A CHANGE IN FOCUS TO STAKEHOLDER ENGAGEMENT AND REPUTATION MANAGEMENT ALIGNED TO KING III RECOMMENDATIONS

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ABSTRACT

As the King III code has been described as the future of corporate governance the question has to be asked whether corporate South Africa is able to translate this international best practice document into best practice implementation. The purpose of this research was to assess how companies and industry experts have interpreted the requirements of King III – Governing Stakeholder Relationships – and to see if there was a change in focus by companies and their boards 'to stakeholder engagement and reputation management'. Through qualitative interviews the objective of the research was to:

- find out to what extent companies had adopted the recommendations on governing stakeholder relationship (King III);
- confer with industry experts as to what companies are expected to report on when they adopt King III principles on governing stakeholder relationships; and
- ascertain if there was a common understanding of the adoption of King III – Governing Stakeholder Relationships – from a company and industry perspective?

For business leaders who have accepted that the sustainability of the system depends on delivering wealth creation and economic return for shareholders and stakeholders, sustainably and responsibly and who have placed stakeholder trust at the heart of their companies' strategy adopting governing stakeholder relationship – governance element eight – recommendations is in synch.

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KEYWORDS

Corporate Governance

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Reputation management

DECLARATION

I declare that is research project is my own work. It is submitted in partial fulfillment of the requirements for the degree of Master of Business Administration at the Gordon institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorization and consent to carry out this research.

Julia Bouie Leuner

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1. INTRODUCTION TO THE RESEARCH PROBLEM

This section describes the relevance of the topic "A change in focus to stakeholder engagement and reputation management aligned to King III recommendations", outlining and defining the problem that the research will address.

1.1 Research problem

The philosophy behind the King III code of governance "revolves around leadership, sustainability and corporate citizenship" (Institute of Directors Southern Africa, 2009a, p. 9) nevertheless sustainability sceptics argue that financial sustainability and shareholder returns are all that matter in the world of business. In this context Porrit (undated) makes the case that the investment community (analysts, fund managers, etc) remain ill-equipped to judge the significance of the sustainability measures that companies have introduced.

The case for sustainability is argued by Lubin and Esty (2010) who highlight that over the past ten years, environmental issues have steadily encroached on businesses capacity to create value for shareholders. What has followed at the UN Global Compact Leaders Summit 2010 (Lacy, 2010) is that business leaders unanimously agree that business needs to focus on, delivering wealth creation and economic returns for shareholders and stakeholders, sustainably and responsibly - "companies are expected to be accountable not only to shareholders for financial performance, but to stakeholders for their wider economic, environmental and societal impacts" (Wade, 2006, p. 227)

Demonstrating a visible and authentic commitment to sustainability is critical to regaining and building trust from the public and other key stakeholders such as consumers and governments – trust that was shaken by the recent global financial crisis (Lacy, Cooper, Hayward, & Neuberger, 2010). A company's obligation is not merely to care for one's own interests, but also to consider how pursuing one's own interests affect the interests of others (Rossouw & Van Vuuren, 2010). Lacy et al (2010) put forward the notion that a future is envisaged in which building stakeholder trust will sit at the heart of a company's strategic agenda and will be driven by specific, measurable activities and objectives.

1.2 Research justification

1.2.1 Sustainability as the business imperative

Sustainable development can be defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland Commission Report , 1987). Malan (2010) makes the case that companies have interpreted the above definition in fairly simplistic triple bottomline terms – with mere disclosure of economic, social and environmental performance. Porrit (undated) concurs highlighting a number of academic studies that have tracked the efforts of individual companies and, of the business community as a whole, towards sustainability. They tell the story of a slow but steady journey towards more environmentally and socially responsible behaviour, driven by a complex mixture of external pressure (increased regulation), commercial opportunity (responding to the market demand) and internal business leadership (Porrit, undated). Thus in the early

90s eco-efficiency, better risk management and a little bit of stakeholder engagement was all that was needed to secure one's 'licence to operate' (Porrit, undated). Though the onset of the financial crisis and the spectacular collapse of some of the world's largest companies before that, a more conventional interpretation of sustainability (to survive as a business) has again moved to the foreground (Malan, 2010).

Bonini, Mendonca & Oppenheim have indentify that "most mangers are still acting as though the corporation is a mechanism or an organism, not a social system" (2006, p. 3). Sustainability has the ability to create a systemic change as it "involves changing one or more of the environmental conditions that shape the behaviour of the players" (Bloom & Dees, 2008). Thus sustainability has been identified as an emerging megatrend: a megatrend forces fundamental and persistent shifts in how companies compete (Lubin & Esty, 2010). Lubin and Esty argue further that "most executives know that how they respond to the challenge of sustainability will profoundly affect the competitiveness – and perhaps even the survival – of their organisations" (2010, p. 44). Their train of thought is in line with the King III code- "sustainability is the primary moral and economic imperative of the 21st century" (Institute of Directors Southern Africa, 2009a, p. 9).

1.2.2 King III – Integrating sustainability into the business

The King Code of Governance Principles for South Africa 2009 (King III) became effective on 1 March 2010 and from April 2010 (Naidu, 2010) companies listed on the JSE will be required to produce an integrated report in place of their annual report and sustainability report (Temkin S. , 2010a). Sir Adrian Cadbury has described King III as 'the future of corporate governance' (Malan, 2010, p. 5).

> In its broadest sense, corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, of corporations, and of society (Cadbury, 2003, p. vii).

The second South African King report (King II) set itself apart from many other governance regulations in succeeding to bridge the gap between Corporate Social Responsibility (CSR) and good governance (Painter-Morland, 2006). The report gave guidance that the Global Reporting Initiative (GRI) provides a viable way for companies to report on their triple bottomline instead of the more limited financial reporting. Therefore the transition from King II represents a step change, rather than a sea change, with the greatest emphasis of King III being on sustainability - "which threads through almost every section and promises to have a major impact on any entity that needs to apply its principles" (Trialogue, 2010, p. 7).

King III states that "current incremental changes towards sustainability are not sufficient – we need a fundamental shift in the way companies and directors act and organize themselves" (Institute of Directors Southern Africa, 2009a, p. 9). Trialogue (2010) asserts that few corporations have yet to appreciate how fundamentally the impact of King III will be, on running their businesses. Additionally the new requirements necessitate companies to deliver more transparent and relevant reports to stakeholders, which are expected to place a more onerous burden on them (Temkin S. , 2010a).

1.2.3 Conclusion to the research justification

In the Global Competitiveness Report 2010-2011, South Africa was ranked first in the world (ranked against 139 other countries) for the strength of auditing and reporting standards (Schwab, 2010) and the King III code puts emphasis on the need to maintain this high ranking (Institute of Directors Southern Africa, 2009a) The King III report therefore provides recommendations to companies on how to apply the principles of governance, as Mervyn King explains “one cannot be prescriptive in the world of corporate governance – it is an ongoing exercise” (cited in Temkin, (2010 b, p. 14).

One of the principle roles and functions of the board and directors, outlined in the King III code, “is to appreciate that stakeholders affect the company’s reputation” (Institute of Directors Southern Africa, 2009a, p. 23) and the recommended practice suggested is governance element eight. Governance element is one of the new chapters introduced to King III and the Institute of Directors of Southern Africa (IoDSA) has yet to publish the practice notes. The timing on the release of practice notes for element eight (Governing stakeholder relationships) and nine (Integrated reporting and disclosure) is at the discretion of the IoDSA (Institute of Directors Southern Africa, 2009b). This research paper will therefore focus on the boards role of responsible leadership, taking into ‘account the companies impact on internal and external stakeholders' and their responsibility to 'promote the stakeholder-inclusive approach of governance' through applying governance element eight (Institute of Directors Southern Africa, 2009a)

1.3 Research motivation

History shows that the interests of shareholders are given precedence over all other stakeholder interests. Mintzberg, Simons and Basu (2002) would take it so far as to say that all other stakeholders have been 'muscled out' as short-term profit maximisation, in the interest of shareholders, has become an unquestionable mandate for chief executives and leadership teams – a mandate that they may seek to evade at their own peril (Porrit, undated). Kochan maintains that we have to re-examine the notion of corporate accountability as we have for far "too long accepted - as a matter of faith - the view that the corporation exists only to enrich its shareholders" (2002a, p. 114)

Rossouw and Van Vuuren (2010) state that although corporate governance philosophy around the world assumes the consideration of the interests of all stakeholders, and not only the owners or shareholders, the belief that shareholders' needs come first are still pervasive. South Africa's code of corporate governance, King III, advocates the 'inclusivity' of stakeholders, as the code argues it 'is essential to achieving sustainability and the legitimate interests and expectations of stakeholders must be taken into account in decision-making and strategy' (Institute of Directors Southern Africa, 2009a, p. 13).

1.3.1 The history of capital creation and the birth of the shareholder/stakeholder

During the 19th century business existed to serve the purpose of the owner – to make a profit (Wardman, 1994). In the 1920s however the economy was growing so fast that even if the owners took all their profits and reinvested it they would be unable to grow fast enough to keep up with demand. Thus in order to survive companies went public, enabling them to raise additional capital. This changed the nature of ownership from not one single owner but to a group of shareholders (Wardman, 1994).

By the end of World War II financial institutions had became the major shareholders of these listed companies (King, 2006). Financial institutions however are nothing more than conduits for the person on the street, as pension funds have become the main source of capital for the knowledge society (Drucker, 1994). Consequently, there has been a shareholder revolution as stakeholders such employees have indirectly become "today's ultimate shareholders of the great companies around the world" (King, 2006, p. 7). Shevel (2009) argues that what is missing in the South African scenario is a strong obligation on institutional investors and pension funds to consciously apply their fiduciary duties in a way that protect these investor members' funds.

1.3.2 Corporate reputation and managing stakeholder relationships

King III aims to move the focus away from a short-term mindset inherent to what currently gets reported to the investment community twice a year, to a longer term one whereby long-term prosperity is generated for the organisation (Trialogue, 2010). The code therefore seeks to emphasise an inclusive approach to governance based on the models of the 'enlightened shareholder' and 'stakeholder inclusive model of corporate governance' (Institute of Directors Southern Africa, 2009a). It is therefore no longer sufficient simply to have an employee handling investor relations, as other stakeholders need to be considered such as customers, suppliers, employees and the media (Wixley & Everingham, 2010). Consequently an integrated, multi-faceted approach will be needed to handle stakeholder relations.

1.4 Research question

King III introduces 'apply or explain' rather than 'comply or explain' (Institute of Directors Southern Africa, 2009a), accordingly the emphasis now falls on how the principles and recommendations can be applied, as opposed to whether to comply or not (Malan, 2010). Familiarity with new corporate governance principals therefore becomes essential for any company and their directors. Through implementing King III, Jayne Mammatt, associate director in governance and sustainability at Ernst and Young, cautions however that "Companies need to think about how the code will add value to the organisation" and to consider that it is not a set of rules that can be applied overnight (cited in Temkin, (2010c, p. 14).

In applying governance element eight (Governing stakeholder relationships) the board of directors therefore has to consider the legitimate interests and expectation of all stakeholders and not only those of the shareholders, as the shareholder does not have a predetermined place of precedence over the stakeholder (Institute of Directors Southern Africa, 2009a). Furthermore King III "clearly states that it is the function of the board of directors to approve and maintain a specific policy and strategy for communicating to stakeholders" (Jackson, 2010, p. 19).

The purpose of this research is to assess how companies and industry experts have interpreted the requirements of the King III Code - Governing Stakeholder Relationships. The following three research questions will be asked:

TABLE 1: RESEARCH QUESTIONS	
Question one:	To what extent have companies adopted King III recommendations on governing stakeholder relationship and thus changed their focus to 'stakeholder engagement and reputation management'?
Question two:	What are companies expected to report on when they adopt the King III principles on governing stakeholder relationships?
Question three:	Is there a common understanding of the adoption of King III – governing stakeholder relationships – from a company and industry expert perspective?

As the King III code has been described as the 'future of corporate governance', Malan (2010) asks whether corporate South Africa is able to translate this international best practice document into the day to day operations of their businesses.

2. LITERATURE REVIEW

This chapter will discuss literature that has been reviewed while researching the problem introduced in Chapter one regarding how companies need to change their focus 'to stakeholder engagement and reputation management' in aligning with governance element eight in the King III code. Since the introduction of corporate sustainability companies have changed their reporting from bottom line financial to triple-bottom-line and recently integrated reporting in line with King III recommendations. King III has been acknowledged as an aspirational code and the extent to which companies adopt its principles and recommendations is yet to be realised. The application for each company will be different, nevertheless the code should be used as a guide to "drive entities to continuously improve governance practices" (Institute of Directors Southern Africa, 2009a, p. 19). Due to the recent publication of the Code extensive academic literature is unavailable.

All three King reports have included the concept of the 'inclusive approach' as opposed to the 'exclusive approach', to corporate governance and King III has elevated stakeholder relationships to the board and called for it to feature on the boards agenda. For the board to be able to add stakeholder relationships to the agenda the company would have to subscribe to a stakeholder rather than a shareholder perspective. The literature review identifies that there are four different approaches/theories on stakeholder engagement which ranges from exclusive to inclusive. The extent to which each approach is adopted is ultimately driven by a company's vision, mission and business strategy (Draper, Staafgard, & Uren, 2008).

The components of the literature review in this chapter can be summarised as follows:

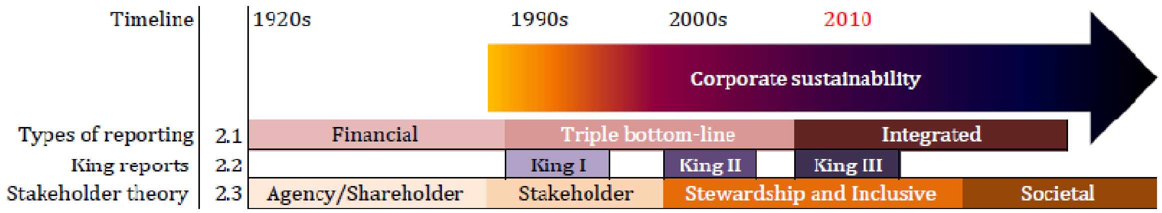

FIGURE 1: KEY RELATIONSHIPS IN LITERATURE REVIEW

2.1 Corporate sustainability as part of the business strategy

While much communication from listed companies is voluntary, the JSE listing requirement necessitates listed companies to communicate bi-annually (JSE, 2009a). The most traditional mechanism is the annual report (Sweeney & Couglan, 2008), followed by the published year-end and interim results in an English and Afrikaans national newspaper (JSE, 2009a). All three of these documents are highly regulated and listed companies can be fined for non compliance with the regulation. A general criticism of these documents is that they are littered with financial jargon aimed only at the investors rather than the intended shareholders. This one sided communication neglects key stakeholders such as communities and employees. With the introduction of King III companies need to consider how they are going to change their communication behaviour to ensure they reach all stakeholders.

2.1.1 The shift from financial reporting to triple bottomline reporting

King III code (Institute of Directors Southern Africa, 2009a) puts forward the notion that in the 20th century companies were run with profit making as the bottomline – thus companies only focused on financial reporting. The focus of companies only changed in the later part of the 20th century where there was a shift to people becoming more aware of the worlds ecological problems with the result that throughout the world social, health and environmental legislation was developed (King, 2006). Maak (2007) agrees with King in that many corporations have adopted a triple bottomline approach, integrating social and environmental consideration into their value chain, however he argues that companies have failed to take up the humanitarian challenge. He believes that 'poverty, hunger, diseases and injustice' are the major cause that prevents large parts of the human community from participation in the global economy, let alone benefiting from it. Van Marrewijk (2003) concurs with Maak that the current debate is around more human, ethical and transparent ways of doing business. He identifies that this is a critical point in time to develop a new generation of business frameworks, ones which facilitate sustainable growth. Porter & Kramer (2006) put forward the notion that sustainable growth is created though seeing corporate social responsibility as a source of opportunity, innovation and competitive advantage rather than a cost constraint. They argue the weakness of current approaches is that they focus on the tension between business and society rather than their interdependence.

2.1.2 Integrated reporting

Since King II, many large South Africa companies have gone through the motions of producing sustainability reports however many cannot actually claim that sustainability is truly integrated into their business and thus part of their business strategy (Trialogue, 2010). Strategy is about making choices and Van Marrewijk (2003) argues that there is no standard recipe for corporate sustainability – it is a custom made process. Each company has to choose from many opportunities, matching the company's aims and intentions, and align with the company strategy, as a response to the circumstances in which it operates (Van Marrewijk, 2003). Companies therefore respond to outside challenges in accordance to its own strategy and ability.

King III states that the board should appreciate that strategy, risk, performance and sustainability are inseparable (Wixley & Everingham, 2010). Thus through advocating integrated reporting, King III aims to force sustainability and financial reporting onto the same footing. Trialogue (2010) reasons instead of sustainability being an afterthought (to tick on a corporate governance checklist), integrated reporting will show how sustainability issues permeate the business, their implications on the business and how the business is responding. King comments in an article written by Temkin for the Business Day that - "the corporate identity of companies has changed and so reporting has to change. Stakeholders need to make informed assessments about the longer-term sustainability of a company and that it is operating as a responsible corporate citizen" (2010a).

2.2 Corporate Governance and the evolution of the King reports

King (2006) has acknowledged that the priciples of good governance do not need to be followed slavishly, but should rather be made sense of within a particular circumstance. Painter-Morland (2006) agrees and cautions against this one size fits all approach to governance in that he argues that it does not speak to the reality of day-to-day stakeholder experiences. The South Africa context is particularly complex in that measures designed to address historical socio-economic imbalances, like broad-based black economic empowerment, could transgress the principles of good governance by creating a capitalist class based on artificial financial structures (Armstrong, 2005).

Although good corporate governance cannot guarantee against business failure, it should ensure that there has been adequate disclosure of the risk undertaken and when the enterprise has run into difficulties, that these are handled with wisdom and integrity, in the best interest of the enterprise and adequately communicated to stakeholders (Wixley & Everingham, 2010). King III therefore highlights that the board's role is to set the tone at the top (Institute of Directors Southern Africa, 2009a). The UN advises on a practice among the member States of the European Union, whereby employees are involved in corporate governance processes particularly regarding stakeholders. The involvement helps to dilute the influence of shareholders and the 'distortion of connection between investments risk and the decision making process' (United Nations, 2006, p. 23). Consequently the employee involvement is seen as having a beneficial effect on the overall sustainability of the company, however the UN cautions that employee involvement in corporate governance should be clearly disclosed.

2.2.1 King I

A number of events in the 1980s and 1990s both aboard and in South Africa highlighted the serious deficiencies in the Anglo-Saxon model of governance (Wixley & Everingham, 2010). Thus the Cadbury Report came out first in 1992 in the UK, which is best known of the international codes. It was followed closely by Sabanes-Oxley Act (SOX) in the United States of America, the best known corporate governance legislation. The South African code of governance was established in 1992 with the founding of the 'King Committee on Corporate Governance' by the Institute of Directors of Southern Africa (IoDSA) (Armstrong, 2005). The first King report was released in November 1994 and unlike its counterparts King I went beyond financial and regulatory aspects of corporate governance as it advocated an integrated approach to good governance in the interests of a wide range of stakeholders in line with good financial, social, ethical and environmental practice (Institute of Directors Southern Africa, 2002). The code thus recognised that companies no longer act independently from societies and the environment in which they operate. Cadbury, head of the Cadbury Commission, sums up the King Code as follows, "fairness, accountability, responsibility and transparency on a foundation of intellectual honesty" (in King, 2006, p. ix) and accordingly the objective of the King codes, from the outset, was to improve the quality of leadership which boards were giving to their businesses.

2.2.2 King II

The second King report came out in 2002 and from 2005 all listed companies were required to adhere to the recommendations or indicate to the extent that they deviated from them and why (Wixley & Everingham, 2010). The first recommendation in King II is that the board must give strategic direction to the company. Wixley and Everingham (2010) put forward that strategy includes setting objectives, defending the mission or purpose, evaluating the environment within which it must operate, defining its key stakeholders, determining the competitive advantage, formulating detailed plans to accomplish its aims and putting them into effect. This is in line with definition of stewardship theory discussed later on in the literature review by Maak and Pless (2006).

Many recommendation of King II have been legislated in the New Companies Act No 71 2008 (Institute of Directors Southern Africa, 2009a). One example is that all companies now need to prepare annual financial statements whether public, private (including the state-owned enterprises) or in the non-profit sector. Thus unlike King II, King III applies to all entities whether public, private or the non-profit sector.

2.2.3. King III

2.2.3.1 Sustainability and integrated reporting

Sustainability issues have gained importance internationally, since King II, with the publication of the UN Global Compact and GRI G3 guidelines (Institute of Directors Southern Africa, 2009a). In South Africa the JSE launched the SRI index in 2004 as a tool for investors to identify companies that have incorporated sustainability practices into their business activities (Sonnenberg & Hamann, 2006). Sustainability is however more than just producing a sustainability report. The elements of strategy, risk, performance and sustainability have become inseparable and hence companies need to apply integrated reporting (Institute of Directors Southern Africa, 2009a). Mervyn King (cited in Temkins, 2010a, p.12) comments that South Africa "is among the first countries in the world to require integrated reporting of listed companies. This puts us ahead of the game". The King Code however argues that best practice sustainability is only possible if the leadership of the company embraces the notion of integrated sustainability performance and reporting (Institute of Directors Southern Africa, 2009a). Although integrated sustainability reports where already referred to in King II, many companies have yet to understand that it is not annual financial statements that are required but annual statements that go much further than the financials (King cited in (Bonorchis, 2007). Therefore the most important difference between King II and King III, is 'reporting' versus 'doing'.

2.2.3.2 Governance elements

The King III code has nine governance elements each with their own set of principles and recommendations. Each governance element has its own committee, who are required to report on their activities in the company's annual report. The report should include the following information on the committee: its term of reference, its membership details, the number of meetings held, major decisions taken, and recommendations to the board (Wixley & Everingham, 2010). An additional requirement of the committee is to have a member (preferably the Chairman) available at the company's Annual General meeting to answer any questions.

2.2.3.3 Principles and recommendations

The King III code encourages companies to study the report and apply the recommendations under each of the principles (Institute of Directors Southern Africa, 2009a). When reporting a company should by way of explanation explain how they are applying the principles or why they have not been applied - "it is this level of disclosure that will enable stakeholders to comment on and challenge the board on the quality of its governance." (Institute of Directors Southern Africa, 2009a, p. 16). The code identifies that the 'apply or explain' approach requires companies to consider –apply their mind - and by way of explanation describe what has "actually been done to implement the principles and best practice recommendations of governance" (Institute of Directors Southern Africa, 2009a, p. 16)

2.2.3.4 Governance element eight – Governing stakeholder relationships

As specified in the Code each governance principle is of equal importance and together they form a holistic approach to governance. The King 3 report nevertheless is looking to elevate the status of stakeholder engagement and thus the Chairman of Board, role and function includes "maintaining good relations with the company's major shareholders and stakeholders" (Wixley & Everingham, 2010, p. 63). Governance element eight - governing stakeholder relationships - stipulates the following (Institute of Directors Southern Africa, 2009a):

- Directors are responsible for keeping communication with stakeholders honest and open;

- In this regard the Board should strive to achieve a balance between the interests of all its various stakeholder groupings and promote mutual respect between the company and its stakeholders:;
- In return consumers, employees, communities and investors can and will have a role to play in shaping the behaviour of corporations.

Governance element eight in the King 3 code is divided into five key principles and sixteen recommendations summarised in the table below:

TABLE 2: GOVERNANCE ELEMENT EIGHT: GOVERNING STAKEHOLDER RELATIONSHIPS	
8.1	**The board appreciate that stakeholders' perceptions affect a company's reputation**
	8.1.1. The gap between stakeholder perceptions and the performance of the company should be managed and measured to enhance or protect the company's reputation. 8.1.2. The company's reputation and its linkage with stakeholder relationships should be a regular board agenda item. 8.1.3. The board should identify important stakeholder groupings.
8.2	**The board should delegate to management to proactively deal with stakeholder relationships**
	8.2.1. Management should develop a strategy and formulate policies for the management of relationships with each stakeholder grouping. 8.2.2. The board should consider whether it is appropriate to publish its stakeholder policies. 8.2.3. The board should oversee the establishment of mechanisms and processes that support stakeholders in constructive engagement with the company. 8.2.4. The board should encourage shareholders to attend AGM's. 8.2.5. The board should consider not only formal, but also informal, processes for interaction with the company's stakeholders. 8.2.6. The board should disclose in its integrated report the nature of the company's dealings with stakeholders and the outcomes of these dealings.
8.3	**The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interest of the company**

	8.3.1. The board should take account of the legitimate interests and expectations of its stakeholders in its decision-making in the best interests of the company.
8.4	**Companies should ensure the equitable treatment of shareholders**
	8.4.1. There must be equitable treatment of all holders of the same class of shares issued. 8.4.2. The board should ensure that minority shareholders are protected.
8.5	**Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence**
	8.5.1. Complete, timely, relevant, accurate, honest and accessible information should be provided by the company to its stakeholders whilst having regard to legal and strategic considerations. 8.5.2. Communication with stakeholders should be in clear and understandable language. 8.5.3. The board should adopt communication guidelines that support a responsible communication programme. 8.5.4. The board should consider disclosing in the integrated report the number and reasons for refusals of requests of information that were lodged with the company in terms of the Promotion of Access to Information Act, 2000.

2.3 Shareholder/Stakeholder theory

The role of corporations in society has evolved from one where its responsibility was seen as being exclusively to shareholders, to one where the role of other stakeholders such as employees and suppliers are acknowledged (Wixley & Everingham, 2010). However there is a fundamental debate as to the extent of the relationship a company should have with its stakeholders based on two extreme points of view. On the one extreme – the company exists only to maximise shareholder wealth and all other parties are subsidiaries to this objective. The other extreme is that the company exists to serve the interests of all parties with which it engages, implying that profit maximisation should not be the main objective and is possibly not the only objective. What follow are four theories starting from the shareholder perspective and ending with the societal approach, each of which are on either ends of the scale. The stakeholder theory and the stewardship sit in-between the two extremes.

2.3.1 Agency and shareholder theory

Milton Friedman's theories can been seen as being at the heart of agency theory which can be summed up in the following two statements:

- A manager's job is to maximise shareholder value (Ghosal, 2005)
- The social responsibility of the business is to increase profits (Van Marrewijk, 2003).

Friedman's thinking fits into the way companies were run during the 19th and 20th century. This is summarised by King (2006):

- Entrepreneurs, who, though their families controlled the equity, adopted an approach focused exclusively on profit.
- They did so at the exclusion of all other stakeholders, notwithstanding that they were linked to the company's activities.

Ghosal (2005) would like to argue that it is on the same premise of Friedman that Porter developed the five forces model, whereby companies are focussed on not only competing with their suppliers but also with their customers, employees and regulators. King (2006) associates this with an 'exclusive approach' which maintains that companies direct their activities to improve the lot of the providers of capital (the shareholders), at the exclusion of other stakeholders.

Kochan (2002a, p. 139) indentifies the 'exclusive approach' as being one of the main causes of corporate failure and he claims that "the overemphasis American corporations have been forced to give in recent years to maximising shareholder value without regard to the effects of their actions on other stakeholders". The key lesson for Maak (2007) on Enron's corporate failure is that it takes responsible leaders to build and sustain a business that is of benefit to multiple stakeholders and not for a few risk seeking individuals. Thus the sustainability of the business system relies on management incentive pay schemes to move away from focusing on maximising the short-term results at the expense of longer-term performance (Institute of Directors Southern Africa, 2009a).

2.3.2 Stakeholder theory/approach

Stakeholder theory is rooted in the notion of inclusive capitalism which "incorporates previously excluded voices, concerns and interests" (Hart, 2005, p. xli) and furthermore recognises that the sustainability of any business ultimately comes down to the sustainability of the business system (Maak, 2007). It is this realisation that companies don't operate in a vacuum (King, 2006) that has brought the stakeholders perspective to the fore. The twentieth century has seen 'a fusion between stakeholders and shareholders, in a sense that stakeholders, other than shareholders, have become shareholders' (King, 2006, p. 8).

Stakeholder theory argues that a company must be seen by the numerous interactions with its stakeholders (Pondar & Jancic, 2006) and thus Philips, Freeman & Wicks (2003) argue that stakeholder management means that all stakeholders are treated equally irrespective of the fact that some contribute more than others to the organisation. Quin would like to refute that contribution of knowledge, skills and entrepreneurship has typically been seen as less important than the "contributions to capital by shareholders, a pure commodity perhaps in excess supply" (cited in Ghosal, 2005, p. 80). Drucker (1994) adds that in a knowledge society the employees (the knowledge workers) own the tools of production and therefore should be protected more than the shareholders.

Freeman in his seminal work (Strategic Management: A Stakeholder approach, 1984) highlights the need to balance a multiplicity of stakeholders' interests that can affect or are affected by the achievements of organisations objectives. Thus Morgan and Taschereau (in Aligica, (2006, p. 79)define a stakeholder as a:

> person or groups whose interests and activities strongly affect and are affected by the issues concerned, who have a 'stake' in a change, who control relevant information and resources and whose support is needed in order to implement the change.

Porter & Kramer (2006) ascertains that stakeholder views are important, but these groups can never fully understand a corporation's capabilities, competitive positioning, or the trade-off it must make. It is therefore a challenge for leadership to deal with the moral complexity resulting from a multitude of stakeholder claims. Pondar and Jancic take this argument further in their argument that when a company finds itself in a position of limited resources, companies can choose its 'stakeholder target groups and omit the others according to their levels of importance or their potential power' (2006, p. 305). Their theory is based on the categorisation of stakeholder based on how 'important' they are. Rossouw & Van Vuuren (2010) takes the discussion further in that they argue that if a specific stakeholder group has no power to influence the strategic issues of the company then such a stakeholder group can be ignored. Pondar and Jancic (2006) do caution however that companies should stay abreast of the changing nature of the stakeholders' power and be careful on how they select and reallocate communication resources. Maak (2007) thus emphasises the need to build enduring and mutually beneficial relationships will all relevant stakeholders. In summary the stakeholder approach is premised on the notion of stakeholder engagement which requires the company to be in touch with social expectation of stakeholders in order to enhance the strategic interests of the company (Rossouw & Van Vuuren, 2010)

2.3.3 Stewardship theory and inclusive approach

Stewardship theory argues that companies survive and prosper when they simultaneously pay attention to the interests of customers, employees, shareholders and the communities in which they operate (Ghosal, 2005). Davis, Schoorman and Donaldson (1997) designed stewardship theory to define situations in which managers are not motivated by individual goals, but rather as stewards whose motives are aligned with the objectives of their principles. This principle is at the foundation to King's (2006) 'inclusive approach' to corporate governance whereby he argues that directors in the 21st century have to be seen as directing companies to be good corporate citizens. As part of successfully implementing his modern inclusive approach he highlights three areas which the board of directors of a company are responsible for identifying:

1. The company's purpose(Draper etc al, 2008) , (Wixley & Everingham, 2010)
2. The value drivers of its business; and
3. Its stakeholders (Wixley & Everingham, 2010).

Maak and Plees (2006) agree with King in that they argue that leaders need to have a sense of purpose and guiding vision, which ultimately helps bundle individual and organisational energy. Therefore an important part of the effort to create a sustainable business is the success in the leadership to regain the license to operate (Porter & Kramer, 2006) from society and to earn an impeccable reputation as a good corporate citizen, in so doing creating value for all stakeholders.

2.3.4 Societal approach

The societal approach, which is not necessarily a contemporary view, argues that companies are responsible to society as a whole, of which they are an integral part (Van Marrewijk, 2003). The societal approach links back to Porter & Kramer (2006) argument that companies operate by public consent (licence to operate) and furthermore in order to "serve constructively the needs of society – to the satisfaction of society" (Van Marrewijk, 2003, p. 97). Oppenheim, Bonini, Bielak, Kehn, and Lacy (2007) concur that companies now find themselves responsible for such disparate issues as environmental sustainability, to the spread of HIV/Aids and child labour in sub-Saharan Africa. They argue futher that consumers and employees are joining the ever-expanding set of sophisticated stakeholders with fresh demands and increasing power to threaten a compan's commercial viability. Porter & Kramer (2006) therefore puts forward the notion that a company must integrate a social perspective into the core framework it already uses to understand competition and guide its business strategy. The key is not to pit business against society but to understand that the two are interdependent. Rossouw and Van Vuuren (2010) indentify that in contrast to days gone by when a company's licence to operate consisted of a certificate issued by the public office, the modern company's licence to operate also requires the approval by society and furthermore that the company respects society's basic interests.

2.4 Conclusion

Since the introduction of the King report companies, in particular the boards of directors, have needed to consider the longer term sustainability of the company recognising that the company gets it licence to operate from society. The shift that is required is from a shareholder to a stakeholder perspective and the King III code has brought the stakeholder approach to governance to the fore. This if King III can make businesses think more deeply about the links and take a long-term view, it makes sense for companies to engage government, workers, legislators, communities, customers and other relevant stakeholders, to ensure that their legitimate interests and expectations are taken into account when formulating the business strategy. The question however is have companies changed their focus to stakeholder engagement and reputation management aligned to King III recommendations. Due to the newness of the King III code and the IoDSA not having released practice notes on how to apply governance element eight, companies and industry experts where interviewed to gain an understanding on how they have interpreted governance element eight and for companies to want extent they were going to apply the recommendations. The aim of the study is to ascertain if there is agreement on the requirements of governance element eight and based on the company's application thereof where would they be positioned on the shareholder/stakeholder continuum.

3. RESEARCH QUESTIONS

This chapter presents an overview of the three research questions to be used to gain a better understanding of how industry experts and companies have interpreted the requirements of the King III Code governance element eight – Governing stakeholder relationships. As the King III Code has been described as the 'future of corporate governance', Malan (2010) asks whether corporate South Africa is able to translate this international best practice document into the day-to-day operations of their businesses.

3.1 Company interviews

Research question one: To what extent have companies adopted King III recommendations on governing stakeholder relationship and thus changed their focus to 'stakeholder engagement and reputation management'?

Companies with year-ends starting after March 2010 (Institute of Directors Southern Africa, 2009a) need to report in their annual, sustainability or integrated reports their compliance with the recommended practices under each of the five governing stakeholder relationship principles as laid out in the King III Code. Due to the timing of the research only three companies on the JSE had brought out an integrated report. Thus companies were interviewed to ascertain their future compliance to King III principles and recommendations.

Traditionally companies have been measured on their compliance to corporate governance and sustainability through the industry rankings, indexes and awards. The following list was used as a guide to select companies to be interviewed:

TABLE: 3 CORPORATE GOVERNANCE AND SUSTAINABILITY MEASURES	
Industry Rankings	E&Y Excellence in Corporate Reporting survey 2010 E&Y Excellence in Sustainability Reporting survey 2010
Indexes	JSE Social Responsible Investment (SRI) Constituents 2009
Awards	Association of Chartered Certified Accountants (ACCA) Awards for Sustainable Reporting South Africa

Companies that appear on these rankings, indexes and awards are more likely to comply with King III principles and recommendations. In semi-structured interviews the companies will be asked whether they 'apply' the recommend practices under each principle and, if not, to provide an explanation why they are not doing so (Appendix 2).

3.2 Industry expert interviews

Research question two: What are companies expected to report on when they adopt the King III principles on governing stakeholder relationships?

Industry experts provided guidance on what they expect companies to report on in their annual, sustainability or integrated reports based on the five governing stakeholder relationship principles outlined in the King III code. King III requires that when companies are reporting, they should by way of explanation, make a positive statement about how the principles have been applied or not been applied (Institute of Directors Southern Africa, 2009a). Five open-ended questions derived from the principles will be asked to guide the participant's responses (Appendix 3).

3.3 Agreement of the interpretation of the code

Research question three: Is there a common understanding of the adoption of King III – governing stakeholder relationships – from a company and industry expert perspective?

The research aim to ascertain whether industry experts and companies are in agreement as to the requirements of governing stakeholder relations as outlined in King III Code and can thus be seen in company everyday practice.

Based on companies' responses one would be able to track where companies fall onto the shareholder/stewardship continuum (outlined in chapter two) and thereby identify that companies have incorporated sustainability into their business strategy.

The next chapter will describe the methodology used to execute the research to address these three questions.

4. RESEARCH METHODOLOGY

4.1 Introduction

The primary goal of this study was to ascertain whether industry experts and companies have the same understanding of how King III governance element eight – Governing stakeholder relationships, is integrated into the day-to-day running of the business as well as how companies should report in their annual, sustainability or 'integrated' reports on their interactions. The methodology employed for each of the two audiences was different as the experts approach the code from a theoretical 'best practice' angle while the companies approach the code from a practical 'implementation' angle. The chapter is organised into five sections: 4.2 Selection of participants, 4.3 Instrumentation, 4.4 Data collection, 4.5 Data analysis and 4.6 Research limitations.

4.2 Selection of participants

Although King III applies to all entities regardless of them falling into the public, private or non-profit sector (Institute of Directors Southern Africa, 2009a), all companies listed on the JSE, with year-ends commencing after 1 March 2010, must comply with the principles (Naidu, 2010). Previously JSE listed companies also had to comply with King I and King II which principally sought to promote triple bottomline reporting. Thus the JSE introduced the Social Responsibility Investment (SRI) index in 2003 to measure companies' policies, performance and reporting in relation to the three pillars of triple bottomline, namely environmental, economic and social sustainability issues (JSE , 2003). The top 100 JSE companies comprise approximately 85% of the JSE's market capitalisation (Borkum, 2010) and in 2009 the JSE SRI index was made up of 34 top 40 companies, 30 mid cap and 3 small cap companies (JSE, 2009b).

Considering the JSE top 100 companies comprise 85% of JSE's market cap, is representative of top, mid cap and small cap companies and include companies on the SRI index, this category was used to define the population of the study. For the industry expert analysis individuals were considered based on their public contribution to the topics of corporate governance and sustainability issues. For this qualitative study ten participants were selected: three industry experts and six company representatives.

4.2.1 Companies

Judgement sampling was also used to select six anonymous listed companies. As per the JSE handbook June 2010 to September 2010 (Profile Media, 2010) all the companies interviewed where in the top 100 JSE listing based on market capitalisation, and two are ranked as part of the JSE top 40 index. The companies selected range across the following diverse industries: mining, retail, healthcare, heavy construction, industrial and consumer services.

4.2.1.1 Rankings and awards of top 100 companies

Top 100 companies in general are more heavily scrutinised when it comes to their reporting, particularly by the media and the investor community as they make up

85% of the JSE's market capitalisation (Borkum, 2010). These factors are the driving force behind companies complying with the principles of good corporate governance and sustainability. Companies therefore look for acknowledgement and recognition in the related industry corporate governance and sustainability rankings and awards which are available in the public domain. An outline of the selected companies interviewed and the rankings/awards won is outlined below:

TABLE 4: IDENTIFICATION OF COMPANY RANKINGS/AWARDS

Rankings and awards	Summary of company positions obtained	Explanatory notes
E&Y Excellence in Corporate Reporting survey 2010 (Ernst & Young, 2010a)	One top ten, one excellent, two good, one adequate and one perfunctory	The purpose of the E&Y survey in corporate reporting is to encourage excellence in the quality of financial reporting. The survey reviews South Africa's top 100 companies and top 10 state-owned entities' annual reports and rates them against E&Y set of best practice guidelines.
E&Y Excellence in Sustainability Reporting survey 2010 (Ernst & Young, 2010b)	One top 10, one good, two adequate and one perfunctory. One company was not rated.	The purpose of the Excellence in Sustainability Reporting survey is to encourage excellence in the quality of sustainability reporting which is aimed at all stakeholders. The survey similarly reviews the top South Africa's companies and state-owned entities.
JSE SRI Constituents 2009 (JSE SRI, 2009)	All but one company appears on the list of 2009 SRI Index Constituents. Two companies also appeared on the environmental impact best performer list (JSE SRI, 2009). The one company was classified as high impact with the other classified as having a medium impact.	JSE SRI Best Performers' companies are defined as those that meet the relevant environmental threshold and relevant core indicators in relation to society, governance and sustainability concerns. None of the companies interviewed appeared on the Consistent Best Performers' list which has tracked companies' performance for the last three years (2007 – 2009).

Association of Chartered Certified Accountants (ACCA) Awards for Sustainable Reporting South Africa (ACCA, 2008)	Two runner-ups	The ACCA Awards recognise companies for their contribution to sustainability reporting. Companies are ranked either winner or runner-up in the following six categories: extractive industries, non-extractive industries, financial sector, most improved, best newcomer and NGO/SME category. Only 51 entries were submitted for these awards. The 2008 results were the only available data at the time of research being conducted and the 2009 annual reports are in the process of being judged.
King III and GRI + 11 review (Sustainability Services, 2010)	Five of the companies interviewed are ranked in the top 100 of the 383 companies reviewed for overall compliance to GRI G3 guidelines. One company falls in the top 20 for compliance and another was excluded from the survey. Three of the companies where categorised as providing a 'partial response' and two providing no response on the GRI indicator Stakeholder Engagement.	King III Chapter six focuses on integrated reporting making specific reference to the Global Reporting Initiatives (GRI) G3 Guidelines for Sustainability reporting. This reports provides a benchmarking guide as to whether a company provide information against the GRI indicates and shows compliance through one of the following categories : a 'reasonable response', a 'partial response' or no response.

Companies where purposefully chosen across rankings and awards won to indentify if there is a correlation between the content companies produce in their annual/sustainability reports as opposed to actual running of the day-to-day business and the philosophy behind it. This alludes to the 'tick box' approach as opposed to integrating sustainability as part of the fundamentals of the business.

4.1.1.2 Previous reports produced

Rankings/awards have been criticised as it is argued that they encourage tick box compliance instead of integrating sustainability thinking with strategy, stakeholder relations and risk management. A further criticism is based on the fact that companies have various year-ends ranging from December to November, and therefore reports that have been in the public domain for 11 months are judged against those that are one month old. Companies with later year-ends therefore have more opportunities to incorporate latest trends and thinking into their reports therefore ticking the 'right' boxes in the judges' eyes (Trialogue, 2010). To rule out bias companies were chosen across year-ends (not disclosed to ensure confidentiality), industry, as well as different corporate governance and sustainability criteria. Furthermore a cross-section of industries as well as rankings was indentified to help rule out companies complying with corporate governance and sustainability due to heavy regulation in their industry as opposed to companies applying their own initiative to comply with corporate governance and sustainability issues. The table below illustrates the types of reports the company' interviewed produced in 2009 and 2010.

TABLE 5: TYPE OF REPORTING BY COMPANY

	2009	2010
Heavy Construction	Annual report (sustainability section)	Annual report (sustainability section)
Consumer Services	Annual report and sustainability report	Integrated report
Healthcare	Annual report (sustainability section)	Busy producing a Annual report (sustainability section)
Industrial	Annual report (corporate responsibility	Integrated report

	section)	
Mining	Annual review, sustainability report and annual financial statements	-
Retail	Annual report and sustainability report	Annual report (corporate accountability report with links to the website for additional information

4.2.1.3 Positions held by interviewees

Of the companies interviewed the interviewees where all represented on their respective company's executive management teams (EXCO) and one interviewee was also an executive director of the company. The table below breaks down the various positions the interviewees hold and a basic outline of the responsibility of the position:

TABLE 6: COMPANY POSITIONS HELD

Position	**Interviewees**	**Overview of the responsibility of the position**
Corporate/Public Affairs Executive	Three interviewees	Corporate/Public Affairs executives are responsible for the company's reputation management. King III points out that the management of stakeholder perceptions translates into the formation of the company's reputation (Wixley & Everingham, 2010).
Director, Group stakeholder relations	One interviewee	This position is self-explanatory as it requires the management of stakeholder relations on the company's behalf. King III indicates that the board should identify major stakeholders but delegate the actual management of the relationship to management (Wixley & Everingham, 2010)
Group/Company Secretary	Two interviewees	The role of the company secretary is to facilitate good corporate governance. King III suggests company secretaries should be appointed by the board and should not hold the position of a director of the company (Wixley & Everingham, 2010).

The two companies from which the company secretaries were interviewed did not have corporate/public affairs positions as part of their management teams or part of their board of directors. Company secretaries traditionally dealt with matters of external engagement as they are required to be knowledgeable on relevant laws and often have a legal background. All companies interviewed have a company secretary as required by law for all public listed companies (Wixley & Everingham, 2010).

4.2.2 Industry experts

Judgement (purposive) sampling was used to select the industry experts. This is a non-probability sampling technique "in which an experienced individual selects the sample based upon some appropriate characteristics of the sample member" (Zikmund, 2003, p. 382). The selected sample identifies three different areas of expertise within the corporate governance and sustainability arena, and is broken down in the table below:

TABLE 7: IDENTIFICATION OF INDUSTRY EXPERTS	
Industry context	Description
1. Independent third-party assurance agency and publisher of the book – King III and GRI +11 (Sustainability Services, 2010)	The King III and GRI + 11 book reviews sustainability reports for their compliance to the Global Reporting Initiative (GRI) Guidelines as outlined in Chapter 6 of the King III Code. The book rates companies on their response based on one of the following subjective criteria: a 'reasonable response', a 'partial response' or no response.

2. Publishers of the Trialogue Sustainability Review (Trialogue, 2010)	A quarterly report published in the *Financial Mail* which discusses the developments that are shaping sustainable business practice including the implications of King III on businesses.
3. Association of Chartered Certified Accountants (ACCA), South Africa Awards for Sustainability Reporting judge (ACCA, 2008)	The ACCA South Africa Awards for Sustainability Reporting is committed to promoting and supporting sustainability reporting best practice. This is done through recognising that sustainability reporting (along the lines of King III) plays a critical role in addressing material and long-standing needs in terms of companies' obligations to its stakeholders. The awards seek to encourage better reporting on economic, environmental and social performance by corporations.

Although the selected industry expert list is not exhaustive it covers experts who acknowledge that King III will have a fundamental impact on how companies operate and how they will be required to report on in the future.

4.3 Instrumentation

The qualitative research method was chosen as it facilitates a process through which the interviewee is able "to obtain indepth understanding of purposively selected participants from their perspective" (Lunenburg & Irby, 2008, p. 177). Thus the sample of interviewees by nature was smaller, non-random and purposive.

The research instrument used is open-ended interviews which is typical of qualitative research (Lunenburg & Irby, 2008). The interview consists of a set of questions presented to the participants (Kotler & Keller, 2009). Semi-structured questions were developed in advance and follow-up questions were used as the interview progressed based on the participants response.

4.3.1 Companies

Combinations of open-ended and fixed alternative questions are used for the six company interviews. Fixed-alternative questions give a participant a limited alternative such as yes or no (Zikmund, 2003). As the King III Code has adopted the 'apply or explain' principle, companies can indicate whether they apply (YES) or (NO) and if no, they therefore need to explain in their own words why they do not comply with the governance element. The 'no' part of the question is open-ended.

The company question were more detailed than that of the industry experts as they were asked to elaborate on the 16 recommended practices indentified in governance element eight of the King III Code and outlined in Chapter 2. The questionnaire has been included in Appendix 2.

4.3.2 Industry experts

Semi-structured, open-ended questions are used for the three industry experts as they permit "respondents to answer in their own words" (Kotler & Keller, 2009) allowing a range of possible responses. Industry experts where asked questions based on the criteria outlined by the King III Code pertaining to governance element eight and the five principles identified outlined in Chapter two. The questionnaire has been included in Appendix 3.

4.4 Data collection

The data collection section outlines the physical things the researcher did to obtain data from the participants (Lunenburg & Irby, 2008). For qualitative research the method of data collection is interviews. Interviews were chosen over content analysis (quantitative) as most companies had not yet reported on their application of the King III Code. Interviews also allow the researcher to probe deeper and gain insight into the day-to-day running of the companies, information that is not necessarily found in reporting. For the industry expert interviews the researcher was able to focus the interviewees' attention on governing stakeholder relations as opposed to the entire King III Code.

The following steps were taken to set up and conduct the interviews:

1. Two sets of question sheets where developed for the two different participant groups namely: Companies and Industry experts (Appendix 2 & 3)
2. Companies and Industry experts where emailed a request to partake in the survey with a copy of the relevant questionnaire attached. If the interviewees agreed to the interview, they were asked to set up a suitable time as to when the interview could be conducted. The allocated time for the interview ranged between one and one and a half hour.
3. On arrival at the interview, interviewees were asked to sign the consent form before the interview could commence. All the interviewees were recorded and additional written notes were also taken down.

4.5 Data analysis

Lunenburg and Irby (2008) identify qualitative analysis of data as comprising analysis of similarities and differences, coding and categorising and constant comparison. The data analysis for this research was based on the following steps outlined by Zhang and Wildemuth's (Undated):

1. Prepare the data – The interviews were transcribed verbatim (word for word), which presents a literally transcription.
2. Define the unit of analysis – The research was analysed per the five principles laid out in governance element eight in the King III Code. The first level of analysis was to look at how companies through the use of recommended practices have implemented each of the principles into their everyday business and communication practices. For comparative purposes companies are plotted on the shareholder/stakeholder continuum. The second level of analysis was to look at whether industry experts agree on what is expected of companies for each principle. The similarities and difference between them will be identified. The third level of analysis is to compare the companies' and industry finding to ascertain if the King III requirements and implication of governance element eight have been understood by the market and what the underlying gaps or misconceptions are.
3. Develop categories and coding schemes – Categories and coding schemes were indentified from the data as well as from the underlying theories provided by the literature review to enable companies to be categorised in the shareholder/stakeholder continuum.

4. Code the text and assess for consistency – The coding was constantly reviewed to indentify new themes and concepts that emerged. These new codes were added to the coding manual.
5. Draw conclusions from the coded data – Outlined in chapter five and six of this report.
6. Report your methods and finding – Outlined in chapter seven of this report.

4.6 Limitations

This research report has various limitations and the key themes have been outlined below:

4.6.1 Only selecting JSE top 100 listed companies

The King III Code is applicable to all South African entities (Institute of Directors Southern Africa, 2009a). This research report only considers public listed companies whom form part of the JSE top 100 companies. An interesting comparison could have been done between listed companies and state-owned enterprises (SOEs), as by definition an SOE is 'owned' by all the citizens of South Africa and therefore may have more pressure to conduct their business in an inclusive rather than exclusive manner when it comes to stakeholders. Similarly NGOs who fundamentally understand that their 'licence to operate' comes directly from the society would have provided an insightful and different perspective in contrast to the shareholder perspective of profit at all cost.

4.6.2 Rankings/awards as a selection method

The pure fact that there are different surveys for companies regarding corporate governance and sustainability issues indicates the disconnect that King III is trying to address. It highlights the silos in which companies are expected to report on instead of an 'integrated reporting' which is addressed in Chapter six of the King III Code.

4.6.3 Timing of the research report

Since listed companies only needed to comply with King III recommendations with year-ends commencing after 1 March 2010, many companies had not started or were still in process of producing their annual/integrated reports within the new King III requirements when the research was conducted. Furthermore the Institute of Directors (Institute of Directors Southern Africa, 2009b) has not yet published the practice notes on governance element eight (governing stakeholder relationships) or nine (integrated reporting and disclosure) and the subject and timing of these is at the discretion of the IoDSA.

4.6.4 Selection EXCO members instead of board members

Since the King III Code requires that the Board is responsible for the principles outlined in governing stakeholder relations the study could have interviewed board members or the heads of the sustainability committees. Accessibility to these interviewees was considered a barrier.

5. RESEARCH RESULTS

5.1 Introduction

This chapter contains the research results based on two of the research questions outlined in chapter three. The third question will be discussed in Chapter six. The first set of results (5.2) will be presented on how companies have interpreted the recommended practices and how they are implementing governance element eight into day-to-day business practices. The second set of results (5.3) will look at how industry experts interpret governing stakeholder relationships, based on the five principles outlined in King III, and as a result what they expect companies to report on regarding these principles. Each set of results will be discussed under the research question posed in chapter three. In the conclusion (5.4) a summary table will be presented showing how the companies compare against one another.

5.2 To what extent have companies adopted King III recommendations on governing stakeholder relationships?

This section will discuss the results from the company interviewees. The companies were selected across a range of diverse industries namely: mining, retail, healthcare, heavy construction, industrial and consumer services. The companies were asked whether they 'apply' the recommended practice under each governing stakeholder relationship principle outlined in the King III Code. If companies applied the recommendations they answered 'Yes' to the question, if they partially applied they answered 'Yes_No" and if they did not apply the principle they answered 'No'. Where companies did not apply or fully apply the recommended practice they needed to supply reasons why.

Principle 8.1 is divided into three recommendations and the companies' responses to the questions are summarised in table eight below:

TABLE 8: PRINCIPLE 8.1 THE BOARD APPRECIATES THAT STAKEHOLDERS' PERCEPTIONS AFFECT A COMPANY'S REPUTATION	
Yes/NO	**Company responses**
Is the gap between stakeholder perceptions and the performance of the company managed and measured in a way that enhances or protect the company's reputation? (8.1.1)	
Yes: 4/6	The companies that answered yes to this question have a far greater appreciation of the number of stakeholders that affect a company's reputation. These stakeholders range from: government, regulators, investors, unions/labour, suppliers, customers, communities, NGOs, media, employees, and advocacy groups. The retail company meets stakeholders "with no clear agenda necessarily, but just to say what are the things that they are doing that stakeholders' are perhaps unhappy about". The mining company board reviews quarterly media reports to ascertain how they have been perceived in the media, how that's impacting on the company's reputation, and then... taking action as a result of that.
Yes & No: 1/6	The consumer services company has not measured the 'expectation gap' in a formal way. Traditionally the company has focused on surveys for analysts (external) and shareholder and employees (internal) but there is no formal plan. There is however an "appreciation that this has to be done".
No: 1/6	Regarding King III the heavy construction company is "taking it in little bits and pieces and haven't just absorbed the whole thing". The company wants to apply its mind to King III and "don't want to do something for the sake of doing it as a tick box". Since the introduction of King III the concept of company reputation has been elevated to the list of priorities and the company plans to do a gap analysis in the following year.
Is the company's reputation and its linkage with stakeholder relationships a regular board agenda item? (8.1.2)	
Yes: 2/6	Both the industrial and mining company acknowledge that the company's reputation and its linkage to stakeholder relationships is a regular board agenda item. For the mining company at the moment it is a very regular item but it recognises that "stakeholders have always been on the company's agenda".

Yes & No: 2/6	Although this is not a regular board agenda item all the healthcare company's EXCO members have to cover stakeholder issues in their reports to the board, "every decision [the company] makes, they look at the impact that it has on stakeholders". Similarly the retail company raises "a misnomer here between who King III thinks runs the company and who actually runs the company" as their EXCO team is responsible for stakeholder relationships. Both companies conduct regular surveys on stakeholder issues.
No: 2/6	Since King III the consumer services company has added the company's reputation and its linkage to stakeholder relationships as a regular board agenda item. However, they believe this is a mechanical process as "there is nothing in the King Report or anywhere else that clearly tells the board how to deal with this". From the heavy construction company's point of view the discussion will take place when "the risk discussion takes place... but it wouldn't feature as a separate item on the agenda".
Has the board identified important stakeholder groupings? (8.1.3)	
Yes: 3/6	The healthcare, mining and the industrial companies acknowledged that they have always looked at important stakeholder grouping. The focus however has changed over years to consider government, including regulatory bodies and communities. The mining company has a 'stakeholder strategy' separate to the 'business strategy' (operational) but linked to the overall 'company strategy'.
Yes & No: 3/6	The retail company recognises that 'EXCO has' identified important stakeholder groupings but not the board of directors. The consumer services company has only this year indentified its important stakeholder with its EXCO team, "we mapped their influence to the business and the business influence on them''. The heavy construction company acknowledges that they 'think' they have identified stakeholder groupings but still favour a few, "our shareholders are definitely number one".
No: 0/6	No company responded 'No' to this question.

Principle 8.2 is divided into six recommendations and the companies' responses to the questions are summarised in table nine below:

TABLE 9: PRINCIPLE 8.2 THE BOARD SHOULD DELEGATE TO MANAGEMENT TO PROACTIVELY DEAL WITH STAKEHOLDER RELATIONSHIPS	
Yes/No	**Company responses**
Has management developed a strategy to formulate policies for the management of relationships with each stakeholder grouping? (8.2.1)	
Yes: 4/6	Four companies agreed that they have this is place, but they are constantly working to improve on them: 'working documents' (healthcare), 'more detailed' (industrial), 'for some stakeholders but not for all' (mining) and 'it will be a useful thing' to have in place if the interviewee ever left the company (retail).
Yes & No: 1/6	The consumer services company refers to always having an informal policy that has been established by management and not the board, as their industry is very regulated, "so it is simply formulating it and seeing whether the board is happy about what we are putting in place".
No: 1/6	The heavy construction company admits "not in the very decisive way" to developing a strategy and policy for the management of relationship with stakeholder groupings. It is done informally to a selected group of stakeholders such as analyst through the results presentation. The company recognises that 'employees, clients' and 'services providers' as key stakeholders and they plan to focus on them in the future.
Has the board considered whether it is appropriate to publish its stakeholder policies? (8.2.2)	
Yes: 2/6	The retail company has a whole section on their website called 'stakeholder engagement' where they publish various 'sustainability policies': HIV, BEE and environmental. This section "indicates our positioning that says what we think: it's very important to talk to stakeholders and consider their views and respond to their perspectives" however, they do not have a specific stakeholder policy. The industrial company publishes a summary of their stakeholder policies in their annual report.

Yes & No: 2/6	Both the mining and healthcare companies have stakeholder policies, but have not considered publishing them formally. Both companies' documents are available internally. The healthcare company is considering having the policies available on the 'investor relations website' as well as the current intranet. The mining company is going to table the discussion to decide "yes, we will do it for the following reasons, or no, we won't do it for the following reason".
No: 2/6	The heavy construction company publishes information on 'stakeholder engagement' in their annual report but does not have a stakeholder policy *per se.* The consumer services company does not have any policies either but is publishing 'our intention to adopt stakeholder policies' in this year's annual report.
Has the board overseen the establishment of mechanisms and processes that support stakeholders in constructive engagement with the company? (8.2.3)	
Yes: 3/6	Industrial, healthcare and mining agree that their board has overseen mechanism and process to support constructive engagement with the company. Examples include: 'Physician Advisory board forum' (healthcare) and 'a stakeholder database' (mining).
Yes & No: 3/6	Retail has a very active engagement strategy; however it is not led by the board but rather by the CEO, CFO and group corporate affairs executive. "We have a policy that we got to respond to them [media] within the deadline that they impose for their story". There is also a 'corporate accountability section in the board packs' which is prepared in conjunction 'with the chairman of the sustainability committee who is a non-executive director'. The consumer services company has traditionally had constructive engagement with stakeholders only when it involves 'regulation incidents' or risk to the company. The heavy construction company has a formal process to deal with analysts and 'banking institutions' only but not all stakeholders.
No: 0/6	No company responded No to this question
Does the board encourage shareholders to attend AGMs? (8.2.4)	
Yes: 4/6	All four companies (consumer services, heavy construction, healthcare and industrial) acknowledge that they do the following: send out the annual report with a form of proxy. They believe this is encouragement enough for the shareholder. The healthcare company also phones "some of our important shareholders saying, are you coming".
Yes & No:	No company responded 'Yes_No' to this question.
No: 2/6	Both the retail and mining company concur that they follow JSE regulation but the board does nothing special to encourage shareholders attending the AGM: 'you don't encourage people, you do that statutory stuff' (retail), "we provide them with information to make the decision. I don't think we encourage them" (mining).

Does the board consider not only formal, but also informal, processes for interaction with the company's stakeholders? (8.2.5)	
Yes: 4/6	Most companies agree that the board of directors will avail themselves for formal AGMs. Other informal stakeholders the board of directors engage with include: 'investment communities, banking institutions, government' (heavy construction), 'shareholders' (consumer services), 'strategic planning' session with EXCO and they meet regularly with" different regulatory bodies, different government departments, and suppliers" (industrial) and 'we consult the big shareholders for specific things just to find out their views' (healthcare).
Yes & No: 2/6	The mining and retail companies are of the opinion that their boards of directors do not engage with stakeholders enough informally, although mining gives the example that the safety and sustainability committee does site visits and are 'actually engaging with the community'. Mining believes the function of the board is to delegate to management as the board itself meets infrequently. Retail provides an example of the frequency and informality of the management meeting with stakeholders, that they may be considered "outside the scope generally accepted or statutory engagement".
No: 0/6	No company responded No to this question.
Does the board disclose in its integrated report the nature of the company's dealings with stakeholders and the outcomes of these dealings? (8.2.6)	
Yes: 2/6	Industrial and mining company answered 'Yes' to this question. By way of example the industrial company explains how the King reports had encouraged they to disclose more information - "they've given us an opportunity to not just tick the box but to say more about what we do, and as we say more, we find that we learn more about what else we could be doing. And also, best practices from other companies". The mining company said their company dealings with stakeholder was published in their 'SD report" (Sustainability report).
Yes & No: 3/6	Most companies answered 'Yes_No' in this category as they were not producing an integrated report. Retail, consumer services and healthcare are considering disclosing the details in future. The consumer services company comments on producing an integrated report "this is [a] test pilot and next year will be better because we will have put in place a lot of the things that will foster stakeholder engagement, but we'll only see the benefits in the next financial year".
No: 1/6	Heavy construction hasn't 'formalised it' and therefore just discloses their stakeholder engagement in their annual report.

Principle 8.3 outlines one recommendation and the companies' response to the question is summarised in table ten below:

TABLE 10: PRINCIPLE 8.3 THE BOARD SHOULD STRIVE TO ACHIEVE THE APPROPRIATE BALANCE BETWEEN ITS VARIOUS STAKEHOLDER GROUPINGS, IN THE BEST INTERESTS OF THE COMPANY	
Yes/NO	**Company responses**
Does the board take into account of the legitimate interests and expectations of its stakeholders in its decision-making in the best interests of the company? (8.3.1)	
Yes: 5/6	Five companies unanimously agree that the board takes into account the legitimate interests and expectation of its stakeholders in its decision-making process, in the best interest of the company. The companies sighted the following examples: "complete social investments... at least help those who cannot" (healthcare), "in terms of your [stakeholder] policy interaction... [we] made a commitment publicly", the company has also embedded sustainability into their: "vision ... it's in our mission ... it's on our website and when we do strategy, it's a press slide. It's also part of our key drivers... when we talk to any of our stakeholders, especially the shareholders, it's a very first slide" (industrial), "mining communities... come up with a systematic way of dealing with those concerns and legitimate expectations" (mining) and "there are hordes of examples of that... [HIV] testing of employees... ARVs for our employees' (retail).
Yes & No: 1/6	The consumer services company was candid in their answer "I don't think any board is prepared to not put as number one position on their stakeholder list the shareholder" and furthermore "you have conflicting best interests of stakeholders". The company does acknowledge that this year they will "formally consider the long-term impacts of our ... strategy we're putting forward on the communities within which we operate and to consider the legitimate interest".
No: 0/6	No company responded No to this question

Principle 8.4 is divided into two recommendations and the companies' responses to the questions are summarised in table eleven below:

TABLE 11: PRINCIPLE 8.4 COMPANIES SHOULD ENSURE THE EQUITABLE TREATMENT OF SHAREHOLDERS	
Yes/NO	Company responses
Is there equitable treatment of all shareholders of the same class of shares issued? (8.4.1)	
Yes: 5/6	Five companies answered 'yes' to treating all shareholders of the same class of shares equally. As the Mining company put it "breaching this kind of principle would have ... pretty dire consequences for the company and the directors of the company ... it would surely tarnish the image on the company". A further comment is that "our company secretary ... is very vigilant and active, when it comes to this regard".
Yes & No: 1/6	The consumer services company also answered 'yes' to this question but highlights that South Africa's BEE deals has created an interesting paradox. "Our BEE shareholder – like many other listed companies – has needed some extra assistance" due to the economic recession. "The Companies Act allows you to provide financial assistance" along with sending out a circular to shareholders to let them know what you are intending to do and "have our shareholders vote on it".
No: 0/6	No company responded 'No' to this question
Does the board ensure that minority shareholders are protected? (8.4.2)	
Yes: 4/6	Consumer services, heavy construction, healthcare and mining commonly agree that the board ensures that minority shareholders are protected. BEE partners make up a large portion of the minority shareholding in all four companies. Both the consumer services and mining company has board representation of their BEE partner on their operational boards – "BEE shareholding and the shareholding from our community" trust have actually representation on the board of the operating companies – "they [are] sitting there at the table where the decisions are made" (mining). The mining company gives a further example of how a balanced board support minority interests through having an 'independent chairman' and 'sufficient non-executive directors".
Yes & No: 2/6	The retail company did not know if they did anything "beyond applying the statutory regulatory provision for the protection of minorities". An annual test would be to see how many 'minority objections' the company receives. The industrial company interview was not clear, 'I think we do', however an example was given whereby the company did not go through with a deal as this would cause 'leakage' in the minority shareholders' income.
No: 0/6	No company responded 'No' to this question.

Principle 8.5 is divided into four recommendations and the companies' responses to the questions are summarised in table twelve below:

TABLE 12: PRINCIPLE 8.5 TRANSPARENT AND EFFECTIVE COMMUNICATION WITH STAKEHOLDERS IS ESSENTIAL FOR BUILDING AND MAINTAINING THEIR TRUST AND CONFIDENCE	
Yes/NO	Company responses
Does the company provide complete, timely, relevant, accurate, honest, and accessible information to its stakeholders whilst having regard to legal and strategic considerations? (8.5.1)	
Yes: 4/6	All four companies that responded 'Yes' to this question first made mention of financial reporting which is a statutory requirement of being listed on the JSE. The industrial company noted that "we spend a lot of time actually as management and the board saying 'now that we are aware of this, should we communicate it'... within the rules of the JSE". The mining company's media strategy/philosophy includes "making information available timeously, information that is relevant and accurate and honest". The retail company proposes 'communications excellent'.
Yes & No: 2/6	The healthcare company does not believe they "meet that category fully". They feel that they have made a good attempt but acknowledge "we need to improve on that to achieve that level". The consumer services company answered simply "I think we do, but again I don't think there's any place you can go to, to find it neatly packaged".
No: 0/6	No company responded 'No' to this question
Is communication with stakeholders clear and in an understandable language? (8.5.2)	
Yes: 4/6	All four companies have sighted different examples to illustrate communication to stakeholder in a clear and understandable language: is thinking of producing 'a quarterly newsletter' for minority shareholder using graphics to illustrate share price fluctuations' (heavy construction), talking to communities 'though the media' (healthcare), communicate in town hall meeting in 'English, Afrikaans, Portuguese and Tswana' (mining) and when communicating their strategy document they talk 'top level' to analysts and with employees they 'go into more detail', they further have a 'dialogue' with the communities in which they operate through – 'chambers of commerce' and the 'municipality', including mayors (industrial).
Yes & No:	The retail company acknowledged that this is 'debatable' as it "depends on the stakeholder ... it's in the eye of the beholder". The retail company has started implementing 'stakeholder

2/6	specific reports' as they used to rely "on the sustainability report to do everything". These e-mags 'using popular press style to communicate important information to stakeholders' and are two pages in length. A recent edition covered one of their "new environmentally friendly" stores and an embedded three-minute video shows not only what the store looks like but also "how it's been made more environmentally friendly". The environmental e-mag are going out to "WWF… Greenpeace… Carbon Disclosure Projects… our academics at universities" providing an update on their environmental performance". Other issues have covered topics such as employee healthcare, BEE, and social development. The retail company also makes extensive use of their website with a specific 'section called stakeholder engagement'. Information that can be found in this section include their recent 'environmental survey of suppliers' – showing what their suppliers are saying about environmentalism without identifying 'the suppliers' names'. Other information available on the website include videos, 'all 30-second clips' on: Aids, graduate trainee programme, BEE, staff welfare and their dividends policy. The consumer services company recognises that they 'excel' at internal stakeholder communications. They have even gone so far as to develop their 'own 'internal language with certain hand signals" to enable staff to give clients better service.
No: 0/6	No company responded 'No' to this question.
Has the board adopted communication guidelines that support a responsible communication programme? (8.5.3)	
Yes: 1/6	The consumer services company affirmed "not the publicly listed board, but certainly the EXCO board" follow a responsible communication programme. An example cited is their 'customer management strategy' which focuses in "getting our communication to our customer correct" after the company realised that there were "just too many channels sending out contradictory information".
Yes & No: 2/6	Both the heavy construction and mining companies recognised that management produces responsible communication but that the process was not formally adopted by the board. They both also sighted their financial communication as responsible. The mining company has adopted the following guidelines for communication – King, GRI and IFRS – but there are 'no standards or guidelines' for internal communication.
No: 3/6	Three companies responded 'No' to this question. The reasons they gave are as follows: "we actually don't have communication guidelines" (healthcare) and "no one has thought of this" (retail).

Has the board considered disclosing in the integrated report the number and reasons for refusals of requests of information that were lodged with the company in terms of the Promotion of Access to Information Act, 2000? (8.5.4)	
Yes: 1/6	"We pretty well share everything" was the retail company's response to this question.
Yes & No: 3/6	Companies were not clear how to answer this question as: they had never received this type of request before (industrial and heavy construction), they 'have not considered' it and it would require 'board guidance' (healthcare), and the company has refused to give information as it goes against the 'JSE listings requirements' (consumer services).
No: 1/6	The mining company answered 'No' to this question as requests can 'be legitimately turned down' if "the information holder essentially deems that the person requesting the information has no right to the information".

5.3 What are companies expected to report on, when they adopt King III principles on governing stakeholder relationships?

This section will discuss the results from the expert interviews within the corporate governance and sustainability arena. The interviewees were asked questions which were based on the five principles outlined in governance element eight – governing stakeholder relationships (Appendix 3). As stated in chapter four the industry experts were asked to identify what they were looking for in company reports (annual and sustainability) to identify that companies where compiling to the principles of the King III Code – governance element eight - outlined above.

5.3.1 How does a company demonstrate that the board appreciates, and takes into adequate consideration their stakeholders' perceptions and/or relations with the company? (Principle 8.1)

All three experts agree that when they read an annual report they want to see evidence of **true engagement with stakeholders**. The table below outlines their comments:

TABLE 13: PRINCIPLE 8.1 INDUSTRY EXPERT OPINIONS

Expert one:	'A table indentifying stakeholders, their issues and the pages on which you can find the issues and how the company dealt with them'.
Expert two:	Stakeholder feedback "from employees, suppliers and the media" as part of the chairman and CEO dialogue in their respective reports.
Expert three:	An acknowledgement of the stakeholders' concern – not the company's interpretation of the concern – and that the stakeholder concern has been honestly and fairly reflected on.

All experts concur that currently there is a lot of reading between the lines that needs to take place to identify the real stakeholder issues that the company is facing. Expert one and two's respective arguments are outlined below:

TABLE 14: PRINCIPLE 8.1 INDUSTRY EXPERT OPINIONS

Expert one:	• Expert one argues that in reporting "there is generally less evidence that suggests that the board appreciates any of this other than some bits and pieces relating or referring to the risk committee or sustainability committee". • He therefore questions whether the board has any appreciation for stakeholder perceptions unless they are specifically put on the board agenda by management. • He further questions whether the board has any appreciation when it comes to sustainability greater than from a financial perspective, viewing the business as a going concern.

	• Thus if the board does not buy into sustainability issues let alone stakeholder concerns how is the rest of the company going to buy into it?
Expert two:	Expert two question whether the board is actually listening to stakeholders, the community who provides the 'licence to operate', as opposed to the traditional shareholders who provide the 'money to operate'.

5.3.2 How would you assess a board's proactive interaction with the company's management team to deal with stakeholder relationships? (Principle 8.2)

The underlying theme coming though from the industry experts is they want to see **actual stakeholder engagement** of the **Chairman**, the **CEO** and the **board** coming though in the annual and sustainability reports. The second theme is around **accountability**. Expert one argues that there is a lack of accountability and responsibility of the sub-committees as nobody attends the meetings. Expert two suggests companies follow the AccountAbility Assurance Standard as a guide. Expert three wants to see more formal structures and processes in place.

TABLE 15: PRINCIPLE 8.2 INDUSTRY EXPERT OPINIONS

Theme one: Active stakeholder engagement of the chairman, CEO and board	
Expert one:	• Expert one makes the case that is it difficult to assess if there is a proactive relationship between the board and management regarding stakeholder relationships. He suggests reading the chairman, CE0, risk and sustainability reports to see "what continuity there is between themes".
Expert two:	• Expert two wants hard evidence that the chairman and CEO have spoken to the stakeholders and investigated the validity of their claims.
Theme two: Accountability	
Expert one:	Expert one questions the lack of responsibilities shown by the sub-committees in the annual report, the "committee met four times a year, but what does that mean? And then you look at the attendance and nobody's been there, so you wonder, well, what's the point of this".

Expert two:	Expert two suggests using the AccountAbility Assurance Standard, as a guide for the board and managers to identify how they deal with stakeholder engagement. The guidelines identify three principles: 1. Inclusivity – Do you engage with stakeholders? 2. Materiality – Does the company identify the top 20 material risks in the annual report? Responsiveness – Does the stakeholder issue evoke change in the organisation?
Expert three:	Similar to expert two, expert three would like to suggest a far more formal process and structure regarding engaging with stakeholders that goes all the way to the top of the company. The annual report should convey the material issues and how the board has dealt with the issues, responding "back to the source of the issue" via management.

Both expert two and three have indicated in the table above that they would like to see the company's **material issues**, including their response to the issues, in reporting.

5.3.3 How do you quantify that a board has achieved the appropriate attention to its various stakeholder groupings, in the best interest of the company? (Principle 8.3)

All the experts agree that how you measure whether the board has paid attention to its various stakeholder groupings is through **stakeholder mapping**. All three experts would look for different information in the reports to enable them to quantify whether this has been done, in the best interest of the company. A synopsis of their arguments is outlined below:

TABLE 16: PRINCIPLE 8.3 INDUSTRY EXPERT OPINIONS	
Expert one:	Expert one would like to see evidence in the report is that there is some stakeholder mapping; he cautions however that showing a list of stakeholders is not enough. Companies need to show: • "working out the appropriate balance between the attention place or given to

	different stakeholders""; • it "is really about understanding who they are, what risk they pose, what are the issues they raise"; • "are there different strategies in place to deal with the different stakeholders and is this demonstrated in the company communication strategy?"
Expert two:	Expert two wants to perceive 'principle neutrality' whereby the positive and negatives are put forward in a robust discussion. He would also like companies to show that a change has been affected.
Expert three:	Expert three would also like to observe stakeholder mapping but additionally he would like to indentify that the company has established indicators or measures of performance to indicate the actual issues that have been resolved or even that "companies actually put targets in place, for over some period of time, for achieving progress against the issue".

5.3.4 How do you measure company's equitable treatment of shareholders? (Principle 8.4)

Expert one and two are of the same opinion that **equitable treatment of shareholders is visible at the companies AGM**. They question whether shareholders with minority rights (typically BEE shareholders) are firstly given the opportunity to be heard - 'a voice' (expert one) and secondly if the AGM is held in a location they have access to – 'Sandton vs Thabazimbi' (expert two). Additional comments are highlighted below:

TABLE 17: PRINCIPLE 8.4 INDUSTRY EXPERT OPINIONS

Expert one:	Expert one wonders whether AGM question and answers should be published on the company's website to enable better transparency; however he does acknowledge that minority shareholders may not have access to the internet.
Expert two:	Expert two raises two areas of concern: • Approachability o The minority shareholder is invited to the AGM, but he is 'living in Klerksdorp and does not have R2 to rub together', so expert two

	questions how he is really being ‘invited to participate’. o To ensure equitable treatment is the ‘board then required to track around the county’? • Reasonable access to the same information o He questions whether ‘publishing stuff on the internet’ is considered reasonable access to information? o Similarly is publishing or speaking English only considered as reasonable access to information?
Expert three:	Expert three puts forward that the equitable treatment of shareholders is measured through the following guidelines outline in the Companies Act and King III: • ‘independence of the chairman’; • ‘balance of board members’; • measuring the board against its ‘check and balances’; • shareholders being able to ‘bring issues to the table’; and • ‘protection of the minority shareholder rights’. All this information should be available in the corporate governance report.

5.3.5 How do you judge that the company’s ‘transparent and effective communication with stakeholders’ can build and maintain their trust and confidence? (Principle 8.5)

In answering this question experts focused mainly on their definition of **transparency**. A snap shot of their definitions are outlined below:

TABLE 18: PRINCIPLE 8.5 INDUSTRY EXPERT OPINIONS	
Expert one:	The report is embedded in the realities of society – an ‘external reality check’.
Expert two:	‘Being willing to have the difficult conversation’.
Expert three:	‘Speak a plain truth – the whole truth’.

Additional comments in this regard include:

TABLE 19: INDUSTRY EXPERT OPINIONS

Expert one:	• Expert one was the only expert to comment on effectiveness and he questions whether companies actually measure it. He therefore suggest that effectiveness has to be measured through an external survey as this is the only way to get the stakeholders' opinions on whether the communication has been effective or not.
Expert two:	Expert two would further like to see- 'a clear statement of action'.
Expert three:	• If the report has 'applied the basic GRI principles in its reporting' – 'then that goes a long way and I'm talking about the principles of a materiality'. • The reports should be written in plain English, using 'active voice', written in the 'first person plural' and make use of 'real verbs'.

5.4 Conclusion

Due to the nature of 'apply' or 'explain' model of the King III Code it is impossible to rate one company ahead of the other based on whether they applied the recommendation 'Yes', partially applied 'Yes_No' or did not apply 'No" as it is up to the company to explain why they have only partially applied or chosen not to apply (see table 20 overleaf). Chapter six that follows will discuss the findings of the interviews and plot the companies on the shareholder/stakeholder continuum to ascertain whether companies have change their focus 'to stakeholder engagement and reputation management' in aligning with governance element eight in the King III Code.

TABLE 20: SUMMARY TABLE OF COMPANY RESPONSE TO GOVERNANCE ELEMENTS EIGHT RECOMMENDATIONS						
	Heavy construction	**Consumer services**	**Healthcare**	**Industrial**	**Mining**	**Retail**
8.1.1	**No**	**Yes_No**	Yes	Yes	Yes	Yes
8.12	No	No	Yes_No	Yes	Yes	Yes_No
8.13	Yes_No	Yes_No	Yes	Yes	Yes	Yes_No
8.2.1	**No**	**Yes_No**	Yes	Yes	Yes	Yes
8.2.2	No	No	Yes_No	Yes	Yes_No	Yes
8.2.3	Yes_No	Yes_No	Yes	Yes	Yes	Yes_No
8.2.4	Yes	Yes	Yes	Yes	No	No
8.2.5	Yes	Yes	Yes	Yes	Yes_No	Yes_No
8.2.6	**No**	Yes_No	Yes_No	Yes	Yes	Yes_No
8.3.1	Yes	**Yes_No**	Yes	Yes	Yes	Yes
8.4.1	Yes	**Yes_No**	Yes	Yes	Yes	Yes
8.4.2	Yes	Yes	Yes	Yes_No	Yes	Yes_No
8.5.1	Yes	Yes_No	Yes_No	Yes	Yes	Yes
8.5.2	Yes	Yes_No	Yes	Yes	Yes	Yes_No
8.5.3	Yes_No	Yes	No	No	Yes_No	No
8.5.4	Yes_No	Yes_No	Yes_No	Yes_No	**No**	**Yes**
Total	**7 Yes 4 Yes_no 5 No**	**4 Yes 10 Yes_no 2 No**	**10 Yes 5 Yes_no 1 No**	**13 Yes 2 Yes_no 1 No**	**11 Yes 3 Yes_no 2 No**	**7 Yes 7 Yes_no 2 No**

6. RESEARCH FINDINGS

6.1 Introduction

This chapter discusses the finding as a result of research done on whether companies have changed their focus to stakeholder engagement and reputation management in aligning with governance element eight in the King III Code as outlines in Chapter 5. The first level of analysis – research question one - looks at how companies through the use of recommended practices have implemented each of the principles into their everyday business and communication practice and a comparison is provided by plotting companies' stakeholder/shareholder continuum to gain a better understanding of how 'stakeholder relations are embedded into the companies vision, mission and business strategy (Draper et al, 2008). The second level of analysis – research question two – looks at whether industry experts agree on what is expected of companies for each principle. The third level of analysis –research question three – compares the companies and the industry experts illustrating if there is agreement in market as to what is understood by King III governance element eight and what the underlying gaps or misconceptions are.

6.2 Companies' adoption of King III recommendations on governing stakeholder relationships

Based on the research findings the companies responses to the King III – governing stakeholder relationships – where analysed and companies where plotted on a continuum as to their approach to stakeholder engagement and company reputation.

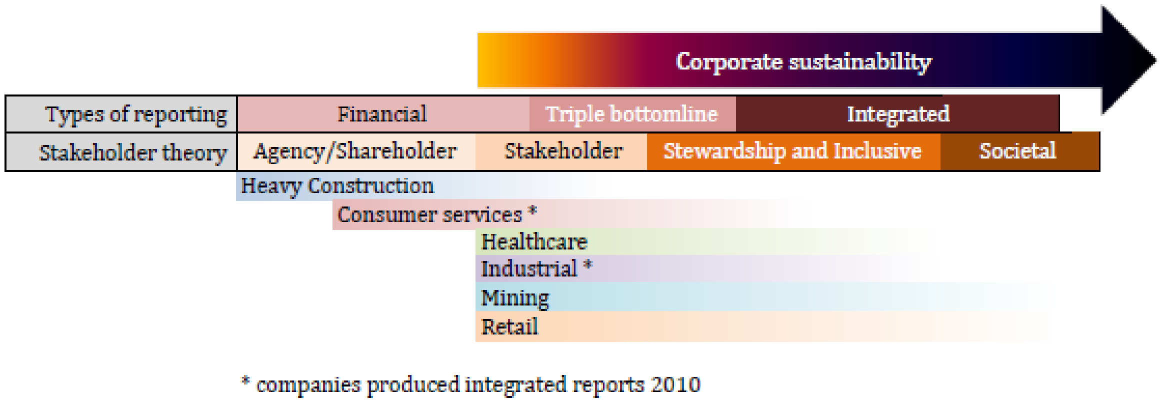

FIGURE 2: SHAREHOLDER / STAKEHOLDER CONTINUUM

In the following sections each company will be discussed as to whether they have changed their type of reporting, their application of governance element eight and the reasons that justify why it sits where it sits on the continuum.

A table is provided for each company which tells the story of how the company has linked sustainability to be part of its business strategy as outlined in Chapter two. The table shows how companies have moved from financial, triple bottomline and/ 'integrated' reporting through indentifying which type of report the company produced/is producing in 2010, as well as 2009. The table also indentifies the public recognition the company received - E&Y rankings, SRI Index inclusion, ACCA Awards and providing a response to the stakeholder engagement GRI indicators. Finally the table shows how much emphasis the company gives to sustainability through the appointment of a specific person to drive stakeholder engagement versus simply corporate governance.

6.2.1 Heavy construction

TABLE 21: HEAVY CONSTRUCTION

Reporting	**Awards**	**Responsibility within company**
The heavy construction company in 2009 produced an annual report with a separate section on sustainability included in the report. The company was busy producing their 2010 annual report when the interview was conducted.	The company was ranked perfunctory and non-entry was not included in SRI Index and provided a 'partial response' for stakeholder engagement.	Corporate governance

The heavy construction was the only company that acknowledged that they had not adopted King III in its totality; it is 'taking it in little bits and pieces' as the company would like to apply its mind to the code rather than ticking the boxes for the sake of it. King (2006) and Painter-Morland (2006) recognise that the princples of good goverance do not need to be followed slavishly, and caution against a one size fits all approach, as governance needs to be made sense of within an particluar circumstance. Thus the company has not measured the gap between stakeholder perceptions and the performance of the company (8.1.1). The company disclosed that the only time the stakeholders appear on the board agenda is when 'the risk discussion takes place' and therefore does not 'apply' King III's recommendation to have the company's linkages with stakeholders as a regular board agenda item (8.1.2). Porter & Kramer (2006) cautions that the company should not put business against society but rather recognise that the two are interdependent. The company has recognised 'employees, clients' and 'services providers' as key stakeholders who they plan to focus on in the future. Thus the role of company has evolved from one where its responsibility was seen as being exclusively to shareholders, to one where the role of other stakeholders such as employees and suppliers are acknowledged (Wixley & Everingham, 2010).

The stakeholder groupings that the company has indentified include the traditional stakeholders such as: shareholders ('definitely number one'), analysts, investment community and banking institutions. The company has not developed a strategy and policies to deal with management's relationship with other stakeholders bar the abovementioned (8.2.1). The board has informal constructive engagement (8.2.3 and 8.2.5) with the abovementioned stakeholder as well as with government. The company does not have any stakeholder polices (8.2.2) but does publish their engagement with stakeholders in the annual report (8.2.6).

Following statutory requirements, the company does the following: encourages shareholders to attend the AGM (8.2.4), considers legitimate interests of stakeholders when making decisions (8.3.1), ensures the equitable treatment of shareholders (8.4.1), ensure that minority shareholders are protected (8.4.2) and provides financial reporting (8.5.1). The company is thinking of producing a quarterly newsletter to shareholders to ensure that its communication to stakeholder is clear (8.5.2). The company further recognises that management produces responsible communications but the process is not formally adopted by the board (8.5.3). The company has never received a request for disclosure of information (8.5.4).

The heavy construction company is considering changing its focus on stakeholder engagement to include a broader range of stakeholders since the introduction of King III. It is also going to elevate 'the concept of company reputation' onto the list of priorities and plans to do a stakeholder perception gap analysis (8.1.1) in the following year. The company's current position on the continuum is in the **shareholder approach** with an aim of moving to the **stakeholder approach**. True stakeholder engagement would require the company to be in touch with the social expectations of stakeholders in order to enhance the strategic interests of the company (Rossouw & Van Vuuren, 2010)

6.2.2 Consumer services

TABLE 22: CONSUMER SERVICES

Reporting	**Awards**	**Responsibility within company**
The consumer services company was in the process of producing their 2010 integrated report when the interview was conducted. In 2009 the company produced an annual report and a separate sustainability report.	The company was ranked good and perfunctory; was included in SRI Index and provided 'no response' for stakeholder engagement.	Company secretary

The consumer services company had never measured their stakeholder perceptions against the company's performance in a formal way. Although they conducted surveys with limited stakeholders the company is definitely aware that stakeholder perceptions affect the company' reputation as outlined in principle 8.1. The King Report has inspired the company to add stakeholder relationship as a regular board agenda item (8.1.2) but asks that the King Report can provide more guidance on 'how to deal with this'. The EXCO team has identified important stakeholder groupings (8.1.3) and the company will formalise the strategy and policies to deal with these groupings (8.2.1) as well as consider publishing their policies (8.2.2) in the next year's annual report. The board of directors still has to approve what EXCO has put in place as traditionally the company only had dealings with stakeholders when it came to matters of regulation (8.2.3). The company has acknowledged that EXCO follows a responsible communication strategy (8.5.3) but still the company is committed to improving their communications with stakeholders through reporting.

With regard to shareholders the company still identifies them as their number one stakeholder and that often the company has 'conflicting best interests of stakeholders' (8.3.1). This is Porter & Kramer (2006) argument that stakeholders can never understand the trade-off companies must make, nevertheless this year the company will formalise its strategy on the long-term impacts it is going to have on the communities. This shows how the company accepts that sustainability issues permeate the business, have an implication on the business and that the business needs to respond. Trialogue (2010) argues this is the true intention of integrated reporting.

Regarding the equitable treatment of minority shareholders (8.4.1) the company disclosed helping out its BEE shareholders with the consent of the majority shareholders. This alludes to Armstrong's (2005) point where measures designed to address historical imbalances lead to the transgression of good governance principles in South Africa. The company does ensure that minority shareholders are protected

(8.4.2) as their BEE partners do have representation on their operational companies' boards. Thus the company is moving in the direction of rooting itself in inclusive capitalism through which stakeholders are treated equally irrespective of the fact that some contribute more than others to the organisation (Phillip, (2003). The consumer services company was the only company in the survey to refuse a request of information lodged with the company in terms of the Promotion to Access to Information Act, 2000 (8.5.2) as the information requested went against the JSE listings requirements.

Based on the research finding highlighted above the consumer services company has moved from a **shareholder perspective** to a **stakeholder perspective** and may in future move to the **stewardship approach**. Based on the interview conducted King III has motivated the company's management to embrace stakeholder engagement and reputation management although it is not clear what role the board of directors play, as they only avail themselves informally to engage with shareholders (8.2.5).

6.2.3 Healthcare

TABLE 23: HEALTHCARE

Reporting	**Awards**	**Responsibility within company**
The healthcare company in 2009 produced an annual report with a separate section on sustainability included in the report. The company was busy producing their 2010 annual report when the interview was conducted.	The company was ranked excellent and adequate; was included in SRI Index and provided a 'partial response' for stakeholder engagement.	Stakeholder management

The healthcare company appreciates that stakeholder perceptions affects the company's reputation (8.1) and listed a whole host of stakeholders who the company engages with on a regular basis. The company's board has overseen mechanism and process to support constructive engagement with stakeholders (8.2.3) and the example provided is the 'Physician Advisory board forum' for doctors. Thus the company recognised that its survival depends on the company simultaneously paying attention to the interests of government, customers, suppliers (doctors), employees, shareholders and the communities in which they operate (Ghosal, 2005). The company does not currently disclose its dealing with stakeholders (8.2.6) but since the King III recommendation is considering disclosing this information in the future, the company will disclose this information in future. The healthcare company does not believe they provide transparent and effective communication with stakeholder (8.5), bar the regulatory requirements (JSE, 2009a), as they don't have any communication guidelines (8.5.3). The company does use the media extensively to communicate with communities (8.5.2).

The company has identified important stakeholder groupings (8.1.3) and they put forward that their focus has changed over the years to include government, regulatory bodies and communities. The company has a formal strategy and policy to deal with stakeholder groupings (8.2.1) and is constantly working on the documents to improve them. The stakeholder policies (8.2.2) are published internally and the company will consider publishing them externally (investor relations website) in the future. The company cited as an example that every EXCO report to the board has to cover stakeholder issues and thus every decision the company makes looks at the impact it will have to stakeholders (8.3.1). Thus the managers are not motivated by individual goals but rather for the company to be a good corporate citizen (King, 2006). The example provided is how the company has taken into account the legitimate interests of stakeholders (8.3) to use its corporate social investment spend to 'at least help those who cannot'. The company therefore sees it role as a synergist with society rather than against it, using corporate social responsibility as a source for sustainable growth (Porter & Kramer, 2006).

Regarding shareholders the company encourages them to attend the AGM (8.2.4) through phoning the 'important' ones and the board engages them informally (8.2.5) when they what to find out their views. The company answered 'Yes' to all shareholders with the same class of shares being treated equally (8.4.1) and that minority shareholders are protected (8.4.2). The company advised that it would require board approval to publish refusals of requests of information (8.5.4).

The healthcare company does not need to change its focus to stakeholder engagement as the company already recognises the impact this can have on the organisation and accordingly has a board member (executive) who is responsible for stakeholder relations. It does, however, need to manage its company's reputation by developing a communication strategy. It is clear that the board has delegated to management to deal with stakeholder relations but it is not clear whether the board interacts with any other stakeholders bar the shareholders. Therefore the company would be positioned on the **stakeholder/stewardship continuum.**

6.2.4 Industrial

TABLE 24: INDUSTRIAL

Reporting	Awards	Responsibility within company
The industrial company produced an integrated report in 2010. The report was already in the public domain when the interview was conducted. The integrated report contained a separate section on corporate responsibility. In 2009 the com-pany produced an annual report with a separate sustainability section.	The company was ranked good and adequate; was included in SRI Index as having a medium environ-mental impact and provided a 'partial response' for stake-holder engagement.	Reputation management

The industrial company has an appreciation for the number of stakeholders that affects its business (8.1.1) citing government, regulatory bodies, suppliers, customers, employees and communities as some of its key stakeholders. The company acknowledges that important stakeholder groupings have been identified (8.1.3) and that the company is constantly working on adding more detail to its stakeholder policies which are published in the 'annual report' (8.2.2). Stakeholder relationships are a regular board agenda item (8.1.2) and the board has informal interactions with regulatory bodies, government departments and suppliers (8.2.5). The board supports constructive stakeholder engagement (8.2.3) and the company discloses its interaction with stakeholders in its integrated report (8.2.6).

The company has made a public commitment to sustainability (8.3.1) embedding it into its vision, mission, strategy, key drivers and communicating this to stakeholders. King (2006) argues that through the board identifying the 'companies purpose, the value drivers and stakeholders' the company can create a sustainable business that has the reputation of being a good corporate citizen. The strategy document is communicated to analysts on a 'top level' and is broken down into more detail when communicating to employees (8.5.2). The management and the board spend a lot of time deliberating about what to communicate to stakeholders within the parameters of the JSE listings requirements (8.5.1). The industrial company's board has not adopted a responsible communication programme (8.5.3); this is the only King III recommendation which the company answered 'No' to.

The company follows the JSE statutory requirements which include: encouraging shareholders to attend the AGM (8.2.4) and ensuring equitable treatment of shareholders of the same class of share (8.4.1). The company was not sure whether the board ensures that minority shareholders are protected (8.4.2) but provided a concrete example that they do. The company has never received a request to disclose information as part of the Promotion of Access to Information Act (8.5.4).

The industrial company is firmly embedded within the **stakeholder/stewardship continuum**. Ghosal (2005) suggests that companies survive and prosper when they simultaneously pay attention to the stakeholders within the communities in which they operate. King III (Institute of Directors Southern Africa, 2009a) has prompted companies to produce an integrated report instead of the traditional annual report (Sweeney & Couglan, 2008), a platform that has allowed them to disclose more on stakeholder engagement and reputation management. The company gave no guidance as to whether they would be adopting a responsible communication programme in the future.

6.2.5 Mining

TABLE 25: MINING

Reporting	**Awards**	**Responsibility within company**
The mining company produced an annual review, sustainability report and an annual financial statement document in 2009. The company was not in the process of preparing their 2010 reports when the interview was conducted.	The company was ranked adequate and top five; was included in SRI Index as having a high environmental impact, runner-up ACCA Awards and was not included under the GRI indicators.	Reputation management

Stakeholder relationships and how they affect the company's reputation are on the board agenda (8.1.2) and the board reviews media reports on 'how the company is perceived' every quarter (81.1), taking action where necessary. Accordingly the mining company recognises that its licence to operate requires the approval of society (Rossouw & Van Vuuren, 2010) and that it is society who allows it to earn the reputation of a good corporate citizen (Porter & Kramer, 2006). The mining company has identified important stakeholder groupings (8.1.3) as well as a 'stakeholder strategy' (8.1.3) which is separate to the 'business strategy' (operational) but linked to the overall 'company strategy'. Thus the mining company appreciates that strategy, risk, performance and sustainability are inseparable (Wixley & Everingham, 2010). The company has established stakeholder policies (8.2.1) and will table a discussion to decide whether the company discloses these policies externally or not (8.2.2). If the company decides not to externally publish these documents it would have to provide a reason why in line with King III's 'apply' or 'explain' model (Institute of Directors Southern Africa, 2009a).

The mining company's board has overseen the establishment of mechanisms and processes that support constructive engagement with stakeholders to the extent that the company has 'a stakeholder database' (8.2.3). The interviewee is of the opinion that the board does not engage informal enough with stakeholders (8.2.5) as he recognises that the board meets infrequently and that this is the responsibility of management as outlined in the principle 8.2. The company takes into account the legitimate interests and expectations of various stakeholders when making decisions (8.3.1) and cites a mining community example, illustrating that the company has integrated a social perspective into its business strategy (Porter & Kramer, 2006). The company discloses all its dealing with stakeholders in its sustainability report (8.2.6). When communicating with stakeholders the mining company endeavours to communicate in multiple languages (8.5.2) and as management produces responsible communications, although this has not been formally adopted by the board (8.5.3).

From a statutory (JSE, 2009a) point of few the mining companies believes it applies the following recommendations: ensure the equitable treatment of shareholders in the same class of share (8.4.1), not applying this could 'tarnish the image of the company' and the company secretary is vigilant in this regard; minority shareholders are protected through having an 'independent chairman' and 'sufficient non-executive directors' (8.4.2); ensuring transparent, effective and responsible communication of financial reporting (8.5.3); and a 'media strategy' to ensure timeous information that is relevant, accurate and honest (8.5.1). The mining company reports across King, GRI and IFRS standards although it has no internal communication guidelines to communicate responsibility.

The only two recommendations that the mining company responded 'No' to are 8.2.4 and 8.5.4. Both the retail and the mining company concur that they follow the JSE regulations but do not do anything to encourage shareholders to attend the AGM (8.2.4). Regarding whether the board considers disclosing the number and reasons for refusal of requests of information (8.5.4) the mining company feels with recommendation is not appropriate as requests can 'be legitimately turned down' as the person requesting the information has no right to the information. The mining company was the only company to respond 'No' to recommendation 8.5.4.

The societal approach makes the case that companies operate by public consent (licence to operate) (Porter & Kramer, 2006) and that companies are required to serve the needs of society to the satisfaction of society (Van Marrewijk, 2003). Through the mining company's vigilant application of statutory guidelines (JSE, 2009a) and their entrenchment in the community in which they operate, the mining company is positioned on the **stakeholder/ stewardship/ societal continuum.** Stakeholder engagement and reputation management is embedded within this organisation from a board and management perspective.

6.2.6 Retail

TABLE 26: RETAIL

Reporting	Awards	Responsibility within company
The retail company produced an annual and a separate sustainability report in 2009. At the time when the interview was conducted the company was busy preparing their annual report which incorporated a corporate accountability report with links to the website for additional information.	The company was ranked in the top ten and good; was included in SRI Index, runner-up ACCA Awards provided a 'partial response' for stakeholder engagement.	Reputation management

The retail company makes a strong distinction between what management is responsible for and what the board of directors is responsible for, which is contradictory to what is suggested by the King III Code. The retail company's management is responsible for the following:

- Stakeholder perceptions are managed and measured through having meetings with stakeholders with no clear agendas (8.1.1). The board meets too infrequently to be effective in this regard (8.2.5). The company is considering disclosing the dealings with stakeholders in future (8.2.6).
- The company's reputation is managed through regular surveys on stakeholder issues (8.1.2). In this regard the company thinks their communication with stakeholders is excellent (8.5.1). The interviewee cites examples of producing 'stakeholder specific reports' (e-mags) and using their website as a communication tool as opposed to the sustainability report (8.5.2). The company will consider adopting a responsible communication programme in future (8.5.3)

- Management has identified important stakeholder groupings (8.1.3) and has developed a strategy and policies to deal them (8.2.1). The CEO, CFO and group public affairs executive form part of the stakeholder engagement strategy (8.2.3).
- The company has published 'sustainability policies': HIV, BEE and environmental, on their website, however, the company does not have a specific stakeholder policy (8.2.2). The interviewee acknowledges that the company shares all information in response to the question on the disclosing the reason for refusal of requests of information (8.5.4).
- The company follows JSE regulations regarding: encouraging shareholders to attend the AGM (8.2.4), ensuring the equitable treatment of shareholders (8.4.1) and ensuring that minority shareholders are protected (8.4.2). The interviewee makes the suggestion that an annual test could be done to see how many 'minority objections' the company receives.

The interviewee does, however, believe that the board takes into account the legitimate interest of stakeholders when making decisions in the best interest of the company (8.3.1). The example cited is how the company offers free HIV testing and ARVs for employees.

Oppenheim et al (2007) states that companies now find themselves responsible for such disparate issues as environmental sustainability and HIV/Aids, additionally consumers and employees are joining the ever-expanding set of sophisticated stakeholders who are making fresh demands and have the increasing power to threaten companies' commercial viability. The retail company has integrated social and environmental consideration into their value chain, as well as taken up the humanitarian challenge – 'poverty, hunger, diseases and injustice' (Maak , 2007). The company is part of the current debate which is around human, ethical and transparent ways of doing business (Van Marrewijk, 2003) building new generations of business frameworks, ones which facilitate sustainable growth (Maak, 2007) by seeing corporate social responsibility as a source of opportunity, innovation and competitive advantage rather than a cost constraint (Porter & Kramer, 2006). The retail company focuses on the interconnectedness of society and business and therefore sits on the **stakeholder/stewardship/societal continuum.**

6.3 Industry experts' expectations of King III governing stakeholder relationship principles

A summary is provided below on the consensus reached between industry experts on what companies are expected to report on against each principle outlined in governance element eight – governing stakeholder relationships:

- Principle 8.1: Companies need to show true engagement with stakeholders in their reporting to demonstrate that the board appreciates and takes into consideration stakeholder perceptions and their relationship with the company. Thus requires a shift away from the shareholder perspective to a shareholder perspective which is embedded in society providing companies with their licence to operate and the company respecting society's basic interests (Rossouw & Van Vuuren, 2010). Expert one would like to see continuity between Chairman, CEO and the sustainability report. In this regard expert two wants to see hard evidence that the Chairman and CEO have spoken to the stakeholder and investigated their claims. Expert three would like to see how the board has dealt with the issues.

- Principles 8.2: Experts would like to see the board taking a greater sense of responsibility when it comes to engaging with stakeholders. They make particular reference to the role that the chairman and the CEO. As part of King III the chairman's role and function include maintaining good relationships with the company's major shareholders and stakeholders (Wixley & Everingham, 2010). Wixley and Everingham (2010) also comments that the sub committees should publish in the annual report the major decisions taken by the committee and the recommendations they have made to the board. Committee members are further required to attend the company's AGM to answer questions. This type of reporting and engagement should fulfil the requirements of the major shareholders but it lack the 'informal' engagement required by other stakeholders. Expert two advises companies to consult the AccountAbility Assurance Standards as a guide for the board and manages to deal with stakeholder engagement. Principle 8.3: Companies need to have done stakeholder mapping to show that the board has given appropriate attention to various stakeholder groups, in the best interest of the company. Companies need to balance a multiplicity of stakeholders' interests (Freeman, 1984) but be aware that these groups can never fully understand a corporation's capabilities, competitive positioning, or the trade-off it must make (Porter & Kramer, 2006). If the company finds itself in a position of limited resources, companies can choose its 'stakeholder target groups and omit the others according to their levels of importance or their potential power' (Pondar & Jancic, 2006, p. 305). Companies should stay abreast of the changing nature of the stakeholders' power and be careful on how they select and reallocate communication resources. Companies need to ensure they build enduring and mutually beneficial relationships with all relevant stakeholders (Maak, 2007).

- Principle 8.4: Industry experts agree that equitable treatment of shareholders is visible at the company's actual AGM. Expert one questions whether the questions and answers of the AGM should be published on the company's website to allow better transparency. Expert three puts forward the requirements of the Companies Act and King III to judge equitable treatment.
- Principle 8.5: Expert three suggests using the GRI principles on reporting to judge whether companies are producing transparent and effective communication with stakeholders to ensure they build and maintain their trust and confidence. Expert one suggests one can only measure effectiveness by actually measuring it. He suggested external surveys that are sent to stakeholders to get their opinion.

6.4 Company and industry understanding on the adoption of King III governance element eight

This section will compare findings from companies and industry experts to gauge if there is common understanding to how King III – governance element eight – is being implemented and where clarity is required. The research results from question one and two will be compared using the five governing stakeholder relationships principles as a guide.

6.4.1 Principle 8.1: The board appreciates that stakeholders' perceptions affect a company's reputation

On the recommendation that stakeholder relationships should be 'a regular board agenda item', healthcare, retail and expert one would like King III to distinguish the role played by EXCO and that of the board of directors. Retail makes the point that the board only meets 'every quarter' which does not allow for true engagement with stakeholders'. Similarly when asked whether 'the board has identified important stakeholder groupings' the EXCO team of retail and consumer services was recognised for doing this and not the board. Expert two question the integrity of the board's decision making ability and whether they are acting in the best interest of the stakeholders (license to operate) or investment risk (money to operate) (United Nations, 2006).

6.4.2 Principle 8.2: The board should delegate to management to proactively deal with stakeholder relationships

This principle outlines that the board should delegate to management to deal proactively with stakeholder relationship but yet most of the recommendations outline what 'the board should' be doing and not management - "I [want to] draw distinction here again now ... between the board ... cause your question relates specifically to the board as oppose to the company and the management of the company" (mining). Another area of clarity required from the retail company is for King III to advise on what an integrated report is - 'First of all tell me what an integrated report is' (retail).

6.4.3 Principle 8.3: The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interest of the company

There was unanimous agreement that the board of directors of companies are striving to achieve the appropriate balance between various stakeholder groupings and many examples where cited by the companies. The experts would however like to see more proof of this in companies reporting including disclosing targets and reporting against those targets (expert three).

6.4.4 Principle 8.4: Companies should ensure the equitable treatment of shareholders

Only companies listed on the JSE where interviewed and therefore it is their statutory duty (JSE, 2009a) to comply with this principle. Expert three and the mining company where in consensus that the 'independence of the Chairman' and 'sufficient non-effective directors' enabled companies to better fulfil the requirement of King III.

6.4.5 Principle 8.5: Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence

Once again companies acknowledge that it is their statutory requirement as a listed company to apply this principle. Consumer services and healthcare felt they can definitely improve on their reporting and expert one suggests that to measure true effectiveness companies need to send out external surveys to ask stakeholders whether the communication has been effective. The issue was raised again by companies as to who is responsible for the communication, the board or EXCO?

6.5 Conclusion to research findings

As King III allows companies to 'apply or explain' as opposed to 'comply or explain' (Institute of Directors Southern Africa, 2009a) companies can no longer simply apply a tick box approach to corporate governance. Applying governance elements eight – governing stakeholder relations – of the King III code quickly reveals companies that have not embedded sustainability into every area of their business. Companies that have embraced sustainability recognise that it is the stakeholders and not shareholders, who provide them with their license on operate. Heavy construction was the only company who had not fully embraced 'stakeholder engagement and reputation management' and therefore is required to apply its mind. Consumer services since the introduction of King III has changed its focus to 'stakeholder engagement and reputation management'. Healthcare, industrial, mining and retail where not required to change their focus as the companies already employed 'the stakeholder-inclusive approach of governance' (Institute of Directors Southern Africa, 2009a).

An underlying question that was not resolved from the research is what are the underlying roles and responsibility of the board is versus the management (EXCO). Both companies and industry experts thought the King III code was unclear in this regard. Chapter seven that follows with provide a summary of the key finding including recommendations for stakeholder based on the findings.

7. CONCLUSION

The previous chapter provided an analysis of the research findings. This chapter will conclude the research through: summarising the key findings, providing recommendations based on the findings and highlighting potential areas for future research.

The purpose of this research was to assess how companies and industry experts have interpreted the requirements of King III – Governing Stakeholder Relationships – and to see if there was a change in focus by companies and their boards 'to stakeholder engagement and reputation management'.

In short, the objectives of the research were to:

- find out to what extent companies had adopted the recommendations on governing stakeholder relationship (King III) and thus plot companies on a shareholder/stakeholder continuum to understand how their focus had changed;
- confer with industry experts as to what companies are expected to report on when they adopt King III principles on governing stakeholder relationships; and
- ascertain if there was a common understanding of the adoption of King III – Governing Stakeholder Relationships – from a company and industry perspective?

As stated in Chapter 1, the King III Code is described as the 'future of corporate governance' and Malan (2010) asks if companies will be able to translate this international best practice document into every day best practice.

7.1 Summary of key findings and recommendations

For business leaders who have accepted that the sustainability of the system depends on delivering wealth creation and economic return for shareholders and stakeholders, sustainably and responsibly (Lacy, 2010) and who have placed stakeholder trust at the heart of their companies' strategy (Lacy et al, 2010) adopting governing stakeholder relationship – governance element eight – recommendations is in synch. What follow is the key summary findings broken down per the five principles outlined in governance element eight. The length of each summary and recommendations provided are correlated to the number of recommendations under each principle.

7.1.1 Principle 8.1 – The board appreciates that stakeholders' perceptions affect a company's reputation

Heavy construction and consumer services where the only two companies that had to change their focus to 'stakeholder engagement and reputation management'. The consumer services company was always aware that stakeholder perceptions affected the company's reputation and since the introduction of King III the company has identified important stakeholder groupings and added stakeholder relationships to the board agenda as a regular item. The heavy construction company has recognised that stakeholder perceptions affect the company's reputation and that the company still needs to apply its mind to the code. Mammatt does caution that companies need to think how the code can add value to their organisations and that it is a set of recommendations that cannot be applied overnight (in Temkin, 2010c, p. 14). Healthcare, industrial, mining and retail have in the broadest sense concerned themselves with holding the balance between economic and social goals and between individual and communal goals (Cadbury, 2003), which is the acceptance that stakeholders' perceptions affect a company's reputation.

Recommendations

See principle 8.2 below.

7.1.2 Principle 8.2 - The board should delegate to management to proactively deal with stakeholder relationships

All companies interviewed, except heavy construction, had a company strategy for management to deal with stakeholder relationships. Retail was the only company to mention that their active engagement strategy including the CEO and CFO who are board members. The industry experts would like to see the accountability of the chairman and subcommittee chairs in this regard as it is their responsibility to promote the 'stakeholder-inclusive approach to governance' (Institute of Directors Southern Africa, 2009a). Only the industrial company provided an example where the board had regular constructive engagements with all stakeholders.

Recommendations

King III outlines that role and function of the board and directors "is to appreciate that stakeholders affect the company's reputation" (Principle 8.1) and thus stakeholder relationships should be a regular board agenda item (8.1.2). It further states that the chairman of the board's role and function includes "maintaining good relations with the company's major shareholders and stakeholders" (Wixley & Everingham, 2010, p. 63) and that 'the board should delegate to management to proactively deal with stakeholder relationships (principle 8.2). Jackson argues that

King III "clearly states that it is the function of the board of directors to approve and maintain a specific policy and strategy for communication to stakeholders" (2010, p. 19). All companies asked for additional clarity on the role of the board and the role of management. Industry experts clearly stated that they would like to see the board take a greater sense of responsibility and would like to see subcommittee chairs attend the AGM to answer questions.

Whether it is the role of the board or company to deal with stakeholder relationships Wixley & Everingham (2010) warns that with the code's 'inclusive nature on corporate governance' it will require more than just one employee handling investor relations as other stakeholders such as customers, suppliers, employees and the media need to be considered. Companies therefore need to invest in resources that focus solely on managing stakeholder communications.

7.1.3 Principle 8.3 - The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interest of the company

Rossouw and Van Vuuren (2010) argue that it is a company's obligation to not merely care for its own interests, but also to consider how pursuing its interest affects the interests of others, and thus to recognise companies that have embedded sustainability into their business practices. In this vain the JSE launched the SRI Index (Sonnenberg & Hamann, 2006) Healthcare, industrial, mining and retail companies gave clear examples of how they had embedded sustainability into their business strategy and all the companies are all included on the SRI Index. The consumer services company noted that this year it would formalise its strategy around corporate accountability, to be able to balance the multiplicity of stakeholder interests.

Recommendations

Industry experts recommend stakeholder mapping as the first step to achieving appropriate balance between its various stakeholder groupings. The stakeholder map should be linked to the company's strategy and have specific, measurable activities and objectives (Lacy et al, (2010).

7.1.4 Principle 8.4 – Companies should ensure the equitable treatment of shareholders

The JSE listed companies interviewed, followed statutory regulations such as the Companies Act and King III – 'independence of the chairman' and 'sufficient non-executive directors' – as a basis to ensure equitable treatment of shareholders. The mining company was of the opinion that by not applying principle 8.4 a company could seriously tarnish its reputation. Regarding protecting minority shareholders both mining and consumer services companies cited BEE partners having representation on their operation boards.

Recommendations

To ensure transparent and effective communication with stakeholders (8.5) and thereby ensure their equitable treatment, industry expert one suggests that companies publish the questions and answers to the AGM on the company's website. SABMiller, dually listed on the London Stock Exchange and JSE, has published a videocast of its AGM on its website. Although this does not deal with access for minority shareholders it is a step in the right direction for transparency.

7.1.5 Principle 8.5 - Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence

Most companies felt they produced transparent and effective communication through their financial reporting (annual reports). Consumer services, healthcare and mining acknowledge that management produces responsible communication and they were not sure what role the board had to play in this regard *(also refer to recommendations under principle 8.2).* The industrial and consumer services company produced integrated reports in 2010. Retail still produced the statutory annual report but further enhanced its communication with stakeholders by producing stakeholder specific reports and using the website as a communication tool. Temkin (2010a) argued that these new requirements necessitate companies to deliver more transparent and relevant reports to stakeholder which can be very time consuming.

Recommendations

Companies need to consider new mechanisms at their disposal to enhance their communication messages to stakeholders. New communication channels have the added advantages of keeping stakeholders abreast of current trends on a more regular basis as opposed to the yearly publication of their annual, sustainability and integrated report. The annual report is stuck in the historical shareholder approach and companies need to question whether it can be retrofitted into an integrated report. E&Y's different company rankings of 'Excellence in Corporate Reporting' and

'Excellence in Sustainability Reporting" indicates the disconnect that King III is trying to address. The rankings highlight the silos in which companies are expected to report on instead of producing an integrated report. Wixley and Everingham (2010) call for an integrated multifaceted approach to handle stakeholder relations.

7.1.6 Conclusion

Whether the responsibility lies on the shoulders of the board of directors or management (EXCO), to successfully apply governance element eight companies need to have a company strategy that includes stakeholder relationship. To implement and manage this strategy companies require public affairs, communication departments and traditional custodians of corporate governance to work together. A starting point for companies would be to map their stakeholders and develop a communication and engagement strategy from this base. A responsible communication strategy is critical to ensure the equitable treatment of all shareholders. Companies also have to consider what are the new communication platforms that enable 'timely, relevant, accurate, honest and accessible information' (8.5.1) to all stakeholders.

7.3 Recommendations for future research

Two unanswered question from the report are:

- What is an integrated report? (retail); and
- How do companies better place themselves to communicate 'value at risk' and 'value to gain' to the investment communities (Draper et al, 2008, p. 5)as Porrit (undated)

argued that the investment community remains ill-equipped to judge the significance of sustainability measures that companies have introduced?

These two questions will be dealt with below as recommendations for future research.

7.3.1 Integrated reporting

Integrated reporting is referred to constantly in this report as listed companies are required to produce an integrated report as part of the requirements of King III Code. 'Integrated reporting and disclosure' is governance element nine and the IoDSA has yet to release a practice note on this element. In August the Global Reporting Initiative (GRI) and the Price's Accounting for Sustainability Project (A4S) establish an International Integrated Reporting Committee (IIRC) to oversee the development of global integrated reporting standards and guidelines (Wiemer, 2010). Tantram (cited in (JSE, 2010) criticises current integrated reports as representing a "ghettoisation" of sustainability disclosure – ghettoisation: when the report contains very little or no sustainability information outside the sustainability section. The question to be asked then is: are current integrated reports representing – strategy, risk, performance and sustainability in every aspect of the business?

7.3.2 Responsible investing

Rossouw and Van Vuuren (2010) would like to argue that integrated reporting leads to enhanced stakeholder relationships and improved risk management as there is an increased understanding of non-financial risks. Internationally, particularly in the

UK, Institutional investors are increasingly focusing on non-financial performance when they make financial decisions (Solomon & Solomon, 2004) and this has been echoed in South Africa with the draft code for Responsible Investing which was released for comment in September 2010 (Committee on Responsible Investing, 2010). Davis, Lukomnik and Pitt-Watson (2006) contend that people with pension funds lose on average up to 3% of the value of their pension due to a lack of governance on the part of their fund managers.

The purpose of the code, together with King III, is to provide a voluntary framework that can be used to ensure sound governance is practised by boards of companies, institutional shareholders and the ultimate beneficiaries (Committee on Responsible Investing, 2010) . This type of code has been hotly debated by Solomon and Soloman (2004) as it creates a double agency problem as the responsibility of the fund manager is to pursue wealth maximisation for the pension fund in the short term and therefore pressures companies to make profits in the short term rather than the long term. On establishment of the code research can be conducted to see if there is a change in focus to responsible (sustainable) investing and if there are any consequences of double agency problem.

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9. APPENDICES

This section contains three appendices:

1. Consistency matrix

2. Company interview schedule

3. Industry expert schedule

9.1 Appendix 1 - Consistency matrix

TABLE 27: CONSISTENCY MATRIX

Research questions	**Literature review**	**Data collection tool**	**Analysis**
Research question one: To what extent have companies adopted King III recommendations on governing stakeholder relationships and thus changed their focus to 'to stakeholder engagement and reputation management'?	Armstrong, 2005 Draper, Staaford & Uren, 2008 Ghosal, 2005 Institute of Directors, 2009 JSE, 2009 King, 2006 Maak, 2007 Oppenheim, Bonini, Biellak, Kehn & Lacy 2007 Painter-Morland, 2006 Phillips, Freeman & Wicks, 2003 Porter & Kramer, 2006 Rossouw & Van Vuuren, 2010 Sweeney & Couglan, 2008 Trialogue, 2010 United Nations, 2006 Van Marrewijk, 2003 Wixley & Everingham, 2010	Interviews with open-ended and fixed alternative questions	This level of analysis looks at how companies through the use of recommended practices have implemented each of the principles into their everyday business and communication practice and a comparison is provided by plotting companies' stakeholder/shareholder continuum to gain a better understanding of how 'stakeholder relations are embedded into the companies vision, mission and business strategy
Research question two: What are companies expected to report on, when they adopt King III principles on governing stakeholder	Institute of Directors, 2009 Freeman, 1984 Maak, 2007 Pondar & Jancic, 2006 Porter & Kramer, 2006 Rossouw & van Vuuren, 2010	Interviews with Semi-structured, open-ended questions.	This level of analysis looked at whether industry experts agree on what is expected of companies for each principle. The similarities and difference between them

relationships?			were identified.
Research question three: Is there a common understanding as to the adoption of King III - governing stakeholder relationships - from a company and an industry perspective?	N/A	Research question one and two	This level of analysis looks to compare the companies and industry finding to ascertain if the King III requirements and implication of governance element eight have been understood by the market and what the underlying gaps or misconceptions are.

9.2 Appendix 2 - Company interview schedule

TABLE 28: COMPANY INTERVIEW SCHEDULE	
Governance element eight: Governing stakeholder relationships	
Principle 8.1 **The board appreciates that stakeholders' perceptions affect a company's reputation**	
8.1.1. Is the gap between stakeholder perceptions and the performance of the company managed and measured in a way that enhances or protect the company's reputation?	Yes_____ No, Why____
8.1.2. Is the company's reputation and its linkage with stakeholder relationships a regular board agenda item?	Yes_____ No, Why____
8.1.3. Has the board identified important stakeholder groupings?	Yes_____ No, Why____
Principle 8.2 **The board should delegate to management to proactively deal with stakeholder relationships**	
8.2.1 Has management developed a strategy and formulate policies for the management of relationships with each stakeholder grouping?	Yes_____ No, Why____
8.2.2 Has the board overseen the establishment of mechanisms and processes that support stakeholders in constructive engagement with the company?	Yes_____ No, Why____
8.2.3 Does the board encourage shareholders to attend AGM's?	Yes_____ No, Why____
8.2.4 Has the board overseen the establishment of mechanisms and processes that support stakeholders in constructive engagement with the company?	Yes_____ No, Why____
8.2.5 Does the board consider not only formal, but also informal, processes for interaction with the company's stakeholders?	Yes_____ No, Why____
8.2.6 Does the board disclose in its integrated report the nature of the company's dealings with stakeholders and the outcomes of these dealings?	Yes_____ No, Why____
Principle 8.3 **The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interest of the company**	
8.3.1. Does the board take account of the legitimate interests and expectations of its stakeholders in its decision-making in the best interests of the company?	Yes_____ No, Why____
Principle 8.4 **Companies should ensure the equitable treatment of shareholders**	
8.4.1. Is there equitable treatment of all shareholders of the same class of shares issued?	Yes_____ No, Why____
8.4.2. Does the board ensure that minority shareholders are protected?	Yes_____ No, Why____

Principle 8.5 **Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence**	
8.5.1. Does the company provide complete, timely, relevant, accurate, honest, and accessible information to its stakeholders whilst having regard to legal and strategic considerations?	Yes______ No, Why____
8.5.2. Is communication with stakeholders clear and in a understandable language?	Yes______ No, Why____
8.5.3. Has the board adopted communication guidelines that support a responsible communication programme?	Yes______ No, Why____
8.5.4. Has the board should consider disclosing in the integrated report the number and reasons for refusals of requests of information that were lodged company with the in terms of the Promotion of Access to Information Act, 2000?	Yes______ No, Why____

9.3 Appendix 3 - Industry expert interview schedule

TABLE 29: INDUSTRY EXPERTS INTERVIEW SCHEDULE	
Q1:	How does a company demonstrate that the board appreciates, and takes into adequate consideration their stakeholders' perceptions and/or relations with the company?
Q2:	How would you assess a board's proactive interaction with the company's management team to deal with stakeholder relationships?
Q3:	How do you quantify that a board has achieved the appropriate attention to its various stakeholder groupings, in the best interest of the company?
Q4:	How do you measure company's equitable treatment of shareholders?
Q5:	How do you judge that the companies 'transparent and effective communication with stakeholders' can build and maintain their trust and confidence?