A CORPORATE GOVERNANCE AND BUSINESS ETHICS FRAMEWORK: THE CASE STUDY OF BANK SUBSIDIARIES IN AN EMERGING COUNTRY

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Abstract

As Africa continues to develop as a foreign direct investment (FDI) destination, greater emphasis must be placed on domestic and international regulations seeking to facilitate governance levels (Awolusi, Adeyeye, & Pelser, 2017, p. 195). This study investigated the degree of compliance to 2016 King IV Report on Corporate Governance™ for South Africa (King IV™) principles and recommended practices by 17 sampled Standard Bank African subsidiaries. An extensive literature review of business ethics and corporate governance was performed, focusing on works from Kretzschmar et al. (2012) and Geach (2009). King IV™ recommended practices were used as constructs to measure the level of compliance. To answer the three research questions and meet the three research objectives, a manual questionnaire approach was employed to collect data from 33 respondents that represented 17 Standard Bank African subsidiaries. Reliability of the constructs in the questionnaire was performed using a Cronbach’s alpha (α) with (α) equals 0.857 indicating a high level of internal consistency for the nominal scales used in the questionnaire. Validity was established through the research design and sequential mixed methods employed. Based on the respondents’ feedback the researchers developed the corporate governance and business ethics framework for Standard Bank incorporating King IV™. The modes of managing morality (MMM) business ethics model (Rossouw & van Vuuren, 2013, p. 58) was fused into the framework. The researchers are of the view that the framework would assist Standard Bank Group in realising its stated purpose. A set of recommendations that would assist the Standard Bank Group in meeting the prescripts of King IV™ are proffered.

Keywords: Business Ethics, Corporate Governance, Stakeholder-Inclusive Approach, Ubuntu, Botho, Sustainability, King IV™

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1. INTRODUCTION

The consequences of the global financial crisis and corporate scandals have motivated regulators and business communities to be more attentive to corporate governance requirements. As a result, stakeholders in both corporate and non-commercial organisations sectors have focused on disclosure requirements in adherence to good corporate governance practices (Mensah, Ngwenya, & Pelser 2020, p. 1). Phaswana (2020, p. 1), in his doctoral thesis on corporate governance and business ethics frameworks, postulates the way a company makes its money impacts the three critical triple contexts: society, economy, and environment (SEE). This research is about the African continent and is inspired by the famous seminal quote by the Roman philosopher, Pliny the Elder (23–79 AD), who said, "Ex Africa semper aliquid novi" ("Out of Africa there is always something new").

Standard Bank Group and its subsidiaries, including those on the African continent, "operate in a societal context which they affect and by which they are affected" (Institute of Directors in Southern Africa, 2016, p. 24). The internal and external stakeholders of Standard Bank have a material stake in the bank's activities. King IV™ puts this succinctly by stating that "An organisation has a society specific to itself, which includes its internal and external stakeholders with a material stake in its activities. But the organisation is also a juristic person in the broader society in which it operates. Organisations are dependent on this broader society too; for instance, provide a conducive operating environment, a viable customer base, and the skills that the organisation requires. In turn, organisations contribute to the broader society as creators of wealth; providers of goods, services, and employment; contributors to the fiscus; and developers of human capital" (Institute of Directors in Southern Africa, 2016, p. 24). Importantly, King IV™ explains that this idea of interdependency between organisations and society is supported by the African concept of Ubuntu or Botho ("I am because you are"; "you are because we are"). The former chairperson of Nedbank, one of South Africa’s Big Four banks, Reuel Khoza, asserts that from an African perspective one cannot have proper management without ethical leadership. Effective leadership is strictly subordinated to ethical leadership because the ultimate responsibility of leadership is to ensure that the organisation is permeated by humanness (Khoza, 2012, p. 1).

King IV™ is an outcome-based corporate governance code. The common theme within King IV™ is qualitative corporate governance as opposed to "mindless tick box" quantitative corporate governance. King IV™ puts it concisely by stating that: "A major challenge in the implementation of codes of corporate governance is that recommended practices could be mindlessly implemented as if they were rules, resulting in corporate governance becoming a mere compliance burden. This inflexibility also leads to an inability to interpret and apply codes of corporate governance in a way that is appropriate for the organisation and the sector in which it operates. Mindful application, on the other hand, harnesses the benefits of corporate governance in the interests of the organisation, and applying the governance code comes to be seen as a process of adding rather than subtracting value" (Institute of Directors in Southern Africa, 2016, p. 36). An extensive literature review of business ethics and corporate governance was performed, focusing on works from Kretzschmar et al. (2012) and Geach (2009). A sequential mixed methods research design was chosen for this study to conceptualise a new corporate governance and business ethics framework within which Standard Bank African subsidiaries would be able to operate.

The idea to come up with a corporate governance and business ethics framework based on King IV™ for Standard Bank African subsidiaries was specifically ignited by the corporate and business ethics failure at one of Standard Bank's Africa subsidiaries. Rob Rose of the authoritative South African national weekly business magazine Financial Mail wrote an article entitled: “Inside Standard Bank's Dirty Deal”. In summary, Standard Bank’s London unit was fined USD 36.9 m and received a deferred prosecution agreement by the United Kingdom (UK) regulators for failing to prevent what appeared to be an unethical business deal by Standard Bank Group’s Tanzania subsidiary. In October 2011, Tanzania’s government decided to raise a new USD 600 m bond and agreed to appoint Standard Bank Plc based in the UK and Stanbic Bank Tanzania to raise the funds in exchange for an agreed fee of the proceeds. The bank partnered with Enterprise Growth Market Advisors (EGMA), whose local partners were former senior government employees. The main contention of the UK regulators was that one of the partners was a former commissioner of the Tanzania Revenue Authority (the country’s equivalent of South Africa’s South African Revenue Service) and was still the head of a government agency that acted as an adviser to the government concerning its financing needs. The second partner had until recently headed state-owned Tanzania Capital Markets & Securities Authority (Rose, 2015, p. 10). This meant that there was a possible conflict of interest.

It should be pointed out that once Standard Bank Group was aware of the conflict of interest, it immediately informed the UK regulators and thereafter continued to cooperate in that regard. Lord Justice Brian Leveson of the UK said that no allegation of knowing participation in an offence of bribery had been made against Standard Bank — rather the concern was that the bank's systems were too porous to stop bribery. Standard Bank Group's fault was apparently not keeping an eagle eye on what was happening at a foreign subsidiary. Most of Stanbic Bank Tanzania’s staff, including the then CEO of Stanbic Bank Tanzania, had since left the bank (Rose, 2015, p. 10). Standard Bank Group operates as Stanbic Bank in some African markets in order to differentiate itself from the UK-based Standard Chartered Bank PLC (Stanchart).

Whilst good corporate governance and business ethics practices are entrenched in the Standard Bank Group headquartered in South Africa, it is uncertain as to whether the group's African subsidiaries also practise good corporate governance and business ethics. This problem statement resulted in trying to answer three pertinent research questions:

1) What is the Standard Bank African subsidiaries’ level of awareness with regard to
corporate governance and business ethics concepts governing the Standard Bank Group?
2) How do various Standard Bank African subsidiaries perform against King IV™’s 16 corporate governance principles?
3) Does the bank exhibit a high enough level of corporate governance and business ethics to warrant investing in?

Based on the respondents’ feedback, a corporate governance and business ethics framework for the Standard Bank African subsidiaries was developed, based upon the MMM business ethics model from Rossouw and van Vuuren (2013, p. 58). Importantly the framework incorporated the Ubuntu/Botho African worldview. The structure of this paper is as follows. Section 2 reviews the relevant literature. Section 3 analyses the methodology that has been used to conduct empirical research. The research findings are discussed in detail in Section 4. Section 5 concludes this study.

2. LITERATURE REVIEW

This section critically analyses ethics and corporate governance theories and practices. Authors such as Kretzschmar et al. (2012, p. 17) are of the view that ethics and morality go hand in hand. These authors write that the term “ethics” originates from the Greek word ethikos. They add that when the Greek term was later translated into Latin, it was translated as moralis. They go on to explain that “the common origin of the terms ‘ethics’ and ‘morality’ explains why it has become fashionable to use the two terms interchangeably. When we refer in ordinary language to unacceptable or irresponsible behaviour, we call such behaviour ‘unethical’ or ‘immoral’. The words are therefore used as synonyms — what is unethical is immoral and what is immoral is unethical […]” (Kretzschmar et al., 2012, p. 17).

The central theme of Aristotle’s Virtue theory is that morality is both necessary and vital for human beings. Aristotle (cited in Collins, 2015, p. 304) said that “the end goals of political and individual well-being are justice and happiness: both are loosely understood concepts that propel the evolution of human history”. According to Irwin (as cited in Ghayour & Doaei, 2012, p. 100), “Aristotelian Ethical Theory is the theory which realizes the ethical virtues as the basis for right and wrong actions and tries to encourage people to have ethical virtues instead of focusing on external behaviour”. Alzola (2015) is of the view that “the language of virtue is gaining widespread appreciation in the philosophical, psychological, and management literature […]” (p. 287). MacIntyre (as cited in Sinnicks, 2014, p. 231) agrees with Aristotle’s claim that virtues allow one to live a good life. Authors such as Alzola (2015) are of the view that “the language of virtue is gaining widespread appreciation in the philosophical, psychological, and management literature. Ethicists and social scientists aim to integrate the normative and empirical approach into a new ‘science of virtue’” (p. 287).

Aristotle’s virtue theory is not without criticism. Anscombe (as cited in Ferrero & Sison, 2014, p. 376) identified many difficulties besetting virtue ethics. She argues: “First, the meaning of virtue, even to Aristotle, was no longer clear. Neither were satisfactory accounts of basic concepts of moral psychology such as ‘intention’, ‘desire’, ‘motive’, or ‘action’. Instead, there was widespread disagreement about the existence and meaning of virtue-related notions such as ‘human nature’ and ‘flourishing’.

The German philosopher Immanuel Kant is associated with the classical deontological theory of ethics. Kant called his universal and objective moral law — Categorical Imperative. Whereas the virtue ethics theory claims that morality depends on the moral virtues of one’s character, the deontological theory of ethics argues that moral action requires conformity to rationally founded moral principles, argue Rossouw and van Vuuren (2013, p. 75). Deontology, according to Ferrero and Sison (2014, p. 375), considered behaviour exclusively in terms of its conformity with the universal rules of justice and rights. According to Kretzschmar et al. (2012, p. 76), Immanuel Kant was convinced that society’s moral actions cannot be guided by its practical experience. Kant’s theory is not without criticism. Authors such as Duska (2014), are of the view that: “Kant and the deontologists seem to be unable to justify any project of an autonomous subject except by insisting that reason demands that any proposed rule of any autonomous subject be universalized, i.e., turned into law” (p. 120).

He further argues that this leaves the deontologists with only one answer to the question: Why obey the law? Accordingly, he argues that: “Moral Law on Kant’s scheme is only generated if there is a willingness to concern oneself with being lawful”. A question then arises: Why legislate against yourself? Anscombe (as cited in Duska, 2014, p. 120) posits that: “legislating for oneself is as absurd as calling a self-reflective decision, a vote by a majority of one”. Anscombe (as cited in Ferrero & Sison, 2014, p. 375) considers Kant’s idea of ‘legislating for oneself’ to be absurd because “legislation required a superior power and, given Kant’s agnosticism, such a recourse to a ‘supreme law giver’ was impossible”.

British philosopher John Stuart Mill is a classical representative of the utilitarian moral theory. Authors such as Ferrero and Sison (2014, p. 375) are of the view that Utilitarianism, which judges actions through cost-benefit analysis, without regard for norms or values, dominated in practice until virtue ethics was introduced by Anscombe’s article in 1958. Authors such as Mill (as cited in Rossouw & van Vuuren, 2013, p. 80) posit that actions are good when they contribute towards fulfilling the ultimate goal of human beings. This ultimate goal of human life Mill defined as happiness. This conviction he put concisely in his “greatest happiness principle”, which states that: “Actions are right in proportion as they tend to promote happiness, wrong as they tend to produce the reverse of happiness. By happiness is intended pleasure, and the absence of pain: by unhappiness, pain or the privation of pleasure” (Mill, as cited in Rossouw & van Vuuren, 2013, p. 80). Gustafson (2013, p. 326), in defence of Mill’s ideas, argues that utilitarianism provides a vision of ethical behaviour that holds the common interest of humanity. He argues that this is of utmost importance when one has to make a moral decision. He further states that utilitarianism fits business well if we conceive of business as a means of
transforming culture and society. Utilitarianism is the ethical perspective that most easily helps us to address the ethical relationship and responsibilities between business and society. The business provides goods and services, jobs, tax revenue, and many better things. The utilitarian in business asks, according to Gustafson (2013), “How can we do business in such a way that it contributes the greater good?” (pp. 326-327). He concludes by drawing on the key features of the utilitarianism of John Stuart Mill, which states that the right actions are those that contribute the greatest good for the most.

The main criticism of John Stuart Mill’s greatest happiness principle is by Rossouw and vu Vuuren (2013, pp. 81-84). They present the following 6 criticisms of John Stuart Mill’s theory: 1) the theory is degrading to humans; 2) happiness cannot be the rational purpose of life; 3) utilitarianism encourages selfishness; 4) utilitarianism is unattainable; 5) utilitarianism is self-serving; 6) theory is too time-consuming.

Authors such as Gustafson (2013, p. 327) do not support John Stuart’s utilitarian approach. Gustafson (2013) points out that self-interest, profit maximisation; cost-benefit analysis is often labelled as “utilitarianism”. He opines that this is the target of business ethicists looking for a business to consider ethical interests along with profit. He concludes that this approach is appropriate if based on profit maximisation only and not on the utilitarian approach per se. To him, utilitarianism is an ethical theory is quite different from mere profit maximisation. He concedes despite these confusions, that the utilitarian approach is commonly used.

Authors such as Green (as cited in Duska, 2014, p. 120) argue that: “Efforts to construct morality on the foundation of a rationally justifiable principle or set of principles, in the spirit of Kant or Mill, are out of fashion”, Anscombe (as cited in Ferrero & Sison, 2014, p. 375) is critical of utilitarianism because she holds that “ethics entailed certain things to be forbidden in themselves, regardless of consequences (such as the killing of the innocent)”. The Nobel Prize-winning economist Milton Friedman sought to answer the following question: Do companies only have responsibilities to their owners or shareholder or do they have responsibilities towards the societies they serve? Friedman (as cited in Rossouw & van Vuuren, 2013, p. 86) wrote, “The social responsibility of business is to increase its profits”. Friedman strongly argued that business has no social responsibility other than to make money. Friedman was a chief proponent of the shareholder theory, i.e., that the corporation should be managed only for the shareholder. He cautioned directors of corporations against using the corporation’s money for corporate social responsibility. He argued that directors had no right to do this unless they contributed in their personal capacity. Friedman also argued that corporations were not moral agents as they were not biological persons but were mere artificial legal entities that cannot be loaded with additional moral responsibilities. The shareholder theory was not without criticism. Kleinau, Kretzmann, and Zülch (2016, p. 71) write that the purpose of business is defined in its corporate mission statement, which summarises how the corporation aims to create value for society and concomitantly generate profits for its owners. They argue that these two goals are inextricably linked because, in order to generate profits, a company needs to deliver goods and services for the market. The consumers’ willingness to pay for these goods and services exceeds the firm’s costs of production.

In contrast to the shareholder theory, the main proponents of the stakeholder theory, Edward Freeman and William Evan argue that the corporation should be managed for all of its stakeholders, including shareholders, managers, employees, suppliers, customers, and the local community. According to Freeman and Evan (as cited in Rossouw & van Vuuren, 2013, p. 95), “The law has evolved to effectively constrain the pursuit of stockholder interest at the expense of other claimants on the firm”. They refer specifically to the legislation and court findings that give certain rights to employees, be they individually or collectively. As an example, in South Africa, the recognised banking union is the South African Society of Bank Officials (SASBO) and SASBO negotiates collectively on behalf of union members. The banks have to accept this.

Criticism of the stakeholder theory of Freeman and Evan focuses on their notion that all stakeholders are treated equally. Put differently, the theory claims that the interests of no single group are given primacy over other groups. Rossouw and van Vuuren (2013, p. 98) argue that it is on this point that the supporters of the stakeholder theory divide. Burger, Pelser, and Ellis (2019, p. 13) look beyond a moral-based motivation of stakeholder involvement and acknowledge the organisational survival imperative of the increased importance of stakeholders. The main criticism of Freeman and Evan’s stakeholder theory is that they assume that all stakeholders have the same value; i.e., are to be treated equally. This has caused tension in the stakeholder theory camp. Goodpaster (as cited in Rossouw & van Vuuren, 2013, p. 98) has rectified Freeman and Evan’s oversight. He agrees with Friedman that corporations, and specifically their managers, have a special duty towards shareholders.

As agents of the shareholders, managers have a fiduciary obligation towards shareholders to maximise profits. Goodpaster, however, stresses that this fiduciary obligation by managers to other shareholders does not necessarily mean that other stakeholders’ interests in the corporation should be sacrificed. Goodpaster argues that managers also have a moral responsibility toward other stakeholders. In other words, he claims that in the framework of fiduciary obligations to shareholders, managers have to find a way to respect their moral obligations to all stakeholders of the corporation. This is the foundation of many corporate governance codes around the world, specifically the South African Codes on Corporate Governance.

Raja and Zahid (2020) define the corporation as an economic and social institution established to make legitimate profits for shareholders by producing and distributing goods, and rendering services to customers, and also, on equal importance, to render benefits to all other stakeholders and the society as a whole. Unfortunately, the wave of modern-day corporate scandals has prompted
an increased interest in business ethics. Corporate scandals continue to pervade the news owing to unethical actions by some corporate directors and boards with low fiscal scrupulousness and governance integrity. Many governments around the world have formulated corporate governance principles and rules to fight try and prevent corporate malfeasance.

In response to the Enron bankruptcy scandal and other corporate governance and accounting scandals, the US Senate began working on the corporate governance bill, which later became the Sarbanes-Oxley (SOX) Act of 2002. The US Congress rushed to finalise the SOX Act after WorldCom (a long-distance phone company) filed for bankruptcy. Unlike in the UK and South Africa, where the doctrine of “apply or explain” was adopted, the US opted for the “comply or else” doctrine through the SOX Act. The SOX Act in the US contains a series of detailed requirements concerning audits and auditors of listed companies, (Wixley & Everingham, 2010, p. 13). Authors such as Willits and Nicholls (2014) agree with Prof. King’s assertion with regard to the costs.

In an article published in the American Journal for Certified Public Accountants entitled “Is the Sarbanes-Oxley Act Working?” Willits and Nicholls (2014, p. 38) highlight the financial cost of complying with SOX. They state that one of the frequent complaints about SOX concerns the law’s costs in comparison to its benefits — especially the cost of complying with section 404, which deals with internal controls [...]” (Sarbanes-Oxley Act of 2002, p. 45). Willits and Nicholls (2014) further state that, based upon studies conducted shortly after SOX took effect, average section 404 costs ranged from USD 4 m to USD 7 m and for large companies to more than USD 10 m. Authors such as Puzen (2010, p. 52) are of the view that SOX is ineffective because the regulators have merely added a new layer of legal obligations to the job of governance without improving the quality of people serving on the boards or changing their behaviour dynamics.

The Deutscher Corporate Governance Kodex (German Corporate Governance Code), hereafter referred to as “the Code” was first published in 2002 and presents essential statutory regulations for the management and supervision of German listed companies and contains, in the form of recommendations and suggestions, internationally and nationally acknowledged standards for good and responsible corporate governance. The Code was amended in May 2015 and in February 2017. The doctrine adopted by the Code is “comply or explain” (Regierungskommission Deutscher Corporate Governance Kodex, 2017).

The Dutch Corporate Governance Committee (2016) published the first Dutch Corporate Governance Code (hereafter referred to as “the Code”) on December 9, 2003. The Code was revised in 2016 by the Dutch Corporate Governance Code Monitoring Committee. The Code’s doctrine of “apply or explain” is not dissimilar to the doctrine initially adopted by South Africa. It is important to note that South Africa has now adopted “apply and explain”. The Africa Corporate Governance Network (ACGN, https://www.afcgn.org/) was founded in 2013 in South Africa and consists of 14 members and 10 affiliates. The formation of the ACGN was spearheaded by the Institute of Directors in Southern Africa (IoDSA, https://www.iodscoza.co.za/) and the Mauritius Institute of Directors (MoDiD). The ACGN represents the voice of over 20,500 directors and senior executives in Africa (ACGN, https://www.afcgn.org/).

Based on the success of Accounting for Sustainability (A4S), the International Integrated Reporting Council (IIRC) was launched in 2012. The IIRC published “The International Integrated Reporting (<IR>) Framework” in December 2013. The IIRC is a global coalition of various regulators, investors, companies, standard setters, the accounting profession, and non-governmental organisations (NGOs) previously chaired by Prof. King. It is a global not-for-profit organisation incorporated in England and Wales and headquartered in London. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting. The International <IR> Framework has been developed to meet this need and provide a foundation for the future cost of IIRC, 2013). It is important to state that King IV™ is based on the International Reporting Framework.

Africa, through the African Union Commission, also developed a set of 7 aspirations aptly entitled “Agenda 2063 (Africa We Want)”. Aspiration 1 relates to inclusive growth and sustainable development and Aspiration 3 relates to Africa of good corporate governance, democracy, and the rule of law. The researchers will focus on these two aspirations, as they are particularly relevant to this research. What is especially interesting is the intersection between corporate governance and the rule of law. The researchers argue that good corporate governance depends on the rule of law. Investors are unlikely to invest in a country where the government, companies, organisations, and individuals disrespect the rule of law, including but not limited to court judgements.

The International Corporate Governance Network (ICGN) was established in 1995 as an investor-led organisation. The ICGN’s mission is stated on its website as being to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide. The ICGN states that its members believe in the long-term benefits of good governance and strive to make the same an integral part of their approach to business and investment. The ICGN is represented in over 47 countries and membership is open to all governance professionals, including investors, companies, and others (ICGN, 2016). In South Africa, organisations such as the Standard Bank Group Limited, the Public Investment Corporation (PIC), and the Government Employee Pension Fund (GEPF) are members of the ICGN.

Mo Ibrahim is a Sudanese billionaire now based in the UK. He established the Mo Ibrahim Foundation and its board of directors is represented by the prominent world and African leaders such as the former Secretary-General of the Organisation of African Unity (OAU), Mr. Salim Ahmed Salim; and former Secretary-General of Mozambique, Mrs. Graça Machel, to name two. In 2006, the Mo Ibrahim Foundation commissioned an Africa-wide annual
assessment of governance called the “Ibrahim Index of African Governance” (IIAG), which covered 54 African countries (Mo Ibrahim Foundation, 2020). Transparency International is a global coalition against corruption, with the vision of a world in which government, business, civil society, and the daily lives of people are free of corruption. Transparency International has more than 100 chapters worldwide, with its international secretariat in Berlin. The coalition is leading the fight against corruption in its effort to turn its vision into reality (Transparency International, https://www.transparency.org). Transparency International Chair Ferreira Rubio has stated that high levels of corruption also correlate with weak rule of law; government control over social media, lack of access to information, and reduced participation by society (Transparency International, https://www.transparency.org).

King IV™ is the fourth iteration by the King Committee and follows in the tradition of King I, King II, and King III. King IV™ “sets out the philosophy, principles, procedures and practices, which serves as the benchmark for corporate governance in South Africa” (Institute of Directors in Southern Africa, 2016, p. 20). South Africa has adopted the doctrine of “apply and explain”. King IV™ continues on the foundation laid by King III, except that King III advocated for “apply or explain”. The King Codes are not without criticism. King III recommends having a majority of non-executive independent directors in a company board of directors as this minimises the possibility of conflict of interest.

Authors such as Geach (2009, p. 5) disagree with this recommendation. Geach (2009) contends that some independent directors hardly add value and are detached from the business and that they simply do not know what is going on, which could be detrimental for the business. Geach (2009, p. 5) is also not in favour of King III restricting the length of time that a director is appointed to a company board. King III is of the view that continued employment of a director may impair his or her independence. Geach (2009) argues that it is better to appoint the experienced director who knows the company well.

Corporate governance is seen in most emerging economies as an important component of development tools (Otman, 2019, p. 43). Unfortunately in a recent study by Kalenzi and Pelser (2021, pp. 48–69), the majority of leadership in an African public enterprise agreed that they spent a lot of their time discussing politics rather than implementing corporate governance decisions. This point illuminates the threat that political and not managerial issues may guide the governance. As Africa continues to develop as a foreign direct investment (FDI) destination, greater emphasis must be placed on domestic and international regulations seeking to facilitate governance levels (Awolusi et al., 2017, p. 195).

3. RESEARCH DESIGN AND METHODOLOGY

The research epistemology utilised was a mixed-methods study, which combined methods associated with both quantitative and qualitative research, where the aim was for quantitative and qualitative methods to supplement each other. This study largely adhered to realism, and in particular critical realism, frame of reference for the mixed-methods study (quantitative study — positivism, and qualitative study — interpretivism). Ontologically, the researchers regarded corporate governance and business ethics practices within the context of ongoing environmental changes. From an epistemological perspective, the researchers mainly focused on objectively obtaining the subjective self-reported views of the board members within Standard Bank African subsidiaries.

In line with company board questionnaires or appraisals, a mixed-methods (quantitative and qualitative with quantitative given a higher priority, i.e., QUANT + qual) data-collection approach was chosen. Mahony (2012) cogently states that a “questionnaire can be designed in such a way so as to accommodate a space for the director to record additional remarks, which will enable the evaluator to understand why an answer has been given with a particular bias” (p. 17). It was expected that some respondents would record comments that would assist the researcher to understand why a particular answer was given. Importantly, the inclusion of a comments section in the questionnaire transformed it into both a quantitative and qualitative data-collection instrument. For this study, a deductive research approach for mixed methods was followed. Put concisely, this meant that corporate governance and business ethics concepts known from the theory were tested using newly acquired empirical data. The chosen research topic, the research problem formulation, and the resultant development of the study objectives were the result of iterations between the researchers’ personal experience regarding the corporate governance and business ethics challenges within the African banking industry and theory on the subject of corporate governance.

The research took the form of a descriptive survey study and the survey design was cross-sectional in nature. Random sampling was considered not to be suitable for this study and therefore the researchers used non-probability purposive homogeneous sampling. The questionnaire was sent to the full-time board members of the 17 sampled Standard Bank African subsidiaries. It was also sent to the 3 Standard Bank Regional Chief Executives (RCEs). These executives sit on 16 (6 + 5 + 5) country boards. A total of 33 questionnaires were returned (17 + 16 = 33).

The research employed non-probability sampling as the researcher was of the view that nonprobability sampling would not assist him in answering the 3 research questions and meeting the 3 research objectives. Table 1 depicts the population used for Standard Bank African subsidiaries. For the current study, the researchers were of the view that feedback of the respondents from the sampled countries would assist the Standard Bank Group, especially those African subsidiaries not forming part of the sample and future African acquisitions. The respondents were all senior members of the Standard Bank Group African subsidiaries and included bank executives in the Standard Bank African subsidiaries, including company secretaries. In addition, the South African-based executives who attended Standard Bank African subsidiary board meetings formed part of the population.
In accordance with the researchers' informed subjective judgement, the following countries were excluded from the survey:

- South Africa — Corporate governance practices are fully embedded and the Standard Bank Group is Johannesburg Stock Exchange (JSE) listed and therefore required to apply King principles and codes on corporate governance;
- Ethiopia — Standard Bank Group has a representative office only (not operating full banking operations);
- South Sudan — This is a very small banking operation, mainly corporate banking.

Data capturing and analysis were performed using the Statistical Package for Social Sciences (IBM® SPSS® Statistical Software Version 25).

4. RESULTS AND DISCUSSION

Figure 1 depicts the results for the position at the bank variable for the respondents. Company secretaries account for just over 45% of the respondents. This specific cohort is important because it is responsible for the effectiveness of the board.

**Table 1. Population**

|----------------------------------------------------------|----------|----------|----------------|--------------|------------|---------|-----------|-------------|--------------|-------|----------|--------|--------------------------------|--------|----------------|-----------|-------------|----------|----------------|---------|

Most of the respondents were female (57.6%), with males accounting for 42.4%. This is in line with Standard Bank Group (the whole group including South Africa; Africa regions and international) gender profile as of 2016 when females accounted for 58% (58% in 2015) and males 42% (42% in 2015) of the permanent employees (Standard Bank, 2016, p. 4). Of all the respondents, 51% were aged between 50 and 59 years old.

The results of the questionnaire showed that King IV™ principles were practiced by the Standard Bank African subsidiaries. Shortcomings were however highlighted in the application of the 5 King IV™ practices in principles 2, 6, 7, 8 and 16.

**Principle 2: The board should govern the ethics of the bank in a way that supports the establishment of an ethical culture.** Standard Bank, including its African subsidiaries, has group values and a code of ethics. This is published on the Group Intranet site and all countries have access to this site in addition to dedicated country intranet sites. Standard Bank Group also has a Group Ethics Officer responsible for the implementation of ethics policies. However, whilst the Standard Bank Group has ethics standards, policies, and values, periodic independent assessments of adherence to these, as advocated by King IV™ and the Ethics Institute (https://www.tei.org.za/), nineteen (57.6%) of respondents stated that this King IV™ recommended practice was not executed in their respective countries (see Table 2). Eleven (33.3%) of the respondents agreed with the statement. At the Standard Bank Group level, the recommended practice is not yet applied. Three people did not respond. When one takes into account that the questionnaire contained 48 statements, it is interesting to note that this is the only section of the questionnaire where the number of the respondents who said “No” exceeded those who said “Yes”.

The Mauritius Institute of Directors (MiOD) has “An Ethics Guide for Boards”. Ethics risk assessment, including independent assessment and external reporting, is propagated in this guide (Mauritius Institute of Directors, 2013, p 9). According to MiOD, the guide was inspired by the work of the Ethics Institute of South Africa and, in particular, the work of Prof. Deon Rossouw and his collaborator, Leon van Vuuren (Mauritius Institute of Directors, 2013, p. 3). Independent ethics assessment is one of the recommendations that is proposed.
Principle 6: The board should serve as the focal point and custodian of corporate governance in the bank. Twenty-four (72.7%) of the respondents indicated that, based on their respective roles within Standard Bank Africa Regions Boards, this King IV™ recommended practice was executed (see Table 3). It is noted that eight (24.2%) of the respondents indicated that the recommended practice was not implemented. One (3%) of the respondents indicated that the statement was not applicable. Whilst some respondents stated that the protocol was in place, some mentioned that instead of a clear protocol, the arrangement was more ad hoc. One respondent mentioned that whilst there was no explicit protocol, there was a clear understanding that directors could forward their requests to the company secretary or CEO.

Table 2. E5 — King IV™ recommended practice

<table>
<thead>
<tr>
<th>The board measures adherence to the bank’s ethical standards by employees and other stakeholders through, among others, periodic independent assessments.</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Frequency (N)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2</td>
<td>11</td>
<td>33.3%</td>
<td>Valid = 30</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>19</td>
<td>57.6%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
<td>0.0%</td>
<td></td>
</tr>
</tbody>
</table>

Table 3. E18 — King IV™ recommended practice

<table>
<thead>
<tr>
<th>The governing body should approve the protocol to be followed by its non-executive members for requisitioning documentation from and setting up meetings with, management.</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Frequency (N)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>24</td>
<td>8</td>
<td>24.2%</td>
<td>Valid = 33</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>3</td>
<td>3.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
<td>0.0%</td>
<td></td>
</tr>
</tbody>
</table>

Principle 7: The board should comprise the appropriate balance of knowledge, skills, experience, diversity, and independence for it to discharge its governance role and responsibilities objectively and effectively. Twenty (60.6%) of the respondents indicated that the basis of their respective roles within Standard Bank Africa Regions Boards that this King IV™ recommended practice was executed (see Table 4). Nine (27.3%) of the respondents said that the recommended practice was not applied. Two (6.1%) of the respondents were of the view that the practice was not applicable. Two people did not respond. Whereas from these results it appears that the Standard Bank African subsidiaries are struggling with the notion of independent non-executive directors, at the Group level the Standard Bank has 14 independent non-executive directors, 3 non-executive directors, and 3 executive directors in addition to the chairman. Independence is defined by King IV™ as "[...] the exercise of objective, unfettered judgement. When used as the measure by which to judge the appearance of independence, or to categorise a non-executive member of the governing body or its committees as independent, it means the absence of interest, position, association, or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making” (Institute of Directors in Southern Africa, 2016, p. 13).

Table 4. E20 — King IV™ recommended practice

<table>
<thead>
<tr>
<th>The board should appoint an independent non-executive member as the lead independent to fulfill the following functions:</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Frequency (N)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20</td>
<td>9</td>
<td>60.0%</td>
<td>Valid = 31</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>0</td>
<td>27.3%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>2</td>
<td>6.1%</td>
<td>Total = 33</td>
</tr>
</tbody>
</table>

According to the fourth annual "2016 Non-Executive Directors’ Fees Guide", launched by the IoDSA in conjunction with Ernst & Young (EY), "Non-executive directors have a critical governance role to play, and they bear the same level of risk as executive directors in terms of the Companies Act..." (Natesan, cited in the Institute of Directors in Southern Africa, 2016, p. 4).

According to Parsons and Feigen (2014), "Today regulations require that a majority of directors be independent, a practice that was previously optional [...]" (p. 99). With reference to the American board of directors, Useem and Zelleke (2006), confirm that [...] the new rules also require that non-executive directors meet periodically without the chief executive, and as a consequence, many companies are establishing the role of ‘lead director’, not only to orchestrate that event but more broadly to lead the non-executive directors in their relationship with the CEO" (p. 11).
**Table 5. E23 — King IV™ recommended practice**

<table>
<thead>
<tr>
<th>Delegation to an individual member or members of the board should be recorded in writing and approved by the board. The record should set out the nature and extent of the responsibilities delegated, decision-making authority, the duration of the delegation, and the delegate’s reporting responsibilities.</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Frequency (N)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25</td>
<td>7</td>
<td>1</td>
<td>Valid = 33</td>
</tr>
<tr>
<td></td>
<td>75.8%</td>
<td>21.2%</td>
<td>3.0%</td>
<td>Missing = 0</td>
</tr>
</tbody>
</table>

**Table 6. E48 — King IV™ recommended practice**

<table>
<thead>
<tr>
<th>The board should exercise ongoing oversight of stakeholder management and, in particular, oversee that it results in the following:</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Frequency (N)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>26</td>
<td>4</td>
<td>2</td>
<td>Valid = 32</td>
</tr>
<tr>
<td></td>
<td>78.8%</td>
<td>12.1%</td>
<td>6.1%</td>
<td>Missing = 1</td>
</tr>
<tr>
<td></td>
<td>Total = 33</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
A questionnaire was employed to measure different, underlying constructs. Table 7 below presents the reliability statistics results. Cronbach’s alpha (α) is 0.857, which indicates a high level of internal consistency for the scales used [(‘Yes = 1’); (‘No = 2’); and (‘Not applicable = 3’)]. The higher the values of Cronbach’s alpha the better. Dzomonda, Fatoki, and Oni (2017, p. 108) assert that a Cronbach’s alpha measure of greater than 0.70 is sufficient.

Table 7. Reliability statistics — Cronbach’s alpha (α)

<table>
<thead>
<tr>
<th>Cronbach’s alpha</th>
<th>N of items</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.857</td>
<td>48</td>
</tr>
</tbody>
</table>

The number of items that make up the scale is presented in the “N of items” column. Forty-eight represents the number of King IV™ recommended practices in the questionnaire. Respondents were requested to provide feedback based on their respective roles within Standard Bank. The forty-eight constructs in the form of King IV™ recommended practice statements were asked in a standard manner using a qualitative and quantitative questionnaire.

The challenges facing any business, including banks, are achieving an ethical culture and effective leadership; creating value in a sustainable manner; ensuring effective control and oversight; generating trust and confidence by the communities in which the business operates; and ensuring the legitimacy of the operation.

The first objective of this research was, in part, to develop a corporate governance and business ethics framework based on King IV™ for Standard Bank African subsidiaries. The extensive corporate governance and business ethics literature review informed the conceptual framework, which is presented in Figure 2. Key concepts of the framework are aligned with the IIRC International <IR> Framework and King IV™, including the concept of Ubuntu/Botho. The framework also incorporates the MMM business ethics model by Rossouw and van Vuuren (2013, p. 58).

The stakeholder-inclusivity approach, as set out by the IIRC International <IR> Framework and King IV™, including the concept of Ubuntu/Botho. The framework also incorporates the MMM business ethics model by Rossouw and van Vuuren (2013, p. 58).

Figure 2 presents the corporate governance and business ethics framework based on King IV™ for Standard Bank African subsidiaries developed as part of this study. Standard Bank African subsidiaries’ interaction with their internal and external stakeholders should be based on good corporate governance and business ethics, which in turn should be based on King IV™. Importantly, King IV™ advocates strong business ethics, which is why its first principle states that: “The governing body should lead ethically and effectively”. Most importantly, the Ubuntu/Botho African concept practised in many African countries, including some of the sampled countries, gives the framework a distinctly unique African identity.
5. CONCLUSION

An organisation has a society specific to itself, which includes its internal and external stakeholders with a material stake in its activities. Nevertheless, the organisation is also a juristic person in the broader society in which it operates. Organisations are dependent on this broader society too; for instance, provide a conducive operating environment, a viable customer base, and the skills that the organisation requires. In turn, organisations contribute to the broader society as creators of wealth; providers of goods, services, and employment; contributors to the fiscus; and developers of human capital (Institute of Directors in Southern Africa, 2016, p. 24).

The idea to come up with a corporate governance and business ethics framework based on King IV™ for Standard Bank African subsidiaries was specifically ignited by the corporate and business ethics failure at one of Standard Bank’s Africa subsidiaries. Based on the findings of the research a corporate governance and business ethics framework for Standard Bank African subsidiaries incorporating King IV™ was developed. The modes of managing morality (MMM) business ethics model (Rossouw & van Vuuren, 2013, p. 58) was fused into the framework. The researchers are of the view that the framework would assist Standard Bank Group in realising its stated purpose. The following set of recommendations would assist the Standard Bank Group in meeting the prescripts of King IV™.

The first set of recommendations relates to the application of King IV™ Principle 2: The board should govern the ethics of the bank in a way that supports the establishment of an ethical culture. The 33 respondents were asked to indicate adherence to the following King IV™ recommended practice: the board measures adherence to the bank’s ethical standards by employees and other stakeholders through, among others, periodic assessments. It was noted that of the 33 respondents, nineteen (57.6%), stated that this King IV™ recommended practice was not executed in their respective countries. Notably, eleven (33.3%) of the respondents agreed with the statement. Three (9%) did not complete the section at all. Taking into account that the questionnaire contained 48 statements, it is interesting to note that this is the only section of the questionnaire where the number of the respondents who said ‘No’ exceeded those who said ‘Yes’.

The recommendations put forward by Ismail, Harymawan, Agustia, and Kamarudin (2021, p. 223) is that investors should put extra caution when investing in companies from countries where the institutional factors are weak, compared to those where a strong institutional environment is in place. Pelser and Gaffley (2020, p. 34) concur and provide evidence that current risk migration strategies and traditional governance frameworks are insufficient to deal with present situations. In order to comply with King IV™ previously mentioned recommended practice, it is recommended that Standard Bank Group introduce periodic independent assessments.
Reputable organisations such as The Ethics Institute, which is based in South Africa, conducts ethics risk assessments (ERAs). According to its website, “The Ethics Institute conducts ERAs for organisations wishing to identify their ethics risks and opportunities, in line with leading governance practice” (The Ethics Institute, https://www.tei.org.za/).

The second set of recommendations relates to the application of King IV™ Principle 6: The board should serve as the focal point and custodian of corporate governance in the bank. The King IV™ recommended practice states that the board should approve the protocol to be followed in the event that it or any of its members or committees need to obtain independent, external professional advice at the cost of the bank on matters within the scope of their duties. From the comments of some of the 33 respondents, there appear to be no formal approved written protocols in the event that the board or its members or committees need to obtain independent, external professional advice at the cost of the bank on matters within the scope of their duties. It was noted that of the 33 respondents, 29 (87.9%), stated that this King IV™ recommended practice was applied in their respective countries. Notably, two (6.1%) of the respondents disagreed with the statement and two (6.1%) did not respond.

Whilst the majority of the respondents agreed with the aforementioned King IV™ recommended practice, some mentioned that instead of a clear protocol, the arrangement at their subsidiary was more ad hoc in nature. Furthermore, one respondent mentioned that whilst there was no explicit protocol, there was a clear understanding that directors could forward their requests to the company secretary or CEO. It is recommended that the Standard Bank Group design and approve the appropriate protocol, which should be rolled out to its African subsidiaries. The CEO or company secretaries could use the approved protocol for requesting documentation and meetings with management. It is recommended that written protocols be introduced to comply with King IV™ Principle 6 prescripts.

The third set of recommendations relates to the application of King IV™ Principle 7: The board should comprise the appropriate balance of knowledge, skills, experience, diversity, and responsibilities objectively and effectively. It was noted that of the 33 respondents, 20 (60.6%), stated that this King IV™ recommended practice was applied in their respective countries. Notably, nine (27.3%) of the respondents disagreed with the statement and two (6.1%) were of the view that the statement was not applicable. Two (6.1%) of people did not respond. Whereas the Standard Bank African subsidiaries appear to be struggling with the notion of independent non-executive directors, at the Group level, the Standard Bank has 14 independent non-executive directors, 3 non-executive directors, and 3 executive directors in addition to the chairman.

It is recommended that the Standard Bank Group give consideration to re-aligning its African subsidiaries with a view to having independent non-executive directors. This would in effect mirror the Standard Bank Group Board and would comply with the prescripts of King IV™.

The fourth set of recommendations relates to the application of King IV™ Principle 8: The board should ensure that its arrangement for delegation within its own structure promotes independent judgement and assists with a balance of power and the effective discharge of its duties. The related King IV™ recommended practice states that delegation to an individual member or members of the board should be recorded in writing and approved by the board. The record should set out the nature and extent of the responsibilities delegated, decision-making authority, the duration of the delegation, and the delegate’s reporting responsibilities.

It was noted that of the 33 respondents, 31 (93.9%), stated that this King IV™ recommended practice was applied in their respective countries. Notably, two (6.1%) of the respondents disagreed with the statement. Although the majority of the respondents stated that they agreed with the recommended practice, one executive stated that in practice this was not recorded in writing in any of the boards the respondent was serving on. In line with this King IV™ recommended practice, it is recommended that board members or members of the board should be in writing. It is recommended that Standard Bank Group should have a formal written delegation to individual board members and this should be rolled out to its subsidiaries.

The fifth set of recommendations relates to the application of King IV™ Principle 16: In the execution of its governance role and responsibilities, the board should adopt a stakeholder-inclusive approach that balances the needs, interests, and expectations of material stakeholders in the best interests of the Bank over time. A related King IV™ recommended practice states that the board should exercise ongoing oversight of stakeholder management.

It was noted that of the 33 respondents, 26 (78.8%), stated that this King IV™ recommended practice was applied in their respective countries. Four (12.1%) of the respondents disagreed with the statement and two (6.1%) stated that the statement was not applicable in their respective countries. One (3%) did not respond. Importantly, one respondent agreed with the King IV™ recommended practice but added that stakeholder management might not come across as structured in countries as articulated in King IV™. However, in the opinion of this respondent, the boards were definitely involved in stakeholder management. In addition, one of the respondents was of the view that, although oversight over stakeholder management took place, it had not been formalised; i.e., it was more an ad hoc exercise.

At the Standard Bank Group level, there is a new approach to stakeholder engagement. According to the Standard Bank Group Annual Integrated Report 2017, “[…] in 2017, a pilot study was conducted to assess the quality of selected stakeholder relationships in South Africa. The results have informed changes to our engagement model and will drive systematic and inclusive stakeholder engagement. Going forward we will broaden the extent of relationships that include additional countries of operation” (Standard Bank Group, 2017, p. 5).
Standard Bank Group and its subsidiaries, including those on the African continent, operating in the triple context of the economy, society, and environment. According to King IV™, how an organisation makes its money "does have an impact on these three elements and, in turn, they impact on organisations" (Institute of Directors in Southern Africa, 2016, p. 4). The triple context presents the Standard Bank Group Board and the boards of its subsidiaries with the "challenge of steering the organisations to create value in a sustainable manner, making more but with less to meet the needs of a growing population and the reality of dwindling natural resources" (Institute of Directors South Africa, 2016, p. 4). Standard Bank Group and its subsidiaries, including those on the African continent, "operate in a societal context which they affect and by which they are affected" (Institute of Directors in Southern Africa, 2016, p. 24).

Although the researchers are confident that the corporate governance and ethics framework based on King IV™ for Standard Bank African subsidiaries developed for this study was adequately conceptualised, it is plausible that different corporate governance and business ethics concepts may be advanced. The study employed a mixed-methods approach, i.e., using quantitative and qualitative methods, with quantitative given a higher priority (QUANT + qual). The researcher is mindful that a QUANT + quant with qualitative methods given a higher priority would have further addressed any uncertainty on the developed construct.

The critical review of the literature, the empirical results, and the aforementioned study limitations alerted the researchers to areas for future research. Whilst the methodological choice for this research was mixed methods (QUANT + qual), with quantitative given a higher priority, the researchers believe that changing the methodological choice to mixed methods (QUAL + quant) with an emphasis on qualitative methods (including interviews) would provide rich insights into corporate governance and business ethics in banking or related industries. Given the strategic nature of corporate governance and business ethics practices, it may be of value to extend the study to all (full-time executive and non-full-time executive) board members. Finally, this study was anchored on King IV™, it may be of value to use future reports on corporate governance for South Africa, such as King V or related world or African corporate governance prescripts.

Corporate governance is seen in most emerging economies as an important component of development tools. As Africa continues to develop as a foreign direct investment (FDI) destination, greater emphasis must be placed on domestic and international regulations seeking to facilitate governance levels.

REFERENCES