“Research means that you don’t know, but that you are willing to find out.”*

Charles F Kettering

Mouton (2001: 55) explains that researchers often confuse the terms research methodology and research design. The terms are often used interchangeably (Given, 2008: 516). Research methodology is defined as a way of thinking about and studying social reality. It refers to the systematic, methodical and accurate execution of the research problem (Mouton, 2001: 55). The concept methodology includes the

paradigms, aspects of design, methods of data collection and analysis of the data under the same rubric (Given, 2008: 516).

Compared to the research methodology, which focus on the philosophy of the study, the research design provides a more in-depth explanation of the process involved in the research study. There are several definitions ascribed to research design by various scholars:

- i. Cooper and Schindler (2003: 146) state that it is the plan and structure of investigation so conceived as to obtain answers to research questions;
- ii. Mouton (2001: 55) explains that it is a plan or blueprint of how the researcher intends conducting the research;
- iii. Durrheim (2006: 34) explains it as a strategic framework for action that serves as a bridge between research questions and the execution or implementation of the research;
- iv. Coldwell and Herbst (2004: 36) confirm that it relates to the strategy for the study and the plan by which the strategy is to be carried out; and
- v. Straus and Corbin (1998: 3) state that it specifies the methods and procedures used for the collection, gathering, measurement and analysis of data (see also Given, 2008: 521).

From the above explanations provided by scholars, the research design therefore provides answers, for example on 1) what techniques will be used to gather the data and 2) what kind of sampling will be used. The technique used to gather data is partly discussed in section 1.7.5, with a further discussion presented in section 4.3.2 in Chapter 4. The sampling method used is discussed in section 1.7.5.

There are different types of research designs, or also commonly referred to as research strategies or research methods. Some scholars classify research based on the purpose or the goal of the study (Durrheim, 2006: 44; Gray, 2004: 35). This is evident in the explanations provided by scholars of the different types of research methods. According to Coldwell and Herbst (2004: 9-13), there are three broad types of research strategies, namely 1) descriptive, 2) exploratory and 3) causal research

(or explanatory) strategies (Durrheim, 2006: 44; Gray, 2004: 35). Coldwell and Herbst (2004: 9-13) state that the major purpose of the first method, descriptive research, is “to describe the characteristics of a population or phenomenon” (Cooper and Schindler, 2003: 10). The second method, exploratory research, does not start with a specific problem, and the purpose thereof is to develop a hypothesis or a problem to be tested further. Welman and Kruger (1999: 19) affirm that the purpose of exploratory research is to test whether or not a phenomenon exist and to gain familiarity with such a phenomenon, and *not* to compare it with other phenomena. The third method, causal research, aims at “demonstrating that a change in one variable causes some predictable change in another variable” (see also Durrheim, 2006: 44).

Cooper and Schindler (2003: 10,11) also affirm the existence of different types of research methods and differentiate between four different types, namely 1) descriptive, 2) reporting, 3) explanatory and 4) predictive research method. The first method, descriptive research, is similar to Coldwell and Herbst’s first method - as mentioned above. This type of research aims to answer questions to the “*who, what, when, where* and sometimes *how*” (Cooper and Schindler, 2003: 10). Secondly, reporting research provides a summation of some data to generate statistics. This type of study calls for knowledge and skill with information sources and gatekeepers of information sources and is similar to what Coldwell and Herbst refer to as exploratory research. Thirdly, explanatory research is grounded in theory that is created to answer why and how questions (Cooper and Schindler, 2003: 11). Lastly, predictive research refers to provide plausible explanations for an event after it has occurred, or focus on the ability to predict when and in what situations the event will occur (Cooper and Schindler, 2003: 12). Kumar (2011: 9) confirms these methods of the aforementioned scholars and categorise research methods as 1) descriptive research, 2) exploratory research, 3) correlational research and 4) explanatory research. There is a great deal of overlap and borrowing between research designs and methods (Niewenhuis, 2007b: 70; Coldwell and Herbst, 2004: 70) and the classification of research methods is not mutually exclusive (Kumar, 2011: 9).

Based on the explanations provided by the scholars above, the strategy that best fit the approach followed by the candidate in this study, without excluding the possibility that there is an overlap with one of the other research strategies, is a descriptive research strategy. The aim of this study is to establish to *what* extent corporate governance principles are implemented among a specific group of churches (refer to the two selected denominations as explained in section 1.7.5), *how* these principles are implemented and *who* implemented the principles.

#### **1.7.4 QUALITATIVE RESEARCH**

There are two main approaches for empirical research, namely quantitative and qualitative frameworks (Crous, 2012: 26; Strauss and Corbin, 1998: 27; Pellissier, 2007: 22-26; Coldwell and Herbst, 2004: 50). The understanding of the research problem is imperative in deciding on the research approach. Whether to follow a quantitative or qualitative approach therefore depend on the research problem and the best way to foster the development of the problem (Strauss and Corbin, 1998: 34; Maree, 2007: 33). In the nineteenth and twentieth centuries, the universal stance was that the scientific method that underpins the quantitative method (Coldwell and Herbst, 2004) was the preferred way of performing research, but the qualitative framework gained more prominence and recognition in the past years (Niewenhuis, 2007a: 48-50; Kumar, 2011: 14).

Quantitative research projects collect data in the form of numbers and use statistical types of data analysis (Durrheim, 2006: 47). The focus is on quantity (Crous, 2012: 36; Henning et al., 2004: 1) and it is a useful technique in hypotheses testing research (Welman and Kruger, 1999: 186). According to Pellissier (2007: 19), this approach is appropriate for examining data from large samples of a target population, and the results thereof can be statistically analysed with great accuracy.

Straus and Corbin (1998: 10) have a simplistic explanation for qualitative research as “ ... any type of research that produces findings not arrived at by statistical procedures or other means of quantification”. Qualitative research is aimed at smaller sample sizes and respondents have a more open-ended way of giving their views and demonstrating their actions. Data are collected in the form of written or

spoken language then analysed by identifying and categorising themes (Durrheim, 2006: 47). Qualitative studies lend themselves more aptly to studying cases which do not fit into particular theories (Welman and Kruger, 1999: 186). This implies that the bulk of qualitative research is interpretive in nature. The focus is on quality and the objective is to gain an in-depth understanding of a particular field (Crous, 2012: 37). Kumar (2011: 20) confirms that the sample size for qualitative research is smaller than for quantitative research (Harris and Brown, 2010: 2).

This explanation enlightens that there is a difference in depth and orientation with regards to qualitative and quantitative frameworks (Henning et al., 2004: 3). Welman and Kruger (1999: 190) explain that quantitative testing deals with the general and the regular, whereas qualitative studies, in contrast, are directed towards understanding the uniqueness and the idiosyncrasy of a particular subject (Durrheim, 2006: 47). Qualitative field studies can be used successfully in the description of groups, small communities and organisations. It focuses on what certain phenomena are about, what these phenomena appear like on the surface and what their other levels of meaning may be, therefore focusing on the qualities of the phenomena (Henning et al., 2004: 3; Strauss and Corbin, 1998: 11; Niewenhuis, 2007a: 50).

Welman and Kruger (1999: 186) explain that the different qualitative approaches originated from the ethnographic methods applied by cultural and social anthropologists in their field of studies of social groups and communities. Mouton (2001: 148) defines ethnographic research as the type of study "...which aims to provide an in-depth description of a group of people or community" by making use of questions. The benefits of using ethnographic research are that the researchers gain an in-depth understanding of the ethnographic group and can build rapport with the subjects. Qualitative research is committed to learn about and understand the perspectives of others and that people's beliefs and behaviours are understandable and make sense in the context in which they live (Given, 2008: 521,522).

Based on the explanations provided above by the scholars, as well as taking into consideration the problem statement presented in section 1.5 and the explanation presented in section 1.7.5 with regards to the population, the candidate followed a qualitative approach in this study. The qualitative approach allowed the candidate to



obtain an in-depth understanding, by making use of interviews (see section 1.7.5), of the uniqueness in the implementation of corporate governance principles by a selected sample of congregations.

According to Strauss and Corbin (1998: 11) an important aspect to qualitative research is that data should be obtained from different sources. The next section discusses the source of data and the data collection methods followed by the candidate in this study. The next section will also discuss the basis and the method used in the selection of the sample of churches.

### **1.7.5 EMPIRICAL RESEARCH: DATA COLLECTION AND SAMPLING**

Randall and Gibson (1990: 460) emphasize that a complete disclosure of methods in any empirical study is essential for an accurate appraisal of the research findings. Without full disclosure of research methods, it will be difficult to evaluate the significance of the research findings and dangerous to draw any practical implications from the study. Subsequently, the data collection methods and the sample size used in this study are briefly explained. This section should be read together with section 4.3.2 in Chapter 4, as the discussion in these two sections complement each other.

According to Henning, Van Rensburg and Smit (2004: 5), there are three sources (or categories) of data collection methods for qualitative frameworks (refer to the discussion in section 1.7.4 on the research approach that is followed in this study) namely 1) observation, 2) artefact and document studies and lastly 3) interviewing (Strauss and Corbin, 1998; Welman and Kruger, 1999: 190,192,196). Coldwell and Herbst (2004: 48) also provide an overview of basic methods of data collection and categorise these methods more broadly as 1) questionnaires, 2) interview, 3) documentation review, 4) observation, 5) focus groups and 6) case studies.

In this study, interviewing is used as a data collection method. Scholars agree that interviewing is an effective method of collecting information during qualitative research (Rossouw, 2006: 150; Given, 2008: 520; Smith, 2012: 125), especially

when dealing with complex and wide-ranging issues (Harris and Brown, 2010: 2). The complexity, as well as the challenges in the implementation of corporate governance principles by churches, are enlightened in section 2.8 in Chapter 2. This probed the candidate to use interviews in the collection of data.

Pellissier (2007: 20-22) confirms the above views that qualitative research attempts to go deeper, beyond historical facts and typically involves face-to-face interviewing. Three types of interviews, namely structured, semi-structured and unstructured interviews are mentioned in the literature (Akbayrak, 2000: 1; Rossouw, 2006: 148; Smith, 2012: 127,128; Given, 2008: 523). The sample size that was used for the study is discussed later in this section. A semi-structured interview is regarded as an effective data collection method for smaller sample sizes (Akbayrak, 2000: 1,3; Harris and Brown, 2010: 2). As a small sample size was used for this study, a semi-structured interview was used by the candidate in the study.

A semi-structured interview involves a series of guided, open-ended questions (Akbayrak, 2000: 3) and the interviewer will follow up on probes and clues about a specific topic that the interviewee provides (Rossouw, 2006: 148; Smith, 2012: 127; Welman and Kruger, 1999: 167). The interviewees are asked the same questions, but the interviewer may adapt the formulation, including terminology, to fit the background and unique circumstances (Welman and Kruger, 1999: 165; Harris and Brown, 2010: 1).

The interview schedule used by the candidate in this study included some open-ended and closed questions, with the presence of the candidate during the interviews, which allowed the follow up of probes, clues, unique circumstances as well as the adoption of specific terminology. Section 4.3.2 in Chapter 4 provides further explanation on how the guidelines given by the scholars above have been incorporated into the interview schedules by the candidate.

Welman and Kruger (1999: 197) explain that in the selection of a sample for interviews, preference should be given to key informants who, on account of their position or experience, have more information than the regular group members and are better able to articulate this information. Henning, Van Rensburg and Smit (2004:

71) state the importance of selecting interviewees who can shed optimal light on the issue being investigated. They (2004: 71) further emphasise that “desirable participants” are an integral part of the sampling procedure (Pellissier, 2007: 24,25).

After extensive enquiry from role players and based on the governance models of the two respective denominations as presented in Chapter 3, the following key informants, or interviewees were selected:

1. Minister/pastor (see Chapter 3 for an explanation on the titles and designations used in the respective denominations);
2. Chairperson of the governing board, if not the same person as the minister/pastor; and
3. Scribe/Treasurer.

The different titles and designations used by the respective denominations are discussed in further detail in 4.3.2. The data collection method is also discussed in further detail in section 4.3.2 in Chapter 4.

Several challenges were encountered in determining the population of churches in South Africa, as well as in establishing a representative sample for the study, due to various factors. Churches form part of the non-profit sector and the statistics are more readily available for the sector as a whole, as opposed to specific information available on churches.

In addition, it is difficult to determine accurately the number of NPO's in South Africa because there is no current mechanism for collecting data on the sector (Dangor, 1997: 18). The most recent report issued by the Department of Social services in 2012 contained the following statistics on the size of the non-profit sector in South Africa (Department of Social Development, 2012b: 8,18,31,32):

- A total of 78 559 organisations were registered as NPO's;
- Of the total registered NPO's mentioned above, 9856 of these organisations, amounting to 12%, represent registered religious organisations; and

- In the Free State Province alone, there are reportedly 4 106 registered NPO's, of which 394 of these organisations, amounting to 9.6%, represent religious organisations.

The first problem encountered in providing measures for the size and scope of the population of churches on which the study could be performed, relate to the definition attached to a religious organisation. The abovementioned report by the Department of Social Services defines religious organisations as “churches, synagogues, temples, mosques, shrines, monasteries, seminaries and similar organisations promoting religious beliefs and administering religious services and rituals associations and auxiliaries of religious congregations and organisations supporting and promoting religious beliefs, services and rituals” (Department of Social Development, 2012b: 31). Therefore, there is no clear distinction in the statistics between Christian churches and other religious institutions. In addition, the report does not provide a breakdown of the religious organisations according to faith or denomination. The focus of this study, as presented in section 1.5, as well as explained later in this section, is on selected, Afrikaans, Christian Churches in the Free State, specifically from the Dutch Reformed Church and the Apostolic Faith Mission Church and the said report does not provide the statistics for this criteria. Refer to section 1.7.5 for further explanation on the selection of the churches from the Free State region.

Secondly, the statistics represent only organisations that chose *voluntarily* to register as NPO's in terms of the Non-profit Organisations Act at the Department of Social Services (Brewis, 2004: 5; Department of Social Development, 2009: 29; Wyngaard, 2010: 68). A number of large organisations choose to register to be accountable to a public office that holds information of registered NPO's in custody to members of the public to access (Department of Social Development, 2012b: 2). Some organisations also register to gain access to public funds from the government. However, the different reasons why organisations and churches prefer to be registered or not to be registered as NPO's, will not be pursued in this study.

The same argument above apply to churches and the statistics only include churches that have registered voluntarily as NPO's. Religious organisations are not

obliged by law to register as NPO's. Churches are guided through the governing bodies of their own denominations, and therefore in many instances these organisations do not register as NPO's. Refer to Chapter 3 for further discussion on the regulation of churches on a denominational level. Due to the aforementioned reasons, it was not practically possible to determine the exact population of churches, specifically for the Dutch Reformed Church and the Apostolic Faith Mission Church in the Free State from the abovementioned statistics that are available from the Department of Social services.

The preceding paragraphs mentioned that the study will focus on two selected denominations. In view of clarity, the decision-making process for the two denominations that are included as part of this study is explored in further detail. It is generally accepted that there are three traditional, mainstream Afrikaans churches in South Africa (Brammer et al., 2007; Snyman, 2009: 5; Leonard, 2012: 20), namely:

- Nederduitse Gereformeerde Kerk (Dutch Reformed Church);
- Nederduitse Hervormde Kerk (Restructured Church); and
- Die Gereformeerde Kerke van Suid-Afrika (Reformed Church).

A discussion on the history and the establishment of these three reformed churches are presented in Chapter 3. The DRC represents the first established church on South African soil with its roots in the reformed faith. The DRC is traditionally the largest Afrikaans mainstream church in South Africa (Oosthuizen, 2013: 3; Editor, 2007: 5; Oosthuizen, 2014: 7; Van der Watt, 1987: 374; Vlok, 2013: 22,24).

In addition to the three traditional churches, the Apostolic Faith Mission (AFM), a Pentecostal church, is taking up its place in South Africa as one of the mainstream Afrikaans churches (Mapumulo, 2012: 6; Clark, 2007: 46). The AFM has come a long way in the past decades and is regarded as the largest Pentecostal church in the country with approximately 1 800 churches (Burger, n.d.; AFM, n.d.-a; Jackson, 2012: 3) and the second largest Afrikaans church in South Africa (Snyman, 2009: 5; Jackson, 2008: 13; Editor, 2007: 5). Refer to Chapter 3 for a discussion on the establishment of the AFM church in South Africa. Based on coverage in the

newspaper reports as presented earlier, the three traditional churches mentioned above appear to experience a decline in membership (Erasmus et al., 2009: 8; Oosthuizen, 2014: 7), whereas Pentecostal churches are thriving (Khumalo, 2009: 8; Niemandt, 2013: 9).

Taking the abovementioned discussion and developments into account, the decision was taken to make selections from the population of the largest Afrikaans Reformed Church in South Africa, being the DRC, as well as the largest Pentecostal Church in South Africa, being the AFM. The two selected denominations are also the two biggest Afrikaans churches in South Africa (Editor, 2007: 5).

To establish a population from which selections could be made for the churches, different sources were used for the two denominations. For the DRC churches in the Free State, the statistics available from the Free State Synod were used. The statistics reflected that a total of 157 congregations in the Free State existed at the time that the study was conducted by the candidate (NG Kerk, 2011). The statistics from the AFM Head Office were used reflecting 109 AFM congregations in the Free State at the time that the study was conducted by the candidate (28 in the Eastern Free State, 21 in Southern Free State and 61 in Northern Free State) (AFM, n.d.-a). The statistics of the AFM are however, complicated as some congregations in the AFM are not necessarily classified according to regions, or provinces, as they are allowed to form part of non-geographical regions (refer to section 3.4.4.1 (ii) in Chapter 3 for further discussion on the classification of churches according to regions) and do not automatically form part of the Free State statistics because they are geographically situated in the Free State. Therefore, some AFM churches in Free State that are geographically located in the Free State do not form part of the aforementioned statistics as they belong to another non-geographical region.

In order to address the practical problems with regards to the size of the population as presented in this section, extensive consultation was undertaken by the candidate as well as the study leader, among the Free Synod offices of the DRC and the Head of the Free State Regional Forum of the AFM church. The practical problems with regards to the population of the denominations also presented some practical problems to establish a sample that could be used in this study. The practical

problems with regards to the sample related to both the size of the sample as well as the selection of the congregations that should form part of the sample. After the mentioned consultation process, a joint decision was made to include five churches and for purposes of the rest of the study, reference will be made to congregations, from each denomination. It was also jointly decided which interviewees were to be chosen from each group. The five congregations of the DRC and the AFM that form part of this study were selected after extensive enquiry from role players and individuals heading the Free State synod offices and the Free State regions of these churches.

In order to ensure that a representative sample is selected, the decision was taken to include two large congregations, two medium-sized congregations and one small congregation from each denomination. There is no measure for what constitutes a large or small congregation and the selection was made based on the relative size of these congregations when compared to other congregations in the Free State region as well as after extensive consultation with the relevant role players. The five DRC congregations selected as part of the sample are all situated in Bloemfontein. Due to some limiting factors, with specific reference to the lack of available Afrikaans AFM congregations in Bloemfontein, as well as congregations meeting the abovementioned criteria in terms of size, the five AFM congregations that were selected consisted of two congregations from Bloemfontein, two congregations from Kimberley and one congregation from Jacobsdal. The selection of the congregations outside of Bloemfontein was made after an extensive consultation process with the Regional Leader of the Free State region.

For clarification purposes, it should be noted that the geographical area covered by the Free State region for the AFM churches extend beyond the provincial borders of the Free State and therefore Kimberley is viewed by the AFM as part of the "Free State geographical region". The five abovementioned AFM congregations therefore fall within the geographical area of the Free State (refer to 3.4.4.1, (ii), for a further discussion of the geographical regions of the AFM church).

The following congregations were included as part of the study:

<b>Dutch Reformed Church</b>	<b>Size</b>	<b>Apostolic Faith Mission Church</b>	<b>Size</b>
DRC Woodlands	Large	AFM Siloam	Large
DRC Pellissier	Large	AFM Taberna Dei	Large
DRC Fichardtpark	Medium	AFM Huis van Restourasie	Medium
DRC Gardeniapark	Medium	AFM Jacobsdal	Medium
DRC Noordhoek	Small	AFM Jubilate	Small

### **1.7.6. CONCLUSION**

The purpose of this section was to provide an overview of the design and methods adopted to address the research problem. The research methodology followed in this study is a combination of a literature review with semi-structured interviews. The semi-structured interviews were conducted on the sample of five congregations from each of the DRC and AFM denominations within the Free State region. The interviews focus on the role players within these denominations.

### **1.8 CONTENTS OF THE STUDY**

The study is divided into the following five chapters:

**Chapter 1:** This chapter commences with a discussion on the significance of the religious sector in South Africa and an overview of the involvement of churches in addressing the social challenges in South Africa. An overview of some of the challenges faced by churches in South Africa that threaten the sustainable involvement in social challenges, is provided. The chapter then briefly discusses the development of governance in South Africa. The background to the research problem and the motivation for the study are explained. The chapter conclude with the problem statement, research methodology and the design of the study.

**Chapter 2:** The second chapter commences with the international, as well as South African corporate scandals that resulted in the development of corporate governance. The chapter also covers the history and the development of corporate governance, which is accomplished mainly through a literature review. The



development of governance principles and the relevance thereof, especially due to the unique characteristics of non-profit organisations and churches, are discussed as part of the overview.

This chapter, furthermore, provides an overview of the different sectors within the economy, being the public, private and non-profit sector. The discussion on the non-profit sector provides more detail if compared to the other two sectors (being the public and private sector), including an explanation concerning the origin and roots of this sector. The legal aspects of non-profit organisations, including churches and the regulation of these institutions, are discussed briefly. The chapter concludes with a discussion on the relevance and the importance of corporate governance in this sector.

**Chapter 3:** The history and origin of the selected church denominations are addressed. The history is divided into the establishment of the different Reformed churches, the development of the Dutch Reformed Church as well as the establishment of the first Pentecostal church, the Apostolic Faith Mission church, in South Africa. This chapter is also dedicated to the governance structures of these two denominations.

**Chapter 4:** Based on the literature review presented in Chapter 2 and 3, governance applicable to churches are contextualised. Interviews were conducted with the interviewees of the respective denominations. This chapter presents the results of the empirical study (interviews) of the corporate governance principles implemented by the selected sample of churches.

**Chapter 5:** The fifth chapter represents the limitations and the conclusions of the study and possibilities for future research. This chapter also proposes some recommendations to churches on how to improve on the implementation of sound corporate governance principles.

## **1.9. CONCLUSION**

This chapter commenced with an overview of the importance of churches in addressing the social challenges in South Africa and the important role that churches is playing in this regard. There are increased calls and demands on churches to be even more involved and this is a clear indication that churches will continue to play an increasingly important role.

It is, however, clear that there are various challenges facing churches, especially from a governance perspective. Churches are challenged by the public, the media and members regarding the utilisation of their funds and the transparency and accountability with which these church funds are managed.

In the next chapter, the development of governance principles internationally and in South Africa will be discussed. This chapter will also discuss the main differences between profit organisations and churches, which pose challenges to implementing governance principles.

# CHAPTER 2 CORPORATE GOVERNANCE AND THE NON-PROFIT SECTOR

## 2.1 INTRODUCTION

*“He who floats with the current, who does not guide himself according to higher principles, who has no ideal, no convictions – such a man is a mere article of the world’s furniture – a thing moved, instead of a living and moving being – an echo, not a voice.”*

Henri Frederic Amiel, Swiss philosopher

In the first chapter, a brief overview was given of some of the scandals that have occurred in churches. This chapter will commence with an overview of a few corporate scandals internationally as well as in South Africa. These scandals, among others, have increased the focus on corporate governance. This will be followed by a more detailed background of the development of corporate governance internationally and thereafter a focussed discussion on corporate governance in South Africa.

This chapter further includes a historical background on the three sectors of the economy, being the public, private and non-profit sectors. Following this discussion, an overview of the legal aspects of non-profit organisations (NPO) in the non-profit sector in South Africa is discussed and these regulations will be benchmarked against the regulation of NPO’s in the United States of America (USA) and the Netherlands. The discussion of these aspects aims to set a framework for the study against which the findings of this study will be evaluated.

## 2.2 CORPORATE AND OTHER SCANDALS

### 2.2.1 INTRODUCTION

This section will briefly highlight a few of the corporate scandals that occurred internationally and in South Africa. The confidence and trust in the corporate sector was sapped by corporate governance scandals that triggered some of the largest

insolvencies in history (Langevoort, 2007: 1818; Rossouw and Van Vuuren, 2010: 140). In the aftermath of these scandals, not only has the phrase corporate governance become nearly a household term, but economists, the corporate world, and policymakers everywhere began to recognise the potential consequences of weak corporate governance systems (Van Daelen and Van der Elst, 2010: 1). The economic consequences of these scandals are evident in the next discussion and it scattered the social welfare of many communities, including shareholders, managers, employees, suppliers and customers (Gaum, 2012: 20; Rossouw and Van Vuuren, 2010: 32).

## **2.2.2 CORPORATE SCANDALS IN THE UNITED STATES OF AMERICA**

*“If a man can accept a situation in a place of power with the thought that it’s only temporary, he comes out all right. But when he thinks he is the cause of the power that can be his ruination.”*

Harry Truman

### **2.2.2.1 ENRON**

Enron was one of the world's major electricity, natural gas, communications, and pulp and paper companies (Norwani et al., 2011: 209; Peavler, n.d.; Farrar, 2008: 512). Fortune named Enron "America's Most Innovative Company" for six consecutive years from 1996 to 2001 (BBC News, 2006; Van Daelen and Van der Elst, 2010: 28; Farrar, 2008: 512). Enron entered 2001 as the seventh largest public company in the USA (Lubbe, 2012b: 12; Sridharan et al., 2002: 11), only to later exit the year as the largest company to ever declare bankruptcy in the history of the USA at that stage (Norwani et al., 2011: 209; Van Daelen and Van der Elst, 2010: 28; Peavler, n.d.). Refer to the discussion of the Worldcom scandal in the next section that superseded Enron as the largest scandal in the USA.

Enron swiftly evolved from a conventional business that simply delivered energy, into a “new economy” business heavily involved in the brokerage of speculative energy futures. The scope of the scandal involved that they had entered into a number of

aggressive transactions, for which underlying accounting treatment was fraudulent by using Special Purpose Entities (SPE) (Patra, 2010: 171; Farrar, 2008: 512-513; Van Daelen and Van der Elst, 2010: 28) and they have inflated income significantly due to accounting “errors” (Patra, 2010: 169). Soon after this, Enron encountered cash flow problems and credit-rating agencies revealed that they were unable to pay their debts (Patra, 2010: 169). The stock price of Enron started to diminish after the company’s executives were involved in questionable business practices and fraud. Enron’s failure was ultimately due to the collapse in investor, customer and trading partner confidence (Beasley et al., 2009: 76; Langevoort, 2007: 1818) and other companies in the USA were required to examine their governance practices, especially with regards to the responsibility and accountability of the board of directors (Mogensen, 2002: 2). This clearly indicates the lack of responsible leadership, which is a key aspect addressed by corporate governance, as explained in section 4.2.2.2.

Arthur Andersen, one of the so-called big five audit firms at the time, was the audit firm of Enron (Lubbe, 2012b: 12; Nordberg, 2011: 212). Arthur Andersen was far more than an independent external auditor, as they also functioned as the internal auditor and tax consultant (Sridharan et al., 2002: 16). The audit firm even occupied offices within the Enron headquarters (Sridharan et al., 2002: 16). It was revealed that the audit firm was involved in the structuring of some of the SPE transactions (Sridharan et al., 2002: 16; Carson, 2003). They sealed their own fate when partners at the audit firm instructed employees, after the Securities and Exchange Commission had begun an investigation of Enron's accounting (Oppel and Eichenwald, 2002), to destroy audit working papers concerning its work with Enron (Kadlec, 2002; Nordberg, 2011: 213; Pearlstein, 2002: 15; Farrar, 2008). Ironically, the managing partner of the accountancy firm stated in the firm’s ethics standards in 1999 the following: “*The day Arthur Andersen loses the public’s trust is the day we are out of business*” (Nordberg, 2011: 212). Arthur Andersen imploded in 2002 after being found guilty of criminal charges relating to the firm's handling of the auditing of Enron (Lubbe, 2012b: 12; Nordberg, 2011: 212; Farrar, 2008: 513).

The Enron case exemplifies the great harm such a corporate failure can wreak upon society and its members (Sridharan et al., 2002: 12). The negative social impact

directly affected the employees they were encouraged to invest in Enron shares and the savings were tied up almost exclusively in these shares (Altman, 2002). About 20 000 employees lost their jobs after the bankruptcy and lost their entire retirement portfolios that were filled with the Enron shares (Peavler, n.d.; Altman, 2002; Dahlin, 2007: 364; Patra, 2010: 170). The steep financial and job losses were not limited to employees of Enron. Over 28 000 employees at Andersen's operations, many whom were completely uninvolved with the Enron audit, lost their jobs and around 1 750 Andersen partners their entire life savings (Sridharan et al., 2002: 13). In addition, thousands of ordinary Americans were impacted as many invested their retirement savings in mutual funds and in index funds. Enron was a member of Standard and Poor's Index that required over 25 mutual funds to include Enron shares in their investment portfolios (Sridharan et al., 2002: 14). Employees in their 50s and 60s saw retirement funds go from millions of dollars to nothing, and there was nothing they could do about it. Many people who had done nothing to deserve it and everything not to deserve it, were mortally hurt (Patra, 2010: 170).

#### **2.2.2.2 WORLDCOM**

The Worldcom scandal surpassed the Enron scandal (as presented in the previous section) as being the largest collapse in the USA's history (Tricker, 2012: 506; Patra, 2010: 174). After the Enron scandal, the Worldcom scandal resulted in a corporate implosion (Langevoort, 2007: 1821). Worldcom emerged within the telecom industry and in 1997 caught the eye of many on Wall Street when it issued a bid to acquire the much larger and better known company MCI (Norwani et al., 2011: 210; Patra, 2010: 173). In 1999, it became the 25<sup>th</sup> largest company in the USA (Beasley et al., 2009: 58) with the stock price that continued to rise through the 2000's. The scandal involved Worldcom's overindulgence in acquisitions of new firms (Patra, 2010: 172), the engagement in fraudulent financial reporting (Backover, 2002: 2), including improper accounting of expenses and assets (Patra, 2010: 174). The scandal ended in a catastrophe after Worldcom filed for bankruptcy in 2002 (Norwani et al., 2011: 205).

Arthur Andersen, the audit firm of Worldcom (who was also the appointed audit firm at Enron as indicated in section 2.2.2.1), was once again at the centre of a corporate

scandal after it was revealed that the audit firm was aware of the financial statement fraud (Beasley et al., 2009: 58; Carpenter, 2002; Nordberg, 2011: 213; Carson, 2003: 393). The important role that auditors were supposed to play in verifying the reliability of financial information supplied to shareholders failed in both the Enron and Worldcom scandals, as the auditors appeared to have been complicit in the deceit (Fisher and Lovell, 2006: 302). This scandal also affected many people who lost their life savings and the group retrenched about 17 000 people after the bankruptcy (Pearlstein, 2002: 15).

## **2.2.3 CORPORATE SCANDAL IN THE UNITED KINGDOM**

### **2.2.3.1 MAXWELL**

*“The achievement at the end of it is that I feel that my life, which I continue to live to the full and will do until the day I die, I will have left the world a slightly better place by having lived in it, and have influenced a few things and people in the right direction, rather as if it hadn’t mattered that I had been born, lived or died.”*

Robert Maxwell

Maxwell is regarded as one of the largest ethical scandals and corporate bankruptcies in the United Kingdom (UK) (Columbia Electronic Encyclopedia, 2013: 1) and in modern history (Harvey et al., 2006: 1). Robert Maxwell, the founder, became one of the most powerful people in the newspaper industry after he had built up a large business empire (Columbia Electronic Encyclopedia, 2013: 1). He was described as the all-powerful chief executive, running rampant without any checks or balances on his actions, treating shareholders’ money as if it were his own.

In 1984, he bought the Mirror Group Newspapers and so became the owner of all the popular British newspapers (Hammer and Underhill, 1992: 40; Farrar, 2008: 512), namely the Daily Mirror, Sunday Mirror and The People Mirror (Farrar, 2008: 512). In the late 1980’s, huge discrepancies were revealed in Robert Maxwell’s companies’ finances (Hammer and Underhill, 1992: 40), including the Mirror Group pension fund, which Maxwell had fraudulently misappropriated to build his business empire (Nordberg, 2011: 11; Columbia Electronic Encyclopedia, 2013: 1). One of

the companies in the group, Maxwell Communications, a publishing company, was led into high debts after a series of risky acquisitions (Hammer and Underhill, 1992: 40). It was later revealed that these acquisitions were financed by diverting resources from the pension funds of the group of companies.

Maxwell died mysteriously in 1991 (Laurence, 1991; Nordberg, 2011: 11) and his death and the rubble of a business empire he left behind (Farrar, 2008: 512) resulted in devastating consequences for the corporate world (Nordberg, 2011: 12). After the group filed for bankruptcy, workers lost all their pension entitlements.

## **2.2.4 SCANDALS IN SOUTH AFRICA**

### **2.2.4.1 FIDENTIA**

*"It doesn't matter whether you're talking about lying to your neighbour or defrauding a big corporation, any action ultimately impacts individual people – for better or worse."*

John Maxwell

Fidentia remains one of the biggest corporate scandals in the South African history (Ferreira and Davids, 2007: 7; Van Zyl, 2013b: 1). The founder of the group, J Arthur Brown (Hogg, 2007: 315 15), who was also the former Chief Executive Officer (CEO) of the Fidentia group, has been one of the most unpopular men in South Africa for a long time (Davis, 2013; Nel, 2008: 2). Brown recklessly and fraudulently oversaw the management of vulnerable savers' money he had been entrusted with (Theobald, 2013: 11).

The scope of the scandal included, inter alia, the following:

- i. The Fidentia group was compiled out of more than forty organisations, of which thirty-nine were never audited according to the South African Companies Act (Crous et al., 2012: 27);
- ii. One of the companies in the group, Fidentia Asset Management, reportedly



- could not account for R1 billion of funds (Yeld, 2007);
- iii. One of the trusts in the group, The Living Hands Trust, was administered by Living Hands (Pty) Ltd, a subsidiary of the Fidentia parent company (Hogg, 2007: 315 15). The beneficiaries of the trust were mostly widows of blue collar mineworkers in South Africa, Lesotho and Mozambique (Theobald, 2013: 11). The Living Hands Trust suffered a financial loss of R1.3 billion and these beneficiaries lost all their money in the process (Van Zyl, 2013b: 1; Dolley, 2013: 6); and
  - iv. The Living Hands Trust, as well as several of the other companies in the Fidentia group, were declared bankrupt in 2007 (Van Zyl, 2013b: 1).

The audit company, Maddock Inc., became the first company in South Africa to be prosecuted for money laundering (Nel, 2008: 2; Yeld, 2008: 1) and the auditor, Greame Maddock was convicted of fraud and money laundering in 2008 (Van Zyl and Van Rensburg, 2013: 1). Maddock, who was also the financial director of the Fidentia group, and Steven Goodwin, an intermediary, was sentenced to seven and nine years respectively after a plea bargain with the state (Van Zyl and Van Rensburg, 2013: 1; Yeld, 2008: 1).

After a six-year court trial, Brown was sentenced in 2013 to a fine of R150 000 and a suspended sentence of 36 months (Du Plessis, 2013: 6; Van Zyl and Van Rensburg, 2013: 1). The sentence sent shock waves throughout the corporate world as there were allegations that the damning evidence against the founder was not adequately presented in court (Van Zyl and Van Rensburg, 2013: 1; Dolley, 2013: 6; Van Zyl, 2013b: 1). The media have been flooded with allegations that the investigation officers and prosecutors lacked expertise (Davis, 2013; Van Zyl, 2013a: 1; Du Plessis, 2013: 6), which resulted in the situation that the investors, consisting of more than 500 ex-mineworkers, widows and orphans, were left at the mercy of the prosecutors (Theobald, 2013: 11; Crous et al., 2012: 27). The National Prosecuting Authority applied for leave to appeal to the sentenced handed down (Du Plessis, 2013: 6). The Appeals Court subsequently handed down a sentence of 15 years of imprisonment in 2014.

In the midst of this scandal was Denisa Baloyi, who was a Living Hands trustee, a

director of Fidentia Holdings and the sole shareholder of Fidentia Asset Management (Carter and Morris, 2007: 5; Mabanga, 2007: 6). This position resulted in a conflict of interest (Carter and Morris, 2007: 5; Mabanga, 2007: 6) and the Fidentia curators uncovered an interest free loan of R8 million made to Baloyi (Makhanya, 2007: 24; Mabanga, 2007: 6; Ferreira and Davids, 2007: 7).

Subsequent to the public disclosure related to irregularities at Fidentia surfaced, Baloyi was removed from ABSA's board where she served, amongst others, as a director (Makhanya, 2007: 24; Mabanga, 2007: 6; Underhill, 2007: 5; Ferreira and Davids, 2007: 7). In addition, Baloyi stepped down as chancellor of Fort Hare University (Editor, 2007). She served on the board of directors of more than 70 companies (Carter and Morris, 2007: 5; Mabanga, 2007: 6) and several questions were raised on whether she could have given valuable input to all the companies (Sergeant, 2007; Meyer, 2007: 28; Carter and Morris, 2007: 5; Newmarch and Fisher-French, 2007: 1; Editor, 2007: 1). This raised concerns on the corporate governance practices in the selection of directors (Meyer, 2007: 28).

#### **2.2.4.2 ARMS DEAL**

*“The arms deals scandal was the litmus test of South Africa’s commitment to democracy and good governance.”*

Institute for a Democratic South Africa

Political corruption and conspiracy are multiplying in the South African context (Stemmet, 2009: 8; Govender, 2011: 8). The arms deals is described by some as just the “tip of the corruption iceberg” (Crawford-Brown, 2013: 15). The fire of the “billions arms deal scandal” still burns undiminished to this day (Powell, 2011: 10). In the period around 1998, a R70 billion arms deal (Merten, 2012: 8; Steenkamp and Kitshoff, 2013: 8; Magome, 2013: 5), the biggest foreign transaction of a government in the history of South Africa, with a German company, was surrounded by controversy (Stemmet, 2009: 8; Editor, 2013: 12).

Several high-profile leaders and politicians were implicated by the arms deal after allegations of billions of rands of bribery money being involved to conclude the arms

deal, surfaced (Lorentz, 2008: 5; Steenkamp and Kitshoff, 2013: 8; Hosken, 2012: 1; Steenkamp, 2010: 1). The previous President, Mr Thabo Mkebi, current President, Mr Jacob Zuma, Tony Yengeni and Schabir Shaik are - to name but a few - of these leaders that were allegedly involved in the deal (Steenkamp and Kitshoff, 2013: 8; Webb, 2008: 5). The integrity and accountability of these leaders were called into question after these allegations (Webb, 2008: 5).

There were several attempts by different authorities, agencies and bodies to investigate the alleged fraud and bribery surrounding the arms deal (Terreblanche, 2009: 9; Webb, 2008: 5), with no avail (Steenkamp, 2010: 1; Maughan, 2008: 1). The Parliament and the individuals involved kept the lid on the arms deal scandal (Powell, 2012: 4; Editor, 2013: 12), with several questions around the arms deal being unanswered till this day (Govender, 2011: 8). There were several suggestions by the Parliament's task team that Mr Thabo Mbeki and Mr Jacob Zuma be granted amnesty for their alleged arms deal corruption offences (Maughan, 2008: 1; Editor, 2012: 26). In 2000, a joint probe by the Public Protector, Auditor General and National Director of Public Prosecutions cleared the government and government officials of any wrongdoing (Merten, 2012: 8). Only two people, Schaik and Yengeni, were prosecuted for the arms deal (Nkomo, 2011: 7).

In his persistent quest for further answers to this deal, the arms deal campaigner and activist, Terry Crawford-Browne, took Zuma to the Constitutional Court to compel the government to hold an independent inquiry into the arms deal (Merten, 2012: 8; Govender, 2011: 8; Underhill, 2013: 4). Zuma was, in terms of the court battle, forced to appoint a commission (Underhill, 2013: 4), the Arms Procurement Commission (APC), headed by Judge Willie Seriti in 2011 to probe the wide-ranging allegations of fraud and corruption in the arms deal (Merten, 2012: 8; Hoffman, 2013: 13; Magome, 2013: 5).

The Commission itself, since its inception, has been surrounded by controversy and faced allegations of having a "second agenda" (Hoffman, 2013: 15; Flanagan, 2013: 2; Gerber, 2016: 7), with several resignations by committee members (Editor, 2013: 12; Hoffman, 2013: 13; Underhill, 2013: 4). As a result of this, the public has lost its confidence in this commission. Over and above investigating a very controversial

case, Judge Seriti also had to restore the public's trust in the workings of the Commission (Hoffman, 2013: 13). The Commission's slow progress on the investigations resulted in concerns from public (Editor, 2012: 26) and their investigations were extended to November 2014 (Magome, 2013: 5). The report from the Commission was eventually handed over to the President on the 30<sup>th</sup> December 2015 (Gerber, 2016: 7). Opposition parties and several stakeholders insisted, without success, that the findings of the report of the Commission be made available (Rooi, 2016: 8). At the time of submission of this study, the contents of the report has not been made available to the public.

### **2.2.4.3 NKANDLA**

*“The hottest places in Hell are reserved for those who in time of moral crisis preserve their neutrality.”*

Dante Alighieri, Italian Poet

The ethical leadership of the highest level of authority in South Africa was challenged after the Nkandla scandal hit the media in 2012 (Styan et al., 2013: 1; Lamprecht and Prince, 2014: 6). The credibility and the independence of the President was once again jeopardised with the Nkandla saga (after the arms deal scandal discussed in the previous section) (Cliff, 2013: 27) after allegations of corruption, nepotism and favouritism arose (Editor, 2013: 1).

Zuma's Nkandla private home came under the spotlight when it was revealed that R206 million, of public funds, was incurred on expenditure classified as “security upgrades “ (Steenkamp, 2013: 4; Lamprecht, 2014: 2; Philp, 2013: 1; Hunter, 2013: 4; Dodds, 2013: 4). The media reported extensively that Zuma enjoyed “substantial” personal benefits from this expenditure (Dodds, 2013: 4; Steenkamp, 2013: 4). These “security measures” included the paving of property, a helicopter landing strip, marquee area, swimming pool, amphitheatre, astrosurf soccer field, cattle kraal (Essop, 2013a: 2; Styan et al., 2013: 1; Dodds, 2013: 4), clinic, tuck shop, as well as new houses for members of the Zuma family (Editor, 2013: 1; Barron, 2013: 1; Sidimba, 2013: 1). Zuma had also intervened to ensure that his personal architect

(Lamprecht and Prince, 2014: 6) and builders contracted by him, were appointed to do the work (Styan et al., 2013: 1; Dodds, 2013: 4).

Members of the National Executive committee raised concerns about the significant expenditure incurred (Lamprecht, 2014: 2). According to a Cabinet decision made in 2003, the Department of Public works should have submitted the cost analysis of safety improvements to the President's private home to the police. The police should have informed their minister and this should have been communicated to the President. The Minister of Public Works, Mr Thulas Nxesi as well as Zuma himself, denied awareness of the costs involved (Lamprecht, 2014: 2; Sidimba, 2013: 1; Milo and Winks, 2013: 21). Nxesi launched an investigation into the expenditure in 2012 after controversial questions were persistently raised about the expenditure (Styan et al., 2013: 1). The Department of Public works appointed a task team that investigated this expenditure. The subsequent report issued by the task team resulted in widespread reaction (Essop, 2013b: 2) after the report cleared Zuma of all wrongdoing and from benefiting improperly from work done with public funds (Hunter, 2013: 4; Dodds, 2013: 4; Philp, 2013: 1; Magome, 2013: 2). The Department of Public works refused to release this report as it was classified as top secret and allegedly contained "security information" (Mkhwanazi, 2013b: 4; Hartley, 2013: 3; Magome, 2013: 2; Milo and Winks, 2013: 21). The withholding of the report has cast a further shadow on the scandal, which brought into question the independence of the report (Swanepoel and Gibbs, 2013: 3) and was seen as an attempt to shield the President from accountability (Swanepoel and Gibbs, 2013: 3).

The Public Protector, adv Thuli Mandonsele, launched an investigation in 2012 after a probe by the Democratic Alliance parliamentary leader, at the time, Ms Lindiwe Mazibuko (Barron, 2013: 1) to establish whether the expenditure was appropriately authorised and whether taxpayer's funds or the government's coffers were used for this expenditure (Steenkamp, 2013: 4). Mazibuko said that it is evident that "*there was absolutely no willingness on the part of government to admit to South Africans that spending this amount on one man's home is ethically and lawfully wrong*" (Swanepoel and Gibbs, 2013: 3; O'Connor, 2013: 6).

After a two-year investigation (Lamprecht and Prince, 2014: 6), the Public Protector issued a report in 2014 that revealed that the President had unduly benefited from the upgrades at Nkandla (Du Toit et al., 2014: 1; Lamprecht and Prince, 2014: 6; Munusamy, 2014: 7). The report advised that Zuma repay a part of the expenditure (Du Toit et al., 2014: 1; Lamprecht and Prince, 2014: 6). The Parliament did not act upon the Public Protector's report and subsequently appointed its own ad hoc committee to investigate the saga (Barron, 2014: 21). Some of the ministers also indicated their intention to approach the court to review the Public Protector's report (Heard, 2014: 11).

The Nkandla scandal was in a deepening spiral as Zuma did not break the silence on the allegations regarding the spending (Rossouw, 2014: 8; Mazibuko, 2013: 5). The expenditure was further surrounded by controversy after allegations that Zuma misled the parliament and the public on who carried the responsibilities of the cost (Editor, 2013: 1; Lamprecht and Prince, 2014: 6). Zuma told the parliament in November 2013: *"My residence in Nkandla has been paid for by the Zuma family. All the buildings and every room we use... was built by ourselves as family and not by government. I have never asked government to build a home for me, and it has not done so. A necessary distinction must therefore be made between work which I have mandated and initiated in my home, as opposed to the security enhancement undertaken by government"* (Barron, 2013: 1; Sidimba, 2013: 1; O'Connor, 2013: 6; Lamprecht and Prince, 2014: 6). Zuma mentioned that he would not react further upon the Nkandla saga until the investigations of the ad hoc committee had been completed (Heard, 2014: 11). The ad hoc committee was subsequently aborted shortly before the National elections in 2014 (Barron, 2014: 21). The Speaker of Parliament refused to reinstate the ad hoc committee after the elections (Heard, 2014: 11).

After stakeholders and the media persistently demanded a response from Zuma on the Public Protector's report, he responded with the following statement in March 2014: *"I have done nothing wrong. Even if they look underneath a tree or a rock they won't find anything against me, I'm not guilty"* (Ngalwa, 2014: 5). There were several allegations that the President contravened the Executive Members' Ethics Act of 1998, because he failed to stop the spiralling costs of the upgrades from taxpayers

funds (Du Toit et al., 2014: 1; Munusamy, 2014: 7). The problem is that the code does make provision for a contravention by the Head of the State (Munusamy, 2014: 7; Rossouw, 2014: 8). Rossouw (2014: 8) points out that the omission in the ethics Act provides a hiding place for Zuma as the parliament argues that there was no “legal contravention” due to the spending on the Nkandla home (Paton, 2014: 3).

The government attempted everything to protect the President against the findings of the report and to prevent the President from being accountable for the “unscrupulous” state costs used at his private home (Munusamy, 2014: 7; Swanepoel and Gibbs, 2013: 3). There is no justification for not being transparent (Editor, 2014: 4), as the reasons for the State spending such a staggering sum on one home are clearly of profound public interest (Milo and Winks, 2013: 21). Munusamy (2014: 7) mentions that in any country with an accountable government, this type of action would be an impeachable violation. Several stakeholders argued that the response of the President was unsatisfactory after this relevant moral issue arose (Rossouw, 2014: 8) and the insufficient response did not address the core problem, being unethical leadership (Rossouw, 2014: 8; Jeffrey, 2012: 12).

## **2.2.5 CONCLUSION**

The abovementioned reports in the newspapers and the media produced detailed accounts of the lack of ethical leadership, corporate fraud, accounting scandals and other perceived organisational failures. These scandals have pushed the importance of corporate governance to the forefront. The next section defines the concept of corporate governance and provides an overview of the concept. The development of corporate governance internationally and in South Africa is also included in the next section.

## **2.3 DEVELOPMENTS IN CORPORATE GOVERNANCE**

### **2.3.1 INTRODUCTION**

The previous section provided an overview of corporate scandals that could be ascribed to a lack of sound corporate governance. Central to these stories is the assumption that the root cause of these failures is that companies suffered from a

breakdown in corporate governance (Larcker and Tayan, 2011: 4; Morrell, 2009: 539; Kaldor, 2003: 10; Dellaportas et al., 2005: 126) and that the system of checks and balances meant to prevent abuse by executives, failed (Vallera, 2007: 100).

The next section focuses on the development of corporate governance internationally, as well as in South Africa. The concept of corporate governance has received significant coverage in the USA and UK's press and therefore the development of corporate governance in these two countries are included in the discussion to provide background on international developments (Sheridan and Kendall, 1992: 23).

### **2.3.2 AN OVERVIEW OF CORPORATE GOVERNANCE**

There are divergent views from scholars on the reasons for the increased focus and the subsequent development of corporate governance. Fisher and Lovell (2006: 301) state that the major scandals, as presented in the previous sections, increased the attention to corporate governance. This is confirmed by Claessens (2003: 1,2), but in addition, he ascribes the focus on corporate governance also to the worldwide financial crises where the behaviour of the corporate sector affected entire economies. The deficiencies in compliance with good corporate governance endangered the stability of the global financial system.

The conventional view of some other scholars is that various mechanisms of corporate governance came into existence as a result of the agency problem (Jackson, 2010: 47; Warren, 2003: 63; Clarke, 2007: 12). Nordberg (2011: 216) concurs with the above scholars that the concept of governance was ignited where the owners of companies (shareholders or principals) became less and less involved in the management of the companies and where management became the responsibility of the boards of directors (or agents or managers). It follows that when separation exists between the ownership of a company and its management, self-interested executives have the opportunity to take actions that benefit themselves (Tamburrini, 2009: 1; Clarke, 2007: 13), with shareholders and stakeholders bearing the cost of these actions. This scenario is typically referred to as the agency problem, with the costs resulting from this problem described as agency costs



(Larcker and Tayan, 2011: 4; Claessens, 2003: 12). To lessen agency costs, some type of control or monitoring system is put in place in the organisation and this system of checks and balances is called corporate governance (Larcker and Tayan, 2011: 4; Bradshaw et al., 2007: 17; Aras and Crowther, 2008: 440).

The purpose of this section is not to engage in all the possible reasons for the development and increased interest in corporate governance. In addition, the development of corporate governance cannot be reduced to a single reason or to a single contributing factor only. It is, however, evident that corporate governance is increasingly becoming important with much emphasis being placed on this concept by scholars and various stakeholders.

In preparation for a detailed discussion on the development of corporate governance, the term corporate governance requires a brief explanation. The origin of the word governance can be found in the Latin 'gubernare' meaning to rule or to steer, and the Greek "kubernesis" which means steering or piloting of a ship (Morrell, 2009: 539; Farrar, 2008: 3). Norbert Wiener used the Greek root as the basis for cybernetics being "the science of control in man and machine". The idea of steer man - the person at the helm - is a particularly helpful insight into the reality of governance (Tricker, 1984: 9).

While it is simple to state the concept, to define it has become more complicated by virtue of the various interest groups. The term governance is neither defined by legislation nor has it been defined by the courts (Sagar et al., 2007: 324). There are, however, many definitions ascribed to the term by various scholars. The following are a few examples of the definition of corporate governance:

- A system by which companies are directed and controlled (Cadbury, 1992: 14);
- The system by which organisations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders and spells out the rules and procedures

for making decisions in corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance (OECD, 2004: 11-14);

- A system by which companies are directed and controlled by those who are not the owners of such companies (Warren, 2003: 59);
- The action or manner of governing a state, organisation (Oxford Dictionaries, n.d.);
- If management is about running the business, governance is about seeing that it is run properly (Tricker, 1984: 7); and
- The structure that is intended to make sure that the right questions get asked and that checks and balances are in place to make sure that the answers reflect what is best for the creation of long-term, sustainable value (Monks and Minow, 2009: 3).

There is no general or uniform definition for corporate governance (Morrell, 2009: 539). Claessens (2003: 4) explains that even though varying definitions exist for the concept, the definitions of corporate governance potentially fall into two categories:

- i. The first set of definitions concerns a set of behavioural patterns: that is, the actual behaviour of organisations, in terms of such measures as performance, efficiency, growth, financial structure, and treatment of shareholders and other stakeholders; and
- ii. The second set concerns the normative framework: that is, the rules by which organisations are operating, with the rules coming from such sources as the legal system, the judicial system, financial markets and labour markets.

Based on the definitions and views presented above by the scholars, it can be concluded that corporate governance must synthesise best practice to achieve the long-term strategic goals of an organisation (to be sustainable), but taking into consideration all relevant stakeholders (Sheridan and Kendall, 1992: 114).

As stated above, many of the “checks and balances” are incorporated to lessen the agency costs. The system of corporate governance therefore require managers, or

stated otherwise, leaders, to ensure that an organisation is managed effectively and responsibly. The importance of effective leadership is presented in further detail in section 4.2.2.2 in Chapter 4. The concept of corporate governance is, however, not limited to the agency problem, which focus on the separation of shareholders and board of directors and the resulting relationship between ownership and management. The concept also refers to the additional responsibilities of organisations towards society as a whole (including the environment and people), which is commonly known as an organisation's corporate social responsibility. The term corporate social responsibility is increasingly taking the foreground in the discussion on issues of corporate governance. The background, development and importance of corporate social responsibility are discussed in further detail in section 4.2.2.4 in Chapter 4. An organisation should also be managed so as to ensure that it is sustainable. The importance of sustainability is discussed in section 4.2.2.3 in Chapter 4.

The next section commences with the history and background of the development of corporate governance in the USA. This will be followed by the situation in the UK, with the section concluding on the history of corporate governance in South Africa.

### **2.3.3 UNITED STATES OF AMERICA**

In the mid-1980's, spectacular corporate failures resulted in the establishment of the Treadway Commission (Maassen, 1999: 111). These failures, to name but two, included Drysdale Government Securities and Washington Public Power Supply System (the detail of these failures are not discussed in this chapter as section 2.2.2.1 and 2.2.2.2 referred to more recent corporate failures). The United States Securities and Exchange Commission's (SEC) Commissioner, James C Treadway Jr, was the chairman of the commission who was sponsored and funded by five private accounting organisations (Grundfest and Berueffy, 1989: 1). The Treadway Report was published in 1987 (Maassen, 1999: 80) and the main focus of the Commission was to identify factors that could result in fraudulent financial reporting as well as steps that could reduce these incidents (Maassen, 1999: 111; Van Daelen and Van der Elst, 2010: 72). The commission considered the need for improvements in the accounting of publicly held companies (Markham, 2006: 178). This Report

included, but was not limited to, information on the functioning of the board and the establishment of audit committees (Markham, 2006: 178).

The result of the Enron and Worldcom scandals presented in section 2.2.2.1 and 2.2.2.2 respectively, resulted in the general public and investors losing confidence in businesses, as well as in auditors (Dellaportas et al., 2005: 20). Increasingly, questions were asked on what happened to the governance of these organisations. As a direct result of these scandals, the USA's Congress passed federal legislation - namely the Sarbanes-Oxley Act (SOX) in 2002 (Norwani et al., 2011: 205; Langevoort, 2007: 1821; Van Daelen and Van der Elst, 2010: 29). SOX was intended to improve accountability and transparency in for-profit organisations and deter future abuses (Nezhina and Brudney, 2009: 275; Peavler, n.d.).

After the collapse of Enron and Worldcom, some of the problems that were discovered related to fees for non-audit services (i.e. consulting services) that exceeded the fees for audit services (Nordberg, 2011: 213). SOX, inter alia, imposed stricter rules on auditors regarding the provision of non-audit services and on directors regarding independence, and criminal penalties for misrepresentations (Larcker and Tayan, 2011: 37).

SOX, as a result, made compliance to corporate governance compulsory for all public companies in the USA and thus codified corporate governance for all listed companies (Langevoort, 2007: 1837). The Act imposed serious consequences for non-compliance and is seen worldwide as a “comply or else” corporate governance approach (IoDSA, 2009b: 7).

### **2.3.4 UNITED KINGDOM**

In the early 1980's, a director of a British company described the governance problem in organisations as a situation where “*directors are marking their own examination papers*” (Tricker, 1984: 1; Tricker, 2012: 23). The collapse of the Maxwell group (refer to section 2.2.3.1 for a discussion on the Maxwell scandal) was referred to as the “last straw on the camel's back” in the world of corporate governance and it was the third important corporate failure (after Enron and

Worldcom) in rapid succession (Nordberg, 2011: 93).

In the aftermath of the Maxwell group scandal, Sir Adrian Cadbury chaired a committee whose aims were to investigate the British corporate governance system (Cadbury, 1992: 14; Nordberg, 2011: 81; Farrar, 2008: 512). The aim of the committee was to suggest improvements to restore investor confidence in the system (Maassen, 1999: 125) in setting a benchmark set of recommendations on governance (Larcker and Tayan, 2011: 39). The Committee was set up in 1991 by the Financial Reporting Council, the London Stock Exchange and the accountancy profession (Nordberg, 2011: 81).

In response to corporate failures, several reports on corporate governance were issued by the Cadbury Committee (Monks and Minow, 2009: 76; Tricker, 2012: 12; Farrar, 2008: 512). The committee issued five reports and each of these reports will be discussed briefly to contextualise the development of corporate governance in the UK:

*i. THE CADBURY REPORT*

The Cadbury Report was published by the Cadbury Committee in 1992 (Larcker and Tayan, 2011: 39; Farrar, 2008: 512) by the Bank of England and the London Stock Exchange (Marx, 2009: 7). The Cadbury Report provided world-class leadership and guidance with respect to corporate governance (Monks and Minow, 2004: 531; Lubbe, 2012b: 121; Marx, 2009: 98). All listed companies on the London Stock Exchange had to comply with this Code of Best Practices and a “comply or explain” approach was recommended (Gray and Manson, 2000: 479; Gregory-Smith, 2008: 15; Fisher and Lovell, 2006: 304).

The Report required companies to include a statement in the annual financial statements confirming the company’s compliance to the Code as well as details and reasons for the non-compliance (Monks and Minow, 2004: 531). The focus of this Report was on the composition of the board, the board committees and the independence of directors on the board and the committees respectively (Larcker and Tayan, 2011: 39; Fisher and Lovell, 2006: 303; Marx, 2009: 98).

## *ii. THE GREENBURY REPORT*

The Greenbury Report was issued in 1995 (Larcker and Tayan, 2011: 39) and the purpose was not to replace the Cadbury Report, but rather to serve as a supplementary code casting more light on issues dealing with, for example, the remuneration structures of directors (Monks and Minow, 2004: 534; Larcker and Tayan, 2011: 39; Fisher and Lovell, 2006: 303). As with the Cadbury Report, all listed companies had to comply with this code (Gray and Manson, 2000: 479).

## *iii. THE HAMPEL REPORT*

The Hampel Committee Report was issued in 1998 (Larcker and Tayan, 2011: 39) to add to the Cadbury and Greenbury reports. This Report, once again, addressed issues relating to the directors of a listed company (Van Daelen and Van der Elst, 2010: 69) including the composition of the board, requirements regarding the chairperson of the board, the duties and experience required by board members (Crous et al., 2012: 548). After this Report was issued, the three abovementioned reports, namely the Cadbury, Greenbury and Hampel, became known as the Combined Code (Van Daelen and Van der Elst, 2010: 90) and the principles of all three codes (Gray and Manson, 2000: 479) were applied to listed companies in the UK (Monks and Minow, 2004: 40; Larcker and Tayan, 2011: 39).

## *iv. THE TURNBULL REPORT*

The Turnbull Report was issued in 1999 (Van Daelen and Van der Elst, 2010: 69) and widened the responsibilities of the board of directors to include a transparent risk management process (Monks and Minow, 2004: 298). The Report required the board to have effective safeguards and internal controls in place to prevent and reduce the risks of the company (Van Daelen and Van der Elst, 2010: 70).

## *v. THE HIGGS REPORT*

The Higgs Report was issued in 2003 (Van Daelen and Van der Elst, 2010: 90) in response to the collapse of Enron in the USA. This Report emphasised the use of a collective board responsibility and a unitary board structure. It also required a greater involvement of non-executive directors in the running and governing of the company (Fisher and Lovell, 2006: 305).

### **2.3.5 SOUTH AFRICA**

The first democratic elections in 1994 attracted international interest in South Africa as an emerging economy. The need to redress past issues in an emerging democracy, global competition, the increased focus on shareholder value and the growing interest and involvement of institutional investors placed corporate governance in South Africa right at the centre of the corporate world (Marx, 2009: 175).

Malherbe and Segal (2001: 82-83) as cited by Marx (2009: 176), noted in a research report conducted for the Organisation for Economic Co-Operation and Development (OECD) on the South African component of Corporate Governance in Developing Economies and Emerging Markets, the benefits of sound corporate governance for a developing country such as South Africa as follows: *“Sound corporate governance has benefits for developing countries that are more pervasive, if less dramatic. In the case of South Africa sound governance is required to bolster the flow of foreign and domestic savings, to ensure the most economically effective allocation of limited capital resources to promote stable capital markets and to contribute to a sense of fairness.... Hence the need for corporate governance reform...”*

South Africa is regarded as a pioneer in corporate governance with the issue of the King Reports (Tricker, 2012: 130; Fisher and Lovell, 2006: 300). In 1994, the first King Report was issued by a committee chaired by former High Court judge, Mervyn King and was a milestone in the development of corporate governance in South Africa (Monks and Minow, 2004: 298; Marx, 2009: 175; Tricker, 2012: 130). The driving force behind this Report was the Institute of Directors (IoD) as well as other prominent business leaders (Marx, 2009: 178). The King Report is not a codified set

of rules for corporate governance, but rather a set of principles and practices (Jackson and Stent, 2012: 4/3). Unlike the USA approach, which is a “comply or else” approach (see section 2.3.3), the King code was an “apply or explain” approach (IoDSA, 2009b: 6; Cassim, 2011: 434). The Johannesburg Stock Exchange (JSE) bought into this concept and required all listed entities to comply with this Code.

In 2002, the second King Report, referred to as King II, was issued (Jackson and Stent, 2012: 4/3; Fisher and Lovell, 2006: 306). The executive director of the IoD stated that “*King II has put South Africa on the map and sent a strong message to the world about the manner in which South Africa does business*” (Business Ethics Direct, 2002: 1 as cited by Marx, 2009: 186). Once again, the JSE required all listed companies to comply with this Code of Corporate Governance (IoDSA, 2009b: 6).

The purpose of this Report was to adjust the first King Report to be in line with the international trends on corporate governance (Monks and Minow, 2004: 298). The second report expanded the scope of corporate governance and focussed on the triple bottom line principle (refer to section 4.2.2.4 where further reference is made to this principle). The idea of triple bottom line is for businesses to be “good corporate citizens”, where economic, social and environmental issues are equally important for corporate governance (Marx, 2009: 181; Rabkin, 2008: 2; Cramer, 2002: 102).

King II defined what are considered to be the characteristics of good corporate governance (Marx, 2009: 181). The code identified seven principles (discipline, transparency, independence, accountability, responsibility, fairness and social responsibility) (Tricker, 2012: 132) which are associated with good corporate governance. These principles set the standard for responsible governance by all persons, in a position of trust, whether involved in the public or private sector (Marx, 2009: 177) (an explanation on the different sectors of the economy is presented in section 2.4). The seven principles are discussed in further detail in section 4.2.2.1 in Chapter 4. King II also tried to get a balance between the interest of the shareowner and stakeholders of a company; and the idea that governance adds significant shareholder value, was introduced. To achieve this, the focus point of corporate governance was identified as the board of directors (Crous et al., 2012: 549).



The third King Report was issued in 2009 in response to international trends and the promulgation of the Companies Act 2008 (Jackson and Stent, 2012: 4/4; Lubbe, 2012a: 17; Cassim, 2011: 433). In contrast to the King II Report, which only applied to certain categories of business enterprises, namely listed companies, financial institutions and public sector enterprises, the King III Report applies to all organisations (Cassim, 2011: 434), which has resulted in profit and non-profit organisations being encouraged to try to comply with the code (IoDSA, 2009b: 5). The terminology with regards to implementation of the King III report was changed from “comply or explain” in the King I and King II Report, to “apply and explain”. Although this is a subtle difference, it represents a fundamental shift in understanding the nature of corporate governance (IoDSA, 2013: 4). The term “apply” implies that organisations could follow the principles of corporate governance and adapt the recommendations of the Report to best fit their unique circumstances. Refer to section 2.8.2 for a further explanation of how organisations could adapt the principles of corporate governance.

There have been significant corporate governance and regulatory developments, locally and internationally since King III was issued and these need to be taken into account. The IoD (2015: 1) stated that whilst listed companies are generally applying King III, non-profit organisations, private companies and entities in the public sector have experienced challenges in interpreting and adapting King III to their particular circumstances. This resulted in work on the development of the King IV Report. The enhancement will aim to make King IV more accessible to all types of entities across sectors. It is expected that the King IV Report will probably also be one of the best sources of corporate governance and ethical leadership in the world. The fundamental philosophy and concepts as currently espoused by King III will not change and companies should therefore continue following King III as it stands. Simplification and ease of interpretation and access will be a key tenet of King IV. One of the ways that this will be achieved is by clearly differentiating principles from practice recommendations. It is expected that the King IV code will be released towards the second half of 2016. At the time of completion of the study, the King IV Report had not been issued.

### **2.3.6 CONCLUSION**

The discussion in this section, as well as the corporate and other scandals presented in section 2.2, highlights that corporate governance is a key element in improving economic efficiency as well as enhancing investor confidence. Increasingly, with the international and South African development of corporate governance in the corporate world, the question of compliance with corporate governance principles across different sectors of the economy is raised. The next section provides background to the development of the three different sectors of the economy, being the public, private and non-profit sector.

## **2.4 SECTORS IN THE ECONOMY**

### **2.4.1 INTRODUCTION**

An economy can be conceptualised as having three sectors namely, the public, private and non-profit sectors (Weisbrod, 1988: 1; Department of Social Development, 2009; Swilling and Russell, 2002: 3; Powell, 1987: 27; Corry, 2010: 13). The different sectors in the economy developed naturally and the division of the “economy” into these sectors has been in existence for centuries. The establishment and history of each of these three sectors are briefly discussed in this section.

### **2.4.2 THE PUBLIC SECTOR**

*“Man is by nature a political animal. And he, who by nature and not by mere accident is without a state, is either a bad man or above humanity.”*

Aristotle

The Oxford online dictionary describes the public sector as organisations that are owned and operated by the government, which includes provincial, state and municipal (local) governments. The aim of the public sector is to provide public goods and services. In general terms, the public sector consists of governments and all publicly controlled or publicly funded agencies, enterprises, and other entities that deliver public programs, goods or services. The terms public sector, state and the

government is commonly used interchangeably. Scholars do distinguish between these terms; however, for the purposes of this study, the interchangeable use of these terms will suffice as a distinction between them falls outside the scope of the study.

The public sector developed naturally, but there are a few philosophers who had a significant impact on the views of the public sector (or commonly referred to as the government or the state). The Greek political philosophers of the 4<sup>th</sup> century Before Christ (BC) (Inglis and Robertson, 2004: 165) had a profound influence on the philosophical view of the state (Morrell, 2009: 546; Kaldor, 2003: 6). Plato, along with his mentor, Socrates, and his student, Aristotle (Zarri, 1948: 1), helped to lay the foundations of Western philosophy (Argyle, 2002/2003: 346; Grant, 1970: 107; Morrell, 2009: 546). Plato's philosophical views had many societal implications, especially on the idea of an ideal state or government (Prus, 2011: 1). Most of the famous doctrines are contained in the works *Republic* (Prus, 2011: 1) as well as in the *Laws and the Statesman* (Morrell, 2009: 546; Argyle, 2002/2003: 364). According to Plato, a state made up of different kinds of souls will, overall, decline from an aristocracy (rule by the best) to a timocracy (rule by the honourable), then to an oligarchy (rule by the few), then to a democracy (rule by the people), and finally to tyranny (rule by one person, rule by a tyrant) (Prus, 2011: 13). This represents the different government models of the world.

The political theory presented by Aristotle's first book, *Politics* (Cherry, 2006: 2), is regarded as the great nostalgic figure of the Greek polis and has been salvaged more repeatedly than any other source as the bottom of the political existence (Dietz, 2007: 3). The title of Aristotle's work is conventionally translated to "politics" (he used the Greek word "politika") and is a work of political philosophy (Zarri, 1948: 1). In *Politics*, Aristotle discusses the city (polis) or "political community" (koinōnia politikē) (Kaldor, 2003: 6) as opposed to other types of communities and partnerships such as the household and village (Zarri, 1948: 1). He shows how man is impelled by his very nature to form the societies of family, village and state. Man's natural end is the good life, which is to be found only in the state. Therefore, the state is a natural society (Zarri, 1948: 2).

Aristotle regards the polis (the state) as the highest form of community. Political life is something without which human beings would not be able to live according to their natures hence, the "polis" is natural (Nederman, 1994: 303; Dietz, 2007: 3). Aristotle comes to this conclusion because he believes public life is far more virtuous than the private, as men are "political animals" (Dietz, 2007: 3). He explains that the public sphere is responsible for providing public goods to create conditions within which man can live the good life (Morrell, 2009: 547).

The views and the works of the Greek philosophers are, however, not the first account of individuals or nations that had a profound influence on the formation of the public sector. Since the earliest times, there are references, even from Bible scripture, about the views of people and the formation of the public sector. The people of Israel in the Old Testament of the Hebrew Bible also had a profound influence on the formation of the public sector (Burger, 2011: 12). They refused to obey the voice of Samuel, the high priest, who was leading the people of Israel. The Israelites insisted that Samuel rather appoint a King to rule over them (1 Sam 8:19 - 20) (Howell, 2003: 66). Thereafter, Saul was appointed by the high priest Samuel as the King of Israel, with King David as his successor (Howell, 2003: 66,73). This is only but one of many examples from Bible scripture where the state was introduced by the people of Israel.

These days, there is a greater separation between church and state compared to earlier times. There was a unified relationship between the church and the state in earlier times. As religious institutions are the focus of this study, the relationship between the church and the state provides valuable insight into the role and position of churches in the sectors of the economy. The next section is a short overview of the relationship between the church and the state and the development of, and eventual separation, of the church and the state.

#### **2.4.2.1 STATE AND CHURCH RELATIONS**

Ancient history is replete with examples of the mixing and melding of the church and the state (Boesak, 2009: 5; Grant, 1970: 99) as these spheres were deeply interwoven (Drake, 2011: 214; Van de Beek, 2007: 178; Grant, 1970: 42). In many countries, there was an established church and the adherents enjoyed a privileged

status with public offices which could only be filled by members of the established church (Bijsterveld, 2001: 59). Refer to Chapter 3 for the discussion on the relationship between the church and the state in South Africa, with specific reference to the first years after the establishment of the first church on South African soil.

The intertwining relations between the church and the state is clear in the Old Testament where the church (the high priests) led the people of Israel. A successful ruler or king would typically assume various "priestly" titles, in addition to the "temporal" titles that such a position tended to confer (Witte, 2006: 28). As mentioned in the previous section, Samuel, the high priest, was an example of a priest that also led the people of Israel (as a political leader). The inseparability of the church and the state is further evident during the prosecution of Jesus. Israel was governed by the Roman Empire at that stage. One of Jesus' disciples, Judas Iscariot, negotiated with the chief priests (who represented the church) to deliver Jesus unto them (Matthew 26:14-15) (Grant, 1970: 42). The chief high priests and the elders took counsel against Jesus to put Him to death (Matthew 22: 1) and they delivered him to Pontius Pilate, the Roman governor (the Roman Empire was the government or the "state" of Israel) (Matthew 27:2) (Grant, 1970: xxxviii). Pilate succumbed to the political threats of the priests that if Pilate released Jesus, he (Pilate) would not be regarded in good standing with the Ceaser (Van Niekerk, 2008: 11; Grant, 1970: 43). The government (being the Roman Empire) was prescribed by the church (high priests).

The union of church and state is evident in the era of Constantine (Lagasse, 2013: 1-3; Bruce, 1998: 38; Drake, 2011: 194; Grant, 1970: xiii), who was the first Roman Emperor (280 AC) who accepted the Christian religion (Johnson, 1979: 161; Bruce, 1998: 38). He made Christianity, which until then had suffered widespread and bloody persecution (Drake, 2011: 199; Grant, 1970: xxxvii,93; Toth, 1996: 36), the religion of the State (Van de Beek, 2007: 183; Witte, 2006: 18; Grant, 1970: xiii; Weakland, 1985: 528). He was responsible for the rise of the Christian religion to public prominence and then political dominance (Pell, 2007: 51). Constantine made the following famous statement that supported his views on the unification of church and state, "*You are bishops whose jurisdiction is within the church, but I am also a*

*bishop, ordained by God to oversee the church and those outside the church”* (Bruce, 1998: 41).

One of the most well-known examples of the interwoven relationship between the church and the state is the position and the role of the Roman Catholic Church (RCC). Since the earliest times in the Roman Empire, there existed a unified relationship between the church and the state (Lagasse, 2013: 1-3; Grant, 1970: xxxvii). For many years, the RCC was a monopoly (Van Wyk, 2003: 2) as the reigning church. Power (the state) and religion belonged intrinsically together in the Roman mind (Van de Beek, 2007: 182) as the Popes of the RCC ruled the government (CIA, 2000: 2135). Religion was not a private individual matter; it was rather a public practice (Boesak, 2009: 5). The RCC, which was recognised by some as the world’s most famous church (Hauser, 1949: 16), was an influential player in state relations (Reese, 1985: 216; Feldman, 1997: 77).

The unification between the RCC and the state is further evident in the Holy See. The Holy See represent the ecclesiastical jurisdiction of the RCC in Rome and is therefore the universal government and headquarters of the RCC. The Holy See operates from the Vatican City State (Reese, 1985: 215; Houston, 2010: 7,21). The Pope is the ruler of both the Vatican City State and the Holy See (Coleman, 2013: 9). The Vatican City admits that the Holy See is part of the RCC, but it emphasises that the Holy See is also the sovereign authority of Vatican City, a state with international character and the smallest international recognised independent state in the world (Reese, 1985: 215; Coleman, 2013: 9).

The unity of church and state is not limited to the Christian religion. In the Muslim faith (Islam), their religious text, the Koran, is considered to be the final authority on all matters it touches on (Scruton, 2012: 31). The Koran provides the basis for the political theory of the countries in the world where Islam is the main religion (Kirmanj, 2008: 43).

The purpose of this section was not to engage in a detailed discussion on the relationship between the church and the state in all countries and all societies. The relationship between the RCC and the Roman Empire is only but one of many

examples of the unified relationship between the church and the state. The next section provides an overview of the history of accounts that resulted in the increasing separation between church and state

#### **2.4.2.2 SEPARATION OF STATE AND CHURCH**

*“Believing with you that religion is a matter which lies solely between Man and his God, that he owes account to none other for his faith or his worship, that the legitimate powers of government reach actions only and not opinions. I contemplate with sovereign reverence that act of the whole American people which declared that their legislature should make no law respecting an establishment of religion or prohibiting the free exercise therefore, thus building a wall of separation between Church and State.”*

Thomas Jefferson

*“Rivers, pods, lakes and streams – they all have different names, but they all contain water. Just as religions do – they all contain truths.”*

Muhammad Ali

In the preceding section, a few examples of the unified relationship between the church and the state were provided. Throughout history, there is, however, an increasing separation between church (or religion) and state (or the government). Before the concept of separation of church and state is further discussed, the context as to what this term refers to, would be sketched.

The “separation of church and state” is a general metaphor and refers to a time when, as illustrated and discussed in the previous section, the two institutions were not separated (Drake, 2011: 213; Laland, 2002: 48; Kaldor, 2003: 10; Finke, 1990: 609) and when the coercive power of the state was used to enforce a religion upon nations (Chavura, 2010: 41; Jayne, 1999: 27-29). The metaphor refers to the general view that in a free and democratic society, the state should neither establish a church nor impair religious liberty (Audi, 1989: 260; Lewis, 2003: 88).

The term is not necessarily included in countries' constitutions (Audi, 1989: 260; Coetzee, 2012: 12), but the principle of freedom of religion is entrenched in many countries' constitutions (Bijsterveld, 2001: 59). Although the concept of separation has been adopted in a number of countries, there are varying degrees of separation (Coleman, 2013: 7-10; Lagasse, 2013: 1-3; Van Wyk, 2003: 2) depending on the applicable legal structures and prevalent views toward the proper role of religion in society (Cnaan et al., 2003: 20,26). The degree of separation varies from total separation mandated by a constitution, as in the USA, India and Singapore, to an official religion with a total prohibition on the practice of any other religion, as in the Maldives. In many European countries (for example Germany and Sweden), the state supports and protects the official church. Salaries for clergy and maintenance of religious properties come from general taxes or from a publicly collected church-designated tax (Cnaan et al., 2003: 26).

Chavura (2010: 37) elucidates the *context* and *meaning* of the separation of church and state. He (2010: 37) argues that there are limitations to the terms that are invariably used, namely "separation of state and church" and "separation of religion and politics". The first limitation is that the word "church" generally refers to the Christian faith, as other faith such as Muslims, Jews and Buddhists do not have churches. Secondly, religion is an internal part of every human being and of life (Wuthnow, 1990: 3) and it is not possible to separate religion from all spheres of life (Cormode, 1998: 116). For example, politicians and judges will be informed by their religious views; and prevailing laws, norms and ideologies originate from religious dogma (Jayne, 1999: 27-29; Van der Merwe, 2005: 771; Weakland, 1985: 527) or philosophy, therefore carrying religious tradition (Drake, 2011: 214). The view on the inseparability of religion and law is illustrated by the controversial statement made by Mogoeng, Chief Justice of the Constitutional Court of South Africa. He stated that if there would have been a stronger correlation between religion and the law, fewer problems in terms of corruption, mal-administration and crime would occur (Makhanya, 2014: 11).

It is evident that religion and religious beliefs can never be totally separated from people and function in isolation in a society (Wuthnow and Hodgkinson, 1990: 16; Cormode, 1998: 117). History is replete with examples of religions and churches that



have been a central force in creating and perpetuating rule of behaviour. Religions invariably include, as part of their guidelines, rules on - for example - distribution of property in marriage (Hull and Bold, 1989: 6). Another example is that when Buddhism entered China, its monks challenged the family structure with celibacy and the political regime with their notion that Buddha was higher than the emperor (Stackhouse, 1990: 34,35). Similarly, when Christianity entered India, the church challenged arranged marriages with a vision of "love marriage" (Stackhouse, 1990: 34,35).

The separation of church and state is often regarded by some as a relatively modern invention (Drake, 2011: 213), but it has a much longer history that is rooted in the ancient Western teachings in the Bible (Audi, 1989: 260). In the Hebrew Bible, the chosen people of ancient Israel were repeatedly enjoined to remain separate from the Gentile world around them and to separate the Levites and other temple officials from the rest of the people (Pierce and Abshier, 2009: 28). The Hebrew Bible also made much of building and rebuilding "fortified walls" to protect the city of Jerusalem from the outside world and to separate the temple and its priests from the commons and its people - an ancient tradition still recognised and symbolised in the Jewish rituals and prayers that take place at the Western Wall (Witte, 2006: 16; Pierce and Abshier, 2009: 29).

Jesus had several teachings in His parables on the separation of the church and state (Scruton, 2012: 32) and "Render unto Caesar" is the beginning of a phrase attributed to Jesus, which reads in full, "Render unto Caesar the things that are Caesar's, and unto God the things that are God's" (Matthew 22:21). This phrase has become a widely quoted summary of the relationship between the church (specifically for Christianity) and the state (secular authority). Furthermore, Jesus responded to Pontius Pilate about the nature of his kingdom: "My kingdom is not of this world. If my kingdom were of this world, my servants would have been fighting, that I might not be delivered over to the Jews. But now (or 'as it is') my kingdom is not from the world" (John 18:36). Jesus therefore confirmed that his religious teachings were separate from earthly political activity. This reflects a traditional division in Christian thought by which state and church have separate spheres of influence.

These various Biblical dualisms were repeated in some of the early church constitutions (Beeke, 2011: 194). The most famous was the image of two cities within one world (McPherson, 2000: 172), developed by St. Augustine, Bishop of Hippo (354-430) (Witte, 2006: 17). This work, the "City of God", was written shortly after the fall of the Roman Empire (as mentioned above) (Beeke, 2011: 195). It was an important contributor to the relationship between the state and the church (Beeke, 2011: 195) as it examined the ideal relationship between the "earthly city" and the "city of God". Augustine explained that the two cities remain separate in function. Even though Christianity became the one established religion of the Roman Empire patronised and protected by the Roman state (as discussed in the previous section), Augustine and other church fathers insisted that state power remain separate from church power (Witte, 2006: 18).

Epicurus (341 BC), a Greek philosopher (Lagasse, 2013: 1-3) and Lucretius (55 BC), a Roman philosopher (Bruno, 2009: 1) also had a profound influence on the views of the separation of church and state (Grant, 1970: 108). The two philosophers did not explicitly discuss or even use the phrases separation of church and state (Chavura, 2010: 40; Colman, 1999: 230), but their works illustrate the battle and the opposing roles of the church and the state (or politics) (Colman, 1999: 230).

During the 1500's, the Lutheran tradition returned to a variation on Augustine's two-cities theory (Beeke, 2011: 196). The fullest formulation came in Martin Luther's two-kingdom theory. According to James Madison, perhaps one of the most important modern proponents (Amundson, 2008: 2) of the separation of church and state (Boston, 2001: 10; Amundson, 2008: 2), Luther's doctrine of the two kingdoms marked the beginning of the modern conception of separation of church and state with the following profound statement (Witte, 2006: 16): "There are two kingdoms, one the kingdom of God, the other the kingdom of the world. I have written this so often that I am surprised that there is anyone who does not know it or remember it" (Slenczka, 2012: 1).

During the medieval and early modern periods, two philosophers, namely John Locke and Thomas Jefferson (Chaudhuri, 1975: 397), formulated their ideas of church and state against the background of an increasingly liberal tradition (Chavura,

2010: 39; Lagasse, 2013: 1). The concept of separating church and state is often credited to the writings of English philosopher John Locke (Chavura, 2010: 40) in his famous *A Letter on Toleration* in 1689 (Witte, 2006: 24; Kessler, 1983: 232). The inspiration for his work was drawn from Lucretius' philosophic poem *On the Nature of Things* (Colman, 1999: 228; Grant, 1970: 108). Locke did not use the phrase separation of church and state, but expressed his views on the relationship between churches, religious movements, state and priests (Jayne, 1999: 27-29 ; Kessler, 1983: 232; Witte, 2006: 24; Dunn, 1969: 15; Chavura, 2010: 40). Locke stated that it is "necessary to distinguish exactly the business of civil government from that of religion, and to settle the just bounds that lie between the one and the other." The church, Locke wrote, must be "absolutely separate and distinct from the state" (Witte, 2006: 10).

Various causes were pointed out by scholars for the separation of the church and the state (Van der Watt, 1976: 84) and it cannot be confined to one single factor only (Finke, 1990: 611). One reason presented by some scholars is that tension developed between the church and the state as both these institutions appealed to the Divine Godly authority given to them (Van der Watt, 2002: 28; Du Toit, 1970: 148). An example would be the relationship between the state and the RCC. Despite the unified relationship between the state and the RCC as presented in the previous section, they were contesting for control of the same sphere of authority (Drake, 2011: 216) and there was increasingly a rivalry on who carried the greatest authority (Matthew, 1992: 389; Coleman, 2013: 7). The fall of the Roman empire in the fifth century, for example, resulted in a separation between the state and the RCC (Coleman, 2013: 7; Pell, 2007: 54). The monopoly of the RCC as the church of the state was further broken by the Reformation in the 16<sup>th</sup> century (Van Wyk, 2003: 2).

To conclude, the separation of church and state institutionalised what religious communities fought for, namely, the right to form intentional religious associations outside an established religion and that these associations would be tolerated and acknowledged (Stackhouse, 1990: 26). The society was made safe for religious pluralism and equality among all – the denomination, the sect, the synagogue, the temple, the mosque as well as the monastery and the cathedral (Bijsterveld, 2001: 60; Stackhouse, 1990: 29). The separation resulted in the situation that the once

privileged religious establishments lost the legislative and financial support of the state (Finke, 1990: 609).

The purpose of this section was not to engage in a detailed discussion on the degree of separation of church and state of different religions or whether it is possible, but to emphasize that the separation of church and state is imperative to the background of this study. The discussion on the appropriateness of the phrases used for separation of church and state is an area for future research. The next section provides a brief overview of the relationship between the church and the state from a South African perspective.

#### **2.4.2.3 STATE AND CHURCH RELATIONS: A SOUTH AFRICAN PERSPECTIVE**

*“The separation of church and state is a source of strength, but the conscience of our nation does not call for separation between men of state and faith in the Supreme Being.”*

Lyndon B. Johnson

In South Africa, the view that the church and state functioned in unity has for long gained preference (Van der Borght, 2011: 316; Cilliers, 2006: 6). The combined role and interrelationship between the previous ruling party, the National Party (NP), the Dutch Reformed Church (DRC) and the Afrikaner Broederbond (AB) cannot be underestimated and excluded from an understanding of the relationship between church and state in South Africa. The role of each of these organisations (or movements) are subsequently briefly discussed in this section.

The DRC (referred to as the “volkskerk”) (Saayman, 2009: 451; Nieder-Heitmann, 2003: 180) had a special tie and commitment with the “Afrikaners” on South African soil (Van der Watt, 1987: 357) and the DRC had significant influence on the government (Van Wyk, 2003: 2; Van der Merwe, 2005: 771). The history and the establishment of the DRC in South Africa is discussed in further detail in section 3.2.2 in Chapter 3.

The ties between the church and the previous governing party, the NP (Nieder-Heitmann, 2003: 187), were strong and the DRC was described by some as the

“National Party at prayer” (Leonard, 2012: 20). Throughout the evolution of South African society, church-state relations have moved through different generations. Since the establishment of the DRC in the period from 1652 to 1800, with the arrival of the settlers, the relationship was characterised by an “uncritical acceptance” of the state by the church (De Gruchy et al., 2008: 172; Van der Watt, 1987: 357) and there was no separation between church and state (De Gruchy et al., 2008: 171; Theron, 2007: 234; Nieder-Heitmann, 2003: 180).

The Afrikaner Broederbond (AB) was at the centre of the unified relationship between the church and state. The AB was founded in 1918 (Coetzer, 2002: 145; Giliomee, 2012) and was an influential (Theron, 2007: 234), exclusively male and Afrikaner Calvinist organisation (Boddy-Evans, not dated; Van der Watt, 1987: 372) which was dedicated to the advancement of Afrikaner interests (De Gruchy, 2005: 33; Van der Watt, 1987: 373). The AB played a leading role in the DRC (Coetzer, 2002: 145; Moodie, 2012: 219). The effect of the operations of the AB was that the church had a significant effect in the political arena (Moodie, 2012: 168,219; De Gruchy, 2005: 33; Lamprecht, 2014: 11).

Every Prime Minister and State President from 1948 to the end of Apartheid in 1994, was a member of the AB (Boddy-Evans, not dated). In addition, the AB had the support of the majority of the Afrikaans churches (Coetzer, 2002: 145) with several moderators of the DRC and leaders in the church that served on the AB (Theron, 2007: 234; Cilliers, 2006: 6; Nieder-Heitmann, 2003: 187; Du Toit, 1984: 629). The DRC, as represented by its ministers and theologians on the AB (Cilliers, 2006: 6; Van der Watt, 1987: 372), backed the political systems and were partners in the support of the government’s views (Van der Borght, 2011: 318; Van der Merwe, 2005: 789; Nieder-Heitmann, 2003: 187). De Klerk (1976: 199) described the political system in South Africa, as it was then, as an ideology and that the ruling party, the National Party “*was itself becoming, if not a church, then a party imbued with religion – a secular religion – at its very roots*” (De Gruchy, 2005: 33).

The end of apartheid in 1994 also earmarked the end of the unified relationship between the government, the church and the state. In South Africa, in 2015, the state and church is separated and religious freedom is at the forefront of the political and religious arena.

The next section will focus on the second sector of the economy, being the private sector. The discussion in the preceding section provided background on the public sector, including a brief discussion on the relationship between the church and the state. The next section is only a brief overview of the private sector, which also developed naturally.

### **2.4.3 THE PRIVATE SECTOR**

The private sector developed naturally and have existed throughout much of the recorded history of human mankind (Andrei, 2012: 1161). The history of trade is a progression from a pure barter system and since earliest times, people traded goods - which involved the transfer of ownership of goods from one person or entity to another by getting something in exchange from the buyer (Yang et al., 2008: 5498). Andrei (2010: 58) states that the barter exchange economic system established the beginning of the private sector. Other scholars confirm that the original form of trade was barter, which is the oldest form of countertrade (Ravas, 2011: 224; Kwak, 2000: 58-60 60) and represents the moneyless exchange of one man's goods and services for another (Kwak, 2000: 58-60; Lehrman, 2013: 35; Yang et al., 2008: 5498).

As with the public sector discussed above, there are also a few philosophers who had a significant impact on the development of the private sector. Firstly, Hammurabi (1792-1750 B.C) (Editor, 2010: 6) is much celebrated for proclaiming the set of laws, namely the Code of Hammurabi (Nagarajan, 2011: 108; Lagasse, 2013: 1-3; Slanski, 2012: 97) that regulated business relationships and included the first financial contract based on the future performance of an asset. The code contains many ingredients of the modern private sector and directed important economic principles in the private sector (Nagarajan, 2011: 116).

Aristotle also had noteworthy views on the private sector, in addition to his views on the public sector mentioned above. Aristotle's work foreshadowed developments in modern economics and the private sector (Pack, 2008: 266). Adam Smith (1723-1790) (Tricker, 2012: 5) and Karl Marx was deeply influenced by Aristotle's work and both started their main economic works based on the work of Aristotle (Pack, 2008: 266). Smith ultimately rejected, and Marx ultimately developed Aristotle's views on

the use of money to acquire more money (Pack, 2008: 265). Adam Smith and Karl Marx are regarded by scholars as the forefathers of economics. They developed two competing views on the private sector (Teichgraeber, 1986: 5-7), namely that the private sector should function as a free enterprise as opposed to the view that the private sector must be infiltrated by communism (Hengstmengel, 2012: 424; Niemi, 2011: 40; Manton et al., 2013: 451,454; Smith, 2013: 784; Teichgraeber, 1986: 5-7).

Smith was regarded as an economist, but also a modern philosopher (Làzaro, 2010: 145; Teichgraeber, 1986: 5) that promoted free enterprise (Manton et al., 2013: 451; Smith, 2013: 784; Wolff, 1986: 481). His well-known “invisible hand-metaphor” include his theory of markets, perfect competition, supply and demand, and how equilibrium in the market is achieved (Kennedy, 2011: 54; Nakamura, 2000: 17). In Smith’s model, the business person who promotes the general welfare by means of self-interest actions owns the business he manages and does not act as an agent for others (Carson, 2003: 392; Teichgraeber, 1986: 9).

The invisible hand theory presupposes that participants in the market set prices and values by open and free negotiations, in which no player would be allowed to use political muscle or other coercion to compel a price other than determined by the free work of the market (Levin, 2010: 125; Nakamura, 2000: 18). Guided by the invisible hand of the marketplace, firms are led by self-interest to behave in a way that maximises each consumer's well-being, with the presumption that there is vigorous competition among firms (Nakamura, 2000: 18; Cosans, 2009: 392). Smith therefore supported limited government and state action to control the private sector (Smith, 2013: 790,793; Teichgraeber, 1986: 1,2). In contrast, Karl Marx supported communism in the economy (Manton et al., 2013: 451). Marx dreamed of the destruction of the free enterprise with a collective society, with group ownership and sharing of everything from land to businesses (Vorhies, 1991: 19,21; Woods, 2013).

In the private sector, organisations, which are privately owned and not part of the government, sell products or services to consumers in markets to create wealth for shareholders (Davids, 2015: 2 289; Oxford Dictionaries, n.d.). This is in contrast to the public sector (explained above), which is in many instances (but not always) funded by taxes, with the aim to provide services to the people of a particular country

or government (Nutt, 2005: 289). It, therefore, follows that there is a clear distinction between the private and the public sector.

#### **2.4.4 CONCLUSION**

It follows from the discussion above that the public sector and the private sector had been in existence since the earliest times and were natural formations in the development of society. In order to understand the history of the public sector, a reflection on the interrelationship between the church and the state formed a crucial part of the discussion.

The discussion on the public and the private sector provided only a brief overview of the development of these sectors. The discussion on the non-profit sector presented in the next section is notably in more detail if compared to the other two sectors. The reason for a more in-depth discussion on the non-profit sector is that religious organisations, and for the purposes of this study, specifically churches (the focus point of this study), are regarded as forming part of the non-profit sector.

The discussion in the next section includes background on the recognition of the non-profit sector in its own right as a separate sector of the economy, which are commonly referred to by some scholars as the “third sector” in the economy. The growth of the non-profit sector over the past number of years has gained significant attention from scholars and the discussion focuses on the social origin and some of the factors that contributed to the significant growth in this sector.

### **2.5 THE NON-PROFIT SECTOR**

#### **2.5.1 INTRODUCTION**

*“Non-profit, non-business, non-governmental are all negatives. One cannot, however, define anything by what it is not. What, then, is it that all these institutions do? They all have in common – and this is a recent realization – that their purpose is to change human lives.”*

Peter Drucker



The term non-profit sector describes an array of organisations and services (Fioramonti and Fiori, 2010: 25; Farrar, 2008: 441; Dangor, 1997: 9) that include soup kitchens, low-income housing construction (Lewis, 2003: 88), health care, education, promotion of human rights, religion, arts, self-help groups (i.e. Alcoholics Anonymous) special interest associations, schools (Anheier, 2005: 5-7), museums, day-care centres, trade associations, country clubs and nursing homes (Weisbrod, 1988: 1-7; Hodgkinson, 1990: 285).

There are many non-profit organisations (NPO) (Larkin and DiTommaso, 2005: 4; Weisbrod, 1988: 9; Anheier, 2005: 38) that offer a great diversity of fields of activity and social welfare services (Jeavons, 1994: 107; Swilling and Russell, 2002: 6-7; Dangor, 1997: 9). The term NPO has become a collective noun describing the array of organisations that are separate from the state, enjoy autonomy in relation to the state and are formed voluntarily by members of society to protect or advance their interests (Fioramonti and Fiori, 2010: 25). The term is often used unofficially for organisations that have a purpose other than profit making and that are forbidden to distribute their profit to their members (Van der Ploeg, 2010: 230).

Before a NPO is defined, it should be noted that Non-governmental organisations (NGOs), Community-Based Organisations (CBOs), Civil Society Organisations (CSO) and Faith-Based organisations (FBO) are collectively known as NPO's (Singh, 2010: 12; Swilling and Russell, 2002: 6; Kaldor, 2003: 14). This study does not aim to propose a single definition for a NPO, due to the divergent range of services provided by these organisations (Rossouw, 2006: 22; Kaldor, 2003: 11). In addition, there exist different categories of definitions for NPO's being legal, tax, economic and structural definitions (Anheier, 2005: 39). The following are some of the proposed definitions for a NPO:

- Organisations established by people on a voluntary basis to pursue social or community goals (Salamon and Anheier, 1997: 9);
- Private, self-governing, voluntary, non-profit distributing organisations operating, not for commercial purpose but in the public interest, for the promotion of social welfare and development, religion, charity, education and research (Swilling and Russell, 2002: 6);

- Organisations established not for profit, whether they are incorporated as companies under the Companies Act 71 of 2008, statutory bodies, trusts or voluntary associations; and irrespective of whether they are registered as NPO under the NPO Act no 71 of 1997 or Public Benefit Organisations under the Income Tax Act no 58 of 1962 (IoDSA, 2013: 2);
- A company incorporated for a public benefit and the income and property of which are not distributable to the incorporators, members, directors, officers or persons related to any of them (Companies act no 71 of 2008); and
- Trust, company or other association of persons established for a public purpose and of which its income and property are not distributable to its members or office bearers except as reasonable compensation for services rendered (The NPO act 71 of 1997).

Based on the definitions, it can be concluded that the purpose of NPO's is to render a service for public benefit (Smidt, 2003: 3) with adherence to the distribution constraint (Weisbrod, 1988: 11). An NPO may be formed for an infinite variety of purposes as long as these are lawful and not involve trading or carrying on business with the purpose to realise a profit (Sievers, 2001: 124) (refer to section 2.8.2 for a discussion on the differences between for-profit organisations and NPO's).

As mentioned in Chapter 1, the provision of social services by religious organisations has become a reliable form of social welfare in communities (Lewis, 2003: 89; Bane et al., 2005: 13; Gaum, 2014: 7) and cannot be excluded from a broad definition of the non-profit sector (Swilling and Russell, 2002: 11; Bush, 1992: 391; Kaldor, 2003: 18). Hence, the next section provides background on the development of the non-profit sector, recognising the integrated role that religion has had on the social origin of this sector. In section 2.5.4, religious organisations, as part of the non-profit sector, will be explained in further detail.

## 2.5.2 THE SOCIAL ORIGIN OF THE NON-PROFIT SECTOR

*“Religion is the mother of philanthropy.”*

Emerson Andrews

Scholars are likeminded that the growth of the non-profit sector during the past few years in number, scope and importance, has gained prominence (Bies, 2010: 1057; Gugerty, 2010: 1087; Burger and Veldheer, 2001: 221; Anheier, 2005: 4; Anheier and Seibel, 1990: 8; Brody, 2012: 545; De Andrés-Alonso et al., 2009: 785; Kramer, 1990: 256). This sector is regarded as the most rapidly growing and changing organisational domain in the world (Moulton and Eckerd, 2012: 656). This growth resulted in scholars seeking to ferret out the roots of this sector and to shed light on the growth of this sector (Burger and Veldheer, 2001: 221; Stackhouse, 1990: 22). There are a few theories underlying the emergence of the non-profit sector (Sama, 2010: 36), some of which are discussed in this section.

Lee (2007: 113) is of the opinion that the non-profit sector is a natural phenomenon of human society. Salamon and Anheier (1997: 5), on the other hand, have established a close connection between the religious realm and the non-profit world and state that the non-profit sector is indebted to religion for its origin. Douglas (1987: 43) affirms that from the earliest times, the provision of social services would have come primarily within the jurisdiction of the Christian church (Kaldor, 2003: 6) rather than the government (Hodgkinson, 1990: 285). It follows that there are consensus amongst many scholars that the origin of this sector can be traced back to religious traditions (see Anheier, 2005: 31; Van Til, 2005: 44; Jordan, 2008: 7) and that the provision of social services was predominantly a matter of churches and religious groups (Burger and Veldheer, 2001: 222; Douglas, 1987: 43; Lindsay and Wuthnow, 2010: 88; Cnaan et al., 2003: 20; Wood, 1990: 255). History is replete with examples of the philanthropic activities sponsored by religious organisations that included missionaries, Bible societies, hospitals and various kinds of relief work, such as shelters for the poor, the elderly and orphanages.

The admonition found in both the Hebrew and Christian scriptures to love one's neighbour as oneself is widely known (Wuthnow, 1990: 7; Veldheer and Burger, 1999: 19). The responsibility to honour the widows, not to rebuke the elder, but to

look after them (1 Timothy 5:3) and to look after the fatherless (James 1:27), is a universal rule in society. Therefore, the Christians in the Old Testament were taught the principle of tithing and to sow their earnings (one tenth) to the needful and poor. The following verses from Bible scripture clearly illustrate the Christian's responsibilities in providing services to the poor and the helpless and with regards to giving money (in terms of tithing) for this cause:

- i. Deuteronomy 15: 7-11 (English Standard Version): *“If among you, one of your brothers should become poor, in any of your towns within your land that the Lord your God is giving you, you shall not harden your heart or shut your hand against your poor brother, but you shall open your hand to him and lend him sufficient for his need, whatever it may be. Take care lest there be an unworthy thought in your heart and you say, ‘The seventh year, the year of release is near,’ and your eye look grudgingly on your poor brother, and you give him nothing, and he cry to the Lord against you, and you be guilty of sin. You shall give to him freely, and your heart shall not be grudging when you give to him, because for this the Lord your God will bless you in all your work and in all that you undertake. For there will never cease to be poor in the land. Therefore I command you, You shall open wide your hand to your brother, to the needy and to the poor, in your land”;*
- ii. Leviticus 27:30 (New International Version) states that *“A tithe of everything from the land, whether grain from the soil or fruit from the trees, belongs to the Lord; it is holy to the Lord”;*
- iii. 2 Chronicles 31:5 (New International Version) states *“As soon as the order went out, the Israelites generously gave the first fruits of their grain, new wine, olive oil and honey and all that the fields produced. They brought a great amount, a tithe of everything”;*
- iv. Deuteronomy 26:12 (Amplified version) states that *“the tithes should be given to the poor when you have finished paying all the tithe of your produce the third year, which is the year of tithing, and have given it to the Levite, the stranger and the sojourner, the fatherless, and to the widow, that they may eat within your towns and be filled”;*

- v. 1 Timothy 6:18 (New Living Translation) instructs the following: *“Tell them to use their money to do good. They should be rich in good works and generous to those in need, always being ready to share with others”*;
- vi. Ecclesiastes 4: 9-12 (New English Translation) state that *“Two people are better than one, because they can reap more benefit from their labor. For if they fall, one will help his companion up, but pity the person who falls down and has no one to help him up. Furthermore, if two lie down together, they can keep each other warm, but how can one person keep warm by himself?”*; and
- vii. In Acts 6:1-3 (King James Version) one of the disciples is asking them to *“look out amongst you” for someone to appoint to provide daily food service for the widows.*”

Based on these scriptures, the Bible clearly indicates that forming and sustaining partnership to provide social services is a spiritual duty (De Gruchy et al., 2008: 123). It is evident that the involvement of churches in social services is part of living a good Christian life (Ammerman, 2005: 165) and in many churches the consistent message is to be involved in serving the community and it is a manifestation of religious commitment and Christian virtues (Cnaan et al., 2003: 22; Ammerman, 2005: 152,154). Anheier (2005: 106) states that churches are increasingly called to take on a larger role in attending to social needs well beyond the spiritual needs of their own members (this is also evident in the discussion section 1.1 in Chapter 1). This Christian perspective on imperatives like love, trust, respect, fairness and justice provides the framework and moral obligation to pursue social development initiatives together with the government (De Gruchy et al., 2008: 123).

The Biblical stories and parables, as illustrated above, are filled with accounts of extraordinary philanthropic behaviour (Bentley, 2002: 23), but charity, in the form of foundations for the benefit of the needy, is not limited to Christianity (refer to section 1.1 in Chapter 1 for a discussion on the Golden Rule that is applicable to all religions). Many of the major religions speak with one voice about compassion (Wuthnow and Hodgkinson, 1990: preface,xiii,7,91; Bentley, 2002: 23) and emphasize the responsibility and need to be involved in the welfare of others and provision of social services (Thiemann, 2005: 180; Wuthnow and Hodgkinson, 1990;

Cnaan et al., 2003: 29; Stackhouse, 1990: 35). The Islamic tradition promotes the idea of civil society characterised by self-governing communities, with a minimalist influence of the state (Kaldor, 2003: 10; Hammack, 2001: 159). In the Jewish tradition, “tzedakah” (spontaneous act of goodwill, charity) is an integral part of the religious identity (Bentley, 2002: 23; Rimor and Tobin, 1990: 134) and the Koran exhorts faithful Muslims to give regularly for the common good (Lindsay and Wuthnow, 2010: 88). Mercy, kindness and the counselling of believers to love their neighbours as themselves are therefore taught universally (Wuthnow and Hodgkinson, 1990: preface,xiii).

In the Middle Ages, the Church became the chief dispenser of charity, and its role in the field of philanthropy has continued to be a dominant one. The impact of religion was recognised in England when the Elizabethan Poor Law was established in 1601 (Hall,1990: 45) and stated that church parishes must care for those that cannot care for themselves (Elliot, n.d.). A strong emphasis of placing the responsibility of caring for the poor within the church system was also adapted in the USA. The oldest institutions in the USA were built by religious groups. Communities’ livelihood relied on the church to establish law, create schools, open orphanages and care for those that needed assistance (Elson et al., 2007: 122; Wuthnow and Hodgkinson, 1990: 15). The significance and importance of the social services provided by religious organisations was once again recognised in the USA by President George W Bush’s (Jnr) Faith-Based Initiative that was launched in 1996 (Anheier, 2005: 294; Van Til, 2005: 44) and that provided that religious groups (Anheier, 2005: 101) have access to government funding for the provision of social services (Chaves and Tsitsos, 2001: 660; Lewis, 2003: 88). This initiative recognised the important role that religious organisations play in enhancing the delivering of social services (Anheier, 2005: 101).

Contrasting the view that the origin of non-profit sector is rooted in religion, some scholars state that the inability of government to provide social services triggered the growth in the non-profit sector (Gibelman and Gelman, 2000: 7; Anheier, 2005: 10). The perceived failure in providing social services (Sama, 2010: 33; Van Niekerk, 2011: 10) prompted the search for alternatives to government service provision (Rossouw, 2006: 23; Moulton and Eckerd, 2012: 661). This world-wide quest is

largely borne out of a disillusionment with government's handling of the welfare state (Eisenberg, 2000: 325; Weisbrod, 1988: 5; Powell, 1987: 3; Hammack, 2001: 158; Kaldor, 2003: 9).

Gugerty (2008: 106) argues that the dramatic increase in the number of NPO's was sparked by governments that are becoming increasingly reliant on these organisations for social service delivery, with a fundamental shift of responsibility from government to the non-profit sector for the mounting social and economic ills of society (Bush, 1992: 392; Salamon, 1996: 4; De Andrés-Alonso et al., 2009: 785; Dangor, 1997: 31). NPO's are expected to compensate for government's failures in social service delivery and therefore the services provided by non-profit organisations are viewed as complementary (and not a substitution) to the services provided by the government (and also private organisations) (Gugerty, 2010: 1088; Kaldor, 2003: 10; Gronbjerg and Paarlberg, 2001: 687; Bush, 1992: 392; Badelt, 1990: 56; Moulton and Eckerd, 2012: 661).

Weisbrod (as cited by Badelt, 1990: 56) offered a general economic theory of the role of the non-profit sector by suggesting that NPO's serve as private producers of public goods (in economists' sense of that term). He (1988: 4) argues that the provision of civil society goods (or non-profit goods or social services) by NPO's antedates governmental service agencies. He (1988: 70) further argued that governmental entities will tend to provide public goods only at the level that satisfies the median voter; consequently, there will be some residual unsatisfied demand for public goods among those individuals (Amendola et al., 2011: 851; Cnaan et al., 2003: 19), whose taste for such goods is greater than the median. These theories of market and government failure suggest that NPO's arise to meet demands for particular types of goods and services that cannot be adequately met by the market or government sectors (Bush, 1992: 392; Badelt, 1990: 56) and that social preferences prevail in the selection of provider of social services (Amendola et al., 2011: 852).

Anheier (2005: 13) states that before the proliferation of NPO's, the provision of social services was dominated with a "two-sector world view", namely the state versus private sector (Burger and Veldheer, 2001: 231). This approach of social

service delivery was challenged by the limitations of state action dealing with social problems at the end of World War II (Burger and Veldheer, 2001: 235; Wuthnow and Hodgkinson, 1990: 15) and the Cold War (Sama, 2010: 33; Anheier, 2005: 13; Kaldor, 2003: 15; Salamon, 1996: 4; Fremont-Smith, 2008: 3). Weisbrod (1988: 4) adds that NPO's bring about needed changes in governmental and private institutions that they provide "outlets for altruism" (Amendola et al., 2011: 850). Many scholars concur with these views that NPO's provide "trustworthy" alternatives (Lewis, 2003: 89; Kaldor, 2003: 5; Fioramonti and Fiori, 2010: 35) to the private and governmental provision of social services (Weisbrod, 1988: 14-15; Badelt, 1990: 56; Smidt, 2003: 3; Burger and Veldheer, 2001: 227).

Weisbrod (1988: 142) conducted a study that compared services of the for-profit and non-profit sectors in an industry where these organisations co-exist, and the results reflected that the services provided by the non-profit sector (for example day care, education and health care) was preferable to customers (Biebricher, 2011: 1007). Scholars argue that the credibility and trustworthiness of an NPO to provide social services is easier to accept, as the mission is not set on personal gain or to realise a profit (Rossouw, 2006: 23; Kingma, 1999: 144; Szper and Prakash, 2011: 118) (the differences between for profit and NPO's are discussed in 2.8.2).

The discussion above confirms that there are many different views on the social origin of the non-profit sector presented by scholars. One of the indicators of the origin, being religion, is further discussed in section 2.5.4 where religious organisations, as part of the non-profit sector, is further discussed. What is evident from the discussion is that it is a fast-growing sector taking up its rightful place as a "third sector". The next section focuses on the non-profit sector that is recognised as a "third sector".

### **2.5.3 RECOGNITION AS THE THIRD SECTOR**

There are increased literature that has emerged in the past few decades on the recognition of the non-profit sector as a third, distinct sector (Salamon, 1996: 1; Salamon, 1990: 219), but the non-profit sector has long been an integral part of the economies of many countries (Anheier, 2005: 11). The results of research performed



by Salamon and Anheier (1996: 5) on behalf of the Johns Hopkins Comparative non-profit sector study provided evidence that this sector is a major economic force and is therefore recognised as a “third sector” (Amendola et al., 2011: 850).

A landmark decision that cleared the way for the emergence of an independent non-profit sector (Powell, 1987: 7; Hammack, 2001: 160; Lee, 2007: 115) was handed down in the Dartmouth College case in 1819 where the US Supreme Court ruled in *Dartmouth v. Woodward* that the college, even though originally chartered by government, was legally akin to a private corporation (Lee, 2007: 113). In the Dartmouth case, the court permitted the existence of an entity organised for public purpose, yet defines it as a private corporation that cannot be controlled by government (Lee, 2007: 125), which paved the way for the establishment of organisations in the non-profit sphere.

Anheier (2005: 11) states that next to the institutional complexes of the state (or “public sector”) on the one hand and the private sector (or the “market”) on the other hand, is the third set of institutions that are private, voluntary and for the public benefit. They thus combine a key feature of the public sector, i.e. serving public benefit with an essential characteristic of the for-profit sector, i.e. its combined private and voluntary nature. The recognition as a separate third sector therefore represent a broader effort to establish an undisputed sphere of private action, unrestrained by the social and political demands being pressed through states and governments (Salamon, 1996: 1).

Some scholars present a different view on the existence of the “third sector” (Hammack, 2001: 157; Kaldor, 2003: 9; Badelt, 1990: 53). These scholars take “the hybrid view” that regard third sector organisations essentially as mixtures of social, private and public organisations. These scholars propose that there is not a clearly distinguishable non-profit sector, but these organisations in this sector represent various hybrid combinations of non-profit with private organisations on the one hand (for example hospitals and universities) (Eisenberg, 2000: 327) and with governmental organisations on the other hand (Weisbrod, 1988: 1,24; Lee, 2007: 125; Dangor, 1997: 21; Burger and Veldheer, 2001: 222; Anheier and Seibel, 1990: 9; Corry, 2010: 17; Kaldor, 2003: 9; Salamon and Anheier, 1996: 216).

These different views on whether the third sector is a separate independent sector is not a particularly convincing case as some scholars are of the opinion that it becomes increasingly difficult to classify organisations by applying institutional characteristics such as non-profit versus for profit or public. There is a continuous shift in what societies define as private, public, for profit and non-profit (Ammerman, 2005: 149; Seibel and Anheier, 1990: 9).

Taking into consideration what has been discussed so far on the emergence of the non-profit sector, including the increased separation of church and state as discussed in section 2.4.2, religious liberty and more diverse relations between religion and philanthropy, the non-profit sector has become a more clearly defined sector in its own right (Wuthnow, 1990: 3). Stackhouse (1990: 29) argues that these factors created a “social space” into which the separate, independent third sector started to function and to flourish (Veldheer and Burger, 1999: 19). The next section discusses religious organisations which form a definite part of the non-profit sector.

#### **2.5.4 RELIGIOUS ORGANISATIONS AS PART OF THE NON-PROFIT SECTOR**

*The question is: what is a religious institution? Is it just a church or also a monastery or a hospital? Is it just a synagogue or also a private mikve (ritual pool) or yeshiva (Talmudic academy)? Is it a church library, a church-run women’s club? What about other Christian denominations, the Muslims, the Druze and Bahai? There is no end to it. In the ‘Holy Land’, everything is someone’s religious institution”.*

Israeli internal relations professor (Cohen, 2010: 227)

The definition of a religious organisation, as well as the array of non-profit activities performed by religious organisations, are as varied as the broader non-profit sector of which these activities are a part (Wuthnow and Hodgkinson, 1990: 13). These social services include health, education, international assistance and many other. Refer to section 1.1 in Chapter 1 for a scope of the social services performed by churches. It can however be stated, without doubt, that religious organisations, and for the purposes of this study, churches, including the religious-based social services provided by them, form an important part of the non-profit sector (Chaves and Tsitsos, 2001: 660). Some scholars state that the religious sector constitutes one of

the strongest and most dynamic segments of the non-profit sector (Wuthnow and Hodgkinson, 1990: 7; Van Til, 2005: 44; Bijsterveld, 2001: 71)

Churches are regarded as one of the world's most general organisations but are also very diverse (Cnaan and Curtis, 2012: 7; DiMaggio, 1998: 7,9). To define what constitute a church or a religious organisation and to attach a precise definition can be elusive. Indeed there are different definitions and the scope of the concept might vary. The term "church" is used to broadly refer to different types of religious organisations that includes synagogues, temples, mosques and other organisations with church type characteristics (Elson et al., 2007: 123). It should be noted that in the context of this study, the term religious organisation will be condensed to refer to churches, more specifically, Christian churches.

Louche, Arena and Van Cranenburgh (2012: 303) confirm that what constitutes a religious organisation is not in itself self-evident. Even within a particular religion, the legal and organisational structure may vary. The legal aspects and organisational structures of religious organisations are discussed in section 2.7. These variations are of utmost importance as they may produce different processes and thereby directly influence the implementation of corporate governance principles.

Zaleski and Zech (1995: 440) solicited that religious congregations exhibit a rare combination in the non-profit sector where there are mutual benefit activities supported by voluntary contributions. These mutual benefit activities refer to supernatural rewards. Stark and Bainbridge (as cited by Miller, 2002: 436) confirm this by defining religious organisations as social enterprises whose primary purpose is to create, maintain and exchange supernaturally based general compensators (compensators referring to religious experiences for example).

What makes churches different from other organisations in the non-profit sector is that they do not compete for government funds, but the majority of the funds they receive is from voluntary individual giving (Powell, 1987: 321; Anheier, 2005: 108; Elson et al., 2007: 123). The concept of voluntary giving to churches is discussed in further detail in section 2.8.4.

## 2.5.5 CONCLUSION

The non-profit sector has exploded in importance, size and scope in the past number of years. The influence and recognition of the non-profit sector is evident. The role of NPO's, the state and the church are interwoven as all of these organisations (or sectors) have the social welfare and social prosperity of the people as one of their most important agendas.

Philanthropy often overlaps with instances of charity. Philanthropy exists as a facet of the expansion of civil society and charitable and philanthropic activity among organisations and rich benefactors became a widespread cultural practice. Philanthropy is also regarded as one of the major actors in the field of the non-profit sector and contributed to the growth in the non-profit sector. Philanthropy, both from an individual and an institutional perspective, will be discussed briefly in the next section.

## 2.6 PHILANTHROPY

### 2.6.1 INTRODUCTION

*“What we have done for ourselves alone dies with us; what we have done for others and the world remains and are immortal.”*

Albert Pike

*“When God blesses you financially, don't raise your standard of living. Raise your standard of giving.”*

Mark Batterson

Philanthropy plays an important role in the non-profit scene (Corbin, 1999: 297,300; James, 1990: 23). Philanthropy represents the promotion of the welfare of others, expressed especially by the generous donation of money to good causes (Oxford Dictionaries, n.d.). The purpose of philanthropists (both individuals and organisations) are to improve the quality of human life (Wuthnow and Hodgkinson, 1990: 41). This section provides a brief overview of a few individual, influential

philanthropies as well as philanthropic organisations that play a very important role in the social welfare of civil society (Sama, 2010: 33).

## 2.6.2 INFLUENTIAL PHILANTHROPISTS

*“The problem of our age is the proper administration of wealth.”*

Andrew Carnegie

*“Do not lay up for yourselves treasures on earth, where moth and rust consume and where thieves break in and steal, but lay up for yourselves treasures in heaven, where neither moth nor rust break in and steal. For where your treasure is, there will your heart be also.”*

Matthew 6:19-21 (English Standard Version)

Burger and Dekker (1997: 4) state that philanthropy was predominately a matter for the church (as already discussed in the previous section), as well as for a few wealthy individuals (Burger et al., 2001: 14). American entrepreneurs have a rich history of philanthropy (Delpont, 2006: 6). Andrew Carnegie and John D. Rockefeller are two examples of very wealthy philanthropists (Alcorn, 2010: 456; Lindsay and Wuthnow, 2010: 88; Encyclopedia of American Studies, n.d.; Becher, n.d.) who had a major influence on the non-profit sector in the 19<sup>th</sup> century (Salamon, 1996: 6; Becher, n.d.; Encyclopedia of American Studies, n.d.; Hall, 1990: 41). These two individuals left a legacy on philanthropic giving (Delpont, 2006: 6; Cole, 2006: 2) and are often referred to as the forefathers of philanthropy (Bentley, 2002: 35; Burlingame, 2004: 60).

Carnegie and Rockefeller respectively wrote two well-known articles being the “The Gospel of Wealth” and “The Difficult Art of Giving” (Burlingame, 2004: 60,684). The message of both these articles was that it was best to give out wealth through institutions and foundations to promote social services (Mottiar, 2013: 64-66). Carnegie stated that *“it is to place within its reach the ladders upon which the aspiring can rise.”* In addition, he argued that the concepts of charity should be viewed as a religious and social obligation of those whose natural superiority enabled them to contribute their wealth to improve society (Mottiar, 2013: 64-66; Burlingame, 2004: 459). These developments made it possible to imagine that

private charity might truly surface as a substitute for public action in providing in social needs (Salamon, 1996: 6), as already discussed in the previous section.

Many wealthy individuals took on Carnegie and Rockefeller's example of donating large sums to foundations (Byrne, 2013: 1). Warren Buffet, Bill Gates and Patrice Motsepe are but a few examples of billionaires who pulled out their pens in the most generous acts of philanthropies (Janse van Vuuren, 2013: 3; Booysen, 2014: 4). The Microsoft founder, Bill Gates, is regarded as the single largest top giver in the world for philanthropy (Janse van Vuuren, 2013: 3; Chase, 2006: 4). The Bill & Melinda Gates Foundation, one of the most innovative and successful foundations in history (Buffett, 2004: 60; Byrne, 2013: 1; Markoff and Lohr, 2006: 4), set aside billions to further its charitable efforts (Wilhelm, 2009: 29; Buffett, 2004: 60). Many of their funds have been used to build schools, create educational programs to enhance education (Byrne, 2013: 1; Booysen, 2014: 4) and medical research (Cole, 2006: 2; Chase, 2006: 4).

Warren Buffet, the USA billionaire and acclaimed investor (Naude, 2006: 15) insisted for many years that he would give all his money away at his death, but not before (Janse van Vuuren, 2013: 3). He had a change of heart (Hechinger and Golden, 2006: 5) and the Buffet family foundation is one of the wealthiest philanthropies in human history after a bequest of \$2.6 billion from Buffett's late wife to this foundation (Hall, 2004: 14 14; Naude, 2006: 15). In 2006, Buffett signed away 85% of his \$37 billion fortune (at the time) to the Bill & Melinda Gates Foundation (Greene, 2006: 6; Delport, 2006: 6; Hechinger and Golden, 2006: 5; Cole, 2006: 2).

In 2010, Warren Buffet and Bill Gates launched the "Giving Pledge" initiative that motivated billionaires to sign up and promise to give the majority of their wealth to philanthropic causes and charities of their choice (Marais, 2013: 3; Seccombe, 2013: 1; Booysen, 2014: 4). In a philanthropic breakthrough for South Africa (Mottiar, 2013: 64-66; Crotty, 2013: 1), the billionaire, and one of South Africa's wealthiest individuals, Patrice Motsepe (Editor, 2008: 71; Strydom, 2013: 1; Booysen, 2014: 4), pledged half of his fortune away to the Motsepe Foundation (Janse van Vuuren, 2013: 3; Seccombe, 2013: 1; Mottiar, 2013: 64-66) inspired by the spirit of Ubuntu (Mottiar, 2013: 64-66). Motsepe announced that this pledge was inspired by Warren

Buffet and Bill Gates' "Giving Pledge" initiative (Janse van Vuuren, 2013: 3; Crotty, 2013: 1; Seccombe, 2013: 1). This commitment has placed him firmly on the list of the world's most generous philanthropists (Janse van Vuuren, 2013: 3). The Foundation is committed to improve the lives of the poor, unemployed and marginalised by collaborating with community-based organisations, churches and government (Mottiar, 2013: 64-66).

Complementing the significant role of the abovementioned individual philanthropists, are two organisations, which fulfill an indispensable role in the philanthropic arena, being the Red Cross and the Salvation Army. The next two sections provide a brief background on these two organisations.

### **2.6.3 RED CROSS**

Name the disaster, whether it is a natural disaster (like floods and fires) or manmade disasters (like wars and political violence) and the Red Cross is on the scene (Mtembu, 2001: 9). The Red Cross is known for relief in natural disasters (Geleta, 2009: 14), first aid, medical services and CPR (Cardiopulmonary resuscitation) (Chetkovich and Frumkin, 2003: 584; Beangstrom, 2006: 11; Mosby's Emergency Dictionary, 1998). One of its most significant areas of involvement is the Red Cross hospital in Cape Town (Hansmann, 1987: 28), which is the only stand-alone hospital dedicated entirely to children in Southern Africa (Loos, 2009: 12; Ajam, 2004: 5).

The inspiration of the Red Cross came from a philanthropic Swiss, Jean Henri Dunant in 1859 (Meehan, 1917: 397; Mtembu, 2001: 9; Mchunu, 2003: 5) and is over 150 years old (Mchunu, 2003: 5). It is recognised as one of the most prominent international NPO's (Chetkovich and Frumkin, 2003: 567) that is mobilising the spirit of volunteerism (Geleta, 2009: 14) in communities to promote humanity (Mchunu, 2003: 5). The Red Cross is a non-religious and non-political organisation (Mtembu, 2001: 9) and it is estimated it is involved world-wide in more than 180 countries (Mchunu, 2003: 5; Geleta, 2009: 14).

It offers a variety of services under its general mission of providing relief to victims of disasters and helping people prevent, prepare for, and respond to emergencies (Chetkovich and Frumkin, 2003: 568) and is providing these services in almost every

country in the world (Byrne, 2013: 1; Geleta, 2009: 14). It was instrumental in setting up international institutions of national disaster relief organisations (Miller, 2003: 8; Kaldor, 2003: 15).

Examples of the Red Cross' involvement are as follows:

- In 2001, after the terrorist attacks in the USA, disaster relief workers responded (Simons et al., 2005: 287) by providing service delivery and relief to victims and family of the victims (Hamilton, 2005: 621);
- In 2005, they played a key role in providing relief to victims of Hurricanes Katrina and Rita in the USA amounting its largest ever disaster response (GAO, 2006: 1) and raised billions of dollars for the relief fund efforts;
- In 2012, when Hurricane Sandy has hit the USA, they announced millions of dollars that was available in the disaster relief fund to assist victims of the hurricane (Collins, 2012: 8);
- In 2007, when the deadly disease, Ebola broke out in the Democratic Republic of Congo, they assisted in burials and treatment of the disease (Gilliam, 2014: 3); and
- In 2014, the deadliest outbreak of the Ebola virus in recorded history devastated Western Africa and spread through the African continent (Boladale, 2014: 13; Cross, 2014). The Red Cross stepped up and was deployed in the affected areas to inform people how to prevent or limit the spread of the disease (Diallo, 2014) and they were amongst the leading partners in the fight against this epidemic (Star Africa, 2014).

#### **2.6.4 SALVATION ARMY**

Building on religious organisations' rich and vast involvement in the field of philanthropy, is the Salvation Army (Wuthnow and Hodgkinson, 1990: 14). A Methodist evangelist, William Booth (Tisdale, 1994: 23), started the Christian philanthropic organisation (Brigham, 1981: 58; Rawe, 2004: 24) in 1865 in London (Kemp, 2003: 10; Du Plooy, 2004: 5; Brewer's Dictionary of Phrase and Fable, 2009). The Salvation Army is both a faith-based and social-service organisation, which makes it unique among religious organisations (Lewis, 2003: 91).



The Salvation Army has become a recognised brand name throughout the world and is operational in over 100 countries (Kemp, 2003: 10 22; Tisdale, 1994: 23) headquartered in England (Lewis, 2003: 92). Its earliest history tells of dedicated officers committed to addressing the spiritual and physical needs (Mudge, 2003: 7). They were originally engaged at war zones (Tisdale, 1994: 23) and disaster-relief efforts (Rawe, 2004: 24).

The Salvation Army's activities are directed towards the battle against HIV/Aids, the outcast, destitute, poverty (Brewer's Dictionary of Phrase and Fable, 2009), domestic violence against women (Mufweba, 2003: 6), operation of safe havens (Mudge, 2003: 7), accommodation of pensioners, children and the destitute (Du Plooy, 2004: 5). The organisation also provides flood relief (Van der Merwe, 2001: 5), day nurseries, centers for food and shelter (Brigham, 1981: 61) and drug and alcohol rehabilitation (Sargeant and Hudson, 2011: 238).

## **2.6.5 CONCLUSION**

From the discussion one can infer, based on the extent of involvement of these individuals and the organisations, that philanthropy plays an important role in the non-profit sector. Whether social services are provided by influential individual philanthropies, organisations, churches and any other organisation (public or private), the significance of the non-profit sector in providing social services and the increasing important role that these organisations play is clear from the preceding discussion.

The altitude of scandals in the non-profit sector and the church magnified the perceived limited regulation of these organisations. To address this, a brief overview of the legal aspects of NPO's and churches are provided. The next section will commence with an overview of the legal aspects around NPO's. The discussion will illustrate that the choice of the organisational form is one of the aspects that influence the regulation of organisations.

## **2.7 LEGAL ASPECTS OF NON-PROFIT ORGANISATIONS AND CHURCHES**

### **2.7.1 INTRODUCTION**

As presented earlier, churches are perceived to be at the heart of a range of non-profit activities and fall unequivocally within the non-profit sector. This suggests scope for drawing on the regulation of NPO's to gain further insight into the regulation of churches. Therefore, the legal aspects of NPO's form an important part of the discussion.

The position, regulation as well as the role of government in the regulation of NPO's and churches are limited and little understood (Van der Ploeg and Brasz, 2004: 1; Burger and Dekker, 1997: 4; Sievers, 2001: 124; Duncan and Stocks, 2003: 142). Due to the diversity of these organisations (Weisbrod, 1988: 9) and with hardly any examples to go by, it is hard to state precisely what is "the law" that is applicable (Brody, 2012: 541; Knutsen, 2012: 985; Carmichael, 2012: 413).

The spectrum of NPO's itself vary considerably from informal structures involving a handful of individuals, to well-funded, multi-national organisations with complex organisational structures (Henry, 2012). In addition, there are vast differences in the regulation of NPO's among the various countries, and these variations are far wider than in the field of corporate laws (Hopt and Von Hippel, 2010: xiv). In most countries, NPO's are framed by common or civil law traditions (Tamburrini, 2009: 2; Sievers, 2001). The principles of common and civil law are uniform and prevail in all common and civil law jurisdictions (Sievers, 2001: 127; Carmichael, 2012: 413), but the modern law regulation of NPO's varies between different economies and different countries (Gugerty et al., 2010: 1028; Anheier and Seibel, 1990: 7; Seibel, 1990: 23; Anheier, 2005: 11). These differences are embedded in the political and social development of a country (Bauer, 2005: 271; Stackhouse, 1990: 23) with its roots in the cultural factors, religious factors and the sociological aspects (Hammack, 2001; Anheier, 2005: 785). Salamon and Anheier (1998: 216) state that these differences result in the diversity and the richness of the organisational forms of NPO's and in the diversity of the regulation of these organisations (Saxon-Harrold, 1990: 124).

The organisations that populate the non-profit sector are structurally rather diverse (Powell, 1987: 95) and there is variation in the fundamental characteristics of organisational structure and administrative frameworks (Saxon-Harrold, 1990: 124), which subsequently influence the regulation of NPO's (Gugerty, 2010: 1088). There are various factors that influence the distribution of organisational forms and subsequently determine the institutional choice of these organisations (Seibel and Anheier, 1990: 47). Brilliant (2001: 175) confirms that there is a considerable range of choice in the institutions used which embody the activities of NPO's. The different choices of organisational forms are discussed in the next section.

The significant growth in the non-profit sector shows that NPO's have an increasingly important role to play in societies (Sievers, 2001: 141) and that this growth trend is likely to continue (Fine, 1990: 19). Some scholars are of the opinion that the laws and regulations of the non-profit sector have not kept pace with the growth in the sector (Sievers, 2001: 125; Hopt and Von Hippel, 2010: xxxv). This has heightened the interest in the (lack of) laws and regulations applicable to these entities (Brody, 2012) and subsequently increased emphasis on the need for law reform (Sievers, 2001: 141; Dane, 1998: 51).

This section will provide only a very brief overview of some of the legal aspects, including aspects on the tax regulation, of the non-profit sector in the USA and the Netherlands. This will be followed by a more detailed discussion on the legal aspects from a South African perspective. The USA has probably the highest developed concept of a distinctive non-profit sector and therefore it is included for the purpose of this discussion (Salamon, 1996: 1). The Netherlands was also included in this section after research performed by the Johns Hopkins Comparative Non-profit Sector Project revealed that this country boasts the largest non-profit sector amongst a sample from developed countries that were included in their project (ranging from Western, Central, Eastern Europe, Latin America and other developed countries) (Burger et al., 1999: 145; Dekker, 2001: 64).

In addition, the roots of a number of South African churches are in the Netherlands (refer to Chapter 3 for the discussion on the establishment of the first church in South Africa by the Dutch settlers) (De Gruchy, 2005: 1; Saayman, 2009: 451). The

discussion will commence with the USA, proceed to the Netherlands and conclude with South Africa. The discussion is not limited to the regulation of NPO's and will also include a brief overview of the regulation of churches, which is regarded as part of the non-profit sector. Religious congregations are generally linked in some way to a denominational structure. Denominations vary in the autonomy officially granted to affiliates by formal policies. The regulation from a denominational level is discussed in further detail in Chapter 3.

## **2.7.2 UNITED STATES OF AMERICA**

The USA follows a common law system in that principles are applicable to the regulation of NPO's (Salamon, 1996: 6). In common law, jurisdictions surrounding the exigencies of legal certainty and justice are basically resolved by the binding precedent principle (Tamburrini, 2009: 4). The USA has a federal governmental structure featuring a sharing of power between a national government and state governments (Salamon, 1996: 10). Individual states have the first line of responsibility for regulating NPO's and state regulations vary considerably (Hammack, 2001: 159; Brody, 2012: 535). Irrespective of the differences in state regulations, there are generally three different legal forms available to NPO's (Salamon, 1996: 11) namely:

- i. Unincorporated associations – established in terms of common law;
- ii. Organisations – established in terms of corporate law; and
- iii. Trusts – established in terms of corporate law.

The most common form used is unincorporated associations and these associations are subject to relatively “primitive” law. A NPO that reaches a significant size or level of property ownership typically incorporates as an organisation or trust (Brody, 2012: 541). The common law does not recognise an unincorporated non-profit association as a separate legal entity; it only provides legal capacity to the association. The recognition of a separate legal entity is a fundamental principle of corporate law (Sievers, 2001: 127). The corporate law will be applicable if a NPO voluntarily decides to incorporate under the corporate law principles (Brody, 2012: 541; Sievers, 2001: 127). The act of incorporating creates a legal entity as either an organisation or a trust, enabling it to be treated as a corporation under law and to enter into

business dealings, form contracts and purchase property as any other individual or for-profit organisation may do (Salamon, 1996: 10).

A range of tax privileges are provided to NPO's whose purposes comply with the legal meaning of charity (Salamon, 1996: 14; Hines, 1999: 58; Carmichael, 2012: 413). After a recognised type of legal entity has been formed at the state level, the NPO should obtain tax exempt status with the Internal Revenue Services with respect to its income tax obligations (Fremont-Smith, 2004: 11). Contributions made to a NPO would typically be tax deductible for the person or entity giving the donation (Salamon, 1996: 11; Cerny and McKinnon, 2001: 4).

### **2.7.2.1. RELIGIOUS ORGANISATIONS IN THE UNITED STATES OF AMERICA**

A religious organisations is a distinct type of charitable NPO (Runquist, 2005: 35). Churches enjoy the protection under the First Amendment to the U.S. Constitution that forbids the government from making a law "respecting an establishment of religion" and also forbids "prohibiting the free exercise thereof (that is, of religion)" (Lewis, 2003: 88). Religious organisations are often subject to fewer governmental regulations if compared to other NPO's (Runquist, 2005: 35). Many of the laws deal separately with religious organisations, where the provisions are usually less restrictive, or more tailored to the needs of particular religious communities (Dane, 1998: 51).

Churches are subject to less rigorous federal filing and reporting requirements than many other tax-exempt organisations (Salamon, 1996: 14). Depending on the state in which they are located, they may also be exempt from some of the inspections or regulations governing non-religious groups performing the same services. As mentioned in the previous section, the Internal Revenue Service should approve the tax-exempt status of all NPO's, but churches are regarded as an exception and represent a special case where religious bodies are automatically exempt from tax (Anheier, 2005: 64; Salamon, 1996: 14,28). Churches may engage in income-producing activities that are unrelated to their tax-exempt purposes. The income from such activities would however be subject to tax (Wills, 1996: 3). Donations and contributions made to churches that operate solely for religious and educational

purposes, qualify for tax deductions from an individual's or an organisation's taxable income (Turbotax, 2012).

### **2.7.3 NETHERLANDS**

The Netherlands belong to the civil law family (Van der Ploeg, 2010: 230). Civil law, in contrast to common law, as followed by the USA, is based on written legal codes in which disputes are settled by reference to a written legal code arrived at through legislation and edicts. There are two types of legal person forms for NPO's under the civil law (Burger and Dekker, 1997: 12; Van der Ploeg and Brasz, 2004: 1) being:

- i. Associations – established in terms of civil law; and
- ii. Foundations – established in terms of civil law.

These entities have both legal capacity (or also referred to as juridical person), but are not regarded as separate legal entities (Van der Ploeg and Brasz, 2004: 1). The civil law is laid down in the Civil Code and applies to associations and foundations only, and not to churches. There exist a special legal form for religious organisations (churches) being “kerkgenootschap” (Burger and Dekker, 1997: 12; Van der Ploeg, 2010: 231). Churches are regulated by their own statutes, provided that these statutes do not violate the law (Bijsterveld, 2001: 64-65).

Tax privileges are also given to NPO's and an association or foundation has no duty to register with the tax authorities and are exempt from income tax (Van der Ploeg, 2010: 234,235). There are no separate tax requirements for NPO's and generally these organisations are exempted from tax (Van der Ploeg and Brasz, 2004: 1).

#### **2.7.3.1 RELIGIOUS ORGANISATIONS IN THE NETHERLANDS**

The Netherlands' constitution declares freedom of religion and that each person is free to worship his religion or conviction, individually and with others (Bijsterveld, 2001: 59; Van der Ploeg and Brasz, 2004: 1). The church does not have official relationship with the state (Burger and Dekker, 1997: 16).

As mentioned in the previous section, churches are not regulated by the Civil Code and is a particular kind of NPO that is not regulated, unless they have the legal form of an association or foundation (Burger and Dekker, 1997: 12). Donations to religious organisations is deductible from an individual's or organisation's taxable income (Bijsterveld, 2001: 66; Burger and Dekker, 1997: 16).

#### **2.7.4 SOUTH AFRICA**

South Africa, as with the USA, belong to the common law family. The legal framework applicable to NPO's is divided into three different layers. At the bottom, the first layer, common law recognises the right to set up a voluntary association (Singh, 2010: iv; Dangor, 1997: 28; Wyngaard, 2010: 68; Swilling and Russell, 2002: 75). In the second layer, statutory law recognises trusts and non-profit companies as the legal entities available to NPO's (Singh, 2010: iv; Dangor, 1997: 28; Wyngaard, 2010: 68). It follows that there are three basic legal forms available to NPO's (Van Dyk, 2014; Wyngaard, 2010: 66,68):

- i. Voluntary associations – established in terms of common law;
- ii. Trusts – established in terms of the Trust Property Control Act; and
- iii. Non-profit companies – established in terms of the Companies Act.

The common law principles are prescribed for voluntary associations, as there is no particular Act setting out the legal obligations of members of governing bodies of voluntary associations. The voluntary association is not required to register with any authority, but it has legal capacity (Singh, 2010: iv; Dangor, 1997: 28; Wyngaard, 2010: 68; Swilling and Russell, 2002: 75). The Trust Property Control Act of 1988 makes it possible to set up a non-profit trust that obliges the trustees to administer the trust in the interest of the beneficiaries (Swilling and Russell, 2002: 75). The non-profit company is a legal person and administered in terms of the Companies Act 71 of 2008.

These three kinds of entities may then voluntarily register as NPO's in terms of the Non-profit Organisations Act (NPO Act) at the Department of Social Development

(Brewis, 2004; Department of Social Development, 2009; Wyngaard, 2010: 68). The NPO Act does not undermine the common law tradition, which recognises the right to association, but provides additional guidance in terms of governance and service delivery (Swilling and Russell, 2002: 76). Once a year, NPO's registered with the department, have to submit financial statements to the Department of Social Development. The purpose of this Act is meant to bring "accountability and good governance" to the NPO sector, with only light government intervention (Claasen, 2007: 28). In addition, by self-defining themselves as registered NPO's, these organisations qualify for huge financial benefits from (but not limited to) government; for example, the Lotteries Act of 1997 and the National Development Agency Act of 1998 (Swilling and Russell, 2002: 76).

The third layer of regulation allows entities to register as Public Benefit Organisations (PBO) under the Income Tax Act for some tax exemption. A NPO does not automatically qualify as a PBO for tax exemption purposes as a result of meeting the definition of a NPO. After a recognised type of legal entity has been formed, a NPO or then for the purposes of this discussion, churches, should seek tax exempt status with the South African Revenue Services (SARS) with respect to its income tax obligations.

PBO's are entitled to a broad range of tax benefits, including income tax exemption (Dangor, 1997: 30) and the right to receive tax-deductible donations and have donor deductible status which result that the amount of donations made to these NPO can be deducted from individuals' taxable income (Dangor, 1997: 31). In order to qualify for tax-deductible donations, the PBO should be involved in the so-called section 18A activities specified by SARS which mainly focuses on health, education and welfare (Crotty, 2013: 1). This section 18A activities do not include the practise of religion and therefore tax deductible donations cannot be made to churches. Refer to the next section (2.7.4.1) for further detail on tax benefits to churches.

It follows that South Africa has a legal framework which both enables NPO's to establish themselves as legal structures and then to regulate the way in which such legal structures operate. Members of governing boards of NPO's must adhere to the legal obligations imposed on them by the founding documents of the organisation,



the common law and the legislation governing the organisation. These legal obligations may differ for voluntary associations, trusts and non-profit companies.

#### **2.7.4.1 RELIGIOUS ORGANISATIONS IN SOUTH AFRICA**

The South African Constitution stipulates that everyone has the right to freedom of association, including freedom of religion (Wyngaard, 2010: 66). Any group of people may gather together, worship, and practice their faith without informing the government or seeking its permission (Republic of South Africa, 1996). The regulation of church activities could result in contriving the right to freedom of religion enshrined in the constitution (Claasen, 2007: 28).

Churches are not required to register with the government in order to commence with any of their activities (SACC, n.d.). The majority of churches use voluntary associations as a legal form and is subsequently regulated by the common law (Van Dyk, 2014; SACC, n.d.). As mentioned above, a voluntary association has legal status (for example to enter into contracts) but do not have separate legal personality (Van Dyk, 2014).

The South African government previously offered tax concession to three categories of organisations: religious, education and those involved with poverty relief. The Income Tax Act, 1962 contained a provision that exempted “religious, charitable and educational institutions of a public character from paying income tax” (Claasen, 2007: 28). The exemption to “religious, charitable and education institutions of a public character” was repealed with the introduction of a general exemption for all “public benefit organisations” (PBO) and bodies dedicated to funding PBO’s. Churches should register as a PBO to obtain tax exempt status and is not automatically tax exempt (Claasen, 2007: 28; Department of Social Development, 2009: 63; Smith, 2007: 25).

In South Africa, unlike in the USA and the Netherlands, as discussed in section 2.7.2.1 and 2.7.3.1 respectively, contributions and donations to religious organisations and churches are not tax deductible from the donor or contributor’s taxable income (Smith, 2007: 25).

### **2.7.5 CONCLUSION**

The discussion on the legal aspects applicable to NPO's illustrated the limited regulation specifically with reference to churches. In light of this limited regulation, the question arose on how corporate governance principles are followed by these entities.

In section 2.2, a background was provided on the development of corporate governance internationally as well as in South Africa over the past number of years. The background did not include a discussion on the relevance of corporate governance principles specifically for NPO's. The next section discusses the relevance of corporate governance in the context of the non-profit sector.

## **2.8 CORPORATE GOVERNANCE IN THE NON-PROFIT SECTOR**

### **2.8.1 INTRODUCTION**

The growth in the non-profit sector has been paralleled by growing public attention to this sector. Scholars state that the current level of attention paid to NPO's is unprecedented, revealing a broad level of interest in the governance of these organisations (Brody, 2012: 536; De Andrés-Alonso et al., 2009: 785). There are many reasons for the increased interest in corporate governance. The reasons, more specific to the non-profit sector, range from the rapid growth in this sector, the stronger voice and increased visibility of these organisations (Piewitt et al., 2010: 238) and its ability to attract increasing amounts of funding (Lipman, 2006: 3; IoDSA, 2013: 3,4). Given the significance of these organisations, it becomes fundamental to understand the role that good governance play (Le Roux, 2010: 2).

The accumulating number of cases around the world of alleged and substantiated wrongdoing on the part of organisations (see overview of scandals in section 1.3 and 2.2), whether it being corporate, public, NPO's and churches, suggests that these are not isolated events (Gibelman and Gelman, 2001: 58) and that they tend to show

corporate governance failures (Szper and Prakash, 2011: 112). The non-profit sector have not been exempted from scandals and scholars state that the proliferation of scandals has eroded the public trust in this sector (Eisenberg, 2000: 327; Gibelman and Gelman, 2001: 58; Elson et al., 2007: 121; Hopt and Von Hippel, 2010: xxxviii). Evidence further suggest that the problem of good governance in the non-profit sector is acute (Hopt and Von Hippel, 2010: xxxviii).

There is increasingly a debate amongst scholars on whether corporate governance, that developed mainly in the corporate sector (see discussion in section 2.3), also has relevance for the non-profit sector, due to the differences between the corporate (or private sector) and the non-profit sector. The discussion in this section therefore commences with a discussion on the development of corporate governance in the corporate sector. This will be followed by a high-level overview of the differences between the corporate sector (or more specifically for-profit organisations) and organisations within the non-profit sector, that might have an impact on the implementation of corporate governance to the non-profit sector. For the purposes of this section, the terms corporate sector, for-profit sector and private sector are used interchangeably and have the same meaning.

## **2.8.2 CORPORATE GOVERNANCE IN THE CORPORATE SECTOR: AN OVERVIEW**

*“If people are good only because they fear punishment, and hope for reward, then we are a sorry lot indeed.”*

Albert Einstein

In the international debate on the relevance of corporate governance for other types of organisations (for example NPO's and churches), apart from organisations in the corporate sector, there are recurring views from many scholars that corporate governance was developed mainly for the corporate sector (Warren, 2003: 54; Clarke, 2007: 11; Claessens, 2003). Many scholars argue that the development of corporate governance are targeted towards large profit organisations and organisations listed on stock exchanges and not necessarily NPO's (Bradshaw et al., 2007: 3; Hendricks and Wyngaard, 2010: 104; Nordberg, 2011: 216; Claessens,

2003; Alexander and Weiner, 1998: 223; Nezhina and Brudney, 2009: 275; Barber, 2007: 753).

Maassen (1999: 80) confirm that stock exchanges of listed entities have played a pivotal role in the international development of corporate governance. The discussion on the development of corporate governance presented in section 2.3 supplement these views put forward by the above scholars. The discussion highlighted that corporate governance principles were legislated in the USA for listed entities (Nezhina and Brudney, 2009: 275). In South Africa and the UK, the listing requirements require entities in the corporate sector to comply with these principles.

Carver (2006: 28), a recognised writer on corporate governance (Bradshaw et al., 2007: 5), stated that the corporate world owes debt to important role players for the breakthrough in corporate governance, though it had little direct effect on the functioning of NPO's (Hendricks and Wyngaard, 2010: 104; Barber, 2007: 753). In a study conducted by Alexander and Weiner (1998: 223), the results revealed that some of the corporate governance models are neither desirable nor feasible for NPO's (Barber, 2007: 753). In the South African context, Hendricks and Wyngaard (2010: 104,105) indicated that neither the King I nor the King II Report made an effort to illuminate its relevance to NPO's and it represented a code of governance principles aimed at the corporate sector without relevance to the non-profit sector (Singh, 2010: iv) (the article from these scholars was drafted before the release of the King III).

Although, as illustrated in section 2.3, it might be stated that corporate scandals represent one of the main drivers that gave rise to the development of corporate governance in the corporate sector, there is increased pressure on *all organisations* to have better corporate governance (Lipman, 2006: 4). The disclosures of appalling circumstances in the private sector (for example Enron, Worldcom, Maxwell and Fidentia) as well as in the public sector (for example Nkandla and the Arms deal) (refer to section 2.2 for a discussion on these scandals) should cause every organisation - whether profit, non-profit, or public to seriously examine its governance (Mogensen, 2002: 1).

While the argument of the development of corporate governance specifically for the corporate sector is certainly legitimate, Nordberg (2011: 191) states that the implementation of corporate governance principles should be beyond organisations. Jordan (2008: 7) attests to this argument and states that governance was not created exclusively for any organisation. According to the Corporate Governance Toolkit for Small and Medium Enterprises released by PricewaterhouseCoopers (PwC, 2005: 4), corporate governance is about controlling your business, which is relevant and indeed vital for all organisations, whatever the size or structure (IoDSA, 2002a: 2; Le Roux, 2010: 9). The corporate governance guidelines that have developed internationally and in South Africa target all types of organisations, and it relates to principles which are recommended *to be adopted by all organisations*, whether it is a corporate entity or an NPO (Crous, 2012: 5; Jordan, 2008). The King III Report states that “*all entities*” regardless of the manner and form of establishment and whether in the public, private or non-profit sector, should apply the code (Le Roux, 2010: iv; IoDSA, 2009b: 16). As already mentioned in section 2.3.5, the aim of the King IV, which is expected to be released during 2016, is to accommodate all types of organisations and to make the recommendations more accessible to organisations.

These views suggest that corporate governance is not limited to any organisation and to supplement this argument, Claessens (2003: 4) discern that corporate governance encompasses a wide set of **principles** that would promote good corporate governance (Standard & Poor, 2002; Cassim, 2011: 433).

Notwithstanding the above, scholars in the field of corporate governance acknowledge that organisations, for example NPO's and churches, do have unique characteristics that affect the implementation of corporate governance principles and these organisations do not have to replicate all the requirements of corporate governance (Farrar, 2008: 451; Lipman, 2006: 221). There are many differences between profit and NPO's, which might impact the extent of the implementation of corporate governance principles. A significant amount of writing has been done about these differences (Tricker, 2012: 284; Kearns, 1994: 186; Unterman and Davis, 1984: 4; Weisbrod, 1988: 142), but to engage in a detailed analysis of these differences is beyond the scope of this study. An overview of the main differences is

presented to provide context as to how the implementation of corporate governance principles will be different based on the unique attributes of an NPO.

The reason why for-profit organisations exist, is different from that for NPO's (Wooten et al., 2003: 343; Larkin and DiTommaso, 2010: 3). For-profits exist to realise a profit and they are measured in terms of profit maximisation and the number of customers satisfied (Wooten et al., 2003: 343). NPO's, in contrast, are not responsible for increasing shareholder wealth (Floch, 2004: 5; Larkin and DiTommaso, 2010: 3), but instead to render a public service and to increase public trust. These organisations are working for the public good, rather than the benefit of shareholders and therefore it does not involve the maximising of profit (Tricker, 2012: 284).

From the definitions provided in section 2.5.1, it can be deduced that NPO's have a legal distribution constraint (Glaeser, 2002: 2; De Andrés-Alonso et al., 2009: 787) as they are not allowed to disburse profits to members, directors or employees (Green and Griesinger, 1996: 382; Weisbrod, 1988: 143; Nordberg, 2011: 219; Fremont-Smith, 2004: 11). NPO's are not owned by anyone (Tamburrini, 2009: 2) and consequently, no one owns the right to share in any profit or surplus of a non-profit (Nordberg, 2011: 219). They are not prohibited from making a profit, but are merely prohibited from distributing such profits (Farrar, 2008: 441). These organisations should, however, in the long run be sustainable and therefore the realisation of profit is allowed.

It follows that the performance and success of these organisations are measured differently (Bush, 1992: 395; Piewitt et al., 2010: 240). Based on the stated goals of NPO's, scholars agree that their success and performance are generally measured by an NPO's ability to achieve its mission and how well it performs this service and not by its financial performance alone (Fine, 1990: 21; Hansmann, 1987; Kaldor, 2003: 14; Tricker, 2012: 284; Piewitt et al., 2010: 240; Farrar, 2008: 441). The primary measures tend to focus on the mission, goals, and objectives, which typically are non-monetary in nature and sometimes difficult to assess fully (Green and Griesinger, 1996: 382; Bush, 1992: 395). Bush (1992: 399) affirms that mission take precedence over profit margin and efficiency in the non-profit sector.

Weisbrod (1988: 14) states that context matters and that the importance of these differences and characteristics are recognised, because it affects organisational behaviour, which subsequently impact how corporate governance principles are implemented (Dellaportas et al., 2005: 140). Scholars are, however, likeminded that it would only *alter the way* in which corporate governance principles should be approached and implemented (Bush, 1992: 391; Inauen et al., 2010: 48,52; Saxton et al., 2011: 1052; Edwards, 1990: 16-18; Jackson and Stent, 2013: 4/7).

Organisations should rather use the abovementioned differences between for-profit and NPO's to *adapt* the corporate governance principles and implement these principles with the consideration of these differences (Green, 2012: 1; Jordan, 2008: 6). Similarly, Hopt and Von Hippel (2010: xxxviii) state that despite the differences in NPO's when compared to for-profit organisations, the principles should go beyond the borders of the differences (Inauen et al., 2010: 48,52).

There exist many different codes of "best practices" that take into account differing legislation, structures, purposes and business practices in ways that affect the governance structures and processes (Nordberg, 2011: 220). There is consensus that no generic model of corporate governance that works in all countries and on all organisations, exist (De Andrés-Alonso et al., 2009: 784; Henry, 2012). A one-size-fits-all model is not suggested by scholars either (De Andrés-Alonso et al., 2009: 784; Piewitt et al., 2010: 240; IoDSA, 2009b: 5), but it rather consist of principles that can apply across a broad range of legal, political and economic environments (Standard & Poor, 2002). The governance principles prevail irrespective of the details of the law, regulation or purposes of organisations (Nordberg, 2011: 218; Lubbe, 2012b: 17).

To concentrate the discussion more on churches, which is the focus point of this study, there are often two diverse points of view on the implementation of corporate governance principles in churches. The one point of view is that churches' financial affairs should not be conducted in the same manner as for-profit organisations. Joubert (2009: 14) is of the opinion that churches' affairs should be driven by faith and religious principles, opposed to being business driven. He further argues that

warning lights should go on when terminology such as capital budgets, budget analysis, over-and under-spending are used in the church environment. The second point of view is that churches are like any other organisation, subject to the principles of corporate governance (Wooten et al., 2003: 1028; Hall, 2002; Floch, 2004: 4; Greenlee et al., 2007: 691; Gugerty et al., 2010: 1028; Elson and O'Callaghan, 2007: 52; Birchard, 2005).

The arguments of Joubert could be refuted as there are scripture from the Bible that state the responsibility to consider budgets and costs. This is evident in scripture from Luke 14:28 (New International Version) "*Suppose one of you want to build a tower. Won't you first sit down and estimate the cost to see if you have enough money to complete it?*" This should provide evidence that the principles around budgets and financial responsibility is inevitably part of the church.

The media spotlight on the alleged financial misconduct of churches has increased the awareness of scandals in churches (see section 1.3) and it is evident that churches are not immune to fraudulent practices (Greenlee et al., 2007: 691). Marian Walsh (State Senator of Massachusetts and voted one of Boston's 100 most powerful women (John F Kennedy Presidential Library, 2008) made a profound statement regarding the corporate governance of churches: "*No organisation should be exempt from accountability standards in the name of a higher calling*". These realities should alter the way in which churches conduct their financial affairs (Lipman, 2006) and churches would thus be compelled to implement corporate governance principles.

The implementation of corporate governance principles in churches is at least as important as for profit organisations (Mueller et al., 2006: 52). The results of a study undertaken by Wooten (2003: 343) on religious organisations showed that churches are more focused on their mission than on providing and illustrating corporate governance principles. As churches are increasingly becoming aware of their social responsibility and impact on society (Hendriks et al., 2004: 380), they are more concerned about providing services and might be less likely to devote attention to financial control (Shim and Siegel, 1997) (as cited by Wooten et al., 2003: 343). In addition, some churches have limited resources and lack practical guidance (Elson



et al., 2007: 124; Jordan, 2008: 5) and with reliance on volunteers (Mueller et al., 2006: 51; Wooten et al., 2003: 345), churches will need to find creative solutions to implement governance principles (Elson et al., 2007: 124). The challenges in the implementation of corporate governance principles are further enlightened in section 2.8.3.

Based on the viewpoints above, it could be stated that there is no need for organisations to replicate corporate governance as it was developed for the corporate sector, but there are minimum principles that should be considered. Organisations should look to the reforms in corporate governance for possible lessons (Nordberg, 2011: 216; Kearns, 1994: 186).

The discussion in this section suggested that notwithstanding the different reasons presented by scholars why NPO's and churches could not fully comply with corporate governance principles due to the unique characteristics, it is nevertheless imperative that these organisations voluntarily adopt the principles of good corporate governance (Mueller et al., 2006: 50). In the next section, the need for NPO's and churches specifically, to implement corporate governance principles, are explained. As part of this discussion, the corresponding challenges encountered by these organisations to implement these principles are discussed. The section is then concluded by an overview of the benefits that could be derived from incorporating these principles. For the purposes of this next discussion, reference to NPO's will as a matter of course, also refer to churches.

### **2.8.3 BENEFITS AND CHALLENGES OF CORPORATE GOVERNANCE IN THE NON-PROFIT SECTOR**

*“Organisations have a responsibility to humanity, just as other organisations such as government and non-profits do. If profits are the body of the corporation, ethics are the conscience, vision is the soul, and compassion is the heart.”*

David Bejou

As already discussed in the previous section, organisations find themselves in an era where sound corporate governance principles is the standard, regardless of the type

of entity (Floch, 2004: 5; Mueller et al., 2006: 52) and where the examples of scandals suggest the need for stricter corporate governance (Lipman, 2006: 221). Good corporate governance does not only help to prevent scandals (Szper and Prakash, 2011: 121; Olson, 2006: 28), fraud and liability in an organisation, but it is also a way of doing “good business” (Lipman, 2006: 3) and to grow and thrive (Barber, 2007: 752).

The non-profit sector operates with cultural assumptions of “goodness, good works, altruism and high standards of moral probity” (Bush, 1992: 402). Sloan (2009: 220) argues that it comes down to the bottom line that “...we want our NPO’s to be good and to do good”. Given the diverse nature of this sector, there is not a uniform set of rules or regulations guiding the sector, and therefore the onus is on NPO’s to find a way to demonstrate compliance to good governance principles (Mueller et al., 2006: 50,55). Governance is one of the key measures of an organisation’s health and sustainability and is imperative for the achievement of an organisation’s long-term objectives (IoDSA, 2013: 5).

Some scholars nevertheless argue that the good intentions of organisations in this sector are not taken for granted anymore (Greenlee et al., 2007: 691; Birchard, 2005: 52; Anheier and Kendall, 2001: 24). Public trust and integrity are key components for the success of NPO’s (Rossouw and Van Vuuren, 2010: 124). With such high expectations, the plunge from public favour can be severe (Gibelman and Gelman, 2000: 26; Eisenberg, 2000: 326). The debate on the importance of the implementation of corporate governance principles for NPO’s is nourished by the media spotlight that has increased the awareness of scandals in the non-profit sector (Arjoon, 2005: 5; Mueller et al., 2006: 49) which result in scepticism with regards to the credibility and trustworthiness of this sector (Rossouw and Van Vuuren, 2010: 140; Bachmann and Gillespie, 2012; Piewitt et al., 2010: 238).

According to the 2012 Edelman Barometer results, global trust in NPO’s has declined as from 2011 (Edelman, 2012). In a study conducted by Farber (2005: 560) on the effect of corporate governance scandals on the creditability and public trust in organisations, the results provided evidence that even if organisations take corrective actions and improve the governance principles after the scandals, the

public trust is not immediately reinstated (Rossouw and Van Vuuren, 2010: 138). Therefore, organisations need to take preventative action and implement good corporate governance principles to improve public trust and confidence (Aras and Crowther, 2008: 434). Scholars point out that while many of the governance issues that NPO's face are not new, the environment in which they confront them is more challenging than ever. It can be gathered that no entity is immune to fraudulent practices (Greenlee et al., 2007: 697; Larkin and DiTommaso, 2005: 4; Lipman, 2006: 3).

In recent years, the shrinking economic resources and a shift in responsibility from government to the non-profit sector for dealing with social problems (Alexander and Weiner, 1998: 223) have created a more competitive climate among NPO's (Bush, 1992: 392). NPO's receive income and support from government as part of the provision of social services (Elson et al., 2007: 123). NPO's now compete with one another for members, donations, time and attention (Bush, 1992: 392; Jordan, 2008: 5; Schaller, 2002: 203; Warren, 2003: 58). Meijer (2006: 14) states that NPO's can learn from corporate firms regarding fundraising and obtain more contributors through marketing strategies. These financial and competitive pressures compel NPO's to adopt sound governance principles (Jordan, 2008: 5).

There are consensus amongst many scholars and stakeholders that NPO's and more specifically churches, might face unique challenges in the implementation of corporate governance principles (Jordan, 2008: 5). The findings by Alexander and Weiner (1998: 226,237) are consistent with previous research underscoring that the likelihood of NPO's and churches adopting corporate governance models depends largely on the extent to which resources such as time, opportunity, money and skills are available (Carman, 2010: 256; Hendricks and Wyngaard, 2010: 106). The use of volunteers in management, the lack of leadership and the lack of skills, amongst others, are some of the impediments in the implementation of corporate governance principles (Gibelman and Gelman, 2001; Larkin and DiTommaso, 2005: 4; Salamon and Anheier, 1997: 9; Van der Ploeg, 2010: 238; Bush, 1992: 394; Wills, 1996: 1; Eisenberg, 2000: 329).

It might not be in all instances possible for small entities (with specific relevance to churches) to follow corporate governance principles to the letter due to compliance being burdensome (IoDSA, 2009b: 5; Lubbe, 2012a: 1). It is however in their own best interest to address and implement these principles as far as possible (Jackson and Stent, 2013: 4/7; KPMG, 2012). Farber (2005: 547), however, rightfully states that the cost of not improving their corporate governance structures may be greater than their actual costs of doing so.

Application of good governance as envisaged by the corporate governance codes will benefit NPO's in many ways and these benefits are limitless. The benefits to NPO's will inescapably also be applicable to churches and therefore the discussion revolves interchangeably around NPO's and churches. All organisations, whether religious, private or non-profit, require resources, more specifically financial resources. The dependency on resources is decisive to NPO's. Their revenue stream depends primarily on donors, sponsors and charitable contributions (Powell, 1987: 321; Anheier, 2005: 108; Elson et al., 2007: 123; Fine, 1990: 20; Jeavons, 2005: 205). Good governance practices play the role of a gatekeeper of this voluntary donor support (Hendricks and Wyngaard, 2010: 105; Szper and Prakash, 2011: 112). In a study conducted by Sloan (2009: 229), it was proven that positive feedback on implemented corporate governance principles increased donors' contributions (Farber, 2005: 540).

Nordberg (2011: 220) depicted that the implementation of good governance principles give donors the confidence to allow the charities to build up their endowments and therefore improve their resilience. It enhances the reputation of an organisation and makes it more attractive to contributors (Lipman, 2006: 3; Hendricks and Wyngaard, 2010: 105; IoDSA, 2013: 4). This implies that the dependency on voluntary contributions compel NPO's to illustrate the fiduciary responsibility that donated funds are used in the manner intended to ensure sustainable revenue, but also to ensure that the organisation itself is sustainable (Saxton et al., 2011: 1053; IoDSA, 2013: 4; Greenlee et al., 2007: 691; Henry, 2012). The ensuing bad publicity may, however, reduce contributions to NPO's in subsequent periods (Greenlee et al., 2007: 676; Lipman, 2006: 4).

To focus the discussion on the benefits to churches specifically, and to counterpart the discussion above, Miller (2002: 438) emphasizes that regardless of the origin or the nature of its beliefs, the survival of churches depend on its resources. Mueller, Rickman and Wichman-Tou (2006: 55) state that corporate governance principles will provide a solid foundation for the sustainable operation of churches. If churches are transparent and accountable in their financial affairs, it can help church members see its financial needs and sustainable relationships can be built with members (Mueller et al., 2006: 55; Wood and Winston, 2005: 84). It will further encourage more giving and donations (Wooten et al., 2003: 351; Edwards, 1990: 16-18; Claessens, 2003: 1) and this will result in sufficient funding for the survival of churches (Mueller et al., 2006: 49; Jordan, 2008: 5).

Fine (1990: 26) is of the opinion, in the light of the declining membership of churches (see section 1.2 for discussion), that they will have to adopt a marketing strategy to attract new members. Despite the fact that churches find themselves in an increasingly secular society, literature suggest that these organisations compete actively and effectively for contributors' funds and time (Schaller, 2002: 18; Jordan, 2008: 5; Wuthnow and Hodgkinson, 1990: 1). This is corroborated by Miller (2002: 441) stating that religious organisations should engage in competitive strategies in order to remain sustainable. With the discussion on the separation of church and state presented earlier, coupled with religious freedom, limited regulation of churches and the reliance on voluntary financial support (opposed to reliance on the state) it can be posited that competitiveness amongst churches will follow (Finke, 1990: 617,621; Hull and Bold, 1989: 7) and religion should be "marketed" to the people.

Based on the discussion so far in this section, as well as the preceding sections, one can unequivocally state that there is increasingly a demand from funders, beneficiaries, governments, the media and citizens (Gugerty et al., 2010: 1028; Kearns, 1994: 185) for organisations in the non-profit sector, and for the purpose of this study, churches, to commit to higher standards of corporate governance guidelines (Masaoka and Peters, 2005: 5; Mueller et al., 2006: 49; Carman, 2010: 256).

## **2.8.4 CONCLUSION**

Notwithstanding the views presented above that some of the corporate governance guidelines were developed mainly for the corporate sector, and that there are unique attributes to organisations such as NPO's and churches, these organisations are functioning in an increasingly complex and competitive environment. The perusal of sound corporate principles is necessary to ensure that it survive and is sustainable.

## **2.9 CHAPTER CONCLUSION**

The chapter started with the main corporate scandals over the past number of years and the subsequent development of corporate governance internationally, as well as in South-Africa. An overview was given of the different sectors in the economy. Specific consideration was given to the development of the non-profit sector with a discussion of the role of churches within the non-profit sector. The legal aspects of NPO's and churches were discussed, which illustrated that there are limited legal regulation on churches.

The chapter ended with an overview of the implementation of corporate governance principles in NPO's as well as an exposition of the importance of good corporate governance principles for the non-profit sector and churches. As mentioned in Chapter 1, the matters addressed in this chapter will set a theoretical framework with which churches have to comply. Furthermore, it sets the framework against which the empirical findings can be measured. The next chapter will provide a brief history of the two denominations selected for this study. The chapter will also include an overview of the governance structures of these two denominations.

# **CHAPTER 3 - HISTORY AND GOVERNANCE OF THE DUTCH REFORMED CHURCH AND THE APOSTOLIC FAITH MISSION CHURCH IN SOUTH AFRICA: AN OVERVIEW**

## **3.1 INTRODUCTION**

In Chapter 2, an overview was given of the different sectors of the economy being the 1) public, 2) private and the 3) non-profit sectors. The roots of the non-profit sector, as illuminated by some scholars in section 2.5.2 in Chapter 2, could be traced back to religion and religious organisations. Coupled with that, religious organisations and churches as evident from section 1.1 in Chapter 1, constitute an indispensable part of the non-profit sector.

The purpose of this chapter is to construct a historical overview of the two denominations that is included in the scope of the study. This Chapter commences with a brief history of the establishment of these two denominations, being the Dutch Reformed Church (DRC) and the Apostolic Faith Mission (AFM). An understanding of the history and formation of the two churches in South Africa is imperative before engaging in the governance structures of these denominations.

As part of the discussion on the governance structures, the different models of church governance are briefly explained. The discussion also covers the decision-making bodies, theological training, as well as the remuneration structures of the two selected denominations.

## **3.2 HISTORY AND BACKGROUND OF THE REFORMED CHURCHES**

### **3.2.1 INTRODUCTION**

The first and oldest church on South African soil is the DRC (Nieder-Heitmann, 2003: 179). As it will be elucidated in this section, the history and the establishment of the

DRC coincides with the founding years of South Africa. This discussion also portrays the establishment of the three different reformed churches in South Africa.

### **3.2.2 ORIGIN OF THE CHURCH IN SOUTH AFRICA**

The *Vereenigdhe Oost-Indische Compagne* (V.O.C), the largest trade and shipping company of the 17<sup>th</sup> century, played a crucial role in the history of the establishment of the church in South Africa (Van der Watt, 1976: 1). The V.O.C established the Netherland settlers in 1652 under the leadership of Jan van Riebeeck in South Africa, to form a strategic halfway house to and from the East (Hoffie and Hofmeyer, 2002: 27; Du Toit, 1970: 142).

This marked the beginning of an era where the reformed faith tradition was transplanted in the Cape and on the African continent (Hofmeyer, 2002: 27; De Villiers, 2012: 54). The first church service was held in April 1652, on the first Sunday after the settlers arrived in the Cape (Hofmeyer, 2002: 31) and the church was known as the “Kaapse Kerk” (hereafter referred to as *Cape Church*) (De Wet, 2002: 64). The hall to the first Netherland fortress, the Fort de Goede Hoop, was for thirteen years the gathering place of this first reformed church (Sleigh, 2002: 34). The V.O.C was not only the pioneer in the establishment of the church, but was perceived to control the church (Du Toit, 1970: 148). They ensured that the Cape settlement was served only by the reformed religion (Nieder-Heitmann, 2003: 180). Under the V.O.C, no other religion was allowed for over a 100 years (De Wet, 2002: 64; Sleigh, 2002: 34; Nieder-Heitmann, 2003: 180) with the reformed church as the privileged church (Van der Watt, 1976: 71; Nieder-Heitmann, 2003: 180,181). To strengthen their control, the ministers of the reformed faith was financially supported and salaried by the V.O.C, with a consequential serving of the interests of their employer (De Villiers, 2012: 55).

This inevitably resulted in the reformed church being dominant for many years (Du Toit, 1984: 618) and was regarded as the church of the state and as the public religion (Van der Watt, 1976: 67; Du Toit, 1970: 147). There was a firm commitment between the church and the state and the church was not regarded as a “separate element”, but rather as an integral part of every household (Van der Watt, 1976: 84).



Since its establishment, there was a very close relationship between the DRC and the state and they worked closely together (Hofmeyr, 2012: 445,448; Van der Spuy, 1985: 52). The unified relationship between the church and the state in South Africa is also discussed in section 2.4.3.2.

The Ring of Amsterdam in the Netherlands had oversight over the Cape Church for a number of years (Brown 2002: 12) with regards to the training, sourcing and appointment of ministers as well as the policy making of the church (De Villiers, 2012: 55). There was increasingly a need for the reformed churches in South Africa to function autonomously, especially after the British takeover of the Cape Colony in 1806 (Van der Watt, 1976: 11,68; Du Toit, 1984: 624). The association with the Netherlands became difficult, because the British reign did not promote communication with the Netherlands. The first official South African Synodic meeting was held in 1824, which resulted in South Africa having an autonomous Synod established at the Cape, with primary decision-making power independent from the Netherlands (Brown, 2002: 87).

The Cape Church was subsequently referred to as the Nederduitse Gereformeerde Kerk (Dutch Reformed Church) (Van der Watt, 1976: 11; Dreyer, 2006). The phrase “Nederduitsch” did not form a significant part of the name of the church for the first century and a half and was referred to as the Cape Church. After the British takeover, the settlers recognised the need to be associated with the roots of the church, being the Netherlands (Van der Watt, 1976: 11).

The Netherlands’ reformed religion could not serve all the Christians of those times. The religious people of the Lutheran belief increasingly asked for their own ministry (Brown 2002: 13). The group of Lutherans submitted requests to the church council of the Cape Church for permission to appoint their own minister and to have unrestricted public religious gatherings (Van der Watt, 1976). In 1779, the Lutherans was officially allowed as the first other Christian church in South Africa (De Wet, 2002: 65; Brown and Hofmeyer, 2002: 19; Du Toit, 1970: 148). This marked the beginning of the establishment of more religions on the South African soil. The next section focuses on the establishment of the three reformed faith churches.

### **3.2.3 ESTABLISHMENT OF THREE AFRIKAANS REFORMED CHURCHES**

The British takeover of the Cape Colony in South Africa (Van der Watt, 1980: 65) was one of several causes that ignited the “Groot Trek”. The “Groot Trek” was a key event in the history where the settlers (known as the “Voortrekkers”) moved during the 1830’s from the British reigned Cape Colony, to the Northern parts of South Africa with the purpose to establish themselves independently (Storm, 1987: 695; Dreyer, 2006: 1338). The increased need to establish themselves independently from the British governance was only one of many reasons for the Groot Trek. Other reasons included the lack of sufficient land, lack of capital and the lack of security (Van der Watt, 1977: 3,4). In 1852, the Voortrekkers obtained political independence from the British governance with the establishment of the “Zuid-Afrikaansche Republiek” (hereafter ZAR) (Dreyer, 2002: 112).

History has shown that the establishment of the ZAR had far-reaching consequences for the church (Dreyer, 2002: 112). As a result of the unity and close relationship between the church and state (Storm, 1987: 698) as referred to in section 3.2.2 (also refer to Chapter 2 on a discussion of the relationship between the church and state in the South African context), their independence also paved the way for the establishment of an independent Voortrekker church (Dreyer, 2006: 1338; Storm, 1987: 706). There are several reasons provided by historians for the establishment of a separate Reformed church (Van der Watt, 1977: 69) and it is not confined to the establishment of an independent ZAR only, but the discussion thereof falls outside the scope of this study.

It can be posited that the Groot Trek therefore did not only divide the country politically, but formed the foundation of three separate Afrikaans Reformed churches before 1860 (NHKA, 2011; Van der Watt, 1977: 2), namely the:

- Nederduitse Gereformeerde Kerk (Dutch Reformed Church);
- Nederduitse Hervormde Kerk (Restructured Church); and
- Die Gereformeerde Kerk van Suid-Afrika (Reformed Church).

The first Reformed church, namely the Cape Church, as already mentioned in the previous section, later became known as the Dutch Reformed Church (Van der Merwe, 5). The second Reformed church, being the Restructured Church, which is also commonly known by its Afrikaans name as the “Nederduitsch Hervormde Kerk”, was established in the Transvaal in 1853 (GKSA, 2013; Dreyer, 2006: 1338; Hofmeyr, 2012: 443; Du Toit, 1984: 617). After its establishment, the Constitution of the ZAR provided in 1855 that the “Nederduitsch Hervormde Kerk” was the only church allowed and was the state church of the ZAR (Dreyer, 2002: 113; Dreyer, 2006: 1341; Du Toit, 1970: 167).

The formation of the third Reformed church, the “Gereformeerde Kerke in Suid-Afrika” (hereafter referred to as GKSA) (Reformed Church), was officially recognised in Transvaal in 1859 (Bingle, 2002: 118; Hofmeyr, 2012: 444; Du Toit, 1984: 617). The GKSA, is also commonly known by its Afrikaans name as “Doppers”, disestablished from the “Hervormde Kerk” (Bingle, 2002: 118; GKSA, 2013). The discord on the hymns is regarded as one of the main reasons for the secession of the GKSA (Hofmeyr, 2012: 443; Van der Watt, 1977: 85). In the early 1800’s, the Reformed Church in the Cape imported a new hymnbook from the Netherlands (GKSA, 2013) and some of the members of the Reformed faith argued that these hymns contradicted the teachings of the confessions of the faith (Bingle, 2002: 118,119; GKSA, 2013; Van der Watt, 1977: 85). The history of the DRC in the Free State date back to 1842 when the first congregation was reportedly established in Winburg (SAHO, n.d.).

### **3.2.4 CONCLUSION**

The preceding discussion provided a brief history on the establishment of the Reformed Churches in South Africa. The discussion testifies that towards the end of 1860, three Afrikaans Reformed churches were established in South Africa. It was also emphasised that there was, from the beginning, a very close relationship between the church (in this era with specific reference to the DRC) and the state.

The next section provides a discussion on the history of the establishment of the AFM in 1908, which only followed many decades after the establishment of the DRC in South Africa.

### **3.3 HISTORY AND BACKGROUND OF THE APOSTOLIC FAITH MISSION CHURCH**

#### **3.3.1 INTRODUCTION**

The AFM is the oldest and largest Pentecostal church in South Africa (Burger, 1987a: (i); Chandomba, 2007: 72). The current president of the AFM, Dr Isak Burger, performed ground-breaking work on the history of the AFM in South Africa and his scholarly work is mainly used in this section to provide a brief history of the establishment years of this denomination in the 20<sup>th</sup> century. The history of the DRC in South Africa revolved around the Dutch Settlers in 1652 and the role of the V.O.C in the establishment of this denomination (refer section 3.2). In contrast, the focal point on the discussion of the history of the AFM is the role of two American Missionaries.

#### **3.3.2 ORIGIN OF THE CHURCH**

In the 19<sup>th</sup> century, the Pentecostal movement started worldwide and was initiated by John Alexander Dowie from Scotland (Burger, 1987b: 59; Burger, 1987a: 63; Chandomba, 2007: 9; Van der Spuy, 1985: 54). South Africa had its own Pentecostal awakenings (Chandomba, 2007: 3; Van der Spuy, 1985: 49), characterised by a strong interaction with the American movement (Maxwell, 1999: 245). Two Americans, John G Lake and Thomas Hezmalhalch, came to South Africa in 1908 (Chandomba, 2007: 14).

Lake and Hezmalhalch did not come to South Africa representing a church, and their mission was not to establish a church either (Chandomba, 2007: 24). They came to serve the people and to do missionary work (Burger, 1987b: 167). These two

missionaries' servant hearts were evident in the following personal statement from Lake before he set foot on South African soil:

*"... so in April 1907 I locked my office door, disposed of my bank account to various religious and educational institutions, divided my real estate in like manner and appointed... my financial agent, to dispose of everything. I started out on independent evangelistic work without a dollar being absolutely dependent upon God..."* (Burger, 1987a: 160; Chandomba, 2007: 18)

Lake was originally from Canada where he qualified as a Methodist minister (Burger, 1987a: 152; Chandomba, 2007: 15; Van der Spuy, 1985: 61). He was involved in the newspaper industry and before coming to South Africa, had an estate agency in the USA (Burger, 1987b: 128; Chandomba, 2007: 15). The history of Hezmalhalch's life is limited (Chandomba, 2007: 16). He was born in New Jersey in the USA and was a qualified preacher of the Holiness movement (Burger, 1987b: 132; Burger, 1987a: 158; Chandomba, 2007: 17).

As opposed to the DRC, who received financial support of the V.O.C (see 3.2.2), there was no organisation supporting Lake and Hezmalhalch (Maxwell, 1999: 246; Chandomba, 2007: 24). There were no funds or security to support their work or for salaries that could guarantee their survival (Burger, 1987b: 167; Burger, 1987a: 200).

Lake and Hezmalhalch worked together as a team and soon after their arrival, they started with church services (Burger, 1987a: 166). The first official AFM gathering was in 1908 in the Doornfontein Zion chapel in the suburbs of Johannesburg (Maxwell, 1999: 246; Burger, 1987a: 202; Van der Spuy, 1985: 57). The American's influence soon moved beyond the chapel in Doornfontein to the Central Tabernacle, Bree Street, Johannesburg (Maxwell, 1999: 247; Burger, 1987b: 196; Burger, 1987a: 205; Chandomba, 2007: 25; Van der Spuy, 1985: 62). This was referred to as the "Mother" church ("Moedergemeente") and played the same role in the history of the AFM in South Africa as the Cape Church in the history of the DRC (Burger, 1987b: 196; Maxwell, 1999: 249).

Increasingly, new Pentecostal congregations opened their doors (Burger, 1987a: 225; Burger, 1987b: 206). In 1909, the congregation in Krugersdorp and Pretoria and in 1912 in Robertson, opened its doors (Burger, 1987a: 256,258). In 1917, the AFM purchased a theatre and shopping complex in Church Street in Johannesburg (Burger, 1987a: 246). At the end of 1913, there was reportedly 31 established AFM congregations in South Africa (Burger, 1987a: 255). The Ladybrand congregation was the first AFM in the Free State established in 1908 (Burger, 1987b: 208; Burger, 1987a: 258).

The revival that started in the DRC church in the 1860's, which resulted in three different Reformed churches as mentioned in the previous section (Burger, 1987b: 85; Burger, 1987a: 96), was in itself part of a world-wide movement (Maxwell, 1999: 245). This is one of the aspects that favoured the establishment of the AFM in South Africa. During the initial establishment years of the AFM, most of the converts came from the DRC (Burger, 1987b: 92; Maxwell, 1999: 250). This does not only have reference with regards to the majority of the members that joined the AFM (Burger, 1987b: 352; Maxwell, 1999: 250; Burger, 1987a: 107), but also to two significant leaders in the DRC that paved the way for the establishment of the AFM.

The first leader that played a significant role in the establishment of the AFM was Andrew Murray, a leading Dutch Reformed theologian (Burger, 1987b: 107; Maxwell, 1999: 246). Murray completed his theological studies in Holland and was ordained as a minister in 1848 (Chandomba, 2007: 7). Murray's first congregation was in Bloemfontein, Free State (Burger, 1987a: 112,113). He became the moderator of the DRC in 1862 and remained in this position for a number of years (Burger, 1987a: 113; Van der Spuy, 1985: 50). Murray's years of ministry was before the establishment of the AFM in South Africa, but throughout his ministry he was the precursor in many of the beliefs of the AFM, including divine healing and his teaching on the Holy Spirit (Burger, 1987b: 96; Burger, 1987a: 116; Chandomba, 2007: 8; Van der Spuy, 1985: 51). Some argue that the AFM has in many aspects fulfilled the Pentecostal dream and vision of Murray (Burger, 1987b: 102; Burger, 1987a: 111).

The second leader that played a significant role was one of Murray's students, P.L le Roux. As discussed earlier in the section, credit is given to Lake and

Hezmalhalch for the establishment of the AFM in South Africa, but recognition is also given to P.L. Le Roux for leading this young movement to new heights (Burger, 1987a: 267). Murray has identified Le Roux from a very young age as a potential leader and was committed to qualify him as full-time minister in the Reformed faith (Burger, 1987a: 268). Le Roux was involved in numerous DRC congregations, including Greytown and Wakkerstroom (Burger, 1987a: 270). In the DRC congregation in Wakkerstroom he managed to incorporate into his ministry sober teaching, mature leadership and dynamic Pentecostal vision (Clark, 2007: 45).

Le Roux resigned in 1903 as a member of the DRC (Burger, 1987a: 274-279). In 1908, after the arrival of Lake and Hezmalhalch, he moved to Johannesburg and became a member of the AFM (Chandomba, 2007: 13). In 1913, he became the first Afrikaans president of the AFM for the period until 1943 (Burger, 1987b: 106,190; Maxwell, 1999: 252; Chandomba, 2007: 13). Le Roux was perceived as the undoubted leader of the AFM since the date of Lake's departure from South Africa in 1913 (Clark, 2007: 44; Burger, 1987b: 159; Van der Spuy, 1985: 62). The relationship between these two men is regarded as one of the subtle turning points in the South African church history in favour of the AFM (Burger, 1987b: 107; Maxwell, 1999: 246).

During the initial years of the formation and the establishment of the AFM, there was a tendency for this denomination to be "anti-church" (Burger, 1987b: 181; Burger, 1987a: 221). This was a reaction against the formalities of the traditional Reformed churches (Burger, 1987b: 181). The founders of the AFM became so disillusioned by the established churches' resistance to Pentecostalism that they registered in 1913 (only after 5 years since its existence in South Africa), an unlimited company, rather than a new denomination (Maxwell, 1999: 249).

The two missionaries and their followers deemed themselves to be free from organisational systems and as mentioned earlier, they did not intend to establish a church, but rather to be involved in missionary work (Burger, 1987b: 208; Van der Spuy, 1985: 57). They registered as a "Missionary" under the Companies Act (Burger, 1987b: 212). The registration as a legal entity, however, imposed some challenges. As a result of the registration of an unlimited company it implied that

every member of the AFM should also be a member of the company. This resulted in challenges for members, specifically with regards to their own assets in the event that the church would be liquidated (Burger, 1987b: 213). The AFM was registered for 48 years as a company before it was discharged by the Private Act 24 of 1961 in Parliament and received full status as a “church” (Burger, 1987b: 213).

The name “Apostolic Faith Mission” was only registered formally in 1913, but the name was used from the beginning, as reflected in minutes of meetings and church documentation (Burger, 1987b: 184). There are different theories about the origin of the name. One of these stories tells that the name was received as prophetic words during one of the services (Burger, 1987b: 183). The other theory state that Johannes Buchler, an American who did missionary work in South Africa in the 19<sup>th</sup> and 20<sup>th</sup> century, used the name AFM to differentiate himself from other church groups (Burger, 1987b: 183; Burger, 1987a: 131,225). The AFM in South Africa is the only Pentecostal church in the world with this name (Burger, 1987b: 185).

The role of Lake and Helmalhalch, as well as Murray and Le Roux in the history and establishment of the AFM is articulated in this discussion. The role of Pentecostal awakenings has contributed to the establishment of the AFM. Another significant event that favoured the establishment of the AFM was the poor white question in South Africa and it is also regarded as one of the igniting factors of the successful establishment of the AFM. The role of the AFM in the poor white question is subsequently discussed in the next section.

### **3.3.3 INFLUENCE OF POVERTY**

The British takeover of the Cape Colony as discussed in section 3.2.3 ignited the Groot Trek, but also resulted in the poor white question crisis. White poverty (more often referred to as the “Armblanke-vraagstuk”) became a social problem in the 1890s when whites were dispossessed of their land and animals were destroyed, especially in the Cape and Transvaal (Burger, 1987a: 143). The number of poor whites increased significantly, reaching its peak in the period 1904 to 1909 (Van der Watt, 1980: 207) after Britian’s scorched-earch strategy (a military strategy which



involved destroying anything that might be useful to the enemy while advancing through or withdrawing from an area) (Forrest, 2011: 6). This resulted in the main political factor for the moving of whites to Johannesburg. It is therefore quite understandable that this social disruption would cause great moral, social and spiritual decline and challenges (Burger, 1987a: 144; Forrest, 2011: 6).

The AFM was established in the midst of this crisis period in 1908 (refer to section 3.3.2). The traditional churches were also involved in standing by these poor whites (Van der Watt, 1980: 207), but very often it was only the minister who was involved in the upliftment work. The AFM had a very different approach from the beginning as there was no full-time workers (or pastors) since its establishment. Refer to section 3.4.5.2 for a discussion on the history of the theological training of the AFM. The AFM, without formal pastors, who relied on the “whole body christ” to be involved in ministry, was successful in reaching out to the poorer white Afrikaans people (Burger, 1987a: 144). Many Pentecostal believers were involved in addressing the needs of those during the period (Burger, 1987a: 146). This resulted in the AFM reaching a bigger group of people during the poor white question period. The poor white question resulted in the growth of the AFM church.

### **3.3.4 CONCLUSION**

As mentioned in section 1.7.5 in Chapter 1, the DRC and the AFM are regarded as the two biggest Afrikaans denominations in South Africa. Against the background provided of the initial year of establishment of the two respective denominations in South Africa, the next section will focus on the governance structures of these two denominations.

## 3.4 CHURCH GOVERNANCE

### 3.4.1 INTRODUCTION

*“The issue of church governance may not be a doctrine crucial to the “esse” (being) of the church, but it is a doctrine crucial to the “bene esse” (well-being) of the church.”*

Steven Cowan

The different types of church governance models that have been developed by scholars will be very briefly referred to in this section. The governance structures of the DRC and AFM at denominational level are also discussed. These governance structures are prescribed in the official governance policy documents of the two denominations. The official documents highlighting the governance structures of the DRC and the AFM is the Church order and the Church Law (which consist of a Constitution and Regulations) respectively (Burger, 1987b: 398; AFM, 2000: rule P.6). Subsequently these documents will be used to illuminate the governance structures of the two denominations. As part of the discussion on the governance structures of the two denominations, reliance is also placed on the publications of scholars.

Preceding a discussion on the governance structures of the denominations, the difference of terminology and titles used for leaders in the respective denominations should be elucidated. There are different variations for referring to full-time workers of the church and terms like “bishops”, “pastors”, “presbyters” “elders”, “deacons” and “ministers” are used interchangeably (Taylor, 2004: 81; Conner, 2001: 11,12). The following terminology are used by the respective denominations:

- i. In the DRC, there are three designations used, namely ministers, elders and deacons (Van der Watt, 1976: 28). The Minister of the Word is assisted by two levels of leadership. The first level of leadership complementing the minister, is the elders. The elders consist of full-time and lay leaders that serve alongside the minister that are also mature in the Word (Taylor, 2004: 81). The elders assist in the function of the “office”, namely to supervise the

“corporate life” of the congregation (1 Pet 5:1-4) (Howell, 2003: 287; General Synod: Church Order, 2013: Art 15,16). The secondary level of leadership is the deacons (Howell, 2003: 287). The purpose of the deacons is to share the leadership with the full-time workers in an administrative capacity (Taylor, 2004: 80). Taylor (2004: 82) explains that deacons take on the role of being involved in ministry aspects such as provision of food and clothing, providing shelter job training in honourable occupations (Conner, 2001: 12).

- ii. In the AFM, leaders (or full-time workers) are called the “pastor” (Burger, 1987b: 404). The title “pastor” is a Latin word translated from the Greek word *poimevna* meaning “shepherd” (Conner, 2001: 11). The pastor is also assisted by two levels of leadership as mentioned above (Conner, 2001: 11). The terms elder and deacon were not initially used during the establishment years of the AFM. In section 3.4.4.2 the theological training of the AFM pastors is discussed, which reveal that workers received “workers certificates” and were allowed to preach and pray for the sick. These workers would later become and fulfil the position of “deacons”. Once they had proved themselves and their ministry developed, they received evangelist certificate which later became the position of the “elder”. The need arose to revert back to the formal scriptural guidance on elders and deacons and in 1946 the AFM adopted a constitution to appoint elders and deacons as prescribed by scripture (Burger, 1987a: 400,401).

Based on the preceding discussion, for the purposes of the discussion on the governance structures, the designation that is used for full-time workers for the DRC and the AFM is a minister and a pastor respectively (Burger, 1987b: 404). Likewise, different terms are used between the two denominations with reference to the governance structures; for example, governing board as opposed to church council. The diversity of the terms used will be covered in the sections that follow.

### **3.4.2 TYPES OF CHURCH GOVERNANCE**

Reymond (1998: 896) states that it has become commonplace in many church circles to say that scripture from the Bible requires no particular form of church

governance (Taylor, 2004: 75; Howell, 2003: 287). The form a given church employs may be determined on an ad hoc or pragmatic basis. Erickson (2007: 1084) concurs that churches are not commanded by scripture to adopt a particular form of church governance and that there are a wide variety of governance arrangements among churches. The New Testament presents a fairly fluid and emerging model for church governances and there are many different views on what it should look like (Conner, 2001: 3). It can be posited that much of what is done in the modern church is not prescribed by the Bible but has emerged over time through the traditions of the church and each church adopts a pattern which fit its individual situation (Cowan, 2004: 10).

Smith (as cited by Cowan, 2004: 10) echoes the view on the lack of a governance model from the scripture and he emphasise in his work, *All God's People*: "*The ministry of governance of the church is an important one. Yet Scripture never sets forth one form of governance as the one, God-ordained model. At most, the Bible advances certain principles that suggest a representative role – principles best served by the congregational form. But nothing prohibits other forms which would work effectively while allowing the members a major voice in making the decisions*".

Conner (2001: 3,8), however, points out that even though it appear as if there is no prescribed governance model, churches should follow the *principles* as presented in the Bible scripture (specifically with reference to the New Testament) in establishing an effective governance style, rather than seeking a specific pattern or model to follow. The principles include, amongst others, that:

- i. Responsibility and accountability are required from leaders. Scripture state that "Each one is given at least one spiritual gift and will be held responsible for their faithful use of it for the benefit of others" (1 Cor.12:1-26, Rom.12:3-8, 1 Pet.4:7-11);
- ii. Church leadership is a "servant leadership" and leaders are required to be of godly character (see Acts 6:1-7; 1 Timothy 3:1-13; Titus 1:5-9); and
- iii. Church leadership is plural; there is not a single, dictatorial leadership style within the church community. An example is the apostle Paul who ordained elders in every city, never one elder (Acts 14:23).

This guidance from Bible scripture support the argument put forward in Chapter 2 that corporate governance relates to *principles* that all organisations should implement in the absence of a prescribed model. Although the views presented above illustrate that the scriptures do not prescribe a governance model, scholars in the field (see Cowan, 2004: 12; Malphurs, 2005: 160,161) recognise three major models of church governance namely:

- i. Episcopalianism;
- ii. Presbyterianism; and
- iii. Congregationalism.

A brief explanation of each of these three models is provided in order to create context for the governance models of the two respective denominations as discussed in section 3.4.3 and 3.4.4.

Firstly, Episcopal governance is hierarchical, with a bishop, who is superior to the officers of local churches, ordaining and governing the leaders of several local churches (Toon, 2004: 21). A well-known example of an episcopal governance is the Pope of the Roman Catholic Church (Cowan, 2004: 12,13). The “bishop” is used for pastor who in the hierarchy of clergy, is above the deacons and the priests and constitutes an altogether different and higher order of ministry (Toon, 2004: 21).

Secondly, the Presbyterianism system is referring to a “representative” form of church governance. “Presbyterian” is derived from the New Testament Greek term *presbyteros* that is usually translated as “elder” (Taylor, 2004: 73). The local church is ruled by a group of elders (or church council members) who are chosen by the congregation. The representative leaders of a local church are the ministers and elders, with different names (Taylor, 2004: 74), depending on the denomination, ranging from session, consistory or church council. The presbytery consist of ministers and elders representing churches in a smaller geographical region (Taylor, 2004: 75) where the presbytery has ruling authority over their several churches in the geographical area (Cowan, 2004: 13). A Synod consist of ministers and ruling elders representing churches from larger geographical areas (Taylor, 2004: 75). Some of the members of each presbytery (which are ministers and elders) are also members of a general assembly which governs the entire denominational body (Cowan, 2004:

13; Taylor, 2004: 75). The Reformed and Pentecostal churches are the most general examples of denominations that follow the Presbyterianism system (Taylor, 2004: 73; Van der Watt, 1980: 82).

Lastly, the distinguishing factor for Congregationalism is the doctrine of the autonomy of the local church (Warren, 2003). Each church governs itself, with no ecclesiastical authority or hierarchy that exists outside or above the local assembly of believers (Cowan, 2004: 14; Waldron, 2004: 188). The examples of churches that follow the congregationalism governance model is the United Church of Christ (UCC) in the United States of America and the United Congregational Church of Southern Africa (UCCSA) in South Africa (Cramer, 2002: 150).

Wagner (1999: 167), a well-known observer of the global expansion of the 20<sup>th</sup> Century Church (Rowell, n.d.), recognised and coined a fourth type of church governance, over and above the three models listed above, being the New Apostolic Paradigm (Clark, 2007: 50; Clifton, 2009: 170). Wagner (1999: 167) explains that this paradigm involves individuals and churches that are released from the restrictive Presbyterian-style church governance within traditional denominational structures (Clark, 2007: 50). This paradigm involves that the church is decentralised from any denomination and structured into networking cells that takes the form of loosely structured apostolic networks that are governed by apostles and prophets (Worldview Weekend, 2011; Wagner, 1999: 167; Clifton, 2009: 173).

Some scholars recognise the New Apostolic Paradigm as a second reformation (since Martin Luther's reformation) that will transform churches (Miller, 1997: 11; Clifton, 2009: 172). The reformation in Luther's time was a theological shift and this reformation is a practical shift in ecclesiology and governance being shaped in response to traditional churches (Rowell, n.d.). In this governance model, organisation and authority flow from relationships of networking churches and not from denominational structure (Rowell, n.d.; Clifton, 2009: 171). The AFM adopted a new constitution in 2000 which at the national level blends elements of its pre-existing Presbyterian governance with the New Apostolic Paradigm (Clark, 2005: 146). This is accommodated whereby congregations are allowed to form their own

“networks”, referred to as non-geographical regions, as opposed to the traditional geographical regions. The discussion in 3.4.4.1, (ii), illustrated that congregations can voluntarily group themselves together in non-geographical regions, which in part, refer to the New Apostolic Paradigm.

Against the background provided in this section on the types of recognised governance structures in churches, the next section provides a discussion of the governance of the two selected denominations, the DRC and the AFM.

### **3.4.3 DUTCH REFORMED CHURCH**

#### **3.4.3.1 GOVERNANCE STRUCTURES**

As discussed in 3.2.2, the DRC was under the oversight of the Netherlands until the first General Synod was instituted in 1824, which resulted in autonomous function of the DRC. The principles of the Church Order of Dordt from the Netherlands was adopted as the first example of a Church Order in South Africa. The Church Order became the official policy document of the DRC. The Church Order provides recommendations to churches regarding their governance structures at denominational level. A congregation is allowed to amend these provisions to meet their specific needs. This section does not focus on the specific amended governance structures of the sample of congregations selected for the study, as this is presented as part of the empirical findings in Chapter 4.

There are four church assemblies in the DRC namely the i) General Synod, ii) Regional Synod, iii) Circuits (or presbytery) and the iv) Church council (General Synod: Church Order, 2013: Art 18). Each of these four assemblies are briefly discussed.

#### **i. GENERAL SYNOD**

The General Synod is the policy-making body of the DRC. The General Synod office is based in Pretoria. The administrative components (mainly communication, media, archives) are situated in Bellville, Wellington and Stellenbosch (NG Kerk, 2011). The Church Order that guides the governance is prepared nationally by the General Synod (see section 3.4.1). The mandate of the General Synod include, but is not limited to, the expression of communal identity in terms of Scripture, confession, calling and policy, matters that affect the national and international ecumenical relationship and determination of the formal requirements for the training of the ministers of the Word (General Synod: Church Order, 2013: Art 43).

The General Synod consists of a maximum of 400 representatives from the ten respective Regional Synods (NG Kerk, 2011) (refer to the next section on discussion of the Regional Synods). At the start of a meeting of the General Synod, a moderator's committee is elected for the duration of the meeting. Members of the moderator's committee may not be elected in the same position for more than two terms (with one term being a period of four years). The moderator's committee consist of a moderator, a vice-moderator, an actuary and an additional member selected. The purpose of the moderator's committee is to lead the meeting of the Synod.

Before the General Synod adjourns, a General Synod Moderamen is constituted (General Synod: Church Order, 2013: Art 40-42). The General Synod Moderamen is composed of the moderators committee, elected during the Synod, one representative from each Synod, four additional members and the general secretary (General Synod: Church Order, 2013: rule 1). The Moderamen is responsible for the leadership between meetings of the Synod in respect of identifying, prioritising and evaluation activities and the composition of project, program and task teams (General Synod: Church Order, 2013: rule 1). The General Synod meets at least once every four years and the Moderamen meets at least twice a year (General Synod: Church Order, 2013: Art 40-42).

## **ii. REGIONAL SYNODS**



The borders of the Regional Synods are divided based on geographical areas and closely resemble those of the various provinces of South Africa and Namibia. There are a total of ten Regional Synods, of which nine are in South Africa and one in the neighbouring country, Namibia (NG Kerk, 2011).

Each of the Regional Synods has their own regional structure with its own Synod offices in the main city/town. Each Synod has jurisdiction over their own affairs (NG Kerk, 2011). The respective Synod offices in the provinces do not have any authoritative power, but is an administrative function. The function of the Synod offices is to ensure the implementation of the decisions taken by a specific Regional Synod (Esterhuizen, 2014).

The Regional Synod consist of representatives of one minister and one church council member (refer to discussion in section iv below on church councils) from every congregation within the region (General Synod: Church Order, 2013: Art 32). The Regional Synod meet at least every four years (General Synod: Church Order, 2013: Art 34). The Regional Synod's mandate include composing and amending of regulations and rules for the activities entrusted to it as long as they are not contrary to the Church Order, the management of the communal calling and joint work of the congregations in its area and the training of ministers of the gospel. It also includes the acquisition of the necessary funds for its own activities and the financing of General Synod according to an agreed formula referred to as "pro-rata" contributions. Refer to iv for further explanation on these contributions (Free State Synod: Church Order, 2009: Art 35).

### **iii. CIRCUITS (OR PRESBYTERIES)**

Circuits (or also commonly referred to as "ringe" in Afrikaans) represent congregations in a smaller geographical area. The circuits are not directly represented on the Regional Synod or the General Synod. There are a total of 144 circuits (NG Kerk, 2011). These circuits consist of direct representations by one minister and one member of each congregation within the smaller geographical area (General Synod: Church Order, 2013: Art 30). The circuit meet at least once a year or as determined by the relevant Synod (General Synod: Church Order, 2013: Art 29). The circuits' role include advice and assistance to church councils,

establishment of new congregations and the resolving of matters and dismissal of elders, deacons and ministers (Free State Synod: Church Order, 2009: Art 31).

#### **iv. CHURCH COUNCIL**

The church council consists of all the ministers of the Word as well as the elders and deacons (General Synod: Church Order, 2013: Art 26). At local level, the church council, together with the full-time ministers, are responsible for the management and governance of the congregation (NG Kerk, 2011). Every congregation function autonomously from the denomination.

The church council must designate a chairperson to the church council (Free State Synod: Church Order, 2009: Art 25). The chairperson should be selected annually from the ministers and elders (Free State Synod: Church Order, 2009: Art 28.2). The Church Order does not prohibit the minister to be the chairperson of the church council (Esterhuizen, 2014). The chairperson of the council can be the minister and this is often the case in the smaller towns. The church council meets at least four times a year (General Synod: Church Order, 2013: Art 28).

The ministers are in the service (employed) by the church council (General Synod: Church Order, 2013: Art 12), but the council cannot remove or dismiss the minister. This should be done in conjunction with the recommendations and investigations of the circuit (see discussion in section iii above) (Esterhuizen, 2014), as mentioned in the previous section, as part of the responsibilities of the circuit.

Every Regional Synod determines the service period of the council members. The Free State Synod recommends that council members should not serve more than four consecutive years on the council (Free State Synod: Church Order, 2009: Art 29). There is no prescribed size (in other words a minimum or maximum number of members) for the church council and every council can decide on the optimal size, according to their needs and the size of the congregation (General Synod: Church Order, 2013: guideline 26.2).

The Church Order regards each congregation as a “body corporate” and the church council or its authorised representatives, being its “agent” (General Synod: Church Order, 2013: Rule 20, 4.2). The church council may perform any legal action concerned with the disposition, obtainment, and receipt of legacies, alienation, mortgaging or insurance of the assets concerned including, but not limited, to the acquisition of properties and to invest funds (General Synod: Church Order, 2013: Rule 20, 4.4). Every church council of a congregation manages and is responsible for its own financial matters (General Synod: Church Order, 2013: Rule 20)

The church council must provide annual financial reports to the circuits, Regional Synod and the General Synod (Free State Synod: Church Order, 2009: 113, Art 57). The financial statements are also submitted to the Synod offices. The Synod offices determine the monthly contributions, the “pro-rata” contributions that the congregation should make to the Synod. The pro-rata contribution is a pre-determined percentage of the revenue of the congregation (Esterhuizen, 2014). The Church Order also suggests that financial statements should be submitted to the church members of a specific congregation. The format and process on how it is submitted to church members is determined by church councils of the respective congregations. Normally, these are not sent out to the members, but the members are free to have insight into the financial results (Esterhuizen, 2014).

### **3.4.3.2 THEOLOGICAL TRAINING**

The majority of ministers for the Reformed church after the initial years of establishment were provided by the Netherlands (Van der Watt, 1980: 65). The studies of some of these ministers were financed by the V.O.C (Olivier, 2002: 46). After the British takeover of the Cape Colony (refer to section 3.2.3), the landscape of the provisioning of ministers to South Africa changed (Van der Watt, 1980: 65). It became increasingly difficult for ministers to receive training in the Netherlands or for the church to source ministers from the Netherlands.

The DRC’s vision to train local ministers became true in 1859 when the first theological “kweekskool” was opened in Stellenbosch (Olivier, 2002: 47; Van der

Watt, 1980: 71). In 1963, the “kweekskool” reached a milestone when it became part of the Theological Faculty at the University of Stellenbosch (NG Kerk, n.d.-b; Van der Watt, 1987: 157).

Subsequent to the establishment of the “kweekskool” there was increasingly a need for additional theological training centres, reasons being that the Stellenbosch faculty was too far for many students in the Northern parts of South Africa and with the number of congregations increasing significantly, the theological faculty could not supply sufficient trained ministers (Van der Watt, 1987: 171,185).

The training of the ministers of the other Reformed churches (refer to section 3.2.3 for discussion on the establishment of the three Reformed churches), namely the Reformed Church (Gereformeerde Kerk) and the Restructured Church (Nederuitsch Hervormde Kerk) was respectively done in Potchefstroom and in Pretoria. Increasingly, prospective ministers of the DRC started to study at these institutions as they were geographically closer to these areas (Van der Watt, 1987: 171). To meet this increased demand for ministers and training facilities, two additional training centres opened for DRC ministers. The second faculty, namely the Theological Faculty at the University of Pretoria was established in 1938 (Oosthuizen, 2012: 1 ; NG Kerk, n.d.-b; Van der Watt, 1987: 178; Duncan and Hofmeyr, 2002: 643). The Faculty at the University of Pretoria had a dual structuring serving both the Nederduitse Hervormde Kerk and the DRC with regards to their theological studies (Duncan and Hofmeyr, 2002: 643). The third faculty, the Theological Faculty at the University of the Free State, opened its doors in 1981 (Van der Watt, 1987: 183,185).

The theological faculties are integrated with the universities and are not the DRC’s faculties (NG Kerk, n.d.-a). The DRC plays an ecclesiastical role independently alongside the Faculty of Theology’s role, by means of the church commission called the Kuratoria (NG Kerk, n.d.-a). Each faculty has a Kuratoria, and the DRC has a General Kuratorium consisting of 19 members, with all ten Synods being represented on the General Kuratorium as well as the representatives from the three respective Kuratoria from the theological faculties (Oosthuizen, 2012: 1 ; Van der Watt, 1987: 156). The Kurotaria’s function is to provide training on the specific

doctrines and dogma's of the DRC (Fockema, 2013: 4). The commission consists of a number of ministers, examiners, the dean of the faculty and representatives of each of the nine Synods in South Africa (NG Kerk, n.d.-a). The theological training of DRC ministers consists of six years at the university (Oosthuizen, 2012: 1; NG Kerk, n.d.-b).

As presented in section 3.2.3, three different Reformed Churches developed in South Africa. These Reformed Churches did not only have separate training facilities for the different race groups; the segregation of races also occurred within the denomination itself (Leepo, 2013: 42). The different churches established for the race groups consisted of the "NG Kerk in Afrika" (N.G.K.A) for blacks, the "NG Sending vir Kleurlinge" (N.G.S.K) for Coloureds (Leepo, 2013: 43) and the Reformed Church in Africa for Indians (Leepo, 2013: 44). These churches had the same doctrines, structures and confessions as the other Reformed churches, but had been divided exclusively on the basis of colour (Du Toit, 1984: 617,618).

The theological training facilities of the Reformed churches (as with the AFM church, refer 3.4.4.2) was also separated for the different races. The Reformed Churches of South Africa provided training at four national Synods being 1) Potchefstroom for white students, 2) Southland for mixed races, 3) Midlands and Soutpansberg for black students (Ramantswana, 2015: 1).

The theological seminaries that catered for the whites were at the Universities of Potchefstroom, Stellenbosch and Pretoria, and the training facilities for Coloureds at the University of the Western Cape for Indians at the University of Durban Westville and for blacks at the Stofberg Theological schools (Du Toit, 1984: 628).

During the 1990's, the comprehensive political transformation on the South African landscape served as a transition period for the Faculties of the DRC (Duncan and Hofmeyr, 2002: 646). This marked the beginning of the establishment of single faculties incorporating different races for the purposes of completing their theological training (Duncan and Hofmeyr, 2002: 647). In 1995, after the first democratic elections, the different racial Synods phased out and all races completed their theological training at Potchefstroom (Ramantswana, 2015: 13).

### **3.4.3.3 REMUNERATION STRUCTURES**

There are remuneration guidelines for the DRC congregations provided by the General Synod. A specific congregation is, however, allowed to negotiate higher or lower remuneration packages with ministers (Ley, 2004: 8), but congregations are advised not to go lower than the guidelines as prescribed in the Church Order (Esterhuizen, 2014).

### **3.4.4 APOSTOLIC FAITH MISSION CHURCH**

#### **3.4.4.1 GOVERNANCE STRUCTURES**

During the initial years, after its establishment, the AFM functioned and operated as a totally indigenous South African Church, with no link to, or oversight from, any church abroad (Clark, 2005: 144). This is in direct contrast to the DRC, as discussed in section 3.2.2, which was initially under the direct oversight of the Netherlands, until the first General Synod resulted in an autonomous DRC in South Africa.

The Church Law of the AFM consists of a Constitution and Regulations. The Constitution contains the fundamental principles of the church governance for the denomination and the Regulations provide further description of the Constitution (Burger, 1987b: 398; AFM, n.d.-a). The Constitution that was adopted in 2000 prescribes a decentralised approach which allows individuals, assemblies and regions to pursue their ministry according to differing ministry philosophies (Clark, 2007: 49).

There are three church assemblies in the AFM, namely the i) National Leadership Forum, ii) Regional Leadership Forum, and iii) Governing Board. Each of these three assemblies are briefly discussed below.

#### **i. NATIONAL LEADERSHIP FORUM**

The National Leadership Forum (NLF) is the AFM's policy-making body (AFM, 2000: rule 4.1). The head office is based in Pretoria. The Constitution and Regulation of the

AFM is one of the main responsibilities of the NLF. The mandate of the NLF is to serve as the guardian of doctrinal, ethical and liturgical matters in the church, licensing of pastors, setting standards for ministerial training and settling disputes.

The NLF consists of the chairpersons of the Regional Leadership Forum (see ii), together with the four elected National Office Bearers of the church (Clark, 2005: 145; Clark, 2007: 42,43). The four National Office Bearers consist of the President, Vice-president, General Secretary and General Treasurer of the AFM (Clark, 2007: 42; AFM, 2000: rule 4.6). The day-to-day running of the church as a denomination is the task of the National Office Bearers. The NLF meet three times a year.

The AFM's national representative body is the General Business Meeting (commonly referred to as the church's general annual meeting) and it is the responsibility of the NLF to convene the meeting every second year (AFM, 2000). The main function of the General Business Meeting is the election of the four national office bearers that are selected every fourth year (in other words every 2<sup>nd</sup> meeting) (AFM, 2000: rule 4.6). The General Business Meeting consist of one pastor and a delegate from each local assembly (church).

## **ii. REGIONAL LEADERSHIP FORUMS**

The regions of the AFM is similar to the circuits of the DRC (refer to section 3.4.3.1), but the area covered by a region is a larger geographical area than the circuit (Burger, 1987b: 395). Local assemblies are organised into geographical and non-geographical regions. There are a total of 43 regions (including both geographical and non-geographical) in South Africa (AFM, n.d.-a). The geographical areas do not necessarily represent the different provinces in South Africa and include congregations that are geographically situated close to each other. Congregations can voluntary also organise themselves into non-geographical areas. Congregations will normally organise themselves with other congregations in a non-geographical area that share a similar vision and leadership style.

Each of the geographical regions have a Regional Leadership Forum (RLF) that consists of one pastor and two delegates from each registered assembly within the region (AFM, 2000: rule 3.3). Every three years, the RLF elects a regional committee from amongst its members, as well as a regional leader from amongst its pastors. This committee acts as an executive and advisory body to the RLF. Each region is represented by its elected regional leader on the NLF. The RLF meets at least once a year. The RLF selects a Regional leader every four years (AFM, 2008: rule 3.5.1).

The non-geographical regions exist in the form of networks of local churches that share a peculiar ministry philosophy. These are normally led by the senior pastors of urban mega-churches who network with a number of local assemblies nation-wide for leadership and mentorship exposure.

### **iii. ASSEMBLIES (CHURCHES) AND THE GOVERNING BOARD**

Each local assembly is decentralised and can, in accordance with the Church Law, develop their own policies and is responsible for their own governance (AFM, 2008: regulation 2.4.1; AFM, n.d.-a). Local assemblies are led by a pastor and governing body, of which the pastor is a member. The pastor is in many cases the chairperson of the governing board (Chandomba, 2007: 69). In addition to being a member of the governing body, the pastor is the assembly's "vision carrier" (Chandomba, 2007: 70).

The church council in the AFM is referred to as the governing board and each local assembly shall, in accordance with the Church Laws, determine the membership qualifications, the number of members, appointment procedures and functions of their governing body, in terms of a policy approved by the assembly at a duly convened meeting. A certified copy of such policy and/or amendments is submitted to the RLF for approval (AFM, 2000: rule 2.4.1). The governing body appoints pastors from a list of ordained pastors (AFM, n.d.-b; AFM, 2008: regulation 2.4.5) and therefore the pastor is in the service of the governing board.

Every registered local assembly is a legal persona with perpetual legal succession and the governing body, as constituted in accordance with this Constitution, is its agent. Each local assembly may own immovable property, acquire property and



dispose of, alienate or encumber its property and in any way deal with its property (AFM, 2008: regulation 2.5). The governing body receives, administers and accounts for income, expenditure, assets and liabilities of the local assembly in accordance with the provisions of the National Financial Policy which forms part of the regulations (AFM, 2008: regulation 2.5). Every assembly annually pays over an amount to the NLF based on the percentage of revenue of a congregation which is referred to as “statutory funds”.

### 3.4.4.2 THEOLOGICAL TRAINING

*“The harvest is plentiful, but the workers are few.*

*Ask the Lord of the harvest, therefore, to send out workers into his harvest field.”*

Luke 10:2 (New International version)

In the early years of the establishment of the AFM, there was no official theological training required or offered to these pastors (Clark, 2005: 158,159; Burger, 1987b: 235,403,438; Chandomba, 2007: 71; Nel, 2014: 108). The ministerial leadership was organised along the New Testament concept of voluntary ministry of the whole body of Christ (Burger, 1987a: 222). The resistance against formal training was regarded by some as a reaction against the trained ministers of the traditional Afrikaans reformed churches (Putter, 2009: 195; Burger, 1987a: 222). The AFM leadership relied on the scripture in 1 Corinthians 1:1;4 that states: *“And I, brethren, when I came to you, came not with excellency of speech or of wisdom, declaring unto you the testimony of God ... and my speech and my preaching was not with enticing words of man's wisdom, but in demonstration of the Spirit and of power”* (New Kings James version) (Putter, 2009: 196).

During the initial years, all persons that complied with spiritual standards were awarded certificates as “workers” (Burger, 1987a: 222) without formal training (Burger, 1987b: 143). The most important qualification to obtain a “workers certificate” and to subsequently hold the “office of pastor”, was the baptism in the Holy Spirit and each one was referred to as “brother” (Burger, 1987a: 222).

There was increasingly an ever-present duality within the AFM between the required spiritual standards and the need for academic training (Putter, 2009: 208). Different Bible classes and courses were presented at Bible schools to prospective workers

(Nel, 2014: 108) before the establishment of a formal training college (refer below for the discussion of training college) (Burger, 1987b: 235,439; Putter, 2009: 194). Attendance of a Bible school was not a pre-requisite for entry into full-time ministry of the AFM (Putter, 2009: 194). However, the notion of formal training was gradually accepted in the denominational environment of the AFM (Clark, 2005: 158; Burger, 1987b: 307,405).

The Bible College of the AFM was formed in 1945 by Dr Moller (Putter, 2009: 195). Moller established theological education as normative in the AFM (Clark, 2007: 47). In 1954, the AFM council decided that attendance of the Bible College is compulsory for all applicants into full-time ministry (Putter, 2009: 195; Nel, 2014: 118). In 1956 the official name, the AFM Bible College was registered. The name was subsequently changed to the Apostolic Faith Mission Theological College (AFMTC) in 1970 (Nel, 2014: 121). In 1997, the AFMTC changed its name to trading as “Auckland Park Theological Seminary” (ATS) (Nel, 2014: 121) in a bid to cater for its expanding student market outside of the AFM (AFM Theological College, n.d.).

In pioneering work performed by the rector of the college, the ATS signed an agreement with the University of Johannesburg (UJ), the then Rand Afrikaans University, resulting in the ATS acting as the theological school of the University (AFM Theological College, n.d.; Putter, 2009: 200). The training of the pastors was performed in conjunction with the UJ (Nel, 2014: 122).

The Theological training in the AFM was historically done at four campuses (Putter, 2009: 197; Chandomba, 2007: 66) namely:

- i. The Theological Institute of Soshanguve, Pretoria;
- ii. AFMTC Covenant Campus, Durban;
- iii. Sarepta Theological College, Kuilsrivier; and
- iv. Auckland Park Theological Seminary (ATS), Johannesburg.

A decision was taken by the General Business meeting in 2007 that these training institutions should be united (refer to previous section on the discussion of the General Business meeting) (AFM, n.d.-a). The process of unification was, however,

not successful and the ATS was the only college that successfully registered at the Department of Education as a private higher education institution (Putter, 2009: 202). In 2008, the UJ concluded its contract with the ATS when it became a secular university that could no longer accommodate the ATS as an institution in Christian theology (AFM Theological College, n.d.). Therefore, the theological training of AFM pastors seized to be done at UJ. In the same year, the ATS accreditation as the AFM theological college was also terminated (Putter, 2009: 203). Thereafter, the ATS became an independent, inter-denominational institution. Early in 2008, the NLF (refer to section 3.4.4.1 for NLF) established a new Directorate for Education and Training (Putter, 2009: 203), with a new curriculum that served as the training institution (AFM, n.d.-a).

The ATS, as mentioned above, whose accreditation was terminated, reached a new agreement in 2012 with the Theological Department of the North-West University (NWU), resulting in the accreditation of ATS lecturers to supervise postgraduate studies (AFM Theological College, n.d.). The theological training of the ATS is done in partnership with the NWU's theological faculty (Jackson, 2012: 3). The faculty was born out of the Reformed tradition and therefore the agreement between the two institutions stipulated that specific areas are covered by the AFM representatives. The students follow all the programs and curricula of the theology faculty of the NWU, but specific dogma and doctrines, church history and church law are provided by the AFM in their own training according to the NWU's standards (Jackson, 2012: 3).

#### **3.4.4.3 REMUNERATION STRUCTURES**

The Constitution provides guidelines for the minimum salary packages, as determined by one of the committees, the Financial Advisory Board. It is within the powers of the governing board to negotiate a lower or higher salary package with the pastor (AFM, 2008: A.8.2).

#### **3.4.5 CONCLUSION**

This section commenced with a brief introduction of the different church governance models. The abovementioned discussion illustrated that the DRC functions within the Presbyterian form of governance. The AFM is a hybridised form with a Presbyterian form of governance, crossed with the New Apostolic Paradigm - to a limited extent.

The section also provided a brief overview of the different governance structures of the two denominations. The governance structures of the two denominations as prescribed by their official policy documents (Church Order and the Church Constitution and Regulation) have been investigated.

### **3.5 CHAPTER CONCLUSION**

The Chapter provided a brief history of the establishment of the two denominations in South Africa. The chapter also delved into the different governance structures of churches, as well as the specific governance structures of the two denominations.

As mentioned in Chapter 1, the matters addressed in this Chapter as well as the discussion in Chapter 4 assists in setting a theoretical framework with which churches have to comply. Furthermore, it sets the framework against which the empirical findings in Chapter 4 can be measured. In the next Chapter, the principles of corporate governance are discussed in further detail and this discussion then paves the way for the development of the interview schedules. Chapter 4 also contains the results of the empirical study, which was done by means of interviews with various role players within the churches.

# CHAPTER 4 - EMPIRICAL STUDY OF THE GOVERNANCE OF SELECTED DUTCH REFORMED AND APOSTOLIC FAITH MISSION CHURCHES

## 4.1 INTRODUCTION

*"I am not bound to win, but I am bound to be true. I am not bound to succeed, but I am bound to live by the light that I have. I must stand with anybody that stands right, and stand with him while he is right, and part with him when he goes wrong."*

Abraham Lincoln

As presented in Chapter 1 of the study, it is evident that churches play a vital role in addressing the social problems in South Africa. The sustainability of churches are, therefore, imperative to ensure the continued involvement in the provision of social services. The scandals that have occurred (refer section 1.3) demonstrate the lack of governance principles that are implemented by some churches. This can potentially create a threat to the sustainability of churches. It was also indicated that very little research has so far been done on the sector, with specific reference to corporate governance, and various unclear aspects, problems and challenges have been identified and discussed in the study. Against this background, and in order to address some of the problems, ambiguity and challenges, properly semi-structured interview schedules were developed to determine the extent to which the selected sample of churches implement sound corporate governance principles. Refer to section 1.7.5 for a further discussion on the sample selected for the study, as well as the development of the interview schedule.

This chapter starts off with the principles of governance that were used to design the interview schedules. The semi-structured interview schedules were drawn on the literature from the previous chapters, as well as the literature presented in this chapter. For the purposes of this study, the interviews were held with the main group of role players within a selected congregation (see section 4.3.2 for further explanation on the interviewees selected). Thereafter an overview is given of the empirical findings.

## 4.2 PRINCIPLES OF GOVERNANCE

### 4.2.1 INTRODUCTION

*“Insanity – doing the same thing over and over again and expecting different results.”*

Albert Einstein

The discussion in section 2.3 in Chapter 2 provided background to the development of corporate governance, internationally as well as in South Africa. As part of the overview, the role and impact of some of the well-known international and local corporate scandals on the development of corporate governance were explained. In addition, insight into the concept of corporate governance, as well as the relevance and importance thereof, was provided. The overview, however, did not provide detailed insight into the content of these governance codes and therefore the purpose of this section is to engage in further detail with regards to the principles contained in some of these codes.

In the search for norms against which the implementation of governance principles of the sample of selected churches could be measured, the principles from the following sources were considered in the design and the development of the interview schedules:

- King II and King III Reports on Corporate Governance;
- The Independent code of Governance for Non-profit organisations (NPO) in South Africa; and
- Stewardship from a Biblical perspective.

This section will firstly commence with a discussion of the King Reports. The King Reports have provided the lead in good governance internationally as well as in South Africa (Tricker, 2012: 130; Fisher and Lovell, 2006: 300) and are generally accepted as the source documents for what constitute sound governance (IoDSA, 2013: 3). The principles from these Reports have been used as the main source in the design of the interview schedules.

The discussion on the development of corporate governance presented in section 2.10 recognised the view of some scholars that the King Reports, which are perceived to have developed mainly in the corporate sector, may not have been designed specifically for churches. PricewaterhouseCoopers (2010: 3) and Le Roux (2010: 8-9), however, point out that the fundamentals (or principles) of good corporate governance are as applicable to churches as they are to large corporate organisations. Therefore, the corporate governance principles of the King Reports are also applicable to churches. Connor (2001: 13) affirms that the focus of corporate governance should be on principles, rather than to measure it against a set model or method.

This section, therefore, starts off with a brief discussion on the seven *principles* of good corporate governance as they appear in the King II Report. Even though King III is the latest report that was issued by the Institute of Directors in South Africa (IODSA) (refer to section 2.3.5 for brief explanation on the release of King IV), the previous report, namely King II, refers to “seven characteristics of good corporate governance”. These seven characteristics (or principles) have been omitted from the King III Report and do not appear again as a separate list in the Report. Therefore, guidance is sought from the King II Report with regards to the principles of good corporate governance. A brief reference has already been made in section 2.3.6 to the seven principles underpinning good governance, being 1) discipline, 2) transparency, 3) independence, 4) accountability, 5) responsibility, 6) fairness and 7) social responsibility (Tricker, 2012: 132; IoDSA, 2002b: 11,12). Refer to section 4.2.2.1 for a further discussion on these seven principles.

As mentioned in section 2.3.2, corporate governance refer to the “...system by which an entity is controlled” (Cadbury, 1992: 14). An organisation therefore needs a system (or procedures or mechanisms) to assist them in achieving a set a principles, more specifically for this study, the seven principles from King II, as mentioned above. The recommendations from the latest King Report, being King III, has therefore been used for guidance on these “systems” or “procedures” that should be implemented by an organisation (and specifically for the purpose of this study, a congregation). The relevant recommendations from King III were extracted and subsequently included in the interview schedules. As mentioned in section 2.8.2, the

recommendations from the King III Report can be “adapted” to reflect the unique values and organisational form and structure of the selected congregations.

The King III Report contain nine governance chapters (or elements) and these chapters each provides a set of detailed recommendations to organisations on how to achieve good governance. All the recommendations contained in the King III Report is an outflow of the seven principles of good corporate governance of King II. The detail of the nine governance Chapters of the King III Report are not discussed as part of this section, but are incorporated as part of the empirical findings in section 4.3.

As illustrated in the discussion in 2.8.2, some scholars have strong views that NPO’s and churches have unique characteristics and they subsequently argue that the principles of a corporate governance code from the King Reports, may not be the ideal source of reference for corporate governance to these organisations. The discussion on the King Reports will therefore, secondly, be followed by a brief discussion in section 4.2.3.1 of the Independent code of Governance, which was specifically released for NPO’s in South Africa. Chapter 2 has specified that churches form part of the non-profit sector and therefore governance intended to improve oversight in NPO’s would also impact churches (Elson et al., 2007: 123).

As already mentioned, the principles of corporate governance from the King II Report and the detail recommendations from the King III Report have been used in the design of the interview schedules. The main reason why a brief discussion of the Independent code of Governance for NPO’s is included in this section, is to illustrate that the content that have effectively been designed for NPO’s, can in essence be traced back to the corporate governance principles of the King II Report. One of the main differences between this code and the King II Report is the use of different terminology. The terminology recognise that these organisations are not profit driven and it reflect the values and purpose of these organisations.

Furthermore, Jordan (2008: 5) states that cognisance should be taken of the unique characteristics of churches and the religious values underlying these institutions. To ensure that the interview schedules incorporate these values, the principles of



stewardship from a Biblical perspective is briefly discussed in section 4.2.3.2. The focus of this study is not to engage in a Biblical model of governance. As illustrated in section 3.4.2, many churches merely follow the *principles* from Bible structure for their governance. In addition, the Bible is the Christian faith's highest level of authority. To include a brief overview of the principles regarding stewardship as these appears in Bible scripture is therefore useful.

#### 4.2.2 THE KING REPORTS

*“You can fool some of the people some of the time, but you can’t fool all of the people all the time.”*

Abraham Lincoln

As mentioned in section 2.3.5, the governance of organisations in South Africa by means of the King Report is not rule based, but principle based. The Oxford dictionary describe a principle as a *fundamental truth* or proposition that serves as the foundation for a system of belief or behaviour (Oxford Dictionaries, n.d.). In addition, as already depicted in Chapters 1 and 2, principles go beyond organisations and therefore the governance principles from the King Reports represent fundamental truths and are therefore relevant to NPO's, churches and all other types of organisations.

Unlike King I and King II that required listed companies on the Johannesburg Stock Exchange (JSE) to comply with the principles of the King Reports, King III has not stipulated specific companies to which it applies. King III states that it applies to all entities, regardless of the manner and form of incorporation (Jackson and Stent, 2012: 4/6; IoDSA, 2009b: 16).

As mentioned in section 2.3.5, the terminology used in the King III Report refer to the “apply or explain” approach to the corporate governance principles. “Applying” as opposed to “complying” as it appear in King I and King II, allows for organisations to consider different approaches to achieve the objective of the principles in the code (IoDSA, 2013: 4) and allows organisations to follow the requirements of the code as far as possible (Singh, 2010: 80). Furthermore, application takes place within a

context, namely what is in the best interest of the particular organisation based on what is appropriate to the size, nature and complexity of its operations (IoDSA, 2013: 4). It states that **all entities** should, by way of explanation, make a positive statement about how the principles have been applied or have not been applied (IoDSA, 2009b: 17). It follows that organisations such as NPO's and churches should also apply the principles in the King Report and implement best practice recommendations.

The adoption of the “apply or explain” approach means that the board of directors (or any group of people charged with the governance of an organisation), in its collective decision-making, could conclude that to follow a recommendation would not, in the particular circumstances, be in the best interest of the company. The board could decide to apply the recommendation differently or apply another practice and still achieve the objective of overarching corporate governance principles (Elson and O'Callaghan, 2007: 1; IoDSA, 2009b: 19).

As already mentioned in 2.8.3 and once again affirmed by Hendricks and Wyngaard (2010: 105), the terminology and meaning used in the King Reports are skewed towards large organisations, but can be replaced with those designations applicable to churches. Churches can substitute the terms which are regarded by them as not relevant, for example “directors” and “management” with terms applicable to churches namely “board members” and “governing boards” (Lubbe, 2012a: 17; Larkin and DiTommaso, 2005: 5; Conner, 2001: 12). This approach was also followed in the preparation of the interview schedules where terminology was replaced with the applicable and relevant terms (see section 4.3.2 for further explanation).

To support the argument in the previous paragraphs, that principles are applicable to all types of organisations, this section will first commence with a discussion on the principles of corporate governance, as contained in King II.

#### **4.2.2.1 KING II PRINCIPLES OF CORPORATE GOVERNANCE**

*“You cannot legislate good behaviour.”*

Mervyn King

In this section, the definitions of the seven principles of good governance as defined by King II, are provided. As the definitions of these principles are provided, a high-level link is established between each of the seven principles and the empirical results presented in section 4.3. The empirical results presented in section 4.3 contain the detail recommendations from the King III Report (as already mentioned in section 4.2.1). It should be noted that this link is not an exhaustive comparison and do not aim to link each recommendation from King III as incorporated in the interview schedule to one of the seven principle(s). The link (as presented below) of the seven principles with the empirical results assisted the candidate in ensuring that the recommendations from King III that have been included in the interview schedules are adequate to ensure compliance with all seven principles of good corporate governance.

It is important to note that a particular principle from the King II Report could be achieved by implementing a specific recommendation (or practice or procedure). However, many of the principles are achieved by implementing more than one practice and the combination of these practices may complement each other to achieve a specific corporate governance principle. For example, the principle of independence presented below in (iii), refers inter alia to an organisation’s practices with regards to the composition of the board as well as the chairperson of the board. It follows that it would not be possible to incorporate the principle of independence by only focusing on one specific practice. The principle of independence would be achieved by implementing more than one mechanism; for example, an organisation (and for the purposes of this study, a congregation) would have to ensure that the majority of the governing board consists of independent members and they need to establish a practice to ensure that the chairperson of the board is independent and not dominating the board. The combination of these practices will therefore achieve the principle of independence.

Likewise, one practice can have the aim to achieve more than one principle simultaneously. In section 4.3.11, the recommended practices to ensure effective communication to stakeholders are discussed. To communicate effectively with stakeholders cannot be reduced to meet one principle only, but can be linked to at least three principles, namely transparency, accountability and responsibility. To condense these three principles into a sentence, transparency, (see ii), in part refers to how information is made readily available, accountability, (see iv), refer to how an organisation, and to whom an organisation is accountable and lastly responsibility, (see v), holds that organisations should be responsible towards all stakeholders. Therefore, to implement the recommended practices around effective communication to stakeholders, address at least three of the corporate governance principles.

It can therefore be derived that the implementation of a practice does not necessarily aim to achieve one principle only and therefore do not exclude the perusal of another corporate governance principle. Therefore, the perusal of a specific principle by a recommended practice is not mutually exclusive of other principles.

The definitions attached to each of these principles according to the King II Report, are as follows:

- i. **Discipline:*** It is a commitment by a company's senior management to adhere to behaviour that is universally recognised and accepted to be correct and proper. This encompasses a company's awareness of, and commitment to, the underlying principles of good governance, particularly at senior management level (IoDSA, 2002b: 11).

Section 4.3.3, in part, contains the empirical results for senior management's (or the governing board's) commitment to discipline. Section 4.3.3 consist of several subsections and cover aspects such as, but are not limited to, the governing board's functions and responsibilities (see 4.3.3.6), the composition of the governing board (see 4.3.3.2), the meetings of the governing board (see 4.3.3.5) and the size of the governing board (see 4.3.3.1). The induction processes provided to governing board members (both new and existing members), should raise governing board members'

awareness to good corporate governance and are presented in section 4.3.4.2. All these aforementioned subsections contain the different practices and recommendations which relate to a governing board's commitment to good governance.

*ii. Transparency:* The ease with which an outsider is able to make meaningful analysis of a company's actions, its economic fundamentals and the non-financial aspects pertinent to that business. This is a measure of how good management is at making necessary information available in a candid, accurate and timely manner – not only the audit data but also general reports and press releases. It reflects whether or not investors obtain a true picture of what is happening inside the company (IoDSA, 2002b: 12).

Section 4.3.7, in part, contains the empirical results for the congregation's commitment to transparency by looking at the extent to which congregations are transparent with regards to their financial results. The preparation of the financial statements and budgets are presented in section 4.3.7.1 and 4.3.7.2 respectively. Transparency, however, extends beyond financial results. The congregation's commitment to be transparent, through the governance of stakeholders' relations, are illustrated in the results presented in section 4.3.11.

The empirical results for the audit requirements for the congregations are presented in section 4.3.8. The audit requirements equally address the principle of transparency as well as accountability. Section 4.3.8 provide the detail on the level of assurance required for the selected denominations as prescribed by the Church order and the Constitution respectively. The level of assurance provided, as well as the subsequent distribution of the financial statements, will address the principle of transparency and accountability. The preparation of the financial statements is also addressed in section 4.3.7.1.

*iii. Independence:* The extent to which mechanisms have been put in place to minimize or avoid potential conflicts of interest that may exist, such as dominance by a strong chief executive or large shareowner. These mechanisms range from the composition of the board, to appointments to

committees of the board, and external parties such as the auditors. The decisions made, and internal processes established, should be objective and not allow for undue influences (IoDSA, 2002b: 12).

Section 4.3.3, in part, contains the empirical results for the congregation's commitment to independence. This section focuses on the composition of the governing board (see 4.3.3.2), the independence of the chairperson (see 4.3.3.3), the size of the board (see 4.3.3.1) and the period serving as board members (see 4.3.3.4). In addition, the process behind the appointment of governing board members are presented in section 4.3.4. The appointment and dismissal processes of the governing board members (see 4.3.4.1) and the minister or pastor (see 4.3.4.3) are presented separately. As the principle also relates to mechanisms with regards to the appointment of auditors, the results for the appointment process of the auditors is presented in section 4.3.8.

***iv. Accountability:*** Individuals or groups in a company, who make decisions and take actions on specific issues, need to be accountable for their decisions and actions. Mechanisms must exist and be effective to allow for accountability. These provide investors with the means to query and assess the actions of the board and its committees (IoDSA, 2002b: 12).

Section 4.3.3.9, in part, contains the empirical results for the congregation's commitment to accountability. This section cover, for example, the implications if there is a lack of accountability towards the Synod office or the Head office of the two respective denominations. In addition, section 4.3.5, in part, covers the principles of accountability as these relate to the practices around performance management. As part of performance management, mechanises are implemented to hold management, with specific reference to the minister or pastor (see 4.3.5.1) and the governing board (see 4.3.5.2), accountable.

The functions of the governing board (see 4.3.3.6), finance department (see 4.3.3.7) and the company secretary (see 4.3.3.8) also have an important role to play to ensure the accountability of congregations.

**v. Responsibility:** It pertains to behaviour that allows for corrective action and for penalising mismanagement. Responsible management would, when necessary, put in place what it would take to set the company on the right path. While the board is accountable to the company, it must act responsively to and with responsibility towards all stakeholders of the company (IoDSA, 2002b: 12).

Section 4.3.3.9, in part, contains the empirical results for the congregation's commitment to act responsibly. This section has already been linked to the principles of accountability as well. The potential results of non-compliance by congregations to important policy documents, for example the Church order and the Constitution, are presented in this section. The recommended practices of performance management presented in section 4.3.5, which have already been linked to accountability above, could also be linked to responsibility, as it refer to potential corrective action or penalising of management.

The empirical results presented in 4.3.9 about congregations' risk management process can be partly linked to the principle of responsibility. Management can responsibly act on the risks identified for the congregation.

**vi. Fairness:** The systems that exist in the company must be balanced in taking into account all those that have an interest in the company and its future. The rights of various groups have to be acknowledged and respected. For example, minority shareowner interests must receive equal consideration to those of the dominant shareowner(s) (IoDSA, 2002b: 12).

Section 4.3.11, in part, contains the empirical results for the congregation's commitment to its stakeholders. This section covers the identification of stakeholders, as well as the communication processes and channels to these stakeholders. In the identification of the stakeholders, the rights of "minorities" are valued.

**vii. Social responsibility:** A well-managed company will be aware of, and respond to, social issues, placing a high priority on ethical standards. A

good corporate citizen is increasingly seen as one that is non-discriminatory, non-exploitative, and responsible with regard to environmental and human rights issues. A company is likely to experience indirect economic benefits such as improved productivity and corporate reputation by taking those factors into consideration (IoDSA, 2002b: 12).

The extensive role of the church in the provision of social services covered in section 1.1 provides evidence of the church's commitment to its social responsibility. As already explained in section 2.5.2, the Bible provides guidance on the giving of funds for the needy and the poor. This links with the principle of social responsibility as the church is also mandated to look wider than the institution itself and to be focussed on giving instead of only receiving.

The empirical results presented in section 4.3.10 with regards to financial sustainability as well as section 4.3.12 with regards to effective leadership is interwoven in all seven principles listed above and do not have a clear link to one specific principle.

As already mentioned previously, these seven principles of good corporate governance are not explicitly repeated again as a list in King III. The King III governance chapters are an outflow from the overarching seven principles of good governance in King II. These nine chapters are 1) ethical leadership and corporate citizenship, 2) board and directors, 3) audit committees, 4) the governance of risk, 5) the governance of information technology, 6) compliance with laws, rules, codes and standards, 7) internal audit, 8) governing stakeholder relations and 9) integrated reporting and disclosure. These governance chapters provide more guidance on the implementation and the recommended practices that the principles of the King Reports want to achieve. Each governance chapter provides a few best practice recommendations on how to carry out each principle (Cassim, 2011: 433; Jackson and Stent, 2012: 4/7) and these recommendations are incorporated in the empirical findings in section 4.3. Refer to section 4.3.2 for a further discussion on the incorporation of the King recommendations in the interview schedules.



The King III Report, rather than to list the seven principles of governance again, highlights that governance revolves around three key aspects, namely 1) Effective leadership, 2) Sustainability and 3) Corporate citizenship. Each of these three aspects are discussed briefly in the following paragraphs.

#### **4.2.2.2 EFFECTIVE LEADERSHIP**

*“Everything rises and falls on leadership. “*

John C. Maxwell

*Governance and leadership are the yin and the yang of successful organisations. If you have leadership without governance you risk tyranny, fraud and personal fiefdoms. If you have governance without leadership you risk atrophy, bureaucracy and indifference.”*

Mark Goyder (Director of Tomorrow’s Company)

Howell (2003: 1) states that countries, companies and churches rise or fall with the quality of their leadership. The perceived problems in the leadership of the church is evident in the daily coverage in the newspaper reports. Some of the most recent media coverage of the perceived problems in the leadership of churches are as follows:

- The collapse of a guesthouse in 2015, belonging to the controversial Pastor TB Joshua’s Synagogue Church of all Nations in Nigeria, attracted much media attention. Partly due to the tragedy of many people that died (allegedly 116 people) and partly due to the denial by the leadership in their part of the tragedy. After the collapse, TB Joshua has not been in the public space for several months. The controversial Nigerian pastor afterwards proclaimed that the building’s collapse was God’s will (Lindeque, 2015);
- An investigative study on the commercialization of religion and the exploitation of people’s belief systems have been launched recently in South Africa (Eybers, 2015: 7). Rogue pastors who use religion to make money and dodgy healers who swindle people through promises of magic is a burning point

(Mashaba, 2015). The investigation aimed at how these institutions are being run, where their funding is going into, who collects how much and what they do with the money (Shange, 2015; Chernick, 2015);

- The Belhar confession of the DRC has received much media coverage as some congregations accepted the confession and others not (see for example Marais, 2015: 5; Mailovich, 2015: 2; Steyn, 2015: 5); and
- The DRC's decision to unconditionally accept gays in its midst resulted in much controversy (Doubell, 2015: 9). The decision taken by the leadership of the DRC allow gays to get married in the church and to be legitimised (Marais, 2015: 9). The decision was taken by the General Synod of the DRC with a majority of 102 votes against 88. Many congregations raised the concern that the vote was only exceeded by 14 votes and this small majority made the decision on behalf of one million members of the DRC (Steyn, 2015: 2). Many members of the DRC as well as Regional Synods expressed their unhappiness with the decision taken by the General Synod (Steyn, 2015: 2). This controversial decision resulted in many congregations that threatened to split from the General Synod (Doubell, 2015: 9) as well as a divisions between several circuits and the General Synod (Steyn, 2015a: 1). Many circuits expressed the concern that the General Synod did not act in the best interest of the "bigger" DRC as a denomination (Steyn, 2015a: 1).

The decision by the General Synod, the subsequent opposition by many congregations, the appeals against the decision by congregations and church councils and the arrangement to set aside the decision for a period of two years, unleashed a storm of emotions and opinions (Vermeulen and Walt, 2015: 5; Oosthuizen, 2015: 10; Steyn, 2015b: 1).

This decision might have raised the concern on the perceived lack of governance, especially in the arena of leadership in the church. The decision taken by the General Synod could not have been implemented for several months due to several appeals from congregations and Regional Synods against the decision (Steyn, 2015: 11).

Good governance is not only about structures, processes and policies, but also about fostering the right culture and behaviour along the overarching principles of ethical leadership (IoDSA, 2013: 4). According to King III, the first aspect, being effective leadership, could be achieved by adhering to what it refers to as the four values underpinning good corporate governance, namely responsibility, accountability, fairness and transparency (IoDSA, 2009b: 9; Cassim, 2011: 436). These four values for ethical leadership correspond to four of the seven principles of good corporate governance of King II as presented in section 4.2.2.1.

The focus of the international developments on corporate governance as provided in Chapter 2 was on the leadership, being the board of directors. The terms “leadership” and “board of directors” are used throughout the corporate governance codes. The King III Report starts off with leadership as the first element of good governance and states that good governance is essentially about effective *leadership* (IoDSA, 2009b: 9).

Leadership is therefore a key factor in achieving good corporate governance (Crous et al., 2012: 549) and leaders should rise to the challenge of governance (IoDSA, 2009b: 9). Scholars recognise that leadership is at the apex of any organisation’s corporate governance (De Andrés-Alonso et al., 2009: 786; Warren, 2003: 58). Corporate governance is about setting the “tone at the top” by means of the example of good ethical conduct by leaders (Lubbe, 2012b: 166). An entire chapter in the King III Report has been dedicated to ethical leadership and numerous of the other chapters also revolves around leadership. The importance of leadership has been recognised in the interviews as the concept of leadership was absorbed in several questions in the interview.

Based on the discussion of the governance structures in section 3.4.3.1 and 3.4.4.1, the governing board is regarded as the “leaders” of a specific congregation as every congregation function to a large extent autonomous. The interviewees were also asked to present their views on the four values underpinning corporate governance as mentioned above, namely responsibility, accountability, fairness and transparency. The empirical results of the governing board and their views on ethical leadership is presented in section 4.3.3 and 4.3.12 respectively.

The second and third key aspect mentioned in the King III code, namely the concept of sustainability and corporate citizenship, is explained and incorporated in more detail in King III if compared to King II. The concept of sustainability is explained in the next section followed by an explanation of corporate citizenship.

#### **4.2.2.3 SUSTAINABILITY**

*“Financial sustainability is, without a doubt, the most pivotal issue for non-profit organizations for the next decade. We're seeing many more organizations in financial distress.”*

Kate Dewey

*“It's time we admitted that there's more to life than money and its time we focused not just on GDP, but on GWB – General Well Being.”*

David Cameron, British Prime Minister

Sustainability is at the heart of a company's business model and core to board-level decisions on growth, performance and compliance (KPMG, 2012: 129; Kocmanova et al., 2011: 543). The most widely stated definition of sustainability is that of the World Commission on Environment and Development, which states that “development is sustainable when it meets the needs of the present without compromising the ability of future generations to meet their own needs” (KPMG, 2012: 129).

For many years, business leaders have typically employed the term “sustainability” to mean an organisation's ability to increase or maintain its earnings steadily (Adams et al., 2010: 2). The concept is, however, broader and encompasses three key dimensions of the business environment namely financial, environmental and social (Lewis and Sobhan, 1999: 124; Aras and Crowther, 2008: 437; Kocmanova et al., 2011: 543; Adams et al., 2010: 2; Perrini and Tencati, 2006: 298), all of which should be viewed as equally important (Aras and Crowther, 2008: 437; Kocmanova et al., 2011: 545; Coblentz, 2002: 2). Sustainability refers to the acknowledgement of companies that they do not operate in a vacuum, they are part and parcel of society

and must address, and be part of, the social, ethical and environmental issues which arise out of society (Kocmanova et al., 2011: 545; Cramer, 2002: 99).

More than before, firms are now expected to account explicitly for all aspects of their performance, i.e. not just their financial results, but also their social and environmental performance (Cramer, 2002: 99; Adams et al., 2010: 2). The “traditional” financial reporting do not accommodate the reporting and compliance of organisations to these aspects of sustainability (Perrini and Tencati, 2006: 296). The corporate governance failures as depicted in section 2.2 in Chapter 2, indicate that organisations should do more than mere compliance with conventional accounting rules. It is regarded as insufficient and firms should do more to recover confidence and remain sustainable (Hui, 2008: 449).

The way organisations *communicate* their sustainability efforts are important (Coblentz, 2002: 4; Adams et al., 2010: 11). Organisations should communicate their commitment to social and environmental aspects consistently, both in words and actions (Epstein et al., 2010: 47). This concurs with the principle of triple bottom line reporting as discussed in section 2.3.5 in Chapter 2. To be sustainable, organisations will have to change the way they interact with the environment (Cramer, 2002: 99; Perrini and Tencati, 2006: 298) and the scope of the “environment” include stakeholders which are not limited to the shareholders (Aras and Crowther, 2008: 434; Perrini and Tencati, 2006: 298). The public opinion of stakeholders therefore become increasingly important (Cramer, 2002: 101). Subsequently, it is important to openly and proactively communicate with all relevant stakeholders and obtain approval for their conduct from these stakeholders.

Although most of the focus on sustainability and the reporting of these aspects are on companies in the private sector (see Perrini and Tencati, 2006; Adams et al., 2010: 2; Epstein et al., 2010), the concept applies equally well to all other types of organisations (Eccles and Saltzman, 2011: 60,61), and for the purpose of this study, churches. Like all organisations, NPO’s and churches use financial, environmental and social resources to accomplish their objectives, admittedly at smaller levels than large organisations (Eccles and Saltzman, 2011: 61). Due to the nature and the size of churches, they do not necessarily report on environmental and social aspects. For

the purpose of the empirical results, focus was placed on the communication with relevant stakeholders. The empirical findings on the identification of stakeholders and the communication with stakeholders by churches are presented in section 4.3.11.

Organisations' commitment to sustainability may lead to contributions that are good for society, the environment and ultimately, an organisation's bottom line (Epstein et al., 2010: 47). Sustainable business practices are gradually becoming more and more widespread. Cramer (2002: 99) states that this is a trend that reflects changing social attitudes to the responsibilities held by firms towards the societies in which they operate. Any organisation that should fail to understand and react to its position in society might have to face the implication that it will not survive and not be sustainable.

The discussion in section 1.2, which provided the background for the problem statement presented in section 1.5, highlighted the challenges for churches to maintain their financial sustainability. In the context of the discussion in Chapter 1 and 2, one of these aspects, being financial sustainability, is perceived as a decisive risk area for churches. As mentioned above, sustainability is concerned with the effect which action taken in the present has upon the actions available in the future. Financial sustainability can therefore be explained as the way an organisation's financial resources are managed in the present so that management will be possible in a value-creation way in the future (Aras and Crowther, 2008: 438). The empirical results regarding sustainability, for the purpose of this study, focused specifically on one of the key dimensions, being financial sustainability. The views and opinions of the interviewees with regards to the financial sustainability of congregations, as well as the broader church, is presented in section 4.3.10.

#### **4.2.2.4 CORPORATE SOCIAL RESPONSIBILITY**

*"The Business of business is business."*

Milton Friedman

*“Did you ever expect a corporation to have a conscience, when it has no soul to be damned and no body to be kicked? And by God, it ought to have both!”*

First Baron Thurlow Lord Chancellor of England

The concept of corporate citizenship flows from the philosophy that a company is a “person” and should operate in a sustainable manner. It implies an ethical relationship of responsibility between the company and the society in which it operates. Companies have rights, but also legal and moral obligations in respect of their economic, social and natural environments (Jackson and Stent, 2013: 4/5).

Civil society is increasingly demanding that businesses abide by norms of social responsibility in their pursuit of profit (Jackson, 2010: 45). The term “Corporate Social Responsibility” (CSR) was coined by Howard Bowen, a renowned economist, when he argued that economic and social benefits would result if companies engage in CSR (Jackson, 2010: 48). The need for companies to illustrate CSR has increasingly gained prominence by scholars since the 1950’s (Shaw, 2009: 571; Baron, 2007: 715-716; Schwartz and Saiia, 2012: 24; Jackson, 2010: 48).

CSR refers to the broader social and moral responsibility (Jackson, 2010: 52), in addition to that of turning a profit (Fisher and Lovell, 2006: 296; Shaw, 2009: 571; Jackson, 2010: 52). It is generally recognised that an organisation’s responsibilities do not begin and end with making a profit and contributing to the economy, but it also extends to its responsibility towards society and the environment (Lubbe, 2012b: 155; Farrar, 2008: 491). The previous section, 4.2.2.3, already touched on the importance of communication to stakeholders that extend beyond financial matters.

To take this discussion a little bit further for the purpose of this section, King II states that social responsibility extends to the economic, social and environmental spheres, also known as the “three Ps”, respectively being “profit”, “people” and “planet” (IoDSA, 2009b: 30,118; Cramer, 2002: 102). Companies should engage in triple bottom line reporting which report on performance in terms of all three these aspects and this opposes the single bottom line performance of a company which only reports on financial performance presented by the publishing of financial statements

(Lubbe, 2012b: 158). Lubbe (2012b: 155) states that it is an “art” to balance these three aspects, since operating a business is not economically viable without profit, but profit should not be sought after at all costs and at the expense of the well-being of the society and the natural environment within which the business functions.

The CSR movement added the human touch to the business’ objectives of profit (Bejou, 2011: 2) and can be seen as an attempt to create a soul for the corporate body based on its obligation to society – doing good to be good (Banerjee, 2008: 15). The “good” done by organisations goes by many names (Banerjee, 2008: 16). The term CSR has been the general term used. Various other terms have been used to express this concept, including corporate social performance, corporate community involvement, corporate philanthropy and most recently, corporate citizenship (Burlingame, 2001: 91). Corporate citizenship is well on the road to becoming the inclusive global term (Burlingame, 2001: 91) and be added to the plethora of terms describing business-society relationships (Banerjee, 2008: 41). The King III Report also uses the term corporate citizenship to refer to an organisation’s social responsibilities (IoDSA, 2009b: 9,10; Jackson and Stent, 2013: 4/5,4/6).

There appears to be some disagreement about terminology as some scholars view corporate citizenship and CSR as synonymous, whereas others argue that corporate citizenship focuses more on internal organisational values as opposed to CSR which is more concerned about the negative externalities associated with corporate behaviour (Banerjee, 2008: 41). Davenport (2000: 211) argues that the roots of the two discourses are different. Corporate citizenship is a more practitioner-based approach whereas the discourse of CSR emerged from the academic community.

Banerjee (2008: 44) states that attempts to distinguish between corporate citizenship and CSR do not make a particularly convincing case and appear to be more of an academic exercise in staking out territories. The main elements of corporate citizenship are not very different from concepts of CSR discussed earlier, namely the legal requirements, societal obligations, voluntary actions, values and ethics are integrated along with a stakeholder view of the firm (Banerjee, 2008: 42,45). Farrar (2008: 492) confirms that there is no conceptual difference between the terms CSR and corporate citizenship as both incorporate economic, legal, ethical and philanthropic aspects.



Irrespective of whether there are disagreements or agreements on the terminology used, scholars agree that a company is said to practice their social responsibility if it makes profits, obeys the laws, is ethical, and is a good corporate citizen (Bejou, 2011: 1; Baron, 2007: 683). CSR signifies society's expectations of appropriate business behaviours where they are not legally bound to contribute to charities and the social welfare of societies, but many citizens expect profitable companies to do so (Jackson, 2010: 53).

Milton Friedman, a Nobel prize-winning economist, whose ideas were influential during the 1980's, had arguments against companies being charged with "corporate social responsibilities" (Fisher and Lovell, 2006: 311; Matten et al., 2003: 111; Bejou, 2011: 1). The view of Friedman is a well-known cliché (as presented in the quotation in the beginning of the section) which state that organisations should be busy with "business" (Banerjee, 2008: 51). The main arguments of Friedman's famous and influential essay: "*The Social Responsibility of Business Is to Increase Its Profits*" is that people responsible for decisions and actions in businesses should not exercise social responsibility in their capacity as company executives (Cosans, 2009: 391; Farrar, 2008: 495; Baron, 2007: 683). He argues that the only social responsibility of a business is to increase its profits (Fisher and Lovell, 2006: 311; Mulligan, 1986: 265; Bejou, 2011: 1; Baron, 2007: 683).

Friedman's views on the "social responsibility" of businesses are further evident in the following passages contained in his works, *Capitalism and Freedom* as: "... *there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud*" (Carson, 2003: 391).

The view of Friedman versus CSR is a notion that will increasingly provoke further reflection (Schwartz and Saiia, 2012: 24; Banerjee, 2008: 51). There is, however, increasingly a definite shift from his tiresome view (Banerjee, 2008: 51). The notion of CSR presupposes that businesses should voluntary choose to pursue these goals in order to reap the benefits of social and moral value in their communities, in addition to the "traditional corporate governance" that addressed the conventional

views of “shareholder theory” and profit maximization (Jackson, 2010: 45,47). Organisations are increasingly playing a bigger role in society and they are being called upon to fulfil roles that have previously been associated with the role of the state (Rossouw and Van Vuuren, 2010: 37,38). See the discussion in section 1.1 in Chapter 1 on the role of the church in the provision of social services. Organisations should take up their CSR to ensure they are good corporate citizens.

Unlike the state, which is accountable to the people whose lives they are influencing, organisations are not accountable to the people to which they provide a social service (Rossouw and Van Vuuren, 2010: 37,38). Governments are accountable to their citizens and could be discharged or approved of these responsibilities through the electoral process, but similar mechanisms do not yet exist in respect of other organisations (Matten et al., 2003: 118). Matten, Crane and Chapple (2003: 118) suggest that if organisations take over vital functions of governments, they should take over to the same degree the type of accountability which societies demand from government. This strengthens the argument presented in section 1.5 for the need of religious organisations to be more accountable, especially due to the involvement of these organisations in the provision of social services. The recognition of stakeholders, consideration of sustainability in a broader social environment and the pursuit of CSR is imperative for all organisations, more specifically for purposes of this study, churches, to illustrate sound governance principles.

The discussion in section 1.1 provided several examples of churches’ involvement and contribution towards social challenges. Therefore, it is evident that many churches do take up their social responsibility and that in many instances, that it forms part of their core mission and vision (see section 2.8.2).

Based on the preceding discussion, it is therefore evident that even if the seven principles of governance from King II are not listed again in King III, that five out of the seven principles of the King II Report can to a moderate degree, be linked to the three key aspects of governance of King III as presented in 4.2.2.2 to 4.2.2.4 above. The first four principles in King II, being 1) responsibility, 2) accountability, 3) fairness and 4) transparency are the pillars of effective leadership as presented in section 4.2.2.2. The fifth principle, being social responsibility, is embedded in sustainability

(see section 4.2.2.3) and corporate social responsibility (this section). The remaining principles listed in King II, namely discipline and independence, are interwoven in all the detailed principles and recommendations of the King III Report.

The next section discusses the Independent code of Governance for NPO's in South Africa, as well as the principles of stewardship from a Biblical perspective.

### **4.2.3 ADDITIONAL SOURCES OF GOVERNANCE**

As mentioned above in section 4.2.1, the principles of King II as well as the recommendations from King III have been used as the main source in the design for the interview schedules. The reasons why additional sources of governance, over and above the King Reports are included in this chapter, has already been provided in section 4.2.1 and will not be repeated here again.

The discussion will, all through, make a connection between the content of these sources and the seven principles of corporate governance as explained in 4.2.2.1. This discussion will therefore show that cognisance was taken of the concerns raised by some scholars in section 2.8.3 that the King Reports may not in all instances, be relevant to other types of organisations, more specifically, for purposes of this study, churches and NPO's. The purpose is not to engage in an exhaustive and detailed comparison between the content of these sources and the King II Reports, but the high-level link will articulate that the principles of King II can be applied by NPO's and churches.

#### **4.2.3.1 THE INDEPENDENT CODE OF GOVERNANCE FOR NON-PROFIT ORGANISATIONS**

After the release of the King III Report in 2010, a working group was established by the South African Institute for Advancement to consider the implications of the Report to NPO's. The Institute was of the opinion that the language and cadence of the corporate code was largely inaccessible to NPO's and did not adequately reflect the values and ethos of this sector. The reason therefore provided by this working group supports the arguments presented by some scholars in 4.2.2, that in many instances the terminology used in the Reports is regarded as not being relevant to

NPO's and churches. The need was recognised for a code of governance specifically for NPO's in South Africa and the institution released the Independent code of Governance for NPO's in 2012. The Institute released the code from the presupposition that it represented the large and diverse non-profit sector and that it reflected its unique values and principles (Inyathelo, n.d.).

This code of governance outlines eight values which are of special relevance and concern to NPO's. These eight values are 1) fidelity to purpose, 2) altruism and benevolence, 3) integrity, 4) optimising resources, 5) conflicts of interest and self-dealing, 6) equality and non-discrimination, 7) democracy and empowerment and 8) independence and impartiality. The definition of these eight principles as contained in the code are briefly provided.

In addition, this section provides a comparison between these eight aforementioned values and the seven principles of good governance from the King II Report as presented in section 4.2.2.1. The reason why this comparison is performed is to ensure that the principles that are used in the design of the interview schedule (refer to section 4.3.2 for discussion on the design of the schedule), do incorporate the unique values and structures of these organisations. This section does not aim to engage in a detailed analysis or explanation of these eight values, but the definitions are merely provided, with a concise link to the most noticeable principle from the King II Report. A detailed comparison or link between these two "codes of governance" fall outside the scope of this study.

This link is merely performed to address some of the concerns from the scholars presented in section 2.8.3 that the King Reports may not in all instances be relevant to other types of organisations, for example NPO's and churches. The link therefore serves the purpose of setting the stage for the interview schedule and to provide some evidence that all the principles contained in these codes could be linked to King II. Subsequently, by means of a brief discussion, it will be sought to link these eight values with the seven principles of the King II Report. The link will be based on the definitions of the seven principles as contained in section 4.2.2.1, as well as the definitions of the eight values provided below.

A number of these abovementioned values cannot be linked to only one corporate governance principle from the King II Report, as in many instances, a particular value overlap with more than one corporate governance principle. This is similar to the discussion presented in section 4.2.2.1 on the link between the principles of corporate governance and the recommendations from the King III Report. For the purpose of this comparison, the link is just created to the most discernible principle(s). The link provides some evidence that the corporate governance principles in the King II Reports do stand the test of time (see section 1.4.1) and can be applied to NPO's and churches, despite the claims of many scholars that these principles were not designed for these types of organisations (see section 2.8.2). The definitions of the eight values are as follows:

- i. Fidelity to purpose (Possible link - Social responsibility):* For an NPO to be committed to the principle of fidelity, or loyalty, it means that all its resources, energies and activities must be devoted to promoting its public benefit purpose and not to some personal or private objective (The South African Institute for Advancement, 2012: 5).
- ii. Altruism and benevolence (Possible link - Social responsibility):* This implies that actions and decisions must be motivated by reasons consistent with its purpose. The underlying motivation must be one of advancing the public interest, and not some self-interest (The South African Institute for Advancement, 2012: 6).
- iii. Integrity (Possible link(s) - Transparency, accountability and responsibility):* It is a primary responsibility of the Board to demonstrate a commitment to the highest standards of integrity, and to require that all persons who represent or act on behalf of the organisation live up to these expectations (The South African Institute for Advancement, 2012: 6).
- iv. Optimising resources (Possible link(s) - Accountability and responsibility):* An NPO stands in a position of trust (refer to section 2.8.4 for further explanation). It is given funds and resources for a specific purpose. Decisions of the Board and actions of management must be

consistent with that purpose. Funds and resources must be put to use in a responsible manner, and without extravagance or undue risk. Even when funds are donated without a designated purpose, care and prudence must be the watchwords (The South African Institute for Advancement, 2012: 6).

**v. Conflicts of interest and self-dealing (Possible link - Independence):**

Conflicts of interest arise when a person in a position of trust makes a decision or enters into a contract from which they themselves, or friends, relatives or associates, stand to benefit (The South African Institute for Advancement, 2012: 7).

**vi. Equality and non-discrimination (Possible link(s) - Social responsibility, transparency, fairness and accountability):**

NPOs, like all other members of society, are bound by rights, duties and obligations set out in the South African Constitution. It is the responsibility of a board to take proactive steps to prevent unfairness in the conduct of the affairs of an organisation (The South African Institute for Advancement, 2012: 8).

**vii. Democracy and empowerment (Possible link(s) – Transparency and fairness):**

In the conduct of its affairs and in its relationships with each of its stakeholders, a NPO must demonstrate a clear commitment to democratic process and decision-making. Decisions made should be informed by knowledge, research, and a participative process, allowing for wide-ranging consultation and feedback (The South African Institute for Advancement, 2012: 8).

**viii. Independence and impartiality (Possible link(s) – Fairness, independence and social responsibility):**

As already explained in section 2.8.2 in Chapter 2, a NPO exists to serve a public interest. A public benefit purpose implies that all eligible beneficiaries must be treated equally and fairly, without special favour or prejudice. Where it is necessary, because of limited resources, to choose between particular individuals or communities, the basis for choice must be such as to avoid the reality or the possible perception of unfair discrimination. This is

particularly important where members of the Board, or senior executives, are identified with one beneficiary group rather than another (The South African Institute for Advancement, 2012: 9).

Corporate governance of churches should be embedded in their value systems (Inauen et al., 2010: 46). As discussed in section 3.4.2 in Chapter 3, the Bible does not prescribe a specific type of church governance, but rather reinforces that principles should be followed. Conner (2001: 13) believes that the wisest approach is to appropriate the biblical principles of church leadership to the particular time and culture. Payton's (as cited by Jeavons, 1994: 108) notion is that the concept of stewardship has its origin from religious roots. Stewardship refers to a set of principles that is not limited to churches, but that can be applied and followed by any type of organisation. In the following section, the concept of stewardship from a Biblical perspective is explained.

#### **4.2.3.2 A BIBLICAL PERSPECTIVE ON STEWARDSHIP**

*“Well done, good and faithful servant! You have been faithful with a few things; I will put you in charge of many things. Come and share your master’s happiness!”*

Matthew 25:21 (Amplified version)

*“Throughout church history, there has been a quest to find the most biblical model of church governance – to be a New Testament church. In reality, we only have a little detail about the structure and function of the early church leadership roles and this is not uniform or fixed. In our desire to be biblical, we should focus on principles rather than specific models or methods.” (Conner, 2001: 13) [emphasis added]*

The idea and practice of stewardship represents the most obvious conceptual and philological intersection of the secular and religious organisations (Jeavons, 1994: 108). Payton (as cited by Jeavons, 1994: 108) supports this view and states that the concept of stewardship, although clearly religious in origin, calls attention to the secular need for administration in all organisations. Stewardship refers to a set of principles that can be applied and followed by any type of organisation. This

supplements the discussion in section 2.8.4 that corporate governance is a set of principles that could be adapted by any organisation. Ullmer, Wright and Huse (2007: 225) state that the theory of stewardship interacts well with the non-profit sector, and for the purposes of this chapter, churches specifically.

The discussion in section 2.8.2 in Chapter 2 focused on the secular demand for sound corporate governance principles of churches. There are, however, guidance from the Bible to churches on the principles of governance called “stewardship” (Green, 2012: 1). The Biblical principles are not primary to this study, but the following is a brief overview of some of these principles from Bible scripture:

- In 2 Corinthians 8:20-21 (Amplified version), Paul gives teaching to the church of the Corinthians on how they should be accountable for their finances: Paul states that *“[for] we are on our guard, intending that no one should find anything for which to blame us in regard to our administration of this large contribution. [For] we take thought beforehand and aim to be honest and absolutely above suspicion, not only in the sight of the Lord but also in the sight of men.”*
- In Matthew 23:23 (New King James version) Jesus is very clear in his teachings on the church’s mandate, that is accompanied with the responsibility to be faithful and accountable with regard to its finances: *“Woe to you, teachers of the law and Pharisees, you hypocrites! You give a tenth of your spices - mint, dill and cumin. But you have neglected the more important matters of the law - justice, mercy and faithfulness. You should have practiced the latter, without neglecting the former.”*
- The following two verses from Proverbs teach churches that they should fulfil their responsibility in terms of the Gospel, without neglecting the stewardship principles of financial matters:
  - i. Proverbs 27:23-24: *“Know well the condition of your flocks, and pay attention to your herds’ for riches are not forever, nor does a crown endure to all generations”*; and



- ii. Proverbs 3:9-10: *“Honor the Lord from your wealth and from the first of all your produce; so that your barns will be filled with plenty and your vat will overflow with new wine”*.
- The mandate to act responsibly with finances and to even engage in cost analysis and budgets are evident from Luke 14:28 (New International Version): *“Suppose one of you wants to build a tower. Won’t you first sit down and estimate the cost to see if you have enough money to complete it?”*

To link the above to the principles as discussed in section 4.2.2, it could be stated that the principles of responsibility and accountability, and even perhaps social responsibility, specifically with regards to finances, are implied in this scripture. The scripture is clear on aspects that a church should be managed properly in terms of its finances.

Jeavons (1994: 108) explains that good stewardship has come to be translated to mean, simply, economic efficiency and management of financial resources (Aras and Crowther, 2008: 437). He (1994: 108), however, emphasizes that the term stewardship should not be reduced to the "managing of wealth and finances" only (Welchel, 2012). This will not give recognition to the original meaning of the word. Welchel (2012) states that stewardship is much broader and rests on four principles namely 1) ownership, 2) accountability, 3) responsibility and 4) reward. Ownership is explained that one is merely a manager or administrator acting on behalf of someone (refer to the discussion in section 2.3.2 as this is similar to the agency concept). Rewards mean that you will be compensated for being faithful. The explanation given for accountability and responsibility is similar to the explanation presented in 4.2.2.1.

The following parables add to the views of the above scholars and illustrate that the term stewardship entails more than just financial accountability. It also includes responsibility, transparency and accountability, which links with the principles of King II:

- Luke 16:1-2, 10, and 12 (Common English Bible): Jesus said to the disciples, “*A certain rich man heard that his household manager was wasting his estate. He called the manager in and said to him, what is this I hear about you? Give me a report of your administration because you can no longer serve as my manager. Whoever is faithful with little is also faithful with much, and the one who is dishonest with little is also dishonest with much. If you haven’t been faithful with someone else’s property, who will give you your own?*”

In this scripture, Jesus deals specifically with the concept of faithfulness of money. In addition, the scripture refers to a report that should be given with regards to the administration of funds. This can be linked to the responsibility to be accountable and transparent about actions towards stakeholders (or members). The aspects of accountability and transparency of churches to their stakeholders are presented in section 4.3.11 and 4.3.7 in the empirical results.

- Luke 12:36, 42-44 (Amplified version): “And be like men who are waiting for their master to return home from the marriage feast, so that when he returns from the wedding and comes and knocks, they may open to him immediately. Who then is that *faithful* steward, the *wise* man whom his master will set over those in his household service to supply them their allowance of food at the appointed time? He will set him in charge over all his possessions”.

These servants in Luke 12, who are waiting for their master to come home from the marriage feast, illustrate the broader concept of stewardship. This story is finally about the need to be watchful and prepared for opportunities to serve the persons or causes one should serve and about not being distracted from what is important. The focus of Jesus was to teach people the importance of giving their attention and devoting their energy to the things that matter in the larger (and longer term). The importance of the societal, moral, and spiritual scheme of things should be recognised rather than to focus only on the narrow, material concerns and physical security (Jeavons, 1994: 111).

To link the above two parables from Luke, to the principles as discussed in section 4.2.2, one could state that stewardship could be translated to mean that the focus should go beyond profit to aspects such as the impact on society in terms of social responsibility and sustainability. It could also be stated that to invest on the implementation of corporate governance principles would be to devote energy to important matters.

- Genesis 43:16 (Amplified version): “When Joseph saw Benjamin with them, he said to the steward of his house, bring the men into the house...”

The story of Joseph's brothers coming to Egypt to secure food in the time of famine is found in the above scripture. The person to whom they first speak on this second visit is Joseph's steward, the person who was appointed to manage the affairs of his household. This steward had been a key player all along in Joseph's plan to get his brothers to return to Egypt, this time bringing with them his youngest and beloved brother who was left at home, namely Benjamin.

In the last phase of Joseph's plan, this steward is charged during this visit to sneak a silver cup into the brothers' packs to create an excuse to keep them in Egypt, and eventually get the rest of Joseph's relatives to come as well. It is evident that the steward was more than Joseph's financial manager. He was a valued employee, entrusted with a primary role in and the administration of many aspects of Joseph's affairs (Jeavons, 1994: 108-111).

The need for churches to be accountable and responsible, which are all traced back to the principles of corporate governance, is also evident from the above Bible scripture. The Bible recognises that churches should be committed to their vision, mission and calling. This commitment should, however, be complemented by the illustration of principles of responsibility, accountability, faithfulness and stewardship, which are all building blocks of corporate governance.

#### **4.2.4 CONCLUSION**

The discussion in Chapter 2 provided some evidence that the concept of corporate governance is driven by principles and that all organisations should strive to implement these principles. The discussion in this section affirms that the principles of corporate governance prevail irrespective of the size, form and purpose of an organisation. The *principles* of the respective codes discussed above have common characteristics in terms of what should be implemented to ensure sound corporate governance.

The scripture and parables in the previous section illustrated that the Biblical principles of stewardship are absorbed in the seven principles of good governance of the King Report. This supports the argument in Chapter 2 that the King Reports of corporate governance relates to principles that apply to a broad range of organisations, including churches.

Based on the brief discussion of the content of the Independent code of Governance in section 4.2.3.1, as well as the Biblical principles of stewardship in section 4.2.3.2, it appears that these principles are embodied in the seven principles of good corporate governance of King II as presented in section 4.2.2.1. It can therefore be assumed, for the purpose of this study, and more specifically for the design of the interview schedules, that the King Reports do take into account the unique attributes of NPO's and churches.

### **4.3 EMPIRICAL FINDINGS**

#### **4.3.1 INTRODUCTION**

*“Do your little bit of good where you are; it’s those little bits of good put together that overwhelm the world.”*

Desmond Tutu

In this section, an overview is given of the main observations from the interviews with the various interviewees from the sample of congregations. The population for the empirical study, as well as the sampling approach, has already been discussed in detail in section 1.7.5. The sample for the empirical findings is ten congregations, consisting of five DRC and five AFM congregations.

Based on the discussion in the preceding paragraphs, the interview schedules presented to the interviewees incorporate the most relevant and most important practices that should have been implemented by the congregations to achieve the seven principles of good corporate governance as presented in section 4.2.2.1. The next section provides some further background on the design of the interview schedule and the background to the strategy that was used to collect the empirical data.

#### **4.3.2 BACKGROUND TO THE DATA COLLECTION STRATEGY**

The foundation of the empirical study and the instrument used as the data collection method, is an interview schedule as included in annexure A (English interview schedule) and annexure B (Afrikaans interview schedule). The guidelines provided by scholars for the design of an interview schedule, as presented in section 1.7.5 in Chapter 1, have been incorporated by the candidate in the design of the interview schedule.

As illustrated in section 1.7.5 in Chapter 1, there are different data collection methods that can be used. Coldwell and Herbst (2004: 48) distinguish, inter alia, between a questionnaire and an interview to collect data for a qualitative study. The candidate had a choice between a questionnaire and an interview schedule to collect the data, but due to the problem statement and the nature of the study (refer section 1.7.5), an interview schedule was used. In short, one of the major differences between a questionnaire and an interview schedule is the presence of an interviewer. In questionnaires, responses are limited to answers of predetermined questions. In interviews, since the interviewer is present with the subject, there is an opportunity to collect nonverbal data as well and to clarify the meaning of questions if the interviewees do not understand (Harris and Brown, 2010: 1). Refer to section

1.7.5 for further reasons presented for selecting interviewing as the data collection method.

In this study, the candidate was the interviewer that conducted the interviews. The terms “candidate” and “interviewer” are therefore used interchangeably and refer to the same individual. The presence of an interviewer was important to ensure that the interviewees understand the questions and provide appropriate responses. This was imperative in light of the discussion in section 4.2.1 that some of the terminology used in the King Reports have not been designed specifically for churches. Where applicable, the terminology used in the King III Report has been replaced with the applicable terminology that are relevant for churches. The presence of the interviewer during the collection of the data assisted in clarifying some of the terminology of the King Reports during the interviews. In addition, the varying terminology used by the denominations to describe their governance structures, as presented in Chapter 3, has been taken into account during the interviews.

The interview schedule was developed to gather data about the extent to which congregations implement corporate governance principles. Section 4.2.1 already mentioned that the development of the interview schedule relied extensively on the recommendations from the King III Report, the literature study in Chapter 2 (especially section 2.8), as well as the principles of good corporate governance presented in the previous part of this chapter in section 4.2.2. In addition, the unique governance structures of the DRC and AFM presented in section 3.4.3.1 and 3.4.4.1 respectively, have been incorporated.

In the preparation of the interview schedule, extensive consultation was undertaken by the candidate among role players at the DRC Synod offices and the AFM Free State Region for the two respective denominations that form part of this study. The aim of the consultation was to ensure that the interview schedule contain the most important, but also the most relevant sections of the King III Report.

The role players provided valuable feedback to refine the interview schedule and to clarify the questions that were posed to the interviewees by the candidate. This feedback was used to ensure that no ambiguity existed in the interview schedules,

that the questions reflect the structures of the denominations and that the interviewees understand the context of each question. The interview schedule was also peer-reviewed by the study leader, academics, the head of the Synod office of the DRC, the chairperson of the Regional leadership Forum of the AFM, as well as several church leaders, to ensure that it reflects the most important recommendations from the King III Report, taking cognisance of the governance structures of the selected denominations.

Based on the discussion in section 2.8, some of the recommendations from King III are in some instances deemed not to be appropriate, or are not implemented, due to the nature of churches. The different structures and committees as implied in the King III Report, for example internal audit function, the audit committee, remuneration committee and the governance of IT, may not exist in the church environment. As a result of the size and the lack of resources (as already discussed in 2.8.4), churches in many instances, do not appoint additional committees to assist in the governing of the church. The functions that would normally be performed by sub-committees in a corporate organisation, would in the church typically be performed by the governing board.

The design of the interview schedules have therefore taken into account where the recommendations may not be appropriate and have been adjusted accordingly to reflect the structures of the selected congregations (by using the governance structures presented in Chapter 3).

The context of these organisations (De Andrés-Alonso et al., 2009: 784), in many instances, determine the extent or the way in which the corporate governance principles are implemented and these functions could be performed by other means. The questions included in the interview therefore aimed to address the alternative means by which the congregations implement the corporate governance *principles*, rather than to test the implementation of corporate governance recommendations to the letter. This is especially in cases where the size and structure of the churches do not accommodate the implementation of all the recommendations and practices contained in the King III Report.

The interview schedule was developed to contain a balanced variety of open-ended, closed and multiple-answer questions. During the analysis of the empirical results in this section, reference will be made throughout the analysis to indicate the type of questions that were posed to the interviewees.

The same interview schedule was used for all the interviewees of the two denominations. Therefore, the questions posed to the interviewees were the same, with minor terminology deviations incorporated by the interviewee based on the governance structure of the specific denomination.

As discussed in section 4.2.2.1, the implementation of corporate governance recommendations may not necessarily address only one principle, but rather more than one principle simultaneously. Therefore, the divisions used in the interview schedule, as well in the presentation of the empirical results, have not been based on the seven principles of good corporate governance as in King II. The divisions used in the interview schedule was, in part, derived from the nine governance chapters of the King III Report. As already mentioned, the recommendations from the King III Report are all an outflow of the seven principles of the King II Report. Similar questions that related to the same theme or topic were grouped together under a specific division. The results of the interviews in this chapter will be presented under the same divisions as used in the interview schedule (see Annexure A and B), and these divisions are as follows:



**Table 4.1 Analysis of questions per division**

<b>Division</b>	<b>Description</b>	<b>Number of questions per division</b>
A	Demographic information of interviewees	A1
B	Governing board	B2-B20
C	Appointment and dismissal processes	C21-C30
D	Performance evaluation	D31-D37
E	Remuneration structures	E38-E41
F	Reporting and financial statements	F42-F52
G	Audit requirements	G53-G64
H	Risk management process	H65-H68
I	Financial sustainability	I69-I71
J	Governance of stakeholders relations	J72-J75
K	Ethical leadership	K76-K77
L	General	L78-L80

Division A obtained the demographics of the interviewees. The demographical information included the gender, age and the number of years' experience of the interviewees within a specific congregation. The demographics have not been used in the selection process of the interviewees, for the selection of the interviewees have already been discussed in the previous part of this section, as well as in section 1.7.5. In addition, the demographics of the interviewees have not been gathered to analyse the impact thereof on the responses of the interviewees. The demographics was used by the candidate to create a profile of the interviewee, to understand the background of each interviewee and to assist in conducting an effective interview. The demographic information is presented in table 4.2.

Before the onset of the data collection, the necessary permission to conduct the study amongst the interviewees was obtained from the respective Synod office of the DRC and the Regional Leaders of the AFM. The selection criteria of the

interviewees for the purpose of collecting the data, were already outlined in section 1.7.5. Reference is, however, again made of the interviewees before the empirical results are presented. The following individuals were interviewed:

- Minister or pastor of the congregation;
- Chairperson of the governing board or church council (if not the same as the minister or pastor); and
- Scribe or Treasurer or Manager (or any other person with similar responsibilities).

It should be noted that the positions above could be filled by either a male or a female and reference, throughout the empirical results, will refer to both genders. As already mentioned earlier in this section, the terminology used by the two denominations are different. This is also the case in terms of the designations used, certain functions or positions within the denominations. An example of the differences is the position of the scribe, a designation used in the DRC for someone that is usually responsible for the finances of the congregation. In the AFM, on the other hand, this person is referred to the treasurer.

Some congregations do not use either of these designations, but have a congregational manager that takes responsibility for the finances, but whose role is broader, including for example, the responsibility of personnel matters. Likewise, the terminology used for the “board of directors” range from governing board, church council to a board of elders. For the purpose of this section, the term “governing board” would be collectively used to refer to the “board of directors” of all the congregations. The differences in the terminology and designations used have been appropriately accommodated by the interviewer during the interviews.

**Table 4.2: Summary of demographics of interviewees per denomination**

	TOTAL	GENDER		AVERAGE AGE	AVERAGE EXPERIENCE
		MALE	FEMALE		
<b>Denomination</b>	<b>Number of interviewees</b>			<b>Years</b>	
DRC	12	9	3	58	16
AFM	11	10	1	49	13
<b>Total</b>	<b>23</b>	<b>19</b>	<b>4</b>		

Depending on the established governing structures of a selected congregation (which was discussed in Chapter 3), there have not always been conformity with regards to the number of interviewees selected per congregation. The reason is that in some congregations, the minister or pastor also serves as the chairperson of the governing board. In these congregations, only two interviewees were interviewed – namely, the minister or pastor (which is also the chairperson) and the scribe or treasurer. In the other congregations where the position of the chairperson is separated from the minister or pastor, there were three interviewees – namely, the chairperson of the governing board, the minister or pastor and the scribe or treasurer. The summary of the total number of interviewees for the two respective denominations are as follows:

**Table 4.3: Summary of the number of interviewees per congregation**

	Number of interviewees per congregation	
	Three	Two
<b>Denomination</b>	<b>Number of congregations</b>	
DRC	2	3
AFM	1	4
<b>Total</b>	<b>3</b>	<b>7</b>

Based on the information in table 4.3, it is evident that the majority of the congregations (7 of the 10 congregations), has the minister or the pastor also serving as the chairperson of the governing board. This is due to the information which reflect that the majority of congregations in the population only had two interviewees. Refer to section 4.3.2.3 for a further analysis on the chairperson of the governing board.

As already mentioned previously, the governance chapters in the King III Report provide best practise recommendations on how to achieve the seven principles of good governance as presented in King II (see section 4.2.2.1). In the documentation of the results, the respective guidelines from the governance chapters of the King III Report are used as a reference point before the findings of a specific element is provided. For the purposes of this section, whenever reference is made to a governance recommendations, it refers to one of the nine governance chapters of the King III Report as mentioned in 4.2.2.

The results of the questions for each division will be discussed, not by means of an advanced statistical analysis, but mainly by making use of basic analysis and percentages. The nature of the study, as well as the scope and the corresponding challenges with regards to the scope of the population presented in section 1.7.5, did not allow an advanced statistical analysis. The results would, as far as possible, be split between the two denominations. There are, however, instances where the results are not split between denominations, but where the results are presented based on the views of all the interviewees, irrespective of the denomination. The next section commences with the empirical findings on the first division, being the governing board of the congregations.

#### **4.3.3 DIVISION B: GOVERNING BOARD**

As mentioned in section 4.3.2, the term “governing board” would be collectively used for all ten congregations. The King III Report states that the governing board is the focal point and custodian of corporate governance (principle 2.1) (IoDSA, 2009a: 21). The governance chapter revolving around the “board of directors”, and for the

purposes of the rest of this discussion, the governing board provides best practice recommendations on the role and function of the governing board and other related board committees. It also includes guidance on the composition, appointment and development of governing board members (IoDSA, 2009b: 21-31). The detail recommendations of each of these aspects are discussed below under the relevant subsections.

#### **4.3.3.1 QUESTION B.2, B.4, B.20 - SIZE OF THE GOVERNING BOARD**

There is no specific recommendation in King III regarding the size of a board as it depends on the nature and size of the organisation. King III states that when determining the number of directors to serve on the board, the collective knowledge, skills, experience and resources should be considered (principle 2.18, subsection 70). It, however, states as a minimum that there should be two executive directors serving on the board, one being the chief executive officer and one being a board member that is responsible for the finances (IoDSA, 2009b: 39). The “chief executive officer” for the purposes of this study would be the minister or pastor of the congregation.

As presented in table 4.4 below, all the governing boards consist of more than two members. The discussion in 4.3.3.2 (composition of the governing board), 4.3.3.3 (chairperson of the governing board) as well as 4.3.3.7 (treasurer) should be read together. From these three sections, it is evident that the minister or pastor for all congregations also serves on the governing board. In many instances, the minister or pastor is also the chairperson of the governing board (this is discussed in further detail in 4.3.3.3). In addition, as presented in section 4.3.3.7, all the congregations have a member on the governing board that takes responsibility for the finances. This is in line with the recommendations from King III about the minimum required directors that should serve on the governing board.

The size of the governing boards for the five respective congregations, not presented in any specific order, are as follows (C1 represent the first congregation, C2 the second congregation etc.):

**Table 4.4: Average size of the governing board**

	Congregations					
	C 1	C2	C3	C4	C5	Average size
Denomination	Number of board members					
DRC	12	29	17	38	13	<b>22</b>
AFM	10	8	12	10	9	<b>9</b>
<b>Total average size of governing board</b>						<b>16</b>

The numbers have been rounded up where applicable. The average size of the governing board for the DRC churches is 22 members and the average size of the governing board for AFM churches is nine members. The average size of the governing board of all ten congregations is 16 members. Seven of the congregations' board size is below the average and the remaining three congregations have a board size above the average of 16 members. The smallest governing board consists of eight members and the biggest governing board consist of 38 members.

Based on the results presented in table 4.4, the size of the governing board for the DRC is notably higher than AFM. One of the reasons is that the Church Order of the DRC suggests that the traditional governing board should consist of all the elders and deacons of the respective church wards (or blocks) in the congregation. The congregations are, however, allowed to amend this. Two of the five DRC congregations (40%) have governing boards based on this recommendation from the Church Order. These are the two congregations indicated as C2 and C4, which have the largest governing boards compared to the other DRC congregations. The remaining three DRC congregations (60%), indicated as C1, C3 and C 5, do not follow this guideline and appoint governing board members based on responsibilities and specific, allocated portfolios.

The two congregations with the traditional governing boards (C2 and C4) both indicated that the size of this governing board is not an effective means for decision-

making. They stated that the governing boards function strongly as a means of communication to the members of the congregation rather than to be engaged in the direction, strategy and decision-making of the congregation. These congregations describe the governing boards as a mere rubber stamp on decisions that have already been taken or recommended to the board by a smaller executive group. Refer to section 4.3.3.6 for further findings of the role and function of the governing boards.

To elaborate further on the size of the governing boards, the interviewees were asked to comment on whether they regard the current size of their governing board to be the optimal size and whether they would prefer either a smaller or larger governing board. As the interviewees have different views on this, because they function in different leadership roles in the congregations, the responses of the interviewees have been split, not according to a specific congregation, or a denomination, but according to interviewee responses.

Eight interviewees (35%) are of the opinion that the current size of their governing board is the optimal size for a governing board to function effectively. Seven of the interviewees (30%) stated that a larger board size than the existing board size will be optimal where the remaining eight interviewees (35%) stated that they would prefer a smaller board size. Overall, it therefore appears that the size of the governing boards are effective for decision-making. The next section provides more detail on the composition of the governing boards.

#### **4.3.3.2 QUESTION B.3 - COMPOSITION OF THE GOVERNING BOARD**

King III recommends that the governing board should comprise a balance of power, with a majority of non-executive members (principle 2.18) (IoDSA, 2009a: 25). It further states that the majority of non-executive members should be independent. The definition of a “non-executive director” in King III only indicates that a non-executive director “should not be involved in the management of the company” (PwC, 2011: 3). In the context of the church environment and for the purposes of the empirical analysis, a non-executive member would refer to a person that is not involved “full-time” at the congregation, who is not a “salaried employee” of the

congregation or involved in the daily management or decision-making of the congregation.

King III contains a detailed explanation on who would qualify as an “independent” member that is not included in this section. Some of the criteria state that it refers to someone that is not in the position to control or significantly influence the governing board, does not have a direct or indirect interest (more than 5%); someone that is not the auditor of the organisation or who is not immediate family of someone employed at the organisation (PwC, 2011: 8).

For purposes of this part of the analysis, it should be noted that a pre-requisite for any person to serve on the governing board of a specific congregation is that the person should be a member of the congregation. Therefore, based on the profile and selection criteria of governing board members as discussed in section 4.3.4.1, board members would not necessarily qualify as “independent” members as explained in King III. In addition, church membership cannot be expressed in terms of percentage influence or percentage shareholding, which pose some challenges in applying these criteria to independent board members to the church environment.

The following is a summary of the total average composition of the governing boards of the two denominations, split only between executive and non-executive board members, based on the above explanation:

**Table 4.5: Composition of the governing boards per denomination**

	Average composition of governing board		Total composition
	Executive members	Non-executive members	
Denomination	Percentage		
DRC	16%	84%	100%
AFM	28%	72%	100%



From the abovementioned, it is evident that the *average* governing board for both denominations consist on a majority of “non-executive” members as explained above. The abovementioned table presents only the results of the two respective denominations and does not give an indication of how many of the ten congregations have governing boards, where the majority of members are non-executive members. The following is a summary of the non-executive and executive members for the respective congregations that are serving on the governing board:

**Table 4.6: Composition of governing boards per congregation**

	Actual composition of governing board		Total congregations
	Majority (>50%) non-executive members	(<=50%) non-executive members	
Denomination	Number of congregations		
DRC	5	0	5
AFM	3	2	5
<b>Total</b>	<b>8</b>	<b>2</b>	<b>10</b>

Eight of the ten congregations (80%) have a majority of non-executive members serving on the governing board. Two of the congregations (20%) do not have a majority of non-executive members serving on the governing board. It should be noted that these two congregations have an equal balance, exactly 50%, of both executive and non-executive members serving on the governing board. Both these two congregations are from the AFM. The congregations indicated that the majority of executive members contribute to more effective and efficient decision making. All the DRC congregations have a majority of non-executive members. This, therefore, appears to be in line with the recommendations from King III that the majority of boards should consist of a majority of non-executive members.

#### 4.3.3.3 QUESTION B.6, B.19 - CHAIRPERSON OF THE GOVERNING BOARD

King III recommends that the governing board should elect an independent, non-executive chairperson (principle 2.16) (IoDSA, 2009a: 24). Based on the discussion in the preceding section, governing board members would not necessarily qualify as “independent” board members. As already presented in section 4.3.1, table 4.3, seven of the congregations (70%) have the minister or pastor serving as the chairperson of the board. Therefore, an executive person is the chairperson of the board. Three of the congregations (30%) have a non-executive member as a chairperson, namely the main elder.

**Table 4.7: Summary of individuals serving as chairpersons**

	Chairperson of the board		Total
	Minister or pastor	Main elder	
Denomination	Number of congregations		
DRC	3	2	5
AFM	4	1	5
<b>Total</b>	<b>7</b>	<b>3</b>	<b>10</b>

For the DRC churches, three out of the five congregations have the minister serving as the chairperson of the governing board. For the AFM churches, four out of the five congregations have the pastor serving as the chairperson of the governing board.

This is an area for improvement for congregations. The minister or pastor is in a management position; responsible for driving operations, having a combined role results in monitoring oneself, opening the door for abuse of the position. The recommendations and areas for improvement are further discussed in section 5.4.

The interviewees were asked an open-ended question as to what they regard as the three most important functions of the chairperson of the governing board. All the answers of the interviewees were collated and it resulted in five main functions that

were provided. The table firstly presents the three most important functions that were cited the most by the interviewees. Thereafter, the table includes the remaining two functions regarded by the interviewees as important functions.

**Table 4.8: Important functions of the chairperson**

	Interviewees	
	Number	%
<b>Three most important functions of the chairperson</b>		
1. The vision and strategic direction of the congregation;	17	74%
2. To facilitate a meaningful meeting where responsible decisions are made with the engagement of all the members during the meeting; and	17	74%
3. To ensure spiritual development take place in the congregation, incorporating the well-being of the board, the minister or pastor and the personnel.	8	35%
<b>Other important functions</b>		
4. Ensure all decisions made by the governing board are implemented; and	4	17%
5. To ensure compliance with the Church Order or Constitution.	2	9%

In this part of the interview, the chairpersons were asked to give their opinions on the role and participation of the governing board members, as well as how they share in the responsibility of the functions listed in table 4.8. Two of the ten chairpersons (20%) of the governing boards raised the concern that the board members do not necessarily share the responsibility of management of the congregation and they revert it back to the chairperson of the governing board.

The lack of governing board members' to share responsibility can be illustrated by using the example of compliance with the Church Order and the Constitution as presented in section 4.3.3.9. The statistics presented in this section support the views of the chairpersons that some governing board members do not share responsibility for governance. In this section, 43% of the interviewees for example

indicated that the compliance with Church Order and Constitution are mainly the responsibility of the minister or pastor.

In addition, three of the ten chairpersons (30%) of the governing boards admitted that the governing board do not have the knowledge about the Church Order and the Constitution. The responsibility, therefore, to comply, rests upon the shoulders of the minister or the pastor as he is perceived to have the most knowledge about these policy documents. Refer to section 4.3.3.9 for further explanation and analysis of the compliance with the Church Order and the Constitution. The lack of knowledge of governing board members with regards to the Church Order and the Constitution further support the concerns raised in section 4.3.6 that governing board members do not understand or are not always equipped to understand their role and function on the governing board. The lack of governing board members in accepting responsibility is further amplified in section 4.3.3.6 and section 4.3.4.2. This is an area for improvement and the recommendations are discussed in section 5.4.

#### **4.3.3.4 QUESTION B.5 - PERIOD SERVING AS BOARD MEMBERS**

King III recommends that at least one third of non-executive members should rotate on an annual basis (principle 2.18 nr 75) (IoDSA, 2009b: 40). The Church Order and the Constitution for the DRC and the AFM respectively provide only broad guidelines to congregations with regards to the period that a board member should serve on the governing board. Refer to section 3.4.3.1 (iv) and 3.4.4.1 (iii) for these guidelines. As these are only guidelines, the congregations can amend these guidelines and follow practises that suit their specific needs. The responses in this section, therefore, reflect the current practises followed by congregations.

**Table 4.9: Period for serving on the governing board**

	Prescribed period	
	Yes	No
Denomination	Number of congregations	
DRC	5	0
AFM	2	3
<b>Total responses</b>	<b>7</b>	<b>3</b>
<b>Total in population</b>	<b>10</b>	<b>10</b>
<b>Total percentage</b>	<b>70%</b>	<b>30%</b>

Seven of the ten congregations (70%) have set down prescribed periods for members serving on the board. Three of the ten congregations (30%) do not have any prescribed period for serving on the board. The periods laid down by some of the congregations range from two years to six years. The seven congregations that do have prescribed periods have the following prescribed periods:

**Table 4.10: Prescribed periods**

Prescribed period	Number of congregations
Two-year period	4
Three-year period	1
Four-year period	1
Six-year period	1
<b>Total</b>	<b>7</b>

The congregations however indicated that even though they do have these prescribed periods that the governing board members *do not have to rotate* after this period. The lapse of the prescribed period merely serves as an opportunity for governing board members to either make themselves available for re-election or to voluntary step back as a board member. In light of the challenges to attract (and

retain) governing board members, as discussed in 4.3.4.1, the establishment of a minimum or maximum period for serving of the governing board is regarded by the interviewees as not feasible (or always practical) in the church environment.

As discussed in section 4.3.3.1, churches in many instances face several challenges to attract governing board members due to limited involvement by church members and the unwillingness of members to serve on the governing board. This challenge was confirmed in section 4.3.8 where the limited involvement of church members have been raised as the most significant risk that congregations face. Therefore, in light of the discussion presented in section 4.3.3.1 that highlight the challenges for churches to attract governing board members, the recommendation to rotate governing board members in accordance with King III, appear to be not feasible due to the nature of the church.

#### **4.3.3.5 QUESTION B.15, B.16, B.17 - MEETINGS OF THE GOVERNING BOARD**

King III requires that the governing board should at least meet once a quarter (principle 2.1) (IoDSA, 2009b: 29). Nine out of the ten congregations (90%) indicated that their governing board meet once a quarter. The remaining congregation indicated that they meet on a two-monthly basis.

Nine of the congregations (90%) indicated that an agenda is sent out to board members before the commencement of the board meeting. The congregations indicated that there is not a prescribed period/minimum number of days before the actual meeting takes place in which the agendas have to be send out. The agenda is sent out as soon as possible, normally within one week before the scheduled date of the meeting.

Seven of the abovementioned nine congregations (78%) that do prepare agendas before the meeting, indicated that the responsibility for the preparation of the agenda is a combined effort by the minister or pastor and the scribe/manager. One congregation (11%) indicated that it is the responsibility of the manager and one congregation (11%) indicated it is the responsibility of the “company secretary” to prepare these agendas. All nine congregations (100%) that do prepare agendas

indicated that the mentioned persons are mainly responsible for assembling the agenda points and any governing board member can add items unto the agenda for the meeting. They have indicated that all members pro-actively take part in adding agenda points. The meetings and the agendas with regards to the governing board meetings, therefore, appear to be satisfactory.

#### **4.3.3.6 QUESTION B.18 - FUNCTIONS OF THE GOVERNING BOARD**

The King III Report states that the governing board is responsible for the direction and strategy of the organisation. The board should direct, govern and be in effective control of the organisation (principle 2.1) (IoDSA, 2009b: 29,30). The interviewees were asked an open-ended question to identify what they regard as the three most important functions of the governing board. The results of the responses were grouped together and the three functions cited the most by the interviewees are presented as the three most important functions. The remaining functions listed by the interviewees are also presented as part of this table and the results are as follows:

**Table 4.11: Important functions of the governing board**

	Interviewees	
	Number	%
<b>Three most important functions of the governing board</b>		
1. Maintaining the spiritual wellbeing of the members of the congregation and the seeking of God's will for the congregation;	15	65%
2. Taking significant financial decisions; and	9	39%
3. The casting of the vision for the congregation.	8	35%
<b>Other important functions</b>		
4. Support, direction and well-being of the pastor and personnel;	6	26%
5. Honest and responsible management of the congregation, recognising the views of the members of the congregation;	5	22%
6. To ensure compliance with the Church Order/Constitution;	2	9%
7. Communication to the members of the congregation;	2	9%
8. To resolve conflict in the congregation;	1	4%
9. To ensure that the congregation grow;	1	4%
10. To make decisions based on faith; and	1	4%
11. To ensure that the community is served.	1	4%

The most important function of the governing board listed by the interviewees reveals that the church is committed to its purpose and this supplements the discussion in section 2.8.2 which explained that some organisations, for example churches, would focus more on their purpose, being their religious purpose, as opposed to being focussed on profit.

The views of the chairpersons of the governing boards, with regards to the role and responsibilities of the governing board members, was already partly addressed in section 4.3.3.3. In this part of the interview, all the interviewees were asked to comment on whether they view the existing governance structures to function



effectively. Twenty interviewees (87%) indicated that the existing governance structures are working effectively in the management of their congregation. Three of the interviewees (13%) indicated that the existing governance structures are not working effectively in the congregation. There were different reasons cited by the interviewees why they deem the governing boards not to be effective. Two interviewees indicated it relates to the size of the board - which is too large to make it effective. These interviewees are both from the DRC and added that they are planning to move away from the traditional governing board where deacons and elders automatically serve on the governing board (presented in section 4.3.3.1) to a smaller structure of board members as the bigger size do not accommodate effective decision-making. This is also confirmed in section 4.3.3.1 where the size of the governing boards were analysed. Some interviewees indicated that the governing board members in many instances, do not take up the responsibility of governing the congregation. This is an area for improvement and is further discussed in section 5.4.

In order to ensure an effective functioning board, the governing board members must have an understanding of their responsibilities. King III states that every governing board should have a charter setting out its responsibilities (IoDSA, 2009b: 29). The demonstration of effective leadership as presented in section 4.2.2.1 could, therefore, be achieved if the governing board members understand their responsibilities.

The interviewees were asked to indicate whether the congregation have documented “policies and procedures” that sets out the “modus operandi” of the specific congregation. This would also include the authority levels and the type of decisions that are required that would serve as a “board charter” to assist governing board members in understanding their role and responsibilities.

Four of the congregations (40%) indicated that they have formal, documented policies. One congregation (10%) indicated that they have partially documented policies and procedures. Five of the congregations (50%) indicated that they do not have such policies. This finding supports the lack of the induction process (see

discussion in 4.3.3.2) provided to new governing board members where board members' responsibilities should be communicated.

The congregations that do not have formal policies or partially documented policies indicated that the minutes of governing board meeting serve as guidance and a reference for levels of authority and decision-making that would be required. Refer to section 4.3.3.8 for further explanation on the role and responsibility of the "company secretary" that include keeping minutes of meetings.

Many of the congregations do not have a formal "charter" that set out the responsibilities of the governing board members. Some of the congregations indicated that they have certain areas of responsibilities or portfolio's that they allocate to governing board members. The interviewees indicated that the governing board members are informed on their responsibilities during the induction process of new governing board members. Section 4.3.3, however, indicated that, for the majority of the congregations, there is a lack of formal induction process to new governing board members. In light of the discussion so far, there appears to be insufficient briefing of governing board members on their responsibilities and this would be an area for improvement for congregations and is further discussed in section 5.4.

The congregations stated that they are compensating for the lack of formal policies by relying on the Church Order and the Constitution for guidance on the responsibilities of the elders and deacons respectively. The five DRC congregations indicated that the new board members will be issued a copy of the Church Order. The five AFM congregations indicated that each congregation should have their own Constitution. This document is, however, general in nature and contain mostly the general guidelines from the AFM Constitution adding on amendments or additional clauses accepted by the specific congregation.

The abovementioned suggest some areas for improvement in congregations where the functions and responsibilities of governing board members should be communicated via formal procedures, including induction processes and

documented policies. This subsection provides several areas for improvement and the recommendations are further discussed in section 5.4.

#### 4.3.3.7 QUESTION B.7, B.8 – FINANCE FUNCTION

As mentioned in section 4.3.3.1, governing boards should have an executive member on the board that takes responsibility for the finance function. As presented in table 4.12, all ten congregations (100%) have a treasurer or scribe or congregational manager that is taking responsibility for the financial aspects of the congregation. The interviewees indicated that there are no formal qualifications required for this position, but that prior experience in finances or financial background is an important consideration.

The different terms and terminology used in the respective congregations for individuals that take responsibility for the finance function was already addressed in section 4.3.2. The functions of the scribe and treasurer, and the congregational manager, are presented separately as part of this section. The reason is that it does not only represent a difference in the “designation” or the terminology used for these individuals, but the responsibilities of the congregational manager is in many instances broader than the scribe or treasurer, as illustrated in the results of table 4.13 and 4.14 below.

**Table 4.12: Position of scribe or treasurer or congregational manager**

	Position		Total
	Scribe or treasurer	Congregational manager	
Denomination	Number of congregations		
DRC	3	2	5
AFM	4	1	5
<b>Total</b>	<b>7</b>	<b>3</b>	<b>10</b>

An open-ended question was asked to all the interviewees as to what they regard as the three most important functions of the scribe or treasurer. The results of the responses were grouped together and the three functions cited the most by the interviewees are presented as the three most important functions. The responses of the interviewees of the seven congregations that have a scribe or treasurer (which amount to 15 interviewees) are:

**Table 4.13: Three most important functions of the scribe or treasurer**

Functions of the scribe or treasurer	Interviewees	
	Number	%
1. Bookkeeping;	13	80%
2. Management of finances; and	9	60%
3. Administrative responsibilities.	6	40%

The “management of finances” is a very broad function and upon further elaboration provided by the interviewees, it includes, but are not limited to, the comparison of actual versus budgeted expenditure, preparation of payments, receiving of funds and the preparation of financial reports.

Depending on the structures of each congregation as well as the size of the congregation, the functions of the scribe or treasurer might also include some administrative responsibilities (for example secretarial work). The administrative responsibilities also include the taking of minutes of meetings and preparation of agendas for meetings. This is especially the case for the DRC congregations that do not have a separate “company secretary” that takes responsibility for this function. Refer to section 4.3.3.8 for further discussion on the position of the company secretary. Some of the congregations have a separate bookkeeper (over and above the treasurer) who is responsible for capturing financial information, whereas for some other congregations the capturing of financial information, processing and analysis and interpretation of financial information all resides with the scribe or treasurer.

The three congregations that have a congregational manager listed the following as the three most important functions of the said manager:

**Table 4.14: Three most important functions of the congregational manager**

Functions of the congregational manager	Interviewees	
	Number	%
1. Management of finances;	8	100%
2. Personnel matters; and	4	50%
3. Operational matters (including maintenance of systems and procedures).	4	50%

If the results of table 4.13 and 4.14 are compared, it is found that the functions of the congregational manager is broader than the responsibilities of the scribe or treasurer. Based on the discussion it, therefore, appears that the congregations have individuals that take responsibility for the financial aspects of their congregations and it appear that the recommendations of the King Report is met.

#### **4.3.3.8 QUESTION B.9, B.10, B.11 - COMPANY SECRETARY**

King III recommends that the governing board should be assisted by a suitably qualified and experienced “company secretary“ (principle 2.21) (IoDSA, 2009b: 43). The functions and responsibilities of the company secretary as prescribed in King III range from the responsibility to assist in the appointment of members on the governing board, and with duties of directors, to the preparation and circulation of agendas as well as the minutes of board meetings. These aspects have already been discussed in part in some of the other sections, see 4.3.4.1 for appointment of board members, section 4.3.3.5 for the meetings of the governing boards and section 4.3.3.6 for the functions and responsibilities of the governing board.

Five out of the ten congregations (50%) have a separate function as a company secretary. All five of these congregations are the AFM congregations. The five DRC congregations, therefore, do not have the separate function as “company secretary”.

The reason is that the functions usually performed by the “company secretary” would reside with the scribe, as part of their administrative responsibilities. See section 4.3.3.7 for further discussion. The interviewees from the AFM congregations were asked to provide what they regard as the three most important functions of the “company secretary”. The three most important functions of the company secretary as listed by the interviewees of the AFM congregations (therefore eleven interviewees), without selecting it from a pre-determined list are:

**Table 4.15: Three most important functions of the company secretary**

Functions of the company secretary	Interviewees	
	Number	%
1. Maintenance of minutes of meetings (including taking of the minutes as well as the filing of the minutes); and	9	82%
2. Preparation of agendas for meetings and arranging meetings; and	7	64%
3. Correspondence (to members of congregation or with Synod office/AFM Regional office).	3	27%

As mentioned in the previous paragraph, the function of the company secretary for the DRC is either absorbed by the scribe or the manager. In three of out the five DRC congregations (60%) the function of company secretary is performed by the scribe. The remaining two congregations (40%) have absorbed this function at congregational manager level. The function of the preparation of agendas and maintenance of minutes is, therefore, performed based on the dynamics of the congregation, by one of these two positions.

In the church environment, the company secretary might be deemed as the designated person to ensure compliance with laws and regulations. As illustrated in the next section 4.3.3.9, the responsibility of compliance with the Church Order and the Constitution in many instances, is not resting with the company secretary, but rather with the minister or pastor of the congregation.

Based on the discussion, it therefore appears that the congregations have individuals, either in terms of the scribe, for the DRC or company secretary for the AFM, that take responsibility for the “secretarial aspects” of their congregations. It, therefore, appears that the recommendations of the King Report are met.

#### **4.3.3.9 QUESTION B.12, B.13, B.14 - COMPLIANCE WITH THE CHURCH ORDER AND CONSTITUTION**

King III states that the governing board should ensure compliance with the applicable laws and regulations and that a framework should exist to promote compliance (IoDSA, 2009b: 41-43). The limited regulation of churches was briefly discussed in section 2.7.1. For the purposes of this section, the Church Order of the DRC and the Constitution of the AFM respectively would qualify as some of the most important “regulations” that these congregations should comply with.

These “regulations” are, however, not enforced by government or any other regulatory body and serve only as broad guidelines that the congregations should follow, as determined by the denominational General Synod or the AFM Head office (refer to section 3.4.3.1 and 3.4.4.2 for the governance structures respectively). As already depicted in section 3.4, each congregation functions, to a large extent, autonomously. The interviewees were posed a question, from which they could select multiple answers, on who bears the responsibility to ensure compliance with the Church order and the Constitution:

**Table 4.16: Responsible parties to ensure compliance**

Responsible party	Interviewees	
	Number	%
Minister or pastor	10	43%
Governing board	6	26%
All parties involved in the management of the congregation, including the governing board, minister or pastor, scribe or treasurer/manager and the secretary	5	22%
Shared responsibility of the governing board and the minister or pastor	2	9%

What is important to note from the results presented in table 4.16, is some of the reasons provided why the minister or pastor is responsible for compliance. The views of the chairpersons on this aspect has already been partly discussed in section 4.3.3.3. This part of the interview focussed on all the interviewees. Ten interviewees indicated that the minister or pastor is carrying the responsibility as he has the most knowledge on the content of these documents. This supplements the concerns raised in section 4.3.3.3 by the chairpersons of the governing board that responsibility is not always shared amongst the governing board members.

Upon enquiry on the potential effects or impact of non-compliance of the Church Order and the Constitution, the interviewees had very divergent answers coupled with being unsure about the implications. The responses for the two respective denominations are presented separately.

The twelve interviewees from the DRC congregations raised the following as potential consequences if there is non-compliance with the Church Order (the percentages below are expressed based only on the twelve interviewees from the DRC):



- Ten of the interviewees (83%) indicated that the Circuit would probably get involved;
- Four of the abovementioned ten interviewees added that the Circuit would only get involved if non-compliance is suspected that there are no “systems” in place to monitor compliance;
- One interviewee (8%) indicated that non-compliance can result in a negative relationship with the Synod offices; and
- One interviewee (8%) indicated that he was unsure about the consequence, but mentioned that the governing board would be held accountable by the members if non-compliance was detected.

The eleven interviewees from the AFM congregations raised the following as potential consequences if there is non-compliance with the Constitution (the percentages below are expressed based only on the eleven interviewees from the AFM):

- Four of the interviewees (36%) stated that they were not sure about the consequences (if any) due to the autonomy given to congregations;
- Four interviewees (36%) stated that AFM Head office would probably get involved; and
- Three interviewees (27%) stated that the RLF would be involved as this forum plays an important role in encouraging congregations to comply with the Constitution in order to retain good relationships. Two of the aforementioned interviewees of the AFM added that due to the strong involvement from the leaders of the non-geographical region with congregations, that the leaders from this region would probably get involved in non-compliance is detected. The different regions of the AFM are discussed in section 3.4.4.1 (ii).

Throughout the answers provided by the interviewees it was noticed by the interviewer that there were, in many instances, uncertainty amongst the interviewees of the potential consequences of non-compliance. The reason for the uncertainty was that they were of the opinion that due to the autonomy of the congregations, there might not be consequences for non-compliance, especially from a higher level,

for example the Synod offices or AFM Regional office. This might be an area for improvement - that the governing board made individuals aware of and educate them on the potential consequences should there be non-compliance. The recommendations and areas for improvement are further discussed in section 5.4.

#### **4.3.4 DIVISION C: APPOINTMENT AND DISMISSAL PROCESS**

King III recommends that new board members be appointed through a formal process (principle 2.19) (IoDSA, 2009b: 40). The recommendation also holds that there should be a formal induction process and ongoing training of governing board members. This section discusses the appointment and dismissal of governing board members and the minister or pastor separately. This section also includes the induction process of governing board members as well as the required theological training required for pastors/ministers.

##### **4.3.4.1 QUESTION C.21, C.22, C.23, C.27 – APPOINTMENT AND DISMISSAL OF GOVERNING BOARD MEMBERS**

In all ten congregations (100%), the responsibility to appoint governing board members resides with the governing board as a whole. The governing boards receive nominations for new board members from existing church members, elders, deacons or existing governing board members.

The interviewees were asked whether they have minimum requirements for board members before they could serve on the governing board. All ten congregations (100%) indicated that they follow the broad guidelines from the Church Order and the Constitution respectively for the minimum required criteria when selecting members for the governing board. The congregations, therefore, do have general selection criteria for new board members.

The general guidelines of the Church Order for the DRC provide that governing board members should either be full-time ministers of the Word, elders or deacons (General Synod: Church Order, 2013: Art 26). One of the most important criteria would be that the members should be in agreement with the confessions of the

church. The office of ministry of the elder centres on spiritual discernment, care and guidance. The office of ministry of the deacon centres on a ministry of practical service (General Synod: Church Order, 2013: Art 15-17). The elders and deacons should, therefore, have the attributes that are required to perform these functions. These attributes are also evident from the scripture quoted below.

The general guidelines of the Constitution of the AFM stipulate that governing board members should be registered members of the congregation, baptised, actively involved in activities of the congregation and must pay his/her tithes to the congregation. In addition, the Constitution state that each congregation shall determine its own specific membership qualifications and the policy should be approved by the Regional Leadership forum (AFM, 2008: 2.4.1). The specific qualifications, as laid down by the congregations, are discussed later in this section.

The interviewees indicated that guidance from Bible scripture is important for elders and deacons. As the interviewees rely on the guidance from the Bible scripture, the relevant passages are included in this section, which provide the attributes that is required for governing board members. In 1 Timothy 3: 1-13 a description is given of what leaders of the church should be like.

1 Timothy 3: 1-7 (New Living Translation) describe the position of an elder: *“This is a trustworthy saying: “If someone aspires to be an elder, he desires an honorable position.” So an elder must be a man whose life is above reproach. He must be faithful to his wife. He must exercise self-control, live wisely, and have a good reputation. He must enjoy having guests in his home, and he must be able to teach. He must not be a heavy drinker or be violent. He must be gentle, not quarrelsome, and not love money. He must manage his own family well, having children who respect and obey him. For if a man cannot manage his own household, how can he take care of God’s church?*

*An elder must not be a new believer, because he might become proud, and the devil would cause him to fall. Also, people outside the church must speak well of him so that he will not be disgraced and fall into the devil’s trap.”*

1 Timothy 3: 8-13 (New Living Translation) describe the position of a deacon: *“In the same way, deacons must be well respected and have integrity. They must not be heavy drinkers or dishonest with money. They must be committed to the mystery of the faith now revealed and must live with a clear conscience. Before they are appointed as deacons, let them be closely examined. If they pass the test, then let them serve as deacons. In the same way, their wives must be respected and must not slander others. They must exercise self-control and be faithful in everything they do. A deacon must be faithful to his wife, and he must manage his children and household well. Those who do well as deacons will be rewarded with respect from others and will have increased confidence in their faith in Christ Jesus.”*

In addition to the guidelines from the Church order and the Constitution respectively, some of congregations indicated that they have additional criteria that are very specific to the congregation, which it considers in the appointment of a new member on the governing board. This criteria listed by the interviewees are:

1. Age, to ensure a well-balanced governing board representing the different age groups within the congregation;
2. Business knowledge; and
3. Managerial skills.

A concern that has been raised by the interviewees is the challenge to attract new governing board members. The congregations are reliant upon volunteering church members to serve as board members. Congregations are, therefore, confronted with the challenge that the ability to attract knowledgeable and experienced governing board members depends on the willingness of church members to serve on the governing board. In section 4.3.8, the limited involvement of church members have been raised by the interviewees as one of the most significant risks that the church face. Therefore, it follows that many of the congregations do not have additional, special criteria for prospective board members (over and above the general guidelines in the Church order or the Constitution mentioned above) due to the small number of members that are willing to serve as governing board members. Additional criteria would significantly reduce the already small “pool” of available volunteering governing board members.

With regards to the dismissal of governing board members, the interviewees were asked an open-ended question to explain the process to be followed in the event of a dismissal of a governing board member. All ten congregations (100%) indicated that they would first consider possible reconciliation and restoration, as prescribed in Bible scripture before considering the removal of a board member. If the process of reconciliation proves to be unsuccessful, the DRC indicated that they would follow the disciplinary hearing process as prescribed in the Church order. This process involves that the circuit assists in the process of dismissal. The AFM churches indicated that the disciplinary hearing process as prescribed in the AFM Constitution would be followed. This would involve a formal investigation from AFM Head office.

However, all ten congregations (100%) indicated that they have never followed the process of removing a board member through the disciplinary process. The members either resign or they are not re-elected once the prescribed term of office has expired. Refer to section 4.3.2.4 for discussion on the period board members serve on the governing board.

#### **4.3.4.2 QUESTION C.24 - INDUCTION PROCESS FOR GOVERNING BOARD MEMBERS**

King III recommends that there should be an induction and ongoing training of board members (IoDSA, 2009b: 42). The following table is an indication of the congregations that do have induction processes:

**Table 4.17: Induction process for new governing board members**

	Induction process	
	Yes	No
<b>Denomination</b>	<b>Number of congregations</b>	
DRC	1	4
AFM	0	5
<b>Total responses</b>	<b>1</b>	<b>9</b>
<b>Total in population</b>	<b>10</b>	<b>10</b>
<b>Total %</b>	<b>10%</b>	<b>90%</b>

The interviewees were also asked to explain their induction process, if any, when a new board member is appointed. From table 4.17 it is evident that only one congregation (10%) has a formal induction process for the training of new board members. The remaining nine congregations (90%) follow an informal process where a briefing is provided by the chairperson to the new governing board members. In addition, the new members are exposed to “in-service training” (or more commonly referred to as “on the job” training). The lack of an induction process for new governing board members are coupled with the lack of a board charter setting out the responsibilities of governing board members as discussed in section 4.3.3.6. These aspects have been raised as areas of improvement and are further discussed in section 5.4.

The lack of the induction process presented by congregations possibly contribute to the challenges that the chairpersons of governing boards face as discussed in section 4.3.3.3 (that some board members do not always share responsibility for the management of the congregation). This represents an area for improvement to congregations.

#### **4.3.4.3 QUESTION C.28, C.29 – APPOINTMENT AND DISMISSAL OF MINISTER OR PASTOR**

As already mentioned in section 4.3.3.1, in the context of the church, the minister or pastor will be regarded as the “Chief Executive Officer” of the congregation. Therefore, the appointment of the “Chief Executive Officer” is discussed separately from the appointment of governing board members.

All ten congregations (100%) indicated that the governing board is responsible for the appointment of a new minister or pastor. All ten congregations (100%) indicated that the removal of a minister or pastor is not done by the governing board. The five DRC’s indicated that the Circuit and the Regional Synod would assist in the process of removal. The five AFM churches indicated that the AFM head office would have direct involvement in dismissal processes. The interviewees indicated that the same process for the removal of the governing board members as discussed in section 4.3.4.1 would be used in the event of the dismissal of a minister or pastor.

#### **4.3.4.4 QUESTION C.30 – THEOLOGICAL TRAINING OF THE MINISTER OR PASTOR**

The theological training required for the minister(s) and pastor(s) of the DRC and AFM respectively has already been discussed in section 3.4.3.2 and 3.4.4.2 respectively. The interviewees were, as part of the interview, asked to explain the theological training of the pastors/ministers to establish if any information could be added to the discussion on the theological training mentioned above. The five DRC congregations indicated that ministers should obtain their formal theological training as a degree at one of three universities being University of Free State, University of Pretoria or University of Stellenbosch.

The five AFM congregations indicated that pastors have different avenues for obtaining their theological training. The first option is through the North West University and the second option is through SAATS. There is also a new option

being pursued where the training could be done directly via the AFM head office. This option has, however, not been implemented fully yet.

The explanation provided by the interviewees were in line with the discussion in section 3.4.3.2 and 3.4.4.2.

#### 4.3.5 DIVISION D: PERFORMANCE EVALUATION

King III recommends that there should be a performance assessment of board members on an annual basis (principle 2.22) (IoDSA, 2009b: 44). The assessment of the board's performance is also an important element to ensure that board members act responsibly. The section below discusses the performance evaluation of the minister or pastor (who fulfill the role of the chief executive officer) and the governing board members separately.

##### 4.3.5.1 QUESTION D.31, D.32, D.33, D.34 – PERFORMANCE EVALUATION OF THE MINISTER OR PASTOR

The interviewees were asked to explain their performance evaluation process, if any, of the minister or pastor. The results of congregations that do have performance evaluations are as follows:

**Table 4.18: Performance evaluation of the minister or pastor**

	Performance evaluation	
	Yes	No
Denomination	Number of congregations	
DRC	0	5
AFM	1	4
<b>Total responses</b>	<b>1</b>	<b>9</b>
<b>Total in population</b>	<b>10</b>	<b>10</b>
<b>Total %</b>	<b>10%</b>	<b>90%</b>



Only one of the congregations (10%) has a formal performance evaluation of the minister or pastor. The congregation, in addition, indicated that performance evaluation has an impact on the remuneration of the minister or pastor. The remaining nine congregations (90%) do not have performance evaluation processes. During the interviews, the following were the main reasons cited by the interviewees for the lack of performance evaluation instruments for pastors/ministers (which amount to 21 interviewees):

**Table 4.19: Reasons for lack of performance evaluation**

Reasons	Interviewees	
	Number	%
1. Preference given to supervision and open communication channel between governing board and the pastor/minister;	11	52%
2. Lack of available performance instruments for the broader church; and	8	38%
3. Lack of knowledge on the process of performance evaluation.	4	19%

Some of the congregations indicated that they had compensating measures for the lack of performance evaluation. One DRC congregation (10%) mentioned that their focus is rather on the development of the minister, than on performance. The compensating measures include individual conversations, on an annual basis, that are driven by the chairperson of the governing board, with the respective minister(s) in the congregation. In this specific congregation, the role of the minister of the congregation (CEO) and the chairperson of the governing board is separated - which makes it possible for this type of compensating control. Two of the congregations (20%) indicated that they attempt to “monitor performance” whereby supervision is provided by the executive committee and/or the governing board. In addition, the focus is to keep the communication channels open between the minister or pastor and the executive committees and/or the governing board if there are concerns.

In light of some of the challenges posed in section 1.2 on the sustainability of churches, including the decrease in members and the decline in finances, the lack of performance evaluation is regarded as a significant area for improvement for churches. The recommendations and areas for improvement are further discussed in section 5.4.

There appears to be, in general, a lack of available performance evaluation tools for churches. This could possibly be an area for future research that is further discussed in section 5.5.

#### **4.3.5.2. QUESTION D.35, D.36, D.37- PERFORMANCE EVALUATION OF GOVERNING BOARD MEMBERS**

The previous section dealt with the performance evaluation of the minister or the pastor. The interviewees were asked to explain their performance evaluation process, if any, of the governing board members. The focus was on voluntary governing board members, who are not full-time or salaried employees of the congregations. The results, split between the two different denominations, are as follows:

**Table 4.20: Performance evaluation of governing board members**

	Performance evaluation	
	Yes	No
Denomination	Number of congregations	
DRC	0	5
AFM	0	5
<b>Total responses</b>	<b>0</b>	<b>10</b>
<b>Total in population</b>	<b>10</b>	<b>10</b>
<b>Total %</b>	<b>0%</b>	<b>100%</b>

None of the congregations (0%) conduct a performance evaluation of board members who are not full-time employees of the congregation. The interviewees were of the opinion that the evaluation of the performance of governing board members, who are volunteers, would not be feasible or desirable as they offer their services voluntary. Refer to section 4.3.3.1 for further explanation on governing board members that serve on the board voluntarily. The lack of performance evaluation of governing board members would be an area for improvement for congregations as included in section 5.4.

Even though many congregations view the performance of voluntary governing board members as problematic, it is imperative that governing board members share in the responsibility to govern and effectively manage the congregation. A further area that require improvement, and that can be linked to this section, is the discussion in section 4.3.4.2 that revolves around the induction processes of governing board members. Congregations should introduce formal induction processes as well as formal training to new and existing governing board members to ensure they understand and take up their responsibilities as board members. These recommendations and areas for improvement are further discussed in section 5.4.

#### **4.3.6 DIVISION E: QUESTION E.38, E.39, E.40, E.41 - REMUNERATION STRUCTURES**

King III states that the remuneration of governing board members should be fair and responsible (principle 2.25) (IoDSA, 2009b: 48). The governing board members would, for the purposes of this section, include all pastors and ministers serving on the governing board.

The interviewees had to indicate who is responsible for determining the remuneration of the governing board members. Upon enquiry from the interviewees on the remuneration structures of governing board members, all the interviewees responded that none of the board members of the ten congregations, who are not employees of the congregation, receive remuneration or an honorarium.

With regards to the remuneration of the pastor or the ministers, in all instances, therefore for all ten congregations (100%), the remuneration is determined by the governing board. The five DRC churches receive guidelines from the Synod for remuneration packages of their ministers. These guidelines are used by all five DRC congregations (100%). The interviewees indicated that the guidelines are used as a starting point for determining the packages and that the budget and affordability affect the remuneration packages.

The AFM do not receive any guidelines from Head office or from the Regions and every congregation determine their own remuneration structure. Two of the five AFM congregations (40%) have developed their own remuneration structures based on level of seniority, experience and qualifications. The remaining three congregations (60%) use affordability and budget as the primary indicators of remuneration packages.

The remuneration of the minister or pastors of all ten congregations (100%) are disclosed in the financial statements. The remuneration where there are more than one minister or pastor is not disclosed individually, but in aggregate.

#### **4.3.7 DIVISION F: REPORTING AND FINANCIAL STATEMENTS**

The governance element as discussed in King III, being integrated reporting and disclosure, deals with the format of reporting information and the extent to which an organisation reports on matters, other than financial matters (IoDSA, 2009b: 48-49). The recommendations hold that an organisation should extend its reporting beyond financial matters. The information that is reported should also be verified in terms of assurance (i.e. audit assurance).

In addition, the governance element of governing of stakeholder relationships deals with transparent and effective communication with all stakeholders (IoDSA, 2009b: 103). Financial information should be transparent and disclosed to stakeholders. King III states that effective communication with stakeholders is essential for building and maintaining their trust and confidence (IoDSA, 2009b: 103). Based on the

discussion in section 1.3.5 as well as well as 2.8.4, trust and confidence is crucial for churches as their voluntary contributions depend on these aspects.

#### 4.3.7.1 QUESTION F.42 TO F.48 - PREPARATION OF FINANCIAL STATEMENTS

All ten of the congregations (100%) prepare financial statements on an annual basis. The financial statements of all the congregations are prepared on a cash basis. In answering the question on who takes responsibility for the preparation of the financial statements, the interviewees could select multiple answers. The interviewees were, therefore, not limited in their choices and could indicate all relevant parties involved in the preparation of the financial statements. The following is a summary of the parties that are taking responsibility for the preparation of the financial statements:

**Table 4.21: Responsibility for preparation of financial statements**

	Responsible party			
	Scribe/ Treasurer/ Manager	Professional Accountant	Chartered Accountant	Other i.e. Full-time bookkeeper/ Secretary
Denomination	Number of congregations			
Congregation count	5	2	4	3

Based on the answers from the interviewees, even if the financial statements are prepared by the scribe or treasurer/manager, who would normally take responsibility for the preparation of the financial statements (see section 4.3.3.7 for finance function) these parties are assisted by a professional accountant, registered with the South African Institute of Professional accountants (SAIPA) or a chartered accountant, registered with the South African Institute of Chartered Accountants (SAICA). The total of the table therefore does not add up to 10 congregations, as there are some congregations which indicated that the responsibility for preparation rests with more than one individual (or party).

The financial statements of all ten congregations (100%) are discussed and approved on an annual basis by the governing board. The financial statements of the congregations are distributed as follows:

**Table 4.22: Distribution of the financial statements**

<b>Party</b>	<b>Pastor/ Minister</b>	<b>Governing board</b>	<b>Synod/ RLF</b>	<b>Available to members of the church</b>
Congregation count	10	10	10	10

The ten congregations indicated that the financial statements are not physically distributed to the members of the congregation, but all members have full and free access to the financial statements if requested.

Upon enquiry from the interviewees, as well as inspecting the annual financial statements, none of the congregations extended their reporting beyond financial matters and non-financial disclosure is not made in the financial statements. It therefore appears that the financial statements are adequately distributed to stakeholders and that the congregations are transparent with regards to their financial statements. The disclosure of non-financial information, with specific reference for example to potential risk areas, is an area of improvement for congregations. The recommendations are presented in section 5.4 in Chapter 5.

#### **4.3.7.2 QUESTION F.49, F.50, F.51, F.52 - PREPARATION OF BUDGETS**

As part of responsible management of an organisation, responsible management with regards to finances is important. King III recommends that internal controls should be established over financial matters (IoDSA, 2009a: 45). Due to churches relying on voluntary contributions as discussed in section 1.3.5 as well as well as 2.8.4, and due to the nature of churches, the management of available funds and finances, by means of budgets, would be imperative to illustrate and prove responsible management. The analysis of the congregations that prepare budgets on an annual basis are as follows:

**Table 4.23: Preparation of budgets**

	Preparation of budgets	
	Yes	No
<b>Denomination</b>	<b>Number of congregations</b>	
DRC	5	0
AFM	4	1
<b>Total responses</b>	<b>9</b>	<b>1</b>
<b>Total in population</b>	<b>10</b>	<b>10</b>
<b>Total %</b>	<b>90%</b>	<b>10%</b>

From the above analysis, it follows that 90% of congregations do prepare annual budgets. The budgets are approved by the governing board in all stances. The budgeted amounts are increased on an annual basis with either the inflation or an appropriate percentage as determined by the governing board. The congregations closely supervise the actual income and expenditure against the budgeted income and expenditure. The supervision is performed by the scribe or treasurer/manager and/or an executive committee. The comparison of budgeted versus actual results are also presented at the governing board meetings. All interviewees, without exception, mentioned that the budgets used in their operations is a matter of faith. Therefore, the budgets are prepared based on faith and the belief that God will provide in their needs. It, therefore, appears that the congregations, with the exception of one, have adequate management of funds through the use of budgets.

#### **4.3.8 DIVISION G: QUESTION G.53 TO G.62 - AUDIT REQUIREMENTS**

King III states that external assurance should be provided in respect of the operations of an organisation, ranging from assurance with regards to financial information, risks and sustainability (IoDSA, 2009b: 59-62). During the interviews, it was noted that the interviewees, in many instances, do not understand the distinction between the different types of assurance and other engagements. In addition, the interviewees do not differentiate between an external auditor, independent reviewer and an internal auditor.

For the purpose of this section and to provide further clarification to the reader on these differences, the definitions and guidance from the International Standards on Audit and Review engagements, as well as the Companies Act are used. These definitions were also used during the interviews to assist the interviewees to answer the questions correctly. In addition, the applicable reports issued to the congregations by the professional accountant/independent reviewer/internal auditor were obtained to assist the candidate to categorise these correctly as either external audit, review or internal audit services.

The purpose of this section is not to engage in a detailed explanation on the differences between the types of engagements and types of service mentioned above. Likewise, the purpose is not to determine or propose which one is the preferred type of engagement or service to be performed. An overview of these differences will suffice for this section.

An external audit refers to a registered auditor, (registered at the Independent Regulatory Board of Auditors) who performs an audit engagement in terms of the International Standards of Audit (ISA). The purpose as contained in ISA 200 is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

A review engagement refers to a reviewer who performs an engagement in terms of the International Standards of Review Engagements (ISRE). The purpose, as defined in ISRE 2400, is to provide moderate assurance to enable a practitioner to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything that has come to the practitioner's attention that causes the practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework.

The Companies Act defines an independent reviewer as an registered auditor (refer above) or a member in good standing of a professional body (for example the South



Africa Institute of Professional Accountants) who performs a review of the annual financial statements where the independent accounting professional was not involved in the preparation of the said annual financial statements (regulation 29 of Companies act). For the purposes of this study, an independent reviewer will be defined as a person who does not serve as a member of the governing board, but the person can be a member of the congregation.

There is a very distinct difference in the processes between the DRC and the AFM congregations in the types of services performed on the financial statements. Based on the abovementioned explanation and the responses from the interviewees, the type of services performed on the financial statements are summarised as follows:

**Table 4.24: Services performed on the annual financial statements**

	Type of service			Total
	External audit engagement	Review engagement	Other types of engagements	
Denomination	Number of congregations			
DRC	0	5	0	5
AFM	0	0	5	5
<b>Total</b>	<b>0</b>	<b>5</b>	<b>5</b>	<b>10</b>

As indicated in table 4.24 above, external audit engagements are not performed for any of the congregations. The two denominations in this study are not required in terms of legislation or the Church Order and the Constitution to appoint external auditors. Therefore, it is not mandatory to appoint external auditors. The Church Order provides that the DRC congregations should appoint a reviewer of their financial statements and the Constitution of the AFM stipulates that “internal auditors” should be used (AFM, 2008: Chapter 6,44).

All five DRC congregations indicated that they have appointed reviewers that perform a review on their financial statements. The review assurance is performed in

all instances by SAICA members. The governing board of the DRC congregations can choose its own firm or accountant to perform the services. Therefore, the choice of the party to perform the service in the case of the DRC, rests upon the shoulders of the congregation itself, more specifically the governing board. All five DRC congregations (100%) indicated that the decision in the appointment of the individual or accountant is taken by the governing board.

In comparison to the DRC, the AFM congregations appoint designated internal auditors, as prescribed by the Regions and the General Treasurer of the AFM (AFM, 2008: Chapter 6). The AFM congregations are limited in their choices and have to appoint one of the individuals as designated. The “other types of engagements” as presented in the table 4.24 above, refer specifically to the services performed by the internal auditors for the AFM churches. These “internal auditors” perform agreed-upon procedures, as determined by the General Treasurer of the AFM, on the financial statements. The term is put in inverted commas as these individuals may not in all instances be internal auditors as defined (even though the nature of services performed are internal, audit-related services, see below for explanation).

Based on the reports from the internal auditors of the AFM congregations, the services performed include an overview of the financial statements as well as a review of the minutes of meetings to ensure all decisions taken and expenditure occurred was duly authorised. In addition, a review of processes and controls at the congregation (for example treatment of petty cash, authorisation of expenditure) and a review of statutory funds (refer 3.4.4.1 (iii)) to ensure it had been calculated and paid over correctly, is performed.

King III explains that the functions of an internal auditor is to evaluate a company’s governance processes, to perform an objective assessment of risk and to systematically analyse and evaluate the business processes and controls within the organisations (IoDSA, 2009b: 93). The abovementioned services therefore appear to be on an internal audit nature.

To get back to the aspects raised above with regards to the appointment of reviewers, the interviewees of the DRC were asked an open-ended question in

which they had to list the factors that might influence their decision in the appointment of a reviewer of the financial statements. Nine of the interviewees (75%) indicated that costs-effectiveness, five interviewees (42%) indicated the quality of service, which include the knowledge and experience of the individual, four interviewees (33%) indicated the reputation of the individual, one interviewee (8%) indicated the ability to provide value added service and one interviewee (8%) indicated the independence of the individual as possible factors that might impact the decision. The main reason provided by interviewees relate to cost and this corresponds with the discussion in section 2.8.4 that many churches have challenges to implement certain policies and procedures, due to the cost thereof. Two of the interviewees (17%) indicated that they were not sure what the factors are that might impact the decisions.

Upon enquiry from the interviewees from the DRC on whether the review procedures performed provide any value added service, 11 of the interviewees (92%) affirmed that it did provide value. One interviewee (8%) refrained from answering the question due to a lack of knowledge on this area. The interviewees were asked to elaborate on what they regard as the value added service. Eight of these 11 interviewees (67%) indicated that it is the assurance that it provides that funds are administered properly and responsibly. Two of the above eight interviewees elaborated further by adding that it also assists in identifying risk areas and one interviewee added that it provides some assurance specifically to the finance personnel that the work that they perform, is trustworthy. Three interviewees indicated that the firm assists them with problems on their systems and also assists with communication to synod offices. One interviewee (8%) refrained from answering the question due to a lack of knowledge on this area.

As already mentioned above, there is less freedom in the choice of the internal auditor performing the services amongst the AFM congregations. Upon enquiry on the factors that might impact the regions choice to use another auditor, the first reason cited by all five AFM congregations (100%) is the requirement that the individual should have sound knowledge of the AFM constitution. In addition, the Constitution of the AFM state that the 1) qualifications and 2) knowledge of the

structure and finances of the AFM church is a pre-requisite in the appointment of an internal auditor.

Based on the results presented earlier, one of the AFM congregations did not have internal audit procedures that were performed on their congregation (this congregation had three interviewees and therefore the remaining interviewees amounted to eight). Upon enquiry from the remaining interviewees from the AFM on whether the internal audit procedures performed provide any value added service, seven (88%) of the interviewees affirmed that it does provide value and one interviewee (12%) indicated that it does not provide any value.

It therefore appears that the congregations have adequate processes in place to ensure that assurance is provided on their financial statements. What would, however, be an area of improvement is to increase the awareness on the difference between the different types of assurance engagements. The concept of the audit expectation gap has been around for a long time and is considered to be one of the foremost issues confronting the auditing profession world-wide (Sikka et al., 1998: 299). The audit expectation gap refer to the differing expectations of what the “public” desires from the audit and what the auditor understands his role to encompass (Wolf et al., 1999: 468; Sikka et al., 1998: 299). The lack of understanding the difference between the types of services and level of assurance may very well be an example of the expectation gap.

#### **4.3.9 DIVISION H: QUESTION H.65 TO H.68: RISK MANAGEMENT PROCESS**

King III requires that the governing board should take the responsibility for risk governance and should continuously assess the risks that it might face. The governance of risk include the assessment, response and the monitor of the risks (IoDSA, 2009b: 73).

None of the ten congregations (0%) had a formal risk management process. The interviewees stated that risks were identified on an informal basis by means of the respective governance structures. One of the interviewees noted that they do not act proactively on risks, but usually address risks once they occurred. The lack of a risk

management process is an area for improvement for congregations. Refer to section 5.4 for recommendations.

The interviewees were asked to select the five most significant risks, from a pre-determined list, that the congregation face. The five top risks are listed as the five most significant risks, but the other risks selected by the interviewees are also presented in the table. The most significant risks identified by the interviewees are as follows:

**Table 4.25: The five most significant risks**

	Interviewees	
	Number	%
<b>Five most significant risks</b>		
1. Limited involvement of church members;	21	91%
2. Decrease in members' contributions;	15	65%
3. Decrease in number of members;	8	35%
4. Youth leaving the congregation; and	7	30%
5. The increase in cost exceed the increase in income.	6	26%
<b>The other risks identified</b>		
6. "Competition" with other church denominations;	4	17%
7. Lack of effective communication to the members of the congregation; and	3	13%
8. Lack of using latest technology.	3	13%

The risks raised above in table 4.25 has a direct impact on the financial sustainability of congregations. The next section discusses the empirical results on the views of the interviewees on the financial sustainability.

#### **4.3.10 DIVISION I: QUESTION I.69, I.70, I.71 FINANCIAL SUSTAINABILITY**

The importance of considering sustainability is entrenched in the King III code. Sustainability, as presented in section 4.2.2.3, is one of the key aspects on which

corporate governance is built. In addition, throughout the recommendations of the King Report, the importance of the board to consider sustainability practices and the disclosure of sustainability is highlighted (IoDSA, 2009b: 30).

The risks identified in the previous section in table 4.25, by the interviewees threaten the financial sustainability of congregations. These risks partly originate from members' voluntary contributions to churches in an economy that is struggling. In light of problems and potential challenges on the future of churches, the opinions of the interviewees of the possible risks to the financial sustainability was specifically addressed during the interviews. The decrease in members directly impact the income of congregations which further threaten sustainability.

The dependency of congregations on the voluntary contributions from their members impacts the financial sustainability of congregations. The congregations were largely dependent on the voluntary contributions from members. The congregations indicated that at least 90% of their income consist of voluntary tithes and offerings from their members. The interviewees were asked in the light of the difficult economic conditions, if they have concerns about the decline in the tithes and offerings. Ten of the interviewees (43%) stated that they were concerned about the potential decrease in tithes and offerings from members. Nine of the interviewees (39%) stated that they were not concerned and three interviewees (13%) stated that they were not over-concerned, but only realistic about the potential decline in contributions. The interviewees, however, stated that history has proven, for both the congregations, that the Lord has always provided and that they believe He will still provide in the future for the church. Also refer to discussion below on the interviewees opinions on the sustainability of their congregations and the denominations.

During this part of the interview, the interviewees were asked in the first place, to voice their opinions on the sustainability of their specific congregation. In the second place, their views on the sustainability of their congregation on a regional level (i.e. Free State province) and thirdly on a national level (South Africa) were asked. The interviewees were only allowed to select one option. The results from the

interviewees from the DRC and the AFM are presented separately in the table below:

**Table 4.26: Opinion of interviewees on sustainability**

	<b>Views on sustainability</b>		
	<b>Sustainable</b>	<b>Concern</b>	<b>Not sustainable</b>
<b>Congregational level</b>	<b>Number of interviewees</b>		
DRC	10	1	1
AFM	11	0	0
Total responses	21	1	1
Sample of interviewees	23	23	23
<b>Total %</b>	<b>91%</b>	<b>4%</b>	<b>4%</b>
<b>Denominational level – Free State</b>			
DRC	7	3	2
AFM	11	0	0
Total responses	17	3	2
Sample of interviewees	23	23	23
<b>Total %</b>	<b>74%</b>	<b>13%</b>	<b>9%</b>
<b>Denominational – on a National level (i.e. South Africa)</b>			
DRC	11	1	0
AFM	11	0	0
Total responses	22	1	0
Sample of interviewees	23	23	23
<b>Total %</b>	<b>96%</b>	<b>4%</b>	<b>0%</b>

As is evident from the table, the majority of interviewees were of the opinion that their congregation, as well as their denomination, both at a regional, as well as at a national level, was sustainable. The discussion in 4.3.9, however, highlighted that there was serious concern among the interviewees with regards to the decline in tithes and offerings, as well as members. It is notable from this part of the interview



that, even though the interviewees admitted that they had raised these aspects as significant risk areas, they do not view these aspects to have a negative impact on the sustainability of their congregations.

Upon further enquiry by the candidate, it was evident that the interviewees do not separate their religious beliefs, hope and faith, from the answer to this question. The interviewees stated that they are not concerned about the realities of these threats and they are of the opinion that God will maintain His church. Many interviewees affirmed that God has provided for His church in the past and will do so for His church in the future. The perceptions and beliefs of the interviewees that God will maintain the church, however, do not change the realities that some congregations face threats to their sustainability.

From the abovementioned table, the level of concerns from the interviewees with regards to the sustainability of the church on a regional and national level are higher for the DRC than the AFM church. This complements the discussion in section 1.2 that there is a decline in the membership of, specifically, the traditional Afrikaans churches. The interviewees from the DRC mentioned that their concerns about the sustainability of the church at a regional and national level stem from the negative impact of the adoption (or the lack of the adoption) of the Belhar confession. The Belhar debacle had received much media coverage as some congregations accepted the confession and others not (see for example Marais, 2015: 5; Mailovich, 2015: 2; Steyn, 2015: 5). The interviewees stated that it had resulted in severe damage to the broader DRC (especially at regional and national level) and that it resulted in a decline in the members of the church.

The interviews were conducted before the General Synod voted in favour of the admission of gays as presented in section 4.2.2.2. It can, however, without a doubt, be stated that the controversy with regards to this decision could possibly result in a further decline in the membership of the DRC church. The reason for the possible further decline in membership is not ascribed to whether the decision was appropriate or not, but rather due to the division amongst congregations, the Regional synod and the General Synod resultant from the decision.

#### **4.3.11 DIVISION J: QUESTION J.72 TO J.75 GOVERNANCE OF STAKEHOLDERS RELATIONS**

King III states as part of governing stakeholder relationships that a governing board should strive to achieve transparent and effective communication with stakeholders (IoDSA, 2009b: 103). In section 4.2.2.3 the importance of communication to stakeholders was raised. The discussion in the mentioned section revealed that interaction with stakeholders is an important aspect to ensure the sustainability of an organisation.

Many of the best practice recommendations in King III have the purpose of ensuring that the governing board is accountable to a wide spectrum of stakeholders. Guidance from King III with regards to stakeholder relations impose a responsibility on the governing board to take into account various stakeholders and to build relationships with these stakeholders (IoDSA, 2009b: 46-48). Therefore, the identification and management of stakeholder relationships, with the subsequent communication with these stakeholders, are important.

During the interview, the interviewees were asked to identify who they regard as the most important stakeholders of their congregations. This was a multiple-answer question and interviewees were not limited in their choices and they could choose as many stakeholders as they regard to be appropriate in their circumstances. The interviewees identified the following as the most important stakeholders of the congregation:

**Table 4.27: Stakeholders of the congregations**

	<b>Stakeholders</b>					
	<b>Members of the church</b>	<b>Governing board</b>	<b>Minister or pastor</b>	<b>Community</b>	<b>Free State Synod/ Free State RLF</b>	<b>Other</b>
<b>Denomination</b>	<b>Number of interviewees</b>					
DRC	9	2	2	1	1	0
AFM	9	4	2	1	0	0
<b>Total</b>	<b>18</b>	<b>6</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>0</b>
<b>Total % of interviewees</b>	<b>78%</b>	<b>26%</b>	<b>17%</b>	<b>9%</b>	<b>4%</b>	<b>0%</b>

From the results of the above table 4.27, it would therefore appear that the majority of interviewees (78%) regarded the members of the congregation as the most important stakeholders. Secondly, the governing board, and thirdly the pastors/ministers of the congregation.

As the members of the church were identified by the majority of the interviewees as the most important stakeholders, the interviewees were asked to explain how they communicate important information to the members. The following is a summary of the different communication channels, provided by the interviewees, which are utilised by the congregations (in no specific order). Each of the responses was coded:

**Table 4.28: Communication channels**

a	Sunday services
b	Newsletters (either weekly/monthly/quarterly)
c	Multimedia and Social media, i.e. Webpage, Facebook, sms, slide shows
d	Regular meetings (either weekly/monthly/quarterly) with ministry leaders or group leaders
e	Annual general meetings

**Table 4.29: Summary of communication channels used by congregations**

	Communication channels				
	a	b	c	d	e
Denomination	Number of congregations				
DRC	5	5	1	1	0
AFM	5	2	1	1	0
<b>Total</b>	<b>10</b>	<b>6</b>	<b>2</b>	<b>2</b>	<b>0</b>

None of the ten congregations (0%) have a standard annual general meeting (AGM) with the members of the congregation. The interviewees indicated that the AGM is not regarded as an effective communication tool to the members of the congregation. The interviewees stated that previously the attendance at these meetings was very low and it was not regarded as an effective communication tool to cover a large basis of their members.

All ten of the congregations (100%) indicated that they primarily use Sunday services to communicate important information to members of the church. All five DRC congregations, as well as one AFM congregation, indicated that they use newsletters (ranging from weekly, to monthly and quarterly newsletters) to communicate information. The newsletters, however, mainly communicate administrative information, for example the program and events of the congregation and do not necessarily focus on the communication of important financial or operational information. Two of the congregations, one DRC and one AFM congregation added

that they filter information down via ministry groups that meet on a regular (most of the time on a monthly basis).

From the responses of the interviewees it was established that the congregations which are regarded as “large” congregations in the population, use more than one communication medium to provide information to members of the church. The larger congregations also use the Sunday services as a platform form for communication, but they incorporate additional communication media as mentioned above, i.e. newsletters and social media. The “smaller” congregations rely primarily on Sunday services as a medium for communication.

It therefore appears that there are sufficient communication to primarily the “internal stakeholders”. It was, however, not always clear during the interview to what extent the governing board and the minister or the pastor communicate significant financial decisions or problem areas or concerns to the stakeholders. This might be an area for future research. Refer to section 5.5 for future research possibilities.

#### **4.3.12 DIVISION K: QUESTION K.76, K.77 - ETHICAL LEADERSHIP**

The first key aspect of good governance according to King III, namely effective leadership (see section 4.2.2.1), holds that those charged with governance should consider that their responsibilities and leadership are based on an ethical foundation and that a company’s ethics are effectively managed (IoDSA, 2009: 20). Ethical leadership is achieved by adhering to four values underpinning good corporate governance, namely responsibility, accountability, fairness and transparency (IoDSA, 2009b: 9; Cassim, 2011: 436).

The interviewees were asked to each explain what they understand in relation to each of the four values mentioned above. The answers provided by the interviewees were analysed and condensed into a few sentences for each of the four principles:

- i. *Responsibility*: the interviewees, especially the minister or pastors stated that their responsibility would be towards their calling and their ministry. The need for all governing board members to acknowledge their responsibility in the

management of the congregation was also raised as a strong viewpoint. Leaders should be responsible in the treatment of ministry aspects; for example, a certain level of confidence should be maintained - especially in the treatment of ministry aspects.

- ii. *Accountability*: many of the interviewees stated that the accountability is in the first place to God. Secondly, the pastors/ministers indicated that accountability should be to the governing board, who is the “employer” and to the members of the congregation.
- iii. *Fairness*: everyone should be given an equal opportunity.
- iv. *Transparency*: no one should have a hidden agenda. The interviewees linked this principle very strongly with the financial aspects and stated that the governing board should be transparent about the financial aspects of the congregation.

There have been increased media reports on the perceived lack of ethical leadership in the government, with specific reference to the treatment of the Nkandla saga (refer to section 2.2.4.3). There have been several media reports on the withdrawal of the Afrikaans churches, including the DRC and the AFM, to engage in public forums on this matter (see for example Niemandt et al., 2015; Mailovich, 2015). The interviewees were asked on open-ended question on their views of whether the church have a responsibility in addressing unethical leadership.

There are consensus amongst all the interviewees that the church do have a responsibility to address unethical leadership. The interviewees, however, had different views on how the church should take up this responsibility.

**Table 4.30: Possible responses for addressing unethical leadership**

a	Public forums
b	Synod office/Head office (at National level)
c	Church must publicly withdraw to make statement
d	Members of church must pray for the government
e	Responsibility on ground level, i.e. teaching members about ethical leadership

**Table 4.31: Church's role to address unethical leadership**

	Responses to address unethical leadership				
	a	b	c	d	e
<b>Denomination</b>	<b>Number of interviewees</b>				
DRC	8	1	3	2	0
AFM	7	3	0	1	1
<b>Total responses</b>	<b>15</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>1</b>
<b>Total %</b>	<b>65%</b>	<b>17%</b>	<b>13%</b>	<b>13%</b>	<b>4%</b>

Even though the interviewees had diverse views on what the responsibility of the church is to address unethical leadership, they all agreed that the church do have an important role to play. The aspects around leadership is further discussed in the next section.

#### **4.3.13 DIVISION L: QUESTION L.78 TO L.80 - GENERAL**

In the conclusion of the interview schedules, a few general open-ended questions were posed to the interviewees. The discussion in section 2.8.4 highlighted that some organisations might face challenges with regards to implementing corporate governance principles. These challenges include, but are not limited to, a lack of resources and skills. The interviewees were, in the first place, requested to state what they regard as the biggest stumbling blocks or challenges for implementing

some of the recommendations from the King Reports in pursuing good corporate governance (for example using internal audit; establishment of board committees etc.). The interviewees were asked to limit their answer to the three most significant stumbling blocks. All the answers of the interviewees were collated. The table firstly present the three most important stumbling blocks that were cited the most by the interviewees. Thereafter the table include the remaining stumbling blocks given by the interviewees. The following table summarise the responses of the interviewees:

**Table 4.32: Challenges for implementing corporate governance principles**

Challenges	Interviewees	
	Number	%
1. Processes and systems that the congregation do implement, are sufficient;	13	57%
2. Lack of knowledge about the King Reports;	10	43%
3. Use of volunteers, resulting in a lack of manpower and capacity;	9	39%
4. Financial burden and cost implications to implement the recommendations;	5	22%
5. Recommendations not necessary as members trust each other;	3	13%
6. Lack of higher authority to “drive” the recommendations; and	1	4%
7. Scared to implement something new.	1	4%

Secondly, the interviewees were asked an open-ended question on whether they would prefer more involvement, in any area, from the General Synod (applicable to the DRC) and Head Office (applicable to the AFM) to the congregation(s). Examples provided ranged from administrative involvement, to leadership, governance or decision-making. All the congregations mentioned that they would not prefer more involvement at an operational level, as the autonomy given to congregations work



well. The DRC and the AFM, as illustrated in section 3.4.3.1 (iv) and section 3.4.4.1 (iii) respectively, function autonomously.

The importance of effective leadership has been addressed in section 4.2.2.2. The views of the interviewees on how they view and define the four principles of ethical leadership has already been addressed in part in section 4.3.12. This section elaborate further on the concept of leadership. The congregations, as illustrated in the previous paragraph, do not necessarily prefer more involvement from a denominational level. A concern that has, however, been expressed by the interviewees, is the perceived lack of leadership, vision and strategy from a higher, denominational level, provided to the congregations.

As discussed in Chapter 3, the congregations in the AFM are allowed to voluntary form part of a non-geographical region. Two of the five AFM congregations, even though they form part of the Free State region as allocated by AFM region, voluntary elected to form part of a non-geographical region. Both these congregations confirmed that there is active involvement, monitoring and advice from the leadership within these regions. These two congregations indicated that their decision to voluntary form part of the non-geographical region was driven by the need for effective leadership from a higher level.

In comparison, the remaining three AFM congregations in the sample voiced their concerns and frustrations about the lack of guidance and leadership from the geographical regions, as well as from AFM Head office.

The interviewees from the DRC congregations have raised concerns about the leadership of the DRC at a denomination level. The interviewees indicated that the decisions taken by the “leaders at denominational level”, for example the Belhar confession, as mentioned in section 4.3.10, as well as the controversial decision on gays, as mentioned in section 4.2.2.2, do not contribute to a good relationship between the individual congregations and the church at a denominational level. The negative implications of these decisions do not promote the seeking of effective leadership from the leaders at a denominational level.

The challenges raised in section 1.3, namely the decline in membership, increased secularisation and that some congregations fight for survival is recurrent in the church environment. In addition, the challenges imposed on congregations as a result of decisions taken by leadership at a denominational level, calls for a demonstration of strong and effective leadership – especially from a higher, denominational level. The concerns raised by the interviewees about the lack of leadership with regards to vision and strategy from a denominational level, is an area of improvement for these denominations. The provision of effective and ethical leadership from a denominational level is an area of improvement for churches.

#### **4.3.14 CONCLUSION**

The groundwork for the empirical study (which is set out in this chapter) was founded on the comprehensive and practical literature study (see Chapters 1 to 3). Several aspects with regards to corporate governance recommendations were tested by means of well-developed, interview schedules through which valuable findings were elucidated.

The findings of the empirical study largely confirmed the conclusions of the literature study; for instance, that churches lack the implementation of some corporate governance principles due to the lack of resources or lack of knowledge (that came to light in the discussion in section 2.8.4). This was also highlighted in section 4.3.12 where the major concerns and challenges for the compliance with corporate governance were listed. This correspond largely with reports and concerns in the media about the future sustainability of churches (refer section 1.2).

Various problems, concerns and recommendations were mentioned of which the sector, and more specifically churches, should take note. The empirical findings can also be used as a basis for future research. The next chapter will contain the conclusion of the study as well as recommendations for future research.

## CHAPTER 5 - CONCLUSION

### 5.1 INTRODUCTION

*“It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood, who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds, who knows great enthusiasms, the great devotions, who spends himself in a worthy cause, who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat.”*

Theodore Roosevelt

South Africa is facing mounting social challenges as there are increased reports on government's poor record in service delivery as well as the lack of providing subsidies to organisations that are involved in the delivery of social services. The church play an increasingly important role in addressing the social challenges of South Africa.

Library, archive and internet searches revealed that very little academic research has so far been done on the governance of churches in South Africa. The academic research identified was mostly performed on non-profit organisations, meaning that limited academic research has been done specifically from a corporate governance perspective to date on churches in South Africa.

The main aim of this study (refer to section 1.6), through the literature review, was to research the existing corporate governance guidelines available to churches. The second aim of the study, through empirical study, was to analyse the extent to which corporate governance guidelines are implemented by the selected sample of churches. The third aim was to provide recommendations to the congregations, as

well as other churches, on how to improve on the implementation of corporate governance principles.

In the first chapter of the study, the social services problem and subsidy crises in South Africa were introduced briefly. The increasingly important role of the church in addressing the social service challenges in South Africa was also discussed. The chapter addressed some of the challenges that churches face to remain sustainable as well as some of the reported scandals in churches that contribute to the sustainability challenges that churches face. The chapter also included a brief overview of corporate governance, as well as some background on the development of corporate governance internationally, as well as in South Africa.

The need for a study regarding the implementation of corporate governance principles of churches in South Africa was addressed. The problem statement, aim of the study, research methodology and the contents of the study were also discussed.

The second chapter dealt with some of the main corporate scandals that resulted and contributed to the development of corporate governance. The chapter engaged in a more detailed discussion on the development of corporate governance internationally as well as in South Africa.

The three main sectors of the economy being the public, private and non-profit sector were discussed and the origin of each of these sectors were included in the discussion. A more detailed discussion around the development of the non-profit sector, of which churches form part, have been included.

The legal aspects surrounding non-profit organisations and churches were included. Specific consideration was given to legal aspects relating to non-profit organisations and churches in the United States of America, the Netherlands and South Africa. The purpose was not to engage in a legal study, but to provide a theoretical-legal framework with which non-profit organisations and churches have to comply with. Consideration was only given to some of the main, ``regulatory aspects. Chapter 2

concluded with the role and importance of corporate governance in the non-profit sector.

In the third chapter, the governance structures of the two selected denominations were researched. The chapter started with a brief history and background of the establishment of the two denominations in South Africa. The governance structures of the two denominations, as contained in their policy documents, were respectively alluded.

In the fourth chapter, an empirical study of the implementation of corporate governance principles by selected churches in South Africa was undertaken. The data were collected by means of interviews with role players from the selected denominations. The chapter also discussed the considerations in the design of the interview schedules.

## **5.2 LIMITATIONS OF THE STUDY**

In sections 5.3 and 5.4, a brief overview of the literature and empirical study are offered. In this section, various aspects about which future research can be performed are identified, among other things. There are touch points between this section and sections 5.3 and 5.4 and the interaction between these three sections should be kept in mind. The term “limitation” should not be viewed in a negative light since for any research, “boundaries” has to be set and “everything” about a subject cannot possibly be extrapolated within the constraints of a study.

The manner in which the population and the sample of congregations and interviewees were selected have already been discussed in detail in section 1.7.5 and 4.3.2 and will not be repeated here. A few of the most important limitations to the study, specifically resultant from the population and the selection of the sample are as follows:

- The population from which the samples for the empirical study was selected, was limited to the Bloemfontein and surrounding areas in South Africa. Even though the study was limited to this area, the literature review indicated that

the ambiguity, problems and unclear aspects were pervasive in the non-profit sector, and specifically within churches, throughout South Africa.

- The sample of congregations was limited to only two denominations. The sample was selected from two of the largest Afrikaans denominations in South Africa. These two denominations are the Dutch Reformed Church (DRC) and the Apostolic Faith Mission (AFM) church. In future studies, the sample could be selected to include more denominations.
- The sample size consisted of ten congregations, five from the DRC and five from the AFM respectively. The sample for each denomination represented two large, two medium-sized and one small congregation. There is no definite measure for what constitutes a large or small congregation and the selection was made based on the relative size of these congregations when compared to other congregations within the Free State region, as well as after extensive consultation with relevant role players.
- There are only two Afrikaans AFM congregations in Bloemfontein. The geographical area had to be extended beyond Bloemfontein, to obtain an additional three congregations, to make up the total of five congregations. The extended area, after extensive consultation with the AFM role players, included Kimberley and Jacobsdal. It should be noted, as explained in section 3.4.4.1, (ii) that the geographical area covered by the Free State region for the AFM churches extend beyond the provincial borders of the Free State and therefore Kimberley is viewed by the AFM as part of the “Free State geographical region”.
- The interviewees for every congregation were limited to two, and in some instances three, from each congregation (refer to 4.3.2 for further explanation on number of interviewees per congregation). In future studies, the sample can be extended to include more role players from each denomination.
- For this study, as mentioned in section 4.3.2, the responses to the interviewees were not analysed by means of sophisticated statistical models.

In future studies, especially at doctoral level, such sophisticated statistical models could be used to analyse data.

The possible further research possibilities flowing from the abovementioned limitations, is discussed in further detail in section 5.5. Despite the above named adversities and limitations, meaningful deductions can still be made from the data for the purposes of this study. In section 5.5 further research possibilities will be considered. These future research possibilities do not necessarily flow from the limitations of the study.

### **5.3 IMPORTANT FINDINGS FROM THE LITERATURE REVIEW**

From the literature it was clear that there is a perceived ambiguity and uncertainty with regards to the corporate governance principles that should be followed by churches. This is partly due to the lack of a legal framework applicable to churches, the perception that some of the corporate governance guidelines were developed mainly for corporate organisations, as well as the lack of corporate governance guidelines that have been developed specifically for the unique nature and characteristics of churches.

The literature review paved the way for a detailed analysis of the corporate governance principles implemented by churches through an empirical study. The empirical study focussed on interviewing a sample of role players from selected congregations from two Afrikaans denominations in the Free State region.

The observations and findings from the analysis and interpretation of the sample can be used as guidelines and benchmarks for the implementation of sound corporate governance principles by churches.

## **5.4 IMPORTANT FINDINGS AND RECOMMENDATIONS FROM THE EMPIRICAL STUDY**

The empirical study, which is set out in Chapter 4, was designed to test the extent of corporate governance principles that are implemented by a selected sample of congregations. The findings may be of value to all congregations and not only to congregations that belong to the selected two denominations that form part of the study. The findings may be used by governing boards to ensure that they implement some of the most important corporate governance principles.

Before the recommendations are presented, cognisance should be taken of the challenges raised by the interviewees in the implementation of the corporate governance principles as presented in section 4.3.13. Many interviewees raised the lack of knowledge on the King reports and the lack of resources (both human and financial) as some of the most significant challenges.

This section provide an overview of some of the most important findings from the empirical results which could be used by congregations as areas for improvements.

- In section 4.3.3.3 it was noted that are that there is not always a segregation between the minister or the pastor (or commonly known as the chief executive officer for corporate organisations) and the chairperson of the governing board. This could result in a conflict of interest for the minister or the pastor. It is recommended that congregations separate these positions.
- Several concerns with regards to the functioning of the governing boards have been raised. The concerns revolve around the following:
  - i. The perceived lack of governing board members to take up their responsibility in the governance of the congregation (see section 4.3.3.6);
  - ii. The minister or pastor in many instances that take sole responsibility for certain aspects of the congregation (see section 4.3.3.3);



- iii. The lack of induction and training provided to new and existing governing board members (see section 4.3.4.2);
  - iv. The lack of “board charters” (over and above the general guidelines contained in the Church Order and the Constitution) to determine the expectations and responsibilities of the governing board members (see section 4.3.3.6); and
  - v. The above concerns may result in the governing board members not to be perceived custodians of corporate governance. In order to enable the members of the governing board to take responsibility for the governance, direction and strategy of the organisation and to effectively manage the church, these aspects should be improved on and addressed.
- The concern of the lack of governing board members to take up their responsibility, is further alleviated by the lack of performance evaluation measures for governing board members as presented in section 4.3.5.2. The lack of performance measures can partly be ascribed to the situation that, in many instances, voluntary, non-remunerated members of the church are serving on the governing board. Even though this might impose challenges to measure performance, congregations should however implement measures to gauge the performance of governing board members and to further ensure that they adequately take up their role in the governance of the church.
  - In addition to the above, there is also a lack of performance evaluation measures for the minister or pastor as presented in section 4.3.5.1. In light of the challenges faced by congregations and the threats to the financial sustainability of churches presented in section 1.2, this is an important area for improvement. There should be a consistent and continuous evaluation of performance to ensure that congregations “perform” and excel financially to remain sustainable.
  - The lack of risk assessment processes by the congregations highlighted in section 4.3.9, is a significant area for improvement. Congregations should not be in a position where they respond reactively to risks. The financial challenges faced by churches should prompt congregations to proactively

engage in risk assessment processes to ensure the financial sustainability and well-being of their congregation.

- As presented in section 4.3.7, the inclusion of significant disclosure of non-financial information or risk areas might be an area for improvement for the financial statements.
- The perceived lack of effective leadership that is provided to congregations from a denominational level is an area for improvement. The quest for stronger leadership should be driven by both the individual congregations as well as the leadership on the denominational level.
- In section 4.3.13, the challenges were raised by the interviewees for the implementation of the corporate governance principles. Even though many of the challenges are unavoidable, due to the nature of churches, some of the challenges can be addressed. The leaders in the church's awareness and knowledge about the content of the King Report should be improved.
- As presented in section 4.3.8, the leaders' understanding and knowledge about the different levels of assurance that are provided by accountants (or chartered accountants) should be improved on. This is important to ensure that an audit expectation gap do not exists.

The study provides a valuable background on corporate governance aspects for churches which can be used by several churches, governing boards, church members, researchers and other role players in the sector. The results of this study could assist congregations in enhancing and improving the implementation of corporate governance principles. It could further assist congregations in maintaining financial sustainability and to take up their rightful place in playing an indispensable role in the provision of social services in South Africa.

The extent to which congregations meet the expectations with regards to the implementation of recommended practices to achieve corporate governance, have been raised as one of the primary concern areas in this study in section 1.2. The lack

of congregations to illustrate sound corporate governance might result in threats to the sustainability of churches, which might ultimately reduce the significant impact of churches in the provision of social services.

The results of the study also laid the foundation for several possible further academic research studies that can be undertaken regarding corporate governance in churches. The possible further research areas are discussed in the next section.

## **5.5 POSSIBLE FURTHER RESEARCH**

*“Information is not knowledge. The only source of knowledge is experience.”*

Albert Einstein

Throughout Chapters 1 to 4 various possibilities for future research have been identified, which will be further alluded in this section. Some of the future research possibilities flow from the limitations of the study presented in section 5.2. It should however be noted that not all the future research possibilities flow from the limitations.

As mentioned in Chapter 1, as well as in section 5.2 above, the empirical research done in this study focused only on congregations in the Bloemfontein and surrounding areas. An empirical study could be undertaken among congregations throughout South Africa, covering a larger geographical area. In addition, the scope of an empirical study could also be undertaken to cover more than two church denominations.

The denominations included in the scope of the study represent only two of the well-established denominations in South Africa. The scope can be extended to include other well-established denominations. In addition, future samples can be selected to include “independent churches” that do not belong to a recognised denomination for the purposes of comparative studies.

A comparative study can be undertaken that compare the extent of the implementation of corporate governance principles between different denominations and between denominations in different provinces in the country. Furthermore, an internationally comparative study could also be undertaken, comparing the implementation of corporate governance of South African churches to churches around the globe.

In Chapters 1 and 2 some of the most widely reported scandals, namely the abuse and irregularities in church finances, were briefly discussed. A more in-depth research study can be undertaken on the possible impact of the scandals on the decline in membership of churches. In addition, the impact of these scandals on members' contributions could also be assessed.

These chapters also included a brief overview of the governance of churches. A detailed study could investigate past governance failures, fraud, etc. specifically in the church environment and expand on the importance of governance for churches.

Chapter 2, specifically section 2.7, mentioned the perceived lack of, or limited regulation of non-profit organisations and churches. Further research could be done on the regulation of churches across the globe with potential and possible suggestions for the increased regulation of churches.

As mentioned in section 4.3.11, the extent to which information is communicated via the communication channels to identified stakeholders could be further assessed.

Against the background of the findings in Chapters 4 and 5, a further study could also be undertaken to develop a specific corporate governance framework for churches in South Africa.

As mentioned in section 5.4, the lack of available performance management tools to congregations can be investigated further as there is ample of room for further research in this area.

## 5.6 CONCLUSION

*“A church that marries the spirit of the times, becomes a widow in the next generation.”*

Dean William Inge

The consequences of migration, secularization and the decline in members are that the church is being perceived to be left somewhat weakened and voiceless. Personal and social tragedy however seems to cause a major shift in people’s assessment of the church. It is a time when people flock to churches in droves. There is something about churches that society finds in times of tragedy and hardship.

The tragedies in the South African landscape include economic inequality, poverty, poor service delivery, subsidy crises and corruption. These social challenges create a space for the church to be bearers and vessels of hope and the church should continue to make its influence felt.

This research could hopefully also contribute to address the complexities in the governance of churches. Churches could use the research findings to improve the implementation of the corporate governance principles in their congregations. The implementation of sound corporate governance principles could assist congregations in enhancing its sustainability and to strengthen their influence in society.

The church cannot rest on its laurels. Not with regards to its role in the provision of social services, and not with regards to churches being leaders in the implementation of sound corporate governance principles. The time is now.....

*“We must use time wisely and forever realize that the time is always ripe to do right.”*

Nelson Mandela

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## **COVER LETTER FOR INTERVIEWS**

17 June 2015

### **TO WHOM IT MAY CONCERN**

#### **Interviews for research project in view of the degree MAcc (Auditing) – Ms E Goodchild – BAcc (Hons), CTA, CA(SA)**

Communities rely on the influence of churches and are increasingly looking to churches to meet the social and welfare needs of the community that are left unfilled by government. Government's inadequate social delivery systems, as well as the subsidy crises, are widely reported in the media. The social needs and challenges of communities that are left unfilled by government provide fertile soil for the involvement of churches.

In South Africa, Christianity is regarded as the religion of the majority of the people in the country. There is, however, an unprecedented interest in the declining membership of churches. The decrease in church members raises concerns amongst some about the financial sustainability of churches. These threats to sustainability have an impact on the scope of the social activities provided by churches.

Churches will, however, play an extraordinary role in future - despite the unremitting prognosis of fading into insignificance due to secularisation, migration and the decline in membership. The recognition of the continued relevance of religion has reawakened interest in this subject, while the dynamics of religious organisations and the interplay between religion and the society at large are concurrently reasserted as a prime topic for scholarly research. The increasing role that churches play in the provision of social services and the statistics that the majority of South Africans are Christians, constitute the public and visible face of South African religion that is playing an indispensable role in social development.

As soon as churches have a significant presence and influence in their community, stakeholders may take on a role of encouraging and demanding the illustration of sound corporate governance principles. The King Reports have taken the lead in good governance internationally as well as in South Africa and are generally accepted as the source documents for what constitutes sound governance.



There are recurring views from many scholars that corporate governance was developed mainly for the corporate sector aimed at large, profit organisations. The King Reports are, however, not a codified set of rules for corporate governance, but rather a set of principles that should be implemented by any organization - whether public, private, non-profit or religious.

Limited research has been done on the implementation of corporate governance principles in churches. Against this background, an academic research project has been undertaken (in the form of a thesis in view of the degree MAcc) in order to collect information by means of interviews and incorporating the use of semi-structured questions. The interviews will be conducted with the following interviewees:

- Pastor/Minister of the congregation;
- Chairpersons of the governing board/church council (if not the same as the pastor/minister); and
- Scribe/Treasurer or Manager (or any other person with similar responsibilities).

It would be appreciated if you could make available of your valuable time for an interview, in order to answer the questions posed. Because the respondents represent only a sample of a greater population, your responses are important for the collection of data that describe the group you represent. The information and answers that you provide will be treated as **strictly confidential** throughout the research project, while **respondents** will remain **anonymous** (either you as individual or the institution that you manage/where you work).

The answers that you provide will be processed together with the answers of other respondents in order to determine tendencies, problems, solutions and perceptions. The results of this study should provide valuable information that could assist congregations in enhancing and improving the implementation of corporate governance principles where necessary. This should, therefore, assist congregations in maintaining financial sustainability and taking up their rightful place in playing an indispensable role in the provision of social services in South Africa.

Thank you very much for your time - it is highly appreciated.

Yours sincerely

**Prof Dave Lubbe**

**BProc, MCompt, MCom, DCom, CA(SA)**

**(Study leader)**



## **DEKBRIEF VIR ONDERHOUDE**

17 Junie 2015

### **Aan wie dit mag aangaan**

#### **Onderhoude vir 'n navorsingsprojek ter verwerwing van die graad MRek (Ouditkunde) - Me E Goodchild - BRek (Hons), CTA, CA (SA)**

Gemeenskappe maak op die invloed van kerke staat en is toenemend op soek na kerke om die maatskaplike en welsynsbehoefte van die gemeenskap, wat ongevol deur die regering gelaat word, te vul. Ontoereikende sosiale diensleweringstelsels van die regering, asook die subsidiekrisis, word wyd in die media berig. Die maatskaplike behoeftes en sosiale uitdagings van die gemeenskappe wat ongevol deur die regering gelaat word, verskaf vrugbare grond vir kerke se betrokkenheid.

In Suid-Afrika word die Christelike geloof as die godsdienst van die meerderheid mense in die land beskou. Daar is egter 'n ongekende belangstelling in die dalende lidmaatskap van kerke. Die afname in kerklidmate wek kommer oor die finansiële volhoubaarheid van kerke. Hierdie bedreigings tot volhoubaarheid het 'n impak op die omvang van die sosiale aktiwiteite wat deur kerke verskaf word.

Kerke sal egter 'n buitengewone rol in die toekoms speel, ten spyte van die aanhoudende prognose van vervaging in die niet as gevolg van sekularisasie, migrasie en die afname in lidmaatskap. Die erkenning van die voortgesette relevansie van godsdienst het die belangstelling in hierdie onderwerp opnuut laat opvlam, terwyl die dinamika van godsdienstige organisasies en die wisselwerking tussen godsdienst en die breër gemeenskap tegelykertyd navorsing daaroor verg. Die toenemende rol wat kerke in die voorsiening van maatskaplike dienste speel en die statistieke dat die meerderheid van Suid-Afrikaners Christene is, stel die openbare en sigbare gesig van Suid-Afrikaanse godsdienst daar wat 'n onontbeerlike rol in sosiale ontwikkeling speel.

Sodra kerke 'n beduidende teenwoordigheid en invloed in hul gemeenskap het, kan belanghebbendes die rol opneem om die implementering van korporatiewe beheerbeginsels aan te moedig en ook te vereis. Die King-verslae het die voortou in goeie korporatiewe beheer internasionaal en in Suid-Afrika geneem en word algemeen as die brondokumente vir goeie korporatiewe beheer aanvaar.

Daar is herhalende opinies van baie kenners dat korporatiewe beheer hoofsaaklik vir die korporatiewe sektor ontwikkel is en op groot, winsgewende organisasies gemik is. Die King-

verslae is egter nie 'n gekodifiseerde stel reëls vir korporatiewe beheer nie, maar eerder 'n stel beginsels wat toegepas moet word deur enige organisasie – ongeag of dit publiek, privaat, nie-winsgewend of godsdienstig is of nie.

Daar is beperkte navorsing wat op die implementering van korporatiewe beheerbeginsels in kerke fokus. In hierdie konteks is daar 'n akademiese navorsingsprojek ('n verhandeling ter verwerwing van die graad MRek) onderneem om inligting deur middel van onderhoude met semi-gestruktureerde vrae in te win. Die onderhoude sal met die volgende respondente gevoer word:

- Pastoor/Leraar van die gemeente;
- Voorsitter van die bestuursraad/kerkraad (indien nie dieselfde as die pastoor /leraar nie); en
- Skriba/Tesourier of Gemeentebestuurder (of enige ander persoon met soortgelyke verantwoordelikhede).

Ons sal dit waardeer indien u bereid sou wees om van u kosbare tyd vir onderhoude af te staan. Aangesien die respondente slegs 'n steekproef uit 'n groter populasie is, is u antwoorde belangrik om data te bekom wat die groep wat u verteenwoordig, beskryf. Antwoorde deur u verskaf en inligting bekom sal deurgaans as **uiters vertroulik** hanteer word en **respondente** wat aan die navorsingsprojek deelgeneem het (u as individu of die instansie wat u bestuur/waar u werksaam is), sal **anoniem** bly.

Die antwoorde wat u verskaf sal saam met die antwoorde van die ander respondente verwerk word ten einde neigings, tendense, probleme, oplossings en persepsies te bepaal. Die resultate van hierdie studie behoort waardevolle inligting aan gemeentes te kan verskaf om sodoende die implementering van korporatiewe beheerbeginsels te bevorder of te verbeter, indien nodig. Dit behoort gemeentes te help om finansiële volhoubaarheid te handhaaf om hul regmatige plek in te neem om 'n onontbeerlike rol in die voorsiening van maatskaplike dienste in Suid-Afrika te speel.

Dankie dat u bereid is om van u kosbare tyd op te offer - dit word opreg waardeer.

Die uwe

**Prof Dave Lubbe**

**BProc, MCompt, MCom, DCom, GR (SA)**

**(Studieleier)**

## ANNEXURE A: INTERVIEW SCHEDULE

### A. DEMOGRAPHIC INFORMATION OF INTERVIEWEE

Name and surname	
Position	
Number of years' experience	
Qualification	
Age	

### B. THE GOVERNING BOARD/CHURCH COUNCIL

1. Do you have formal governance structure, i.e. governing board/church council?

Yes	No	B.1
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- Please indicate the specific terminology used in your congregation to refer to this governance structures, i.e. board of spiritual leaders, board of called ones etc.

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**If yes, please answer the following questions in this section:**

2. How many people currently serve as members on the governing board/church council?

2	3	4	5	Other number _____	B.2
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3. How many of the members are employees (either full-time or parttime) of the church?

None	1	2	3	4	>5, please specify number	B.3
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4. In your opinion, how many members would be the optimal number for a well-functioning governing board/church council?

>3	4	5	6	Other number _____	B.4
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5. What is the term of office (number of years) for serving on the governing board/church council?

No term prescribed	1 year	2 years	3 years	4 years	Other	B.5
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6. Who serves as the **chairperson** of the board?

Pastor/Minister	Main elder	Independent person	Treasurer/Scriba	Other	B.6
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7. Do you have a **treasurer/scribe**?

Yes	No	B.7
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- If yes, what are the qualifications or experience of the treasurer/scribe?

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B.8

8. What are the **three most important functions** of the treasurer?

i. \_\_\_\_\_ B.9

ii. \_\_\_\_\_ B.10

iii. \_\_\_\_\_ B.11

9. Do you have a “**secretary**” serving on the governing board/church council?

Yes	No	B.12
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10. Briefly describe the qualifications and experience of the “secretary”.

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B.13

11. What are the **three most important functions** of the “secretary”?

- i. \_\_\_\_\_ B.14
- ii. \_\_\_\_\_ B.15
- iii. \_\_\_\_\_ B.16

12. Who is responsible to ensure that the congregation follow the recommendations of the Church order/Constitution?

Pastor/minister	Treasurer/ Scriba	Secretary	Governing board/ Church council	B.17
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13. How do you familiarise all members of the governing board/church council with changes in the Church Order/Constitution?

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B.18

14. What are the **consequences** if there is **non-compliance** with the recommendations of the Church order/Constitution?

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B.19

15. How often do the governing board/church council have meetings?

Once a month	Once a quarter	Once a year	Other	B.20
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- If other, please specify \_\_\_\_\_

16. Is an agenda of the meeting sent out to the board members before the meeting commences?

Yes	No	B.21
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17. If **yes**, who is responsible for the preparation of the agenda of the meeting?

Pastor/minister	Treasurer/Scriba	Secretary	Other	B.22
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18. Name the **three most important** functions of the governing board/church council in your congregation.

- i. \_\_\_\_\_ B.23
- ii. \_\_\_\_\_ B.24
- iii. \_\_\_\_\_ B.25

19. Name the **three most important functions or contributions** of the chairperson with regards to the governing board/church council.

- i. \_\_\_\_\_ B.26
- ii. \_\_\_\_\_ B.27
- iii. \_\_\_\_\_ B.28

20. Are you of the opinion that the current governance structures are working for your congregation? Please explain.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

B.29

### C. APPOINTMENT AND DISMISSAL PROCESSES

21. Who is responsible for appointing a new member on the governing board/church council?

Pastor/ Minister	Governing board/ Church council	Free State synod/ Regional forum	Members of the congregation	Other	C.30
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- If other, please specify \_\_\_\_\_

22. **Briefly** explain the appointment process of a new member on the governing board/church council. The discussion should include selection criteria and how a potential member is identified.

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C.31

23. Are there minimum required qualification(s) or experience or profile for a new board member?

Yes	No	C.32
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- If yes, please explain \_\_\_\_\_

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C.33

24. Is there an induction process and/or training provided to new board members?

Yes	No	C.34
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- If yes, please explain \_\_\_\_\_

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C.35

25. Do you have policies and procedures at congregation level that are documented (i.e. how decisions are made, levels of authorisation)?

Yes	No	C.36
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26. **If yes**, are these policies and procedures communicated to newly appointed governing board/church council members?

Yes	No	C.37
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27. Briefly describe the process in the event of the dismissal of a board member.

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C.38



28. Who is responsible for **appointing** a new pastor/minister?

Governing board / Church council	Free State Synod / Regional forum	Other	C.39
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- If other, please specify \_\_\_\_\_

29. Briefly describe the process in the event of the dismissal of a pastor/minister.

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C.40

30. Briefly explain the **theological training** required for the pastor/minister.

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C.41

#### D. PERFORMANCE ASSESSMENT

##### Pastor/Minister

31. Is there a performance assessment of the *pastor(s)/minister(s)*?

Yes	No	D.42
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**If yes, please answer the following three questions:**

32. How often is the performance assessment performed?

Once a month	Once a quarter	Once a year	Other	D.43
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33. Briefly explain how the performance assessment is carried out. Discussion should include whether there are pre-set requirements for performance.

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D.44

34. Does the performance assessment have an impact on the remuneration of the pastor(s)/minister(s)?

Yes	No	D.45
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**Board members (that are not employees of the church)**

35. Is there a performance assessment of *board members*?

Yes	No	D.46
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**If yes, please answer the following two questions:**

36. How often is the performance assessment performed?

Once a month	Once a quarter	Once a year	Other	D.47
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37. Briefly explain how the performance assessment is performed. Discussion should include whether there are pre-set requirements for performance.

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D.48

**E. REMUNERATION STRUCTURE**

38. Who determines the remuneration of the pastor/minister?

Governing board/Church council	Free State Synod/Regional leadership forum	General Synod /Head office	Other	E.49
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- If other, please specify \_\_\_\_\_

39. What is the basis used for the remuneration of the pastor/minister?

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E.50

40. Do the members (other than full-time employees) of the governing board/church council receive remuneration/a honorarium?

Yes	No	E.51
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- If yes, briefly explain how the remuneration/honorarium is determined?

\_\_\_\_\_ E.52

41. Is the remuneration of the pastor/minister (and the board members (if any)) disclosed in the financial statements?

Yes	No	E.53
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## F. REPORTING AND FINANCIAL STATEMENTS

42. Do you prepare annual financial statements (AFS)?

Yes	No	E.54
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- If no, do you prepare management accounts/other financial information? Please explain.

\_\_\_\_\_  
\_\_\_\_\_

E.55

**If yes, please answer the following five questions:**

43. Who is responsible for the preparation of the AFS?

Treasurer/Scriba	Accountant (SAIPA)	Chartered Accountant (SAICA)	Other	F.56
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44. Who is responsible for approving the AFS?

Pastor/ Minister	Governing board/ Church council	Synod/ Regional leadership	Members of the church	Other	F.57
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45. On what basis is the AFS prepared?

Cash basis	IFRS for SME's	Other	F.58
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46. To whom is the AFS communicated and distributed?

Pastor/ Minister	Governing board/Church council	Synod/ Regional leadership	Available to members of the church	Other	F.59
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- If other, please specify \_\_\_\_\_

47. Do you compare your financial results with other congregations to benchmark financial performance?

Yes	No	F.60
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**Non-financial disclosure in the financial statements**

48. Non-financial disclosure: Do you report on any other matters, except financial results in the financial statements?

Yes	No	F.61
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Provide brief examples of the disclosure of non-financial information.

\_\_\_\_\_

F.62

## Budget

49. Do you prepare an annual budget?

Yes	No	F.63
-----	----	------

50. Who approves the budget?

Pastor/ Minister	Governing board/Church council	Synod/ Regional leadership	Members of the church	Other	F.64
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51. Is there a comparison between the budgeted amounts (including income and expenditure) and the actual amounts (including income and expenditure)?

Yes	No	F.65
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52. Briefly explain the steps or actions if actual expenditure exceeds budgeted expenditure.

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F.66

## G. AUDIT REQUIREMENTS

### External audit requirements

53. Are the AFS externally audited?

Yes	No	G.67
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**If yes, please answer the following two questions:**

54. Is the appointment of an external auditor voluntary or mandatory in terms of Church Order/Constitution?

Voluntary	Mandatory	G.68
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55. Who appoints the external auditor?

Pastor/ Minister	Governing board/	Synod/ Regional	Members of the church	Other	G.69
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	Church council	leadership			
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- If other, please specify \_\_\_\_\_

**If no external audit is performed, please answer the following question:**

56. Briefly explain the process and procedures performed on the AFS (i.e. agreed upon procedures/ review procedures/other procedures) with reference to the nature/type of procedures performed and whether an opinion (level of assurance) is expressed.

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G.70

**Applicable to all types of services on the financial statements:**

57. Specify the type of firm that does the work.

CA (SA)	SAIPA	Other	G.71
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58. Is the accountant performing the procedures of the financial statements **independent**?

Yes	No	G.72
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59. In your opinion, what are the **two most important factors** that play a role in the appointment of the auditor/accountant?

i. \_\_\_\_\_ G.73

ii. \_\_\_\_\_ G.74

60. In your opinion, does the auditing/other form of assurance regarding the financial statements **add value** to the church?

Yes	No	G.75
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Please motivate your answer briefly.

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G.76

**Internal audit requirements**

61. Do you make use of internal auditors?

Yes	No	G.77
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**If yes, please answer the following question:**

62. Briefly describe the responsibilities/functions of the internal auditor(s); for example, are they performing any procedures on internal controls, i.e. process around handling, counting and banking of cash?

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G.78

**Internal controls**

63. Briefly explain all the internal controls around cash and salaries.

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G.79

64. Who is responsible for reviewing the internal control procedures (around cash and salaries)?

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G.80

**H. RISK MANAGEMENT PROCESS**

65. Do you have a formal system to identify risks?

Yes	No	H.81
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**If yes, please answer the following question:**

66. Briefly explain the process for identifying the risks that your congregation face.

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H.82

## Significant risks

67. Indicate **FIVE (5)** risks that you regard as the most significant risks of your congregation:

Decrease in members' contributions (tithes and offerings)		H83.1
Limited involvement of members		H83.2
The increase in cost exceed the increase in income		H83.3
Decrease in the number of members		H83.4
Safeguarding of cash		H83.5
"Competition" with other church denominations		H83.6
Youth leaving the congregation		H83.7
Non-compliance with Church order/Constitution		H83.8
Stability of electricity supply during church services		H83.9
Lack of effective communication to members of the congregation		H83.10
Technology		H83.11
Changes in regulatory environment		H83.12
Other, please specify.....		H83.13

68. Briefly describe how you **manage** the risks identified above.

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H.84

## I. FINANCIAL SUSTAINABILITY

69. What is the percentage (%) distribution of the revenue?

Tithes and offerings	___%	Rental income	___%	Investment income	___%	Other	___%	I.85
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70. As a result of the decline in the economic climate, do you have **concerns** with regards to a decline in tithes and offerings? Please explain.

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I.86

71. Do you think that your church is financially sustainable?

<b>Congregational level</b>	<b>I.87</b>	<b>Provincial level</b>	<b>I.88</b>	<b>National level</b>	<b>I.89</b>
i.e. NG (your own congregation)		NG Free State		NG South-Africa	



i.e. AGS (your own congregation)		AGS Free State		AGS South Africa	
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## J. COMMUNICATION TO STAKEHOLDERS

72. Who do you regard as the most important **stakeholders** of the church?

Pastor/ Minister	Governing board/ Church council	Free State synod/ Regional leadership	Members of the church	Other	J.90
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- Other, please specify \_\_\_\_\_

73. Is an annual church meeting held for church members?

Yes	No	J.91
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- If yes, is the church meeting well attended? What is the percentage of members attending this meeting?

<10%	10-30%	40-60%	>60%	J.92
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74. Are there any other meetings held for **church members** besides the church meeting mentioned above?

Yes	No	J.93
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- If yes, please explain \_\_\_\_\_

75. If yes in 74, how often are these meetings held?

Weekly	Monthly	Quarterly	Annually	J.94
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## K. ETHICAL LEADERSHIP

76. There are four values underpinning ethical leadership. Please explain what you understand under each of these principles:

i. Responsibility

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K.95

ii. Accountability

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K.96

iii. Fairness

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K.97

iv. Transparency

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K.98

77. Over the past months there have been increased reports of unethical political leadership. There was recently a report that the Afrikaans churches have withdrawn from planned meetings with the ruling party as result of moral collapse. What do you think is the role of the church in addressing this unethical leadership?

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K.99

L. GENERAL

78. What do you regard as the biggest stumbling blocks/challenges for implementing some of the recommendations in the King reports with regards to corporate governance, ( i.e. internal audit; use of committees)?

i. \_\_\_\_\_ L.100

ii. \_\_\_\_\_ L.101

iii. \_\_\_\_\_ L.102

79. Would you prefer more involvement from the General Synod/Head Office in terms of governance, decision-making etc. at congregational level?

Yes	No	L.103
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If yes, please describe areas where more preferred involvement are required:

i. \_\_\_\_\_ L.104

ii. \_\_\_\_\_ L.105

iii. \_\_\_\_\_ L.106

80. **General conclusion:** Any other comments?

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L107

## ANNEXURE B: ONDERHOUDSKEDULE

### A. DEMOGRAFIESE INLIGTING VAN RESPONDENT

Naam en van	
Posisie	
Aantal jare ervaring	
Kwalifikasie	
Ouderdom	

### B. DIE KERKRAAD/BESTUURSRAAD

1. Het u 'n formele bestuurstruktuur, bv. kerkraad/bestuursraad?

Ja	Nee	B.1
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- Dui asb. die spesifieke terminologie aan wat in u gemeente gebruik word om na hierdie bestuurstruktuur te verwys, bv. raad van geestelike leiers, raad van geroepenes ens.

**Indien ja, beantwoord asb. die volgende vrae in hierdie afdeling:**

2. Hoeveel persone dien tans as lede van die kerkraad/bestuursraad?

2	3	4	5	Ander getal_____	B.2
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3. Hoeveel van die lede is werknemers (hetsy voltyds of deelyds) van die kerk?

Geen	1	2	3	4	>5, spesifiseer asb. getal.....	B.3
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4. In u opinie, hoeveel lede sal die optimale getal vir 'n goeie funksionerende kerkraad/bestuursraad wees?

>3	4	5	6	Ander getal_____	B.4
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5. Wat is die dienstydpark (aantal jare) om op die kerkraad/bestuursraad te dien?

Geen voorgeskrewe tydperk	1 jaar	2 jaar	3 jaar	4 jaar	Ander	B.5
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6. Wie dien as die **voorsitter** van die raad?

Pastoor/Leraar	Hoof-ouderling	Onafhanklike persoon	Tesourier/Skriba	Ander	B.6
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7. Het u 'n **tesourier/skriba**?

Ja	Nee	B.7
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- Indien ja, wat is die kwalifikasies en ondervinding van die tesourier/skriba?

\_\_\_\_\_

\_\_\_\_\_

B.8

8. Wat is die **drie belangrikste funksies** van die tesourier/skriba?

- i. \_\_\_\_\_ B.9
- ii. \_\_\_\_\_ B.10
- iii. \_\_\_\_\_ B.11

9. Het u 'n "**sekretaris**" wat op die kerkraad/bestuursraad dien?

Ja	Nee	B.12
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10. Verduidelik kortliks die kwalifikasies en ondervinding van die "sekretaris".

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

B.13

11. Wat is die **drie belangrikste funksies** van die "sekretaris"?

- i. \_\_\_\_\_ B.14
- ii. \_\_\_\_\_ B.15
- iii. \_\_\_\_\_ B.16

12. Wie is verantwoordelik om te verseker dat die gemeente die aanbevelings van die Kerkorde/Konstitusie volg?

Pastoor/ Leraar	Tesourier/ Skriba	Sekretaris	Kerkraad/ Bestuursraad	B.17
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13. Hoe hou u alle lede van die kerkraad/bestuursraad op hoogte van veranderinge in die Kerkorde/Konstitusie?

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B.18

14. Wat is die **gevolge** indien daar **nie-nakoming** van die aanbevelings van die Kerkorde / Konstitusie is?

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B.19

15. Hoe gereeld hou die kerkraad/bestuursraad vergaderings?

Een keer per maand	Een keer per kwartaal	Een keer per jaar	Ander	B.20
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- Indien ander, verduidelik asb. \_\_\_\_\_

16. Word 'n agenda van die vergadering aan die lede gestuur voordat die vergadering 'n aanvang neem?

Ja	Nee	B.21
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17. **Indien ja**, wie is vir die voorbereiding van die agenda van die vergadering verantwoordelik?

Pastoor/Leraar	Tesourier/Skriba	Sekretaris	Ander	B.22
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18.Noem die **drie belangrikste** funksies van die kerkraad/bestuursraad in u gemeente.

- i. \_\_\_\_\_ B.23  
 ii. \_\_\_\_\_ B.24  
 iii. \_\_\_\_\_ B.25

19.Noem die **drie belangrikste funksies of bydraes** van die voorsitter met betrekking tot die kerkraad/bestuursraad.

- i. \_\_\_\_\_ B.26  
 ii. \_\_\_\_\_ B.27  
 iii. \_\_\_\_\_ B.28

20.Is u van mening dat die huidige bestuurstrukture vir u gemeente werk? Verduidelik asseblief.

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

B.29

### C. AANSTELLING- EN ONTSLAGPROSESSE

21.Wie is daarvoor verantwoordelik om 'n nuwe lid op die kerkraad/bestuursraad aan te stel?

Pastoor/ Leraar	Kerkraad/ Bestuursraad	Sinodale kantoor/ Streeksforum	Lede van die gemeente	Ander	C.30
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- Indien ander, spesifiseer asb. \_\_\_\_\_

22.Verduidelik **kortliks** die aanstellingsproses van 'n nuwe lid in die kerkraad/bestuursraad. Die bespreking moet die seleksiekriteria insluit en hoe 'n potensiele lid geïdentifiseer word.

\_\_\_\_\_  
 \_\_\_\_\_

C.31

23. Is daar minimumvereiste kwalifikasie(s) en/of ondervinding en/of profiel vir 'n nuwe lid?

Ja	Nee	C.32
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- Indien ja, verduidelik asb. \_\_\_\_\_  
\_\_\_\_\_

C.33

24. Is daar 'n induksieproses en/of opleiding wat aan nuwe lede verskaf word?

Ja	Nee	C.34
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- Indien ja, verduidelik asb. \_\_\_\_\_  
\_\_\_\_\_

C.35

25. Het u beleide en prosedures op gemeentevlak wat gedokumenteer is (bv. hoe besluite geneem word, vlakke van magtiging)?

Ja	Nee	C.36
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26. **Indien ja**, word die beleide en prosedures aan nuutaangestelde kerkraads/bestuursraadlede gekommunikeer?

Ja	Nee	C.37
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27. Beskryf kortliks die proses in die geval van 'n ontslag van 'n lid.

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C.38

28. Wie is daarvoor verantwoordelik om 'n nuwe pastoor /leraar **aan te stel**?

Kerkraad/ Bestuursraad	Sinode/ Streeksforum	Ander	C.39
------------------------	-------------------------	-------	------

- Indien ander, spesifiseer asb. \_\_\_\_\_

29. Beskryf kortliks die proses in die geval van 'n ontslag van 'n pastoor/leraar.

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C.40



30. Verduidelik kortliks die **teologiese opleiding** van die pastoor/leraar.

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C.41

## D. PRESTASIE EVALUERING

### Pastoor/Leraar

31. Is daar 'n prestasie evaluering van die *pastoor(re)/leraar(s)*?

Ja	Nee	D.42
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**Indien ja, beantwoord asb. die volgende drie vrae:**

32. Hoe gereeld word die prestasie evaluering gedoen?

Een keer per maand	Een keer per kwartaal	Een keer per jaar	Ander	D.43
--------------------	-----------------------	-------------------	-------	------

33. Verduidelik kortliks hoe die prestasie evaluering uitgevoer word. Die bespreking behoort in te sluit of daar voorafbepaalde vereistes vir prestasie is.

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D.44

34. Het die prestasie evaluering 'n impak op die vergoeding van die pastoor(re)/leraar(s)?

Ja	Nee	D.45
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### Kerkraads-/Bestuursraadlede (wat nie werknemers van die kerk is nie)

35. Is daar 'n prestasie evaluering van *kerkraads-/bestuursraadlede*?

Ja	Nee	D.46
----	-----	------

**Indien ja, beantwoord asb. die volgende twee vrae:**

36. Hoe gereeld word die prestasie evaluering gedoen?

Een keer per maand	Een keer per kwartaal	Een keer per jaar	Ander	D.47
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37. Verduidelik kortliks hoe die prestasie evaluering uitgevoer word. Die bespreking behoort in te sluit of daar voorafbepaalde vereistes vir prestasie is.

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D.48

## E. VERGOEDINGSTRUKTURE

38. Wie bepaal die vergoeding van die pastoor/leeraar?

Bestuursraad/ Kerkraad	Vrystaat Sinode/ Leierskapforum	Algemene sinode/ Hoofkantoor	Ander	E.49
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- Indien ander, spesifiseer asb. \_\_\_\_\_

39. Wat is die basis wat vir die vergoeding van die pastoor/leeraar gebruik word?

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E.50

40. Ontvang die lede van die kerkraad/bestuursraad (behalwe voltydse werknemers) vergoeding/n honorarium?

Ja	Nee	E.51
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- Indien ja, verduidelik kortliks hoe die vergoeding/honorarium vasgestel word.

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E.52

41. Word die vergoeding van die pastoor/leraar (en bestuursraads-/kerkraadslede, indien enige in die jaarlikse finansiële state geopenbaar?

Ja	Nee	E.53
----	-----	------

## F. VERSLAGDOENING EN FINANSIËLE STATE

42. Berei u jaarlikse finansiële state voor?

Ja	Nee	F.54
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- Indien nee, berei u bestuursrekening/ander finansiële inligting voor? Verduidelik asb.

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F.55

**Indien ja, beantwoord asb. die volgende vyf vrae:**

43. Wie is vir die voorbereiding van die finansiële jaarstate verantwoordelik?

Tesourier/Skriba	Rekenmeester (SAIPA)	Geoktrooieerde rekenmeester (SAICA)	Ander	F.56
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44. Wie is daarvoor verantwoordelik om die finansiële state goed te keur?

Pastoor/ Leraar	Kerkraad/ Bestuursraad	Vrystaat sinode/ Leierskapforum	Lidmate van die gemeente	Ander	F.57
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45. Op watter basis word die finansiële state voorberei?

Kontantbasis	IFRS vir SME's	Ander	F.58
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46. Aan wie word die finansiële state gekommunikeer en versprei?

Pastoor/ Leraar	Kerkraad/ Bestuursraad	Vrystaat Sinode/ Leierskapforum	Lidmate van die gemeente	Ander	F.59
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- Indien ander, spesifiseer asb. \_\_\_\_\_

47. Vergelyk u die finansiële state met ander gemeentes as 'n maatstaf vir finansiële prestasie?

Ja	Nee	F.60
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**Nie finansiële openbaarmaking in finansiële state**

48. Nie-finansiële openbaarmaking: doen u verslag oor enige ander sake, behalwe finansiële resultate in die finansiële state?

Ja	Nee	F.61
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Verskaf kortliks voorbeelde van die nie-finansiële openbaarmaking.

\_\_\_\_\_

F.62

**Begroting**

49. Berei u 'n jaarlikse begroting voor?

Ja	Nee	F.63
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50. Wie keur die begroting goed?

Pastoor/ Leraar	Kerkraad/ Bestuursraad	Vrystaat Sinode/ Leierskapforum	Lidmate van die gemeente	Ander	F.64
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51. Is daar 'n vergelyking tussen die begrote bedrae (insluitende inkomste en uitgawes) en die werklike bedrae (insluitende inkomste en uitgawes)?

Ja	Nee	F.65
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52. Verduidelik kortliks die stappe of aksies indien die werklike uitgawes die begrote uitgawes oorskry.

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F.66

## G. OUDITVEREISTES

### Eksterne auditvereistes

53. Word die finansiële jaarstate ekstern geaudit?

Ja	Nee	G.67
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**Indien ja, beantwoord asb. die volgende twee vrae:**

54. Is die aanstelling van die eksterne ouditeur vrywillig of verpligtend ingevolge die Kerkorde/Konstitusie?

Vrywillig	Verpligtend	G.68
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55. Wie stel die eksterne ouditeur aan?

Pastoor/ Leraar	Kerkraad/ Bestuursraad	Vrystaat Sinode/ Leierskapforum	Lidmate van die gemeente	Ander	G.69
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- Indien ander, spesifiseer asb. \_\_\_\_\_

**Indien daar nie 'n eksterne audit is nie, beantwoord asb. die volgende vraag:**

56. Verduidelik kortliks die proses en prosedures wat op die jaarlikse finansiële state uitgevoer word (bv. ooreengekome prosedures/oorsigprosedures/ander prosedures) met verwysing na die aard en tipe prosedures wat uitgevoer word en of 'n opinie (vlak van gerusstelling) uitgespreek word.

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G.70

**Van toepassing op alle tipe dienste op die finansiële state:**

57. Spesifiseer die tipe firma wat die werk uitvoer:

CA (SA)	SAIPA	Ander	G.71
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58. Is die firma/persone wat die werk op die finansiële state uitvoer **onafhanklik**?

Ja	Nee	G.72
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59. In u opinie, wat is die **twee belangrikste faktore** wat 'n rol in die aanstelling van die ouditeur/rekenmeester speel?

i. \_\_\_\_\_

G.73

ii. \_\_\_\_\_

G.74

60. Volgens u mening, heg die eksterne audit/ander tipe van gerusstelling met betrekking tot die finansiële state waarde toe tot u gemeente?

Ja	Nee	G.75
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Motiveer asb. kortliks u antwoord.

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G.76

### **Interne auditvereistes**

61. Maak u van interne ouditeure gebruik?

Ja	Nee	G.77
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**Indien ja, beantwoord asb. die volgende vraag:**

62. Beskryf kortliks die verantwoordelikhede/funksies van die interne ouditeur(e) byvoorbeeld, voer hulle enige prosedures op interne beheermaatreëls, d.w.s. die proses rakende die hantering, tel en deponering van kontant uit?

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G.78

### **Interne kontroles**

63. Verduidelik kortliks die kontroles rakende kontant en salarisse.

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64. Wie is daarvoor verantwoordelik om die kontroles (rondom kontant en salarisse) na te gaan?

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G.80

## H. RISIKOBESTUURSPROSES

65. Het u 'n formele proses om risiko's te identifiseer?

Ja	Nee	H.81
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**Indien ja, beantwoord asb. die volgende vraag:**

66. Verduidelik kortliks die proses om die risiko's wat u gemeente in die gesig staar, te identifiseer.

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H.82

### Beduidende risiko's

67. Dui VYF (5) risiko's aan wat u as die beduidendste risiko's van u gemeente beskou:

Afname in lidmate se bydraes (tiendes en offergawes)		H83.1
Beperkte betrokkenheid van lidmate		H83.2
Die toename in koste oorskry die toename in inkomste		H83.3
Afname in lidmaatgetalle		H83.4
Veilige bewaring van kontant		H83.5
"Kompetisie" met ander kerkdenominasies		H83.6
Jeug wat die gemeente verlaat		H83.7
Nie-nakoming aan die Kerkorde/Konstitusie		H83.8
Stabiliteit van kragtoevoer tydens kerkdienste		H83.9
Gebrek aan effektiewe kommunikasie aan lede van die gemeente		H83.10
Tegnologie		H83.11
Verandering in regulatoriese omgewing		H83.12
Ander, spesifiseer asb. ....		H83.13

68. Verduidelik kortliks hoe u die risiko's hierbo geïdentifiseer, bestuur.

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H.84

## I. FINANSIËLE VOLHOUBAARHEID

69. Wat is die persentasie (%) verspreiding van die inkomste?

Tiendes en offergawes	<u>      </u> %	Huur-inkomste	<u>      </u> %	Beleggings-inkomste	<u>      </u> %	Ander	<u>      </u> %	I.85
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70. Is u as gevolg van die afname in die ekonomiese klimaat, is u bekommerd oor 'n moontlike afname in tiendes en offergawes? Verduidelik asseblief.

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I.86

71. Dink u u kerk is finansieël volhoubaar?

Gemeentevlak	I.87	Provinsiale vlak	I.88	Nasionale vlak	I.89
bv. NG (u eie gemeente)		NG Vrystaat		NG Suid-Afrika	
i.e. AGS (u eie gemeente)		AGS Vrystaat		AGS Suid-Afrika	

## J. KOMMUNIKASIE AAN BELANGHEBBENDES

72. Wie beskou u as die belangrikste belanghebbendes van die kerk?

Pastoor/ Leraar	Kerkraad/ Bestuursraad	Vrystaat Sinode/ Leierskapforum	Lidmate van die gemeente	Ander	J.90
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- Indien ander, spesifiseer asb. \_\_\_\_\_



73. Word 'n jaarlikse gemeentevergadering vir gemeentelede gehou?

Ja	Nee	J.91
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- Indien ja, word die kerkvergadering goed bygewoon? Wat is die persentasie van gemeentelede van die vergadering bywoon?

<10%	10-30%	40-60%	>60%	J.92
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74. Is daar enige ander vergadering vir gemeentelede behalwe die kerkvergadering soos hierbo genoem?

Ja	Nee	J.93
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- Indien ja, verduidelik asb. \_\_\_\_\_

75. Indien ja in 74., hoe gereeld word hierdie vergaderings gehou?

Weekliks	Maandeliks	Kwartaalliks	Jaarliks	J.94
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## K. ETIESE LEIERSKAP

76. Daar is vier waardes onderliggend aan etiese leierskap. Verduidelik kortliks wat u verstaan onder elk van hierdie waardes:

i. Verantwoordelikheid

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K.95

ii. Aanspreeklikheid

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K.96

iii. Regverdigheid

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## iv. Deursigtigheid

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K.98

77. Die afgelope maande is daar toenemende verslag oor onetiese politieke leierskap. Daar is onlangs berig dat die Afrikaanse kerke onttrek het van beplande gesprekke met die regerende party as gevolg van 'n morele ineenstorting. Wat dink u is die rol van die kerk om aandag te gee aan hierdie onetiese leierskap?

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K.99

## L. ALGEMEEN

78. Wat beskou u as die grootste struikelblokke/uitdagings om sommige van die aanbevelings wat in die King-verslae voorgeskryf word met betrekking tot korporatiewe beheer (naamlik interne oudit; die gebruik van komitees) te implementeer?

- i. \_\_\_\_\_ L.100
- ii. \_\_\_\_\_ L.101
- iii. \_\_\_\_\_ L.102

79. Sal u meer betrokkenheid van die Algemene Sinode/Hoofkantoor ten opsigte van bestuur, besluitneming ens op gemeentevlak verkies?

Ja	Nee	L.103
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Indien ja, beskryf die areas waar meer betrokkenheid verkies word:

- i. \_\_\_\_\_ L.104
- ii. \_\_\_\_\_ L.105

iii. \_\_\_\_\_ L.106

80. **Algemene gevolgtrekking:** Enige ander opmerkings?

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L.107