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Book Review

Executive remuneration in South Africa: key issues highlighted by shareholder activists

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Abstract

The growing wage gap in South Africa has far-reaching socio-economic consequences. This study investigated the nature of executive remuneration issues raised by shareholder activists in the country. An analysis of 24 510 votes cast by 17 investment managers at 347 companies listed on the Johannesburg Stock Exchange in 2013 revealed that the vote to endorse companies' executive remuneration policies evoked the most opposition. Well-known shareholder activist, Theo Botha, also criticised companies for failing to disclose sufficient details on their remuneration policies. A disconnect between the performance of companies and their executives' pay was also noted. It is recommended that the non-binding vote on executive remuneration be revised and more investor education provided.

Introduction

The role of ethics in investing has long been debated in academic circles. In one of the first articles on the topic, Irvine (1987: 236) introduced the Enablement principle. This principle states that it is morally wrong for a person to do something that enables others to do wrong. In a corporate context, this principle implies that shareholders should not enable managers to do wrong. For the purposes of this article, corporate wrongdoing is seen to extend beyond obvious acts of unethical behaviour (such as the misappropriation of funds) to the perpetuation of an unjust society.

South Africa has one of the largest wage gaps in the world. A 2013 study found that chief executive officers (CEOs) of companies listed on the Johannesburg Stock Exchange (JSE) earned as much as 53 times the amount of the average worker in their companies (Bronkhorst, 2014). The top seven CEOs earned a staggering 300 times that of the average worker.

The remuneration committees of JSE-listed companies, however, justify executives' large compensation packages by stating that they need to attract, retain and motivate talented individuals (Hogg, 2008; Gilmour, 2013). This point, often made by companies that compete globally (Bronkhorst, 2014), is not without some merit. A remuneration committee that approved a substantial increase in its CEO's emolument package remarked: "No matter how immoral executive remuneration may seem to be to the rest of us, it has to be competitive. We simply can't afford to be bold in terms of the moral side of the equation and cut executive pay, because we would then run a real risk of losing some of our talented executives who have specialised knowledge and skills and who are also very mobile" (Barron, 2014a).

Some South African executives also believe that they are entitled to large compensation packages (Crotty, 2014c). The CEO of a major platinum mine allocated R76,4 million (+/- US$7,64 million) in share options to 12 executives, at a time when the company refused to increase the minimum wage to R12 500 (+/- US$1 250) per month, justifying the decision as follows: "Am I [the CEO] getting paid on a fair basis for what I'm having to deal with in this company? Must I run this company and deal with all this nonsense for nothing? I'm at work. I'm not on strike. I'm not demanding to be paid what I'm not worth" (Rose, 2014). The CEO later apologised for his public outburst (Patton, 2014).

The strike that the abovementioned CEO referred to was the worst mining strike in South Africa's history. It lasted for five months and forced businesses in Rustenburg to their knees, a city where mining-related activities account for about half the jobs and 60 per cent of the local economy (Burkhardt & Janse, 2014). Mineworkers who did not receive their monthly salaries as a result of the "no-work, no-pay" principle, defaulted on their payments at furniture stores and other businesses where they had bought on credit. Tuck shops, street vendors and taxi operators were also adversely affected by the strike as they rely heavily on mineworkers for their income (Tau, 2014).

The mounting discontent among mineworkers also sparked a countrywide strike by the National Union of Metal Workers of South Africa in July 2014. Workers were quoted as saying that CEOs were being paid according to Western standards, while they "remain stuck in the third world" (Pickworth, 2014).

The growing wage gap and associated stakeholder discontent is not unique to South Africa. As far back as 1990, Jensen and Murphy investigated public claims of "excessive" executive compensation in the United States (US). They argued that executive remuneration was not necessarily "excessive", but expressed concerns about the disconnect between company performance and the nature of performance incentives offered to executives. The authors called on boards to allocate a larger percentage of their company's equity to CEOs, offer substantial cash rewards for outstanding performance and impose meaningful penalties for poor performance.

Since the publication of Jensen and Murphy's (1990) seminal article, many other researchers have also determined that executives' salaries and incentives are practically independent from company performance (Conyon, 1997; Vitulano & Hannafey, 2009; Faulkender *et al.*, 2010; Purcell, 2011). Recommendations on how to restructure and rein in executive remuneration has ranged from legislation to allocating stock options and improving the public disclosure of executive remuneration policies and practices (Chan, 2009).

Levitt (2004) claimed that the single greatest impediment to the restoration of confidence in corporate America after the bursting of the dot.com bubble was "continuing instances of extravagant non-performance-based compensation". The same argument resurfaced after the 2008 financial crisis and resulted in shareholders across the globe taking a more active interest in the topic of performance-based executive remuneration (Del Guercio *et al.*, 2008; Bhagat & Romano, 2009; Palmon *et al.*, 2009; Ferri & Maber, 2013).

Although shareholder activism is not a new phenomenon (Waddock & Graves, 2004), it is increasingly seen as an effective means of promoting change in corporate policies and practices, including those dealing with executive emolument (Del Guercio & Tran, 2012). A number of mechanisms available to shareholders to monitor and exert pressure on managers are set out in Table 1.

Table 1: Shareholder activism mechanisms

Nature of engagement	Mechanism
Private (informal) efforts by shareholders to initiate change	Writing letters
	Negotiating with management in private
	Divesting (i.e. selling all the shares owned in a company that fails to respond to shareholders' requests to transform)
	Legal proceedings to enforce shareholder rights
Public (formal) endeavours by shareholders to promote change	Filing of shareholder resolutions
	Asking questions at annual general meetings (AGMs)
	Voting proxies
	Stimulating public debate on issues of concern (e.g. by raising issues at conferences or talking to the media)

Sources: Karpoff *et al.*, 1996; Guay *et al.*, 2004; McLaren 2004; Hendry *et al.*, 2007; De Bakker and Den Hond, 2008; Gifford, 2010; Judge *et al.*, 2010; Morgan *et al.*, 2011; Nordén & Strand 2011.

A strong case can be made as to why shareholders should monitor and influence managers' actions for their own and the greater good. This case is based on the notions of reciprocity, interdependence and accountability (Goodstein & Wicks, 2007). It has long been recognised that moral relationships are reciprocal and deeply influenced by the respective parties' perceptions of fairness. Philips (1997) posits that "whenever persons or groups of persons voluntarily accept the benefits of a mutual beneficial scheme of co-operation, requiring sacrifice or contribution on the parts of the participants, and there exists the possibility of free-riding, obligations of fairness are created among the participants in the co-operative scheme in proportion to the benefits accepted."

When applying Philips' argument to a corporate context, it is clear to see why shareholders have an obligation of fairness. Not only do they voluntarily accept the benefits (dividends and capital gains) from jointly funding the operations of a company, but there is also the very real possibility of free riding. As will be shown later in this article, very few shareholders in South Africa take the time or effort to engage with managers on matters related to corporate wrongdoing.

Shareholder responsibility also arises from the interdependence between shareholders, firms and society. The Latin root of the word responsibility is *respondere* which literally means to "pledge back" and involves a continuous commitment to the greater good. According to Goodstein and Wicks (2007), this interpretation of responsibility emphasises the notion that shareholders and managers share a common fate and suggest that both parties should "pledge things to each other so as to foster co-operation and enhance the welfare of society". Whereas some "pledges" are explicit and formalised, others are reinforced through implicit norms, based on trust. In the context of this research, shareholders could pledge their continued support for management (for example by re-electing certain individuals) if management undertakes to compensate executives in an equitable manner.

A third way of understanding shareholder responsibility is connected to the notion of accountability. Goodstein and Wicks (2007) claim that the most important way in which shareholders and managers can honour their "pledges" is through making morally acceptable decisions and being accountable for their actions and impacts. A key consideration in determining accountability is whether the party in question has the capacity to produce consequences that matter to others. As illustrated earlier, decisions relating to executive remuneration could disrupt the lives of employees and those who depend on their income. As future dividends and capital gains are also likely to be adversely affected by disruptions to social cohesion, shareholders have a definite interest in ensuring fair decision making in this regard.

As the enablers and beneficiaries of corporate activity, shareholders have a responsibility, not only to monitor managers' behaviour for any wrongdoing, but also to influence their decisions to contribute to the greater good (or common fate as Goodstein and Wicks (2007) calls it). Nowhere is this responsibility more apparent than in the recent debate on excessive executive remuneration.

Problem Statement and Research Objectives

very few academic studies have been undertaken on the mechanisms used by shareholder activists in South Africa. Whereas Veicht (1995) investigated the role of institutional investors in addressing weak corporate governance among JSE-listed companies, Bhana (2010) considered the matter from an individual investor perspective. The legal aspects associated with shareholder activism were evaluated by Rademeyer and Holtzhausen

(2004) and Lekhesa (2009), while Fumpa (2011) and Reddy and Giamporcaro (2011) explored the role of trade unions in engaging investee companies. For the rest reference is only briefly made to shareholder activism in articles dealing with responsible investing in South Africa, for example Heese (2005) and Viviers *et al.* (2009).

To address the gap in the literature, this article will provide an overview of shareholder activism in South Africa, both from an institutional and individual investor perspective. Specific attention will be paid to the executive remuneration issues raised by local shareholder activists. Insight into the executive compensation issues that provoke shareholder opposition could enable JSE-listed companies to be more proactive on the matter, thereby avoiding reputational damage.

The remainder of the study is structured as follows: In the next section, an introduction to and overview of shareholder activism will be presented, both internationally and in South Africa. The methods used to collect and analyse data will then be presented followed by the main findings and recommendations for remuneration committees, academics and the South African regulator.

Shareholder Activism: An Introduction to the Phenomenon

Shareholder activists are investors who use their equity stake in a company (called the investee company) to question managerial decisions and demand accountability. Investors are typically classified as institutional investors (such as pension funds, insurance companies, banks and collective investment schemes) or as individual investors (Renneboog *et al.*, 2008). Religious groups in the US were the first institutional investors to publicly raise their concerns about human rights and labour standards as early as the 1940s. Public pension funds only followed suit in the 1980s after religious and other activist organisations established the legitimacy of the social issue agenda (Proffitt & Spicer, 2006).

As "bastions of capital", public and private pension funds have a critical role to play in redressing "inflamatory imbalances between executive and worker remuneration" (Picketty, 2014). The literature review suggests that pension funds and other institutional investors are slowly beginning to take their responsibility more seriously in curbing the wage gap (Sjöstrom, 2008; Wen, 2009; Poulsen *et al.*, 2010; Hadani *et al.*, 2011). Given their size, institutional investors have more incentives and resources to monitor the actions of remuneration committees compared with their individual counterparts (Gillan & Starks, 2000, 2007; Almazan *et al.*, 2005).

In addition to the mechanisms listed in Table 1, shareholders who are not satisfied with the manner in which managers respond to their requests, could also do the so-called "Wall Street Walk", that is, they could sell all the shares they own in a specific company and invest elsewhere (Meznar *et al.*, 1998; Admati & Pfleiderer, 2009). This shareholder activism mechanism is generally only used by institutional investors, as divestment by individual investors does not have a significant impact on a company's share price or cost of capital.

Institutional shareholder activism received a significant boost in 2006 with the launch of the United Nations' Principles for Responsible Investment (PRI). PRI signatories are encouraged to be active owners who incorporate environmental, social and corporate governance (ESG) considerations into their ownership policies and practices. On 31 December 2014, 286 asset owners in 27 countries were PRI signatories. It is estimated that these owners manage assets to the value of US$45 trillion (UNPRI, 2015).

Research shows that the mechanisms used by shareholder activists differ from country to country. Activists in the United Kingdom (UK) and Sweden, for example, prefer private forms of activism (Short & Keasey, 1999; Becht *et al.*, 2010; Poulsen *et al.*, 2010), while public activism is more evident in the US (Bauer *et al.*, 2012).

Most cases of shareholder activism is financially motivated and involves, among others, pressurising management to spin-off loss-making divisions and increase dividend payouts (Ntim *et al.*, 2012). In contrast to shareholder activists' financial motivation, socially-orientated shareholder activists endeavour to create a more just society (Hendry *et al.*, 2007). Issues pertaining to sustainability, human rights and labour standards are thus often high on the agenda of social shareholder activists (Proffitt & Spicer, 2006). Although executive remuneration has financial implications, activism on this issue is generally classified as social rather than financial.

Nordén and Strand (2011) ascribe the rise in social shareholder activism to a growing number of investors wanting to comply with external, normative pressures such as culture, law, politics, informal codes of conduct, and societal expectations. Some authors (such as Cespa & Cestone, 2007) contend that financial and social shareholder activism are converging, and attribute this trend to a growing realisation among companies and shareholders of their mutual dependence. McLaren (2004) also a mutual interest in the collective social benefits that can result from engagement among shareholders and companies.

The extent to which institutional investors monitor managers' behaviour, be it financially or socially driven, has been shown to be positively associated with company size (Waddock & Graves, 2004; Ng *et al.*, 2009; Judge *et al.*, 2010), poor prior financial performance of a company (Karpoff *et al.*, 1996), inadequate corporate governance (Morgan *et al.*, 2011) and significant institutional ownership (Bauer *et al.*, 2012). A number of factors that have a negative impact on activism intensity have also been identified in the literature. These include concerns about fiduciary duty (Almazan *et al.*, 2005), potential business relations with investee companies (Davis & Han Kim, 2007) and the so-called "free rider" problem that exists due to the private cost of monitoring (Shleifer & Vishny, 1986).

The rise in shareholder activism has not been without controversy. The phenomenon has been described as "disruptive, opportunistic, misguided and at best ineffective" (Becht *et al.*, 2010: 3094). Hendry *et al.* (2007) point out that some managers resent being told how to run their companies by investors who have no management experience. However, these managers should realise that investors also resent it when managers destroy shareholder value, whatever the reason may be.

The question of how effective shareholder activists have been in influencing corporate decision making on policies and practices has been extensively researched (Wen, 2009). Mixed evidence has been reported on shareholders' ability to influence the level and composition of executive pay packages. Thomas and Martin (1999), for example, found that individual shareholder activists have not been successful in amending executive remuneration policies. The authors attributed their findings to the limited capacity of individual shareholders to understand and monitor complex compensation policies.

As far as institutional investors are concerned, a number of studies reported that "against" or "no" votes at AGMs have been ineffective in reducing executive remuneration and/or restructuring emolument packages (Conyon & Sadler, 2010; Armstrong *et al.*, 2013). In contrast to these findings, Ferri and Maber (2013) ascertained that many UK companies removed controversial CEO remuneration practices, such as generous severance contracts, and by increasing the sensitivity of performance-based bonuses in response to negative say-on-pay votes. A significant reduction in CEO remuneration as a result of shareholder opposition were also reported by Cheffins and Thomas (2001) and Ertimur *et al.* (2010).

As indicated earlier, very limited academic research has been done on shareholder activism in South Africa. In the following section an attempt will thus be made to present an overview of the mechanisms used by institutional and individual shareholder activists in the country.

Shareholder Activism in South Africa

In view of the relatively small size of the JSE[1], divestment is generally not used as a shareholder activism mechanism by South African institutional investors (Boshoff & Schulshenk, 2014). Withdrawing from an already limited investment universe will leave institutional investors with poorly diversified domestic portfolios (Baue, 2002). In contrast to the US, local shareholders hardly ever revert to legal proceedings and the filing of shareholder resolutions to enforce their rights (Lekhesa, 2009; Silverman & Duncan, 2014). Local institutional investors furthermore have a poor track record when it comes to asking questions and voting at AGMs (Barron, 2008; Crotty, 2010; Mathews & Hasenfuss, 2013). Barron (2011) claims that this passiveness "goes back to the bad old days when there was an old boys' network. You had the mining houses and the banks and everybody owned shares in each other and they all met at the Rand Club, and nobody rocked the boat".

The Government Employees Pension Fund (GEPF) was one of the pioneers of shareholder activism in South Africa. The GEPF is the largest pension fund in the country, with more than 1,2 million active members and assets worth more than R1 trillion (+/- US$1,25 billion) (GEPF, 2015a). Being one of the founding members of the United Nations' Principles for Responsible Investment in 2006, the GEPF is committed to use its financial strength to build a better society (GEPF, 2015b). Although the pension fund occasionally engages with investee companies, most of its activism initiatives are outsourced to the

Public Investment Corporation (PIC). The PIC also invests on behalf of other public sector entities, and is thus one of the largest asset managers in Africa (PIC, 2015).

Under the leadership of Brian Molefe (2003–2010) the PIC publically engaged with several JSE-listed companies, mainly on transformation-related matters (Robbins, 2008; Mantshantsha, 2013). Following the appointment of the new CEO, Dr Dan Matjila, the PIC's approach to activism has changed considerably: "We [the PIC] engage with lots of companies behind the scenes, but prefer to keep details of discussions out of the media" (Barron, 2014b). Anecdotal evidence suggests that the majority of other institutional investors in South Africa also prefer to discuss their concerns with investee companies in private (Anderson, 2006; Cohen, 2011; Winfield, 2011)

To encourage institutional shareholder activism in the country, the Association of Savings and Investments SA compiled a Code for Responsible Investing in South Africa (CRISA, 2011). Developed in conjunction with the Institute of Directors Southern Africa and the Principal Officers Association, CRISA draws heavily on recommendations of the PRI and the third King report (the King III report) on corporate governance in South Africa.

Despite these positive developments as well as changes to pension fund legislation in 2011, institutional shareholder apathy is still endemic in the country (Crotty, 2014b; Couldridge, 2014). This state of affairs may be as a result of, among others, a lack of interest among trustees (Cairns, 2014), business relations between investment managers and investee companies, resulting in conflicts of interest (Crotty, 2012b), and inefficient skills among practitioners in the entire investment chain (Herringer *et al.*, 2009). These barriers to shareholder activism are also reported in international research on the topic (Ng *et al.*, 2009; Huppé & Bala-Miller, 2011).

A number of individuals have become prominent shareholder activists in South Africa. These include Theo Botha, Issy Goldberg, Roy McAlpine, and a gentleman colloquially called "Mr Hayden" in the press (Barron, 2011; Carte, 2011). Of these, Theo Botha is by far the most vocal and well-known individual shareholder activist in the country (Bhana, 2010; Mpofu, 2013; Gardee, 2014; Shevel, 2014). Botha was born in 1960, and later obtained a Bachelor of Commerce (honours) degree in accounting at the University of South Africa (Unisa). He completed his articles at PricewaterhouseCoopers, but had to return to his family's farm in 1987 after his father passed away (Steyn, 2011). Currently, Botha is a part-owner and director of CA Governance, a leading independent corporate governance practitioner in South Africa (CA Governance, 2015).

After making a small investment in 2002 in the Sage Group, a South African life assurance company, Botha discovered that the company failed to disclose losses in its US operations to local shareholders (Keeping tycoons on their toes, 2007). He privately questioned management on the omission, but the company responded by saying that its financial statements complied with local disclosure requirements. Unsatisfied with the response, Botha raised the issue at the company's AGM. As he received the same brush-off as earlier, he decided to approach the media. Following the media reports, Sage's share price did not only fall dramatically, but its credit rating was also downgraded a few weeks later (Planting, 2012).

Since his initial deliberations with the Sage Group, Botha has engaged with numerous companies listed on the Johannesburg and London Stock Exchanges. His efforts in highlighting unsatisfactory accounting, financial and ESG practices, have earned him a reputation as a corporate watchdog, or to be more specific, a terrier (Creamer, 2009; Shevel, 2014). The so-called "Botha sting" has also resulted in a significant decrease in companies' share prices after being publically criticised by the activist (Bhana, 2010).

Given that individual shareholder activists rarely have access to corporate managers (De Bruin, 2014), their activism endeavours are essentially limited to raising questions at AGMs and in the media.

Research Methodology

A mixed methods approach was used to identify the key issues raised by shareholder activists on executive remuneration in South Africa. Given the absence of academic literature on the topic in South Africa, an extensive review of media and industry reports was thus necessary.

Data collection and analysis: institutional shareholder activism in South Africa

As most private negotiations between shareholder activists and investee companies in South Africa take place behind closed doors, no data were available to investigate the issues raised at these meetings. A decision was therefore made to focus on the proxy voting outcomes of a sample of local investment managers who invest on behalf of institutional shareowners.[2] Publicly available proxy voting data for 2013 were gathered from the websites of 17 of the largest investment managers in South Africa. Where proxy voting data were not publicly available, it was requested directly from investment managers. Details on the domains, codes and sources of data used in constructing the proxy voting database are provided in Table 2.

Resolutions pertaining to preference shares, exchange traded funds, N-shares and B-shares were excluded from the database. For comparative purposes, only resolutions tabled at AGMs in 2013 were analysed. A total of 24 510 votes at 347 JSE-listed companies were analysed using descriptive statistics.[3]

Table 2: Description of the proxy voting database

Domain	Code	Data source(s)
Name of investment manager	Abax Investments; Afena Capital; Allan Gray; Cadiz Asset Management; Coronation Fund Managers; Element Investment Managers; Foord Asset Management; Futuregrowth Asset Management; Investec Asset Management; Kagiso Asset Management; Old Mutual Investment Group (SA); Public Investment Corporation; Prescient Investment Management; Prudential Portfolio Managers; Stanlib; Taquanta Asset Managers; Vunani Fund Management	
Share code of JSE-listed company	Share code	
Date of listing of JSE-listed company	Date of listing	Sharenet and ShareData websites
Industry classification of JSE-listed company[(a)]	Resources (J004); Basic industries (J010); General industries (J020); Non-cyclical consumer goods (J030); Cyclical consumer goods (J040); Cyclical services (J050); Non-cyclical services (J060); Financials (J080); Information technology (J090); AltX	Sharenet and ShareData websites
Meeting type	Annual general meeting; General meeting; Extraordinary general meeting; Scheme meeting; Special meeting	Documents available on the investment managers' websites or provided by them.
Resolution	The exact wording of the resolution that was voted on	Ditto
Resolution type	Ordinary; Special	Ditto
Manager vote	For; Against; Abstain	Ditto
"Against" theme	42 codes categorising financial and corporate governance-related resolutions	The researchers' own coding based on terminology used in the Companies Act (No. 71 of 2008), the JSE listings requirements and the King III report
Voting outcome	Passed; Rejected; Withdrawn	RMB Custody and Trustee Services

(a) The industry classification of the FTSE/JSE Africa Index Series (2014) was used.

Data collection and analysis: individual shareholder activism in South Africa

Considering Theo Botha's prominence as an individual shareholder activist in South Africa, a decision was made to focus on his endeavours over the period May 2002 to December 2014. Newspaper articles reporting on Botha's interactions with JSE-listed companies were identified using key words such as "Theo Botha", "Brian Molefe", "Public Investment Corporation", "PIC", "Government Employees Pension Fund", "GEPF", "Code for Responsible Investing in South Africa", "CRISA", "Regulation 28", "annual general meeting", "AGM", "shareholder activism", "shareholder engagement", "proxies", "proxy voting", "resolutions", "institutional investors" and "minority investors".

To gain more insight into Botha's *raison d'*être, an in-depth personal interview was also conducted with the shareholder activist in July 2013. Follow-up discussions were held with him to verify the accuracy of data collected, and to determine whether there were any additional engagements not reported in the media. The collected data were coded and analysed using the three phases of deductive qualitative content analysis (Elo & Kyngäs, 2007). In the first phase, a categorisation matrix was developed to code data according to categories (such as financial and ESG issues). Next, the data were reviewed and coded for correspondence with, or exemplification of, the identified categories. Finally, the contents of the categories were described by means of sub-categories. The category dealing with corporate governance issues was, for example, sub-divided into issues dealing with the board of directors, executive remuneration and communication with shareholders.

Botha consented to his name to be used in this study and was given the opportunity to verify the accuracy of the data. Care was taken to ensure the credibility and reliability of the findings.

Empirical Findings

Institutional shareholder activism on executive remuneration in South Africa

Only 6,6 per cent of all votes cast by the investment managers in the 2013 sample were "against" votes. However, informal discussions with selected investment managers revealed that the low percentage of "against" votes should not be viewed as investor inactivity, but rather as the result of successful private negotiations that took place with investee companies prior to the AGMs in 2013. Table 3 presents a summary of the executive remuneration resolutions that received opposition.

The "against" votes on executive remuneration issues represented 37,3 per cent of all "against" votes in 2013. The resolution requiring shareholder endorsement of a company's remuneration policy evoked the highest number of opposition votes of all 42 resolutions investigated in this study. As this vote is non-binding, remuneration committees do not have to amend their policies in response to the vote outcome. Despite the non-binding nature of the vote on shareholder endorsement of a company's remuneration policy, research by Ernest & Young (E&Y) showed that a considerable number of local remuneration committees changed their remuneration policies in response to the 2013 vote. One third of the remuneration committees in the E&Y survey regarded an "against" vote of 30 per cent or more as a warning signal of growing shareholder dissent (Remuneration Governance in South Africa – 2013 Survey results, 2013).

Quite a few resolutions requiring shareholder approval in terms of directors' fees and performance incentives also attracted opposition in 2013. The findings of the current study support anecdotal evidence in earlier years that institutional investors are becoming more vocal about executive compensation in South Africa. For example, in 2011, the majority of shareholders vetoed a proposed 40 per cent increase in non-executive directors' fees at Spur Corporation, a local restaurant chain (Vallie, 2011). In the same year, Investec's Stephen Koseff was reported to be South Africa's highest-paid banker, despite the fact that the company showed the lowest returns among the country's five largest banks. Unsurprisingly, 28 per cent of shareholders opposed the company's remuneration policy in the following year (Vanek, 2012c). Shareholders were also quick to question the virtual doubling of the steel giant ArcelorMittal's CEO's remuneration package in 2012 (Filen, 2012). Also in 2012, the majority (75 per cent) of Central Rand Gold's shareholders voted against the company's director remuneration report (Faku, 2012). As this was the largest "no" vote to date recorded in South Africa, a clear message of shareholder dissent was sent to management.

Table 3: Executive remuneration-related resolutions that received "against" votes

Category	Resolution	No of resolutions receiving "against" votes	
Remuneration policy	Endorsing the company's remuneration policy	228	228
Directors' fees and performance incentives	Approving non-executive directors' remuneration/fees	95	
	Approving the share incentive plan	21	
	Approving the issue of shares to directors and/or prescribed officers under the share incentive plan	17	
	Issuing ordinary shares for the purpose of share options	10	
	Approving the chairperson's remuneration/fees	8	
	Amending the share incentive plan	6	
	Approving the share option plan	4	
	Adopting an employee forfeitable share plan	3	
	Amending the long-term incentive plan	2	
	Adopting the long-term incentive plan	1	
	Approving the long-term incentive plan	1	168
Total		**396**	**396**

Botha's concerns about executive remuneration in South Africa

Before providing details on the executive remuneration issues raised by Botha, a short description is provided on his *modus operandi*. In line with institutional investors, Botha also prefers to target large, well-known companies (Bhana, 2010). Once a company has been selected, Botha prepares meticulously for the company's AGM. It could take him up to five hours to examine the company's annual report. He also reads at least five years' annual reports before attending a company's AGM (Barron, 2008) and scrutinises circulars and information posted on the web (Tredway, 2004). "From the Sage experience in 2002 I've learnt to read through a company's public information very closely". In a few cases, Botha sent his list of questions to managers prior to a company's AGM. As indicated in Table 4, he attended 143 AGMs of 58 JSE-listed companies over the period May 2002 to December 2014. In some of these cases, Botha only owned one share in a company to gain access to its AGM.

Table 4: Shareholder activism mechanisms used by Botha (May 2002–December 2014)[(a)]

Mechanism	No of cases
Asking questions at AGMs[(b)]	143
Making comments about a specific company/director in the media[(c)]	44
Engaging in private discussions with directors prior to or after an AGM	8
Engaging with the JSE about misbehaving listed companies	3
Initiating legal proceedings	3

(a) These mechanisms are not mutually exclusive. Botha terms them as "different arrows for his bow" and suggests that individual shareholder activists should use as many mechanisms as possible to convey their viewpoints.

(b) The names of the companies are listed in Appendix A.

(c) Media comments have increased considerably in 2014 as a result of a regular "soap box" insert which Botha writes for Moneyweb [a South African online business newspaper].

Once at an AGM, Botha asks questions and insists that both his questions and directors' responses are minuted (Petros, 2009; Crotty, 2011). He believes that proper record keeping is necessary to hold directors accountable from one AGM to the next. Apostolides (2007: 1277) once remarked that companies often regard their AGM as "an annual headache where management is questioned by social activists". According to Rose (2007), South African managers are no exception, especially when Botha attended their AGMs. Table 5 provides a number of the executive remuneration issues which Botha raised with JSE-listed companies, using one or more of the activism mechanisms described above.

Executive remuneration issues represented a fifth (21,9 per cent) of all issues that Botha has raised with JSE-listed companies over the past 13 years. Information in Table 5 confirms that inadequate disclosure of remuneration policies has been "a major bone of contention" for Botha. At present, JSE-listed companies are required by law to disclose details of executive and non-executive directors' fees and remuneration in their annual reports (Naidoo, 2002). The King III report recommends that this disclosure should be done on an individual basis, showing specific elements of each director's compensation package, i.e. basic salary, bonuses and share options. Botha's calls for better disclosure go a step further in that he wants to see more information on the performance targets, benchmarks and key performance indicators used by remuneration committees to determine the extent of executives' pay packages (Rose & Shevel, 2009; De Waal, 2011; Vanek, 2012a; Crotty, 2013a; Hedley, 2013; Gilmour, 2014).

Botha argues that more information is necessary to hold remuneration committees accountable, and to determine whether executive pay is "appropriate or excessive" (Botha in Crotty, 2012a). The absence of accountability is further compounded by the lack of comparative figures from previous years (Schumacher & Monteiro, 2009). In 2013, Botha commended a large banking group for improving its disclosure "on the complex issue of executive remuneration", but remarked that he still found it difficult to obtain a precise indication of the value of top managers' packages (Crotty, 2013b).

Table 5: Executive remuneration issues raised by Botha (May 2002–December 2014)[(a)]

Category	Sub-category	No of times the issue was raised	
Remuneration policy	Poor or inadequate disclosure on the remuneration policy (failure to disclose performance targets/benchmarks/key performance indicators/caps and changes to the policy)	24	24
Justification of the size and composition of executive remuneration packages	Justification of remuneration packages in general	21	
	Justification of remuneration packages in light of poor financial performance	18	
	Justification of remuneration packages in light of retrenchments and strikes	2	41
Composition and responsibility of remuneration committees	Questions related to the responsibility of the remuneration committee (such as them serving the interests of directors and not the interests of shareholders)	8	
	Concerns about the composition of the remuneration committee (mainly deals with the independence of certain committee members)	7	15
Directors' fees and performance incentives	Unequal treatment of directors in terms of rewards	5	
	Failure by the remuneration committees to link directors' fees to their attendance of board meetings	4	9
Other	Inaccurate calculation or disclosure of bonuses, sign-on fees, *ex gratia* fees, severance packages etc.	7	
	Concerns about the growing wage gap in a particular company	3	
	Other[(b)]	7	17
Total		**106**	**106**

(a) The issues listed in this table are only those that appeared in local newspapers and magazines. Journalists may not have reported on all the issues raised by Botha, as he sometimes had up to 20 questions (Mantshantsha, 2007).

(b) "Other" remuneration issues dealt with directors receiving bonuses before shareholders had approved of it; the board's endorsement of "excessive remuneration" at a time of weak commodity prices; directors' earning fees as a result of a pyramid structure (rather than fees being based on performance), the allocation of broad-based black economic empowerment shares to a white, female director, and unsecured loans being made available to directors on very lenient terms.

It is interesting to note that the vast majority of Botha's requests for improved remuneration disclosure (86,5%) occurred after the 2008 global financial crisis. This finding concurs with increased appeals from investors around the globe for greater transparency on executives' emolument packages after 2008 (Palmon *et al.*, 2009).

Botha has, on numerous occasions, requested boards to justify the size and composition of executives' compensation packages (Monterio, 2009; Crotty, 2012b; Vanek, 2012b; Mathews, 2014; Ndzamela, 2014). In the majority of these cases, the criticism was based on poor financial performance of the company in the same or preceding year (Benjamin, 2009; Hasenfuss, 2009a; Harris, 2013). Botha had particularly harsh criticism towards companies that increased executives' pay in the midst of destructive industrial action and/or retrenchments (Carte, 2009). The same applied to remuneration committees that ignored the growing wage gap in their company (Mantshantsha, 2007; Patton, 2014), and those that failed to cap performance bonuses allocated to executive managers (Whitfield, 2011). Botha was also opposed to non-executive directors who received fees despite their poor attendance of board and board committee meetings (Mamtse, 2007; Ashton, 2008; Barry, 2014b).

As a campaigner for sound corporate governance in South Africa (Hasenfuss, 2006), Botha is renowned for asking pressing questions about the size and lack of disclosure of sign-on fees, the allocation of share options, relocation allowances, *ex gratia* fees, and the clawing back of bonuses that have been paid to directors before shareholder approval was obtained (Hogg, 2009; Monteiro, 2009; Carte, 2010; Mantshantsha, 2010; Crotty, 2012a). Having repeatedly challenged the independence of directors who serve on remuneration committees (Cobbett, 2007; Mokopanele, 2008; Cokayne, 2009), Botha exposed a gross calculation error in a senior manager's remuneration package (Hasenfuss, 2009b). The manager in question also happened to be a member of the company's remuneration committee that approved the package.

Botha has also been very outspoken about local institutional investors' lack of activism, particularly on the topic of executive remuneration: "They are paying lip service to good governance and sustainability issues as they are under pressure to produce good results. They are notorious for keeping their costs tight, apart from when it comes to their bonuses" (Shevel, 2014). In a Moneyweb interview, during which Botha was asked why he was apparently the only person in South Africa who was concerned about executive remuneration, he responded: "I don't know. I wish there was somebody else. I wish the bigger shareholders would actually take this up because we are setting a bad precedent here. When the operating profits are down; when cash generation goes down, you would like to see a more balanced approach in terms of awarding bonuses" (Botha in Hogg, 2010).

Botha acknowledges that most institutional investors in South Africa prefer to engage with investee companies behind closed doors. However, in an effort to encourage greater transparency, he has repeatedly called on institutional investors to disclose the number of shares they vote at shareholder meetings, and how (for, against, abstain) they vote those shares: "Anything less leaves stakeholders in the dark" (Botha in Crotty, 2013c). Sadly, very few institutional investors have heeded Botha's calls to date.

Summary and Conclusions

Although a clear case exists for shareholder responsibility (based on the Enablement principle and the notions of reciprocity, interdependence and accountability), few investors in South Africa seem to take this responsibility seriously. The findings of this study show that institutional shareholder activism in South Africa mainly occurs by means of private negotiations and proxy voting. Despite amendments to pension fund legislation and initiatives such as the United Nations' Principles for Responsible Investment and the Code for Responsible Investing in South Africa, institutional shareholder activism in the country remains muted. Silverman and Duncan (2014) remarked that South Africa still has a long way to go in terms of maturity before the country will be ready to respond to shareholder pressure. As far as individual shareholder activism is concerned, Theo Botha remains a lone voice in the desert.

Local investment managers in this study voted against a number of resolutions pertaining to executive remuneration in 2013. Most of the shareholder dissent focused on the remuneration policies of investee companies. The issues brought to the fore by Botha provides more insight on the nature and extent of these concerns. After 2008, Botha has increasingly criticised JSE-listed companies for not disclosing sufficient information on the performance targets, benchmarks and key performance indicators used to determine executives' pay packages.

Although calls for improved disclosure have also been reported in international literature (Van Niekerk, 2014), these calls do not go unchallenged. Opponents argue that detailed public disclosure of CEOs' salaries has the unintended consequence of pushing these payments even higher. In this respect, a local remuneration committee commented that South African executives are very aware of what their counterparts are being paid: "If they think they're being short-changed, they leave. And believe me, in South Africa the pool of talented executives is very small. So the retention imperative is a very real one" (Barron, 2014a).

A second key issue highlighted in this study was the disconnect between executive emolument and company performance. Companies that fail to link managers' incentives to performance has received considerable condemnation from shareholder activists globally, particularly in the UK (Conyon & Sadler, 2010; Ferri & Maber, 2013). In South Africa, Botha has been exceptionally critical of poorly performing companies that still rewarded their executives by increasing their basic salaries and/or bonuses.

A 2012 survey among 30 JSE-listed companies revealed that several remuneration committees started to recognise the importance of this matter. Their first priority in 2012 was to design appropriation long-term incentive schemes followed by plans to link pay to performance (Harraway *et al.*, 2012). However, the findings of this study seem to support Van Niekerk's (2014) claim that there is indeed a "mounting fury [from shareholders and other stakeholders] against the perceived exuberance of executive pay" in South Africa. In the following section a number of recommendations are provided to address the growing wage gap (and its adverse socio-economic consequences) in the country.

Recommendations

Evidence from this study suggests that shareholders are increasingly uncomfortable with the disclosure and application of executive compensation policies. However, as the vote on remuneration policy is non-binding, its impact is limited to signalling shareholder discontent. The regulator in South Africa has one of two options to address this matter. In the first instance, the regulator could consider changing the non-binding vote to a binding one as is the case in the UK and several European countries (Delman, 2010; Crotty, 2014b).

Since October 2013, the remuneration reports of UK companies are required to not only outline the company's remuneration policy, but the reports should also contain details on how the policy was implemented in the financial year being reported on. Companies are further required to put their remuneration policies to a shareholder resolution at least every three years. As with other ordinary resolutions, a simple majority vote is needed for approval. Shareholders in the UK also have an annual advisory vote on a resolution to approve the implementation report, showing how the approved pay policy has been implemented. The latter should also contain a single figure indicating the total pay each director received in that year. Companies that wish to make changes to their remuneration policies should present the new policy to shareholders for approval at a general meeting.

Alternatively, the regulator could institute a so-called "two strike" law as in Australia (Botha, 2014). The Australian regulator amended that country's Corporations Act in July 2011 to hold directors more accountable for the salaries and bonuses they receive. The Act stipulates that each director's individual salary and bonus should be outlined in the report. The "first strike" occurs when a company's remuneration report receives an "against" vote of 25 per cent or more at the company's annual general meeting (AGM). The "second strike" occurs when the company's remuneration report again receives an "against" vote of 25 per cent or more at the next AGM. When this "second strike" occurs, the shareholders will vote at the same AGM to determine whether all the directors will need to stand for re-election (known as the "spill" resolution). If this "spill" resolution passes with 50 per cent or more of the eligible votes cast, a "spill meeting" has to take place within 90 days of the AGM. At this spill meeting, those individuals who were directors when the remuneration report was deemed unsatisfactory, will be required to stand for re-election, except for the managing director, who is permitted to continue to run the company (Jolly & Bozinovski, 2013).

In an effort to improve disclosure among public companies, the JSE could consider revising its listing requirements. More stringent disclosure requirements would go a long way in empowering shareholders to make informed decisions. It is also suggested that companies publish more details on how shareholders vote at meetings. At present, listed companies are expected to inform the market, via the JSE's Stock Exchange News Service (SENS), of the outcome of the voting process. Although SENS statements such as "All resolutions were passed at the AGM" meet the JSE's listing requirements, they hardly reflect a pledge on the part of companies to be transparent. According to a market commentator, "the current [level of] disclosure is so brief as to be almost pointless" (Crotty, 2014b). If this status quo is set to change (as reported in the media), JSE-listed companies will be required to announce the total number of shares voted at their AGMs as well as the details of the outcome (for, against or abstain) (Crotty, 2014a).

It is furthermore proposed that entities such as the Association of Savings and Investments SA, encourage their members (especially investment managers) to publish more details on their voting policies and practices.

Although a few consulting companies already advise institutional investors on remuneration-related voting, more of these specialist services are necessary. Botha has established such a service for individual investors: "Whereas institutional investors have divisions and policies governing how they vote, many individual shareholders do not exercise their right to vote because of the effort required to make an informed decision" (Botha in Barry, 2014a). Botha hopes that his service will increase the number of shareholders who attend AGMs and participate on an informed basis, exercising their democratic right to vote (Botha in Barry, 2014a).

A more fundamental intervention to address the growing wage gap in South Africa lies with the education of future shareholders, pension fund trustees, asset managers and company directors. Much more attention should be given to ethics in mainstream financial and investment management qualifications, at both undergraduate and postgraduate level. Currently, it appears as if too much emphasis is placed on compliance with legislation and professional codes such as the King III report and the CFA's code of ethics and standards for professional conduct. As early as 1994, Paine (1994:111) asserted that "even in the best cases, legal compliance is unlikely to unleash much moral commitment. The law does not generally seek to inspire human excellence or distinction. It is no guide to exemplary behaviour – or even good practice. Those managers who define ethics as legal compliance are implicitly endorsing a code of moral mediocrity for their organisations".

It is therefore recommended that business educators should instil a greater sense of moral sensitivity, judgement and courage among their students. Case studies and other experiential learning techniques could be used to convey the value of social shareholder activism, and the responsibility that shareholders have in an emerging country to ensure the fair distribution of resources. The use of these techniques calls for the identification of successful shareholder activism examples in South Africa. More research is also required on the impact of shareholder activism on changing corporate policies and practices in South Africa, including those pertaining to executive remuneration.

In conclusion, the researcher wholeheartedly agrees with Botha that "it is time for institutional investors in South Africa to pick up the activism flame". In the words of Gide (in Davis *et al.*, 2006) all South African investors, irrespective of size, should "work and struggle and never accept an evil that you can change". It is unacceptable that shareholders in South Africa continue the enablement of an unjust society by failing to monitor and influence managers' decisions, particularly as they pertain to the size and composition of executive remuneration packages.

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End Notes

1. The number of companies listed on the JSE decreased from a total of 769 in 1990 to 380 in 2014 (World Federation of Exchanges, 2015). The FTSE/JSE All Share index consists of 160 companies which represent 99 per cent of the total market capitalisation of the exchange (FTSE/JSE Africa index series, 2015).
2. On 31 December 2013, 119 investment managers were registered with the Financial Services Board.
3. As at 31 December 2013, a total of 375 companies were listed on the JSE (World Federation of Exchanges, 2015).

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Appendix A: Agms Attended by Botha (1 May 2002-31 December 2014)

	Name of JSE-listed company[(a)]	Total number of AGMs attended
1	ABSA Group Ltd.	7
2	Adcock Ingram Holdings Ltd.	1
3	Afgri Ltd.	1
4	Afrikander Lease (Aflease) Ltd.	1
5	African Bank Investments Ltd.	1
6	African Rainbow Minerals Ltd.	1
7	Allied Electronics Corporation Ltd.	1
8	Anglo American plc	7
9	Anglo American Platinum Ltd.	5
10	AngloGold Ashanti Ltd.	2
11	ArcelorMittal South Africa Ltd.	1
12	Astral Foods Ltd.	3
13	Aveng Ltd.	2
14	Avusa Ltd.	2
15	Barclays Africa Group Ltd. (previously Absa Group Ltd.)	1
16	Barloworld Ltd.	3
17	The Bidvest Group Ltd.	7
18	Capitec Bank Holdings Ltd.	1
19	Central Rand Gold Ltd.	1
20	Dorbyl Ltd.	3
21	Faritec Holdings Ltd.	1
22	Gold Fields Ltd.	1
23	Hosken Consolidated Investments Ltd.	1
24	Investec Ltd.	1
25	JD Group Ltd.	7
26	Johnnic Communications Ltd.	4
27	Kumba Iron Ore Ltd.	1
28	Liberty Holdings Ltd. / Liberty Group Ltd.	5
29	Lonmin plc	1

	Name of JSE-listed company[(a)]	Total number of AGMs attended
30	Metrofile Holdings Ltd.	1
31	Momentum Ltd.	1
32	Mutual & Federal Insurance Company Ltd.	1
33	Nampak Ltd.	4
34	Nedbank Group Ltd.	3
35	Pick 'n Pay Holdings Ltd. / Pick 'n Pay Stores Ltd.	5
36	PPC Ltd.	4
37	Protech Khuthele Ltd.	1
38	Real Africa Holdings Ltd.	1
39	Remgro Ltd.	3
40	Reunert Ltd.	3
41	Rex Trueform Clothing Company Ltd.	1
42	SABMiller plc	2
43	Sappi Ltd.	8
44	Sasol Ltd.	7
45	SetPoint Technology Holdings Ltd.	1
46	Simmer & Jack Mines Ltd.	1
47	Standard Bank Group Ltd.	5
48	Steinhoff International Ltd.	1
49	Super Group Ltd.	2
50	Telkom SA SOC Ltd.	1
51	The Sage Group Ltd.	2
52	Tiger Brands Ltd.	4
53	Times Media Group Ltd.	2
54	Tsogo Sun Holdings Ltd.	1
55	Trencor Ltd.	1
56	Uranium One Inc.	1
57	Wesizwe Platinum Ltd.	1
58	Wilson Bayly Holmes - Ovcon Ltd.	2
Total		**143**

Reviewing state-owned entities' governance landscape in South Africa

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Abstract

The current state-owned entities' (SOEs) governance landscape ranges from fragmented accountability frameworks and human factors to a convoluted array of SOEs typologies, i.e. parent entities and subsidiaries. The article reviews the SOEs' governance landscape to unravel underlying inconsistencies and contradictions and provides a compelling argument for opting to create an overarching SOEs governance and seamless legislative framework. The study perused primary and secondary data employing qualitative methods. As the proposed governance and seamless legal framework as not an absolute resolve of all SOEs challenges, the study tests whether the option could assist in arriving at a liberating praxis that would straddle and fulfil the corporate and developmental aspirations of the state.

Introduction

South Africa, like other countries, has made efforts to reform the state-owned entities (SOEs) landscape. On 12 May 2010, the President of South Africa, Jacob Zuma, publicly announced the appointment of the Presidential State-owned Entities Review Committee to review the role of SOEs (Chabane, 2010: 1). Despite the entities being the principal drivers of the formal sector of the economy, providing the bulk of economic growth as the main entities that deliver many social goods and services to ensure the quality of life to all South Africans, the SOEs legislative and policy frameworks are fragmented. This constrains the entities in their efforts to respond as effectively as possible to the socio-economic development mandate of the state.

Rondinelli (2007: 21) argues that there is increasing evidence that most public entities either do not contribute strongly to development, or perform their public service functions ineffectively and inefficiently. The assessment of SOEs in South Africa, which dictates that they are vulnerable to debt burdens, underinvestment, depreciation of assets, corporate governance quagmires and corruption problems, to mention but a few, confirms Rondinelli's (2007: 21) argument. These setbacks undermine and frustrate the state's intentions to achieve growth and development objectives.

SOEs in South Africa operate within a framework of multiple pieces of legislation, which are at times in conflict with the broad strategic thrust of the state. As there are differing views and trends around principles and practices of the SOEs, this article provides a review of salient issues emerging from the legislative, governance and human factor perspectives of the SOEs. Therefore, the review provides a compelling case to draw conclusions and recommendations at the end of the ensuing discussion.

Conceptual and theoretical framework

Governance vs. government

Largely, governance is a structure and process in which institutions on every level take decisions, determine who to involve in the process of decision making and implementation of decisions, and determine the person or persons to be held accountable and responsible for the outcomes of the implementation of decisions affecting numerous different actors (Ristovska, 2013: 242). It should be borne in mind that delivery of goods and services by SOEs are considered to be provided satisfactorily if the governance system in place is responsive to the needs of individuals, communities and society in general (Kanyane, 2010: 81).

It should be pointed out that there is a difference between government and governance. The latter is found in the former and not vice versa. Without governance, government remains an empty shell. On one hand, governance means the constitutional, legal and administrative arrangements by which governments exercise their power as well as the related mechanisms for public accountability, rule of law, responsibility, effectiveness, transparency, ethics, integrity and citizen participation (Laking, 2002: 268; Kanyane, 2008: 97). The concept, governance, originates from the Greek verb "kubernao" meaning "to steer". The ancient Greek philosopher Plato, being the pioneer of the concept of governance, used it for the first time in a metaphorical sense before it was passed on to the Latin language and the rest of the languages (Wikipedia, n.d.).

Pretorius (2015: 240) argues that good governance is the steering of society through networks and partnerships between governments' corporations and civil society associations. According to Mubangizi and Ile (2015: 78–9), good governance extends beyond the capacity of the public sector to the rules that create a legitimate, effective and efficient framework for the conduct of public policy. It implies managing public affairs in a transparent, accountable, participatory and equitable manner. It entails effective participation in public policy making, the prevalence of the rule of law and an independent judiciary, institutional checks and balances through separation of powers and effective oversight agencies mirrored to that of France.

The French Government Shareholding Agency (Agence des Participations de l'Etat, APE) is a national organisation within the Ministry of Economy decreed in 2004. Its mission is to act as a shareholder for the French government in order to develop its assets and maximise the value of its stakes. As a monitoring tool, APE works with the competent departments involved in drawing up the contracts which bind these companies and organisations to the government. APE continually monitors the quality of governance in the entities in its portfolio and has effectively contributed in raising the standards of those entities (APE Report, 2011: 8, 13).

Government on the other hand is the state administrative machinery utilising governance to ensure effective service delivery. Concurring with this view, Verdeyen and Van Buggenhout (2003: 48) see corporate governance as a model of rules governing mechanisms of the decision-making process and the mechanisms of control and liability of the state entities or private companies. The rules relate to principles such as disclosure, openness and information, transparency, legitimisation, participation and checks and balances.

It is for this reason that the quality outcomes of the SOEs have to be achieved if corporate governance issues such as accountability, administrative capacity and internal operations are well structured. It is therefore important to underscore that good corporate governance demands shareholders, boards, executives and employees of SOEs to display honesty, transparency, ethics and integrity in the conduct of their corporate affairs.

SOEs need to adopt new reforms to be optimally viable. According to Hilb (2004: 76, 98) companies are to be strategically directed, managed and coherently controlled in an entrepreneurial and ethical way in a particular context. This approach attempts to cover the value orientation from both the shareholder and stakeholder perspectives. A holistic framework is imperative for the direction and control of entities that seek to integrate elements of accountability, remuneration and reporting to ensure vibrant functioning of the board in theory and practice (Hilb, 2004: 76, 98).

Corporate governance indices

Companies use internal controls to reduce agency cost problems. Internal controls include managerial participation in ownership, rewards for management, and the use of the board of directors for oversight. These internal controls affect firm performance and the outcome is consequential. A number of studies attempt to construct indices of the quality of corporate governance, such as the:

a) World Governance Indicators (WGI)
b) Ibrahim Index of African Governance (IIAG)
c) African Integrity Indicators (Global Integrity)

Each of these indices associate good corporate governance with good corporate performance. However, studies that link good corporate governance to strong performance, for the most part, come up short (Stout, 2007:800). In terms of the causality of good governance and corporate performance, perhaps none of the indices are satisfactory. In an important work that reviews the strengths and weaknesses of the corporate governance indices, Bhagat *et al.* (2008:1808) arrive at the conclusion that there is no one "best" measure of corporate governance – the most effective governance institution appears to depend on context, and on private corporations' specific circumstance.

Corporate Governance Protocols and Legal Issues

The Constitution

The Constitution of the Republic of South Africa (1996) enshrines the rights of all South Africans to equality and provides for specific measures taken to redress historical imbalances. The acts of law and prescribed policies address this constitutional imperative (Bronstein & Olivier, 2011: 196). The Constitution aims to dismantle the machinery of apartheid and transform society in all areas from education to the arts, from health care to the justice system. Key values and principles found in the Constitution have given rise to policies of affirmative action, black economic empowerment, gender equity and environmental policy. These principles and values have an inherent influence on legislation and policies that impact on SOEs.

The King Reports of Corporate Governance

The first protocol on corporate governance referred to as King I was published in 1997. The second King Report followed it in 2002 on Corporate Governance (King II) and in 2009, the third King Report (King III) was published. King IV is due for publication in 2017. The reports established recommended standards of conduct for boards and directors of listed companies, banks, certain state-owned entities and other public, private and non-profit entities. It included not only financial and regulatory aspects, but also advocated an integrated approach that involved all stakeholders including SOEs. The intention was to provide guidelines on the implementation of corporate governance, suggesting by implication, a consistent standard to which SOEs can adhere. Although King Reports do not carry legal weight, nevertheless, they are applicable protocol to improve governance in corporate and public organisations.

Legislative framework (Public Finance Management Act and Companies Act)

The Public Finance Management Act (PFMA) intends to secure accountability and sound management of the revenue, expenditure, assets and liabilities of public sector institutions. It applies to government departments, public entities (including SOEs) listed in schedules 1, 2 and 3, constitutional institutions, parliament and the provincial legislatures. The PFMA specifies the fiduciary duties and general responsibilities of governing bodies, heads of departments, accounting officers, managers and employees of boards or the accounting authorities, and therefore provides for personal liability in instances where there is potential breach of legislative duties.

The aim of the PFMA is to regulate financial management in the national government and provincial governments; ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively; provide for the responsibilities of persons entrusted with financial management in those governments; and provide for matters connected therewith (PFMA, 1999:1). The object of the Act is to secure transparency, accountability and sound management of the revenue, expenditure, assets and liabilities of the institutions to which the Act applies.

Although the PFMA in its entirety covers all areas of public finance, sections 46 through 86 are of particular importance for financial governance issues. Every public entity governed by the PFMA must have an accounting authority, which must be accountable for the purposes of the PFMA. This is usually the board. However, if there is no board, the statutory governing body serves as an "authority". In special circumstances, the relevant treasury may approve or instruct that another body serve as the accounting authority for that public entity. Accounting authorities must ensure that accurate books and records as well as financial statements and other statutory reports are prepared and presented.

SOEs, especially schedules 1, 2, 3a-c, operate under PFMA legislation, for example Eskom, Telkom, Transnet, the South African Broadcasting Corporation (SABC), Denel, National Home Builders Registration Council (NHBRC), South African Bureau of Standards (SABS) and South African Airways (SAA). This also applies to provincial SOEs, *inter alia* Gauteng Tourism Authority (GTA), Phakisa Major Sport Events and Development Corporation, Richards Bay Industrial Development Zone (RBIDZ) and Mpumalanga Economic Growth Agency (MEGA).

The Companies Act of 2003 and the PFMA of 1999 as amended among others, regulate these entities in conjunction with other regulations that have specific sector or individual legislative needs, but also from different, sometimes paradoxical, perspectives. Having said that, the South African legislative and policy framework under which SOEs operate is fragmented and often contradictory and therefore does not facilitate the execution of fiduciary duties satisfactorily. Arguably, the current legislative and policy framework constrains the SOEs from performing their developmental, strategic and socio-economic functions.

SOEs (Schedule 1, 2, 3a-c) are also subject to a plethora of legislative frameworks stemming from Treasury Regulation 16, which makes provisions for national and provincial government institutions to enter into public-private partnership agreements. Studies carried out by the Department of Public Enterprises (DPE) point out incongruences between the PFMA and the Companies Act. It is also important to mention that the Companies Act and PFMA did not originally mean to grapple with the specific issues confronting public entities on a day-to-day basis as they serve as stopgap measures (SOEs Policy Dialogue Report, 2012: 10).

There is therefore a strong view that there is a need for singular overarching SOEs legislation based not only on legislative reform, but also on the practical application of having to deal with the dynamics on the ground. For example, the Companies Act stipulates clearly that shareholders appoint the board and the board subsequently appoints the CEO, but this is a problem for SOEs because cabinet approves the CEO's appointment, thus rendering the decision of the board powerless.

The Companies Act, praised for its contexts in governing from the smallest to the largest companies is welcome, but unfortunately, the playing fields are still unlevelled as all entities operate under different acts exposed to different treatments. However, one cautions that uniformity is not necessarily the answer to resolve the confusion. While it is critical to review the legislation, it is not a panacea to cure all the ills suffered by the SOEs.

Another hurdle faced by SOEs is that private companies enjoy operating in the competitive environment of the Companies Act. Yet SOEs find it tough to compete with these private companies, as they have to operate within the PFMA environments, which appear to be inflexible. The competitive advantage of the SOEs remains frustrated by the stringent standard operating protocols of the PFMA. For example, SAA finds it difficult to operate on an equal footing with private airlines. "When the entity sets its priorities, the political decision kicks in and stipulates that the state desires to increase its trade relations with one of the African countries on the continent" (SOEs Policy Dialogue Report, 2012: 10). The entity is then forced to ensure that there is a route, which flies to the specific destination irrespective of its profitability. Profit and socio-economic development are at odds here.

When the route is unsustainable due to profit losses, it prompts bailouts by the state, which burdens its already overstretched fiscus. If corporate and social motives are not properly balanced, there is the potential for capital loss due to political interests and social responsibilities at play superseding profit and corporate investment targets (SOEs Policy Dialogue Report, 2012: 10). The SAA, now transferred from the DPE to fall under the National Treasury, is a case in point. The three SOEs – SAA, the South Africa Post Office and power utility, Eskom, which are the main drivers of the economy in distress, troubled by governance complexities – are now overseen by the Deputy President, Cyril Ramaphosa (Statement on the Cabinet meeting, 2014: 3) due to their respective governance and resource capacity challenges.

Are SOEs supposed to straddle the divide between corporate and social environments? The issue of balance between corporate and social investment comes under the spotlight here. There are SOEs which must do both, but it is a different ball game altogether. If the SOE for example, is investing commercially, let it operate as a commercial enterprise. If there is an agency that depends on allocations from the fiscus, it must be established accordingly. Special funding dispensation for community obligations of a reasonable scale is undeniably desirable but this should be clear from the onset, to avoid establishing

SOEs on wrong motives of multiple conflicting mandates, which is a recipe to cause these public entities to fail in the end.

According to Balkaran (2008:4), the failure of SOEs is rooted in the multiple and conflicting objectives mandated to them. Nellis and Kikeris (1989:667) explain that governments often decree that their SOEs must operate in a commercial, efficient and profitable manner, but at the same time, they insist that SOEs must:

- provide goods and services at prices less than cost-covering,
- serve as creation centres of employment,
- receive their supplies from state-sanctioned suppliers, and
- choose plant locations on political rather than commercial grounds.

In addition, politicians and officials do not function as profit-motivated shareholders. Instead of pressuring the SOEs to increase sales and reduce costs, they pressure them to pursue non-commercial goals. The government faces a conflict of interest that undermines the quality of the policy. For example, in the absence of independent regulation, the government can get away with regulating the sector in an arbitrary manner. This renders the very nature of the sector particularly susceptible to political pressure, which amounts to loss of profits and exponential vulnerabilities. Consistency and uniformity is the key to promoting overarching single SOEs governance guidelines and legislation. Thus, there should be no harm in creating legislation specifically aimed at SOEs.

The 2007 report by Rondinelli titled *"Can Public Enterprises Contribute to Development? A Critical Assessment and Alternatives for Management Improvement"* also alludes to the fact that the continued public ownership of these entities in their current state of affairs puts South Africa at risk in the global economic space unless the development, transformation, legislative, regulatory, governance and ownership issues are resolved (Rondinelli, 2007: 13).

Underlying Inconsistencies and Contradictions

Shareholder ministries and jurisdictions

The Department of Public Enterprises (DPE) is the government shareholder representative, with oversight responsibility for some Schedule 2 SOEs, such as Transnet Limited, SAA, Eskom, Pebble Bed Modular Reactor, Denel, Alexkor Limited, South African Forestry Company Limited and Ariviakom (Pty) Ltd. Other SOEs fall under their lead ministries. For example, the Airports Company South Africa (ACSA) falls under the Ministry of Transport, the Central Energy Fund falls under the Department of Energy, and the Armaments Corporation of South Africa falls under the Ministry of Defence. These fragmented jurisdictions of the SOEs unnecessarily complicate sector policy development, co-ordinated implementation and the achievement of desired outputs as it encumbers sharing resources and developing synergies. In addition, there is currently no clear or apparent methodology as to how the SOEs are domiciled in their lead ministries or different shareholders. A case in point is ACSA falling under the Department of Transport, while SAA falls under the DPE.

Coupled with the views expressed on the importance of tabling overarching SOEs' legislation, there are some contesting arguments about the governance of the SOEs. The DPE has already made public pronouncements, especially when the former minister, Malusi Gigaba, talked at length about the super ministry for the SOEs. Conversely, there are obviously differing views about the sector-based arrangement of the SOEs. These contrasting views do not bring resolution to the issue under discussion, as they were not scientifically tested. One must make firm decisions and to test them to clear the SOEs from this confusion by ensuring that tried and tested balanced views prevail (SOEs Policy Dialogue Report, 2012: 10).

Political Interference and conflict of interest

In terms of the functioning of the SOEs boards, hard technical questions to be asked are: who hires and fires the group chief executive officer (GCEO)? Is it the board, the shareholder minister or the cabinet and what are the best practices globally? Which works better, hiring by the board, the shareholder minister or the cabinet? This issue of hiring and firing the GCEO is prevalent in schedule 2 SOEs, which are mostly characterised by purging and personality glitches among the management of the entity, members of the board and the shareholder minister. There is also an element of interference, which is always confused with intervention, interface and insulation (SOEs Policy Dialogue Report, 2012:11). It is a known fact that there are more often than not, sour and acrimonious relationships among the shareholders, the boards, GCEOs and these hitches are recently expounded in the respective SABC "when governance and Ethics fail" report and PRASA "derailed" report of the Public Protector.

At the SABC, the Public Protector investigated allegations of maladministration, systemic corporate governance deficiencies, abuse of power and the irregular appointment of Mr. Hlaudi Motsoeneng by the SABC. According to the Public Protector (2014: 10–11),

> *"The essence of the allegations investigated was that there was systemic corporate governance failure at the SABC at the core of which was expediency, acutely poor human resources management and a dysfunctional Board; all of which was said to be primarily due to manipulative scheming by the SABC's Acting COO, who allegedly lacked the requisite competencies for the post and manipulated, primarily new Boards and GCEOs to have his way and to purge colleagues that stood in his way".*

The Public Protector argues that the SABC findings are symptomatic of pathological corporate governance deficiencies at the SABC, including failure by the SABC Board to provide strategic oversight to the National Broadcaster as provided for in the SABC Board Charter and King III Report. The GCEO, chief operating officer (COO), and the chief financial officer (CFO) according to the Public Protector failed to provide the necessary guidance to help the Board effectively discharge its fiduciary responsibilities. The Board was dysfunctional and on its watch allowed a non-executive chairperson to assume the role of "executive chairperson" by authorising numerous salary increments for the COO (Public Protector, 2014: 22).

The Public Protector also found that the former shareholder minister of communications unduly interfered in the affairs of the SABC; and abused her powers by rejecting the recommendation made by the Board for the appointment of the CFO and the orchestrated inclusion of the curriculum vitae of the candidate she preferred who did not apply for the position. By doing so, she was in violation of the Executive Ethics Code, and the principles of Corporate Governance (Public Protector, 2014: 23–24).

At the Passenger Rail Agency of South Africa (PRASA), the Public Protector investigated allegations of maladministration relating to financial mismanagement, tender, irregularities and appointment irregularities against PRASA. According to the Public Protector (2015: 5);

> *"The essence of the complaints was that Mr. Montana, then GCEO of PRASA, improperly awarded tenders; appointed service providers without following proper tender processes and allowed maladministration, corruption, conflict of interest and financial mismanagement, in the procurement of goods and services and managed human resources irregularly, including nepotism and the improper handling of whistle-blowers".*

The Public Protector argues that there is a culture of systemic failure and hiding of information that could provide evidence of maladministration and other forms of improper conduct at PRASA. If the pattern is not arrested it has the potential to derail the effective and efficient procurement of goods and services to support PRASA operations to ensure effective service delivery (Public Protector, 2015: 382). One infers that the human factor at play in flouting supply chain policies is a rooted problem that eats away the fiscal fabric of the state, hence prevailing occurrences of avoidable expenditure and preventable disruption of services at PRASA.

It becomes clear that not only a reform of legislation is needed to address SOEs' problems and challenges, but also a human factor that requires maturity and emotional intelligence to run the affairs of the SOEs from a leadership and managerial point of view (SOEs Policy Dialogue Report, 2012: 11). Castro (2007: 272) stresses that political interference and conflict of interest result in excessive employment, poor choices of product and location, lack of investments and ill-defined incentives for managers.

Political interference and conflict of interest in the SOEs' sector is not unique to South Africa. In Italy the persistent political interference in state-owned companies – including railways, postal service and public transport, among others – has significantly hampered their productivity, efficiency and profitability. Similarly, the World Bank has concluded that, in emerging markets, a banking sector dominated by state-owned entities poses a threat to economic development and stability, as preferential lending and patronage create market distortions and chase away private competitors (Wong, 2009: 2). SOEs should resist the temptation of political interference and conflict of interest for them to thrive.

On that score, the Italian government and other countries where political interference is an issue, such as South Africa, can learn from *inter alia* Sweden and the United Kingdom where safeguards are in place to enhance their ability to oversee SOEs at arm's length (Wong, 2009: 2). Strict adherence to and enforcement of corporate governance principles is required. While one recognises that in a developing country there may be socio-economic initiatives that a government wants to undertake and implement through SOEs, the latter should have clear transparency, accountability and empowered decision-making functions on these issues. The ability of successful SOEs in countries such as China, India, Malaysia and Indonesia to balance effectively between government socio-economic directives and maintaining competitive and financially productive SOEs requires further scrutiny. In South Africa a lack of co-ordinated and integrated plans from the SOEs and an inability to balance its different roles as policy maker, regulatory entity and shareholder, is evident (Fikelepi, 2010: 115).

SOEs versus private corporations

The OECD Guidelines on Corporate Governance of SOEs (2005: 3,18) underscores ways of balancing the state's responsibility to implement its ownership functions (such as selection and nomination onto supervisory boards) actively, while at the same time resisting inappropriate political interference in the governance of SOEs. The guidelines explain that there are equal opportunities in markets where private corporations compete with state-owned companies, and that the method by which the states apply their legislative and supervisory powers should not distort the competition. Additionally, the guidelines suggest that the state should exercise its ownership function through a centralised ownership unit, which needs to operate independently and in compliance with its publicly disclosed ownership policy. An important element is a strict separation of ownership and legislative functions of the state. In this way, Klapper and Love (2002: 36) write that the ownership of the state, when exercised in a professional and responsible manner, attempts to improve corporate governance in all sectors of the economy.

As South Africa's economic strategy and policy development has changed since 1994, the framework within which SOEs operate needs revisiting. The DPE was established pre-1994 by the De Klerk government in preparation for the privatisation of state-owned assets before the advent of democracy. In some senses, the DPE is therefore, premised on an outdated privatisation model. The entire SOEs' landscape needs alignment in support of the National Development Plan (NDP), vision 2030.

SOEs are different from private corporations in that the choice of managers may be made on a political basis rather than merit. Perhaps this explains why in the SOEs' context, governance structures are convoluted with political cloud and unmerited compensations. This is not surprising as, theoretically, such compensation in SOEs are not competitive because by nature, they are less based on market outcomes than private corporations

(Geddes, 1997). Data from recently privatised private corporations show that managerial pay increases significantly post-privatisation, even when the managers remain the same. The explanation for these findings is that there is a high correlation between increase in salary and potential profits of the private corporations as opposed to the SOEs (Niskanen, 1971).

Subsidiarity issues

To this end, as a senior researcher, one observes that the inconsistencies in the legal and governance frameworks of the SOEs have also brought about many illicit practices, including abuses of the subsidiarity principle. In many instances, subsidiaries of SOEs are not transparent and their financial records not linked to that of their parent entities. This makes it difficult to audit and monitor the vast number of subsidiary companies. Some subsidiaries, including those listed in schedule 3 of the PFMA in respective provinces abuse the subsidiarity principle by creating a subsidiary of another subsidiary. These extensions are clearly an abuse of the subsidiarity principle, taking advantage of the fact that subsidiaries have less stringent reporting requirements. A further confusion arises because the parent entity is non-commercial and yet all subsidiaries are commercial outfits with fiduciary duties. In short, the current subsidiarity arrangement creates a haven for corruption to thrive in the regime of SOEs sector.

Recommendations

The debate about SOEs is never completely finished. It has been, and still is, one of the interesting and long-standing sticky issues in the public domain that is difficult to resolve. A regular review of the SOEs is necessary, as it is currently unfinished business to keep the SOEs in check. In the broader scheme of things, the pertinent question is to establish whether the legislative framework under which the SOEs function is adequate to enable effective contribution of SOEs to achieve the state's development objectives. In addition, there is a need either to enhance the current legislative framework or to opt for an alternative solution.

The review of the legislative and policy framework of SOEs in South Africa demonstrated that SOEs are under a multiplicity of policy and legislative mechanisms, which are not only inconsistent but also onerous. The current legislative framework is fraught with difficulties and challenges, which hinders the ability of SOEs to function optimally. There is a need for a complete overhaul of the SOEs sector. The streamlining and rationalisation of the legislative framework is therefore important. In this process, legislative and policy efficiency should guide the streamlining and rationalisation process. The focus should be to facilitate the ability of SOEs to fulfil the developmental agenda of the state as espoused in the NDP, vision 2030.

It is on this basis that corporate governance reform could be a viable option if SOEs are to be profitable and efficient or at least of the same standard as their private corporations' counterparts. Corporate governance reform must tackle the challenges of the SOEs straddling social and commercial environments, otherwise the results will be disappointing. When the costs of any non-commercial objectives are removed, SOEs should be able to recover their own cost of capital without asking for bailouts from the state. Otherwise, it would not be a viable option to improve them. It would be rather a better option to close them down or sell them off (Wong, 2004: 8).

To this end, we recommend four interconnected options:

a) There is a need to enact a single SOEs' act to resolve apparent contradictions, gaps and duplications. SOEs should immerse in a seamless environment, yet should also remain sector-based with clear subsidiarity restrictions. In such a single act, the board could have more powers in line with the OECD guidelines.

b) The state as an active shareholder should exercise its ownership rights in respect of SOEs by holding the board accountable for its obligation to provide strategic direction. The board could also have the required operational autonomy to achieve the defined objectives free from political interference by the shareholder.

c) The need to clarify the role of the executive authority, boards and the chief executive in the governance and operational management of SOEs is crucial (Kanyane, 2013: 91).

d) The establishment of an independent monitoring and compliance agency, similar to that of the French Government Shareholding Agency (APE) but adaptable to South African situation requires urgent consideration.

Overall, the need for SOEs to be streamlined and harmonised under an overarching and seamless act of parliament is not only clear, but is also urgent.

Conclusion

On one hand, the discussion reveals that it is not necessarily the legislative instrument that is problematic, but the human factor that tampers with the prevailing legislation, supply chain policies and governance practices. On the other hand, it becomes apparent that the issue of governance in the SOEs sector, especially SABC and PRASA among others, is muddled with antagonism, animosity and corruption, which besmirch the whole operation of the SOEs sector and therefore needs mature treatment. Lastly, a balancing act between corporate and economic development ambitions of the SOEs, received much attention in the corpus of the discussion, and therefore needs effective resolution.

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How South African societal and circumstantial influences affect the ethical standards of prospective South African Chartered Accountants

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Abstract

To address ethical consciousness through formalised tertiary education effectively, ethical standards need to be further understood. This paper investigates the effects of South African societal influences on prospective South African Chartered Accountants, through exploratory questionnaire research. Findings indicate that although participants perceive low levels of ethical behaviour in South Africa, their ethical decision making is generally not negatively influenced, most feeling the need to behave more ethically as a result. Influences from the country's environment, including lack of consequences, self-interest and justification do negatively affect some participants' ethical standards and although not statistically significant, these are considered qualitatively relevant findings. Many participants appear to believe that it is not possible to be completely ethical in business and that by remaining ethical in South African business they will be at a disadvantage. Females' ethical standards were found to have been less affected by societal influences than that of their male counterparts.

Introduction

Ethics in the South African accountancy profession

Section 100.1 of the South African Institute of Chartered Accountants (SAICA) Code of Professional Conduct, recognises that "A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest" (SAICA, 2015). Skills and expertise that accounting professionals carry can be seen as a form of power, and power has to be governed by the highest degree of ethical standards to avoid it leading to exploitation and abuse (Nienaber, 2010; Rossouw *et al.*, 2011). Ethics competence is the core of the profession, with integrity and high levels of moral behaviour imperative to its credibility and functioning (Robinson *et al.*, 2007).

Based on the premise that ethics skills can be enhanced through teaching (Verschoor, 2004; Loeb, 2007; Mitchem, 2009; Langlois & Lapointe, 2010), the accountancy profession in South Africa, led by its professional body SAICA, took a decision as of 2007 to introduce formalised ethics education, in addition to the study of the profession's codes of ethics, as a mandatory curriculum requirement (SAICA, 2011a). Upon introduction of the 2010 "SAICA Competency Framework" (a framework relating to expectations of a South African Chartered Accountant at entry point to the profession, to uniquely equip them to better meet the needs of the market), South African universities had to commit to developing structures to ensure a strong grounding in ethics for aspirant members of the profession (SAICA, 2010; SAICA, 2011a). However, in order for these teachings to be entirely constructive, it is fundamental to fully understand ethical standards, and structure and amend ethics courses accordingly.

Societal ethical challenges in South Africa

According to Ghaffari, Kyriacou and Brennan (2008), whether students can actually apply what they learnt from ethics education to specific practical business situations depends on prevailing cultural norms. Concern from a South African perspective is that, as expressed by Rossouw (1997), we live in a challenging society where in many instances value systems are weak and moral reasoning is extremely poor. Over the past decades, the need for stronger business ethics in South Africa has been frequently expressed, with corrupt, dishonest behaviour, especially among those in positions of authority, having become all too familiar phenomena. Rossouw (1997: 1) refers to the words of the late Nelson Mandela: "We are conscious of the reality that corruption in many forms has deeply infected the fibre of our society" (Mandela, 1995). Former South African Deputy President, Kgalema Motlanthe, stated that corruption was "cancerous" and "the pestilence of corruption menacing the soul of our democracy is a life-and-death matter on which our future depends". He further stated that "what we need is a conscious intervention at the level of education to enable our nation to appreciate the devastation corruption is causing in the long term" (Motlanthe, 2011). Formal recognition in regard to this unfortunate environment resulted in South Africa being ranked 67th out of 175 countries in 2014 (72nd in 2013) by Transparency International, which publishes the corruption perceptions index annually, ranking countries by levels of corruption among public officials and politicians, as determined by expert assessments and opinion surveys (Transparency International, 2014).

Upholding the Chartered Accountancy (CA (SA)) designation

South Africa is a special case given that its Chartered Accountancy qualification is one of the most highly esteemed throughout the world, and yet its ethical environment is intensely challenging. Highly contrary to South Africa's Transparency International Rankings, the CA (SA) designation is currently recognised as one of the most reputable and highly regarded premier accounting and business designations throughout the world (SAICA, 2011b; SAICA, 2012). This has been formally recognised by the World Economic Forum in the 2013/2014 Global Competitiveness Report, ranking South Africa first among 148 countries in terms of the strength of "Auditing and Financial Reporting". This was the fourth consecutive year that the top ranking had been obtained by South Africa (World Economic Forum, 2014; IRBA, 2014). According to SAICA, "remaining a member of the first ranked CA (SA) designation in the world remains enviable" (SAICA, 2011b: 1).

Research Objectives

Given the above, this research was undertaken to enhance understanding of the ethical standards of future CA (SA)'s, specifically the extent of influence of South African societal circumstances and challenges. Previous studies investigating ethics determinants have not specifically explored the possible societal dimension. This paper endeavours to address this gap. Since students of today are the professionals of tomorrow, examining their current ethics attitudes is vital to the business world (Nejati *et al.*, 2011). Piper *et al.* (1993:17) recognise that every educator's most fundamental question is "Who are our students?" and identify the necessity to gain this comprehensive insight. They further recognise that modern students do not dwell in a vacuum, but mirror quite faithfully the central features and characteristics of their time, which this study aims to explore.

Research Design and Methodology

Exploratory model employed

Although the researcher acknowledges that there are various factors that can impact ethical standards, this paper focuses primarily on the societal influence. Since the focus of the research was on perceptions, beliefs and attitudes, a degree of personal interpretation and a primarily qualitative, exploratory approach were necessary. This incorporated the use of a questionnaire covering a range of personal ethics investigations. A questionnaire was thought to be an effective means of obtaining more open and reliable responses than face to face interviews, due to the sensitive, personal nature of many responses that participants were asked to provide. For analysis of the data collected, a quantitative approach was used, with the utilisation of quantitative statistics.

Participants

Fourth (final) year students registered at a prominent, SAICA accredited, South African university where a vastly diverse student body exists, were used as representative of "Prospective South African Chartered Accountants". Those actively involved in the formalised university curricula offered to them through lectures were invited to complete a questionnaire, of which a sample of 161 was obtained. Final year students at the end of their degrees were explicitly selected for the study. This was for three reasons. Firstly, virtually all would have had exposure to formalised university ethics education. Secondly, it was deemed that near the end of the final year their ethical values would be more thoroughly developed. Thirdly, being very close to writing part one of SAICA's CA (SA) Qualifying Examination and thus being on the verge of entering the Chartered Accountancy profession, they would have a stronger sense of commitment to the profession.

Biographical characteristics of the respondents were ascertained in the first part of the questionnaire and are presented in Table 1.

Table 1: Sample Description of Respondents

Gender	Percentage
Male	49
Female	51
Total	100
Religion	
Christian	51
Hindu	11
Islamic	9
Catholic	8
Jewish	7
Anglican	1
Agnostic	2
None	11
Total	100
Age	
20	0.6
21	25
22	48
23	18
24	8
25	0.6
Total	100
Completed	
Yes	96
University	
No	4
Ethics Education	
Total	100

As indicated in Table 1, 51% of the respondents are categorised as being female and 49% male. A majority of the respondents identified themselves to be Christians, followed by Hindus, Muslims and Catholics. Smaller proportions consisted of Jewish, Anglican and agnostic students. 11% did not identify as having a specific religion – leaving it open to interpretation as to whether these respondents do not follow a particular religion, or rather made a choice not to disclose it, in an attempt to avoid any association with sensitive responses provided in the questionnaire. Being a fairly large percentage, and considering the sensitive nature of many of the questions, it is the researcher's opinion that the majority of this non-disclosure was intentional.

The range of the respondents' ages was fairly small, being 20–25, with the majority falling into the 21–23 age category. The mean age was 22. The vast majority, 96%, of the questionnaire respondents have received formalised ethics education by way of a separate university course during earlier years, as a result of its introduction to the CA (SA) curricula several years ago.

Research design and procedure

The questionnaire, designed to establish the personal effects of ethics-related societal influences on their ethical decision making, used a variety of multiple-choice questions utilising a five-point Likert scale. An open-ended question was also provided to allow respondents to furnish any further thoughts and opinions. Any concerns with regard to the sensitive nature of the questionnaire were comprehensively addressed by guaranteeing anonymity. All formal university ethics clearance requirements were adhered to in conducting the study.

The objectives of the questionnaire were to attempt to identify, in respect of prospective CA (SA)'s:

- *Their thoughts on South Africa's ethical environment.*
- *Whether they are influenced by ethics-related social circumstances within South Africa and if so, how.*
    - *Whether justification affects their ethical standards.*
    - *Whether consequences (or rather a lack thereof) affect their ethical standards.*
    - *Whether self-interest affects their ethical standards.*
- *Whether the above differs in respect of their:*
    - *Gender*
    - *Religion*
    - *Completion of ethics education*

Initiative for this research was partly driven by a study conducted by Harvard Business School *(*along with Darden School of Business at the University of Virginia and the Amos Tuck School of Business at Dartmouth) demonstrating the utmost importance and necessity of formal and consistent interest by educators in addressing the question of who today's students are (Piper *et al.*,1993). However, due to defining uniqueness apparent in the ethics-related environment of current day South Africa and the lack of research pertaining to this area, it was necessary for a new questionnaire to be constructed. Although formulated specifically to address the environment, aspects from relevant prior studies and literature were incorporated, where applicable.

Data analysis

Data analysis included quantitative descriptive statistics, ordered logistic regression, and Chi-Square analysis. Ordered logistic regression was conducted where the dependent variable in each case was ordered (1–5) and the independent variables were categorically ordered as well. The questionnaire was designed to allow for the evaluation of whether an association exists between sets of categorical/ordinal variables, the respondents' characteristics – gender, age, religious beliefs and completion of formalised university ethics education – and ethical views provided. This was analysed using Chi-Square analysis and ordered logistic regression, the results consolidated and collective observations made. The answers to the open-ended question were analysed qualitatively to identify further issues relevant to the study.

Literature Review

Theory of the effects of societal influences

A commonly heard view of integrity is the belief that "you've either got it or you don't". However, Painter-Morland and Werhane (2008) argue that character is never fully formed, but always vulnerable to circumstances, and that people are malleable, responding in fascinating ways to their environment, peers and pressures around them. Similarly, Shaw (2008) posits that as humans we mirror the central features of culture and time, and various social pressures always affect us, however he argues against ethical relativism being the theory that what is right is determined by what a culture or society says is right, and that the moral system of the society in which the act occurs, is a key criterion for judging the ethical standard of an action.

A similar view, reiterated in psychological, philosophical and sociological literature, including the findings of analytic philosopher Harman (2000), insists on human behaviour being dependent not on character, but mainly on one's situation, i.e. in the contexts within which they function. This includes the impact of broader societal factors and individuals tacitly referring to role models in their moral judgments. Therefore a great deal of what is considered "character" is in fact due to specific social settings that reinforces conduct (Painter-Morland & Werhane, 2008). Ahmed *et al.* (2003); Guffey and McCartney (2008), and Shaw (2008) claim that the personal standards that people adopt are formed in large part from the influence of others in their lives, and that ethics and moral judgement involve the application of basic guidelines of societal values and standards. These views are reiterated by Frank (2005), who recognises that psychologists specialising in social behaviour argue that behavioural variances are much more likely explained by situational details rather than by stable differences in individual traits.

Ethical standards are thought to first be developed at home and later strongly influenced by the standards of an individual's surrounding community, with the improper or even criminal behaviour of others influencing some individuals' behaviour (O'Leary, 2009).

Painter-Morland and Werhane (2008) agree that a growing body of literature insists on the imbrication of individuals in the contexts within which they function and role models that individuals tacitly refer to in their moral judgments. They highlight however that many decision-making models currently used within the business ethics field are designed exclusively to exclude the effects of systemic influences, very often ignoring the impact of cultural and societal assumptions and underestimating the effect of power dynamics. In order to comprehend the nature and extent of this influence as suggested by the literature, findings of ethics determinant studies are further explored.

Findings of societal influence on ethical standards

Shaw (2008) recognises that social pressures may affect behaviour, concluding in his research that faced with the fear of violating group norms, about two thirds of the population will yield to the group. Similarly, Ogunyemi (2013) posits that no matter the good desires generated within business ethics teachings, individuals with an external locus of control may continue taking their cue from their environment. It has been found that the majority of the adult population, including accountants, possess conventional levels of moral reasoning, with evidence suggesting that these can be influenced by external factors, including religion, legal systems, the political system and specific regulations, rather than universal principles (Jackling *et al.*, 2007).

Jackling *et al.* (2007) further posit that if ethical disposition can be distorted in a negative way by outside factors, so too should it be possible for culture, regulations and other pressures to influence the ethical thinking of individuals or even collective members of a profession in a positive way. This thought is explored in the findings of a South African study conducted by Morris *et al.* (1996), who questioned to what extent the ethics-related attitudes and actions of business professionals are affected by environmental turbulence. The study found that turbulent environmental conditions led professionals to report stronger values and ethical norms, but less ethical behavioural intentions. According to their conclusions, it appears that in turbulent times, individuals lay claim to strong values, but behave less ethically. Their values and norms appear to be discarded when faced with actual ethical dilemmas. Morris *et al.* (1996) maintain that these findings may be explained in terms of the theory of moral development (Kohlberg, 1969; Rest, 1986), as highly turbulent conditions, including a breakdown in law and order, may lead individuals' behaviour to be guided by reverting to reliance on peer group, avoidance of punishment or hedonistic exchange.

Bartels (1967) was one of the first to note the importance of the role of society in ethical decision making, identifying factors such as customs, religion, laws, respect, national identity and patriotism as influencing ethics (Vitell *et al.*, 1993). In a study devoted to the question of whether persons are inherently different with respect to ethical reasoning, Bucar *et al.* (2003) find differences across countries with regards to their attitudes towards certain possible unethical behaviours. Their results are explained based on situational and contextual characteristics rather than innate personal differences. According to Guffey and McCartney (2008), once again, this aligns to Kohlberg's moral development model, whereby he posits that at conventional levels of moral development, people adapt to the moral standards of their peers or of society, particularly its laws.

Moore and Radloff (1996) refer to a study undertaken by Preble and Reichel (1988) attempting to measure attitudes towards ethics held by final-year South African accounting students at Rhodes University. Three samples of students were assessed over a three year period (1989–1991) and results were compared with samples of Israeli, American and Australian business students. Part of their findings note significant differences between the South African and Israeli students. Among other things, South Africans were found to place greater emphasis on the significance of personal moral values in influencing ethical decisions, and also that the law cannot safeguard ethical practice. In contrast, the Israeli sample had less belief in the significance of moral values and looked towards the power of law as a safeguard.

The influence of "consequences" and "self-interest" on ethical standards

Guffey and McCartney (2008) posit that the challenge is not for an individual to recognise that a moral issue exists, but rather acting ethically once an issue is recognised. They explain that a determinant of ethical standards has been thought to be the potential consequences of the dilemma, since evidence suggests a higher level of moral reasoning will be employed when the resultant consequences of the issue appear to be high. Findings of studies of accounting students by O'Leary (2009) conclude that very often the only motivation for students to act ethically appears to be if the risk of getting caught exists, not the actual nature of the act being committed. In a study of accounting students conducted by O'Leary and Cotter (2000) they find that once the risk of being caught was introduced to an ethical dilemma, the percentage of potential fraud participants fell significantly, in some cases by up to one third. Even without being informed of the actual penalties, students were significantly dissuaded from their initial choice of behaviour.

Jackling *et al.* (2007) determined that self-interest was the most significant factor contributing to ethical failures for accountants. The self-interest model, with its base in economics, has made strong inroads into other disciplines, with philosophers, psychologists and political scientists now relying increasingly on it to predict and explain human behaviour (Frank, 2005). Rossouw *et al.* (2011) affirm that many people who engage in unethical behaviour know beforehand that what they are about to do is wrong, but as they have a strong motivation to act, do so nevertheless. Guffey and McCartney (2008) provide an example of when a student, knowing it is unethical to copy from a fellow student's script, still does so, thus knowingly acting in an unethical manner in favour of self-interest. Elias and Farag (2010) identify that the desire for money may have a potential negative effect on accounting students' ethical behaviour especially with regard to illegal activities, referring to a study conducted assessing United States business and psychology students, where Tang and Chen (2008) find that the love of money predicted unethical behaviour for business students but not for psychology students.

The influence of ethics education on accounting students' ethical standards

Considerable literature has addressed the question of whether accountants and accounting students can be trained to be ethical (Salter *et al.*, 2001). According to Langlois and Lapointe (2010), in a three-year action-research study evaluating whether ethics can be learned, findings indicated a positive impact and improved ethics awareness as a result of ethics training interventions. Supporting this finding, various studies (Armstrong, 1993; Shaub, 1994) have also concluded on positive effects in this regard (Cooper *et al.*, 2008). However not all research supports the belief of ethical growth through education. Green and Weber (1997), Low *et al.* (2008) and Tang and Chen (2008) suggest that formal ethics training has little relevance on ethical development and fails to profoundly impact the ethical sensitivity of accounting students. Other empirical studies (Ponemon, 1993; Lampe, 1996) find no significant change in students' ethical reasoning and development as a result of formal ethics interventions (Cooper *et al.*, 2008).

In summary, the literature above suggests that ethical standards can be affected by societal influences and circumstances, which includes the effects of a lack of consequences and self-interest in relation to ethical decision making. In addition, it is suggested that the completion of formalised ethics education may possibly affect ethical standards. Clearly these are areas that warrant ongoing research, specifically from the South African perspective.

Empirical Findings

Having established the biographical characteristics of the respondents, subsequent sections of the questionnaire gauged students' perceptions on a five-point Likert scale, where 1 represented *strongly disagree* and 5 represented *strongly agree*, and appropriate statistical tests were subsequently carried out. It should be strongly emphasised that although non-statistically significant deviations identified could be interpreted as meaningless, in the context of this study statistically small findings and even neutrality is often considered qualitatively meaningful, as it represents a deviation from the strong ethical values critical to South Africa's accountancy profession.

Table 2: Perceptions of South Africa's Ethical Environment: Mean Scores and Statistical Illustration of Findings

Statement	Mean	Completely disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Completely Agree (5)
I believe South Africa to be a country with strong value systems and ethical behaviour	2.33	14.7%	58.7%	7.3%	17.3%	2.0%
My ethical decision making is influenced as a result of this belief *(my answer to the above)*	2.66	15.6%	39.5%	12.2%	28.6%	4.1%
It makes me inclined to feel the *need to behave more ethically*	3.92	1.9%	10.4%	7.5%	53.8%	26.4%
It makes me inclined to feel the *right to behave less ethically*	2.11	35.9%	34.8%	13.%	15.2%	1.1%
I believe that ethical expectations, attitude and behaviour differs in South Africa in comparison to other jurisdictions	3.74	3.4%	13.4%	6.0%	59.7%	17.4%
I believe that there is a lot of unethical practices and behaviour in the South African business environment	4.24	0.7%	4.0%	6.7%	48.0%	40.7%

Table 2 illustrates respondents' overall views of current day South Africa and the effect on their ethical disposition. A strongly negative perception of ethics in South Africa was identified, evidenced by a high mean score of 4.24 with respect to the statement, "I believe that there is a lot of unethical practices and behaviour in the South African business environment", with only a minimal 4.7% not in agreement, reflected in the findings in Table 2. Further findings indicate that ethical expectations, attitude and behaviour differ in South Africa in comparison to other jurisdictions, according to a significant 77% of respondents.

As further evidenced in Table 2, an undeniably large majority have a perception that the country's ethical standards are questionable, with a low mean score of 2.33, and a fairly low percentage of respondents, 19%, actually agreeing with the belief that South Africa is a country with "strong value systems and ethical behaviour". The above findings all highlight the negative perception of ethical conduct within South Africa.

However, even though the perception of strong ethical values in South Africa is low, the results of further investigation are fairly encouraging, in that it would appear that this negative perception has generally had a *positive influence* on these individuals' ethical disposition. This being evident, as illustrated in Table 2, by the indication that they either feel the "need to behave more ethically", having obtained a mean score of 3.92, or instead did not feel they had the "right to behave less ethically", with a mean score of 2.11. In absolute terms, 80% of respondents have allowed the overall negative perception of

South Africa's ethical culture to encourage them to feel the need to improve their own personal ethical behaviour. Similarly 71% do not believe that it gives them the right to behave less ethically.

Although the majority viewpoints on these matters were encouraging, the remainder of the respondents' beliefs have to leave one with a sense of strong concern – 16% of students felt the right to behave less ethically as a result of the low ethical perception of South Africa. Additionally, a further 13%, who have chosen to remain neutral, possibly hold a similar concerning viewpoint. This potential 29% is considered to be a qualitatively significant deviation and thought-provoking finding in view of the fact that this immoral mind-set represents the views of some future South African Chartered Accountants who have very strong demands for ethical behaviour in their professional future. This finding is consistent with the literature (O'Leary, 2009; Ghaffari *et al*., 2008; Guffey & McCartney, 2008; Jackling *et al.,* 2007; Bucar *et al.,* 2003) which identifies the effects of negative social surroundings and ethical culture influencing the ethical standards held by some individuals.

It is however encouraging that the findings of the current study indicate that the statistical majority of respondents have not allowed South Africa's situation to affect their ethical standards negatively. *However* the findings of Morris *et al.* (1996) should be borne in mind, whereby they find that in turbulent times, individuals may lay claim to strong values, but behave less ethically as values and norms appear to be discarded when faced with actual ethical dilemmas. This being in line with the theory of moral development (Kohlberg, 1969; Rest, 1986) previously discussed.

In response to "*It makes me inclined to feel the right to behave less ethically"* (As per Table 2)

Table 2(A): Perceptions of South Africa's Ethical Environment, by Religion

Likert Response	Religion					
	Christian	Islamic	Jewish	Catholic	Hindu	Other(*)
1. Strongly Disagree	9.5%	7.7%	30%	30.8%	11.8%	0%
2. Agree	35.1%	30.8%	40%	46.2%	52.9%	67%
3. Neutral	12.2%	23.1%	10%	0%	23.5%	33%
4. Disagree	36.5%	30.8%	20%	23.1%	11.8%	0%
5. Strongly Disagree	6.8%	7.7%	0%	0%	0%	0%

(*) "Other" comprising Anglican and agnostic respondents, represents a very small number of respondents to be considered a significant finding

To further analyse the findings per Table 2, Chi-Square analysis and Ordered logistic regression was performed in order to establish whether any associations exists between two sets of categorical/ordinal variables. As illustrated in Table 2(a), it was found that with regard to *religion, a* highly significant (<1%) relationship exists between the perception that South Africa is "a country with strong value systems and ethical behaviour" and the respondents' religion. In this regard, a significant number of respondents that were Jewish, Catholic and Hindu felt that their perception of South African ethical behaviour did *not* influence their own personal ethics. In the case of Christian and Muslim respondents, as many felt their perception of South African ethical behaviour influenced their own personal ethical behaviour, as those that felt it did not. It was also found that a significant relationship (5%) exists between the need to behave more ethically in South Africa and the religion of the respondent, thus indicating that the major religious groups appeared to support the contention of the need to behave more ethically. This aligns to Conroy and Emerson (2008) who find that religiosity is significantly correlated with ethical perceptions and higher ethical attitudes. According to them, in attempting to explain why religion may affect ethical attitudes, researchers have turned to Kohlberg's (1981) stage development theory as a basis, arguing that the moral instructions and values of religious structures, helps to support morality.

Table 3: Personal Ethics Beliefs and Attitudes: Mean Scores and Statistical Illustration of Findings

Statement	Mean	Completely disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Completely Agree (5)
I believe that it is impossible to be completely ethical in the business world	3.13	10.6%	30.5%	6.6%	40.4%	11.9%
I believe that professionals in South Africa who remain completely ethical in business will be at a disadvantage	2.74	17.4%	34.9%	10.1%	30.9%	6.7%
I believe that should I commit an unethical act in South Africa, in comparison to most other jurisdictions, there would be a much greater chance of no consequences	3.23	7.5%	23.1%	17.0%	43.5%	8.8%

A startling result observed, as illustrated in Table 3, with regard to "I believe that it is impossible to be completely ethical in the business world", are findings reflecting that a large number, 52%, of these "prospective CA (SA)'s" believe it is *not* possible to be completely ethical in business. Considering that these represent the views of prospective South African professionals about to embark into the business world, this viewpoint being held at the outset of their careers can certainly be considered to be an area of great concern.

Earlier findings with regard to the perception of differences between South Africa and other countries, that were identified in Table 2, are enhanced by the results per Table 3. Results highlight that a large proportion, over 52%, believe that if they committed an unethical act in South Africa, in comparison to most other jurisdictions, there would be a much greater chance of no consequences. With a further 17% remaining neutral, and a mean of 3.23 evident, this signifies the identification of a concerning perception. An equally concerning perception identified in a further finding per Table 3, with a mean score of 2.74, are a substantial 37.6% of respondents who "believe that professionals in South Africa who remain completely ethical in business will be at a disadvantage". These findings are considered to be of concern in light of the findings of studies which suggest that people are usually motivated by self-interest, and those that identify the fear of being caught is one of few reasons that business professionals might avoid unethical conduct.

South African societal influences: Justification, lack of consequences and self- interest

Table 4: Societal Influences – Justification, Lack of Consequences and Self-Interest: Mean Scores and Statistical Illustration of Findings

Statement	Mean	Completely disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Completely Agree (5)
Once in business, if I was certain that I could get away with it should I commit an unethical act, I would engage in such behaviour	1.85	39.2%	43.9%	9.5%	7.4%	0.0%
Knowing that many unethical or corrupt actions committed have had little or no consequences for the perpetrators, I feel more inclined and justified to engage in unethical behaviour	1.79	40.3%	48.3%	4.7%	6.0%	0.7%
To act unethically feels somewhat *justifiable*, since I am aware that many in high-standing business positions have done so	2.09	29.3%	49.3%	8.0%	9.3%	4.0%
To act unethically feels somewhat justifiable, since I am aware that many in positions of public authority and power in South Africa (e.g. Government) have done so	1.89	43.0%	39.6%	4.7%	10.8%	2.0%
Knowing that many unethical or corrupt actions committed have resulted in high returns, such as monetary rewards, status and success, I feel more inclined to engage in unethical behaviour	1.88	40.0%	44.7%	4.7%	8.7%	2.0%

The concept of "justification", as a result of societal circumstances, has been identified as a determinant of some individuals' ethical reasoning, illustrating that unfortunately it is not always the immoral consideration of the dilemma that halts unethical decision making. As evidenced in Table 4, in response to the statement: "To act unethically feels somewhat justifiable, since I am aware that many in high-standing business positions have done so", over 13% responded in the affirmative. Similarly, almost 13% of students feel that it is somewhat justifiable to commit an unethical act in South Africa, since they are aware that "many in positions of public authority and power in South Africa (e.g.

Government) have done so". Although quantitatively not a statistically large finding, due to the qualitative intensity of these young future professionals displaying such a negative mind-set, it is considered to be a finding that raises and will remain a concern. This is unfortunate evidence of South African societal factors and external influences playing a part in negatively impacting the mind-sets and ultimate justification of unethical standards held by some respondents. Once again, these findings are in line with the literature (Morris *et al.*, 1996; **Bucar** *et al.***,** 2003; Jackling *et al.*, 2007; Ghaffari *et al.*, 2008; Guffey & McCartney, 2008) identifying the effect of social surroundings and ethical culture acting as a determinant of ethics for some individuals.

As is evident in Table 4, the "consequences", or rather lack thereof, has also been found to be a determinant of some prospective CA (SA)s' ethical reasoning. This has been identified in response to the statements, "Once in business, if I was certain that I could get away with it should I commit an unethical act, I would engage in such behaviour" and "Knowing that many unethical or corrupt actions committed have had little or no consequences for the perpetrators, I feel more inclined and justified to engage in unethical behaviour". As reflected in Table 4, although statistically small percentages of 7.4% and 6.7% respectively have agreed to these statements, the qualitative aspect of both of these findings is concerning. In addition, neutrality has been identified for a further 9.5% and 4.7% respectively, representing a fair number of respondents refraining from taking a strong stance, thus displaying concerning unethical standards at the outset of their professional careers. These findings are in line with the literature (O'Leary & Cotter, 2000; Guffey & McCartney, 2007; O'Leary, 2009) citing evidence suggesting that higher levels of moral reasoning will be employed when the resultant consequences appear high and thus the consequences of an action is often the ethics determinant for some, not the actual immorality of the decision. Considering that South Africa's current environment often displays evidence of a lack of (sufficient) consequences for perpetrators of questionable actions, this area of weakness is thus an area of concern since it will act as a determinant of ethical standards for some individuals, as the current study's findings confirm.

Table 4 also highlights the effect of self-interest on ethical standards, with 11% of respondents agreeing that high returns, such as monetary rewards, status and success make them feel more inclined to engage in unethical behaviour. Self-interest acting as an ethical determinant, is in line with literature findings (Frank, 2005; Jackling *et al.*, 2007; Elias and Farag, 2010; Guffey & McCartney, 2008; Tang & Chen, 2008). Once again, considering that South Africa's current environment often displays evidence of high returns, status and success for perpetrators of questionable behaviour, this is thus another area of concern as self-interest may act as an ethical determinant for some individuals, as evidenced in the current study's findings.

Further analysis of findings

Table 5: Male Vs. Female: Mean Scores

	Average Mean score	
	Male	**Female**
I believe that it is impossible to be completely ethical in the business world	3.32	2.93
I believe that should I commit an unethical act in South Africa, in comparison to most other jurisdictions, there would be a much greater chance of no consequences	2.11	1.66
To act unethically feels somewhat justifiable, since I am aware that many in high standing business positions have done so	2.29	1.89
Once in business, if I was certain that I could get away with it should I commit an unethical act, I would engage in such behaviour	2.01	1.69
To act unethically feels somewhat justifiable, since I am aware that many in positions of public authority and power in South Africa (e.g. Government) have done so	2.0	1.75
Knowing that many unethical or corrupt actions committed have had little or no consequences for the perpetrators, I feel more inclined and justified to engage in unethical behaviour	1.96	1.61
Knowing that many unethical or corrupt actions committed have resulted in high returns, such as monetary rewards, status and success, I feel more inclined to engage in unethical behaviour	2.11	1.66

Findings were further analysed in order to identify a possible correlation to gender. Table 5 illustrates lower mean scores for female versus male respondents, indicating that females display higher levels of ethical standards than their male counterparts. This reflects that female respondents' ethical decision making is based more on actual ethical and moral reasoning, rather than by the consideration and effects of other influences, such as societal circumstances (including justification, lack of consequences and self-interest) that often alter ethical decision making and ethical standards. This is in line with previous findings such as Bateman and Valentine (2010) who find that women place more importance on an overall moral philosophy than do men, and that women have higher intentions to behave ethically. Other research (Haswell & Jubb, 1995; O'Leary, 2009) finds differences in ethical standards between the sexes, with male students appearing more prepared to act unethically than females.

In order to identify any possible correlation to the completion of formalised university ethics education, findings were further analysed using Chi-Square analysis and Ordered logistic regression. A significant relationship (5%) was found to exist between whether or not respondents attended a formalised university ethics course and the belief of the right to behave less ethically in South Africa. Further analysis, as illustrated in Table 6, indicates some fairly large statistical differences and thus the appearance of a degree of association between having received formalised ethics education and respondents' ethical viewpoints. These results therefore *possibly* highlight the positive effect that formalised ethics education may have had on prospective CA (SA)'s, in line with previous studies (Piper *et al.*, 1993; Verschoor, 2004; Guffey & McCartney, 2008; Cooper *et al.,* 2008). However due to the minimal absolute number of respondents having not had formalised ethics education, generalisation of this finding should be done with extreme caution. Statistically this cannot be used to draw a valid and reliable conclusion. In addition it needs to be considered that those that have not completed a formal ethics course are presumably weaker students (as they presumably repeated courses and have therefore taken longer to reach their final year at university, based on the timing of the ethics course being introduced) and are perhaps a bit disillusioned by their failure, thus displaying different ethical responses.

Table 6: Ethics Education Findings: Mean Scores

	Average Mean	
	Completed Ethics Education	No Ethics Education
To act unethically feels somewhat justifiable, since I am aware that many in high standing business positions have done so	2.04	3.33
I believe that professionals in South Africa who remain completely ethical in business will be at a disadvantage	2.71	3.67
I believe that should I commit an unethical act in South Africa, in comparison to most other jurisdictions, there would be a much greater chance of no consequences	3.20	4.0
Once in business, if I was certain that I could get away with it should I commit an unethical act, I would engage in such behaviour	1.82	2.50
To act unethically feels somewhat justifiable, since I am aware that many in positions of public authority and power (e.g. Government) have done so	1.85	2.83
Knowing that many unethical or corrupt actions committed have had little or no consequences for the perpetrators, I feel more inclined and justified to engage in unethical behaviour	1.76	2.33
Knowing that many unethical or corrupt actions committed have resulted in high returns, such as monetary rewards, status and success, I feel more inclined to engage in unethical behaviour	1.85	2.50

Other findings

The concluding part of the questionnaire allowed for the opportunity to elaborate on any matters previously responded to and to express further personal views. These comments were analysed qualitatively to identify any further issues that emerged. Key findings identified included the following common views being expressed:

- In regard to the moulding and influencing of ethics, expression of the belief that ethics is affected by circumstances and the people that individuals surround themselves with, many believing that ethics cannot be taught.
- The opinion that formal ethics education needs to be addressed at a much earlier stage than university level, rather during schooling years, i.e. during childhood where moral grounding could still be nurtured.

- A strong belief that the formalised university ethics education that they were exposed to, was too philosophical and not sufficiently practical for knowing what to do in situations. The thought was that the course should provide detailed guidance to take informed decisions and to better understand possible realistic ethical dilemmas that they may be exposed to once active members of the profession.

This thought aligns to Piper *et al.* (1993) who recognise that university ethics education needs to provide interesting and appropriately relevant examples with regard to specific societal circumstances in order to engage students. They posit the need to incorporate carefully researched case studies about outstanding leaders that students are familiar with, the challenges that these individuals faced, what decisions and actions they took, and what led them to conduct their affairs as they did.

Other interesting expressions of opinion provided by respondents included the following statements:

- *"If something is wrong, it is wrong – regardless of who has done it or how many people do it."*
- *"Ultimately every individual views ethics differently."*
- *"Definitions of 'ethical' and 'moral' differ depending on where you are and who you speak to, as such the justifiability of unethical or immoral behaviour is always up for debate. There is no clear answer."*
- *"In my opinion it generally is as a result of opportunity that unethical behaviour occurs."*
- *"The nature of people is to be unethical but the knowledge of a perfect 'right' stops us from doing what we shouldn't."*
- *"My ethical decisions would be greatly affected by circumstance."*
- *"The unethical practices of the South African government give me the urgency to change the way business is done and rise above their unacceptable behaviour."*
- *"The lack of punishment in our country is what allows people to think it is ok."*
- *It's unfair to think that South Africa is more accepting of such behaviour, but the consequences are less stringent."*
- *"Since it is a fact that not everyone has the same ethical beliefs, we are unable to work together towards a common goal of a non-corrupt South Africa."*

Conclusion

If the South African Chartered Accountancy profession is going to be in a position to maintain its professional status and integrity, ethical standards need to be maintained and improved through constructive education and training. However as recognised by Guffey and McCartney (2008), until the moral decision-making rationale among prospective accountants is truly understood, it is doubtful that effective strategies will be able to be developed to enhance these belief systems through education. This area of research was therefore considered necessary, to explore the effect of South African societal and circumstantial influences on prospective CA (SA)'s. This objective having been achieved through the use of an anonymous questionnaire, requiring personal responses in regard to ethical beliefs, attitude and standards.

Evidence of this research indicated a perceived low level of ethical behaviour in South Africa, although a large majority of respondents felt that they were not negatively influenced by this, and rather felt the need to behave more ethically as a result. Of concern was the finding that a large portion of these prospective CA (SA)'s maintain the belief that it is not possible to be completely ethical in the business world, with many further believing that by remaining ethical in South African business, they will actually be at a disadvantage. Various South African societal influences, including the concept of justification, lack of consequences and self-interest, all evident within the country's environment, were found to have affected some prospective CA (SA)s' ethical standards. Although not statistically significant, these findings were considered to be qualitatively important due to both the unethical nature of the responses as well as the nature of the respondents, being prospective professionals at the brink of their careers. Additional findings also noted that females tend to display higher levels of ethical standards than their male counterparts, having not been as affected by South African societal influences.

The findings of this research allow educational policy makers to gain insight and perspective into the minds of those for whom ethics courses are aimed to educate. The results could thus aid in assisting South African universities, if necessary, in revisiting and modifying the instructional approach that is currently being adopted, by applying the findings to the design, content creation and educational structure of ethics curriculum. In a country and within a profession where decision making based on one's strong personal integrity and own ethical judgement is fundamental, ethics education needs to attempt to raise ethical consciousness, allowing future professionals to resist pressures and motivations commonly evident within South Africa. Thus incorporating aspects of South African societal influences, dealing with the concepts of justification, lack of consequences and possible negative business or political "role-models" within the country, as well as addressing the belief that remaining ethical in South African business will be a disadvantage, may need to be integrated into formalised ethics teachings to prospective CA (SA)'s.

Limitations of Research

This study is not without limitations. Firstly, in terms of the responses, whether they are true reflections of what the participants would actually do in a practical real-life situations is a factor which will remain unknown. This is a limitation applicable to most studies of this kind (O'Leary, 2009). Secondly, due to the sample used to conduct the analysis, being drawn from only one specific location, the validity of the findings may be uncertain for the purpose of making inference about the perspectives of the general population. However on an exploratory level the findings remain insightful and rather than be used as independent conclusive evidence, should be utilised in conjunction with the theory provided by the literature. Lastly, as previously mentioned, to the best of the researcher's knowledge, limited current research has been carried out in South Africa with regard to the area of study that this paper endeavoured to address. This factor, together with the uniqueness of South Africa's current societal environment, prohibits meaningful comparisons being made with other studies, both locally and internationally.

Future research

Given the restriction on the generalisability of the findings of this research imposed by the sample being students at only one South African university, it may be beneficial for this study to be extended to various universities throughout the country. This is in order for the validity of the findings to be more certain about the perspectives of the general population, and to identify possible differences in the effects of variations of ethics education. Furthermore, future research could be carried out with regard to obtaining the perceptions of fully qualified CA (SA)'s who are already active members of the accountancy profession and comparing the results to the findings of this research, in order to identify any possibly interesting comparisons.

As observed by Vitell *et al.* (1993) and Salter *et al.* (2001), in studies conducted investigating constructs affecting an individual's perceptions in ethics-related situations, few have been cross-cultural in content, in spite of the importance of this factor. Ideally, several countries need to be included in a study so that the effects of cultural dimensions can be reliably measured. Although this may prove challenging and several studies will possibly be needed, this is considered a very worthwhile research endeavour in the area of how societal circumstances and culture determine ethical perceptions.

Finally, in order to evaluate the effects of the introduction of formalised university ethics education into the CA (SA) training programme, as a result of SAICA requirements, viable research could involve analysing South African universities' and SAICA reports of ethics-related violations among its students and members (specifically trainee accountants) respectively, as well as incidences of cheating among those writing CA (SA) Qualifying Examinations. Comparisons could be made with results prior to the introduction of formalised ethics education, in order to evaluate its viability and the benefits that it has provided.

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The power of the fish is in the water

African, Shona saying

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Abstract

Every organisation ("the fish") is embedded in a certain setting ("the water"). These metaphors imply a highly reciprocal, interdependent relationship between the organisation and its setting. The purpose of my article is to explore the utility of the conceptual distinction drawn by Aguinis and Glavas (2013) between Embedded and Peripheral Corporate Social Responsibility (CSR), as applied from an emerging countries (ECs) perspective. Firstly, I elucidate unique EC organisational/people features. Secondly, I highlight the implications of these features for CSR. Finally, I address "contextually fit" CSR, arguing that Embedded CSR is the sole imperative for organisations in ECs, but as an active, societal transformation partner.

Introduction

Every organisation – the metaphorical "fish" – is embedded in a certain setting, its strategically chosen operating arena – the metaphorical "water" (cf. also Stone *et al*., 2013). The metaphors of "fish" and "water" imply a highly reciprocal, interdependent relationship between the organisation and its operating arena. This is even more so in emerging countries (ECs), for reasons that will be discussed below. It can be posited that the embeddedness of the organisation in its context is not and cannot be under contention: separated from life-giving "water", no organisation is viable or sustainable. Inversely, organisations, as the "fish", enhance or destroy the quality of the "water", which, in turn, affects them, constructively or destructively. The water not only must enable them to survive, but, more importantly, enable them to thrive in a sustainable way. The power of the fish truly is in the water. The organisation and its context, therefore, cannot be split into artificial silos, either conceptually or practically (Delios, 2010; Stone *et al.*, 2013; Visser, 2011). Furthermore, the organisational context is multi-dimensional in nature, with each dimension representing different stakeholders. This implies that Corporate Social Responsibility (CSR) interventions are multi-dimensional by their very nature and impact (Broomes, 2013; Dobers & Halme, 2012; Pless *et al.*, 2012).

The above implies that CSR, in principle, also has to be fully infused in the way in which an organisation conducts its business, since the organisation and its context are inseparable, organically and systemically. Only the particular stance that an organisation's leadership wishes to adopt with respect to the organisation's embeddedness, as expressed in its chosen CSR stance and consequential CSR approach, can be critically debated (cf. Kitzmueller & Shimshack, 2012; Pless *et al.*, 2012). For the purpose of my article, CSR is defined as an organisation acting in an ethical, responsible, and sustainable manner in its intentions, decisions, actions, and impact towards its context, with the commensurate stakeholders, now and going into the future, for upcoming generations (cf. Aguinis, 2011; Graafland *et al.*, 2012; Kitzmueller & Shimshack, 2012; Visser, 2011). Put more succinctly: there is an expectation that organisations will be responsible for and towards society (Gond & Moon, 2012).

The immediate, critical insight gained from the above vantage point is that the CSR stance adopted by an organisation, i.e. the extent to which the organisation infuses CSR into its very being, as well as its approach thereto and implementation thereof – strategically, tactically, and operationally – is a leadership task and choice (Matthews, 2014; Van Marrewijk & Hardjono, 2003). This is especially true since CSR has become a mainstream organisational activity (Basu & Palazzo, 2008; Gond & Moon, 2012; Kitzmueller & Shimshack, 2012; The Economist, 2008).

The exercise of this leadership choice is a function of the responsibility orientations of leaders (Pless *et al.*, 2012), how they make sense of CSR (Basu & Palazzo, 2008), and their motives with CSR (Graafland *et al.*, 2012). The debate whether the participation of an organisation in CSR is a voluntary organisational choice or an externally legally enforced activity (cf. Aßländer, 2011; Broomes, 2013; Büchner, 2012; Okoye, 2012) will not be discussed here. My article will assume the former position, predominantly accepted in the CSR literature. It will also assume the fifth stage of CSR evolution, the stage of responsibility (Visser, 2011).

The purpose of my article is to explore the utility of the conceptual distinction drawn and utilised by Aguinis and Glavas (2013) between Embedded and Peripheral CSR, expressing the possible CRS stances that can be adopted by organisational leadership, from, specifically, an EC perspective. According to these authors (*ibid*), Embedded CSR pertains to CSR that infuses all an organisation's decisions and actions, similar to the departure point of my article (see Visser, 2011, for a similar point of view). Peripheral CSR encompasses superficial, ad hoc, and incidental CSR initiatives by an organisation.

Why the EC perspective? Increasingly, ECs are becoming the chosen operating arena for many global (or globalising) organisations as they engage with the future, given the predicted, growing dominance and influence of ECs in coming years in a globalising world and global economy (Rajak, 2011). Typically, ECs are countries in a state of rapid transition and fundamental transformation; are undergoing high economic growth, in absolute and relative terms to developed economies; are experiencing an increasing, tighter integration of their localised, closed economies and societies into the global village; and are benefiting from the significant influx of high levels of foreign investment (Blas & England, 2014; Chironga *et al*., 2011; Ernst & Young, 2009; Sachs, 2011; Guillén & García-Canal, 2013; *The Economist*, 2010; 2011). In many quarters, the BRICS countries (Brazil, Russia, India, and China and, more recently, South Africa) are regarded as the pre-eminent representation of ECs. Within a global context, Africa is seen as the rising continent and the new frontier: seven of the ten fastest-growing economies are in Africa (Moghalu, 2014). Recently, another grouping of ECs, titled MINT – Mexico, India, Nigeria, and Turkey – was created. An EC perspective on CSR is also sorely needed because of limited research available on CSR in ECs. CSR debates and discussions to date have been dominated by European and US perspectives and interests, to the exclusion of ECs (Dobers & Halme, 2012).

My article will proceed as follows: firstly, I will elucidate the unique features of ECs from an organisational and a people perspective. Building on these features, secondly, I will elucidate the implications of these EC features for CSR, and will conclude by addressing "contextually fit" (or relevant) CSR for organisations desiring to enter or currently operating in ECs. From the above, it should be clear that my approach to the article is an organisational leadership view.

The Unique Features of ECS from an Organisational and People Perspective

Against the backdrop of a newly emerging world order requiring organisations to rethink their business radically, in the present and for the future (cf. Ernst & Young, 2009; IBM Global Business Services, 2008; Moghalu, 2014; Schwartz & DiMarzio, 2011; Veldsman, 2008), what are the unique, interacting features of ECs from an organisational and a people perspective? For the purpose of my article, at least six critical, interdependent features of ECs can be distinguished that are of crucial importance for organisations that have chosen ECs as their operating arena (cf. Veldsman, 2013, from which a discussion of these features was sourced, though extended). For at least the foreseeable future, it can be argued that these features will, to a greater or lesser extent, remain characteristic of ECs as a collective, although to different degrees for individual ECs.

Feature 1: A fundamental, normative transformation is occurring in ECs

In terms of societal layers, as depicted in Figure 1, the foundational norms, values, beliefs, and assumptions informing ECs' societies (Layer 1, Figure 1) – in short, existing EC world views – are being challenged and transformed (and *need* to be challenged and transformed) in fundamental ways (Moghalu, 2014), resulting in intense ideological debates and fiercely defended divides. This transformation is accompanied by unstable power relationships and even rampant violence, with the commensurate risk of societal implosion. Some examples in this regard are: intense debates, demonstrations, and agitations about a socialist vs. a capitalist economic system; privatisation vs. nationalisation; the role of the state in the economy; a single, state-endorsed religious belief system vs. multiple religions; and the acceptance or not of the rule of law.

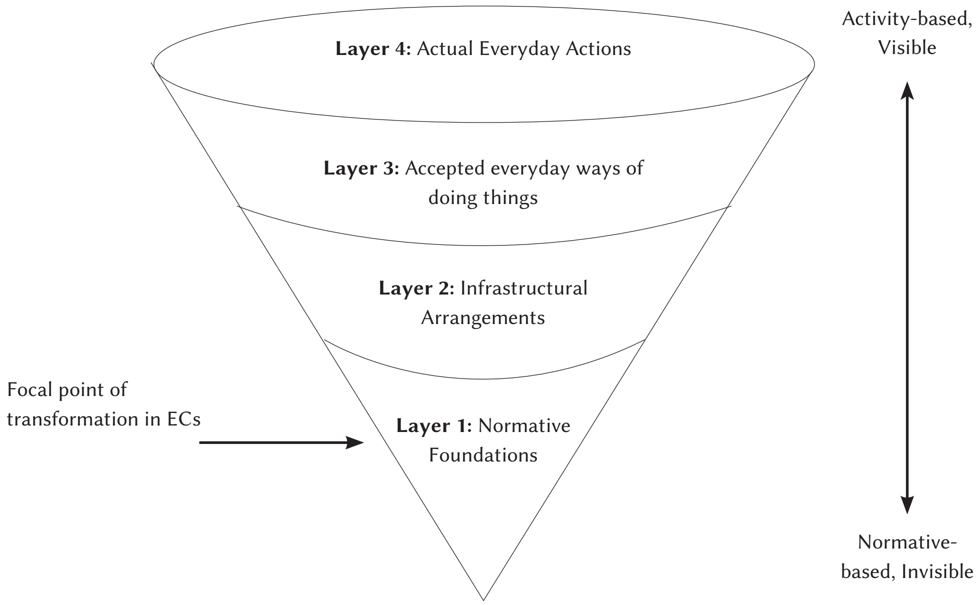

Fig. 1: The societal layers and focal point of transformation in ECs (Source: Veldsman, 2013)

In a snowballing, destabilising manner, this transformation affects society's structural arrangements (e.g. legislative/regulatory arrangements) (Layer 2, Figure 1); their accepted everyday ways of doing things (e.g. market competition rules and regulations) (Layer 3, Figure 1); and, ultimately, actual, everyday actions (Layer 4, Figure 1) (Agbakoba, 2004; Bernstein, 2010; Geldenhuys & Veldsman, 2010; Thirlwall, 2011). This normative, foundational ambiguity and fluidity also provide fertile ground for corruption and fraud to germinate, flourish, and become endemic (Dobers & Halme, 2012; Iheriohanma, 2011; Moghalu, 2014).

Feature 2: The lead/lag development of infrastructure, with the commensurate incongruences and the absence of synergies across the country's infrastructure

In EC societies, people and organisations do not "work together and talk to each other", or appear not to. One has to work around situations and inadequate (and/or deteriorating) infrastructure (Layer 2, Figure 1) to get things done (Layers 3 and 4, Figure 1). Alternatively, one has to use one's "contacts" to expedite decisions and actions (Dobers & Halme, 2012; Guillén & García-Canal, 2013; Moghalu, 2014); e.g. the economy requiring skills that the educational system cannot supply or can only supply in insufficient numbers; a poor transport system to meet rapidly growing traffic volumes; unstable electricity supplies to meet expanding energy demands; dysfunctional state and local authorities, requiring expeditors or middlemen to get things approved and processed; and the population growth being too high relative to the growth rate of the economy, consequently creating vast pools of unemployed or under-employed workers.

Typically, in ECs, a limited pool of high-level skills exists alongside a vast pool of semi-skilled and unskilled workers, the latter battling to find and retain meaningful, long-term employment because their skills are mismatched to employment opportunities, or too few opportunities exist. This situation gives rise to socio-economic class divides and significant income disparities that are fiercely contested as being unfair and discriminatory (see also Feature 6, below) (Chironga *et al.*, 2011; Dobers & Halme, 2012; Thirlwall, 2011; Ukpere, 2011). Consequently, in ECs, a highly active informal economic sector exists parallel to the formal economy, as an escape valve for the high percentage of unemployed/semi-employed to earn an income.

The supply of high-level skills in ECs is also often detrimentally affected by a drain of top talent, given the global war for talent, particularly if an EC's economy is struggling to expand, offers limited attractive career prospects, and/or the quality of life in that country is poor (Benedict & Ukpere, 2012; Doh *et al.*, 2011; Moghalu, 2014; Ready *et al.*, 2008; Shah, 2011). This trend may be somewhat countered where strong, home-grown, aspiring multi-national companies are emerging in an EC (Guillén & García-Canal, 2013).

Feature 3: Sophisticated technology pockets in a sea of poor/outdated technology

Typically, ECs have an uneven mix of technologies, with different levels of sophistication, e.g. the widespread use of mobile phone technology in semi-industrialised/agricultural societies. ECs frequently leapfrog developed countries on the technology innovation curve by immediately moving to more advanced technologies, especially regarding information/communication technology by, e.g. bypassing fixed-line communication and directly adopting the use of mobile phones and, increasingly, even smart phones (Moghalu, 2014; Sachs, 2011; *The Economist*, 2010, 2011).

ECs are often the suppliers of a variety of critical, non-beneficiated, natural resources to developed countries who control/own the downstream beneficiation, the so-called "curse of natural resources" of ECs (Moghalu, 2014). No or little local beneficiation occurs, which keeps EC societies at a low level of economic development, because they are unable to move down the value chain for various reasons, like the need for big technology investments in downstream beneficiation, a lack of skills, and poor economies of scale (Chironga *et al.*, 2011; *The Economist*, 2011; Thirlwall, 2011). In some cases, upcoming companies in ECs serve as outsourced manufacturing/service sites, providing the subcomponents and/or products or services to organisations in developed countries, because of lower labour costs.

Concurrently, there is a growing emergence of home-grown, aspiring multi-national companies in ECs that are increasingly engaging in the design, production, and marketing of products/services to markets in developed countries, as well as the design and production of "frugal" technological innovations more suitable to ECs. These innovations are now also starting to enter developed economies (Sachs, 2011; *The Economist*, 2010; Thirlwall, 2011; Thite *et al.*, 2012).

Feature 4: The dominant presence of multi-national/global, capital-strong companies in ECs

Frequently, the relatively unsophisticated economies of ECs are dominated by the presence of multi-national/global, capital-strong companies (or their local agents), to the detriment of local, upcoming, poorly capitalised companies unable to compete on an equal footing (Broomes, 2013). Even international institutions like the International Monetary Fund, the World Bank, and the World Trade Organisation have been set up and function in accordance with mandates and rules that favour developed countries over ECs (Moghalu, 2014). This poses a real threat to the continued existence of local organisations, with a negative knock-on effect on local communities and individuals if they do fail. Often, this real or perceived threat detrimentally affects the image, reputation and legitimacy of multinational/global companies. They are seen as profiteering exploiters "raping" these countries for their own narrow, parochial interests that exclude EC-based organisations in the countries in which they operate (Moghalu, 2014; Thite *et al.*, 2012).

Local communities may also openly and aggressively mobilise and agitate against the presence of such companies or their products/services in their country (Bernstein, 2010; Geldenhuys & Veldsman, 2010). A case in point is the South African government's and unions' resistance to acquisition of the SA company Massmart by the USA-based global organisation Walmart. This situation is worsened if the multinational/global organisation with a physical presence in the EC country has an ethnocentric attitude – "As a global organisation, we know best, and, by the way, local is inferior" – instead of a geocentric attitude – "Every culture and person represented in our organisation carries equal weight, must be treated with respect, and can be learned from" (Perlmutter, 1969; Thite *et al.*, 2012).

Feature 5: A young, highly unemployed population, coupled with a severe drain of top talent

Demographically, there is a large, young, unemployed population in ECs. Often, close to 50% of the population is between the ages of 15 and 30 (Chironga *et al.*, 2011; Moghalu, 2014; Smit, 2011; Thirlwall, 2011). Simultaneously, a severe drain of top talent occurs from ECs to developed countries, as mentioned above, *inter alia* because of the aging demographics of the latter (Benedict & Ukpere, 2012; Ernst & Young, 2009; Moghalu, 2014; *The Economist*, 2011). This trend is countered in instances where strong, local (multi-) national companies are rising in ECs, and/or attractive entrepreneurial opportunities exist that are able to lure local talent employed in developed countries back to ECs (Benedict & Ukpere, 2012; Doh *et al.*, 2011; Ernst & Young, 2009; Guillén & García-Canal, 2013; Iheriohanma, 2011; *The Economist*, 2010).

Feature 6: The wide and, in many cases, widening gap between the "haves" and the "have-nots"

The gap in ECs between the haves and the have-nots, the latter being in the majority, creates severe ideological, socio-cultural, economic and political tensions and divides. Usually, the have-nots feel marginalised, exploited and alienated. They see no positive future for themselves. Have-nots often do not have the knowledge or skills, resources, or opportunities to aspire to and realise a better future for themselves and their dependants (Geldenhuys & Veldsman, 2010; Smit, 2011; Thirlwall, 2011; Ukpere, 2011). The severity of the ideological debates and divides in ECs are intensified exponentially if these become institutionalised societal fault lines, socio-economically and politically, along which the haves and the have-nots are divided, and the latter then mobilises. All of the above are worsened if corruption and fraud become endemic as the acceptable way of doing things in order to enrich oneself at the expense of others, especially where public money is involved (Iheriohanma, 2011). Accusations and manifestations of "fat cats", "the gravy train" and "tenderpreneurs" grow in frequency.

The severity of the socio-cultural and economic tensions and divides may be alleviated and countered somewhat, however, if an EC is expanding aggressively because of a high growth rate; if a vibrant and strong entrepreneurial spirit and ample entrepreneurial opportunities exist and are encouraged by the powers that be; and if there is a fast-growing middle class that many can aspire to join, alongside the emergence of rapidly expanding, resilient EC-based (multi-)national companies that offer ample attractive employment opportunities (Chironga, *et al.*, 2011; Ernst & Young, 2009; Guillén & García-Canal, 2013; *The Economist*, 2010; 2011; Thite *et al.*, 2012).

In summary, ECs are characterised by: (i) the occurrence of fundamental normative transformations in ECs, resulting intense ideological debates and fiercely defended divides, worsened by destructive power struggles; (ii) the lead/lag development of infrastructure and systemic imbalances in ECs, with commensurate incongruences and the absence of infrastructural synergies; (iii) the presence of sophisticated technology pockets in a sea of poor/outdated technology in ECs; (iv) the dominant presence of multi-national/global, capital-strong companies, often to the detriment of local, upcoming companies that are unable to compete on an equal footing with the former, causing local resentment and resistance to their presence; (v) the existence of a young, unemployed population, alongside a severe brain drain of top talent from ECs, countered somewhat, in some instances, where strong local (multi)national companies are emerging in ECs and/or attractive entrepreneurial opportunities are germinated and nurtured that lure local talent – employed in developed countries – back to ECs; and (vi) the wide (and in many cases, widening) gap between the haves and the have-nots in ECs that creates severe ideological, socio-cultural and economic tensions and divides. The severity of the socio-cultural and economic tensions and divides may be alleviated and countered by a fast-growing middle class that many can aspire to join, alongside the emergence of rapidly expanding, resilient EC-based (multi)national companies that offer ample employment opportunities.

The Organisational and People Implications Of ECs' Features For CSR

At least ten major organisational and people implications can be derived from the above-discussed EC features that are relevant to CSR for organisations with ECs as their chosen operating arenas (cf. Veldsman, 2013). These implications serve, in a concrete sense, as the macro-design specifications for contextually fit CSR that needs to frame and inform the leadership of organisations operating in ECs of these organisations' CSR stance and approach, as well as implementation thereof.

Implication 1: Adopting and infusing, as a non-negotiable vantage point, an embeddedness perspective at all times into an organisation's mindset, thinking, decisions and actions is required: "As leadership we need to take into account, at all times, the history, nature, dynamics, and trajectory of the ECs' communities/societies (the water) in which we are/wish to operate as an organisation (the fish)" (cf. Gond & Moon, 2012; Dobers & Halme, 2012; Visser, 2011).

Implication 2: Given the fundamental, normative transformations that these societies are going through, with the resultant normative ambiguities and ethics (see Figure 1), a visible, clearly articulated, and well-communicated values and beliefs stance is required: "This is who we are and what we stand for". This implies having an explicit, visible, and robust organisational identity and ideology, resulting in an unambiguous ethical position, especially with respect to fraud and corruption (Dobers & Halme, 2012; Iheriohanma, 2011; Moghalu, 2014).

Implication 3: A pro-active, well thought through stakeholder engagement strategy is required (Chandler & Werther, 2014; Donaldson & Preston, 2012; Freeman, 2012; Mitchell *et al.*, 2012), because of the power struggles and ideological debates raging in these societies, involving competing, diverse and multiple stakeholders, each seeking his fair and equitable share of the cake, whatever the cake may impute. Organisations within ECs need to significantly extend their view of stakeholders (cf. Aguinis, 2011; Basu & Palazzo, 2008; Kitzmueller & Shimshack, 2012; Visser, 2011). The restricted shareholder perspective, conventional in Anglo-Saxon countries, is insufficient.

Implication 4: Architecting effective, pragmatic engagement mechanisms to bring the voices of different segments of the EC communities/societies into the organisations, so that these parties can be fully heard, is required. This has been called "opening up the bottom (or base) of the pyramid", first proposed by C.K. Prahalad (Dobers & Halme, 2012; Visser, 2011). This necessitates opening up organisational boundaries so that stakeholders, internally and externally, can move effortlessly across these boundaries, enabling them to interact seamlessly with the organisation and its leadership (Visser, 2011; see Moghalu, 2014, for a more Africa-specific application at societal level).

Implication 5: Visibly and concretely demonstrating good corporate citizenship through real, sustainable leadership and societal capacity-building and upliftment interventions, addressing genuine needs and requirements in EC communities, is required. Local stakeholders need to be directly involved in real and meaningful ways by formally and informally engaging haves and have-nots, employees and non-employees, communities and non-government and private organisations (Broomes, 2013; Dobers & Halme, 2012; Moghalu, 2014; Ragan *et al.*, 2015; Visser, 2011).

Implication 6: Actively stepping in to smooth over and fill societal infrastructural underdevelopment/mismatches and systemic imbalances, enabling communities/societies and one's own organisation to function better, e.g. improving the road or educational system, is required (Broomes, 2013; Dobers & Halme, 2012; Moghalu, 2014).

Implication 7: Adopting a geocentric attitude (Perlmutter, 1969) by finding credible local partners with whom strong partner relationships can be formed to jointly create wealth, locally and globally, is required. In addition, local talent has to be given equal employment and career opportunities across all organisational levels/areas, locally and globally (Broomes, 2013; Dobers & Halme, 2012; Moghalu, 2014).

Implication 8: Crafting a highly attractive, aggressive, EC-specific employee value proposition to attract, engage and retain top local EC talent and lure back EC talent that is currently abroad is required by, e.g. offering partnerships and shareholding. Being a responsible corporate citizen can also be part of an organisation's employee value proposition (Guillén & García-Canal, 2013; Kitzmueller & Shimshack, 2012).

Implication 9: Deploying fit-for-purpose technologies appropriate to the skills levels available in ECs, and/or offering intensive, on-going capacity-building through training/education opportunities in order to upgrade EC employees' knowledge and skills to what is required by more sophisticated technologies. This would substantively enhance the quality and quantity of EC talent pools (Dobers & Halme, 2012; Ragan *et al.*, 2015; Visser, 2011).

Implication 10: The forming of joint, value-generation networks through alliances and partnerships will enable local emerging organisations to build global competitive capabilities (Broomes, 2013; Dobers & Halme, 2012; Moghalu, 2014; Visser, 2011) By, for example, assisting them to move downstream in the beneficiation of local natural resources.

Against the backdrop of the above ten major CSR organisational and people implications for organisations with ECs as their chosen operating arenas, what, then, should be the overarching, essential, unique nature of CSR in ECs? What would make CSR different from organisations operating in ECs, and make Embedded CSR critical?

I would like to posit that this difference is to be found in a wholehearted identification with, and (pro-)active enablement by, an EC-active organisation of the radical, societal transformational journey undertaken by an EC in its aspiration to become a fully integrated, worthy, contributing and reputable world citizen (cf. Broomes, 2013; Dobers & Halme, 2012; and Moghalu, 2014, for a case in point regarding Africa). Put differently, by becoming a genuine and trusted societal transformation partner, and not being merely a spectator, observing EC societal dynamics – admittedly, most often chaotic – in a somewhat bemused, passive and detached sense. Of course, partnering in ECs need to occur within the scope and reach of the organisation's competencies, capabilities and resources (see below).

Embedded CSR For Organisations Desiring to enter or Already Operating In Ecs

At this point in the discussion, I would like to draw the following three major conclusions from the above discussion, given my CSR vantage point of an embedded organisation, organically and systemically located within a (dis)empowering and/or (dis)enabling EC context, and being a genuine, trusted and involved societal transformation partner. These conclusions will set the scene for the discussion that follows thereafter.

Firstly, in general, Embedded CSR, as proposed by Aguinis and Glavas (2013), must be taken as a normative position – the *should be* of CSR – in providing the non-negotiable departure point of all organisations' CSR drives, especially within ECs, for the reasons discussed above, endorsed by, *inter alia*, AßIänder (2011) and Büchner (2012). Thus, these authors' Embedded CSR prescriptive stance is endorsed.

Secondly, in contrast to Embedded CSR, Peripheral CSR, as suggested and observed by the above authors, is a deviation from the normative position. As stated, quite rightly, by them, such a CSR position can only be seen as self-serving window dressing, green washing, and currying favour, to the detriment of the organisation's image, reputation and legitimacy (Aguinis & Glavas, 2013; Visser, 2011). Peripheral CSR is not true to the spirit of genuine Embedded CSR. This is particularly true of large global organisations operating in ECs, where one may even encounter actions and mobilisation from local communities in reaction to the presence of such organisations (discussed above). It would be far preferable for an EC-located organisation's image, reputation and legitimacy to openly state that it does not subscribe to CSR as a matter of strategy and policy, a stance of "the business of business is business", and then face the stakeholders' reactions, rather than to engage with CSR half-heartedly, superficially, and peripherally.

Thirdly, finding and maintaining a balanced, aligned, and integrated outside-in AND inside-out, as well as a top-down AND bottom-up, CSR perspective will make CSR truly embedded in the organisation. An outside-in approach pertains to a genuine understanding of, listening to, and reaching out to meet pressing social needs, and must be addressed in the EC communities/societies in which an organisation is embedded. An inside-out approach encompasses a deep insight into what organisational competencies, capabilities and resources are available internally that can be applied to possible CSR initiatives by the organisation with respect to its EC operating arena. A top-down approach entails CSR that is driven and role-modelled by the executive leadership of the organisation. A bottom-up approach relates to CSR involvement from the coalface upwards in the organisation, where daily interactions with stakeholders occur at the base of the pyramid. It is believed that only within this seamlessly merged and aligned CSR outside-in/inside-out, and top-down/bottom-up approach will strong, synergistic and genuinely value-adding Embedded CSR emerge.

Using the above conclusions as the framework for the discussions below, I would next like to propose five mutually supportive building blocks, depicted in Figure 2, for truly Embedded CSR, as seen from an EC perspective and an organisational leadership vantage point. The five building blocks can be regarded as sense-making tools with respect to Embedded CSR in ECs (Basu & Palazzo, 2008).

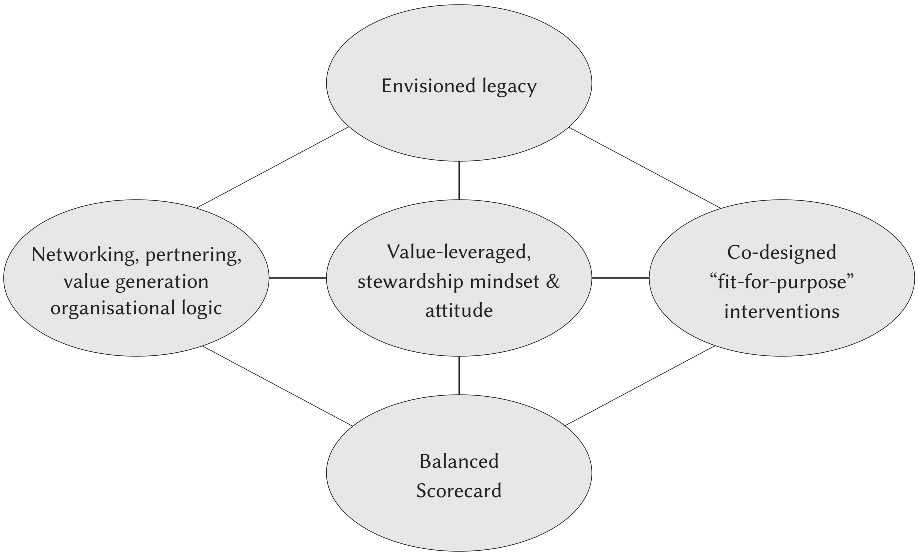

Figure 2. The mutually supportive building blocks of true and genuine Embedded CSR

Of course, the building blocks given in Figure 2 and to be discussed below could also be applicable to organisations operating in developed countries. However, my focus will be exclusively on organisations within ECs who have adopted the role of a genuine, trusted and involved societal transformation partner. Space does not allow to me to discuss whether any differences exist between the building blocks for developed countries and those for ECs, or whether such a difference is to a degree or complete. In accordance with the spirit of Aguinis and Glavas's (2013) proposed normative Embedded CSR, these building blocks can also be seen as normative guidelines informing the process of operationalising Embedded CSR in an organisation.

Embedded CSR building block 1: A value-leveraged, stewardship mindset/attitude

As per the vantage point of this article, Embedded CRS requires a steward (or servant) mindset/attitude that allows the organisation to see itself as an inherent part of the intricate fibre and DNA of the communities/societies in which they operate (Visser, 2011). They need to view themselves as acting as the trusted custodian of the assets of the communities/societies in which they are embedded and operating. In this way, an organisation will meet EC Implication 1 for Embedded CSR in ECs (see the above discussion of organisational and people implications of ECs for CSR initiatives).

Such organisations believe that the assets they have access to, control over, and are utilising have been entrusted to them, to be used in ways that, at a minimum, do not compromise the livelihood of future EC generations. Optimally, these assets should be used in ways that would leave upcoming EC generations with a better future because the organisation has contributed to transforming society (AßIänder, 2011).

Organisations with a stewardship mindset/attitude will engender abundant prosperity through the value they unlock and the wealth they create, by delivering enriching products/services. Enriching (or useful) products/services are those conceived, delivered and distributed to satisfy genuine needs in a real way for the greater good of all in the transforming society. These organisations leave their stakeholders significantly better off with their products/services, while simultaneously sharing, fairly and equitably, the wealth they are creating with the people who contribute to creating that wealth (Broomes, 2013; Dobers & Halme, 2012).

Organisations pursuing Embedded CRS, furthermore, are caring organisations. They care about the well-being of their clients, now and in the future; the quality of the context in which they are operating; as well as about the fair and equitable sharing of wealth among the people in their organisation (A'ßländer, 2011; Delios, 2010). A visible, aggressively espoused, communicated and concretely demonstrated stewardship mindset/attitude from a partnering stance is essential to global organisations active in ECs, to counter the stereotype of economic re-colonisation and exploitation of ECs by these organisations (see Moghalu, 2014, for a case in point regarding Africa).

At all times, steward organisations' actions have to be infused with a sense of rightness, publicly stated as doing the right (or good) thing for the right reasons, in the right way, at the right time. They are virtuous organisations, guided by an explicit moral compass. All of their thinking, decisions, actions and the wealth they wish to unlock are based on, and leveraged from, an uncompromising, openly stated value- and norm-informed position that is morally defensible and seen not to be compromised in any way, regardless of the circumstances and the parties involved (Chandler & Werther, 2014).

These organisations have mastered the art of building and nurturing deep, morally based relationships with stakeholders, informed by the qualities of legitimacy, fairness, and equity (Fisher & Grant, 2012; Pless *et al.*, 2012; Rajak, 2011). Global organisations active in EC countries, therefore, must have a clear, openly communicated value stance (with commensurate sanctions in the case of deviations), in order to prevent them from becoming entrapped in the corrupt, fraudulent and unethical practices that are rife in many ECs, and to be considered as employing the accepted way of getting things done. In this way, an organisation will realise EC Implication 2 of Embedded CSR (see above).

Embedded CSR building block 2: An envisioned legacy

Framed by a value-leveraged stewardship mindset/attitude, the imperative for an Embedded CSR-driven organisation is the leitmotiv of leaving something of genuine value behind for current and future generations – a lasting, worthy legacy. Organisations adopting Embedded CSR are infused right into their core with a burning passion to make the world a better place than the one they found. This legacy can be about improving what is, making the existing even better by extending it, changing the existing into something different, and/or bringing the completely new into being, e.g. initiatives such as GE's *Ecomagination* or IBM's *Smarter Planet* (cf. Aguinis & Glavas, 2013), BAE's *Making the world a safer place*, or Standard Bank of South Africa's *Bank the unbanked* (Rajak, 2011).

Such a legacy could also be framed in terms of, and derived from, international aspirations, like the UN's Global Compact, the UN's Millennium Goals, industry codes, ISO 2600 standards for social responsibility and the likes (cf. Aguinis, 2012; Broomes, 2013; Büchner, 2012; Kitzmueller & Shimshack, 2012; Rajak, 2011; Visser, 2011). In the case of ECs, this legacy would relate to what these countries would like to look like once they have fully transformed in their endeavour to become fully integrated, worthy, contributing and reputable world citizens.

Leadership-wise, Embedded CSR-driven organisations have moved beyond *"How?"* (i.e. transactional) and *"What?"* (i.e. transformational) leadership by recasting their leadership into *"Why?"* leadership (i.e. transcendental or spiritual). Such leadership centres around ultimate purpose, meaning and worth. Transcendental leadership resonates with and responds to people's existential search for meaning (Frankl, 1992). Given the fundamental transformation that ECs are undergoing, in creating societal existential meaningfulness, it is imperative that Embedded CSR in ECs is meaning-giving and purposeful for all stakeholders, e.g. GE's *Purposeful leadership* (cf. Aguinis & Glavas, 2013).

Embedded CSR furthermore requires that the lasting, worthy legacy is conceived and expressed in the form of a dream shared among stakeholders, an inspiring vision of what the desirable EC future will look like once the legacy has become a reality. This would provide stakeholders with a common destiny: "We are in this together." Embedded CSR organisations as transformation partners would be driven by the urgency to find and realise a shared, desirable EC future in concert with its stakeholders, and to express it in the form of an inspiring EC dream. While the legacy pertains to the desire to leave behind something of lasting value and worth: "A better world", the dream pertains to giving concrete substance to the legacy (Chandler & Werther, 2014; Visser, 2011).

An organisation's envisioned CSR legacy needs to inform its CSR's strategic intent (Aguinis, 2011; Ganescu, 2012). Organisations active in EC countries, therefore, must co-generate, in partnership, an inspiring, context-relevant, envisioned legacy among local stakeholders that will direct and guide their joint Embedded CSR thinking, decisions and actions in those countries. In this way, these organisations will engender local stakeholders' goodwill towards their presence in the EC. They will not be seen as intruding outsiders representing a threat, or as exploiters. They will obtain a moral and ethical 'license to operate' (cf. Aguinis & Glavas, 2013). All of the above are necessary to realise EC Implications 2, 3, and 4 of Embedded CSR in ECs, explicated earlier on.

Embedded CSR building block 3: A networking, partnering, value-generating organisational delivery logic

From a transformational partnership stance, Embedded CSR in ECs demands re-inventing the organisation's delivery logic – its operating model – to create a relationship-centric organisation able to engage intensely and seamlessly with all its stakeholders, both internally and externally (a geocentric attitude, as referred to above). For genuine Embedded CSR to be realised, stakeholders must be transformed into trusted partners of the organisation who, in concert with the organisation, pursue Embedded CSR value unlocking and wealth creation. In all of this, all parties involved will be directed and guided by a co-generated, shared, EC-relevant envisioned legacy (A'Bländer, 2011; Okoye, 2012; Matthews, 2014).

A constructive social pact must be established, with stakeholders as active, genuine partners. Partnering, as the concrete manifestation of a relationship-centric organisation, pertains to two or more individuals, groups or organisations that are able and willing to engage in a mutually beneficial, two-way Embedded CSR value-exchange – cross-boundary relationships based on trust. The time perspective of Embedded CSR partnering is long term: "We are in this together for the long haul". In this way, EC Implication 10 of Embedded CSR will be realised.

This relationship-centric transformation requires a radical shift in the organisational design logic: from being a command-and-control, power-based organisation to becoming a distributed network organisation driven by Embedded CSR value creation with trusted partners, both inside and outside of the organisation (Visser, 2011). In ECs, an organisation must extend its range of stakeholders (see EC Implication 3, above). In ECs with collectivistic, national cultures, where societies partnering is a societal expectation and norm (cf. Ho *et al.*, 2012), such stakeholder engagement becomes even more of a critical enabler in ensuring legitimate, credible Embedded CSR.

Identifying the full range of stakeholders is core in ensuring that all the "right" voices are heard at the "right" time in the organisation with respect to Embedded CSR (Pless *et al.*, 2012; Visser, 2011), in this way realising EC Implications 3 and 4 of Embedded CSR. The choice of the right and ethical stakeholders to partner with requires careful consideration and skilful politicking, because of the ongoing power struggles and fiercely defended ideological divides in ECs, as explicated above. This would enable an organisation active in ECs to realise EC Implication 2 of Embedded CSR.

Embedded CSR building block 4: A carefully co-crafted CSR strategy, translated into co-designed, fit-for-purpose CSR interventions, overseen by a dedicated CSR executive

The earlier conclusion regarding an outside-in/inside-in *and* top-down/bottom-up approach to Embedded CSR necessitates the strategic matching of the pressing CSR needs specific to the communities/societies within the EC operating arena of an organisation to the organisation's internally available organisational competencies, capabilities and resources, as framed by the organisation's envisioned Embedded CSR legacy.

This strategic matching can only come about through the careful crafting of a well thought through Embedded CSR strategy – the manner in which the envisioned legacy of the embedded CSR will be realised (A'Bländer, 2011; Chandler & Werther, 2014; Ganescu, 2012; Ragan *et al.*, 2015). All partners need to be intensely involved in the crafting of such a strategy and its roll-out. In the case of a global organisation, differentiated Embedded CSR initiatives will have to be crafted across the respective ECs making up the organisation's operating arena, in order to give an organisation's Embedded CSR local legitimacy and traction, reinforcing the organisation's position as a genuine and trusted local societal transformation partner (cf. Ho *et al.*, 2012; Rajak, 2011).

Given the abovementioned features of ECs, with their people and organisational implications, the contextually fit-for-purpose Embedded CSR interventions of organisations in ECs need to form a synergistic portfolio that has multiple value-adding effects on the ECs in which the organisations are active. The aim of these interventions must be to establish enhanced "can-do" capacities in the EC concerned, equipping beneficiaries in the EC to "catch fish", instead of being "given fish". The choice and range of interventions, crafted into a synergistic, high-impact portfolio of interventions, therefore, must empower EC communities and societies to help themselves. This implies a trend-breaking shift from aid to investment. In this way, EC Implications 5 to 10 of Embedded CSR will be realised (Dobers & Halme, 2012; Moghalu, 2014).

Five interdependent categories of Embedded CSR interventions can be distinguished, making up an organisation's Embedded CSR portfolio of interventions within the EC concerned (cf. Aguinis & Glavas, 2013; Broomes, 2013; Fisher & Grant, 2012; Okoye, 2012; Pless *et al.*, 2012; Ragan *et al.*, 2015; Rajak, 2011; Visser, 2011).

(i) *Ethical and governance interventions:* pursuing and engendering globally accepted standards regarding corporate governance, employment relations, working conditions and the environment, propagated by the likes of the United Nations and the International Labour Organisation;

(ii) *Community/societal interventions:* reducing the organisation's environmental impact, enabling communities/societies to function more effectively and efficiently by smoothing over and filling infrastructural underdevelopment/mismatches and systemic imbalances, e.g., making energy supply more predictable or reducing traffic congestion, such as in the case of IBM (cf. Aguinis & Glavas, 2013);

(iii) *People interventions:* enhancing the quality of local talent (both employed and unemployed) in terms of academic and/or vocational competencies and job experience, by matching these to local/global talent demands;

(iv) *Organisational interventions*: assisting in building the necessary competitive capabilities in local organisations, to enable them to compete more effectively, by, for example, incorporating them as genuine business partners in the organisation's supply chain, and by capacitating them to enter into and compete successfully in the global village; and

(v) *Leadership interventions:* building the necessary leadership capability in communities/societies, in this way equipping persons to constructively lead their communities/societies through fundamental transition and transformation. These leaders need to be able to utilise and deploy the capabilities resulting from the other four enabling intervention categories.

The categories of interventions making up the Embedded CSR portfolio of an organisation are a direct function of its leadership's responsibility orientation (already alluded to in the introduction) (Pless *et al.*, 2012), how they make sense of CSR (Basu & Palazzo, 2008), and their motives for CSR (Graafland *et al.*, 2012). The leadership responsibility orientation is influenced, *inter alia*, by contextual dimensions, with their commensurate stakeholders, as acknowledged by the organisation's leadership.

The CSR strategising process and its outcomes, as well as the envisioned legacy and the commensurate strategy of the CSR, with its consequential implementation through a portfolio of CSR interventions, have to be the responsibility of a C-suite executive. The presence of Embedded CSR in the executive suite will give the CSR of the organisation the necessary high-level organisational attention and the stature it deserves (Aguinis, 2012; Ragan *et al.*, 2015; Strand, 2013; Matthews, 2014). Embedded CSR now becomes an inherent, essential element of an organisation's overall strategic intent, e.g. Intel's *Enrichment of the lives of every person on earth* (cf. Aguinis, & Glavas, 2013; Ganescu, 2012). CSR will be on the organisation's strategic radar and agenda. In this way, CSR truly becomes embedded. Appointing country-dedicated CSR leaders will be mission-critical if an organisation is serious about its societal transformation partnering role. In this way, CSR will have a local, ongoing presence, enabling the building of strong in-country partnerships, which will allow for fit-for-purpose local interventions (cf. Dobers & Halme, 2012; Visser, 2011).

Embedded CSR building block 5: An embedded CSR balanced scorecard

An organisation's Embedded CSR performance must be defined, tracked and assessed in a holistic, integrated and systemic manner (Aguinis, 2012; Basu & Palazzo, 2008; Pless *et al.*, 2012; Prasertsang *et al.*, 2012; Ragan *et al.*, 2015; Van Marrewijk & Hardjono, 2003), relative and linked to the organisational strategy it is pursuing (Burke & Logsdon, 2012; Chandler & Werther, 2014).

Using a balanced scorecard approach (cf. Kaplan & Norton, 1992), Figure 3 gives a graphic view of a suggested Embedded CSR performance measurement model, with four interdependent performance dimensions and possible measures by which the Embedded CSR performance of an organisation can be adjudged (see also Aguinis, 2011; Aguinis & Glavas, 2013; Chitakornkijsil, 2012). Incorporated into this balanced scorecard is the triple bottom line of economic (= profit), social (= people), and environmental performance (= planet) (cf. Aguinis, 2011; Broomes, 2013; Graafland *et al.*, 2012; Kitzmueller & Shimshack, 2012).

The Embedded SCR balanced scorecard of an organisation must not only be aligned to the strategic intent of the organisation (Aguinis, 2011), but must reflect the reasons why the organisation is undertaking Embedded CSR (Basu & Palazzo, 2008). Furthermore, to be truly Embedded CSR-driven, these measures must be included as key performance areas/indicators (KPAs/KPIs) in the individual performance contracts of organisational members at all levels.

Benefit Realisation

- Citizen satisfaction: % citizens believing they are living better lives because of product/service and its delivery by organisation
- Monetary value of eco-friendly products/services as % of local revenue/market share
- % local revenue co-generated with local partners
- Employee fairness: Ratio of local employee rewards to local company
- revenue; Ratio of local employee rewards to local company revenue growth
- Local employee rewards as % of local company revenue
- % reduction in local environmental impact
- CSR spent as percentage of local company revenue
- CSR expenditure as percentage of local employee cost to company
- Investment in community infrastructure as % of local company revenue/market share

Stakeholder Credibility & Legitimacy

- Citizen satisfaction: % citizens believing they are living better lives because of product/service and its delivery by organisation
- Monetary value of eco-friendly products/services as % of local revenue/market share
- % local revenue co-generated with local partners
- Employee fairness: Ratio of local employee rewards to local company
- revenue; Ratio of local employee rewards to local company revenue growth
- Local employee rewards as % of local company revenue
- % reduction in local environmental impact
- CSR spent as percentage of local company revenue
- CSR expenditure as percentage of local employee cost to company
- Investment in community infrastructure as % of local company revenue/market share

Envisioned Legacy

Capacity Building

- Talent Abundance: % successors identified from local employees for critical posts; Percentage vacancies filled from local internal employees
- People Investment: Training & development days per full time equivalent local employee; Training and development investment as % of salary bill
- People Growth: Percentage of local employees fulfilling their Personal Development Plans
- New Talent: % local interns placed; local talent as % of total talent appointed in country
- Learning & development effectiveness: % local programmes achieving high importance and improvement ratings

Internal Organisational State

- Employee engagement/commitment: % engaged/committed employees, especially local employees
- Quality of local employee-employer relationships, especially local employees
- Person-job coherence and meaningfulness fit
- Organisational/ job identification
- % employees involved in CSR interventions
- % CSR proposals submitted and implemented per full-time equivalent local employee
- In country % improvement in health and safety of employees
- Sustainable utilisation of local natural resources
- Meeting international core labour standards locally
- Meeting international corporate governance standards locally

Figure 3. An Embedded CSR balanced scorecard

A deep and widely shared understanding must be cultivated in the organisation about the dynamic interplay between the different Embedded CSR performance dimensions being tracked and assessed (i.e. the evolving, dynamic big picture). In this way, a high-level, interactive Embedded CSR model of the interdependencies of Embedded CSR variables can be empirically established.

The insights gained need to be used to direct and guide an ongoing, real-time dialogue between partners about the organisation's Embedded CSR performance, where the CSR foci need to be, and what action needs to be taken to bring about enhanced/expanded

CSR performance. Embedded CSR then becomes "intelligence-driven". Because of the required strategic perspective of genuine Embedded CSR, it will be important to track and assess CSR performance over the long term, and not focus on the short term, e.g. this quarter's or year's CSR performance.

In summary: the five mutually supportive building blocks (see Figure 2) of true Embedded CSR as applicable to ECs, given that the organisation in the EC is a genuine, trusted and involved societal transformation partner, then are: a value-leveraged stewardship mindset/attitude; an envisioned legacy; a networking, partnering, value-generating, organisational delivery logic; a carefully co-crafted Embedded CSR strategy, translated into a co-designed, fit-for-purpose portfolio of CSR interventions, overseen by a dedicated CSR executive; and the use of an Embedded CSR balanced scorecard, in order to make the CSR intelligence-driven.

Conclusion

Without any doubt, involvement by organisations (the fish) in ECs imposes the imperative of Embedded CSR in order to establish and maintain a legitimate and credible presence and image of organisations as value-adding contributors in these countries (the water).

It was argued that the overarching, essential, unique nature of Embedded CSR in ECs is to be found in a wholehearted identification with and (pro-)active enablement of the EC by the organisation, in the radical, societal transformational journey undertaken by an EC in the EC country's aspiration to become a fully integrated, worthy, contributing and reputable world citizen. This implies that organisations active in ECs should become and be genuine and trusted societal transformation partners in the ECs concerned, within the constraints of resources and capabilities. This requires a strong identification by such organisations with the aspirations of the countries falling within their operating arenas.

Given this EC-unique transformational, partnering role, the question that can be posed in the final instance is whether the term *corporate social responsibility* is appropriate to the EC context. Does the term not signify, at face value, merely that an organisation will act responsibly - do no harm, i.e. be, at least, compliant, or, at most, only do good? Would not doing harm and/or doing good really save the day for ECs that are on the challenging and stressful journey of societal transformation?

As argued above, I would like to contend that even Embedded CSR that is fully engrained into the DNA of an organisation - the organisation being truly sincere about the its role in and for society - entails more than only acting compliantly and responsibly in a passive way, i.e. being merely a spectator. It implies doing more than good; being more than just compliant. Should the appropriate term for CSR, even Embedded CSR, in ECs then not rather be "Societal Transformation Investment" (STI) – an active organisational engagement driven by the meaning-giving need to leave the world, in general, and, more specifically, the EC concerned, the desirable place it aspires to be. Overall, the aim should be actively partnering with stakeholders in ECs to significantly increase the likelihood of a successful societal transformation journey, in order to turn such countries into fully-fledged, value-creating, and wealth-contributing world citizens.

Such partnering would imply, *inter alia*, a long-term commitment, a clear value and ideological stance, significant resource and capacity allocations, an executive leadership focus, and a comprehensive portfolio of real change-effecting, intense Embedded CSR interventions by the organisation. Would the proposed term STI not be more reflective of the true strategic, transformational Embedded CSR partnering intention of EC-based organisations through sharing the dreams of the countries in which they are active?

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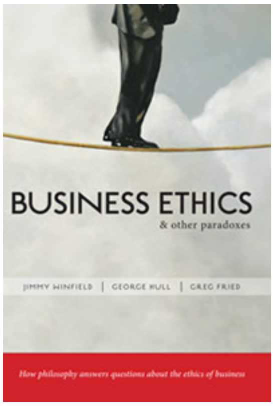
BOOK REVIEW

Reading on a jet plane: *Business ethics & other paradoxes*

■ ***Jessica Lerm*** ■



On a recent trip from Johannesburg back to Cape Town, I used the two or so hours of flight time to get stuck into *Business Ethics & Other Paradoxes* (J. Winfield, G. Hull & G. Fried, 2014, Cape Town: Fairest Cape Press), trying desperately to drown out the sound of the overly friendly man's voice, from two rows behind me, who shared with his companion – and indeed the whole cabin – the story of his eldest son's recent wedding. Even the crying baby near the front of the plane eventually gave it up when she realised that she was no match for this orator. And then, the flight was over, we were back in the Mother City, and passengers were eager to disembark. Engrossed as I was in my book, I remained seated, reading, as the other, more impatient passengers stood and started the slow shuffle towards the exit. One of these passengers had drawn up next to me, and peered over my shoulder to see what I was so interested in. I immediately recognised the Orator's voice as he announced, to me and to the plane in general, "*Business ethics*! Who would write a whole book on *that*?! I've been in business for 30 years and I've never had to worry about 'business ethics'. It's simple: do the right thing." And then, thankfully, the queue started moving and he was off the plane before social etiquette required that I respond to him.

I am grateful that I was spared a conversation with the Orator, for several reasons, but foremost among which is that nobody likes to be told that they are wrong, especially not in a public place like an aeroplane. And the Orator certainly was wrong, in more ways than one. Firstly, the Orator is mistaken if he thinks that he has "never had to worry about 'business ethics'". I suspect that, in making this claim, the Orator was appealing to the popular misconception that ethics simply is not the business of business. Of course, this is the same idea alluded to by *Business Ethics & Other Paradoxes*'s tongue-in-cheek title: it is paradoxical, as many assume, that business might be ethical, because the two notions are apparently antithetical. But, as is explained on the very first page of the book, this is merely an *apparent* paradox: business can very well be ethical – and, indeed, it *should* be. The Orator is mistaken if he thinks he has never had to worry about ethics in 30 years of business (and he appears to have admitted as much when he went on to explain how "simple" it is to "do the right thing" in business – the *ethical* thing, that is). Ethical challenges are part of our daily lives and if business makes up part of our daily life – indeed, comprises the large proportion of many of our daily lives – then we will of course face ethical challenges in business.

The second way in which the Orator is mistaken, is in his claim that, "It's simple: do the right thing". While he is correct that we ought all – businesspeople included – to "do the right thing", it is often far from clear or "simple", what "the right thing" is. Take, for instance, the case of whistleblowing, to which *Business Ethics & Other Paradoxes* devotes a chapter (Ch.12). What does one do when one is torn between the apparently morally correct action of remaining loyal to one's place of employment and the apparently morally correct action of reporting one's company's illegal practices to the authorities? In a case like this, the right action to take is not at all a "simple" or straightforward matter. And that, I might have told the Orator, is why a "whole book" has been written on the subject of business ethics – because we need it. Not all of us (very few of us) are born ethicists and so we need a little guidance to find our ways through the ethical tangles that can confront us in our daily lives, which include our business lives.

In particular, what we need is a clear, accessible, but nevertheless careful and rigorous, treatment of ethical issues likely to be met by a person in business. And on that count, *Business Ethics & Other Paradoxes* more than delivers. Jointly the book's three authors have a background in commerce as well as philosophy, and the philosophical approach is put to good use as the authors offer chapter after chapter of careful analyses and detailed arguments – an impressively large proportion of which is original work by the authors. The greatest value of the book, however, is its accessibility: even as it surveys the sometimes complex and quite technical literature of business ethics, *Business Ethics & Other Paradoxes* is wonderfully clear and within the grasp of an audience even with no background in either commerce or philosophy. With this in mind, it is the ideal book for a university student of business ethics. Although *Business Ethics & Other Paradoxes* does not specifically pitch itself as a student textbook, it is clear that the book has been written with this aim in mind. So, it is as such that I review *Business Ethics & Other Paradoxes*: as a book written primarily for use by convenors and students of a course in business ethics.

According to the blurb on the back cover of the book: "Since no list of rules or standards of best practice could cover all our ethical dilemmas, we have no alternative but to think them through for ourselves", and *Business Ethics & Other Paradoxes* does precisely this: it presents the reader with an argument for one ethical position rather than another, and then goes on to assess that argument, sometimes tweaking the original argument as it goes along to, charitably, give it the best possible shot. This, of course, is the philosophical approach, and its great benefit is that it not only imparts relevant information to the reader, but also imparts to the diligent reader a *skill*: the skill of critical thinking. Better critical thinkers will hopefully be more ethical people (and more ethical businesspeople, in particular), but critical thinking is a skill much more broadly valuable than just in the realm of ethics. Critical thinking skills will benefit their possessor in all areas to which he or she applies his or her mind, and so a better critical thinker will make not only for a more ethical businessperson, but ultimately for a shrewder businessperson too. This is the value of philosophy to business students, and the careful student of *Business Ethics & Other Paradoxes* will cultivate critical thinking skills by being led by the book to think through ethical issues for him- or herself.

However, this is something of a double-edged sword. I do suspect that some readers will complain that *Business Ethics & Other Paradoxes* frustratingly offers more questions than it does answers. The book does not set out to make substantive ethical claims, such as the substantive ethical claim that, for instance, South Africa's controversial Black Economic Empowerment policies are morally permissible (see Ch.10), and this may well be disappointing to a reader who *just wants to know what's right*. Rather, the book sets out to guide the reader through thinking through such issues *for him- or herself*, by presenting the reader with relevant, popular arguments, and examining possible responses to them. And, any ethical action performed on the basis of the agent's personal conviction that it is the right thing to do, arguably demonstrates much greater integrity than the same action performed just because the agent once read in some book a while ago that it was right. That the onus is in this way left on the reader to make up his or her own mind on the basis of the arguments presented may be frustrating, but it is part and parcel of philosophy. *Business Ethics & Other Paradoxes* is an unashamedly philosophical work (as its tagline reads: *How philosophy answers questions about the ethics of business*) and, as I have argued, this is one of the book's major virtues.

Even with this virtue in mind, however, the abstract, philosophical nature of the book will be difficult for some students of business to handle. Although the philosophical content of *Business Ethics & Other Paradoxes* is commendable, I do think the authors could have done their likely audience – students of commerce, not of philosophy – the favour of using examples and illustrations more clearly applicable to business. For instance, one of the main points of discussion of Chapter 8 is the far-fetched, hypothetical case of "Cynthia" who trains "Pablo" as an assassin. Bearing in mind that Chapter 8 covers *advertising*, it may be difficult for readers to see how an assassin and his trainer are relevant topics of discussion. I must, however, temper this complaint concerning the perceived relevance of some illustrations with the observation that several other examples employed in the book make reference to the local, South African context – which I know my students would appreciate.

Apart from the relevance of some of the book's examples, I do also worry that – well-written as the book is – certain sections of certain chapters may run the risk of being too philosophically thorough, more so than the purposes of a business ethics student would require (here I think, for instance, of the complex discussion of happiness in Chapter 9). It is, however, the course convenor's prerogative how much of and in what order the chosen sections of a book will be prescribed to students. In particular, I would not recommend that students begin by studying the first four chapters of the book, which cover the bases of philosophical argumentation, as this abstract, formal material will, I suspect, be heavy going for a business ethics student; rather, I would recommend starting with the more concrete, real-life-applicable chapters of the book, and referring students to the relevant portions of chapters 1–4 only as the need arises. I think this is the best way for a student to get the most out of this rich, thought-provoking book.

I would not hesitate to use *Business Ethics & Other Paradoxes* as the prescribed book for a philosophy course in business ethics, and I would also recommend it to a seasoned businessperson, like the Orator, who may have an overly simplistic view of the relationship between business and ethics, and who might benefit from the rigorous philosophical treatment of the subject that this book offers.