Editorial: Commentary on King Reports on Corporate Governance

In this special edition we begin the process of examining the development and contribution of the King Reports on corporate governance to thinking about the practice of good governance. The King Reports on Corporate Governance were/are guidelines of governance principles, structures, mechanisms and operations for companies and, later, for all organisations in the private and public sectors in South Africa. They were issued by the King Committee on Corporate Governance. There have been four King reports issued in 1994 (King I), 2002 (King II), 2009 (King III) and 2016 (King IV). Those reports became corporate governance codes applied in South Africa. This special issue provides a good opportunity to review, explore and better understand the evolution of King reports in nearly three decades and particularly the new development of King IV with a unique ‘apply and explain’ approach to the implementation of corporate governance codes.

In this special edition, Mervyn King, the Chairman of the King Committee, introduces the development of King reports. Suresh Kana helps us to see the political context of the developments and how this has helped shape the concern for good governance. Anna Marie Van der Merwe focuses on the stakeholder inclusive approach. Stakeholder inclusiveness is the focus of accountability, and, as such, is a critical aspect of regulation. Richard Foster drills down on the agency and action of shareholders in this development, stressing that this is a learning journey. Parmi Natesan looks at the evolution of the apply and explain dynamics in the King Reports. Linda de Beer focuses on the development of an outcomes-based approach to governance. Both Natesan and de Beer show a deepening the practice of accountability, focused in praxis. Michael Judin looks at the legal context governance development and concludes that the King Code has become an integral part of South Africa’s common law. With that we see an enhancement of accountability in governance, with decisions of Courts
of Appeal being based on the Code. Ansie Ramalho looks at the distinctive stance in a global context. Finally, Deon Rossouw focuses on the relationship of governance and ethics, central to the meaning and practice of good governance. We provide an editorial commentary on the connection between governance and ethics through looking at the distinctive aspects of this issue.

First, the authors, who have been involved in the development of the Code, provide an overview of its development narrative and how the practice of governance connects to the social and physical environment. As promised over two years ago, the majority of authors are not academics but practitioners. Responsibility, global or local, is focused in praxis. Aristotle argues that there are three basic human activities of humans: *theoria* (thinking), *poiesis* (making), and *praxis* (doing). These point to three kinds of knowledge: theoretical, whose end is truth; poietical, whose end is production or creation; and practical, whose end is action (Ramsey et al 2003). Aristotle further divided the knowledge derived from praxis into ethics, economics, and politics. Of course, each of these has underlying theory and each leads to the creation of shared meaning, cultures and so on. Hence, praxis is key to both critical reflection and learning (Kolb 1983). Friere (1973) goes further, arguing that reflection and action are ‘directed at the structures to be transformed’. Reflection on action enables the development of critical awareness of the social environment and becomes central to the ‘liberation of the oppressed’ in organisations, in regions and in nations. The logic of this is that it is hard to actually understand underlying theory and meaning if we cannot see how it looks in action. The action embodies values and principles, and worldviews, and theory seeks to explain how these are developed. This feeds back to action and thus transformation. Some academics fondly believe that they hold the key to the theory bit. But theorising (Swedborg 2017) in the context of reflective practice is something that all can and should do, and
academics and practitioners equally bring to the table reflection on Aristotle’s different forms of knowledge (see Kolb 1983).

The second point about this issue is that it suggests that the development of good governance thinking and practice is less about the articulation and defence of paradigms, or attempts to change paradigms (in the sense of worldviews), and more about the means whereby any worldview can be engaged and developed. Two points underly this. Firstly, worldviews are often held in place by psychological dynamics and in particular the felt need to defend identity which is rooted in the worldview. Haidt (2013) neatly illustrates this with the contrasting worldviews of the Democrats and Republicans in the USA. These worldviews inform radically different views of basic ethical principles such as freedom or equality, and lead in many cases to a felt need to defend core practices that might be threatened. In turn this leads to a polarization that casts those with different worldviews as the ‘enemy’. As Lederach (2005) notes in the field of peacebuilding. Such examples of worldviews are literally not held to account, and thus not open to reflection. Lederach then argues that the only effective way of transforming a negative or narrow worldview is not to attack worldviews but rather to engage in dialogue, partly to enable reflection on principles and practice and partly to enable participants to see common aspects of the principles and practice in people who hold different views. This means that development of meaning and practice is both cognitive and affective, addressing ideas and practice. Such a dynamic is at the heart of good governance and is reinforced in the King Reports in the stress on stakeholder dialogue, and even on the use of ADR approaches. Good governance enables better critical reflection and better relationships; both of which enable more effective governance.

Secondly, worldviews are rarely monovocal, and actually involve very different narratives. This is well illustrated in the core worldview of the King Reports ubuntu. The origin and development of ubuntu is disputed (Praeg 2014). Ubuntu comes from the Bantu languages in
sub Saharan Africa (Oduor 2014). It seems to refer to a ‘humanity’ or ‘humanness’. In the West we might take this to be a form of humanism. But this is often based in the Kantian individualist stance focusing on equal respect, and also on retributive justice. *Ubuntu* rather stresses the interdependency of humanity exemplified in kinship. The term, however, has been at the centre of very different views, as Western and African paradigms have intersected. This has included an African form of socialism, rising in the 1970s and 80s in South Africa, partly as an ideology that fuelled response to the injustices of apartheid (Praeg 2014). This developed into a theological view of reconciliation and forgiveness, a form of virtue ethics focused in restitutive justice (Praeg 2014). This demands that business take account of its social environment, with a stakeholder inclusive approach. This includes awareness of development issues and also of the continuing culture of reconciliation post-apartheid.

Praeg (2014) offers a different view of *ubuntu*, arguing that term is not an ideology or philosophy of humanism, rivalling different Western worldviews, but rather the sustained praxis of humanism. This moves us away from the identity worldviews and politics of Haidt and any attempt at ‘epistemological, ontological or even axiological specificity’ to an ‘actualised communitarian praxis of the humanising’ (ibid. p. 20); a constant reflection on our actions with actual, not theoretical, humanity as the focus. *Ubuntu*, humanness, is actualised as part of the learning process of governance. We instantiate this in and through our actions together, and so outcomes are what we look at.

The third focus of the King Reports we want to note is on core principles of governance. This part of the King approach is both questionable and complex. The philosophy of King III revolves around principles of leadership, sustainability and corporate citizenship. It is not clear that these are in fact principles in any ethical sense. Two of them are roles with related responsibilities; leadership and citizenship. The third, sustainability, implies a relationship
and responsibility to the social environment. Its ethical force is precisely about Jonas’s (1984) imperative of responsibility for the environment, and this is shared by all. It could be argued that these three values are precisely putting flesh on the world view of ubuntu. Part of what it is to be human is taking responsibility for both the social (citizen) and physical environment. Leadership then becomes the role of everyone, focused in individual and shared responsibility.

King III begins to take us down this analysis, and leadership is characterised in terms of the core ethical values of responsibility, accountability, fairness and transparency. In effect these principles have emerged from the worldview. The Reports do not analyse them in detail, and it is worth asking for moment why not. It may be because they are seen as abstract, distinct from practice, or that the meaning of each is obvious. Neither would be a good reason. As noted above, ethics is focused in praxis, not in the abstract, and the meaning of any of these principles is far from obvious without reflection on particular action. Again, such reflection is not an academic exercise but involves practitioners in their situation. What does responsibility look like in an organization? Aristotle argues that part of this is about agency, or attributability, such that leadership across the piece knows what it is doing (competence) and understands the purpose of the organization in its social context and the effect of the organization’s actions on the social and physical environments. Evidence of such responsibility is good deliberation, based in critical reflection, at all levels of the organization. This provides the groundwork for creative, enterprising, response to the social and physical environments. Accountability is a mode of responsibility (Robinson 2009) and is focused in giving an account of actions, and therefore being able to rationally justify them. The focus on clear, rational, communication connects accountability to transparency, another term with many meanings (O’Neill 2000). However, the worldview and context (focused in stakeholder relations) begins to move the understanding of accountability away from simply
open reporting to sustained dialogue. Genuine accountability involves being open to question in a more dynamic way, such that the board and other leadership are actually listening to the questions and different narratives of the different stakeholders. In other words, this involves unrehearsed dialogue, real testing of the leadership capacity to give an account of meaning, value and practice. Given the framework of stakeholder dialogue, the awareness of social and physical environment and the basis of *ubuntu*, this pushes further a dynamic of mutual accountability. Evidence for this kind of accountability are governance anchor points which embody dialogue and demonstrate the capacity of leadership to listen. Annual meetings for the most part do not show such evidence, involving most often one-way communication and reluctance of the leadership to hear challenges to their way of thinking, worldview or practice. This stress on accountability also takes us back to attributability and the capacity to clearly articulates values and purpose and show how they are embodied. This is at the heart of the apply *and* explain motto in the King Code. The King thinking argued against the ‘comply or explain’ approach of the UK Governance Code and the ‘comply or else’ of the US Code (Andreasson 2014) because it suggests a lack of real agency (attributability) and also assumes a choice. The choice is both negative (explanation, articulation, only follows absence of compliance) and false because responsibility and accountability inevitably involve public explanation of any and all meaning, purpose, objectives and action. To simply comply is meaningless action.

The fourth principle is fairness, a principle which exemplifies the points above. Fairness is, in effect, justice (Rawls 1971). Justice is at the heart of any human group, from family, to education, to workplace organisation, to wider society and the eco-system. The range of justice extends from the individual professional to the professional body, from organizational justice (involving procedural justice and relational justice) to justice in the local community (both legal and social policy, and a wider sense of environmental justice). Returning to
praxis, justice is not an abstract principle. It has to be instantiated to be understood, and it has to be lived (as a virtue) to be instantiated. The problem with many governance codes is that they focus on narrow aspects of this. Most codes (see UK Code 2012 DC), for instance, focus on process. A good example is the procedures that should be in place for the remuneration of CEOs. The UK Code sees this as focused in the remuneration committee. This should be independent, populated by a majority of non-executive directors. There are three problems with this as a part of governance process. The simple fact of independent members does not mean that criteria for judgement are adequate. The underlying arguments for levels of remuneration are often based on unexamined assumptions, such as a limited market for CEOs (Kolb 2005). Most often there is little effort to relate the remuneration of CEOs to the wider system of reward in the organization (Kolb 2005, Robinson 2011). In other words, procedures are important, but unless they embody dialogue about criteria (genuine transparency and accountability), clarity about key principles, not least justice across the organisation, and shared responsibility for meaning and value across the organization, they have little significance for the narrative and identity of the organization. This demands the development in any organization of a compensation philosophy such that all members can buy into the principles and systems of reward. Given the affective as well as cognitive aspects of praxis such a philosophy can reinforce a sense of dignity and well-being at work.

The fourth highlight of the King Reports is the focus on the importance of developing an ethical culture. What they do not do in detail is to explore how the core principles are actually worked through. This might be the task of ethicists and sociologists, not to take away to the world of theory, but to feedback into the mapping of that journey. In King II and III ethics is very much the centre of governance. They suggest a six-stage process of governing ethical performance that consists of:
• identifying through stakeholder engagement the perceptions and expectations that stakeholders have of the ethical performance of a company,

• determining the ethical values and standards of the company and codifying it in a code of ethics,

• institutionalising the values and code of ethics of a company on both the strategic and systems levels,

• monitoring and evaluating compliance to the code of ethics,

• accounting and auditing ethical performance according to emerging global standards on ethical accounting and auditing,

• and disclosing ethical performance to relevant stakeholders.

There are many examples of how such a culture can be achieved, including regular ethical risk assessment, confidential reporting systems through which unethical or suspicious behaviour could be reported, the integration of ethical performance into existing performance appraisal systems, and integrity assessment as part of selection and promotion procedures.

Several things emerge from the King’s emphasis on ethical culture. Firstly, it focuses explicitly on ethics. Ethical language then becomes part of the organization’s ongoing reflection. As Trevino and Nelson (2008, cf. Gill 2011) note, it is easy either to assume an understanding of ethics but not be accountable for that meaning, or to allow ethical language to slip. Such slips occur in practice, for instance, referring to downloading rather piracy. Examples of Enron and the Second Iraq War show how this can happen institutionally. In the War case the Bush administration renamed twenty-eight acts of torture as ‘aggressive interrogation techniques’ (Robinson 2011), which remained unquestioned by the army and the medical profession until much later.

Secondly, the ethical culture looks to genuinely integrate ethics, including at ‘systems and strategic levels’. Critical to this is the integration of ethics and ethical virtues into
deliberation. The compartmentalisation of ethics often leads to a lack of integration. This is part of a broader compartmentalisation which blunts decision-making (Chia and Holt 2011). Gregory and Willis (2013) note examples of boards which are often able to articulate the key vision and value of their organization but are at a loss to identify a recent decision made which involves those values, implicitly or explicitly.

This stress on integration raises further questions about what the principles and means of integration are, and the importance of developing research that could feed into ongoing development of governance. The danger is to treat integration as a conceptual exercise rather than praxis. In fact, the practice of dialogic deliberation itself is an important candidate for the focus of integration. This embodies the principles of responsibility and accountability in the very practice of decision making at all levels. It also leads to better decisions, with a stress on creativity and positive responsibility. The implications of this for teaching and staff development are important. The false divisions of sub-disciplines suggest that decision making is different in different parts of professional practice, whereas in fact there is only one framework of decision making, informed by rational, social, moral, ecological, and practical aspects. In this, areas of thinking such as the moral imagination (Werhane 1999, Lederach 2005) operate alongside innovation and creativity, and both are enhanced by critical dialogue, opening up both a better understanding of context, and better possibilities for action.

It is not surprising then that the principle of sustainability fits directly into the development of such a culture. This is seen by King III as the primary ethical and economic imperative of the 21st century. It is at the heart of opportunities and risks for businesses. The interconnections of nature, society, and business therefore demand governance that genuinely integrates all these aspects both in reporting and in development, and King III champions this well beyond the UK Code. The UK Code (FRC 2012) tends to assume ethical values, without exploring their meaning or how they might be integrated. This perception is amplified by the
FRC report on the role of boards in developing the culture of the organisation. The report (FRC 2016), begins to engage culture, suggesting ways in which the board might encourage its development. However, the idea of culture is not effectively defined or developed. The core ethical values favoured by major companies are set out, without any clarity about what they mean or might be developed in praxis. The report (FRC 2016, p.17) notes one piece of research (based on 24 FTSE companies) which found that 45% of companies raised the issue of culture once a year or less and 33% of companies raised it twice a year. This raises major questions about how the board will be responsible and accountable for its ethical culture, and accountable to whom.

King drills down more deeply and notes how values such *innovation, fairness, and collaboration* are key aspects of any transition to sustainability. The Integration of sustainability and social transformation in a strategic and coherent manner will, argues King III (p.13), lead to ‘greater opportunities, efficiencies, and benefits, for both the company and society’. In short then, the King Codes bring together all the key elements of responsibility more explicitly than the UK Code, demanding an awareness of meaning, purpose and role in society; clear integrated accounting of practice; and shared response to the needs of the social and physical environment. The King perspective is focused in the learning dynamic of culture, enabling continual reflection on culture and how it can be developed and sustained (cf. Goodpaster 2007). The very idea of culture, much like character, then becomes something which is not given or fixed, but constantly evolving, based in the practice of critical reflection, dialogue and responsibility.

There are two final points to make about the King Reports. One is the stress on the ubiquity of this approach to governance across different sectors (King IV). The other is that they signal the nature of business as being essentially social.
In the first of this it might be argued that good governance is good governance, no matter what the context. King IV includes sector supplements that provide specific guidance to the different categories of organisations and sectors including:

- Small and medium enterprises;
- Non-profit enterprises;
- Public sector organisations and entities;
- Municipalities;
- Pension funds.

The point is that the key principles of governance apply to all sectors. There has been debate about whether corporate governance could actually apply to other sectors, focused in particular on the perceived different purpose. Sandel (2013) and others have extended this to arguments about the moral limits of markets. In healthcare in particular this argument assumes that business focused activity is contrary to the core purpose and principles of healthcare providers, not least the concern for fair distribution of care. The debate in the UK, however, has focused on the importance of overall responsibility for a complex organization. Hence, in the UK clinical governance has become the responsibility of the board. In the UK until 1999 clinical governance responsibilities were clearly divided. National Health Service Trust Boards were responsible for the proper financial management of the organisation and patient safety. The quality of care was seen as the responsibility of the different clinical professions. In 1999 (NHS 1999), the Trust board was given the legal responsibility for developing and maintaining the overall quality of care alongside their other statutory duties. This was a significant moment because it was making a key statement about the integration of governance. Prior to this there was a sense of professional compartmentalisation. The professional responsibility of doctors, nurses and other healthcare staff was be on the quality of care of the individual patient. The running of the organization, including the safety of
patients was the responsibility of the board. Now the board would be as much driven by the principles of equal respect, justice (fairness), beneficence, and non-malfeasance (risk-assessment) as much as the healthcare professions, and the identity of the organization was focused on professional, organizational, social and ecological sustainability. Disasters such as the Mid Staffs Hospital Trust scandal (the unnecessary deaths of up to a thousand patients, see Francis 2013) were precisely caused by the compartmentalization of values and the inability of all players to take individual and shared responsibility for the project of healthcare. The principle of candour (honesty, particularly in moments of failure), which emerged strongly from the Mid Staffs case, shows this well in healthcare in the UK. Originally the duty of candour was purely a healthcare professional duty. Then it became also an organizational duty, and finally after the Mid Staffs case a legal duty. The key point here is that no one should avoid taking responsibility for their actions; a simple example that integrates the principles of responsibility, accountability, honesty, transparency and fairness.

This finally suggests that the nature of business is social. The King IV report makes it clear that companies are not separate from society but are integral parts of society. Thus, companies exist not just for pursuing their own interests, or shareholder interests, but also for serving the interests of stakeholders and the broader society. Referring to the Company Act in South Africa, King IV reinforces the concept of company as means of achieving economic and social benefits. This redefinition of company and reaffirmation of its status as corporate citizenship with obligations and responsibilities towards society shift a weight on the balance of a long-time debate regarding the nature and purpose of company.

The old debate has been divided between the arguments for the private nature and the public nature of business. For many people, the private nature of business is taken for granted because it seems that the corporation is owned by private shareholders, is for private profit
purpose, and is by private control (by shareholders and their representatives). But this conventional view fails to see the legal status of the corporation that is quite different from the traditional private business entity like a sole proprietor or partnership. Once a company is incorporated, it is separate from its owners or members (shareholders) and becomes an independent legal person. Its private nature has been transformed in law. It is owned by itself, not by shareholders; it is directly controlled by an independent board, not by shareholders; and its legal status is granted by the state, not by private contracts. More importantly, when it is justifiable to pursue interests and profits for the company itself, it also bears social obligations because its power and privileges granted by the state are in return for serving public interests (e.g., economic wellbeing) with wide social responsibilities, and also because it may be involved in public functions (regulations and public goods) and has huge societal impacts. For all the reasons, the corporation has a public nature and is subject to public scrutiny (public registration, public disclosure, public inquiry, etc.). Some influential scholars and judiciary judges, including King, among others, have argued in this way and regard the corporation as a distinct public institution (e.g., Dewey, 1926; Dodd, 1932; Allen, 1992). Some others have moved a step further to put aside the public-private divide and regard the corporate identity as an independent third category (e.g., Johnson, 2012; Ciepliey, 2013).

While emphasizing the social nature of business, King IV does not exclude the self-interest of company. It highlights the interdependence of self-interest and others’ interests, such a notion rooted in the African concept of Ubuntu or Botho, which implies that a company benefits itself by serving others and its society. Public and private interests are not mutually excluding but incorporated in a legal person with a high purpose to serve the common interests of shareholders, stakeholders and the broad society (Sun, 2009). Such an integrated thinking justifies the stakeholder-inclusive approach to corporate governance
specified in King reports for sustainable business and for the sustainability of economy, society and the natural environment.

The King Reports then represent a massive development in responsibility and governance. They offer a view of ethics which is integrated with practice, precisely as it should be. Ethics then is a much about creating good as avoiding particular acts of corruption. The principles of integration are, in practice: deliberation which includes reference to principles and values; dialogue which enables shared narrative, genuine accountability, and engagement with and relationship to complexity, and wider consciousness of the social and physical environments; critical reflection on practice and the instantiation of worldview and ethical principles; and the development of a learning culture which focuses on the different aspects of responsibility. It could be said that the key principle of integration is integrity, focused in the identity of the organization and its relationships (Robinson 2016). The King Reports thus contribute to the ongoing debates about governance, and as we suggest above that raises questions about how far some of the principles are actually worked through. Above all, though, the Reports have and are critically driving practice. It is that dynamic which brings ethics in organizations alive.

References


NHS (1999) Clinical Governance in the new NHS


