

**A THEORETICAL STUDY TO DETERMINE THE
INTERRELATIONSHIP BETWEEN GOVERNANCE AND
LEADERSHIP**

by

HENDRIK JOHANNES BOTHA

**SUBMITTED IN ACCORDANCE WITH THE REQUIREMENTS FOR THE
DEGREE**

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in the

DEPARTMENT OF BUSINESS MANAGEMENT

at

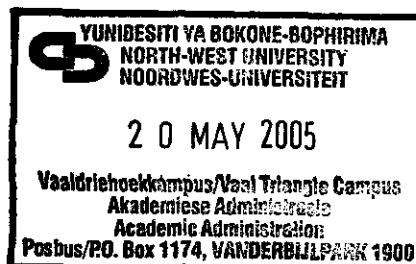
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STUDY LEADER

PROF. P F VENTER

DATE

SEPTEMBER 2004



DECLARATION

I, Hendrik Johannes Botha, declare that the dissertation

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submitted herewith for the Degree M.Com. (Business Management) at North-West University is my own work, that all the sources used or quoted have been indicated and acknowledged by means of complete references, and that this dissertation was not previously submitted by me for a degree at any other university.

A handwritten signature in black ink, appearing to read 'H J Botha', is written over a horizontal line.

H J Botha

September 2004

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I acknowledge herein my dependence on my Creator and Saviour, the Lord Jesus Christ, for the wisdom and gifts that He daily blesses me with.

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SUMMARY

In the recent past, authoritative sources have indicated that the concept “government” and “governance” cannot be separated from leadership and that the two concepts, leadership and governance, are both best understood as functioning in an interrelated relationship.

Further studies, of which this research forms part, suggest that society and the environment have changed phenomenally. Modern society is characterised, among others, by rapid change and greater demands for optimum results. This has brought the revised concept to the fore, namely that good governance can attain the best results only if it functions within a framework of interaction with effective leadership.

This dispels the theory that governance can on its own deliver results, because in reality it is leadership that drives the whole to deliver the required performance.

The main theme discussed, is governance and policy, leadership and the interrelationship between governance and leadership. Governance is also discussed in terms of the modern approach of accountability in: government, the private sector, civil society and public policy. Five forms of governance are identified and the ethics of good governance are described. The practice of corporate governance and the similarity of the principles of sound corporate governance to that of political governance, and governance in civil society, are identified.

The concept and relevance of leadership is further discussed. A survey of the theories of traits, motives and power of leadership is undertaken in order to define effective leadership in relation to good governance that can produce the expected results.

Finally, the interrelationship of governance and leadership is described by connecting the various characteristics of effective leadership and aspects of good governance, such as among others, the principles of good corporate governance with one another. In this context, several criteria are recommended in order to determine the effectiveness of leadership within good governance.

OPSOMMING

In die jongste verlede het gesaghebbende bronne aangedui, dat die begrippe “regering” en “bestuur” nie geskei kan word van leierskap nie en dat die twee konsepte, leierskap en bestuur (governance), beter verstaan kan word as twee entiteite wat in ’n interaktiewe verhouding saamwerk as een geheel.

Ander studies waarby hierdie navorsing ingesluit is, dui aan dat die samelewing en omgewing verander het. Die moderne samelewing word onder andere gekenmerk deur snelle veranderings en groter eise vir die bereiking van optimum resultate. Dit het ’n gewysigde konsep op die voorgrond gebring, naamlik dat goeie bestuur (governance) net die beste resultate kan behaal indien dit funksioneer binne ’n raamwerk van interaksie met effektiewe leierskap. Dit verwerp die teorie dat bestuur (governance) op sigself resultate kan lewer omdat leierskap in werklikheid die dryfkrag is agter die geheel om die verwagte resultate te lewer.

Die hooftema wat bespreek word, is bestuur (governance) en beleid, leierskap en die interafhanklikheid van bestuur (governance) en leierskap. Bestuur (governance) word ook bespreek in terme van die moderne benadering van verantwoordelikheid wat geld vir die regering, die privaatsektor en burgerlike organisasies en openbare beleid. Vyf soorte bestuur (governance) word identifiseer en die etiek van goeie bestuur (governance) word omskryf. Die praktyk van korporatiewe bestuur en die ooreenkomste tussen die beginsels van goeie korporatiewe bestuur en die van regering en die bestuur van burgerlike organisasies, word identifiseer.

Verder word die konsep en die toepaslikheid van leierskap bespreek. ’n Opname van die teorieë van persoonlikheidskenmerke, motiverings en mag van leierskap is onderneem ten einde effektiewe leierskap in verhouding tot goeie bestuur (governance) te definieer, wat die verwagte resultate kan lewer.

Ten slotte word die onderlinge verhouding tussen bestuur (governance) en leierskap beskryf deur die verkeie kenmerke van effektiewe leierskap te verbind met die aspekte van goeie korporatiewe bestuur soos blyk uit die beginsels van goeie korporatiewe bestuur. In die verband word kriteria aanbeveel ten einde die effektiwiteit van leierskap binne die konsep van goeie bestuur (governance) te kan bepaal.

CONTENTS

	Page
1. INTRODUCTION AND SCOPE OF THE STUDY	1
1.1 INTRODUCTION	1
1.2 LITERATURE REVIEW	2
1.3 BACKGROUND AND IMPORTANCE OF THE STUDY	4
1.4 RESEARCH PROBLEM	7
1.5 PURPOSE OF THE STUDY	7
1.6 OBJECTIVES OF THE STUDY	10
1.6.1 <i>Primary objective</i>	10
1.6.2 <i>Secondary objectives</i>	10
1.6.3 <i>Hypotheses</i>	10
1.7 RESEARCH	11
1.7.1 <i>Databases</i>	11
1.7.2 <i>Procedure</i>	11
1.8 DEMARCATIONS AND LIMITATIONS OF THE STUDY	12
1.9 OUTLINE OF THE STUDY	13
1.10 ABBREVIATIONS	14
1.11 SYMBOLS	15
1.12 GENERAL	15

2.	GOVERNANCE AND POLICY	16
2.1	INTRODUCTION	16
2.2	GOVERNANCE DEFINED	16
2.3	A THEORETICAL PERSPECTIVE ON GOVERNANCE AND POLICY	19
2.3.1	<i>Better governance and public policy</i>	19
2.4	FIVE FORMS OF GOVERNANCE	23
2.4.1	<i>Economic governance</i>	23
2.4.2	<i>International institutions and regimes</i>	24
2.4.3	<i>Corporate governance</i>	25
2.4.4	<i>New public management</i>	26
2.4.5	<i>Networks, partnerships and deliberative forums</i>	26
2.5	THE ETHICS OF GOOD GOVERNANCE	27
2.6	ACCOUNTABILITY IN GOVERNMENT AND CIVIL SOCIETY	31
2.6.1	<i>Government</i>	32
2.6.1.1	<i>Political will</i>	32
2.6.1.2	<i>Public administration</i>	33
2.6.1.3	<i>Corruption</i>	34
2.6.1.4	<i>Mechanisms for accountability within government</i>	35
2.6.1.5	<i>Mechanisms for accountability within the political system</i>	36
2.6.1.6	<i>Mechanisms for accountability within the civil service</i>	37
2.6.2	<i>Civil Society</i>	41
2.7	ACCOUNTABILITY IN BUSINESS	43
2.7.1	<i>Corporate governance defined</i>	43

2.7.2	<i>The importance of corporate governance for development</i>	45
2.7.3	<i>Voluntary versus mandatory mechanisms</i>	48
2.7.4	<i>Judicial versus regulatory means</i>	50
2.7.5	<i>The influence of political governance on corporate governance</i>	53
2.8	THE PRACTICE OF CORPORATE GOVERNANCE	54
2.8.1	<i>Application of the King II Code of Corporate Practices and Conduct</i>	54
2.8.2	<i>The nine principles of corporate governance</i>	56
2.8.3	<i>The six objectives of corporate governance</i>	60
2.8.4	<i>Corporate governance and regulations</i>	63
2.9	CONCLUSION	65
2.9.1	<i>General theories of good governance</i>	65
2.9.2	<i>The benefits of corporate governance</i>	67
2.9.3	<i>Political and corporate governance</i>	69
2.9.4	<i>Public policy</i>	70
2.9.5	<i>Ethics and values</i>	71
2.9.6	<i>The role of leadership</i>	72
2.9.7	<i>Accountability</i>	75
2.9.8	<i>Standards of leadership and accountability</i>	75
2.9.9	<i>Regulatory and judicial control</i>	77
3.	LEADERSHIP	80
3.1	INTRODUCTION	80
3.2	CONCEPTS OF LEADERSHIP	80

3.2.1	<i>The beginnings of leadership</i>	80
3.2.2	<i>The phenomenon of leadership</i>	82
3.2.3	<i>The importance of leaders and leadership</i>	83
3.2.4	<i>The meaning of leadership</i>	86
3.3	TRAITS AND MOTIVES OF LEADERS	95
3.3.1	<i>Personality traits of effective leaders</i>	96
	3.3.1.1 <i>General personality traits</i>	97
	3.3.1.2 <i>Task-related personality traits</i>	104
3.3.2	<i>Leadership motives</i>	110
	3.3.2.1 <i>Power motive</i>	111
	3.3.2.2 <i>Personalised power motive</i>	111
	3.3.2.3 <i>Socialised power motive</i>	112
	3.3.2.4 <i>Drive and achievement motivation</i>	113
	3.3.2.5 <i>Strong work ethic</i>	114
	3.3.2.6 <i>Tenacity</i>	114
3.3.3	<i>Cognitive factors and leadership</i>	115
	3.3.3.1 <i>Mental ability and cognitive resources</i>	115
	3.3.3.2 <i>Knowledge of the business</i>	116
	3.3.3.3 <i>Creativity</i>	117
	3.3.3.4 <i>Insight into people and situations</i>	118
	3.3.3.5 <i>Farsightedness and conceptual thinking</i>	118
	3.3.3.6 <i>Openness to experience</i>	119
3.3.4	<i>Physical and background factors</i>	120
	3.3.4.1 <i>Energy and physical stamina</i>	120
	3.3.4.2 <i>Background factors</i>	121

3.3.5	<i>Heredity, environment and leadership</i>	123
3.3.6	<i>The strengths and limitations of the trait approach to leadership</i>	126
3.4	POWER	127
3.4.1	<i>Sources and types of power</i>	129
3.4.2	<i>Position power (power granted by the organisation)</i>	130
3.4.2.1	<i>Legitimate power</i>	131
3.4.2.2	<i>Reward power</i>	131
3.4.2.3	<i>Coercive power</i>	132
3.4.2.4	<i>Information power</i>	132
3.4.3	<i>Personal power</i>	133
3.4.3.1	<i>Expert power</i>	133
3.4.3.2	<i>Referent power</i>	134
3.4.3.3	<i>Prestige power</i>	134
3.5	DOES LEADERSHIP MAKE A DIFFERENCE?	135
3.5.1	<i>The existence of substitutes for leadership argument</i>	135
3.5.2	<i>The leader irrelevance argument</i>	139
3.5.3	<i>Complexity theory</i>	140
3.6	CONCLUSION	140
3.6.1	<i>Background</i>	141
3.6.2	<i>Importance of effective leadership</i>	141
3.6.3	<i>Meaning of effective leadership</i>	143
3.6.4	<i>Characteristics and power relations of effective leadership</i>	144
3.6.5	<i>General personality trait: trust</i>	147
3.6.6	<i>Power</i>	148
3.6.7	<i>Strengths and limitations of the trait approach</i>	149

3.6.8	<i>The influence of heredity and the environment on effective leadership</i>	149
4.	THE INTERRELATIONSHIP BETWEEN GOVERNANCE AND LEADERSHIP	151
4.1	INTRODUCTION	151
4.2	CONNECTING LEADERSHIP CHARACTERISTICS WITH RESULTS	152
4.3	CONNECTING CORPORATE GOVERNANCE AND STRATEGY WITH LEADERSHIP CHARACTERISTICS	156
4.4	CONNECTING SELECTION OF THE BOARD OF DIRECTORS WITH LEADERSHIP CHARACTERISTICS	158
4.5	CONNECTING THE RESPONSIBILITIES OF DIRECTORS WITH LEADERSHIP CHARACTERISTICS	160
4.6	CONNECTING THE ROLE AND FUNCTION OF DIRECTORS WITH LEADERSHIP CHARACTERISTICS	164
4.7	CONNECTING THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE WITH LEADERSHIP CHARACTERISTICS	167
4.8	POWER AND ACCOUNTABILITY	169
	4.8.1 <i>Power</i>	169
	4.8.2 <i>Accountability</i>	170
4.9	CONCLUSION	172
5.	CONCLUSION	174
5.1	INTRODUCTION	174
5.2	ATTAINMENT OF THE OBJECTIVES OF THE STUDY	174

5.2.1	<i>Primary objective</i>	174
5.2.2	<i>Secondary objectives</i>	175
5.3	HYPOTHESES	175
5.4	LIMITATIONS OF THE STUDY AND FURTHER RESEARCH	176
5.5	FINAL CONCLUSION	177

LIST OF SOURCES AND REFERENCES CONSULTED	179
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LIST OF APPENDIXES

APPENDIX A	General list of key institutions of corporate governance
APPENDIX B	Organisation for Economic Co-operation and Development (OECD): Principles of Corporate Governance
APPENDIX C	Commonwealth Association for Corporate Governance (CACG): Principles of Corporate Governance – Executive summary
APPENDIX D	King II Report: Code of Corporate Practices and Conduct
APPENDIX E	King II Report: Recommendations requiring statutory amendment and other actions

LIST OF FIGURES

Figure 2.1	Public integrity index	40
Figure 2.2	List of legal and voluntary governance actions	64
Figure 3.1	Heredity, childhood and leadership in big jobs	125
Figure 3.2	Wheel of effective leadership	146
Figure 4.1	Formula for measuring effective leadership within good governance	153
Figure 4.2	Examples of various calculations using the formula for measuring effective leadership within good governance	154

CHAPTER 1

INTRODUCTION AND SCOPE OF THE STUDY

1.1 INTRODUCTION

The aim of the study is to assess the interrelationship of governance and leadership functioning as a whole in the formulation and implementation of policy.

Governance and leadership form a major part of public administration, business management, organisational behaviour, and both civil and non-profit organisations. The theories of governance and leadership will be carefully evaluated and applied in the context of the study.

Governance has become an important discipline for research. An important outcome of governance in democratic societies, is that it opens up the political process to formulate and implement more transparent and responsive public policies. This outcome stems from the variety of participants in the policy process: legislators, political parties, interest groups from both civil society and the private sector, research organisations and to a degree, even civil service and local government (Olowu & Sako, 2002: 2).

Without effective leadership and good governance at all levels in private, public and civil organisations, it is virtually impossible to achieve and to sustain effective administration, achievement of goals, quality and delivery of good services (DuBrin, 2004). The increasing complexities, requirements and constant change within society and the urge for higher levels of productivity, require effective leadership.

Good governance and effective leadership are the essential requirements for an organisation to be successful. Organisations can be described as collections of people who work together and co-ordinate their actions in order to achieve a wide variety of goals. A goal, in turn, is a desired future outcome that an organisation strives to achieve and that is in the best interest of all the stakeholders (Jones, George & Hill, 2000).

1.2 LITERATURE REVIEW

A careful study was made in order to determine the most important sources. These sources have been carefully studied, evaluated and compared so as to determine the true meanings and values of its relevant contents.

In addition, a literature study was also undertaken on the main subject of this study, so as to provide a better insight into the research problem and the necessary background to the study. Apart from the information obtained from textbooks, other sources were consulted in order to obtain the information needed for this particular study. Sources such as journals, magazines, periodicals, newspapers and the Internet, were also consulted.

Literature studied, included books, periodicals, United Nations and World Bank reports, and other documents. Computer searches for relevant material were undertaken in the library of the North-West University (NWU), Vaal Triangle campus. Preliminary analyses indicated that ample material and literature covering the research topic were available.

Several of the major sources of reference on leadership and governance are:

- A. J. DuBrin's "Leadership: research findings, practice and skills" focuses on the concept of leadership (DuBrin, 2004). This handbook is a compilation of the most authoritative theories on leadership. The author discusses fourteen different approaches to the study of leadership. Specifically, the following are identified: (i) Traits, motives and characteristics of leaders. (ii) Charismatic and transformational leadership. (iii) Leadership behaviours, attitudes and styles. (iv) Contingency and situational leadership. (v) Leadership ethics and social responsibility. (vi) Power, politics and leadership. (vii) Influence tactics of leaders. (viii) Developing teamwork. (ix) Motivation and coaching skills. (x) Creativity, innovation and leadership. (ix) Communication and conflict resolution. (x) Strategic leadership and knowledge management. (xi) Diverse international and cultural aspects of leadership.

- Northouse (2004), *Leadership: Theory and Practice*. This text reviews and analyses the foremost leadership theories and is adopted as a textbook at over 250 colleges and universities.
- Pierre (2000), *Debating Governance: Authority, Steering and Democracy*. This handbook was developed out of a conference on theories of governance held at the Ross Priory outside Glasgow in October 1997 and includes writings of eleven authoritative professors.
- The King II Report (IODSA, 2002) on corporate governance for South Africa. Many of the guidelines and recommendations of the report are to be incorporated into the new legislation for companies in South Africa. The JSE Securities Exchange South Africa has made part of the Report's guidelines requirements for listed companies to comply with.
- The Policy Brief "Corporate Governance in Developing, Transition and Emerging-Market Economies" published during 2003 by the Organisation for Economic Co-operation and Development (OECD) headquartered in France. This brief deals with the relevance of corporate governance for rich and poor countries to benefit from globalisation and discusses the roles of the various institutions that govern the relationship between people who manage corporations and those who invest resources in corporations.
- Other useful sources include the Commonwealth Business Council (CBC) and the Commonwealth Association for Corporate Governance (CACG); also publications of the United Nations Economic Commission for Africa (UNECA); the World Bank; the Drucker Foundation and the Harvard Business School Press.

Good corporate governance is important for developing countries towards alleviating its problems of governance and leadership, especially concerning housing, health, education, unemployment and low economic growth. To be able to solve these problems, developing countries require large- scale investments from overseas, as well

as from local investors (Hutton-Wilson, 2004:7). This includes good governance and effective leadership.

One way by means of which to realise large-scale investments, is for political leadership to unlock the process of privatisation in a manner that is most beneficial to all the stakeholders in the long-term. Particular areas for privatisation are in the telecommunications, energy and transport sectors. This process will release funds to speed up alleviation of the key problem areas such as unemployment and low economic growth. Prerequisites for a country to receive large-scale investments, include:

- (i) a reputation for sound corporate and political governance;
- (ii) good disclosure of information to relevant stakeholders;
- (iii) economic stability and a record of adherence to high-level accounting standards;
- (iv) political stability and adherence to the rule of law;
- (v) a dynamic human resource and skills development programme; and
- (vi) the ability to hold the administrative, executive and parastatals of government accountable.

The Harvard method of source referencing and acknowledgement is used. Footnotes do not appear at the bottom of each page; instead, quotations and references are specified directly before or after the particular quotation of reference.

1.3 BACKGROUND AND IMPORTANCE OF THE STUDY

Many African nations, and others elsewhere in the developing world, are poorly governed. This is the reason why these countries are lagging behind the rest of the world in economic growth, in medical and educational achievements, in social and political improvements and in freedom from internal conflict. If governance could be improved in Africa and elsewhere, infant mortality rates would fall, the struggle to contain the Aids epidemic might be overcome and civil wars would prove less disastrous (Rotberg, 2002:13).

Hunger, poverty, HIV/AIDS and lack of development in Africa are in the first instance political and governance issues. Both economic and corporate governance take their cue from political governance and it would be naïve to suggest that the latter could improve within a corrupt and self-serving political system. Without making political governance the core focus of New Partnership for Africa's Development (NEPAD), the partnership is unlikely to make an impact on the continent (Cilliers, 2003).

Well-governed states serve their citizens effectively. They deliver high levels of security, maintain strong adherence to the rule of law, respect political freedoms and human rights, nurture strong institutions, provide quality educational and health services, strengthen or regulate effective infrastructure, bolster an economic framework conducive to growth and prosperity, offer an atmosphere in which civil society can flourish, and regulate the environment for the benefit of all (Rotberg, 2002:13).

There is a direct link between good national governance, effective leadership and economic prosperity. The difference between African and Asian countries, many of which started at the same point in time in 1960, is striking. Africa has fallen behind because of poor governance while Asia has surged ahead. Consider Singapore, a pirate haunt until 1965, and contrast it with Ghana. Ghana was wealthier than South Korea in 1960. Governance is the key variable.

To Africa's development partners, the G8 group of countries in particular, issues of political accountability and good governance logically lie at the core of Africa's inability to develop (Cilliers, 2003).

The key factor for the New Partnership for Africa's Development (NEPAD) to succeed, is the African Peer Review Mechanism (APRM) which encourages good governance, respect for the rule of law, political stability, transparency and accountability. The states that adhere to the APRM, will reap the benefits while those that do not, will be forced to change or be left behind in terms of economic growth and prosperity (Harris, 2004:3).

Adherence to good governance and to the APRM, requires effective leadership. A forum of African leaders from the public and private sectors held in Johannesburg during October 2003, focussed on the creation of a framework for effective leadership that will implement NEPAD. It was stated, that without effective leadership, the opportunities that NEPAD has to offer, will be wasted and that Africa requires strong ethical leadership in governance to deliver democratic stability and economic results (Jackson, 2003:18).

Corporate governance has much in common with governance in government. The King II Report (IODSA, 2002) goes beyond the financial and regulatory aspects of corporate governance in advocating an integrated approach to good governance in the interests of a wide range of stakeholders having regard to the fundamental principles of good and sustainable financial, social, ethical and environmental practice. In adopting a participative corporate governance system of enterprise with integrity, the King Committee in March 2002 successfully formalised the need for companies to recognise that they no longer act independently from the societies and the environment in which they operate.

In order to be relevant and sustainable, an organisation should attain a competitive advantage. According to Jones et al., (2000) the foundation of a competitive advantage, is realised through the continuous attainment of superior efficiency, innovation, quality and responsiveness to customers. This is as relevant to public organisations as it is to non-profit and propriety organisations. Government must meet the demands of its citizens by being responsive to their needs by way of the delivery of quality services at minimal expenditure, innovatively.

A new focus of governance in modern day health administration, is the phenomenon of HIV/AIDS. AIDS is not only a health and social development challenge for the Southern Africa region, but a political and governance one as well. Chris Landsberg of the Centre for Policy Studies stated, that the epidemic has had massive implications for "local, provincial, national and regional governance". He continues by saying: "While HIV/AIDS has been treated as a medical and health issue, and as an epidemic what has not happened in the region, is to see HIV/AIDS as a governance issue.

HIV/AIDS should therefore, become a top governance, peace and security matter on the regional agenda” (Mde, 2003:6).

Effective leadership is in high demand. In particular, there is a call from the public and private sectors as well as from civil society, for strong, effective and ethical leadership that can produce the required results (Northouse, 2004).

The leaders of the future will be those who create a culture or value system centred upon principles. Creating such a culture in a business, government, school, hospital, non-profit organisation, family or other organisation, will be a tremendous and exciting challenge in this century. According to Stephen R. Covey, this will be achieved only by leaders, emerging or seasoned, who have the vision, courage and humility to constantly learn and grow (Hesselbein, Goldsmith & Beckhard, 1996:149).

1.4 RESEARCH PROBLEM

Whereas in the past it has been common practice to study governance, leadership and management as isolated fields, the modern trend follows a holistic approach. It is proposed in this study, that governance and leadership are interrelated and part of a whole.

Good governance is achieved through interrelationship with effective leadership.

Governance cannot attain its promised results if it is not supported in an interactive relationship with effective leadership.

1.5 PURPOSE OF THE STUDY

The purpose of the study, is to determine the extent of the interrelationship between governance and leadership functioning as a whole.

Leadership is important to the public and private sectors, as well as to civil society, because complex decisions must continuously be made and executed, and to do so, effective leaders are required. In organisations and society where many competing claims to the public interest exist, stakeholder decision-making generates a hopeless drone of discussion and debate. This can be avoided if the organisations and society can find leaders they trust, whom they can hold responsible, and who have the ability to mitigate conflict and regulate competition with equity and produce results. Unless the leadership, such as the executive, the board of directors or the executive committee, undertake these activities on the behalf of the stakeholders, chaos will reign (Gilbert, Specht & Terrell, 1993:224).

The modern concept of governance comprises two approaches. The first approach is founded in the post communist era in Eastern Europe and the situation in the developing countries, that both form an integral part of the new trend in world trade of globalisation and government vested on democratic principles. The World Bank (1989) describes the developing crisis in Africa as a “crisis of governance”.

The second approach concerns the Guidelines – Principles for Corporate Governance in the Commonwealth (CACG, 1999) issued by the Commonwealth Association for Corporate Governance, and findings of the King II Report (IODSA, 2002) on corporate governance, as well as World Bank papers that clearly indicate leadership as being part of governance, while governance incorporates the greater responsibility of policy, the public and private sectors, combined with issues such as the environment, social matters, financial accountability and sustainability.

A good example of the requirement for a combined public sector and private sector approach to address the problems concerning governance and leadership in Africa, is the way the private sector is to form the foundation of the NEPAD process. It is envisaged, that the partnership with business and government will attain a permanent nature so as to help the public sector to become fully functional and efficient. This belief is so strongly held by the Chairman of the African Union Commission and former President of Mali, Dr Alpha Konare, that he stated in the *Developing Africa* magazine issued by the Institute of Directors of Southern Africa, that if the

governments do not work with the private sector and reinforce it, nothing will change in Africa.

In this regard, the Gallup Millennium Survey, as described in Olowu and Sako (2002) and in the King II Report (IODSA, 2002), finds a shortfall in the effectiveness within the wider context of governance that incorporates public, private and civil organisations, that leads to worldwide dissatisfaction with the manner in which democratic governance functions.

The non-profit sector has been a real growth sector in the American society and economy, with nearly one million active non-profit organisations today. It will become increasingly important during the coming years as more and more of the tasks that government was expected to do during the last forty years, will be taken over by community organisations and non-profit organisations (Peter F. Drucker in Hesselbein et al., 1996).

Conscious of its own capacity and financial shortcomings, the South African government has come to increasingly rely on the private sector for assistance in the realisation of key objectives. The private sector will play a decisive role in the multibillion-Rand expanded public works programme, thus creating close to one million temporary jobs in the construction and upgrading of railways and roads. The government is also working closely with the private sector in the improvement of governance and the controlling of administrative matters. These measures are evident in the various new legislation on financial management covering national, provincial and local governments, read together with the new laws covering corruption and terrorism, which places responsibility on people in authority in the public and private sectors to monitor and take action against employees and customers involved in corrupt and unlawful practices (Loxton, 2004:19).

The conclusions of a study undertaken by the Royal Dutch/Shell oil corporation during the 1970's put a premium on trust, civic behaviour, the development of individual potential and leadership as stewardship. This marks a resounding endorsement of a stakeholder-versus a shareholder-dominated philosophy of management (Gabor, 2000:328). Therefore, only by way of the combination of effective leadership and

adherence to the principles of good governance, can results be produced that are both expected and sustainable.

1.6 OBJECTIVES OF THE STUDY

1.6.1 Primary objective

The primary objective of this study, is to define the relationship between effective leadership and good governance functioning as a whole.

1.6.2 Secondary objectives

The following secondary objectives are important to support the attainment of the primary objective.

- Evaluating the modern theories of governance and leadership, to determine the extent of the interrelationship of the two functioning as a whole.
- Determining that the principles of good corporate governance also apply to political governance.
- Recommending criteria that could be applied to determine effective leadership within good governance.

1.6.3 Hypotheses

The research problem could be formulated as two hypotheses. This formulation guides the researcher to provide answers to the research problem.

This study is guided by the following two hypotheses.

- **The null hypothesis (Ho)** Governance that incorporates leadership, functions well and delivers average results.
- **The alternative hypothesis (Ha)** Good governance that incorporates the interaction with effective leadership, produces the required optimum results.

1.7 RESEARCH

For the purpose of this investigation (see section 1.2), a literature study was undertaken as the main source of research.

1.7.1 Databases

The following databases were consulted to ascertain the availability of study material for the purposes of this research.

- (i) Catalogue of theses and dissertations of South African universities.
- (ii) Catalogue of books: Ferdinand Postma Library (NWU, Vaal Triangle campus).
- (iii) NRF: Nexus.
- (iv) Index to South African Periodicals (ISAP).
- (v) Amazon Inc. database: www.amazon.com.

1.7.2 Procedure

The following procedure was followed.

- A literature study was undertaken to determine the interrelationship between governance and leadership.
- The research objectives in terms of relevant information were analysed and evaluated.
- All data and theories were analysed objectively and analytically.

1.8 DEMARCATATIONS AND LIMITATIONS OF THE STUDY

Despite the recent popularity of governance as a field of study at both the practical and theoretical levels, the concept continues to mean different things to different people. Governance can be viewed as an ongoing phenomenon that is difficult to define, but which effects achievement of results either through the steering of processes or activities, or through the controlling by means of rules and regulations of public affairs (Olowu & Sako, 2002: 14).

It is important to distinguish between management and leadership, because these approach and execute their activities, and have responsibilities that are different to one another. Management and leadership serve differentiated roles within an organisation. Leadership can be described as an art and a personality trait that includes a vision of what an organisation can become (DuBrin, 2004). Management is the planning, organising, leading and controlling of resources to achieve organisational goals effectively and efficiently. Managers are people responsible for supervising the use of an organisation's resources to achieve its goals (Jones et al., 2000:5).

Leadership as a phenomenon is to be distinguished from management, in that management could be described as more formal and scientific. The discipline of management is described as a science, resting upon clearly defined laws, rules and principles. The fundamental principles of scientific management are applicable to all kinds of human activities, from our simplest individual acts to the work of great corporations and organisations that require the most elaborate form of co-operation (Taylor, 1998).

The focus of the study is on good governance, effective leadership and results.

1.9 OUTLINE OF THE STUDY

The research study consists of five chapters, these are outlined as follows.

Chapter 1: Introduction and scope of the study

This chapter comprises the introductory section of the study. Background is provided, while both the importance and the purpose of the study are clearly stated. The objectives of the study are formulated to focus the research in the main chapters. Reference is also made to certain limitations that may have had an influence on the outcome of this particular study.

Chapter 2: Governance and policy

Governance is discussed in terms of the modern approaches to government and public policy that cover the public and private sectors of society. The emphasis falls on good corporate governance.

Chapter 3: Leadership

A survey of the theories of leadership was undertaken in order to define effective leadership in relation to good governance.

Chapter 4: The interrelationship between governance and leadership

The purpose of this chapter is to analyse and explain the interaction between the two functions to realise good governance and effective leadership that can produce results. Criteria are developed to determine the effectiveness of leadership.

Chapter 5: Conclusion

In chapter 5 the attainment of the objectives of the study are discussed. Reference is also made to specific limitations and opportunities for further research.

1.10 ABBREVIATIONS

This section consists of ordinary contractions, letter groups and acronyms used in this study, they are presented in alphabetical order and include the following.

AGM	Annual General Meeting
AU	Africa Union
CACG	Commonwealth Association for Corporate Governance
CBC	Commonwealth Business Council
CIPFA	Chartered Institute of Public Finance and Accounting
COED	Concise Oxford English Dictionary
CPI	Centre for Public Integrity
HBS	Harvard Business School
IODSA	Institute for Directors of Southern Africa
LES	General Electric Leadership Effectiveness Survey
MBA	Master of Business Administration
NEPAD	New Partnership for Africa's Development
NPM	New Public Management
NGO	Non-Governmental Organisation
NWU	North-West University
OECD	Organisation for Economic Co-operation and Development
UN	United Nations
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNU	United Nations University

1.11 SYMBOLS

Symbols used within this dissertation include the following.

E L	Effective leadership
=	(equals)
c	characteristics
X	(multiply)
g	principles and functions of good governance
r	results
/	(divide)

1.12 GENERAL

- Appendixes are attached at the back of this dissertation.
- The Harvard method for source references has been used.
- If reference has been made only to the year of publication, emphasis has been placed on the general impression or impressions of the author.
- In this dissertation figures have been placed on the relevant pages.

CHAPTER 2

GOVERNANCE AND POLICY

2.1 INTRODUCTION

The primary aim of this chapter is to discuss governance in terms of modern approaches to government and public policy that cover both the public and private sectors of society. The emphasis is on good corporate governance.

The ethics of good governance and the availability of various mechanisms for ensuring that accountability exist in government, the civil society, and business, are reviewed.

The importance of sound corporate governance for development is discussed. A discussion of the principles and objectives of corporate governance are undertaken and stressing the relevance it has for the public sector and for non-governmental organisations.

2.2 GOVERNANCE DEFINED

The term “govern” is derived from the Latin words “gubernare” and “gubernator”, which refer to steering and directing (Simpson, 1977:269). The term “govern”, according to the Concise Oxford English Dictionary (COED, 2002:614), means to control and influence and to conduct the affairs of a state, an organisation or people. It also refers to good order.

A wide variety of definitions for governance exist and the use of the term governance is a relatively recent popular trend. It achieved wide usage in the past decade and mostly at the cost of the concept of government.

During the last decade of the twentieth century the term “governance” has emerged from virtual obscurity to take a central place in contemporary political and academic

debates. The concept has come to be used frequently, but often with quite different meanings and implications (Pierre & Peters, 2000:1).

In most of the public and political debate, governance refers to sustaining co-ordination and coherence among a wide variety of actors with different purposes and objectives such as political actors and institutions, corporate interests, civil society, and transformational organisations (Pierre, 2000:4).

A key reason for the popularity of the concept of governance as opposed to government, is that governance encompasses the whole spectrum of institutions and relationships involved in the process of governance. Governance is viewed to be an alternative to government and to control by the state.

What previously were indisputable roles of government, are now increasingly seen as more common, generic, societal problems which can be resolved by both political institutions and other actors. The underlying theme of the debate on governance, is that political institutions no longer exercise a monopoly on the orchestration of governance (Pierre, 2000:4).

The meaning of the concept governance is twofold. Firstly, governance alludes to the empirical manifestations of the process of change by which the state becomes better suited to its external environment. Secondly, governance also refers to a conceptual or theoretical representation of a co-ordination of social systems and the role of the state within this process (Pierre, 2000:3).

The second description of governance referred to above, can further be divided into two segments. In the first segment questions and answers are provided as to how and with what outcomes the state steers society and the economy through political deal-making and by defining goals and priorities. The second segment examines the co-ordination and various forms of formal and informal types of public-private interaction and the role of policy networks (Pierre, 2000:3).

Most of the meanings of governance cluster around what might be called a search for effective regulation and accountability.

The World Bank publication (2000), “Reforming public institutions and strengthening governance: a World Bank strategy” states, that for institutions and governments that operate efficiently, good governance is of critical importance for development and poverty reduction. Projects aimed at development and poverty reduction are less likely to succeed in a distorted policy environment. Therefore, it has become clear that neither good policies nor good investments are likely to emerge and be sustainable in an environment with dysfunctional institutions, poor governance, ineffective regulations and low accountability.

According to Paul Hirst in Pierre (2000), after a decade of economic liberalism in the 1980s, market forces and private interests require regulation and restraint without a new and major extension of the powers of the state. Alternative policy bodies in the developed world and Non-Governmental Organisations (NGOs) acting in the developing world, see a new potential for organisation through civil society rather than bigger government. This is due to their growth in respect of distrust in the state, because they see it as captured by commercial interests, corrupt politicians and unaccountable bureaucracies.

Good political governance is defined in a report of the United Nations Economic Commission for Africa in (UNECA, 2002) as a societal state comprising the following characteristics.

- (i) Predictable, open and enlightened policy-making.
- (ii) A bureaucracy imbued with a professional ethos.
- (iii) A strong civil society participating in public affairs.
- (iv) Adherence to the rule of law.
- (v) Respect for basic human rights and freedoms.
- (vi) Judicial independence.
- (vii) Consistent traditions and predictable institutions that determine how authority is exercised in a given nation-state, including:
 - (a) the process by which governments are selected, held accountable, monitored and replaced;
 - (b) the capacity of governments to manage resources efficiently and formulate, implement and enforce sound policies and regulations; and

- (c) the respect of citizens and the state for the establishment and protection of a political order and systems that are:
- (1) legitimate and enjoy the support and loyalty of the people;
 - (2) strong enough to defend and advance the sovereign interests of the people;
 - (3) able to address the fundamental development interest of the people;
 - (4) able to engage effectively with the various global processes that characterise the world economy; and
 - (5) respectful of the need to prevent, minimise and mitigate internal and cross-border conflicts.

Good governance can lead to better public policy that produces the outcomes desired by citizens.

2.3 A THEORETICAL PERSPECTIVE ON GOVERNANCE AND POLICY

2.3.1 Better governance and public policy

Governance has widened the policy process to include the participation of and communications with more stakeholders.

This is an important outcome of governance in democratic societies. It has opened up the political process to formulate and implement more transparent and responsive public policies. This results from the variety of participants in the policy process: legislators, political parties, interest groups from both civil society and the private sector, research organisations and to a degree, even civil service and local government (Olowu & Sako, 2002: 2).

In the attainment of better governance and public policy, the World Bank report “Governance: The World Bank’s experience” recognises that there exists a difference between governance as an analytic framework and governance as an operational framework, leading to the identification of three aspects of governance.

Three aspects distinguished in the specific publication of the World Bank (1992) are:

- (i) The form of the political regime;
- (ii) The process by which authority is exercised in the management of economic and social resources for the overall development of a country; and
- (iii) The capacity of government to design, formulate and implement policies and discharge functions.

Taking the operational framework of governance as contemplated by the World Bank (1992) as mentioned above into consideration and then applying it to the identification of the causes for the wide-spread poverty and the existence of HIV/AIDS in epidemic proportions in Africa, it becomes clear that the problem of poverty and the ravaging epidemic can directly be related to:

- (i) the incorrect manner in which authority is exercised; and
- (ii) the in-ability of governments to design, formulate and implement policies that will have a positive effect on the economic and social development of their respective countries.

The lack of development in Africa, as well as hunger, poverty and the prevalence of HIV/AIDS have been identified by Cilliers (2003) to be, in the first instance, political and governance issues.

Kofi Annan, Secretary General of the United Nations, also supports the above view of Cilliers (2003) by saying “Good governance is perhaps the single most important factor in eradicating poverty and promoting development” (UNU, 2002a).

Well-governed states serve their citizens effectively.

According to (Rotberg, 2002:13) in states that are well governed, government delivers high levels of security, maintains strong adherence to the rule of law and respects political freedoms and human rights. Furthermore, governments that are effective, nurture strong institutions, provide quality educational and health services, strengthen and regulate effective infrastructure, bolster an economic framework conducive to growth and prosperity, offer an atmosphere in which civil society can flourish, and regulate the environment for the benefit of all its citizens.

Government should realise that the recognition of the family is the cornerstone for the strength and stability of a country. Making the family the focus of social policies, and ensuring that the family is not undermined through other negligent policies such as double taxation of the combined income of both the husband and wife, will assist in the broader picture of attaining good governance.

Magaret Meade testified in the United States Senate in 1973 that from the analyses of social problems, it becomes clear that social problems cannot be fully solved without strong families (Zigler, Kagan & Klugman, 1983:xi), together with policies that aim to strengthen, not undermine, the family. Examples of social problems highlighted by Meade, where: crime, violence, and children struggling to study in school, an adult who cannot hold onto a job and persons involved with drugs.

Demographic shifts and a more flexible and mobile workforce have created upheavals in communities, affecting families and individuals. Furthermore, the way governments define their role in the funding of programmes such as social welfare, pensions, education, job training and health care, will deny most families the help they need and create even more upheavals. Therefore, government touches family life every day and public policy should ensure that it supports and maintains rather than undermines and weakens families (Walter F. Mondale in Zigler et al., 1983: xiii).

The recognition of the principles that underpin good governance, will support the establishment of criteria for a successful public policy. Public policy influences the way people respond to the challenges posed to them as brought about by economic, cultural and social changes.

In the World Governance Survey released by the Tokyo based United Nations University, the following six basic principles which reflect the emerging global consensus of what should and could constitute good governance are identified.

- (i) Participation, the degree of involvement and ownership of affected stakeholders.
- (ii) Fairness, the degree to which rules apply equally to everyone in society, regardless of status.

- (iii) Transparency, the degree to which decisions made by public officials are clear and open to scrutiny by citizens or their representatives.
- (iv) Decency, the degree to which the formation and stewardship of rules are undertaken without humiliation of or harm to the people.
- (v) Accountability, the degree to which public officials, elected as well as appointed, are responsible for their actions and responsive to public demands.
- (vi) Efficiency refers to the degree to which rules facilitate speedy and timely decision-making.

According to Olowu and Sako (2002) and Zigler et al., (1983) there are six well-known criteria that can be made operational and which are also to be found in many successful public and social policy interventions: these criteria are as follows.

- (i) Effectiveness: the actual achievement of goals and objectives of policy (outcomes). This is indicated by the contribution policy outputs make to the realisation of policy objectives.
- (ii) Efficiency: realisation of policy objectives in less time and with less cost. This is indicated by the amount of output to input.
- (iii) Responsiveness: the degree to which policy design is responsive to the legitimate interests of different groups affected by the policy. This can be seen in all aspects of the policy design and the process.
- (iv) Innovation: creativity and innovation in policy design, mainly in the pursuit of realising the first three criteria. In practice this is a difficult criterion to attain in bureaucratic environments.
- (v) Political feasibility: the degree of acceptance of policy by policy makers, political executives, legislature, and interest groups.
- (vi) Administrative feasibility: the willingness, capacity and ability of implementing agencies and target groups to realise policy objectives within stated time and cost parameters.

The additional criteria such as equity, adequacy, efficacy, transparency and accountability, can be placed under one or the other of the above-mentioned criteria, for example; equity is part of responsiveness, adequacy and efficacy are covered under effectiveness and efficiency, and accountability is covered both by political feasibility and responsiveness.

Taking into consideration the principles identified by the Global Governance Survey that underscores good governance and the criteria that constitute successful public policy as mentioned above, it becomes important to follow through and ask the question: how to identify the best possible public policy?

The most desirable and advantage public policy will be a policy, as described above in Olowu and Sako (2002) and Zigler et al., (1983), that:

- (i) scores high on the six criteria;
- (ii) scores high on one criteria without adversely affecting existing performance on other criteria; and
- (iii) scores high on one criterion but low on another while the trade-off is acceptable to the policy-maker. Trade-off can be defended and made politically and administratively feasible.

The role of governance is a matter of increasing importance in countries around the world, both developed and developing. A overview of the five forms of governance follows.

2.4 FIVE FORMS OF GOVERNANCE

2.4.1 Economic governance

This form of governance first seems to have gained usage in the field of economic development, with the widespread advocacy by international development agencies and western governments of good governance as a pre-requisite element of effective economic modernisation.

The World Bank has been a leading advocate of promoting good governance, through attaching various compliance conditions to its loans. The Bank has also brought government back to - advocating building state capacity in developing countries in its reports "World Development Report: The State in a Changing World" (1997) and

“Reforming Public Institutions and Strengthening Governance: A World Bank Strategy” (2000).

Appropriate laws, social institutions and values support a dynamic economy.

Development economists came to recognise, that institutions are as important as the state, development is not just a matter of creating free markets, promoting investment and adopting the correct macro-economic policies. Therefore, good governance means creating an effective political framework conducive to private economic action (stable regimes), the rule of law, efficient state administration adapted to the roles that governments can actually perform, and a strong civil society independent of the state (Paul Hirst in Pierre, 2000:14).

2.4.2 International institutions and regimes

The second main use of the concept of governance is in the field of international institutions and regimes.

It is widely accepted, that certain important dilemmas cannot be controlled or contained by action at the level of national states alone. Examples are world environmental problems like global warming and the depletion of fish stocks in the oceans, the regulation of world trade and international financial markets, and a variety of issues ranging from developing common accounting standards to examining the containment of the international drug trade (Paul Hirst in Pierre, 2000:15).

The recognition of the possibility of governance without government (Rosenau & Czempiel, 1992), of international organisations (Krasner, 1983) and the growth of private governmental practices and the retreat of the state (Strange, 1996), has led to extensive discussions about governance, including the role of international agencies and the inter-state agreements and common commercial governmental practices such as arbitration, as methods of governance.

2.4.3 Corporate governance

The third usage of the notion of governance, is that of corporate governance. This use refers to the way in which business corporations are directed and controlled.

Corporate governance is the watchword of those who wish to improve the accountability and transparency of the actions of management. The aim is to attain the improvement without fundamentally altering the basic structure of corporations in which indifferent shareholders are the principal beneficiaries of the company, and management claims to make policy on their behalf, whilst not being subject to the constraint of active voices by investors or any other affected party (Roe, 1994).

There exist large and growing legitimacy crises for companies, due to the practices of companies that exclude most major stakeholders from active voice such as employees, local communities, dependent organisations and minority groups.

This is signalled by the growth of stakeholder activism (Marrs & Rose, 2004:13), and such aspirations cannot be met by limited changes in the detail of company law. The current negotiations about corporate governance undertake to either accommodate or protect the interests of all stakeholders, other than shareholders.

The principles of corporate governance has been translated for use by the public sector CIPA (1994) and the IODSA (2002) in order to achieve more efficient governance in the public sector. These reports argue for a more commercial style of management towards bringing about a different working culture that is more effective and efficient.

This departure from traditional public service culture implies that the public sector must exercise extra vigilance and care in order to ensure that sound systems of corporate governance are both set in place and work in practice.

2.4.4 New public management

The fourth usage of the concept of governance, relates to the growth of New Public Management (NPM) strategies since the early 1980's. Two strands of public policy are relevant here.

Firstly, the privatisation of publicly owned industries and services and the subsequent need for regulating service providers to ensure service quality, compliance with contractual terms and accountability (Paul Hirst in Pierre, 2000:18).

The second flows from the introduction of corporate management, which refers to commercial practices and management styles within the public sector, devolving service agencies that are self-managing within overall policy guidelines and service targets. This generates a new model of public services distinct from that of public administration under hierarchical control and directly answerable to elected officials (Rhodes, 1997:48).

NPM is relevant to the discussion of governance, because steering is central to the analysis of public management and steering is a synonym for governance (R. A. W. Rhodes in Pierre, 2000:56).

This is supported in Pierre (2000) by Jessop (1995,1997) in which governance is described as "...the complex art of steering multiple agencies, institutions and systems that are both operationally autonomous from one another and structurally coupled through various forms of reciprocal interdependence".

This transformation of the public sector means less government and more governance (Osborne & Gaebler, 1992:34).

2.4.5 Networks, partnerships and deliberative forums

The fifth usage of governance refers to the new practices of co-ordinating activities through networks, partnerships and deliberative forums.

These negotiated forms of social governance structures are growing in importance. It is typically to be found at the micro level in cities, regions and industrial sectors and accepts and supports a wide variety of actors such as labour unions, trade associations, corporations, NGO's, local authority representatives, social organisations and community groups (Paul Hirst in Pierre, 2000:19).

Networks can be viewed as an institutional setting in which public and private role players interact. Networks are informal institutions and mostly informally organised, permanent, rule-governed relationships. The agreed-upon rules assist with building trust, communication, to reduction of uncertainty and form the basis of non-hierarchical co-ordination between the role players. (R.A.W. Rhodes in Pierre, 2000:63).

The growth of multiple notions of governance thus represents real changes away from the central government of the nation state as the main provider of control and regulation within the national boundaries.

Accordingly, Hirst (1997:3) describes governance as the means by which an activity or group of activities are controlled or directed, such that it delivers an acceptable range of outcomes according to certain established social standards by the state or any other provider.

2.5 THE ETHICS OF GOOD GOVERNANCE

For institutions in civil society, the public and private sectors, good governance is now an accepted goal because of the expectations of their constituents.

Citizens in every country have changing expectations of these institutions. This is partly due to the increased levels of literacy and education and partly due to the increasing levels of information available through global television coverage and the internet (UNDP, 2000:1).

In The Guide on The Ethics of Governance issued by the United Nations Development Programme (UNDP, 2000:1), the characteristics of good governance as advocated by most organisations are described as consisting of accountability, transparency, participation, non-discrimination or as being fair, high standards of service and the alleviation of poverty and underdevelopment. Competition is also classified as an important segment of the governance ethic. The main aim is to avoid the effects of unrestricted monopolistic power.

It must be stressed, that the principles of competition and the plurality of ideas, equal opportunities to access resources and to participate in political processes, the respect for human rights, freedoms, and the rule of law, are not ends in themselves.

The above-mentioned principles are but means through which economic and corporate governance can be brought to function so as to ensure stability and broad-based, equitable, and sustainable development (UNECA, 2002).

The requirement of citizens and stakeholders for good governance, is bringing about new standards for the delivery of public sector and private sector services.

The demands expressed are for quality service, for fair treatment of individuals and groups, including the poor, for transparency, accountability and participation in decision-making processes, and for strong measures to reduce corruption (UNDP, 2000:2).

The above-mentioned demands can be referred to as being ethical demands.

According to the United Nations Development Programme (UNDP, 2000), ethics is the task that enjoys renewed focus for action in the public service and that meeting ethical demands may require difficult breaks with old ingratiated cultures such as:

- (i) a national culture of authoritarianism;
- (ii) an over-emphasis on academic qualifications rather than competence; and
- (iii) appointments that are made due to nepotism and cronyism rather than according to merit.

Ethics and equity work hand-in-hand with one another.

Hendrikse and Hendrikse (2004) state, that equity requires a good degree of fairness and that ethical behaviour consists of honesty, integrity and fairness, also providing for all participants to become winners.

Behaviour that is ethical and equitable, becomes a standard of conduct.

Standards of conduct take on the form of values and principles, obligations, rights and consequences. Meeting these standards, emanates from good character and virtue (Hendrikse & Hendrikse, 2004).

In order to put the value of rising to the challenge in meeting ethical demands into perspective, one must look at the costs of unethical behaviour and the benefits that are derived from ethical behaviour.

Corporate scandals during the first few years of the 21st century have exacerbated the roughly US Dollar seven trillion collapse in the average market value of corporations. The impact has been devastating, not only directly through the loss of jobs and the disappearance of ordinary citizens' savings and pensions, but also indirectly. The collapse of confidence in business has helped to slow down economic growth worldwide. This has ensured that the poor remain poor (OECD, 2003) and for a growing distrust in the political system among society in general.

Simon Webley and Elise More (2003) published research work for the Institute of Business Ethics in London titled "Does Business Ethics Pay? – Ethics and Financial Performance" which proved empirically that ethical behaviour has a positive impact on the bottom-line of corporations.

The above-mentioned study compared the performance of two sets of companies against four indicators of business success over five years from 1997 – 2001. On three of the four indicators the companies with codes for ethical behaviour were markedly superior. In regard to their return on capital employed (ROCE) ratio, the results were

less clear but supported the larger trend that companies with codes, see a return for their ethical behaviour.

This has also been confirmed in research undertaken by McKinsey and the Deutsche Bank. It was confirmed, that investors are prepared to pay more for companies with good corporate governance and that companies that have good governance standards, have higher valuations. Deutsche Bank concluded that good governance is more than just a kind gesture to shareholders: it has an economic value. Investors reward those South African companies that have better corporate governance with higher valuations (Hendrikse & Hendrikse, 2004).

It is of importance to consider behaviour and actions that are both practical and that are able to be implemented with ease in order to give effect to the rising ethical demands of citizens and stakeholders.

The following changes are proposed in work practices and attitudes in order to meet the requirements of ethical demands made by citizens and legitimate stakeholders (UNDP, 2000:2).

- (i) The basic ethical rule of do unto others as you have them do unto you (Hendrikse & Hendrikse, 2004) should always be adhered to.
- (ii) Serve citizens and stakeholders, do not rule them, and be fair and friendly in the provision of service.
- (iii) Be transparent, not secretive, and inform the people by handing over all the information requested, except the information that has been instructed to be kept in confidence.
- (iv) Seek consultation, participation and partnership with citizens, the private sector and groups in civil society, rather than going it alone.
- (v) Be accountable for individual and group performance to management, customers and the public in general. Do not act irresponsibly and without explanation.
- (vi) Fight corruption and do not allow for a conflict of interest or a suspicion thereof to arise in personal, departmental or company work.
- (vii) Hand honest advice to officials and leaders. Report the facts of a given situation and always be truthful.

Practices and codes of conducts are based on values. Values are standards of human conduct to which one should aspire.

As stated by Hendrikse and Hendrikse (2004), the following listed values should be applied in any activity or undertaking of government, civil society and the private sector, to help ensure that their actions are ethical, considered and responsible: morality; honesty; integrity; equity; equality; excellence; enterprise; justice; independence; authority; responsibility; accountability; transparency; loyalty and respect for others.

The requirement for greater accountability is found across all three sectors of society. Firstly, a discussion of accountability within government and the civil society will be undertaken, and secondly within business and how corporate governance is relevant here.

2.6 ACCOUNTABILITY IN GOVERNMENT AND CIVIL SOCIETY

The principal issue of good governance, is to help ensure that those who lead and manage are accountable to their respective constituents.

Increasing attention is being focussed on the importance of good governance. An example of this focus, is the United Nations University's World Governance Survey in which various countries are compared on 30 indicators of governance. Higher standards of public sector transparency and accountability are globally seen as being essential.

The need for being able to hold leaders accountable, is one of many constructive results of globalisation and is reflected in the growing demand for quality public accountability on the part of government and the political system, civil society bodies, including organised labour and the private sector (CBC, 2003).

The basic principles of accountability apply equally in all sectors of society: openness, candour, public disclosure, honesty, fairness and a respect for the law. Accountability is not just simply about the fulfilling of the letter of the law. In order for accountability to become more than window dressing and truly effective, it has to be underpinned by a commitment to transparency and the highest ethics on the part of institutions and their leaders (CBC, 2003).

The principles of accountability are not intended to be of a one-size-fits-all variety. The application of the principles of accountability will vary depending on the purpose, culture and capabilities of the institutions concerned, their legal structures, and specific responsibilities, even-though the principles are generic of nature. Within this context of shared principles and guidelines in order to enable good governance, the Commonwealth Business Council in (CBC, 2003:3) states, that there exists "... many areas where the business community, government and civil society can learn from and support each other".

2.6.1 Government

2.6.1.1 Political will

The will of political institutions and their leaders, to abide by and uphold the principles of transparency, accountability and commitment to ethical standards, is of the utmost importance because action speaks louder than words.

The quality of political leadership is critical. The institutions of government must operate efficiently and honestly, and be open to public scrutiny. Furthermore, it is also the responsibility of the political system to put in place a legal and institutional framework, including effective mechanisms of compliance, which will ensure that its own functionaries, the private sector and organisations within civil society, behave in an accountable and socially responsible manner (CBC, 2003:4).

This is supported by UNECA (2002:11) which states, that political will is one of the most crucial elements to be ascertained in the development of national integrity

systems. Furthermore, political will, which can be derived only from an enlightened and ethical leadership, is a pre-requisite to combat corruption.

2.6.1.2 Public administration

Government must work towards creating an environment that demands the highest standards from business and society, while at the same time ensuring that the public sector operates accountable and effectively.

Civil service must perform their duties in an effective and efficient manner in the national interest (UNECA, 2002).

Government, as the steward of great resources and sources of equally enormous patronage, provides fertile ground for wrongdoing and especially by public servants. Public sector operations extend far into every sector of society and the economy, including areas in which the state often has a monopoly where performance is not subject to normal market discipline, such as defence, legal and security services, health and education. Robust mechanisms are necessary to ensure that government remains accountable to its citizens and taxpayers (CBC, 2003:4).

The following values and principles governing public administration are provided for in section 195 of the Constitution of the Republic of South Africa (1996).

- (1) Public administration must be governed by the democratic values and principles enshrined in the Constitution, including the following principles.
 - (a) A high standard of professional ethics must be promoted and maintained.
 - (b) Efficient, economic and effective use of resources must be promoted.
 - (c) Public administration must be development-orientated.
 - (d) Services must be provided impartially, fairly, equitably and without bias.
 - (e) People's needs must be responded to and the public must be encouraged to participate in policy-making.
 - (f) Public administration must be accountable.
 - (g) Transparency must be fostered by providing the public with timely, accessible and accurate information.

- (h) Good human resource management and career development practices to maximise human potential, must be cultivated.
 - (i) Public administration must be broadly representative of the South African peoples, with employment and personnel management practices based on ability, objectivity, fairness, and the need to redress the imbalances of the past, so as to achieve broad representation.
- (2) The above principles apply to –
- (a) administration in every sphere of government;
 - (b) organs of state; and
 - (c) public enterprises.
- (3) National legislation must ensure the promotion of the values and principles listed in subsection (1).
- (4) The appointment in public administration of a number of persons on policy considerations is not precluded, but national legislation must regulate these appointments in the public service.
- (5) Legislation regulating public administration may differentiate between different sectors, administrations or institutions.
- (6) The nature and functions of different sectors, administrations or institutions of public administration are relevant factors to be taken into account in legislation regulating public administration.

2.6.1.3 Corruption

Corruption is a significant problem within and amongst all countries and as stated above, the will of political leadership is of the utmost importance to combat graft.

Corruption exists in all societies and is a real constraint on economic, social and political development throughout the world. The corrupt practices of business people, politicians or government bureaucrats, are not victimless crimes. There is a real price to be paid for the economic inefficiencies and the misallocation of scarce resources that arise from corruption. Corruption stifles the entrepreneurial spirit, undermines local and international confidence, and discourages investment. Ultimately, the main victims of corruption are the poor and the unemployed whose economic opportunities

are thus threatened and whose chances for a better life are placed in jeopardy (CBC, 2003).

Corruption remains rampant in most African countries, primarily because of lack of financial resources, personnel and top political support for the enforcement institutions to get on with their task (UNECA, 2002).

Government can take the necessary steps to halt economic crimes and corruption. Government action against corruption normally should be aimed at building an appropriate constitutional and legal framework, a competent and independent judicial system that assists with having an effective ability to investigate and pursue wrongdoing. It is also important that approaches to public administration and to economic management are designed to limit the opportunities for corruption. Government departments, parastatals and companies must take the lead in working with the relevant government agencies in order to simplify and rationalise complex or inefficient regulations that create the scope for these activities (CBC, 2003).

Good governance will make corruption a high-risk activity: a high risk that perpetrators will be caught and severely punished, since good governance requires the highest standards of integrity, openness, transparency and respect for the rule of law.

Good governance in the political, economic and corporate spheres has the potential to remove corruption because it allows for the functioning of and respect for institutions, laws, conventions and practices that would effectively discourage corruption and punish those still intent on perpetrating it (UNECA, 2002).

2.6.1.4 Mechanisms for accountability within government

The pressure for a more explicit framework of ethics in government is part of a growing commitment to good governance.

The demand for higher ethical standards is linked to strengthening democratic institutions and ultimately expanded human rights. Ethical and transparent systems mean a more level playing field for businesses and civil society in their dealing with

governments. Ethical and transparent systems mean better services and more efficient public spending for citizens (CBC, 2003).

Reform and institutional changes that take place in order to adopt mechanisms for accountability, need to be driven by leaders that take into account national considerations which will ensure the involvement of all stakeholders.

This is supported in the World Bank (2000) publication that clearly propounds that reform can be initiated and effective only when the leaders are committed thereto and drive the process of reform. Reform must be supported at the highest levels of government in order for it to be effective.

Reform and institutional changes must respond to specific historical and cultural experiences of the countries concerned and the changing social, demographic and economic environment within which they must operate CBC (2003:6) so as to ensure the mechanisms for accountability are broadly speaking, acceptable and practical enough for implementation purposes.

Governance, public sector institutional reform and capacity building, are important as these have a principal role in development (World Bank, 2000).

2.6.1.5 Mechanisms for accountability within the political system

For the reason that all political parties are tempted to manipulate the electoral system, it is essential to ensure that the electoral process is effectively insulated from interference by the executive branch of government.

This insulation is normally best achieved through the establishment of a truly independent electoral authority. Such an institution, which should be accountable only to parliament, must among other things ensure that the ruling party does not secure unfair advance from being in office. An independent electoral authority also provides an important mechanism to ensure that the regulations concerning party and campaign funding are strictly enforced (CBC, 2003).

One of the important functions of a parliament is that of oversight of government and other authorities. Parliament must be the primary driver to ensure the principals of accountability, transparency and adherence to ethical standards, are adhered to by the executive.

Parliament represents probably the only institution with a mandate to act as a counterbalance to executive power and to hold the executive branch of government accountable (UNECA, 2002).

According to the CBC (2003), in a growing number of the Commonwealth countries, codes of conduct have been developed to provide an ethical framework within which members of parliament and ministers should carry out their responsibilities. Such codes can form important parts in the overall architecture of anti-corruption and accountability strategies, and can help to create a more transparent relationship between government, business and civil society.

A wide consensus exists on the important role codes of conduct can play in regard to:

- (i) helping avoid conflicts of interest from developing;
- (ii) ensuring disclosure and transparency;
- (iii) establishing sanctions for non-compliance; and
- (iv) providing a mechanism for public access to such information.

Oversight by parliament is an important function, because it contributes to the development of effective legislatures. Effective legislatures in turn contribute to good governance by performing important functions required to sustain democracy.

According to the UNECA (2002) publication parliamentary oversight involves the monitoring of executive activities for efficiency, probity and fidelity. This is a mechanism that assists with giving legitimacy and credibility to the existence of states.

2.6.1.6 Mechanisms for accountability within the civil service

Governance within the sphere of the bureaucracy refers to the matters concerning how policy implementation machinery is organised. Public servants working in

bureaucratic types of organisations, are normally engaged in formulating, implementing policy and delivering services (UNU, 2002b).

A professional and accountable bureaucracy is necessary to enforce rules, ensure standards and deliver public goods. Good policies will fail if the quality of public management undermines public support for reform (CBC, 2003).

Effective political leadership can address the problem of corruption in and of a demotivated bureaucracy.

The need for independent, motivated leadership also applies to the civil service.

Reform in this area must be guided by a desire to inculcate the public service with values of honesty and integrity, impartiality, transparency and discretion, together with responsibility and accountability (UNECA, 2002).

Leaders can expect that public officials will only act with honesty and motivation in fulfilling their duties if leadership actually contributes toward the development of a wider culture of integrity and values. Such a culture, furthermore, must be instilled in the family, in the education system and within society in general (CBC, 2003) in order to attain the desired effects.

Government often relies on a range of bodies, including parastatals, which have a relative degree of independence from ministers, to deliver government policies. This tendency has increased in recent years as functions formerly being the responsibility of central government are devolved.

Often members of the public know little or nothing about the way ministerial and senior government official appointments are made. It is generally believed, that there remains a wide scope for patronage and nepotism. According to the report of the Commonwealth Business Council (CBC, 2003) the main public concern is, that decisions regarding appointments are made on the basis of political influence, or bureaucratic convenience, rather than on merit.

Public confidence in the manner that governments appoint people, can improve if only the appointment process is open and accountable.

The public has a right to know how the appointment system operates and the safeguards that are in place to ensure its integrity. An independent body of appointments is a good mechanism to assist herein. The CBC (2003) report proposes to address this through a code of practice for ministerial appointments to public bodies. This code of practice can assist in the monitoring of the process in order to ensure that those appointments are made on merit after fair and open competition has taken place.

Experience and empirical data prove, that a very bad civil service is sufficient to produce bad governance, even if the right accountability and other mechanisms are in place (UNECA, 2002).

The first global report on the integrity of governance and accountability by the Centre for Public Integrity in Washington, D.C., was released in May 2004. The study by 150 analysts and social scientists was conducted in 25 countries that held elections. The research focussed on six key areas of democracy, media, civil society, administration and political processes. The report gave South Africa high marks for its electoral process, rule of law, oversight and regulatory mechanisms. South Africa was found lacking and scored very weakly in the disclosure of private and foreign contributions to political parties and in anti-corruption laws, because the country lacks rules that should govern the disclosure of contributions to political parties. South Africa rated very strongly on national elections and election monitoring. The report also stated, that stricter monitoring of private interests declared by parliamentarians is required and stricter enforcement of regulations that require similar disclosure by senior public servants. The report on South Africa concluded, by stating that the existing mechanisms and more comprehensive anti-corruption laws should be implemented and diligently applied at all levels of public administration and governance (CPI, 2004).

According to the Public Integrity Index, the 25 countries that were scrutinised, ranked as follows. Figure 2.1 to follow on the next page.

Figure 2.1 **Public integrity index**



Source: Centre for Public Integrity (CPI, 2004)

2.6.2 Civil Society

Civil society is that multitude of organisations, autonomous and semi-autonomous, that lie between the central government and individual citizens and their families.

Civil society is described in a publication of the United Nations University (UNU, 2002c) as the sphere of activity in the political system where individuals become familiar with and interested in public issues and how public policies affect their articulation of interests within society.

Institutions in civil society help to shield ordinary people from direct and potentially arbitrary interference from central government. Such bodies give shape and substance to people's lives. They represent a focus for loyalty and a place of engagement with other citizens that are not simply an extension of the market place or controlled by the state. These institutions constitute the very fabric of people's lives. Strengthening civil society, is an end in itself (CBC, 2003:11).

Civil society bodies can play a crucial role in holding both the government and the private sector accountable to certain social objectives and ethical standards. For instance, churches have been in the forefront in demanding fair trade and an end to increasing country debt. The environmental Non-Governmental Organisations (NGO's), through direct action as well as by lobbying, have forced changes in policy by governments and business, such as in regard to the use of genetically modified organisms in Europe and Britain. The independent media have power, should it so choose, to focus the strong light of publicity on, for instance, the failure of companies operating in poor countries to pay a living wage or the fact that a political leader's family member has secured a huge government contract (CBC, 2003:11).

Civil society bodies can demand from government and business that they respect higher standards of conduct and accountability that are convenient and practical. But they can also be wrong or misguided, particularly if not guided by the same principles of transparency, accountability and responsibility that should be expected from governments and the private sector (CBC, 2003).

NGO's play a crucial role in delivering services both in the developed and in developing countries. Some of these service governments are unable to deliver or were formerly offered by them.

The structure of the NGO community varies considerably. Some countries have witnessed a rapid growth and a significant widening in the scope of their activities. This resulted from a number of factors, including recent trends to downsize governments and the general disillusionment of the public with party politics. NGO's, in terms of their size and economic impact, especially among the poorest communities, have a significant impact on society (CBC, 2003:12).

As with companies, there is a need for a clear legal framework for NGO's that stipulates clearly the responsibilities of their executive and governing bodies.

The extent to which organisations in civil society could effectively hold together conflicting roles, can help ensure that coherence exists in the development and roll-out of their programmes exists; this in turn also depends to a significant extent on how they handle issues of governance (CBC, 2003).

Of particular importance is, that NGO's should be clear and explicit about their objectives and the ethical bases for their activities. In connection to this subject, the CBC (2003:13) report proposes, that it is necessary to untwist the identity of these bodies and ask such questions as to whom they speak for or whom they represent, and who are their members, donors or beneficiaries? How are they accountable to these various stakeholders and what is the core of their legitimacy to speak on public policy?

It is important for civil society, as is the case with business and the government, to ensure that NGO's apply the highest standards of integrity in developing their programmes and guiding their activities. Responsible NGO's have an interest in strengthening the accountability framework within which they operate and to ensure greater transparency.

According to the report "Strengthening good governance in business, government and civil society" released by the Commonwealth Business Council (2003:15), there exists

a need in civil society, where appropriate, to strengthen mechanisms in order to ensure that the rights of all stakeholders are more clearly identified.

This would involve:

- (i) ensuring that established principles of corporate governance are applied, with necessary adjustments to NGO's;
- (ii) making available through the internet and other publications information on the projects and activities they are funding and the evaluations undertaken on their activities;
- (iii) developing guidelines committing organisations to high standards of fairness in public debate, including the right to reply; and
- (iv) disclosing in greater detail information about financing, sponsorship and membership.

The following section will discuss the relevance of corporate governance and accountability within business and how its structures can also be applied to government agencies, parastatals and NGO's.

2.7 ACCOUNTABILITY IN BUSINESS

2.7.1 Corporate governance defined

Hendrikse and Hendrikse (2004) define corporate governance as the system that maintains the balance of rights, relationships, roles and responsibilities of shareholders, directors and management in the direction, conduct, conformance and control of the sustainable performance of the enterprise, with honesty and integrity in the best long-term interests of the company, shareholders, and business and community stakeholders.

The Organisation for Economic Co-operation and Development further elaborates on the definition in Hendrikse and Hendrikse (2004), in that the OECD (2003:6) report describes corporate governance to consist of the formal and informal, private and public institutions that exist within a country. Collectively, these institutions govern

the relationship between the people who manage corporations (corporate insiders) and all others who invest resources in the corporations.

Good corporate governance involves the pursuit of objectives by the board and management that represent the interests of a company and its shareholders, including effective monitoring and efficient use of resources (UNECA, 2002:5).

Good political, economic and corporate governance is influenced by a number of factors, primary among which is the nature of the overall institutional and legal framework that has been established by governments to effect such governance activities.

The institutions that effect governance as mentioned above in the Organisation for Economic Co-operation and Development (OECD) document “Corporate governance in developing, transition and emerging - market economies” include corporate laws, securities laws, accounting rules, generally accepted business practices and prevailing business ethics of a country. The World Bank (2000) document describes these institutions as the “rules of the game” that exist due to formal laws, informal norms and practices, and organisational structures within a fixed setting. Institutions that effect governance, cut across sectors but are not synonymous with individual organisations. These institutions are affected by policy design but are greater in scope and less susceptible to change than most policy frameworks. For further elucidation, see Appendix A, it contains a general list of key institutions of corporate governance.

Institutions of corporate governance have a valuable role to play in a society.

The main functions of institutions of corporate governance, are to determine what it is that society considers to be the acceptable standards of corporate behaviour, and then to ensure that corporations comply with those standards (OECD, 2003:6).

Understanding the purpose of corporate governance is also of importance in defining the concept.

According to the report of the Organisation for Economic Co-operation and Development (OECD, 2003:6), corporate governance has the following three purposes.

- (i) Facilitating and stimulating the performance of corporations by creating and maintaining incentives that motivate corporate insiders to maximise the operational efficiency, return on assets and long-term productivity growth of companies.
- (ii) Limiting the abuse of power over corporate resources by corporate insiders. This implies whether such abuse by corporate insiders is in the form of asset-stripping, or otherwise siphoning off corporate resources for their private use, and /or their causing significant wastage of corporate controlled resources (which are otherwise likely to result from their self-serving behaviour).
- (iii) Providing the means to monitor the behaviour of corporate insiders and leaders in order to ensure corporate accountability and to provide for reasonable cost-effective protection of the interests of investors and society vis-à-vis corporate insiders and managers.

2.7.2 The importance of corporate governance for development

Both good economic and corporate governance are fundamental preconditions for the healthy growth of developing countries.

According to K.Y. Amoako, Executive Secretary of the United Nations Economic Commission for Africa in (UNECA, 2002), good economic and corporate governance matter to developing countries, because they:

- (i) contribute towards macroeconomic stability;
- (ii) enhance the ability of governments to implement development and poverty reduction policies with scarce resources;
- (iii) enable public management functions to be executed in an accountable manner;
- (iv) contribute to the creation of a credible policy environment in which domestic and international investors can have confidence and trade can be advanced;
- (v) lead to the strengthening of the absorptive capacity to attract and mobilise development assistance flows;

- (vi) enable the demonstration of transparent and participatory economic policy-making and execution, as well as an open flow of information available to all stakeholders;
- (vii) signal the adherence to standards of institutions functioning free of corruption; representing a source of competitive advantage;
- (viii) attract private domestic and foreign investment; and
- (ix) broaden and deepen local capital markets.

Some commentators hold the view, that corporate governance is of little importance for countries, especially for developing economies.

Although the King II Report (IODSA, 2002) was well received as a framework for good governance, well-founded caution was also directed towards the effect of its implementation. One such commentator, is eminent businessman Brian Joffe, Chairman and Chief Executive Officer of Bidvest Limited, who stated, that forcing companies to comply with South Africa's corporate governance requirements, would see many businesses fail to survive in the near future. He attributed potential failures to the rules of corporate governance as practised in South Africa, that does not allow companies to be themselves, but do have them rather conform with compliance requirements that leaves no room for officers to make quality decisions (Jacks, 2004:13).

These perceptions are wrong, because good corporate governance makes specific provision for officers to make quality decisions that are in the best interests of the company, shareholders and stakeholders. The King II Report provides for the leadership and executive of an organisation to find the correct balance between conforming to governance constraints and performing in an entrepreneurial manner (IODSA, 2002). Furthermore, the institutions of corporate governance lie at the core of one of the greatest challenges that most developing, transitional and emerging-market economies have to deal with. The question of how to move successfully from institutions of economic and political governance that tend to be heavily relationship-based, to institutions that are more effectively rules-based (OECD, 2003:7) subsequently arises.

In developing countries, the large number of smaller firms that do not have listed shares, and of large family-owned, state-owned and foreign-owned companies whose shares are also not broadly traded locally, contributed to the delay in the implementation of practices of good economic and corporate governance (OECD, 2003).

Therefore, the importance of corporate governance extends well beyond the corporate sector in developing, transition and emerging-market economies.

Poorly functioning public and private sector institutions and weak governance, are major constraints to growth and equitable development (World Bank, 2000).

Corporate governance matters, because the health of a country's corporate sector matters for the country's entire economy (including its non-corporate sector) and because the quality of a country's institutions of governance (of which those of corporate governance now constitute an integral part) matters greatly for national development. The ability to move from heavily relationship-based to predominantly rules-based institutions of corporate as well as public governance, is central to the success of the long-term development process in all countries (OECD, 2003:8).

The importance of good corporate governance is also expressed in the OECD (1999) document that states that adherence "... to good corporate governance practices will help improve confidence of domestic investors, may reduce the cost of capital, and ultimately induce more stable sources of financing".

Corporations exist because the state recognises that these constitute efficient forms of enterprise that benefit both society and the corporations themselves.

Therefore, the importance of good corporate governance goes beyond the interest of the shareholders of individual companies. Good corporate governance contributes to the efficient mobilisation and allocation of capital, performance, improved corporate assets, the effectiveness of overall corporate performance, and improved national economic performance. Bad corporate governance, on the other hand, reduces a

country's competitiveness and causes constraints in its economic growth potential (UNECA, 2002:7)

The significant attempts in many countries (developing and emerging-market, as well as transition countries) to privatise formerly state-owned corporations, to reduce anti-competitive market regulations, to liberalise trade and investment policies, and to attract foreign investors, have a major positive impact.

These efforts to privatise and restructure state-owned corporations might not be sufficient on their own. It will not necessarily bring about the kind of dynamic and interactive processes that can ensure long-term productivity and growth, as well as political and economic-policy reforms that these countries require. The requirement for sustainable long-term growth arises from the need to successfully carry forward their struggles against poverty and corruption, and for the strengthening of political democracy and modernisation of the state.

For the above-mentioned countries, institutions of corporate governance that work effectively to complement and reinforce the still weak competitive market mechanisms and fledgling democratic political institutions, are increasingly becoming a prerequisite for sustainable long-term growth (OECD, 2003:14).

Questions regarding what will constitute the most effective and efficient mechanisms for introducing and enforcing corporate governance, need clarification. For this purpose, a brief overview will be done on voluntary versus mandatory mechanisms and judicial vs. regulatory means of enforcing good corporate governance.

2.7.3 Voluntary versus mandatory mechanisms

On the question of voluntary versus mandatory mechanisms, a number of OECD member countries, most notably the United Kingdom, have found that a good general approach is one that emphasises disclosure.

This approach combines well-defined and relatively demanding mandatory disclosure requirements. Importantly, it includes the disclosure of a firm's degree of compliance

with key, specified, voluntary codes or standards of disclosure on specific types of financial and non-financial information, and of the firm's reasons for any non-compliance (the so called comply-or-explain principle) – with an otherwise heavy reliance on voluntary enforcement mechanisms.

One major advantage of this approach is, that it promotes managerial transparency, which is necessary for accountability, while simultaneously allowing maximum leeway for managerial discretion and flexibility (OECD, 2003:18).

The United Kingdom Ministry of Trade and Industry ruled out new laws that would regulate the remuneration packages of executives and noted, that the current level of voluntary compliance with existing frameworks of best practice, is good. It can be concluded that in the United Kingdom, the responsibility for the formulation, implementation and monitoring of corporate governance, is left in the hands of business and industry (Anon, 2004).

Since the collapse of Enron and other corporations in the United States, there has been a significant increase in the number of laws and changes to codes of corporate governance that affect directors, regulators and auditors.

The recent scandal surrounding the multinational food-company Parmalat, is proof that rules alone will not prevent corporate failures. Jeremy Grist, programme director at the Gordin Institute of Business Science (GIBS) in Johannesburg, states that the increase in criminal as opposed to civil liability for directors and managers as a result of the changes in rules, is likely to decrease the number of competent individuals who are prepared to serve as directors. He added that the challenge is whether the increase in rules and regulations is the correct approach to follow or whether to follow an approach that focusses on the better selection of individuals to serve on the board of directors of an enterprise and to train and develop leadership characteristics of individuals so that they perform their leadership roles more accountably and effective (Gillingham, 2004:15).

2.7.4 Judicial versus regulatory means

For governments and policy-makers, the central question is that of the direction the leaders mean to follow to enforce corporate-governance. A further distinction has therefore, to be made between judiciary and regulatory means of enforcement.

Particularly relevant in this regard, is evidence from a comparison of recent experiences in Poland, Hungary and the Czech Republic. The evidence suggests, that a relatively centralised regulatory approach to the enforcement of securities laws, by an adequately funded, motivated and independent yet accountable securities commission, can be more effective than judicial enforcement (OECD, 2003:29).

The above-mentioned experience thus highlights the potential value for developing, transition and emerging-market economies of having a centralised, politically independent, accountable, well-funded and motivated securities commission endowed with adequate regulatory powers to enforce practices of good corporate governance.

The OECD (2003:28) report notes, that this observation is especially true for countries with weak judiciary systems, not least because of the considerable amount of time it can take to effectively strengthen the judiciary system within a country.

Policy-makers should not view the choice between regulatory and judiciary means of enforcement as an either-or choice. Each set of institutions, regulatory and judiciary, has its potential strengths and weaknesses.

Judicial and regulatory means of enforcement should be looked at and developed in order for these to work as complementary systems (OECD, 2003:29).

According to Eliot Spitzer, New York State Attorney, in an interview in the Harvard Business Review, stated, that the last entity the public would like to be responsible for correcting and prosecuting the failures of the for-profit and non-profit sectors, is the government. He noted, that in an ideal environment, it would not be required of government to be that invasive in the marketplace or civil society. It is important that organisations and their leaders recognise their fiduciary duty to all the stakeholders.

One reason for the global corporate failures can be attributed to the standards for business conduct that have declined because there has been an incremental dissipation of standards over time. Proposed checks and balances that could catch problems regarding corporate misconduct before it reaches total failure and judicial intervention, have to start with ethics. The leadership must be held responsible for instilling ethics in senior management, junior management, supervisors and frontline workers. The ethics of the individual worker must be beyond reproach and the leadership must lead by example. Organisations cannot afford to have managers and supervisors create an implicit sense that unethical behaviour is OK as long as you can get away with it. Mr Spitzer added, that the single most important aspect for ensuring that corporate governance is successful, is to appoint the correct individuals - effective leaders - to the board of directors and the executive of the organisation. This will ensure that the mandate of the board and the executive are fulfilled effectively and a breakdown in corporate governance is avoided (O'Brien, 2004:71-77).

From a long-term development perspective, the most important institution for sound rules-based governance, is a well-functioning court system.

Judicial independence brings a number of benefits to a society (UNECA, 2002). These benefits to society include the following.

- (i) The impetus to demonstrate judicial integrity on the part of members of the judiciary.
- (ii) Vesting of legal rights that are enforceable and protected, especially for the poor and others vulnerable to neglect and discrimination.
- (iii) Greater attention to the rule of law.
- (iv) Transparent enforcement of contracts.
- (v) An improvement in the quality of the handling of commercial disputes.
- (vi) Increased efficiency in the enforcement of judgements.
- (vii) Enhanced public affection.
- (viii) A deepening of the means to facilitate and leverage the achievement of other development objectives such as good governance.

Another crucial reason for a well-functioning and independent judiciary, is the danger of regulatory “capture”.

Regulatory “capture” occurs when those people and organisations such as the securities commission and other sector-specific public regulatory bodies, with responsibility to regulate corporate behaviour in a given market, are corrupted or otherwise unduly influenced by one or more participants in that market. The risk of regulatory capture tends to be especially great in countries with strong distributional cartels. The actions of these cartels are also often reflected in the very weakness of the judiciary system (OECD, 2003:29).

Judicial independence is widely acknowledged to be the foundation for the rule of law.

Judicial independence is defined in the UNECA (2002) publication as “... the insulation of judges and the judicial process from any partisan pressure to influence the outcomes of individual cases”.

Strengthening a politically independent judiciary system can, therefore, be one of the most crucial and valuable governance activities a developing, transition or emerging-market country can undertake.

According to the UNECA (2002) publication, a judiciary independent from both government intervention and influence by the parties in a dispute, provides the best support for the rule of law. The fair enforcement of the rule of law and order promotes the development of markets, economic growth and poverty reduction.

This importance is compounded by the fact, that in countries which lack relatively strong, independent and adequately funded judiciaries, the overall risk for the economy of poor governance and regulatory capture tends to be much larger (OECD, 2003:29).

2.7.5 The influence of political governance on corporate governance

Political governance has an important relationship with economic and corporate governance.

According to the (OECD, 2003) report, the close interaction between the institutions of political and corporate governance is displayed in the following three ways.

- (i) In the central roles the main legislative, regulatory and judicial bodies play in the establishment and evolution of many key corporate governance institutions (see Appendix A).
- (ii) In the extent to which distributional cartels exert their power in both the economic and political spheres of activity in a country.
- (iii) In the importance of the role that enforcement plays as an issue of good governance.

A further important role that political governance has, is to ensure the fundamental need of an effective separation between private and public interests.

Both the reports of UNECA (2002:9) and the OECD (2003:34) describe this distinction as an effective separation of powers and responsibilities between a strong corporate sector capable of generating sustainable long-term growth, on the one hand, and strong rules-based institutions of political governance, including well-defined property rights, on the other.

Ideas on the nature of good political governance were developed three centuries ago, notably by Locke and Montesquieu; these appear particularly relevant today, especially now that the Executive is supposedly to more accountable and responsible to the representatives of the people (parliament).

Those views highlight the importance of establishing a clear and effective separation of powers and responsibilities among three branches of government and the importance of establishing an effective system of checks and balances among the three (UNECA, 2002). This constitutes the following principal conceptual foundations for an effective rules-based system of political governance OECD (2003:34).

- (i) A representative legislature with oversight capabilities.
- (ii) A competent and accountable executive branch including its public administration.
- (iii) A fair and independent judiciary.

Thus: good corporate governance requires good political governance, and good political governance requires good corporate governance.

In the UNECA (2002:8) report, it is stated, that sustainable long-term national development requires both good political governance and good corporate governance. Policy-makers must give careful attention to the incentives and means that can be mobilised to ensure sound political governance, without which efforts to improve corporate governance, may prove ineffective.

In order to attain a balance between independence and accountability it is key to achieve a high degree of operational transparency.

A high degree of transparency will contribute in the following two crucial areas.

- (i) Nurturing and exercising the ability to attract investors (especially patient investors who need the assurance of a long-term commitment to relative regulatory stability).
- (ii) Facilitating a necessary degree of regulatory flexibility (which is required in order to adapt to, for example, significantly changed technological conditions in the economy). The OECD (2003:32) emphasises, that both of the above contributions are crucial for sustainable productivity growth.

2.8 THE PRACTICE OF CORPORATE GOVERNANCE

2.8.1 Application of the King II Code of Corporate Practices and Conduct

The King II Code of Corporate Practices and Conduct (IODSA, 2002) recommends, that it be applied to the following enterprises referred to as “affected companies”.

- (i) Companies with securities listed on the JSE Securities Exchange South Africa.

- (ii) Banks, financial and insurance entities.
- (iii) Public sector enterprises and agencies that fall under the Public Finance Management Act and the still to be promulgated Local Government: Municipal Finance Management Bill. Furthermore, any state departments acting in terms of the Constitution of South Africa, or other legislation.

From the above-mentioned term “affected group”, a possible loophole exists which can be interpreted to imply the existence of a non-affected group, that is allowed to avoid good corporate governance practices.

According to Hendrikse and Hendrikse (2004), this could provide support for non-listed corporations, public and private concerns, to view practices of corporate governance as a burden, rather than a motivation to achieve corporate governance objectives. Non-affected enterprises should be made to realise that good corporate governance is good business and that it adds more value to an enterprise than does any possible loss of value.

Therefore, corporate governance should be practised by all enterprises.

A quick test, as set out in Hendrikse and Hendrikse (2004), can be applied in order to determine whether the principles of corporate governance will apply to an organisation. If all of the following questions/tests are answered in the affirmative, it means that the principles of good corporate governance should be implemented in the organisation. The following governance tests have been formulated.

- Question 1: Existence test. Does a legal entity, artificial or natural person, exist?
- Question 2: Activity test. Does the legal entity operate and is it a going concern?
- Question 3: Relationship test. Does the legal entity have dealings, relationships, and contracts or does it operate as a principal, agent or trustee with any other legal entity?
- Question 4: Responsibility test. Does the legal entity have to operate within defined parameters and regulations?

2.8.2 The nine principles of corporate governance

In Hendrikse and Hendrikse (2004), nine principles of corporate governance that can be applied to any organisation are identified. These principles are derived from various sources and incorporate the Commonwealth Association on Corporate Governance (CACG, 1999): Principles for Corporate Governance in the Commonwealth; the Organisation for Economic Co-operation and Development (OECD, 1999): Principles of Corporate Governance; and principles set-out in the King Report on Corporate Governance for South Africa (IODSA, 2002). The principles are the following.

Principle I Integrity with independence

The objective of best interests.

Directors, management and senior officials should operate in the best interests of the owners or main stakeholders of an organisation. A structure and systems have to be put in place so as to ensure the independence of directors, management and senior officials. The aim is to minimise conflicts of interest and to help ensure that these officers act with honesty and integrity. Quality governance starts with intellectual honesty.

Principle II Equity with fairness

Rights with empowerment.

The strategy, structure and systems of the organisation must balance the rights, responsibilities and rewards of all the stakeholders. These rights include the following.

- (i) Ownership rights, including the right to information.
- (ii) The right of the organisation to exist and operate.
- (iii) The rights of government and external stakeholders.
- (iv) Rights of directors and senior officials.
- (v) Rights of management.
- (vi) Employee rights.

Principle III Authority with responsibility

Duties with powers.

The overarching duty is to act in the best interest of the organisation and the shareholders without transgressing any law. To do so, directors, management and senior officials have to be empowered with the authority and powers to act. The principal duty of directors and senior officials are to perform such functions so as to provide direction, strategy and leadership to the organisation in the best interests of the shareholders, and as agents of the shareholders. The principal duty of management is to run the business in the best interest of the organisation as trustees of the enterprise. To do this, the directors, management and senior officials should conform to rules, regulations, policies, procedures and systems. Decisions and actions are taken commensurate with the levels of authority delegated to either one of the groupings: directors, management or senior officials.

Principle IV Actions with accountability

Accounting for performance.

For directors, management and senior officials, it is required to measure their results against predetermined goals, objectives, benchmarks and performance indicators. This imposes a duty to account for performance and results. It takes the form of formal reports, press and other releases, reviews, forums and meetings. Accountability is rooted in the agency and trustee relationships that directors, management and senior officials have in the organisation and works hand-in-hand with transparent communications to and with shareholders and stakeholders.

Principle V Performance with conformance

Compliance with checks and balances.

Supporting the subordinate goal of optimising shareholder wealth, is the need for compliance with and conformance to internationally accepted standards of conduct, accounting and reporting. This implies the following and takes the form of checks and balances that relate to the system and procedures designed to control the running of the board of directors, the executive and the management of the organisation.

- (i) The composition of the board of directors and executives.
- (ii) The role of the executive officers and senior officials.
- (iii) The role of committees.
- (iv) The role of internal and external auditors.
- (v) The existence and workings of the corporate manual that should include codes of conduct, systems and procedures and risk management policies.
- (vi) Compliance with international accounting standards and general accepted accounting principles.
- (vii) Levels of authority.
- (viii) Compliance with legislation requirements and non-statutory regulatory bodies.

Principle VI Conduct with discipline

Ethical corporate business and ethical behaviour.

There must be a commitment by the directors, management and senior officials to adhere to behaviour that is internationally recognised and accepted as being morally correct and proper in practice. This commitment is reflected in the codes of conduct and the code of ethics.

Principle VII Profitability with sustainability

Profitability with social responsibility.

A business has a responsibility to not only its shareholders, but also to the government and the larger community of which the organisation is part. This responsibility flows out of its economic performance, and deals with social, health and environmental issues that will ensure success with sustainable results. The indirect benefit the organisation receives, is the support of the organisation by the community, customers, suppliers and employees, which in turn results in enhanced economic benefits and goodwill. The overall objective is, to add value to the organisation that will in turn add value to the community through social responsibility.

Principle VIII Communications with transparency

Information disclosure.

Transparency can be described as the ease with which information that is pertinent and necessary for the shareholders and stakeholders to be exposed to, can be accessed in order for them to assess the performance of the enterprise in relation to their shareholding and stake-holding. Transparent information is accurate, truthful, open, complete and periodically disseminated. Such information is essential for the board of directors or the executive for them to make informed, objective decisions.

Principle IX Rewards with results

Performance-based.

Because most organisations require consistently good performance to perpetuate, and excellent performance to really succeed, it has become essential to measure and reward directors, management and employees on the basis of individual performance, as opposed to remuneration based solely on position and function. Consequently, executive directors, management and senior employees will earn a fixed basic salary component, with a flexible component based on exceptional performance, linked to the

performance and results of the organisation. This performance-based reward structure ensures equity and honesty in the remuneration system and removes the risk of remuneration based on entitlement. Entitlement can be driven with share options, that is the price of which can be influenced by forecasts and inaccurate financial results and reporting; or stake-holding, such as the circumventing of transparent tender procedures to award contracts to family, friends or undisclosed subsidiary enterprises.

2.8.3 The six objectives of corporate governance

The objectives of corporate governance can be described as follows.

The objectives of corporate governance have been drawn from Hendrikse and Hendrikse (2004) and incorporates the Commonwealth Association on Corporate Governance (CACG, 1999): Principles for Corporate Governance in the Commonwealth; the Organisation for Economic Co-operation and Development (OECD, 1999): Principles of Corporate Governance; and principles set out in the King Report on Corporate Governance for South Africa (IODSA, 2002).

Objective I	To balance the interests of shareholders and stakeholders of an organisation with the interests of society
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- (i) Because the shareholders absorb all the risk for the organisation and form the main providers of capital, their interests are primarily vested in the creation of wealth and their rights to claim this. These include the right to exercise votes, the right to dividends and the right to information.
- (ii) The main stakeholders of an organisation consist of the financiers, directors, management, employees and suppliers. Their interests are threefold: effective leadership and competent employees to manage the organisation; be empowered and granted power to make decisions and authorise actions; and payment for services rendered.
- (iii) Society or community stakeholders consist of the general public and the consumers or customers of the organisation.
- (iv) The interests of society lie mainly in ensuring the protection and enrichment of the environment, the provision and the quality of health and social services.

Objective II To maintain the relationship between the shareholders, all other stakeholders and the leadership of the organisation

The following matters must be considered in this context with regard to the various parties concerned.

- (i) Authority.
- (ii) Accountability.
- (iii) Responsibility.
- (iv) Transparency in communications.

Objective III Duties and responsibilities of the directors and executives

On duties, responsibilities and remuneration of the various officers, are the following.

- (i) Duties of the directors and executives.

This refers to their fiduciary duties: acting as an agent of the shareholders and the stakeholders and acting as trustees of the organisation: providing leadership.
- (ii) Responsibilities and powers of the directors and executives.

It is important that the following matters are clearly defined. The powers of the directors; the rules for controlling insider trading. A code and a policy for managing conflicts of interests will also assist in guiding and for the holding accountable of directors and executives to act in the best interests of the organisation, the shareholders and the stakeholders.
- (iii) Remuneration of executive officers.

A clear policy for the remuneration of directors, management and senior officials that links their performance and that of the organisation to their rewards must be put in place.

- (ii) It focusses on the achievement of triple bottom line results. These results concern the areas of economic, environmental, social or health of the organisation and all the stakeholders therein.

2.8.4 Corporate governance and regulations

The main aim of regulations that govern the corporate sector, is to create a certain degree of order and stability and to protect the interests of the public, investors, community stakeholders, minority shareholders, employees, and small businesses and other organisations.

The following figure lists the main corporate governance obligations of companies and defines their status as “legal” as required by the South African Companies Act, No. 61 of 1973 (SA, 1997) or the common law as set-out in the King II Report published by IODSA (2002).

Duties as defined under “Legal” are ones that companies are obliged to perform. Duties under “King II” are largely voluntary, except in the case of affected enterprises.

Figure 2.2 to follow on the next page.

Figure 2.2 List of legal and voluntary governance actions

Governance Actions	Legal	King II
Lodge memorandum and articles of association for registration	X	
Register name of company	X	
Use proper designation, either Limited or (Propriety) Limited	X	
Duty to hold first board meeting, formally appoint directors, ratify pre-incorporation contracts, etc.	X	
Duty to appoint a board of directors	X	
Duty to appoint a CEO	X	
Duty to appoint auditors to the company	X	
Duty to appoint a company secretary (for public companies)	X	
Duty to appoint a public officer		X
Board to be presided over by a non-executive chairman		X
Board to have a majority of non-executive directors		X
Board to have separate audit and remuneration committees		X
Board to have a charter defining its role in relation to management		X
Board committees to have formal terms of reference		X
Duty to hold regular board meetings, and to keep attendance register, minute book, declaration of interests register and other record books	X	
Duty to keep minutes and to produce minutes within one month of board meeting	X	
Duty to maintain registers of allotments and members	X	
Duty to keep attendance registers and minute books for all managers' and management committee meetings	X	
Duty to display name of company at company premises	X	
Duty to disclose directors and offices on letterheads, etc.	X	
Duty to hold AGM unless dispensed with in terms of Section 179	X	
Duty of directors to report on state of company at AGM in terms of Section 299	X	
Duty of company to produce annual financial statements in terms of Section 286, signed off by directors		X
Duty to produce interim reports (for public companies)	X	
Duty to distribute annual financial statements to shareholders and debenture holders (Section 302) (for public companies)	X	
Directors have a duty to disclose interests in contracts	X	
Directors have a duty to report on risk management and internal control issues		X
Remuneration of directors to be disclosed in annual financial statements	X	
Remuneration of directors to be approved at AGM		X
Remuneration for executive directors and management to be performance-based		X
Duty to report on triple bottom line matters, risk management and internal control, and to disclose degree compliance with King Report		X
Issue of shares subject to approval at AGM	X	
Duty to appoint registered office	X	

Source: South African Companies Act, No. 61 of 1973 (SA, 1997); King II Report (IODSA, 2002)

2.9 CONCLUSION

In this chapter a review has been undertaken of the latest literature on the subject of governance and the latest theories of good governance and accountability by authoritative authors and international institutions such as the World Bank, United Nations, Organisation for Economic Co-operation and Development and the Commonwealth Business Council.

The most important definitions and theories of good governance will subsequently be analysed to determine its true meaning and its value in practice, and in which way it is connected with leadership.

2.9.1 General theories of good governance

Governance refers to the strengthening and support of relationships and the subsequent activities thereof between all role players in the public, private and civil sectors of society, each striving to attain its own unique agenda and goals.

Due to these multiple forms of relationships and hybrid networks, it has become a belief held among the general public that governance holds the key to bring about change in the role of government, and that through governance the problems facing society, can be comprehensively addressed.

Corporate governance can be described as the set of rules, principles and codes working together as a mechanism that enables the pursuit of objectives such as sustainable performance of the enterprise, together with the achievement of a balance of rights, relationships, roles and responsibilities between the enterprise, shareholders, directors, management, employees and other relevant stakeholders such as the authorities, community and environment.

Good political governance is composed of the following features (characteristics).

- (i) Predictable, transparent, rational, tolerant and a widely understood process for policy formulation and implementation
 - (a) A bureaucracy that upholds professional ethics.

- (b) A strong civil society participating in public affairs.
 - (c) Adherence to the rule of law.
 - (d) Respect for basic human rights and freedoms.
 - (e) An independent judiciary.
- (ii) Consistent traditions and predictable institutions that determine how authority is exercised in a state for the benefit of all its citizens. This is inclusive of, but not limited to the following.
- (a) The process by which governments are selected, held accountable, monitored and replaced.
 - (b) The capacity of governments to manage resources efficiently and to formulate, implement and enforce sound policies and regulations.
 - (c) The respect of citizens and the state for the establishment and protection of a political order and systems that are:
 - (1) legitimate and enjoy the support and loyalty of the people;
 - (2) strong enough to defend and advance the sovereign interests of the people;
 - (3) able to address the fundamental development interests of the people;
 - (4) able to engage effectively with the various global processes that characterise the world economy; and
 - (5) respectful of the need to prevent, minimise and mitigate internal and cross-border conflicts.

The utilisation of an operational framework for good governance has real practical benefits. The application of this framework of good governance allows for the identification of the matters that give rise to the problems associated with developing countries, such as those mentioned above that exist in Africa. In turn, the identification of the causes allows for the relevant institutions to take action and to develop the capacities that are required to address the governance shortcomings.

Poverty, HIV/AIDS and the lack of development in Africa, have been classified as problems destined to be overcome through good governance.

The function of governance has taken centre-stage in countries around the world. The five forms of governance described, are: economic governance; governance by

international institutions and regimes; corporate governance; governance as the new public management; and governance through means of networks, partnerships and systems.

Another form of governance to be considered, is governance as good governance. Government reform is a global trend and discussion regarding good governance is a fashionable topic, especially amongst international aid and development organisations. In this dissertation the forms of governance have been condensed to five which incorporate all three sectors of society (public, private and civil), the key arenas of international and economic activities and the networking of all role players with each other. Good governance is viewed as a pre-requisite and the main objective of each of the five forms of governance individually and not as a separate theme.

2.9.2 The benefits of corporate governance

The benefits of adherence to corporate governance overwhelm any decision of an organisation to oppose or stray therefrom. The benefits of corporate governance are, that it:

- (i) puts the act and position of leadership into perspective: leadership is a privilege and a responsibility that affect many individuals and stakeholders and therefore requires a strong sense of accountability, responsibility and having a clear sense of direction for the activity under control;
- (ii) provides clarity to the roles, relationships and responsibilities of all role players. For example, the directors are responsible to the shareholders and stakeholders of the enterprise and no individual or role player can be considered to be above the law;
- (iii) assists with guiding the affairs of the organisation in an ethical manner, with conduct such as honesty, integrity, openness and equity;
- (iv) leads individuals and the organisation to be considerate of the needs of all the role players and helps with the balancing of their various interests with one another;
- (v) ensures that the organisation is controlled and that the required checks and balances are in place in order to ensure success;

- (vi) implements the system of rewards on the delivery of expected performance-results and not on presence, position or any other criteria. It supports adding value through participation and results-based leadership;
- (vii) encourages the creation of stretch goals and the support of entrepreneurs by promoting that success or sustainable development is attainable where there is performance with conformance; and
- (viii) provides for the punishment of those who transgress the rules and laws and holds them accountable for their misconduct.

The benefits of good corporate governance reach well beyond the immediate stakeholders and beneficiaries of a particular enterprise. Good corporate and economic governance are important functions that allow for growth in developing countries, because they:

- (i) contribute toward macroeconomic stability;
- (ii) improve the ability of governments to implement development, poverty reduction and HIV/AIDS prevention policies with scarce resources;
- (iii) enable public management functions, privatisation and reform activities to be executed in an accountable, responsible and transparent manner;
- (iv) contribute to the creation of a credible policy environment in which domestic and international investors can have confidence and trade can be advanced;
- (v) assist with the strengthening of absorptive capacity in order to attract and mobilise development assistance;
- (vi) enable the demonstration of open and participatory economic policy-making and execution, as well as a transparent flow of information available to all role players;
- (vii) display the adherence to standards of institutions functioning free of corruption; this in turn, provides a source of competitive advantage;
- (viii) attract private domestic and foreign investment; and
- (ix) broaden and deepen local capital markets.

Institutions of corporate governance that function effectively and efficiently contribute toward and strengthen the weak competitive market mechanisms and emerging democratic political institutions that are viewed as conditions that support sustainable long-term growth.

2.9.3 Political and corporate governance

Good corporate governance requires good political governance.

Political governance has an important interrelationship with economic and corporate governance.

The interrelationship between the institutions of political and corporate governance can be recognised through the principal roles the main legislative, regulatory and judicial bodies play in the establishment and in ensuring the relevance and continuation of many key corporate governance institutions.

The objectives and principles of corporate governance aim to assist and enhance regulations that govern the corporate sector. The main aims thereof, are to create a certain degree of order and stability and to protect the interests of the public; creditors; shareholders; the community; employees; the various tax authorities and any other relevant stakeholders.

The principal objectives of corporate governance as identified in this chapter, are the following.

- (i) To balance the interests of the shareholders and the stakeholders of the organisation and society.
- (ii) To maintain the relationship between the shareholders, all other stakeholders and the leadership of the organisation with regard to the following areas concerning activities of the organisation that must be well defined and made available to all the stakeholders.
 - (a) Duties and responsibilities of the directors, management, senior officers and shareholders.
 - (b) Conformance and compliance procedures.
 - (c) Performance requirements.
 - (d) Sustainable development goals.

The nine principles of corporate governance that are applicable to any enterprise or organisation as identified in chapter two are set out as follows.

- (i) Integrity with independence : The objective of best interests;
- (ii) Equity with fairness : Rights with empowerment.
- (iii) Authority with responsibility : Duties with powers.
- (iv) Actions with accountability : Accounting for performance.
- (v) Performance with conformance : Compliance with checks and balances.
- (vi) Conduct with discipline : Ethical corporate business and ethical behaviour.
- (vii) Profitability with sustainability : Profitability with social responsibility.
- (viii) Communications with transparency : Information disclosure.
- (ix) Rewards with results : Performance-based.

2.9.4 Public policy

Recognising that public policy influences the manner in which people re-act to the challenges posed to them, that is brought about by economic, cultural and social changes, is of great significance. Because the principals that underscore good governance will in turn also support the establishment of criteria for successful public policy.

The following are the six most widely accepted criteria that can be applied in order to help ensure a successful public policy.

- (i) Effectiveness: the actual achievement of goals and objectives of policy (outcomes). This is indicated by the contribution policy outputs make to the realisation of policy objectives.

- (ii) Efficiency: realisation of policy objectives in less time and with less cost. This is indicated by the amount of output to input.
- (iii) Responsiveness: the degree to which policy design is responsive to the legitimate interests of different groups affected by the policy. This can be seen in all aspects of policy design and the process.
- (iv) Innovation: creativity and innovation in policy design, mainly in the pursuit of realising the first three criteria. In practice, this is a difficult criterion to attain, especially in bureaucratic environments.
- (v) Political feasibility: the degree of acceptance of policy by policy makers, political executives, legislature, and interest groups.
- (vi) Administrative feasibility: the willingness, capacity and ability of implementing agencies and target groups to realise policy objectives within stated time and cost parameters.

The principals of good governance and better public policy are but means through which political, economic and corporate governance can be brought to function in order to ensure stability and broad-based, equitable, and sustainable development. These principles cannot be considered to be ethics per se.

2.9.5 Ethics and values

The emphasis which citizens and other stakeholders are placing on good governance and ethical behaviour, is leading to the development and adoption of new standards for the delivery of public and private sector services.

Ethical behaviour consists of honesty, integrity, fairness and openness, while allowing for a win-win situation for all role players. These ethical forms of behaviour can collectively be classified as a standard of conduct.

Standards of conduct take on the form of values and principles, obligations, rights and consequences. Meeting these standards, emanates from good character and virtue.

A value can be considered anything that has value. Governments, international institutions and aid agencies that make the biggest contributions toward international

aid and development, are the Western countries. The values these institutions are confined to are the values within the Western civilisation. Some religious cultures in different civilisations have different or conflicting values that give rise to the adoption of conflicting standards of good governance internationally.

The values concerning governance to be adhered to, are moral values such as integrity and honesty. These also apply in particular to business cultures such as management accountability to government and taxation authorities, shareholders and employees, should be one hundred percent. The same applies to compliance with rules within and outside the business concern, such as dedication to hours and effort and the property of the company.

In planning the implementation of the principles of good governance and better public policy in the political, economic and corporate spheres of society in order to meet ethical demands, may require difficult breaks with old inculcated cultures, that need to be taken into consideration, such as the following.

- (i) The existence of a national culture of authoritarianism.
- (ii) An over-emphasis on qualifications, rather than on competence of an individual.
- (iii) Appointments that are made due to nepotism and cronyism, rather than their being based on merit.

2.9.6 The role of leadership

Effective leadership and political-will can only be derived from moral principles and ethical behaviour.

The demand for higher ethical standards is linked to strengthening democratic institutions and ultimately expanded human rights. Ethical and transparent systems mean a more level playing field for businesses and civil society in their dealing with governments. Ethical and transparent systems presuppose better services and more efficient public spending for citizens (CBC, 2003).

Activities such as change, the adherence to ethical standards and accountability do not transpire solely in consequence of the existence of institutions or organisations.

Leaders are the agents that drive the change and reform of institutions and the legal systems required to take up standards of ethical behaviour and mechanisms for accountability.

One of the important functions of a parliament, is that of oversight of government and other authorities. Parliamentary leaders must be the primary drivers so as to ensure the principals of accountability, transparency and adherence to ethical standards, are adhered to by all branches of government.

Parliament represents the only institution with a mandate to act as a counterbalance to executive power and to hold the executive branch of government accountable. Most governments in Africa consist of a one-party or two-thirds majority rule party and therefore, an executive that operates as if it is accountable only to the head of state, can easily come into existence. It becomes important for parliamentary and other political leaders to exercise influence and campaigns in order to bring about effective mechanisms of accountability and control over the executive and other branches of government under the control of the executive. This usually does not transpire, because ruling party members of parliament either are not interested in or lack the required leadership for such efforts.

A professional and accountable bureaucracy is necessary to enforce rules, ensure standards and deliver public goods. Good policies will fail if the quality of public leadership undermines public support for reform (CBC, 2003).

Effective political leadership can address the problem of corruption in and of a demotivated bureaucracy.

The need for independent, motivated leadership also applies to the civil service.

Reform in this area must be guided by a desire to inculcate the public service values of honesty and integrity, impartiality, transparency and discretion, with responsibility and accountability derived from effective leadership.

Leadership implies leading by example. Leaders can only expect that officials, in all sectors of society, will act with honesty and motivation in fulfilling their duties and adhere to ethical standards if the leadership actually contributes toward the development of a wider culture of integrity and values and adhere to these rules themselves.

Government often relies on a range of bodies, including parastatals, that have a relative degree of independence from Ministers, to deliver government policies. This tendency has increased in recent years as functions formerly the responsibility of central government, are devolved for gains in effectiveness and efficiency.

In this regard NGO's play a crucial role in delivering services both in the developed and developing countries. The reason for the importance of NGO's can be attributed to their having to take responsibility for services that governments are unable to deliver or that were formerly offered by them.

Therefore, the requirement for effective leadership is greater than ever, to ensure that the above-mentioned positions are all filled with individuals that express their support for accountability, responsibility and ethical standards. Appointments made according to these principles, will cause the public to be less suspicious of such appointments because they are often not open to the public or to parliamentary scrutiny.

The key function of leadership is to provide vision, strategy and policy for the implementation of ideas and plans.

This requires stipulating objectives, the mission and purpose, with great clarity in order to ensure all concerned parties have absolute understanding and focus. Furthermore, evaluating the external and internal environment, defining the key stakeholders, determining competitive advantage and the formulation of detailed policies are crucial towards accomplishing the aims and objectives of a vision.

2.9.7 Accountability

At the heart of the governance debate, lies the objective to attain absolute effective regulation and accountability over all the institutions that function in the public, private and civil sectors.

Accountability and responsibility of all institutions and their leaders to their constituents, are considered important, because these together constitute one of the values and standards of conduct that shape the principles of good governance.

Accountability consists of more than merely the compliance with rules and regulations. Without leadership underscoring the cause of accountability, with a dedication to openness and the exercise of the most desirable quality values, accountability cannot move beyond talks and become truly effective.

The quality of leadership plays the cardinal role in society. The institutions of government, the private sector and civil society, must function efficiently, effectively and honestly, and be accountable to their constituents.

It is the responsibility of leadership to bring about the necessary political will to drive the political system to adopt a legal and institutional system that will ensure that organisations and their officials within government, the private sector and civil society, behave in an ethical, accountable and socially responsible manner. To assist herewith, the legal and institutional systems must provide for effective mechanisms in order to ensure compliance.

2.9.8 Standards of leadership and accountability

Common standards of leadership and accountability for organisations in the public and private sectors and civil society exist. These standards recognise that proper adherence to the rights, responsibilities and duties of each sector are prerequisite to the sustainable development of the economy and society. This is set out as follows.

- (i) Government receives its mandate and powers from the constitutional arrangements of the country, which includes the holding of regular elections.
- (ii) Organisations within the private sector and civil society possess the rights and privileges to operate freely and independently and without discrimination, but in accordance with the law.
- (iii) Institutions and bodies should be subject to regulation and reporting requirements that meet the demands of the public, and should be held accountable to public bodies with supervisory powers to receive and act upon reports of non-compliance.
- (iv) All institutions are accountable to the public good and the laws of the country and should be in a position to meet the following standards of accountability.
 - (a) Develop a mandate and objectives for the organisation, and disclose to the public the procedure for the development of the mandate and the individuals involved therein.
 - (b) Provide clear information on financial sources, governance and decision-making structures, and where relevant, the criteria for membership or ownership.
 - (c) Publish a code of conduct for managers and staff, setting out standards for ethical behaviour that must include the criteria utilised that determine the appointment to serve and for the removal of leaders and office bearers; and in respect of requirements for disclosure of conflicts or potential conflicts of interest in the discharge of their duties; as well as measures to monitor and implement these.
 - (d) Adhere strictly to the legal requirements governing financial reporting, providing independently audited accounts, and making these publicly available within six to twelve months of the end of each financial year.
 - (e) Establish policies to prevent corruption, and implement specific regulations and policies so as to ensure that transparent and accountable procedure is adhered to in the awarding of contracts for work or services.
 - (f) Produce regular public reports on activities with content that is accurate and honest, not less than once a year.

2.9.9 Regulatory and judicial control

The most appropriate and advantageous mechanisms for setting up and compelling compliance with good corporate governance, is a mixture of voluntary and mandatory mechanisms, and judicial and regulatory means of enforcement. Each mechanism and institution offers its own unique strengths to help counter any potential weaknesses.

A good example hereof, is in South Africa with the adoption of the King II Report (IODSA, 2002) that provides guidelines for corporate governance which has been developed through the voluntary participation of industry and other officials. Various principles within the King II Report have been adopted as being mandatory for enterprises that fall within the ambit of government control and for those that are listed on the JSE South African Stock Exchange. Furthermore, certain provisions contained within the report have been widely accepted as good corporate practice. These specific provisions are anticipated for incorporation into the South African Companies Act in the near future, that will also provide for regulatory and judiciary enforcement thereof.

A well-functioning court system is the most important institution for competent and reliable rules-based governance, especially when considering implications for long-term development.

An independent judiciary is the best manner in which the rule of law can be promoted. The fair enforcement of the rule of law and order assists with the development of markets, economic growth and poverty reduction.

Judicial independence is the foundation for the rule of law.

Judicial independence is defined in a report of the United Nations Economic Commission for Africa (2002) as "... the insulation of judges and the judicial process from any partisan pressure to influence the outcomes of individual cases".

Judicial independence brings a number of benefits to a society (UNECA, 2002). These include the following.

- (i) The impetus to demonstrate judicial integrity on the part of members of the judiciary.
- (ii) Vesting of legal rights that are enforceable and protected, especially for the poor and other groupings in society vulnerable to neglect and discrimination.
- (iii) Greater attention to the rule of law.
- (iv) Transparent enforcement of contracts and agreements.
- (v) An improvement in the quality of handling of commercial and civil disputes;
- (vi) Increased efficiency in the enforcement of judgements.
- (vii) Enhanced public affection.
- (viii) A deepening of the means to facilitate and lever the achievement of other development objectives, such as good governance.

Therefore it can be concluded, that good governance consists of the following characteristics discussed in the above section: theories, ethics and institutions; political and corporate governance; public policy; leadership and accountability; and the judiciary.

It is clear that not one single feature functions independently of the other features. In deed, they function in conjunction with each other as a whole, to have as an outcome good governance.

Leadership operates closest with good governance, because it is the performance of the individual in respect of his or her specific traits, motives and characteristics that produces performance and efficiency. This is because elements of leadership such as vision, integrity, motivation and energy to attain goals, are derived from the leader and not an entity.

It is also clear, that the individual leader is held accountable for performance and actions and not an entity per se. Because, when poor performance, ineffectiveness or corruption are addressed, the leader is removed and replaced by a new head, chief, commander, or leader. Institutions such as parliaments and cabinets permeate time and people.

To better understand the role of leadership within the context of good governance, it is essential that leadership per se have to be analysed.

Since the true value of governance has been established, the theories of leadership can now be studied, as indicated in chapter 3.

CHAPTER 3

LEADERSHIP

3.1 INTRODUCTION

The primary aim of this chapter, is to do a survey of the theories of leadership in order to define effective leadership. The focus thus is on effective leadership.

The concepts of leadership are defined and described, as well as the traits, motives and characteristics, and power relations of effective leaders.

In order to support the theories of leadership as discussed in this chapter, it is necessary to provide a background of leadership and to describe the meaning and importance of leadership.

3.2 CONCEPTS OF LEADERSHIP

3.2.1 The beginnings of leadership

The study of leadership is one of the world's oldest preoccupations. The understanding of leadership has figured strongly in the quest for knowledge (Nkomo, 2003:13) throughout the ages.

Leaders such as prophets, priests, chiefs and kings, served as symbols, representatives and models for their people in the Old and New Testaments, in the Greek and Latin classics, and in the Icelandic sagas. The subject of leadership was not limited to the classics of Western literature. It was of much interest to Confucius, Plato and Aristotle. Myths and legends about great leaders were important in the development of civilised societies. The greater the socio-economic injustice in the society, the more distorted the realities of leadership, its powers, morality and effectiveness (Bass, 1990:3). All societies have created myths to provide plausible and acceptable

explanations for the dominance of their leaders and the submission of their subordinates (Paige, 1977).

The study of leadership rivals in age the emergence of civilisation, which shaped its leaders as much as leaders shaped civilisation.

From its infancy, the study of history has been the study of leaders: what they did and why they did it. Over the centuries, the effort to formulate principles of leadership spread from the study of history and the philosophy associated with it to all the developing social sciences. In modern research there is still a search for generalisations about leadership, built on the in-depth analysis of the development, motivation and competencies of world leaders, living and dead (Bass, 1990:3).

Written philosophical principles dated B. C. were developed, in and by which guidance could be given to future leaders.

The Egyptian hieroglyphics for leadership (seshemet), leader (seshemu) and the follower (shemsu) were written five thousand years ago. The Chinese classics, written as early as the sixth century B. C., aimed to exhort advice to leaders of the country about their responsibilities to the people. Confucius urged leaders to set a moral example and to manipulate rewards and punishments for teaching what was right and good. Taoism emphasised the need for the leader to work himself out of his job by making the people believe successes were due to their efforts (Bass, 1990:3) and that the leader is no longer required by the followers.

The heroes in Homer's Iliad exemplified Greek concepts of leadership. Ajax symbolised inspirational leadership and law and order. Other qualities that the Greeks admired and thought were needed in heroic leaders, were: (i) justice and judgement; (ii) wisdom and council; (iii) shrewdness and cunning; (iv) valour and activism (Sarachek, 1968).

Greek philosophers such as Plato, in his Republic, scrutinised the requirements for the ideal leader of the ideal state. The leader was to be the most important element of a good government, educated to rule with order and reason. Aristotle, in his Politics,

was disturbed by the lack of virtue among those who wanted to be leaders. He pointed to the need to educate youths for such leadership.

A scholarly highlight of the Renaissance was Machiavelli's "The Prince" (1962). Machiavelli's thesis: "... there is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things", is still a germane description of the risks of leadership and the resistance to it. He believed leaders needed steadiness, firmness, and concern for the maintenance of authority, power, and order in government. According to Bass (1990:4), Machiavelli is still widely quoted as a guide to effective leadership. At West Point, an elite military training college in the United States, the fundamental principle of Hegel's (1971) "Philosophy of Mind", which argues that by first serving as a follower, a leader subsequently can best understand his followers, is taught. According to Hegel (1971), the understanding of the above principle is a paramount requirement for effective leadership.

Hegel's (1971) "follower" principle is supported by Peter F. Drucker. Drucker states (in Hesselbein et al., 1996), that all effective leaders display four commonalties: (i) Leaders have followers, without followers there can be no leaders. (ii) Effective leaders are not necessarily loved or admired, their followers do the right things in order to attain the required results. (iii) Leaders are highly visible, therefore they set examples. (iv) Leadership is not rank, privileges, titles or money: it is about accountability and responsibility.

3.2.2 The phenomenon of leadership

Leadership is a universal phenomenon in humans and in many species of animals.

According to Allee (1945, 1949, 1951) in Bass (1990), all vertebrates that live among and in groups, exhibit social organisation and leadership. This is observed among high-ranking males who feed more freely than do other members of the group and who tend to have more ready access to females. In some cases high status involves guard duty and protection of the herd. Individual animals dominate or submit their local spaces to others in the well-known pecking order. Carpenter (1963), in Bass (1990),

studied societies of monkeys and apes. His general findings suggested, that the leader tended to control the group's movements in its search for food and shelter, regulate intragroup status, defended the group, and maintained its integrity in its contacts with other organised groupings. When the dominant male was removed from the group, the territory covered by the group was markedly reduced. Thus: the leader enlarged the freedom of movement and ensured that feeding of the group remained sustainable.

Parenthood is a condition that unarguably cuts across cultural lines and makes for ready-made patterns of leadership to be observed. Nevertheless, the patterns of behaviour that are regarded as acceptable in leaders, differ from time to time and from one culture to another. Citing various anthropological reports on primitive groups in Australia, Fiji, New Guinea, the Congo and elsewhere, H. L. Smith and L. M. Krueger (1933) concluded, that leadership occurs among all people, regardless of culture, be they isolated Indian villagers, nomads of the Eurasian steppes, or Polynesian fisher-folk.

Leaders such as Abraham, Moses, David and Solomon, were singled out in the Old Testament for a detailed exposition of their behaviour and relations with God and their people. God was the supreme leader of His people who clarified, instructed and directed what was to be done through the words of His prophets and arranged for rewards for compliance and punishment for disobedience to the rules and laws He had handed down to Moses.

Latin authors such as Caesar, Cicero, and Seneca wrote extensively on the subject of leadership and administration. Their influence on Thomas Jefferson and James Madison had an impact on the design of government of the United States of America. Military writings about leadership stretch from the Chinese classics to the present. Among them were the writings of Napoleon. He listed 115 qualities essential for a successful military leader.

3.2.3 The importance of leaders and leadership

Napoleon expressed his feelings about the importance of leadership in his remark that he would rather have an army of rabbits led by a lion than an army of lions led by a

rabbit. Leaders can make the difference in whether their organisations succeed or fail. Surveys of job satisfaction from the 1920s onward illustrated the importance of leadership. The outcomes of these surveys uniformly reported, that the favourable attitudes of employees toward their supervisors contributed to the satisfaction and commitment that employees displayed toward their work (Bass, 1990:6).

Leaders affect organisational performance.

Leaders, through their actions and personal influence, bring about change. Individuals who control organisations, mostly senior officials, live by this assumption. A frequent antidote to major organisational problems, is to replace the leader, in the hope that the newly appointed leader will reverse performance problems (DuBrin, 2004:6).

An example of this assumption in action, is the frequent replacement of athletic coaches and the team leadership after one or two losing seasons. The owners, officials, players and spectators assume, that the leadership acumen of the new leadership and coaches will vastly improve the ratio of wins to losses. Duncan Innes (2003:12) wrote that one of the saddest aspects of the South African campaign in the 2003 Rugby World Cup, had been the pathetic attempt by the rugby leadership to justify their failures and that of the coach in this way to keep their well-paid positions. Innes (2003:12) continued by stating, that if any of the leadership and coaches who were destroying South African rugby, while earning excessive pay cheques and benefits, were allowed to continue in their jobs for longer than one more week, it would be a disgrace to the nation.

Followers expect that people in senior positions act like leaders.

It is expected of leaders to provide their organisations and their people with hope of a better future. The leaders must also show that they command a thorough understanding of what actions are required, give direction and provide opportunities to learn and grow (Manning, 2002:53).

Effective leadership is in high demand. In particular, there is a call for strong ethical leadership.

This interest has resulted in a burgeoning of academic programmes in leadership studies throughout the world. Courses in leadership, ethics and leadership, and community leadership, are being integrated into academic curricula at all levels (Northouse, 2004). The largest number of leadership positions in the United States are in the non-profit and social sectors. It is becoming increasingly important as more and more of the tasks that government was expected to do during the last forty years, will have to be taken over by civil organisations and non-profit organisations (Peter F. Drucker in Hesselbein et al., 1996). They all require effective leadership.

A good example hereof, is the acceptance of corporate social responsibility as good practice in business. The pursuit of profit is tied to a commensurate moral obligations to support the communities in which an organisation operates. Corporate social responsibility is an area in which an organisation is able to combine business, community and personal reward (Llett, 2004:10).

In the tenuous years that lie ahead, the familiar benchmarks, guidepost and milestones will change as rapidly and explosively as do the times, but one constant at the centre of the vortex, will be the leader.

The modern leader for today and the future, will be focused on how to develop quality, character, mind-set, values, principles and courage (Francis Hesselbein in Hesselbein et al., 1996:122). An effective leader will be monitoring the quality of leadership, the work force and relationships.

More and more organisations today are facing adaptive challenges. Changes in societies, markets and technology around the globe are forcing them to clarify their values, develop new strategies, and learn new ways of operating. The most important task for leaders, in the face of such challenges, is mobilising people throughout the organisation to adapt (Heifetz & Laurie, 1998:171).

The following section will address the meaning of leadership.

3.2.4 The meaning of leadership

The word “leadership” is a modern concept that denotes an element of sophistication.

In earlier times, words meaning “head of state”, “military commander”, “chief” or “king” were more readily used in most societies. These words differentiated the ruler from other members of society (Bass, 1990:11).

The Concise Oxford English Dictionary (COED, 2002:806) describes a leader as “... the person who leads, commands, or precedes a group, organisation, or country”; also “... a member of the government officially responsible for initiating business in parliament”.

There exist almost as many definitions of leadership as there are persons who have attempted to define the concept. Moreover, many of the definitions are ambiguous. Nevertheless, there is sufficient similarity among definitions to permit a rough scheme of classification.

Stodgill (1974); Bass (1990); Pierce and Newstrom (2000); DuBrin (2004); and Northouse (2004) mention the following concepts relating to leadership.

- (i) The focus of group processes.
- (ii) A matter of personality.
- (iii) A matter of inducing compliance.
- (iv) The exercise of influence.
- (v) Particular behaviours.
- (vi) A form of persuasion.
- (vii) Power relationships.
- (viii) An instrument to achieve goals.
- (ix) An effect of interaction.
- (x) A differentiated role.
- (xi) The initiation of structure.
- (xii) Many combinations of the above-mentioned definitions.

(i) Leadership as a focus of group processes

In the early definitions of a leader, the tendency existed to look at the leader as the focal agent of group change, activity and processes.

Cooley (1902) maintained, that leaders are always the centre of activities, and that, after close examination, all social movements will be found to consist of tendencies having leaders and leadership activities at its core. Mumford (1909) observed, that "... leadership is the pre-eminence of one or a few individuals in a group in the process of control of societal phenomena". Blackmar (1911) saw leadership as the "... centralisation of effort in one person as an expression of the power of all". According to L. L. Bernard (1927), in Bass (1990), the needs and wishes of the group members influence leaders; in turn, they focus the attention and release the energies of group members in a desired direction.

As a nation develops, it requires a centralised locus for its operation that can be achieved only by a single leader (Babikan, 1981 in Bass, 1990). The most important decisions and their implementation centre on the beliefs and abilities of the leader even when, as in parliamentary democracies, actual decision-making is not concentrated but spread out. The leader embodies the collective will. The single leader solves the essential problems, offers possible solutions, establishes priorities and launches developmental operations.

Centrality of location in the group can permit a person to control communications, and hence is likely to place him or her in a position of leadership, but centrality in itself, is not leadership (Bass, 1990:12).

(ii) Leadership as personality and its effects

The concept of personality has all along appealed to several early theorists of leadership. They sought to explain why some persons are better able than others to exercise the art of leadership.

Bowden (1926), in Bass (1990), equated leadership with strength of personality, by stating that "... the amount of personality attributed to an individual may not be unfairly estimated by the degree of influence he can exert upon others". W. V. Bingham, in Metcalf (1927), defined a leader as a person who possesses the greatest number of desirable traits of personality and character. At the extreme, in times of crisis, followers endow a highly dominant figure that is empathic to their critical needs with charisma. The personality of the "hero" then makes it possible for him or her to perform enormous feats of leadership (Stark, 1970 in Bass, 1990).

(iii) Leadership as an art of inducing compliance

This set of definitions tends to cast leadership in terms of the moulding of the group around the will, intentions and wishes of the leader.

Munson (1921) defined leadership as "... the ability to handle men so as to achieve the most with the least friction and the greatest co-operation; Leadership is the creative and directive force of morale". According to Allport (1924), "... leadership is personal social control".

It cannot be ignored, that much leadership is authoritarian, directive and even coercive. Bass (1990:13) states, that the effects hereof are seen in public compliance, but not necessarily in private acceptance. Both Bennis (1959) and Bundel (1930) in Bass (1990), define leadership as the art or process of inducing others to perform, according to a desired behaviour, what an agent wants.

(iv) Leadership as the exercise of influence

Here the defining of leadership employs the concept of influence as separate and distinct from dominance, control or the forcing of compliance (Pierce & Newstrom, 2000:7).

J. B. Nash (1929), in Bass (1990), suggested, that leadership is a logical consequence that influences to bring about change in the conduct of people. Stogdill (1950) in Bass

(1990) termed this "... the process of influencing the activities of an organised group in its efforts toward goal setting and goal achievement".

Katz and Khan (1966) considered the essence of organisational leadership to be the influential increment over and above mechanical compliance with routine directions of the organisation. They observed, that although all supervisors at the same level of organisation have equal power, they do not use it with equal effectiveness to influence individuals and the organisation.

According to Bass (1990:13), the effort of an individual to change the behaviour of others can be classified as attempted leadership. When the other members actually change, this creation of change in others, is successful leadership. If the others are reinforced or rewarded for changing their behaviour, this evoked achievement is deemed to be effective leadership.

Defining effective leadership as successful influence by the leader that results in the attainment of goals by influenced followers, is defining leadership in terms of goal attainment (Bass, 1990:14).

(v) Leadership as an act of behaviour

Pierce and Newstrom (2000) described this as focussing upon the acts of leadership. What do the leaders do? Shartle (1956) suggested, that the act of leadership is "... one which results in others acting or responding in a shared direction".

By leadership behaviour we generally mean the particular activities in which a leader engages in the course of directing and co-ordinating the work of his or her group members. This may involve such acts as structuring the work relations, praising or criticising group members and showing consideration for their welfare and feelings (Bass, 1990: 14).

(vi) Leadership as a form of persuasion

Persuasion is a powerful instrument for shaping expectations and beliefs, particularly in political, social and religious affairs.

Persuasion can be seen as one form or art of leadership. Much of what has been learned from studies of persuasion, can be incorporated into an understanding of leadership (Bass, 1990:15). Certain definitions of leadership reflect the movement of others through strongly held convictions or reason (Pierce & Newstrom, 2000:7).

According to Neustadt (1960), from his study of U. S. presidents, presidential leadership stems from the power to persuade. Schenk (1928) in Bass (1990) suggested, that leadership is the management of men by persuasion and inspiration rather than by the direct or implied threat of coercion. According to Truman (1958:139) "... a leader is a man who has the ability to get other people to do what they don't want to do, and like it". Eisenhower said that "... leadership is the ability to decide what is to be done, and then to get others to want to do it" (Larson, 1968:21).

(vii) Leadership as a relationship of power

Most political theorists such as Machiavelli and Marx, have seen power as the basis of political leadership. Power is regarded as a form of influence relationship.

It can be observed, that some leaders tend to transform any leadership opportunity into an overt power relationship. The frequency of this observation, combined with the often-undesirable consequences for individuals and societies, has induced the rejection of the notion of authoritarian leadership. Nevertheless, many of those who were most committed at one time to trust building, openness and participatory approaches, have faced the world as it is, not as they would like it to be, and have come to acknowledge the importance of power relations in understanding leadership (Bass, 1990:15).

Janda (1960), in Pierce and Newstrom (2000:8), sees leadership in terms of the perception of the members of a group; that another group member has the right to

prescribe behaviour patterns for the former regarding his or her activity as a member of a particular group.

(viii) Leadership as an instrument of goal achievement

This set of definitions ascribes an instrumental value to the act of leadership for accomplishing the goals and satisfying the needs of a group.

A leader, according to Cowley (1928), "... is a person who has a program and is moving toward an objective with his group in a definite manner". The classical organisational theorists defined leadership in terms of achieving objectives of a group. R. C. Davis (1942) referred to leadership as "... the principle dynamic force that motivates and co-ordinates the organisation in the accomplishment of its objectives".

Tucker (1981) observed, that it is most unfortunate that politicians must focus the attention of their constituents on short-term goals and programmes in order to remain popular. But more statesmanlike leaders are required to arouse and direct a democracy toward achieving longer-term goals, such as stabilisation of the population, improvement of the environment and arms control.

(ix) Leadership as an emerging effect of interaction

Several theorists have viewed leadership not as a cause or control of group action, but as an effect of it.

Pierce and Newstrom (2000:7) does not see leadership as the cause of group action, but something which emerges as a result of interactions within and among members of the group. Bogardus (1929), in Bass (1990), states, that "... as a social process, leadership is that social inter-stimulation which causes a number of people to set out toward an old goal with new zest a or new goal with hopeful courage – with different persons keeping different places".

(x) Leadership as a differentiated role

According to role theory, each member of a society occupies a position in the community, as well as in various groups, organisations and institutions. In each position, the individual is expected to play a more or less well-defined role.

Different members occupying different positions, play different roles (Bass, 1990:16). Sherif and Sherif (1956) state, that these roles come to be defined in terms of stable expectations that group members develop for themselves and other members of the group.

From this perspective, leadership as a differentiated role might be seen as that function which integrates the other roles to advance the cause of the social system or goals of the group (Bass, 1990:17; Pierce & Newstrom, 2000:7).

(xi) Leadership as the initiation of structure

Several commentators view leadership not as the passive occupancy of a position or as acquisition of a role, but as a process of originating and maintaining the role and structure (Bass, 1990:17). Stogdill (1959) adopted this approach, when he defined leadership as "... the initiation and maintenance of structure in expectation and interaction".

It must be kept in mind, that leadership is more than just the initiation of structure. As Gouldner (1950) noted, we need room for acts of leadership in the completely structured group. Stogdill's (1959) inclusion of maintenance of structure is important. The persons, resources and tasks within the differentiated roles, should also be considered.

(xii) Leadership as a combination of elements

Some scholars and researchers combine definitions of leadership to cover a larger set of meanings.

Bass (1990) employs the following definition of leadership. Leadership is an interaction between two or more members of a group that often involves a structure or restructuring of the situation and the perceptions and expectations of the group members. Leaders are agents of change; persons whose activities affect other people more than the activities of other people affect them. Leadership occurs when one group member modifies the motivation or competencies of others in the group.

Leadership requires eliciting co-operation and teamwork from a large network of people and keeping the key people in that network motivated, using every manner of persuasion (Kotter, 1990).

A clear distinction is made between headship and leadership.

The Concise Oxford English Dictionary describes headship as “the position of leader or chief” (COED, 2000:655). Holloman (1968, 1986), in Bass (1990), conceived headship as being imposed on the group, but leadership as being accorded by the group. In similar fashion, C. A. Gibb in Lindzey and Aronson (1969:213), distinguished leadership from headship as follows.

- (i) Headship is maintained through an organised system and not by fellow members of the group spontaneously affording recognition of the contribution of an individual to group progress.
- (ii) The group goal is chosen by head persons in line with their interests and not internally determined by the group itself.
- (iii) In headship, there is little or no sense of shared feeling or joint action in pursuit of the given goal.
- (iv) In headship, there is a wide social gap between the group members and the head, which strives to maintain this social distance as an aid in the coercion of the group.

- (v) The authority of the leader is spontaneously accorded by fellow members of the group and particularly by followers. The authority of the head derives from some extra-group power that he or she has over the members of the group, who cannot meaningfully be called followers. They accept domination for fear of punishment, rather than elect to follow in anticipation of rewards.

Kochan, Schmidt & De Cotiis, (1975) agreed with Gibb in Linzey and Aronson (1969), because they saw that managers, executives and senior officials must be both leaders and heads. Therefore, in its conception, leadership can include headship.

Effective leadership can be defined as the interaction among members of a group that initiates and maintains improved expectations and the competence of the group to solve problems or to attain goals (Bass, 1990:20). Peter F. Drucker (in Hesselbein et al., 1996) builds on this definition by describing effective leaders as doers, people who take action, and not preachers.

Judith M. Bardwick (in Hesselbein et al., 1996:131) describes six items to be found among effective leaders that seem especially critical to creating a sense of strong leadership and achieving success for organisations facing difficult times. The obligations or duties of leaders should among others, be the following.

- (i) Defining the business of the enterprise; determining what the organisation should do and what it should not be concerned with. This is the first step in setting priorities. Without priorities, efforts are splintered and little is achieved.
- (ii) Creating a winning strategy; it is the responsibility of the leaders to create a winning strategy that will cause the organisation to succeed, to grow and to prosper. For strategy to succeed, it must anticipate, create, and guide change and create commitment in the organisation's members. It should be so plausible, clever and bold and achievable, that in itself it generates a conviction that even if the journey is hard, it is worthwhile.
- (iii) Communicating persuasively; trust is a competitive advantage in a world of adversarial competition. Trust is a matter of predictability. People trust others when they are told that something will happen and it does. Ineffective or non-

existent communication, especially in wartime, results in an enormous increase in mistrust, confusion, and cynicism and a huge decline in morale, belief in the organisation and confidence in leadership.

- (iv) Behaving with integrity, because without integrity trust is never achieved. The best leaders are transparent: they do what they say. People believe them because they act in line with the values they espouse. They do not play Machiavellian games of manipulation and duplicity.
- (v) Respecting others; effective wartime leaders require input from everyone involved. They prefer spirited debate before decisions are made, although the best leaders are often strikingly knowledgeable.
- (vi) Acting; in wartime, when conditions are ambiguous and decisions are difficult, leaders must decide, choose and act. If leaders don't act, they are perceived as being indecisive and weak, and this increases people's sense of anxiety, powerlessness and insecurity. When others doubt a leader's ability, confidence, or effectiveness, the mission is sabotaged.

If one is to make extensive use of observation, it will still be important to define effective leadership in terms of acts, behaviour, roles played, its centrality to group processes, and compliance with the observed performance (Bass, 1990:20).

Contrarily, in the light of the objective of this dissertation, which is the determination of the interrelationship of good governance and effective leadership, it is important that the act of leadership, as displayed by an individual that drives results and accepts responsibility and accountability, be defined in terms of personality traits, motives and characteristics, and power relations (Bass, 1990:20).

3.3 TRAITS AND MOTIVES OF LEADERS

The belief that certain personal characteristics and skills contribute to leadership effectiveness in many situations, is referred to as the universal theory of leadership.

According to the universal theory of leadership, certain leadership traits are universally important: they apply in all situations. For example, creative thinking, a characteristic, helps a leader to formulate an exciting vision, that in turn, is leadership behaviour (DuBrin, 2004:32).

The trait approach to leadership analysis began in the early 20th century with an emphasis on identifying the prominent qualities of great persons.

Smith and Krueger (1933) completed a survey of this literature up to 1933. During the middle part of the 20th century, provision was made to include the impact of situations on leadership (Stodgill, 1948). Most recently, it has shifted back to re-emphasise the critical role of traits in effective leadership (Zaleznik, 2003). Great companies such as General Electric utilise the identification of effective leadership characteristics, matching them with the performance criteria required of individuals in order to produce results in their Leadership Effectiveness Survey of employees (Ulrich, Zenger & Smallwood, 1999). By taking a closer look, a clearer picture can be obtained of how an individual's traits contribute to the leadership role (Northouse, 2004:16).

Leadership is about character (Bennis & Nanus, 2003). Characteristics associated with leadership, can be classified into four broad categories: (i) personality traits; (ii) motives; (iii) cognitive factors; and (iv) physical and background factors. According to Kirkpatrick and Locke (1991), no matter how personal characteristics are classified, they point toward the conclusion, that effective leaders are made of the "right stuff".

A full listing of every personal characteristic would consume hundreds of pages. Therefore, included here are the major and most consistently found characteristics that are related to the effectiveness of leadership.

3.3.1 Personality traits of effective leaders

Leaders have certain personality traits. These characteristics contribute to leadership effectiveness in many situations, as long as the style of the leader fits the situation well (Lock & Associates, 1991).

The personality traits of leaders can be divided into two main groups: (3.3.1.1) general personality traits; and (3.3.1.2) task-related traits.

3.3.1.1 General personality traits

General personality traits are defined as traits that are observable both within and outside the context of work. These traits can be further divided into nine subgroups: (i) self-confidence; (ii) honesty, integrity and credibility; (iii) dominance; (iv) extroversion; (v) assertiveness; (vi) emotional stability; (vii) enthusiasm; (viii) sense of humour and warmth; and (ix) high tolerance for frustration.

(i) Self-confidence

Individuals with self-confidence see themselves as masters of their own fate, rather than at the mercy of luck, fate or powerful other people. This assists them to cope better with stress and generally make them more effective and satisfying leaders (Bennis & Nanus, 2003).

In virtually every leadership setting, it is important for the leader to be realistically self-confident. A leader who is self-assured without being bombastic or overbearing, instils confidence in team members. In addition to being self-confident, the leader must project that self-confidence to the group (Lock & Associates, 1991). Quite often he or she can do so by using unequivocal wording, maintaining a good posture, and making appropriate gestures, such as pointing an index finger outward. Self-confidence is not only a personality trait; it also refers to the behaviour a person exhibits in a number of situations. Northouse (2004:19), describes it as the ability to be certain about the competencies and skills that one possesses. DuBrin (2004:34) supports this, by equating it to being calm and collected under pressure. Thus it can be concluded that a person is a self-confident leader, when he or she retains composure during a crisis, such as managing a large product recall.

The Pick 'n Pay blackmail incident is a good example hereof.

The General Electric Leadership Effectiveness Survey (LES), (Ulrich, Zenger & Smallwood, 1999), indicates the following behaviour for leadership effectiveness. The individual has to have sufficient self-confidence to be able to:

- (i) share information across traditional boundaries and be open to new ideas.
- (ii) encourage and promote shared ownership for the vision and goals of the organisation.
- (iii) trust others; encourage an entrepreneurial spirit of risk taking and a no limitation behaviour.
- (iv) be open to ideas from any source and a vehicle for others' success.

(ii) Honesty, integrity and credibility

Integrity is the quality of honesty and trustworthiness.

Individuals who adhere to a strong set of principles and take responsibility for their actions, exhibit integrity (Northouse, 2004:20).

Followers and group members consistently believe that leaders must display honesty, integrity and credibility. Leaders themselves believe that honesty makes a difference in their effectiveness. Being trustworthy and honest contributes toward leadership effectiveness.

These views are also shared by researchers and outside observers. Under the umbrella term of trust, competence, caring, reliability, predictability and integrity are included. It is often said, that it drives people crazy when bosses do not “walk their talk”. Therefore, effective leaders show consistency between their deeds and words (DuBrin, 2004:34).

The trust factor is the social glue that binds and keeps systems together. Honesty, integrity and credibility are hard to gain and easy to lose.

According to Bennis and Nanus (2003), the ability to generate and sustain trust, is the central ingredient in leadership, they state, that one “... can have the most glorious vision in the world and it won't mean a thing if there's low trust in the organisation”.

Leaders with integrity inspire confidence in others, because they can be trusted to do what they say they are going to do. They are loyal, dependable and not deceptive (Northouse, 2004:20).

Leadership is in the eye of the follower.

This is why honesty, integrity and credibility are so important. In a study of more than 7500 managers from public and private organisations, the eighty-seven percent who responded, selected honesty as a key leadership characteristic, James M. Kouzes and Barry Z. Posner, (in Pierce & Newstrom, 2000:37).

According to research conducted by Kouzes and Posner, leaders are considered honest by their constituents when leaders do what they say they are going to do. Agreements not followed through, cover-ups, and inconsistency between words and deeds are all indicators of a lack of honesty (Crainer, 2003). Yet, if a leader behaves in ways consistent with his or her values and beliefs, then we believe we can entrust to that person our careers, our security, even our lives.

Bass (1990:69) notes, that integrity of character represents a trait that is associated with leadership maturity. Effective leaders are credible, have excellent reputations, with high levels of integrity and trust (J. Sampson, 2003:7).

In the General Electric Leadership Effectiveness Survey (LES), (Ulrich et al., 1999), the following performance criteria are required to produce effective leadership effectiveness. The criteria stem from the basic personal characteristic integrity. The individual has to:

- (i) maintain unequivocal commitment to honesty and truth in every facet of his or her behaviour.
- (ii) follow through on commitments made and must assume responsibility for his or her actions.
- (iii) practice absolute conformance with company policies and embody commitment to ethical conduct.

- (iv) be absolutely trustworthy. Therefore, one has to display actions and behaviours that are consistent with one's words.

(iii) Dominance

A dominant person imposes his or her will on others. As a consequence, a dominant leader is often seen as domineering or bossy.

Whereas dominance was considered almost synonymous with leadership in the early research of leadership, the more recent viewpoint recognises, that many other traits such as assertiveness and factors such as the willing submissiveness of followers, are to be taken into consideration (Bass, 1990:90).

(iv) Extroversion

Extroversion has been recognised for its contribution to leadership effectiveness because it is helpful for leaders to be gregarious and outgoing in most situations. Extroverts are more likely to want to assume a leadership role and to participate in activities comprising of groups of people (Bass, 1990:90).

(v) Assertiveness

In recent years more attention has been paid to assertiveness than to dominance and extroversion as a leadership trait. Assertiveness refers to persons being forthright in expressing demands, opinions, feelings and attitudes. This includes characteristics such as determination, initiative, persistence and drive, that all refer to the desire to get the job completed and to attain the expected results.

Assertiveness assists leaders in performing multiple tasks and the subsequent achievement of goals. Among them are the confronting group members about their mistakes, demanding higher performance, setting high expectations, and making legitimate demands on higher management. To be assertive, differs significantly from being aggressive or passive. Aggressive people express their demands in an overly pushy, obnoxious and abrasive manner; passive people suppress their own ideas,

attitudes, feelings and thoughts as if they were likely to be perceived as controversial (Northouse, 2004:20).

(vi) Emotional Stability

According to the research reported on by Bass (1990:70), leaders were found to be more stable and emotionally controlled than their followers. Furthermore, a number of manuals that outline the practical techniques for gaining friends and becoming a leader, regard self-control as a very important prerequisite for attaining these goals.

Anyone who has worked for an emotional unstable superior, will attest to the importance of emotional stability as a leadership trait. Emotional stability refers to the ability to control emotions to the point that one's emotional responses are appropriate to the occasion. Emotions associated with low emotional stability, include anxiety, depression, anger, embarrassment, and worry (DuBrin, 2004:36).

Emotional stability is an important leadership trait, because group members expect and need consistency in the way they are treated.

One study found, that executive leaders who are emotionally unstable and lack composure, are more likely to derail; that is, to handle pressure poorly and to give in to moodiness, outbursts of anger, and inconsistent behaviour. Such inconsistency undermines their relationships with followers, group members, peers and superiors. In contrast, effective leaders are generally dependable, calm, confident and predictable during a crisis (Lock & Associates, 1991:55).

(vii) Enthusiasm

In most leadership situations, it is desirable for the leaders to be enthusiastic.

Followers and group members tend to respond positively to enthusiasm, partly because enthusiasm may be perceived as a reward for constructive behaviour. Enthusiasm is also a desirable leadership trait, because it helps build good relationships with team members. A leader can express enthusiasm both verbally ("Great job"; "I love it") and

non-verbally (making a “high five” gesture). Even the most enthusiastic employees are loath to show more enthusiasm than their superiors do. If the leader does not project a “gung-ho” or “can do” attitude, everybody else will hold back (DuBrin, 2004:38; Manning, 2002:81).

Cox (1926) found great face-to-face leaders to rate high in excitability. According to C. M. Cox, this trait was to an unusually high degree present in revolutionary statesmen.

According to John Kotter, people who are successful in making a difference in the world, especially in providing leadership, tend to nurture optimism within them and try to neutralise cynicism and pessimism (Crainer, 2003). This is a good example of how a trait contributes to leadership effectiveness.

Bennis and Nanus (2003) from their research of exemplary leaders, describe that these leaders truly believe that they can change the world. True leaders have an uncanny way of enrolling people in their vision through their optimism, even-though it sometimes might be unwarranted optimism.

(viii) Sense of humour and warmth

Humour serves such functions in the workplace as relieving tension and boredom and defusing hostility.

DuBrin (2004:41) contends, that because humour helps the leader dissolve tension and defuse conflict, it helps him or her exert power over the group.

According to Bass (1990:70), a sense of humour is relevant to and contributes toward effective leadership.

Being a warm person and projecting that warmth, underscores leadership effectiveness in several ways. Firstly, warmth facilitates the establishment of rapport with group members. Secondly, the projection of warmth is a key component of charisma. Thirdly, warmth is a trait that facilitates providing emotional support to group

members. Fourthly, in the words of Kogan Page, warmth "... comes with the territory. Cold fish do not make good leaders because they turn people off" (DuBrin, 2004:41).

(ix) High tolerance for frustration

An important observation about effective leaders, is that they are able to "stay the course"; they are courageous and patient (Bennis & Nanus, 2003:49).

Research shows, that high tolerance for frustration or the ability to cope with the blocking of goal attainment, exists among effective leaders. This trait is important because a leader encounters many frustrations. Cox (1926) found, that great leaders were characterised, to an outstanding high degree, by "persistence in the face of obstacles"; "capacity to work with distant objects in view"; "degree of strength of will or perseverance"; and a "tendency not to abandon tasks from mere change-ability".

3.3.1.2 Task-related personality traits

Certain personality traits of effective leaders are closely associated with task accomplishment. Competence is the capability that a person brings to a situation. Task competence and intelligence are important to leadership. Task competence and intelligence result in attempts to lead, that are more likely to result in success for the leader and effectiveness for followers and group members (Bass, 1990:109). Task-related traits are observable within the context of work and are dividable into four subgroups: (i) initiative and responsibility; (ii) flexibility and adaptability; (iii) internal locus of control, courage and resiliency; and (iv) emotional intelligence.

(i) Initiative and responsibility

From the research reports collated in Bass (1990:68), initiative and willingness to assume responsibility are traits related to leadership.

Exercising initiative, or being a self-starter, refers to taking action without support and stimulation from others. Initiative is also related to problem-finding ability: you need to exercise initiative to search for worthwhile problems.

As conceptualised by Kirkpatrick and Locke (1991), initiative refers to the proactive side of leadership. Rather than just reacting to events, effective leaders make choices and take action that leads to change. Effective leaders drive change by inspiring people to do new things in a timely manner (Manning, 2002:68).

The General Electric Leadership Effectiveness Survey (LES), (Ulrich et al., 1999), indicates that effective leaders must demonstrate the traits accountability and initiative. To comply herewith, the individual has to:

- (i) set and meet aggressive commitments in order to achieve the organisational objectives.
- (ii) demonstrate courage and self-confidence in order to stand firm for one's beliefs, values, ideas and colleagues.
- (iii) display fairness and compassion to others and still be able to make difficult decisions.
- (iv) demonstrate uncompromising responsibility for preventing unnecessary harm to others.
- (v) view change as an opportunity. Create real and positive change;
- (vi) anticipate problems and initiate new and improved ways for conducting business.
- (vii) hate/avoid/eliminate unnecessary bureaucracy and strive for brevity, simplicity and clarity.
- (viii) understand, embrace and utilise speed and technology as a competitive advantage.

(ii) Flexibility and adaptability

A leader is someone who facilitates change. Therefore, a leader must be flexible and adaptable enough to effectively manage change.

Part of the reason these traits have become so important in recent years, is that the business and political world has become more competitive and volatile. Faster technological change, greater international competition, the deregulation of markets, over-capacity in capital-intensive industries, an unstable oil cartel and the changing

demographics of the work force, are among the many factors that have contributed to the continuous necessity for change. Major changes are increasingly necessary for survival and competing in this new environment. More change always demands more leadership (Kotter, 2003).

Flexibility, or the ability to adjust to different situations, has long been recognised as an important leadership characteristic.

Leaders who are flexible, are able to adjust to the demands of different situations. Without the underlying trait of flexibility, a person could be an effective leader only in one or two situations where no requirement for change exist or a necessity for transformation (Manning, 2002).

Leading organisational change effectively, can mitigate risks and even avoid them entirely, such as the unwillingness of managers to allocate time and resources towards important projects and employees becoming distracted and losing interest in their work responsibilities, thereby negatively impacting upon productivity and customers (Hiatt & Creasy, 2003).

(iii) Internal locus of control, courage and resiliency

An internal locus of control, courage and resiliency are task-related traits closely related to all of the characteristics that have been discussed under the general personality trait section (3.3.1.1) above.

People with an internal locus of control, believe that they are the prime movers behind events. Thus, an internal locus of control helps a leader in the role of taking action and responsibility because the leader believes fundamentally in his or her innate capacity to produce results.

An internal locus of control is closely related to self-confidence (DuBrin, 2004:45). In a simulated industrial setting, Goodstadt and Hjelle (1973), in Bass (1990:152), found that supervisors with an external locus of control were more likely to rely on persuasion and those with an internal locus of control, were more likely to rely on

personal power to attain results. Mitchell et al., (1975), in Bass (1990:153), obtained similar results from their research. Mitchell et al., noted, that supervisors with an external locus of control were more likely to use coercion and legitimate authority, whereas those with an internal locus of control used rewards, respect and expert power.

Leaders need courage to face the challenges of taking prudent risks, and taking initiative in general. They must also face up to responsibilities, and be willing to put their reputations on the line.

It takes courage for a leader to suggest a new undertaking because if the undertaking fails, the leader is often seen as having failed (DuBrin, 2004:47). Therefore, courage is required to inspire and lead people along a strategy that aims to realise a vision that is cutting edge. Cleveland (1985) emphasised, that executives must be prepared to take risks if they are to take the lead in the perilous, problematic and participatory climate for policy-making of today's information-rich world.

If a leader asks a group of people to follow him or her in a new direction, into an unknown territory or a new way of doing business, the leader has to have confidence in himself or herself that he or she can reach the projected outcome or destination. The researcher, Jim Collins, found that great companies were led by leaders with two important leadership characteristics: (i) professional will; and (ii) humility. During a disastrous mission to the Antarctic, the explorer Ernest Shackleton also displayed these two qualities (Nkomo, 2003:13).

Effective leaders are resilient: they bounce back quickly from setbacks such as budget cuts, demotions, and being fired. An intensive study of executive leaders revealed, that they do not even think about failure: in fact, they do not even use the words. Instead, they rely on synonyms such as mistake, glitch, bungle and setback (DuBrin, 2004; Manning, 2002). In practice, this means that the leader sets an example for team members by not crumbling when something goes wrong. Instead, the leader tries to conduct business as usual (Bennis & Nanus, 2003).

(iv) Emotional intelligence

Emotional intelligence sets effective leaders apart from leaders.

Effective leaders are similar in one crucial way: they all have a high degree of emotional intelligence. From various analyses conducted by Daniel Goleman and other researchers, emotional intelligence has proved to be increasingly important at the highest levels of organisations, where differences in technical skills are less relevant. The meaning hereof, is that the higher the position of a person who is considered to be an outstanding performer, the more emotional intelligence capabilities are recognised as part of the reason for their effectiveness.

In a 1996 study of a global food and beverage company, David McClelland found that senior managers who possessed a critical mass of emotional intelligence capabilities, outperformed targets by twenty percent. On the other hand, division leaders without that critical mass, performed below expectations by almost twenty percent (Goleman, 2003).

Emotional intelligence refers to qualities such as understanding one's feeling, having empathy for others and the ability to control and regulate emotions. Emotional intelligence is also closely linked to personal traits that in turn assists with effectiveness. Three key factors in emotional intelligence exist, that are linked to leadership effectiveness: (a) self-awareness and self-objectivity; (b) self-management and motivation; and (c) social awareness.

(a) Self-awareness and self-objectivity

Effective leaders are aware of their strengths and limitations. This awareness enables them to capitalise upon their strengths and to develop their weaknesses.

Effective leaders also utilise this ability to accurately measure their individual moods, and they intuitively understand how their moods affect followers and other people (DuBrin, 2004:44). Reflecting on what worked, as well as what did not, on positive

experiences as well as negative ones, assists with a self-awareness (Manning, 2002:88) and being an effective leader.

(b) Self-management and motivation

This is the ability to control and redirect disruptive impulses and moods; having the propensity to suspend judgement on matters and to think before taking action.

Self-management and motivation include possessing a passion to work for reasons that go beyond money or status. This means having a propensity to pursue goals with energy and persistence (Goleman, 2003).

(c) Social awareness

Social awareness is described as possessing intuition about people, political forces and organisational problems. Being socially aware, includes the ability to match the best people to specific tasks, assists in negotiations (DuBrin, 2004:44) and understanding that treating other people as you want others to treat you, is important.

According to Pfeffer (1992:172) and Manning (2002:81), having social awareness or sensitivity towards others, means that a leader has an understanding of followers or group members, who they are, what their position on issues are, and how to best communicate with and influence them. Achieving sensitivity towards others, requires empathy: the ability to place oneself in the position of people.

Leaders who show sociability, are friendly, outgoing, courteous, tactful and diplomatic. They are sensitive to the needs of others and show real concern for their wellbeing. These leaders have good interpersonal skills and create co-operative relationships with their followers (Northouse, 2004:20). Social awareness includes having respect for people as individuals, employees and followers (Dunne, 2003:22).

The General Electric Leadership Effectiveness Survey (LES), (Ulrich et al., 1999), indicates, for the characteristics influencing and communication, the following performance criteria for leadership effectiveness.

It is necessary for the individual to communicate in an open, candid, clear, complete and consistent manner, and to be open to response and dissent. The following suggestions are important.

- (i) Listening effectively and probe for new ideas.
- (ii) Utilising facts and rational arguments to influence and persuade followers.
- (iii) Breaking down barriers and developing influential relationships across teams, functions, layers and organisations.
- (iv) Fully utilising the diversity of colleagues (cultural, race and gender) to achieve success.
- (v) Treating people as you want them to treat you.

3.3.2 Leadership motives

In general, effective leaders have an intense desire to occupy a position of responsibility on behalf of others and to be able to exercise control over resources and people in order to attain goals.

Leaders with motivation and the willingness to use power in their dealings with others, will use their interactions with others more consciously to get what they want and to gain control over situations.

Those with motivation and skills, in the use of power, will embed that power in their communications with others and will use tactics to influence what transpires (Bass, 1990:129).

Six specific leadership motives can be identified that assists with effective leadership, all six can be considered as task-related personality traits. They are discussed in the following sections: (3.3.2.1) power motive; (3.3.2.2) personalised power motive; (3.3.2.3) socialised power motive; (3.3.2.4) drive and achievement motivation; (3.3.2.5) strong work ethic; and (3.3.2.6) tenacity.

3.3.2.1 Power motive

Effective leaders display a strong need to control resources. Leaders with high power motives, have three dominant characteristics: (i) they act with vigour and determination to exert their power; (ii) they invest much time in thinking about ways to alter the behaviour and thinking of people; and (iii) they care about their personal standing with those around them. The power motive is important, because it means that the leader is interested in influencing others. Without power, it is much more difficult to influence followers and people (DuBrin, 2004:47).

Communication competence is required to articulate arguments, advocate positions and persuade followers and other people. These functions are important for acquiring and using power, Parks (1985), (in Bass, 1990:149).

Individuals who base their leadership on power, may create conditions that are unsatisfying to some or all of their followers and subordinates. Despite this, these leaders still can successfully influence the course of events, which will result in the fulfilment of tasks and the attainment of goals by their group or organisation (Bass, 1990:131).

3.3.2.2 Personalised power motive

Leaders with a personalised power motive, seek power mostly to further their own interests.

According to Dunne (2003:22), a leaders with a personalised power motive is also referred to as the mercenary: a leader who focuses on personal success; or the pirate: a leader who unites people by appealing to their common desires and greed. They crave the trappings of power such as status symbols, luxury and money. Some leaders with strong personalised power motives typically enjoy dominating others. Their need for dominance can lead to submissive followers and subordinates who are frequently sycophants and “yes”-persons.

McClelland (1985), in Bass (1990), concluded, that if the motivation for power is low, the potential for leadership is generally absent. If power motivation is high and activity is uninhibited, the individual behaves like a conquistador and has thoughts of personal dominance and winning at the expense of followers and other people.

Leaders need to have emotional intelligence, good self-control and the ability to inhibit their own need for power in order to develop a balanced leadership style to exist, that would not alienate followers and other people.

According to Snyder (1974:529), in Bass (1990), abilities associated with self-monitoring cut across the factors of sensitivity and control and have been found to contribute to leadership effectiveness. Self-monitoring is also concerned with social appropriateness, paying attention to social-comparison information, the ability to control and to modify self-presentation.

3.3.2.3 Socialised power motive

Leaders with socialised power motives, use power primarily to achieve and to realise the goals and visions of the organisation.

Dunne (2003:22) propounds, that leaders with a socialised power motive, are also referred to as the good citizens: leaders who inspire personal trust, hold people accountable and make tough calls; or as the benevolent leader: a leader who stresses team success, inspires trust and motivates others by setting clear, ambitious goals that are mutually shared.

In the above context, the term “socialised” means, that the leader uses power primarily to attain organisational goals or visions. As a result hereof, the leader is likely to provide more effective leadership. Leaders with socialised power motives, in contrast to leaders who solely have personalised power motives, tend to be more emotionally mature. Also, they exercise power more for the benefit of the entire organisation and are less likely to manipulate others through the use of power. Leaders with socialised power motives, are less defensive, and are more willing to accept expert advice from outsiders (DuBrin, 2004:49).

Effective leaders are orientated toward serving their organisations. They generate team spirit among their subordinates, clarity of purpose and a sense of responsibility for their work (Bass, 1990:133).

It is important not to draw a rigid dichotomy between leaders with personalised power motives and those with socialised power motives. The distinction between doing good for others versus doing good for oneself, is often made on the basis of very subjective criteria.

3.3.2.4 Drive and achievement motivation

The importance of drive and achievement motivation is described in Bennis and Nanus (2003). They state, that we "... cannot exaggerate the significance of a strong determination to achieve a goal or realise a vision", because it becomes a conviction, even a passion, for the effective leader to attain expected results to the satisfaction of all the stakeholders.

Leaders are known for the huge effort they invest in achieving their goals and visions. The importance of strong motivation for leadership, is well-accepted. Drive refers to an ability to focus energy into achieving goals and to persistently applying that energy. Drive also includes achievement motivation and, finding joy in accomplishment for its own sake (DuBrin, 2004:50).

Individuals with a strong achievement motivation, have a consistent desire to: (i) achieve through their own efforts and to take responsibility for success or failure; (ii) take moderate risks that can be handled through their own efforts; (iii) receive feedback on the level of their performance; (iv) introduce novel, innovative or creative solutions; and (v) plan and set stretch goals for themselves, their followers and organisations (DuBrin, 2004:50).

3.3.2.5 Strong work ethic

Effective leaders typically have a strong work ethic, a firm belief in the dignity of work.

People with a strong work ethic, are well-motivated, because they value hard work: not to work hard, clashes with their values. A strong work ethic helps the organisational leader believe that the group task is worthwhile (Manning, 2002).

Effective leaders have a bias towards action that results in success (Bennis & Nanus, 2003). A strong work ethic assists to develop the capacity to translate vision and purpose into reality. It is not enough for effective leaders just to have vision, trust and optimism. The leader has to manifest concrete, active steps – execution – to bring about results. Leaders make things happen. It is often said, that “... real leadership”. For effective leaders there exists a continuous focus on the task till the work is completed successfully.

3.3.2.6 Tenacity

A final observation about the motivational characteristics of effective leaders, is that they are tenacious. Leaders with tenacity are better at overcoming obstacles, than they are at being non-leaders. Tenacity multiplies in importance for effective leaders, because it can take a long time to implement a new programme and see the results thereof (DuBrin, 2004:51).

According to Simpson (1938), in Bass (1990), it appears that persons in various types of groups may be valued as leaders, because they know what they want to accomplish and are not likely to be swayed from their convictions. The Bennis study of 150 leaders, reinforces the link between leadership effectiveness and tenacity. All interviewees embodied a strongly developed sense of purpose and a wilful determination to achieve what they wanted. “Without that”, said Bennis, “organisations and individuals are not powerful. The central ingredient of power is purpose” (DuBrin, 2004:51).

3.3.3 Cognitive factors and leadership

Mental ability, as well as personality, are important for leadership effectiveness.

To inspire people, bring about constructive changes and solve problems creatively, leaders must be mentally alert. Problem-solving and intellectual skills are referred to collectively as cognitive factors.

The term “cognition” refers to the mental process that gathers knowledge. Cattell (1946), in Bass (1990), reported, that intelligence consists of such character elements as being wise, emotionally mature, persevering, mentally alert, vigorous and conscientious.

The discussion of cognitive factors and leadership will have as a first element (in section 3.3.3.1), a description of mental ability and cognitive resources. Thereafter, the specific cognitive factors required for effective leadership will be laid-out: (3.3.3.2) knowledge of the business; (3.3.3.3) creativity; (3.3.3.4) insight into people and situations; (3.3.3.5) farsightedness and conceptual thinking; and (3.3.3.6) openness to experience.

3.3.3.1 Mental ability and cognitive resources

Analysis and observation show that effective leaders have good problem-solving abilities and indeed for the following reasons.

- (i) Intelligent and competent leaders make more effective plans, decisions and strategies than do leaders with less intelligence or competence.
- (ii) Effective leaders communicate their plans, decisions, actions and strategies clearly.

Strong problem-solving abilities are assets to leaders, because they must collect, integrate and interpret enormous amounts of data (Kotter, 1990). Leaders also need intelligence to run software and computations. Despite the importance of the problem-solving ability for leadership, an advanced capacity for solving abstract problems and an overly intellectual style, can create problems. A leader with too strong a penchant

for gathering and analysing information, may suffer from “analysis paralysis”. The leader might keep analysing problems at the expense of taking decisive action and risks becoming ineffective.

Effective leaders are able to communicate clearly and convincingly, disarm conflicts, build strong relationships and interpret the information relevant and important for decision-making from that what is irrelevant and less important (DuBrin, 2004:44).

3.3.3.2 Knowledge of the business

According to Kotter (1990:113), the accumulation of experiences over a decade or two is usually very influential in being effective. This is true in a general sense, but it is especially relevant with respect to leadership.

Intellectual ability is closely related to having a good working knowledge of the business and organisation.

An effective leader has to be technically or professionally competent in some discipline, particularly when leading a group of specialists. It is difficult for the leader to establish rapport with followers and group members when he or she does not know what they are doing and when the group does not respect the technical skills of their leader. At a minimum, the leader of specialists must be “snow-proof”: that is, not really bluffed about technical or specialist matters (DuBrin, 2004:52).

The results of eleven studies dealing with leadership and knowledge, imply that persons who are chosen as leaders, tend to be those who knew how to get things done (Bass, 1990:65). Cox (1926) also reported, that great leaders were characterised and differentiated from the average by a greater intensity of application and industry.

Therefore, specialised knowledge and the ability to get things done, are factors that contribute to the effectiveness of leadership.

The importance of knowledge of the business, is increasingly being recognised as an attribute of executive leadership. Knowledge of the business is particularly relevant when formulating and implementing strategy (DuBrin, 2004:52).

The General Electric Leadership Effectiveness Survey (LES), (Ulrich et al., 1999), indicates, that an effective leader must possess the personal traits: knowledge, expertise and intellect. An individual must comply with the following criteria in order for him or her to be an effective leader.

- (i) Possess and readily share functional and technical expertise.
- (ii) Demonstrate broad business knowledge, together with cross-functional and multicultural awareness.
- (iii) Able to apply intellectual abilities to the fullest and make good decisions with the limited data availability.
- (iv) Speedily distinguish relevant from irrelevant information; grasp essentials of complex issues and initiate action.

3.3.3.3 Creativity

Many effective leaders are creative, because they arrive at imaginative and original solutions to complex problems (Crainer, 2003).

Creative ability lies on a continuum: some leaders are more creative than are others. At one end of the creative continuum are leaders who think of innovative products and services. At the middle of the creative continuum are those leaders who explore imaginative, but not breakthrough solutions to problems. At the low end of the creative continuum are those leaders who inspire followers and group members to push forward with standard solutions to problems (DuBrin, 2004:52).

Creativity is such an important aspect of the role of leaders in modern times, that the development of creative problem-solving skills receives much attention (DuBrin, 2004:52). This is supported by the research in Cox (1926), who found that great leaders rated unusually high in originality.

3.3.3.4 Insight into people and situations

Another important cognitive characteristic of effective leaders, is insight. Insight can be described as a depth of understanding that requires considerable intuition and common sense.

Insight is related to creativity because of its intuitive characteristic. Insight into people and situations involving people, is an essential characteristic component of effective leaders.

A leader with a keen insight, is able to make wise choices in selecting people for key assignments. Insight enables a leader to make good work of the training and developing team members. The reason for this, is that these leaders are able to make a careful assessment of the strengths and weaknesses of team members.

Another major advantage of being insightful, is that leaders can size up the situation and adapt his or her leadership approach accordingly. For example: in a crisis situation fellow group members and followers welcome directive and decisive leadership. Furthermore, insight also helps a leader solve complex problems and make observations that others might not recognise (DuBrin, 2004:53).

According to Bass (1990:66), various studies found leadership to be related to aspects of insight, as follows: keenly alive to the environment, alert, ability to evaluate situations, social insight, self-insight and sympathetic understanding.

3.3.3.5 Farsightedness and conceptual thinking

To formulate and implement a vision and strategies, an effective leader requires farsightedness and conceptual thinking; the ability to understand the long-term implications of actions, policies, processes and structures (Kotter, 1990:139).

The research of Bennis and Nanus (2003) indicates, that one of the most important elements of effective leadership, is a clearly articulated vision, or sense of direction, in order to focus the attention of everyone associated with the organisation and leader.

The requirement of vision for effective leadership, is widely embraced, not only in the corporate world but among leaders of political and educational institutions, churches, and other non-profit organisations as well. Today it is generally accepted, that all successful organisations need not only a clear mission or purpose, but also a widely shared vision, and that few leaders can succeed without both.

Tom Peters, business management consultant and author, compiled a list of characteristics future leaders will have, the most important being that of "... a good communicator who oversees a satisfying two-way flow of information". This includes imparting vision and objectives that everyone understands, listening to associates and maintaining an open-door policy (Anon, 2003:4).

DuBrin (2004:53) describes conceptual thinking as the ability to see the overall perspective or big picture. This in turn, assists with the ability of farsightedness. A conceptual thinker is also a systems thinker, because of his or her fundamental understanding how the environment influences the organisation and how different parts of the organisation influence each other.

The General Electric Leadership Effectiveness Survey (LES), (Ulrich et al., 1999), requires an individual to possess the personal characteristic farsightedness or vision to be an effective leader. In this regard the individual has to:

- (i) develop and communicate a clear, simple, stakeholder focussed vision and direction for the organisation;
- (ii) be forward-thinking, stretching horizons and challenges, current thinking and imaginations; and
- (iii) update the vision and direction to reflect constant and accelerating change that has an impact on the organisation and its business.

3.3.3.6 Openness to experience

An important characteristic of effective leaders, is their openness to experience. This is also described as their having a positive attitude toward learning.

Leaders regularly utilise what they have learned from experience in order for them to be effective (Manning, 2002:86). People who have a great deal of openness to experience, have well-developed intellects. Traits commonly associated with this dimension of the intellect, include being imaginative, cultured, curious, original, broad-minded and intelligent (DuBrin, 2004:54).

3.3.4 Physical and background factors

Many attempts have been made to highlight the physical and intellectual differences that exist between leaders and the general population (Manning, 2002:31). Another perspective on understanding the personal qualities of effective leaders, is to examine their physical characteristics and biological or background factors.

A major limitation to this approach is, that it is based on physical and cultural stereotypes that are changing as more diverse people gain power. The physical and background factors reviewed here, are energy and physical stamina (3.3.4.1); and biographical factors (3.3.4.2).

3.3.4.1 Energy and physical stamina

Being an effective leader, requires considerable energy and physical stamina (Bennis & Nanus, 2003).

The most demanding physical challenges facing leaders, are long working hours, frequent travel, and presentations to various stakeholders. Physical energy is helpful in inspiring followers and group members and in sustaining high levels of productivity. Jeffrey Pfeffer (1992:168) observes about the traits of leaders, “Without endurance and the ability to persevere, other skills and attributes are not worth much”.

According to Cox (1926), effective leaders are characterised by a high rate of energy output. But Cox (1926) also found, that various groups of great leaders differ markedly from each other in physique, energy output and athletic prowess; only successful military leaders were outstanding in these traits.

In their article published in the October 2003 edition of *Directorship*: “Self restoration and self preservation for top achievers”, B. Lane and J. Dry (2003:10) describe the importance for leaders to master the art of personal energy management. Because effective leaders burn high levels of energy during goal attainment, better personal energy management will provide an improved ability to sustain high-level performance to assist in effectiveness.

3.3.4.2 Background factors

Seniority, education and social background

Business Week tabulated biographical background factors of the 1000 most highly placed executives in American-based corporations. One of the major findings is, that the ability to stay with one organisation for a long time, is an asset to becoming a top executive. The average service at the company for a CEO, is 22.5 years.

Business Week also found that nine hundred and sixteen executives took an undergraduate degree of some kind, whilst the other, fifty-five, attended some college. More than half received a Bachelor of Science degree, the majority of them in business or related fields. More than one-half of the executives attended graduate schools, earning doctorates in physical science degrees in law or business (Wadekar, 1993:64).

According to Bass (1990), the conclusions drawn from research on the importance of education and social background for leadership, were that:

- (i) high socio-economic status was an advantage in attaining leadership status;
- (ii) leaders who rose to high-level positions in industry tended to come more from the lower socio-economic strata of society than was the case fifty years earlier; and
- (iii) leaders tended to be better educated now than leaders formerly were. The rise in the general level of education of the population, is common knowledge. Requirements for managerial and administrative positions, increasingly demand a graduate degree, such as the Master of Business Administration (MBA) degree.

The trend toward reduced emphasis on social status and more emphasis on education, in order to rise to a leadership position, is expected to continue.

Research conducted by Amarach Consulting for the Smurfit School of Business at University College, Dublin, revealed that sixty percent of women had seen their careers benefit within a year of their having completed the full-time MBA programme (Anderson, 2003:22). Professor Lize Booysen from the UNISA Graduate School of Business Leadership states, that international and local literature shows, that the future leadership style in organisations will overlap more with the female style of leadership, due to more women studying executive programmes and more women being accepted into leadership positions. This will lead to the skills of women being more readily accepted, valued and utilised in the exercise of leadership (Booyesen, 2004).

Background factors make their largest contribution toward the understanding of leadership, to the extent that it reflects underlying traits, motives, characteristics and skills. People for example, who received advanced degrees, may have a hunger for knowledge and good problem-solving skills. People who attended well-known schools, may make extensive use of networking (DuBrin, 2004) to attain positions of power.

The trait approach emphasises, that having a leader with a certain set of characteristics, is crucial in ensuring effective leadership.

This approach suggests, that organisations will function better if the people in senior positions have designated leadership profiles. To find the right people, it is common for organisations to utilise personality assessment instruments. Organisations can, therefore, specify the characteristics or traits that are important to them for particular positions and then use personality assessment measures to determine whether or not an individual fits the needs of the enterprise (Northouse, 2004:21).

Now that the traits, motives and characteristics of effective leadership have been established a discussion of heredity, environment and leadership follows.

3.3.5 Heredity, environment and leadership

Do heredity and environment within which individual's functions, contribute toward leadership effectiveness? Are leaders born or made? Do you have to have the right stuff to be a leader? Many people ponder these issues now that the study of leadership is more in vogue than ever. See Kotter (1990:103); Bass (1990); Manning (2002); Harvard Business Review (2003); DuBrin (2004) and Northouse (2004).

A balanced answer to the above questions is, that the traits, motives, and characteristics required for leadership effectiveness are a combination of heredity and environmental factors. Certain inherited pre-dispositions and aptitudes that require the correct opportunity to develop, fully underpin personal traits and cognitive abilities. Cognitive factors of leadership and task-related personality traits are good examples hereof. But individuals need the right opportunity to develop their cognitive factors and task-related personality traits, in order for them to function in a manner that will give rise to their receiving recognition and for them to be appointed to positions of leadership (DuBrin, 2004). This is also supported by Kotter (1990:114) and Manning (2002).

The physical factor of energy also provides insight into the nature-versus-nurture issue. Some people are born with a biological propensity for being more energetic and ambitious than are others (Kotter, 1990:105). Yet, unless their energy is well-directed, it will not assist an individual to become an effective leader.

The nature-versus-nurture issue also surfaces in relation to the leadership characteristic of creativity, innovation, mental resources and emotional intelligence. The important genetic contributors to imaginative thinking, include brainpower and emotional expressiveness. Mental or emotional health is important attributes, because this allows leaders to effortlessly interact with organisations and with people (Kotter, 1990:106).

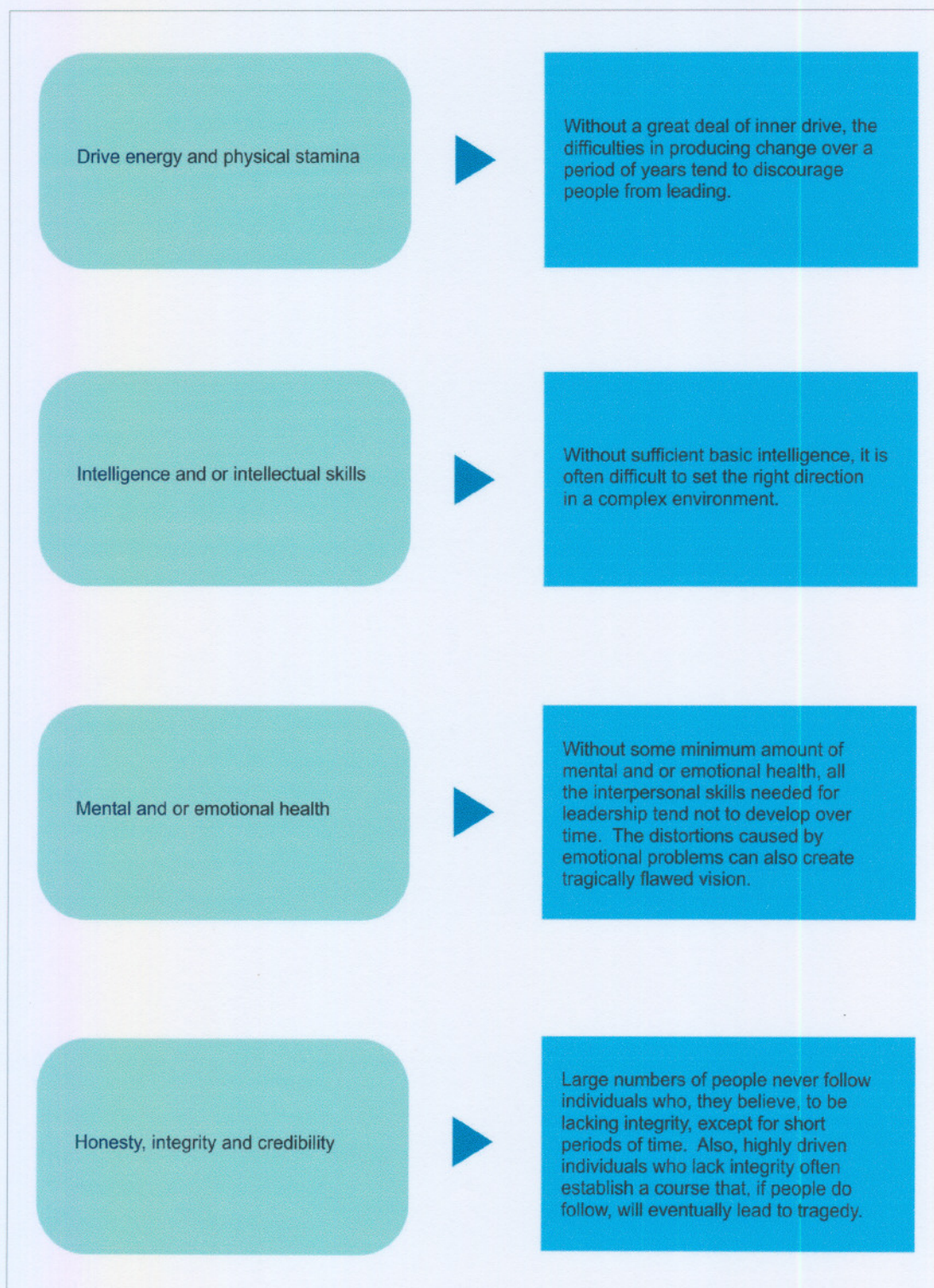
Research regarding emotional intelligence, reinforces the above statements concerning leadership being a combination of inherited and learned factors. An individual therefore, possesses genes that influence the emotional intelligence required for effective leadership. However, experience is also important for emotional intelligence,

because this increases with age, and a person usually becomes better at certain activities such as managing relationships the more practice has been undertaken therein (DuBrin, 2004:55).

Figure 3.1 “Heredity, childhood and leadership in big jobs” compares the effects of certain inherited characteristics with the influence they have on individuals who are employed in large organisations.

Figure 3.1 follows on next page.

Figure 3.1 Heredity, childhood and leadership in big jobs



Source: Kotter (1990:108)

3.3.6 The strengths and limitations of the trait approach to leadership

The trait approach has proven value, because it has a century of research to support it. No other leadership theory can boast of the breadth and depth of studies conducted on the trait approach. From this abundance of research has emerged a body of data that points to the important role of various personality traits in the leadership process (Northouse, 2004:22).

A compelling argument for the trait approach, is that the evidence is convinced that leaders possess personal characteristics that differ from those of non-leaders.

Kirkpatrick and Locke in DuBrin (2004:56) concluded from their research that leaders "... do not have to have to be great men or women by being intellectual geniuses or omniscient prophets to succeed. But they do need to have the "right stuff" and this "... stuff is not equally present in all people".

Understanding the traits of effective leaders, serves as an important guide to leadership selection. If we are confident that honesty and integrity, and creativity and imagination are essential leadership traits, then we can concentrate on selecting leaders having these characteristics. Another important strength of the trait approach to leadership is that it can help people prepare for leadership responsibility and it can be used for personal awareness and development through personal analysis (DuBrin, 2004; Northouse, 2004).

A limitation to the trait approach is, that it does not tell us which traits are absolutely necessary in which leadership situations. We also do not know how much of a trait, characteristic, or motive is the right amount. Too much focus on the trait approach can breed an elitist conception of leadership. People who are not outstanding on key leadership traits and characteristics, might be discouraged from seeking leadership development and positions (DuBrin, 2004; Northouse, 2004).

Another criticism is, that the trait approach has failed to take situations into account. As Stogdill (1948) in Northouse (2004) pointed out, it is difficult to isolate a set of traits that are characteristic of leaders without factoring situational effects into the

equation as well. Individuals who possess certain traits that make them leaders in one situation, may not be leaders in another situation. Thus: the situation influences leadership, and it is, therefore, difficult to identify a universal set of leadership traits in isolation from the context in which the leadership occurs.

The situational approach, on the other hand, denies the influences of individual differences, attributing all variance among persons to the fortuitous demands of the environment (Bass, 1990:87).

A balanced perspective on the trait approach is, that certain traits, motives, and characteristics and skills increase the probability that a leader will be effective. Yet they do not guarantee effectiveness, and the leadership situation often influences which traits will be most important (Kotter, 1990; DuBrin, 2004).

Section 3.4 will explore the meaning of power, the bases of such power, and how such power contributes to leadership effectiveness in societies, communities and formal organisations.

3.4 POWER

In the beginning of the 21st century power is conspicuous in its absence. Powerlessness is the ultimate pitfall in the face of crisis and complexity.

In the extreme contradiction and polarisation of thought and action, power has been deliberately obstructed while a certain degree of disorder exists. Institutions have been rigid, slothful or mercurial. Senior officials in supposed leadership positions, seem to be ignorant and out of touch, insensitive, unresponsive toward their constituents and therefore ineffective. Worst of all, solutions have been haphazardly designed or they have not been implemented at all. This has created a managerial mayhem that can be more fully understood with the examination of power. Power can be defined as the basic energy to initiate and sustain action that translates intention into reality, and power is the quality without which a leader cannot lead (Bennis & Nanus, 2003).

There is no excuse for ineffective leaders and ineffective organisations to hold on to power at the expense of their constituents.

Wishing away calamity, is weak leadership. In Essop Pahad's response to Pieter-Dirk Uys's letter concerning President Thabo Mbeki's interview with *The Washington Post* during October 2003, Pahad sought to undertake a damage containment exercise by claiming that Mbeki's comments referred only to family members or close associates. Contrarily, the interview reads as follows.

The Post: I have only one other question and it's rather personal. Do you know someone close to you, a relative or a close friend, who has died of AIDS? How close is the closest person you know of who has died of AIDS? Mbeki: Actually, personally I do not know anybody. I do not know anybody who died of AIDS. The Post: Are there people close to you who have AIDS or who are HIV-positive? Mbeki: I really honestly do not. The Post: You do not know anybody? Mbeki: I do not.

The response to the above-mentioned interview from one reader was: "We have demonstrably, a president who is a liar, and a coterie of sycophants who would try to prove, in the face of all evidence, that this is not so. Great causes need great leadership. The fight against HIV/AIDS is a great cause. For as long as Mbeki is South Africa's president, this leadership will be lacking" (Elder, 2003:9).

To acquire and retain power, a leader must often skilfully use politics. No matter how meritorious the ideas of a leader are to bring about constructive change, without power and political backing, those ideas will not be developed further and become implemented.

To exercise influence, a leader must have power. Power is the potential or ability to influence decisions and to control resources. Effective leaders use power appropriately and understand when and how to be directive and when to delegate (DuBrin, 2004:193).

Power is the force that can be applied to produce a certain activity or performance of work. It is the rate at which energy can be absorbed. Power is the ability to take

actions and to initiate interactions. It is a force underlying social exchanges in which the power and the person in the exchange relationship has less power and the person with more power is able to obtain compliance with his or her wishes. The compliant person depends on the more powerful other person for desired outcomes that cannot be obtained from other sources (Emerson, 1964 in Bass, 1990:225).

Power can be viewed as the enhancing agent to assist leadership in being effective and vice versa. Power is intertwined with effective leadership.

Provision must be made for power in the vision that a leader has for the future, otherwise dire consequences could result. Examples hereof, is the possibility for an unnecessary slow implementation process or even the hindering of participation by key constituents in a just future. The hindrance of participation is a consequence of public fear of confrontation, whether it is between lovers, friends or through crime, local injustices, the media or government. (Bennis & Nanus, 2003).

In the above section the importance of power for effective leadership has been discussed and the following section will explore the various bases from which power can be derived.

3.4.1 Sources and types of power

Power is one of the most widely known forces in the universe. It is the pull-and-push everyone experiences and exercises from birth to death. Power is implicit in every facet of human interaction, whether it is familial, sexual, occupational, national or international (Bennis & Nanus, 2003).

Power begets power.

Power from one base can generate power in another. An example hereof, is individuals whose power is based on the legitimacy of their positions, can acquire additional power by controlling the rewards that accompany the legitimacy of the positions occupied. In a similar method, followers and group members tend to refer to those

they perceive to be experts. Perceived expertness, in turn, tends to legitimate the leadership role (Goodstadt & Kipnis, 1970).

The closer a person is to power: the greater the power he or she exerts.

A good example hereof, is the higher a production unit report in the hierarchy of an organisation; the more power the unit possesses. The practical implications are, that a leader in charge of a department reporting to the chief executive officer has more power than a department reporting to a general manager. Leaders in search of more power typically manoeuvre toward a higher-reporting position in the organisation. Many managers of quality assurance now report at a higher organisational level than previously. Part of this enhanced power can be attributed to the increasing attention organisations are paying to quality as part of their overall strategy to attain a competitive advantage (DuBrin, 2004:199).

Power can be derived from many sources. Although we may be able to identify the different bases of power, in reality they are likely to be intertwined with one another (Bass, 1990).

3.4.2 Position power (power granted by the organisation)

The status associated with the position of an individual gives that individual power to influence those who are lower in status.

Custom, tradition, rules and regulations assign power to incumbents of positions. Leaders and senior officials are mostly viewed by their followers and subordinates as the “purveyors of rewards and punishments” (Krech and Crutchfield, 1948 in Bass, 1990:228).

Power is frequently classified according to whether it stems from the organisation or the individual. Four of these bases of power which stem from the organisation, that is, from the position an individual occupies within the organisation, can be identified: (3.4.2.1) legitimate power; (3.4.2.2) reward power; (3.4.2.3) coercive power; and (3.4.2.4) information power.

3.4.2.1 Legitimate power

Legitimate power is based on norms and expectations that group members hold regarding certain behaviours that are appropriate in a given role or position.

These norms and expectations are the drivers of the legitimization of a specific position. Followers and group members are more likely to accept the position of the leader and his or her influence as legitimate, when the leader holds attitudes that conform to the norms of the followers, the group or the organisation (Bass, 1990:243).

Power granted by the organisation, is called legitimate power "... the lawful right to make a decision and expect compliance". Individuals at the highest levels in an organisation have more power than do people below them. However, organisational culture helps establish the limits of power an individual has. An example hereof, is to be seen in the experiences of newly appointed executives; they are often frustrated with how long it takes to effect major changes within an organisation (DuBrin, 2004:194).

According to Bass (1990), House (1984) provided a rationale for the fact that although people accept leadership based on legitimate power, they do not do so with any special enthusiasm or as readily as they do when leadership is based on expert power.

3.4.2.2 Reward power

Reward power refers to the ability an individual has to facilitate the attainment of desired outcomes by others (Bass, 1990:236). The authority to give employees rewards for compliance, is described as reward power.

If a general manager can directly reward supervisors with cash bonuses for achieving quality targets, this manager will exert considerable power. Therefore, leaders can use reward power effectively only when they have meaningful rewards at their disposal (DuBrin, 2004:194).

Justis (1975), in Bass (1990), examined effective leadership as a function of the extent to which the rewards received by followers are dependent on the competence and performance of their leaders. Justis (1975) found, that the effectiveness and influence of the leaders was greater the more the leader was seen to be competent, and the more the rewards the followers depended on the performance of the leader.

3.4.2.3 Coercive power

The leader who uses coercive power, controls the granting or denying of valued rewards or feared penalties, simultaneous with subordinates private feelings remaining hidden, while pressure on them exist to express publicly what they really feel.

Coercive power implies the ability to impose penalties for non-compliance (Bass, 1990). The use of coercive power is less popular with leaders and subordinates alike. Leaders tend to employ this form of power to deal with the unacceptable performance of subordinates, primarily when they do not have the power or resources to reward subordinates for such acceptable performance (Kipnis, 1976).

Coercive power is the power to punish for non-compliance and is based on fear. A common coercive tactic is for a senior executive to demote a subordinate manager if he or she does not comply with the plans for change of the executive.

Coercive power is limited, in that punishment and fear achieve mixed results as motivators. The leader who relies heavily on coercive power, runs the constant threat of being ousted from power (DuBrin, 2004:194).

3.4.2.4 Information power

Information power is derived from formal control over information people need to perform their work.

A sales manager who controls the leads from customer inquiries, holds considerable power. As the branch manager of a real estate agency put it, that ever since "... the

leads were mailed directly to me, I get oodles of co-operation from my agents. Before that they would treat me as if I were simply the office manager” (DuBrin, 2004:195).

3.4.3 Personal power

Three sources of power are derived from characteristics or behaviours of the power actor: (3.4.3.1) expert power; (3.4.3.2) referent power; and (3.4.3.3) prestige power. All three are classified as personal power, because they are derived from the person and not from an organisation.

3.4.3.1 Expert power

Expert power is the ability to influence others through specialised knowledge, skills, and abilities. A marketing manager who is adept at identifying new markets possesses expert power.

Expert power may be manifest in information, knowledge, and wisdom; in good decisions; in sound judgement; and in accurate perceptions of reality, Watts (1986), (in Bass, 1990:233).

The power of revolutionary or transformational leaders often begins with their perceived power as experts, which they use to define prevailing problems and to develop innovative solutions. Followers are persuaded that the leaders have the right answers to their problems and are organised to provide support, Gjestland (1982), (in Bass, 1990).

According to Podsakoff and Schriesheim (1985), in Bass (1990:233), in comparison with other bases of power, the use of expert power by leaders appears to be most acceptable to and most effective with followers. It most readily gains the compliance of followers and is least likely to provoke their resistance.

Expert power also stems from critical problems. A theory has been developed to explain why some organisational divisions are more powerful than are other divisions.

The strategic contingency theory of power suggests, that units best able to cope with the critical problems and uncertainties within an enterprise, acquire relatively large amounts of power. The theory also implies, for example, that when an organisation faces substantial production difficulties, the production division will gain power and influence over organisational decisions. The sudden power and influence of the production division is based on its exclusive ability to handle the particular problems concerning production (DuBrin, 2004:198).

3.4.3.2 Referent power

Referent power is based on the desire of the followers to identify with their leaders and to be accepted by their leaders (Bass, 1990:235). Referent power is the ability to influence others through desirable traits and characteristics (DuBrin, 2004:195).

Podsakoff and Schriesheim (1985), in Bass (1990:235), found that the use of referent power by leaders usually contribute to better performance, greater satisfaction, greater role clarity and fewer excused absences by their subordinates and followers.

3.4.3.3 Prestige power

Prestige power is another important source of personal power. Prestige power stems from the status and reputation an individual possesses.

An example hereof is, that a political leader who has accumulated important political successes, acquires prestige power. Executive recruiters, for example, identify executives who could readily be placed in key executive positions because of their excellent track records (DuBrin, 2004:195). Nelson Mandela is an example of a leader with great prestige power for his transformational successes in politics.

Because personal power is a source of leadership power, and leadership implies a position that is more senior in relation to others within an organisation, the exercise of position and personal power is, therefore, intertwined. To make effective use of position power, the leader should possess such characteristics as integrity, initiative, the desire to lead, communication skills, emotional security and intelligence.

The following section will further address the importance of leadership by discussing the anti-leadership arguments.

3.5 DOES LEADERSHIP MAKE A DIFFERENCE?

The question of whether leadership does have an effect on performance and results, requires examination.

Three arguments can be identified that argue against the importance of leadership. They are (3.5.1) the existence of substitutes for leadership argument; (3.5.2) the irrelevance of leadership argument; and (3.5.3) the complexity theory.

3.5.1 The existence of substitutes for leadership argument

The substitutes for leadership argument recognises, that during certain circumstances the requirement for leadership is low and ineffective leadership can be counterbalanced by certain factors in the work environment.

Under these circumstances, leadership itself is of little consequence to the performance of group members. This theory states, that many organisations have substitutes for leadership. These substitutes are factors that provide guidance and incentives to perform in the work environment, making the role of the leader almost unnecessary or redundant (DuBrin, 2004:10).

Four substitutes for leadership are recognised under the above-mentioned conditions: (a) closely knit teams of highly trained members; (b) intrinsic satisfaction (c) computer technology; and (d) professional norms.

(a) Closely knit teams of highly trained members

When members of a cohesive, highly trained group are focussed on a goal, they may require almost no leadership to accomplish their tasks. A good example hereof, is air traffic controllers and pilots.

Research indicates, that with these groups; directive, decisive and task-orientated leadership is apparently unimportant. According to Pierce and Newstrom (2000:262), this is particularly evident "... in the white heat of danger, when the whole system threatens to collapse, the stress creates a need for competence among colleagues who by necessity develop close working relationships with each other". All such individuals are trained extensively and daily, regardless of their position in the hierarchy, to redirect operations or bring them to an abrupt halt during crises. Here the experience and continuous training of individuals, along with the close relationship among members of a work force, substitute for the directive leadership of a senior official (Pierce & Newstrom, 2000:262);

(b) Intrinsic satisfaction

Employees engaged in work that is strongly self-motivating, or intrinsically satisfying, require less leadership.

This can be attributed partly to the task itself being performed, that captures the complete attention and energy of a worker. The worker may require a minimum of leadership as long as the task proceeds as planned (DuBrin, 2004:10).

Consultants observed a unique example of this principle at a manufacturer of camping equipment. The enterprise produced sleeping bags of various qualities. At the top of the line were lightweight backpackers filled with down. At the other end were low-cost models filled with floor sweepings from a mattress factory.

Production workers rotated among all the lines so no one group could claim exclusive rights to working on one product. Management contended, that supervisory direction was virtually unnecessary for production employees assigned to the top of the line, yet

product quality at this end exceeded expectation. Workers stated to this fact, that they derived more pride to work on this line and often pulled together in order to solve production problems. On the other hand, the production of bottom-of-the-line sleeping bags were found to consistently lack specified quality standards, and therefore, were also continuously over budget. The consultants concluded, that when assigned to produce the low-quality backpackers, the workers lose intrinsic motivation. As a consequence, they require considerable supervision and leadership (Pierce & Newstrom, 2000:262).

(c) Computer technology

Most organisations in the 21st Century utilise computer-aided monitoring and computer networking to take over many of the leadership and directing functions provided by senior officials.

Information systems provide data on productivity and quality, and directions for certain tasks are entered into the information system in order to ensure that the instructions are easy retrievable by co-workers and employees. Error detection and goal setting are incorporated into some interactive systems. These systems are networked to such a degree, that instead of asking a supervisor for assistance, some employees use the computer network to gain assistance from colleagues electronically. However, in this circumstance, it could be argued that the computer equipment is utilised to control instead of to lead workers (DuBrin, 2004:10).

Effective leadership is dependent upon the ability of the leader to supply followers and subordinates with task guidance and incentives to perform to the extent that these are not provided by other sources (Pierce & Newstrom, 2000:263).

(d) Professional norms

Workers who incorporate strong professional norms, often require a minimum of leadership.

Professional employees may be inculcated with so much formal education, that they can perform most work assignments without relying upon technical guidance from their senior officials (Pierce & Newstrom, 2000:263). A good example hereof, is a group of chartered accountants. They do not need visionary leadership to inspire them to perform their auditing tasks (DuBrin, 2004:11). However, when the events of the big corporate scandals in the United States with Enron and Worldcom; in Europe with Parmalat and the undertakings of governments such as Kenya, to stamp out widespread corruption and fraud within the public sector and judiciary; are taken into consideration. It can be argued, that professionals require effective leadership to do an honest job of functions such as auditing the books of a client, or advising against tax fraud.

Although the leadership substitute concept has some merit, it reflects a great degree of inexperience about the role of leadership within organisational and political structures (DuBrin, 2004:11).

To a degree, self-managed groups and individuals require considerable delegation by a higher authority. In support of this: higher authority provides examples, guidance, encouragement, support and the burden of ultimate accountability and responsibility for the performance of the organisations and co-workers (Bass, 1990:686).

According to Manz and Sims (1986), in Bass (1990), autonomous self-managed groups require an extra-ordinary leader who is external to the groups. Such an external leader helps the group to become self-monitoring, to set their own goals, criticise and reinforce themselves, and to plan and assign tasks by themselves instead of depending on the super-leader. Furthermore, Bass (1990:686) notes, that with no formally appointed leader in autonomous groups, members have to be willing and able to take on the leadership task and maintenance functions, as may be required from time to time by the group. Examples of these types of tasks, are accountability and responsibility for performance and actions and the coaching of inexperienced members.

3.5.2 The leader irrelevance argument

According to the anti-leadership argument of leader irrelevance: leadership has a smaller impact on the performance of an organisation than do the forces in the situation the organisation finds itself in at any specific point in time (DuBrin, 2004:11).

The extreme position taken by some critics is, that organisational outcomes are determined primarily by other factors, but that leaders are credited with what happened after the fact (Bass, 1990:7; Pfeffer, 1977).

An example of this principle, is the 1993 downturn in the Japanese automobile industry, which occurred even though the five top auto-makers had not changed their leadership. The primary contributors to this decreased demand, were business downturn in Japan and Europe. In addition, Japanese cars had become much more expensive than American cars from the United States. As a consequence, the Japanese share of the American automotive market eroded slightly. Another example is, that Jack Welch was the product rather than the producer of the success of General Electric (DuBrin, 2004:11).

Meindl and Ehrlich (1987) argue, that all the effects of leadership are in the eyes of the beholders. Followers attribute effects that are due to historical, economic, or social forces to leadership, as a romantic fiction.

Attribution theorists argue that organisational leaders who are perceived to be exerting leadership on organisational performance, are merely the subjects of misperceptions (Bass, 1990:7). Furthermore, attribution theorists are supported by the argument that high-level leaders have unilateral control only over a few resources. The leader's control of these resources, is limited by obligations to stakeholders such as consumers and stockholders.

Leadership "neutralisers" are attributes of subordinates, tasks and organisations that interfere with the attempts of the leader to influence subordinates. Unlike leadership substitutes, however, neutralisers do not replace the impact of the leader over

subordinates, but rather create and influence a vacuum that can have serious negative consequences (Pierce & Newstrom, 2000: 266).

The leader irrelevance argument would achieve greater practical value if it were positioned to be a leader constraint theory. This would argue, that leaders are constrained in what they can do, but that the leaders are still able to influence people and situations to a certain degree (DuBrin, 2004:11).

3.5.3 Complexity theory

The complexity theory contends, that organisations are such complex systems and networks, that the rules of nature cannot account for this complexity.

The complexity theory argues, that leaders are unable to effect change in the direction of complex organisational systems and that the fate of an organisation is determined by forces outside the control of a leader. Penultimately, all organisations will cease to exist, because the system dominates over the abilities of leadership (DuBrin, 2004:12).

It is established, that effective leadership does make a difference in the lives of followers and in organisations, especially when it concerns values and the delivery of promised performance.

3.6 CONCLUSION

In this chapter a review has been undertaken of the most authoritative literature on the subject of leadership and the latest theories of leaders' traits, motives and power. Literature includes articles and publications of the Harvard Business School Review, the Harvard Business School Press and, among others, A. J DuBrin's (2004) *Leadership: research findings, practice and skills*.

The most important definitions and theories will now be analysed in order to determine the real meaning of leadership and its value in practice.

3.6.1 Background

Civilisations gave rise to its leaders, as did leaders to civilisations. This is the main reason for the popularity of the research into leadership and why this field is equal in interest to that of history.

From the beginning, the study of history included the study of leaders, their actions and the reasons that drove their decision-making, for example, Alexander the Great and Cicero. Over time, the work on formulating principles of leadership flowed from the study of history to all the social sciences. In modern research, the provision not to specialise but to involve all main features or elements about leadership, that are built on the in-depth analysis of the development, motivation and competencies of world leaders, living and dead, continues. Winston Churchill and Jack Welch are examples of well-known political and business leaders.

3.6.2 Importance of effective leadership

Leadership is a universal phenomenon that is recognised both in humans and in many species of animals.

Leaders effect organisational performance and leaders can make the difference in whether the entities or areas of concern that they are responsible for, succeed or fail.

Change is a direct result of the actions and personal influence of leaders. This is true of both leaders and followers. A good example of the habitual answer to major organisational problems, is the inclination to replace the leader, with the understanding that the newly-appointed leader will reverse performance problems.

Followers expect that people in senior positions must act like leaders. It is expected of leaders to provide their followers with a vision of a better future and the inspiration and tools to achieve this vision. Furthermore, leaders must have the necessary professional skills and intellectual abilities to understand what actions are required, give direction and provide their followers with opportunities to succeed.

Effective leadership and in particular, strong ethical leaders are in great demand in the new century. This is because governance per se cannot solve the problems of poverty, pandemics such as HIV/AIDS and under-development. Institutions cannot solve problems or catastrophes that humans have to face, but rather leaders of vision and action can solve problems, bring about transformation and produce results. Furthermore, the largest number of leadership positions exist in the private and social sectors of society. These sectors have become increasingly important as more and more of the tasks that government was expected to do during the previous forty years, are being taken over by civil entities and for-profit enterprises. These institutions require effective leadership that drives good governance, that in turn produces promised results.

In the 21st century the countries whose leaders that cannot realise self-governance themselves, run the risk of being governed either wholly or in part by effective leaders of other countries and institutions. With ineffective border controls, great mineral resources and unreliable legal and security structures, countries such as Angola and the Democratic Republic of the Congo provide safe havens for groups intending to inflict economic and political chaos. Western powers view sovereignty less in terms of the defence of regimes and states' outside intervention, but more in terms of commitment toward good governance as a result of effective leadership. The self-determination and well-being of Africa is dependent on the willingness of its leaders to meet the needs of their constituents (Herbert & Shillinger, 2004).

The arguments and theories against leadership, namely: (i) substitutes for leadership; (ii) leadership irrelevance; and (iii) the complexity theory have been discussed above and found to be irrelevant and too pessimistic, therefore they do not merit further discussion.

The leader of today and the future will be focussed on how to develop quality, character, focus, values, principles and courage. An effective leader will be able to match the characteristics of effective leadership with the principles of good governance and with the required results as envisioned; and attain both good governance, together with the promised results to the satisfaction of all the stakeholders.

3.6.3 Meaning of effective leadership

There are almost as many definitions of leadership as there are individuals who have attempted to define the term. Many of the definitions of leadership are ambiguous. Nevertheless, there exists sufficient similarity among the definitions in order to allow for a categorisation thereof.

Stodgill (1974); Bass (1990); Pierce and Newstrom (2000); DuBrin (2004); and Northouse (2004) have set forth the following concepts in respect of leadership.

- (i) The focus of group processes.
- (ii) A matter of personality.
- (iii) A matter of inducing compliance.
- (iv) The exercise of influence.
- (v) Particular behaviours.
- (vi) A form of persuasion.
- (vii) Power relationships.
- (viii) An instrument to achieve goals.
- (ix) An effect of interaction.
- (x) A differentiated role.
- (xi) The initiation of structure.
- (xii) Many combinations of the above-mentioned abbreviated definitions.

The word “leadership” is a modern term. In earlier times, words meaning “head of state”, “military commander”, “chief” or “king” were more frequently used. These words assisted with the differentiation of the ruler or commander from ordinary members of society.

In the Concise Oxford English Dictionary (2002) a leader is described as “... the person who leads, commands, or precedes a group, organisation, or country”; also “... a member of the government officially responsible for initiating business in parliament”.

Effective leadership causes change in the financial position of organisations, from a state of loss or mediocrity to that of a profitable future position. Effective leaders bring visions of opportunities for organisations and firmly establish among their followers a commitment to change and to embrace new ideas and strategies that mobilise and focus energy and resources on goal attainment.

3.6.4 Characteristics and power relations of effective leadership

The belief that certain personal characteristics and skills contribute toward leadership effectiveness, is referred to as the universal theory of leadership. According to the universal theory of leadership, certain leadership characteristics are universally important. This means, that these characteristics apply in all situations. For example: creative thinking, a cognitive ability, assists a leader with the formulation and implementation of an exciting vision. This activity is referred to as the act of leadership.

The trait, motive and characteristics approach to the study of leadership, is receiving renewed attention in this decade. This approach emphasises the critical role that traits, motives and characteristics have in contributing toward effective leadership that produces results.

Leadership is about character. The characteristics associated with leadership, can be divided into these five categories: (i) general personality traits; (ii) task-related personality traits; (iii) leadership motives; (iv) cognitive factors; and (v) physical and background factors.

A full list of every subgroup that forms personal characteristics, would take up hundreds of pages. Therefore, included here are the major and most consistently found characteristics that are related to the effectiveness of leadership as discussed in this chapter.

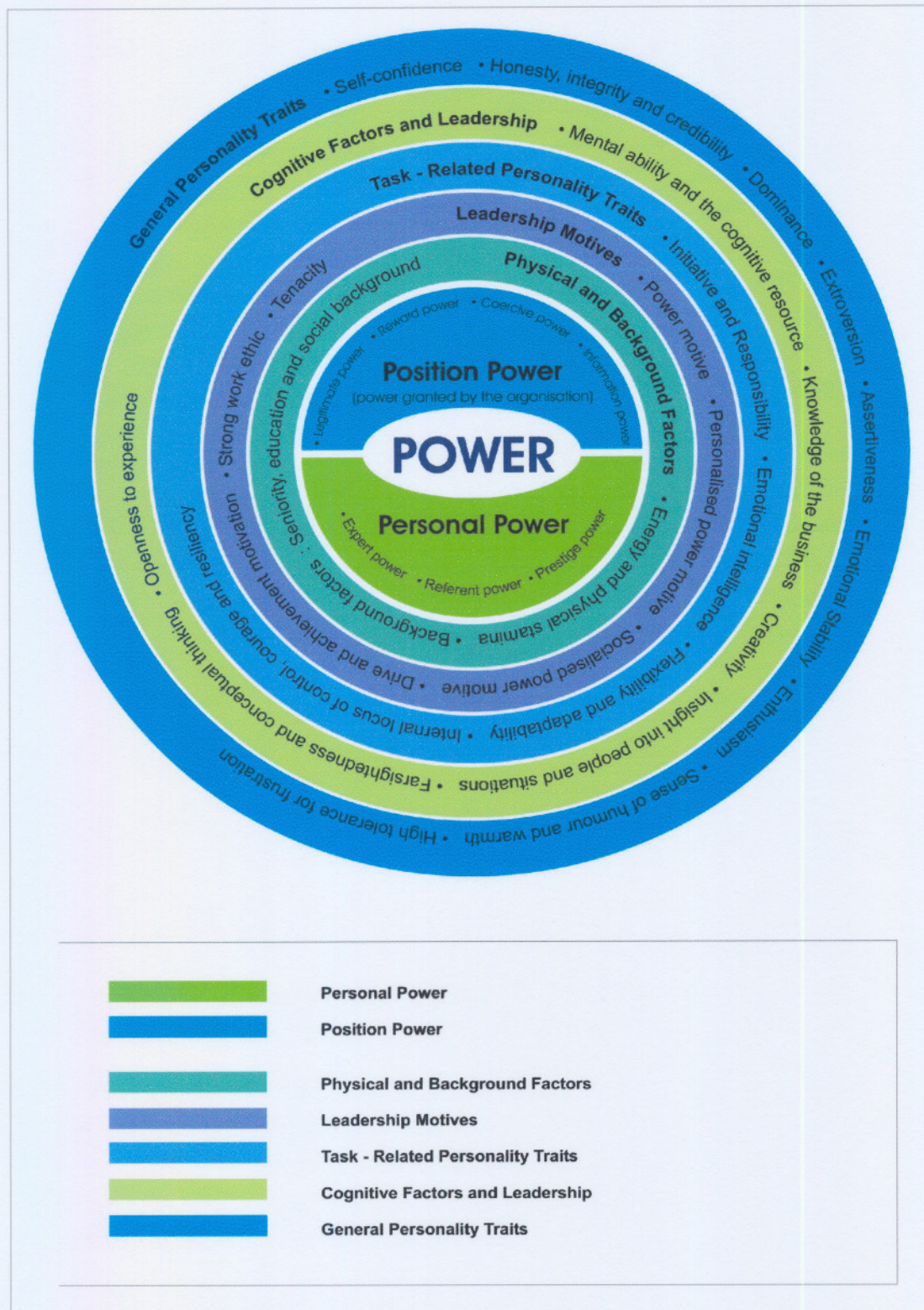
Leaders have certain personality traits, and motives, as well as cognitive and physical factors. These characteristics contribute to leadership effectiveness that supports and is interrelated with good governance, in order to produce envisioned results.

Figure 3.2, “Wheel of effective leadership”, is a combination of the general personality traits, task-related personality traits, motives of leadership, cognitive factors, background and physical factors, as well as the bases of power for leadership discussed in this chapter. Cumulatively, these form a wheel of effective leadership. The Concise Oxford English Dictionary (2002:1628) describes the word “wheel” as “... a circular object that revolves on an axle” and “... something resembling a wheel or having a wheel as its essential part”.

The wheel of effective leadership can be described as the engine that drives and assists a person to become effective and to produce results. The core of the wheel is power. Power consists of the two main bases of power, together with their specific sources. Position power is power that is granted by an organisation and is made up of legitimate; reward; coercive; and information power. Personal power is derived from oneself and is made up of expert; referent; and prestige power.

Figure 3.2 follows on the next page.

Figure 3.2 **Wheel of effective leadership**



Source: Author's own research

The five rings that surround the core, consist of the traits, motives and characteristics that in turn, assist with the establishment of effective leadership. These are as follows.

- (i) General personality traits: self-confidence; honesty, integrity and credibility; dominance; extroversion; assertiveness; emotional stability; enthusiasm; sense of humour and warmth; and high tolerance for frustration.
- (ii) Task-related personality traits: initiative and responsibility; flexibility and adaptability; internal locus of control, courage and resiliency; and emotional intelligence.
- (iii) Leadership motives: power motive; personalised power motive; socialised power motive; drive and achievement motivation; strong work ethic; and tenacity.
- (iv) Cognitive factors: mental ability and cognitive resources; knowledge of the business; creativity; insight into people and situations; farsightedness and conceptual thinking; and openness to experience.
- (v) Physical and background factors: energy and physical stamina and background factors (seniority, education and social background).

The rings and their individual factors are set out in no specific order. What is important to notice, is that each ring and individual factor influences the other rings and factors, together with the bases of power, to form effective leadership.

Effective leadership can be described as the utilisation of personal attributes in combination with power relations as an instrument to formulate exciting visions, implement strategies and bring about change in a successful manner that attain results to the benefit of all the stakeholders.

A specific characteristic of effective leadership that is highly valued and deserves further discussion, is trust. Trust lies within the general personality trait: honesty, integrity and credibility.

3.6.5 General personality trait: trust

Trust plays an important and broad role within effective leadership. Trust incorporates the traits of being predictable and consistent in one's actions, keeping promises and

being competent. Competence is the demonstration of sound business sense and professionalism.

Trust is a multifaceted and complex characteristic. A common question about effective leadership is, how can leaders build trust with their followers? We understand, from section 3.3 above that there are many characteristics and traits that leaders can display to build trust. These include: (i) communication – keeping everyone informed; (ii) telling the truth; (iii) being available and approachable; and (iv) respecting others – accepting differences and being an active listener.

Leadership is also about power. Power is a very important part of the concept of effective leadership.

3.6.6 Power

Without power a leader cannot be effective, because all the attributes in his or her possession, become useless as they cannot be exercised to bring about change and implement a vision. Effective leaders use power appropriately.

Power is seen as the agent that increases the effectiveness of a leader and the leader as the agent that increases the effectiveness of power. Therefore, power and leadership are intertwined with each other in the process of producing results.

Power can be described as the potential or ability to influence decisions and to control resources. Power is the force that can be applied to produce a certain activity. It is the ability to take actions and to initiate interactions. It is a force underlying social exchanges in which the power and the person in the exchange relationship have less power and the person with more power is able to obtain compliance with his or her wishes. The compliant person depends on the more powerful leader for desired outcomes that cannot be obtained from other sources.

3.6.7 Strengths and limitations of the trait approach

Having a thorough understanding of the attributes of effective leaders, is an important mechanism to assist with the development and selection of leaders that produce results. Because honesty and integrity, and farsightedness and conceptual thinking are examples of essential leadership traits, development and selection of leaders can focus on specific characteristics to match the expected outcomes that are required by an organisation.

The trait approach to leadership can also be utilised as a tool for personal analysis to turn areas of weaknesses into strengths.

In order to realise a maximum utilisation of the trait approach a well-balanced programme for leadership development and selection, is needed. Such a programme will match traits, as many as are possible, to the various activities and results that are required of leadership to be effective and produce the results an organisation expects. It is of critical importance to attain a balance of traits by including those traits that are not specifically required. A balanced approach will assist with not developing a mind-set and programme that encourages elitism because too much emphasis is placed on a narrow set of traits.

3.6.8 The influence of heredity and environment on effective leadership

The most frequently asked questions regarding effective leadership, are “Are leaders born or made; Do a persons heredity, background and life experience assist toward leadership and effectiveness?

An appropriate answer to these questions is, that the characteristics required for leadership effectiveness are a combination of heredity and environmental factors. Personal traits and mental abilities are underscored by specific inherited characteristics and attributes that are further developed only with application and experience.

Due to the interconnectedness of the global population and their activities realities such as the threat that terrorism poses to the world economy, the sudden collapse of

multinational enterprises that employ hundreds of thousands of employees, the impact of HIV/AIDS and the lightning pace with which change occurs, are all events that pose many social and economic threats. In the light of these events, the need for effective leadership and good governance is more critical and pressing than ever before. This gave rise to the renewed interest in the nature-versus-nurture issue with regard to leadership development and appointment.

The nature-versus-nurture issue surfaces in relation to the leadership characteristics of honesty, integrity and credibility, creativity, innovation, mental resources and emotional intelligence. The important genetic contributors to imaginative thinking include brainpower and emotional expressiveness. The possibility does exist for every individual to become an analyst or strategist; unfortunately a very small number will become visionaries that can create results that are both worthwhile and sustainable.

Research into emotional intelligence provides support for the statements, that leadership is a combination of inherited and learned factors.

Thus, a person possesses certain genes that have an effect on personal and task-related traits, motives, cognitive and mental abilities, and emotional intelligence required for effective leadership. These characteristics are developed fully once they are exercised with experience.

In summary, it can be stated for the purposes of this dissertation, that according to the modern theories and concepts of leadership, effective leadership can be defined as the utilisation of personal traits, motives and characteristics, combined with the bases of power as an instrument to formulate exciting visions that inspire followers, implement strategies and bring about change in a successful manner that achieve expected results to the benefit of all stakeholders.

Since the real meaning and facets of leadership have been described, the interrelationship of leadership and governance can now be studied. In chapter 4 the traits, motives, characteristics and the facet of power will be collectively referred to as characteristics.

CHAPTER 4

THE INTERRELATIONSHIP BETWEEN GOVERNANCE AND LEADERSHIP

4.1 INTRODUCTION

The main purpose of this chapter, is to investigate and explain the interaction between governance and leadership to realise good governance and effective leadership that produces results.

The research findings stated in chapters 2 and 3 will be compared with each other, in order to support the theory of the interaction between the two functions.

Criteria taken from the King II Report (IODSA, 2002) and the Principles and Objectives of Corporate Governance (Hendrikse & Hendrikse, 2004) as discussed in chapter 2, will be utilised to assist in defining the objectives mentioned in the above paragraph.

The King II Report (IODSA, 2002) is authoritative, because many of its guidelines and recommendations on corporate governance are to be incorporated into the new legislation for companies in South Africa (see Appendix E). The JSE Securities Exchange South Africa, has made the Code of Corporate Practices and Conduct of the King II Report a requirement that listed companies has to comply with. One such requirement is, that the roles of Chairperson and Chief Executive Officer be separated. One of the multinational companies in South Africa assessed their commitment to the recommendations of the King II Report (IODSA, 2002) and published their conclusions as follows. Paul du P. Kruger (2003) stated, in his Chairman's address of Sasol Limited for the financial year ended 30 June 2003, that the company complies with the comprehensive and rigorous set of governance standards as applied by the Securities and Exchange Commission and the New York Stock Exchange, that are prescribed according to the Sarbanes-Oxley Act in the United States. He attributed the ease of this compliance to the standards for corporate governance set out in the King II

Report, which Sasol fully embraced beforehand, that required only minor changes in the group of companies, in order to comply with the United States requirements.

The findings that follow, will indicate which of the two postulated hypotheses has been found to be valid.

- **The null hypothesis (Ho)** Governance that incorporates leadership, functions well and delivers average results.
- **The alternative hypothesis (Ha)** Good governance that incorporates the interaction with effective leadership, produces the required optimum results.

We can now proceed to look at the interaction of leadership and governance. The first section (4.2) will discuss the connection between characteristics of effective leadership and how it supports the attainment of results.

4.2 CONNECTING LEADERSHIP CHARACTERISTICS WITH RESULTS

Leaders are individuals who have mastered certain competencies and are people of character. But, effective leaders do much more than demonstrate character only.

Effective leaders achieve results. In this chapter it will be shown, that good governance that produce the results it expects to achieve, is actually attained by connecting the characteristics of effective leadership with the principles and codes of corporate governance that bring about good governance, with sustainable results.

Leaders in the public and private sectors and in civil society, are confronted with similar challenges. It is not enough to have mastered the characteristics of leadership: effective leadership must connect its characteristics with the principles and functions of good governance to attain long-term expected results.

Among the methods used in the search for more effective leadership within good governance, one tool has always been overlooked. Capability and possession of

leadership characteristics and good governance are excellent features, but capability and function must be put to appropriate and purposeful use.

The tool suggested for measuring effective leadership within good governance, consists of a simple formula indicated in figure 4.1: "Formula for measuring effective leadership within good governance".

Figure 4.1 **Formula for measuring effective leadership within good governance**

Effective leadership = (characteristics X principles and functions of good governance X results) / 10

(or)

$EL = (c \times g \times r) / 10$

Source: Author's own research and an adapted from Ulrich et al., (1999)

This equation suggests, that leadership must strive for excellence in all three facets of the formula. This means that leaders must demonstrate characteristics, conform to the principles and functions of good governance and attain results.

Each facet of the equation multiplies with the other; the facets are not cumulative. Therefore, scoring low in either one of the three facets: characteristics, principles and functions of good governance or results, will markedly lessen the overall effectiveness of the leader. For example, a score of nine out of ten in characteristics; multiplied with a score of nine out of ten on conformance with the principles and functions of good governance, multiplied with a score of two out of ten on results, divided by ten, yields an effective rating of only 16.2 out of 100. Not 20 out of 100, which is the score if the

three facets were added. Figure 4.2 below consists of examples of various calculations and their results.

Figure 4.2 Examples of various calculations using the formula for measuring effective leadership within good governance

EL	=	(c	x	g	x	r)	/ 10	Outcomes
		9		9		2	16.2	Unbalanced Unfocused
		10		10		10	100	Most excellent Sustainable
		2		9		9	16.2	Unsustainable
		9		2		9	16.2	Unsustainable

Source: Author's own research

Some leaders and institutions have a predisposition to one facet of the equation over the other. In these cases, overall leadership effectiveness fails. Some institutions focus almost exclusively on the facet of results, driving their leaders to do whatever it takes to attain short-term performance objectives. Leaders in these institutions care more about what is accomplished than about how it is accomplished, and they risk the lack of sustainable results. In other institutions, the emphasis has been almost exclusively on leadership development through the facet characteristics, people not paying enough attention to the facet of results or good governance. All three facets are relevant and matter, because good governance can produce the promised results only through an interactive relationship with effective leadership. The facets within this equation represent the “DNA” of leadership and governance; taken together, they create a road map for improving leadership, attaining good governance and sustainable results.

Connecting characteristics with good governance, and to results, and results with characteristics and good governance, it becomes a new framework for evaluating and developing effective leadership and to attain good governance. Considering the important characteristics and practices, the principles and functions of good governance that leaders use to create sustainable results, it is realised, that without appropriate characteristics leaders will not be effective in the long-run and good governance will not produce its promised results. Effective leadership requires both characteristics and results and good governance requires effective leadership. Characteristics are relevant, especially when they are matched to the promised results and, therefore, utilised in the correct manner to attain results. If characteristics are incorrectly utilised, leaders cannot be effective and, therefore, good governance also fails.

Many companies such as General Electric have invested resources in the field of leadership characteristics to develop more effective leaders. This work identifies what leaders need to be, need to know, and are required to do in order for them to achieve success.

Results-based leaders assess their effectiveness by measuring achievements against goals. Without a results focus, the calibration of leadership becomes extremely difficult. Measuring results, assists institutions in many different ways, from tracking the growth of individual leaders, to comparing leadership effectiveness in similar roles, to clarifying the leader selection processes, to structuring leadership development programmes.

The information in the above section has been adapted from the Leadership Effectiveness Survey (LES) of the General Electric Corporation and Ulrich et al., (1999), ("Results-based leadership" published by the Harvard Business School Press).

Ultimately, a results focus will assist every leader to turn his or her characteristics into outcomes. In the following section, leadership characteristics are connected to the principles and specific functions of good corporate governance, to show how good governance is dependent upon effective leadership in order for it to produce better results.

4.3 CONNECTING CORPORATE GOVERNANCE AND STRATEGY WITH LEADERSHIP CHARACTERISTICS

The success or failure of an enterprise, must be measured against its strategic objectives. This is true, because that what may be considered as success in one situation, will be considered failure in another.

In Wixley and Everingham (2002), strategy is referred to as the best benchmark against which a shareholder and a stakeholder can measure the performance of an enterprise.

Pearce and Robinson (2003) describe strategic management as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve the objectives of an enterprise. It comprises nine critical functions that are inclusive of the decisions concerning the type of business the enterprise will be focussed in, who the customers are and how success will be measured and what contingency plans exist in the event of failure. These then are the following.

- (i) Formulation of the mission, including broad statements about the purpose, philosophy and goals of the enterprise.
- (ii) Completion of an analysis that reflects the internal conditions and capabilities of the enterprise.
- (iii) Assessment of the external environment, including both the competitive and the general contextual factors the enterprise operates in.
- (iv) Analysis of the options the enterprise has by matching its resources with the external environment.
- (v) Identifying the most desirable options by evaluating each option in the light of the mission of the enterprise.
- (vi) Selection of a set of long-term objectives and grand strategies that will achieve the most desirable options.
- (vii) Development of annual objectives and short-term strategies that are compatible with the selected set of long-term objectives and grand strategies.

- (viii) Implementation of the strategy through means of budgeted resource allocations in which the matching of tasks, people, structures, technologies, and the reward system is emphasised.
- (ix) Evaluation of the success of the strategic process as a tool for providing input for future decision-making activities.

Strategy formulation and implementation are among the most important responsibilities of the directors of an enterprise.

This position is endorsed in the King II Report (IODSA, 2002:21), as is clearly shown in the following quoted excerpts.

“The board is the focal point of the corporate governance system. It is ultimately accountable and responsible for the performance and affairs of the company”;

“The board must give strategic direction to the company, appoint the chief executive officer and ensure that succession is planned”.

“Every board should have a charter setting out its responsibilities, which should be disclosed in its annual report. At a minimum, the charter should confirm the board’s responsibility for the adoption of strategic plans, monitoring of operational performance and management, determination of policy and processes to ensure the integrity of the company’s risk management and internal controls, communications policy, and director selection, orientation and evaluation”.

Without the specifically correct leadership traits, motives and characteristics, it will be impossible to formulate and implement the strategic planning function that is able to respond to the demands of all relevant stakeholders, the needs of the marketplace and the environment that the enterprise operates in.

The characteristics of effective leadership that are required to match this specific area of activity in order for good governance to produce results, are the following.

- (i) General personality traits: self-confidence, honesty, integrity and credibility, assertiveness, emotional stability, enthusiasm and high tolerance for frustration.
- (ii) Task-related personality traits: initiative and responsibility, flexibility and adaptability, and internal locus of control, courage and resiliency, and emotional intelligence.

- (iii) Leadership motives: socialised power motive, drive and achievement motivation, strong work ethic and tenacity.
- (iv) Cognitive factors: mental ability, knowledge of the business, creativity, insight into people and situations, farsightedness and conceptual thinking, and openness to experience.
- (v) Physical and background factors: energy and physical stamina, background factors such as seniority within the enterprise and education.

4.4 CONNECTING SELECTION OF THE BOARD OF DIRECTORS WITH LEADERSHIP CHARACTERISTICS

The effectiveness of the board of directors depends upon the individuals involved.

The interaction and functions of directors should be such as to ensure rational, objective and independent decision-making that is in the best interests of the enterprise and balances the interests of all the relevant stakeholders (Wixley & Everingham, 2002).

The responsibilities of directors are performed with a large degree of effort, so it is important to appoint individuals that can produce results in spite of the onerous demands of the job.

In dealing with the composition of the board of directors, the King II Report (IODSA, 2002:23) requires that companies "... should be headed by an effective board that can both lead and control the company". The Report continues, by stating that the board continuity and re-appointment of directors must be subject to performance.

In law, the selection of the board of directors is the responsibility of the shareholders at annual general meetings. Unfortunately, in practice, annual general meetings are often poorly attended and the election of directors becomes something of a formality. Even if this not the case, the initiative for the election of directors will come from the board of directors or from major shareholders or due to pressure from important stakeholders with specific interests, such as a bank that provided working capital on

credit (Wixley & Everingham, 2002). It is, therefore, important that the board applies its mind carefully to its membership in a systematic and considered manner.

This is supported in the King II Report (IODSA, 2002:23), that requires that procedures "... for appointments to the board, should be formal and transparent, and a matter for the board as a whole, assisted where appropriate by a nomination committee".

Boards must take care that all directors are suitable individuals for their tasks and these boards should investigate their backgrounds. The characteristics of effective leadership that correspond with this function in order for good governance to produce results, are the following.

- (i) General personality traits: self-confidence, honesty, integrity and credibility, assertiveness, emotional stability, enthusiasm, sense of humour and warmth and high tolerance for frustration.
- (ii) Task-related personality traits: initiative and responsibility, sensitivity towards others and empathy, flexibility and adaptability, and internal locus of control, courage and resiliency and emotional intelligence.
- (iii) Leadership motives; socialised power motive, drive and achievement motivation, strong work ethic and tenacity.
- (iv) Cognitive factors: mental ability and cognitive resources, knowledge of the business, creativity, insight into people and situations, farsightedness and conceptual thinking, and openness to experience.
- (v) Physical and background factors: energy and physical stamina, background factors such as seniority within the enterprise, education and social background.

Consideration should also be given to sections 218 and 219 of the Companies Act (South Africa, 1997), that prohibits certain individuals from acting as a director. Examples hereof are minors and individuals who have been convicted for theft, fraud, forgery, perjury or any offence involving dishonesty, or in connection with the promotion, formation or management of a company, unless a court authorises otherwise.

The King II Report (IODSA, 2002:42) recommends, that for statutory amendment, a register of delinquent and disqualified directors be established and maintained by the Registrar of Companies and made available to the public.

The public sector should also be encouraged to keep a similar register of government officials who have been discharged of their duties due to any offence involving dishonesty, fraud, forgery or perjury. These amendments could be brought in line with the statutory requirements, as contemplated in the Companies Act (South Africa, 1997).

4.5 CONNECTING THE RESPONSIBILITIES OF DIRECTORS WITH LEADERSHIP CHARACTERISTICS

The rights and duties of directors are obtained from the Companies Act, the Articles of Incorporation of the enterprise, and the common law.

The principle of central importance is, that a director is positioned in a fiduciary relationship with regard to the interests of an enterprise.

The director is in a position of trust and is obliged to act in the best interest of the company and not in his or her own interests. Furthermore, the director is not obliged to act in the interests of shareholders or any other stakeholder either, if this should conflict with the interests of the enterprise (Wixley & Everingham, 2002).

The principle that underpins the fiduciary responsibilities of a director is, that the enterprise is a separate legal entity, that is distinct from the owners.

A mistake that is very easily made, is where the major shareholders in an enterprise behave as if the enterprise and its assets are their personal property. This type of behaviour has negative outcomes for all the relevant stakeholders and is often detrimental toward the health of the enterprise (Wixley & Everingham, 2002).

According to Wixley and Everingham (2002), directors must take into consideration three important aspects regarding their conduct in fulfilling the fiduciary responsibilities. These are classified as common law duties and they are set out as follows.

- (i) Avoiding conflict of interest. Directors must not take advantage or opportunities that clearly and correctly are the property of the enterprise. This principle is strictly interpreted by the judiciary. An example hereof in case law, is that of *Canadian Aero Service Ltd v O'Malley* 1974
- (ii) Maintaining an unfettered discretion. A director must not allow his good judgement to be interfered with and must apply his mind in a manner that is objective to the affairs of the enterprise. Therefore, a predetermined agreement to vote for a particular matter, cannot be enforced against a director.
- (iii) Acting with care and skill. This is a fiduciary duty that is difficult to establish standards by which care and skill are to be measured. The case law does provide guidance herein, with certain principles laid down in the leading case of *City Equitable Fire Insurance Company Ltd* 1925. The following are the principles.
 - (a) A director needs not exhibit a greater degree of skill than may reasonably be expected from a person of his knowledge and experience.
 - (b) A director is not bound to give continuous attention to the affairs of the enterprise and is thus not bound to attend all meetings, though he should attend wherever reasonably possible.
 - (c) In relation to duties that may reasonably be left to a company official, the director is justified in trusting that official to perform his or her duties honestly, in the absence of grounds where suspicion exists.

The King II Report

The King II Report (IODSA, 2002) sets out specific responsibilities of the board of directors. In support hereof, Wixley and Everingham (2002) recommend, that any individual considering the directorship of an enterprise, should ensure that he or she is prepared to fulfil these requirements. It is the aim of the requirements to ensure that directors will be competent, committed and aware of their fiduciary duties toward the enterprise and the responsibilities of oversight the position has.

The King II Report (IODSA, 2002) indicates, that a director must hold the following characteristics.

- (i) Competence. A director must ensure that he or she:
 - is qualified, with a sufficient understanding of the business and the effect of the economy, so as to discharge his or her duties properly;
 - is informed about the financial, industrial and social environment of the enterprise;
 - is satisfied that he or she is in a position to take informed decisions; and
 - receives all documentation and information in a timely fashion for the purposes of decision-making.

- (ii) Commitment: A director must be prepared to:
 - find the time to properly carry out duties and responsibilities;
 - be diligent in discharging these responsibilities by regular attendance at meetings;
 - provide a meaningful contribution to the affairs and direction of the enterprise; and
 - act with resourcefulness for the enterprise, endeavouring to increase the value of shareholders with due regard to the interests of the other stakeholders.

- (iii) Fiduciary responsibilities. A director must be able to:
 - exercise utmost good faith, honesty and integrity, acting independently from any outside fetter or instruction;

- always act in the best interests of the enterprise and not in the interests of greed or any third party;
- avoid conflicts of duties and interests, disclosing potential conflicts at the earliest possible opportunity; and
- if justified, disagreement with fellow directors including the chairperson and chief executive is good.

(iv) Oversight. In this event, a director must:

- ensure that procedures and systems are in place, to act as checks and balances on information received, ensuring preparation of annual budgets and forecasts against which performance can be monitored;
- treat confidential matters as such and not divulge them to anyone without authority to do so; and
- where in doubt, obtain independent professional advice at the earliest opportunity.

The characteristics of effective leadership that correlate with the above section to assist good governance to produce the required results, are the following.

- (i) General personality traits: self-confidence, honesty and integrity and credibility, assertiveness, emotional stability, enthusiasm, sense of humour and warmth and high tolerance for frustration.
- (ii) Task-related personality traits: initiative and responsibility, sensitivity towards others and empathy, flexibility and adaptability, internal locus of control, courage and resiliency and emotional intelligence.
- (iii) Leadership motives; socialised power motive, drive and achievement motivation, strong work ethic and tenacity.
- (iv) Cognitive factors: mental ability, knowledge of the business, creativity, insight into people and situations, farsightedness and conceptual thinking, and openness to experience.
- (v) Physical and background factors: energy and physical stamina, background factors such as general work experience, education and social background.

4.6 CONNECTING THE ROLE AND FUNCTION OF DIRECTORS WITH LEADERSHIP CHARACTERISTICS

The role and function of the chairperson

The main role of the chairperson, will be to provide leadership for the board of directors. The role should not be one of dominating the board, but rather of seeking to achieve maximum participation from board members, so that it can function as effectively as possible.

The King II Report (IODSA, 2002:52) describes the role and function of the chairperson as follows.

- (i) Providing overall leadership to the board without limiting the principle of collective responsibility for board decisions.
- (ii) Actively participating in the selection of board members, as well as overseeing a formal succession plan for the board, chief executive officer and senior management.
- (iii) Arranging for new directors appointed to the board to be properly inducted and orientated, monitoring and evaluating board and director appraisals.
- (iv) Determining, normally in conjunction with the chief executive officer and the company secretary, the formulation of an annual work plan for the board against agreed objectives and goals, as well as playing an active part in setting the agenda for board meetings.
- (v) Acting as the main informal link between the board and management, and particularly between the board and the chief executive officer.
- (vi) Maintaining relations with the company's shareowners and perhaps some of its important stakeholders, although the latter may be more in the nature of an operational issue to be conducted by the chief executive officer and the senior management team.

- (vii) Ensuring that all directors play a full and constructive role in the affairs of the company and taking a lead role in removing non-performing or unsuitable directors from the board.
- (viii) Ensuring that all the relevant information and facts are placed before the board to enable the directors to reach an informed decision.

The role and function of the chief executive officer

The chief executive officer (CEO), often referred to as the managing director, will be appointed by the board and carries responsibility for the operational performance of the enterprise.

The chief executive officer has a critical and strategic role to play in the operational success of a company's business. For this reason, the role of the chief executive officer should be separate from that of the chairperson.

The King II Report (IODSA, 2002:54) sets out some of the following important functions that the chief executive officer must fulfil.

- (i) Develops and recommends to the board a long-term strategy and vision for the company that will generate satisfactory levels of shareholder value and positive, reciprocal relations with relevant stakeholders.
- (ii) Develops and recommends to the board annual business plans and budgets that support the company's long-term strategy.
- (iii) Strives consistently to achieve the company's financial and operating goals and objectives, and ensures that the day-to-day business affairs of the company are appropriately monitored and managed.
- (iv) Ensures continuous improvement in the quality and value of the products and services provided by the company, and that the company achieves and maintains a satisfactory competitive position within its industry(ies).

4.7 CONNECTING THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE WITH LEADERSHIP CHARACTERISTICS

The nine principles of good corporate governance

The nine principles of good corporate governance that have been identified and discussed in chapter 2, are the following.

- | | |
|------------------------|---|
| Principle I: | Integrity with independence : The objective of best interests |
| Principle II: | Equity with fairness : Rights with empowerment |
| Principle III: | Authority with responsibility : Duties with powers |
| Principle IV: | Actions with accountability : Accounting for performance |
| Principle V: | Performance with conformance : Compliance with checks and balances |
| Principle VI: | Conduct with discipline : Ethical corporate business and ethical behaviour |
| Principle VII: | Profitability with sustainability : Profitability with social responsibility |
| Principle VIII: | Communications with transparency : Information disclosure |
| Principle IX: | Rewards with results : Performance-based |

The principles of good corporate governance are concerned with holding the balance between economic and social goals, and between individual and communal goals. The principles aim to align as closely as possible the interests of individuals, corporations, government and society (Kneale, 2003:19).

Not only does corporate governance improve the way a company does business, it also enables companies to increase the value of their shares. International studies have shown, that companies with higher corporate governance standards, have higher share prices than others in their sectors. International investors expect companies in which they invest, to follow values that are of the highest order. An example hereof is the Coca-Cola Company headquartered in Atlanta, United States. Coca-Cola delivered an unprecedented growth in share value of 3800% from March 1981 to October 1997. This phenomenal growth in the price of the shares was attributed to the then Chief Executive Officer Robert Goizueta, who was an effective leader that established good governance within the organisation. The two CEO's who followed Goizueta, could not sustain the performance of Coca-Cola. From October 1997 to February 2000, under the leadership of Douglas Ivester, the share price fell by 9%. Douglas Daft replaced Ivester in February 2000 and since then the share price fell a further 5%. Neville Isdell was named CEO in May 2004. The investment community and shareholders attribute the losses incurred by Coca-Cola and the sharp decline in the share price to weak leadership, poor corporate governance and ineffective board practices such as cronyism and failure to plan for the succession of senior officials (Morris, 2004:34).

Due to the universality of the principles of good corporate governance, it is not only relevant to large and medium-sized companies in which management acts on behalf of shareholders, but applicable to all forms of organisations within the private and public sectors, and civil society. Governments, their parastatals and non-profit organisations that are plagued by weak leadership, poor governance and ineffective management also receive little to no support from local and international investors; this has dire economic and social consequences. The values and practices of the nine principles discussed herein, are set out in an African context in the King II Report (IODSA, 2002), which is known internationally and incorporates the standards set out in the international corporate governance codes of the Commonwealth Association of Corporate Governance (CACG, 1999) and the Organisation for Economic Co-operation and Development (OECD, 1999). In the public sector, the principles set out in the King II Report, are contained in a relevant form in the protocol on corporate governance in the public sector.

Any organisation, except a one-man concern with no employees, can benefit by applying the principles, standards and practices of good corporate governance (Kneale, 2003:19) that will have a positive effect for all the stakeholders.

The characteristics of effective leadership that correspond with the principles of good corporate governance required to produce expected results that are in the interest of all the stakeholders, are the following.

- (i) General personality traits: self-confidence, honesty and integrity and credibility, extroversion, assertiveness, emotional stability, enthusiasm, sense of humour and warmth, high tolerance for frustration.
- (ii) Task-related personality traits: initiative and responsibility, sensitivity towards others and empathy, flexibility and adaptability, and internal locus of control, courage and resiliency and emotional intelligence.
- (iii) Leadership motives; power motive, socialised power motive, drive and achievement motivation, strong work ethic and tenacity.
- (iv) Cognitive factors: mental ability, knowledge of the business, creativity, insight into people and situations, farsightedness and conceptual thinking, and openness to experience.
- (v) Physical and background factors: energy and physical stamina, background factors such as general work experience, education and social background.

4.8 POWER AND ACCOUNTABILITY

4.8.1 Power

Power is an important facet of leadership and governance. Without power, leadership is ineffective and attempts at good governance a failure.

Leaders need power to implement unpopular decisions, but also decisions that serve the greater good of an institution or society.

An enterprise, through the articles of incorporation, empowers the board of directors with certain powers and privileges and it is usual for the board to delegate certain of their powers to the chief executive officer.

In the King II Report (IODSA, 2002), specific references are made to control and power, which are both required to give effect to decisions made by the leaders or directors of an enterprise. The King II Report states as follows, “The board must retain full and effective control over the company, and monitor management in implementing board plans and strategies”.

The same report continues that the “... board should define levels of materiality, reserving specific power too itself and delegating other matters with the necessary written authority to management. These matters should be monitored and evaluated on a regular basis”.

A balance of power is required. Too much power under the control of irresponsible leaders, can be detrimental and cause long-term systemic problems to the governance of institutions or countries. Therefore, the role of accountability is an important aspect in assisting effective leadership to utilise its bases of power in a controlled manner without undermining the implementation of good governance.

The King II Report (IODSA, 2002) furthermore supports the above view and recommends that there “... should be a clearly accepted division of responsibility at the head of the company to ensure a balance of power and authority, so that no one individual has unfettered powers of decision-making”.

4.8.2 Accountability

Accountability is an integral part of good political and corporate governance. Since 2004 the Harvard Business School (HBS) is now offering a revised course that incorporates leadership, governance and accountability in the degree Master of Business Administration (MBA) (HBS, 2004).

The King II Report (IODSA, 2002) states the following references with regard to measures that can assist with holding leaders accountable for their actions.

- (i) The board of directors should develop a corporate code of conduct that will address conflicts of interest, particularly relating to directors and management, which should be regularly reviewed and updated from time to time.
- (ii) The board should have agreed procedure whereby directors, may if necessary, take independent professional advice at the expense of the enterprise.
- (iii) The board should encourage shareowners to attend annual general meetings and other relevant meetings, at which the directors should be present. More particularly, the chairpersons of each of the board's committees, especially the audit and remuneration committees, should be present at the annual general meeting.
- (iv) Every board should have a charter setting out its responsibilities, which should be disclosed in its annual report. At a minimum, the charter should confirm the responsibility of the board for the adoption of strategic plans, the monitoring of operational performance and management. The charter should also include the determination of policy and processes to ensure the integrity of the risk management and internal controls of the enterprise, the communication policy, and criteria and policies utilised for director selection, orientation evaluation and remuneration.
- (v) The Board of directors is responsible to appraise the performance of the chairperson on an annual or such other basis as the board may determine. If the roles of chairperson and chief executive officer are combined, then the independent deputy chairperson must play a leading part in the evaluation process.
- (vi) Given the strategic operational role of the chief executive officer, this function should be separate from that of the chairperson.

- (vii) The chairperson or sub-committee appointed by the board, should appraise the performance of the chief executive officer. The board should satisfy itself that an appraisal of the chief executive officer is performed at least annually. The results of such appraisals should also be considered by the remuneration committee to guide it in its evaluation of the performance and remuneration of the chief executive officer.
- (viii) The function and the role of the non-executive and independent directors are important measures in accountability and power. Therefore, the board should ensure that there is an appropriate balance of power and authority on the board, such that no one individual or block of individuals can dominate decision-making of the board.

4.9 CONCLUSION

Corporate governance is essentially about leadership: the following are stipulated (IODSA, 2002:18):

- (i) Leadership for efficiency in order for companies to compete effectively in the global economy, and thereby create jobs.
- (ii) Leadership for probity because investors require confidence and assurance that the management of a company will behave honestly and with integrity in regard to their shareowners and other stakeholders.
- (iii) Leadership with responsibility as companies are increasingly called upon to address legitimate social concerns relating to their activities.
- (iv) Leadership that is both transparent and accountable otherwise business leaders cannot be trusted and this will lead to the decline of companies and the ultimate demise of a country's economy.

The principles and standards of corporate governance are universally applicable. Good corporate governance is found worldwide in democratic societies, where leadership is accountable to shareholders, stakeholders, the electorate and the laws of the country. Dictatorships are not conducive to good corporate governance because of its nature of non-accountability, secrecy, dishonesty and a greater tendency to condone corrupt

practices. Good governance is found in all three segments of society: both the private and public sectors, and civil society. In all three segments the corporate bodies work together to attain its goals for the common good. The conditions for participation are the free choice of the individual to be persuaded or not to associate him or her with the corporate goals.

The relationship of leadership characteristics with results and with the main facets of good governance, have been clearly described, namely with strategy, selection of the board of directors, responsibilities of directors, the role and function of directors, and the principles of good governance. In addition, the importance of power and accountability as facets of both leadership and governance have been explained.

The statement in the King II Report (IODSA, 2002) that leadership is governance, is well justified from the discussion of the above relationships of leadership characteristics with good governance. The two facets are indeed linked to each other to function as a whole and through their interaction become effective and are able to produce results. It is a modern concept that has evolved over the last decade and is well documented in the findings of many other authoritative sources as the King II Report (IODSA, 2002), the international Corporate Governance Codes of the Commonwealth Association of Corporate Governance (CACG, 1999) and the Organisation of Economic Co-operation and Development (OECD, 1999).

An overview in the following chapter of the chapters governance and policy, leadership, and the interrelationship between governance and leadership, will conclude the findings of the research into the concept that leadership and governance function as a whole and not as separate entities in their own right.

CHAPTER 5

CONCLUSION

5.1 INTRODUCTION

The aim of this chapter is to establish that the objectives of the study have been attained. A secondary goal is to indicate whether the hypothesis has been proved in the body of the aforementioned research. Reference is also to be made to certain limitations of the research and of opportunities for the undertaking of future research.

The attainment of the objectives of the study, is supported by the literature study and research discussed in chapters 2, 3 and 4.

5.2 ATTAINMENT OF THE OBJECTIVES OF THE STUDY

Specific objectives were identified in chapter 1. The examination of various aspects related to the research topic under investigation, has been completed, therefore it is possible to determine whether the objectives that were identified, have been met or not.

5.2.1 Primary objective

In the discussions and descriptions from authoritative sources, good governance is achieved through the interrelationship between effective leadership and governance, and good governance cannot attain its promised results if it is not supported in an interactive relationship with effective leadership.

Chapter 4 conclusively demonstrates that the traits, motives and characteristics, and power relations of effective leaders can be matched with the principles and functions of good governance to effectively interrelate in order for good governance to attain its promised and projected results.

5.2.2 Secondary objectives

The various secondary objectives of the study that were identified as supportive towards the attainment of the primary objective, were proven.

The literature study has provided authoritative primary and secondary sources of information in support of:

- the evaluation of the modern theories of governance and leadership in order to determine the extent of the interrelationship between effective leadership and good governance functioning as a whole;
- the statement that the principles of good corporate governance also apply to political governance and governance of organisations in civil society; and
- the recommendation that specific criteria can be applied to determine the effectiveness of leadership within good governance.

The secondary objectives of the study as outlined in chapter 1, were proven as indicated above.

5.3 HYPOTHESES

The review of the current literature undertaken in conjunction with the research into the objectives of the study, indicates a historical and progressive shift from the view that governance delivers satisfactory results in an interactive relationship with leadership. The contemporary emphasis has in the recent past shifted dramatically to the demand from all of the stakeholders that nothing less than optimum results are good enough.

This shift has taken place in a new environment where the public sector, private sector and civil society have become more jointly involved with issues of public concern whether it is the environment, labour satisfaction, health care or any other matter.

The public sector is now faced with a dilemma. On the one hand the political framework must improve the opportunity for profitability of the private sector and afford more freedoms to civil society in order to function better. On the other hand, the public sector is more and more reliant on the private sector and civil society to assist in attaining its goals. In this environment, success is reliant on the performance of leadership within the context of government and governance.

It has been proven, that government and leadership are not only integrated parts of a whole that delivers satisfactory results, but also that this is not good enough for modern society. The demands have been stepped up to nothing less than the best. Therefore, the alternative hypothesis (**Ha**): **Good governance that incorporates the interaction with effective leadership produces the required optimum results**, has been proven to be valid. Good governance functions within a framework of interaction with effective leadership and that it is the only concept that can deliver the best results since the stakeholders require optimum performance.

5.4 LIMITATIONS OF THE STUDY AND FURTHER RESEARCH

The study has the following limitations.

- (i) Since the literature review proved to be comprehensive and current, and included both authoritative authors and also authoritative reports from eminent international institutions such as the United Nations and the Commonwealth, no empirical investigation was required by way of questionnaires or interviews in support of the attainment of the primary and secondary objectives of the study.
- (ii) The separate concepts of leadership and management have not been investigated to distinguish the difference between the nature of leadership and management.

The following opportunities for future research have been identified in the course of this study.

- (i) An investigation into the effectiveness of leadership and governance in the attainment of its promised results in the African Union, or the New Partnership for Africa's Development, or the Southern Africa Development Community.
- (ii) A study of the effectiveness of leadership and governance in the attainment of its promised results with regard to specific policies that address aspects such as HIV/AIDS, or privatisation or economic development
- (iii) A comparative study of the effectiveness of leadership and governance in the attainment of its promised results with regard to specific policies that address aspects such as HIV/AIDS, or privatisation and economic development amongst African countries.

5.5 FINAL CONCLUSION

The research of the literature has shown an absolute shift in the expectations of all of the stakeholders in society. No more will governance and leadership that produces average results suffice. At all times, the demand of modern society is for the best results.

The public sector, private sector and civil society are forced to co-operate with each other in a wider framework in order to attain the expected goals of all the stakeholders. At the same time governments find themselves without sufficient resources to address the demands of society and the environment. Therefore, government is forced to allocate certain responsibilities to the private sector and civil society so as to support these to realise these ideals.

Effective leadership is the key factor that drives the public sector, the private sector and civil society and sees to it that it functions interactively with good governance as a whole in order to attain the expected results.

Governments and leaders that fail to grasp this concept, fail in their attaining the results that are required by all of the stakeholders and subsequently, their countries and economies stagnate and, therefore, become unattractive to both local and foreign investors. This then has a very serious negative long-term impact on the citizens and their livelihoods from which recovery becomes almost impossible.

In summary, it can be concluded from the findings of the research into the concept that effective leadership and good governance indeed function as a whole and not as separate entities in their own right.

This research forms a basis for further research in this field.

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Corporate Governance in Developing, Transition and Emerging-Market Economies

Corporate Governance Institutions and Actors - an indicative list

A country's corporate-governance institutions comprise both formal and informal rules (the latter notably include a country's generally accepted business practices and ethical standards, though these are normally unwritten⁵⁵) that are established among private actors as well as by the state or other public authorities. An indicative, hypothetical list of formal corporate-governance institutions and key actors includes:

- **Corporate law**, in particular legislation that i) gives corporations juridical personality, i.e. recognises their existence as legal "persons" separate from their shareholders; ii) determines corporate chartering requirements; and iii) limits the liability of shareholders to the value of their equity.
- ◆ **Securities laws** which authorise and regulate the issuing and trading of corporate equity and debt securities (including laws on the responsibilities and liabilities of both securities *issuers* and market *intermediaries* such as brokers and brokerage firms, accounting firms and investment advisers).
- A government body ("**securities commission**") that has the legal authority and the material and human resources to regulate the issuing and trading of corporate securities, including the means needed to *monitor* and *enforce* compliance with securities laws.
- **Stock-exchange listing requirements**, i.e. the conditions corporations must fulfil to be able to list and trade their shares on a given exchange (often a privately owned and managed organisation regulated by the securities commission), conditions whose fulfilment may be monitored and enforced (notably via the threat of de-listing) primarily by the exchange itself or jointly with the securities commission.

55. Note, moreover, that when a formal institution is incompatible with or somehow contradicts one or more key informal ones (in North's words, when there is "tension" between formal and informal institutions), it is the *informal* institution(s) that tends to prevail over the formal one(s) in guiding people's behaviour (North, 1990).

- ◆ A **judiciary system** with sufficient political independence and the investigative as well as judicial powers and the resources required to make and enforce, without excessive delay, informed and impartial judgements.

- ◆ **Professional associations** or “guilds” (such as those of accountants, stockbrokers, institutes of directors) that contribute – e.g. through membership-licensing, information-sharing, peer pressure – to the definition and maintenance of standards of professional conduct in their field.

- ◆ **Business associations** and chambers of commerce that, in a similar fashion, use formal and informal means to influence members’ thinking on and behaviour with respect to acceptable business practices;

- ◆ Other private and public **monitors** of corporate and securities-market participants’ behaviour (notably *pension funds* and other *institutional investors*, *ratings agencies*, *financial media*).

In addition to these corporate-governance institutions and actors (including the body or bodies that enact relevant legislation), two broad categories of laws, regulations, other formal and informal rules and generally accepted practices are important: those that concern corporate *oversight and control*; and those that concern information *disclosure* and corporate *transparency*.

Oversight and Control

- ◆ **Shareholder voting** rights and procedures (including those that are especially important for the protection of *minority* shareholder rights *vis-à-vis* dominant shareholders as well as *vis-à-vis* management, such as *cumulative* voting rights and other so-called anti-director rights⁵⁶).

- ◆ The **duties, powers and liabilities of corporate directors** (boards and individual directors, including definition of what constitutes an “independent” director and requirements on board composition and on the constitution of board committees on audit, the nomination of directors and the remuneration of directors and top executives).

56. “Anti-director rights” is the expression used by La Porta et al. (1998b) to refer to six key shareholders’ rights: the right to *mail* their proxy vote to the firm; to participate in the General Shareholders’ Meeting without having previously deposited their shares with the company; to benefit from cumulative voting or proportional representation of minorities on the board of directors; to benefit from the existence of an oppressed minorities mechanism; to hold an Extraordinary Shareholders’ Meeting if it is called for by a minimum of no more than 10 per cent of share capital; and to pre-emptive rights to new issues that can only be waived by a shareholders’ vote.

♦ **Proscription of self-dealing** by corporate insiders (whether self-dealing occurs via related-party transactions⁵⁷ or "tunnelling"⁵⁸ or takes the form of insider trading⁵⁹).

♦ **Stock-tendering requirements** (notably to protect small shareholders in the context of a corporate merger, acquisition or privatisation)⁶⁰.

♦ **Judicial recourse** for shareholders vis-à-vis managers and directors (derivative suits, class-action suits⁶¹).

♦ The functioning of **markets for corporate control** (take-over markets)⁶².

♦ The functioning of **markets for professional managers**, and of **labour markets**.

Disclosure and Transparency

♦ **Financial accounting standards**, and how those standards are set.

57. "Related-party transactions" are business transactions between a corporation and one or more other firms, or one or more individuals outside the corporation, with which (whom) one or more corporate insiders have a personal (often family) relationship. Related-party transactions are widely used as a vehicle for self-dealing (see note 18) although not all related-party transactions involve self-dealing.

58. "Tunnelling" is self-dealing that occurs within pyramidal ownership structures when controlling shareholders' transfer resources from companies in which they have smaller cash-flow rights (cf. note 13) to companies in which they have larger cash-flow rights: it is analogous to asset-stripping. See Johnson *et al.* (2000).

59. Insider trading occurs when corporate insiders or others with privileged access to information likely significantly to affect the market value of a company's shares use that information to make profits through trading in the company's shares before the information is released to other market participants.

60. Particularly important are pre-emptive rights to new issues – sometimes referred to in Brazil as "tag along" rights – included among the "anti-director rights" cited in note 56.

61. Derivative suits allow shareholders to sue corporate directors on behalf of the corporation itself; class-action suits allow individuals to sue on behalf of an entire class of individuals (e.g. shareholders in a given company).

62. See also Leechor (1999).

OECD Development Centre Policy Brief No. 23

♦ **Public disclosure**, in a clear and timely manner, of such information as financial accounts (including both *segment* and *consolidated* accounts, the level and means of remuneration of directors and top executives); related-party transactions undertaken by corporate insiders; compliance, or the reasons for non-compliance, with specific provisions in corporate-governance codes, other relevant codes, laws, regulations and self-declared corporate values or objectives.

♦ **External audit** (including how the auditor is chosen).

♦ Independent or “**third-party**” **analysis** and assessment of corporate prospects (e.g. by stockbrokers, risk-assessment specialists).

APPENDIX B

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD): PRINCIPLES OF CORPORATE GOVERNANCE

OECD PRINCIPLES OF CORPORATE GOVERNANCE

PREAMBLE

The Principles are intended to assist Member and non-member governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries, and to provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance. The Principles focus on publicly traded companies. However, to the extent they are deemed applicable, they might also be a useful tool to improve corporate governance in non-traded companies, for example, privately held and state-owned enterprises. The Principles represent a common basis that OECD Member countries consider essential for the development of good governance practice. They are intended to be concise, understandable and accessible to the international community. They are not intended to substitute for private sector initiatives to develop more detailed "best practice" in governance.

Increasingly, the OECD and its Member governments have recognised the synergy between macroeconomic and structural policies. One key element in improving economic efficiency is corporate governance, which involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently.

Corporate governance is only part of the larger economic context in which firms operate, which includes, for example, macroeconomic policies and the degree of competition in product and factor markets. The corporate governance framework also depends on the legal, regulatory, and institutional environment. In addition, factors such as business ethics and corporate awareness of the environmental and societal interests of the communities in which it operates can also have an impact on the reputation and the long-term success of a company.

While a multiplicity of factors affect the governance and decision-making processes of firms, and are important to their long-term success, the Principles focus

on governance problems that result from the separation of ownership and control. Some of the other issues relevant to a company's decision-making processes, such as environmental or ethical concerns, are taken into account but are treated more explicitly in a number of other OECD instruments (including the Guidelines for Multinational Enterprises and the Convention and Recommendation on Bribery) and the instruments of other international organisations.

The degree to which corporations observe basic principles of good corporate governance is an increasingly important factor for investment decisions. Of particular relevance is the relation between corporate governance practices and the increasingly international character of investment. International flows of capital enable companies to access financing from a much larger pool of investors. If countries are to reap the full benefits of the global capital market, and if they are to attract long-term "patient" capital, corporate governance arrangements must be credible and well understood across borders. Even if corporations do not rely primarily on foreign sources of capital, adherence to good corporate governance practices will help improve the confidence of domestic investors, may reduce the cost of capital, and ultimately induce more stable sources of financing.

Corporate governance is affected by the relationships among participants in the governance system. Controlling shareholders, which may be individuals, family holdings, bloc alliances, or other corporations acting through a holding company or cross shareholdings, can significantly influence corporate behaviour. As owners of equity, institutional investors are increasingly demanding a voice in corporate governance in some markets. Individual shareholders usually do not seek to exercise governance rights but may be highly concerned about obtaining fair treatment from controlling shareholders and management. Creditors play an important role in some governance systems and have the potential to serve as external monitors over corporate performance. Employees and other stakeholders play an important role in contributing to the long-term success and performance of the corporation, while governments establish the overall institutional and legal framework for corporate governance. The role of each of these participants and their interactions vary widely among OECD countries and among non-members as well. These relationships are subject, in part, to law and regulation and, in part, to voluntary adaptation and market forces.

There is no single model of good corporate governance. At the same time, work carried out in Member countries and within the OECD has identified some common elements that underlie good corporate governance. The Principles build on these common elements and are formulated to embrace the different models that exist. For example, they do not advocate any particular board structure and the term "board" as used in this document is meant to embrace the different national models of board structures found in OECD countries. In the typical two tier system, found in some countries, "board" as used in the Principles refers to the "supervisory

board" while "key executives" refers to the "management board". In systems where the unitary board is overseen by an internal auditor's board, the term "board" includes both.

The Principles are non-binding and do not aim at detailed prescriptions for national legislation. Their purpose is to serve as a reference point. They can be used by policy makers, as they examine and develop their legal and regulatory frameworks for corporate governance that reflect their own economic, social, legal and cultural circumstances, and by market participants as they develop their own practices.

The Principles are evolutionary in nature and should be reviewed in light of significant changes in circumstances. To remain competitive in a changing world, corporations must innovate and adapt their corporate governance practices so that they can meet new demands and grasp new opportunities. Similarly, governments have an important responsibility for shaping an effective regulatory framework that provides for sufficient flexibility to allow markets to function effectively and to respond to expectations of shareholders and other stakeholders. It is up to governments and market participants to decide how to apply these Principles in developing their own frameworks for corporate governance, taking into account the costs and benefits of regulation.

The following document is divided into two parts. The Principles presented in the first part of the document cover five areas: I) The rights of shareholders; II) The equitable treatment of shareholders; III) The role of stakeholders; IV) Disclosure and transparency; and V) The responsibilities of the board. Each of the sections is headed by a single Principle that appears in bold italics and is followed by a number of supporting recommendations. In the second part of the document, the Principles (which appear in bold) are supplemented by annotations that contain commentary on the Principles and are intended to help readers understand their rationale. The annotations may also contain descriptions of dominant trends and offer alternatives and examples that may be useful in making the Principles operational.

I. THE RIGHTS OF SHAREHOLDERS

The corporate governance framework should protect shareholders' rights.

- A.** Basic shareholder rights include the right to: 1) secure methods of ownership registration; 2) convey or transfer shares; 3) obtain relevant information on the corporation on a timely and regular basis; 4) participate and vote in general shareholder meetings; 5) elect members of the board; and 6) share in the profits of the corporation.
- B.** Shareholders have the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes such as: 1) amendments to the statutes, or articles of incorporation or similar governing documents of the company; 2) the authorisation of additional shares; and 3) extraordinary transactions that in effect result in the sale of the company.
- C.** Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings and should be informed of the rules, including voting procedures, that govern general shareholder meetings:
 - 1. Shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be decided at the meeting.
 - 2. Opportunity should be provided for shareholders to ask questions of the board and to place items on the agenda at general meetings, subject to reasonable limitations.
 - 3. Shareholders should be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or in absentia.
- D.** Capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed.
- E.** Markets for corporate control should be allowed to function in an efficient and transparent manner.

OECD Principles of Corporate Governance

1. The rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets, should be clearly articulated and disclosed so that investors understand their rights and recourse. Transactions should occur at transparent prices and under fair conditions that protect the rights of all shareholders according to their class.
 2. Anti-take-over devices should not be used to shield management from accountability.
- F. Shareholders, including institutional investors, should consider the costs and benefits of exercising their voting rights.

II. THE EQUITABLE TREATMENT OF SHAREHOLDERS

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

- A. All shareholders of the same class should be treated equally.
 - 1. Within any class, all shareholders should have the same voting rights. All investors should be able to obtain information about the voting rights attached to all classes of shares before they purchase. Any changes in voting rights should be subject to shareholder vote.
 - 2. Votes should be cast by custodians or nominees in a manner agreed upon with the beneficial owner of the shares.
 - 3. Processes and procedures for general shareholder meetings should allow for equitable treatment of all shareholders. Company procedures should not make it unduly difficult or expensive to cast votes.
- B. Insider trading and abusive self-dealing should be prohibited.
- C. Members of the board and managers should be required to disclose any material interests in transactions or matters affecting the corporation.

III. THE ROLE OF STAKEHOLDERS IN CORPORATE GOVERNANCE

The corporate governance framework should recognise the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

- A. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.
- B. Where stakeholder interests are protected by law, stakeholders should have the opportunity to obtain effective redress for violation of their rights.
- C. The corporate governance framework should permit performance-enhancing mechanisms for stakeholder participation.
- D. Where stakeholders participate in the corporate governance process, they should have access to relevant information.

IV. DISCLOSURE AND TRANSPARENCY

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

- A.** Disclosure should include, but not be limited to, material information on:
 - 1.** The financial and operating results of the company.
 - 2.** Company objectives.
 - 3.** Major share ownership and voting rights.
 - 4.** Members of the board and key executives, and their remuneration.
 - 5.** Material foreseeable risk factors.
 - 6.** Material issues regarding employees and other stakeholders.
 - 7.** Governance structures and policies.
- B.** Information should be prepared, audited, and disclosed in accordance with high quality standards of accounting, financial and non-financial disclosure, and audit.
- C.** An annual audit should be conducted by an independent auditor in order to provide an external and objective assurance on the way in which financial statements have been prepared and presented.
- D.** Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users.

V. THE RESPONSIBILITIES OF THE BOARD

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

- A. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders.
- B. Where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly.
- C. The board should ensure compliance with applicable law and take into account the interests of stakeholders.
- D. The board should fulfil certain key functions, including:
 - 1. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.
 - 2. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.
 - 3. Reviewing key executive and board remuneration, and ensuring a formal and transparent board nomination process.
 - 4. Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.
 - 5. Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law.
 - 6. Monitoring the effectiveness of the governance practices under which it operates and making changes as needed.
 - 7. Overseeing the process of disclosure and communications.

- E. The board should be able to exercise objective judgement on corporate affairs independent, in particular, from management.**
 - 1. Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgement to tasks where there is a potential for conflict of interest. Examples of such key responsibilities are financial reporting, nomination and executive and board remuneration.**
 - 2. Board members should devote sufficient time to their responsibilities.**
- F. In order to fulfil their responsibilities, board members should have access to accurate, relevant and timely information.**

APPENDIX C

COMMONWEALTH ASSOCIATION FOR CORPORATE GOVERNANCE (CACG): PRINCIPLES OF CORPORATE GOVERNANCE – EXECUTIVE SUMMARY

- Principle 9:** ensure that no one person or block of persons has unfettered power and that there is an appropriate balance of power and authority on the board which is, *inter alia*, usually reflected by separating the roles of chief executive officer and chairman, and by having a balance between executive and non-executive directors;
- Principle 10:** regularly review processes and procedures to ensure the effectiveness of its internal systems of control, so that its decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times;
- Principle 11:** regularly assess its performance and effectiveness as a whole, and that of the individual directors, including the chief executive officer;
- Principle 12:** appoint the chief executive officer and at least participate in the appointment of senior management, ensure the motivation and protection of intellectual capital intrinsic to the corporation, ensure that there is adequate training in the corporation for management and employees, and a succession plan for senior management;
- Principle 13:** ensure that all technology and systems used in the corporation are adequate to properly run the business and for it to remain a meaningful competitor;
- Principle 14:** identify key risk areas and key performance indicators of the business enterprise and monitor these factors;
- Principle 15:** ensure annually that the corporation will continue as a going concern for its next fiscal year.

APPENDIX D

KING II REPORT: CODE OF CORPORATE PRACTICES AND CONDUCT

CODE OF CORPORATE PRACTICES AND CONDUCT

1. Application of Code

1.1. The Code applies to the following business enterprises (hereinafter referred to as "affected companies"):

1.1.1. All companies with securities listed on the JSE Securities Exchange South Africa.

1.1.2. Banks, financial and insurance entities as defined in the various legislation regulating the South African financial services sector.

1.1.3. Public sector enterprises and agencies that fall under the Public Finance Management Act and the Local Government: Municipal Finance Management Bill (still to be promulgated) including any department of State or administration in the national, provincial or local sphere of government or any other functionary or institution:

- exercising a power or performing a function in terms of the Constitution or a provincial constitution; or
- exercising a public power or performing a public function in terms of any legislation, but not including a Court or a judicial officer,

unless otherwise prescribed by legislation.

1.2. All companies, in addition to those falling within the categories listed above, should give due consideration to the application of this Code insofar as the principles are applicable. Stakeholders interacting with such companies are encouraged to monitor the application by these companies of the principles set out in this Code (to the extent applicable).

1.3. While it is acknowledged that certain forms of State enterprises may not lend themselves to some of the principles set out in this Code, it is recommended that the principles should be adapted appropriately by such enterprises. To assist entities falling within this category, National Treasury will be issuing "Good Practice Guides" as official directives in line with the overall framework for financial management for the public sector.

1.4. All references to "company" or "companies" in this Code and the accompanying Report should be taken to refer to "affected companies" as defined in 1.1 above.

1.5. The Code is a set of principles and does not purport to determine the detailed course of conduct of directors on any particular matter. Clearly, companies and their boards will be required to measure the principles set out in this Code against all other statutes, regulations and other authoritative

- 2.1.8. The board should consider developing a corporate code of conduct that addresses conflicts of interest, particularly relating to directors and management, which should be regularly reviewed and updated as necessary.
- 2.1.9. The board should have an agreed procedure whereby directors may, if necessary, take independent professional advice at the company's expense.
- 2.1.10. Every board should consider whether or not its size, diversity and demographics make it effective.
- 2.1.11. The board must identify key risk areas and key performance indicators of the business enterprise. These should be regularly monitored, with particular attention given to technology and systems.
- 2.1.12. The board should identify and monitor the non-financial aspects relevant to the business of the company.
- 2.1.13. The board should record the facts and assumptions on which it relies to conclude that the business will continue as a going concern in the financial year ahead or why it will not, and in that case, what steps the board is taking to remedy the situation.
- 2.1.14. The board should ensure that each item of special business included in the notice of the annual general meeting, or any other shareowners' meeting, is accompanied by a full explanation of the effects of any proposed resolutions.
- 2.1.15. The board should encourage shareowners to attend annual general meetings and other company meetings, at which the directors should be present. More particularly, the chairpersons of each of the board's committees, especially the audit and remuneration committees, should be present at the annual general meeting.
- 2.1.16. A brief CV of each director standing for election or re-election at the annual general meeting should accompany the notice contained in the annual report.
- 2.1.17. Every board should have a charter setting out its responsibilities, which should be disclosed in its annual report. At a minimum, the charter should confirm the board's responsibility for the adoption of strategic plans, monitoring of operational performance and management, determination of policy and processes to ensure the integrity of the company's risk management and internal controls, communications policy, and director selection, orientation and evaluation.

- 2.1.18. The board must find the correct balance between conforming with governance constraints and performing in an entrepreneurial way.

2.2. *Board Composition*

- 2.2.1. Companies should be headed by an effective board that can both lead and control the company. The board should comprise a balance of executive and non-executive directors, preferably with a majority of non-executive directors, of whom sufficient should be independent of management so that shareowner interests (including minority interests) can be protected. An obvious consideration for South African companies would be to consider the demographics in relation to the composition of the board.
- 2.2.2. Procedures for appointments to the board should be formal and transparent, and a matter for the board as a whole, assisted where appropriate by a nomination committee. This committee should constitute only non-executive directors, of whom the majority should be independent, and be chaired by the board chairperson.
- 2.2.3. Board continuity, subject to performance and eligibility for re-election, is imperative, and a programme ensuring a staggered rotation of directors should be put in place by the board to the extent that this is not already regulated.

2.3. *Chairperson and Chief Executive Officer*

- 2.3.1. There should be a clearly accepted division of responsibilities at the head of the company, to ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making.
- 2.3.2. The chairperson should preferably be an independent non-executive director.
- 2.3.3. Given the strategic operational role of the chief executive officer, this function should be separate from that of the chairperson.
- 2.3.4. Where the roles of the chairperson and chief executive officer are combined, there should be either an independent non-executive director serving as deputy chairperson or a strong independent non-executive director element on the board. Any such decision to combine roles should be justified each year in the company's annual report.
- 2.3.5. The board should appraise performance of the chairperson on an annual or such other basis as the board may determine. If the roles of chairperson and chief executive officer are combined, then the independent deputy chairperson should play a leading part in the evaluation process.

- 2.3.6. The chairperson, or a sub-committee appointed by the board, should appraise the performance of the chief executive officer. The board should satisfy itself that an appraisal of the chief executive officer is performed at least annually. The results of such appraisal should also be considered by the Remuneration Committee to guide it in its evaluation of the performance and remuneration of the chief executive officer.

2.4. Directors

- 2.4.1. The board should ensure that there is an appropriate balance of power and authority on the board, such that no one individual or block of individuals can dominate the board's decision taking.

- 2.4.2. Non-executive directors should be individuals of calibre and credibility, and have the necessary skill and experience to bring judgment to bear independent of management, on issues of strategy, performance, resources, transformation, diversity and employment equity, standards of conduct and evaluation of performance.

- 2.4.3. In the annual report, the capacity of the directors should be categorised as follows:

- Executive director - an individual who is involved in the day-to-day management and/or is in full time salaried employment of the company and/or any of its subsidiaries.
- Non-executive director - an individual not involved in the day to day management and not a full-time salaried employee of the company or of its subsidiaries. An individual in the full-time employment of the holding company or its subsidiaries, other than the company concerned, would also be considered to be a non-executive director unless such individual by his/her conduct or executive authority could be construed to be directing the day to day management of the company and its subsidiaries.
- Independent director - is a non-executive director who:
 - (i) is not a representative of a shareowner who has the ability to control or significantly influence management;
 - (ii) has not been employed by the company or the group of which it currently forms part, in any executive capacity for the preceding three financial years;

- (iii) is not a member of the immediate family of an individual who is, or has been in any of the past three financial years employed by the company or the group in an executive capacity;
- (iv) is not a professional advisor to the company or the group, other than in a director capacity;
- (v) is not a significant supplier to, or customer of the company or group;
- (vi) has no significant contractual relationship with the company or group; and
- (vii) is free from any business or other relationship which could be seen to materially interfere with the individual's capacity to act in an independent manner.

2.4.4. A "shadow director" is considered to be a person in accordance with whose directions or instructions (whether they extend over the whole or part of the activities of the company) the directors of the company are accustomed to act. Shadow directors should be discouraged.

2.4.5. Executive directors should be encouraged to hold other non-executive directorships only to the extent that these do not interfere with their immediate management responsibilities. Non-executive directors should carefully consider the number of appointments they take in that capacity so as to ensure that the companies on which they serve enjoy the full benefit of their expertise, experience and knowledge.

2.4.6. The board should establish a formal orientation programme to familiarise incoming directors with the company's operations, senior management and its business environment, and to induct them in their fiduciary duties and responsibilities. Directors should receive further briefings from time to time on relevant new laws and regulations as well as on changing commercial risks.

2.4.7. New directors with no or limited board experience should receive development and education to inform them of their duties, responsibilities, powers and potential liabilities.

2.4.8. Boards should ascertain whether potential new directors are fit and proper and are not disqualified from being directors. Prior to their appointment, their backgrounds should be investigated along the lines of the approach required for listed companies by the JSE and under the Banks Act. The nomination committee would prove useful for this purpose.

2.5. Remuneration

- 2.5.1. Levels of remuneration should be sufficient to attract, retain and motivate executives of the quality required by the board.
- 2.5.2. Companies should appoint a remuneration committee or such other appropriate board committee, consisting entirely or mainly of independent non-executive directors, to make recommendations to the board within agreed terms of reference on the company's framework of executive remuneration and to determine specific remuneration packages for each of the executive directors. This is, ultimately, the responsibility of the board. This committee must be chaired by an independent non-executive director. In order to obtain his or her input on the remuneration of the other executives the committee should consult the chief executive officer, who may attend meetings by invitation. However, a chief executive should play no part in decisions regarding his/her own remuneration.
- 2.5.3. Membership of the remuneration committee or board committee that considers executive remuneration, must be disclosed in the annual report and the chairperson of such committee should attend annual general meetings to answer any questions from shareowners.
- 2.5.4. Companies should provide full disclosure of director remuneration on an individual basis, giving details of earnings, share options, restraint payments and all other benefits.
- 2.5.5. Performance-related elements of remuneration should constitute a substantial portion of the total remuneration package of executives in order to align their interests with those of the shareowners, and should be designed to provide incentives to perform at the highest operational standards.
- 2.5.6. Share options may be granted to non-executive directors but must be the subject of prior approval of shareowners (usually at the annual general meeting) having regard also to the specific requirements of the Companies Act. Because of the apparent dilution of independence, in some international markets the view is that non-executive directors should preferably receive shares rather than share options.
- 2.5.7. In regard to the allocation of share options, boards should be mindful of the following:
 - A vesting period in relation to the allocation of share options to non-executive directors should be applied to dissuade short-term decision taking, but should also have regard to the possibility or consequences of the removal or resignation of such directors prior to the vesting period

maturing and any perceived impact on their independence.

- Where it is proposed to re-price share options, this should be the subject of prior shareowner approval. Details of the share options of each executive and non-executive director who stands to benefit from any such proposal should be provided and should be subject to shareowner approval individually for each director.
- If share options are to be issued at a discount to the ruling price, shareowners should vote separately on this clause in the trust deed at its inception. Any subsequent amendments proposed to an existing trust deed that would permit allocations of share options at a discount must be subject to the specific approval of shareowners.

2.5.8. The overriding principle of full disclosure by directors, on an individual basis, should apply to all share schemes and any other incentive schemes proposed by management.

2.5.9. It is not considered appropriate that an executive director's fixed-term service contract, if any, should exceed three years. If so, full disclosure of this fact with reasons should be given and the consent of shareowners should be obtained.

2.5.10. Companies should establish a formal and transparent procedure for developing a policy on executive and director remuneration which should be supported by a Statement of Remuneration Philosophy in the annual report.

2.5.11. The remuneration or such other similar board committee should play an integral part in the succession planning, particularly in respect of the chief executive officer and executive management.

2.5.12. The remuneration committee should consider, and recommend to the board the fees to be paid to each non-executive director. The proposed fees, as confirmed by the board, should be submitted to the shareowners in general meeting for approval prior to implementation and payment. The practice of paying non-uniform fees to non-executive directors should also be carefully considered. The level of fees should preferably be determined according to the relative contributions of each non-executive director and their participation in the activities of the board and its committees.

2.6. Board Meetings

2.6.1. The board should meet regularly, at least once a quarter if not more frequently as circumstances require, and should disclose in the annual report the number of board and committee meetings held in

the year and the details of attendance of each director (as applicable).

- 2.6.2. Efficient and timely methods should be determined for informing and briefing board members prior to meetings while each board member is responsible for being satisfied that, objectively, they have been furnished with all the relevant information and facts before making a decision.
- 2.6.3. Non-executive directors should have access to management and may even meet separately with management, without the attendance of executive directors. This should, however, be agreed collectively by the board usually facilitated by the non-executive chairperson or lead independent non-executive director.
- 2.6.4. The board should regularly review processes and procedures to ensure the effectiveness of the company's internal systems of control, so that its decision-making capability and the accuracy of its reporting are maintained at a high level at all times.
- 2.6.5. The board should ensure that it receives relevant non-financial information going beyond assessing the financial and quantitative performance of the company, and should look at other qualitative performance factors that involve broader stakeholder interests.

2.7. *Board Committees*

- 2.7.1. Board committees are an aid to assist the board and its directors in discharging their duties and responsibilities, and boards cannot shield behind these committees (see 2.1.1).
- 2.7.2. There should be a formal procedure for certain functions of the board to be delegated, describing the extent of such delegation, to enable the board to properly discharge its duties and responsibilities and to effectively fulfil its decision taking process.
- 2.7.3. Board committees with formally determined terms of reference, life span, role and function constitute an important element of the process in 2.7.2 and should be established with clearly agreed upon reporting procedures and written scope of authority.
- 2.7.4. As a general principle, there should be transparency and full disclosure from the board committee to the board, except where the committee has been mandated otherwise by the board.
- 2.7.5. At a minimum, each board should have an audit and a remuneration committee. Industry and company specific issues will dictate the requirement for other committees.

2.7.6. Non-executive directors must play an important role in board committees.

2.7.7. All board committees should preferably be chaired by an independent non-executive director, whether this is the board chairperson or some other appropriate individual. Exceptions should be a board committee fulfilling an executive function.

2.7.8. Board committees should be free to take independent outside professional advice as and when necessary.

2.7.9. Committee composition, a brief description of its remit, the number of meetings held and other relevant information should be disclosed in the annual report. The chairpersons of the board committees, particularly those in respect of audit, remuneration and nomination, should attend the company's annual general meeting.

2.7.10. Board committees should be subject to regular evaluation by the board to ascertain their performance and effectiveness (see 2.8.1).

2.8. *Board and Director Evaluation*

2.8.1. The board, through its nomination committee or similar board committee, should regularly review its required mix of skills and experience and other qualities such as its demographics and diversity in order to assess the effectiveness of the board. This should be by means of a self-evaluation of the board as a whole, its committees and the contribution of each individual director.

2.8.2. The evaluations in 2.8.1 should be conducted at least annually.

2.9. *Dealings and Securities*

2.9.1. Every listed company should have a practice prohibiting dealing in its securities by directors, officers and other selected employees for a designated period preceding the announcement of its financial results or in any other period considered sensitive, and have regard to the listings requirements of the JSE in respect of dealings of directors.

2.9.2. The practice in 2.9.1 should be determined by way of a formal policy established by the board and implemented by the company secretary.

2.10. *Company Secretary*

2.10.1. The company secretary, through the board, has a pivotal role to play in the corporate governance of a company.

to provide reasonable assurance regarding the achievement of organisational objectives with respect to:

- effectiveness and efficiency of operations;
- safeguarding of the company's assets (including information);
- compliance with applicable laws, regulations and supervisory requirements;
- supporting business sustainability under normal as well as adverse operating conditions;
- reliability of reporting; and
- behaving responsibly towards all stakeholders.

3.1.5. The board is responsible for ensuring that a systematic, documented assessment of the processes and outcomes surrounding key risks is undertaken, at least annually, for the purpose of making its public statement on risk management. It should, at appropriately considered intervals, receive and review reports on the risk management process in the company. This risk assessment should address the company's exposure to at least the following:

- physical and operational risks;
- human resource risks;
- technology risks;
- business continuity and disaster recovery;
- credit and market risks; and
- compliance risks.

3.1.6. A board committee, either a dedicated committee or one with other responsibilities, should be appointed to assist the board in reviewing the risk management process and the significant risks facing the company.

3.1.7. Risk management and internal control should be practiced throughout the company by all staff, and should be embedded in day-to-day activities.

3.1.8. In addition to the company's other compliance and enforcement activities, the board should consider the need for a confidential reporting process ("whistleblowing") covering fraud and other risks.

3.2. *Application and Reporting*

- 3.2.1. A comprehensive system of control should be established by the board to ensure that risks are mitigated and that the company's objectives are attained. The control environment should also set the tone of the company and cover ethical values, management's philosophy and the competence of employees.
- 3.2.2. Risks should be assessed on an on-going basis and control activities should be designed to respond to risks throughout the company. Pertinent information arising from the risk assessment, and relating to control activities should be identified, captured and communicated in a form and timeframe that enables employees to carry out their responsibilities properly. These controls should be monitored by both line management and assurance providers.
- 3.2.3. Companies should develop a system of risk management and internal control that builds more robust business operations. The systems should demonstrate that the company's key risks are being managed in a way that enhances shareowners' and relevant stakeholders' interests. The system should incorporate mechanisms to deliver:
- a demonstrable system of dynamic risk identification;
 - a commitment by management to the process;
 - a demonstrable system of risk mitigation activities;
 - a system of documented risk communications;
 - a system of documenting the costs of non-compliance and losses;
 - a documented system of internal control and risk management;
 - an alignment of assurance of efforts to the risk profile; and
 - a register of key risks that could affect shareowner and relevant stakeholder interests.
- 3.2.4. The board must identify key risk areas and key performance indicators of the company, and monitor these factors as part of a regular review of processes and procedures to ensure the effectiveness of its internal systems of control, so that its decision-making and the accuracy of its reporting are maintained at a high level at all times.

3.2.5. Reports from management to the board should provide a balanced assessment of significant risks and the effectiveness of the system of internal control in managing those risks. Any significant control failings or weaknesses identified should be covered in the reports, including the impact that they have had, or may have had, on the company and the actions being taken to rectify them.

3.2.6. The board is responsible for disclosures in relation to risk management and should, at a minimum disclose:

- that it is accountable for the process of risk management and the system of internal control, which is regularly reviewed for effectiveness and for establishing appropriate risk and control policies and communicating these throughout the company;
- that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the company, that has been in place for the year under review and up to the date of approval of the annual report and financial statements;
- that there is an adequate system of internal control in place to mitigate the significant risks faced by the company to an acceptable level. Such a system is designed to manage, rather than eliminate, the risk of failure or maximise opportunities to achieve business objectives. This can only provide reasonable, but not absolute, assurance;
- that there is a documented and tested process in place that will allow the company to continue its critical business processes in the event of a disastrous incident impacting on its activities;
- where material joint ventures and associates have not been dealt with as part of the group for the purposes of applying these recommendations. Alternative sources of risk management and internal control assurance applied to these activities should be disclosed, where these exist;
- that any additional information in the annual report to assist understanding of the company's risk management processes and system of internal control should be provided as appropriate; and
- where the board cannot make any of the disclosures set out above, it should state this fact and provide a suitable explanation.

- 3.2.7. Risk should not only be viewed from a negative perspective. The review process may identify areas of opportunity such as where effective risk management can be turned to competitive advantage.

4. Internal Audit

4.1. *Status and Role*

- 4.1.1. Companies should have an effective internal audit function that has the respect and co-operation of both the board and management. Where the board, in its discretion, decides not to establish an internal audit function, full reasons must be disclosed in the company's annual report, with an explanation as to how assurance of effective internal controls, processes and systems will be obtained.
- 4.1.2. Consistent with the Institute of Internal Auditors' ("IIA") definition of internal auditing in an internal audit charter approved by the board, the purpose, authority and responsibility of the internal audit activity should be formally defined.
- 4.1.3. The IIA has succinctly set out the role and function of internal audit in its *Standards for the Professional Practice of Internal Auditing*, including the code of ethics and the definition of internal audit, which is fully endorsed by the King Committee.
- 4.1.4. Internal audit should report at a level within the company that allows it to fully accomplish its responsibilities. The head of internal audit should report administratively to the chief executive officer, and should have ready and regular access to the chairperson of the company and the chairperson of the audit committee.
- 4.1.5. Internal audit should report at all audit committee meetings.
- 4.1.6. The appointment or dismissal of the head of the internal audit should be with the concurrence of the audit committee.
- 4.1.7. If the external and internal audit functions are carried out by the same accounting firm, the audit committee and the board should satisfy themselves that there is adequate segregation between the two functions in order to ensure that their independence is not impaired (see also 6.1.5).

4.2. *Scope of Internal Audit*

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

4.2.2. An effective internal audit function should provide:

- assurance that the management processes are adequate to identify and monitor significant risks;
- confirmation of the effective operation of the established internal control systems;
- credible processes for feedback on risk management and assurance; and
- objective confirmation that the board receives the right quality of assurance and information from management and that this information is reliable.

4.2.3. The internal audit plan should be based on risk assessment as well as on issues highlighted by the audit committee and senior management. The risk assessment process should be of a continuous nature as to identify not only residual or existing but emerging risks and should be conducted formally at least annually, but more often in complex organisations. This risk assessment should be co-ordinated with the board's own assessment of risk.

4.2.4. The audit committee should approve the internal audit work plan.

4.2.5. The internal audit function should co-ordinate with other internal and external providers of assurance to ensure proper coverage of financial, operational and compliance controls and to minimise duplication of effort.

5. Integrated Sustainability Reporting

5.1. *Sustainability Reporting*

5.1.1. Every company should report at least annually on the nature and extent of its social, transformation, ethical, safety, health and environmental management policies and practices. The board must determine what is relevant for disclosure, having regard to the company's particular circumstances.

5.1.2. Stakeholder reporting requires an integrated approach. This would be best achieved gradually as the board and the company develop an understanding of the intricate relationships and issues associated with stakeholder reporting. Companies should categorise issues into the following levels of reporting:

- First level would be disclosures relating to acceptance and adoption of business principles and/or codes of practice that can be verified by reference to documents, board minutes or established policies and standards.

- Second level should address the implementation of practices in keeping with accepted principles involving a review of steps taken to encourage adherence to these principles evidenced by board directors, designated policies and communiqués, supported by appropriate non-financial accounting mechanisms.
- Third level should involve investigation and demonstration of changes and benefits that have resulted from the adoption and implementation of stated business principles and/or codes of practice.

5.1.3. When making such disclosures, boards will be required to consider:

- clarity on the nature of the disclosing entity, the scope of issues subject to disclosure, performance expectations as an integral aspect of the "going concern" concept, the period under review and the extent to which items disclosed are directly attributable to the company's own action or inaction;
- that disclosure of non-financial information is governed by the principles of reliability, relevance, clarity, comparability, timeliness and verifiability (with reference to the Global Reporting Initiative Sustainability Reporting Guidelines on economic, environmental and social performance); and
- that criteria and guidelines for materiality are developed by each company for consistency (having regard for international models and guidelines, as well as national statutory definitions).

5.1.4. Matters requiring specific consideration should include:

- description of practices reflecting a committed effort to reducing workplace accidents, fatalities, and occupational health and safety incidents against stated measurement targets and objectives and a suitable explanation where appropriate. This would cover the nature and extent of the strategy, plan and policies adopted to address and manage the potential impact of HIV/AIDS on the company's activities;
- reporting on environmental corporate governance that must reflect current South African law by the application of the "Best Practicable Environmental Option" standard (defined as that option that has most benefit, or causes the least damage to the environment at a cost acceptable to society);

- policies that define social investment prioritisation and spending, and the extent of initiatives to support black economic empowerment, in particular procurement practices and investment strategies; and
- disclosure of human capital development in areas such as the number of staff (with a particular focus on progress against equity targets, achievement of corporate training and development initiatives, age, employee development and financial investment committed). This should also address issues that create the conditions and opportunities for previously disadvantaged individuals (in particular women) to have an equal opportunity to reach executive levels in the company and to realise their full potential. It should include progress made in this regard, and mechanisms to positively reinforce the richness of diversity and the added value and contribution from this diversity.

5.2. *Organisational Integrity / Code of Ethics*

5.2.1. Every company should engage its stakeholders in determining the company's standards of ethical behaviour. It should demonstrate its commitment to organisational integrity by codifying its standards in a code of ethics.

5.2.2. Each company should demonstrate its commitment to its code of ethics by:

- creating systems and procedures to introduce, monitor and enforce its ethical code;
- assigning high level individuals to oversee compliance to the ethical code;
- assessing the integrity of new appointees in the selection and promotion procedures;
- exercising due care in delegating discretionary authority;
- communicating with, and training, all employees regarding enterprise values, standards and compliance procedures;
- providing, monitoring and auditing safe systems for reporting of unethical or risky behaviour;
- enforcing appropriate discipline with consistency; and
- responding to offences and preventing re-occurrence.

5.2.3. Disclosure should be made of adherence to the company's code of ethics against the above criteria. The disclosure should include a statement as to the extent the directors believe the ethical standards and the above criteria are being met. If this is considered inadequate there should be further disclosure of how the desired end-state will be achieved.

5.2.4. Companies should strongly consider their dealings with individuals or entities not demonstrating its same level of commitment to organisational integrity.

Accounting and Auditing

6.1. *Auditing and Non-audit Services*

6.1.1. The audit committee should draw up a recommendation to the board for consideration and acceptance by the shareowners for the appointment of the external auditors.

6.1.2. The auditors should observe the highest level of business and professional ethics and in particular, their independence must not be impaired in any way.

6.1.3. Companies should aim for efficient audit processes using external auditors in combination with the internal audit function.

6.1.4. Management should encourage consultation between external and internal auditors. Co-ordination of efforts involves periodic meetings to discuss matters of mutual interest, the exchange of working papers and management letters and reports, and a common understanding of audit techniques, methods and terminology.

6.1.5. The audit committee should set the principles for recommending using the accounting firm of the external auditors for non-audit services. In addition to the related Companies Act requirement, there should be separate disclosure of the amount paid for non-audit services with a detailed description in the notes to the annual financial statements of the nature thereof together with the amounts paid for each of the services described.

6.2. *Reporting of Financial and Non-financial Information*

6.2.1. The audit committee should consider whether or not an interim report should be subject to an independent review by the external auditor.

6.2.2. In the case of an independent review, the audit committee's report commenting on an interim report and the auditors' review report,

should be tabled at the board meeting held to adopt the interim report. Where an independent review was not conducted, the audit committee should table the reasons at the board meeting.

- 6.2.3. The board should minute the facts and assumptions used in the assessment of the going concern status of the company at the year end.
- 6.2.4. At the interim reporting stage, the directors should consider their assessment at the previous year end of the company's ability to continue as a going concern and determine whether or not any of the significant factors in the assessment have changed to such an extent that the appropriateness of the going concern assumption at the interim reporting stage has been affected. The board should minute the conclusion reached by the directors at the interim reporting stage.
- 6.2.5. Where non-financial aspects of reporting have been subject to external validation, this fact must be stated and details provided in the annual report.
- 6.2.6. Companies should make every effort to ensure that information is distributed via a broad range of communication channels, including the Internet, having regard for its security and integrity while bearing in mind the need that critical financial information reaches all shareowners simultaneously.

6.3. *Audit Committee*

- 6.3.1. The board should appoint an audit committee that has a majority of independent non-executive directors. The majority of the members of the audit committee should be financially literate.
- 6.3.2. The chairperson should be an independent non-executive director and not the chairperson of the board. The better view is that the board chairperson should not be a member of the audit committee at all, but could be invited to attend meetings as necessary by the chairperson of that committee. The board should consider whether or not it is desirable for the chief executive officer to be a member of the audit committee, or to attend only by invitation.
- 6.3.3. The audit committee should have written terms of reference that deal adequately with its membership, authority and duties.
- 6.3.4. Companies should, in their annual report disclose whether or not the audit committee has adopted formal terms of reference and, if so, whether the committee has satisfied its responsibilities for the year, in compliance with its terms of reference.

- 6.3.5. Membership of the audit committee should be disclosed in the annual report. The chairperson of the committee should be available at the annual general meeting to answer questions about its work.**

Relations with Shareowners

- 7.1. Companies should be ready where practicable, to enter into dialogue with institutional investors based on constructive engagement and the mutual understanding of objectives. This should take due regard of statutory, regulatory and other directives regulating the dissemination of information by companies and their directors and officers.**
- 7.2. When evaluating a company's corporate governance arrangements, particularly those relating to board structure and composition, institutional investors should give due weight to all relevant factors drawn to their attention and to any specific arrangements to eliminate unnecessary variations in criteria and measurement of performance.**
- 7.3. Companies should ensure that each item of special business included in the notice of annual general meeting is accompanied by a full explanation of the effects of a proposed resolution. In the course of the annual general meeting, as should be the case with other shareowner meetings, the chairperson should provide a reasonable time for discussion.**
- 7.4. Companies should consider conducting meetings on the basis of a poll in relation to special business, or where contentious issues are under consideration, in order to ensure that all votes of shareowners (whether in person, by proxy or representation) at company meetings are taken into account. The results of all decisions taken at company meetings should be publicly disseminated in the most appropriate form, immediately on conclusion of the meeting to ensure that all shareowners (particularly those who were not in attendance or were unable to attend) are promptly informed or at least have ready access to such information.**

Communication

- 8.1. It is the board's duty to present a balanced and understandable assessment of the company's position in reporting to stakeholders. The quality of the information must be based on the principles of openness and substance over form. Reporting should address material matters of significant interest and concern to all stakeholders.**
- 8.2. Reports and communications must be made in the context that society now demands greater transparency and accountability from companies regarding their non-financial matters.**
- 8.3. Reports should present a comprehensive and objective assessment of the activities of the company so that shareowners and relevant stakeholders**

with a legitimate interest in the company's affairs can obtain a full, fair and honest account of its performance. In communicating with its stakeholders, the board should take into account the circumstances of the communities in which the company operates.

8.4. The directors should report on the following matters in their annual report:

- 8.4.1. that it is the directors' responsibility to prepare financial statements that fairly present the state of affairs of the company as at the end of the financial year and the profit or loss and cash flows for that period;**
- 8.4.2. that the auditor is responsible for reporting on whether the financial statements are fairly presented;**
- 8.4.3. that adequate accounting records and an effective system of internal controls and risk management have been maintained;**
- 8.4.4. that appropriate accounting policies supported by reasonable and prudent judgments and estimates have been used consistently;**
- 8.4.5. that applicable accounting standards have been adhered to or, if there has been any departure in the interest of fair presentation, this must not only be disclosed and explained but quantified;**
- 8.4.6. that there is no reason to believe the business will not be a going concern in the year ahead or an explanation of any reasons otherwise; and**
- 8.4.7. that the Code of Corporate Practices and Conduct has been adhered to or, if not, where there has not been compliance to give reasons.**

9. Implementation of the Code

All boards and individual directors have a duty and responsibility to ensure that the principles set out in this Code are observed.

APPENDIX E

KING II REPORT: RECOMMENDATIONS REQUIRING STATUTORY AMENDMENT AND OTHER ACTIONS

RECOMMENDATIONS REQUIRING STATUTORY AMENDMENT AND OTHER ACTIONS¹²

1. Urgent liaison should be initiated between the leadership of the business community and the State with a view to determining how the business community can enhance the resources and capacity of the State to handle breaches of criminal law by delinquent directors and officers. In this regard, the role of the State is vital. It is equally essential that the office of the Registrar of Companies be provided with sufficient resources to monitor the implementation of the Companies Act. The resources of the South African Police Services and those of the judicial system also need to be enhanced to ensure that complaints are adequately investigated.
2. An approach should be made to the General Council of the Bar and to the Law Society of South Africa for the use of contingency fees in the context of delinquency in the management of a company in promoting easier access to the law for minority shareowners. The Law Society, South African Law Commission and the Standing Advisory Committee on Company Law should be asked to lobby for the formulation of Rules of Court for the purposes of permitting a more liberal use of class actions.
3. Regulators, including the Financial Services Board, JSE Securities Exchange South Africa, Registrar of Companies, Registrar of Banks and others such as the Auditor-General, should ensure that the rules and regulations of good corporate governance under their control are rigorously enforced with particular reference to enforcing sanctions against delinquent directors.
4. Legislators are encouraged to review the regulations introduced by the Registrar of Banks in regard to directors and corporate governance of banking institutions with a view to some or all of these requirements being extended to the Companies Act as applicable.
5. The office of the Registrar of Companies should be encouraged to establish a register of delinquent directors, being those who have been disqualified from acting as such under the Companies Act. This register should be available on its website and the list of such directors regularly updated. The Registrar should work in conjunction with other regulators such as the JSE and FSB with the aim of creating a database of delinquent directors for public information.¹³

It should be noted that these recommendations were identified in the course of the detailed review culminating in the King Report on Corporate Governance for South Africa 2002 and accompanying Code, but which fall outside of the remit of the King Committee. The recommendations therefore are offered for consideration. To the extent that any of these recommendations are accepted, the precise construction for their implementation will be a matter for the relevant bodies and/or authorities to determine and is beyond the discretion of the King Committee to prescribe. The King Committee will naturally, as it did with the King Report 1994, monitor and (where requested) participate in the development for implementation of any of these recommendations.

¹³ Steps have been initiated by the authorities for the implementation of this proposal following the issue of the draft Report released in July 2001 for public comment.

6. Section 424 of the Companies Act is a very effective sanction for the punishment of delinquent directors and officers, but proceedings under this provision are both difficult and expensive to implement. Consideration should be given to the means by which section 424 can be more effectively implemented.
7. While it is important to ensure that the existing quorum threshold for company meetings is sufficient to readily permit access of shareowners to management through this forum, consideration should be given to amending the Companies Act to prescribe a minimum threshold for the passing of ordinary resolutions at a suggested level of at least 25% of the total shares in issue having voting rights (that would align with the existing requirements relating to special resolutions). This would encourage companies to solicit attendance at meetings or receipt of proxies and highlight the need for shareowners to give due consideration to the use of their votes.¹⁴
8. Given the move towards a greater application of information technology to speed up communication and transmission of information, the Companies Act should be reviewed to identify areas where electronic communication would improve governance and communication between companies and their shareowners. A particular area for consideration, in line with developing international practice, is electronic voting by shareowners and the electronic transmission of proxies.¹⁵
9. The Companies Act should be amended to provide for legal backing for accounting standards, approved by the proposed Financial Reporting Accounting Standards Council. In addition, provision should be made for the accounting standard-setting, monitoring and enforcement processes. These should be in line with the recommendations of the Accounting Practices Board and SAICA in terms of the recommendations and structure set out in chapter 3 of Section 5 of the Report. Government is urged to provide the initial funding for these processes of setting and monitoring standards.¹⁶
10. The Companies Act audit requirement should be re-considered for dormant and inactive wholly owned subsidiaries.
11. The Companies Act should be amended to provide for summarised or abbreviated annual financial statements, otherwise termed Concise Financial Reports, to be issued to shareowners, but on the basis that the full set of annual financial statements can be obtained if required.

¹⁴ Considerable public comment was received suggesting that this recommendation was both impractical and unduly onerous. It is the considered view of the King Committee, taking into account these observations, that in an open and transparent governance environment it should be in each company's interest to solicit more active participation by shareowners in company meetings.

¹⁵ The Companies Amendment Act (No. 35 of 2001) has introduced provisions permitting electronic communication in certain limited respects, on dates to still be promulgated including the dissemination of annual reports and financial statements. Specific legislation dealing broadly with electronic communication is being progressed by the authorities arising out of the proposals of the Green Paper released for public comment in 2001.

¹⁶ Considerable progress has been achieved by SAICA and the relevant authorities since the release of these recommendations for public comment that will, in due course, lead to the implementation of legislation regulating the legal backing for accounting standards and accompanying review requirements.

12. Consideration should be given to amending the Companies Act to require certain categories of private companies to file their annual financial statements with the Registrar of Companies, thus making them available for public inspection.
13. The question of directors' and officers' liability insurance requires to be revisited, as the current section 247 of the Companies Act is ambiguous and does not fully cover the original King Committee 1994 recommendation.¹⁷
14. Schedule 3 to the Companies Act should be amended to require reference to corporate governance in prospectuses.
15. Current legislation does not require specific disclosures to be made on ethical matters. There is a case for the adoption of measures similar to the US *Federal Sentencing Guidelines* appropriately adapted for the South African situation. In this regard, the Public Finance Management Act should be studied for an example of reporting ethical and disciplinary matters in the public sector.
16. Directors or officers may, by their acts of commission or omission, have contributed to a company's failure. They should be held liable for any conduct leading to a company's failure. Damages against auditors for company failures are becoming a matter of grave concern. Directors and auditors should only be held liable for damages on a basis proportional to their contribution to the failure. Consideration should be given to amending the Apportionment of Damages Act (No. 34 of 1956) accordingly.
17. To encourage best practice and compliance with respect to environmental corporate governance, it is proposed that consideration be given to extending the existing incentives under Section 10(1)(c)(h)(i) of the Income Tax Act beyond mining operations to all companies, or perhaps at least to those industries considered to be environmentally risky.
18. Institutional shareowners in South Africa have been notable for their apathy towards participating actively in shareowner meetings. Therefore, it is recommended that the bodies representing these institutions look to the steps taken by bodies such as the National Association of Pension Funds and Association of British Insurers in the United Kingdom in setting benchmark standards expected of companies in respect of conformance with good corporate governance.
19. Institutional investors and pension fund managers should make publicly available their voting policies, providing explanations where appropriate, by communicating this information to their own constituencies on a regular basis (probably annually) or by making it accessible to the public at large, in line with international standards of practice.

17 Paragraph 24.7 as read with paragraph 23.3 of the King Report 1994.